

# ECONOMY AND POLITICS IN HUNGARY DURING 2<sup>ND</sup> ORBÁN GOVERNMENT PERIOD

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## ABSTRACT

The 2<sup>nd</sup> Orbán government and the more than two-thirds parliamentary majority behind a relatively heavy heritage took over in the summer of 2010. The left-liberal governments of GDP in 2006-2009, reaching 12% of the size of austerity (expenditure cuts and tax lifting) as a result of Hungary's policy is not developed in a similar situation as the crisis in Greece. The most difficult years of the crisis – between March and June 2009 – the international debt financing market premium for loans fall from six percent to two, the euro exchange rate is reduced from 270 to 315 HUF. The 2<sup>nd</sup> Orbán government's so-called unorthodox economic policies – which happened to break with the IMF and serious political disagreements with the EU has been associated with – as a result of increased to HUF exchange rate of 300, the premium at the end of 2011 exceeded 6% again; currently around 3%, although the EU abolished the excessive deficit procedure against Hungary, and the sixth year of the current account is positive. Hungary's GDP after a 6.7% decline in 2009, in 2010 – faster than expected – increased by 1.2%, in 2011 was only 0.7% in 2012 and 1.7 % drop. Accelerated use of the 2007-2013 periods, EU investment funds due to a 1-1.5% in 2014 and expected in 2013 2-2.5% growth. The Hungarian economic performance in the last decade since EU accession has been at average of less than 0.5% per year increased. The durable and – at least – from 2.5 to 3.5% growth per year have failed to materialize in the domestic political economy foundations between 2010 to 2014.

Keywords: macroeconomics, 2<sup>nd</sup> Orbán Government, unorthodox economic policies, deficit

## 1. INTRODUCTION

Goal of the study is to make a draft explore of 2<sup>nd</sup> Orbán government's economic policy. Events in the period between the summer of 2010 and the end of 2013, based on the literature studied. We sought to fill the great political events information gaps with logical conclusions.

On the parliamentary elections in the spring of 2010 the Fidesz-Christian Democratic Party (KNDP) alliance won a great victory, from 386 representative electors it won 263, so the two-thirds constitutional majority has also gained more parliamentary seats.

During the election campaign, the winners shared very little part of planned economic policy for voters. The general principles were – of course – well known. For example, those that FIDESZ wants to break the previous eight years, left-liberal restrictive policies. Reject the property tax, the health care system through private funds to operate; the higher education tuition is underutilized railway branch lines and small post office closures. It intends to support the domestic micro, small and medium-sized enterprises, as well as the children. Aims to significantly are to reduce domestic currency, like the forint interests.

## 2. MATERIALS AND METHODS

Economic Policy and journal articles exploring web resources and thematic processing, and drawing conclusions.

### 3. THE 2<sup>ND</sup> ORBÁN GOVERNMENT'S ECONOMIC POLICY PHASE FROM 2010-2013

The study, 2<sup>nd</sup> Orbán government's economic policy between 2010-2013 divided into five sections named

First phase (since summer 2010) goals and tools are next:

The 2009 crisis was over, the current year's state budget deficit of 2-3 percentage point increase 4-6% in 2011 spun from 3-4 and then from 2013 up to the economic growth, about 'grow out of debt', ie high growth rate reduce the general government deficit to GDP ratio of around 80%. The European Union rejected the plan and insisted in 2009 Gyurcsány and Bajnai governments signed agreements. Paradox that then nicked the first time in the negotiations with the IMF out well (portfolio.hu 2010) – precisely not concluded with any revolving credit agreement – the IMF did not insist, contrary to the EU rigidly in early 2009 – even the Gyurcsány government – number of linked credit agreement. The IMF is likely to have been held admissible in a 1 to 1.5 percentage points higher than the deficit, even if it is for example, aims to increase the competitiveness of enterprises, state or additional expenses due to substantial structural reform of its public service systems caused.

Second phase (since autumn 2010): 'The main enemy - is now in the short term - the debt,' so the government meet the 2010 target of 3.8%, the proportion of GDP fiscal deficit target of below 3% assumed in 2012 and 2013 (MTI 2010). For the purposes of the performance has been introduced in July 2010, the special bank tax – approx. HUF 180 billion (Független Hírügynökség 2010), the crisis taxes – approx. HUF 160 billion in the energy and telecommunications sector, and wholesale chains (Kormánykrónikás 2010). Nationalized the private pension compulsory membership paid 360-380 billion HUF per year, and the funds accumulated under 14 billion fortune in 2650. The HUF 360-380 billion pension fund assets and half of the current fiscal expenditure in 2011, with the introduction of a flat-rate personal income tax loss of approx. For HUF 400 billion in tax cuts and rebates and other additions (e.g. reduction of corporate tax, increasing tax relief for children) to replace the amount lost was translated, and the previously privatized assets – e.g. Reserves by buying back – MOL shares and EON Hungarian gas business, and the other half, which was lying in government securities, and debt reduction translated. As a result, 82% of the accumulated government deficit to GDP ratio immediately decreased by 5 percentage points for 2011 year the government closed a 4.2% surplus. That said, the long term of our debt – so-called structural debt – and increased the value of the total pension fund assets and current payments. (ecoline.hu 2011) The government - of course he knew – that in 2012 no longer available in the pension fund, so the spring of 2011 produced a structural transformation of large state systems aiming Structural Reform Plan, and mainly based on this convergence year stipulated in the EU program.

Third phase (since autumn 2011, the IMF and the EU fails again after talks) - so is perhaps summed up by legislation obliged the banks to allow debtors to the amount of the final repayment of a fixed rate of exchange retail foreign currency loans. The deadline of the end of January 2012, according to PSZÁF data 160 thousand fully repaid. (index.hu 2012) That caused banks around HUF 210 billion in losses, according Mihály Patai. (Patai 2012) As a result, I had to count the domestic and international credit markets narrowing, significant increases in interest rates, the country's international repeated downgrades of the rate of economic growth and investment loss. Domestic investments already – before the adoption of the Law repayment – the second quarter of 2011 were 6.5% lower compared to the same period last year. (KSH 2011) The only one – albeit a very important positive – exports also grew dynamically in 2011, and the annual trade balance surplus amounted to EUR 7 billion (mfor.hu 2011).

Fourth phase (since 25<sup>th</sup> November 2011 until the end of 2012) Rating downgrades, the European Commission adopted sanctions under the excessive deficit procedure era. The Ministry of National Economy, a week before the Moody's downgrade – hoping that as a result of the downgrade might not take place would be – the initiative for the resumption of negotiations with the International Monetary Fund. ‘A grade, from Ba1 to Baa3 earlier down the ratings on Hungary's debt Thursday night's decision by Moody's Investors Service. This classification was the Hungarian Investment Grade (i.e. junk) category after 1996 again. The new classification will continue to place a negative outlook rating.’ (Portfolio.hu 2011) ‘Deprived of investment – grade debt advised Hungary on Wednesday (21<sup>st</sup> December 2011) by Standard & Poor's. The international credit rating Wednesday evening announced in London to a degree, ‘Minus / A – 3 BBB’ from the previous one notch to ‘BB plus / B ‘ modified long and short-term, foreign currency and forint Hungarian government debt classification, which further downgrade given indications of possible negative long-term view. The Standard & Poor's said: in my opinion the measures taken over the past year – which affects more than one service sector – can hamper economic growth by reducing the banks' lending and business investment readiness. The S&P to be particularly imposed on the telecommunications, energy, financial and retail sectors, temporary taxes in pressure in the short term investment and job creation. (mno.hu 2011) ‘In today's day (30<sup>th</sup> January 2012) at dawn, the Japanese also took aim at us, Rating and Investment Information from the east of the island country, or shorter and better known as R&I also downgraded Hungary's sovereign tax classification, thus a lower setting, the BBB minus was classified. A lower level of a country is no longer there, so you can say that we are the lowest level of investment grade. The Japanese was deemed necessary by the downgrade because the negotiations with the IMF and the European Union are conducted by a very slow pace’ (hir.ma 2012). In the spring of 2012 against Hungary's EU cohesion funds put the prospect of suspending the payment of part of the ‘excessive deficit procedure’ carried out since 2004. The corrective steps taken in 2012, excise taxes, as well as the 25% VAT rate to 27% increase in the academic frame numbers and budget narrowing of the introduction of the telephone tax, etc. (hvg.hu 2013). However, it declined this danger. The general government deficit to GDP ratio in 2012 has been only 1.9%, while the GDP due to the constraints 1, 7% decrease over the previous year.

Fifth phase (since January 2013) It was eliminating the overhead reduction and completion of the excessive deficit procedure. On 21<sup>st</sup> June 2013, the EU lifted against our country's current excessive deficit procedure since 2004 because they saw improvement in the government balance between HUF 450-480 billion in 2013 introduced measures – including the introduction of a bank transaction tax, will be raising this toll-utility tax, etc. – sufficient to keep a share of GDP government deficit below 3%. In two phases in 2013 – reduced the total to 20% of the government price of retail electricity, gas and district heat – 1<sup>st</sup> January and 1<sup>st</sup> November inclusive; 1<sup>st</sup> July – from 10% decrease public water utilities and waste disposal fees. In all cases, the burden of price cuts to providers must wear.

#### **4. RESULTS AND DISCUSSION**

The Fidesz-KDNP party alliance in 2010 year's parliamentary election strategy is built not sold in any significant during the election campaign – especially meaningful austerity – planned economic policy elements. After the victory in the spring, before the 2010 municipal elections in the autumn only positive measures have been taken to the society. In June 2010, announced 29-point program of the ‘new economic system’ (hvg.hu 2010), almost everyone – not just promised something, but for autumn 2010 has been partly fulfilled as well – especially the little people and the SME sector. The measures reflect widespread and popular views on freedom of speech also contained hidden references. ‘They went to the tanks arrived

on the banks. 'Let the rich pay' – i.e. the banks and multinationals. The 'honor' productive work rather than financial activity based on speculation. If you can, on their own, local production of our products consume 'Three children, three-room, four-wheel'. – Viktor Orbán proverbial switch blocks, which have been associated with 2000 tax incentives enhanced discount rate home loans - helping the fundamental aspirations of the members of family formation in preparation for the middle class etc.

'From the special taxes and private pension funds nationalization of more than 700 billion forint surplus revenue, and 2,650 billion nationalized private pension-fund assets and the 1-2% economic growth resources based on 2010 and 2011, the budget deficit targets numbers. They were relatively easy to be satisfied, and made it possible to flat-rate personal income tax and the income tax related family discount introduction. They maintained from 2012 only significant economic constraints – and the introduction of new taxes and reducing government spending – was possible. The ten-year Hungarian government bond yield rate in November 2011 was higher than the Romanian papers and Romania - it is true that 'only' a 40%-to-GDP budget deficit - the 'junk' category, but there is behind the IMF credit line. (index.hu 2011). The government securities rates of return of around 10-12% in the medium term is difficult to be paid in would have been a burden for our country, so in November 2011, the IMF and the EU for the conclusion of the credit agreement seemed inevitable. The European Central Bank – mainly due to the Italian and the Spanish economy's difficulties – between December 2011 and February 2012 to 1,200 billion euro loan interest rate of 1% to 500 European Banks. (ecoline.hu 2012). The abundance of money as a result of significantly reduced the rate for the Hungarian government bonds, so it is still only took up loans market.

The European Commission's 'real transition rules' adopted by a two-thirds majority – many clause found incompatible holds the EU democratic principles and expects to change them – media law, the new so-called 'Easter constitution' and the associated 'cardinal laws'. Government disagrees and revolutionary changes to the constitutional turned against the EU and the IMF 'war of independence'. The EU has no effective enforcement tools in these areas, so sometimes the economic pressure by means of living. The European Commission in 2012 excessive austerity measures forced out to the 3% target, so the gap has only 1.9%.

The EU Member State to the other controversial economic regulation (e.g. special taxes. Reducing overhead) issues, however, it is clear that in fact do not deal with any insurrection, as those of the European Court have the final verdict.

It is clear that II. A clear political aim - - income grouped into 15 to 20% in addition to the Hungarian society in the midst of the Orbán government debt fight against the austerity measures. Government sources in the absence of overhead expense reductions already implemented the service be economic benefits created for the lower middle class. Created by the Bank concessional loans, and accelerated the use of EU funds in 2014, up by 2.5% in the reach of economic growth.

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