POLICYSOLUTIONS

Adjusting to economic reality

To keep the budget within EU mandated limits, the government has introduced new austerity measures after admitting that its pessimistic growth projections were in fact wildly optimistic. It is becoming apparent that like its predecessors, Fidesz has given up any notion of implementing major reforms before its term expires in 2014. Instead, it will implement patchwork solutions to react to immediate problems, such as the movements of the deficit. Unfortunately, it also follows that tinkering with the rules of democratic elections will have a greater impact on the election outcome than economic policy. This sad insight is already reflected in the government's priorities.

Since the economy appears unwilling to adhere to Fidesz' economic projections, Minister of National Economy György Matolcsy has apparently decided to catch up to realities. And those are bleak, the government finally admits this much itself. While the government's willingness to finally fess up to the recession is a welcome development, in terms of its projections it is doing little else than journalism. Along with the discarded projections overtaken by reality, the government has also dropped grandiose plans to transform the Hungarian economy. If transformations will come, they will be gradual.

Growth far delayed

If the government's plans published last year were still on track, Hungary would be well in the medium to high growth category by now. Even though the often-maligned European Commission had come much closer to reality when it first projected 0.5% growth towards the end of last year and then –0.1 in February, the government stubbornly insisted that GDP would expand by an impressive 1% this year. The numbers finally presented on Friday reflect the reality that anyone reading the papers anticipated already: when all the numbers are in, Hungarians' output will have shrunk by over 1%. That is not only a whopping 4,5-5% lower than the government's 2011 "dynamic growth" projection for 2012, but also 4% lower than the "conservative" estimate. Moreover, this is the first time since the 2009 brutal crisis decline of –6.5% that growth is in negative territory. Next year also promises to be less "rosy" than most recently planned: instead of 1.6%, the economy will expand by 1%, not even fully recouping the losses of 2012 (in 2011 the hope was 4.8%). And that's the optimistic assessment.

With lover growth projections, the government realises that it will also be a struggle to keep the deficit in line. Since the European Commission has bared its fangs earlier this year showing that it'd willing to turn the Hungarian case into a precedent, the government seems aware that budgetary transgressions will result in a freezing of structural funds. So while the deficit might be somewhat higher than originally planned (2.7% instead of 2.5% in 2012 and 2.2% in 2013), it will remain under 3%.

Bits and pieces of austerity

To this end, the exchequer plans austerity measures worth 400 billion forints next year, in addition to sequestering 133 billion of unspent ministerial funds already this year. Matolcsy says the latter won't affect citizens since this is government money that just won't be spent, but he neglected to mention the indirect effects of not spending government money. In any case, next year is going to see a few more of the small austerity measures Fidesz has spread out over the years. There will be a tax on ATM transactions, cash registers will be hooked up to the revenue service – optimistically, this will be the largest factor on the revenue side of the ledger, which might unfortunately be an underestimation of shopkeepers' ingenuity – and there will also be the usual mix of other small tax increases. There will be some savings as well the government plans to stop replacing retiring state employees (healthcare excepted), tinkers with the pension benefits of retired persons who stay in the labour market and reduces welfare benefits and co-funding for EU-subsidies among other things.

Experts consulted by the press mostly professed to like the measure, not so much because of what it does, but rather on account of what it does not do; i.e. it does not make things worse by burdening potential growth sectors. Portfolio.hu, a leading financial media platform, argued that the package was too small, however, and would be insufficient to cover the anticipated shortfalls. That is less of a problem than might be assumed, however, since the government has been known for introducing austerity piecemeal, presenting tax hikes and expenditure cuts every few months.

Waning enthusiasm

Fidesz' approach towards the economy has come a long way since 2010. While many experts had grave doubts concerning the soundness of Fidesz' plans in 2010, there were few who doubted that the incoming government would implement huge changes. Though some large things did happen – the flat tax, the nationalisation of private pension funds – overall, Fidesz' changes have disappointed many experts not only because of their substance, but also on account of their magnitude, or rather the lack thereof.

Essentially, Fidesz has done what every government since 1998 has done with declining fortunes. Start with great transformational plans, implement a few flagship policies and then trudge along and hope for the business cycle to carry the government through to the next election. That worked well for Fidesz I – economically speaking –, leaving aside the ballooning deficit and the disaster it implied it worked all right between 2002-2006, and ultimately ended in disaster in 2009. At this point, Fidesz' economic policy is amazingly reminiscent of MSZP's approach: readjusting growth expectations downward and continuously patch up the budget so that it does not overrun. To Fidesz' credit, of course, overrun is at a different order of magnitude than it was under the previous governments, though this credit must be shared with a tough Commission.

Two more years of muddling through?

This is especially disappointing in light of the enormous might Fidesz arrayed to push its economic policies through, including curtailing the Constitutional Court's power of judicial review. Business as usual hardly seems worth upsetting the constitutional order for. Moreover, now that Fidesz appears content to continue in the same vein as its predecessors, that greatly increases the importance of seeking to control the democratic process beyond the instruments ordinarily available to a governing party. Orbán knows full well that merely praying for the business cycle to kick in is far from enough. A recent survey by Tárki showed that a mere one percent of voters were satisfied with both, their personal financial circumstances and the economic condition of the country overall. Beyond the likely Fidesz voters who constitute the 1%, Fidesz will likely have to convince at least around 30% or more. As a first step, ensuring that few of the dissatisfied 99% vote seems to be a more reliable way of influencing the outcome of the election than sound economic policies, which explains why Fidesz devotes greater attention to the former.

At this point, in terms of its economic policy Fidesz' key interest is preventing an explosive type of situation, which is why it's important to keep the IMF on the leash. The government does not appear to really want an agreement. It would clearly prefer to say "I did my way", no matter what the cost. Still, letting the IMF go home prematurely could invite disaster if a Greek, Spanish or Portuguese default were to happen. The state of theoretical and permanent readiness to negotiate is politically preferable, and it appears that the IMF, too, favours the notion that its mere aura is enough to secure Hungary.