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"Current Economy in Hungary and the Challenges for Overcoming the Financial Crisis"

Summary of Presentation

Following the transition to multi-party systems in Eastern Europe after the Revolutions of 1989, Hungarian politics between 1990 and about 2002 featured a multi-party system comprising about six medium-sized parties. A subsequent bipolar convergence on the center-left Hungarian Socialist Party (successors to the Communist Party) and the center-right Fidesz transformed Hungarian politics from a moderate multi-party system to something akin to an adversarial system of two major parties. The extremely small margins of victory between the two major parties, the Socialist Party and Fidesz, left Hungary with a weak ruling party and a strong opposition party. This made it difficult for the ruling party to exercise strong leadership and for the ruling and opposition parties to come to any political consensus, creating a stalemate in Hungarian politics.

Hungary was hit hard by the global financial crisis. It is not the case, however, that problems suddenly arose in the Hungarian economy as a consequence of the financial crisis. Hungary's economic growth had already begun to slow before the financial crisis. Since joining the EU in 2004, Hungary has seen its GDP growth rate top out at 9.9%, much lower than the Czech Republic (25.6%), Poland (23%), and Slovakia (35.8%), all of which joined the EU at the same time. The government's budget deficits have grown throughout this period, and the unemployment rate is now above the EU average and rising. The low percentage of taxpayers in Hungary is a particular problem, stemming from Hungary's low employment rate and its failure to implement tax cuts like other Central and Eastern European countries. Many Central and Eastern European countries reformed their tax systems by, for instance, cutting the highest income tax rates and corporate tax rates, but Hungary did not adopt such policies. Hungary faces numerous social and economic problems, as evidenced by a growing number of bankruptcies and lower welfare standards (in terms of prenatal allowances, etc.) than those of other EU countries.

Reforms are needed to overcome these problems. The state's bureaucracies must be restructured to make them more streamlined and efficient, and expenditures must be reduced. Following this, taxes should be cut, tax rates lowered, the percentage of taxpayers increased, and the underground economy brought out into the open and returned to the aboveground economy. Tax cuts are also effective in eliminating corruption. An efficient government, a less burdensome tax system, and a less corrupt economy will likely generate greater employment and improve Hungary's GDP growth rate.

A strong Hungarian economy will depend on the success of efforts to make government more efficient and the tax system more transparent and conducive to investment and, to that end, competitive small and medium-sized enterprises need to be fostered to generate more jobs, more profits, and more GDP growth. Hungary's small and medium-sized companies are not necessarily in competition with multinational corporations, and thus they can cooperate through investment in technology development and other high value-added employment. Strengthening the Hungarian economy will help ease social tensions in Hungary. Fidesz would therefore like to restore Hungary's international credibility by introducing the Euro as soon as possible, reducing tax burdens, cutting state expenditures by improving the efficiency of government, stimulating economic growth and job creation, and eliminating corruption.