

Editorial insight



ILLIBERAL ECONOMICS: THE STRUCTURAL CONTRADICTIONS OF HUNGARY'S DEVELOPMENTAL MODEL

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The 'illiberal' economic policies pursued by the Orbán government over the past 16 years were designed to foster a self-reliant domestic capitalist class and insulate the nation from Western volatility. Instead, they have introduced structural vulnerabilities that allow for weak short-run crisis-response capabilities and may hinder Hungary's long-term regional standing.

As Hungary approaches the parliamentary elections of 12 April 2026, the economic record of the past 16 years under the rule of Viktor Orbán invites a comprehensive evaluation. The 'illiberal' economic framework – characterised by a blend of nationalist industrial policy, aggressive sectoral taxation and a strategic 'Eastern Opening' – was designed to foster a self-reliant domestic capitalist class and insulate the nation from Western volatility. However, a longitudinal analysis of the data suggests that while this path has maintained a specific form of political stability, it has introduced substantial systemic weaknesses.

Resilience or vulnerability? Performance in crisis

A primary indicator of an economy's structural health is its ability to navigate and recover from external shocks. While 'Orbánomics' is often framed by its proponents as a shield against global instability, the empirical data suggest a different trend. Since the 2009 baseline, Hungary has consistently underperformed the broader region of Central, East and Southeast Europe (CESEE), particularly in the wake of global disruptions.

Whether during the aftermath of the global financial crisis or the more recent combined challenges of the pandemic and the energy crisis, Hungary's recovery trajectory has been tepid compared to its peers. The resultant growth gap of 7 percentage points of GDP between Hungary and the CESEE-23 average over the period 2009-2026 indicates that the current model may be more susceptible to external shocks than the more 'orthodox' models of its neighbours. This underperformance suggests that the policy framework has inadvertently created a 'convergence ceiling', slowing the pace at which Hungarian standards of living approach the 'Austrian Benchmark'.

The shift in export complexity and the 'Eastern Opening'

For over a decade, the 'Eastern Opening' has been the cornerstone of Hungarian political and economic strategy. The goal was to diversify the nation's portfolio by moving away from a perceived over-dependence on European Union markets. However, the data reveal a significant gap between political rhetoric and economic reality. As of 2024, EU-based capital still accounts for 71% of total FDI stock, while Chinese FDI (although quickly growing) remains marginal, at just 1.4%.

More concerning has been the shift in the industrial export structure. Between 2009 and 2024, Hungary's export basket underwent a regressive transformation. Analysis of broad export categories shows an increasing reliance on the mostly domestically owned, (Russian) hydrocarbon-dependent industry, with the share of fuels, oils and chemicals rising from 12% to 17%. Concurrently, the traditionally dominant, mostly foreign-owned, high-complexity sectors – such as automotive and machinery – have lost export share. This pivot toward lower-complexity, commodity-linked exports contrasts sharply with the country's regional peers, who have moved toward technology-intensive sectors.

Sectoral stagnation and the innovation gap

The internal structure of the Hungarian economy has also shifted in ways that may limit future productivity growth. While the average CESEE economy has expanded in sectors like health and information and communication technology (ICT), Hungary has seen a specialised growth in real estate and construction. Between 2009 and 2024, real estate's share of gross value added (GVA) grew by nearly 3 percentage points, while the ICT sector contracted.

This concentration in the property sector at the expense of seminal industries represents a strategic challenge. Sustainable growth in a modern, high-income society is typically driven by innovation and digital complexity. The fact that Hungary possesses one of the lowest densities of 'unicorn' companies in the region – significantly lower than neighbouring Romania or Croatia (which have both also recently surpassed Hungary in terms of GDP per capita at purchasing power parities) – suggests that the current interventionist policies may be favouring rent-seeking over high-tech entrepreneurship.

The institutional cost of divergence

The deterioration in governance scores, particularly in the field of 'Voice and Accountability', has moved from a matter of political debate to one of fiscal impact. The withholding of EU Recovery and Resilience Facility (RRF) funds due to rule-of-law disputes acts as a substantial 'institutional tax' on the Hungarian economy. While neighbouring states have utilised these transfers – amounting to as much as 5% of their GDP – to finance the 'twin transitions' of green energy and digitalisation, Hungary (formerly a top-performer in EU funds absorption) has been deprived of this essential capital influx.

Conclusion: The choice for 2026

The Hungarian economic story since 2010 is one of a transition from a regional front-runner to an economy struggling with relative decline, compared to its peers. The model has prioritised the creation of a domestic elite and the maintenance of traditional industries like hydrocarbon-based ones, but at the cost of broader regional competitiveness and modern technological integration.

As the 2026 election approaches, voters face a fundamental question: can the current trajectory of nationalist development overcome its structural limitations, or is a pivot toward institutional reconciliation and high-complexity innovation required, if the country is to avoid permanent 'midfielder' status in CESEE? The challenge for any future administration will be to bridge the gap between national sovereignty and the economic realities of an integrated European market.