Rebuilding Markets, Restoring Democracy

Hungary After Orbánism

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Hungary is entering a period of profound political, constitutional, and economic changes to restore the rule of law domestically and re-engage with the European Union. After sixteen years, the country emerges from an era characterised by illiberal governance, democratic backsliding, and the systematic weakening of rule of law institutions. It also inherits an economy marked by high budget deficit, stable stagnation, extensive oligarchic market concentration, and deep structural dependencies between political power and economic ownership.

Changes in Hungary require, first and foremost, a democratic legal and political transition, including the restoration of independent institutions and the rebuilding checks and balances of constitutional democracy. However, such a transition must go beyond the narrow restoration of constitutional democracy, and extend to restructuring the economic landscape and market governance.

Over the past decade, Hungary became a model of authoritarian political control over both democratic institutions and competitive open markets. The consecutive Fidesz governments built a highly personalised political-economic system characterised by unorthodox economic policies and economic nationalism. Under this illiberal economic model, markets became distorted by selective state intervention, politically mediated allocation of resources, and artificially concentrated ownership structures. Extreme majoritarianism enabled populist economic policies to weaken market competition not only as an economic mechanism, but also as a legal and democratic institution that constrains public power and is closely associated with liberal democracy.

In this process, law functioned as an instrument not only to monopolize public power, but also to restructure markets in line with political interests displacing the logic of open and competitive markets. Direct political control was prioritized over economic allocation, and markets came to be governed by artificial, politically driven forces instead of the foundational principles of open market economies based on effective competition, neutrality of state intervention, and equal market access. Similarly, decision-making has been increasingly centralised, with a lack of tolerance for institutional deliberation and technocratic expertise of independent regulatory authorities.

This demonstrates that re-establishing constitutional governance requires not only rebuilding democratic institutions, but also restoring market integrity, stable economic governance, and competitive market structures. Hungary's transformation should therefore be understood as a dual transition: from illiberal governance to rule-of-law democracy, and from politically structured markets to competitive, rights-based market governance. Such a transition requires a broader understanding of the rule of law that extends beyond public institutions to the governance of markets and economic relations.

The "NER"

Before discussing restoration, it is necessary to understand the distinct political-economic order constructed in Hungary after 2010, as well as its underlying legal and economic mechanisms. This political-economic system became known as the NER (Nemzeti Együttműködés Rendszere, System of National Cooperation), a system in which profit-based market competition was increasingly replaced by power-based extraction.

The NER is the institutionalized implementation of an authoritarian market playbook, that constructed

a dramatic U-turn, from liberal democracy and market capitalism toward institutionalized cronyism. It is characterised by reliance on politically aligned cronies rather than competitive market mechanisms, and a state that does not act as a neutral regulator of market competition. Instead, legal and regulatory instruments are used strategically to manipulate market mechanisms, redistribute economic opportunities, and consolidate economic power in the hands of actors closely connected to the newly forged "national capitalist class". The NER was not merely an economic model, but also a political and legal governance system with important implications for democratic institutions. In media markets, for example, market concentration and political control became intertwined, undermining both competition and democratic public discourse.

This created a politically managed market environment in which discretionary state intervention undermined competitive neutrality, predictability, and equal market access. A central feature of this illiberal economic model was the frequent use of concentrated executive power, prolonged emergency governance, and populist economic policies. Through legislation and regulatory measures, the Hungarian government systematically overrode competitive mechanisms and created artificial advantages for politically connected firms. It used selective regulation and taxation benefiting loyal firms, tailored licensing requirements, restrictions on market entry, manipulated public procurement rules and practices favouring insiders, exemptions from competition law investigation to concentrate ownership in pro-government hands, and the selective allocation of state resources and concessions to politically connected actors.

State-interventionist measures aimed at curbing inflation, supporting households, and maintaining political stability ahead of parliamentary elections included retail margin caps, sectoral "extra-profit" taxes, sector-specific levies in banking, energy, and retail, and regulated household utility prices, often in tension with European Commission recommendations.

The independence of regulatory, judicial, and oversight institutions was reduced in order to align them with a state-led political and economic agenda. Although institutions such as the State Audit Office, or the Hungarian Competition Authority formally remained independent, their functioning has become increasingly influenced by the ruling party. Other institutions, such as the Media Council, has been captured, losing its functional independence. Others, such as consumer and data protection authorities, have not been completely eliminated, but their independence, and effectiveness have been subject to intense scrutiny and significant structural changes leading to widespread concerns regarding political and regulatory capture.

Restoration and rebuilding

The central question now is: what does democratic restoration require today in the economic sphere? As economic regulation and enforcement have been co-opted and repurposed for political goals, restoring stability to the Hungarian economy and markets requires a multi-pronged approach focused on rethinking Hungary's economic model, unblocking EU funds, rebuilding the autonomy and credibility of independent oversight institutions, and trust through predictable and stable economic policymaking.

A new economic model

A new economic model will need to reconnect Hungary to European integration and align economic governance with EU law, global economic challenges and the structural characteristics of the Hungarian economy. This also requires rebuilding trust with the European Union in order to unlock suspended EU funds.

As the new Hungarian government will have to present to the European Commission a credible new plan for the use of EU funds within an exceptionally short period of time, the emerging economic model should align with the objectives of the EU recovery framework and cohesion policy objectives, including making the economy greener, more digital, and more resilient to future economic and geopolitical shocks.

At the same time, the transition is unlikely to involve a complete break with Hungary's existing economic model. Support for certain Eastern invest-

ments, and industrial policy, may remain, but within a more transparent, competitive, and EU-aligned framework. A central challenge is whether Hungary can move from a peripheral economic role based on low-wage assembly production toward higher value-added manufacturing and innovation. This requires moving away from a dependence on low-cost labour and foreign assembly plants toward stronger domestic research and development capacities, technological upgrading, and greater integration into high-value segments of European supply chains. This also raises issues of ownership concentration in strategic sectors, which may affect access to EU instruments such as SAFE funds.

Stable and credible legal and regulatory framework

A new economic strategy also requires substantial legal and institutional reforms aimed at restoring the rule of law and rebuilding trust in market governance. Law and policy making must translate and operationalize rule of law principles into market regulation, and reclaim the goal of competitive market functioning as a fundamental principle of liberal democracy. The separation of powers in the economy, ensuring that no single actor can dominate markets, resources, or regulatory authority, is as essential as the constitutional principles underpinning democracy. From this perspective, the rule of law in the economy requires changes that support and re-establish fundamental economic rights of businesses, as well as consumers, through choice and affordability, as well as citizens, through accountability and democratic control.

More specifically, the use of executive emergency powers should be limited, while transparency in market mechanisms should be strengthened through reforms of public procurement and competition rules aimed at dismantling monopolistic and politically connected market structures and enabling fair competition. Restoring judicial and regulatory independence, along with effective judicial review of administrative decisions, is essential for ensuring accountability.

Legislative changes are needed to enhance asset recovery mechanisms in cases involving political and economic abuses, including the recovery of politically allocated subsidies, selectively granted economic advantages from firms, for example through EU state aid rules, while also strengthening anti-corruption enforcement and public procurement rules. These reforms are crucial to create a more transparent, predictable, and competitive business environment. This includes reducing discretionary state interventions, strengthening protections for SMEs, and simplifying the tax and regulatory system. Rebuilding investor confidence and restoring access to EU funds will depend heavily on the credibility and durability of these reforms.

Independent oversight

Restoring democratic institutions, constitutional checks and balances must go hand in hand with limiting discretionary decision-making, restoring competitive neutrality and ensuring that market power is subject to legal constraints. Stronger institutional governance improves confidence and supports higher levels of national and foreign investments.

Independent regulatory authorities (IRAs), such as media, data, consumer protection or competition authorities, play a critical role in ensuring market stability, policy credibility, and the integrity of economic governance. By insulating key areas of regulation from short-term political discretion, they contribute to predictable and rules-based market environments that support investment, competition, and legal certainty. IRAs are also essential for rebuilding institutional trust and restoring confidence in the neutrality of market governance after periods of politicisation and discretionary intervention.

In Hungary, questions of *de facto* independence must be addressed critically, and leadership appointments must be based on transparent, merit-based procedures, insulated from political influence, and subject to meaningful checks and balances. Internal decision-making structures, particularly the independence of expert staff and the autonomy of ultimate decision-making bodies, such as the Media and Competition Council, must be restored.

Likewise, institutional safeguards need to be strengthened. Judicial review, transparency obliga-

tions, and accountability mechanisms must ensure that regulatory authorities operate within a legally constrained framework with reduced risk of politicization. Independent regulators should ensure inclusive and fair participation in the economy and safeguard fundamental economic freedoms, while remaining sufficiently responsive and accountable to broader societal needs through democratic oversight, including engagement with civil society and consumer organisations.

Rule-based enforcement must be reinstated, with enforcement priorities and case selection guided by clear legal and economic criteria. Enforcement priorities should focus on politically connected sectors, the reassessment of public contracts, and increased regulatory scrutiny – particularly in sectors affected by past NER consolidation, such as media, construction, banking, energy, and retail – where acquisitions and significant state subsidies have reshaped market structures. The establishment of new anti-corruption and asset recovery mechanisms, together with more active competition enforcement, is expected to reinforce this approach. These areas will therefore remain central targets for sectoral investigations and sustained enforcement attention.

European coordination

Hungary's restoration is not only a domestic constitutional challenge, but also a broader European question concerning the resilience of the EU legal order and the governance of the Single Market. Beyond alignment with the EU's strict "super-milestones" on judicial independence and anti-corruption, Hungary must restore full compliance with Single Market rules, digital regulation, and green transition policies.

In this context, the effective implementation of key EU regulatory frameworks, including the Digital Services Act, the European Media Freedom Act, the Audiovisual Media Services Directive, and the AI Act, will be particularly important for rebuilding democratic governance and regulatory credibility.

At the same time, restoring the independence and capacity of national regulatory authorities is essential to enable their effective participation in European regulatory networks, including the European Competition Network and the European Board for Media Services.

Ultimately, democratic restoration in Hungary requires the reconstruction of the economic foundations of liberal democracy: open markets, equal access to economic opportunity, and effective constraints on both political and economic power. At the same time, this transition represents a broader moment for Hungary's European reintegration, economic modernisation, and institutional renewal.

Rebuilding a credible, stable, and predictable legal system will be essential not only for restoring democratic legitimacy internally, but also for reconnecting Hungary to the core economic structures and values of the European Union. This requires strengthening independent institutions, restoring regulatory credibility, and enabling competitive, innovative, green, and digital markets that support long-term social and economic resilience.

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