

THE ECONOMIC AND POLITICAL CONSEQUENCES OF THE ACTIVITY OF THE BAJNAI-GOVERNMENT

Janos Gosi, Jozsef Gal

Economics and Rural Development Department, Faculty of Engineering,
University of Szeged, H-6725 Szeged, Mars t. 7, Hungary
e-mail: gosij@freemail.hu galj@mk.u-szeged.hu

ABSTRACT

The international financial and real economy crisis reached Hungary in the autumn of 2008. The crisis made the completion of the state budget and the convergence for the year 2009 very difficult and the continuation of the program according to the plan because the economic recession spoils the budget. After Gyurcsány Ferenc's resignation, on 16 April, 2009, the new government was established led by Bajnai Gordon. The main task of the Bajnai-government was to carry out the 20 billion Euros credit conditions receiving it from the IMF and the EU, so despite of the 6-7% economical reduction of the year 2009, which meant that the GDP-proportional budget deficit should stay under 4% in the years of 2009 and 2010, too.

The Bajnai-government reduced the budget expenditures with 400 billion HUF in 2009, and in 2010 reduced with 900 billion HUF, and started to rationalize the tax system.

1. INTRODUCTION

Up to autumn 2008 there had been a hope that the deficit in budget of our country in GDP could go under the „magical” 3%, defined by the convergence criterions of Maastricht, by the end of the year. However, the economic crisis coming from the USA reached the countries of the European Union, among them Hungary, too, in the autumn, 2008. As a result, a situation close to the state bankruptcy evolved from the fact that the international – and partly the national- moneylender's capital left the country, which was then avoided with the credit line of 20 billion EUR granted by the International Monetary Fund (IMF), the European Union and the World Bank Group. But neither this credit line was able to prevent the significant decrease in the exchange rate of HUF and the escape of both international and national private capital from the Hungarian economy. International and national indexes of the real economy for the year 2009 showed a less advantageous future. The unforeseeable monetary and real economic processes made the completion of the Finances and Budget Plan for the year 2009 even more difficult. It was clear in the middle of January, 2009 that the national real economy would regress with greater measures than what was expected – with 4-5, or even 7%. (The actual decline was 6,9% in 2009!) It was due to the prospective performance of our major economic partner, Germany. That is why in January, 2009 Gyurcsány Ferenc, the Prime Minister proposed to rectify the budget but he did not want to assume the strict requirements of IMF – e.g. annulment of the old-age pension for the 13th month and the salary of state employees for the 13th month – so he resigned. In April, 2009 the parliament elected Bajnai Gordon for Prime Minister on the basis of an agreement between MSZP and SZDSZ.

2. MATERIAL AND METHOD

The objective of this study is to evaluate realization and economic, political impacts of government programme propounded by the new Prime Minister, Bajnai Gordon on 19 April, 2009. This study has the basic presumption, shared by the Bajnai-government and the international economic and financial organizations, too, that our country cannot or just partially can adopt the traditional budget or monetary means of crisis management –e.g. increase of budget expenditure, decrease of the base rate of issuing bank. In 2009, at the time of the economic recession of 6,7%, and in 2010, when a very modest (1%) economic growth can be expected, the GDP-proportional budget deficit should stay under 4% as it is essential to regain the international public confidence as a result of which the interest surcharges of the international credits granted to our country can be reduced and the exchange rate of the HUF can improve. This way the base rate of issuing bank can be permanently reduced, which leads to the reduction of the market real interest rate which is very high now and which increases competitive disadvantage of the national enterprises. Without a strict budget policy, Hungary could not have obtained the instalments of the credit of 20 billion EUR granted by the international financial organizations. These credits have favourable interests even now, in the autumn of 2010, comparing to other credits which can be granted by the international monetary market.

The author of this study presumes that the financial problems generated by the recession of the real economy cannot shake the country's viable enterprises, the banking system, the state budget, the systems of local governments, education, public health and social welfare, since without comprehensive reforms rational measures can be taken which can secure the functioning of these systems in 2010, as well.

3. RESULTS

The programme of the Bajnai-government propounded on 19 April, 2009 reduced the budget expenditure with 400 billion Fts in the second half of the year 2009. In 2010 they planned to reduce it with 900 billion Fts in order to secure the GDP-proportional budget deficit of 3,8 – 3,9 %, according to the agreement concluded with the IMF and the EU, in 2009 and 2010.

Main measures (Bajnai, 2009):

- annulment of the salary of state employees for the 13th month from July, 2009. Though it is true that in the first quarter of 2010 the government paid the part due to the second half of 2009
- annulment of the old-age pension for the 13th month, but in case of the lowest pensions the possibility of pension correction increased, and pension premium was introduced depending on GDP-growth
- the retirement age gradually increases to the age of 65. Its first impact can be experienced from 2014
- sick pay was reduced by 10%, from 2011 child benefit and maternity leave payment will be paid for 2 years, instead of the earlier 3 years
- at the end of April, 2009 the government price support for gas and district heating was cancelled, but the VAT of district heating was reduced to 5%.

- the national supplement of local governments, agrarian financial supports of the EU, and the government support of the companies of public transport and public media were nominally decreased
- from 1 June, 2009 the VAT of 20%, which anyway increased to 20% from 20% in summer of 2006, grew to 25%, with the exception of some products where it was reduced to 18%
- the employer contribution was decreased by 5%: in 2009 to the twice of the minimum wage, from 2010 regarding the full income. It reduced the financial burden of the sphere of enterprises with 400 billion HUF a year (kormanyozz.hu, 2010)
- from 2010 the total gross wage pays a personal tax of 17% to 5 million HUF / person a year. This measure increased the net wage with 5-15% regarding unchanged nominal sum in the pay-scale of 150-350.000 HUF a month.
- the tax burden of cafeterias has increased significantly
- certain measures of property tax regarding the real property were considered against constitution by the Constitutional Court, so the property tax on real properties were not introduced

Measures of the years 2009 and 2010 on taxes and extras operate at break-even, which means that the government counterbalanced the fall in incomes coming from taxes and extras with reduction of expenditure.

In summer of 2010 the unemployment rate approached 12%, the number of registered unemployed reached half a million, despite of the fact that government programmes to maintain and establish workplaces made the survival of more than 100.000 workplaces possible. (<https://hirkozpont.magyarorszag.hu/hirek/ksh20100428.html>)

4. CONCLUSIONS

It seems today that measures taken by the Bajnai-government were enough in 2009, and will be enough in 2010 to survive the crisis. Overstepping of the budget deficit of 3,8% planned by the end of 2010 is expected to be 25%, which is 1% of the GDP, that stays behind the limit error in this insecure international and national economic situation. What is more, the original deficit-target of 3,8% can be realized by the 200 billion HUF coming from the tax on banks this year and by blocking a sum of 40-60 billion HUF in the budget expenditure!! Fortunately, dark predictions of Bod Peter Akos did not come true according to which this programme would be suitable only to exhaust the credit limit given by the IMF (Bod 2009). The Bajnai-government did not even call the last part of the credit limit (around 5 billion EUR). The state debt is financed from the international money and stock market again.

To establish the permanent development it is necessary to employ more: the efficient reform of systems of budget, public administration, education, public health and social welfare. Bokros Lajos mentions the critical mass of reforms which reinforcing each other increases the efficiency of both economy and society. (Bokros, 2009)

I think the situation is even more complicated since the question is not only how big the critical mass of reforms which flies us to the front rank of development is, but if there is a field the reform of which can be realized with the available professional knowledge, with a relatively small expenditure and with at least the partial support of the political opposition. In

my opinion, this field is the rational reduction of administrative burdens on enterprises and population.

In Hungary the rate of administrative burdens on enterprises approaches 7% of the GDP. It is about twice as much as the average of developed countries, and is higher with 50-60% than the Czech rate, for example. According to the IMF, productivity could grow with 3% and GDP with 7% in the EU, if the administrative burdens on enterprises were decreased. (Nemeth, 2005) Administration takes 2-2,5 as much time here, in Hungary, as in the developed countries. This over-bureaucratic system of authorities is one of the main reasons for corruption. Multinational companies settling down in Hungary require the direct assistance of the government primarily in authorization and other administrative affairs, beside different financial advantages.

The civil sphere, professional organizations and trade unions are especially weak in this field, they do not demand reduction of administrative burdens consistently and in an organized way. In the years before the political transformation – mainly at time when Nemeth Miklos was the Prime Minister- a process of deregulation had been realized. It should be started again and it would be necessary to extend it to the regulation of the authorities which has not been touched so far, too. In case of reduction of the administrative burdens with 40-50% the expenses of enterprises would be decreased with 800-850 billion HUF a year. There would be tremendous time to analyse and plan the economic processes for the authorities too in case of well-considered checking points. The entrepreneurial disposition would improve, the country's skill to attract capital would grow not only in case of multinational companies but towards other, smaller enterprises, as well. On the bases of reformed administrative tasks it would be easier to construct a much more efficient – and in certain elements smaller- system of political-administrative institutions. The Bajnai-government did not effectuate overall structural reforms, - the administrative burdens were reduced in certain fields, but they increased as a whole because of the restrictions

It is very remarkable that the Bajnai-government could decrease the taxes and extras on the wages despite the reduction of more than 900 billion HUF in budget income due to the economic recession of approximately 7% in 2009. Although, it is true that it was communicated with very low efficiency. This rational step improved disposition of entrepreneurs and employees and their economic situation in 2010 despite of the fact that VAT, other taxes and extras were increased and benefits for the 13th month were cancelled. It became possible to depress the base rate of issuing bank under 6%, which was demanded by FIDESZ, from February, 2010 thus opening the way for reduction of HUF-based credit interest rates and for suppression of the very risky domestic currency credits.

It can be considered a significant result that the exchange rate of HUF could grow stable between 270-280 HUF/EUR despite the reduction of the base rate of issuing bank. Even the commercial balance became equilibrate and in spite of the previous expectations around 5 billion EUR were left from the credit limit of 20 billion EUR till the autumn of 2010.

The following facts played a great part in the relative success of the Bajnai –government: the ideas of the Reform Union (Reformszovetseg) were significantly built in the government programme via the Minister of Finance, Oszko Peter (A Reformszovetseg javaslatai 2009) thus having a great deal to manage the crisis. Bajnai Gordon himself, as an independent leftist, stood primarily as a crisis-managing professional and not a party-politician – this way he could reduce the serious political opposition thus making the realization of the programme easier.

It seems that the Bajnai-government almost exhausted the opportunities of the rational tax-rearrangement possible without economic growth and without introduction of new taxes. Probably the bill on property taxation was introduced and passed in the parliament with content purposely against the constitution- because of the protest of the opposite and the population and the parliamentary elections of 2010.

In 2006-2008 the restrictive programme of 1600-1800 billion HUF of the Gyurcsany-government caused more political tension than the one of 1200-1300 billion HUF of the Bajnai-government because this latter one was considered by the opposite and the population as the necessary consequence of the worldwide economic crisis.

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