

## Government coalition breaks up in Hungary

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The coalition agreement between the Hungarian Socialist Party (MSzP) and the liberals of the Alliance of Free Democrats (SzDSz) was terminated on 30 April. Officially, the reason for the latter party's decision was a difference of opinion between the group and the socialists concerning reforms, and the dismissal of the healthcare minister whom the liberal party had designated, but in reality this decision should be viewed as having been motivated by political calculation. The liberals' real objective is to distance themselves from the government, which is unpopular and seen by the public as responsible for the poor condition of Hungary's economy, and for the crisis in public confidence resulting from unpopular reforms. Currently the Hungarian leadership's main problem concerns the economic crisis caused by an excessively liberal budget policy, which is causing mounting social tension. Without a parliamentary majority behind the Ferenc Gyurcsány cabinet, or public acceptance of the government's reforms, the process of reform may be halted, and the regression of the Hungarian economy may continue. However, the break-up of the coalition does not mean that co-operation between the two groups will stop altogether, as the SzDSz will support Gyurcsány's minority government due to concerns about unfavourable potential results from early elections. The coalition may also be reinstated if Gyurcsány, who has completely lost the public's trust, leaves office.

### The liberals escape from a drowning ship

On 27 April the SzDSz, the smaller member of the government coalition, decided to withdraw its ministers from Ferenc Gyurcsány's government as of the end of April, thus breaking off co-operation with the socialists who formed the core of the coalition. The liberals' final decision to quit the government coalition is surprising in that it is said to have been caused by the differences concerning the long-debated healthcare and social security reforms, as well as the dismissal of the SzDSz-designated health care minister. Similar conflicts have happened frequently during the six years of the coalition's existence (2002–2006 and 2006–2008), but have never entailed such consequences. Until now, the SzDSz used to initiate disputes with the MSzP in order to strengthen its position as the smaller partner, by trying to use its status as the guarantor of a parliamentary majority to obtain more concessions from the socialists. The SzDSz's position vis-à-vis the socialists was so strong that in 2004 they managed to push through the resignation of the then PM Péter Medgyessy, who was planning to dismiss one of the SzDSz-designated ministers.

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the unpopular policies of the government of Ferenc Gyurcsány, a politician who has lost almost all of his personal popularity. The immediate impulse for the liberals' decision to quit the coalition came from the result of the referendum held in March this year concerning some of the government's initiatives, including charges for university education, medical visits and hospitalisation. The Hungarian public has firmly rejected some of the assumptions of the reforms proposed by the Gyurcsány cabinet (more than 80 percent of voters were against them). The referendum, initiated back in 2006 by the right-wing opposition, was generally viewed as a vote of no-confidence in the government coalition.

By leaving the coalition, the SzDSz are trying to save their position on the political scene. If they had stayed in the criticised Gyurcsány government, they would have lost any chances for a good showing in the 2010 election. However, the SzDSz can still resume cooperation with the socialists; they have declared their willingness to support the socialist government from outside. The liberals' return to the coalition with the MSzP is also a realistic option, although that will depend on whether or not Ferenc Gyurcsány stays in office as prime minister, as the liberals will not be willing to resume co-operation with a politician who has lost his credibility in the eyes of the public, which might undermine their prestige.

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## A creeping crisis

The current government crisis in Hungary is the result of processes which started several years ago. Both the Péter Medgyessy cabinet (2002–2004) and the government of Ferenc Gyurcsány have pursued fairly liberal budget policies. For example, the socialists and the liberals reduced tax burdens and considerably increased wages in the public sector; this has seriously shaken the budget's stability, as the budget spending was not balanced with budget revenues or accompanied by structural reforms. The lack of discipline led to a drastic increase in the budget deficit, which reached 9.4% of the GDP in 2006, necessitating painful reforms. Prime Minister Gyurcsány disclosed the facts concerning the condition of public finance only after his group had won the parliamentary elections in 2006.

## Costly repairs to the budget

The reforms which the Gyurcsány government undertook under pressure from the European Commission were indispensable, but had painful social consequences. The Hungarian leadership was forced to take determined measures to repair public finance, in order to stop economic stagnation and the decline of macroeconomic indexes. The centre-leftist government decided to implement a number of minor initiatives and forgo thorough structural reforms. Repairing public finance was to be achieved by lowering state subsidies for energy prices, making savings in the welfare system, increasing the rates of VAT and taxes and SMEs, and introducing charges in healthcare & the higher education system. According to the government's plans, these initiatives were to enable rapid repairs to the budget, and achieve a deficit level of around 2.7% of the GDP by 2009.

Some of the measures entailed a rapid increase in inflation (from 3.9% in 2006 to 8% in 2007), while salaries remained frozen. This led to further consequences, as the rising costs of business activity forced entrepreneurs to seek savings through layoffs, as a result of which unemployment rates started to grow (from 7.5% in 2007 to over 8% presently). Due to social tension and the uncertain political situation, foreign investors lost trust in Hungary, which caused a slowdown in the industrial production growth rate, a decline in exports and the depreciation of the forint. These trends have

led to a substantial reduction in the rate of Hungary's economic growth, which amounted to just 1.4% of the GDP in 2007 (compared to 4.4% in 2005 and 4.1% in 2006). Even though some macroeconomic indexes have improved (the budget deficit fell from 9.4% in 2006 to 5.8% of the GDP in 2007), the future of reforms is uncertain because of the government crisis and public criticism of the reforms.

## Warnings from the public

The public's deep dissatisfaction with Hungary's economic condition was the main cause for the break-up of the centre-left government coalition. The people have put the blame for the state's condition mainly on PM Gyurcsány, the government and the coalition parties, and – to a lesser extent – on the entire political class. Gyurcsány's statement made in 2006, in which he openly admitted to concealing inconvenient facts and deliberately lying to voters, has been the main factor influencing the public's negative assessment of the coalition's accomplishments. The government's behaviour at that time caused public sentiment to sharply worsen. It seems that people attached a greater significance to the PM's cynical behaviour and arrogance than to the relative reduction of society's wealth as a result of the government's reforms, although both the moral aspect and the decline in the population's prosperity.

The strong anti-government sentiments, which are mainly focused on PM Gyurcsány personally, have not transformed into permanent massive protests or organised opposition actions. These only took place on the occasions of national holidays (15 March and 23 October), but it should be noted that similar anti-government demonstrations were also organised before the crisis in 2006. Street fights between groups of demonstrators, mainly members of extreme right-wing organisations & hooligans with security forces, do not reflect the attitude of the majority of the public, which is opposed to such incidents.

On the other hand, the result of the March referendum concerning the reforms implemented by the government may serve as an indication of popular sentiments. The people's attitude is also reflected in public opinion polls, according to which PM Gyurcsány is one of the least popular politicians; his party is reporting the poorest showings in its history (around 15%), and 55% of respondents consider a government change to be essential.

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## A minority government and an early election

Having lost their political partner, the socialists have been forced to form a minority government. Without proper backing, the Gyurcsány cabinet has found itself in a difficult situation, as it can only count on support from its own party, which is divided among itself. The parliamentary opposition, including the dominant Fidesz and its close coalition partner, the Christian-democratic KDNP, as well as the Democratic Forum (MDF), firmly refuses to back Gyurcsány.

Gyurcsány has filled the vacant posts in his cabinet with experts from outside the world of politics, presumably in order to create conditions in which the government could be accepted by the remaining groups represented in the parliament. This measure was primarily addressed to the SzDSz, the former coalition partner, and the centre-rightist MDF. The government will spend the coming months trying to gather an appropriate majority in the National Assembly (the socialists hold 190 out of 386 seats, and have the support of one independent MP; in other words, they are only three votes short of the majority they need). The SzDSz and MDF may be opposed to Gyurcsány continuing to lead the government, and so in some time the socialists, facing the prospect of an early election, may have to remove him from the prime

minister's office. However, for the time being they do not seem to be inclined to such a scenario. The remaining socialist leaders are unwilling to risk their positions at this early stage by taking over the lead in a party with a completely damaged reputation and a state submerged in a crisis. However, as the date of the ballot approaches (elections are planned in the spring of 2010), a change of leadership in the government and in the party should be expected in late 2008 or early 2009.

The current situation calls for the scenario of early elections to be taken into account. Theoretically, Fidesz is the group which is most interested in this solution, but it does not have the necessary means to carry it out. The main opposition force, which currently enjoys very high popularity, cannot expect its motion to dissolve the parliament to be supported by the socialists and the liberals, as early elections would mean a decisive defeat for the MSzP and a result below the five-percent threshold for the SzDSz. Moreover, it is also better for Fidesz itself to postpone the election, until the current authorities have tackled the most serious economic problems.

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## Conclusion

The collapse of the socialist-liberal coalition six years after its establishment will have serious consequences for the situation in Hungary. The minority government will have limited opportunities to implement the necessary reforms, as a result of which the speed of Hungary's recovery from its economic crisis will slow down. As the other political groups will probably refuse to support the government's initiatives, and as the socialists will fear a further worsening of the public's sentiments, the government will be less determined in carrying out the reform programme, or will implement a more moderate and curtailed version. The government will probably manage to reduce the budget deficit to below 3% of the GDP, but the costs of this will include a continuing high rate of inflation (around 8%) and economic growth stagnating at a low level of around 1.5%. Hungary will also need more time to regain foreign investors' confidence. The liberals' withdrawal from the coalition may temporarily alleviate social tension, but at the same time it will lead to more expectations concerning further changes, including early elections, which is what a large proportion of the public expects. Holding such an election is not in the interest of either of the former coalition partners, because they have very low poll showings at the moment, which they hope to improve before the date originally planned for the elections (April-May 2010). It is possible that early elections will take place in 2009, which means that Hungary will remain under a weak government for at least another several months. An impulse for a decision to dissolve parliament may come from the result of the elections to the European Parliament in 2009, which the socialists will probably lose. Irrespective of the final date of the parliamentary elections, it is already clear that the frontrunner will be the opposition group Fidesz, although afterwards it will have to deal with the economic crisis 'inherited' from the socialists and the liberals.

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