

Hungary intensifies its rhetoric against the IMF

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On 6th September, the conservative daily newspaper *Magyar Nemzet* posted a list of the International Monetary Fund's terms for making a loan to Hungary. These include: a reduction of pensions, raising the retirement age, removing a banking tax, privatisations, tax increases, and reductions in bureaucracy and local government spending. While the IMF and the European Union have not confirmed the newspaper's report, its publication has sparked a national debate on whether Hungary has any real hope of obtaining the loan from the IMF, with whom talks have been proceeding for almost a year. Referring to the published list, the Hungarian Prime Minister Viktor Orbán firmly rejected the conditions allegedly imposed by the IMF (and thus lent credence to their publication, in a newspaper which is close to the government); but at the same time he emphasised that Hungary needs to get a precautionary loan, and that he is counting on an agreement in autumn. The first round of negotiations ended in June; Hungary is applying for a loan of €15 billion.

Commentary

- The return of Orbán's harsher rhetoric may, on one hand, be aimed at strengthening his country's negotiating position ahead of the next round of talks with the IMF; but on the other, it may be intended to prepare Hungarian public opinion to accept the terms of the agreement with the IMF. For Orbán, asking for a loan from this institution is awkward, because resistance to the IMF's 'dictates' has become a symbol of his 'sovereign' economic policy. So, since appealing for IMF help once again last November, the Prime Minister has been trying to convince the Hungarian people that the loan is merely a 'hedge' against the deepening crisis in the euro zone, and that – in contrast to the agreement concluded by the Socialists in 2008 – it will not result in severe cuts to the public budget. If the negotiations end in an agreement with the IMF which is more favourable than the terms and conditions published in the press, the government will be able to claim success.

- The stability of the foreign exchange market, as well as buyers' continued interest in Hungarian bonds, mean that getting a loan for Hungary is no longer so urgent (although these positive impulses mainly resulted from the market's hope of an impending agreement with the IMF). Hungary now has no problems raising funds on the private market, enabling it to finance both its budget deficit (2.5% of GDP according to the 2012 budget) and its very

high public debt (77.6% of GDP). An agreement would be necessary in case of any loss of ability to raise funds, for example if the crisis in the euro area deepens. Otherwise, it is still possible that Orbán will put off any agreement which involves the IMF compelling the Hungarian government to introduce a publicly unpopular savings programme.

- Orbán's alleged rejection of the IMF's conditions coincided with the scandal which erupted after the release of an Azeri who murdered an Armenian officer in Budapest, and his return to his native country where he was promptly pardoned. The controlled leak to the press and Orbán's strident speech, more than two months after the first round of talks with the EU and IMF, may be seen as attempts to divert public attention from the first scandal, which has damaged the government's reputation both abroad and domestically, by starting a discussion on the effectiveness of Hungarian diplomacy and the political costs of Hungary 'opening up to the East'.