Understanding ‘Orbanomics’:

Economic Nationalism in the Era of Globalization

By

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The global resurgence of nationalism is one of the many negative consequences of the 2008 economic and financial crisis. Nationalism has since manifested in the shape of economic policies. This paper makes contributions to our understanding of this complicated phenomenon by performing empirical analysis on one of the most perplexing cases of economic nationalism: the post-crisis Hungarian experience. By applying the methodological frameworks of path dependency and critical junctures as well as the rational choice theory this paper is proposing an explanation as to why did the Hungarian government resort to a levy on the financial sector, forex relief schemes, or the bank nationalizations, and why has it been doing so in this particular manner. This investigation finds that the economic policies adopted between 2010 and 2015 in Hungary are highly pragmatic and rational, taking into consideration the economic trends leading up to the crisis and the political realities of this period. Finally, having demonstrated that economic nationalism is only present in certain sectors of the Hungarian economy, this paper argues that the current processes should not be mistaken for a major reversal of economic globalization.

Key words: economic nationalism ♔ forex lending ♙ economic policy ♖ bank levy ♘ transnational finance ♕ bank nationalization ♗ manufacturing

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Introduction

Defining economic nationalism

Economic nationalism is a complex phenomenon stemming from a political ideology, *nationalism*. According to Ernest Gellner, a prominent figure of nationalism studies, 'nationalism is a political principle, which holds that the political and national unit should be congruent'. (Gellner, 1984, P. 1) This belief system prioritizes individuals' national identities over other identities and emphasizes the importance of their attachment to their respective nations. Until the late 1980's economic nationalism was defined by applying Gellner's definition in the domain of economic policy making. James Mayall was among the first who contested this overly simplistic definition and argued that economic nationalism is the combination of protectionism and mercantilism. (Mayall, 1990) Mayall believed that the aim of economic nationalism is the construction of an autarkic nation-state that limits the endeavors of foreign capitalists, and governments via mercantilist economic policies as well as tariff- and non-tariff barriers. Unfortunately, Mayall's description of economic nationalism is merely an extension of the definition of protectionism and it seems to be outdated even considering the period when it was conceived. It overlooks the effects of *globalization*, a phenomenon that had fundamentally altered the way in which states interacted with each other.

Over the course of the 20th century, due to institutional and technological developments, states became increasingly integrated into the world economy and thus, dependent on each other. (Krueger, 2006; Tanzi, 2000) This elevated level of interdependence made the construction of autarkic nation-states virtually impossible. Moreover, the establishment of the General Agreement on Tariffs and Trade (GATT) in 1948 and its successor the World Trade Organization (WTO) in 1995 created strict boundaries as to what tariff and non-tariff barriers nations could resort to. In this globalized world, nationalist economic policies are more flexible in order to facilitate taking advantage of the opportunities of the global economy whilst subtly favoring those who are part of the nation. As Clift and Woll put it in their recent paper, “national governments had to become creative to assure traditional policy objectives with new means”. (Clift and Woll, 2012, P. 309) Therefore, economic nationalism must be defined as a broader, more inclusive concept, an “umbrella term emphasizing fundamental characteristics of economic policies.” (Pickel, 2003) However, one must not be overly permissive. Interpreting economic nationalism as “the pursuit of domestic interest via economic measures” (Szako, 2007) permits the researcher to classify almost any policy, even neoliberal economic policies that aim at attracting foreign direct investment (FDI) or those that endorse the exports of domestic products, as cases of economic nationalism, which is clearly incorrect. Therefore, in this paper I am going to rely on Clift and Woll’s definition of economic patriotism, which they use almost interchangeably with economic nationalism[1], as the basis of my own analysis. These authors categorized policies as patriotic when those had the goal of either favoring insiders (Nationals) or when the policies were enhancing the national capability of resisting outsiders. (Non-nationals) (Clift and Woll, 2012, P. 316) This categorization is almost identical with my own understanding of economic nationalism, which is, the sum of policies that aim at increasing the share of domestic control[2] over various aspects of the national economy.

Crisis and Nationalism

In his study titled, *Ethnicity and Nationalism,* (1992) Eric Hobsbawm argued that nationalism used to be essential in periods of largely independent national economies.

[1] According to Clift and Woll, “unlike economic nationalism, economic patriotism is agnostic about the precise nature of the unit claimed as patrie” (Clift and Woll, 2012, p. 308)

[2] Domestic control does not exclusively mean state control; it can include to any member of the given nation.

However, he claims that this period has been superseded during the second half the twentieth century, when nations became highly integrated into the global economy. An excellent indicator of the global integration is the share of trade relative to the global GDP. While imports and exports only accounted for 26% of the world's GDP in 1960, this number surpassed fifty percent by the end of the twentieth century. Despite the temporary setback caused by the global economic and financial crisis in 2008, this ratio is growing again, currently standing at approximately 61%. (World Development Indicators, World Bank). In spite of these developments, economic nationalism is still present either subtly or more profoundly. Nationalist elements can still be found in policies such as the European Union's Common Agricultural Policy (CAP), competitiveness strategies in New Zealand and East Asian development strategies (Helleiner and Pickel, 2004) or the Post-Soviet Russian energy policy (Szakonyi, 2007).

There are periods when the presence of nationalism is felt more profoundly and times when it only exists subtly. A well-known empirical regularity between crisis and nationalism is that crises tend to generate nationalistic responses. During crises "nationalism emerges as a strong cohesive factor of social groups." (Bianchini, 2012, P.1) Empirical evidence suggests that this has been the trend during the 20th century and it appears to be the case even today. Political psychology studies explain this tendency with the phenomenon, *group loyalty* (Druckman, 1994). During crises national identities become more salient and consequently, important for individuals. According to Bianchini, in these periods "the homogeneity of a […] nation […] is claimed as a pivotal factor able to guarantee the best conditions for resisting the adversities, affording the uncertainties of the changes imposed by the crisis, and re-establishing the pre-existing social stability and wealth." (Bianchini, 2012, P. 1) Although, Bianchini notes that this is merely an illusion, as "there are no old answers to new problems" (ibid.) economic uncertainties clearly make nations more inward.

Politicians resort to nationalism during crises, as it speaks to emotions and is more than capable of bolstering popular support in pivotal times. Policies adopted during these periods concentrate on strengthening the countries' domestic economic competencies in order to sustain their international influence. It is not surprising that since the outbreak of the 2008 global economic and financial crisis there has been a surge in the public support of political parties campaigning with nationalist agendas. Members of these parties have been winning seats in legislatures worldwide. The consequences, such as the increased international tension, the temporary stagnation of international trade and the shrinking cross-border lending have all been defining characteristics of the world economy for the last several years.

In different states economic nationalism has been taking utterly different shapes. National governments have been employing tariffs (e.g. Argentina, USA) manipulating their currencies (e.g. China) or shielding domestic firms from foreign takeovers (e.g. Spain, France). Nationalist sentiment gained significant momentum in Hungary as well. Although small and relatively insignificant actor in the global economy, Hungary has been receiving disproportionate attention for its unusual economic policies. Despite being highly dependent on foreign investments, transnational finance, exports, and its predominantly foreign-owned manufacturing industry Hungary cracked down on foreign ownership in various areas (e.g. agriculture, retail, finance). While Hungary is not the only European state resorting to nationalist economic policies, the overall characteristics of these policies and the areas affected by them make the Hungarian a remarkable case, worth investigating in greater detail.

Hungary: a case study

This paper dissects the most symbolic economic policies adopted during the 2010 – 2015 period in Hungary, which profoundly altered the political and economic landscape of the country. It examines the ways in which economic nationalism affected the financial sector;

focusing on the effects of the sectorial taxes (bank levies), foreign currency (or as often referred to as: 'forex') loan relief schemes, and bank nationalizations. Then it contrasts the nationalist economic policies unfolding in the financial sector with an area, which shows remarkable resilience to such interventions: the predominantly foreign-owned car manufacturing industry. The overarching goal of this paper is not to pass judgment on the Hungarian nationalist economic policies, but to offer a scholarly explanation, via employing path dependency, rational choice, and the critical junctures theories, why did the second and third Orbán governments choose to rely on economic nationalism between 2010 and 2015 in the financial sector and why did it choose not do so in others. This type of analysis however requires a clear understanding of both the critical junctures leading up to period in addition to the nationalist economic policies themselves.

Therefore this paper first highlights historical moments of the Hungarian post-socialist transition, where the paths taken by the country's leaders differed fundamentally from the most similar cases of post socialist democratic developments (Czech Republic, Poland, Slovakia). This is to demonstrate how critical junctures during the 1990's and the early 2000's defined the Hungarian experience of the global financial crisis, and how fundamentally these affected the way in which economic nationalism reemerged in the country. This paper argues that liberal and deregulatory policies enacted in the '90s and '00s, the dependent nature of the Hungarian economy, the extent of ownership foreign and overbanked nature of the financial sector and the excessive foreign currency based mortgage lending together determined Hungary's policy choices during and after the 2008 global financial crisis.

Next, this paper scrutinizes the policies adopted in reaction to the 2008 global financial crisis. Although the crisis wreaked havoc from 2008 (or 2007 in some other countries) the initial reactions in Hungary were devoid of nationalism. Instead, the socialist government that was in power until 2010 cooperated with international organizations and enacted austerity measures in order to tackle the crisis. I am going to demonstrate how their fiscal discipline resulted in the landslide electoral victory of Fidesz-KDNP in 2010 that gave uncontested legislative power and therefore a wide choice of policy alternatives to the Orbán governments.

Only having completed this groundwork does this paper turn to the contemporary Hungary. Starting with the historical origins and fundamental characteristics of its financial sector, it explores three policy areas, the bank levy, forex relief schemes, and bank nationalizations, and compares them with other Visegrád countries similar policies. Then the financial sector is contrasted with another segment of the Hungarian economy, which received fundamentally different treatment from the government: car manufacturing. The final chapter of this paper concludes by discussing the potential implications of this case study and by reiterating some of the main issues that need to be considered by policymakers on both national and international levels if there is to be an effective solution to reducing the level of economic nationalism.

Literature Review

Socialist Legacy and Economic Transformation

Hungary is a medium-sized OECD country, located in Central-Eastern Europe (CEE), with a population just under ten million. The country had been part of the socialist bloc for forty years, until the socialist system collapsed in 1989. Hungary, similarly to other post-socialist CEE states, immediately began its political- and economic transformation. The political change took place rapidly and almost entirely unhindered. The 1989 constitutional reforms abolished the one party system and facilitated the first free and fair multiparty elections in 1990. Hungary's experience of the post-socialist economic transformation was also positive relative to other CEE states. The country inherited a "relatively favorable communist legacy" as it had one of "the least distorted economies" among the now ex-socialist states. (Bohle and Greskovits, 2007) Yet, the transition to a free market based capitalist economy was a long and painful process. The 1990's was, without a doubt, a period of economic downturn in each of the CEE countries. (See Figure 1) According to the Central Statistical Office's (KSH) data the Hungarian GDP only surpassed its 1989 level a decade after the collapse of socialism. The economic difficulties were not solely due to the systemic transformation but largely rooted in the 1980's decade-long stagnation caused by the excessive market interventions, the crippling public debt, and the failure to keep up with the rapid technological development, also known as the "Third Industrial Revolution" of the West. (Szelényi and Szelényi, 1994) However, these issues only became evident to the public after the socialist system collapsed in 1989.

The economic struggles of the 90's were accompanied by a societal transformation as well. The idea of a strong and caring state persisted in the minds of the people, although it was obvious that the welfare state could not exist as it had for the last forty years. While the post socialist states were facing shrinking revenues and were struggling to provide the same quality of social protection programs as before, new social risks, such as unemployment and homelessness were on the rise by the mid-late 90's (Kornai, Haggard and Kaufman, 2001, P. 25).

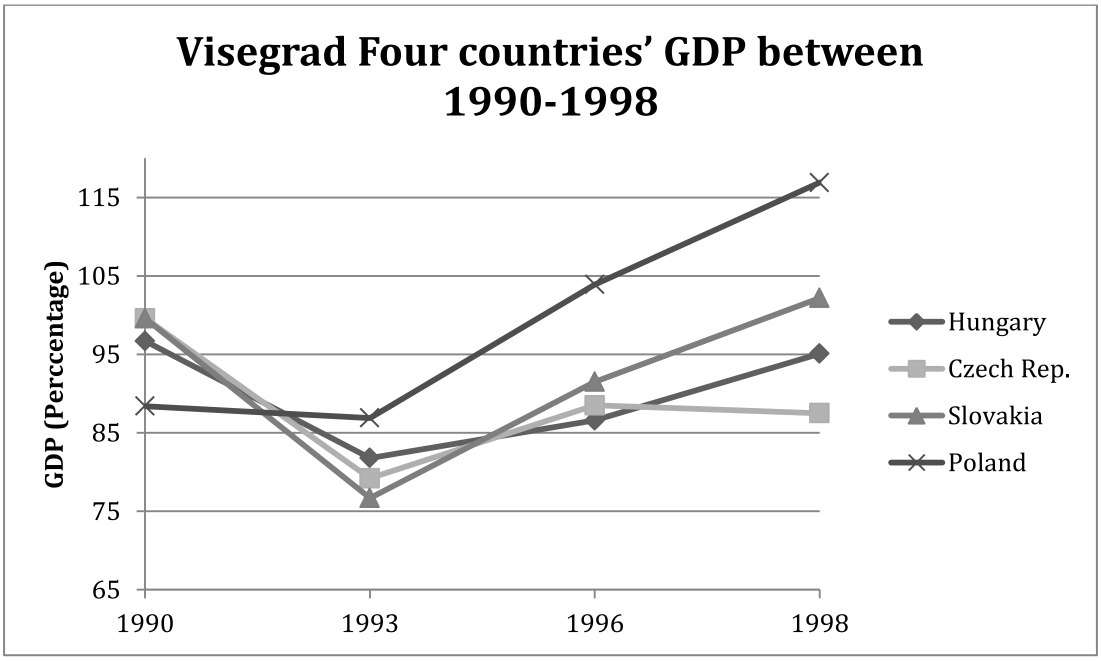


Figure 1: This figure shows the change in GDP of four CEE countries between 1990 and 1998 as a percentage of their 1989 GDP. (World Bank/Statistical Bulletin)

The first decade of the Hungarian post socialist economic transformation was characterized by deregulation and liberalization. (Kaufmann and Kaliberda, 1996) Hungary was among the first socialist states to permit foreign ownership of its banks (Majnoni and Shankar, 2003, P. 2) and other formerly state-owned enterprises. Labor organizations and trade unions, which served as the backbone of the Hungarian Socialist Workers Party lost most of their membership, and much of their bargaining power as the economy was rapidly liberalizing. As Kubicek puts it, "Labor has been skillfully coopted […] by the new political authorities". (Kubicek, 1999, P. 83) The Hungarian governments did not only limit their interventions in free market processes, but made substantial efforts to open the economy for trade. As early as 1994, Hungary applied for EU membership and shortly after, in 1995, it became member of the World Trade Organization (WTO).

The Emergence of Dependent Market Economies

A crucial step towards understanding the economic processes taking place in contemporary Hungary is studying the most fundamental features of its post-socialist economy. Andreas Nölke and Arjan Vliegenthart, in their paper, *Enlarging the Varieties of Capitalism* extend the varieties of capitalism framework, originally developed by Peter Hall and David Soskice (Hall and Soskice, 2001 a), to the four Visegrád countries. According to Nölke and Vliegenthart, the four East Central European countries have completed their "period of transition" (Nölke and Vliegenthart, 2009, P. 672) and thus differ from other post-socialist or ex-soviet states. The authors propose that the ECE countries do not fit into the two major categories defined by Hall and Soskice: 'Coordinated Market Economy' (CME) or 'Liberal Market Economy' (LME). Instead the authors suggest that the ECE experience constitutes a third variety of capitalism, the so-called 'dependent market economy' (DME). DMEs are not only reliant on foreign investments, exports, and transnational finances but also developed institutions "geared towards the preferences of these [trans-national corporations'] needs". (Nölke and Vliegenthart, 2009, P. 677)

The authors argue that the most essential common feature of all DME's is their dependence on transnational corporations' investments. This feature stems from the timing of the socialist collapse, which coincided with the "weakness of domestic bourgeoisies" (Nölke and Vliegenthart, 2009, P. 694). Through the Czech, Hungarian, Polish and Slovak examples the authors demonstrate how key sectors of the ECE countries' economies that are also most prone to generate economic growth, "banking, telecom, utilities and high-tech manufacturing" (ibid.) are foreign owned and thus also dependent on the ECE states' integration into the global markets. These crucial sectors of the ECE countries' economies became privately owned in the early 1990's, generally by foreigners.

In Hungary privatization of the formerly state-owned companies took place rapidly and "rationally directed" (Stark, 1990, P. 366). The buyers were overwhelmingly foreign entities with minor variations among the CEE states as to, which sectors remained in the hands of domestic actors. Only a handful of nationals, those in managerial positions in these firms and those with privileged political positions under the socialist regime could take advantage of the transition to a market economy, for only they had the necessary insider information to make educated guesses about the real value of their firms and access to credit to make purchases. Therefore the process has been described as "nomenklatura" capitalism. (Duke and Grime, 2002, P. 149) Since foreign investors had a significantly easier time accessing credit than the domestic bourgeoisie, the economic transformation to capitalism was a "foreign led" endeavor, during which strategic sectors of the Hungarian economy became foreign-owned.

These firms, supported by complementary institutional frameworks, became highly competitive producers of goods and services on the global markets. Therefore the DME's industrial and service sectors required unrestricted access to foreign markets and transnational finance (Greskovits and Bohle, 2007, P. 4) Overall, this dependence created fundamentally different market dynamics, "between TNC headquarters and local subsidiaries" (Nölke and Vliegenthart, 2009, P. 694) than what occurs under LME or CME type capitalistic economies. This complex dependency also explains why the leaders of each of the V4 states were so keen on joining free trade agreements and the ultimately the European Union. The Visegrád countries 2004 EU accession granted them access to the European Union's Single Market allowing the free movement of goods, capital services (and later people) and ultimately reinforced their comparative advantage over other types of market economies.

In their conclusion, Nölke and Vliegenthart make predictions about the sustainability of the DMEs' competitiveness. They note that that multinational companies may simply relocate their production facilities to areas where they can attain higher profits, should the comparative advantage of the DMEs disperse over time. Although Hungary adopted the quickest among the CEE countries and attracted the largest amount of FDI during the 1990's its regional, as well as global competitors managed to catch up by the early 2000's. (Akbar and McBride, 2004, P. 95) Akbar and McBride support they claim by providing a non-exhaustive list of multinational enterprises (e.g. Mannesmann, Flextronics, Shanwa and Microsoft) that relocated their production facilities from Hungary to China due to the lower labor costs in the 1990's and early 2000's. According to Nölke and Vliegenthart this erosion of the CEE countries comparative advantage may be inevitable given the absence of extensive state investment in the areas of education, research and development. The only limitation to this Eastward drift is the high degree of rent-seeking activities of the Central-Asian post-Soviet states. As long as the CEE countries can offer better institutional complementarities than those states, they may be able to retain their competitiveness. Interestingly enough, the 2008 global financial crisis undermined some of the key features of the preexisting institutional stability in Hungary, which raises the question: how could the Hungarian government then maintain its attractiveness to FDI.

The Paradox of Neoliberal Democracy

Before venturing further into discussing the Hungarian crisis-experience, it is important to briefly discuss the political consequences of globalization. Since tariff and non-tariff barriers of free trade have been either reduced or in some cases completely eliminated, during periods of economic expansion, countries that are highly integrated into the global economy benefit collectively. However, globalization has its disadvantages as well. Economic crises spread unhindered between the highly interdependent economies. The consequences of this phenomenon are far-reaching. In their paper titled, *Economic patriotism: reinventing control over open markets,* (2012) Ben Clift and Cornelia Woll describe the impact of the 2008 global financial crisis on national policymakers in great detail. Clift and Woll argue that domestic politicians are suffering from the so-called “paradox of neoliberal democracy”, a concept originally developed by Colin Crouch (2008)

> “Their political mandate is to pursue the political economic interests of their citizenry under conditions of complex economic, legal and regulatory interdependence where large parts of economic governance are no longer exclusively within their control” (Clift and Woll, 2012, p. 308)

The authors further claim that the tension between trade openness and the ‘spatially limited mandates’ (Clift and Woll, 2012, P. 307) is amplified by crises so profoundly that leaders have very few options other than resorting to some form of state intervention that curtails the country’s dependence on the global economy. Clift and Woll emphasize that this behavior follows naturally from the nature of our complex political and economic systems. They point out, “… Even core advocates of liberalization now rediscover the potential benefits of political intervention”. (Clift and Woll, 2012, P. 320) Understanding this tension is essential for exploring the Hungarian government’s response to the 2008 global financial crisis, and the consequences of their actions.

The Hungarian Crisis Experience

In Hungary, the period leading up to the 2008 global financial crisis was characterized by steady economic growth of approximately 4% annually (see Figure 3) and remarkable macroeconomic and institutional stability. (Bohle and Greskovits, 2007) Although in 2006 a speech given by the Prime Minister, Ferenc Gyurcsány caused political turbulence, protests, and riots on the streets of Budapest – the country’s institutional stability was not affected. During this period Hungary’s macroeconomic indicators on the other hand began to worry some economists. As the 2006 budget deficit reached 10% Nouriel Roubini, an American economist studying emerging economies under the Clinton administration claimed, "Hungary is an accident waiting to happen."[3] Under Gyurcsány the socialist government introduced austerity measures in order to reduce the budget deficit to 3% of the Hungarian GDP by 2008. Although these austerity measures temporarily curbed the growth of public debt (See Figure 2) and budget deficit the Hungarian economy also slowed down by 2007. While in the previous years the Hungarian economy grew on average by approximately 4% in 2007 this number plummeted to 0.5%. (See Figure 3) Both exports and domestic consumption were declining in this period.

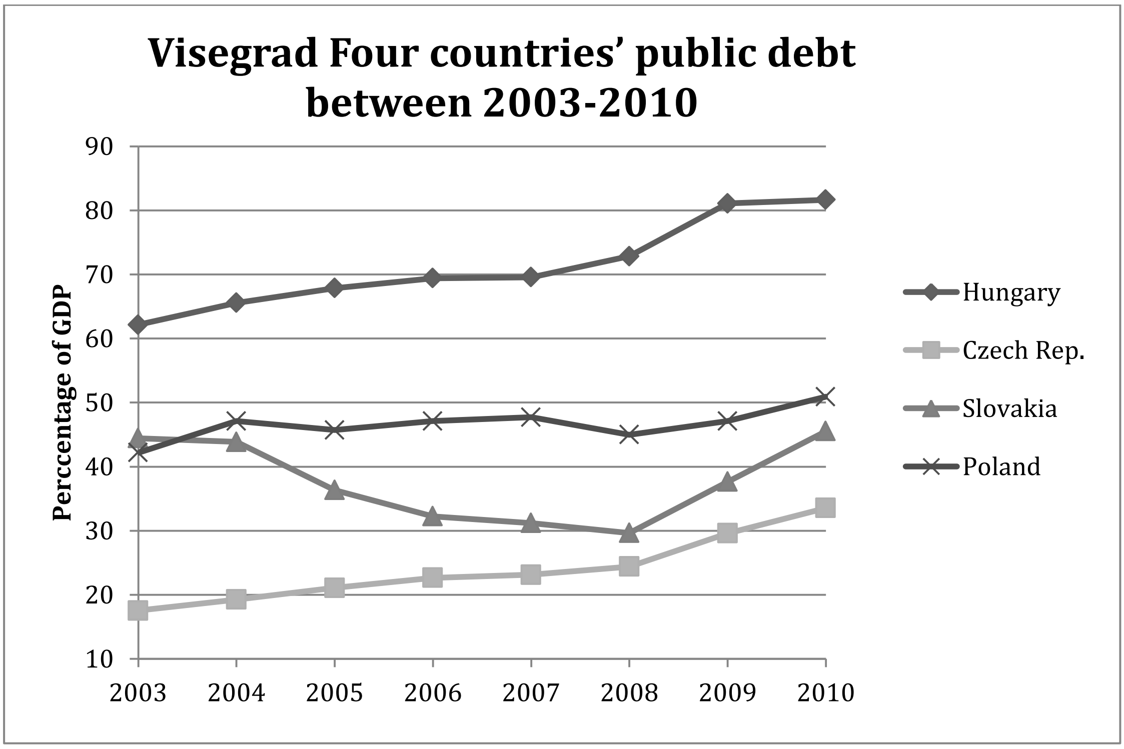


Figure 2: This figure shows the change in government debt of four CEE countries between 2003 and 2010 as a percentage of their annual GDP. (World Bank/Statistical Bulletin)

[3] Lynch, David J. "Hungary Faces Enormous Economic Hurdles." *USATODAY.com - Hungary Faces Enormous Economic Hurdles*. USA Today, 23 June 2006. Web. 19 Sept. 2015.

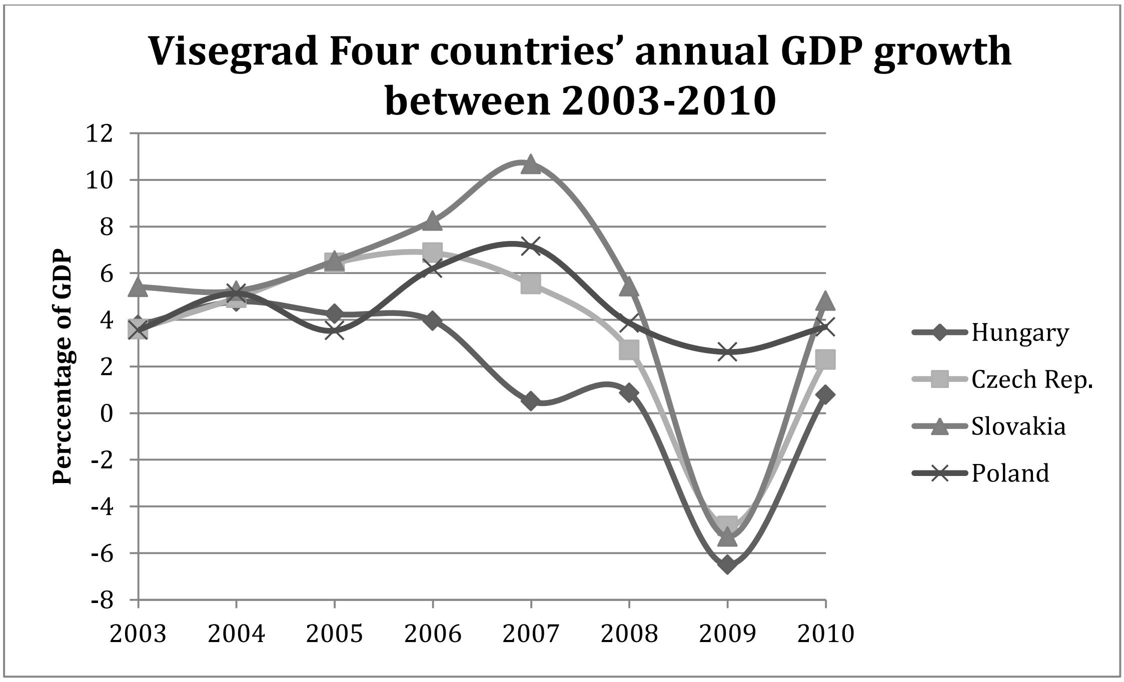


Figure 3: This figure shows the annual GDP growth of four CEE countries between 2003 and 2010. (World Bank/Statistical Bulletin)

The 2008 global financial crisis reached Hungary unprepared and in a highly vulnerable state. The shrinking volume of international trade and the nationalistic policies adopted worldwide in reaction to the crisis extended the recession that followed. Their hands being tied, finding the appropriate measures to provide the necessary fiscal stimulus to the economy was an almost impossible challenge for the country's leaders. Hungary's dependence on foreign investments, capital and exports further exacerbated the already dire situation and thus it was the hardest hit among the Visegrád countries. Hungary's economy shrunk by 6.6% in the year 2009 (World Bank Data, World Development Indicator) and the country could only avoid financial collapse and bankruptcy by accepting an enormous, $25.1 billion rescue package from the International Monetary Fund (IMF) on the 27th October 2008. For the rescue package the EU and the IMF demanded the adoption of competitiveness-enhancing economic policies, further retrenchment of the welfare state, and tax increases. The contraction of the economy and the austerity measures combined led to a steep rise of unemployment reaching 12% by first quarter of 2010. (See Figure 4)

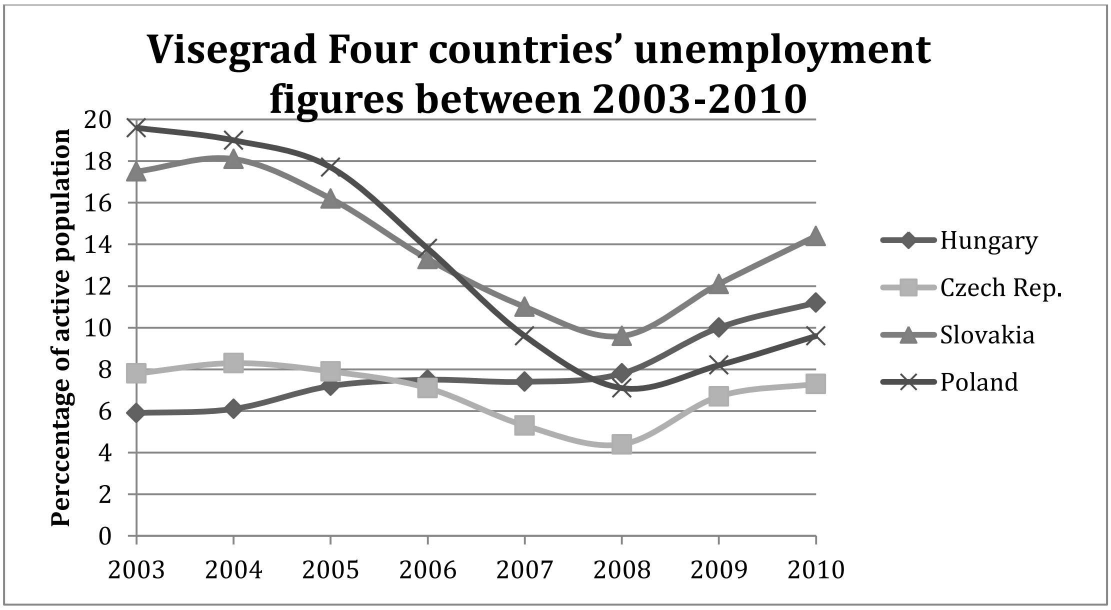


Figure 4: This figure shows the unemployment figures of four CEE countries between 2003 and 2010. (World Bank/World Development Indicators)

Gyurcsány remained in office until 2009, when he resigned claiming that he would be a "hindrance to further economic and social reforms"[4]. Prime Minister Gordon Bajnai and his technocratic government followed him in office. Bajnai complied with the IMF and the EU's criteria, reforming the tax system, cutting public expenditure and retrenching the welfare system (especially the pensions), all of which required major sacrifices from the Hungarian citizens. Juliet Johnson and Andrew Barnes describe in great detail how the austerity measures contributed to Fidesz gaining popularity in this period. (Johnson and Barnes, 2014) Bajnai's economic policies restored international trust and put the country back on growth trajectory. These policies stabilized the country's economy and satiated the EU and the IMF, but resulted in the loss of popular support. (See Figure 5) The peak of the crisis coincided with the upcoming parliamentary elections, ultimately sealing the fate of the incumbent socialist party. While the socialists were bound to defend the austerity measures, the conservative - Christian right-wing Fidesz-KDNP coalition ran on a populist - nationalist

[4] "'Obstacle' Hungary PM to Resign." *BBC News*. BBC, 21 Mar. 2009. Web. 04 June 2015.

platform. Based on polling data from the 2006 – 2010 it was no surprise that the 2010 parliamentary elections resulted in the landslide victory Fidesz-KDNP.

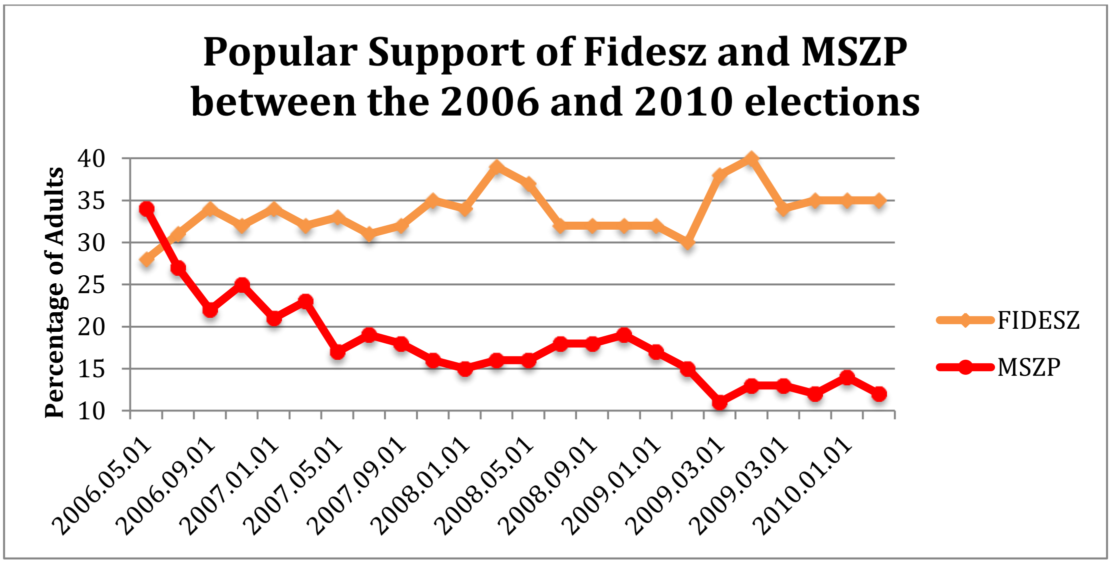


Figure 5: This figure shows the popular support of the two largest political parties, Fidesz and MSZP between 2006 and 2010. (Ipsos)

The new Prime Minister, Viktor Orbán declared that the 2010 election was the "revolution of the voting booths"[5], which hinted that the scope and magnitude of the changes to come would be unprecedented. Now, five years later it is easy to confirm that the changes were truly radical. Hungary has been steadily shifting from its former liberal economic and political principles. The European Union has been closely monitoring these developments. The Tavares Report, which was commissioned by the European Parliament in 2012 and adopted in 2013, identified several areas where Hungary deviated from common EU values. According to the Tavares Report, basic democratic principles, the rule of law and the separation of powers have all been damaged since 2010. The diverging political principles of the EU and Hungary are not the only quarrels between Budapest and Brussels. Since 2010 the Hungarian government has also been under constant pressure from the European Commission

[5] During his speech given on 26th April 2010 on Vörösmarty Square, Budapest, Hungary.

to pursue more liberal economic policies. Yet Orbán seems to be reluctant to revise nationalist economic policies, such as the sectorial taxes, as those are keeping the budget deficit under the 'magical' three percent while also allowing the country's economy to grow. Although Hungary was particularly hard hit by the crisis, and definitely the worst affected among the Visegrád countries, it is now quickly recovering. Orbán's nationalist economic policies are undoubtedly successful at generating short-term economic growth, as demonstrated below. (See Figure 6)

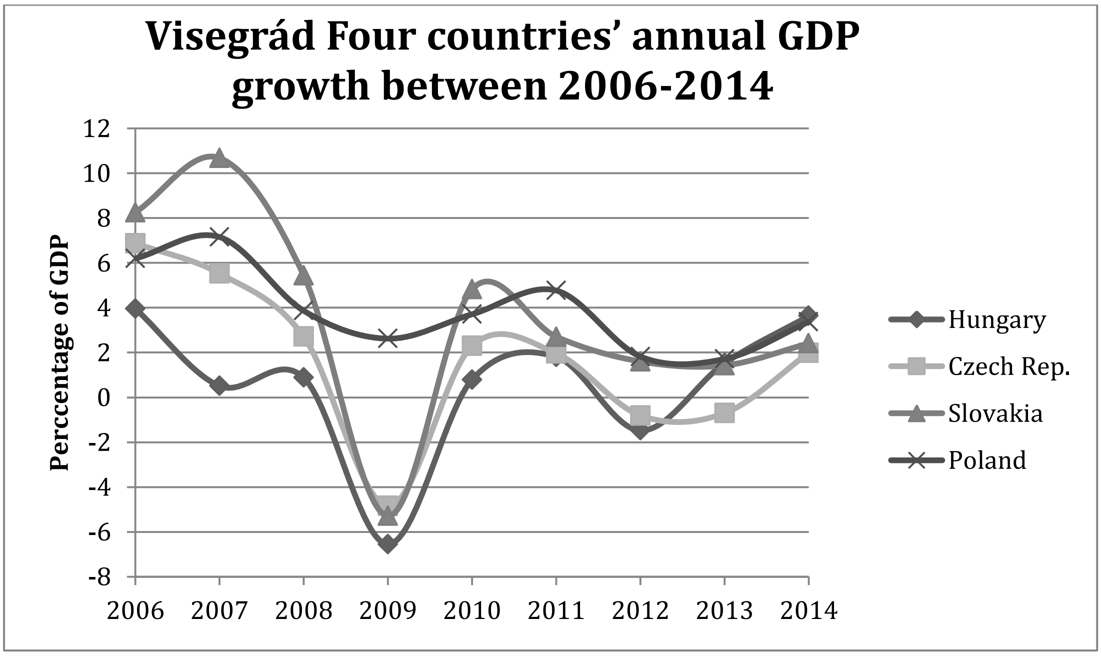


Figure 6: This figure shows the annual GDP growth of four CEE countries during and after the 2008 crisis. (World Bank/Statistical Bulletin)

Similar to the Tavares report's conclusions, Johnson and Barnes end their paper by claiming that the Hungarian financial nationalism has not only altered the state economically but politically as well, in ways that "diverge from existing pan-European norms" but without "automatically undermining economic development goals". (Johnson and Barnes, 2014, P. 29) On the other hand the sustainability of this growth is highly uncertain as the increasingly imbalanced tax burden is weighing down heavily Hungary's telecommunications, energy, retail and financial sectors, which are all essential for achieving long-term economic growth.

Hungary's Political & Economic Reversal

There is an abundance of both scholarly and journalistic articles describing and analyzing various elements of the institutional and policy reforms that took place in Hungary since 2010. The emergent political and economic system has been categorized as various things, depending on the conceptualization, scope and methodological approach of the researchers. Focusing on the developments of the democratic institutions, the Hungarian political system was described as "illiberal or "managed", (Gati, 2012) even before Viktor Orbán himself claimed,

> "The new state that we are building in Hungary today is not a liberal state. It doesn't deny liberalism's basic values such as freedom but doesn't make it a core element. It uses a particular, nationalist approach." (Viktor Orbán, July 26 204, Tusnádfürdö)

Placing the emphasis on the changing attitude of the state regarding private property, similar economic systems have been characterized as "neo-patrimonial" and "neo-prebendal" well before 2010. (Szelényi and King, 2005). Developing this idea further and investigating the legitimacy and the ideological background of the system Hungary was described as a "managed illiberal democratic capitalism". (Szelényi and Csillag, 2015)

One of the most recent, comprehensive analyses of the Hungarian economic system is János Kornai's essay, *Hungary's U-turn* (2015). Kornai argues that one of the main differences between the pre- and post - 2010 regimes is the fact that now, under Orbán's governments the state is involved in the economy in an unorthodox, "much more aggressive fashion" (Kornai, 2015, P. 8) than under previous governments. Kornai claims that this is not 'state capture' in the traditional sense, as there is no de facto power that is trying to gain control over politics. In Hungary it is the state (or more specifically, an elite group in the government) that overrides free market processes with its political agenda. According to Kornai, it is Orbán and his trustees that determine who becomes, and who remains an oligarch. Additionally, he points out that this process also takes place at lower levels as well. Although he does not use the terminology ‘prebendalism’ and ‘patrimonialism’, the logic of the phenomenon that he outlines is exactly the same as the one described by Szelényi and King. Kornai claims, “The intertwining of worlds of business and politics is a fertile soil for corruption”. (Kornai, 2015, P. 8) The areas that Kornai highlights as prime examples of the distorted symbiosis between market and state are the tobacco concessions and the land tenure, both of which could be also interpreted as cases of economic nationalism. Next, he turns to the issue of state revenues and briefly describes the issue of sectorial taxes. He points out that the combination of “unpredictable tax-policy, legal uncertainty, and anti-capitalist rhetoric” (Kornai, 2015, P. 9) reduces the likelihood of FDI targeting Hungary and therefore these “undermine key factors of growth and technological development” (Csillag 2013b). Kornai concludes, “Any attempt to squeeze the classification of the Hungarian government’s economic policy into boxes labeled “right wing” or “left wing” is off-track. There is also “no question of the government intending to restore the socialist system, even though some phenomena are surprisingly reminiscent of the socialist era”. (Kornai, 2015, P. 10) Instead, Kornai claims that the Orbán regime is highly opportunistic and that it follows the ancient idea of “Divide and rule!” in order to survive in office and maintain the existing power structure. Kornai’s assessment appears to be on the spot considering the inconsistency of the economic policies; while the second Orbán government cracked down harshly on some predominantly foreign-owned sectors in a nationalist fervor, it also struck special deals or “strategic agreements” with other foreign companies. This paper will explore this dichotomy in the following chapters.

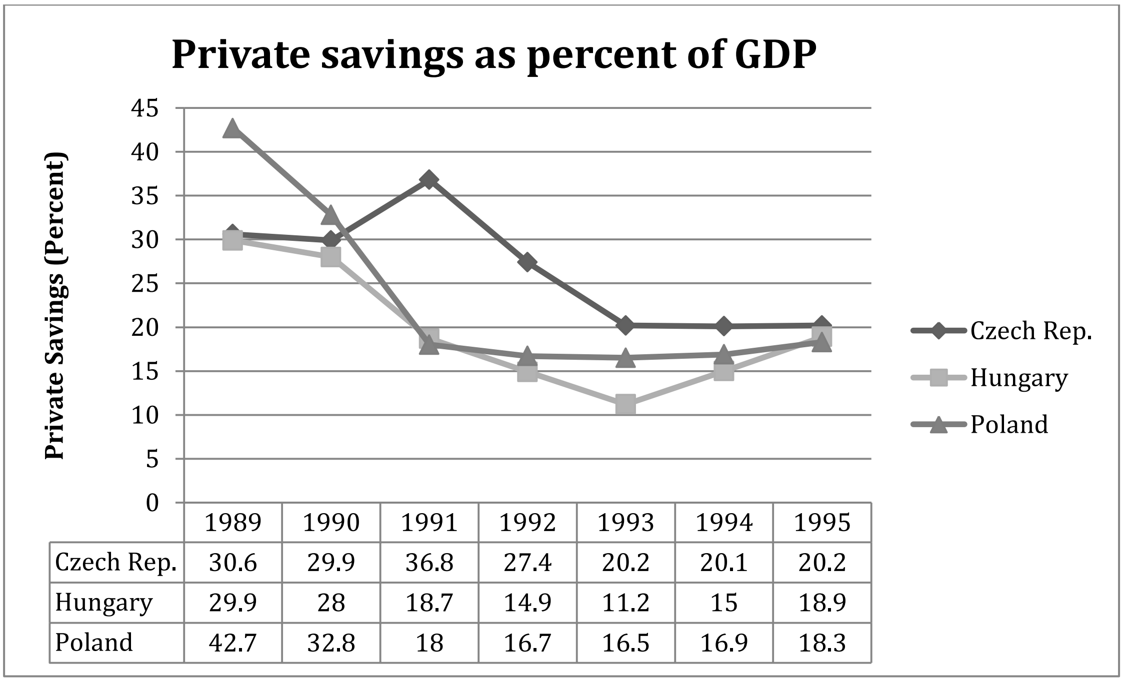
Banking and Finance

Foreign Ownership in the Financial Sector

In the final decade of the socialist regime, Hungary began to liberalize various aspects of its economy. This process created a solid foundation for the transformation of the Hungarian economy to a market - based economy. (Estrin, Hare, & Suranyi, 1992). In 1987 the government established a two-tier banking system. While previously a single entity served as the central bank as well as commercial and retail banks, under the two-tiered system these functions were separated. According to Suranyi (1998) three commercial banks were established in this period, each geared towards different segments of the economy. These commercial banks provided more effective services than their state-owned predecessor. Several of the foreign-owned banks that currently hold the largest share of the Hungarian financial sector entered the Hungarian financial market under the socialist leader, Kádár's more liberal economic regime.

During the 1980's Hungary became heavily indebted to Western commercial banks. Public debt surpassed $10 billion in 1982 and for the most part, it did not fund growth enhancing, productive economic activity. (Siwińska-Gorzelak, 1991) Instead, this money was spent on the day-to-day maintenance of the inefficient yet generous socialist welfare state and on counteracting the ever-more obvious shortcomings of the centrally planned economy. The increasing burden of the public debt inspired Kádár to apply for membership in the IMF, and eventually Hungary became a member of the fund in 1982. After the socialist system collapsed, Hungary, whose public debt was the second largest among the V4 countries, kept up with its financial obligation, which likely further reinforced the country's positive image in the eyes of foreign investors.

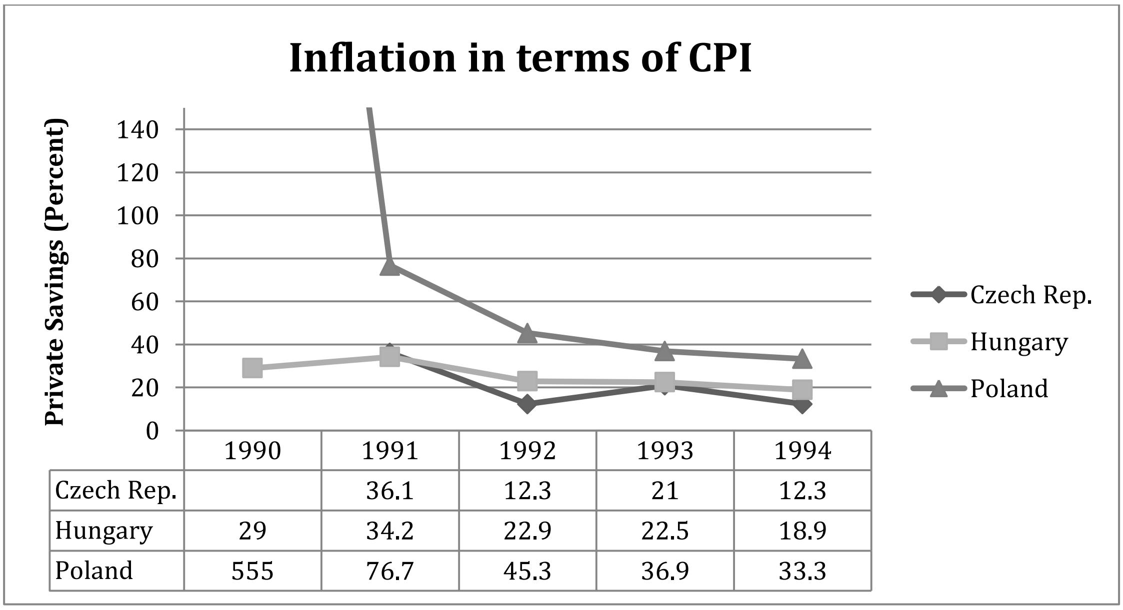
In 1989, private savings in terms of GDP were relatively high in each of the CEE countries (Denizer and Wolf, 2000). However, as soon as the socialist 'shortage economy' was replaced with a market economy, private savings declined sharply. (See Figure 7)



	1989	1990	1991	1992	1993	1994	1995
Czech Rep.	30.6	29.9	36.8	27.4	20.2	20.1	20.2
Hungary	29.9	28	18.7	14.9	11.2	15	18.9
Poland	42.7	32.8	18	16.7	16.5	16.9	18.3

Figure 7: This figure shows private savings between 1989 and 2005 as the percent in three of the CEE countries (World Bank Data)

The inflation of the early 1990's (see Figure 8) further eroded the private savings and increased the CEE countries' thirst for financial capital.



	1990	1991	1992	1993	1994
Czech Rep.		36.1	12.3	21	12.3
Hungary	29	34.2	22.9	22.5	18.9
Poland	555	76.7	45.3	36.9	33.3

Figure 8: This figure shows the CPI inflation 1990 and 1994 in the Visegrád countries (World Bank Data)

The decline of private savings in itself did not necessitate the entry of further transnational financial institutions. FDI, or transnational lending could have provided the necessary credit. However, transnational financial institutions were eager to quench CEE countries credit-thirst as they could generate significantly higher returns on equity in these emerging markets than in their home countries. (Bohle, 2013, P. 12) The 1990's liberal economic policies attracted a new wave of multinational financial institutions (e.g. Unicredit in 1990, Erste Bank in 1998). The liberal regulatory policies allowed foreign ownership of up to hundred percent for FDI with but a few exceptions, such as defense-related industries, Malév, and a handful of strategic holdings. The volume of FDI peaked in 1995 when the banking sector was opened for foreign investment. In a single year approximately $4.4 billion of FDI streamed into the country. (Akbar, 2004, P. 94)

The financial expertise that the multinational financial institutions brought to Hungary helped the country to develop European level financial services. At the same time, foreign banks' easier access to credit was both a blessing in the early post-socialist transitional period and a curse during to the forex mortgage bust. Domestically owned banks in the same period faced inefficiencies, lacked expertise and even the infrastructure that was available to their foreign-owned counterparts. (Akbar and McBride, 2004) However, these differences between foreign, and domestically owned banks gradually faded away. Since then the market share of foreign-owned banks in Hungary has been gradually increasing in the absence of the class of the extremely wealthy and powerful, those who could have repurchased and nationalized financial institutions. In each of the ten CEE countries that Epstein (2013) observed, foreign ownership of banks exceeded 70% and in seven this number was greater than 80%. In Hungary the ratio of foreign-ownership (in terms of total assets) peaked at approximately 75% before Orbán set out to nationalize the sector in 2010.

Socialist Housing & Forex Mortgage Buildup

The early post-socialist Hungarian housing model shared most of its core features with other East European countries, having "evolved in the centrally planned economy […] with high job security low – highly subsidized – housing service prices and small income differences". (Hegedüs and Teller, 1996, P. 187) During the socialist period housing services were not provided based on need, instead they were supplied at a price based on 'merits'. (Kornai, 2000) Hungary historically championed most other CEE states with its owner-occupied housing ratio (74% in 1990, 91% in 2001 and 93% in 2014, ranking 6th worldwide according to the Housing Finance Information Network data from 2014). Before 1990 in Hungary, public rentals accounted for 23.0 per cent of all rentals. Privatization and restitution (the transfer of ownership to the tenants) during the transitional period reduced this number to 4 per cent by 2001. (Hungarian Census Data, 2001) Between 1990 and 2003 the public rental fell in each of the Visegrád states however, other countries retained more of this type of housing after the socialist system collapsed. In the Czech Republic the ratio fell from 39.1% to 28.6%, in Poland from 31.6% to 16.1%, and in Slovakia from 27.7% to 6.5%. (Hegedüs and Teller, 1996, P. 188)

Hungary's deregulated housing finance markets allowed banks to offer foreign currency based loans (hence, 'forex' loans). During the early 2000's Hungary experienced a massive inflow of cheap credit to the mortgage loan market, the average annual credit growth being 20 per cent during the 2003 – 2008 period. (Bohle, 2013) According to the data of the National Bank of Hungary, in 2008 more than 70 per cent of the mortgage loans were taken out in a foreign currency. Forex loans were attractive due to "the favorable interest rates" stemming from the transnational financial institutions' "easy access to foreign currency funding at wholesale markets or their parent banks." (Bohle, 2013, P. 4) Most Hungarians borrowed in Swiss Francs, but loans denominated in Euros or Japanese Yens were not uncommon either.

Leading up to the global financial crisis the Hungarian governments "supported private house-ownership and the build-up of mortgage markets with various policies, such as privatization at preferential prices, tax exemptions, and subsidized credits." (Bohle, 2013, P. 20) At the same time, policymakers failed to insure against the risks associated with forex loans. Major risks, such as the forex mortgage loans' volatility to exchange rate fluctuations (especially to a lasting depreciation) or being issued with adjustable interest rates were largely unknown to the debtors. (Bohle, 2013) A third and final issue regarding the Hungarian mortgage lending and housing market was the unsustainable development of the housing prices. In the period of 2002 – 2006 real estate prices rose by 12 per cent annually. (Égert and Mihaljek, 2007)

Unfortunately for the citizens of the CEE states, these risks only became obvious to the wider public in 2008, when the crisis reached the region and put the country's economy on the verge of collapse. With the European Union and with the International Monetary Fund's help Hungary avoided going bankrupt. However, the very same measures affected the Hungarian households with forex mortgage debt especially adversely. Due to the global financial crisis, the soft currencies of CEE began to lose their value against the hard currencies of the West. The Hungarian Forint depreciated by 34% relative to the Swiss franc over the course of six months, (Calmforss et al., 2012, P. 125–6) leaving very little time for debtors to react. At the same time Hungarian financial regulations did not mandate extensive consumer protections and therefore the Hungarian forex debtors were by far the worst affected in Visegrád countries. (IMF, 2012a)

Under the Gyurcsány government very little was achieved to help forex mortgage debtors. According to a document released by Wikileaks, in 2008 András Simor, president of the Hungarian National Bank argued,

> "Forex mortgage debtors need not to be saved, because it is time for them to learn, there is no such thing as a free lunch" (András Simor, 2008)

Even the Bajnai administration was preoccupied with curbing the public debt and deficit in accordance with the IMF stand-by agreement and failed to address the issue of forex mortgage loans in a timely manner. In 2009, still under Bajnai's premiership the first bailout plan was announced for individuals with payment difficulties, however, it was a narrow solution for a widespread problem. While the government also urged banks to end the practice of unilateral contract changes, it "chose a soft approach, as it asked the banks to voluntarily agree on a code of conduct" (Bohle, 2013, P. 22; Molnár, 2010, P. 16) This year, Simor, feeling that the tides were turning, also proposed the regulation of forex lending, including limits to loan-to-value ratio (54% for Euro-based loans and 35% for other currencies), and capping the monthly payments (to 23% of household income for all Euro-based loans and 15% for other currencies). He argued,

> "It is very important to put in place regulatory limits that would disable such a build up of foreign exchange debt again … so we are proposing certain major legislative changes." (András Simor, 2009, Reuters)

While these measures combined with austerity and economic realignment had the potential of tackling the crisis, in 2010 Bajnai and the socialist party were defeated by the FIDESZ-KDNP coalition, which had a completely different political and economic agenda than its predecessors. (Bánkuti *et al*., 2012)

Transnational Finance in Crisis

Large European and American banks, which for a long time served as the catalysts of globalization, were devastated by the 2007 – 2008 global financial crisis. The stricter post-crisis capital requirements and regulatory environment put multinational financial institutions into a difficult position. As capital became scarcer and scarcer, one possible way for transnational banks to access more of it and strengthen their domestic positions was selling their non-core assets. (Epstein, 2013; Claessens and van Horen, 2014) Both lending and foreign direct investments were almost immediately redirected towards safer and more stable, Western economies. (Milesi-Ferretti and Tille, 2011) While transnational lending surpassed $500 billion in 2007, it dropped to just above $100 billion by 2008 (Cetorelli and Goldberg, 2011). A number of large international banks, such as the Royal Bank of Scotland or the Bank of America began to shrink their balance sheets abroad, and withdrew entirely from China in order to concentrate on their home markets. The extent to which domestic politics played a part in the great financial retrenchment is unclear. In the aftermath of the global financial crisis a number of large banks could only avoid bankruptcy with state intervention. However, state-assistance came with a price. Bailouts were often explicitly conditioned on taking up obligations regarding augmented domestic lending. (Cetorelli and Goldberg, 2011) While this nationalist economic intervention may have contributed to the severity of financial retrenchment in emerging markets, David Mayes, professor of the University of Auckland argued in an interview with The Economist, "The natural operation of the system has the same effect as financial nationalism, [homeward bound financial institutions]".[6] According to Mayes the Western political interventions merely hastened the process.

Cross-border lending decreased on the CEE countries' financial markets as well (Claessens and Horen, 2014), however, foreign-owned banks by no means performed worse in terms of lending than their domestically held counterparts in this region. (Epstein, 2013) Yet Hungary, where the anti-bank sentiment was the most fervent treated its financial sector with hostility and resorted to nationalist economic policies. Since 2010 the financial sector has been "penalized" twofold: with sectorial taxes: bank levy and transaction tax, and a series of forex relief schemes. These measures certainly did not help to stop the drying-up of

[6] "Homeward Bound." *The Economist*. The Economist Newspaper, 07 Feb. 2009. Web. 04 June 2015.

transnational credit, or if anything, they only worsened the situation. To make up for the shortage of transnational credit and enhance lending the Orbán government chose a rather unorthodox path and set out to nationalize its financial sector by purchasing both exclusive and partial ownership in previously foreign-owned banks.

Sectorial Taxes

The first economic policy that shook the Hungarian financial sector was introduced shortly after the 2010 parliamentary elections. The bank levy was announced as a temporary measure, placing a .53% tax on all assets above HUF 50 billion with the goal of stabilizing the state budget. Bank levies were not unprecedented in Europe. Countries such as Austria, the United Kingdom, Germany, France and Sweden had all implemented similar policies before, when their economies required doing so.

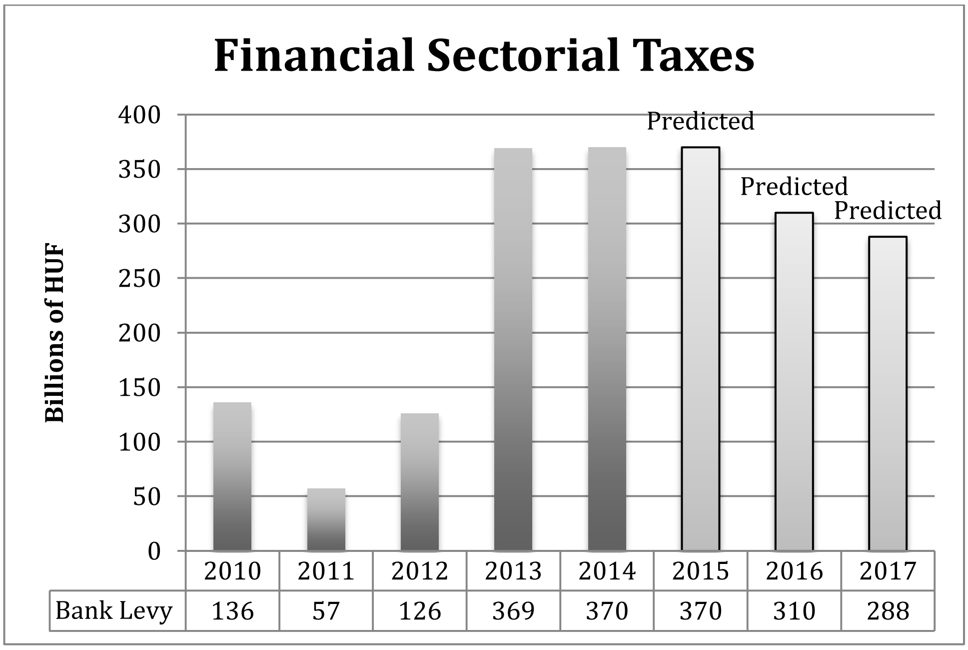


Figure 8: This figure shows the magnitude of the sectorial taxes (including the bank levy and the transaction tax) between 2010 and 2017. The values between 2015 and 2017 are predicted. (Hungarian Bank Alliance, 2015)

Among the Visegrád countries Slovakia[7] adopted a temporary bank levy in 2011 and Polish politicians are also considering similar measures[8] as of 2016. Even the Hungarian socialist government under Gyurcsány resorted to a bank levy between 2005 and 2006. However, the magnitude of the 2010 Hungarian bank levy is by far the highest relative to the country's GDP. While none of the aforementioned countries' bank levies surpassed .2%, the Hungarian bank levy made up more than .7% of the country's GDP (Eurostat Data). Additionally, the bank levy was substantiated by another, permanent measure, a transaction tax of .1%.

Although the Hungarian bank levy was universal, Epstein finds, "there is some evidence that OTP enjoyed a favorable market position in Hungary because of the bank's Hungarian identity and management." (Epstein, 2013, P. 542) Indeed, Sándor Csányi, the CEO of OTP bank, the largest commercial bank of the country, has very close ties to the Hungarian government and even personally to Viktor Orbán. Their long-time friendship, and the fact that Orbán consulted Csányi before the introduction of the levy, explain why Csányi was a vocal supporter of levy in 2010[9]. Consequently, OTP was one of the few large banks that briefly remained profitable even after the introduction of the levy and it was also the last bank to pass the levy on to its customers. (Várhegyi 2010, pp. 834 – 35 & 839 – 40)

In May 2015, the third Orbán government announced that in 2016, the bank levy would decrease from .53% to .31%, and to .21% beginning 2017 in order to boost lending. Additionally, those banks capable of increasing corporate lending would be able to waive up to HUF 10 billion of the levy. Although there was no formal agreement between the

[7] Santa, Martin. "Moody's Says Slovak Bank Levy to Hit Profits, Loans, Credit." *Reuters*. Thomson Reuters, 1 Oct. 2012. Web. 29 Sept. 2015.

[8] Sobczak, Pawel. "UPDATE 1-Polish Bank and Supermarket Tax Not Possible before 2017." *Reuters*. Thomson Reuters, 29 July 2015. Web. 29 Sept. 2015.

[9] 'Orbán és Csányi a bankadóról', Nepszabadsag Online, 8 July 2010, Accessed 30 May 2015.

government and the financial sector, banks expressed their willingness to increase corporate lending, especially for small- and medium enterprises.

While the sectorial taxes achieved their primary goal and stabilized the state budget, without a doubt they caused some damage to the Hungarian economy. According to Levente Kovács, chief secretary of the Hungarian Bank Alliance, had the Hungarian banks been able to loan out the amount paid as the bank levy, they could have generated an additional 1% GDP growth annually.[10] Nevertheless, the sectorial taxes, from a purely political perspective were a great success. They tapped into an unexploited pool of resources, and helped stabilizing the country's economy without directly imposing austerity measures on the Hungarian citizens. The fact that in addition to stabilizing the budget and relieving some of the tax burden of the public the financial sectorial taxes managed to covertly favor OTP bank proves that these policies were prime examples of modern-day economic nationalism.

Forex Relief Schemes

Orbán's first forex relief program, the so-called "végtörlesztés" was launched in September 2011 and cost banks approximately HUF 250 Billion. It facilitated the lump-sum repayment of forex loans at a fixed exchange rate of HUF 180 to CHF 1, as opposed to the market exchange rate of HUF 240 to 1 CHF. Domestic and foreign owned banks alike were mandated to offer this exchange rate to their customer and swallow the costs of the below – the – market – rate conversions. However, since very few of debtors could repay their outstanding loans at once this program did not offer a comprehensive solution to the forex debtors' problems. What's more it caused banks' portfolios to weaken as they lost some of their best and most reliable borrowers while retained those who actually had trouble making

[10] Csurgo, Denes. "Többet Visz, Mint Hoz a Bankadó." *Index*. Index.hu, 15 May 2015. Web. 29 Sept. 2015.

ends meet with their rising monthly payments. According to the Hungarian Central Bank's data, by September 2013 the percentage of non-performing loans (including both HUF and forex loans) stood at 18.5%, compared to the previous year's 15.8%.

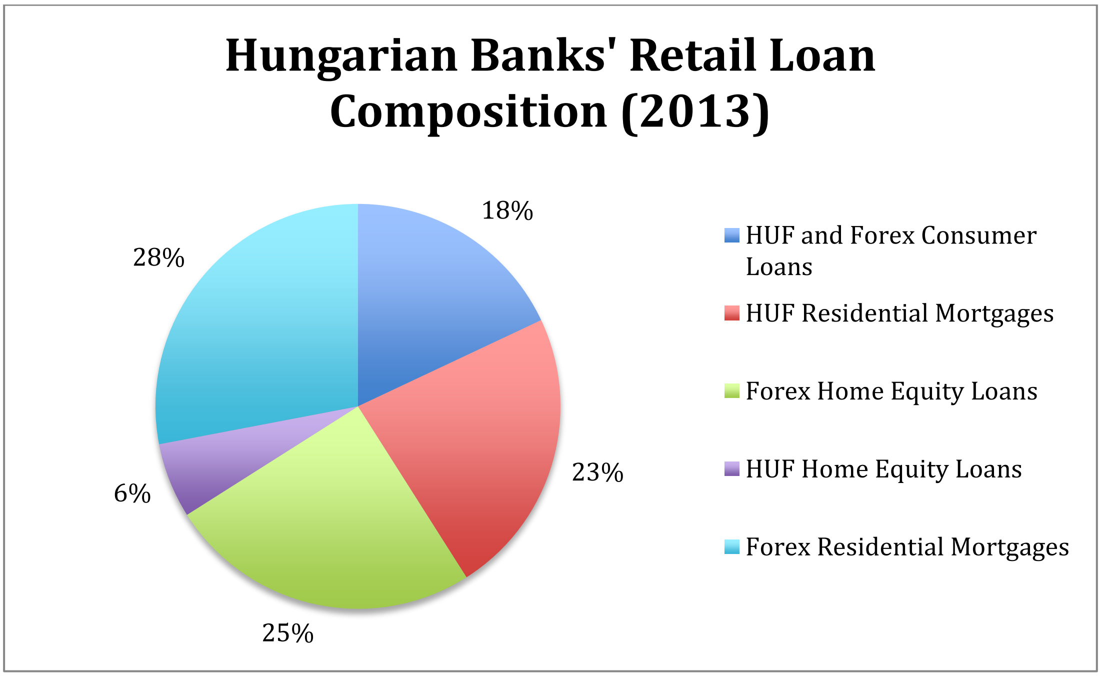
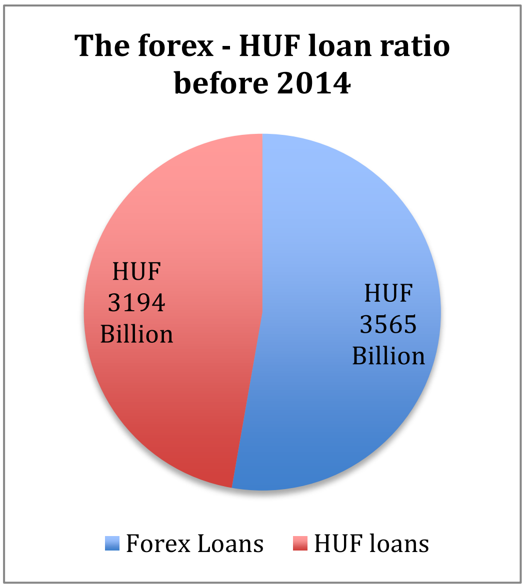


Figure 9: This figure demonstrates the Hungarian Banks' Retail Loan Book Composition in the Third Quarter of 2013 (Hungarian Central Bank, Moody's 2013)

In order to tackle the situation the government developed its second forex relief program, titled "árfolyamgát". Under this scheme borrowers could repay their forex mortgages at a discounted and fixed exchange rate of HUF 180 to CHF 1, while the difference between the market rate and discounted exchange rate, was accumulated as a separate Forint-denominated loan, which the debtor had to repay after making good on the forex debt. The interest on this new Forint-denominated loan was to be split by the government and the banks. Although banks initially resisted and took up the issue with both national and international authorities, their pleading was to no avail. (Epstein, 2013) It was not only banks that protested. The situation was also utterly unfair for those who took up loans in Forints and never enjoyed the favorable exchange rates that many forex debtors did early on in their repayment periods. Yet, thus far no relief schemes were adopted to aid

Forint-debtors.

After the 2014 parliamentary elections reinforced Fidesz's qualified majority in the legislature, in November 2014 the third Orbán government issued the conversion of most forex loans to Forint-based loans to prevent any further losses due to the exchange rate fluctuations[11]. Conversion of all forex loans took place at the market rates of the time. (CHF at HUF 256, EUR at HUF 309, YEN at HUF 2.16) Additionally, banks were obliged to compensate their customers for the revenues they acquired using adjustable interest rates. Based on the preliminary calculations of the Hungarian National Bank, courts issued banks to repay approximately HUF 744 Billion to their debtors after reaching the judgment that the one-sided interest changes were unfair and thus illegal.



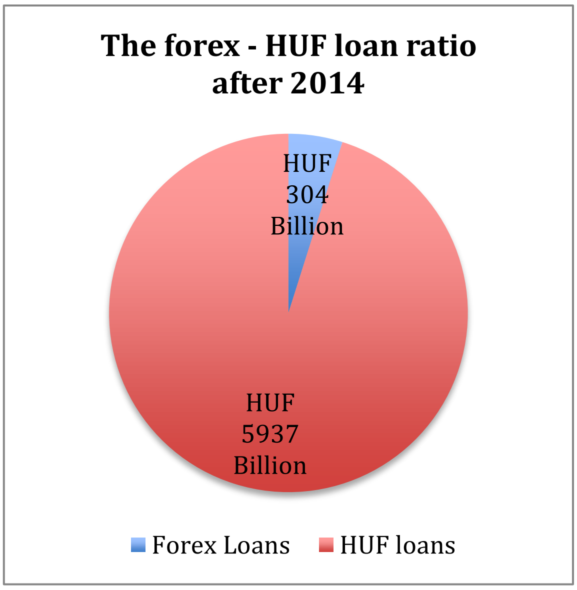


*Figure 10 and 11: This figure demonstrates the results of the 2014. Year LXXVII. Law (*MNB Data, 2015*)*

This conversion of forex mortgage loans was extremely well timed. On January 15th 2015 the Swiss Central Bank ended the pegging of Swiss Franc to the Euro. The very same day Hungarian Forints reached its all-time weak relative to Swiss Francs. (HUF 323 to CHF

[11] 2014. Year LXXVII. Law

1) Had Orbán decided to not pursue the conversion in 2014 it would have led to the bankruptcy of thousands of Hungarian families as well as the likely downfall of the Orbán government. The Polish government that missed the same window of opportunity lost a third of its supporters in the first half of 2015. Although Polish politicians are now working on a forex relief scheme to ease the burden of Swiss Franc based mortgage debt, their unfortunate timing makes the feasibility of their plans questionable.

Mihaly Varga, the Hungarian Minister of National Economy announced the final forex relief scheme in August 2015, which encompasses the conversion of all the remaining forex loans, a total of HUF 305 Billion, to Forint-based loans at below the market exchange rates. The burden of this scheme (an estimated HUF 31 billion) will be shared between banks and the state. With the forex mortgage crisis tackled once and for all and the bank levy soon to decrease, the financial sector is already showing signs of recovery. Although there are still a number of financial institutions that are struggling to stay afloat, according to the Hungarian Bank Alliance's biannual report, banks generated HUF 140 Billion profits in the first half of 2015.

Yet, the true winners of the forex relief schemes are neither the banks, nor the debtors. It is the Hungarian state, which extracted hundreds of Billions of Forints from the financial sector between 2010 and 2015 and took but a minor role in carrying the burden of the forex relief schemes. In this period the government carried out a series of nationalist economic policies, which miraculously, even the banks accepted, as exiting the Hungarian financial market altogether would have been extremely costly. Additionally, the second and third Orbán governments managed to maintain their popularity and create an environment, where the partial nationalization of the financial sector became feasible.

Bank Nationalization

Although the Hungarian financial sector went through a remarkable transformation during the 1990’s it was not a system without flaws. Many claimed that Hungary was “overbanked” and that “consolidation is likely and desirable”.[12] However, it was not until after the global financial crisis and the 2010 parliamentary elections that major consolidation began. When the second Orbán government was elected in 2010, very few knew the true meaning of its anti-bank rhetoric,

> “We need to break up the banks’ cartel-like operations, even if that means the subsiding the entry of new competitors into the financial market.” (A Nemzeti Együttműködés Programja, 22 May 2010, P. 23 - 24)

It was unclear, whether the government meant to open its own commercial bank, purchase commercial banks, or weed out some of the banks from the Hungarian financial market. Despite the financial crisis and the forex mortgage bust, most financial institutions in Hungary did not suffer from insolvency or from a critical amount of toxic assets and therefore the nationalization of banks seemed to be both unnecessary and unlikely. However, for its role in the Hungarian crisis experience, the financial sector has been a thorn in Orbán’s side since 2010. In the coming years the combination of the sectorial taxes, and the forex relief schemes made banks’ profit margins plummet, to a humble HUF 31 billion by 2013. What’s more, with the forex relief schemes taking effect in 2014, the Hungarian financial sector accounted for a total of HUF 446.5 Billion loss. (Hungarian National Bank, 2015)

In this hostile environment and after having endured sizable losses a number of banks began their long eluded consolidation processes. As their foreign owners are no longer optimistic about their long-term prospects in the Hungarian market, multinational financial

[12] Comments of Hungarian KPMG partner Robert Stollinger in media release dated 14 February 2002

institutions began to look into their options concerning cost cutting or exiting the Hungarian financial market altogether.

The final stage of Orbán's unorthodox crusade began in 2014, with the nationalization of the banking sector. The first bank that the state acquired was MKB Bank, formerly owned by the German Landesbank Bayern. As the parent bank was bailed out during the crisis with approximately €30 billion[13], the EU required it to sell its non-core assets by the end of 2015. Both OTP and the Hungarian state expressed interest in the acquisition of MKB. However, OTP was quick to back out of the deal. In a speech in July 2014 Sára Nemes, the state secretary in charge of asset policy at the Ministry of Development explained,

> "The acquisition of MKB could play a role in the execution of the government strategy aimed at strengthening the banking sector. [...] In an ideal case the state should have at least a 30% share in the local banking sector, as that would already give it a decisive role." (Sára Nemes, 2014, www.kormany.hu)

The Hungarian state received €215 million from Landesbank Bayern for taking over MKB, a bank with an unhealthy asset portfolio and insolvency issues. No major restructuring took place immediately after the acquisition and thus in 2014 MKB lost €700 million (the majority of which was due to the forex mortgage relief schemes). Although the restructuring of the bank began in 2015, the process will likely cost additional hundreds of millions of Euros.

Having acquired MKB, the government became more ambitious in terms of its target for domestic ownership. Orbán repeatedly stretched the importance of an at least 50% domestically owned banking sector during his public appearances. As soon as Budapest Bank became available for purchase, Orbán's plan was set in motion. The sale of Budapest Bank was part of GE's post-crisis reconciliation strategy, which consisted of the sale of the corporation's financial branch, GE Capital. The government was quick to strike a deal with

[13] "Beefy Bail-Out: Lifeline of 30 Billion Thrown to BayernLB Bank - SPIEGEL ONLINE." *SPIEGEL ONLINE*. Web. 04 June 2015.

GE that has been a strategic partner of government since 2012. A state-owned company, Corvinus Nemzetközi Befektetési Zrt. purchased Budapest Bank for $700 million in February 2015. According to Mihaly Varga, the price of Budapest Bank was negotiated taking into consideration synergic effects between MKB and Budapest Bank. Additionally, Varga claimed this acquisition meant the recovery of Hungarian economic sovereignty.[14] However, financial experts have questioned both the new owner, Corvinus Nemzetközi Befektetési Zrt.'s competence of leading one of the largest banks of Hungary as well as the synergic effects with which Varga justified purchasing the bank well over its market value[15].

Although with the purchase of Budapest Bank the desired 50% threshold of domestic ownership has been reached and surpassed, in February 2015 the Hungarian government announced the purchase of 15% of Erse Bank's shares. The Hungarian branch of Erste Bank was one of worst affected financial institutions by the bank levy and by the forex relief schemes. According to the Hungarian Bank Alliance, in 2014 Erste lost 50% of its equity, and the state only purchased shares in it to raise the banks' equity to a viable level. The European Bank for Reconstruction and Development also purchased 15% of Erste's shares to aid the Hungarian state's efforts of recapitalization. Orbán argued that now, that more than 50% of the financial sector is in domestic hands the strengthening of the banks, which he referred to as "our own assets" may begin[16].

However, the stability of the current status quo is uncertain for two reasons. First, there is absolutely no guarantee that the state would not try to purchase more banks should the opportunity or necessity arise. Second, the state-ownership of these banks is not intended to

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[14] "Péntekig Kell Megkötni a Budapest Bank Vételről Szóló Megállapodást." *Figyelő.hu*. N.p., 15 Jan. 2015. Web. 04 June 2015.

[15] Portfolio.hu estimated that the real market value of Budapest Bank is approximately $400 million

[16] *NÉPSZAVA Online*. N.p., 9 Feb. 2015. Web. 05 June 2015.

be permanent. Both Varga and Orbán hinted that the Hungarian state does not intend to operate banks in the long term, only restructure and reprivatize them.

The ownership structure of the largest Hungarian banks after the nationalization of MKB and Budapest Bank in 2014				
	Branches	**Total Assets (Billions of HUF)**	**Ownership**	**First Branch Opened in**
OTP Bank	396	8595	**32% Hungarian** 68% Foreign	1949
K&H Bank	210	2493	100% Belgian	1986
Unicredit	85 (-29)	2350	100% Italian	1990
Raiffeisen	112 (-42)	2158	100% Austrian	1986
Erste Bank	128	1938	**15% Hungarian** 15% EBRD 70% Austrian	1998
MKB	79	1933	**100% Hungarian**	1950
CIB	95	1820	100% Italian	1979
FHB Bank	45	1149	**81% Hungarian** 19% Foreign	1997
MFB	-	1085	**100% Hungarian**	1991
Budapest Bank	101	868	**100% Hungarian**	1986

Table 1 - *This table shows some of the basic features of the ten largest banks (Hungarian Bank Alliance, 2014)*

In October 2014 Citibank announced that it wishes to sell most of its assets in 11 countries, including Hungary. The spokesperson of the company claimed that Citi focuses on the markets, which have the largest growth potential. Raiffeisen and Unicredit made similar claims when announcing that they would close some of their branches, 42 and 29 respectively in 2015 (MTI, 2015). With its reduced capacity however, Raiffeisen is to strengthen its market position and as of September it is taking over Citi's clients. In August 2015 Axa, a relatively small Belgian-owned bank with only seven branches and with HUF 351 billion of assets also indicated that it is looking into its options regarding selling its entire Hungarian portfolio. The buyer is yet to be found. Finally, in September 2015, CIB, the 6th largest banks in Hungary announced the closure of 12 of its branches. According to CIB's spokesperson, they are transferring their resources to those areas of the country where their clientele requires it the most and where they can remain profitable. CIB's realignment was necessary after having lost HUF 104 Billion in 2014 and HUF 136 in 2013. Nevertheless, it is important to note that these are but minor adjustments compared to the total size of the Hungarian financial sector.

Justifying Bank Nationalization

Categorically rejecting any policy that could offer the economy at least momentary relief would be foolish, in unchartered waters such as the 2007 – 2008 global financial crisis. This is also true regarding the nationalization of (some) banks. There are advantages as well as disadvantages of state-ownership. Facing bank insolvency and a rise of toxic assets, nationalization is widely viewed as a cost - efficient way of stabilizing the economy. It is feasible to save a failing financial system by nationalizing struggling banks and eliminating their toxic assets. Whether or not nationalization succeeds depends mostly on the size of the country; larger countries with banks that are greater in number, size, and complexity will find it more challenging and risky to nationalize banks. The need for nationalization arises when complex financial institutions need to be reorganized and their transactions managed by a reliable third party. (Vox) Problems occur when this third party is not reliable and the reorganization is handled poorly. However, assuming that these issues do not arise, there are many advantages to nationalization. Putting the banks under government control leads to transparency and therefore greater confidence in the banking system. (Brighthub) However, this can fail easily if not executed properly. When eliminating bad assets it is important for a government to have clear plans, otherwise this could lead to a 'domino effect.' Banks that are clearly insolvent should be nationalized, but what about those that are in a grey area between healthy and unhealthy? Investors in these 'grey area' banks would begin to fear their nationalization, and a result share prices would drop dramatically (Blinder, 2009, New York Times) To avoid this issue the standards for nationalization should be clear so there is no insecurity among 'grey area' banks (Elliot, 2009, P. 14).

If this risk is managed properly, nationalization can save banks from becoming "zombies" (Elliot, 2009, P. 6). Japan, in the face of a financial crisis, spent a decade attempting to bail out banks that were essentially dead, resulting in a number of 'zombie' banks that were barely functional. Sweden, on the other hand, nationalized its banking system, recovered capital, and gracefully transitioned back to a (mostly) privatized banking system (Elliot, 2009, P. 12). However, the argument can be made that the size and number of Sweden's banks were what allowed it to succeed, and that nationalization is too risky for countries with more complex banking systems. Furthermore, the larger the banking sector, the greater the cost. Even though Sweden kept its costs "acceptable," it still used 4% of its GDP that was never fully recovered. (Elliot, ibid.) In 1969 banks were nationalized in India in order to provide easier access to credit for the poor. (Torri, 1975) In this case banks restricted lending to the richest. Indian banks ignored the credit needs of the common people, and that was the reason why the government intervened. The nationalization of the banking sector, in this particular case, led to the opening of new bank branches, rapid rural development, and directed lending programs. However, the direct political intervention in the financial sector caused the efficiency of the banks to plummet and it also gave space to corruption. As a conclusion, in order to ensure that the nationalization of banks succeeds, governments need to keep costs low, avoid the domino effect by providing clear guidelines for nationalization, avoid political influence and therefore corruption, and have a clear exit plan for returning at least partially to a privatized system. (Elliot, 2009, P. 12 - 14)

Having established that banks are generally under state control either because of a severe crisis that led to toxic asset buildup and insolvency, or in countries where the regime has extensive control of all segments of the economy, let us focus on the Hungarian case. The nationalization of MKB resembles the former scenario. In 2014, Landesbank Bayern, the owner of MKB was mandated to sell its non-core assets as it became insolvent during the global financial crisis and could only avoid collapse with large state aid from Germany. The fact, that MKB was insolvent makes its state purchase very similar to the Swedish case. There is also a very straightforward explanation as to why did the Hungarian state make such an unfavorable deal with Landesbank Bayern, given its strong bargaining position. The Orbán government knew very well that MKB could be made profitable again, should the bank levy decrease and the forex relief schemes run their course. Since the magnitude of the bank levy depends on the government, and since the revenue generated by it contributes to the central budget, MKB's losses are not entirely realized. The government is simply moving money from one pocket into another. The purchase of Erste Bank's shares can be justified along the same lines – as this state intervention pushed the bank just above the viable equity level. Therefore, despite the fact that the government failed to follow the recipe of successful bank nationalizations and did not communicate its exit plane with the market clearly, the nationalization of these banks may still be regarded as rationale actions.

In the case of Budapest Bank, a bank with healthy asset portfolio and no insolvency issues, the rationale is less clear. It may be an example of the other archetype of bank nationalization, a profound case of economic nationalism, and ultimately proof of the government's desire to gain greater domestic control over another key segment of the economy.

Manufacturing

Hungary's Industrial Production

During the early years of the post-socialist period, Hungary "took a quite aggressive approach in welcoming foreign investment during this period and as a result it had the highest per capita FDI in the region as of 2001", (Akbar, 2004, P. 89) The influx of FDI contributed to the development of the Hungarian economy in many ways. (Dunning, 1993; Porter, 1990) Multinational corporations have not only created new job opportunities but also facilitated "technology transfer and general upgrading of industrial standards to world levels". (Akbar, 2004, P. 89) By the mid 2000's more than half of the Hungarian GDP, and eighty percent of the country's exports were generated by multinational enterprises. (Akbar, 2004, P. 90) General Motors, Audi and Volkswagen were some of the earliest, as well as largest investors, cumulatively bringing over $800 million by the early 2000's.

According to a recently published report of the Hungarian Central Statistical Agency, the Hungarian industrial production accounted for 23% of the country's GDP in 2014 (as opposed to the previous years' 22%). The same year Béla Glattfelder, spokesperson of the Ministry of National Economy, (NGM) claimed that the government is expecting this number to keep growing and reach 30% by 2020[17]. The catalyst of the industrial growth is without doubt the car manufacturing industry, which alone accounted for approximately 26% of the industrial production in 2014. This is a significant increase compared to 2004, when this sector only made up for 16% of all industrial production. In 2014 car manufacturing contributed HUF 6496 billion towards Hungary's GDP, more than eight times as much as the renowned Hungarian medicine industry's 765 billion. (See Figure 12)

[17] MTI. "Nagyot Nőhet Az Ipar Részesedése a Magyar GDP-ben 2020-ra." *VG*. 15 Sept. 2015. Web.

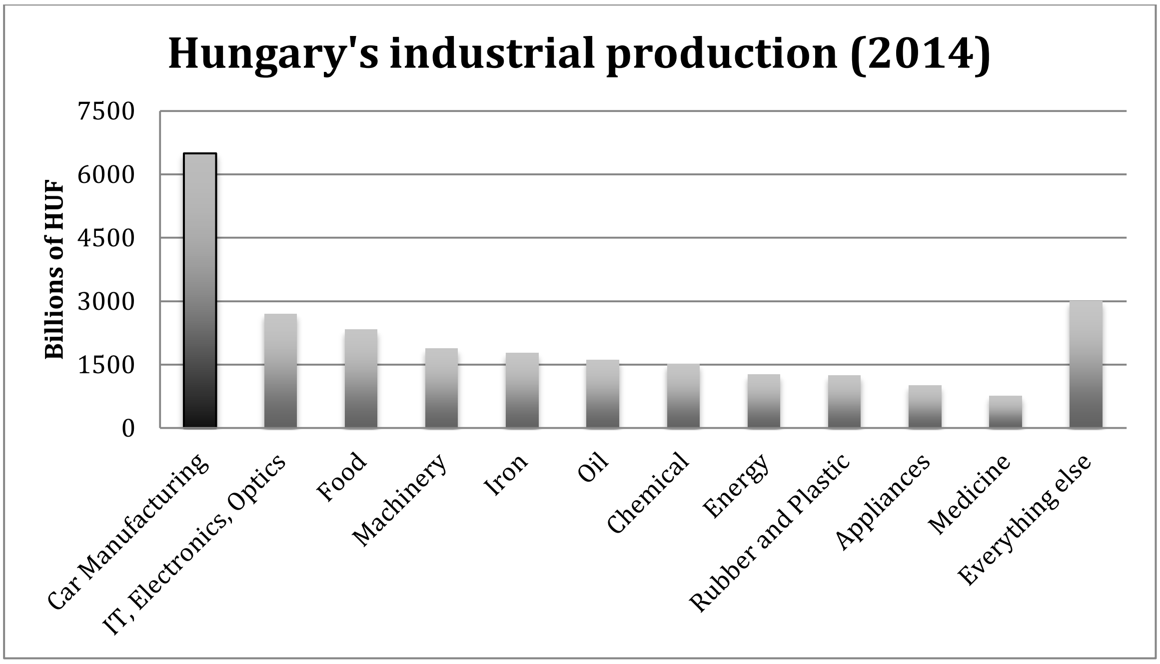

Figure 12: This figure shows the sectorial distribution Hungary's 2014 industrial production. (Central Statistical Agency, 2015)

Car manufacturing is one of the few sectors of the Hungarian economy, which was able to achieve significant growth, 18% in 2013 and 11% in 2014 (Central Statistical Agency, 2015) despite the global financial crisis and recession. This is due to the fact that more than 90% of the car manufacturing sector's production is exported, improving Hungary's external economic balance (export-import ratio).

An important feature of the Hungarian car manufacturing industry is that it is extremely concentrated. Small- and medium enterprises (which employ less than 250 people) are almost negligible in this sector, despite the fact that there are hundreds of them participating at some stage of the production. 73 large enterprises, including the four major players, Audi, Mercedes, Opel and Suzuki cumulatively make up the overwhelming majority, 93% of the sector's production. (Central Statistical Agency, 2015) According to the company's yearly report, Audi Hungaria alone generated an income of EUR 5.6 billion in 2011, which equated to almost 5% of the Hungarian GDP. This figure illustrates that the car manufacturing companies are vital assets for Hungary's economy.

Additionally, car-manufacturing companies are also rather successful, in terms of the quality of employment. Despite the fact that they are responsible for more than a fourth of the Hungarian industrial production, car-manufacturing companies do not employ a whole lot of people, only 86.610 in 2014. (See Figure 13) However, those working in this sector earned on average 196.000 HUF / month in 2014, compared to the cumulative national average of 159.000 HUF / month. (Central Statistical Agency, 2015) The employees of these firms, and those of multinational corporations in general are also found to be three times as productive as their domestically employed-peers. (Koren, 2014) Moreover, while these companies are frequently accused of tax evasion, MTA's data suggests the contrary. Besides the same data indicates that since the early 2000's multinational companies have been consistently employing approximately one fourth of the active Hungarian population, although, the ratio of foreign owned companies has been consistently declining since the mid 1990's. (~12% in 1994, ~7% in 2012) Multinational corporations affect the host economies in ways beyond directly generating GDP and creating job opportunities for locals. They also rely heavily on the domestically owned the small and medium enterprises. Econometric analysis suggests that those regions, where multinational corporations settled, developed more rapidly than those where they did not. (Koren, 2014)

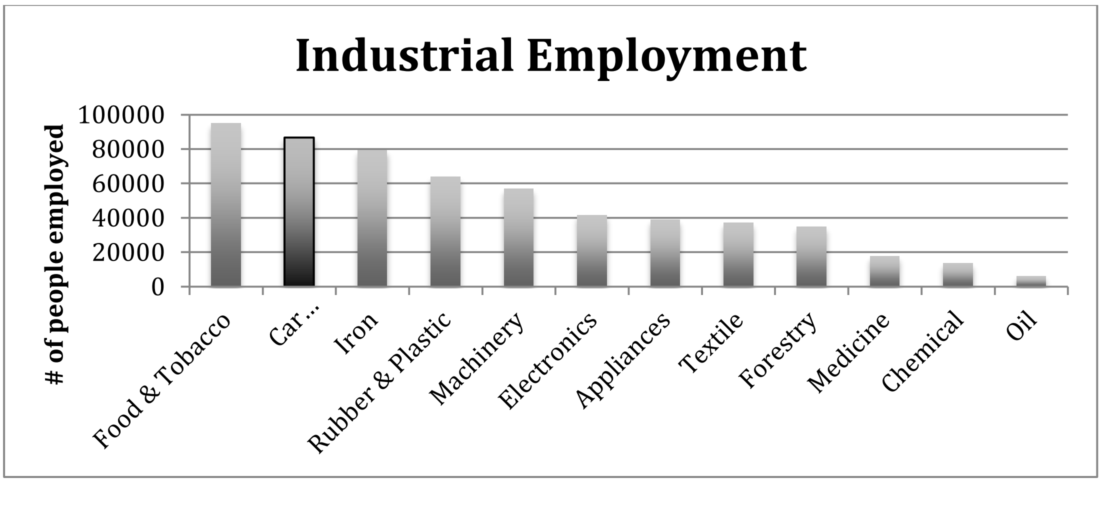

Figure 13: This figure shows the sectorial employment figures of Hungary's 2014 industrial production. (Central Statistical Agency, 2015)

The Absence of Economic Nationalism

While the second and third Orbán governments' policies severely affected the Hungarian financial sector, the almost exclusively foreign-owned car-manufacturing sector appears to be an exception from the effects of economic nationalism. The explanation as to why economic nationalism has not affected the Hungarian manufacturing sector may be rather straightforward. In their paper, *Multinational enterprise strategy, foreign direct investment and economic development: the case of the Hungarian banking industry* (2004) Akbar and McBride differentiate between four types of FDI. The authors categorize FDI based on whether it is "intended to access key resources available in the host country (Resource Seeking) primarily for transformation and subsequent export of manufactured products, and FDI which is aimed primarily at accessing the market of the host country (market serving FDI)." (Akbar and McBride, 2004, p. 91) Additionally, they differentiate FDI in the manufacturing and in the service sectors and combine the two dimensions in a two-by-two matrix. (See Figure 14)

In the 1990's and early 2000's Hungary mostly attracted market-serving FDI in the service sector (e.g. banks, retail, and telecommunication services) and resource seeking FDI in the manufacturing sector (e.g. car manufacturing). While the former competed to secure new markets in Hungary, the latter took advantage of the cheap and well-trained Central Eastern European labor force and the competition between the CEE states.

This dichotomy explains the absence of sectorial taxes and other nationalist economic measures from the manufacturing sector. Should the circumstances worsen substantially due to the government's economic policies, these multinational firms could easily move on to another CEE or Central Asian state that would be likely eager to facilitate the transfer of production facilities. Therefore, while the Hungarian government could temporarily extract extra revenues from the financial sector, which was comprised of multinational enterprises willing to compete for the Hungarian consumers, and regarded as overbanked, it is implausible to pursue similar measures in the manufacturing sector.

	Manufacturing FDI	Service FDI
Resource Seeking	**Common**, closely related to two strategies (a) Accessing lower labor costs (relative to home country) (b) Key natural resources not readily available in home economy	**Rare**. Unlikely to be a strong strategic intent in transition economies
Market Serving	**Common** for two product marketing strategies (a) Local market sales (b) Regional market sales	**Common**. Significant FDI of this type occurs in (a) Privatized sectors (b) Deregulated, restructured industries (c) Serving an emerging demand caused by increased economic/income growth in transition economy

Figure 14: Comparing strategic intent of FDI in manufacturing and service sectors.
(Akbar and McBride, 2004, P. 92)

Nevertheless, the preexisting institutional stability has been without a doubt weakened, or in some cases completely undermined under the second and third Orbán governments. (Bozóki, 2013; Kornai, 2015) In order to make up for the loss of stability, the government came up with an unorthodox policy tool, the so-called ‘agreement of strategic partnership’. Having signed 49 of these agreements with major transnational corporations between 2012 and 2014, Orbán can hardly be accused of being ideologically against ‘foreign ownership’.

Among the 49 strategic partners there are four car-manufacturing companies: Daimler[18], Suzuki[19], Tata[20], and Audi[21]. The content and legality of these agreements reveals much about the government's intentions. The 'agreements of strategic partnership' are non-binding contracts between the company's local management and the government. These pacts generally evaluate the signatories' previous cooperation, reassure both parties of mutual support, facilitate two-way communication between the government and the company's management and outline their vision for the coming years. Maybe the most important common feature of these agreements is that they lack substantial content and the fact that they are not legally binding. On one hand, they still appear to be functional, as the largest car-manufacturing firms show no sign of discontent. On the other hand, they are not as efficient as the government would like them to be. Despite the Orbán governments' best efforts (offering looser regulations, tax breaks, etc.) they failed to attract new investors.

Besides, according to Akbar and McBride, the real challenge for Hungary is not merely retaining resource seeking manufacturing FDI, which may be impossible in the long term given the rise of China and other Asian competitors. Instead the government should be focusing on attracting the appropriate type of FDI, which is resource seeking and targets the service sector (e.g. IT services) where there is "potential for more stable, long term growth." Akbar and McBride further argue that the presence of foreign firms in the service sector would "raise standards in [...] emerging service industries, and rising living standards (with accompanied rise in consumer expectations) […] attractive market for investors in the service sector. (Akbar and McBride, 2004, p. 95) However, as long as long as there is no true willingness from the government to invest more heavily in the Hungarian education system,

[18] http://2010-2014.kormany.hu/download/b/d7/b0000/Korm%C3%A1ny_Daimler_egyuttmukodes20121109.pdf
[19] http://2010-2014.kormany.hu/download/1/8b/b0000/Korm%C3%A1ny-Suzuki%202012%2011%2021.pdf
[20] http://2010-2014.kormany.hu/download/a/b5/c0000/Tata%20strat%C3%A9giai%20meg%C3%A1llapod%C3%A1s.pdf
[21] http://2010-2014.kormany.hu/download/c/2d/c0000/KormanyAudi20130226.pdf

it is highly unlikely that Hungary would attract more FDI of this type.

Conclusion

Having scrutinized the second and third Orbán governments' most symbolic economic policies, their historical background and the rationale behind them, the economic system as a whole appears to be rather erratic. While the bank levy, forex relief schemes, and bank nationalizations can all be interpreted as nationalist economic policies, the second and third Orbán governments have been equally keen on adopting policies from the other end of the political spectrum, such as allying themselves with foreign-owned manufacturing firms between 2012 and 2014. The agreements of strategic partnership with multinational enterprises make it clear that the Orbán governments are not ideologically against foreign ownership, as long as it coincides with Fidesz's political agenda and immediate interest. The only plausible explanation for these contradictory economic policies is a highly pragmatic form of economic nationalism. The forex relief schemes were necessitated by the 2008 global financial crisis as they prevented the bankruptcy of thousands of Hungarian households. On the other hand the sectorial taxes and the nationalization of banks were not inevitable. These policies were pursued to strengthen domestic actors and to increase domestic control over key sectors of the Hungarian economy, which is by definition, economic nationalism.

The Hungarian governments' economic policies have been more opportunistic and more extreme than their Czech, Slovakian, or Polish counterparts. However, based on my analysis, the difference between these countries' policies stemmed from the combination of the Fidesz-KDNP coalition's uncontested legislative power, the severity of the country's crisis experience and the predominantly foreign owner and overbanked nature of the financial sector. The sectorial taxes targeting the financial sector were also consistent with politicians' short- to medium - term interests. Banks in Hungary, which used to be predominantly foreign owned, were easy targets for Orbán. The bust of the forex mortgage lending market created an environment in which 'punishing' them could generate substantial political capital.

The government was not only opportunistic about its policy choices, but also highly strategic. While the bank levy, introduced in 2010, weakened the positions of financial institutions the forex relief schemes completely drained their rainy day funds by 2014. This facilitated the state's entry into the financial markets without resorting to extreme coercive measures. In fact, during state-purchase of both MKB and Budapest Bank generous compensations were paid to the former owners. Additionally, should the state-ownership of the recently purchased banks be temporary, considering the fact that between 2010 and 2015 other instances of transit nationalism resulted in neo-prebendal reallocation of ownership rights, the story of bank nationalizations could further reinforce my theory of an opportunistic nationalist economic governance.

The opportunistic as well as strategic behavior of Orbán also offers a clear explanation to the absence of economic nationalism from the car manufacturing industry, which is the toe-to-toe competition among emerging economies for retaining old and attracting new FDI in the export oriented sectors of their economies. The Hungarian governments simply cannot afford to lose these companies, as that would undermine the country's economic prospects both on the short and on the long run. Orbán, being a rational, office-seeking politician only pursues nationalist economic policies as long as those benefit him politically. Therefore this unorthodox, non-ideological form economic nationalism was rightfully titled after its greatest proponent as 'Orbanomics'.

Discussion

This study focused on a single country, Hungary, its unorthodox form of economic nationalism in the financial-, and the lack of thereof in the manufacturing sector. However, this narrow scope could be expanded in multiple ways, including the in-depth study of other countries with Dependent Market Economies and nationalist economic policies. It would be also helpful to make a theoretical inquiry into the long-term consequences of economic nationalism, examining the potential for political, social, and economic instability. If Hungary continues along the same path, it could lead to serious instability and economic decline. From the perspective of businesses, economic nationalism is a hindrance to international companies but not a major hindrance to globalization in general; on the contrary, it is theorized that they have a positive correlation (Akhter, 2007, P. 16). This explains the simultaneous nationalization and internationalization present in for example China; the nature of their large and powerful institutions allows them to be nationalized and remain global contenders. This begs the question: if Hungary's economy is to thrive in a globalized world, does it need to abandon economic nationalism altogether? Or will it suffice to further integrate some segments of the Hungarian economy while nationalizing others?

The further pursuit of the nationalization of Hungary's economy is likely not a viable solution in an increasingly globalized and interdependent world. While this paper puts forward a definition of economic nationalism that is based in policy, not ideology, the latter has been argued since the 19th century. Friedrich List defined economic nationalism as a doctrine that included any means that bolstered the nation and its culture, production, security, and prosperity (Helleiner, 2002, P. 312). So far Hungary has pursued economic policies that were nationalist in the sense that they increased domestic control over various segments of the economy. However, for the country to grow economically, its leaders must understand that even liberal economic policies can be nationalist if they are enacted for nationalist reasons. For example, currency boards are generally thought of as anti-nationalist policy tools because they allow a nation's currency to be influenced by foreign trade partners. At the same time such measures can boost the national economy by establishing greater confidence in the national currency (Helleiner, 2002, P. 325). While these are not policies that lead to more domestic control, they are nationalist in the sense that they can further the nation's economic interest. A functional and successful realization of List's economic nationalism would define itself not through policies but through their intensions and results (Helleiner, 2002, P. 325). This could help Hungary's position in the European Union as well, as the EU has been relying on liberal economic policies but has had trouble coming to a consensus with nationalist countries because their policies are incompatible with the union's core principles. (McGowan, 2008, P. 102). If Hungary could adopt more liberal economic policies while still advancing its national interests, this problem would be solved. Using List's definition, liberal economic policies could be considered nationalist insofar as they serve the nation's interests, and Hungary could more easily reconcile their nationalist economic policies with the force of globalization.

If Hungary chooses not to abandon its current form of economic nationalism, there could be serious political, social, and economic consequences. In Russia, nationalist economic policies have led to political radicalization, economic instability, and rising ethnic tension. Certain social groups have been persecuted, leading to both political and economic fragmentation (Szakonyi, 2007). In general, economic nationalism leads to "a reduction of material production below the economy's potential" (Johnson, 1965, P. 183). More than that, economic nationalism can exacerbate ethnic tensions, especially in states with a large immigrant or ethnic communities. In Malaysia and Indonesia, indigenous people were an economic minority, and so the nationalization of the economy was in their interests. However, the transition happened at the expense of the non-indigenous people. (Siddique,

1981. P. 675) This created an ‘us versus them’ mentality among the non-natives. (Siddique, 1981. P. 674; Szakonyi, 2007) Hungary’s substantial and marginalized Roma population could become the underdog of the Hungarian economic nationalism. While these are the three major consequences of economic nationalism, economic inequality is another consequence that is most relevant to Hungary.

The nationalization of Hungary’s banking system could lead to widespread inequality. This is because power becomes increasingly concentrated in the state during the transitional period, meaning that producer interests may dominate consumer interests (Johnson, 1965, P. 184). However, even when institutions are reprivatized domestically, there are “benefits primarily to the educated, the entrepreneurially qualified classes, some at least of the wealthy, and other elite groups, so that there is an inherent class slant to the economic interest in pursuing nationalism” (Johnson, 1965, P. 178). This is because the state’s emphasis on nationalizing certain areas of the economy provides economic incentives to producers and those already influential in the economy.

Nevertheless, the unique combination of the Hungarian economic nationalist policies and the lack of precedence make predicting the country’s future challenging. The only thing that is certain is that there will always be winners and losers because economic nationalism hinges on the transfer of power. If Hungary wishes to avoid the possibility of the consequences described above, it will need to shift the focus of its nationalist economic policies. This will still be in the interest of the nation, and even benefit the economy by allowing Hungary to get the most out of its membership in the European Union and the World Trade Organization.

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