EU and IMF increase pressure on Hungary

Markus Salzmann
2 March 2012

The right-wing Hungarian government of Victor Orban (Fidesz) is coming under increasing pressure from the European Union and the International Monetary Fund. They criticise Orban for not going far enough with austerity measures and accuse him of curtailing the independence of the country's Central Bank.

In order to add a democratic veneer to their diktats on behalf of the international financial markets the two institutions have also chosen to criticize some undemocratic aspects of the new Hungarian constitution, although it was adopted over a year ago.

The Hungarian state is near bankruptcy. Both the EU and the European Development Bank (EBRD) have revised downward their growth forecasts for the country and expect a decline in gross domestic product by 1.5 percent this year. Hungary now depends entirely on further loans from the IMF.

In 2008, the country only averted bankruptcy on the basis of such loans.

At the end of January, European Commission President Manuel Barroso, EU Parliament President Martin Schulz, the president of the European Council, Herman van Rompuy, met with the Hungarian prime minister in Brussels for informal talks. In order to increase the pressure on Orban, they threatened to implement legal proceedings in connection with Hungary's budget deficit, which they declare violated constitutional obligations.

The EU Commission has already launched three proceedings, and Budget Commissioner Olli Rehn also stepped up the pressure when he gave a report to European finance ministers criticising Hungary's efforts to reduce its "excessive deficit". According to Rehn: "Hungary's actions were not sufficient to correct the deficit in a sustainable and credible manner".

The proceedings undertaken by the EU concern the independence of the Central Bank, the Hungarian data protection authority and its judiciary. The EU focus is clearly on the independence of the Central Bank.

According to the EU Treaty, a country's government cannot interfere in the monetary policy of its Central Bank. In this connection, the EU has criticized the inclusion of a representative of the Hungarian government on the Central Bank Council.

Commission President Barroso said Hungary had "to guarantee the independence of its central bank and its data protection authorities as well as freedom against discrimination for its judges."

The Commission is determined to take all legal steps necessary to prevent violations of EU law.

EU Parliament President Schulz said he had used the meeting to inform the Premier of "his personal concerns" regarding the new constitution.

He accused Orban of playing a double game. In Budapest, he said one thing; in Brussels, something completely different. He should not assume, however, that EU parliamentarians were stupid, Schulz warned.

It is evident that Brussels' concern has nothing to do with the observance of democratic standards and/or the protection of the Hungarian population against authoritarian measures. When the Fidesz parliamentary majority adopted its new constitution a year ago, criticism from the EU was muted. Some EU representatives expressed their "concern", but European leaders said little.

Fidesz is a member of the European People's Party (EVP), which also includes Germany's Christian Democrats (CDU) and Christian Social Union (CSU). Orban is the vice chairman of the EVP. Both the new constitution as, well as Hungary's undemocratic media laws, have been defended by the EVP, and even now there is no evidence that the EVP intends to sanction Fidesz, although this is entirely possible under its statutes.

Criticism of attacks on fundamental rights in Hungary was only raised after Orban challenged the independence of the central bank for his own populist political ends. This is evident from the recent IMF report.

The IMF makes it abundantly clear that further negotiations on allocation of funds can only take place after an agreement has been struck with Brussels. Even Hungarian government officials no longer anticipate an agreement before April.

The IMF calls for swift and ruthless cuts, while ruling out any government interference in the financial system of the country.

Its report noted that Hungary had not yet recovered from the crisis of 2008 and 2009, and declared that many government policies had served to shake the confidence of the markets.

The IMF is concerned about several laws passed by the Orban government, first and foremost, legislation passed in September, under which Hungarian banks convert foreign currency loans granted at a fixed price into Hungarian forints. The difference from the current exchange rate was to be paid by the banks.

In addition, it has criticized changes to the country's tax system. It is concerned by special taxes introduced for industries that are mostly owned by foreigners, such as telecommunications, energy and the banking sector. It has also demanded that the tax rates in Hungary should be increased, or a second rate of tax introduced for high earners to reduce the budget deficit by around €1.7 billion. Last year the government introduced a 16-percent flat tax and enshrined in the Constitution tax safeguards for companies and high earners.

The main concern of the IMF is the independence of the Central and State Financial Services Authority, whose scope has been massively curtailed recently. Now the central bank can act only on instructions from the government.

In contrast, the report praised the "reforms" of the government such as the abolition of early retirement and the introduction of forced labour for welfare recipients. At the same time it calls for further measures to improve the "business environment" and "competitiveness" in Hungary to regain the confidence of big business and the finance markets.

Orban and his Fidesz government have lost much of their support due to the introduction of austerity measures and attacks on democratic rights. All the polls show massive losses of approval by voters. More than 50 percent regard the government's policies as harmful and more than 80 percent believe the country is going in the wrong direction.

This trend was confirmed at a demonstration organized three weeks ago by pro-government circles. Although the Fidesz-controlled media openly campaigned for the demonstration and government-related companies awarded their employees free travel to Budapest, only about 40,000 people turned out.

The so-called "Peace march for Hungary" had a distinctly anti-EU character.

At the final rally, attended by several senior Fidesz members, speakers attacked the EU while virulently defending the national independence of Hungary.

In Hungary Orban plays the nationalist card, but the truth is that his government is completely dependent on the EU and IMF, and is intent on meeting their demands. In this respect, he can also rely on the opposition parties, despite odd words of criticism from their ranks. The deal struck by Orban with the IMF and the country's participation in the EU fiscal pact are both supported by the opposition Socialists (MSZP).

The latter ruled the country from 2002 to 2010—the period in which Hungary joined the EU—and carried out all of the cuts demanded by EU for membership. It was above all the right-wing policies of the MSZP, which paved the way for Orban's subsequent electoral victory and two-thirds majority in parliament.