

The illiberal economy:

The long-term development of the Hungarian economy under Viktor Orbán

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Abstract

This assessment provides a long-term analysis of Hungary's economic trajectory under the administration of Viktor Orbán since 2010. Taking the start of the European financial crisis in 2009 as a baseline, it evaluates the impact of 'Orbánomics' – a policy mix defined by deterioration in institutional quality, state intervention and sectoral taxation for the creation of a nationalist, capitalist class, and an 'Eastern Opening' strategy to diversify away from the European Union. Through a comparative lens that focuses on the region of Central, East and Southeast Europe (CESEE), the study finds that Hungary has transitioned away from being a regional front-runner to languishing in the midfield. Key findings highlight a widening 7 percentage point GDP growth gap relative to the CESEE average, a significant slowdown in convergence toward the 'Austrian Benchmark', compared to peers like Croatia and Romania, and a regressive shift in sectoral specialisation from high-innovation ICT toward low-complexity real estate. Furthermore, the analysis underscores the severe 'institutional tax' resulting from deteriorating governance scores and the subsequent withholding of EU transfers, such as the funds from the Recovery and Resilience Facility (RRF). The study concludes that without urgent political and economic reform and institutional reconciliation, Hungary risks permanent entrenchment in a nationalist development trap.

Keywords: Hungary, Economic Convergence, Foreign Direct Investment, Institutional Governance, Rule of Law, Sectoral Specialisation, EU Recovery and Resilience Facility

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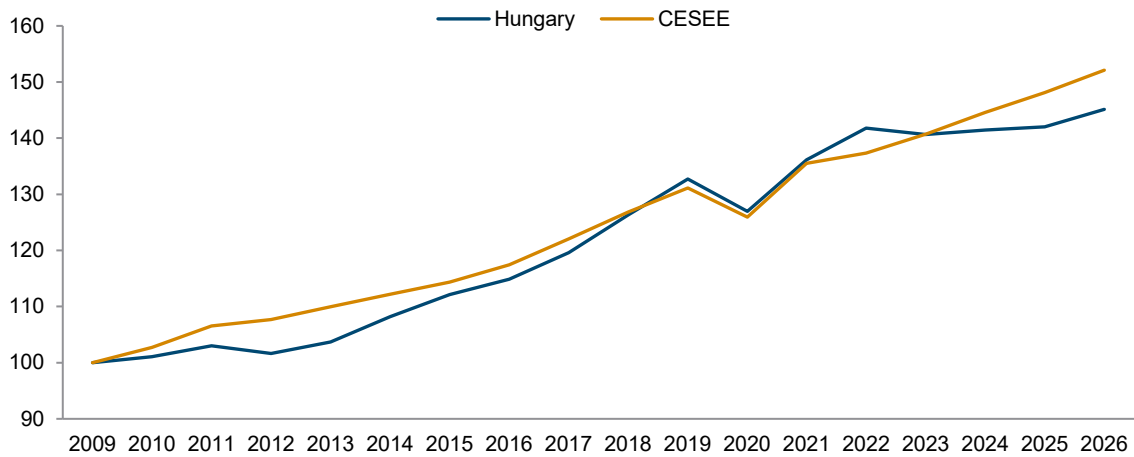
INTRODUCTION

This comprehensive assessment provides an in-depth analysis of Hungary's economic trajectory from 2009 onwards, examining the 'illiberal' policy mix of the Orbán administration and its impact on regional convergence, compared to the country's CESEE peers. Having served one term as prime minister of Hungary from 1998 to 2002, Viktor Orbán again became premier in May 2010 – a post that he has held ever since. That makes him both the longest-serving prime minister of Hungary and the most senior head of government within the European Union. He has been able – as no other prime minister before him – to make his mark on the economy and society of Hungary.

THE POLITICAL ECONOMY OF ORBÁNOMICS AND MACROECONOMIC RESILIENCE

The return of Viktor Orbán to power in 2010 followed the nadir of the global financial crisis in 2009, a year that serves as the critical baseline for assessing Hungary's subsequent performance. Over the past decade and a half, the administration has pursued an 'unorthodox' or rather 'illiberal' economic policy mix – often termed 'Orbánomics' – characterised by a deterioration in institutional quality, heavy state intervention and the implementation of aggressive sectoral taxes in favour of building a nationalist capitalist class, plus a deliberate strategic pivot toward Eastern markets, in order to diversify away from the European Union. In order to determine whether this idiosyncratic path has fostered genuine convergence towards higher income levels or rather structural divergence, it is essential to evaluate this period. While the administration's rhetoric consistently emphasises national sovereignty and rapid growth – as in one of Orbán's election slogans 'For us, Hungary first!' – the empirical evidence reveals rather a troubling divergence from the country's regional peers.

Crisis management serves as a primary indicator of an economy's structural health, as the ability to recover from external shocks and maintain a growth trajectory consistent with regional benchmarks defines long-term stability. The data suggest that in the post-2009 period Hungary has consistently performed worse than the broader CESEE region. Particularly during the aftermath of the global financial crisis and the combined pandemic and global energy crisis, Hungary was disappointing. Using a real GDP growth index with 2009 anchored at 100 (Figure 1), we observe a considerable and widening performance gap over recent years. While the CESEE-23 average reflects robust expansion, reaching a projected index of more than 152 by 2026, Hungary's trajectory has been far more tepid and is projected to be only about 145.

Figure 1 / Real GDP growth, index, 2009 = 100

Note: CESEE represents the simple average over the 23 CESEE economies; 2026 wiiw winter forecast.
Source: wiiw Annual Database.

This 7 percentage point gap demonstrates that the Hungarian economic model is more vulnerable to external shocks. And even controlling for initial income levels in the growth regressions, there remains a significant gap of several percentage points. This relative underperformance suggests that the ‘illiberal’ policy framework has hindered, rather than helped, the country’s ability to keep pace with regional growth dynamics, effectively translating into lost potential for purchasing power and standard of living improvements for the general population.

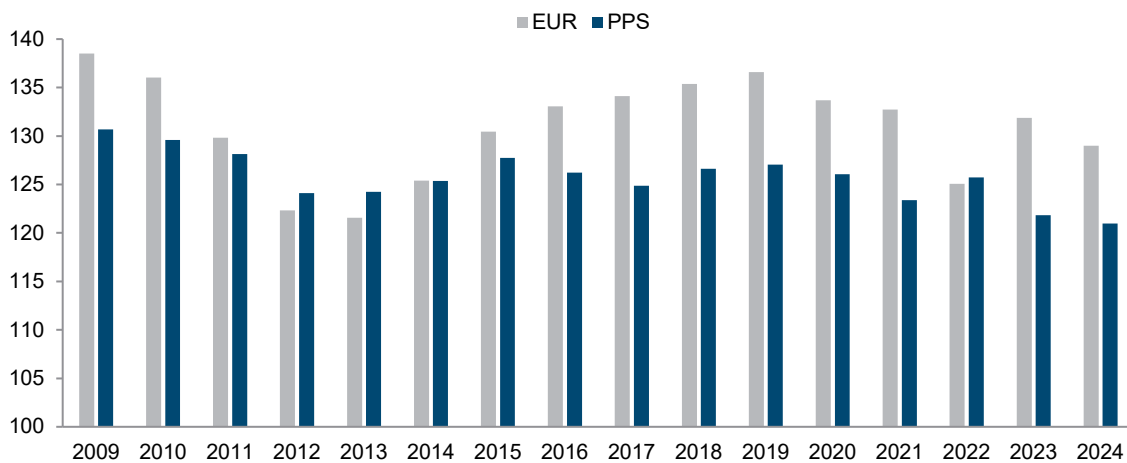
THE STAGNATION OF RELATIVE PROSPERITY AND THE ‘AUSTRIAN BENCHMARK’

A look at Hungary’s purchasing power and productivity relative to its regional peers reveals a sobering trend: the country has lost its status as a regional front-runner. In 2009, Hungary’s GDP per capita in nominal EUR terms, relative to the CESEE average – a measure of relative productivity and regional competitiveness – stood at approximately 140%; but by 2024, that figure had declined to approximately 130% (Figure 2). Similarly, in terms of relative GDP per capita in Purchasing Power Standards (PPS) – a measure of relative affluence – Hungary had declined from a level of about 130% to some 120%, compared to the CESEE average over the same period. Thus, the country dropped out of the Top 5 leading economies in the region to end up towards the bottom of the Top 10.

The ‘Austrian Benchmark’ remains the historical target for Hungarian economic catch-up, yet an assessment of GDP per capita in PPS as a percentage of the Austrian level reveals an underwhelming pace, given the nationalist ambitions trumpeted: while in 2009, Hungary’s GDP per capita in PPS stood at 52% of the Austrian level, by 2024 that had risen to 64%. An upward trend is clearly visible, then. However, a distinction should be drawn between the country’s *absolute* and *relative* performance. While in absolute terms, the 11 percentage points that in 2009 separated Hungary from the CESEE average largely remain, the country’s catch-up rate of 23% is significantly below what may be observed in peer economies over the period of analysis (on average 33%). Thus, while Hungary’s GDP per capita was more than 25% above the CESEE regional average in 2009, that figure has now declined to only about

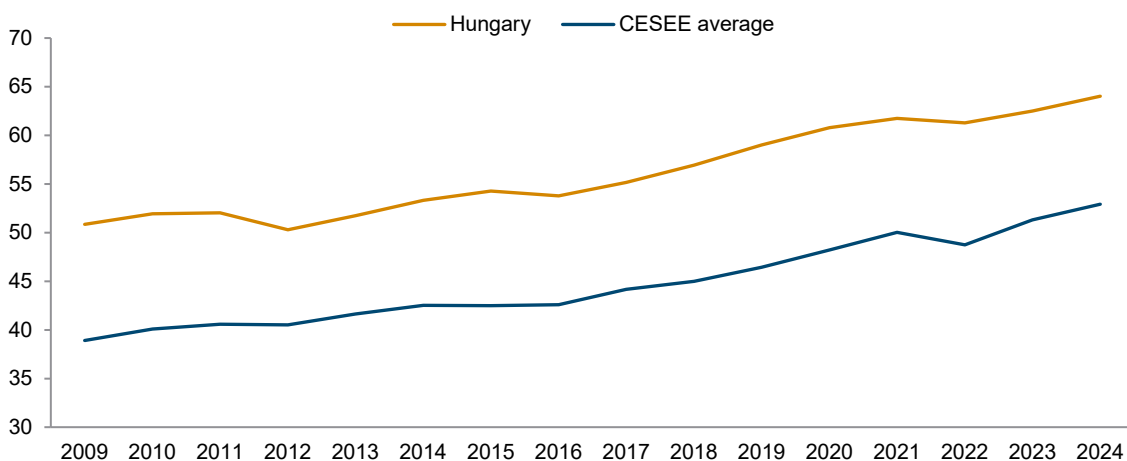
20% above. CESEE has seen far more aggressive convergence trajectories, with Romania and Croatia, for example, recently outstripping Hungary in terms of purchasing power. In the very unlikely event that the current rates of convergence continue, Hungary would only converge to Austrian income levels at the beginning of the second half of the twenty-first century, when at the same time it would be overtaken by the CESEE average.

Figure 2 / Hungary's GDP per capita relative to CESEE average, in %



Note: CESEE represents the simple average over the 23 CESEE economies.
Source: wiiw Annual Database.

Figure 3 / GDP per capita in PPS, in % of the Austrian level

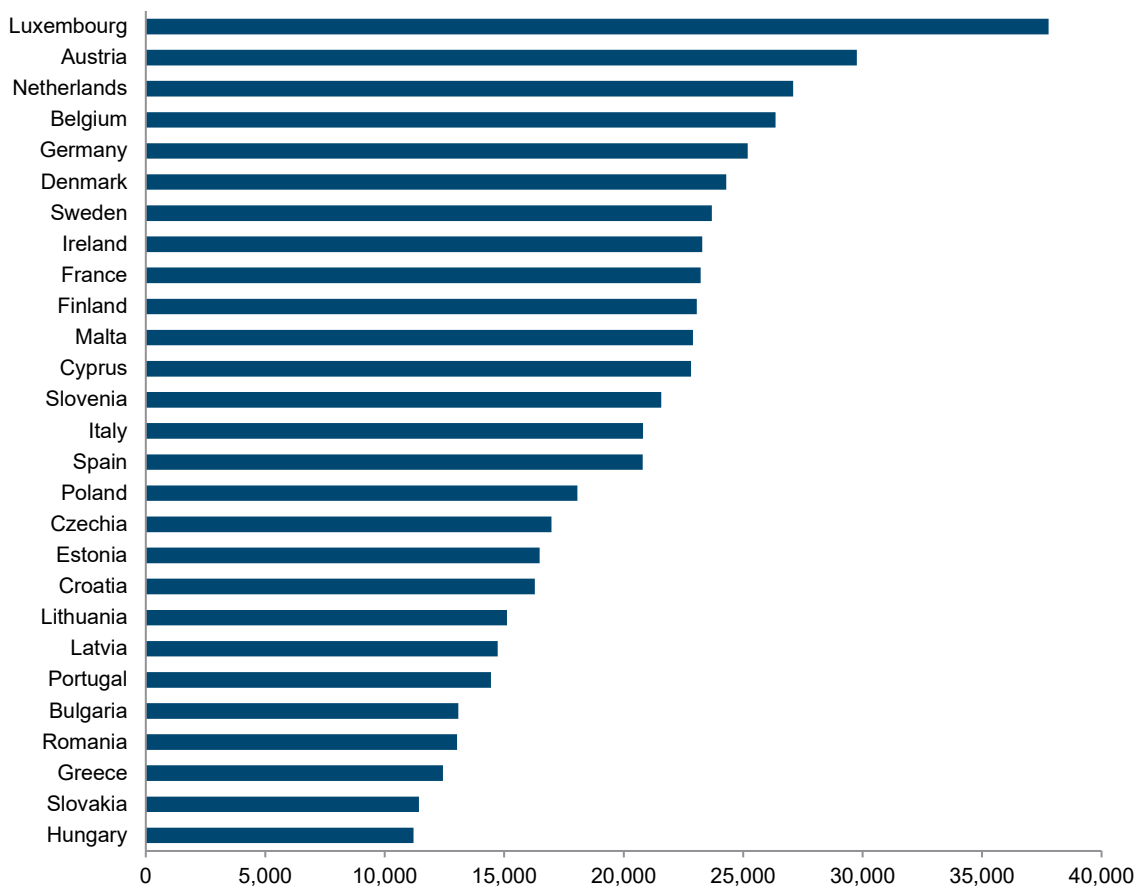


Note: CESEE represents the simple average over the 23 CESEE economies.
Source: wiiw Annual Database.

Setting aside overall economic output per capita, a less commonly cited but highly revealing indicator shows that the average Hungarian household has remarkably little money to spend. In terms of median equivalised disposable income per inhabitant in PPS, Hungary ranked last among all EU member states

in 2024 (Figure 4). Under Orbán, countries that were once considerably poorer, such as Romania and Bulgaria, have overtaken Hungary by a significant margin on this key measure of living standards.

Figure 4 / Median equivalised disposable income per inhabitant in purchasing power standards (PPS)



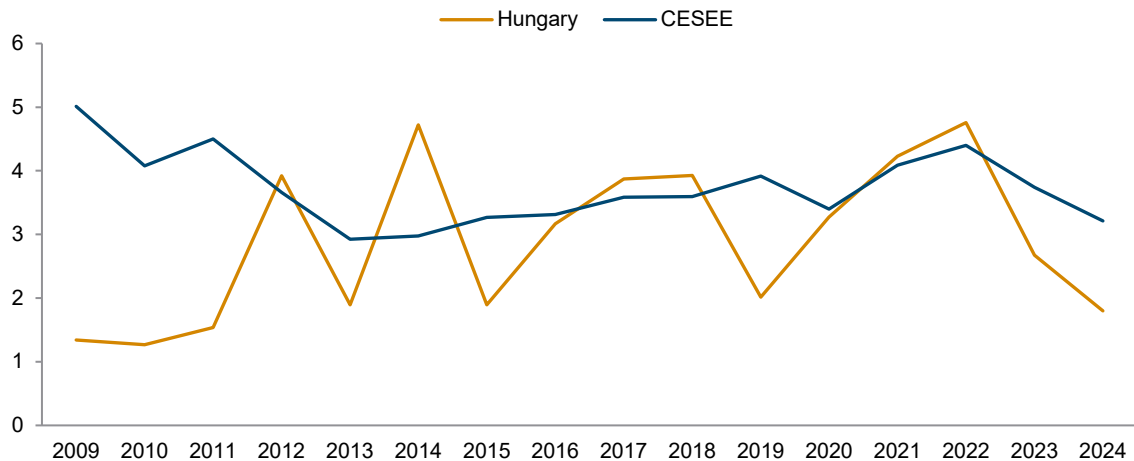
Source: Eurostat.

THE (CHINESE) FDI PARADOX AND THE (RUSSIAN) REGRESSIVE SECTORAL SPECIALISATION

Foreign direct investment (FDI) is essential for technology transfer and for moving up the global value chain. It lies at the core of the CESEE growth model, at least so far. Yet, Hungary's investment profile has been underwhelming, for FDI inflows as a percentage of GDP have remained disappointing compared to the country's regional peers. On average, FDI inflows into Hungary have made up about 3% of GDP annually – approximately 1 percentage point less than the regional average (Figure 5). Furthermore, much has been made of the 'Eastern Opening' (Hungary's strategy aimed at reducing economic dependence on the West by diversifying trade and attracting major investment from outside the EU), but the data reveal that Chinese FDI stock (although growing quickly) remains insignificant, accounting for only 1.4% of the total Hungarian FDI stock in 2024 (Figure 6). This is a marginal figure compared to the overwhelming dominance of EU-based capital (71%), suggesting that the narrative is

more political than economic. In fact, the share of FDI from EU economies is actually slightly lower in the CESEE peers, while the Chinese share there is almost identical to that in Hungary.

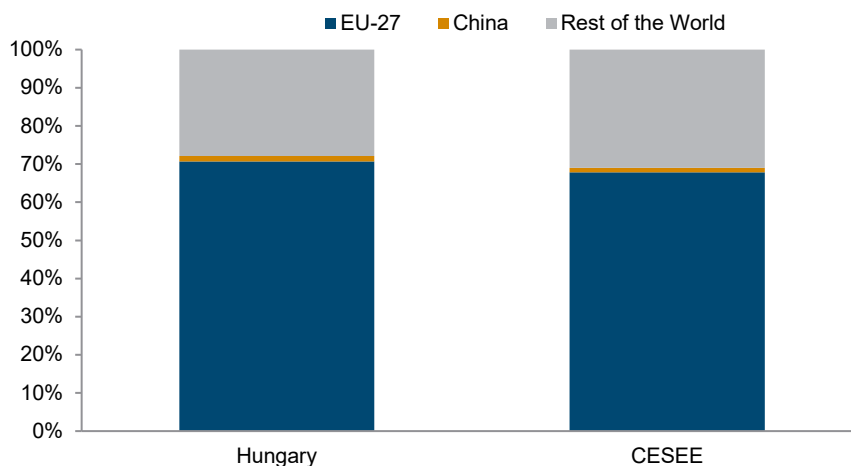
Figure 5 / FDI inflows, in % of GDP



Note: CESEE represents the simple average over the 23 CESEE economies.

Source: wiiw FDI Database.

Figure 6 / Inward FDI stock, by partner country, 2024



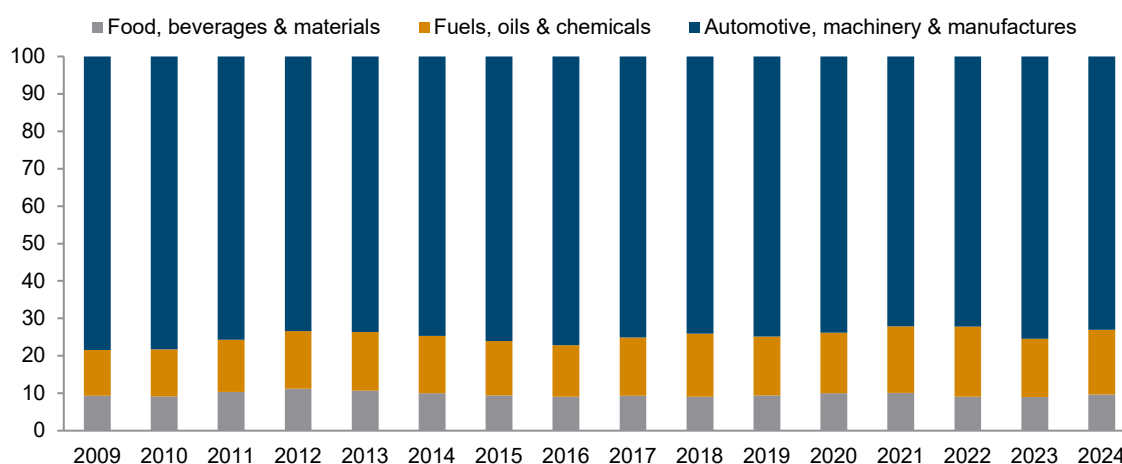
Note: CESEE represents the simple average over the 23 CESEE economies.

Source: wiiw FDI Database.

A nation's export profile reveals its underlying industrial strategy. In Hungary, the shift in specialisation from 2009 to 2024 indicates a regression in economic complexity, following Hungary's special relations with Russia and the related (and, until recently, continued) cheap crude oil imports. Analysis of Standard International Trade Classification (SITC) export categories (Figure 7) shows an increasing share of fuels, oils and chemicals in the export basket – from 12% in 2009 to 17% in 2024 – reflecting the growing role of Hungary's (Russian) hydrocarbon-dominated industry, centred around the mostly domestically owned MOL Group. By contrast, the traditionally dominant and foreign-owned automotive, machinery and

manufactures industry has lost export share over the same period. This pivot toward lower-complexity, commodity-linked exports contrasts sharply with the country's regional peers, who have moved toward technology-intensive sectors.

Figure 7 / Broad SITC export categories, in % of total



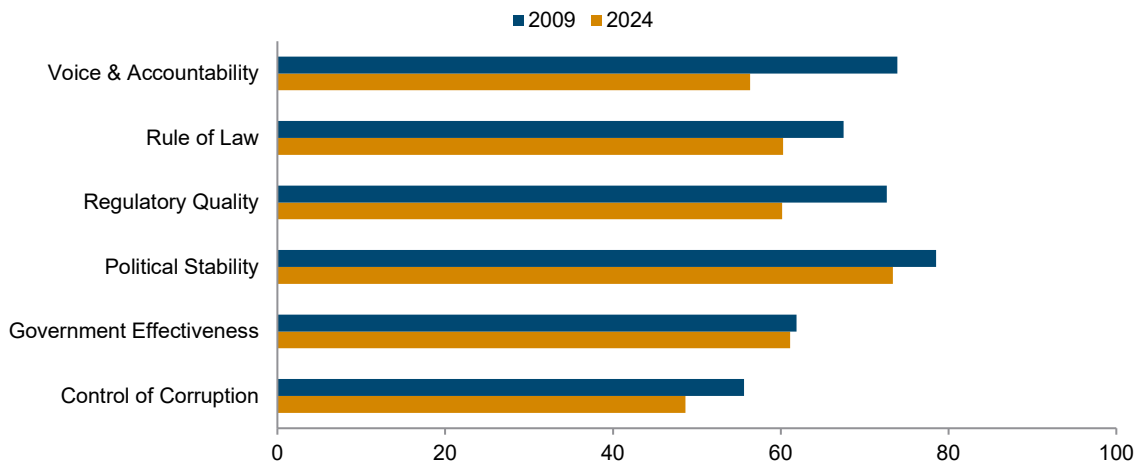
Note: Food, beverages & materials include SITC categories 0, 1, 2 and 9; Fuels, oils & chemicals 3, 4 and 5; Automotive, machinery & manufactures 6, 7 and 8.

Source: wiiw FDI Database.

GOVERNANCE AND THE INSTITUTIONAL PRICE OF DIVERGENCE

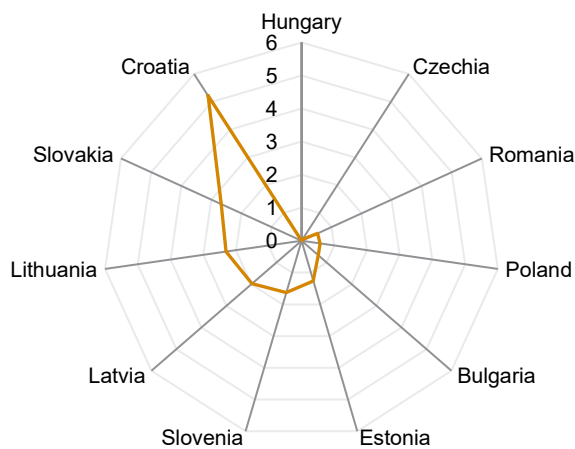
Long-term economic sustainability depends heavily on governance quality; but on that front, Hungary has seen a dramatic and documented deterioration, as it has strategically oriented itself eastward – not only in economic, but also in societal and political terms. According to the Worldwide Governance Indicators (WGI), Hungary's score on an absolute scale of 0-100 has, for example in the category 'Voice and Accountability', plummeted from approximately 74 in 2009 to about 56 in 2024 (Figure 8). The indicator for 'Control of Corruption' has even fallen below 50. This institutional erosion has a direct financial cost, most visible in the withholding of EU RRF funds, due to rule-of-law disputes. For a long time, Hungary was one of the biggest beneficiaries of EU funds, but more recently its regional peers in the EU have received net RRF transfers as a stock in 2024 of between 0.5% and 3% of GDP (Figure 9), while Hungary by and large came away empty-handed. Neighbouring Croatia has even received more than 5% of GDP in this category of EU transfers. Under different circumstances, Hungary might have expected a similar level of inflow. This disparity represents a massive 'tax' on the Hungarian economy, as the administration has deprived the country of billions in capital essential for the green and digital transitions, further entrenching the divergence from the CESEE average.

Figure 8 / WGI Governance Score, 0-100 absolute scale anchored to benchmarks



Source: Worldwide Governance Indicators.

Figure 9 / EU Recovery and Resilience Facility (RRF), net funds received, stock in 2024, in % of GDP



Source: Eurostat.

Over the period 2010-2024, Hungary has transitioned from being a regional leader to having an economy that is struggling with relative decline. The data reveal a country that is lagging in crisis management, losing its productivity lead and suffering from institutional deterioration. Continued misalignment with EU standards and the resulting loss of funding will permanently handicap Hungarian infrastructure and modernisation. Moreover, Orbán’s interventionist policies that favour Hungarian-owned companies – especially its hydrocarbon-dominated industry, domestic banking and the local construction sector – have changed the structure of the economy in a way that might not be too favourable for its future development.

The change in Gross Value Added (GVA) by activity is telling. Between 2009 and 2024, Real Estate saw a specialised growth of 2.7 percentage points of GDP and Construction grew by 1 percentage point, whereas Manufacturing declined by 1.4 percentage points and Information and Communication Technology (ICT) saw a contraction of 0.2 percentage points (Figure 10). Specialising in the property sector at the expense of technology-intensive sectors represents a significant strategic failure, as the shift toward low-innovation sectors limits productivity growth and moves Hungary away from those sectors that drive long-term competitiveness in Europe. By contrast, the average CESEE economy has moved away from Agriculture (-1.2), Construction (-1) and Real Estate (-0.6), and has instead expanded in the sectors of Health (+0.9), ICT (+0.8) and Tourism (+0.6), all of which have huge potential in an ageing, higher-income society.

Figure 10 / Change in GVA by activity between 2009 and 2024, in percentage points of GDP

	Hungary	CESEE
A Agriculture, forestry and fishing	-0.3	-1.2
B Mining and quarrying	0.1	-0.1
C Manufacturing	-1.4	-0.4
D Electricity, gas, steam, air conditioning supply	-0.8	-0.4
E Water supply, sewerage, waste manag., remediation	-0.4	-0.1
F Construction	1.0	-1.0
G Wholesale, retail trade, repair of motor vehicles etc.	0.0	0.4
H Transportation and storage	-0.2	-0.7
I Accommodation and food service activities	0.3	0.6
J Information and communication	-0.2	0.8
K Financial and insurance activities	-0.4	0.1
L Real estate activities	2.7	-0.6
M Professional, scientific and technical activities	0.6	0.5
N Administrative and support service activities	0.8	0.7
O Public administration, defence, compuls. soc. security	-1.3	0.1
P Education	0.1	-0.2
Q Human health and social work activities	0.3	0.9
R Arts, entertainment and recreation	0.4	0.2
S Other service activities	-0.6	-0.1
T Activities of househ. as employers and for own use	0.0	0.0

Note: Broad NACE Rev. 2 sectors. CESEE represents the simple average over the 23 CESEE economies.
Source: wiiw Annual Database.

THE WAY FORWARD

To regain its competitiveness, Hungary requires urgent political and economic reform, including a strategic reorientation from the East back to the West and restoration of the rule of law to unlock EU funds, as well as for its industrial strategy to pivot away from low-complexity sectors toward high-growth tech and innovation. Without such a shift, the current trajectory points toward continued relative stagnation and a prolonged decade of missed opportunities. It is indicative that Hungary has one of the lowest densities of 'unicorn' companies (i.e. privately held startups valued at USD 1bn or more) in CESEE. With only one unicorn (according to Q1 2025 Vestbee data), the share of unicorns per 1m inhabitants stands at 0.1 in Hungary. Meanwhile, the unicorn density in neighbouring Romania is double that, and in next-door Croatia is eight times higher (both are home to three unicorns).

The next Hungarian parliamentary elections on 12 April 2026 will allow the electorate to make a fundamental choice: can the current trajectory of nationalist development overcome its structural limitations, or is a pivot toward institutional reconciliation and high-complexity innovation required to avoid permanent 'midfielder' status in CESEE? The motto of Viktor Orbán's challenger Péter Magyar is: 'A Functioning Hungary'. Will this imply the end of the illiberal economy?

IMPRESSUM

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