Hungary: New government presents radical austerity package

By Markus Salzmann
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Just one week after taking office, the new Hungarian government led by Victor Orban has put forward an unprecedented package of austerity measures.

In so doing, Orban is treading the same path as his social democratic colleague, Greek Prime Minister Giorgos Papandreou. In the recent election campaign, Orban had played down the crisis. Now, after taking office, he has "suddenly" discovered that the country's budget deficit—amounting to 7.5 percent of GDP (gross domestic product)—was twice as high as his predecessors had indicated.

Orban's announcement of the new figures on June 4 sent shock waves through international financial markets, which feared a repetition of the crisis in Greece. Stock markets worldwide registered sharp declines in values, and the euro slipped to a four-year low of $US1.18.

"It is the fear of contamination which is driving markets", Jackson Wong, the vice president of the brokerage house Tanrich Securities, told the *Financial Times Deutschland*. "There is no good news. We are simply not emerging from the crisis," he added. Analysts of the Danske bank called the deficit "quite worrying" and assumed that "further bad news is in the offing".

The Hungarian government then sought to calm nerves by declaring that reactions to the Hungarian debt had been exaggerated and "unfortunate," while at the same time announcing a rigid austerity programme to shift the burden of the debt onto the Hungarian population.

Orban's right-wing Citizen's Federation (Fidesz) won the parliamentary elections in May with a two-thirds majority. It owed its success to widespread anger over the austerity measures dictated by the International Monetary Fund and introduced by the former social democratic government. During the campaign, Orban declined to propose any concrete political measures in the election campaign—declaring only that he was determined to fight corruption, increase competitiveness and cut back the country's bureaucracy.

Now, Orban has announced "basic changes" and a "new economic system" for the country, going far beyond the austerity measures of the preceding government. Orban's new proposals particularly target ordinary workers, their families and the socially oppressed, while leaving the wealthy untouched.

The austerity package aims to reduce the budget deficit to 3.8 percent of GDP—the figure stipulated by the IMF and the European Union at the end of 2008 as the condition for a €20 billion credit to rescue Hungary from bankruptcy. At the same time, taxes for employers and the wealthy are to be cut.

Business taxes are to be reduced from 19 to 10 percent, and the graduated income tax system replaced by a uniform Flat Tax of 16 percent on all incomes. Previously, the income tax had been regulated in two stages: 17 percent for annual incomes up to 5 million Forint (€18,000) and 32 per cent for all incomes above. The new system will above all profit the wealthy: 88 per cent of all Hungarian taxpayers earn less than 5 million Forint.

Other economic measures are also exclusively directed against workers and the poor. Redundancy payments in state-run enterprises are to be limited to two months' salary; any other payments will be subject to a 98 percent tax levy. This means that those made redundant will be even worse off than before.

Wages for employees in the public service are to be cut by an average of 15 percent. The preceding government under Gordon Bajnai had already

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abolished the payment of an additional month's salary and other premiums for public service workers.

Plans to renationalise the country's pension funds, which had been privatised years ago, have been abandoned in favor of a further reform involving dramatic pension cuts and an increase in the retirement age. These proposals are due to go into effect this year.

Even so, these measures do not go far enough for Hungarian and European business circles. A number of economic and political institutes have declared that the measures adopted by the Orban government are largely symbolic, because the promised reduction of taxes is only due to take effect next year. They are of the opinion that the announced cuts will be only the beginning of massive structural reforms in the health service, education, the pension system and public administration.

The European Commission has also called upon Hungary to reduce its budget deficit more quickly. The Commission estimates that the country debt burden will swell this year to 7.9 percent of GDP.

The opposition Social Democratic party (MSZP), voted out of office last month for its antisocial policies, has welcomed the savings package. Its chairman Attila Mesterházy explained that the Gyurcsány/Bajnai governments had intended to take many of the newly announced economic measures.

The Hungarian Greens, elected to parliament for the first time, criticised the measures. However, their opposition should not be taken seriously: in the election campaign the Greens had made clear they sought a coalition with the MSZP, which is just as intent as Fidesz in imposing radical austerity measures.

The neo-fascist party Jobbik, which had linked its racist campaign against Roma and other minorities in the election campaign with social demagogy against cuts, also welcomed the social attacks. Jobbik is demanding even more far-reaching measures, particularly in tax policy, and has offered Fidesz its support.

The cooperation between Fidesz and Jobbik is taking concrete forms with the appointment of a representative from Jobbik to the post of chairman of the Budget Committee. Orban is well aware that his policies will be met with fierce resistance, and he is preparing to whip up racism and nationalism to divert attention from his social attacks.

The government's recent decision to award Hungarian citizenship to all Hungarians living abroad has already led to a build up of tension with its neighbor Slovakia, which could expand into conflict.

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