POLICYSOLUTIONS

An uneasy relationship – Orbán and the banks

After a tumultuous relationship in its first two years in office, Fidesz appears poised to reconcile with the banking sector. Banks have received many blows under the Orbán government, and not just from the business effects of a sluggish economy. They were called on to contribute massively towards the government's deficit target in the form of a special bank tax, then they lost management of the private pension funds and were effectively commanded to take vast losses stemming from the government's policies concerning the foreign currency denominated housing loans. Now PM Viktor Orbán himself has promised to set the relationship right, and the Bank Association is already hoping that the bank tax will be rescinded. The new approach ought to please especially Brussels and the IMF, and this consideration is likely the inspiration for the change of tune.

Similarly to its inconstant enthusiasm for capitalism, Fidesz' relationship with banks is ambivalent, to say the least. As regards the former, Fidesz is in theory very much for building a market economy, even if its vision of what this entails sometimes differs from the mainstream vision. Under the Socialists government, the then opposition Fidesz criticised what it termed wanton privatisation, demanded greater state control and ownership of certain sectors of the economy, and promised a stronger and more active state.

In lambasting the excesses of the unfettered market, Orbán famously quipped that the post-communists were designing capitalism to look like the atrocious image of market economy that they had painted when they were still communists.

In addition to his political opponents, large corporations – especially foreign-owned MNCs – were also in line for criticism for their role in what Fidesz saw as the excesses of capitalism. Thus it was no surprise that in trying to keep a lid on the burgeoning deficit, the newly elected Orbán government turned to the banks and other large corporations for a crisis contribution.

From bad …

Most critics at the time – including the Bank Association – emphasised that in and of itself a bank tax is a fair idea in light of the sector's impressive profits. The size of the tax, however, was considered too large. Critics of the tax said that it not only shaved off super-profits, but pushed some banks into the red. Iryna Ivaschenko, the IMF's representative in Hungary noted in 2010 that the Fund is not opposed to such a tax per se, but it needs to be sustainable because "if you place too much of a burden on the financial sector, then that could dampen the economy." Ultimately, this was one of the issues that drove a wedge between the Orbán government and the Monetary Fund and led to the breakdown of talks in 2010.

Even Minister of National Economy György Matolcsy acknowledged that the scope of the tax was "brutal", but claimed that the goal of a 3.8% deficit was unattainable without the levy. While the government simultaneously emphasised that bank taxes were normal elsewhere in Europe – thus somewhat casting doubt on PM Orbán's later pronouncement that the Hungarian idea was being copied across Europe –, numerous economic experts revealed that the Hungarian tax was significantly larger than those imposed by other countries.

…to worse

The next conflict with the financial sector followed very quickly, when the government announced that it would nationalise the mandatory private pension funds, whose assets of roughly 3,000 billion were mostly managed by financial companies affiliated with banks or insurance companies. Though feebly, the financial community did fight back against the decision and organised a campaign to convince pension fund owners to choose the risky path of retaining their accounts.

The greatest conflict was yet to come, however, and it erupted over foreign currency denominated housing loans. Initially, the contentious policy issue started promising enough, with the government seeking an agreement with the Bank Association – in itself an unusually open and conciliatory approach from a government that does not consult much with stakeholders – and under pressure of unilateral action got the banks to agree to a temporary fixing of exchange rate for homeowners. As a result, troubled creditors could choose for a few years to pay their monthly instalments based on a rate of 180 HUF to a Swiss Franc, which was well below the market exchange rate at the time. When the agreement was reached, everyone appeared pleased.

The repayment plan

Unfortunately, however, the fixed exchange rate attracted but a few of the several hundred thousand to a million foreign currency creditors. With exchange rates skyrocketing, the government then made a bold move that helped especially well-off creditors – including many MPs –, while it harmed the banks directly and the poorer creditors indirectly. The verdict that banks would have to allow those who can repay their loans in a lump sum to actually do so at a government mandated exchange rate significantly below market rates threatened vast losses for the banking industry, which were in fact realised once the decision was implemented.

Since much of the Hungarian banking sector is foreign-owned, the furore over the decision was not relegated only to the banking sector – which stood to lose a lot of money – and the opposition – which lamented this as redistribution from banks and poorer creditors to wealthy creditors –, but also to foreign governments – especially the Austrian and the German – whose banks are invested here. Many critics speculate that some of the grief that European and international institutions now give Hungary is at least partly related to the government's confrontational approach towards foreign interests and to a flurry of background diplomacy this approach has elicited.

Moving towards conciliation?

The government itself appears to be buying into this theory. A few weeks ago (Week 7 edition) we noted how odd it was that among the many groups that the Orbán government had offended and disregarded since taking office, it had singled out the subjects of the crisis taxes as victims of an unfair process. In light of Fidesz' previous Robin Hood rhetoric lambasting MNCs both for the size of their profits and their failure to put Hungarian national interests first, this was a somewhat odd choice.

Now the desire for reconciliation is even clearer, and the addressees are still not trade unions or students, but banks. Already back in December, after having struck yet another deal to fix exchange rates for the remaining foreign currency debtors, Orbán's spokesman Péter Szijjártó noted the importance of stable banks for economic growth. Last week, the Prime Minister went even further: speaking to the Chamber of Commerce and Industry, he said that "we need to come to an agreement with the affronted working groups, and the Bank Association is in a pre-eminent spot on this list."

Who is the real target?

The banks would probably welcome a real reconciliation. Though their ultimate corporate objectives might by implication lead to political preferences, at the core they are not political institutions and stand little to gain from prolonged confrontation with the Fidesz government, even if they occasionally find strong proxies to fight for them.

And they have taken a number of hits already. Just in the past couple of weeks, Erste, Raiffeisen, CIB and AXA announced that they'd close branches, and Crédit Agricole is leaving Hungary altogether. The Bank Association's recently expressed hope that the bank tax will be done away with next year is a crucial indication of what the banks can hope for.

Still, in terms of how sustainable such a rapprochement is the question remains whether the government is genuinely concerned about the banks' ability to help the Hungarian market or whether it has embraced this route for tactical reasons, to placate the European Commission and especially the IMF. In practice, the difference between the two scenarios might be negligible, at least as long as the government needs to please the international institutions. Should Fidesz for whatever reason decide that this pressure is no longer there or no longer relevant, however, it might opt to retain the bank tax and to squeeze financial institutions further. Those who think that this is an impossibility might wish to consider that the Orbán government has often put the lie to such assumptions.