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Articles of asphyxiation

Soft Censorship in Hungary

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WAN-IFRA
96 bis, Rue Beaubourg
75003 Paris, France
www.wan-ifra.org

WAN-IFRA CEO:
Vincent Peyrègne

PROJECT MANAGER:
Mariona Sanz Cortell

PRINCIPAL RESEARCHER:
Attila Mong
Mérték Media Monitor

EDITOR:
Thomas R. Lansner

RESEARCH PARTNERS:
Center for International Media Assistance
National Endowment for Democracy
1025 F Street, N.W., 8th Floor
Washington, DC 20004, USA
www.cima.ned.org

Open Society Justice Initiative
224 West 57th Street
New York, New York 10019, USA
www.opensocietyfoundations.org

RESEARCH PARTNER HUNGARY:
Mérték Media Monitor
Székhely: 1042 Budapest,
Árpád út 90-92., Hungary
URL: http://mertek.eu/

SUPPORTED BY:
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DESIGN AND PREPRESS:
Snezana Vukmirovic, Ivan Cosic, Plain&Hill Serbia

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ABOUT THIS UPDATE:

This report, prepared by Mérték Media Monitor, updates the January 2014 report, *"Capturing Them Softly: Soft Censorship and State Capture In The Hungarian Media"*. It is one of a series in the ongoing project on soft censorship around the world led by the World Association of Newspapers and News Publishers (WAN-IFRA) and the Center for International Media Assistance (CIMA). Country reports on Hungary, Malaysia, Mexico, and Serbia were issued in 2014, as well as a global overview, "Soft Censorship, Hard Impact", written by Thomas R Lansner, who also edited this update and is general editor for the series.

Mérték is a Budapest-based think tank and watchdog organization founded in 2011. The team includes experts in sociology, journalism, economics, and law. Currently, Mérték's staff members are Attila Mong, Krisztina Nagy, Gábor Polyák, Ágnes Urbán, and Erik Uszkiewicz. External specialists, institutional partners, and volunteers also contribute to Mérték's expertise and analyses.

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1. Executive Summary

Capturing Them Softly: Soft Censorship and State Capture In The Hungarian Media, a report produced by Mérték Media Monitor in collaboration with the World Association of Newspapers and News Publishers (WAN-IFRA) and the Center for International Media Assistance (CIMA) in 2013, concluded that state influence over Hungarian media accelerated sharply after the right-wing Fidesz Party took power in 2010. A second analysis, *Gasping for Air—Soft Censorship in the Hungarian Media in 2014,* was issued by Mérték in January 2015. [1]

This update summarizes changes since 2013, and highlights the latest developments and their impact on the media landscape and press freedom in Hungary. This analysis defines official "soft censorship" or indirect censorship as any of an array of official actions intended to influence media output, short of legal or extra-legal bans, direct censorship of specific content, or physical attacks on media outlets or media practitioners. In Hungary, these governmental interventions are increasingly seeking to influence the media market with the intent to enhance the chances of certain perspectives reaching media audiences, while reducing the visibility of critical viewpoints.

Centralization and partisan allocation of state advertising spending enabled growing government pressure on the media market and overt political intervention in newsroom practices, including removal of editorial teams[2] in 2014. The first governmental financial intervention in the media market during the current parliamentary term (after the right-wing Fidesz Party retained power in April 2014 elections) was introduction of an advertising tax. The new advertising tax has affected many media outlets, and severely distorts the media market. In its original form, it especially affected television, exerting disproportionate impact on one of the two leading national commercial broadcasters,

Country profile

Hungary Country Data	2014
Population	9.86 million
Adult literacy	99%
Gross national income per capita	13,470 USD
Urban/rural population	70 / 30%
Mobile phone subscription (SIM)	116%
Internet Access (homes)	72%
Corruption perception index	54/100

Sources: UN, World Bank, ITU and Transparency International market leader RTL Klub. Parliament also adopted a law barring RTL Klub, and the second national commercial television, TV2, from receiving program service fees from cable companies, which could significantly cut revenue for both television channels. Further, the law does not guarantee that government-set pricing would offer the two channels identical conditions.

The most spectacular media scandal in 2014 was the dismissal of the popular newsportal Origo.hu's editor-in-chief, Gergö Sáling in early June. A mass resignation of editors and journalists from Origo.hu followed.[3] The editor's sacking was triggered by an Origo.hu investigative report that revealed strikingly high costs for an official international trip by a cabinet member.[4]

As Mérték noted in its January 2015 report, Hungary's current ruling party has been turning public service media into its mouthpiece, boosting the position of government-friendly media corporations with state advertising and other subsidies, and seeking to render untenable the financial situation of media outlets the government does not favor. These media market interventions, which we had referred to as a "soft" process in our 2013 report, expanded aggressively in 2014, especially after Fidesz retained its two-thirds parliamentary majority in the April election. A new development during this period was competition among Fidesz aligned groups for subsidies to specific pro-government media companies and outlets.

According to our interviewees, there were fundamental changes in the Hungarian media market in 2014. Segments of the market that are financially and politically independent, and strive to preserve their professional integrity, have lost ground. The current problems go beyond what we observed in our 2013 report, when we described a process of "creeping strangulation". Today there is a sweeping offensive by a ruling party that is thoroughly intertwined with business interests at every level, seeking to stifle all independent journalism, including mainstream commercial media, non-profit media outlets, and online news sources, as well as opposition party-affiliated media.

These interventions are causing both immediate and enduring distortions in how the public sphere operates, limiting public access to impartial information and damaging Hungary's democracy by constraining public debate.[5] Some of the laws and regulations implementing these interventions diverge sharply from European standards.

2. Media Environment Overview: Reshuffling the Media Market

Over several years, the state has continually engaged in media market interventions to take control of media outlets or to curb independent reporting. After the 2014 elections, changes to the media policy framework designed during the previous parliamentary term were initiated. Most important are the advertising tax and new constraints on television channels described in detail below. It is not yet possible to assess their full extent and cumulative impact. Recently, as discussed in the Mérték January 2015 report, conflicts have emerged between leading government politicians and supportive media outlets and other pro-government media. These new factional conflicts are affecting the positions of right-wing media enterprises and creating uncertainties that reverberate through the entire media market.

Major beneficiaries in each sector took an increasingly greater share of state advertising after the change in government in 2010—the winners turned into "great winners".[6] The main beneficiaries in the daily newspaper, magazine, radio and outdoor advertising markets have remained the same for several years (*Metropol, Heti Válasz, Class FM, Publimont,* respectively). Analysis of ownership structures shows that these companies are linked to the Fidesz-affiliated media empire.

Changes in the Media Council's (Nemzeti Hírközlési- és Média Hatóság Médiatanács—National Media and Infocommunications Authority Media Council) radio license policies between 2010 and 2014 imposed a fundamental transformation of the radio market. They have constrained market competition and increased market concentration. The number and significance of local radio stations—which had previously played a crucial role in the vibrancy of local public spheres—have diminished. This is further discussed below.

Public service broadcasting has altered substantially since 2010, and major changes continue on the organizational level. Highly partisan editorial practices and politically biased reporting have continued in the past year, and are turning public broadcasting into a propaganda arm for the ruling party. Legal regulations and financial practices related to Hungary's current public media have introduced improper state influence over public media and fail to comply with European Commission requirements regarding state support for public service media.[7] Independent online media outlets now commonly refer to the country's public service broadcasters as "state media".

3. Key Findings

- Changes in state advertising spending are greatly benefiting government-friendly media.
- Hungary's radio market has been reshaped through partisan licensing practices.
- Public broadcasting has reverted to state broadcasting that promotes the ruling party.
- The May 2015 revision to the progressive advertising tax imposed in 2014 introduced a flat tax that is burdensome for all media, and may affect some outlets' viability.
- The Sunday trading ban for large shops, official intervention in the media agency market, and centralization of government advertising spending are reshaping the media market, even if the concrete consequences are uncertain.
- Discord is growing between the ruling party and media owners long close to its leadership over government actions that could curb their companies' power and profitability.

4. Key Recommendations

None of the recommendations from our 2013 report has been realized. They remain relevant today and are restated here.

- Public procurement for all state advertising should be simplified and based on clear performance criteria wholly transparent to the public, subject to clear audit and reporting rules, and supervised by an independent body.

- All state media assistance should be allocated and administered by an independent body and subject to clear audit and reporting rules.

- The state's roles of supporter of content production and advertiser must be clearly separated and subject to transparent review by an independent body; editorial integrity should be explicitly guaranteed.

- Hungary must comply with European Commission requirements regarding state support to public service media.

- State imposition of additional financial burdens on media outlets should be reconsidered—especially given Hungary's small and vulnerable market—as greater costs like the new advertising tax diminish media capacity to provide pluralistic and high-quality content.

- Introduction or modification of media sector taxes should be openly discussed among all stakeholders to avoid selective application or impact, political biases, and unjustified constraints on media freedom.

- Broadcast frequency allocations should be made through transparent and consistent procedures by independent media authorities. Frequency tenders should follow a plan that ensures predictability of market development for several years. All tendering and application materials should be published on the website of the media authority.

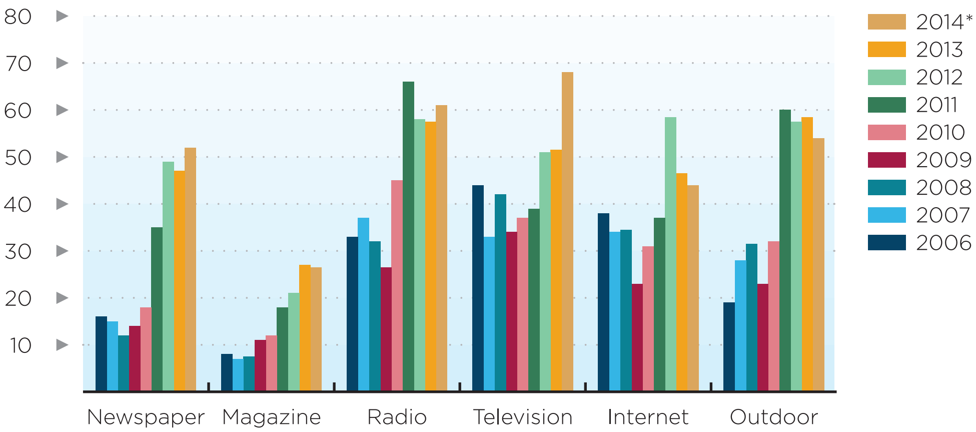
- The structure and function of the Media Council should be updated under new regulations that assure its independence and fair allocation of broadcast licenses.

5. Soft Censorship Practices: Overview

5.1 State Advertising

There have been substantial shifts and increasing concentration in the allocation of state advertising over the past years. In all six market segments analyzed (daily newspapers, magazines, radio, television, internet, outdoor advertising), the main beneficiaries have received a greater share of state advertising spending in 2014 than in 2006. In most cases, there were changes in which media companies benefited most from state advertising spending. More important is that the major beneficiaries in each sector gained an even larger share of state advertising after the change in government in 2010. State advertising revenues have become concentrated in fewer outlets, most owned by companies closely related to the ruling Fidesz Party.

Share of the main beneficiaries of state advertising spending in each sector 2006-2014



The main beneficiaries in the daily newspaper, magazine, radio and outdoor advertising markets are Metropol, Heti Válasz, Class FM, and Publimont, respectively.

Source: Edited by the author based on data from Kantar Media

*Until August 2014

Based on data from 2014, TV2 was decidedly the most important beneficiary, receiving over a fourth of total state advertising spending. TV2 is followed by other well-known media often mentioned in the past years as major beneficiaries of state advertising spending; their ownership structures indicate that these companies are part of the Fidesz-affiliated media empire. The commercial television channel with the most critical attitude towards the government, RTL Klub, is fifth on the list of state advertising recipients, but state advertising is a very minor share (2.1 percent) of its total advertising income.[8] State advertising plays a key role for some media companies and outlets, which might not be viable if dependent exclusively on commercial advertising revenue. Investors with close ties to Fidesz own all media companies on this list. This includes media enterprises whose entire income derives from advertising (outdoor advertisers and the freely distributed newspaper *Metropol*); these are of course quite vulnerable to the vagaries of the commercial advertising market. For media like paid newspapers earning revenue directly from consumers, dependence on state advertising is less pronounced, although its share in terms of total revenue remains significant.

Share of the main beneficiaries of state advertising spending in each sector 2006-2014

	Media brand	Operator/publisher	Type of media	State advertising spending based on list prices ('000 forints)	State advertising spending based on list prices (%)	The share of revenue from state advertising spending as a percentage of total advertising revenue
1	TV2	MTM-SBS/TV2 Kft.	Television	5,962,697	27.7%	8.3%
2	Publimont	Publimont Kft.	Outdoor	2,625,986	12.2%	34.6%
3	Metropol	MTG Metro Gratis Kft.	Daily	1,753,375	8.1%	34.5%
4	Class FM	Advenio Zrt.	Radio	1,397,497	6.5%	15.2%
5	RTL Klub	RTL KLUB	Television	944,388	4.4%	2.1%
6	JCDecaux BB	JCDecaux	Outdoor	698,828	3.2%	12.0%
7	M1	Magyar Televízió	Television	674,943	3.1%	4.2%
8	Magyar Nemzet	Nemzet Lap-és Könyvkiadói Kft.	Daily	666,179	3.1%	44.3%
9	Origo-Adnetwork Portfólió	Origo Adhouse	Internet	597,876	2.8%	13.1%
10	EURO AWK	EURO AWK	Outdoor advertising	574,026	2.7%	27.7%
Source: Kantar Media						

Also influential is the state's intervention in the media agency market. This market is significant because media agencies decide placement of advertisements—sometimes including state advertising—in various media. They exert a direct impact on media outlet's revenues; in Hungary, as noted in our previous reports, the agencies play a decisive role in the skewed distribution of state advertising. Since 2010, almost all contracts for placing state advertisements have been won by three media agencies. The largest share of state advertising was distributed by the Inter Media Group (IMG), which is tied to Fidesz ally Lajos Simicska, and before 2010 was not a significant player in the media agency market.[9]

5.2 Paid "News" / Captured Channels

"Paid News"—in which media outlets are paid to produce guided editorial content that appears as independent news—has scant applicability in Hungary. The government and political parties (especially the current governing parties) do not need to pay for specific reporting, because they have built their own media. Through market changes, "captured channels" have been established through which political interests can control content of news reporting.

5.3 Bribery and Payments

Unofficial bribery and other payments to influence news content are of little relevance in the current Hungarian context. Partisan media has become systemic. Direct ownership of media companies by interests aligned with political factions, and the ruling party's efforts to control public broadcasters' news content, mean that overtly corrupt practices are not needed to shape news coverage and editorial policies.

5.4 Other Regulatory and Administrative Pressures

Radio Licensing

A fundamental transformation of Hungary's radio market took place from 2010-2014. A major change was in the national commercial radio market. A year after a national commercial radio went bankrupt in 2012, the National Media Council granted its licenses to public radio stations.[10] Media Council actions caused stations that had previously competed successfully to reduce their operations or disappear completely. This marked the end of any competition in the national commercial radio market.[11] At the same time, new players began gaining strength due to the media authority's license tender practices. Favored recipients were radios owned by right-wing media empires and radios with religious content. Decision-makers wanted religious programs to strongly penetrate the local radio market. Rather than having local media convey local contents on local frequencies, the media authority is promoting through its policies centrally broadcast religious programming for wide dissemination. This major media policy intervention cannot be regarded legitimate in the absence of public planning, debate and assessment.

The Advertising Tax

During the current parliamentary term, governmental intervention in the media market started with the introduction of a tax on advertising revenue that took effect in July 2014.[12] It covers electronic, print and online press products, as well as outdoor and Internet advertising. Originally, the applicable rate of the tax rose progressively. Advertising revenue under 0.5 billion HUF (circa 1.6 million EUR)[13] was untaxed. Income over between 0.5 billion but less than and 5 billion HUF (between 1.6 million and 16 million EUR), was taxed at one percent. Above five billion HUF (16 million EUR), the rate was 10 percent, and increased by another 10 percent for each additional five billion, up to a maximum rate of 40 percent (rising to 50 percent from 2015), on advertising income over 20 billion HUF (64.2 million EUR).

The original advertising tax was an open intervention in the market competition between RTL Klub and TV2. It severely distorted the market, especially the market for television, since it imposed a disproportionate impact burden on television market leader RTL Klub, one of the commercial channels broadcasting nationally.[14] The other leading national commercial TV provider, TV2, has operated at a loss for several years, and the law allowed it to reduce its taxable income by 50 percent of its losses. The continuously profitable RTL Klub, by contrast, had no such recourse as a result of an amendment to the advertising tax regulations that was aimed specifically at pre-empting its ability of to write off losses.

In its original form, the advertising tax was a blatant intervention in market competition between RTL Klub and TV2. RTL Klub's initial advertising tax payment in August 2014 comprised 80 percent of the new tax's total collection. Profits of the international RTL Group declined because of the tax, and its Hungarian branch was no longer profitable. The discriminatory character of the tax was reinforced by that fact that no other media company in the Hungarian market records HUF 20 billion revenue, and faced the corresponding 40 percent tax rate. The top tax rate rose to 50 percent in 2015, and RTL faced an even greater tax burden.[15]

RTL complained to the European Commission about the advertising tax. As a result—and because of the diplomatic dimension of the issue—the government reviewed the regulations. The proposed new regulation replaces the existing structure with a 5.3 percent flat tax paid on an advertisement income over than HUF 100 million.[16] The new regulation ends explicit discrimination against RTL Klub, but imposes a substantial burden on smaller media outlets exempt from the original tax.

Imposition of additional financial burdens like the advertising tax sharply decreases competitiveness of Hungarian media against global media players operating in the Hungarian market that are not subject to such national regulations. They also—especially considering Hungary's small and vulnerable market—diminish media capacity to provide pluralistic and high-quality content, and perhaps even to survive.

Sale of TV2

Other changes have reduced market transparency. In December 2013, an official announcement confirmed what had been rumored for months: the German television channel ProSiebenSat1 was selling its Hungarian subsidiary, MTM-SBS Ltd., owner of Hungary's second largest commercial television channel, TV2. Alleged details of the sale had been circulating, with the press speculating on various scenarios involving the sale of TV2. Unanticipated was that MTM-SBS Ltd. would be bought by the company's general manager, Zsolt Simon, and its financial director, Yvonne Dederick. The terms were apparently very favorable to these buyers; ProSiebenSat1 agreed to a so-called "vendor loan" that allows TV2's buyers to pay off the purchase over an extended period.[17]

Several articles regarding the 2014 events at TV2 and discussions in the media profession indicated widespread disbelief that the two executives could make this acquisition on their own. The most widely credited scenario was that the government's film commissioner, the movie producer Andy Vajna, who is close to the prime minister, was involved, and is now said to have influence over the station.[18]

Sunday Trading Ban

Beginning in March 2015, most stores have been forced to close on Sundays. The law targets supermarkets and other retail chains, with small family-owned shops still allowed to trade. This has strongly affected sales of newspapers published on Sundays, because many fewer shops are open and shopping patterns quickly changed. Some Sunday titles are now distributed on Saturday, despite more intense competition. The competitive position of some newspapers has been adversely affected.

The Bonus Act

The Parliament intervened in the media agency market, as well.[19] Since July 2015, the law has limited media agency fees to 15 percent of the advertising cost charged by media outlets. According to the law, the media agency must not receive any other gifts or financial benefits, and the agency must pass all price reductions to the advertiser. Further, the law has regulated cross-ownership between media agencies and publishers, requiring transparency regarding ownership structures and forbidding transactions between cross-owned parties. The intent and effects of the new law are not yet clear. Yet it is certainly reshaping the media agency and advertising market, and has displaced businesses aligned with the "Simicska Empire" of media holdings, whose owners have apparently lost influence on the ruling party.[20]

National Communications Office

In 2014, the government created the National Communications Office. This new body will coordinate the communications of public bodies funded by the central budget and state institutions, process public contracts associated with these activities, and monitor delivery. The centralization of state advertising spending makes it easier for government to influence the market positions of all media companies, including those of right-wing media. In August 2015, the Office signed the first framework contracts for HUF 25 billion (80 million EUR) with three media agencies that will exclusively provide media agency services for all state institutions and enterprises. None of the selected agencies belongs to the Simicska Empire, but have other affiliations,[21] that redraw the political alignment of the media agency market.

The Fidesz Media Empire

TV2's terms of sale, described earlier, are among several signs that the pro-government media empire is undergoing significant changes. Conflicts among various pro-Fidesz interest groups are growing. The Hungarian media market is dominated by investors who are commonly referred to as the "oligarchs". Most prominent are Károly Fonyó, Zsolt Nyerges, and Lajos Simicska. These Fidesz-aligned investors have significant stakes in the radio and television markets, as well as outdoor advertising. This seemingly stable situation was upset in the spring of 2014 when Prime Minister Viktor Orbán apparently decided to curb their influence.[22] Numerous articles in the Hungarian press dealt with the new situation, and it was a matter of speculation how much the media portfolio known as the "Simicska Empire" and other government-aligned media companies would actually suffer. It was evident at its inception that the 2014 advertising law would have a detrimental, albeit lesser, effect on the market positions of right-wing media as well as RTL Klub. Soon after the advertising tax was imposed, editorial offices of some right-wing media outlets began trimming staff. For the first time, right-wing media joined criticism of the Fidesz government's media policies.[23]

In January 2015, it was reported that Prime Minister Viktor Orbán announced at a closed meeting that the government's communication strategy would be transformed. The government would henceforth use public funds to bolster public service media rather than supporting media outlets that have proved themselves as loyal allies over the years, the prime minster was reported as saying.[24] This implies that state advertising purchases will be directed to the state-owned Media Service Support and Asset Management Fund (MTVA—Médiaszolgáltatás-támogató és Vagyonkezelö Alap). As the article quoted Orbán, other media "should not count on any significant amounts of state advertising in the coming period, they will have to learn to stand on their own two feet". The prime minister's personal engagement in the partisan allocation of state institutions' advertising spending, and his acknowledgement that political pressure is brought to bear on editorial offices, clearly demonstrates the perilous and deteriorating situation of Hungarian media. This development reinforces the belief that the media market has become an important arena in conflicts among competing interests within the ruling party.

6. Conclusion

Pressures on free and independent media in Hungary are accelerating. The Fidesz government is enacting new and broader laws and regulations aimed at making Hungary's media pliant to its wishes. Some editors and journalists who have published news that displeases the government, as at Origo.hu, have lost their jobs. Allocation of state advertising remains opaque and unfair, based on the political leanings of particular media outlets, and significantly distorts market competition. The new advertising tax at first seemed targeted at a specific media outlet, RTL Klub. In its revised form, it is a serious financial burden for all media.

Even at media companies not captured by partisan political interests, potential receipt or denial of state advertising and other contracts influences editorial policies, and creates newsroom environments in which editors accept and journalists practice self-censorship. Among media advertising agencies, market competition is increasingly shaped by biased award of state contracts. The country's public broadcaster is subject to rising political interference, some overt, and also through regulations and financial practices that fail to comply with European Commission requirements.

This assault on free media is the most egregious part of a wider government campaign to weaken civil society that is choking public debate and imperiling Hungary's democracy. Absent intensified and sustained international pressure, there appears little prospect that the current government will change course and adopt the recommendations listed above to restore Hungary's media to its proper role of promoter and defender of democratic processes.

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