



Speedboat Hungary wrecked on the rocks of reality

Hungary is headed for an extremely tough year when neither the budget nor GDP will likely meet the government's already significantly reduced projections. Orbán and Fidesz insist that everything is all right, but their dogged refusal to acknowledge reality only serves to stoke fears that they are not on top of things. While ignorance is one explanation for the government's self-congratulatory tone, there is another, more rational interpretation: it has yet to find a way to circumvent the constitutional requirement that forbids raising the national debt. Either way, the government's failure to address the economic problems bodes ill for the national economy's prospects in the near future.

Fidesz had vowed to thoroughly reform government, which it has done in some areas, though it is debatable whether it did so for the better. Ultimately, however, its credibility hinged on whether it would manage to take Hungary out of the economic morass that the preceding government "had mired the country in".

The odds were in Fidesz' favour. Many analysts argued that the left had clearly shown its inability to implement serious changes, and that in any case, only a right-wing government in Hungary would be able to undertake the comprehensive welfare and other state reforms necessary for modernising Hungary. The left would not be as vicious in opposition as Fidesz had been, making the task of the latter easier.

Beneath all the populist rhetoric, the argument went, is a neo-conservative reformer who is just waiting for an opportunity to wield his axe on the previously unfettered wild growth of the Hungarian welfare state. He would, moreover, perform these politically risky manoeuvres backed up by a two-thirds majority and facing a fragmented opposition, giving him unparalleled authority and stability.

Most importantly, however, Hungary and the international community seemed to be finally leaving behind the global economic crisis of 2008/2009. The German economy was doing excellently, which is generally good for Hungary since Germany is a crucial trading partner. As a cyclical upturn appeared to be impending, it seemed that Fidesz would only have to ride growth to a smashing victory in 2014.

The damned W

Except that global growth did not come and probably won't come for at least another few years. Politicians and economists' worst nightmare, a double dip (or W-)recession is impending, and no one knows how painful the second round is going to be. While the recession has already dashed the Hungarian government's dreams of quickly emerging as an economic saviour, a deepening recession even remotely similar to that experienced in Hungary in 2009 is likely to doom the prospects of Hungary's all-powerful governing party.

A milder rerun of the previous crisis would cement the growing dissatisfaction with Fidesz, but it would not necessarily destroy the governing party's electoral prospects. As long as the opposition is fragmented, Fidesz might retain a plurality among likely voters and carry enough single member districts to win the election. Either scenario is of course one of widespread disillusionment and disaffection, but their differences mark the dividing line between a government going down in flames and one that is unpopular but hobbling to victory.

Fidesz, however, seems to be stuck on the notion that it is building an entirely new economic model that will emerge as the example to follow for all the other nations in Europe. Even after having acknowledged in September that he was disappointed in the budget's envisioned numbers – which were dim partly on account of weak growth –, Orbán insisted a few weeks later that the Hungarian economy is a “speedboat” that is unlike one of the “sluggish European Union cruisers”. With Hungarian growth lagging behind many speedboats in the EU, and a few cruisers as well, this statement has the potential to become a proverbial expression of ridiculous propaganda mantras, much like the pronouncement of János Kóka, the former minister of the economy, who referred to the national economy as the “Hungarian Cougar” (in reference to Slovakia being called the Tatra Tiger).

Keeping the budget in check

The only thing that's more scary than the thought that Fidesz is clueless is the notion that things are actually going according to plan. The question is whether the Hungarian government is a deer in the headlights or a lemming approaching the cliff. Seeing how Fidesz is to an unusual degree centred around and dependent on its leader and would in all likelihood be incapable of ousting Orbán even if he were lemming-in-chief, we analysts increasingly find ourselves in the uncomfortable position of having to guess whether the government really understands what is going on.

The signs are ominous. It's not only that Fidesz' former minister of finance and former governor of the Hungarian Central Bank, Zsigmond Jármai, at an economic conference mockingly described Orbán's lacking understanding of economic processes (if anybody is qualified to assess this, it's Orbán's long-time loyal collaborator).

It is also that the Ministry of National Economy, which presumably has some staff with more expertise than the PM, has been completely unable to get a grip on offering even remotely correct economic projections that would increase the confidence in the government's ability to understand and handle the crisis.

To wit, in its convergence plan published in April, the ministry's *conservative* projection was that growth would be 3% in 2012, a slight dip as compared to the projected 3.1% this year. Fidesz' budget proposal for 2012 a few months later offered a mere 1.5%, but the

government already acknowledges what experts have suspected for a while now: growth won't measure up to the new "conservative" projection.

In fact, even a growth of 1% may be an optimistic number and, some experts argue that negative growth is conceivable. The European Commission estimates 0.5% growth. Orbán has managed to frame the Commission's verdict as an "unprecedented" success, since the Commission also estimates that the budget deficit will be under 3% (Olli Rehn had actually voiced scepticism about Hungary's ability to contain deficit and debt).

Victorious?

So why is the government insisting on its "hard, but victorious struggle" narrative? One disconcerting explanation we offered above is that it fails to grasp the depth of the problem Hungary is facing. While we concede that it is unlikely, power occasionally has a tendency to become divorced from reality. The more insular decision-making is, the more likely such a tendency will arise. Dictators are routinely surprised by their own unpopularity, and even democratically elected politicians often fail to appreciate how precarious their situation has become: and unlike the economy, the political environment is something that politicians supposedly intrinsically know how to navigate.

In a recent blogpost writing for the foundation of former PM Gordon Bajnai, two of his advisors advance another plausible explanation. Since Fidesz' Constitution disallows increasing national debt unless there is a "prolonged recession", the government cannot borrow legally to raise the debt/GDP ratio next year. This was in fact one of the constitutional changes with the greatest anticipated policy impact.

Yet if GDP next year were to stall or drop, then revenue would fall while outlays would rise and consequently debt would go up. Perhaps not by much (Bajnai's advisors estimate minimal increases), but sufficiently to make legal borrowing impossible. Acknowledging this would necessitate further budget cuts right now, and it is possible that the government would prefer to present the bad news piecemeal rather than in their shocking entirety.

There are therefore rational explanations for the government insisting that it is actually a driving force behind the economy going downhill rather than a hapless actor endangering the country's economic recovery through sheer incompetence. The question is how long this charade can continue and how bad things must get for Orbán to acknowledge that the speedboat is standing still and Captain Matolcsy is incapable of getting it moving again.