

Weekly Newsletter

News

Political showdowns begin after Hungarian EU Presidency?

Last Friday evening – only several hours after the former director general of the National Security Office (in Hungarian: Nemzetbiztonsági Hivatal; commonly referred to as *NBH*), Mr. Lajos Galambos had been placed under house arrest – a domiciliary visit was made to the home of Mr. György Szilvássy, former member of Ferenc Gyurcsány's second government; serving first as cabinet minister leading the Prime Minister's Office, then (from July 2007 until April 2009) as minister supervising civilian secret services. Mr. Szilvássy was transferred to the Military Prosecution Office late at night where he was interrogated as a suspect. Former prime minister Ferenc Gyurcsány made an announcement on the internet – based on information from family members – that Szilvássy was charged with 'endangering the state' (probably with espionage). The next target (arrested on Saturday) was Mr. Sándor Laborc, formerly appointed by Mr. Szilvássy to lead the NBH in 2007 (despite harsh criticism from the Liberal Democrats and the then-opposition Fidesz party because Mr. Laborc had attended a KGB school before the transition) for a successor to Mr. Galambos, who resigned only a couple of months earlier (probably because of the case that involved the so-called "Együtt egymásért Alapítvány" [literally: 'Together for Each Other' Foundation]). As of now, only a few people might know exactly why a criminal procedure has been initiated against the last two leaders of the NBH and former secret services minister, Mr. György Szilvássy. Some people from the Ministry of Interior who are familiar with the matter told the daily *Népszabadság* that the so-called National Defense Service (in Hungarian: Nemzeti Védelmi Szolgálat; *NVSZ*), established this January 2011, may stand in the background, given that the Military Prosecution Office initiated the procedure based on accusation from the NVSZ. However, that information was not confirmed publicly by the Ministry. What is more, the Ministry's reaction was that "we would not disclose anything even if we knew something". The daily newspaper's sources denied, however, that the current procedure is linked to those earlier cases that had already been reported by the media in any way. According to leaked information, the former secret services leaders are accused of espionage. Ms. Ágnes Vadai, Socialist MP and chairwoman of the Parliament's National Security Committee announced in a press conference on Sunday that she had summoned an extraordinary session for Monday. In the chairwoman's opinion, it was 'unbelievable and absurd' that the Military Prosecution Office had arrested a number of people during the previous days on the charges of 'endangering the state' who were primarily responsible for the discovery of such criminal acts. Ms. Vadai stated that the National Security Committee had not only the right but also the obligation to become acquainted with every case in point, and that is the reason why a closed session had been summoned for Monday to question the interior minister, Mr. Sándor Pintér, the director general of the National Defense Service (NVSZ), Mr. Zoltán Bolcsik, the Military Prosecutor General, Mr. Árpád Kovács as well as all the other prosecutors involved in the procedure.

Not even the closed session of the National Security Committee on Monday morning shed light on any new detail concerning the case. The vice chairman of the committee – who is a Fidesz MP – divulged only that the relevant files have been classified until 2089. Socialist MP and chairwoman of the committee Ms. Ágnes Vadai said after the almost 45-minute-long session that the statements made by current secret services heads were far-fetched and unrealistic, adding that she did not receive a real answer from the respondents to any of the more important questions. Ms. Vadai claimed that there was a strong need for more information as well as additional sessions in order to determine the seriousness of the case. The chairwoman also emphasized that she had grave doubts whether the three arrests were ordered solely on professional grounds.

Hungary says no request for MOL chief's extradition

Croatia has not submitted an extradition request for MOL Chief Executive Zsolt Hernadi, Hungary said on Tuesday, denying an earlier local newspaper report. "Based on currently available information, Croatia did not submit an extradition request," the Hungarian Public Administration and Justice Ministry told Reuters in an emailed response to questions about the report.

MOL communications director Andrea Panczel was also quoted by national news agency MTI as saying earlier that neither oil and gas group MOL, nor Hernadi, had received formal notification of such a request. The ministry added it had no information that Croatian authorities would have offered to question Hernadi in Hungary. And after that, Croatia's prosecutor general told Bloomberg in an emailed statement that it had not issued a request to extradite Hernadi. Earlier on Tuesday the newspaper Nepszabadsag had said Croatia asked Hungary to extradite Hernadi in a case involving former Croatian premier Ivo Sanader.

Asked about the report at a press conference in Strasbourg on Tuesday, Hungarian Prime Minister Viktor Orbán said "we know of the charges". "We do not see it as an intergovernmental question; clearing up the charges is the task of law enforcement bodies," he added. Orbán said the state of Hungary would not agree to any changes in the contract between MOL and INA, commenting on an earlier report in the Croatian press that the Croatian government could cancel the contract. Hungarians has a 25% stake in MOL and it is "our firm stance as an owner that we will not agree to any modification of the contract," Orbán said.

Croatia is investigating allegations that Sanader was paid a 10 million euro (\$14.5 million) bribe by MOL to gain management control at Croatian energy group INA, in which MOL has a 47.46 percent stake, local media reported last month. MOL and Sanader have denied any wrongdoing.

The Croatian prosecutor general's office said it did not have any information and local anti-corruption police unit USKOK declined to comment on the report. Sanader is in custody in Austria awaiting extradition to Croatia over a number of corruption investigations.

Financial analysts find all this rather unsettling. Attila Vago, equity analyst with Concorde Securities in Budapest, told the Financial Times: "If this [legal] process [against Hernadi] really begins, it would be very difficult to imagine a situation that is not accompanied by Hernadi's resignation. This is why investors are very nervous. This management team has built Mol into a very profitable company in the past ten years." "Earlier this year there was positive news, for example, from [Iraqi] Kurdistan [with an upward estimation of reserves], but since then there have been a lot of things affecting the share price performance," Vago said. First came the Hungarian government's decision to buy back a 21 per cent stake held by Surgutneftegaz, the Russian energy company, at the end of May. "This raised the question as to whether the state would influence the company in the wrong way, against the former management line," says Vago.

Meanwhile, trouble was brewing in Croatia, after Mol tried to gain a majority stake in INA. This prompted a defensive reaction in Zagreb, followed by allegations by the Croatian regulator that Mol was using proxies to buy up INA shares – a charge stoutly denied by the Hungarians. Then, last month, Croatian media first raised allegations that Hernadi was implicated in bribing Sanader.

Whatever Croatian prosecutors now do, the whole affair has hit confidence in Mol. "It's an awful situation there. It's raised the question of whether Mol will retain its controlling rights over INA. Without Mol in charge, INA will not be the same company; Mol has done a lot to improve INA's profitability," says Vago.

Tamas Pletser, an EMEA oil and gas analyst with ING in Budapest, agrees. "Mol has cleaned up a lot of things at INA and hit the interests of many people in the process." Pletser argues the attacks on Mol are primarily the result of "political games" prior to general elections in Croatia. "I think the tensions will be less after the elections in the autumn." But if the worst comes to the worst, the consequences would go far beyond a criminal case against Hernadi. Should a Croatian court decide against Mol, it would allow the government to annul the INA shareholders' agreement. That would be bad news for the company – and for Croatia. Pletser says: "Croatia is in economic trouble as it is.

To change the shareholders' agreement would send a very negative message to potential foreign investors.”

<http://www.reuters.com/article/2011/07/05/mol-croatia-idUSLDE7640CV20110705>

<http://blogs.ft.com/beyond-brics>

Hungary Opposition Warns of ‘Show Trials’

Hungarian Prime Minister Viktor Orbán pledged during his election campaign last year to prosecute political corruption. Opponents say he may persecute them after changing the penal code.

Parliament this week approved legislation that allows the authorities to detain politicians suspected of abuse of power or corruption for five days without charge, rather than the previous three days, and choose the court where such cases are heard to “fast track trials.”

The measures may further undermine Orbán's democratic credentials after Freedom House, a New York-based organization that promotes human rights, said his first year in power led to the “most significant backslide” in Hungarian democracy since the end of communism in 1989. Orbán's Fidesz party won a two-thirds majority in parliament last year, letting it approve a new constitution over the objections of the opposition.

The government has “set the stage for show trials,” Gergely Barandy, a member of parliament from the opposition Socialist Party, said yesterday in an interview. “Orbán's party always alluded to political vengeance, but they elegantly called it ‘holding to account,’” he said. “That prosecutors may now assist in this is horrendous.”

The changes to the penal code may be unconstitutional and violate judicial independence, according to an opinion from the Supreme Court's College of Criminal Justice, posted on the website of the Association of Hungarian Judges.

The changes were designed to “make rules applying to politicians and big financial crimes stricter,” after such abuse “fundamentally undermined public confidence in the past eight years,” János Lazar, the parliamentary leader of Fidesz, told lawmakers June 20.

Ruling-party lawmakers initially sought to bar suspects from contacting their lawyers in the first 48 hours of detention, according to a draft posted on parliament's website. They backed down before the final vote, approving language that allows defense lawyers to accompany suspects “even if the prosecutor bans contact between suspect and the lawyer.”

György Szilvassy, the minister who oversaw the security services under former Prime Minister Ferenc Gyurcsány, was detained last week along with two former agency chiefs, Lajos Galambos and Sándor Laborc, state-run news service MTI reported. Szilvassy is charged with spying. Szilvassy and Laborc have been released and Galambos is under house arrest, MTI reported, citing their lawyers. The Chief Prosecutor's Office declined to comment.

“The government's actions and rhetoric to date suggest that it intends to undermine liberal democracy in Hungary,” Freedom House said in its annual report published June 27.

Investors, who punished Hungary last year because of concern about a rising budget deficit, have focused on the government's fiscal policy rather than domestic politics. Orbán's government funneled private pension funds to the budget this year to plug budget holes and is cutting welfare spending to reduce the deficit to less than the European Union limit of 3 percent of gross domestic product.

Orbán's government limited the power of the Constitutional Court and boosted the number of judges with ruling-party appointees, passed a new Constitution over opposition protests, and put party allies in charge of at least four independent institutions, including the audit office.

A law approved last year empowered a council made up of ruling-party appointees to fine or shut down media outlets, drawing criticism from the European Commission, the European Union's executive, the United Nations and the Organization for Security and Cooperation in Europe.

The U.S. is seeking a “real commitment to the independence of the judiciary, a free press and governmental transparency,” Secretary of State Hillary Clinton said June 30 in Budapest after

meeting with Orban. "When justice is served, it must be administered with due process and judicial integrity, not political vengeance or partisan meddling," Clinton said at the inauguration of the Lantos Institute, dedicated to advancing human rights and named after the late Congressman and Hungarian native Tom Lantos.

<http://www.bloomberg.com/news/2011-07-05/hungary-opposition-warns-of-show-trials-after-legal-changes.html>

Orbán won as the only candidate

Not having a challenger this time again, prime minister Viktor Orbán was re-elected with 1,468 votes, which means over 99 per cent of all votes, and so remains the chairman of the government party Fidesz. The Fidesz membership renewal congress was held in an exhibition hall named Palace of Miracles. The party leader and prime minister said in his speech that Fidesz had learned not to fight for ideologies but for the people. He added that it must be clear that Hungarians will not suffer any kind of dictation from anyone. He also added that the Hungarian rotating presidency was a success because it was able to get through with his job moderately. Viktor Orbán said that during this period they have bopped and punched the roosters of the European Parliament, the IMF and the socialists in the face. The prime minister also said that this country was going to break the path of the future, no matter whether the people of the past inside and outside of Hungary will like it or not.

Fidesz candidate won in Dunaújváros

The candidate of Fidesz won the extraordinary local elections in Dunaújváros on Sunday. 1,036 voters out of 4,851 took part in the elections, representing a turnout rate of 21.35 per cent. There were six candidates running in the extraordinary elections in Dunaújváros. The order of the runners after counting of the votes is as follows: László Sztankovics (Fidesz) 413 votes (39.86 per cent), Katalin Sáfrány (MSZP) 257 votes (24.8 per cent), Csaba Simon (Jobbik) 149 votes (14.38 per cent), László Pochner (independent) 92 votes (8.88 per cent), József Mudra (independent) 91 votes (8.78) per cent, Tamás Horváth (LMP) 34 votes (3.28 per cent). The local elections consist of one round, and the mandate goes to the mayoral candidate or local electoral candidate who gets the most votes.

Party vote in the Socialist Party

There was a sharp debate during last Saturday's committee session of the Socialist Party, of which the main bone of contention was the outcome of the party vote initiated by the Democratic Coalition (DC). In a declaration, the DC stated that the party vote was valid and successful, which was also indicated by the high turnout of members. The official final result is: out of 9,202 members 9,122 cast their vote successfully. The percentage of the yes votes was around 80% in each of the six questions asked. This means that the number of votes with the same results fell between 7,150 and 7,500. According to the official version of the Socialist Party, the voting fell short of being successful and valid. They say that the party has currently 31,286 members, and for the party vote to be both successful and valid, they need respectively one-half and one-quarter of the current membership to vote one way. Allegations by the socialists as to the number of members have been disputed by the DC, which says that the current membership stands at 19,000. The State Audit Office of Hungary, on the basis of current party payments, confirmed this information. According to information leaked by the daily *Népszabadság*, the leader of the Socialist Party, Attila Mesterházy, would take into consideration the opinions of party members after all. For this reason, a congress to amend the party constitution would be held, within the frames of which all questions pertaining to the party vote will be discussed. Any amendment to the party constitution should be approved by the congress. Two taskforces will also be set up to deal with party finances and structural reforms. The advisory body on ethics will be asked to set up an "ethics code", which could serve as a compass for party members.

Clinton concerned about democratic freedoms in Hungary

U.S. Secretary of State Hillary Clinton voiced concern on last Thursday about democratic freedoms in Hungary and said essential checks and balances should be strengthened. Opponents of the center-right government say it has undermined press freedoms, curbed the powers of the country's top constitutional court and passed a constitution that may entrench its influence after its term ends in 2014. "We... talked very openly about preserving the democratic institutions of Hungary and making sure that they continue to grow and strengthen, including providing essential checks and balances," Clinton said at a news conference with Hungarian Prime Minister Viktor Orban standing at her side. "As friends of Hungary we expressed our concerns and particularly call for a real commitment to the independence of the judiciary, a free press and governmental transparency," she added as she began a three-day trip to Budapest, Vilnius and Madrid.

Clinton said she discussed with the Hungarian prime minister a wide range of issues including the constitutional court, the media law and also Hungary's new constitution.

"I think throughout the process of implementing the constitution and the accompanying cardinal laws it is important - and certainly the Prime Minister made that very clear to me - that he is committed to ensuring that Hungary is very true to its democratic traditions to protect individual liberties, maintain freedom of the press and the judiciary and ensure checks and balances," she added.

Hungary's government -- which took power in May 2010 -- passed a new media law late last year which came under sharp criticism within the EU, and Hungary had to modify some aspects of the legislation.

In April the government also passed a new constitution which critics said would cement its powers further, and tie the hands of future governments in key areas of policy.

Speaking earlier in the day, Clinton also raised the treatment of the Roma, a minority group that activists say has suffered a sharp rise in violent attacks in Hungary in recent years.

Clinton praised Hungary for using its presidency of the European Union to push for reforms "that would guarantee Roma people the same rights and opportunities their fellow citizens enjoy" but she suggested that more needs to be done, describing the group as "Europe's largest disenfranchised minority".

The U.S. Secretary of State made the remarks as she took part in a ceremony to inaugurate the Tom Lantos Institute, a pro-democracy group named for the late Tom Lantos, a Hungarian-born human rights advocate and former congressman.

Michael Roddy, <http://www.reuters.com/assets/print?aid=USN1E75S2AP20110630>, June 30, 2011.

Fidesz government under fire again

Hillary Clinton called on Hungary on last Thursday not to allow any weakening of its democracy. Speaking to reporters alongside Prime Minister Viktor Orbán after an hour-long meeting, the US Secretary of State addressed concerns over controversial moves by Orbán's government, such as its new media law and reducing the ambit of the Constitutional Court. "As friends of Hungary we expressed our concerns and particularly called for a real commitment to the independence of the judiciary, a free press and governmental transparency," Clinton said.

Since taking office last year the government has come under fire from human rights organisations, civil groups and opposition and EU politicians. Key concerns were a new media law that many saw as an attempt to stifle press criticism and a reduction of the purview of the Constitutional Court, which lost its power to rule over budget-related legislation. Orbán's Fidesz party enjoys a two-thirds parliamentary majority, which allowed it to re-write the Constitution without the need for cross-party consensus.

The United States' chief foreign policy representative was in Hungary for the inauguration of the Tom Lantos Institute, a pro-democracy and human rights think-tank named after the Hungarian-American congressman. Lantos, a Democratic Party member who died in 2008 after serving 28 years in the US Congress, survived the Holocaust in Hungary and found himself marooned in

America after the post-war communist takeover. He became an outspoken advocate of human rights and democratic freedoms.

Before her visit, Clinton received an open letter from several Hungarian intellectuals, including the writer György Konrád, former mayor of Budapest Gábor Demszky and the former Organisation for Security and Co-operation in Europe (OSCE) high representative for press freedom Miklós Haraszti – the latter two being key figures in Hungary’s democratic opposition in the final decade of communist dictatorship. They urged Clinton to address their concerns over Hungarian democracy during her visit, and were, presumably, not disappointed.

“We talked very openly about preserving the democratic institutions of Hungary and making sure that they continue to grow and strengthen, including providing essential checks and balances,” Clinton said. She spoke of the importance for Hungary as well as the US to demonstrate a commitment to Western values of government, “first and foremost” for their own citizens but also to send a message to others. “We must (also) exemplify democratic freedoms... as examples for those who are struggling to define their own democracies now in the Middle East and North Africa,” she said.

The Secretary of State was also asked about closer ties between Hungary and other European countries and China, following last week’s visit by Chinese premier Wen Jiabao. Clinton welcomed the signing of trade deals between Europe and China, of which Hungary alone signed a dozen, and expressed the hope that such rapprochement would lead China to adopt a more Western approach to government. “As China plays a greater role on the world stage we also hope that it will learn more about our Western values... democracy, rule of law, freedom, protection of minorities, independent judiciary, a free press,” she said. “Increasing ties between the European Union and China is one more way to (influence China) and how it thinks about its future.”

Hungary received praise for its recent achievements as European Union president, however. Clinton recognised the EU strategy on Roma integration that Hungary had made a key item on the agenda of its six-month term. She “deeply appreciated” the “decisive steps” Hungary had taken to combat hate crime, a reference to the banning of uniformed far-right vigilante groups that staged patrols of Roma neighbourhoods in rural villages this year. Furthermore, the “wide-ranging and productive” talks had also covered their two countries’ mutual commitment to Afghanistan.

Hungary’s economic policy received a ringing endorsement. “We are strongly supportive of the prime minister’s commitment to build and strengthen Hungary’s economy,” Clinton said. “We think that the steps that are being taken to open the economy and to rely more on trade and investment as major economic drivers are absolutely right.” She applauded Hungary’s efforts to combat the corruption that “discourages” foreign investment.

After meeting Orbán, Clinton left the parliament building to hold talks with representatives of Hungarian civil society before flying on to the Lithuanian capital Vilnius, where she was scheduled to take part in a Community of Democracies meeting. “Democracy is struggling to be born around the world today,” Clinton said on Thursday morning as she spoke of Tom Lantos’ commitment to freedom and human rights.

http://www.budapesttimes.hu/index.php?option=com_content&task=view&id=19671&Itemid=220

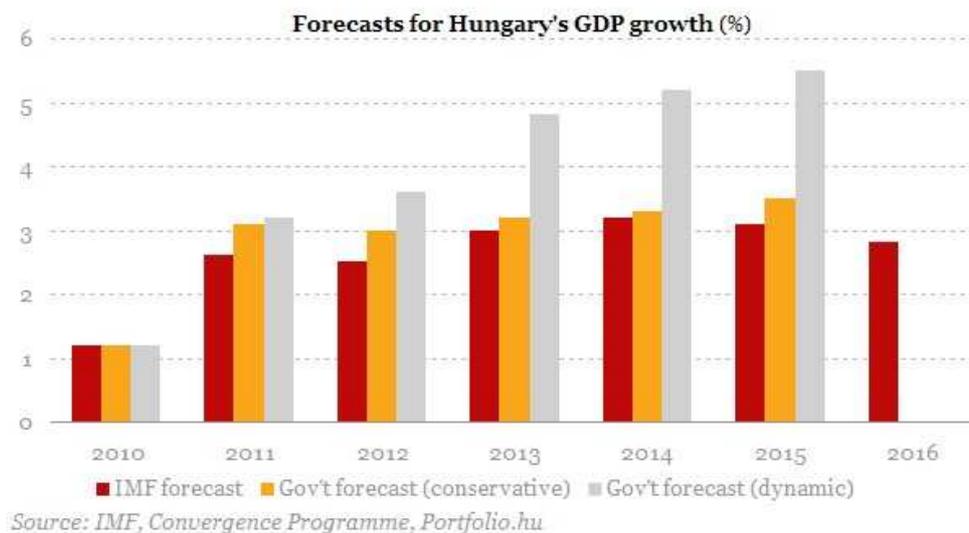
IMF concerned about risks in Hungary cuts

Hungary’s welfare spending cuts and tax changes hurt the poorest and most vulnerable, which may lead to social tension and make their implementation more difficult, said Iryna Ivaschenko, the International Monetary Fund’s representative in Budapest, reported Bloomberg. Hungary’s spending-cut plans represent a “180-degree turnaround” from Prime Minister Viktor Orbán’s initial policies when he assumed power last year, Ivaschenko said. She added that although IMF supports the aim of increasing the activity rate, policies that cut welfare spending and tax reform mainly impact the lowest earners, according to a transcript of the interview posted on Hirszerzo’s website. Ivaschenko believes that such actions could create social tension, making the program’s implementation more difficult.

Hungarian gov't chooses austerity measures it was seeking to avoid

While the key indicators of the Hungarian economy are improving as the global crisis is letting up, the real situation is not better than it was when the current cabinet took power in the spring of 2010, said local think tank GKI in its latest research note. The external business cycle has been somewhat more favourable than expected, and while the decline in domestic demand has ended, no pickup should be expected in it before the second half of the year. The right-of-centre Fidesz-led government was forced to announce such serious austerity measures that it wanted to avoid over the past year and which it was opposing while it was in opposition, the GKI added. It noted that the announced reform plans planted cautious optimism in foreign investors and a great concerns in those who would be affected by them.

The research institute expects the Hungarian economy to expand by about 2.5% in 2011, saying a humble growth in investments and consumption will be able to offset a moderate deceleration in export growth. The central bank (NBH) has recently lowered its GDP growth estimates to 2.6% (from 2.9%) for this year and to 2.7% (from 3.0%) for 2012. The International Monetary Fund (IMF) projects the country's economic output to increase by 2.6% this year and by 2.5% in 2012. According to the Organisation for Economic Growth and Development (OECD), the Hungarian economy will grow by 2.7% this year and 3.1% next. The government has the most upbeat growth projections of all.



The GKI noted that the construction sector has been in recession for the sixth consecutive year now, but the extent of the contraction will be smaller than in 2010. "Languid domestic demand causes a ripple effect in sales and financing in the Hungarian economy, especially in the SME sector among those companies that have managed to stay afloat so far. After a two-year decline, investments are to show hardly more than stagnation, and grow by 1%," the think tank projects. It believes the only dynamically growing sector will be manufacturing, and within that the car industry that is leaning on foreign capital. The GKI noted that while the rate of employment rose 0.4 percentage point in March-May, the jobless rate dropped by just as much to 11%.

Income differences will grow. Households' real income (including the payment of real yields by private pension funds) will rise by about 2%, while households' purchased consumption will increase by only 1.5%, the GKI projects. The monthly loan repayments are high and the uncertain future spurs households to go easy on spending and rather save up. Extra income is generated mostly among high-earners and they choose saving over spending, it explained.

The GKI expects the central bank's base rate to remain unchanged this year at 6.00%.

GKI forecasts on Hungary's key macroeconomic indicators					
	2008	2009	2010	Apr-11	2011E
GDP (%)	0.8	-6.7	1.2	2.5	2.5
Industrial output					
at comparative prices, %	-1.1	-17.7	10.5	11.0	9.0
Investments in national economy					
at comparative prices, %	0.4	-6.5	-5.6	-1.1*	1.0
Construction					
at comparative prices, %	-5.1	-4.3	-10.1	-9.6	-5.0
Retail trade volume (%)	-1.8	-5.2	-2.3	-0.5	1.3
Exports					
at current prices, EUR, %	6.3	-20.4	21.4	20.9	17.0
Imports					
at current prices, EUR, %	6.6	-24.8	19.4	19.7	18.0
Foreign trade balance					
billion euros	-0.3	3.7	5.5	2.6	5.7
Accumulated deficit of current account and capital account, bn euros	-6.8	0.8	3.8	1.3*	3.7
Average exchange rate of EUR/HUF	251.2	280.6	287.7	269.9**	272.0
Public sector deficit (GFS, excluding local governments, bn HUF)	909.0	918.6	870.0	724.2**	1,190***
Gross average wage index	7.5	0.5	1.4	2.6	4.0
Consumer price index	6.1	4.2	4.9	4.2**	4.2
Consumer price index at end of period (same month in previous year = 100)	3.5	5.6	4.7	3.9**	4.0
Rate of unemployment at end of period,	8.0	10.5	10.8	11.0****	10.7

* Jan-March 2011
** Jan-Apr 2011
*** Including HUF 528 bn worth of repatriated private pension fund assets and the purchase of 21.2% MOL stake
**** March-May 2011
Source: KSH, NBH, EcoMin, GKI

Source: http://www.portfolio.hu/en/economy/hungarian_govt_chooses_austerity_measures_it_was_seeking_to_avoid_gki.22528.html

Hungary ESA deficit 6.6% of GDP in Q1 - KSH

Hungary had a preliminary general government surplus of HUF 2,202 billion in the first quarter including pension fund assets, which translates into a deficit of HUF 457.9 billion or 6.6% according to the European System of Accounts (ESA), which excludes pension assets, the Central Statistics Office (KSH) said on Tuesday. (*The ESA is the system of national accounts and regional accounts used by members of the European Union.*)

The adjusted deficit rose from a year earlier despite a below-inflation 1.7% rise of expenditures as the income tax changes introduced this year resulted in an overall 2.8% drop in revenues. The surplus resulted from booking as government sector revenue in the system of national accounts HUF 2,660 billion of the private pension fund assets transferred to the state on behalf of former members. The figure excludes the real yields and membership supplements, worth about HUF 260 billion, the KSH said. Excluding the above revenue, Hungary's ESA deficit in Q1 was HUF 137.5 billion or 1.8 percentage points higher than in Q1 2010.

Government sector revenue totaled HUF 5,475 billion including the assets transfer, up 89% from a year earlier. Revenue totaled HUF 2,814.9 billion excluding the pension assets, dropping 2.8% from a year earlier. The main factor behind the drop was a sharp, 20.9% fall in revenue from income taxes, to HUF 410.4 billion, reflecting mainly this year's income tax changes and, to a lesser extent, a drop in corporate tax revenues. Revenue from VAT also fell, by 5.5% from a year earlier, to HUF 550.7 billion. Production and import tax revenues rose 1.5% to HUF 1,058.6 billion. Capital taxes jumped from just below HUF 3 billion in Q1 2010 to HUF 35.1 billion, reflecting the extraordinary banking levy. Part of the banking tax is booked among income or production taxes, as the tax varies within the financial sector, Anna Lehmann of KSH said. Revenue from the "crisis taxes" levied on the telecom, energy and trade sectors was yet insignificant in the first quarter. These taxes are

accounted as production tax revenue, she said. Social security contributions rose the most, by 12.4% to HUF 891.6 billion, as the membership fees of private pension fund members have been rechanneled to the state pension system starting last November. Expenditure rose a moderate HUF 1.7 billion to HUF 3,272.8 billion. Fixed capital formation or investment expenditure rose by a sharp 8.7% from a low base to HUF 114 billion. Interest expenses were practically unchanged from a year earlier, rising a mere 0.2% to HUF 293 billion in Q1. Current expenditure rose a moderate 1% to HUF 498.1 billion. The public sector's wage bill fell a sharp 11.8% from a year earlier to HUF 679.6 billion. The drop reflects changes in above-wage benefits in the sector rather than a reduction in the number of employees. Social benefits, excluding in-kind transfers, rose 1.9% in one year to HUF 1,076.7 billion. Other expenditure rose the most, increasing by 22.1% to HUF 611.6 billion. Expenditure in the category varies significantly, including production support and co-financing to EU-supported funding among other items, Lehmann said.

www.bbj.hu

Hungary also supports South Stream gas pipeline

Hungary supports the realisation of every gas infrastructural project that brings route or source diversification to the country, said Development Minister Tamás Fellegi, after meeting his Italian counterpart Paolo Romani in Milan on Monday. The ministers discussed a number of co-operation possibilities in the field of renewable and nuclear energy, the Hungarian ministry said in a statement. Among the recent past's most important events Fellegi highlighted the signing of the Project Support Agreements (PSAs) for the Nabucco Pipeline between Nabucco Gas Pipeline International GmbH and the responsible ministries of the five transit countries (Austria, Bulgaria, Hungary, Romania and Turkey). At the same time, he said that in order to strengthen natural gas source and supply security, the Hungarian government also supports the building of the South Stream pipeline that bears importance for Italy. He said it was in the best interest of Hungary to establish a north-south gas pipeline link as a joint European project. Among its advantages he mentioned that fact that by making it a two-way route they would make it possible to transfer natural gas to Central Europe on a branch of the Nord Stream and also from the Mediterranean Sea. South Stream is to have a full capacity of 63 bcm/year at the entry point in Bulgaria and from 20 to 22 bcm/year, depending on the route, at the endpoint of the gas pipeline. Its offshore length (four lines in a depth of more than 2,000 metres) will be 923 kilometres and its onshore section will be 1,600 to 2,540 km, depending on the route. The launch date was put to December 2015 (with subsequent annual ramp-up of the capacities). Fellegi said the Hungarian-Italian Energy Work Group is an appropriate forum not only to enhance the general energy relations between the two countries but also to strengthen business and corporate relations and seek projects and investment opportunities that could be beneficial for both countries, primarily in the field of renewable energy and energy efficiency. He said Hungary and Italy could splendidly work together in the utilisation of geothermal and solar energy.

While in opposition, Orban's Fidesz party heavily criticized the Socialist government for teaming too closely with Russia on energy issues, mainly the Russian-backed gas pipeline project South Stream.

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Comments

The Szilvásy-case can only have a bad ending

This case is serious. Suddenly it turns out that a former head of the secret services committed a serious crime that paints a black picture of the state's operation. But the case is equally terrible if a prosecutor takes someone into custody based on improper evidence. Unfortunately one of these bad scenarios occurred. This case is a test of the republic's democratic jurisdiction. Broadest publicity is needed, and we also expect the prosecutor to inform the public about the basis of the accusations.

We have a right to know why these people have been arrested.

Silence only underpins the suspicion that this case is only another manifestation of the rivalry between the former and current public servants working at the secret services. And this cannot be the interest of the prosecutor. This time the service's connection to the public is more important than its secrecy.

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Morals or power

MSZP (Hungarian Socialist Party) has just passed its history's most influential internal poll. 80% of the voters polled clearly: they want radical change in MSZP.

There is no doubt that the 9,200 voters represent the mass majority of the party's active membership. They articulated their willingness toward a strong, democratic and moral party. The Democratic Coalition Platform believes MSZP's current leadership is keen to withhold the poll's validity and effectiveness with administrative tools. This is unacceptable!

We have two requests in the present situation. First, the committee should wait with the qualification until the party's membership is counted in a widely acceptable, standardized way. Second, the committee should ask the party congress to modify the party's constitution according to the poll's results.

If the membership's willingness is opposed, it means that the membership's weight is not understood at all. This is a turning-point: morals or power? It could be asked with other words: common honesty or personal survival?

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The case against György Szilvássy and the national security chiefs might be of historic importance

Or at least this is what Gábor Török, a political analyst, claims in his blog. Török argues that if the accused are found guilty, MSZP would be in bigger trouble than it ever was after Ferenc Gyurcsány's speech at Balatonőszöd became public. But if the charges turn out to be unfounded, perhaps the job but surely the reputation of Péter Polt, the chief prosecutor, will be in jeopardy. It is also possible--continues Török--that in this case "the present government majority can't escape political responsibility." In a democracy, says Török, "no political power can use means that are considered to be illegitimate." Török thinks that someone did use such means. Some people might be very happy because the affair might serve their political interests, but "it will be a black day for Hungarian democracy when we find out who it was." It seems that Török thinks that some kind of political game is being played here.

Ferenc Gyurcsány's take on the affair is somewhat similar to that of Török, but of course he is a politician while Török is a political scientist who tries to take a "neutral stand." According to him, there are three possibilities: (1) The court declares that Szilvássy and the former national security chiefs are guilty. One can say with all certainty that in this case these people will completely disappear from public life and the political force behind them will be greatly damaged. (2) There was a situation that might have been misinterpreted. So there was something but not as the prosecutors claim it happened. In that case the present government sacrifices the domestic and international prestige of the Hungarian national security apparatus. Such a development could have serious repercussions. Perhaps the government will not fall but its reputation will be badly damaged in the eyes of the western democracies. (3) The charges don't stand up to scrutiny and the accused are acquitted. In this case the chief prosecutor and the whole top leadership of the prosecutor's office most likely will have to resign. It will perhaps be followed by the resignation of the prime minister and his whole cabinet.

Thus Török and Gyurcsány, not exactly bosom buddies, see the situation pretty much the same way. MSZP and the liberal opposition--for example, the Magyar Demokrata Charta--are naturally convinced that these accusations, whatever they are because they were declared to be state secrets

and thus we know mighty little about them, are trumped up charges. Ágnes Vadai, MSZP chairman of the parliamentary committee on national security, convened a meeting yesterday to learn more about the case. The military prosecutors appeared before the committee and in twenty minutes they informed the members about the details of the case. Vadai wasn't convinced. Gergely Gulyás, the Fidesz vice-chairman of the committee, found the story believable.

Originally three men were arrested: Lajos Galambos, György Szilvássy, and Sándor Laborc. Yesterday a fourth mystery man appeared who was led together with Szilvássy into the courtroom shackled and on a chain that seemed to me at least three feet long. One wonders why it is necessary to make these people appear in the courtroom in such a way. It is very unlikely that they would bolt and run. To my mind the only reason is to disgrace the person by showing him on television in such a humiliating position. (Critics make the same case against the U.S. "perp" walks.)

It is most likely a significant development that all four men have been released on their own recognizance. If the court found the evidence presented to be well founded, especially if the charge is espionage as is rumored, these men should have remained locked up. Treason, espionage, whatever the exact accusation will be, is a very serious crime punishable by a long prison term.

Although the exact charge is still not public knowledge because of the secrecy imposed on the case by the military prosecutor's office, bits and pieces of information have come to light in the last two days. There were early reports after the arrest of Lajos Galambos, a former chief of the National Security Office, that the case might have something to do with a foundation whose leadership was involved in fraud. The rumor most likely surfaced because Galambos at one point was on the board of this foundation. Another rumor that circulated had something to do with the arrest of a man in Austria who is charged with some illegal stock exchange activity involving MOL shares. He is accused of lending a helping hand to passing MOL shares on to the Russian Surgutneftegaz. That also turned out to be a dead end.

The most likely charge is that these four people were spying for the Russians. It was Hírszerző, an Internet paper which is usually well informed, that broke the news. The paper managed to get some information after the prosecutors reported on the case to the parliamentary committee on national security. At least three of the members leaked information to the journalists. They asked the reporters not to reveal even their party affiliation, but one can easily figure it out just by what they had to say about the happenings behind closed doors. According to one of them who certainly couldn't have been an MSZP member, "the story we heard is very grave. If it is true, in retrospect a lot of things can be seen in a different light." A second informer attested to the fact that the charge was spying for Russia. Another member of the committee, who again asked not to mention his party affiliation but he helped the reporter and the reader along by saying that he is not an MSZP member, expressed his doubts about the information received. He claimed that the accusations were grave but the committee "didn't receive any supporting evidence and thus the whole case sounds unbelievable. Every time we wanted to get evidence the prosecutors and the current members of the National Security Office told us just to believe them. They have the evidence but at this stage of the investigation they cannot say more." Somehow I don't think that this mystery informer was a Fidesz member of the committee.

In this context it is important to realize that the top leadership of the Hungarian security establishment, including Galambos and Laborc, studied in Moscow at the KGB's Dzerzhinsky School. It was Ferenc Gyurcsány who nominated Laborc to head the office because during his predecessor's tenure information was constantly leaked to Fidesz politicians and from there to Magyar Nemzet. Szilvássy's and Gyurcsány's opinion was that Laborc would be able to put an end to all that.

The opposition was dead set against Laborc. In fact, one of the telephone conversations the National Security Office recorded included a request by Ervin Demeter (Fidesz), former minister in charge of national security, for UD Zrt., a private investigation firm manned mostly by former security agents, to spy on Laborc. Demeter wanted to know whether Laborc had visited Moscow recently. The former agents came back empty handed. Laborc hadn't visited Moscow. Moreover, reported the UD

Zrt. man, he didn't even meet people from the Russian Embassy as his predecessor used to do. And he added that Laborc "most likely does all this on purpose, although if he followed his real inclination he would be having beer with these security guys from Russia regularly."

Thus if someone wants to create a plausible charge of espionage, Galambos and Laborc are good candidates. Mind you, both of these men served in the National Security Office ever since 1990, including the period between 1998 and 2002 when Viktor Orbán was the prime minister and László Kövér and Ervin Demeter served as ministers.

<http://esbalogh.typepad.com/hungarianspectrum/>

The Democratic Coalition: A kind of victory

On June 19 MSZP held an extraordinary congress that was called together to discuss Ferenc Gyurcsány's challenge to the current leadership. The former prime minister became worried about MSZP's inability to recapture even a fraction of its former supporters. There is a hard core of MSZP voters who support the party no matter what, and that number is about 1 million. The problem is that in order to win a national election a party needs at least 2.5 million votes. Since the election Fidesz has lost at least 800,000 of those who voted for the party last April, but Fidesz's loss hasn't become MSZP's gain. Those who abandoned Fidesz mostly ended up in the ever-growing camp of undecided voters. By now the number of undecided voters is higher than the still Fidesz faithful.

The present MSZP leadership is trying to explain its inability to change the results of the opinion polls that show MSZP stagnating after its resounding defeat. They argue that it takes a long time to change public perception of a party that lost an election so badly. Ferenc Gyurcsány, on the other hand, thinks that the party as it is currently structured can't meet the challenges of the present political situation. The old leadership is on automatic pilot and although the leaders talk a lot about "renewal," they are doing nothing to change the structure and the personnel of the party. He suggested a country-wide vote by the party membership on some fundamental questions concerning current party practices. For example, the party leader is chosen indirectly. Gyurcsány would like to have a general referendum on the person of the party chairman.

Oh, yes, the party membership. That is a bone of contention. It turned out that the well-organized MSZP--"well organized" is meant in jest--has no idea how many members the party actually has. Officially, the number is a little shy of 32,000, but according to the State Auditing Office the number is closer to 19,000. Their estimate is based on dues received. Even leading party members admit that their rolls are not entirely up to date; for instance, some elderly members may no longer be among the living. Other members simply disappeared, but their names are still on the books.

Why is it important how many members MSZP has? Because for the vote that Gyurcsány was advocating to take place, these numbers were of vital importance. According to party rules an all-party vote is valid only if at least 25% of the members vote the same way.

Immediately after the close of the extraordinary congress it wasn't at all clear whether there would be such a referendum. The party leadership didn't try to block the proposal, but they suggested to Gyurcsány and his followers that they give up the idea of a referendum for the sake of unity. The steering committee of Ferenc Gyurcsány's Democratic Coalition, one of the platforms of MSZP, spent four solid hours deciding what to do. The next morning Gyurcsány announced on Facebook that they "will not back down." They decided to go ahead with the vote and see what happens. Gyurcsány was not at all hopeful. He thought that even if the majority of those who take part in the referendum vote for his proposals it was unlikely that there would be a minimum of 7,822--25% of the total--who would vote for his proposals.

The voting took place between June 22 and June 28 at 190 polling stations. Zsolt Molnár, organizational director of the party, estimated after the polling stations closed at 8 p.m. on the 28th that approximately 8,000 people had voted, which means only one-quarter of the total membership cast a vote, and all these people would have had to vote for Gyurcsány's platform for the results to be valid. And surely, was the implication, this was highly improbable.

Gyurcsány immediately responded. He was certain that the majority of those who took part in the

referendum voted for his proposals. He made a distinction between active and passive party members and came to the conclusion that more than half of those who actively participate in party affairs voted for his proposals. "Those who don't understand this message are blind and/or deaf." The Democratic Coalition, on the other hand, "understands that so many people want change in MSZP that the party will have to act accordingly."

A couple of days later it turned out that 9,206 people had voted and about 80% of them voted for Gyurcsány's proposals. At this point Attila Mesterházy announced that "irrespective of the validity of the referendum in terms of party legality" they will take the results into consideration. The Democratic Coalition wanted more. They insisted that the official membership figures are inaccurate and asked for a postponement of the announcement of the results until there is a nationwide reassessment of the actual party membership. Gyurcsány made it clear that the leadership of the Democratic Coalition considers the results both valid and successful given their reckoning of the actual membership.

The current MSZP leadership didn't go so far as to withhold the final word on the validity of the referendum, but the results certainly made them pause. The "yes" votes were between 7,156 and 7,475 while the "no" votes were between 1,503 and 1,879, depending on the question. Since, if the official number is taken at face value, 7,822 votes would have sufficed for the results to be valid, the difference was only a few hundred votes. The MSZP leadership simply couldn't ignore such solid support for the reforms advocated by Gyurcsány. Even Tibor Szanyi, an arch-enemy of Gyurcsány, said that they mustn't "play with numbers" because those who expressed their opinion on the matter are "such a large mass" that they cannot be ignored.

Mesterházy announced that although formally the results of the referendum are not legally binding, they look upon them as if they were valid and successful. Therefore, they will change the by-laws which will be voted on at the next party congress on November 12-13. So, Gyurcsány won.

By the way, during the referendum it was discovered that the party membership has decreased by at least 1,000 people already. Oh, well! It is high time to reorganize a party whose the top brass has no idea how many members the party actually has.

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