



The craziest 7 days of 2011

It took the Hungarian government months of increasing budget qualms to realise that it's better to have an IMF umbrella than not to have one. Yet it appears that the realisation was theoretical. The Orbán government emphasised that no major policy concessions would be forthcoming to reach an agreement with the Monetary Fund, but it failed to warn the public in time that it planned to implement measures to make an agreement far less likely. Even as the IMF and EU delegations were involved in talks with their Hungarian counterparts, Fidesz introduced bills that would allow the government to take control of the Central Bank, while it also wishes to nationalise the few remaining accounts in the formerly mandatory private pension scheme. Fidesz is simultaneously undermining democracy, the rule of law and what's left of Hungary's international standing.

This is a bit awkward. How do you apologise to someone for mistakenly believing that he would – after exploring numerous alternatives – ultimately make the sensible, right, and last but certainly not least patriotic move? A few weeks ago we lauded the government for taking the right step in turning to the IMF as government bonds become increasingly difficult to sell on the open market, which is where Orbán Viktor had initially noted he preferred Hungary finance herself from. We even went as far as to gently admonish the “crisis profiteers”, those who sought to exploit for political gain the policy U-turn that was arguably the toughest call this government has had to make to date.

But then it turned out that the joke is on us because the government proceeded to botch talks with the IMF and the EU at the first opportune moment, which was incidentally the first (informal) round of said talks. The IMF and EU delegations left Budapest early, which makes the initial negotiations a failure.

It would be difficult to argue that the government did not take these talks seriously. Minister of National Development Tamás Fellegi even resigned leadership of his ministry so he could devote his entire energy to managing the talks. He might well end up out of work if the current situation proves durable.

Though we are sure everyone even remotely interested in Hungarian affairs is apprised of last week's events, here is a quick recap of what happened, along with a summary of the government's casual and optimistic (some might call it cynical) assessment and, further below, a less cheerful appraisal from us.

Divorced from reality?

Government politicians reacted to the prematurely halted talks in a variety of ways, none of which were constructive. On the morning of the IMF delegation's departure, Orbán said that there were no official talks with the IMF and added that if such negotiations will take place they would not involve discussions about the nature of Hungarian economic policy. Since Hungary is an IMF member, the prime minister argued, asking the IMF for a loan is like asking the bank one co-owns for money.



The notion of the IMF as a mere cash cow was reinforced by Tamás Fellegi, who also noted that there had been no official negotiations and added that talks could only take place if there would be no preconditions, which was presumably a reference to international concerns about the government's legislative agenda discussed below.

So while the Orbán-Fellegi line was that the IMF is a glorified ATM without the right to talk back or actually formulate conditions for doling out money, Fidesz parliamentary leader János Lázár added insult to injury by telling the press that the IMF delegation only left early to ensure that they don't miss Santa Claus. One can only hope that their Christmas will be relax them better than dealing with the alarming state of the Hungarian budget would.

Private pension blackmail...

In the intervening days government party politicians introduced two bills in Parliament which angered many in Hungary, and apparently abroad as well. For starters, Fidesz wants to grab the money that the few remaining members (100,000 out of formerly three million) of the former mandatory private pension schemes pay into their pension.

Given that the government already keeps the employer-financed majority of their pension contributions, this total dispossession would be stunning to say the least. The money grab will effectively result in a nationalisation of the accounts held by the few remaining private pension holdouts. After effectively blackmailing millions of future pensioners into giving up their accounts, Prime Minister Viktor Orbán pledged to leave the rest be in return for them forfeiting their claim to a state-financed pension even as a majority of their contributions continue to enrich state coffers. Though Fidesz fails to honour this promise, it appears that the inter- and supranational organisations in question do take notice.

...and central banking folly

Still, provocative as it was, this was of comparatively little importance next to the other bombshell that Fidesz announced last Wednesday. The government wishes once again to assume control over the Hungarian National Bank (MNB). This time the plan is to fuse it with the Hungarian Financial Supervisory Authority (PSZÁF), thereby creating a new institution.

Obviously, the new institution cannot be headed by the same person who governs the MNB right now, which is why András Simor, whose term expires in 2013, would have to make way for a new chief banker already next year. A similar method was used to get rid of György Kopits, the chairman of the Fiscal Council, and András Baka, president of the Supreme Court and (qua office) of the National Council of Justice, one of whose successors will be the wife of Fidesz MEP József Szájer.

Upon taking power, Fidesz very quickly bulldozed its way through the independent oversight institutions, taking control of all them but the central bank and the non-constitutional arm of the judiciary, though the former was not for wont of trying. After sensing that legislative changes to subordinate the MNB to the government would damage Fidesz' European



standing more than the neutralisation of other independent institutions, the government backed down. But Fidesz did launch a massive media campaign against András Simor, trying in vain to get him to resign.

It is probably no coincidence that the two last bastions of independent oversight are now targeted at the same time. But there are also increasing signs that the international community is looking at these attempts with a somewhat different – i.e. more alarmed – attitude than its weary concern hitherto. One crucial indication was the symbolic early departure of the EU and IMF delegations.

Space for paranoia

Among those particularly suspicious of the government – unfortunately a position that is vindicated far too often – there was talk that the entire communication of negotiations with erstwhile enemies is nothing but a red herring. In reality, thus the über-sceptics, the government merely wishes to pretend that it is willing to negotiate so that it can shift the blame for the ills before us on the international institutions, which it had demonised long enough. We would like to say that is utter nonsense but must hold out on judgment.

In a detailed analysis, a commentator on Hungary's most widely read news portal, Index, offered an idea along similar lines: the government is less concerned now about the IMF or about Simor personally than about getting access to the vast foreign currency reserves that the national bank has amassed since the painful experience of going into the previous crisis empty handed.

This specific goal rather than the notion of wanting more control per se drives the policy of seeking to take over the MNB, and – if true – this would indeed render compromise more unlikely. If the government has manoeuvred itself into a position where it can't renounce access to the bank or its resources then this will likely put Hungary in an extremely vulnerable position.

Careful, the ice is creaking

Patience with the Orbán government is wearing thin simultaneously in and outside of Hungary. Polls show dramatic signs of decline and even reliably conservative voices in the blogosphere have begun frowning on the unpredictable moves and controversial explanations proffered to justify those. The international mood is icier still.

Though foreign criticisms concerning the media law (now surprisingly felled by the Constitutional Court) were forceful, and some of the things the government did or planned to do led to openly voiced concerns, wholesale critiques of the Orbán government from abroad were subdued, generally uttered behind closed doors. That appears to be changing.

It is unclear what triggered these changes, for Fidesz' most recent actions are not of a different quality than its earlier attempts to cut the rule of law to size. Domestically, frustration probably stems from the fact that even those who were willing to forgive the



government's trespasses in return for improved economic policy are coming to realise that the increased governmental powers will not in fact yield better economic outcomes, at least with current crew. International observers may simply find that these latter usurpations of executive power show that Fidesz's objectives may be more sinister than merely counterbalancing eight years of Socialist misrule.

Fidesz is certainly striving to give anxious analysts plenty of food for thought, witness its latest astonishing proposal, which would allow for passing bills in Parliament without any debate. Fidesz has often indicated its distaste for using Parliament as a forum for debate and, correspondingly, it reduced the number of plenary sessions when it first took power between 1998 and 2002. Without repeating this mistake, it has plentifully exploited its majority and all procedural means to circumvent debate. At this point, it might be more honest to simply dissolve Parliament by decree.

Be that as it may, the promising indications of a more sober policy vis-à-vis international institutions has quickly given way to – hopefully temporary – disappointment. The Christmas break will give all the players involved, but especially the government a welcome break to reassess Hungary's position and priorities. Let's hope they make the most of it – and we will be back next year to see if they have done so.