

Distortions in the Functional Structure of the Economy (A Retrospective View of the Recent Past)

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ABSTRACT: The study seeks an explanation for the years of stagnation of the Hungarian economy, and the question of what mechanisms, consistency disorders, and behavioral patterns led to the “engine of the economy” choking. On the one hand, our economy differs from the economic policy principles and practices of the countries of the region. Government intervention is common in making many economic decisions, a high degree of centralization of resources and decision-making powers, special taxation of certain sectors without rational explanation, government favoritism of certain corporate groups, their withdrawal from the scope of market control, a high degree of lack of responsibility in the decision-making and management system, and the unaccountability of the most obvious economic crimes. On the other hand, the stagnation is due to economic governance errors, persistent laxity and lack of discipline in budget management, frequent changes to the budget within a year, chronic deficits exceeding the planned ones, and the continuous indebtedness of the state.

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Introduction

Between 2010 and 2023, Hungary received €77 billion in non-repayable European integration funds for cohesion, convergence, agricultural support, and various targeted development programs. During the same period, Hungary contributed €17 billion to the European Union.

Following the governmental change in 2010, there were intended and anticipated changes that failed to materialize. At the same time, there were

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developments that had neither been planned nor expected, yet nevertheless occurred. In the first case, expectations centered on achieving sustainable economic growth and development; strengthening and modernizing the productive capacities of small and medium-sized enterprises as well as domestically owned firms; improving productivity; enhancing human capital; and deepening the application of digitalization. Expectations were also formulated regarding keeping pace with advanced trends in international production. These plans largely failed to materialize; indeed, a clearly observable divergence and relative decline occurred instead.

In the second case, institutional conditions emerged that gave rise to unintended but nevertheless realized developments. Examples include constitution-making without broad social consultation and consensus, the prolonged use of governance by decree, the centralization and governmental dominance of economic regulation, the weakening of fiscal discipline, and the emergence of a system of government-connected enterprises operating alongside the competitive economy under separate rules.

This privileged corporate sphere has been described in various ways over recent years. It has been labeled “crony capitalism,” a system of rent-seeking oligarchs, or a network of enterprises loyal to the government. Instead, we attempt to define these firms on the basis of their fundamental motivations. Since none of these companies genuinely belong to the competitive sector, profit maximization alone is insufficient to characterize them. Given that the same owners frequently control asset-management firms, real-estate trading companies, and property development enterprises in addition to construction firms, it appears more accurate to assume that their principal objective is wealth maximization.

These distinctive firms and corporate groups possess real-estate assets, land holdings, production and service companies, may exercise holding-company functions, and often control financial capital and uninvested cash assets. The distinction between profit maximization and the pursuit of unlimited wealth accumulation is important because passive assets do not function as value-creating capital.

The dual structure that emerged after 2010—consisting of the competitive economy on the one hand and a government-connected sector on the other—was initially intended to reduce foreign ownership in banking, public utilities, and various service industries while increasing the weight of national ownership. This original objective was significantly modified by the emergence of new segments within the automotive cluster, including new automobile plants and battery manufacturing facilities. Both the establishment of these foreign-owned production facilities and the construction of the government-connected corporate network required extraordinarily large allocations of public resources and state assets.

The new development strategy was framed by the declaration of a so-called “unorthodox economic policy,” a concept whose substantive content remained

rather vague. This included attempts to accelerate growth in a strongly pro-cyclical manner despite favorable international market conditions; a rapid expansion of corporate lending that firms often struggled to absorb; unconventional monetary financing mechanisms; a rapid depreciation of the Hungarian forint; and restrictions on the incorporation of foreign resources into domestic financing. During the first years, however, no dramatic changes occurred in ownership structures or the sectoral distribution of resources.

Around 2015, a series of radical changes began. These developments were closely linked to the European migration crisis, the replacement of existing oligarchic elites, the domestic emergence of governance by decree, and an increasingly centralized system for selecting investment projects. Within a short period, selected government-connected enterprises became highly profitable companies, and the ranking of the country's wealthiest individuals was fundamentally transformed.

Companies implementing major investment projects benefited primarily from public contracts. Through procurement procedures tailored to their advantage and preferential treatment in resource allocation, they accumulated exceptionally high profits. Their wealth increased through numerous channels: direct transfers of physical assets such as land and buildings, state subsidies, preferential or interest-free loans, European Union funds, and the accumulation of internal financial reserves. These firms also became major beneficiaries of large-scale privatization of state assets. Approximately two-thirds of these transfers involved free or heavily discounted asset transfers. According to Voszka (2025), privatization following earlier nationalizations affected nearly half of state-owned assets during the past decade. Such preferential treatment placed government-connected enterprises at a substantial advantage compared with firms operating under competitive market conditions. Under such circumstances, equal conditions of operation and competition could not exist, resulting in distortions in the functional structure of the economy.

The purpose of this study is to provide a convincing and unbiased explanation for the prolonged stagnation of the Hungarian economy. We examine those specific characteristics that distinguish Hungary's economic policy principles and practices from those of other countries in the region. Our objective is to confront these distinctive features through critical analysis. We proceed from the assumption that, unlike in many other countries, a fully developed system of politically governed economic management operates in Hungary. As a consequence, government intervention frequently influences a wide range of economic decisions, including those made at the corporate level. Elsewhere, such extensive centralization of resources and decision-making authority is uncommon. Likewise, few countries combine standard taxation with sector-specific special taxes imposed selectively on certain industries. These levies represent a discretionary extraction of resources that often lacks a clear economic rationale. Similarly, other economies do not maintain systems of governmental favoritism that remove entire groups of firms from effective

market control and subject them to forms of preferential treatment lacking both rational justification and fairness.

One particularly striking feature of Hungary’s decision-making and governance system is the limited degree of accountability, especially concerning the consequences of policy errors. Closely related to this is the absence of meaningful repercussions for decision-makers, extending even to cases involving severe economic misconduct.

Against this background, we seek to identify the mechanisms, inconsistencies, and behavioral patterns that have contributed to what may be described as the “stalling of the economic engine.” We hypothesize that it is essential to uncover the country-specific drivers of this process in order to demonstrate that the primary causes of stagnation lie in mistakes in economic governance. Among these, the most significant is the persistent laxity of fiscal management—the well-known phenomenon of fiscal irresponsibility. Few countries exhibit such levels of budgetary indiscipline, manifested in frequent within-year revisions of the budget and chronic deficits exceeding planned levels. Closely connected to this problem is the continuous accumulation of public debt. In many countries, borrowing is not employed as readily as it is in Hungary. When resource shortages arise due to inefficiency or waste, debt financing is often viewed as the natural solution, while expenditure rationalization, fiscal restraint, and reductions in spending rarely become serious policy options. Understanding these distinctive characteristics may help explain both the origins of stagnation and the conditions necessary for overcoming it.

Table 1. Economic Growth Rates in Selected Countries of the Region, 2022–2025 (%)

Country	2022	2023	2024	2025	Cumulative Change
Bulgaria	4.0	1.9	2.8	2.7	11.4
Austria	5.3	-1.0	-1.0	0.3	3.6
Czech Republic	2.8	-0.1	1.1	2.1	5.9
Euro Area	3.5	0.4	0.9	1.1	5.9
Croatia	7.3	3.3	3.9	2.8	17.3
Poland	5.3	0.2	2.9	3.1	11.5
Hungary	4.3	-0.9	0.5	0.4	4.3
Romania	4.0	2.4	0.8	1.4	8.6
Slovakia	0.4	2.2	2.1	0.2	4.9
Ukraine	-28.8	5.3	2.9	2.0	-18.6

Source: Eurostat; Kopint-Tárki (reported in *Népszava*, October 25, 2025).

The data indicate that following the outbreak of the war, Hungary recorded the second-lowest cumulative economic growth rate among the countries of the region. Explanations frequently offered for the slowdown of Hungarian growth include the effects of the war, the country's exposure to difficulties in key export markets—particularly Germany—and Hungary's specific vulnerabilities arising from its dependence on imported raw materials and energy resources.

Alternatives in Economic Governance: Political versus Professional Approaches

Among the causes of economic distortions, the dominant role of political governance and the pervasive politicization of economic activity occupy a central position. Political governance influences every aspect of economic management—from the selection of development priorities to decisions concerning the implementation of productive projects, from determining favored sectors to choosing the instruments of policy intervention. The chosen model of governance has been accompanied by an excessive concentration of decision-making authority, the marginalization of market mechanisms, and the near-complete exclusion of competition.

The determination of future directions for economic development would have required careful impact assessments regarding the availability of production factors, impartial evaluations of market prospects, and the rigorous application of environmental considerations. Because many projects were selected and approved within an exceptionally short period, such assessments were frequently omitted. Numerous projects were exempted from prior impact analyses and mandatory cost-effectiveness evaluations after being declared investments of exceptional national economic importance. Rather than strengthening compliance with expected standards and criteria, this practice weakened them.

The central contradiction of politically governed economic management is that, while it may effectively transmit political intentions, it is incapable of creating a coherent framework capable of supporting an internally consistent economic strategy. Under such circumstances, voluntarism in development decisions becomes difficult to avoid. When objectives such as creating a “national capitalist class” or becoming “the world's third-largest producer of batteries” are proclaimed, development priorities emerge whose underlying conditions and economic justification are often questionable.

Within a system of political economic governance, competing interests, arguments, conditions, and criteria cannot be adequately reconciled. As a result, the internal consistency of economic-development objectives and instruments tends to break down. Over the course of a decade, so many projects were launched—or planned—that the economy could not absorb them efficiently even over a considerably longer period.

At the beginning of this century, the Hungarian economy reached a crossroads. It should have definitively abandoned the idea of extensive development and shifted toward a model based on productivity, innovation, and efficiency. Instead, throughout the second decade of the century—and continuing into the third—the deeply rooted concept of extensive development remained dominant. This approach was accompanied by what were regarded as its natural complements: the supremacy of mega-projects, the creation of government-sponsored capitalist power groups, the concentrated allocation and redistribution of resources, and the generous governmental support of selected large enterprises.

Why does this policy generate distortions within the economic structure? The concentration of resources could only be achieved by directing bank loans, European Union funds, and revenues from special taxes toward little more than one hundred favored enterprises. Rather than pursuing an extensive-development strategy, policy should have focused on enhancing the export capacity of thousands of small and medium-sized enterprises. Such a transformation could have been accomplished through an intensive development strategy emphasizing modernization, technological upgrading, managerial competence, digitalization, and productivity growth. However, meaningful progress in these areas remained extremely limited.

For medium-sized enterprises and domestically owned large firms, this would have required access to modernization investments, reconstruction projects, advanced managerial knowledge, digital technologies, and relief from excessive taxation and administrative burdens. For small businesses, the reduction of regulatory burdens and the improvement of market access would have been particularly important.

The fifteen years of politically driven economic governance have largely been a period of unrealized expectations. Favorable international market conditions, unprecedented volumes of non-repayable European Union funding, and substantial foreign borrowing could have facilitated economic convergence with more advanced economies. Today it is increasingly evident that, despite its perceived advantages, political governance—through the avoidance of debate and consultation, the uninterrupted implementation of centralized political will, and the concentration of resource allocation—did not strengthen the resilience of the economy. Instead, it rendered the economic structure more fragile and vulnerable in numerous respects and ultimately contributed to prolonged stagnation.

Wealth Accumulation or Value Creation?

Following 2010, a model of politically governed economic management became established in Hungary. An integral component of this system was political favoritism, which played a decisive role in the allocation of resources.

Government-connected enterprises could participate in public procurement tenders as sole bidders, enjoy preferential treatment in competitive tenders, acquire companies under advantageous conditions, receive direct financial support through non-transparent procedures, and obtain assistance through government decrees.

Although some of these firms existed before 2010, they were not major economic actors. By 2020, however, a small group of government-connected companies accounted for approximately one-quarter of the total value of public procurement contracts awarded in Hungary. The largest owners controlled hundreds of companies, either directly or through partial ownership. The resulting corporate empires emerged as highly diversified and eclectic conglomerates assembled through a largely ad hoc process.

The non-market character of this corporate sphere manifests itself in several ways. A substantial proportion of profits generated within these companies is consistently withdrawn as dividends and used to finance luxury lifestyles, private transportation assets, and prestigious investments requiring enormous expenditures. While this phenomenon raises serious moral questions, it also creates an economic problem: these extraordinary incomes do not become productive capital that modernizes production or stimulates productivity growth. Instead, they are largely absorbed by conspicuous consumption.

An important observation is that the government's strategy of promoting large-scale industrial expansion and concentrating construction activity in the hands of a limited number of firms emerged simultaneously. Large infrastructure developments, international railway projects, and the extensive battery-manufacturing program all exemplify this approach. The monopolistic firms responsible for implementing these projects frequently submitted cost proposals that were difficult to verify or compare because of their unique positions. In many cases, effective upper limits on project costs were absent.

The most rapid growth of large private fortunes occurred during the past five years, precisely when the Hungarian economy was largely stagnating. This phenomenon cannot reasonably be explained by the "snowball model" of market-based wealth accumulation, because the profits generated through political favoritism were not reinvested in ways that would stimulate productive development.

The rapid accumulation of wealth among government-connected companies and their owners raises several important questions. If it is well known that these firms primarily perform government contracts and derive most of their revenues from public sources, it follows that they do not operate primarily within competitive markets. Their revenues are therefore not necessarily payments received in exchange for superior market performance; rather, they resemble a particular form of economic rent. When specific companies repeatedly win tenders in a given construction segment—or receive contracts as sole bidders—their remuneration effectively assumes the character of rent generated through the elimination of competition.

Examining the profile of government-connected enterprises further reinforces this interpretation. The group includes government-favored and recapitalized banks, numerous construction firms, wealth-management and real-estate development companies, monopolistic distributors of excise products, and various investment funds. These organizations obtain financial resources through government contracts, transfers of public assets, and direct resource allocations.

A key element of this system is the overpricing of investment projects. Such overpricing follows naturally from artificially created monopolies, abuses within public procurement procedures, and the widespread acceptance of cost estimates that face little or no effective challenge. Throughout the period under examination, uncontrolled overpricing of investment contracts implicitly served as a mechanism for subsidizing favored government-connected corporate networks. It is readily observable that these firms and their owners generated enormous profits within a short period through revenues derived from overpriced projects. As a result, a substantial divergence emerged between the profit dynamics of favored enterprises and those operating under competitive market conditions.

Moreover, this distortion becomes even more striking when one considers that many construction firms achieved these extraordinary profits while undertaking relatively limited capital investment and assuming comparatively little risk. As previously noted, the replacement of earlier market leaders and the rise of new dominant firms in the construction sector occurred gradually after 2015 and became fully established by the mid-2020s.

The real-estate trading and development companies established within the government-connected corporate sphere played a significant role during the past decade in generating housing, office-building, and broader real-estate price bubbles. Approximately one-third of the asset-management companies operating in the economy were established by government-connected enterprises. Privatized properties that were transferred to these firms as free or heavily discounted state assets frequently became the object of transactions among members of the same privileged business circle.

Because these favored enterprises received both liquid public resources and preferential loans, the purchase and sale of such physical assets encountered few financial constraints. Yet these transactions contributed little to the creation of new value. Their primary significance lay instead in the rapid accumulation of private wealth. The problem is that the liquid resources tied up in these transactions could have generated substantially greater macroeconomic benefits if they had been allocated within the competitive economy. Export-oriented production capacities, modernization investments, and productivity-enhancing projects possess clear social value, whereas wealth accumulation pursued as an end in itself does not.

It is important to emphasize that the rapid growth of these large fortunes has not occurred through market competition. At no stage of the accumulation

process have the owners and operators of favored enterprises borne meaningful economic risk. Within Hungary's system of politically governed economic management, the state and selected firms operate in a peculiar symbiosis. Together, they transfer the consequences of poor decisions and policy mistakes into the future. One serious consequence of this arrangement is the country's persistent indebtedness. In critical terms, the state-corporate symbiosis eliminates risk for favored enterprises while shifting the social costs of policy errors—including foregone economic opportunities—onto society at large through environmental degradation, threats to public health, and disproportionate burdens placed upon future generations.

Public Procurement, Foundations, and Monopolized Services

Economic activity directed through political mechanisms has been severely distorted by the elimination of many elements of competition. The consequences include widespread overpricing—not only in investment projects—alongside obstacles to quality improvement, the suppression of competition-driven cost reduction, and the generation of extraordinary profits unsupported by actual performance.

One important area where these distortions became evident was public procurement. International professional journals recently published analyses based on hundreds of thousands of Hungarian procurement cases. According to these studies, between 2010 and 2022, 14 percent of the total value of procurement contracts was awarded to forty-two companies owned by thirteen interconnected individuals. These owners belonged to a group of oligarchs receiving exceptional governmental preference. The concentration of procurement awards is reflected by the fact that contracts worth €28 billion were allocated through a process that benefited only approximately one percent of all procurement cases.

Between 2010 and 2023, companies supported by political connections won 45 percent of all procurement contracts without facing competitors. Between 2024 and 2025, this proportion increased to 69 percent. Under such circumstances, pricing constraints effectively disappeared, resulting in substantially higher project costs and potentially contributing to inflationary pressures. By eliminating competition, the procurement system weakened the overall performance of the economy, hindered productive development, and removed one of the most important driving forces of economic efficiency.

Another severe form of distortion emerged through the proliferation of state-supported foundations. These foundations operate under arrangements in which corporate ownership stakes are donated to selected institutions. The recipient organizations thereby gain entitlement to a proportional share of future profits generated by the companies concerned. Similar benefits arise when corporations transfer a portion of their profits directly to foundations

and affiliated beneficiaries. Such mechanisms became important sources of funding for foundation-operated universities, selected educational institutions, and elite sports clubs.

The methods through which these foundations obtain resources raise serious concerns. The transfer of corporate ownership shares to foundations enables them to receive profit-related income without normal corporate taxation, thereby reducing state budget revenues. Similar concerns apply to the financing of sports organizations and other activities that would ordinarily be subject to taxation. The problem is not merely that these revenue streams are difficult to predict because they depend on uncertain future profits. More fundamentally, this process represents a form of privatization in which the ultimate use of resources becomes difficult to monitor and potentially susceptible to abuse.

The financing arrangements described above circumvent transparent and norm-based public funding mechanisms. On a national scale, the sums involved may amount to several thousand billion forints annually. A significant share of these resources would otherwise have flowed into the state budget. Their diversion therefore reduces the resources available for public services and public responsibilities. Financing through foundations in this manner constitutes a distortion of normal economic functioning.

A third example concerns the creation of artificial monopolies. In numerous sectors and subsectors operating under political influence, a single dominant actor secured the overwhelming majority of contracts. In construction, sector-specific monopolies were established. As a result, profit margins increased dramatically: whereas a five-percent profit margin had previously been considered normal, profit rates of fifteen to twenty percent became common in recent years. This represented a threefold or fourfold increase in profitability. The pricing behavior of artificial monopolies contributed to rising costs and inflationary pressures across multiple sectors.

In large infrastructure projects, overpricing became widespread and later extended to highway concession management. Long-term concession contracts guaranteed selected oligarchs risk-free revenue streams extending over several decades, without corresponding responsibility or exposure to market uncertainty.

Artificial monopolies were also created in security, maintenance, and facility-management services. In these sectors, single firms frequently dominated particular market segments. Companies that had generated annual revenues of only 2–5 billion forints at the beginning of the previous decade saw their revenues increase to 15–20 billion forints in recent years. Security-service providers recorded average annual revenues exceeding 3 billion forints and after-tax profits approaching half a billion forints. These activities were regulated through broad framework agreements, enabling a small number of firms to realize profit margins of approximately ten percent on cumulative revenues amounting to hundreds of billions of forints over a decade. The exclusion of competition significantly increased the cost of these services.

Such enterprises enjoyed secure revenues and risk-free excess profits, effectively receiving hidden subsidies through their privileged market positions. Similar examples include the monopoly over government-related billboard advertising and the operation of casino concessions. Although gambling activities are legally defined as a state monopoly, they have in practice been outsourced to private operators who have achieved extraordinarily high profitability.

The Role of Ownership and Risk in Government-Connected Companies

When examining distortions in the economic structure, an important question arises: can ownership rights and responsibilities be clearly identified in cases where assets are transferred through preferential privatization, discounted sales, or direct state allocations to favored enterprises? Or are the principal actors in fact financial and economic entities whose status remains ambiguous and difficult to define? What can be established with certainty is that assets and financial resources are allocated to favored enterprises through governmental decisions reflecting political preferences.

A further question concerns the extraordinary fortunes accumulated within a relatively short period by certain individuals. Can ownership rights and managerial authority over these assets be precisely identified? Internationally, the concepts of fiduciary capital management and stewardship are governed by clearly defined criteria and responsibilities. The practice that evolved in Hungary, however, differs substantially from these standards. During the past decade and a half, a peculiar symbiosis between public and private ownership emerged with respect to the same assets. According to Voszka (2025), this hybrid arrangement may appropriately be described as a form of political ownership.

Assets formally classified as state property are transferred by the government acting as an impersonal authority through discretionary decisions. It is evident that the enormous fortunes that appeared during this period did not emerge through the mechanisms traditionally described by economic theory. They did not arise through gradual, market-driven accumulation—the so-called “snowball” process of organic development. Instead, governmental allocation favored a relatively small group of beneficiaries. Access to assets occurred outside normal market mechanisms and often without equivalent compensation or reciprocal obligations.

This raises a fundamental issue: does the recipient become a full and unconditional owner of the transferred asset? If ownership rights are not permanent and irrevocable, then the legal and economic substance of ownership becomes weakened. In such circumstances, property relations remain uncertain and potentially unstable.

The clarity—or ambiguity—of ownership rights is important for many reasons, but among these the issue of risk-bearing occupies a central position. According to economic theory, higher returns and greater wealth generally require the assumption of greater risk. From this perspective, a legitimate question arises: who actually assumed the additional risks that made possible the enormous fortunes accumulated by oligarchic groups within only a few years?

Within a framework that restricts or even eliminates market mechanisms and simultaneously relativizes ownership rights, risk becomes difficult to identify and assign. Profits earned in competitive markets normally reflect some degree of risk-taking. However, when foundations controlling substantial assets engage in capital-market investments using public or central-bank resources, it becomes necessary to ask under what authority such funds are invested in highly risky financial ventures. Should those investments fail or generate inadequate returns, the losses ultimately become socialized and borne by society as a whole.

Similarly, no convincing economic rationale exists for government-connected financial institutions providing thousands of billions of forints in financing to private-equity funds whose ownership structures remain opaque. In the event of unsuccessful investments, society inevitably becomes the ultimate bearer of the risk.

Additional examples further illustrate the problem. When previously privatized companies are repurchased at extremely high prices, often for reasons of prestige rather than economic necessity, the state frequently assumes substantial risks. Likewise, when public funds are used to purchase office buildings from private investors at inflated prices, particularly when such properties possess limited marketability, the resulting risks are borne collectively by society. Similar concerns arise when chronically loss-making enterprises continue to receive repeated infusions of public funds while new functions are concentrated within them in hopes of obtaining European Union subsidies. Such arrangements often create a need for continual future financial support.

These examples suggest that enterprises operating under conditions of political dependence cannot genuinely be regarded as independent risk-bearers. Where ownership rights are ambiguous, meaningful entrepreneurial risk-taking largely disappears. Instead, risk is dispersed throughout society in a compulsory and largely invisible manner. The relativization of ownership rights therefore constitutes one of the principal sources of distortion in both economic structures and economic incentives. Clearly defined ownership and unambiguous responsibility for risk are essential prerequisites for a distortion-free and sustainable economic system.

Consequences of the Slowdown in Capital Turnover

The political governance of the economy naturally favors large-scale investment projects. Within such a system, the state assumes a dominant role. Government intervention extends from the selection of investment objectives and the provision of subsidies to direct participation in investment activity and the preferential treatment of selected enterprises. Under these circumstances, investment decisions that would normally be made at the firm level are transformed into decisions shaped by political considerations. Market signals become less visible, information concerning customers and competitors becomes less relevant, and firms become increasingly detached from the broader economic environment. One particularly significant manifestation of this tendency is the emergence of the government itself as an investor.

A common practice in Hungary has been the generous subsidization of subsidiaries established by multinational corporations. During the expansion of the automotive manufacturing cluster over the past decade and a half, the government provided support amounting to hundreds of billions—and eventually more than a trillion—forints to foreign-owned companies. Through such support, the state effectively became a co-founder of these enterprises. Yet post-investment evaluations rarely examine whether the investments would have occurred even without public subsidies. In many cases, state support may simply have increased corporate profitability rather than influencing investment decisions.

Another manifestation of governmental investor behavior is the allocation of public resources to high-risk financial ventures. Examples include the central bank's investment of hundreds of billions of forints in risky foreign securities and the government's allocation of nearly two trillion forints to private investment funds with undisclosed ownership structures. In both cases, public resources were committed to speculative financial products carrying significant risks.

The wealth-maximizing orientation that has characterized government-connected business groups has resulted in the rapid accumulation of substantial fortunes. A highly undesirable situation has emerged in which a fiscally constrained state budget coexists with extraordinarily wealthy oligarchic groups. The owners of government-connected enterprises control extensive portfolios consisting of retained profits, European Union development funds, preferential loans, real-estate assets, and other forms of wealth transferred through governmental decisions.

These portfolios are actively traded within a relatively closed network through asset-management companies, real-estate firms, and development enterprises. Although government-connected firms generally generate lower turnover than companies operating in competitive markets, they often realize significantly higher profits on a per-transaction basis. Assets acquired through political connections rather than market competition are frequently exchanged

through complex ownership structures, sometimes involving intermediary entities whose economic functions remain unclear.

As a consequence of this wealth-maximization strategy, substantial amounts of capital remain outside the normal circulation of economic resources. Large sums are held in investment accounts, shares, bonds, deposits, and other financial instruments. These resources do not become effective market demand, do not finance increases in productive capacity, and therefore do not contribute directly to the reproduction and expansion of economic activity. The result is a slowdown in the circulation of capital throughout the economy, negatively affecting overall economic performance.

Since many of the rapidly accumulated private fortunes are not supported by demonstrable success in competitive markets, confidence among non-favored economic actors tends to erode. Businesses outside the privileged sphere become less willing to invest and less committed to long-term expansion. This weakens competitiveness and reduces productivity growth. During the past fifteen years, the government has concentrated enormous resources through conventional taxation, European Union transfers, special taxes, foreign borrowing, and inflows of foreign direct investment. Yet these resources have been allocated to a very narrow segment of enterprises, resulting in returns significantly below what might otherwise have been achieved.

When broad segments of potentially dynamic firms are systematically excluded from access to development resources, national economic performance remains persistently below its attainable level. The underutilization of resources represents one of the gravest consequences of politically governed economic management. Lost opportunities can never be fully recovered and may permanently weaken future growth prospects. Economic and political voluntarism can therefore inflict long-term damage—a danger that Hungary has not succeeded in avoiding during the past decade and a half.

Why Do We Consider Generous Support for Government-Connected Companies a Distortion?

Statistical evidence indicates that only the earliest elements of the government-connected corporate network existed during the first electoral cycle after 2010. The network expanded significantly after 2015 and gained additional momentum during the COVID-19 pandemic. These companies did not follow the traditional path of capital accumulation. Their resources, assets, and financial positions were strengthened through continuous governmental support under the declared objective of creating a national capitalist class. Through this process, a corporate network emerged that today, measured by corporate value, encompasses roughly one-third of the national economy.

This development raises an important question: how should the efficiency, competitiveness, and developmental performance of this selected corporate

sphere be evaluated in relation to broader economic objectives? Enterprises, financial institutions, and investment organizations that are shielded from competitive pressures enjoy advantages that persist as long as political protection remains in place. Such support may take the form of public contracts, direct financial transfers, capital injections, or preferential transfers of real-estate assets.

After 2015, considerable governmental effort was directed toward providing state-funded investment projects and financial reinforcement to a group of firms expected to implement ambitious development programs. As a consequence of centralized decision-making, investment decisions that would ordinarily have been made at the corporate level increasingly became matters of governmental authority. Numerous resource-intensive mega-projects were approved, many requiring long implementation periods and involving uncertain rates of return. Examples included nuclear-power expansion, large-scale railway construction, new automobile factories, battery-manufacturing projects, bridge construction, and motorway development.

To implement these initiatives, an integrated corporate empire emerged whose core consisted of a dozen construction companies owned wholly or partially by the most prominent figures within the government-connected business network. The network also included two major commercial banks linked through cross-ownership structures, complemented by three state-owned financial institutions. Together these organizations provided effectively unlimited access to credit for favored enterprises.

Given the extensive transfers of real estate and other assets to selected firms, the network also came to include numerous enterprises specializing in property development, property management, real-estate trading, and asset administration. The substantial profitability of these financial and service institutions generated additional resources for investment activities. Beyond construction and finance, the network expanded into gambling, advertising, media, publishing, tobacco distribution, and public utility services.

Because substantial corporate and financial wealth became concentrated in the hands of a relatively small number of actors, wealth concentration emerged as one of the defining characteristics of the system. The central problem, however, is that these fortunes did not arise under conditions of competitive pressure or efficiency requirements. Consequently, the resources accumulated through this process are unlikely to finance modernization, innovation, or productivity-enhancing development. Instead, they are more likely to support conspicuous consumption and passive wealth preservation.

During the past decade and a half, the allocation of resources increasingly resembled the investment structure of the centrally planned era, characterized by an emphasis on large-scale projects. Despite growing evidence of the vulnerability associated with dependence on the automotive manufacturing cluster, policy continued to promote its expansion while simultaneously launching an ambitious battery-production program. Massive investments were also directed toward

sports facilities, prestige projects, infrastructure developments, and office-building construction. These activities were financed through a combination of preferential loans, European Union funds, and public-budget resources.

Housing-support programs generated additional distortions. Repeated initiatives involving subsidized mortgages and financial incentives stimulated housing demand but did not produce a corresponding increase in housing construction. As a result, housing and property prices rose significantly, contributing to speculative bubbles rather than solving structural housing shortages. While enormous resources were devoted to moving existing housing stock between owners, investment in new construction and energy-efficiency renovation remained well below desirable levels.

The authors compared the profitability, value-added generation, revenue performance, dividend distribution, and export capacity of government-connected enterprises with those of selected manufacturing companies. The results indicate that favored firms approach or exceed manufacturing companies primarily in terms of profitability. In most other respects, their performance falls short of firms operating in internationally competitive sectors.

The claim that extensive support for government-connected enterprises constitutes a distortion rests on several considerations. Resources devoted to firms operating outside normal competitive conditions are unavailable to other businesses, including competitive small and medium-sized enterprises seeking modernization, technological upgrading, and greater resilience. This asymmetry has been reinforced by the fact that large portions of governmental development support were simultaneously directed toward subsidiaries of multinational corporations—firms that were already well-capitalized and often did not require such assistance. Over the course of fifteen years, these transfers amounted to several trillion forints.

Consequently, many potentially dynamic domestic firms remained without access to supplementary resources. When development funds are concentrated among politically favored enterprises or financially strong multinational subsidiaries while thousands of potentially competitive domestic firms remain excluded, the resulting allocation pattern inevitably produces distortions in both the sectoral and functional structure of the economy.

If governmental resources are concentrated among only one or two hundred enterprises, the developmental potential of thousands of excluded firms remains unrealized. This represents one of the most significant opportunity costs associated with the prevailing model of economic governance.

Private Equity Funds – The Mysterious Terrain of Hungary’s Investment World

Private equity funds exist throughout the world and are generally regarded as alternatives to investment banks, where financial resources can be placed and

later withdrawn for new investments. It is reasonable to view these financial structures as institutions performing shadow banking functions. Offshore-based financial transfers directed toward tax havens are typically aimed at benefiting from very low taxation or avoiding taxes altogether. In Hungary, private equity funds make it possible to conceal the identity of ultimate beneficial owners, a practice currently permitted by law. According to European Union regulations, this situation is expected to change soon, making transparency unavoidable through the disclosure of the ownership structure of such investment vehicles.

In many cases, the origin of invested funds is not precisely known. There are well-founded assumptions that substantial amounts of European Union subsidies have found their way into private equity funds. Due to the lack of publicly available information, it is impossible to obtain a reliable picture of the scale of investment and lending transactions conducted by these actors with other institutions in the financial services sector, including commercial and development banks, open- and closed-end investment funds, and productive and service enterprises. Nor can it be accurately determined whether the owners and managers of private equity funds engage in transactions with the capital management and real estate development subsidiaries of companies within the government-affiliated corporate network. Clarifying these issues would make it possible to understand the relationships between the government, the government-connected corporate network, and private equity funds, relationships that remain highly significant yet largely mysterious.

Private equity funds emerged as an investment vehicle in Hungary during the mid-2010s. Between 2016 and 2020, their number rose to around fifty. Subsequently, explosive growth occurred, and the number of funds exceeded 220. A peculiar situation has emerged in this investment sector because the central bank and financial supervisory authority oversee only part of these funds, whose combined net asset value amounts to approximately HUF 2,580 billion. This sum is concentrated in 85 funds, meaning that only about one-third of all funds operate under direct central bank supervision. Indirect evidence suggests that, by value, more than half of private equity fund assets are controlled by oligarchs favored by the government and by senior managers and officials of partially state-owned large corporations (based on data reported by the Hungarian National Bank).

According to widespread public opinion, these private equity funds are often used to invest profits generated from overpriced public procurement projects, extraordinary gains from concession agreements, and exceptionally high profits earned by private contractors implementing large state-financed infrastructure projects. It may be assumed that very large sums are held in funds not supervised by the central bank, the origins of which cannot be precisely identified. If estimates suggesting that as much as HUF 10 trillion has accumulated over the past decade in venture capital funds, private equity funds, and real estate funds are credible, then serious efforts should be made to identify the sources of these assets.

One possible point of reference is the extent to which state-owned financial institutions participate in financing private equity funds. Development banks responsible for financing state investments, the export-import bank supporting foreign trade, and government-affiliated commercial banks have invested approximately HUF 1,700 billion in private equity funds over the past three years. State-owned or partly state-owned financial institutions have thus placed public funds into privately owned investment vehicles, raising serious concerns. Since financial regulators do not possess a clear picture of the structure of these funds, enormous sums circulate within an opaque framework with virtually no transparency. Investing public money in private equity funds is inherently risky, a risk further compounded by the fact that the ultimate beneficiaries remain unknown. This raises concerns regarding the complete neglect of prudential principles.

Another presumed source of funding is the direct and indirect government support provided to selected entrepreneurs and business owners. Within the system of politically managed economic governance established after 2010, individualized government grants awarded through non-public decrees became a chronic feature. Through such mechanisms, state resources amounting to trillions of forints have been transferred to favored individuals and businesses over the past decade. A frequently raised question is whether these government-provided “economic development subsidies” should in fact be regarded as investments. This question could be answered if the actual utilization of investments flowing into private equity funds were known. Various indications suggest that the wealthiest oligarchs and large entrepreneurs have used these resources primarily for corporate acquisitions and stock purchases. This has enabled the largest oligarchs to become sole or partial owners of hundreds of companies.

In addition to acquiring stakes in productive enterprises, private equity fund resources have been used to purchase shares in privately owned commercial banks. Several wealthy oligarchs have become major shareholders in two such financial institutions. If these banks extend loans to government-connected companies, then project failures or disruptions in the continuity of government contracts may necessitate additional state assistance at the expense of public funds. Cross-ownership between financial institutions and productive enterprises, together with opaque cross-lending arrangements, may also create serious banking risks.

Privately managed investment resources have also been widely used to purchase commercial real estate, hotels, and castles, many of which could not be directly employed in value-creating or profit-generating activities. In some transactions, the absence of even the minimum required equity contribution effectively exempted new owners from any meaningful risk-taking. This practice reinforced the perception that the acquisition of inactive and non-income-generating assets has become a primary motive for participants in this separately managed sector, prioritizing wealth accumulation over value creation.

The clearly identifiable circle of private equity fund investors, the consolidation of banking institutions, the ownership structures of selected enterprises, the cross-linkages among actors, and the substantial role of government resources all suggest that gaining economic and political control over roughly one-third of the economy was a fundamental objective behind the construction of this network.

According to one estimate, between 2010 and 2022, a dozen emblematic oligarchs received approximately €12 billion in European Union funding for their investments. These funds appear to have played a decisive role both in financing large government-connected business empires and in the accumulation of oligarchic wealth estimated at between HUF 3,500 and 4,000 billion.

The developments described above indicate that neither government resource transfers nor the inflow of European Union funds primarily served the modernization of productive enterprises, innovation, or the enhancement of competitiveness. Instead, they facilitated the accumulation of non-productive assets. In a healthy economy, consumption and investment stimulate growth and sustain economic dynamism. Hungary's prolonged stagnation and lack of economic momentum can be directly linked to the distortions in capital allocation and investment accumulation outlined above.

The Paradox of Middle-Level Development

Critical analysts of Hungarian economic policy often argue that the country must break out of the so-called middle-income trap. This could be achieved if domestically produced goods and services occupied higher value-added positions within international production and service value chains. One of the key questions today is whether effective steps have been taken over the past one and a half to two decades to escape this trap, or whether, on the contrary, the economy has become even more deeply entrenched within it.

The greatest dilemma—and at the same time the central paradox—of Hungary's production and development strategy is that its export-oriented products remain concentrated in the low- and medium-value-added segments of international markets. The automotive industry provides perhaps the best example of this phenomenon. By the early 2020s, the country's automotive cluster had reached maturity, accompanied by the rapid and strongly promoted expansion of battery manufacturing capacity. The products of major automobile manufacturers, the output of automotive parts suppliers, and battery industry products all belong primarily to the low- and medium-value-added segments of global production chains.

The paradox lies in the fact that, despite these characteristics, these products constitute the backbone of Hungary's export sector and account for a substantial share of foreign-market sales. The ratio between imported value

and domestically generated value added has changed only marginally over the past three decades, remaining close to its initial level.

This phenomenon is obviously linked to the fact that foreign direct investment entering Hungary primarily reflects the interests of companies based in the investing countries, while domestic initiatives remain relatively limited. In most cases, the expected spillover effects—such as the diffusion of advanced managerial knowledge and modern production practices—have failed to materialize on a significant scale. By providing generous subsidies to incoming multinational corporations, the government effectively places domestic enterprises at a disadvantage, thereby hindering the development of their competitiveness.

Government-connected companies present a distinctive picture when evaluated according to their capacity to generate value added. Most of their output falls within the medium-value-added segment, largely because, particularly in service-oriented enterprises within this group, the share of purchased inputs is relatively low. By its very nature, value added depends on wage levels, while profits are also included in newly created value.

Taken together, however, firms belonging to this uniquely positioned corporate circle generally do not produce for foreign markets and generate output that, from the producer's perspective, involves relatively little risk. There is one indicator in which they clearly excel: profitability. Yet this profitability may be regarded as an artificial construct. The rapid expansion of this corporate segment became particularly pronounced following the policy shift of 2015.

The resulting imbalance between these companies and firms operating under normal market competition can clearly be viewed as a distortion. Under such circumstances, very large differences in profits may emerge between enterprises, not because of differences in performance, productivity, or competitiveness, but rather because of their fundamentally different operating environments and sources of advantage.

Comparative Analysis of the Relationship Between Corporate Revenue, Value Added, and Profitability

As a starting point, it can be observed that among Hungary's largest companies by revenue, the dominant role is played by the subsidiaries of multinational corporations operating in the country. The persistent middle-level development of the Hungarian economy is reflected in the fact that the majority of the 21 companies listed below belong to the automotive manufacturing cluster.

Table 2. The Largest Companies by Revenue in Hungary, 2024 (HUF billion)

Rank	Sector	Revenue
1	Automobile Manufacturing	3,531
2	Battery Manufacturing	1,815
3	Electronics	1,040
4	Telecommunications	967
5	Automobile Manufacturing	921
6	Chemical Industry	891
7	Pharmaceutical Industry	858
8	Electronics	836
9	Automotive Components Manufacturing	762
10	Automotive Components Manufacturing	754
11	Telecommunications	687
12	Automotive Components Manufacturing	639
13	Automotive Components Manufacturing	540
14	Automotive Components Manufacturing	419
15	Machinery Manufacturing	407
16	Battery Manufacturing	388
17	Electronics	371
18	Tire Manufacturing	353
19	Machinery Manufacturing	336
20	Tire Manufacturing	334
21	Automotive Components Manufacturing	325

Source: Corporate Financial Statements; HVG, June 2025.

The sectoral and subsectoral categories refer to specific operating companies, while the figures are derived from the financial statements of the respective firms.

In addition to automotive-related enterprises, the ranking includes representatives from telecommunications and electronics, as well as individual firms from the pharmaceutical and information technology sectors.

The following dataset presents the foreign sales revenues of the largest exporting companies operating in Hungary.

Table 3. Companies with the Highest Foreign Sales Revenue in Hungary, 2024 (HUF billion)

Rank	Sector	Foreign Revenue	Rank	Sector	Foreign Revenue
1	Automobile Manufacturing	3,514	18	Electronics	324
2	Battery Manufacturing	1,809	19	Tire Industry	317
3	Automobile Manufacturing	1,705	20	Automotive Components Manufacturing	309
4	Electronics	1,308	21	Battery Manufacturing	288
5	Automobile Manufacturing	797	22	Electronics	271
6	Pharmaceutical Industry	795	23	Food Industry	262
7	Chemical Industry	779	24	Automotive Components Manufacturing	253
8	Automotive Components Manufacturing	761	25	Automotive Components Manufacturing	247
9	Automotive Components Manufacturing	739	26	Plastics Industry	244
10	Automotive Components Manufacturing	557	27	Automotive Components Manufacturing	235
11	Electronics	526	28	Automotive Components Manufacturing	226
12	Automotive Components Manufacturing	513	29	Pharmaceutical Industry	217
13	Machinery Manufacturing	406	30	Electronics	219
14	Automotive Components Manufacturing	383	31	Machinery Manufacturing	210
15	Battery Manufacturing	376	32	Automotive Components Manufacturing	196
16	Tire Industry	341	33	Chemical Industry	193
17	Automotive Components Manufacturing	325	34	Metal Processing	189
			35	Automotive Components Manufacturing	174

Source: HVG, 7 August 2025.

This indicator reflects corporate export capability. Within this group as well, firms belonging to the broader automotive manufacturing cluster account for a dominant share. Notably, no government-connected company appears either

among the largest firms by revenue or among the leading exporters. This implies that the government-affiliated corporate network, whose establishment required substantial public resources and political support, does not satisfy the most demanding benchmark of business performance: export competitiveness. The absence of these firms from the ranks of major exporters indicates that their activities are not primarily driven by success in international markets.

It is therefore instructive to examine the business profiles and after-tax profits of government-connected companies on the basis of 2024 data.

Table 4. Business Profiles and After-Tax Profits of Government-Connected Companies, 2024 (HUF billion)

Company Profile	Profit After Tax	Company Profile	Profit After Tax
Construction	49.3	Bank	3.9
Construction	30.6	Real Estate Trading	3.7
Construction	30.5	Real Estate Trading	14.7
Construction	28.2	Construction	27.7
Construction	28.0	Asset Management	15.7
Construction	20.3	Entertainment Industry	13.5
Telecommunications	17.6	Entertainment Industry	21.2
Construction	15.5	Real Estate Development	10.3
Construction	12.6	Real Estate Development	5.4
Construction (Project Company)	5.4	Real Estate Development	4.9
Construction (Asset Management)	4.0	Asset Management	3.2
Construction	20.9	Asset Management	15.6
Bank	205.9	Media and Advertising	9.4
Financial Services	17.0	Media and Advertising	8.9
Financial Services	6.6	Media and Advertising	3.5
Asset Management	51.4	Media and Advertising	4.2
Asset Management	48.1	Tobacco Distribution	10.3
Insurance	8.9	Tobacco Distribution	10.2
Insurance	11.4	Tobacco Distribution	9.0
Asset Management	3.6		

Source: Corporate Financial Statements.

Approximately one-third of the companies in this group operate in the construction sector. They are followed by firms engaged in asset management, real estate trading, property development, financial services, advertising, media production, and the distribution of excise-taxed products.

A common characteristic of these enterprises is that they enjoy state-protected market positions. They benefit from preferential treatment in public procurement procedures, operate under conditions that shield them from open market competition, and frequently occupy monopoly or oligopoly positions. Consequently, the reported profits of these companies may be interpreted less as income earned through competitive market activity and more as economic rents derived from privileged access to resources and opportunities.

The relationships observed within this group also suggest the existence of extensive cross-ownership structures. The government-connected corporate network has been a continuous beneficiary of state financial support, transfers of buildings and land assets, and various forms of preferential treatment.

In the following sections, we examine the emergence, consolidation, and expansion of this corporate network, as well as the economic mechanisms that have contributed to its growing influence within the Hungarian economy.

Table 5. After-Tax Profits of Government-Connected Construction Companies, 2016–2024 (HUF billion)

Company	2016	2017	2018	2019	2020	2021	2022	2023	2024
A	18.8	18.6	18.7	35.2	38.5	33.4	13.2	42.0	30.6
B	n.a.	6.3	6.8	5.8	17.4	36.5	34.4	21.0	30.5
C	1.5	3.7	5.0	n.a.	12.6	19.5	28.1	63.0	49.3
D	n.a.	4.7	5.0	11.8	15.6	9.5	17.3	32.0	28.0
E	1.0	5.0	7.3	n.a.	11.4	5.4	13.0	19.0	28.2
F	2.9	3.0	5.4	7.0	7.1	12.6	19.5	16.0	12.6
G	1.0	2.5	2.6	4.4	4.0	n.a.	10.6	19.1	26.0
I	–	–	–	–	–	4.5	3.3	9.0	13.2
J	2.0	1.9	7.0	n.a.	6.0	17.0	12.0	8.0	2.0
K	–	–	–	–	42.0	23.0	–	–	27.7
L	n.a.	n.a.	3.7	5.8	1.8	n.a.	7.7	8.0	20.9

Source: Corporate Financial Statements.

Table 5 clearly illustrates the shift that occurred in the preferential treatment of construction companies. Following the political transition of 2010, three or four large domestically owned firms and several foreign-owned construction

companies won the majority of public tenders. There was only one notable exception among domestic firms (Company A in the table), which had already achieved substantial profits before this period.

From the middle of the 2010s onward, a complete change of guard took place. Companies that had previously existed but played only marginal roles were elevated, through government selection, to a position in which they became the almost exclusive recipients of major construction contracts. Beginning in 2019–2020, their profits multiplied dramatically, largely as a result of the widespread adoption of cost-overpricing practices.

Such a sharp increase in profitability cannot be explained by improvements in corporate performance, since no comparable increase in productive performance occurred. An important observation is that, on average, approximately two-thirds of these reported profits were subsequently distributed as dividends to owners.

Table 6. Government-Connected Companies Among the Most Profitable Firms in Hungary, 2024 (HUF billion)

Company Profile	After-Tax Profit	Profit Before Tax
Asset Management	51	55
Construction	49	56
Asset Management	48	54
Toll Collection	38	40
Asset Management	33	35
Construction	31	34
Construction	30	33
Construction	28	31
Real Estate Development	24	24

Source: Corporate Financial Statements.

The figures presented in Table 6 suggest that the after-tax profits of the government-connected companies examined in detail here reach levels comparable to those achieved by the Hungarian subsidiaries of foreign-owned manufacturing corporations.

Earlier, we pointed to the substantial differences in value-added performance between the construction sector and manufacturing industries. The important point here is that, despite significant differences in productive performance, the profit mass generated by government-connected firms reaches the level of top-tier manufacturing enterprises.

It should again be emphasized that the two groups of sectors operate under fundamentally different framework conditions. While manufacturing

companies earn profits under competitive market conditions, firms within the government-connected corporate network generate profits within a protected environment largely insulated from market competition. As a result, corporate earnings are often disproportionate to underlying performance.

For purposes of comparison, the following table presents the profits of companies operating under competitive market conditions.

Table 7. After-Tax Profits of Selected Companies, 2018 (HUF billion)

Company Profile	After-Tax Profit	Company Profile	After-Tax Profit
Automobile Manufacturing	141	Automotive Components Manufacturing	25
Pharmaceutical Manufacturing	36	Electronics	10
Chemical Industry	143	Automotive Components Manufacturing	11
Pharmaceutical Manufacturing	131	Automotive Components Manufacturing	2
Automobile Manufacturing	28	Electronics	2
Tire Manufacturing	50	Entertainment Industry	21
Pharmaceutical Manufacturing	17	Asset Management	25
Electronics	9	Automotive Components Manufacturing	9
Pharmaceutical Manufacturing	4	Tire Manufacturing	1
Electronics	2	Concession Fee Collection	10
Automobile Manufacturing	25	Machinery Manufacturing	5
Metal Processing	31	Construction	5

Source: Corporate Financial Statements.

The table clearly shows that companies operating in the competitive sector of the economy—with the exception of a few highly internationally competitive firms—generate significantly lower after-tax profits than government-connected companies.

What makes this particularly problematic is that firms operating in competitive markets achieve these profits while maintaining substantial fixed assets, employing large numbers of workers, and committing considerable amounts of capital. These differences create unequal conditions and further widen the gap between the two poles of Hungary's dual economic structure.

A very similar picture emerges from corporate profit data relating to the first year of the COVID-19 pandemic, with the difference that several companies reported losses during that year.

Table 8. After-Tax Profits of Selected Companies, 2020 (HUF billion)

Company Profile	After-Tax Profit	Company Profile	After-Tax Profit
Automobile Manufacturing	182	Food Industry	9
Pharmaceutical Manufacturing	106	Machinery Manufacturing	19
Chemical Industry	76	Plastics Industry	7
Pharmaceutical Manufacturing	77	Automobile Manufacturing	7
Battery Manufacturing	5	Automotive Components Manufacturing	-7
Pharmaceutical Manufacturing	19	Asset Management	-6
Automobile Manufacturing	14	Automotive Components Manufacturing	5
Tire Manufacturing	45	Automotive Components Manufacturing	-6
Telecommunications	-1	Automotive Components Manufacturing	7
Electronics	4	Machinery Manufacturing	9
Pharmaceutical Manufacturing	38	Components Manufacturing	9
Electronics	24	Telecommunications	3
Electronics	38	Automotive Components Manufacturing	-20
Construction	38	Machinery Manufacturing	4
Automotive Components Manufacturing	9	Construction	17
Metal Processing	35	Automotive Components Manufacturing	2
		Electronics	7

Source: Corporate Financial Statements.

Comparing these corporate profit figures with those of government-connected firms leads to an important conclusion. While Table 8 indicates a decline in after-tax profits during the pandemic year, no comparable break occurred among government-connected enterprises (see Table 9).

This divergence cannot be explained by market forces, since the protected corporate group does not operate according to normal market rules. Moreover, government-connected firms received substantial support from European Union funds during the pandemic period, providing an additional buffer against adverse economic conditions.

**Table 9. After-Tax Profits of Government-Connected Companies in 2021
(HUF billion)**

Company Profile	After-Tax Profit	Company Profile	After-Tax Profit
Construction	19.5	Construction	33.4
Commercial Bank	64.8	Utilities (Energy)	6.7
Construction	12.6	Utilities (Energy)	4.3
Asset Management	16.7	Media	4.4
Asset Management	41.7	Insurance	5.0
Construction	26.1	Newspaper Publishing	3.3
Construction	9.5	Media	3.4
Construction	4.5	Tobacco Retailing	7.0
Construction	5.4	Construction	14.4
Asset Management	42.0	Tobacco Retailing	8.4
Construction	36.5	Tobacco Retailing	3.9
Real Estate Trading	12.0	Tobacco Retailing	6.6
Construction	33.4	Asset Management	19.1
Gambling	7.8	Advertising	2.8
Gambling	10.2	Advertising	3.6
Real Estate Development	9.0	Information Technology	3.5
Construction	5.7	Construction	10.2
Construction	3.5	Real Estate Management	8.2

Source: Corporate Financial Statements.

The profitability of government-connected companies remained remarkably stable during the second year of the pandemic. Such stability could only have been sustained through substantial resource transfers that were subsequently transformed into corporate profits. In the case of construction companies, excessive overpricing of project contracts served as the primary source of profit generation, while in the field of real estate management, transfers of property assets without equivalent compensation played a similar role.

To evaluate the relationship between corporate revenues and after-tax profits in manufacturing industries, several firms' indicators for 2024 are compared below.

Table 10. Relationship Between Corporate Revenue and After-Tax Profit, 2024 (HUF billion)

Company Profile	Revenue	After-Tax Profit	Ratio (%)
Automobile Manufacturing	3,531	124.5	3.5
Telecommunications	967	163.4	16.8
Automobile Manufacturing	921	14.5	1.5
Pharmaceutical Manufacturing	858	239.5	27.9
Electronics	836	139.9	16.7
Automotive Components Manufacturing	762	15.7	2.0
Automotive Components Manufacturing	754	51.5	6.8
Telecommunications	687	17.6	2.6
Automotive Components Manufacturing	540	12.2	2.3
Machinery Manufacturing	407	23.8	5.8
Electronics	371	3.6	1.0
Tire Manufacturing	334	17.9	5.4
Machinery Manufacturing	336	4.1	1.2
Automotive Components Manufacturing	325	15.7	4.8

Source: Corporate Financial Statements.

Table 10 demonstrates that the profit-to-revenue ratios of firms operating under competitive market conditions are substantially lower than the profit-generating opportunities available to government-connected enterprises.

This suggests that the extraordinary profitability reported by the latter group is largely the result of accumulated privileges rather than superior market performance. The discrepancy between the two poles of the dual economy represents a structural distortion similar to those observed in the broader functional organization of the economy and is fundamentally inconsistent with the norms of a competitive market system.

Among the most reliable indicators of corporate performance is value added. This measure captures the amount of additional value a firm creates beyond the value of purchased inputs, whether embodied in labor or capital. In Hungary, both at the macroeconomic level and at the level of individual products and services, this indicator reflects the characteristics of a medium-developed economy.

Table 11 presents the aggregate value-added indicator for manufacturing between 1995 and 2024, measured as a percentage of GDP.

Table 11. Manufacturing Value Added as a Percentage of GDP, 1995–2024

Year	Value Added / GDP (%)	Year	Value Added / GDP (%)
1995	18.1	2010	18.1
1996	18.0	2011	18.5
1997	19.7	2012	18.5
1998	20.0	2013	18.7
1999	19.4	2014	19.4
2000	19.1	2015	20.3
2001	19.2	2016	19.5
2002	18.6	2017	19.1
2003	18.7	2018	18.4
2004	19.0	2019	17.3
2005	19.0	2020	17.2
2006	19.7	2021	16.5
2007	19.1	2022	16.8
2008	18.3	2023	17.0
2009	17.1	2024	15.8

Source: OECD Database.

As shown in Table 11, the thirty-year average ratio of manufacturing value added to GDP is approximately 18 percent. It is noteworthy that this indicator has deteriorated visibly during the last five years, a period characterized by economic stagnation.

In the following section, value-added indicators for selected manufacturing companies are presented as a proportion of revenue, allowing for a more detailed examination of productivity and value creation at the firm level.

Table 12. Value Added as a Percentage of Revenue, 2019

Company Profile	Value Added / Revenue	Company Profile	Value Added / Revenue
Automobile Manufacturing	0.18	Automotive Components Manufacturing	0.23
Pharmaceutical Manufacturing	0.43	Electronics	0.05
Pharmaceutical Manufacturing	0.70	Entertainment Industry	0.09

Company Profile	Value Added / Revenue	Company Profile	Value Added / Revenue
Chemical Industry	0.22	Electronics	0.06
Automobile Manufacturing	0.08	Automotive Components Manufacturing	0.12
Pharmaceutical Manufacturing	0.50	Automotive Components Manufacturing	0.12
Electronics	0.13	Machinery Manufacturing	0.23
Tire Manufacturing	0.37	Components Manufacturing	0.24
Electronics	0.37	Battery Manufacturing	0.16
Automobile Manufacturing	0.08	Automotive Components Manufacturing	0.10
Automotive Components Manufacturing	0.10	Automotive Components Manufacturing	0.16
Metal Processing	0.26	Machinery Manufacturing	0.09
Pharmaceutical Manufacturing	0.18	Tire Manufacturing	0.09
Electronics	0.48		

Source: Database of the Ministry for National Economy.

The figures presented in Table 12 reveal considerable variation among the manufacturing companies included in the sample. Pharmaceutical manufacturers exhibit substantially higher value-added-to-revenue ratios than firms in most other industries. At the opposite end of the spectrum, the majority of companies belonging to the automotive manufacturing cluster generate value-added ratios that fall below the industry average. The relatively low value-added ratios recorded by several electronics companies are also noteworthy.

The data for the first year of the COVID-19 pandemic (Table 13) are equally instructive. The sectoral patterns observed at the firm level do not differ substantially from those recorded in the previous year. However, aggregate manufacturing indicators were somewhat higher than in 2019. No sector-specific explanation can be clearly identified for this increase; it is more likely attributable to a combination of temporary factors.

Table 13. Value Added as a Percentage of Revenue, 2020

Company Profile	Value Added / Revenue	Company Profile	Value Added / Revenue
Automobile Manufacturing	0.19	Automobile Manufacturing	0.07
Pharmaceutical Manufacturing	0.51	Automotive Components Manufacturing	0.21
Chemical Industry	0.26	Automotive Components Manufacturing	0.10
Pharmaceutical Manufacturing	0.50	Automotive Components Manufacturing	0.05
Battery Manufacturing	0.20	Automotive Components Manufacturing	0.16
Pharmaceutical Manufacturing	0.49	Machinery Manufacturing	0.19
Tire Manufacturing	0.42	Paper Industry	0.55
Electronics	0.12	Machinery Manufacturing	0.25
Pharmaceutical Manufacturing	0.19	Electronics	0.18
Electronics	0.36	Electronics	0.60
Electronics	0.07	Automotive Components Manufacturing	0.08
Automotive Components Manufacturing	0.51	Machinery Manufacturing	0.09
Metal Processing	0.52	Automotive Components Manufacturing	0.77
Food Industry	0.21	Food Industry	0.16
Machinery Manufacturing	0.31	Electronics	0.26
Plastics Industry	0.28		

Source: Database of the Ministry for National Economy.

The somewhat higher value-added ratios observed in 2020 may partly be explained by the appearance, within the ranking, of several firms exhibiting exceptionally high value-added-to-revenue ratios, thereby improving the aggregate picture.

Apart from this effect, the relative positions of firms changed little. Pharmaceutical manufacturers continued to stand out with particularly strong value-added performance, while companies operating outside the automotive manufacturing cluster generally achieved better results according to this indicator.

The largest value-added-producing manufacturing companies in 2024 generated results broadly similar to those observed in previous years, as shown in Table 14.

Table 14. Corporate Value-Added-to-Revenue Ratios, 2024

Company Profile	Value Added / Revenue	Company Profile	Value Added / Revenue
Pharmaceutical Manufacturing	0.60	Automotive Components Manufacturing	0.13
Battery Manufacturing	0.40	Machinery Manufacturing	0.16
Pharmaceutical Manufacturing	0.50	Food Industry	0.23
Battery Manufacturing	0.34	Machinery Manufacturing	0.27
Electronics	0.15	Machinery Manufacturing	0.16
Tire Manufacturing	0.31	Chemical Industry	0.06
Electronics	0.35	Pharmaceutical Manufacturing	0.24
Automotive Components Manufacturing	0.56	Tire Manufacturing	0.14
Automotive Components Manufacturing	0.15	Automotive Components Manufacturing	0.28
Food Industry	0.22	Metal Processing	0.21
Automobile Manufacturing	0.08	Automotive Components Manufacturing	0.14
Electronics	0.12	Food Industry	0.12
Plastics Industry	0.29		

Source: Corporate Financial Statements.

Table 15. Value Added as a Percentage of Revenue in Government-Connected Construction Companies

Company Profile	2020	2024
Construction	0.25	0.25
Construction	0.26	0.18
Construction	0.27	0.23
Construction	0.14	0.14

Source: Database of the Ministry for National Economy.

The relevant indicators for the favored companies show no significant change over the period under review.

The Dark Side of Politically Managed Economic Governance: Evidence from Acute Structural Distortions

Government expenditures devoted to economic development constitute a legitimate instrument of economic policy. However, both the scale of these expenditures and the efficiency of their utilization are of critical importance. The proportion of public spending allocated to economic purposes has a decisive influence on a country's long-term development prospects.

Between 2010 and 2025, substantial changes occurred in the expenditure structure of the Hungarian general government sector. As demonstrated in Table 16, expenditures devoted to economic functions increased from 14.3 percent of total government spending in 2010 to 16.9 percent in 2025. This category became the second-largest expenditure item within the public budget. At the same time, the share of social insurance and pension expenditures—the traditionally largest budgetary category—declined.

Unfortunately, the growing weight of economic expenditures occurred largely at the expense of education and social spending, while healthcare expenditures remained essentially stagnant.

Government subsidies granted to corporations were intended to promote economic development, yet they benefited only a relatively small number of firms. The overwhelming majority of these subsidies were awarded to foreign companies investing in Hungary through foreign direct investment. Consequently, the principal beneficiaries of development support were financially powerful multinational corporations.

The government justified these transfers on the assumption that support for corporate investment would eventually generate new value for society. However, such subsidies were only rarely tied to clearly defined performance criteria. Furthermore, the distribution of these resources was highly concentrated, favoring only a limited number of sectors, most notably the automotive industry and battery manufacturing.

Given the relative scarcity of public budgetary resources, this concentration of support also implied that many firms—including potentially deserving producers in strategically important segments of the economy—received no assistance whatsoever.

According to a widely shared assessment, the effectiveness of these concentrated development expenditures has not been commensurate with their magnitude. This shortcoming can be observed both in the growth performance of the favored sectors and in the long-term stagnation of value-added creation within the economy.

Table 16. Functional Distribution of General Government Expenditures (Percentage Share of Total Expenditures)

Expenditure Category	2010	2025
General Public Services	9.8	9.6
Defence	1.8	4.5
Public Order and Safety	3.7	3.5
Education	11.6	9.8
Healthcare	9.1	9.4
Social Insurance and Pensions	34.6	29.5
Housing Affairs	3.3	2.3
Recreation, Sports and Religious Activities	2.8	3.8
Economic Affairs	14.3	16.9
Public Debt Management	8.5	9.8
Other	0.5	0.6
Total	100.0	100.0

Source: Ministry of Finance; Ministry for National Economy. Reported in: *HVG*, 18 December 2025.

Table 17. Hungary's Net EU Transfers as a Percentage of GDP (Balance of EU Transfers and National Contributions)

Year	Balance (% of GDP)	Year	Balance (% of GDP)
2004	0.2	2014	5.3
2005	0.6	2015	4.0
2006	1.2	2016	3.0
2007	1.5	2017	2.4
2008	1.0	2018	3.7
2009	2.8	2019	3.4
2010	2.7	2020	3.4
2011	4.3	2021	2.9
2012	3.2	2022	2.9
2013	4.8		

Source: European Commission Database. Reported in: *HVG*, 30 October 2025, Gábor Gulácsi, *Demolition Costs*.

The data presented in Table 17 leave little doubt that European Union transfers played an exceptionally important role in financing Hungary’s macroeconomic development. Prior to the suspension of a portion of EU funds, the Hungarian economy expanded at an average annual rate of approximately 3 percent, while non-repayable EU transfers amounted to roughly 3–4 percent of GDP each year.

The temporary freezing of these resources also contributed significantly to the sharp decline in investment observed in recent years.

The slowdown of economic growth and the subsequent emergence of stagnation created a new situation for fiscal management. Beginning in 2022, the volume of distributable resources declined substantially for the reasons outlined above. Government expenditure policy, however, remained largely unchanged. As a consequence, annual budget deficits widened and public indebtedness increased. This development is illustrated in Table 18.

Table 18. Budget Deficit and European Union Transfers (HUF billion)

Year	Budget Deficit Planned	Budget Deficit Actual	EU Transfers Planned	EU Transfers Actual	Agricultural Support Planned	Agricultural Support Actual
2020	367	5,311	1,182	1,681	423	516
2021	1,491	4,774	1,130	1,553	472	444
2022	3,153	4,672	2,351	1,304	489	481
2023	2,352	4,436	2,193	1,873	511	556
2024	2,519	4,436	2,393	775	628	570
2025	4,123	5,739	3,129	551*	591	n.a.

Data as of the end of November.

Source: Ministry of Finance; Ministry for National Economy. Reported in: *HVG*, 15 January 2026.

The allocation of financial resources among enterprises was strongly influenced by government-supported credit programs, particularly during the first half of the period under review. A large-scale credit expansion took place, and the first decade was characterized by relative financial abundance in the form of low-interest or even interest-free loans.

These programs primarily benefited preferred firms. The loans financed productive investments, public-sector expenditures, and housing acquisition by younger households.

The second half of the period was characterized by growing financial scarcity. Two factors contributed to this development. First, the repayment of previously accumulated loans and credits began. Second, the suspension of EU transfers occurred during this period. Thus, the moderate economic growth

experienced throughout much of the period coincided with a persistently fragile fiscal position.

Chronic budget deficits and the preferential over-allocation of public resources continuously contributed to the growth of public debt.

Government interest expenditures increased steadily as a result of subsidized or interest-free lending schemes, as well as the servicing costs of domestic and external public debt. By the middle of the current decade, annual interest expenditures exceeded HUF 4 trillion, significantly reducing fiscal flexibility.

This trend is illustrated in Table 19.

Table 19. Government Interest Expenditures in Absolute Terms and as a Percentage of GDP, 2019–2025

Year	Amount (HUF billion)	Interest Expenditure / GDP (%)
2019	1,101	2.3
2020	1,225	2.5
2021	1,408	2.5
2022	2,101	3.2
2023	2,764	3.7
2024	3,613	4.4
2025 (Jan–Sep)	4,014	4.4

Source: Hungarian Central Statistical Office (KSH); Ministry for National Economy.
Reported in: *HVG*, 11 December 2025.

Regarding the relationship between EU transfers and domestic investment, EU resources played a crucial role in maintaining investment activity during the first decade of the 2010–2025 period. A significant proportion of investment projects implemented during those years reflected the short-term interests of construction companies.

Numerous sports facilities, stadiums, prestige projects, infrastructure developments, tourism investments, and even projects implemented abroad were completed during this period. Following their completion, many generated significant sustainability challenges and imposed long-term burdens on the economy.

A major disruption occurred in 2022 when the inflow of EU resources declined sharply. This had an immediate and substantial impact on investment activity, as demonstrated in Table 20.

Table 20. Investment Performance During the Period of Economic Stagnation (Corresponding Period of Previous Year = 100)

Total Investment

Year	Q1	Q2	Q3	Q4
2021	99.9	110.0	115.5	100.0
2022	109.0	109.0	102.0	95.0
2023	100.0	85.0	85.0	97.0
2024	83.4	86.0	87.0	86.0
2025	86.8	92.0	n.a.	n.a.

Corporate Investment

Year	Q1	Q2	Q3	Q4
2021	87.1	110.0	119.1	106.0
2022	108.2	102.0	100.0	99.1
2023	101.8	89.1	89.8	95.0
2024	99.1	89.5	94.0	90.0
2025	86.8	n.a.	n.a.	n.a.

Government Investment

Year	Q1	Q2	Q3	Q4
2021	119.8	103.9	90.0	92.3
2022	88.0	102.8	90.5	75.6
2023	110.0	83.2	110.0	136.0
2024	61.4	82.1	63.6	74.2
2025	72.2	n.a.	n.a.	n.a.

Source: KSH Database. Reported in: *HVG*, 28 August 2025.

According to Table 20, investment expenditures have declined dramatically over the past four years. This trend has serious long-term consequences for capacity maintenance, modernization, and productivity growth.

The prolonged decline in investment cannot be explained solely by financial constraints. Additional factors associated with politically managed economic governance include legal uncertainty, the absence of predictable regulatory norms, unstable taxation, the lack of a coherent long-term vision, unpredictable government interventions, and a generalized erosion of trust.

The structural distortions that emerged during the past decade and a half, the preferential treatment granted to a specific group of firms, and the possibility of state intervention in property relations created an environment in which investment decisions and long-term commitments required unusually high levels of risk tolerance.

The exceptionally high degree of uncertainty that developed within the economy demanded considerable determination from corporate decision-makers.

The evidence presented above suggests that government economic policy lacked internal consistency. The large volume of budgetary expenditures, the credit expansion maintained during the first phase of the period, the accumulation of interest obligations, the suspension of EU funding, the volatility of investment expenditures, and the persistence of legal uncertainty all indicate a mismatch between policy objectives and policy instruments.

As a consequence, the effectiveness of economic governance deteriorated. Redistribution practices that lacked strategic coherence continuously strained the limits of the public budget. Government policy increasingly focused on managing immediate tensions rather than addressing structural causes.

To achieve these objectives, an increasing number of market mechanisms were suspended or weakened. As normative regulation lost importance, special taxes, fees, extraordinary levies, sector-specific tax burdens, and other non-market interventions—such as price caps and regulated profit margins—became increasingly common.

For example, inflation control has often been pursued not through reducing excessive fiscal redistribution but through direct administrative intervention in price formation. Throughout much of the period examined, the economy exhibited signs of persistent overheating, largely as a consequence of efforts to accelerate economic growth.

While certain companies were subjected to non-normative fiscal burdens, others benefited from tax exemptions and preferential treatment. Partial or complete tax relief reduced government revenues, and unless offset by spending cuts, such measures weakened fiscal stability and contributed to rising public indebtedness.

The system of politically managed economic governance described above evolved in two distinct phases. The first phase, between 2013 and 2019, was characterized by a large-scale investment program involving the construction of stadiums, sports facilities, prestige projects, infrastructure developments, and tourism-related investments. Construction was the leading sector of this period.

Table 21, presented below, summarizes the aggregate profits of the most significant government-connected construction companies between 2010 and 2024.

Table 21. Aggregate Profits of Government-Connected Construction Companies, 2010–2024 (HUF billion)

Company	Aggregate Profit
A	199.9
B	168.7
C	149.2
D	134.5
E	110.4
F	78.3
G	70.4
H	67.3
I	43.2

Source: Study by Zoltán Jandó, G7, 19 August 2025.

The decision to designate construction as the leading sector of economic development was based on a flawed assessment of economic conditions. Construction is typically mobilized through large-scale investment programs—particularly infrastructure development—when countercyclical economic policy becomes necessary in an economy suffering from insufficient demand.

During the period between 2014 and 2019, however, strong economic expansion prevailed both internationally and within Hungary. Under such circumstances, the pursuit of a procyclical development strategy had little economic justification.

During and after the COVID-19 pandemic, the expansion of extensive development projects continued on the basis of foreign direct investment. This generated a renewed boom for domestic construction companies. Following the suspension of a significant portion of EU funding, foreign direct investment became the principal source of financing.

During these years, construction began on two new large-scale automobile manufacturing plants, while approximately fifty battery assembly, battery-component manufacturing, and battery-recycling facilities were launched across the country. The construction of new automobile plants and the accelerated expansion of the battery industry further reinforced the monocultural industrial structure represented by the automotive cluster.

Beyond factory construction itself, domestic construction firms also acquired the right to implement the broader infrastructure projects required to support these investments. The creation of water, energy, and transport infrastructure generated substantial orders for construction companies and ensured the continuation of the development strategy pursued during the previous period.

Consequently, between 2020 and 2025 the earlier one-sided development model continued through the expansion of the Chinese, Korean, and German automotive-industrial cluster.

The policy choice that elevated construction to a privileged position simultaneously relegated medium-sized manufacturing enterprises to the background. The implications of this choice become apparent when value-added performance in construction and manufacturing is compared directly, as shown in Table 22.

Table 22. Value Added in Construction and Manufacturing, 2016–2023 (USD billion)

Year	Construction	Manufacturing
2016	1.1	2.9
2017	1.4	3.1
2018	1.9	3.3
2019	2.4	3.3
2020	2.4	3.1
2021	2.9	3.4
2022	3.6	3.3
2023	3.9	4.3

Source: OECD Database.

The government supported the establishment of foreign direct investment-based enterprises through development subsidies that, in many cases, exceeded the underlying capacity of the domestic economy.

Table 23 demonstrates that, particularly after 2015, the Hungarian government provided substantial financial support for the establishment and expansion of the Hungarian subsidiaries of multinational corporations.

Table 23. Government Subsidies Granted Through Individual Government Decisions (HUF billion)

Year	Subsidy	Year	Subsidy
2004	17.6	2015	35.5
2005	31.9	2016	55.8
2006	20.4	2017	71.1

2007	17.0	2018	90.8
2008	34.4	2019	104.9
2009	3.8	2020	64.2
2010	4.3	2021	248.3
2011	21.8	2022	130.6
2012	0.1	2023	294.4
2013	19.9	2024	46.3
2014	41.7	2025	n.a.

Source: Database of the Ministry for National Economy.

The overwhelming majority of these resources were directed toward projects in automobile manufacturing, automotive component production, and battery manufacturing.

Current developments suggest that the government’s economic strategy continues to emphasize extensive investment expansion. Official development plans include the construction of approximately 150 new factories, additional railway projects, new bridges across the Danube, motorway construction, and the further expansion of the battery industry.

This strategy also implies that, in the foreseeable future, government policy is unlikely to prioritize the technological modernization and productivity-enhancing transformation of medium-sized enterprises and domestically owned large companies. Likewise, it postpones the broader development of a knowledge-based economy and the strengthening of innovation-driven growth.

The continuation of an extensive growth model therefore risks reinforcing the structural characteristics that have defined Hungary’s development path during the past decade and a half, while delaying the transition toward a more technologically advanced and value-added-intensive economic structure.

Epilogue

The distortion of the functional structure of the economy was rooted in the centralization of resources and the concentrated redistribution of financial assets that emerged alongside politically driven economic governance. Economic development policy was characterized by a considerable degree of improvisation, while implementation was guided largely by voluntarist principles.

Following the political transition of 2010, the overarching objective of economic policy was presented under the banner of “re-industrialization.” It

is now evident that several countries in the region pursued the same objective by achieving substantially higher levels of technological and technical sophistication. Hungary, by contrast, remained largely trapped within its previous development model, reproducing existing structures rather than transforming them.

By choosing what may be regarded as the least effective option, policymakers expanded and reproduced the inherited economic structure through extensive growth. This raises the question of what alternative strategy might have been more appropriate. Among other measures, greater emphasis could have been placed on assisting domestically owned medium-sized and large enterprises in adopting digital technologies, acquiring advanced managerial knowledge, improving market access, and modernizing their production processes through technological upgrading.

The implementation of a highly centralized development strategy required an equally high degree of resource centralization. In the course of applying these policy solutions, fundamental economic principles were frequently disregarded. One such principle was the law of diminishing marginal efficiency: the excessive use of a given production factor, production capacity, or input tends to reduce the additional effectiveness of subsequent units employed.

Any major investment project requires a complex combination of raw materials, intermediate inputs, energy, labor, market demand for the final product, and supporting infrastructure. In designing government-centered development policies, policymakers focused primarily on securing access to production know-how, while the provision of these broader framework conditions was left to an uncertain future. Such an approach can reasonably be characterized as a form of both political and economic voluntarism.

The persistent emphasis on extensive development created a long-term shortage of discretionary budgetary resources and contributed to the emergence of chronic fiscal deficits. The selected development priorities were evaluated primarily from the perspective of their immediate benefits, while their longer-term negative consequences—including environmental degradation—received comparatively little attention.

The simultaneous pursuit of an excessive number of investment and development projects further intensified the pressure toward public indebtedness.

The exclusion of market mechanisms from the operation of government-connected enterprises generated patterns of wealth accumulation that lacked market-based legitimacy. On the one hand, substantial fortunes were created through the proceeds of heavily overpriced public projects, through assets acquired via free or preferential privatization arrangements, and through direct government transfers. As a result, significant disparities emerged in the wealth positions of economic actors.

The consequences of this trend were further aggravated by the fact that macroeconomic performance remained largely stagnant during the same period. Since economic growth generated only limited additional resources,

the observed process of wealth polarization cannot easily be attributed to expanding overall economic output.

Buildings, infrastructure assets, and land holdings transferred as grants played a particularly important role in this wealth-centered pattern of accumulation. Through the transfer of such assets, the government significantly increased the importance of real estate trading, asset management, and property development activities. Indeed, these activities often generated profits exceeding those of the beneficiaries' primary business operations.

Liquid financial resources flowing into this favored corporate network through various channels played a decisive role in the acquisition and circulation of physical assets. Since the majority of these transactions occurred within the same privileged corporate circle, capital was effectively diverted away from firms operating under competitive market conditions.

This process contributed to a shortage of resources among market-oriented enterprises and weakened the productive core of the economy. In this sense, the functioning of the macroeconomic "engine" became increasingly constrained by the concentration of resources within a relatively narrow segment of economic actors.

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