World economic crisis provokes fall of Hungary's government

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At a convention of Hungary's ruling Socialist Party (MSZP) just over a week ago, Ferenc Gyurcsany, the party's leader, announced his resignation as head of government. In taking this step, he was responding directly to the consequences of the worldwide financial and economic crisis. At the time, it seemed Hungary could only have been saved from bankruptcy by an injection of $25 billion from the International Monetary Fund (IMF). A few days ago, the country announced it would be seeking further credit of about $2 billion.

The rapidly deteriorating economic situation is leading to political turbulence throughout Eastern Europe. Latvia's government collapsed at the beginning of the month, and the Czech government headed by Mirek Topolanek was forced out of office by a no-confidence vote just a few days after Gyurcsany's resignation. Moreover, in recent months many countries in the region have been shaken by massive protests.

The fall of the government in Budapest came as no surprise. Gyurcsany headed Hungary's most unpopular government since the collapse of the Soviet bloc 20 years ago. Latest polls show his party is supported by only about 18 percent of the electorate. About a year ago, the Free Democrats (SZDSZ) broke away from Gyurcsany's centre-left coalition after bitter confrontations. Since then, the government had been dependent upon votes from the opposition to implement its policies and, therefore, virtually hamstrung.

The MSZP further enraged the population at the beginning of the year, when the government continued to tighten its austerity programme in line with the financial stimulus package received from the IMF. Christmas bonus payouts were reduced for pensioners and completely cut for most public servants. Some 70,000 public employees, including teachers, doctors and state officials, were affected. In January, gross wages declined 5.2 percent on average. In order to get more money into the state coffers, the government decided to raise value added tax by 3 percent to 23 percent. Taxes on alcohol and tobacco were also increased.

At the same time, the country's banks were propped up with vast funding. The country's biggest financial institutes, the OTP savings bank and the FHB mortgage ban—both largely part of the German Allianz banking cartel—received cash injections amounting to 520 billion florints (1.73 billion euros).

The reason for the resignation of the head of the government was not only the mounting hostility of the population. Various financial circles were also unhappy with what they saw as the government's hesitant reaction to the economic situation.

Up until a year ago, Hungary was considered a candidate for imminent entry into the common currency of the Eurozone. The government had wanted this to take place in 2010. Since then, Hungary's currency has been drastically devalued. This has had consequences for both the national budget and the country's credit rating. The funding of the national debt of about eight billion florints (26 billion euros) has become three billion euros more expensive due to the currency decline. The economic growth of a mere 0.6 percent in 2008 had been the lowest in 15 years. Compared to last year, industrial production in January had dropped by 23 percent.

Cautious estimates assume that the whole economy will shrink by about 5 percent this year. Sectors like the construction industry, until now considered stable, have also been badly hit with 90 percent of all major building projects having been shelved.

Hungarian government bonds are currently valued as A3 or BBB by the major rating agencies. Both of these point to further downgrading in the future. If that happens, Hungary's credit rating will fall to the same level as South Africa's or Mexico's.

Above all, Gyurcsany's resignation will serve to clear the way for a government that, equipped with a sufficient parliamentary majority, will ruthlessly represent the interests of European banks and big business with respect to the financial crisis, without shunning confrontation with the population.

The parliamentary elections are due to take place in the spring of 2010. However, conflict has arisen on this score between Gyurcsany and Laszlo Solyom, the country's president. Solyom, as well as the opposition, is pushing for more immediate elections. The conservative Solyom had already wanted to force the premier's resignation in the autumn of 2006. This was after the turmoil occasioned by Gyurcsany's "speech of lies" and his admission at the time to having lied prior to the parliamentary election.

However, the business world was sceptical about the prospect of new elections. They might have ended in a clear victory for right-wing conservative and nationalistic forces that business circles could not trust to pursue a stringent course of economic reform. "To elect as premier a man lacking sufficient ambition and political backing in order to continue the fiscal austerity programme necessary for the international effort would negatively affect Hungary's economic ratings", according to the Fitch rating agency.

Therefore, the MSZP and the liberals are pushing for the installation of a "government of experts" that will then gain the support of a parliamentary majority.

The former central bank head, György Surányi, turned down the offer to head such a government, and former ministers of finance Lajos Bokros and László Békesi, now seem favoured for the position.

Bokros is a relatively well known figure. As minister of finance in the 1990s, he pushed through an austerity programme, named after him, that drastically reduced social security, privatised state enterprises and accelerated unemployment.

Békesi is a representative of the so-called "alliance for reform" that only recently presented a programme involving huge reductions in corporate taxation. At the same time, it calls for a virtual cessation of all expenditure on social services, cultural facilities and education.

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