IMF and EU step up the pressure on Hungary

Markus Salzmann
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The International Monetary Fund (IMF) and the European Union (EU) have tightened the screws on Hungary following a decision by its new government to introduce a levy on banks and insurance companies, and delay the introduction of some of its planned austerity measures.

In response to the failure of the right-wing government in Budapest to comply immediately and completely with their demands, the IMF and EU have broken off discussions over the release of part of an emergency finance package totaling €20 billion agreed two years ago. This means that Hungary is deprived access to approximately €5.5 billion.

Further retaliatory measures against the country are also being prepared. The EU bureaucracy in Brussels is considering using Hungary as a test case for recently agreed sanctions against countries accused of unreliable budget-keeping. This measure could then deny the country subsidies from European regional funds. European Commissioner for Economic and Financial Affairs Olli Rehn, from Finland, declared in this respect: “We must sharpen our claws”.

In the past few days, both IMF and EU representatives have drawn parallels between Hungary and Greece. The European Union placed the latter under supervision and has exerted enormous pressure on the country’s social democratic PASOK government. Subsidies to Greece are directly attached to saving measures and attacks on social gains. Following the introduction of austerity measures in Greece, the IMF and EU praised “the substantial progress to placing public finances on a sustainable path”.

The action taken against Hungary should be seen as a clear signal to all states that receive or require subsidies. *Handelsblatt*, the leading German business newspaper, quoted one EU diplomat: “We showed them the red card. No government will be able to play around with us”.

Germany’s conservative *Frankfurter Allgemeine* also supported the hard line taken against Hungary, arguing with the arrogance of an imperialist overlord: “The example of Hungary is a typical case of a new government’s inclination to dissociate itself from the austerity course of its predecessors after a change of power. It is important that the International Monetary Fund and the European Union neither support nor tolerate such a course. A hard line is also important for the restructuring of the southern European national economies”.

The conflict led to a sell-off on the Budapest and other European stock exchanges last week, and the Hungarian forint lost nearly 3 percent against the euro. The shares of OTP Bank, Hungary’s largest, and Austria’s Raiffeisen Zentralbank dropped 5 percent. Austrian banks are heavily involved in eastern Europe and react very sensitively to changes in the region.

The situation was intensified when the rating agencies Moody’s and Standard & Poor’s announced they were considering a downgrading of Hungary’s creditworthiness following its spat with the IMF and EU.

The harsh line taken by the IMF has even led to criticism from some business circles. The German economics professor and investment advisor Max Otte noted quite correctly that the previous credits from the IMF had “ liberalised Hungary’s financial markets, which in turn encouraged high indebtedness.… This means that Hungarian citizens can run up debts for property in foreign currencies—a situation which increases the instability of the financial sector”.

At the same time, it is clear that Prime Minister Victor Orban and his right wing Fidesz-Hungarian Civic Union are not opposed to radical economic measures. On the contrary, following his recent election victory, Orban stressed that budget consolidation was

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the top priority for his government.

Fidesz won a two-thirds majority in the April election, giving the party a large degree of room for manoeuvre. Orban announced "basic changes" and a "new economic system", which went far beyond the austerity measures introduced by the preceding government against the working population, while providing massive concessions to the wealthy. Business tax has been slashed from 19 to 10 percent and a flat tax of 16 percent imposed on all incomes.

The cuts imposed by the Orban government included limits on redundancy payments for state employees and a 15 percent cut in public service salaries. The previous government led by Gordon Bajnai had already cut the pay and premiums for public sector workers.

The Orban government sought to offset these cuts with a levy on the banks, but such a measure had merely a symbolic character. The balance sheets of the banks were to be taxed by just 0.4 percent for a maximum of three years. Such amounts are ludicrous bearing in mind that Hungarian banks have been able to profit from the billions recently invested in European financial institutions.

There were two reasons for the decision of the Fidesz government to delay momentarily further cuts and impose a minimal bank tax. First, the regional elections scheduled for this autumn—despite the fact that the Socialist Party is completely discredited, many Fidesz office holders fear for their posts should the austerity course be further intensified.

Rating agency experts and finance commentators assume that Orban will change his mind as soon as the elections take place. According to the chief economist at DekaBank in Frankfurt, Ulrich Kater: "We assume that this is a publicity stunt by a new populist government, above all under conditions with local elections due in the autumn".

When it comes down to it, Hungary has no choice but to implement austerity measures if it wants to return to the finance markets, Kater told *Handelsblatt*. In this respect, the conflict with the IMF serves a certain purpose. "It is one of the unwritten rules that the role of the scapegoat is assigned to superordinate international bodies such as the IMF". And further: "Based on experience, this is the only way to implement reforms in countries which lack the strength to do it themselves—as is shown by the case of Hungary".

Secondly, Fidesz is trying to limit the increasing influence of the ultra-right Jobbik party. In the April election, Jobbik won 17 percent of the vote and third place in the vote.

Jobbik has defended the planned austerity measures, but in a fake populist manner has denounced the IMF and EU, demanding instead that Hungarian institutions play a more powerful role. "The desire to weaken Jobbik pushes Fidesz into a position of further confrontation with foreign entities", declared Peter Kreko of Budapest's Political Capital think tank. "Fidesz seems to be committed to no compromises with the IMF until after the municipal elections".

Many Fidesz leaders, in fact, enjoy close links to the ultra-right Jobbik and are calling upon Orban to adopt a more nationalistic orientation. The measures demanded by the IMF will hit small businesses as well as the broad working population, and small business interests represent the traditional basis of Fidesz.

The severe line taken by the IMF against Budapest makes clear that broad sections of the ruling elite are intent on imposing even more brutal measures and social cuts. Such measures will inevitably provoke a political reaction from the masses of the population.

Lars Christensen, from the Danske Bank, told the *Daily Telegraph* in Britain that the events in Budapest could just be the start. The Baltic states and a number of other European countries are implementing similar drastic austerity programmes and could confront similar conflicts.

"Austerity is extremely hard to sell to electorates. The risk is that this moves from a wider financial and economic crisis to a European political crisis as governments are punished by voters. The approval rating for Lithuania's prime minister has fallen to 7 percent", Christensen noted.

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