U-turn of the year: Welcome back IMF

With news about impending state default proliferating, the government has finally abandoned its stubborn refusal to talk to the IMF. For the time being, this has soothed markets and analysts alike, who were all concerned that by wedding itself to its anti-IMF stance, Fidesz would be unable to make this tough call even when it would offer the only way to avoid bankruptcy. Clearly, this is an enormous political defeat for the government. Yet it remains to be hoped that having finally acknowledged the inevitable, PM Viktor Orbán and Fidesz will stick to this choice and continue to make the necessary sacrifices to stave off default. And if they do so, then their earnest efforts should be acknowledged even by those who wish for Orbán's speedy departure.

As our esteemed readers have without doubt already heard, on 18 November the Ministry of National Economy released a statement touting the government's economic record. The statement went on to note that in line with the government's policy to "use all means available" to spur growth, it would seek to conclude an agreement with the IMF. This flies in the face of one and a half years of aggressive anti-IMF posturing, beginning with the cessation of talks with the IMF delegation last year, which the government made sure was broadcast in even the remotest corner of the country, all the way to Economic Minister György Matolcsy's mocking of the Monetary Fund in Parliament as recently as 14 November. Not to mention PM Orbán's alleged, privately voiced sentiment that if the IMF were to come back he would exit the stage.

While as of this writing there are still many unresolved issues regarding the government's plan to conclude an agreement with the IMF that could help avert a deepening fiscal crisis – such as for instance the IMF's denial of actually having heard about such an overture – even as a statement of intent this has to be most important piece of economic policy news in a long time.

Not because it marks a radical departure from the relentless anti-IMF rhetoric spouted by the Orbán government – this change is key, but only from a political communication perspective – but because it a) can play a major role in removing Hungary from the list of top suspects in line for a state default and b) the government has offered the first indication that it is after all not hell-bent on running off a cliff.

Good news at last

This is not good news in the sense that, say, winning the lottery or increasing GDP by a couple of percentage points would be. This is good news like finding an insurer that is willing to give you an insurance policy in spite of a pre-existing chronic condition. It may well save you from ruin and will move doctors that would have otherwise turned you away to treat you. In light of the dearth of good economic news we have experienced in the past years, this is quite big.

Because of all the devious communication that has emanated from the indefatigable Fidesz-government spokespersons it was hard to recognise that Matolcsy's most recent fib regarding the IMF agreement contained more than a grain of truth. The minister, ever intent on emphasising that the government would not compromise on financial independence, claimed that the agreement with the IMF will actually enhance this independence rather than limit it. And that is certainly true, at least in so far as a state in default has no fiscal latitude whatsoever. Whatever an agreement with the IMF will leave, Orbán and Matolcsy will have more than what they would have had after bankrupting the state.

Defined by anti-IMF-ism

To appreciate the magnitude of this policy shift – and correspondingly the scope of our financial troubles – it is important to understand just how vociferously the government has railed against the IMF since acceding to power last year. The online newspaper *Index* has compiled a (n undoubtedly incomprehensive) list of 21 quotes from major governmental figures expressing opposition to the IMF since May 2010. If anything, the frequency of such pronouncements has increased in the past months and weeks as the pressure to seek financial comfort from the Monetary Fund has grown.

While the consistent rhetorical hyperbole was hardly conducive to convey the seriousness of the government's intellectual stance to circles outside Fidesz' core electorate, their position was hardly unreflective. While Fidesz' economic policy lies in shambles now and was a bit of jumble from the start, it is true that it did have a rough vision and some very specific policies in mind. When running into opposition to its policies from the Monetary Fund, it naturally balked, and, feeling reasonably secure thanks to the arduous austerity policies implemented by its predecessors, it sent the IMF packing.

A noble fight but with wrong goals and wrong methods

And to a great extent the rationale behind the government's quest for "financial independence" was reasonable. We have disagreed with the government's economic policy both on grounds of fairness and efficiency. While the former is subject to reasonable disagreement, our scepticism regarding the latter has been borne out by subsequent developments.

Nevertheless, we neither could nor would want to dispute that a government elected by a huge popular majority should have a mandate to implement its own policies, even if ideally these policies should have been delineated more clearly in the run-up to the elections. Achieving fiscal autonomy is therefore a legitimate goal worthy of support.

Yet it does not absolve the government from consistently applying reality checks on its policies, and this it has failed to do. Even as it became obvious that its fiscal and economic measures have left the budget in a state of constant uncertainty and were at the same time incapable of stimulating the economy, Matolcsy stood steadfast by his “unorthodox” policies while Orbán stood steadfast by Matolcsy.

Veering round the cliff

Having pointed out just last week that Matolcsy’s “speedboat” (i.e. the Hungarian economy, unfortunately) has run aground, we also voiced our concern that Fidesz would not be able to make the necessary corrections to its disastrous course to salvage Hungary at least from the spectre of default. The governing party has been alarmingly obstinate with regard to changing widely criticised policies, even when the criticism was manifestly justified.

The question was also frankly whether Orbán himself was sufficiently in touch with reality to recognise the depth of the problem the country is facing. And at least for the time being, the reassuring answer appears to be that the government is facing up to reality. By inviting the IMF back, it appears ready to swallow what must be the nigh bitterest pill of all (though certainly preferable to being swept out of office by popular unrest following a state default, cf. Argentina’s extremely volatile politics in the wake of its bankruptcy).

Jubilation among Fidesz’ critics and political opponents over the government’s obvious political defeat should not obscure the fact that when all other alternatives have been exhausted the government appears ready to make the responsible choice. While it is understandable that Fidesz’ increased vulnerability now elicits cries of triumph from left to right, it would be disastrous if all Fidesz took away from the experience was that a sensible policy shift will be mercilessly punished.

The unfortunate rules of political communication appear immutable, and hence it is inevitable that much of opposition will ruthlessly pounce on such a move. Fidesz certainly would have.

As for the commentariat, however, it would be more important to emphatically stress how welcome such a development is, and that any moment pre-default is a much better time to shift towards sensible policies than any moment post-default. It is still far from clear where this road will lead the government, but the first step is always the hardest. While even an agreement with the IMF is hardly the harbinger of a comprehensively improved economic policy, it would at this point be a major step in the right direction.