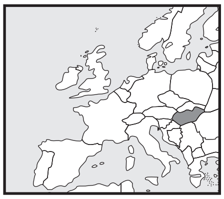
HUNGARY

Government structure being revised



The global crisis has pushed Hungary into the worst economic decline in almost two decades. It was partially responsible for the resignation of Premier Ferenc Gyucsany earlier this year. The export-dependent economy has suffered from the slowdown of its main commercial partners. The social system is crippled by corruption, the national currency has plunged and public finances are heavily burdened by pension obligations. The new Premier plans to cut pensions, public sector bonuses and maternity support; to mortgage energy and transport subsidies; and to raise the age for retirement.

ATTAC HUNGARY
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Until a few years ago, Hungary had one of the largest budget deficits in the European Union, more than 9% of GDP. Austerity measures introduced in 2006 cut it to one of the lowest in the EU (below 3% of GDP). However, years of mismanagement left the economy on the brink of meltdown, and since September 2008 the situation has grown progressively worse. The effects of the global financial crisis on the real economy became especially severe in the last quarter of 2008 as the collapse of internal and external demand dragged down production, consumption, investment and employment. At the same time, speculative attacks against the forint, Hungary's currency, knocked it down 19% against the U.S. dollar and 13% against the Euro, causing inflation to soar. To avert total collapse, the Government obtained a USD 25.1 billion bailout from the EU and the International Monetary Fund (IMF).[1]

Economic performance

Following slow growth of 1.1% in 2007, Hungary's economy perked up in the first half of 2008, only to be dragged down as its major economic partners stumbled. GDP growth ran at about 2% in the first half of 2008 and 0.8% in the third quarter. In the final quarter, it fell 2.3%. This is the worst performance since the 1990s, when the transition to a market economy brought considerable economic turmoil.

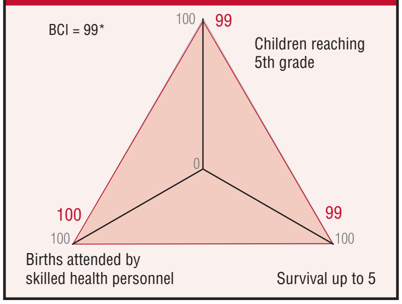
In February 2009, industrial gross output was down 28.9% from a year earlier (25.4% after adjustment for actual working days). The volume of production was 26.1% lower in the first two months of 2009 than in the same period of 2008. The volume of industrial production in February plunged 4.1% from the previous month adjusted for season and working days.

The global slump cut the growth in industrial exports, which had been going from strength to strength. In January 2009, the volume of exports and imports fell by 28% and 27%, respectively, compared to January 2008. Industrial export sales tumbled 30.4% in the first two months of 2009; in February it was 31.1% below February 2008. From December 2008 through February 2009, unemployment jumped 1.1%, to 9.1%, leaving a total of 378,000 people without jobs.

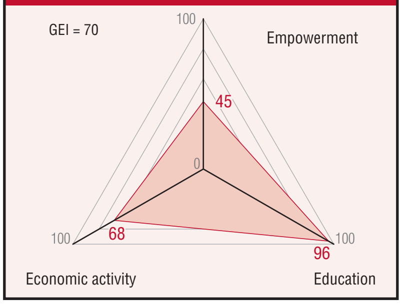
* "Children reaching…" estimated following procedure "1" in p. 209.

1 Ministry of Finance, 29 October 2008.

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



The political and economic crisis

Former Premier Gyurcsany never recovered from the riots that erupted in Autumn 2006 after he confessed that his administration had lied repeatedly about the state of the economy to win the country's elections. Although he remained in office and cut the deficit from more than 9% of GDP in 2006 to 3.3% in 2008 through tax increases and spending cuts, he failed to win public support for wider economic reforms. As the economic crisis hit, his Government winched its austerity programme ever tighter, solidifying his position as the most unpopular premier in the country's era of electoral democracy and a market economy. In addition, financial circles were unhappy with the Cabinet's hesitation to take decisive action in response to the economic downturn. Beset on every side, Gyurcsany announced his resignation at a convention of his ruling Socialist Party (MSZP) in March 2009.

Hungary's budget deficit makes tax reform difficult. While many other countries are pumping stimulus funds into their economies, Hungary is concentrating on cutting costs. Although they quarrel with each other, under pressure from the IMF, both the bourgeois left and the rightwing parties are advocating neo-liberal economic policies– lowering taxes on capital but reducing the budget deficit by drastically curtailing social expenditures.

Despite an IMF rescue package, the forint hit a record low in March 2009. According to the latest Eurostat figures, Hungary's GDP decreased by 1% quarter over quarter.[2] Government forecasts that it will shrink by 3.5% this year, but others predict a fall of 5-6%. Compounding the crisis, Hungary remains crippled by corruption, heavy debt and a black economy that may account for one-fifth of GDP. Politically, it is in denial. Nationalist intellectuals use the language of the 1930s to rail against foreign capital and "cosmopolitan" influences. Viktor Orban, leader of the right-wing Fidesz, laments that more than 80% of the financial system is "in foreigners' hands". His party now boasts the widest support.

The plunge of the forint is particularly devastating to households. About 60% of all loans are denominated in foreign currencies, mainly Swiss francs. Continuing pressure on the forint heightens the danger of growing defaults on these personal loans and mortgages. Rising defaults may intensify pressure on the banking system and the credit crunch.

Whatever mistakes Hungary might have made, the country is also a victim of the global capitalist system. The slowdown in Germany and other markets for Hungary's exports is much deeper and is likely to last much longer than originally anticipated.[3] European banks are facing their own sub-prime crisis, as they hold most of Central and Eastern Europe's debt. Across Eastern and Central Europe, Austrian banks are blamed for the financial debacle.

Impacts of the crisis

After the fall of the Soviet Union, the former Socialist Republics were keen to dismantle their State system. Hungary enthusiastically embraced capitalism and championed privatization of assets. Even so, successive governments attempted to retain the social safety net. MSZP Governments have been particularly protective of pensioners, wary

2 See: < epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-15052009-BP/EN/2-15052009-BP-EN.PDF>.

3 After Germany, the most important consumers of Hungarian goods are Austria, Italy, France, UK, Romania, Poland and the US.

that any cuts could cause hardship among older Hungarians, who form a key Socialist voting bloc. The number of beneficiaries swelled in the early 1990s as newly privatized companies dumped workers who had been on the state payroll. Drawing a pension became an attractive alternative to unemployment as the pensions of higher-income workers give them a larger share of their wages than in many other countries. The average pension runs about USD 350 a month, untaxed. This goes a long way in a country where the average after-tax wage amounts to just over USD 500 a month. Men reach full retirement at 62, but can take a pension earlier if they have 40 years of service, and have little financial incentive to continue working. The average Hungarian retires at the age of 58, and just 1% of Hungarians between 60 and 64 years old are currently working. The OECD estimates that Hungary's pension outlays will be among the fastest growing in Europe in the coming decades. The country already has 3 million pensioners, out of a total population of about 10 million.

Both employers and employees pay into the State pension program, but their contributions do not cover all the benefits paid. Government makes up the difference out of the central budget. For years, Hungary has run fiscal deficits to pay for social programmes; the annual tab for pensions alone surpasses 10% of GDP. To finance these outlays, the Government sold bonds. In October 2008, investors stopped buying those bonds. Although the IMF provided an emergency bailout so Hungary could pay its bills, many international investors pulled out, sending the Hungarian currency tumbling and darkening its economic outlook.

Critics say the country cannot afford a pension system that gives wage earners an incentive to retire young or leave the work force when they have relatively minor ailments. The IMF, backed by Hungarian reformers, is pressing particularly hard for cuts in the "13th month," a bonus monthly payment made to all retirees introduced in 2003 by Gyurcsany's predecessor.

After his re-election in 2006, Gyurcsany proposed a reform of the pension system that included eliminating the 13th-month bonus, but he wanted current retirees to get the same amount as before, spread over 12 months. He also proposed gradually raising the retirement age to 65 by 2020 for women and to 68-69 by 2050 for men. Gordon Bajnai, the new premier, will probably be compelled to propose deeper cuts that could prove devastating for older Hungarians. Aging retirees are already accusing politicians of dismantling the promises of a previous generation, leaving them dangling in the wind.

In 2003, social protection expenditures accounted for 21.4% of GDP in 2003, less than the EU average of 28%. Services related to family support accounted for 2.7% of GDP, and came to only one-fourth of the EU average per capita. The social system is diversified, and includes social assistance, family support, benefits provided to people living with disabilities or health injuries, the pension system and social services.

In 2006, the system was standardized, streamlined and its targeting was improved. The real value of means-tested benefits had decreased until 2004, but the disbursement systems for regular social assistance and old-age allowance were amended in 2005-06. Since then, benefits for the poorest groups have become more generous. The basic and specialized social and child welfare system established over the last two decades is complex. Programmes for individual services leave significant gaps in capacity and accessibility, primarily in smaller communities.

The child poverty rate is approximately one and half times the EU average. Nearly one-fifth of Hungarian children live in households with per capita income below 60% of the median. Child poverty is usually the result of parental unemployment and geographical disadvantages. In addition, the selection mechanisms in the education and training system intensify the impact of family background on the performance of children, rather than counteract it. When parents have low education levels and a poor labour market position and live in isolation, they typically transmit these disadvantages to their children.

The Bajnai austerity program

Premier Bajnai has assumed office in the midst of the country's worst economic decline in almost two decades. To rescue the budget, keep it within IMF guidelines and regain investors' confidence, he plans to cut pensions, public sector bonuses, maternity support, mortgage subsidies and energy and public transport subsidies.

The most striking feature of Bajnai's initial memorandum – which has been termed his "Political Manifesto" – is his insistence that the urgency of the situation demands "immediate and determined action". He warns that in July he will introduce "unavoidable, painful measures". His main goal is to save as many jobs as possible, in an effort to avoid social unrest and further division of Hungarian society into haves and have-nots. He also wants to achieve relative stability for the forint, reduce the deficit and join the Eurozone as soon as possible. To achieve these goals, he states, "the whole government structure must be revised in order to spend less on administration". This would include freezing the salaries of public employees for two years and eliminating 13th month bonuses for public employees beginning in 2010. He would also cut national allocations to local governments.

Other points in his memorandum include:

- *Increasing the age of retirement.* At the moment it is age 62, but the actual average is around 58. Bajnai would begin reforms in 2010, including elimination of the "13th month".
- *Reducing sickness benefits.* Currently, if a doctor certifies that people are too sick to work, they get 70% of their pay for six months. Half of this is paid by the employer.
- *Freezing child support.* For years, it has been going up. Bajnai plans to reduce childcare support for three years and childcare benefits for two.
- *Cutting subsidies.* Bajnai seeks to end financial assistance temporarily for young couples with children who are buying a first home and decrease subsidies on gas consumption and heating. After 2010, all subsidies would be terminated. In addition, he plans to cut allocations for public transportation, especially to the Hungarian railroads and public radio and television. Government payments to the farmers will shrink significantly as well.

While he tightens government spending, Bajnai wants to give "first aid to mid-sized and small Hungarian businesses that provide two-thirds of the country's jobs" by reducing the tax burden on both employers and employees. Last but not least, he envisions a stimulus package funded by EU subsidies to help the country ease the crisis and eventually make its way out. ■