



TÁRSASÁG A
SZABADSÁGJOGOKÉRT



CORRUPTION MONITOR

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TIMEFRAME OF THE REPORT, SUMMARY



In Hungary, **the erosion of the constitutional state and the elevation of corruption to the status of a public policy tool** are happening simultaneously, in close connection with each other, mostly hidden behind some alleged public interest objective. In the last two years, this alleged public interest objective has been to control the pandemic. K-Monitor and the Hungarian Civil Liberties Union have been documenting this process since the start of the pandemics. The summary and final report of this work covers the period from March 2020 to March 2022. In our report, we present the most significant changes in the last two years that have increased opacity and hampered the fight against corruption, budgetary irregularities, the outsourcing of public assets and measures that disproportionately affect opposition municipalities.

In the past two years, while the coronavirus has claimed more than 45,000 lives in Hungary, we have seen the following trends.

1. Lack of transparency has increased, making it more difficult to fight corruption, including
 - non-transparent management of the pandemic;
 - amending the definition of public funds;
 - a significant increase in the number of non-public government decrees; and
 - by creating the Concession Council.
2. Public spending on the pandemic was non-transparent and unsustainable due to
 - the creation of a huge deficit and runaway inflation;
 - the increasing difficulty in obtaining a clear and comprehensive picture of public spending as a whole;
 - the lack of anti-corruption commitments which has prevented Hungary from receiving EU funds;
 - clientele close to the NER which has been able to profit from both pandemic procurements and traditional public procurements; and
 - meanwhile, the state's lavish support of its own knowledge centres with tourism funds, with a significant part of the subsidies for tourism development going to the clientele.
3. Entire sectors have fallen into FIDESZ-allied hands
 - by outsourcing higher education and certain public social services to public trust funds ("KEKVA's");
 - with large amounts of wealth allocated to church institutions; and

- important sectors have been given to pro-government businessmen, while the Government itself has tried to push foreign investors out of Hungary by breaking the rules of fair competition.
4. The government has taken revenue from municipalities on the grounds of pandemic control, and then selectively rewarded municipalities run by pro-government administration.
 5. Decisions and revenues belonging to opposition-led municipalities were transferred to county assemblies with a governing-party majority by the creation of special commercial zones..
 6. Public positions of power have been privatised, Deputy Minister of Justice Pál Völner is suspected of making the filling of independent court bailiff posts conditional on bribes.

Date	Event	Significance	Number of people infected
11 March 2020	The declaration of a state of emergency.	Beginning of the special legal order legislation.	3
17 April 2020	The establishment of the Göd special commercial zone.	The government has declared a large part of the territory of the town of Göd a special commercial zone, and thus directing about one third of its revenues, (specifically the business tax revenues) to the Pest County Municipality.	111
19 May 2020	Parliament passes a law on the reconstruction of the Budapest-Belgrade railway line.	The Budapest-Belgrade railway line will be the most expensive railway line development of all time, its aggregated cost may even reach a trillion Hungarian forints. The Hungarian state will pay about 15% of the costs and the remaining 85% will be covered by a Chinese state loan.	21
18 June 2020	The state of emergency is temporarily lifted.	An epidemic alert is in place instead of an emergency.	1

Date	Event	Significance	Number of people infected
6 October 2020	Parliament adopted the law on healthcare service contract.	The new law provided for a significant wage increase and criminalised gratuity payments, but it also contained provisions that were unacceptable to the majority of the medical profession, such as significant restrictions on doctors taking on second jobs.	818
3 November 2020	The second declaration of state of emergency.	A state of emergency is again declared, except for a few days it has been in place since then.	3989
15 December 2020	The ninth amendment of the Fundamental Law and the amendment of the Election Act.	Apart from ideological changes, the amendment narrows the definition of public money in the Fundamental Law. As a result of the amendment to the Election Act, a party must have candidates in 71 individual parliamentary constituencies instead of 27 in order to have a national list.	1238
30 April 2021	The codification of the regulation of the public trust funds.	Large amounts of public assets are being outsourced to public trust funds with a public service mission, including privatized higher education institutions.	2365
28 June 2021	Government decree to create another special commercial zone.	With the creation of yet another special commercial zone, this time the opposition-led Dunaújváros will lose significant tax revenues.	132

Date	Event	Significance	Number of people infected
1 October 2021	A Regulated Activities Supervisory Authority (SZTFH) is established.	The chairman of the SZTFH is Marcell Bíró, who was Minister of State for Public Administration at the Prime Minister's Office between 2015 and 2018, and then at the Prime Minister's Office until this summer.	
19 November 2021	The Concession Council is established.	The Authority is chaired by Marcell Bíró, who was Minister of State for Public Administration at the Prime Minister's Cabinet Office between 2015 and 2018, and then at the Prime Minister's Office until this summer.	11289
16 February 2022	The Hungarian and Polish governments have lost their case on the rule of law.	The Court of Justice of the European Union has dismissed the action brought by Hungary and Poland challenging a regulation imposing conditions for the protection of the EU budget in the event of a breach of the rule of law.	8883

In September 2020, K-Monitor and the HCLU launched a joint corruption monitoring program with the goal of evaluating the status of state corruption and the efforts made towards the dismantling of the rule of law in a report published every three months. In Hungary, **the erosion of the constitutional state and the elevation of corruption to the status of a public policy tool** are happening simultaneously, in close connection with each other, mostly hidden behind some public interest objective. Currently this is the action happening against the backdrop of the crisis caused by the coronavirus. The aim of K-Monitor and HCLU is, by combining their experiences from their own area of expertise, to shed light on the corrupt processes taking place under the surface of crisis management. In order to obtain a credible evaluation of these multifaceted measures, renowned experts from different fields will occasionally comment on the report, and these evaluations will also be published in the analysis.

The reports are drafted on the basis of a uniform methodology. In our reports, we have consistently looked at pre-defined criteria, but we also always respond to current, significant events. For the sake of consistency, we have composed six positive statements, organized into two separate but related groups, the enforcement of which we will examine in every report and evaluate each measure based on these requirements. The statements - which are indicated by number beside each analysed measure and phenomenon according to which requirement the given measure or occurrence violates - are the following.

CORRUPTION AND ABUSE OF POWER

1. The government must not use public funds to strengthen or maintain their own power.
2. The government may not dispose of public assets in such a way as to disadvantage a group of the political community (e.g. local governments) on the basis of political allegiance or to disadvantage autonomous bodies with the aim of reducing their autonomy.
3. The government may not provide publicly funded resources to (economic) role-players sympathizing with them based solely on such sympathy.

RULE OF LAW

4. The state has a duty to act transparently, to inform citizens of its decisions, and the reasons for them in a way that allows them to control public authority.
5. The government is obliged to refrain from any conduct that reduces the level of existing independence or undermines its guarantees for local governments and independent state organisations.
6. The government must refrain from undermining the guarantees of the rule of law and the requirement to manage public funds responsibly, in particular for crisis management purposes.

1. MEASURES THAT REDUCE TRANSPARENCY AND HINDER THE FIGHT AGAINST CORRUPTION

The government first declared a state of emergency in March 2020, which has been in place ever since, except for a short period. The period between June and November 2020 was deemed a so-called health crisis, which, although less severe than the state of emergency, also allowed for a deviation from the normal legislative process and increased restrictions on the exercise of fundamental rights. During a state of emergency, the government is entitled to make regulations that restrict or even suspend the exercise of fundamental rights. During the almost two-year period of the state of emergency, we have seen on several occasions that the special legal order has been used by the government to create a hotbed of corruption through arbitrary legislation..

A) NON-TRANSPARENT MANAGEMENT OF THE PANDEMIC

Since the outbreak of the Covid-19 pandemic, Hungary's epidemiological response has been characterised by a lack of transparency. The government has been basing most of its decisions on expert opinions unknown to citizens, a lack of transparency in the management of the pandemic and a series of inconsistencies, while more than 45,000 people have fallen victim¹ to the pandemic since March 2020.

Public interest data

To this day, it is almost impossible to obtain basic information on epidemiological control. Before the state of emergency, the law required bodies with a public service mission to respond to requests of data of public interest within 15 days. This was extended once for a further 15 days, on the grounds that the data request would be disproportionately burdensome for them in addition to their other activities.

In Gov. Decree no. 521/2020. (25.XI.), the government allowed the deadline for response to be extended to 45 days for bodies obliged to respond to a request, which can be extended for a further 45 days if the release of the data would still jeopardise the performance of their duties in relation to the pandemic. As a result, at a time when access to data of public interest is in everyone's best interest, bodies with a public service mission can delay the release of data of public interest for up to 3 months. In April 2021, the Constitutional Court also ruled on the issue: it established a constitutional requirement for the data controller to record the reasons that make it likely that fulfilling the data request within 15 days, as provided for in the Act on Informational Self-determination and on Freedom of Information, would have compromised the performance of its public tasks in relation to the state of emergency. However, this has not resolved the situation, and in many cases bodies with a public service mission have circumvented the rule with simple, ready-made justifications, the veracity of which cannot be confirmed.

Both the Prime Minister and the Operational Staff have often referred to the so-called vaccination plan, of which only an extract was available to the public for a long time. The full document, known as the vaccination plan, has become available thanks to a lawsuit by HCLU.

In our sixth report, we reported that a 42-page document was added to the archives of the [koronavirus.gov.hu](https://www.koronavirus.gov.hu) site, containing information on who can receive the vaccine first, and other relevant information on vaccination capacity.² According to [atlatszo.hu](https://www.atlatszo.hu), the only country where the scope of publicly available coronavirus data was narrower was Serbia.³ Municipal mortality data, for example, became public only after K-Monitor's data request, once.⁴

Operational Staff material not public for 10 years

The Operational Staff's⁵ materials, which the government says form the basis of the epidemiological response, can be published in 2030 at the earliest. Hvg.hu's request for data of public interest was denied by the head of the Operational Staff's on-call centre on the grounds that the data was prepared or recorded during the decision-making process and served as the basis for the decision, and is not public for ten years from the date of its creation.⁶

Banning the press from hospitals

Besides this, the independent press has not been able to report on what is happening in hospitals for two years now. The Ministry of Human Resources (Emmi) has banned all media outlets other than public television and MTI (the Hungarian National News Agency) from health institutions during the pandemic. The press was therefore unable to report from Covid wards and vaccination centres to inform their readers about the evolution of the epidemic situation and the burden on hospitals and health workers. The lack of information is a particularly serious problem because health workers are not allowed to make statements to the press.⁷ After repeated unsuccessful requests from several editorial teams to broadcast from health institutions treating patients infected with coronavirus, 28 independent editorial teams sent an open letter to Emmi asking it to change its practices, without any result.⁸ HCLU represented the news portal Telex in a lawsuit against Emmi, in which they requested an end to the practices that prohibited transparency. The Metropolitan Court ruled that the Emmi had unlawfully expelled Telex and the press in general from hospitals. The court has ruled that it is not for the ministry but for the hospital directors to decide who is allowed to enter an institution. However, following the judgment, the Government issued a decree overruling the final judgment of the Metropolitan Court and decreed that the Operational Staff may determine the rules for contacts with the press in health care institutions and the rules for access by the press to the health care institution's premises in the interest of epidemiological protection. Experience so far shows that in practice, this has the same result as when the Emmi banned the press: independent media are still not allowed to report from hospitals.

Lack of proactive communication

Meanwhile, the state is not proactively informing citizens about the reasons for the epidemic control. The daily Operational Staff report, which was a regular feature during the first period of the epidemic, was discontinued after a while.

We have reported several cases where important epidemiological restrictions or their relaxation have been made public only minutes before they came into force, making it impossible for citizens to prepare for the changes. In the last two years, it has also become common for the public to learn about key legislative steps through the Prime Minister's Facebook posts, which seriously violates the requirement of safety of rights.

B) AMENDMENT OF THE FUNDAMENTAL LAW, AMENDMENT OF THE LAW ON ELECTORAL PROCEDURE

In our second report, we reported that despite the epidemic situation, the ruling party, taking advantage of the fact that it holds two-thirds of the seats in parliament, has once again amended the Fundamental Law. This was the ninth amendment to the text of the Fundamental Law since its adoption in 2011. The amendments to the Fundamental Law included ideological considerations such as "mother is a woman, father is a man" and also redefined the types of extraordinary laws, some of which will only come into force in 2023. Regarding corruption, parliament changed the definition of public funds stating that "public funds is the income, expenditure and claims of the state". This definition of public funds is significantly narrower than the emerging concept of public funds in judicial practice, which contributes to the lack of transparency in the movement of public money.

Further, the Minister of Justice submitted an amendment to the law on electoral procedure. Under the amendment, the number of individual candidates required to make up a list has increased from 27 to 71, with the effect that the number of parties able to make up a party list has been significantly reduced. The proposal was made on the pretext of curbing sham parties, but its real purpose may have been to force opposition parties onto a single list. The rule also places a disproportionate barrier on smaller parties to get on the list, with only 6 nominating organisations able to collect enough signatures for the 2022 elections, but even then there are some organisations among them with no real political activity. The amendment also validates postal votes that were previously invalid and tightens the deadline for re-notification. For postal votes, a sealed inner envelope will still be required, but the identification form will not need to include your name at birth. The facilitation of the postal vote is significant because since the introduction of the legal instrument, over 90% of voters who voted by post have supported the Fidesz-KDNP list.⁹

However, the amendment failed to adjust the boundaries of the constituencies created in 2011 to the changes in population that occurred since then, which is a problem for the equal value of votes and thus for the equality of the right to vote.¹⁰

C) "TWO-THOUSAND" DECISIONS

In January, hvg.hu reported that since 2010, the Orbán governments have adopted 1,549 government decrees whose content is not secret, but is not yet available to the public (the so-called two-thousand decisions). Government decrees are individual acts, which means they cannot contain normative provisions, and they have a closed circle of addressees. These two-thousand decisions significantly undermine

transparency and the safety of rights. The data request of hvg.hu also shows that the number of so-called two-thousand decisions has significantly increased in recent years: in 2020, 385 government decrees were adopted, and by the end of November 2021, 504 government decrees were adopted that are not published in the Hungarian Official Gazette, but do not contain classified data.¹¹ For example, the decision on the list of tasks of the Ministerial Commissioner responsible for the wildlife of Lake Balaton¹², the decision on the moving of the Hungarian Natural History Museum to Debrecen¹³ is not public, similarly to a recent decision on funding public trust funds that serve public service tasks with billions of forints' worth of public funds¹⁴. In 2018, a portal submitted a public interest data request asking for the release of the two-thousand decisions of the previous 10 years, but the Prime Minister's Office requested a fee of HUF 616,000 for the release of the data.¹⁵

D) THE CONCESSION COUNCIL IS ESTABLISHED

In our sixth report we showed that in accordance with Act XXXII of 2021 on the Authority for the Supervision of Regulated Activities (in short: SZTFH) (hereinafter: Sztfh act), the Concession Council was established. The SZTFH covers tobacco trade, judicial enforcement, gambling supervision, liquidation, concessions and mining supervision - all areas where the state dominates and huge sums of money are involved.¹⁶ The Authority's chairman is Marcell Bíró, who was State Secretary at the Cabinet Office of the Prime Minister between 2015 and 2018, and then at the Government Office of the Prime Minister until the summer of 2021.¹⁷ According to the Act, the Concession Council of the SZTFH is composed of six members, including the President of the Authority and the Deputy President (who replaces the President of the Authority in issuing the Decree), the Prime Minister, the President of the Economic Competition Authority, the President of the Public Procurement Authority and one person appointed by the President of the Authority. The Council is responsible for the development of a uniform public concession jurisprudence. The concession practice has always been a serious risk for corruption, including most recently, when SZTFH curiously transferred the right to operate motorways for 35 years, a decision that attracted significant press coverage.¹⁸

E) THE HUNGARIAN AND POLISH GOVERNMENTS HAVE LOST THE RULE OF LAW CASE

The Court of Justice of the European Union dismissed an action brought by Hungary and Poland that challenged a regulation imposing conditions for the protection of the EU budget in the event of a breach of the rule of law. The Court ruled that proceedings can be brought if there is not only a breach of the rule of law in a Member State, but also a sufficiently direct and serious risk of such a breach **affecting the sound financial management of the EU budget or the protection of the EU's financial interests**.¹⁹ The Court of Justice of the European Union ruled that the mechanism for withdrawing aid money from Member States on the basis of concerns regarding the rule of law is therefore legal.

2. UNSUSTAINABLE AND OPAQUE USE OF PUBLIC FUNDS FOR EPIDEMIOLOGY

Anomalies in the epidemiological budget

A) UNLEASHED DEFICIT AND RISING INFLATION

In March 2020, as a first economic response to the outbreak of the pandemic, the Government created the Epidemic Prevention Fund and the Economic Protection Fund within the general budget - the former was in principle intended to finance mainly direct expenditures related to the pandemic (such as **the purchase of medical equipment**), while the latter was intended to finance expenditures to keep the economy on an even footing (**job protection, tax relief measures**). The creation of the funds was justified by the huge amount of new, unforeseen expenditures that the pandemic had generated. However, in the months that followed, we saw that the government transferred sums from these funds to various budget items, through essentially ad hoc government decisions, that had little to do with the epidemiological emergency or with keeping the economy on an even footing. The main beneficiaries of the reallocations are mostly investments made by various actors close to the government and several facility development projects connected to sports. While an additional (at least) 388 million euros (HUF 140 billion) was assigned to sports than originally planned in the 2020 budget, only 139 million euros (HUF 50 billion) extra was assigned to health care. The EU allowed member states to run deficits higher than the Maastricht criteria in the face of the coronavirus epidemic - a margin that the Government undoubtedly used, deciding to reallocate (i.e. spend) around four times the original budget of €10,067 million (HUF 3,628 billion) (spending above the budget, of course, increased the deficit). In the last month of 2020, the Government also made several unusually large budget reallocations.^{20 21}

A similar problem arose with the 2021 budget, which the Government submitted in May 2020, assuming that the economy would be back in a steady state by the end of 2020. The budget law essentially became untenable from the first day of 2021. As subsequent waves of the epidemic also hit the economy hard, the government was forced to significantly adjust the deficit target in May 2021, raising it from 2.9% to 7.5%. The final budget deficit amounted to 7.4% (HUF 5101.5 billion).²² In November, the deteriorating public finances even prompted MNB Governor György Matolcsy, in a public statement, to call on the Government to restore the budget balance, in particular urging the halt of large public investments that were generating the deficit. By December, the Ministry of Finance also announced a reduction in public spending, but this did not dissuade the Government from the usual end-of-year "attic sweep" and from rewarding politically active voters, focusing on the election: in November 2021, pensioners became entitled to a uniform pension premium of HUF 80,000 and received the full amount of the 13th month pension.²³ As previously announced, high-income families will also receive bonuses: an estimated HUF 600 billion in expenditure for the central budget.²⁴ The rate of public charges on labour will be more favourable for employees, and from January 2022 the gross monthly wage of public employment will increase from HUF 85 thousand gross to HUF 100 thousand gross.²⁵

Among the measures to correct the imbalance, the deficit for the 2022 budget adopted in 2021 has been reduced to 5%. This year's budgetary processes could also be significantly affected by the adverse inflationary data already recorded last year:

as a result of these, and probably not independently of the upcoming elections, the government decided to freeze the prices of seven basic foodstuffs (flour, edible oil, 2.8% UHT milk, sugar, chicken breast, rump, pork legs) and fuel: these measures hit retailers hardest (as the Government did not decide on compensation), but could also affect VAT revenues and create shortages of products at reduced prices. In March, due in no small part to the war in Ukraine, the gap between wholesale and fixed prices became so wide that the situation was essentially untenable, and the government decided first to freeze wholesale fuel prices,²⁶ later to introduce a quantitative restriction and to waive part of the excise tax.²⁷ The Government has no clear concept of how to deal with the escalating energy and food prices, or the deteriorating forint exchange rate.

B) SECRECY AROUND THE BUDGET

In parallel with unsustainability, we have seen over the past two years a **steady increase in the opacity of budgetary processes, which significantly reduces** citizens' access to public affairs. This is partly due to the fact, as already mentioned, that the Parliament adopts measures relatively quickly without knowing the economic developments of the near future, which means that by the time they come into force they do not reflect the real economic situation in the least. Transparency is also greatly reduced, with the vastly expanded funds newly created within the budget, such as the aforementioned Economic Protection Fund and its successor, the Economic Recovery Fund, the details of which are not disclosed, or the Investment Fund, which will appear in the 2022 budget with a budget of HUF 550 billion - the latter has not been disclosed in detail, so we do not know what investments the Government intends to finance from this source in 2022.²⁸

In addition, Act LXXXIX of 2021 amended the Act on Public Finances to allow operating bodies to make commitments up to several years in advance for investments financed by this fund. The omnibus law on measures relating to the state of emergency²⁹ provides that it will be much easier than before to transfer appropriations from this fund, with less external control and in a non-transparent way. The budget's non-transparency has also been increased by the tens and hundreds of billions of forints of major investment programmes included in several separate budget lines, such as the Hungarian Village Programme (HUF 61.7 billion) and the Modern Cities Programme (HUF 51.1 billion), not to mention the road (HUF 173 billion) and rail (HUF 60 billion) developments, and the HUF 134.7 billion for transport sector programmes. We have neither been able to obtain any meaningful information on their progress or the efficiency of the use of public money nor any information regarding the fact that these investments are often linked to a small group of companies close to the NER.

The transparency of public finances is further reduced by the fact that budget amendments are usually not reflected in the budget law of the current year³⁰ - according to the calculation of HVG, the budget was amended by various government decisions some 85 times in 2021.³¹ Thus, the amount of expenditure and revenue is often only clear in the final accounts, but the details are not known because the government decisions on transfers are not made in a standardised structure.³²

To add to all the opacity, at the end of December this year, the Government simply exempted itself from the obligation under the Public Finances Act to publish the fiscal outlook and detailed plans for revenue and expenditure for the next three years, citing the state of emergency, and authorised itself to continue to rewrite the budget by emergency decrees and decisions, bypassing the normal procedure.³³

C) IRREGULARITIES RELATING TO EU RECOVERY FUNDS

We should also pay particular attention to the developments regarding the European Union's Recovery and Resilience Facility, which was created by the EU to help with recovery from the economic crisis caused by the pandemic. The original idea was that Hungary would have received €5800 billion, of which a smaller part, around 2500 billion forints, would have been subsidies and 3300 billion forints would have been soft loans - the draft Recovery Plan ("HET")^{34 35} was published for consultation accordingly at the end of April, but a few days later it was announced that only the 2500 billion forints of the instrument would be taken,³⁶ and finally, on 11 May, the government submitted a plan to the Commission for the revised amount³⁷ - but as this does not adequately address the problems raised by the EU (including the lack of high level anti-corruption measures in Hungary, limited competition in public procurement and low level of social consultation)³⁸, the Commission has rejected the revised plan without any further action. In order to be able to start spending the funds as soon as possible, the National Recovery Fund was set up during the summer with domestic budget resources, and the tenders have already been announced and started to be implemented.³⁹ At the same time, Hungarian RRF programmes operating without EU approval and control can also serve an electoral purpose: for example, laptops purchased for secondary school students were distributed in several cases by Fidesz candidates in secondary schools. The replenishment of funds led to a record issue of foreign currency bonds in September: however, the terms of these market-financed bonds are much less favourable than the EU bond that financed the RRF,^{40 41} of which Hungary refused its share.^{42 43} On 18 March 2022, Viktor Orbán urged Ursula von der Leyen to adopt the plan, and even indicated that Hungary would still call on the entire credit line in view of the war in Ukraine, which would be used for defence, border management, humanitarian and other acute crisis management tasks (i.e., in a way that was essentially completely different from the original Recovery Plan).⁴⁴

Public procurement irregularities

A) SPECIAL PANDEMIC PROCUREMENTS

It is also worth looking specifically at the procurements and procurement rules that the government introduced specifically in response to the virus situation. A 2020 government decree, the content of which has been incorporated into the Health Care Act with temporary provisions, allows the rules of the Public Procurement Act to be waived in the event of a state of emergency - in the case of emergency-related procurements - with ministerial authorisation. However, the publicly available legal provisions do not indicate to which ministry the exemption should be applied for.

(However, it is likely from various treaties and communications that this power has been delegated to the Minister of the Interior.) There is no comprehensive list or publication of exactly who, what and how much state and local authorities have contracted outside the public procurement system in relation to the epidemiological emergency, although the amount may be a significant item in the budget: this may be particularly true, for example, in the case of the notoriously expensive and unnecessary ventilator purchases.⁴⁵ The information available revealed that the main winner of the ventilator procurement was the same lobby group linked to Viktor Orbán's international chief advisor, which was also involved in the procurement of Sinopharm vaccines through intermediary companies. The companies linked to the group were involved in purchases of around 468 billion forints, which is about a quarter of all expenditure related to the pandemic. One of the largest suppliers of the surplus ventilators, currently in storage, was a Malaysian company, and financial transactions for the contracts were carried out through offshore companies.

B) GIANT PURCHASES TO HELP NER'S CLIENTELE

Meanwhile, the government has also helped the concentration of near-NER capital in other sectors by announcing large public procurements. Recently we have gained knowledge of several huge contracts which in and of themselves would be suitable for controlling entire sectors. For example: governmental IT procurements will, similar to advertisements, be centrally organized by the Digital Governmental Agency; related public procurements 2622 million euros (945 billion, i.e. almost one trillion⁴⁶ forints) in value were issued at the end of January. This amount is roughly one third of a full year's procurement budget based on recent statistics. The National Communications Office, under Antal Rogán, spends virtually the entire government communications and PR budget through similar huge public procurement framework agreements. Moreover, the latter framework agreement – unlike the IT tender– has only one winner: the New Land Media Kft. in the scope of interest of Gyula Balásy.

There is also an established winner in the cleaning and facility maintenance tenders: B+N Referencia Zrt., formerly linked to András Tombor, founder of Mathias Corvinus Collegium, which has received a HUF 480 billion contract from the Hungarian state in the past year.⁴⁷

Certain businesses that have traditionally done well in construction public procurement have continued to be successful in this area. Duna Aszfalt was awarded a 749 million euros (270 billion forints) road construction tender.⁴⁸ This is especially interesting because it is owned by László Szíjj, who has hosted Minister of Foreign Affairs and Trade Péter Szijjártó and his family in the summer of 2020 on his luxury yacht sailing on the Adriatic Sea.⁴⁹ The companies of Lőrinc Mészáros (Hungary's richest man, former mayor of the Prime Minister's home village and friend of the Prime Minister) continued to do well in public procurement. For example, Mészáros's companies received 97 million euros (HUF 35 billion) for various road renovation works,⁵⁰ a 30 million euro (HUF 10 billion) water utility development tender in Göd,⁵¹ a HUF 40 billion tender for the reconstruction of the Museum of Applied Arts,⁵² a HUF 15 billion tender for the renovation of the Treasury's cashier's office and a HUF 30 billion tender for the expansion of the Fót film studio.⁵³

It is worth mentioning that the most expensive railway line development of all time, the Budapest-Belgrade railway line, which, even according to the best estimate for Hungary, will take at least 130 years to pay for itself. Eighty-five percent (85%) of the costs are financed by the state through a Chinese public loan. The Parliament has declared the development a priority investment and authorised the Minister of Foreign Affairs and Trade to keep all documents related to the project secret for ten years,⁵⁴ despite the fact that several final decisions oblige the Ministry of Foreign Affairs and Trade to disclose the loan agreement⁵⁵ and subcontracts⁵⁶. In any case, we have known since last year that Lőrinc Mészáros's company will again play a key role in the implementation of the project, having been awarded the huge contract together with his Chinese partner.^{57 58}

Non-transparent subsidies in certain sectors

A) TOURISM SUBSIDIES

At the same time, the Kisfaludy Program, begun in 2017, has continued to progress at top speed and with new financial support for the renovation of hotel accommodations.⁵⁹ A particularly unsavoury aspect of the Kisfaludy programme is the "Development of existing high-capacity hotels and establishment of new hotels" tender announced in December 2019, which was suspended after just two weeks,⁶⁰ citing that "the funding requirements of the applications received were several times the amount of the budget announced", and therefore it is suspected that the tender may have been leaked. In May 2020, when the results of the competition were published, it was revealed that 232 million euros (HUF 83.5 billion) had been distributed, and that a company founded just days before the competition was launched had been able to compete and win.^{61 62 63}

In addition to the announced Kisfaludy tenders, the Hungarian Tourism Development Agency also decides on ad hoc grants.⁶⁴ However, there is practically no information available⁶⁵ on these grants because the Agency decides on the results of applications in secret meetings, and the grants awarded are published unsearchably in bulk. It is also notable that the Agency spent most of the HUF 1.7 billion, or HUF 630 million, received from the EU to mitigate the adverse effects of the coronavirus epidemic on the development of its own tourism portal.⁶⁶ With regard to requests for public interest data, the National Data Protection and Information Freedom Authority (NAIH) also condemned the Agency when it simply refused to publish the list of the Agency professional jury, disregarding the NAIH's request.⁶⁷

A number of subsidy cases also raise conflicts of interest: in December 2020, it was revealed that the Agency had distributed a record amount of subsidies, totalling around one and a half billion, to members of an interest group, of which a well-known Balaton winemaker, Bence Laposa, was a leading official, who is also an advisor to the Agency. The suspicion of a conflict of interest is raised not only by the fact that Laposa won the maximum amount of support with his own companies, but also by the fact that only those who were invited by the winemaker to a private consultation with the Agency were informed about the possibility of individual aid. The news has also caused widespread consternation because most of the hospitality industry has only

been able to receive a relatively small amount of state aid only after a lot of administration and considerable delays.⁶⁸

G7 has also summarised the subsidies received by the MTÜ: their analysis showed that municipalities led by the governing party received around five hundred times as much as those led by the opposition.⁶⁹ Additionally, beneficiaries of cross-border tourism development subsidies are mostly entrepreneurs linked to the NER.⁷⁰

B) SUPPORTING KNOWLEDGE CENTRES CLOSE TO THE NER

In addition to the analysis of the economic elites close to the NER, it is also important to look at how and for what purpose public money has been granted to NER's key knowledge and communication centres. This aspect is interesting in itself, as social media users may find that many organizations are already campaigning vigorously - however, as the SAO has announced, advertisements in social media are not necessarily deemed as political advertisements, even during the campaign period.⁷¹ Moreover, in many cases, such as the Megafon Centre, which funds government influencer materials, it is not possible to trace the source of the expenditure.⁷²

It is also striking how, in addition to their propaganda activities, organisations funded directly or indirectly by the Government manage public money. The Antall József Knowledge Centre came into the spotlight when it was revealed that taxpayers' money was going towards exotic trips and luxury hotel bills for Péter Antall and his wife.⁷³ The Knowledge Centre has been repeatedly bailed out, despite its operations previously being supported by billions e.g., by the Lajos Batthyány Foundation, a public interest trust funded through the Prime Minister's Office.⁷⁴ The controversy set off by the scandal eventually resulted in the resignation of several members of the board of trustees of the foundation that runs the Knowledge Centre.⁷⁵ The Prime Minister's Office at last announced that it would stop its future budget support.

The main activity of the supporting Batthyány Lajos Foundation seems to continuously be the redistribution of governmental funds to organisations favoured by the governing party. These include organisations as the Centre for Fundamental Rights, which received around 720 million forints in 2020 - the funds are believed to have been used for the full renovation of its headquarters this year.⁷⁶ Even more questionable is the subsidy of more than 600 million for the company that operates the Scruton café, one of the favorite events for government and pro-government actors.⁷⁷ Due to the grandiose expansion of the café, in addition to the owners, entrepreneurs close to the government can also benefit from this money. This is because works are done by Market Zrt., linked to István Garancsi.

In addition to the Batthyány Lajos Foundation, state-owned companies also granted generous support for pro-government organisations: the Hungarian Development Bank, for example, has provided tens of millions of forints to CÖF and the Nézőpont Institute.⁷⁸ Non-political NGOs have also benefited from the government's support: the János Áder Foundation for Climate Protection has received more than one billion forints in budgetary support.⁷⁹

3. GOVERNMENT TRICKS TO RESTRUCTURE ENTIRE SECTORS

Outsourcing of public tasks, high-value asset transfers

A) ESTABLISHMENT OF PUBLIC TRUST FUNDS

The COVID pandemic coincided with the second half of the electoral cycle, and the epidemiological preparedness did not prevent the Government from employing new, innovative methods to secure its power in the event of an electoral defeat. One of the most significant developments is that, from 2020 onwards, certain public tasks will be performed by bodies formally independent of the state, with certain public assets being outsourced to foundations. Additionally, the Hungarian state will not own 25% of the shares in two strategic companies (including dividends and rights to shares). By the end of April 2021, in a matter of months, almost all higher education had been transferred to trusts, and a number of other trusts in the fields of culture, education and agriculture were set up, with pro-government actors at the helm and overseeing them.^{80 81} This is particularly grievous as the law provides virtually no conflict of interest rules for trustees.^{82 83}

From a corruption perspective, the biggest concern is that while the state allocates significant public tasks - including higher education and, in the case of university clinics, patient care - and assets to foundations, the state can only formally enforce the proper performance of these allocated public tasks by very modest enforcement mechanisms, e.g., the boards of trustees of foundations managing very substantial assets cannot be held accountable for any breach of trust, and the members of the board of trustees cannot be replaced by the state.

In addition to the above, the KEKVA Act does not guarantee the autonomy and independence of institutions from the government beyond personal mergers, not least because most institutions do not acquire assets outside the buildings used for education during the planned transfers of assets that would generate significant sums of money from which it could carry out its public task - which in the future would be arranged by the government on the basis of long - term agreements - ie funding would continue to be subject to consultations with the government.⁸⁴ The only exceptions to this are only a few beneficiary higher education institutions (mainly Mathias Corvinus Collegium, Corvinus University and Semmelweis University) that have acquired significant stakes in higher value state-owned companies.

Beyond the academic sphere, the Government has also set up other public interest foundations with a public service mission, which do not seem to have any real purpose other than to reduce government transparency and to ensure that the objectives favoured by the governing parties are achieved in these institutions in the event of government change - all while ensuring their continued funding.^{85 86 87}

Unfortunately, at this moment it is not possible to estimate the exact value of the real estate and company shares that the government has granted these pseudo-state KEKVAs without charge. The scope of a future government may be limited by the law adopted in September, which sets the funding for public trusts funds (i.e. KEKVAs) operating newly established higher education institutions until 2026, amounting to a total of 1700 billion forints to be paid out.⁸⁸

The plan for the Chinese Fudan University campus in Hungary sheds a different light on the government's plans for higher education.⁸⁹ It is not clear how the investment would serve the interests of the Hungarian party.^{90 91} On 11 May 2021, the Government submitted a bill regarding the Fudan University, KEKVA, the university's operator, and the related free asset transfer. Apparently irrespective of this plan's overall rejection and the protests against it, the government's present position is to postpone the decision about Fudan University until after the elections of 2022. The government has already allocated more than 14 billion forints of public funds to the foundation.

B) HIGH-VALUE ASSET TRANSFERS TO CHURCH INSTITUTIONS

In addition to the KEKVAs, a number of church institutions have also received significant real estate assets: these free transfers of property were also made without consultation of potential stakeholders or any serious justification.⁹² The transfer of property also fits into the efforts of the state outsourcing an increasing amount of social and educational tasks to the church and church organisations, while in many cases the governing bodies of these church foundations include actors such as former Minister of Human Resources Zoltán Balog. In both 2021 and 2022, several church organisations acquired the ownership of social institutions free of charge.^{93 94}

While this step could be explained by the state waiver for the operation of these institutions, it is more difficult to justify the need for churches to contribute to the running of children's camps, for example, when both the available real estate and the full renovation and the costs of camping are fully covered by the central budget.^{95 96} This is a matter of serious concern not only because it may violate the principle of ideological neutrality, but also because these church-run foundations are essentially fully funded from central or EU budgets (i.e. public funds) and perform a public function - yet they are not subject to such strict transparency requirements, nor can their managers be held accountable to similarly-performing state organisations.

C) OPAQUE TRANSFER OF STATE ASSETS TO THE CLIENTELE

The Hungarian National Asset Management Inc. sold several valuable properties in 2021 in bundles at auctions to companies close to Dániel Jellinek and Tibor Schimicsek, who is affiliated with the V. district.^{97 98 99 100 101} Jellinek has been publicly criticised by Tamás Vitézy, a businessman who is a distant relative of the Prime Minister and was once close to the governing party, for his "mafia-like" market operations.¹⁰²

As part of an amendment to the law, state-owned properties registered as sports complexes can be transferred free of charge to anyone with the prior consent of the Minister responsible for sports policy¹⁰³ - the only restriction on the use of the property is that it must be used "primarily" for sports purposes for 15 years. The rule does not therefore exclude the "secondary" use of a gifted property for other purposes, including those serving private interests.¹⁰⁴

“NER-isation” of strategic sectors

In some sectors the government's intention is to outsource the provision of public services from the state, even at the cost of giving up state assets. In the cases of certain highly profitable or strategic sectors and companies there is a strong intention to replace foreign investors with "national" ones, more precisely NER-related ones, or even the state itself engages in such deals. In the last two years, we have seen many such projects that were even supported by legislative changes.

A) THE PLAN TO NATIONALISE THE LISZT FERENC AIRPORT

The current majority owner of Budapest Airport is a Canadian pension fund, which originally had no intention of divesting, but the government has put the owners under constant pressure: first, they vetoed the company's loan application to the European Bank for Reconstruction and Development (EBRD) in 2020. From 2021 onward, the Hungarian State has actually undertaken to acquire the airport, bidding as a consortium with MOL and the Indotek Group led by Dániel Jellinek.¹⁰⁵ According to newspaper reports, the 4,000 billion forint price offered in November had already been considered by the seller, and according to reports at the time, Viktor Orbán was committed to closing the deal before the end of 2021. However, this plan was scrapped due to the deteriorating budget balance: according to Viktor Orbán, the purchase of Budapest Airport will definitely not take place before the elections.^{106 107}

B) VIG-AEGON TRANSACTION

No less unusual was the fact that the Ministry of Interior, using its authorisation received for epidemic management¹⁰⁸, prohibited the sale of Aegon Insurance to Vienna Capital Group (VIG) on the grounds of classified national security reasons - although in this case it was clearly not a question of preventing the negative effects of the pandemic. Moreover, both parties to the transaction reside in the EU, and Vienna Insurance Group has itself been present in the Hungarian market for decades through Union Insurance. The parties appealed to the EU¹⁰⁹ but because the parties took the interests of investors into account, they did not wait for the end of the infringement procedure and therefore sought to bring the case to a conclusion as soon as possible. In December, the Vienna Insurance Group announced that it had reached an agreement with the Hungarian government for the state to acquire a 45% stake in Aegon and in Union Vienna Insurance Group Biztosító Zrt.¹¹⁰ This merger is not affected by the fact that in January 2022 the European Commission came to the preliminary conclusion that the Hungarian state had breached EU law by vetoing the regulation and the EU called on the government to withdraw the veto by 18 March.

C) 4iG EXPANSION WITH GOVERNMENT SUPPORT

4iG, a company owned by Gellért Jászai that has successfully bid for public IT

procurement, is one of the formally private companies that the government is openly supporting in its market acquisition efforts. 4iG acquired¹¹¹ a majority stake in Antenna Hungária in 2021 -- thus bringing new state assets and public tasks to NER.¹¹² With this transaction, 4iG can also acquire MVM NET Zrt, which owns and operates strategic government telecommunications infrastructure.¹¹³ In October, 4iG acquired Telenor's Montenegrin subsidiary,¹¹⁴ in November, they announced that it would buy DIGI's Hungarian interests from the Romanian RCS & RDS group,¹¹⁵ and in December they announced the acquisition of the fastest growing company in the Albanian telecommunications market.¹¹⁶ DIGI has been transferred by 4iG to Antenna Hungária, further reducing the state's stake in the company. The GVH will not investigate the Antenna-4iG merger - similarly to the KESMA merger -, as it was declared a national strategic merger by the Government on the day the contract was concluded.¹¹⁷ The acquisition was leveraged by the acquisition of a stake in 4iG by the German arms and automotive company Rheinmetall AG, which raised capital.¹¹⁸ 4iG is also looking to expand into the Israeli market by acquiring the satellite operator Spacecom, a deal that could well be vetoed by the Israeli Ministry of Defence.

D) MINING

NER has also gained a significant stake in the construction materials sector with government support: the extraction rights to one of the country's largest gravel and sand mines were sold in a private tender to BayerConstruct, a company owned by Attila Balázs.¹¹⁹ The private sale was made possible by the Government due to the shortage of building materials caused by the pandemic preparedness emergency.¹²⁰ In addition to billions in state aid for the mining investment, environmental and licensing requirements have been relaxed on a number of points - and the GVH has launched an investigation against competitors of the exempted group.^{121 122}

E) BANKING SECTOR

In December of 2020 after several years of preparation, Hungary's second largest bank which has no state involvement, Magyar Bankholding Zrt., was established with the integration of the Takarékcsoport, Budapest Bank, and MKB. The merger will not be completed until the second quarter of 2023. Via the Takarékcsoport and MKB, Lőrinc Mészáros has significant shares in the bank. By creating Bankholding, the government is presumably trying to push back OTP. By creating Bankholding, the government is presumably trying to push back OTP.¹²³ However, recent news raised concerns regarding whether the country's future second largest bank will provide a prudent service: it recently came to light that MKB lent more than 10 million Euros for investments that are difficult to justify from a banking perspective, including providing funding to the campaign of far-right French presidential candidate Marine LePen. Additionally, The Prime Minister's son-in-law also personally acquired a major stake in the banking sector: his BDPST Group bought Granit Bank (also making him a small investor and strategic partner in the COOP retail chain).¹²⁴

Apart from the means detailed above, the largest NER oligarchs have obtained newer significant shares in important sectors with the help of mergers and acquisitions.

In the energy sector, Lőrinc Mészáros's stock market company Opus Global Nyrt. obtained Hungary's largest pipeline gas distributor TIGÁZ,¹²⁵ which supplies nearly half the country with gas. We have heard before that Opus may buy out the Tiszántúli Áramhálózati Zrt (Trans-Tisza Electricity Network Zrt) from eON.¹²⁶ Meanwhile, the Budapest Power Plant has changed ownership: the power plant that provides 60 percent of the capital's district heating demand (through offshore connections) may come to be owned by a company associated with Árpád Habony, an informal adviser to the prime minister.^{127 128}

Other actors close to the NER have also benefited from the NER. For example, the Czech aircraft factory was bought by the husband of government spokesman Alexandra Szentkirályi, Kristóf Szalay-Bobrovinczy,¹²⁹ who also owns the government think tank, Századvég and is the holder of a number of casino concessions alongside interests in the manufacture of railway vehicles, with government backed interests.

According to press reports, NER-related assets are also becoming less transparent in the meantime: the number of private equity funds managing assets has increased to more than 60 during the pandemic preparedness emergency, 43 of which are managed by the top elite of the NER, according to a *Heti Válasz* survey.¹³⁰ The actual beneficiaries of these private equity funds – meaning the people who possess the shares of investments – is kept secret by law.¹³¹

4. DECISIONS DISPROPORTIONATELY AFFECTING OPPOSITION-RUN MUNICIPALITIES

A) FREE PARKING

The Government has introduced free public parking in all municipalities with the Gov. decree 87/2020. (IV. 5.). Later, the 512/2020. (XI. 21.) Gov. decree reintroduced free parking from November 2020 to May 2021. Later, the 512/2020. (XI. 21.) Gov. decree reintroduced free parking from November 2020 to May 2021. The abolition of parking fees was presented by the government as a means of combating the epidemic, with the idea that free parking would encourage more people to use cars instead of public transport, and that with fewer person-to-person contacts, the spread of COVID-19 would be slowed.

However, making parking free of charge takes revenue away from municipalities, as parking fees can be collected from vehicle operators and disposed of by local authorities. The measure has meant a significant loss of revenue for larger municipalities in particular. Parking fees are the biggest revenue earner in Budapest,¹³² which is led by the opposition, so the abolition of parking fees at a central level has hit the Budapest districts and the Budapest municipality hardest.

B) SPECIAL COMMERCIAL ZONES

In our first report, we reported that the government had declared a significant part of Göd to be a special commercial zone, and that it had directed about one third of its revenues, the business tax revenues to the Pest County Municipality, with the aim of mitigating the negative economic impact of the coronavirus epidemic and creating jobs.

The town of Göd has an opposition mayor, and with the creation of the special commercial zone, both the area of Samsung's battery factory and the right of taxation in Göd was given to the county municipality, which has a pro-government majority.¹³³ In our sixth report, we also revealed who benefited from the tax revenues from the Göd Special Commercial Zone in October 2021: while municipalities close to the government received significant amounts, the city of Göd did not.¹³⁴

In our fourth report, we reported on the creation of another special economic zone: in June 2021, a special economic zone was created at the industrial facilities of Dunaújváros and its surroundings. Dunaújváros is also an opposition-led city, with significant tax revenues from their contracts with Ivánca and Rácalmás. 50 percent of the business tax paid by the industrial park in Ivánca and the Hankook factory in Rácalmás is paid to Dunaújváros.¹³⁵ The creation of the special economic zone meant that, as in the case of Göd, the tax revenues are also paid to the county government led by the governing party.

Government decrees creating special economic zones are a very serious interference in local government.

C) BUSINESS TAX, LOCAL TAXES

In December 2020, the government, citing the epidemic situation, issued a decree prohibiting municipalities from levying taxes or imposing new types of taxes for the 2021 tax year in excess of the 2020 rate. The measure was extended to 2022. The financial room for manoeuvre of municipalities was further limited by a government decree halving the business tax for small and medium-sized enterprises for the year 2021. Since municipalities cannot levy new taxes or raise existing ones, they have no means of making up for lost revenue. Business tax revenues are particularly significant for larger municipalities. For the loss of revenue caused by this measure, the Prime Minister promised compensation for municipalities with less than 25,000 inhabitants, while for larger ones he announced that the financial situation of these municipalities would be "reviewed on a case-by-case basis".

The result of the latter was that the 2005/2020. (XII. 24.) nr. government decision, an individual, non-targeted grant of 1.38 billion forints per municipality was granted to all cities with county status headed by a governing party mayor and with a governing party majority in their assembly. The "total" 1.38 billion forint subsidy, which is not linked to a specific task, was only granted to those cities with county status where both the mayor and the majority in the assembly were from the governing parties.¹³⁶

D) EXERCISE BY THE MAYOR OF THE POWERS OF THE COUNCILS AND ASSEMBLIES

Act CXXVIII of 2011 on Disaster Management and the Amendment of Certain Related Acts (Kat. tv.) 46. § (4) of the Act, the duties and powers of the body of representatives of the local government of the settlement, the metropolitan and county assemblies in an emergency shall be exercised by the mayor, the Lord Mayor or the chairman of the county assembly. Until 15 June 2021, the situation was that instead of the Municipal Council, municipalities were governed by a one-person decision-making system. Until 15 June 2021, the situation was that instead of the Municipal Council, municipalities were governed by a one-person decision-making system. We highlighted the several abuses of power in this area and the failure of many government agencies to exercise due diligence in our First Report.¹³⁷

5. PRIVATISATION OF PUBLIC POWER POSITIONS

Perhaps the biggest public scandal of 2021 was the motion of Péter Polt, the Attorney General of Hungary, in December to suspend the immunity of Pál Völner, Fidesz MP and Deputy Minister of Justice under Judit Varga, because of the investigation by the Central Investigating Prosecutor's Office, which raised reasonable suspicion of accepting bribes and other crimes.¹³⁸ The Deputy Minister is suspected of having made the filling of independent bailiff posts conditional on the payment of bribes. György Schadl, the President of the Hungarian Judicial Executive, is also under arrest in connection with the criminal proceedings¹³⁹ The investigation was carried out by the National Defence Service, through a process of secret information gathering. The wiretap records revealed that Schadl occasionally gave Völner 2-5 million forints to arrange the appointments. Pál Völner already resigned from his position as State Secretary on the day of the publication of the prosecution's statement, and the government majority in the National Assembly voted for his suspension.¹⁴⁰ However, it is important to point out that, like György Simonka and István Boldog, Völner was not remanded in custody and they did not resign from their seats in Parliament, thus ensuring the continued 2/3 majority of FIDESZ in the National Assembly.

And while the power to appoint bailiffs was transferred to a new Authority in October, presumably not independently of the ongoing investigation, this does not ensure the reduction of corruption risks. As already mentioned in point 1, the Supervisory Authority for Regulated Activities will in future exercise supervisory and licensing powers in relation to tobacco concessions, mining, liquidators, bailiffs and gambling. There is no provision in the law establishing the Authority that would provide a systemic safeguard against such cases.

It is important to point out that the documents of the Schadl-Völner case that have been made public reveal a picture of a case that goes beyond the appointment of bailiffs: according to 444, which reports on the documents, György Schadl used his insider connections in a wide variety of matters: he intervened at universities to ensure that those he recommended (including Antal Rogán's chief of staff) could obtain a qualification without fulfilling the requirements, he tried to use his influence with the President of the Hungarian Supreme Court and the President of the Budapest City Court to undermine a female judge, and he lobbied in several ministries to obtain various state and EU grants.

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