

Hungary: Fidesz's comprehensive economic package

On 18 October, Hungary's prime minister, Viktor Orban presented in parliament a package of economic laws which envisage significant changes in the fiscal system and a provisional withholding of payments from the state budget to private pension funds. The laws will have a positive effect on state finances but will adversely affect the investment climate in Hungary.

The laws presented are necessary to keep the budget deficit at the level of 2.8% of GDP in 2011 as agreed with the International Monetary Fund. They envisage withholding payments from the state budget to open pension funds for 14 months, which will cause a reduction in future pensions. They also provide for imposing an additional tax (to apply until the end of 2014) on companies from the energy and telecommunication sectors and supermarket chains in which foreign capital predominates. The revenues from the new taxes are expected to reach (jointly with the bank tax imposed this June) as much as 2.5% of GDP. At the same time, the laws provide for significant tax reductions for individuals (introducing one 16% rate of income tax) and corporate entities (a reduction of the CIT rate from 19% to 10%). The adoption of the laws is a mere formality because Fidesz has a parliamentary majority exceeding 2/3 of seats.

The main weakness of the economic package is the fact that it is focused only on the revenue side of the budget. This is opposite to measures other Central European countries are taking, additionally cutting budget spending. Investors have reacted negatively to the changes due to the imposition of new taxes in sectors dominated by foreign capital. On the other hand, the laws will improve the state budget's condition, and the reduction of income taxes will stimulate economic growth. <dab>