

## Weekly Newsletter

### News

#### **Under siege – Őszöd five years ago**

The Őszöd speech that was intended for a private audience but then was leaked on 17<sup>th</sup> of September had a huge impact on Hungarian democracy. But the speech implied other aspects as well, which are forgotten. Only three days after the speech was leaked, a CD was sent to Budapest Radio and other news outlets. The CD contained a recording, in which a man, who claimed to be a member of Fighters for Democracy, made threats against the government saying that he and his followers were ready to wreak havoc on the streets of Budapest. After the speech was made public by the Hungarian Radio, spontaneous demonstrations started to materialize at Kossuth square. The first pockets of demonstrators arrived in front the Parliament building between 7 and 8 o'clock PM. There was hardly any police presence at that time. Péter Schön, that time spokesperson for the Budapest Police Department said: "What is happening at the moment is not a case for the police." Around 10:30 PM, the number of demonstrators climbed up to around 100. The crowd was still peaceful. According to Index, the first high-profile demonstrators were András Bencsik, editor-in-chief of the weekly 'Demokrata', and István Csurka, leader of the Hungarian Justice and Life Party. Around 1:00 AM, the number of demonstrators was in the thousands. The protests were still peaceful, as witness the fact that Péter Gergényi, head of the Budapest Police Department and justice minister József Petrétei were idly talking and smoking. It was around 1:00 AM that the first radical elements including Gábor Toroczkai, leader of the Sixty-Four Counties Movement, arrived. They called on the prime minister to step down. Meanwhile around 300 demonstrators made their way to the residence of President László Sólyom only to be told by Imre Kerényi, a theatre director of right wing convictions, to return to the square. Around 2:30 AM, the crowd was dwindling and only a few hundred demonstrators remained. László Sólyom read out a brief statement, in which he expressed that he was not surprised by the contents of the speech as he had been aware of the contradiction between what was said in the campaign and the measures taken after the election. He said: "The important question is how far a politician will go to reach his goals?" He also added that the constitution did not provide any legal opportunity for him to intervene. Mária Wittner, a Fidesz member, was the first high-profile politician who pledged her support for the 'common cause'. Meanwhile more and more radical elements, including Jobbik and the Sixty-Four Counties Movement, returned to the square. As a sign of the impending aggression, demonstrators broke through police barricades. The number of protesters reached about ten thousand, and they were calling for their leader. Around 10:00 PM, a small delegation, led by Mr. Toroczkai made its way to the Hungarian State Television, where they intended to read out their demands on live television. Security staff in the building refused to let the protesters through, who came back in even bigger numbers. Armed with stones and cans, they made a rush at the building, which was defended by a small number of spray-wielding policemen. Meanwhile a live debate involving Tibor Navracsics (Fidesz) and Ferenc Juhász (MSZP) had to be interrupted and the two politicians rescued, as police could not guarantee their personal safety. The demonstrators made one more attempt at invading the building, throwing stones, sticks and Molotov cocktails. Several cars were set on fire during the attacks. Police managed to repel the attacks using water cannons, but not for long. Because of the overwhelming number of protesters, police and security staff were compelled to leave the building. It was at that moment that Ferenc Gyurcsány convened the national security council. László Giber, commander-in-chief of the forces defending the TV building said on his radio: "I will pull out all of my forces. We will go through the back door. We are not going to die in this damned building!" The commander of another unit told him: "The instruction is that you should stay. I cannot say anything

else.” Giber responded: “Well, let him who said that come here and die of carbon monoxide poisoning. Even if I will be tried in front of a military tribunal, I refuse to obey the orders. We are pulling out.” The demonstrators poured into the building and put a Hungarian flag on the front side of the building. They also plundered the canteen area, a fact that was initially denied by Mária Wittner. According to the National Ambulance Service, more than 125 injured people had to be treated on the scene. The overwhelming majority of the injured were policemen who had to be treated with contusions and bleeding wounds. Statistics say that 105 policemen were taken to hospital; some of them suffered severe, life threatening injuries. The military prosecution brought action against Péter Gergényi on charges of negligence. The Court of Appeal ruled that Mr. Toroczkai was responsible for damages done to the police equipment. The Budapest Police Department is suing Mr. Toroczkai for damages, saying that he was the organizer of the demonstrations. It is estimated that damages done to the police equipment and the TV building exceed one hundred million Forints. There are still no answers as to who may have stood behind the attacks, and what could have caused the series of erroneous decisions on the part of the police. An inquiry into the matter concluded that there was no clear-cut strategy, but the forces present at the time of the attacks did their best to protect the public. The inquiry also concluded that the main reason for the debacle was a lack of basic equipment, strategy and planning. The police was not able to measure up the extent of the demonstration and had no plans and means to disperse the angry crowd. Many units also lacked basic equipment, such as helmets and shields.

*Source: nol.hu*

### **Gyurcsány: Orbán has to go**

Ferenc Gyurcsány, former Socialist prime minister said in his speech on an MSZP event held in Győr last Sunday afternoon that after one year of Fidesz government the following must be made clear: Orbán has to go. Gyurcsány told that the only way for the Orbán government to act was to destroy things. He underlined that impassioned and vehement demonstrations against Orbán’s government should only be organized against the policy of the government, however, they must not turn against the order of the republic. He added that the demonstrations should express the capability to understand that only a responsible opposition is able to develop into a responsible governing party. Gyurcsány said that although the president of Fidesz has promised a better country before the elections in 2010, his government is causing never-before-seen conflicts on either social or economic levels. Meanwhile the government’s policy is widening the gap between the poor and the rich without being able to reach either economic growth or balance. But all this time the prime minister says that the world, the crisis and the past eight years are to blame, but he is not. Ferenc Gyurcsány commented on the pension cuts that Viktor Orbán had always been sweet and gentle towards pensioners until winning in the elections, but after that he keeps thinking about how he could collect more money from them. Hungary will be calm if the population can realize that we depend on each other: the employer from the employee and vice versa, and if they realize, through fair agreements, that both sides have their justifiable interests that will be respected, Gyurcsány said. He also added that every moderate democratic actor should join to found a western democracy, because the set-backs by Fidesz will not make Hungary successful. He also mentioned that the youth in their twenties should be made clear that we are unable to rewrite the 20th century. We have nothing to do with the past, all we have to deal with is the present and the future. We do not need to divide the country into good people and bad people. The only thing we have to do is to work together hard.

### **MSZP: The planned proposal may cause damages over HUF 100 billion**

Csaba Molnár asked questions from chief prosecutor Péter Polt in writing. The MSZP MP would like to know whether it constitutes malpractice when the government, through its activities that are knowingly against European law, creates a situation in which the state will have to pay damages. According to media news, the Ministry for Justice and Public Administration prepared an expert

report on the planned fixed exchange rate based debt repayment proposal, which questions its constitutionality and also deems it against the European law, said the vice president of the Gyurcsány led Democratic Coalition Platform in a press conference on Sunday. He also added that even prime minister Viktor Orbán mentioned in his statements that there may be potential lawsuits against Hungary in this respect. „It seems that the government prepares to have a law approved by Parliament with forethought intention, which may cause damages to the state in excess of HUF 100 billion as a result of lawsuits, which the state will potentially lose”, said Csaba Molnár.

He also mentioned that, according to the Criminal Code, “one who is entrusted to manage somebody else’s wealth and eventually by failing to comply with his responsibility causes damages then one commits malpractice”. In qualifying cases the Code allows up to 10 years of imprisonment. The socialist politician stressed that they didn’t state anything; instead they ask the chief prosecutor whether one may view the fixed exchange rate debt repayment proposal as malpractice.

In relation to the fact that an MP cannot be charged as a direct result of his/her vote, Csaba Molnár asks the question whether immunity is extended to the instigator and the abettor as well if the decision (by the vote) is against the law.

He asks amongst his questions whether it qualifies as failure to comply with one’s duty or an abuse of official power if an official knowingly makes a decision that is against European law or against international treaties on the protection of investments. The MSZP politician also said that he expected answers from the chief prosecutor who had lately handled his questions as charges, and forwarded them to detectives to investigate, who then, in absence of crime, didn’t start the investigation. “We ask the chief prosecutor to answer questions of an MP, which is his obligation anyway, and he should not try to hide behind this shabby practice anymore”, said Csaba Molnár and also added that they (MSZP) would like to see clearly that Péter Polt (chief prosecutor) may, not only in case of opposition politicians, believe that they committed a crime while in government but „he can think the same way (about the government) when damages may be created at such magnitude”.

Responding to questions from the media, the vice president of the Democratic Coalition told that the state had not incurred any damages in relation to the Sukoró case, there had been no crime committed, and Ferenc Gyurcsány (former prime minister) had not instructed anybody, hence the land swap deal had not been instructed by him either. Csaba Molnár responded to the allegation that a report prepared by István Balsai in the spring names Ferenc Gyurcsány as an instigator in relation to police brutality in the events of autumn 2006. He said this was unthinkable as all brutal acts committed then had been instigated by the far right.

### **Thousands protest in support of “Zöld Pardon” (ZP), a popular entertainment venue in Budapest**

Notable Hungarian pop musicians protested by means of holding concerts to save the popular Budapest based entertainment venue, “Zöld Pardon” (*literally: “Green Pardon”*) that faces closure on 1 November. The party – that was held on the Műegyetem Quay – attracted thousands of people who wanted to express their concern and thus exert pressure on the leaders of the Újbuda (*New Buda*) local government where this club is located. “I believe this demonstration that has attracted thousands of participants will not be futile, and I also trust in the responsible way of thinking on the part of decision makers” – told Zsuzsanna Kővári, Zöld Pardon’s CEO in an interview with the Hungarian daily *Népszava*. “It’s obvious to me that ZP is a political case, and the reasons for closure mentioned by the 11<sup>th</sup> district local government are biased and lack any basis. ZP could not occupy a better location in the district other than the Buda end of the Petőfi Bridge, given that tramways No. 4 and 6 run day and night here, that’s why visitors have to walk only a few hundred meters; what’s more, there are almost only universities and colleges around ZP, and even the closest apartment house is about 300 meters away. It’s remarkable that no complaints have ever been made about Zöld Pardon by the people living in the vicinity” – noted Ms. Kővári, when asked about the reasons of the Újbuda local government for closing the local. “We do not contest the fact that the

local government possesses several documents that show discontent by hundreds of inhabitants in the district; however, it does not make any sense that these people have never contacted us with their complaints, so that local authorities have never initiated an administrative procedure against ZP” – the CEO added.

Several famous Hungarian bands also participated in the demonstration: Quimby, Kiscsillag, Magna Cum Laude, Csík Zenekar, 30Y, Bikini, Vad Fruttik, Pál Utcai Fiúk and Ganxsta Zolee és a Kartell also performed on Műegyetem Quay, while Péter Novák acted as MC to the show. The protest was also visited by former prime minister Ferenc Gyurcsány.

And although Zöld Pardon became popular mainly because of daily live concerts, it hosted many other cultural events as well, including programs held on the International Children’s Day, the Teenage Festival, or the Polish–Hungarian Kultúrstafféta (Cultural Relay Race) this year. This way ZP became a significant part of Budapest’s cultural life over the past few years. At the same time, the local strived to appease the 11<sup>th</sup> district and its populace: employees of Zöld Pardon cleaned up the streets at regular intervals every night, and also public parks during the daytime. They even measured sound levels in the neighbourhood on a regular basis, operated a system of surveillance cameras, and they also patrolled the public park stretching near Zöld Pardon as well as the neighbouring streets as a means of effective crime prevention.

However, Mr Tamás Hoffman, mayor of Újbuda did not wish to extend Zöld Pardon’s license for the use of public ground – citing public complaints originating from several districts as the reason for doing so, after the company operating ZP had submitted its request for a renewed license in August. The issue will finally be decided by the Újbuda town meeting this Thursday – given the present state of affairs, Zöld Pardon may only operate until 31 October.

### **Gyurcsány rejects “deceitful” forex mortgage repayment option**

Former Prime Minister Ferenc Gyurcsány will not use the option offered to Hungary’s troubled borrowers to pay off their mortgages in a lump sum at a preferential rate, he said in a statement sent to MTI on Tuesday. In the document, the former PM called the scheme, initiated by the ruling Fidesz party and passed into law by parliament on Monday, “discriminative” and “deceitful”, and said that the programme would benefit wealthier borrowers who had sufficient reserves to pay off their loans and that it would further widen the gap with poor borrowers facing foreclosure.

The new law will have detrimental ramifications, making it more difficult for companies to take out loans and weakening the economy as a whole, the document said. *“This populist move will further weaken Hungary’s already poor reputation and diplomatic ties,”* said former PM Gyurcsány in the statement, adding that *Hungary might face a series of international lawsuits and resulting payment obligations in the hundred billion forint-range.*

According to Gyurcsány’s asset declaration published in January, the former head of government and his wife owe 62.2 million forints (EUR 214,000) in a loan they had taken out to buy their house in the provinces.

Under the new law, troubled borrowers can make a full repayment at 180 forints to the Swiss franc, 250 forints to the euro and 2 forints to the Japanese yen, unless the rate of the forint was higher at the time of taking out the loan. The plan drew an angry response from Austria, whose UniCredit Bank Austria, Erste Group Bank and Raiffeisen Bank International have roughly 6 billion euros worth of foreign-currency loans outstanding in Hungary. Standard & Poor’s, which rates Hungary’s debt one notch above junk, is keeping a close eye on the forex plan, an S&P banking analyst said on Monday.

Before the vote, the Socialist Party had suggested in an amendment proposal that members of parliament and state dignitaries should be excluded from the preferential option, but this was turned down by the governing majority. The Socialist group abstained from the vote.

*Source: Reuters, MTI*

### **A manager’s salary is six times bigger than an employee’s**

The companies tried to compensate those who suffered the consequences of the VAT changes in Hungary, but they had little success. (*Due to the initiation of the flat tax rate of 16 % everyone suffered losses whose gross income was under HUF 290 thousand, not taking into account the family tax relief.*) According to the Hay Group's survey the wage gap between ordinary workers and their managers broadened by 40 % in the private sector, even though the companies gave workers a rise that was 1% higher.

In case of gross incomes the wage gap did not change significantly compared to last year's, meaning that a senior manager earns 6.2 times more than a secretary this year. This rate is customary in the region, although the Czech and Slovak indicators are better. On the other hand we are far from American and Scandinavian rates where the difference is only three-fold.

Unfortunately the positive effect of the flat personal income tax only appears over a gross income of more than HUF 300 thousand, and only 20% of all employees fell into that bracket. According to the Hay Group's survey, a senior manager could cash in HUF 5 million more due to the tax regime changes in 2011.

### **Hungary to raise minimum wage, impose new levy on above-average earners**

Hungary's government will propose raising the minimum wage to 92,000 forints and the guaranteed wage minimum to HUF 108,000. It will also recommend a 5% wage hike in the private sector and promised to return part of the raises that are above the level agreed with social partners, the National Economy Ministry announced. The budget funds for the measures would be created by a "temporary contribution" payable by those whose gross monthly earning exceeds HUF 202,000. The flat tax system is to be revamped rather dramatically.

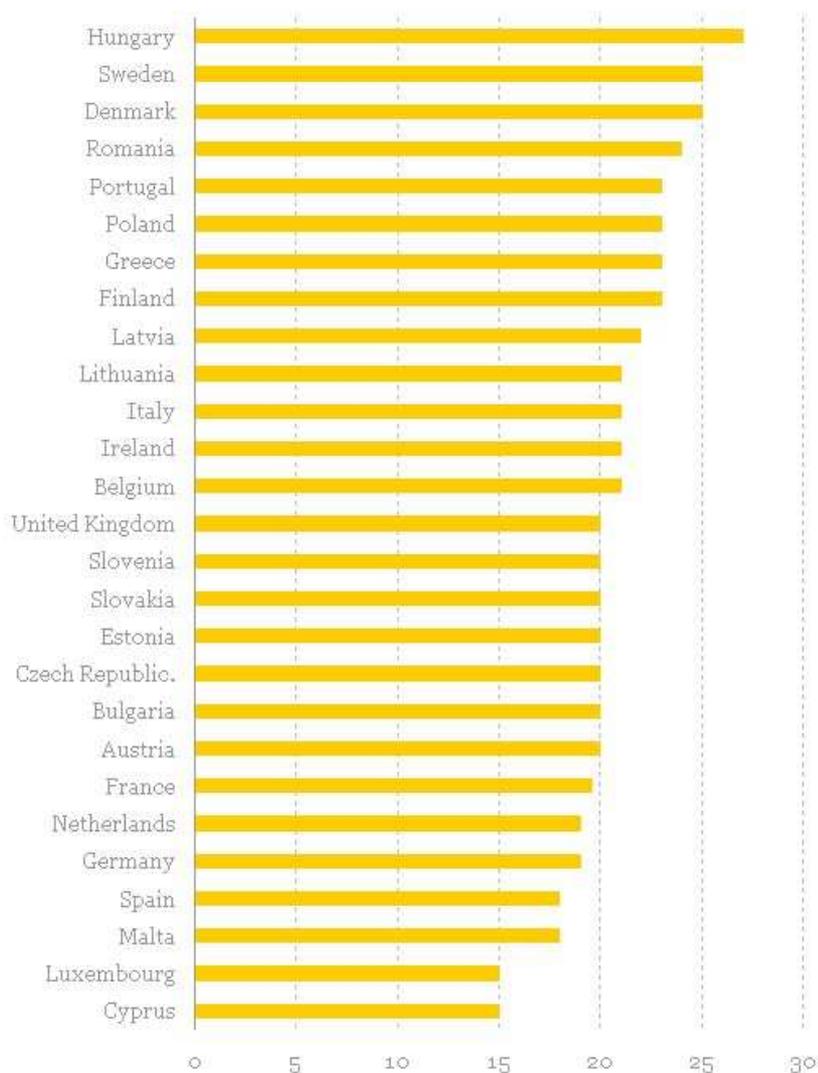
The changes announced last Friday affect not only the personal income tax regime but also the social security contributions, as the healthcare contribution will be raised by 1 percentage point. But it is not sure yet that the negative impact of that on the net income will be compensated. The ministry said this will be subject to negotiations.

*Source: portfolio.hu*

### **Hungary to raise VAT rate to 27%**

Hungary will implement a HUF 750 billion fiscal adjustment in 2012, announced Economy Minister György Matolcsy on last Friday. This is HUF 200 billion, more than what right-of-centre Fidesz-led government originally planned for next year. The rate of value-added tax (VAT) is to be hiked to 27% from 25% currently. A bill on the early repayment of FX debt at preferential exchange rates has been submitted with some restrictions.

VAT rates in the European Union (%)



Source: [tmf-vat.com](http://tmf-vat.com), [Portfolio.hu](http://Portfolio.hu)

### National Bank of Hungary slashes GDP forecasts for 2011-12 and ups CPI estimate for 2012

The Bank's estimate for the increase of Hungary's gross domestic product was sharply lowered to 1.6% for 2011 from 2.6% forecasted in June, and to 1.5% from 2.7% for 2012.

The Hungarian central bank's (NBH) inflation and GDP forecasts in June and in September 2011* (annual average, %)				
Indicator	2011		2012	
	June	September	June	September
Consumer Price Index*	3.9	<b>3.9</b>	3.6	<b>3.9</b>
Core inflation	2.8	<b>2.8</b>	2.8	<b>3.2</b>
GDP growth*	2.6	<b>1.6</b>	2.7	<b>1.5</b>

\*: As of March 2011, the NBH staff switched to a new forecast methodology in its Inflation Report, under which the estimates are based on a non-public rate path staff calculated from its medium-term inflation target (3%). The GDP estimate relates to this path.

Source: [NBH](http://NBH), [Portfolio.hu](http://Portfolio.hu)

## **Hungary ready for fight with banks on FX loans –PM Orbán**

Hungary's government has backup plans at the ready if its controversial new foreign currency mortgage repayment scheme fails an international legal challenge and is ready to fight with banks as long as necessary, the prime minister said. A bill submitted to parliament late on last Friday would allow borrowers to repay their expensive forex loans at a big discount to market exchange rates, forcing all losses of such transactions on banks, who have sharply criticised the plan.

The central bank has said the solution could threaten financial stability.

*"We are ready for each domestic and international fight with banks and politicians on their side,"* Prime Minister Viktor Orbán was quoted as saying by the Blikk daily in an interview published on last Saturday. "We have a solution at the ready that we can pull out of the drawer in case our current decision is banned by the international court and we will continue our struggle against the banks until we prevail," Orbán was quoted as saying.

Under the proposal, subject to parliamentary approval, borrowers would have the option to repay Swiss franc and euro mortgages at 180 forints per franc and 250 per euro in one go.

Banks in Hungary -- already slapped with Europe's highest financial sector tax -- have called the plan "unacceptable" and promised a legal challenge. The bill sets Dec. 30, 2011, as the deadline for borrowers to apply for early repayment of their loans. After an application is submitted, banks would have 60 days to prepare for the termination of the loan contract.

Orbán said borrowers would not face penalties if for some reason they cannot manage to pay back their loans in one go and opt to remain in their existing loan contracts. "Clients can signal to banks (by the end of the year) whether they want to take advantage of this opportunity. If at the end of the day they do not, or cannot, it will have no consequences," Orbán was quoted as saying.

"We have not the least doubt that forint loan products will appear on the market in an instant. The government and the (financial markets regulator) PSZÁF will constantly be on the lookout to ensure that people are not fooled again."

UniCredit unit Bank Austria was shocked by Hungary's plan to make banks swallow losses on the clearing of foreign currency loans at fixed exchange rates well below market rates and may put business plans on hold there, its head of business in eastern Europe told an Austrian newspaper. "This new law will unleash shock waves. We will not scale back our presence in Hungary, but are considering putting our expansion on ice," Gianni Papa told Wirtschaftsblatt in an interview published on Wednesday. While he said the entire plan is not crystal clear yet, "what is clear is that these measures changed the rules of the game and the consequences will be greater than only the financial ones."

"Unfortunately, the situation will be even worse," Orbán responded to one of the questions put forward by the readers of the country's leading tabloid Blikk. The readers asked why the forint eased by 32% against the Czech koruna during the eight years the Socialist Party (MSZP) was in power and why it depreciated another 12% since Fidesz has taken office about 18 months ago. The questions and the answers were published in Blikk's last Saturday issue. *"Unfortunately, the situation will get even worse.* Public debt was previously not so important with regard to exchange rate changes than it is presently. What we are feeling now is the impact of that," the PM replied.

*Source: Reuters, Portfolio.hu*

## **Don't speak**

According to Eurostat's 2009 survey, 74.8% of Hungarians between the ages of 25 and 64 do not speak a second language. Although the number in itself does not present news, recent media speculation puts a whole new light on it. Online portal Origo.hu got a hold of a government working paper which stated that the English language was too easy to learn, evoking "the false image in students that learning any foreign language is that simple." However, the Education Ministry dismissed the report and rejected a rumor that the government was planning to push out English as a foreign language in schools. According to the statement, the English language will continue to be a

"basic requirement" in school curricula in the new education law. Despite the false alarm, the fact that very few Hungarians speak fluently a foreign language is true. In 2008, 33% of primary school students studied English as a first language. Meanwhile, the same rates in Sweden, Italy and Spain were 100%, 99% and 98%, respectively. The trend is somewhat more positive among upper secondary students with 78% studying English. However, once again, this number puts Hungary at the bottom of the list, with countries like Czech Republic (100%), Sweden (100%), and Finland and France (99%) the leaders among European states. German is the second most popular foreign language among Hungarians with 19% of primary school and 49% of upper secondary students learning it. The main problem is the age at which a person is exposed to another language. Although the 'critical period' hypothesis, which states that a cut-off age for fully mastering a foreign language is 12, the general principle that adult learners only rarely gain native-like knowledge of a second language as opposed to children is still maintained. The environment outside of educational institutions is not any friendlier towards learning a second language. Almost all television programs and half of movies in theaters are dubbed. Meanwhile, many EU states, including neighboring Romania, limit dubbing to children's shows, while using subtitles for the rest of foreign programs and movies.

*Source: Budapest Business Journal*

## **Comments**

### **The liar**

Fidesz has come to the end of a long way. After nine years of lying and parroting about 'an alternative solution' it turned out that even if such an 'alternative solution' exists, Fidesz does not have a clue about it. It turned out yesterday that they wanted more and more. It seems that the nationalization of private pension funds and the special taxes are just not enough.

It will hardly be easy to blame previous socialist governments for everything from now on. The Orbán administration has been making a mess for one and a half years. They are just about to introduce the highest VAT rate in Europe, while the health care contribution is going to be increased soon, and several tax allowances will be cut. These measures will not increase consumption and will not generate more jobs and investments as they expect. They will have many effects but a higher growth rate.

Meanwhile the government has not decided on a single structural reform yet. This is the most primitive budget consolidation I have ever seen. The debate started by Matolcsy (minister for national economy) about whether or not these actions constitute austerity is just pointless. What else could they be? Does the country need a budget consolidation? It does, but not this kind. Let's not forget that we have to increase taxes because the Fidesz government has pursued an unsustainable fiscal policy since they won the elections last year.

The fast has arrived. And this fast will last for more than forty days.

Do you think that the prime minister looks at himself in the mirror? If yes, what did he see this morning? Did he see a liar?

*Ferenc Gyurcsány; Facebook, September 17. 2011.*

### **Orbán and the change for the worse**

I don't know how much longer this can go on, but as I see now, patience is running out. The government thinks that the sentence of János Lázár that 'the poor is poor and gets what he earns' is the norm. Viktor Orbán, who obviously suffers from mental disorders when he forgets where he came from, cuts the opportunities of millions of Hungarians. He turns the poor into beggars, condemns the beggars to death, and he turns the lower middle class even poorer. Only the income and social conditions of the upper crust improved and strengthened further. Everyone else is outside of the Orbán government's vision, which is absolutely against the the concepts of democrats.

When Gyurcsány made restrictive decisions, he tried to take into consideration the poor, the

deprived. He retained the pension and family allowances as long as it was possible; while the gas price subsidy was solved so that those who consumed more, had to pay more.

Orbán's system makes the rich richer, and the poor even poorer. Orbán, who became a billionaire from politics, can cash in on the system, while those who earn less than 140 thousand forints per month will finally go down the drain.

I feel ashamed that Hungary has such a vile and malicious government.

Demonstrations can be banned – László Piros did the same in 1956. We saw what happened in the end. The dissatisfaction, however, obviously increases, not to mention the fact that all of this had been completely absent from the promises of Fidesz. That stagnant unemployment, devastated budget and economy, the ruined currency, stressful international relations, the demolition of the rule of law, a system of castes and a verbal state of war will be introduced in Hungary?

How long can we be prisoners of this sick system?

*Zsolt Gréczy; [http://greczy.blog.hu/2011/09/19/orban\\_es\\_a\\_rosszleti\\_rendszervaltas](http://greczy.blog.hu/2011/09/19/orban_es_a_rosszleti_rendszervaltas)*