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Monthly Report

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Editorial insight

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

by Mario Holzner, wiiw Executive Director

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.

Chart of the month

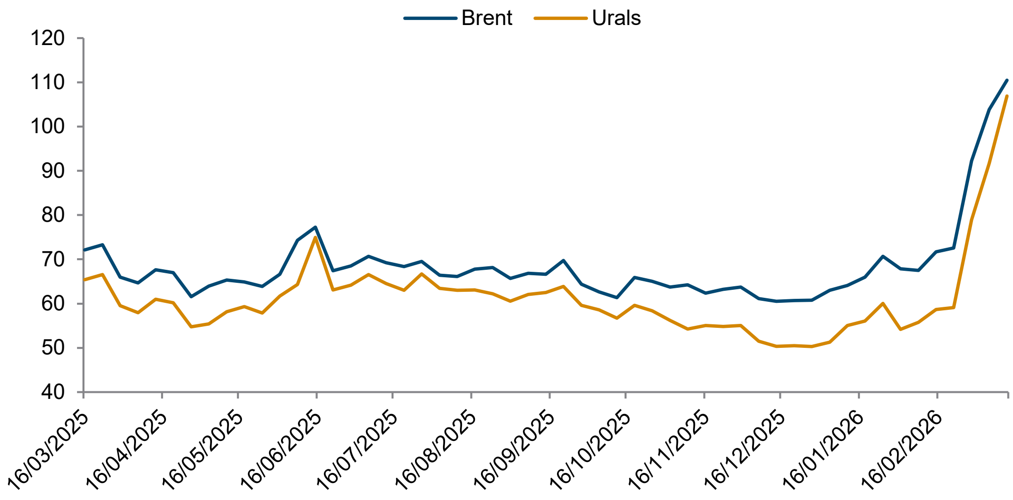
WINDFALL GAIN TO RUSSIA FROM THE WAR IN IRAN

by Vasily Astrov, wiiw Economist

Thanks to skyrocketing global oil prices and the narrowing discount on Russian oil, the war in Iran has provided the Russian government with an expected bonanza. Its size will depend on how long the conflict lasts and how long oil prices stay at their current high level.

The war in the Middle East has provided an unexpected boost to the ailing Russian budget, which closed the first two months of 2026 with a deficit of 1.5% of GDP, nearly matching the full-year target. The effective near-closure of the Strait of Hormuz and Iranian strikes on the oilfields of the Persian Gulf have meant that global oil prices have skyrocketed over the past three weeks. On top of that, the discount on Russian oil has narrowed sharply, reversing the trend of the last few months, when US secondary sanctions imposed on the two largest Russian oil companies (Rosneft and Lukoil) markedly depressed the price of Russian oil (Figure 1).

Figure 1 / The price of Urals vs Brent, weekly, in USD per barrel



Source: https://www.profinance.ru

All in all, the price of the main Russian blend Urals has more than doubled since late February, to USD 107 per barrel at the time of writing. Not only is this benefiting oil exporters (who have been urged by President Putin to use the windfall gain 'wisely' by paying back loans), but it will also show up soon in the government budget. Despite a pronounced decline over the past few years, the energy sector still accounted for 23% of federal budget revenue last year, and for every 1 US dollar of oil price increase, 59 cents end up in the state coffers. The current oil price level is already far above the USD 59 per barrel that underlies the 2026 budget, and the longer it stays elevated (or climbs still higher), the greater will be the windfall gain for the government.

Macro snapshot

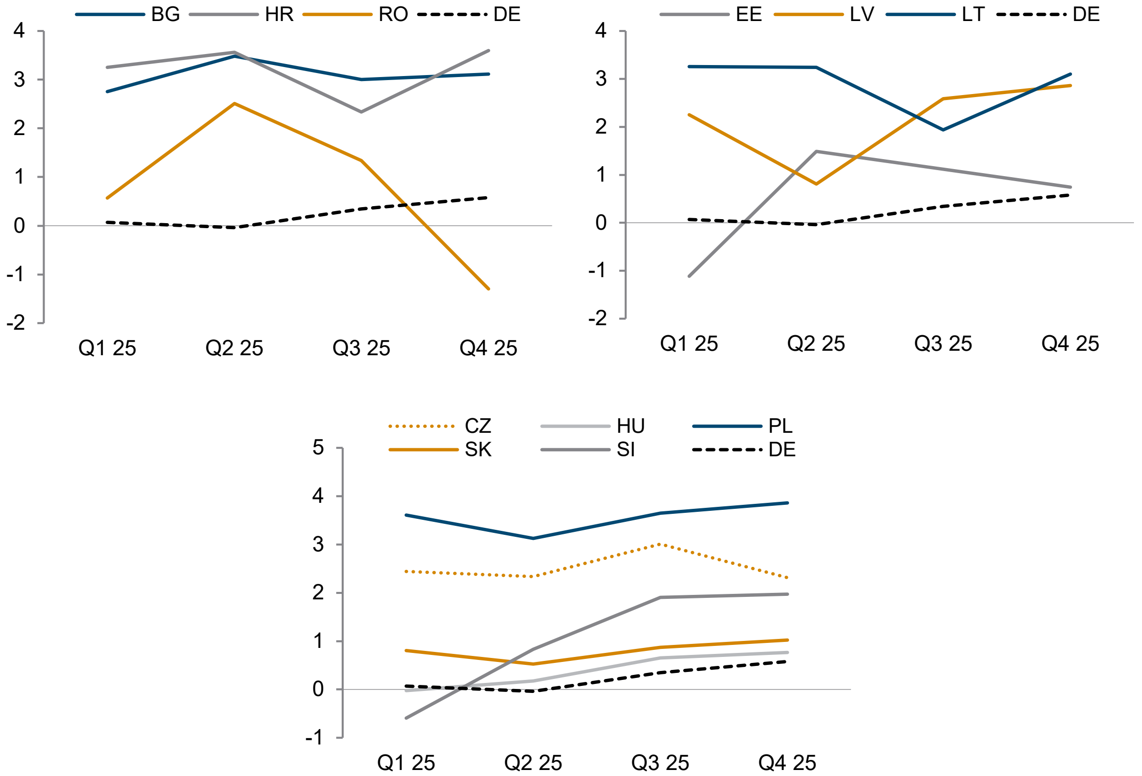
EU-CEE CONTINUES TO OUTPERFORM GERMANY, THANKS TO THE RESILIENCE OF DOMESTIC DEMAND

by Nadya Heger, wiiw Statistician

With the exception of Romania, all EU-CEE economies outperformed Germany in Q4 2025, suggesting a degree of resilience to global demand fluctuations and unfavourable external conditions.

In Q4 2025, most EU-CEE economies continued to expand, although the pace of growth varied considerably from country to country. The strongest performers were Bulgaria, Croatia, Lithuania and Poland, all recording growth rates of above 3% year on year, extending the trend seen earlier (Figure 1).

Figure 1 / Real GDP growth, in %, year on year



Source: wiiw Monthly database.

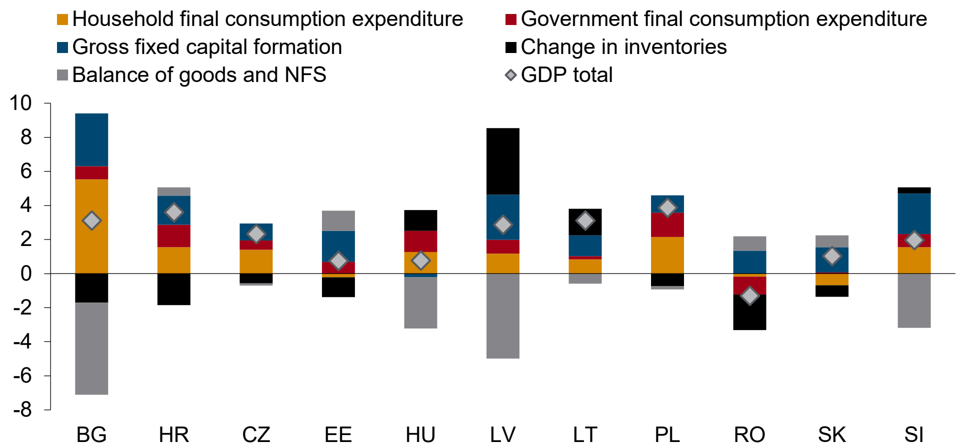
Among the EU-CEE economies, Poland recorded the strongest growth performance, with GDP growth of 3.9% in the final quarter of 2025, supported by resilient household and government spending (Figure 2). Czechia and Slovenia experienced more moderate growth of 2.3% and 2%, respectively. Most final demand components contributed positively to Czechia's growth, while in Slovenia a sharp increase in investment, together with rising household and government consumption, underpinned the economic expansion. By contrast, Hungary and Slovakia underperformed relative to the regional average, recording GDP growth of only 0.8% and 1%, respectively. Economic performance in both those countries was dampened by fiscal consolidation, while Hungary faced additional headwinds due to limited access to EU funding.

Two of the region's top performers were again Bulgaria and Croatia, where robust growth in excess of 3% was largely driven by strong household consumption and investment. Rising real wages and pension increases played a significant role in sustaining domestic demand in both economies. By contrast, Romania diverged from the broader regional trend, recording a contraction of 1.3%, primarily due to declining private and public consumption in the face of fiscal consolidation, as well as falling inventories.

In the Baltic region, Lithuania and Latvia significantly outperformed Estonia, achieving GDP growth of 3.1% and 2.9%, respectively. In Lithuania, growth was mainly driven by public and private investment; in Latvia by strong public investment and the accumulation of inventories, while net exports acted as a drag on growth. Estonia's economy expanded by only 0.7%, as household consumption remained weak, due to persistently high inflation and ongoing tax increases.

With the exception of Romania, all EU-CEE economies outperformed Germany in Q4 2025, where GDP expanded by only 0.6% year on year. In Germany, household consumption provided limited support to growth, but weak external demand, subdued investment activity and persistent challenges in the manufacturing sector constrained overall economic performance. The stronger growth performance of the EU-CEE economies suggests a degree of resilience to global demand fluctuations and unfavourable external conditions, including Germany's economic stagnation and the energy-related challenges. This resilience is supported by EU funds and FDI inflows, which help sustain domestic consumption and investment.

Figure 2 / Real GDP growth and contributions of final demand components in Q4 2025, in %, year on year



Source: wiiw Monthly database.

Focus of the month

WHAT THE WAR IN THE MIDDLE EAST MEANS FOR CESEE

by Richard Grieveson, wiiw Deputy Director

Despite soaring energy prices and rising risk premia on CESEE sovereign bonds, there is good reason to be cautious about drawing too close a parallel with 2022, when Russia launched its war on Ukraine. Back then, the energy price shock coincided with global supply shortages and pandemic-era fiscal stimulus still working through the system. That combination is not present today.

The outbreak of war in the Middle East has sent tremors through the global energy and financial markets. For companies operating in Central, East and Southeast Europe (CESEE), the key question is whether this is a temporary shock that the markets will absorb quickly, or the beginning of a more prolonged period of elevated energy prices, tighter financial conditions and weaker confidence.

The most immediate transmission channel is energy prices. Brent crude has risen to well above USD 100 per barrel, while Dutch TTF gas futures are trading at around EUR 60 per MWh. Both figures are high, but remain well below the extremes seen in 2022, when crude briefly touched USD 128 and gas surged to over EUR 340 in August of that year. The markets are pricing in a short war.

CESEE is heavily dependent on energy imports, so higher prices feed directly into production costs, transport and household energy bills. Crucially, the fiscal space that allowed many governments to shield consumers in 2022 through subsidies and price caps has contracted. Public finances across much of the region are under greater strain, limiting the ability to absorb another sustained price shock.

The pass-through from global energy prices to domestic inflation takes time. wiiw's analysis of the correlation between Brent crude and domestic energy price inflation across CESEE suggests that the full impact typically materialises over six to twelve months. In the near term, the direct inflationary effect will therefore be limited. But if the price of oil remains elevated for months, then the risk of a renewed inflation spike will increase materially. This would push back central bank loosening plans (or throw them into reverse) and increase pressure on household budgets. A wiiw scenario analysis indicates that if oil settles at around USD 80 per barrel, the regional impact will be modest: roughly 0.2 percentage points added to inflation and 0.1 percentage points shaved off annual growth. However, if prices stay near USD 120 through end-2026, the consequences will be significantly greater.

Beyond energy, two other channels merit attention. The shipping and supply-chain picture is more reassuring than the energy markets. Aside from energy commodities, CESEE imports relatively little direct from the Middle East. Asia-Europe container freight rates have edged up, but nothing approaching the extraordinary disruptions of the COVID period. The lesson of the past five to six years is that the global trading system is remarkably adaptive. Supply chains have proved far more robust than was feared during both the pandemic and the subsequent geopolitical shocks, and there is no reason yet to believe that this conflict will be any different.

The confidence and financial market channel is more concerning. Risk premia on CESEE sovereign bonds as spreads over German Bunds have widened, and several regional currencies have come under pressure against the euro. These moves reflect a broader rise in investor risk aversion, as capital gravitates toward safe-haven assets during periods of geopolitical stress. Delayed capital-spending decisions and weaker consumer sentiment are plausible second-order effects if the uncertainty persists. That said, current spreads and exchange-rate moves remain considerably below the levels seen during the acute phase of the Ukraine war, in early 2022.

There are several good reasons to be cautious about drawing too close a parallel with 2022. The current shock is, for now, a single-source energy price event. In 2022, soaring energy prices coincided with global supply shortages and pandemic-era fiscal stimulus still working its way through the system. That combination is not present today. Europe is also more diversified in its energy supply than it was four years ago. And the geopolitical context is different: through its ‘TACO’ posture, the Trump administration has demonstrated a strong preference for containing and shortening conflicts, rather than allowing them to escalate.

The key downside risk is the Iranian regime’s ability to influence global energy prices via control of the Strait of Hormuz. This may continue even if Trump does indeed ‘chicken out’, especially if Israeli attacks on Iran continue. If Iran continues to disrupt the Strait of Hormuz for an extended period, the oil market will price in a sustained geopolitical premium, and the benign scenario will become much harder to sustain. Second-round effects, where prolonged energy price rises translate into higher wage demands and entrenched inflation expectations, would then become a real concern for CESEE policy makers and businesses alike.

Research in brief

ELIMINATION OF REMAINING TRADE BARRIERS WITH THE EU COULD PUSH UP TURKISH EXPORTS BY 6%

Client: Austrian Federal Ministry of Economy, Energy and Tourism

by Meryem Gökten, wiiw Economist

Despite rising trade volumes following the creation of a Customs Union between Turkey and the EU, over the past 15 years the EU and Austria have gradually lost market share in Turkey, while Russia and China have increased theirs.

The project examines how trade relations between the EU and Turkey have evolved since the Customs Union (CU) first came into effect in 1996, and how their economic and geopolitical context has changed. It analyses shifts in trading partners, the role of non-tariff barriers and the implications of growing global trade tensions. Using four scenarios, the study evaluates how different policy paths could affect trade flows and welfare in both the EU and Turkey. The aim is to clarify how a potential modernisation of the CU could reshape bilateral trade and what economic gains or limitations such reforms might entail.

Relations between Turkey and the European Union have long been complex, but they remain strategically and economically important. In recent years, their importance has grown further amid regional conflict, global trade tension and the uncertainty arising from the additional US tariffs. The EU-Turkey Customs Union, established in 1996 as a step on the road to Turkish membership of the EU, has significantly boosted bilateral trade. Yet, with Turkey's EU accession stalled, tensions have risen, due to the CU's asymmetric nature and limited scope.

Despite rising trade volumes after the Customs Union's creation, over the past 15 years the EU and Austria have gradually lost market share in Turkey, while Russia and China have increased theirs. This shift is evident in global value chains: although the EU remains a key supplier of intermediate goods to Turkey, competition from China has reduced its relative importance. Turkey has also pursued a more independent foreign policy, deepening economic and political ties with Russia and China. For instance, it has not joined in the Western sanctions on Russia and has become an important trade hub for the latter.

Our analysis shows that many EU countries, including Austria, do not fully exploit their potential for exporting to Turkey, particularly in machinery, equipment and motor vehicles. To explore potential developments, we consider four trade scenarios:

(i) continuation of the current CU in the context of the US import tariffs announced (including 15% on European exports to the US);

(ii) modernisation of the CU through the removal of remaining tariffs;

(iii) comprehensive modernisation of the CU that also eliminates non-tariff barriers; and

(iv) comprehensive CU modernisation, combined with a potential EU-US trade conflict (with the US raising tariffs on EU products to 40%, while the EU in turn imposes tariffs of 20% on all products from the US).

Our findings indicate that the increase in bilateral trade flows would be greatest in the case of a comprehensive CU modernisation (Table 1 – scenarios (iii) and (iv)). EU exports to Turkey could rise by over 7%, while Turkish exports to the EU might increase by over 6%. In terms of welfare (a proxy for real consumption), Turkey would benefit more than the EU under the comprehensive CU modernisation scenario, with an increase of 0.28%. For the EU, however, welfare losses occur in all scenarios, due to the US tariff increases. Comprehensive CU modernisation offsets these losses only slightly: under scenario (i) there is a welfare loss of 0.028%, compared with a slightly smaller loss of 0.025% under comprehensive CU modernisation (iii).

Table 1 / Modelling results: Percentage change in bilateral trade flows

Exporter/Importer	EU27	Turkey	Russia	US	China	RoW	Total
Scenario (i)							
EU27	-0.1	-2.2	-1.8	-9.4	-3.7	-0.9	-2.6
Turkey	-1.3	-0.5	-0.1	-18.7	-2.0	0.1	-1.8
China	0.6	0.7	0.9	-29.5	-0.7	1.2	-3.7
Russia	-4.0	-0.8	-0.5	16.0	-2.5	-0.9	-1.5
Scenario (ii)							
EU27	-0.1	6.0	-1.9	-9.4	-3.7	-0.9	-2.4
Turkey	5.2	-0.8	0.1	-18.6	-1.8	0.3	1.0
China	0.5	0.7	0.9	-29.5	-0.7	1.2	-3.7
Russia	-4.0	-0.8	-0.5	16.0	-2.5	-0.9	-1.5
Scenario (iii)							
EU27	-0.1	7.1	-1.9	-9.4	-3.7	-0.9	-2.3
Turkey	6.2	-0.8	0.1	-18.7	-1.9	0.2	1.3
China	0.5	0.6	0.9	-29.5	-0.7	1.2	-3.7
Russia	-4.0	-0.8	-0.5	16.0	-2.5	-0.9	-1.5
Scenario (iv)							
EU27	0.3	7.3	-1.5	-45.0	-3.3	-0.5	-7.1
Turkey	6.4	-0.8	0.1	-18.5	-1.8	0.3	1.5
China	1.3	0.7	1.0	-29.2	-0.6	1.2	-3.5
Russia	-3.6	-0.7	-0.5	15.3	-2.4	-0.8	-1.3

Source: Own calculations.

For Turkey, CU modernisation would unlock unused export potential, counter external economic pressures and provide resilience in the face of external economic shocks, while in the scenario of an EU-US trade conflict, Turkey could even gain slightly more through trade diversion (see Table 1). Modernising the CU would also have strategic implications: Turkey's substantial gains could enhance the EU's leverage in negotiations on migration and broader political cooperation, while helping counterbalance Russian and Chinese influence.

For the EU, CU modernisation with Turkey would align with its broader strategy of deepening trade relations to offset potential global trade losses. The EU has become flexible in deepening integration with neighbouring countries. Examples include the deep and comprehensive free trade areas (DCFTAs) with Ukraine, Moldova and Georgia, as well as the new growth plan for the Western Balkans. A similar approach could strengthen economic cooperation with Turkey.

Despite political tensions and domestic challenges in Turkey, the two sides share significant strategic and economic interests. In the current geopolitical context, strengthening cooperation where interests align could deliver substantial mutual benefits and help the EU maintain its influence in a region of growing global competition.

The project results are available here (in German).

PRONOUNCED SHIFT IN UKRAINE'S EXPORTS TOWARDS THE EU AND AGRICULTURE

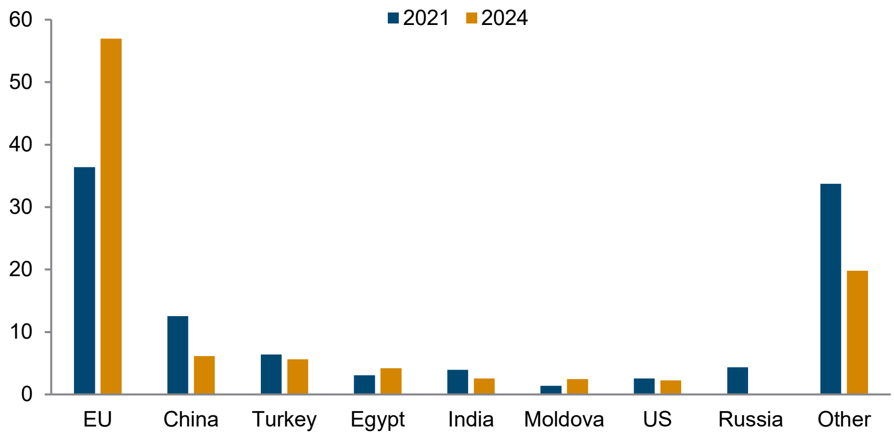
by Olga Pindyuk, wiiw Economist

Russia's blockade of traditional Black Sea routes has forced Ukrainian exporters to seek alternative markets and logistics channels, while metallurgy – a pre-war cornerstone of Ukraine's export economy – has suffered a sharp decline due to the destruction of production facilities.

A recently published wiiw policy note analyses the shifts in Ukraine's trade and investment structures since the start of the full-scale war with Russia, and assesses the implications of these for Ukraine's future competitiveness and for EU-Ukraine economic relations, paying particular attention to the EU's strategic autonomy in an increasingly fragmented global economy.

Russia's full-scale invasion of February 2022 has fundamentally reshaped Ukraine's economic structure. Beyond the immediate destruction of infrastructure and production capacity, the war has triggered profound changes in the country's foreign-trade patterns, investment flows and sectoral composition. These developments are already influencing Ukraine's long-term competitiveness and carry with them important implications for the European Union's economic and strategic relationship with the country.

Figure 1 / Geographic structure of Ukraine's goods exports by country, % of total



Sources: National Bank of Ukraine; own calculations.

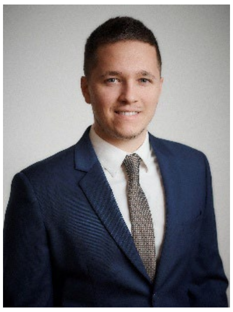
One of the most striking developments since 2022 has been the rapid reorientation of Ukraine's trade towards the EU. Disruptions to traditional Black Sea routes and the collapse of trade with Russia forced exporters to seek alternative markets and logistics channels. EU initiatives – such as the Solidarity Lanes and temporary trade liberalisation measures – have facilitated this shift. As a result, the EU's share in Ukraine's merchandise exports rose from 36% in 2021 to 57% in 2024, making the bloc by far the country's most important trading partner (Figure 1). Imports also became more EU-centred, though to a lesser extent, with the EU's share rising from 39% to 50% over the same period.

In terms of sector, the war has accentuated the dominance of agriculture in Ukraine's exports to the EU. Agricultural exports have proved remarkably resilient, despite major disruptions caused by occupied farmland, landmine contamination, destroyed storage facilities and the loss of irrigation infrastructure following the destruction of the Kakhovka dam. By contrast, metallurgy – a pre-war cornerstone of Ukraine's export economy – has experienced a dramatic collapse, on account of the destruction of key industrial facilities and logistical bottlenecks.

Overall, the war has accelerated Ukraine's economic integration with the EU, while exposing new strategic vulnerabilities. For the EU, Ukraine represents not only a candidate country, but also a potential partner in areas crucial to Europe's long-term economic security, including critical minerals, renewable energy and defence technologies. Realising this potential, however, will require stronger and more coordinated EU engagement, particularly in mobilising investment, integrating supply chains and supporting Ukraine's reconstruction and institutional reforms.

Download the policy note here.

Country in focus: Hungary



A CHANCE FOR IMPROVING RELATIONS WITH THE EU, FINALLY

by Ioannis Gutzianas, wiiw Economist[1]

In April, Hungary faces its most competitive election since 2010, with polls generally suggesting a win for the opposition Tisza Party. A Tisza victory would likely lead to an improvement in relations with the EU and would increase the chances of unlocking frozen EU funds – though in the absence of a constitutional supermajority, institutional constraints could limit policy implementation. By contrast, a renewed Fidesz mandate would likely reinforce the current policy trajectory and leave Hungary's strained relationship with the EU largely unresolved.

In April, Hungary will head into its next parliamentary election after sixteen years of near-continuous parliamentary supermajority rule by the Viktor Orbán-led Fidesz – Hungarian Civic Alliance. Since returning to power in 2010, Fidesz has governed with repeated constitutional majorities, enabling the party to fundamentally reshape Hungary's political and economic institutions. A new constitution was adopted in 2011 and numerous institutional reforms have consolidated the governing party's influence across the state apparatus.

Economically, the Orbán administrations have built a growth model centred on attracting foreign direct investment (FDI), particularly export-oriented manufacturing linked to the German automotive value chain. The strategy has been complemented by policies aimed at achieving near full employment, through labour-market reforms and strong industrial expansion. For much of the 2010s, this model delivered robust growth and declining unemployment.

At the same time, Hungary's foreign-policy orientation has shifted gradually away from a strongly Atlanticist stance toward a strategy labelled the 'Eastern Opening', which has sought closer economic ties with countries such as China and Russia, while maintaining membership of Euro-Atlantic institutions. Relations with Brussels have deteriorated significantly during this period, due to concerns over rule-of-law violations, corruption, and the erosion of democratic checks and balances. As a consequence, a substantial portion of EU funds has been frozen, which has weighed on public investment and has dragged down Hungary's expected medium-term growth trajectory.

1 The author is grateful to Sándor Richter, wiiw Senior research associate, for valuable comments on the first draft.

Against this background, the upcoming election represents the most competitive contest since 2010 and may mark a turning point for both the country's political trajectory and its economic-policy framework.

Electoral system favours the incumbents

Hungary operates a mixed electoral system, combining proportional representation with single-member districts. Of the 199 parliamentary seats, 93 are allocated from national party lists, while 106 are elected in single-member constituencies. The electoral rules and district boundaries were introduced by the current governing majority, and previous analysis suggests that, under the present system, every parliamentary election since 1998 would have produced a Fidesz victory.

As of March 2026, the electoral outcome remains uncertain. Recent polling has nevertheless suggested a strong challenge from the main opposition force, the Tisza Party, led by Péter Magyar. Polling results vary significantly, depending on the source. Polling companies associated with the government show Fidesz leading by roughly 5-6 percentage points among the overall population, and by around 6-7percentage points among likely voters. Independent polling institutes report the opposite: Tisza leading by between 5 and 8 percentage points among the population and between 8 and 14 percentage points among likely voters.

The Partizán Electoral Barometer, which aggregates polling data and translates it into seat projections, currently estimates the probability of a Tisza victory at 79%, with the likelihood of a Fidesz victory 13% and of a hung parliament roughly 8%. It also suggests around a 28% probability that Tisza could obtain a constitutional supermajority of at least 133 seats.

However, even if Tisza appears to lead in many polls, the structure of the electoral system complicates the translation of vote share into parliamentary seats. Fidesz historically benefits from both the district design and the concentration of its voters in key constituencies. In addition, the governing party likely retains a larger pool of undecided voters who lean toward it who could mobilise closer to the election. As a result, electoral simulations suggest that Tisza would likely need to outperform Fidesz by at least 4 percentage points in the national vote, if it is to secure a parliamentary majority.

Scenario 1: A Tisza victory: pivot to the West and improved governance

A victory for Tisza would represent the first change of government in Hungary since 2010. However, the magnitude of such a victory would have enormous consequences for the functioning of any future administration.

Over the past 16 years, Fidesz has consolidated its influence across a wide range of state institutions. Many of the individuals heading key institutions are closely associated with the governing party, and their mandates extend well beyond the next parliamentary cycle. Recent institutional changes have further entrenched this situation. After Katalin Novák resigned as president in 2024, in the wake of a controversial presidential pardon granted in a case related to child abuse, she was replaced by Tamás Sulyok, formerly president of the Constitutional Court. His position in the court was then filled by former Prosecutor General Péter Polt, whose previous role was taken over by his chief of staff.

This reshuffle ensured that key positions will remain occupied by figures associated with Fidesz for some time to come: the country's president is expected to remain in office until 2029; the president of the Constitutional Court until 2037; and the prosecutor general until 2034. In addition, the leadership of the State Audit Office is secured until 2034 and the governorship of the Hungarian central bank until 2031.

While the institutional independence of bodies such as the Constitutional Court or the central bank is, in principle, a cornerstone of democratic checks and balances, the unusually long mandates, combined with strong political alignment with the current governing party, mean that most key institutions would remain beyond the influence of any potential new government for the entirety of the next parliamentary cycle. In practice, this could create significant institutional friction and limit the room for manoeuvre of a future administration, particularly in areas related to fiscal oversight, monetary policy coordination and the investigation of alleged corruption cases. A constitutional supermajority would therefore be crucial in terms of enabling a new government to replace or reform the leadership of key institutions.

The Tisza Party's manifesto outlines a broad economic reset, centred on restoring growth through improved governance and reintegration with European institutions. It promises to unlock frozen EU funds, restore investor confidence and reduce corruption, while at the same time increasing spending on healthcare, pensions, social benefits and public-sector wages.

On the revenue side, however, the proposed reforms appear relatively limited. Beyond a reduction in personal income taxes and the introduction of a wealth tax on billionaires, the programme does not outline any comprehensive tax reform capable of generating substantial structural revenue. The fiscal space needed for higher spending is therefore expected to arise primarily from stronger growth, lower borrowing costs, renewed EU transfers and efficiency gains associated with reduced corruption.

Among these assumptions, the most likely short-term change would be a normalisation of relations with Brussels and the gradual unlocking of frozen EU funds. Other improvements, such as in growth performance and governance, are possible, but would likely take longer to materialise. Tisza's programme also commits Hungary to meeting the Maastricht criteria by 2030, implying a medium-term ambition to prepare for euro adoption. Achieving this objective would depend heavily on the stance of the Hungarian National Bank, whose leadership would remain outside the control of the government under current constitutional rules.

Overall, Tisza's programme is ambitious, but it relies on arguably overly optimistic assumptions regarding the speed at which governance improvements and growth acceleration could materialise.

A clearer picture of the likely economic orientation of a Tisza government can be obtained by examining the individuals expected to shape economic policy. Péter Magyar would remain the central political figure. A former Fidesz insider, he has spoken in positive terms about several economic policies implemented after 2010, but has generally shown limited engagement with the technical details of economic policy making.

A key role would likely be played by András Kármán, the party's tax and budget expert and the candidate mentioned most frequently as a possible finance minister. After a career as a central banker, between 2010 and 2011 he served as state secretary in the Ministry for National Economy during the second Orbán government. He reportedly left the position because his views were more liberal and market friendly than those prevailing at the time in the ministry, which was pursuing a number of unorthodox and market-disrupting policies, including sector-specific taxes, such as the banking-sector levy. He later worked at the European Bank for Reconstruction and Development and at Erste Bank.

Another prominent figure is István Kapitány, formerly a global executive at Shell plc, who is expected to oversee economic development and energy policy. His priorities include energy-efficiency measures, maintaining current household energy subsidies and diversifying Hungary's energy imports away from Russian sources.

Taken together, these figures suggest that although Tisza differs markedly from Fidesz in terms of political positioning and foreign-policy orientation, the two parties share certain similarities in their broad economic philosophy. Both support an investment-driven growth model and close integration with international manufacturing supply chains. The most pronounced differences relate to governance standards and geopolitical alignment, particularly Tisza's clear commitment to Euro-Atlantic cooperation.

Scenario 2: A Fidesz victory: muddling through

A Fidesz victory remains plausible, despite current polling trends. Given the institutional configuration described above, a simple parliamentary majority would likely be sufficient for the governing party to maintain its policy direction, as most key institutional positions are already held by its allies.

The Hungarian economy has underperformed since the last election. Growth has been constrained by a combination of external shocks, frozen EU funds and a sharp decline in public investment. More fundamentally, the limitations of the existing growth model may be becoming apparent. The FDI-driven strategy of the 2010s successfully expanded manufacturing capacity and pushed unemployment to historically low levels. However, the model has also generated structural weaknesses – in particular, relatively low value added in production, weak domestic innovation capacity and limited productivity growth outside export-oriented manufacturing sectors. Hungary is now close to full employment and is increasingly reliant on migrant workers to staff new production facilities – something that sits uneasily with the government's strongly anti-immigration political stance.

Although the current Minister for National Economy, Márton Nagy, may not remain in his position even if Fidesz wins again, there are few indications that the government intends to fundamentally revise its economic strategy.

One flagship proposal announced by Viktor Orbán is the expansion of the '100 new factories programme' into a '150 new factories programme'. This initiative appears to double down on the existing manufacturing-led growth model. Yet Hungary's economic challenges appear to stem less from a lack of factories and more from the limited value added and productivity associated with existing production structures. Increasing domestic value added would likely require stronger investment in education, research and innovation. However, public spending in these areas has remained relatively stagnant over the past decade, making it hard to envisage any rapid improvement in the country's innovation capacity.

Another potential lever for economic growth relates to EU funding. The Hungarian government has indicated that unless frozen EU funds are released, it could veto the next EU budget negotiations. This strategy fits into the broader narrative promoted by the government regarding a potential ‘sovereigntist’ shift within the European Union. Should parties that advocate a more sovereigntist and less integrationist approach to EU governance gain influence in major Western European governments following upcoming elections, Budapest could potentially see an improvement in its relations with Brussels. At present, however, the likelihood and timing of such a political realignment remain uncertain.

Conclusion

Hungary’s next parliamentary election could have far-reaching implications for both its domestic political system and its economic trajectory.

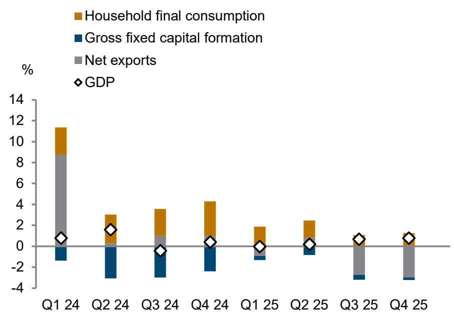
A Tisza victory would likely lead to a rapid normalisation of relations with the European Union and potentially unlock significant EU funding. At the same time, institutional constraints and the ambitious nature of the party’s economic programme could complicate implementation, particularly if the new government does not obtain a constitutional supermajority.

A Fidesz victory would imply policy continuity and institutional stability, but may also prolong the structural weaknesses of the current growth model, particularly if relations with the European Union remain strained and public investment continues to lag.

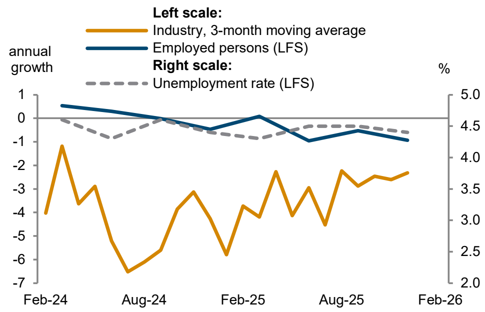
For investors and economic observers, the election therefore represents not only a political contest, but also a key moment for assessing the future direction of Hungary’s economic model and its place within the European economy.

Hungary

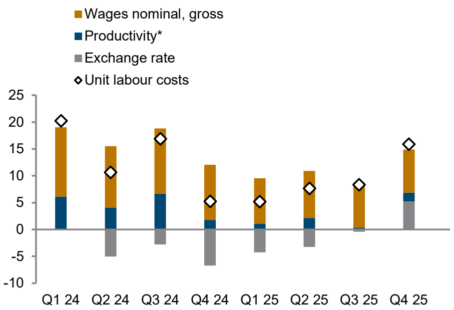
Real GDP growth and contributions
y-o-y



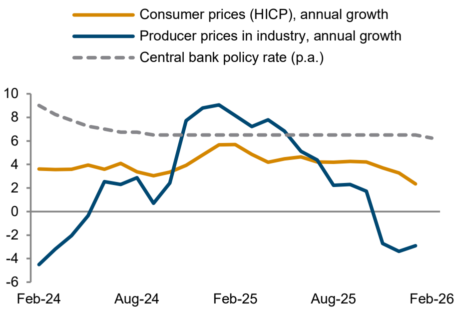
Real sector development
in %



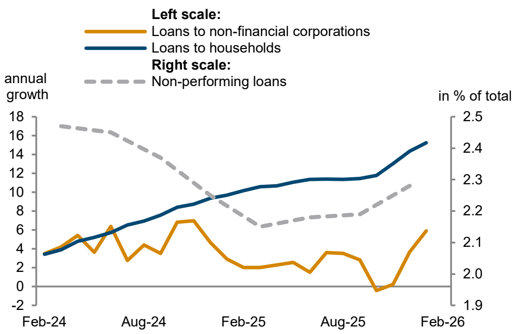
Unit labour costs in industry
annual growth rate in %



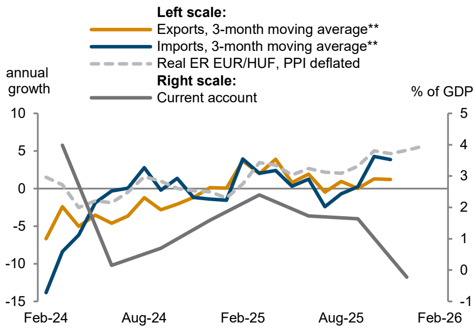
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

*Note: HICP - Harmonised Index of Consumer Prices, NPISHs - Non-profit institutions serving households.

Source: wiiw Monthly Database incorporating Eurostat and national statistics. Baseline data, definitions and methodological breaks in time series are available under: https://data.wiiw.ac.at/monthly-database.html

Recent activities/looking back

- ‘*converge2eu project*’, DG-ENEST, Presentation, Branimir Jovanović, Brussels, 3 March 2026
- ‘*converge2eu project*’, DG-ECFIN, Presentation, Branimir Jovanović, Brussels, 4 March 2026
- ‘*Conference of the German Keynes Society*, presentation, Cara Dabrowski, 10 March 2026
- ‘*Keynes Spring School*’, Workshop presentation, Cara Dabrowski, 11 March 2026
- ‘*converge2eu project*’, Croatian policy makers, Presentation, Branimir Jovanović, Zagreb, 13 March 2026
- ‘*converge2eu project*’, Discussion of the methodology used in the converge2eu project with peer international organisations, Validation workshop, Branimir Jovanović, Vienna, 18 March 2026
- ‘*CEE: Economic Outlook in a Time of Global Uncertainty*’, Fachforum Internationaler Handel & Cross Border, Keynote, Richard Grieveson, 18 March 2026
- ‘*Economic effects of sanctions: Focus on Russia”*, 3. Praxiskonferenz Sanktionenrecht, Presentation, Universität Krems, Vasily Astrov, 19 March 2026
- ‘*What the war in the Middle East means for firms in CESEE*’, Executive Network Webinar, Richard Grieveson, March 2026

Looking ahead

Upcoming member events

- Executive Network Event, Warsaw, May 2026
- Executive Network Event, Prague, May 2026
- Executive Network Event, Vienna, May 2026
- Wiiw Spring Seminar, Vienna, May 2026
- Executive Network Webinar, June 2026

Upcoming publications

- Executive Network CEE exchange podcast, Episode 3, April 2026
- Monthly Report 04/26, April 2026
- wiiw Q2 Forecast Report, April 2026
- FDI Report 01/26, May 2026
- Working Paper, What drives child benefit size and design in Europe? Macroeconomic, sociocultural, and political factors, April/May 2026

Upcoming presentations and public events

- SAP CEE Partner Kick-off Meeting, Warsaw, 25-26 March 2026.
- '*War, Power, and Markets: The Geopolitical and Economic Consequences of the US–Israeli War on Iran*', wiiw Seminar: Europe in a Fragmented World: Geo-economic and Geo-political Dynamics, in cooperation with oiip, 13 April 2026.

New Members 2026: Welcome!

- Biscuit International
- Cummins
- University of Zagreb
- IMF Office CESEE
- University of Ljubljana, Faculty of Arts
- University of Tartu
- Ferag
- Herbalife

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