

Weekly Newsletter

News

Police detained MPs, former PM from protest

Hungarian police briefly detained former Socialist Prime Minister Ferenc Gyurcsány and several other lawmakers during a protest outside the parliament building where the government passed laws the opposition sees as a blow to democracy.

The Financial Stability Act will be one of the key elements of Hungary's economic policy framework in the coming decades, Economy Minister György Matolcsy said in the final debate of the draft. The minister commended the draft to Parliament for approval. A few minutes later, the new act was passed with a majority vote of governing Fidesz party MP's, despite the fact that the President of the European Commission has called on PM Viktor Orbán to partly withdraw the draft, which could jeopardize talks about a new financing deal with international lenders.

Hungary is trying to secure the deal with the International Monetary Fund and the EU to retain access to market funding next year, but informal talks have collapsed, leading to a downgrade in Hungary's debt rating to "junk" by Standard and Poor's.

Parliament also passed an electoral law, which critics say will change the electoral system in favour of Fidesz, and several other disputed bills, prompting opposition MPs to chain themselves to a barrier outside parliament in protest.

Gyurcsány, who headed two previous Socialist governments and is now a member of parliament, was forcibly removed from the protest along with several lawmakers from the green liberal opposition LMP party.

Police later detained the head of the Socialist party and several other Socialist lawmakers who tried to prevent LMP activists being taken away from outside parliament. Those detained were later released.

"(Prime Minister Viktor) Orbán's autocracy can no longer tolerate even peaceful opposition and protest," Gyurcsany told Reuters after he was released.

MP Gábor Scheiring told Reuters: "I have come here as it's a shame for the governing majority that people have to defend parliamentary democracy with their own bodies."

"They want to cement the flat tax, under which the majority of people end up worse off ... and the ruling majority of Fidesz wants to approve an electoral law today, with which they will take away the people's right to replace this government."

The financial stability law cements a flat personal income tax, which the opposition says would tie the hands of any future government.

A vice chairman of Fidesz said the protests were a "political parody."

Police said in a statement that by chaining themselves to the barriers, protesters blocked the entry of MPs to parliament, and did not obey police requests to leave.

"When due to the behavior of the demonstrators, Parliament became inaccessible at all entries, police intervened and detained 26 individuals," the statement said.

Péter Krekó, political analyst at think tank Political Capital said the police action was unacceptable.

"These pictures which show police removing opposition lawmakers, well, we see such photos in undemocratic countries." "What the government can achieve with this is that its isolation from the West can become much stronger both economically and politically, and if the government goes ahead on this road, then there is no other outcome but failure."

Since it swept to power in 2010, Orban's government has tightened its grip on the media, curbed the rights of the top Constitutional Court, renationalized private pension assets and dismantled an independent budget oversight body.

Source: Reuters, CNBC

Orbán reject's EC President Barroso's request to withdraw controversial laws

Prime Minister Viktor Orbán said in an interview to commercial Hír TV last Thursday evening that he told Barroso in his reply letter that it was not possible to delay the two draft laws, because they were “important building blocks of the country’s new constitution which is to come into effect from January”. He added that neither law contained anything which the European Commission’s president had a right or capacity to criticise. The prime minister said every bill put to the Hungarian Parliament was in line with the European legal framework.

Earlier in the week, Barroso asked Orbán in a letter to withdraw the two bills, which were fast-tracked for adoption last week, and suggested this might be a precondition for talks on a pending loan agreement with the International Monetary Fund (IMF) and the European Union. He said neither laws complied with the EU’s basic treaty.

Orbán said Hungary did not want a loan from the IMF, it was in need of a precautionary credit line only. “We do not need money, we are not looking to take out a loan. (...) We need an agreement which allows access to a credit line in case international money markets became paralysed,” he told HírTV. He said if Hungary was to return to “be controlled by the IMF” and failed to implement its own economy policy, there would be no need for “people like us, who have national feelings.”

“This, however, is not the case at all,” he added. Orbán said he would not reshuffle his government on January 1. He said every government member’s mandate would last as long as his own, adding that the only exception would be if one of the ministers asked him to rethink whether they should continue their work.

On the subject of a recent downgrade of Hungary’s debt by Standard and Poor’s to non-investment status, Orbán said “the whole of Europe is under attack, everyone is being downgraded all the time. We soon get used to it and it loses significance.”

He added that Hungary had taken a successful path over the past 18 months.

A popular political analyst suspects that Mr Barroso’s “ultimatum” to Viktor Orbán may be part of a plan to topple the Hungarian Prime Minister. In his widely read blog, political scientist Gábor Török says Mr Orbán’s reply is a rational one, if we suppose that Hungary does not badly need a credit line from the EU and the IMF. Indeed, giving in to the demands would have caused serious political harm to a prime minister who has so defiantly compared Brussels to Moscow (in its role as capital of the Soviet Union). On the other hand, if Hungary risks insolvency without that credit line, Mr Orbán’s decision may cause him more headaches in the future than bowing to the ultimatum would now. Török raises the possibility that this was precisely what Mr Barroso intended, and this may explain why the top EU official despatched such a brisk ultimatum to Viktor Orbán, in the full expectation that he would reject it out of hand. In a comment appended to Török’s post, one reader replies that the European Union cannot intend to drive Hungary into bankruptcy simply in order to get rid of its prime minister. In such an eventuality, he suggests, scores of Austrian banks which are heavily exposed in Hungary would also collapse.

In right wing Magyar Nemzet, Matild Torkos hopes that the Hungarian government knows how far it can go in defying “the world of finance”. It has “hit the wall several times and has often been forced to retreat. By now they have perhaps gathered sufficient experience to gauge how the world of finance will react to their steps.” Torkos believes that now that Hungary’s sovereign debt has been downgraded to junk status by a second rating agency, “we are in real need of a stand-by credit, even at higher interest rates.” That being so, she does not understand, why “we bunnies had to tug at the lion’s moustache,” by introducing an “otherwise reasonable” bill on the National Bank.

Source: MTI, Budapest

American Secretary of State Hillary Clinton to Viktor Orbán

Hungarian daily Népszabadság learned that Prime Minister Viktor Orbán has received another tough message - this time from US Secretary of State Hillary Clinton. Although the daily has yet to see the

letter, it wrote that sources told it the concerns expressed in the letter are similar to those raised by European Commission President José Manuel Barroso.

The contents of the letter reiterate concerns frequently voiced by the US in recent weeks over "a systematic dismantling of Hungary's democratic institutions", *Népszabadság* has claimed. Specifically, Clinton has expressed concern over the independence of courts, the new Act of Parliament on the status of churches, freedom of the media, and, as a new issue which had not been mentioned before, taking away the frequency license of left-leaning Klubrádió. A source has told the newspaper that "we have expressed concern on several occasions over protecting individual rights and freedoms, the system of checks and balances, and implementing changes in a transparent way after the necessary debate." The report reminded of Clinton's June visit in Hungary when the Secretary of State made a statement mentioning a discussion with PM Orbán of the controversial Media Act and restrictions of the rights of the Constitution Court. Two months later, US Ambassador to Hungary Eleni Tsakopoulos Kounalakis sent a *démarche* to the Hungarian premier protesting steps against democratic institutions, as well as the attitude of the Orbán administration which has apparently ignored US criticism.

Spokesperson Péter Szijjártó of the Prime Minister's Office acknowledged receipt of the letter, saying it "essentially summarized earlier personal communication by Clinton. He added that "of course, the Prime Minister will reply in accordance with protocol".

Right wing Magyar Nemzet is sarcastic about letters from the Chairman of the European Commission and the US Secretary of State to the Hungarian PM, while left wing *Népszabadság* speculates about the lack of public criticism towards Hungary on the part of the German government.

Magyar Nemzet thinks prominent Western critics would like the Hungarian left wing to have broader access to the political decision-making process. To back up this thesis, deputy editor-in-chief Gábor D. Horváth quotes from a statement by the Hungarian EU Commissioner László Andor, a left-winger himself, who said the former Prime Ministers of Greece and Italy were replaced with politicians „who are capable of building bridges between government and opposition parties.” Horváth ironically interprets that statement as suggesting that „Hungarian democracy which apparently does not exist at the moment, is supposed to be re-established in blatant disregard of the results of democratic elections,” which gave the present governing parties a 2/3 majority in parliament. According to that logic, the pro-government columnist continues, real democracy would require widespread political support from those who were ousted from power by the electorate.

Népszabadság believes that Germany is concerned about what is described as growing nationalism in Hungary, although Berlin has not expressed that concern in public, unlike Mr Barroso or Ms Clinton. The commentator, Edit Inotai suggests that in the eyes of German officials, the Hungarian government is becoming more and more like the Kaczynski party in Poland and is seen not only as a political danger, but as a source of instability for German investors in Hungary. The German press is openly critical of current trends in Hungary, as are the opposition Social Democrats. The conservative Merkel government, however, does not want to jeopardize economic co-operation and presumably does not believe in frontal attacks.

Source: Népszabadság, MTI, Budapest.eu

Hunger strike continues against news meddling

Camped outside Hungary's public broadcaster, a small group of television editors is on hunger strike to protest what they say is widespread news manipulation by the government.

The broadcaster and the government deny the accusation. But the controversy has drawn fresh criticism of centre-right Prime Minister Viktor Orbán, already under fire for promoting a law critics said curbed the independence of the media and freedom of expression.

The media law, backed by the government's two-thirds majority in parliament, required all broadcasters to provide balanced coverage of news and to register with a state authority.

The legislation sparked outcry in Europe and was modified after the EU Commission threatened to

take legal action.

But current and former editors at the public broadcaster told Reuters the government remained able to manipulate news content, and did so routinely.

"We'd get clear instructions about expectations of any given story, what it must suggest," said Norbert Fekete, a former editor at the evening news programmes, who was fired in July.

"A recurring theme was the pressure to cast a negative light on previous Socialist governments. In this regime only good things happen."

What touched off the hunger strike was an alleged attempt to shut out of any news programme a former chief judge, Zoltán Lomnici, who had been appointed by the previous Socialist government. Editors were ordered not to interview or show him on screen, to the point of blurring his image on the screen, editors at the public broadcaster told the local media.

"Since the democratic transition, all governments have tried to influence news coverage," said television union leader Balazs Nagy Navarro.

"(But) these people go beyond all kinds of limits. They distort, falsify information. This Lomnici case is just the tip of the iceberg," said Navarro, who started the hunger strike on Dec. 10 with a handful of colleagues, sitting outside the studios, wrapped in blankets and drinking tea, their trailer parked nearby.

"The government will in the future, as it always has, refrain from influencing the public media, or any media outlet, as that would violate constitutional values it fully respects," a government spokesman said on Thursday. "The government rejects all allegations of such influencing."

A spokesman with the Media Service Support and Asset Management Fund (MTVA), which provides content for public service news channels, said editors were independent.

"The current system is more, not less, independent from politics than the previous one, where political appointees oversaw media outlets directly," spokesman László Szabó said.

"The fact that there are mistakes, idiotic mistakes even, does not have to mean that any politician would sneak into the evening news desk and rewrite the news with his own pen."

One media expert told Reuters the new media law was to blame, as it put a council of political appointees in charge of enforcing media regulation, but they turn a blind eye when the government meddles with news.

"The current law allows the two-thirds governing majority exclusive control of the media," Péter Molnár, a professor of media at the Central European University in Budapest, said.

Changes passed to the media legislation narrow the scope of the law so that it no longer prescribes balanced news coverage for on-demand services such as Internet sites or blogs.

Source: Reuters

Hungary's Central Bank woes take center stage on CNBC screen

CNBC has once again featured news on Hungary on Friday, with live analyst coverage of the government's stance on talks with the IMF. The government will eventually see the need for an agreement with the World Bank, a Barclays Capital analyst concluded in a studio discussion.

The discussion was focusing on the question of Hungary becoming a toxic country within the European Union, based on the past few days' events. Whilst talks with the IMF may be an uphill battle, the government will finally see that the agreement is necessary, the Barclays analyst concluded.

International lenders are professional organizations which will design an agreement suited to Hungary's needs. However the negotiation process and a final agreement may be long drawn out, he added.

In the analysts's view, the medium term the government will certainly see light and reach a successful deal with the IMF and the EU.

As concerns Hungary's Central Bank Act woes, Barclays researchers in London believe the government is currently halfway through the process of restricting the institutional independence of the National Bank of Hungary. "There is still a way back, but there is a point of no return," the

interviewee warned.

In a research note on Friday, BNP Paribas analysts have likewise warned of the very real risk that IMF and EU staff could postpone the launch of formal talks with Hungary if the Central Bank Act is passed by Parliament in its current controversial format.

Source: Portfolio.hu

Closure of opposition radio station Klubrádió by Media Council draws protest from OSCE

Opposition figures last Wednesday lashed out at the Media Council's Tuesday decision to award the frequency used by popular talk radio station Klubrádió to recently founded Autórádió.

The station will have to give up the frequency by March 31.

Media Council spokeswoman Karola Kiricsi told reporters that the council awarded the maximum points to Klubrádió in aspects such as proportion of music, public service, programming plans and experience, but that the bid score less well on other criteria. Kiricsi would not say what other criteria she spoke of and left the press conference after answering three questions.

Klubrádió managing director András Arató told Népszabadság that it speaks for itself that a company owned by two persons unknown in the radio trade and founded this year with only Ft 1 million of equity has won the tender. He said he will in all certainty take the case to court once he receives official notification, as Klubrádió owes a moral obligation to its half a million listeners and 10,000 financial supporters.

OSCE representative for press freedom Dunja Mijatovic also expressed concern, saying "it is regrettable that an independent and popular political talk radio station is to be terminated. The radio station known for its critical political views had half a million listeners daily. As an important source of independent information it contributed to the diversity of the media."

Socialist leader Attila Mesterházy said a media outlet which always knew the difference between servility and service has been silenced. It was Prime Minister Viktor Orbán who banned the radio station, he declared.

In response, the Media Council described itself as an autonomous state administrative body independent of the government and said it has assigned the state-owned radio frequencies in a procedure regulated by law.

LMP deputy caucus leader Gergely Karácsony asserted that the decision was solely defined by the interests of business groups close to Fidesz.

Hunger strikes, demonstrations, international press conferences slamming the decision – these are just a few examples of the protest actions around media affairs nowadays, writes Ferenc Kumin in his blog. The leading analyst at Századvég (an influential conservative think tank) calls the decision "an especially bad one" and fails to find any reasonable arguments in its defence, despite trawling traditional and internet media for some fair justification. The decision came exactly one year after the international storm about Hungary's new media law. One of the main critical arguments at that time concerned the possibility of political interference, although up until now there has been no proof that such criticism was justified – Ferenc Kumin remarks. "The biggest problem is that the ruling reloaded last year's quarrels and refreshed all the arguments, just at a time when people had become bored and weary of them" – the right wing analyst notes. He admits he simply cannot find any real political reason behind the decision. Although Ferenc Kumin believes that Klubrádió's programmes (the phone-ins in particular) were often biased and unfair, they had a remarkable audience, who will definitely find their voices elsewhere. "If anything, they will become even more adamant in their attitudes."

Source: Hungary Around the Clock, Budapest.eu

Hungary's leading online news portal banned from parliament

Leading internet portal Index.hu has been banned from parliament following the publication of a video titled "Merry Christmas, Hungarian Democracy!", which included at the ninth minute two

reporters singing a mocking song about the government and parliament's work over the previous year.

http://index.hu/video/2011/12/20/boldog_karacsonyt_magyar_demokracia/

What remains unclear is if the song's lyrics or if the behavior of the reporters (dancing around the halls of parliament) was what led to Parliamentary Speaker László Kövér banning the portal from the building, for "not treating parliament with respect." The parliament's press office said that the portal can return once it provides guarantees to Kövér that its reporters would behave in a respectful manner. The incident occurs as the government is facing renewed scrutiny over its commitment to press freedoms, with news on Wednesday of that the Media Council had decided to reassign the frequency of Klubrádió, a radio station seen as opposition-friendly.

Daily Népszabadság tried to gain clarifications on what guarantees Index would need to provide Kövér but had yet to receive a response. For its part the portal stated that they have asked to have the matter resolved as soon as possible so that they can resume their parliamentary coverage.

Source: nol.hu; index.hu

IMF says start of aid talks hinges on Hungary government

Hungary's government would need to agree to discuss disputed policies such as a central bank law if it wants to start talks with the International Monetary Fund on a new loan, the IMF said on Wednesday.

Informal talks between Hungary and its former lenders, the IMF and European Union, collapsed in mid-December due to two legislative proposals - one seen as limiting the central bank's independence, and a 'stability law' that would entrench the centre-right government's unorthodox economic policies such as a flat income tax rate.

Hungary's forint currency weakened to 308.80 the euro from 307 on Wednesday, partly because the IMF comments stirred market fears that the talks would be derailed.

Hungary needs to roll over 4.8 billion euros (3.8 billion pounds) in foreign currency debt next year, on top of substantial forint-denominated debt. While it can finance itself from markets now, it needs the IMF agreement to shore up investor confidence to retain access to market funding, particularly given the uncertainty generated by the euro zone crisis.

The European Commission said last week that it had not yet decided on resuming aid talks with Hungary.

On Wednesday Christoph Rosenberg, IMF Mission Chief on Hungary, responding to a Reuters question on whether talks would resume in January, said no decision has been made on when and if formal negotiations would start.

He said the IMF had told the government that given Hungary's vulnerabilities, a Stand-By Arrangement (SBA) with quarterly monitoring would be the best means of supporting the government's efforts to address economic challenges.

"Because Hungary does not face an imminent financing need, such an arrangement can be treated as precautionary. Preparatory work on a program cannot continue until the government indicates that it is willing to proceed on the basis of a SBA," Rosenberg said.

"No decision has therefore been made about whether and when formal discussions on a Fund-supported program will commence," he said in an emailed reply to Reuters.

The government has said it aimed for a precautionary and liquidity line (PPL) - and to continue to finance its debts from the markets.

Neighbouring Romania has a precautionary standby arrangement with the IMF.

European Commission President José Manuel Barroso had asked Prime Minister Viktor Orbán to withdraw the two contested laws, but Orbán rejected the request. Hungary's parliament, where the ruling Fidesz party has a two-thirds majority, passed the financial stability law on December 23, while a final vote on the central bank legislation is due on Friday.

Rosenberg also said additional concerns emerged regarding new legislation proposed by the government, which led to an interruption in the discussions earlier this month. "If the government is interested in proceeding on program discussions, it should demonstrate its willingness to engage on policy issues that are relevant to macroeconomic stability. This includes close consultation on the proposed central bank legislation and the financial stability law as part of the negotiations," he said.

While Orbán is seeking a funding deal, he does not want lenders interfering with his policies which included big special taxes on banks and a renationalization of pension assets. After informal talks with lenders were cut short, Orbán stated the disputed laws would be passed, although he said Hungary was still intending to sign a new deal with the IMF. He has also told HírTV Hungary would "stay on its feet" even if there was no agreement reached with the IMF.

The disputed central bank law has been amended by the ruling Fidesz party to bring it into line with the European Central Bank's opinion, but the ECB has said it was still concerned that plans to expand the Monetary Council and increase the number of deputy governors could pose a risk to the bank's independence.

Hungary targets one of the EU's lowest budget deficits next year at 2.5 percent of gross domestic product, but faces the prospect of a recession, and its state debt at around 80 percent of GDP is the highest in central Europe.

To briefly sum up IMF communication, the gist of the message is that the continuation of talks on a line of credit will depend on the Hungarian government's moves; the ball is in Hungary's court, so to speak. In recent communication, the government has been repeatedly suggesting that while seeking an agreement with international lenders, it was not prepared to accept more than loose control over Hungary's economic policies in exchange for financial assistance (which might eventually not be used at all - note the emphasis on the precautionary nature of the facility).

Given this attitude, it cannot be taken for granted that talks with the IMF/EU delegations will commence in the first half of January as suggested by the government. Neither is there absolute certainty that an agreement will be finally reached. This outlook may undermine market expectations of Hungarian asset prices in the long run, placing the forint permanently under bear pressure.

Source: Reuters, Portfolio.hu

Borrowing costs rise on junk downgrade

The implied cost of borrowing for Hungary has risen after ratings agency Standard & Poor's (S&P) downgraded the country's debt to junk status. The interest rate, or yield, on 10-year government bonds traded on the secondary market rose from 9% to 9.3% after S&P cut Hungary's rating to BB+ from BBB- last Wednesday night.

S&P said it had doubts about the independence of Hungary's central bank. The Hungarian government immediately criticised the downgrade. "[The decision] is clearly not based on the assessment of the facts of the Hungarian economy and financial system - it is pressure from market players interested in strengthening the dollar zone and weakening the eurozone," the Economy Ministry said in a statement.

S&P cited changes to the constitution that had undermined the independence of the central bank and other institutions as part of the reason for the downgrade. "In our view, the predictability of Hungary's policy framework continues to weaken, harming Hungary's medium-term growth prospects," the agency said. Last week, the European Commission and the IMF cut short informal

aid talks with Hungary due to worries over the independence of its central bank. S&P also cited heightened risks to the country's ability to repay its debts due to the weakening domestic and global economic outlook. Last month, fellow ratings agency Moody's also downgraded Hungary to junk status, blaming the economy's high levels of debt and weak prospects for growth.

Hungary was given a 20bn euro standby loan by the IMF in 2008 to prevent it having to default on its debts. But the newly-elected Prime Minister Viktor Orban decided not to renew the standby facility last year.

Source: <http://www.bbc.co.uk/news/business-16298773>

This is what they say – Hungary in the international press

Concerns about the erosion of Hungarian democracy have appeared in the international press.

The online edition of British conservative daily The Times said on Tuesday that the governing Fidesz party has taken almost all formerly independent state institutions under control since its election victory in 2010 and now has put the central bank into the firing line.

Swiss daily Tages Anzeiger shares this opinion. Its article entitled “Running fast to dictatorship” said that Viktor Orbán and Fidesz have put the country under the control of a “small circle of friends” in the past one-and-a-half years. The government puts vassals into all important positions and protects their seats by providing extra-long mandates.

Hungary possibly might “taste” bankruptcy even before Greece does so, Slovakian liberal daily the Sme said in its article entitled “Orbán, the kamikaze”. It would be a surprise, Sme continues, if Hungary will get through the year 2012 without facing bankruptcy while still having Orbán as Prime Minister.

“Hungary in fear” was the title of Paul Lendvai’s article published on Tuesday in Austrian liberal daily Der Standard. Lendvai calls Orbán Hungary’s de facto autocrat.

French left-wing daily Libération also paints dark vision of the future of the Hungarian democracy. Its article entitled “Viktor Orbán, the Hungarian King Ubu” focuses on the election law. The law, passed by Parliament on Friday, December 23, enables the governing Fidesz party to get 75% of the Parliamentary seats even if chosen only by the 25% of the voters, Libération said.

Autocracy returns to Central Europe

In Budapest, at least, the dissident era is back. And not just in spirit, as I was reminded by Miklos Haraszti, a very living veteran of battles against Hungary’s Communist government during the 1970s and ’80s — and now the scourge of Budapest’s new strongman, Victor Orban.

Twenty-five years ago, I and other Western journalists used to furtively meet Haraszti, then the editor of an underground political journal, so that we could read the latest petition he was preparing for human rights forums such as the Organization for Security and Cooperation in Europe.

http://www.washingtonpost.com/opinions/autocracy-makes-an-unwelcome-return-to-hungary/2011/12/22/gIQAjcoiHP_story.html

'Democratic Deficiencies' Abound in Hungary

The Hungarian Constitutional Court may have struck down parts of Prime Minister Viktor Orban's controversial media law, but with a new constitution set to take effect on the first of the year, it is a hollow victory. German commentators say the decision was the "last twitch" of the rule of law there.

German press about the latest news in Hungary:

<http://www.spiegel.de/international/europe/0,1518,805112,00.html>

Foes of Hungary's Government Fear 'Demolition of Democracy'

Democracy here is dying not with a single giant blow but with many small cuts, critics say, through the legal processes of Parliament that add up to a slow-motion coup. And in its drift toward authoritarian government, aided by popular disaffection with political gridlock and a public focused mainly on economic hardship, Hungary stands as a potentially troubling bellwether for other, struggling Eastern European countries with weak traditions of democratic government.

http://www.nytimes.com/2011/12/22/world/europe/foes-of-hungarys-government-fear-demolition-of-democracy.html?_r=1&pagewanted=all

Hungary: playing chicken

One of the smaller head-on car crashes in what could still turn out to be a multi-car pile-up in the EU next year is taking place in Hungary. At the wheel of this particular Trabant is the conservative prime minister Viktor Orbán, a man who vowed to accomplish a genuine regime change instead of what he calls the failed one of 1989. His widespread personnel changes go far beyond the turnaround that usually occurs when a party sweeps to power.

<http://www.guardian.co.uk/commentisfree/2011/dec/25/hungary-playing-chicken-editorial?INTCMP=SRCH>

Orbán defies Brussels and pushes through laws that breach EU rules

Hungary is on a collision course with the European...EU and the IMF walked out of talks with Hungary after the Government introduced laws that would...to function.” But analysts say that Hungary desperately needs financial assistance.

<http://www.thetimes.co.uk/tto/news/>

Comments

LMP, Gyorskocsi Street, Opposition Round Table, Festivities

The day of 23 December 2011 is the day of LMP (Lehet Más a Politika – Politics May Be Different). With their spectacular show they were able to send a message to the whole western world that Orbán is pushing the country towards a post soviet soft dictatorship. There is no reason to resent or to be jealous of LMP's show; instead one must admit that LMP scored its biggest political success since the spring of 2010. And certainly there is no place for any sentences starting with but.

Besides taking on Orbán directly there were two other very important results of the day.

In Gyorskocsi Street a political coalition was formed, unplanned, a coalition of the democratic opposition of Orbán. I know – I have seen this in the eyes of some LMP politician – that they cannot decide whether it is good or bad for them that we were also detained but at the end of the day maybe even the LMP politicians will understand that this is not the most important political question here.

Today Orbán is the origo of political life in Hungary. Everything is in relation to him. There is no room for „on one hand and on the other hand” type politics. The question is clear: will a dictatorial state replace civic freedom, will democracy be replaced by autocracy, will we nationalize instead of supporting private enterprises, will we exit the EU or not. Orbán wants a dictatorial state, autocracy and nationalization, we don't. It is true that LMP, MSZP and DK thinks differently of many topics. It is also true that us, politicians of long standing, carry a lot of weight from the past. But it is also obvious that there in Gyorskocsi Street a sort of spiritual community of democrats of various types

was formed. On one side there is Orbán and his regime, which detains democrats and on the other side we are the democrats who are being detained. And this is true even if at this point we were only detained.

Then something else also happened in the afternoon. On behalf of the Hungarian Solidarity movement, Tamás Székely – the leader of VDDSZ – called together the Opposition Round Table. This gives a body to the spiritual community of democrats formed in Gyorskocsi Street. Within a few weeks parties of the democratic opposition, organizations and movements will sit together at a table to discuss how Orbán may be removed and what should follow afterwards. One cannot ignore the very fact that something rather similar happened back in 1989. The leader of the regime back then was called Kádár not Orbán, the Opposition Round Table back then was initiated by the Independent Jurist Forum not by the Solidarity but in both cases the opposition parties started to work together in a sort of institutional way to overthrow the autocratic regime. As a result of those negotiations the opposition was victorious. If we do our task right, then the opposition may be victorious again in 2014.

I only note very quietly that one needs to learn from the mistakes of the predecessors. It is not enough only to be victorious over the political opponent; one also needs to be ready to govern the country in all aspects. This is much more difficult. If anybody, I know. I learnt my lesson, I did.

Ferenc Gyurcsány; <https://www.facebook.com/gyurcsanyf#!/notes/gyurcs%C3%A1ny-ferenc/imp-gyorskocsi-utca-ellenz%C3%A9ki-kerekasztal-%C3%BCnnp/312465662119236>

Orbán's Russian roulette with the nation

I am bewildered and shocked as I contemplate the economic policy manoeuvres made by our government in recent days. It is beyond the wildest nightmares what goes on in this country in respect of (not only) economic policy matters; when the country's international reputation is at rock bottom, when our sovereign debt was just classified as junk and the danger of state default becomes imminent, then our „wise” government wants to steal the reserves of the National Bank (Central Bank) – which should be only used in case of an (economic) emergency to support and protect the Hungarian Forint – to be used to fund the government's economic rampage; our government kicks hard the delegation of the IMF and EU then they say rather unabashedly that if the IMF would like to get its money back – the couple of billions of EUROS which we borrowed back in 2008 – then the IMF will pipe down and literally crawl back to the negotiating table. This is not economic policy; it is Russian roulette played with the citizens of this nation. What this FIDESZ government does – led by the prideful, easterly winds liking, King Orbán and assisted by swivel eyed, space structure turning board and Ózd cultural galaxy visioning comrade Matolcsy – is simply life threatening from an economic point of view.

I don't want to envisage anything bad for ourselves but if this government economic rampage continues we will have no chance to finance our sovereign debt from the open market or only at astronomical interest rates, which will make the state debt unsustainable, these factors alone or combined can lead to state bankruptcy. But what does state bankruptcy means for us simple citizens? Well, when we will not be able to refinance our state debt because there won't be any right minded investors who will believe the words of King Orbán and comrade Matolcsy then this country de facto will default on its loan obligations and will become bankrupt (will run out of cash) but let me go one step further and Dear Teacher, Policeman and all public employees please let me have your attention: (in case of state bankruptcy) you will not receive your salaries, you will have no money to buy food and make a living of; Dear Mothers, you will not be able to bring your children to the public crèche, kindergarten or school as supply of these services will be suspended because the local council will not be able to pay the salaries of the crèche attendants, kindergarten and school teachers, will not be able to pay the utility bills of the public institutions; Dear Bank Depositor, as you learn of the state bankruptcy and fearing for your savings in your local bank you will join the queue of thousands of other worried depositors to rescue your savings only to hear that due to the run on your bank it actually became bankrupt and the state has already blocked your account...

These are serious and depressing visions and I would not even want this to happen with my enemies. Instead of this I wish that King Orbán and comrade Matolcsy immediately start making responsible, predictable and credible economic policy. For the sake of this country I want them – at least – to apologize for their behaviour to the delegation of the EU and the IMF and instead of being hot headed to show compromise and agree with these international institutions. It is high time that the government stops its mindless and nation destroying economic freedom fight, this is the life saving interest of all of us...

Tamás Szóga; FreeHungary; December 27. 2011.

The craziest 7 days of 2011

It took the Hungarian government months of increasing budget qualms to realise that it's better to have an IMF umbrella than not to have one. Yet it appears that the realisation was theoretical. The Orbán government emphasised that no major policy concessions would be forthcoming to reach an agreement with the Monetary Fund, but it failed to warn the public in time that it planned to implement measures to make an agreement far less likely. Even as the IMF and EU delegations were involved in talks with their Hungarian counterparts, Fidesz introduced bills that would allow the government to take control of the Central Bank, while it also wishes to nationalise the few remaining accounts in the formerly mandatory private pension scheme. Fidesz is simultaneously undermining democracy, the rule of law and what's left of Hungary's international standing.

This is a bit awkward. How do you apologise to someone for mistakenly believing that he would – after exploring numerous alternatives – ultimately make the sensible, right, and last but certainly not least patriotic move? A few weeks ago we lauded the government for taking the right step in turning to the IMF as government bonds become increasingly difficult to sell on the open market, which is where Orbán Viktor had initially noted he preferred Hungary finance herself from. We even went as far as to gently admonish the “crisis profiteers”, those who sought to exploit for political gain the policy U-turn that was arguably the toughest call this government has had to make to date.

But then it turned out that the joke is on us because the government proceeded to botch talks with the IMF and the EU at the first opportune moment, which was incidentally the first (informal) round of said talks. The IMF and EU delegations left Budapest early, which makes the initial negotiations a failure.

It would be difficult to argue that the government did not take these talks seriously. Minister of National Development Tamás Fellegi even resigned leadership of his ministry so he could devote his entire energy to managing the talks. He might well end up out of work if the current situation proves durable.

Though we are sure everyone even remotely interested in Hungarian affairs is apprised of last week's events, here is a quick recap of what happened, along with a summary of the government's casual and optimistic (some might call it cynical) assessment and, further below, a less cheerful appraisal from us.

Divorced from reality?

Government politicians reacted to the prematurely halted talks in a variety of ways, none of which were constructive. On the morning of the IMF delegation's departure, Orbán said that there were no official talks with the IMF and added that if such negotiations will take place they would not involve discussions about the nature of Hungarian economic policy. Since Hungary is an IMF member, the prime minister argued, asking the IMF for a loan is like asking the bank one co-owns for money.

The notion of the IMF as a mere cash cow was reinforced by Tamás Fellegi, who also noted that there had been no official negotiations and added that talks could only take place if there would be no preconditions, which was presumably a reference to international concerns about the government's legislative agenda discussed below.

So while the Orbán-Fellegi line was that the IMF is a glorified ATM without the right to talk back or

actually formulate conditions for doling out money, Fidesz parliamentary leader János Lázár added insult to injury by telling the press that the IMF delegation only left early to ensure that they don't miss Santa Claus. One can only hope that their Christmas will be relax them better than dealing with the alarming state of the Hungarian budget would.

Private pension blackmail...

In the intervening days government party politicians introduced two bills in Parliament which angered many in Hungary, and apparently abroad as well. For starters, Fidesz wants to grab the money that the few remaining members (100,000 out of formerly three million) of the former mandatory private pension schemes pay into their pension.

Given that the government already keeps the employer-financed majority of their pension contributions, this total dispossession would be stunning to say the least. The money grab will effectively result in a nationalisation of the accounts held by the few remaining private pension holdouts. After effectively blackmailing millions of future pensioners into giving up their accounts, Prime Minister Viktor Orbán pledged to leave the rest be in return for them forfeiting their claim to a state-financed pension even as a majority of their contributions continue to enrich state coffers. Though Fidesz fails to honour this promise, it appears that the inter- and supranational organisations in question do take notice.

...and central banking folly

Still, provocative as it was, this was of comparatively little importance next to the other bombshell that Fidesz announced last Wednesday. The government wishes once again to assume control over the Hungarian National Bank (MNB). This time the plan is to fuse it with the Hungarian Financial Supervisory Authority (PSZÁF), thereby creating a new institution.

Obviously, the new institution cannot be headed by the same person who governs the MNB right now, which is why András Simor, whose term expires in 2013, would have to make way for a new chief banker already next year. A similar method was used to get rid of György Kopits, the chairman of the Fiscal Council, and András Baka, president of the Supreme Court and (qua office) of the National Council of Justice, one of whose successors will be the wife of Fidesz MEP József Szájer.

Upon taking power, Fidesz very quickly bulldozed its way through the independent oversight institutions, taking control of all them but the central bank and the non-constitutional arm of the judiciary, though the former was not for wont of trying. After sensing that legislative changes to subordinate the MNB to the government would damage Fidesz' European standing more than the neutralisation of other independent institutions, the government backed down. But Fidesz did launch a massive media campaign against András Simor, trying in vain to get him to resign.

It is probably no coincidence that the two last bastions of independent oversight are now targeted at the same time. But there are also increasing signs that the international community is looking at these attempts with a somewhat different – i.e. more alarmed – attitude than its weary concern hitherto. One crucial indication was the symbolic early departure of the EU and IMF delegations.

Space for paranoia

Among those particularly suspicious of the government – unfortunately a position that is vindicated far too often – there was talk that the entire communication of negotiations with erstwhile enemies is nothing but a red herring. In reality, thus the über-sceptics, the government merely wishes to pretend that it is willing to negotiate so that it can shift the blame for the ills before us on the international institutions, which it had demonised long enough. We would like to say that is utter nonsense but must hold out on judgment.

In a detailed analysis, a commentator on Hungary's most widely read news portal, Index, offered an

idea along similar lines: the government is less concerned now about the IMF or about Simor personally than about getting access to the vast foreign currency reserves that the national bank has amassed since the painful experience of going into the previous crisis empty handed.

This specific goal rather than the notion of wanting more control per se drives the policy of seeking to take over the MNB, and – if true – this would indeed render compromise more unlikely. If the government has manoeuvred itself into a position where it can't renounce access to the bank or its resources then this will likely put Hungary in an extremely vulnerable position.

Careful, the ice is creaking

Patience with the Orbán government is wearing thin simultaneously in and outside of Hungary. Polls show dramatic signs of decline and even reliably conservative voices in the blogosphere have begun frowning on the unpredictable moves and controversial explanations proffered to justify those. The international mood is icier still.

Though foreign criticisms concerning the media law (now surprisingly felled by the Constitutional Court) were forceful, and some of the things the government did or planned to do led to openly voiced concerns, wholesale critiques of the Orbán government from abroad were subdued, generally uttered behind closed doors. That appears to be changing.

It is unclear what triggered these changes, for Fidesz' most recent actions are not of a different quality than its earlier attempts to cut the rule of law to size. Domestically, frustration probably stems from the fact that even those who were willing to forgive the government's trespasses in return for improved economic policy are coming to realise that the increased governmental powers will not in fact yield better economic outcomes, at least with current crew. International observers may simply find that these latter usurpations of executive power show that Fidesz's objectives may be more sinister than merely counterbalancing eight years of Socialist misrule.

Fidesz is certainly striving to give anxious analysts plenty of food for thought, witness its latest astonishing proposal, which would allow for passing bills in Parliament without any debate. Fidesz has often indicated its distaste for using Parliament as a forum for debate and, correspondingly, it reduced the number of plenary sessions when it first took power between 1998 and 2002. Without repeating this mistake, it has plentifully exploited its majority and all procedural means to circumvent debate. At this point, it might be more honest to simply dissolve Parliament by decree.

Be that as it may, the promising indications of a more sober policy vis-à-vis international institutions has quickly given way to – hopefully temporary – disappointment. The Christmas break will give all the players involved, but especially the government a welcome break to reassess Hungary's position and priorities. Let's hope they make the most of it – and we will be back next year to see if they have done so.

December 21. 2011.

Source: http://www.budapesttimes.hu/index.php?option=com_content&task=view&id=21888&Itemid=220

Hungary: junked again

If one credit rating agency cuts you to junk, you can argue with the credit rating agency. But when a second does the same, you really need to look to yourself for an explanation.

In Hungary's case, it's not hard to find. S&P signalled last month that it was considering downgrading Budapest – and gave itself until February to decide. In the event it didn't need nearly that long. On Wednesday it followed Moody's in cutting Hungary to junk. It can't be long before Fitch follows suit.

The news hit the forint hard: it plunged by up to 1.8 per cent against the euro before recovering to trade at 307.2, down 0.1 per cent at 0850 Budapest time. The HUF has lost 2 percent in the last two days, extending its decline in the second half of 2011 to 13 per cent, the most among more than 170 currencies tracked by Bloomberg.

S&P said in a statement that it was cutting Hungary's rating one step to BB+ from BBB- , due to the declining predictability of Hungary's economic policies. The International Monetary Fund and the European Union last week suspended talks over a loan package to Budapest in protest at plans for a central bank law that may curb the institution's independence. To the government's annoyance, the central bank this week raised rates out of concern for the forint.

S&P said:

The predictability of Hungary's policy framework continues to weaken, harming Hungary's medium-term growth prospects. The weakening is due, in part, to official actions that, in our opinion, raise questions about the independence of oversight institutions and complicate the operating environment for investors.

Hungary's government will have none of this. As Kester Eddy writes from Budapest, the economy ministry said in a statement that the downgrade was not a judgement on Hungary, which was a "victim" of the eurozone crisis and its struggle with the dollar.

The S&P decision was "clearly not based on an assessment of the facts," for example, ignoring the fact that the budget deficit remains on track to meet the government target of below three per cent, "despite all the difficulties", said the ministry.

The markets take a different view. Danske Bank said in a note:

It is clearly worrying that the Hungarian government apparently continues to ignore how negative the consequences of its actions are. When Moody's downgraded Hungary in November the Ministry of Economics in a statement said it was a "financial attack" on Hungary.

In a reaction to S&P's rating action the same Ministry said: "S&P purposely ignored that there has recently been a positive change in the gauges that serve as the basis of the evaluation". We have found it hard to detect this "positive change" and have been puzzled that S&P did not cut Hungary's rating earlier, as the Hungarian government's policies render it difficult for international investors to be positive on the outlook for the Hungarian economy and markets.

Moody's lowered its assessment to Ba1, the highest junk grade, on November 24. Fitch, which has Hungary on its lowest investment grade, BBB-, can't wait long.

Source: <http://blogs.ft.com/beyond-brics/2011/12/22/hungary-junked-again/#axzz1hmAAi1VS>

The fragile ambitions of Magyar capitalism

Viktor Orbán's second reign has been marked by a desire to break with the ideology that has dominated Hungary since the fall of the communist regime. Everything he says and everything he does is oriented towards this goal. The key idea of the last 20 years was "modernisation," while "sovereignty," was only a backdrop or even a mirage.

The goal of the second Orbán government – the first lasted from 1988 to 2002 – is thus to restore sovereign power which has disintegrated over the last eight years [under socialist-liberal governments].

This is a project that will involve the creation of a Hungarian capitalism. The apparently nonsensical policy adopted by the Minister of National Economic Affairs is in fact designed to provide him with ammunition to destroy the networks that continues to hold sway over the economy.

The other aspect of the Orbán project is quite simple: Hungarian capitalism cannot exist without Hungarian capital, and that notably means financial capital.

But how do we know if money, which by definition is odorless, is "Hungarian" or not? To what extent can a bank, which has a large clientele in the country and employs several thousand Hungarians, be considered "foreign"?

“Local” players have a significant advantage

Simple: according to the “Orbán system,” any capital that is willing to participate in the creation of Hungarian capitalism, even if the exact meaning of what this entails remains fuzzy, can be considered Hungarian.

To create this capitalism, we will therefore need financial institutions – banks and insurers – with the capacity “to invade” the markets. These can be created either by direct state investment in new banks, or by the state’s purchase of a share in existing banks. Once these organisations have lined up in readiness for battle, we can set about sweet talking the other market players.

The financial institutions recently created by the state are all under the command of trusted associates of the Prime Minister. And if Austrian and German banks can purchase Hungarian ones, nowhere is it said that the reverse cannot also apply.

By the same token, “the rare financial institutions that remain in the hands of the state” can of course be recapitalised. As for the institutions that have independently developed in recent years, it will be easy – when the time comes – to ensure that these are legally purchased by the state. When you have two thirds of the seats in parliament, you can do almost anything.

Given that these institutions exist, we only have to find the necessary capital to proceed with the planned invasion. Nothing could be simpler: the state has the means to ensure that “local” players have a significant advantage when answering public calls for tender and it can also tweak tax legislation to push masses of borrowers into the arms of Hungarian banks.

For proof, look no further than the fines that the PSZÁF [financial services authority] has been inflicting on multinational organisations since the autumn, and the exceptional tax on financial institutions, which obliges banks that are not headquartered in Hungary to ensure that their Magyar subsidiaries have a net in-take of capital.

Survival strategy based on defeatism

But as it stands, many obstacles remain. First and foremost, Hungarian banks do not have sufficient liquidity to offer affordable loans in forints. And let’s be realistic: they will never have the capacity to replace their international competitors in the field of loans to industry.

If on the other hand the project succeeds, it will create a economic force that is favourable to Orbán that will make the country ungovernable for anyone else. Politicians in power will in fact have no other choice but to make concessions and reach compromise with this economic leviathan.

The new players of Magyar capitalism can only hope to enter the market with savings or capital stock increases. However, the population has nothing to save while the state has massive borrowings and companies are up to their necks in debt. In view of this situation, we will need foreign – or Hungarian investors – that can be convinced of the viability of Viktor Orbán’s project. But these subjects are not likely to have been on the agenda during his recent visits to Saudi Arabia and China.

On the contrary, are we witnessing the erosion and collapse of the ramparts that currently protect the owners of the Hungarian financial sector? It is too early to say. But the recent downgrade of the country’s sovereign debt rating is not a good sign. If other downgrades follow, state bond auctions will be suspended for some time to come, the euro will stabilise at well over 300 forints and the Swiss franc at 250 which will definitely close off that door, at a time when most Hungarians have debts in foreign currency.

For 20 years, the post-communist and neoliberal elites – which are all one now – have served the interests of international capital in exchange for moral and financial support from the West. In response to this survival strategy based on defeatism, the Orbán project presents a vision of the future that is a thousand times more in accord with the state of mind of Hungarians, who are tired of being submissive. The problem with this project is not to be found in the criticisms made against it by the business community (who are apolitical), nor from left or liberal analysts who tend to over-politicize everything. No: the real problem is that whether the Orbán project succeeds or fails, the result will be tragic.

Miklós Sebők; *Magyar Narancs*; <http://www.presseurop.eu/en/content/article/1320591-fragile-ambitions-magyar-capitalism>