Lecture
Vienna Technical University
January 26, 2010

Professor Julius Horvath, Ph.D.
Central European University Budapest

Hungary and Slovakia
An Introduction into a Comparative Study
Approaches to Transition Developments
Structure

1. Introduction: Crisis and the Emerging Markets
2. Development Path in Hungary and Slovakia after 1990
3. Euro and Slovakia
4. Crisis in Hungary October 2008
5. Some Macro Comparison between Them
6. Some Thoughts about Rise of Populism and Nationalism, and Signs of Slovak-Hungarian Conflict
Former Soviet Bloc is Very Vulnerable

Map of the Former Soviet Bloc highlighting member countries:
- EU and NATO
- EU only
- NATO only

GDP, % change on previous year:
*2009 estimate

Map details include:
- EU and NATO countries
- EU only countries
- NATO only countries

Balkans GDP, % change on previous year:
1. CROATIA: -5.4
2. BOSNIA: -3.1
3. SERBIA: -4.0
4. MONTENEGRO: -4.1
5. ALBANIA: 3.0
6. MACEDONIA: -1.6

Source: EBRD
It is a complicated intellectual task to understand how an issue as sub-prime crises in the part of the US leads to such a collapse of growth in the all of the former Soviet controlled countries.

- Poland: only positive growth
- (one explanation: former head of the CEU Economics Department is the minister of finance ... )
Emerging Economies of Europe are Vulnerable in Good Times, too

- Also before the crisis, emerging economies of Europe were in a more volatile macro-environment than the euro area.

- More volatile historically owing to the structural changes associated with the transition, high exposure to world trade and financial flows relative to GDP.

- Emerging economies of Europe receive large capital inflows and run large current account deficits: vulnerable to the changes in investor sentiments at times leading to large changes in the exchange rate, in country risk spreads.

- IMF: policymakers in the emerging markets will generally have to accept twice the volatility in output and about 1½ times the volatility of inflation as compared to the euro area.
Recent Crisis only strengthens these vulnerabilities

- Recent crisis of 2008-2009 only strengthens these vulnerabilities

- Emerging Europe has been hit particularly hard by the drop in capital inflows.

- This led to major contractions in the Baltic economies, Ukraine, Romania, also contractions in Hungary and Slovakia

- To an extent exchange rates acted as a shock absorber in economies with flexible regimes.

- Bosnia, Hungary, Latvia, Romania, and Serbia are currently receiving IMF balance of payments support,

- Poland has access to the IMF Flexible Credit Line in order to safeguard market confidence.
# Emerging Europe 2007-2010

## Table 2.4. Selected Emerging European Economies: Real GDP, Consumer Prices, and Current Account Balance

*(Annual percent change unless noted otherwise)*

<table>
<thead>
<tr>
<th></th>
<th>Real GDP</th>
<th>Consumer Prices&lt;sup&gt;1&lt;/sup&gt;</th>
<th>Current Account Balance&lt;sup&gt;2&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Emerging Europe</strong></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Turkey</td>
<td>4.7</td>
<td>6.8</td>
<td>6.2</td>
</tr>
<tr>
<td>Excluding Turkey</td>
<td>6.0</td>
<td>4.5</td>
<td>6.5</td>
</tr>
<tr>
<td>Baltics</td>
<td>8.9</td>
<td>-0.7</td>
<td>-17.4</td>
</tr>
<tr>
<td>Estonia</td>
<td>7.2</td>
<td>-3.6</td>
<td>-14.0</td>
</tr>
<tr>
<td>Latvia</td>
<td>10.0</td>
<td>-4.6</td>
<td>-18.0</td>
</tr>
<tr>
<td>Lithuania</td>
<td>8.9</td>
<td>3.0</td>
<td>-18.5</td>
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<tr>
<td><strong>Central Europe</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hungary</td>
<td>1.2</td>
<td>0.6</td>
<td>-6.7</td>
</tr>
<tr>
<td>Poland</td>
<td>6.8</td>
<td>4.9</td>
<td>1.0</td>
</tr>
<tr>
<td><strong>Southern and</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Southeastern Europe</td>
<td>6.1</td>
<td>6.1</td>
<td>-7.5</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>6.2</td>
<td>6.0</td>
<td>-6.5</td>
</tr>
<tr>
<td>Croatia</td>
<td>5.5</td>
<td>2.4</td>
<td>-5.2</td>
</tr>
<tr>
<td>Romania</td>
<td>6.2</td>
<td>7.1</td>
<td>-8.5</td>
</tr>
<tr>
<td><strong>Memorandum</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Slovak Republic</td>
<td>10.4</td>
<td>6.4</td>
<td>-4.7</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>6.1</td>
<td>2.7</td>
<td>-4.3</td>
</tr>
</tbody>
</table>

<sup>1</sup>Movements in consumer prices are shown as annual averages. December–December changes can be found in Table A7 in the Statistical Appendix.

<sup>2</sup>Percent of GDP.
Emerging Europe – Crisis – a la Calvo

- The bank-run approach to recent financial crisis: world as an inter-connected economy faced a flow of credit sudden stop

- Sudden stop of flow of credit leads to expenditure contraction

- Expenditure contraction influences credit-dependent goods prices (especially durable goods, real estate); lower collateral values, and finally lower growth;
Recent Crisis even Impact on Emerging World

- Even impact on Emerging Economies of the World not only on Emerging Europe

- IMF: annual growth rate in Advanced World decreased from 2.7% in 2007 to -3.5% in 2009. A decrease of 6.2 percentage points.

- IMF: In World Emerging Market Economies, from 8.3% in 2007 to 1.7% in 2009. A decrease of 6.6 percentage points.

- However, the most hit on the world scale were the Emerging Markets of Europe (former Soviet-type world)
Emerging Europe – Crisis

- Difficult to keep the innocence if you go to party ...

- In other words global credit market disruptions are difficult to avoid if you are not financially isolated; but still Emerging Europe caught by surprise;

- Devaluation might help the export sector but it cannot provide full offset for a global credit market shock because the latter is associated with international-trade meltdown;

- Devaluation may worsen credit problems if economy is burdened with foreign-exchange denominated debt (Hungary)
Emerging Europe – Crisis

- Emerging Markets in such crisis need credibility support: One is the IMF approval of their programs (Emerging Markets of Europe as Baltic and Hungary); Other is Big International Reserves (Latin America, Asia during this crisis)

- Typically also expansive fiscal policy employed to offset the effects of global contraction; Hungary austerity program as response to the crisis;
In this lecture I concentrate only on two countries neighboring Austria: the Slovak Republic, and Hungary.
Section 1
Development Path: Geography Matters

- Geographical position of the Central Europe [CZ, HU, SK, PL] is crucial for its development (see Giersch, Fischer):
  - cost-cutting in western Europe (result of global competition with Asia, and America) may produce more outsourcing to the Central Europe, and
  - high degree of rent-seeking activities more to the east and to the south of the Central Europe — may represent limitation to the relocation drive from the Central Europe
Development Path: Where Central Europe belongs in the comparative typologies of capitalisms?

- Hall and Soskice (2001): the basic institutions of capitalism differ from one country to another; LME liberal market economy, the U.S; CME coordinated market economy, Germany;

- Nölke and Vliegenthart (2009), DME, a dependent market economy type of capitalism for Central Europe:
Development Path: Dependent Market Economy Model of Capitalism:

- Comparative advantages in the assembly and production of relatively complex and durable consumer goods;

- Skilled, but cheap, labor with knowledge of a medium level technology;

- Transfer of technological innovations within transnational enterprises;

- Provision of capital via foreign direct investment

- Dependence on investment decisions by transnational corporations

- Specialization in labor-intensive export industries, such as medium-quality cars, machinery, electronics, and electrical products. These sectors are predominantly foreign owned.
Development Path: Is the Current Model Sustainable?

- Fear that Western owners might relocate their production sites further to the east as wages are up and the current comparative advantages of the region might be eroded,

- In addition, the absence of substantial investment into research and development, and education.

- The limited innovation capacity may be worrisome in the long run, for the time being, the specialization of ECE has allowed for substantial growth in the region

- Doubt as to whether stabilization of the current position in the world economy is really desirable, given that in the world few countries would explicitly choose an export-oriented development path with a medium level of technology under the domination of foreign capital.
Some Statistics to Document the Dependent Economy Model of Noelke and Viegenthalter (2009), the same source
### Ratio of Inward FDI Stock to Outward FDI Stock

<table>
<thead>
<tr>
<th>Country</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>DME</strong></td>
<td></td>
</tr>
<tr>
<td>Czech Republic</td>
<td>15.3</td>
</tr>
<tr>
<td>Hungary</td>
<td>6.4</td>
</tr>
<tr>
<td>Poland</td>
<td>9.7</td>
</tr>
<tr>
<td>Slovak Republic</td>
<td>23.6</td>
</tr>
<tr>
<td><strong>LME</strong></td>
<td></td>
</tr>
<tr>
<td>U.K.</td>
<td>0.8</td>
</tr>
<tr>
<td><strong>CME</strong></td>
<td></td>
</tr>
<tr>
<td>Austria</td>
<td>1.0</td>
</tr>
<tr>
<td>Germany</td>
<td>0.5</td>
</tr>
</tbody>
</table>

*Source: UNCTAD.*
**Patents per Million Inhabitants**

<table>
<thead>
<tr>
<th>Country</th>
<th>1990</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>DME</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Czech Republic</td>
<td>0.71</td>
<td>0.60</td>
</tr>
<tr>
<td>Hungary</td>
<td>2.69</td>
<td>1.62</td>
</tr>
<tr>
<td>Poland</td>
<td>0.14</td>
<td>0.16</td>
</tr>
<tr>
<td>Slovak Republic</td>
<td>n.a.</td>
<td>0.02</td>
</tr>
<tr>
<td><strong>LME</strong></td>
<td></td>
<td></td>
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<tr>
<td>U.K.</td>
<td>25.26</td>
<td>16.78</td>
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<tr>
<td>U.S.</td>
<td>44.57</td>
<td>n.a.</td>
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<tr>
<td><strong>CME</strong></td>
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<td></td>
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<tr>
<td>Austria</td>
<td>22.52</td>
<td>26.61</td>
</tr>
<tr>
<td>Germany (including ex-GDR from 1991)</td>
<td>51.74</td>
<td>53.79</td>
</tr>
</tbody>
</table>

Source: Eurostat, patent statistics.

*a*Triad patents are patents acknowledged by U.S., EU, and Japanese patent organizations.
Section 2
Macro Comparison between Hungary and Slovakia

- GDP growth, Convergence
- Employment, Unemployment Rate
- Budget Deficit, Gross Debt, Government Expenditures
- Nominal Interest Rates
- Tax Avoidance
GDP Growth Rates in the CEE Countries

Source: OECD
Same period of previous year = 100
GDP Growth 2003-2010

Gazdasági növekedés, 2003-2010 (%)

Source: Bartha (2009)
Section 3
Euro and Slovakia

- The Slovak policy makers inherited from the former Czechoslovakia an attitude to stable currency policy

- Stable currency was typical for the period of the existence of the Czechoslovak state; (Rašín, Engliš, Potáč, Klaus) but also afterwards in the Slovak Republic (Mikloš, Masár, Jusko, Šramko)

- When large exogenous shocks affected the Visegrad region, Czechoslovakia was typically able to keep stable value of currency, while in Hungary and in Poland currency on some occasions underwent heavy weakening, and high inflation

- The stylized fact that the Czechs and Slovaks preferred stable currency seen clearly at 1920-25; also after the WWII, during communist period and in today’s economies
Euro and Slovakia

- Euro introduction:
  - symbol of political importance (belonging to the West)
  - tying one’s hand to an extent (defense against potential populism and cronyism even if solid conservative monetary tradition)
  - improved ratings of Slovakia
## Slovakia has the Best Rating in the Region

<table>
<thead>
<tr>
<th></th>
<th>Standard &amp; Poor’s</th>
<th>Moody’s</th>
<th>Fitch Rating</th>
<th>R&amp;I</th>
<th>JCR</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Slovakia</strong></td>
<td>A+ Stable outlook</td>
<td>A1 Stable outlook</td>
<td>A+ Stable outlook</td>
<td>A Stable outlook</td>
<td>A+ Stable outlook</td>
</tr>
<tr>
<td><strong>Czech Republic</strong></td>
<td>A Stable outlook</td>
<td>A1 Stable outlook</td>
<td>A+ Stable outlook</td>
<td>A Stable outlook</td>
<td>A Stable outlook</td>
</tr>
<tr>
<td><strong>Poland</strong></td>
<td>A- Stable outlook</td>
<td>A2 Stable outlook</td>
<td>A- Stable outlook</td>
<td>A- Stable outlook</td>
<td>A- Stable outlook</td>
</tr>
<tr>
<td><strong>Hungary</strong></td>
<td>BBB- Negative outlook</td>
<td>Baal Negative outlook</td>
<td>BBB Negative outlook</td>
<td>BBB+ Negative outlook</td>
<td>BBB+ Negative outlook</td>
</tr>
</tbody>
</table>
Observations on Slovak Economy: 1990-2009

○ Political Swings:
  ○ (Non-Pro Western, Nationalistic, Populist, Some Democratic Elements in Place)

○ 1998 -2006 Democratic Government
  ○ (Pro-Western, Non-Nationalistic, Conservative-Liberal)

○ 2006- 2014 Hybrid Government
  ○ (Pro-Western, Nationalistic, Social-Democratic)
Observations on Slovak Economy: 1990-2009

- Economic Reform Swings:
  - 1992-1998 Crony Capitalism
    - (Slovak capitalist class created; irresponsible fiscal but responsible monetary policy)
  - 1998-2006 Slovak Tiger
    - (strong conservative liberal policy reform, huge FDI inflow, high growth)
  - 2006-2014 Middle way
    - (keeping previous government reforms but combined with certain signs of crony capitalism, and populist rhetoric)
Observations on Slovak Economy:
1990-1992- Break-up of Czechoslovakia

- In December 1992, the average unemployment rate reached 10.4% in Slovakia and 2.6% in the Czech Republic

- Even more dramatic; the minimum and maximum regional unemployment rates in December 1992 were 0.3 and 6% in the Czech Republic and 3.8 and 19.3% in Slovakia

- Regional distribution of unemployment: initial process of economic transition had strong asymmetric effects in Czechoslovakia.

- Distribution of state property to cronies of HZDS
- High fiscal deficit, stable money and inflation
- Slovakia left the “mainstream” road towards European integration. The only candidate country that could not fulfil the Copenhagen democratic criteria.
- Strategic partners were excluded from direct privatization sales;
- The emphasis on promoting local entrepreneurs through sales to domestic managers and employees, both insider stake-holders and outsiders.
Observations on Slovak Economy: 1998-2006: Miklos’ Period

- The population afraid of isolation in the international integration, and after initial national surge perceived situation as critical.

- Election participation level was over 84% in 1998 which reflected the desire for change. The centreright coalition.

- Note substantial reform did not require authoritarian government.

- Pro-business environment: Slovakia liebling of Forbes and Conservative American Business

- Curbing benefit dependency and encouraging work effort good for long-term reduction of poverty, but the shortrun costs high for poor Slovak families; regional disparities

- The non-sufficient compensation of the losers contributed to the election failure in 2006.
Observations on Slovak Economy: 1998-2006: Miklos’ Period

- In 2004: a flat tax rate of 19% on personal and corporate incomes and the VAT rate was also unified at 19%.
- Low taxes have a moral role (culture of tax avoidance to be replaced by the culture of obeying tax laws)
- The tax system became easier to administer; elimination of most exemptions.
- In November 2005 the koruna stepped into the ERM II with a central parity of 38.4550 koruna per euro; entered in 2009 at 30.126;
Observations on Slovak Economy:
2006-2014: Fico’s Period

- The euro adaptation supported
- The reform path still kept to a large extent
- Re-introduce populist and especially nationalistic feelings into politics
- Strong in the East and North of Slovakia
- Support of those who enriched under Meciar period
- The Eurobarometer, 2008: Slovakia is the country with the highest level of trust in the EU among all member states: 70% of Slovak citizens trust in the EU, which is 23% points above the EU-27 average.
- Slovaks believe that the Slovak Republic has benefited from being a member of the EU (77% in 2008).
Slovakia and the Portuguese Example

- Strong commitment by Slovakia to join the euro, a sharp drop in interest rates and expectations of faster growth both led to a decrease in private saving and an increase in consumption, and inflow of foreign investments;

- The result was high growth, decreasing unemployment, increasing wages, and fast increasing current account deficits;

- The future looked great in 2007, more than 10% growth; inflation 2.4%, current account balance -5.3%;

- Still in 2008 over 6% growth, but in 2009 around -6% growth
Slovakia and the Portuguese Example

However, seems that in difference to Portugal Slovakia is not facing productivity problems; and there is no such strong wage pressure as in Portugal, as Slovak trade unions are weak and the atmosphere in the country is not particularly populist

- Higher productivity growth and low nominal wage growth are not mutually exclusive, and the best policy is probably to combine both.

- Fiscal policy also has an important role to play. Deficit reduction is required, but its pace and its contents may be linked to reforms and wage moderation.
Deep Societal Crisis in Hungary

- To Burke the French intelligentsia engaged in a wholesale critique of major institutions and done so publicly; this led to delegitimation in weak minds;

- The French men of letters had delegitimated the monarchy, the aristocracy, and the taxing powers of the state in the eyes of the public; As a result French were left with a government drained of authority and no longer capable of collecting taxes;

- In Hungary after 2006 government completely delegitimated; mostly because opposition delegitimization, radical street growth movements; opposition ignoring the government and moving out from the Parliament when the Prime Minister talked
Despite its encouraging growth performance irresponsible domestic economic policy together with global financial turmoil brought Hungary to financial crisis in the fall 2008.

A rescue package from the International Monetary Fund and the European Union eased the situation, but the perspectives of Hungarian stability and growth are still quite bleak.

Quazi-technocratic government currently
Hungarian Vulnerabilities

- As the global financial crisis evolved, financial markets began to re-evaluate their risk perception.

- As financial difficulties on the global scene led to a decline in global liquidity and to an increase in risk aversion, investors started to differentiate among emerging markets and began to appraise Hungarian assets as more risky.
Hungarian Vulnerabilities: Currency Mismatches

- Foreign currency borrowing: the Baltic countries have had the largest increase in foreign currency borrowing; Hungary has had most of the credit growth denominated in foreign currency, and it has gone increasingly to the household sectors.

- Most of the increase has been in the form of long-term foreign exchange loans, as more than 80 percent of total household credit is long term (and more than half is mortgage credit).

- In Slovakia as in the Czech Republic such credit growth has been substantially less, with negligible household borrowing in foreign currency.

- As a result both the household and the corporate sectors’ net foreign currency liabilities increased, raising indirect risk to the banking system.

- Fortunately, there was no sign of a bubble in Hungarian real estate market.
Real Estate Prices – Budapest

72. New dwelling trends and real home prices* in Budapest

Source: HCSO; Origo
Year-on-year volume indices of trend-estimates; *CPI deflated
Hungarian Vulnerabilities

Emerging Europe: Corporate and Household Currency Mismatches, December 2008


Notes: The data are referring to foreign currency denominated loans and deposits; including loans and deposits that are indexed to foreign currency would increase the ratios in some of the countries. The Czech Republic, included here among emerging Europe, was reclassified as an advanced economy in the Spring 2009 World Economic Outlook.
Hungarian Vulnerabilities: Credibility

- Hungarian policy makers struggle with huge credibility problems.
- Hungarian government consolidated its fiscal position somewhat from 2006, as taxes increased and some tax whitening happened, but government debt and net external liability positions are still the largest among the new EU member states.
- Gross external financing needs for this and the next are high, however short-term debt is roughly covered by net international reserves.
- Hungary had a large government debt already under the communist regime. The ratio of debt to GDP was reduced from its peak of around 90% to around 50% in 2001. Irresponsible policies from 2002 onwards led to an increase to around 65%, while the debt of the Czech Republic and Slovakia is somewhat under 30% and of Poland under 50% of the GDP.
Budget Deficit in the CEE Countries

51. Budget deficit in the CEE countries

Source: Consensus Economics (November 2009)
As a percentage of GDP. In the case of Poland and the Czech Republic privatisation revenues are not included.
Hungarian Vulnerabilities: Comparative Performance to V-3

- 2007 Hungarian performance in all basic macroeconomic statistics was worse than the typical point of reference, the V-3 (Poland, the Czech Republic, and Slovakia) countries.

- GDP growth in Hungary was significantly below unweighted V-3 average (below 2% compared to 7%);

- Inflation above 7% in Hungary, under 3% in V-3;

- Current account deficit was under 7% in Hungary while under 4% in V-3.
Financial Crisis in October-November 2008

- As markets began to re-assess perceived risk:
  - the forint began to weaken,
  - the stock market had fallen to a two year low,
  - interest rates have increased,
  - the inter-bank market as well as the Hungarian government securities market experienced serious stress, and
  - financial institutions have suffered shortages of liquidity.
Euro/Forint Exchange Rate 2007-2009

1. EUR/HUF exchange rate

Source: Thomson Reuters
reverse scale
Financial Crisis in October-November 2008

- Hungary’s government debt is to a large extent foreign-owned.
- As the crisis evolved, foreigners wanted to sell Hungarian bonds but buyers were very slow to buy, and the government bond market began to dry up.
- Auctions to issue new government bonds were also not successful.
- Hungary’s central bank used a quasi interest rate defense of the forint as it raised its benchmark interest rate by 300 basis points to 11.5 percent.
- This step was aimed at supporting the forint, which has been losing its value, dropping 14 percent against the euro over three weeks.
Financial Crisis in October-November 2008

- In addition, the shares of leading Hungarian bank OTP fell drastically.
- When the situation is bad, rating agencies make it even worse.
- Fitch Ratings and other rating agencies began to downgrade Hungary.
Financial Crisis in October-November 2008

- Hungarian authorities were not really clear in what way to respond.

- They increased monitoring of the market, and increased deposit guarantees in line with the EU-wide policy.

- In such chaotic situations one turns towards the lender of last resort in order to rescue the financial system and provide stability to the public.

- As the Hungarian government was not able to provide it, this role was taken by the IMF and the EU.
IMF and EU Rescue Package

- The IMF has approved a $15.7 billion loan for Hungary as part of a program designed to ease financial market stress.

- The 17-month Stand-By Agreement is part of a larger financing package to which the European Union has committed $8.4 billion and the World Bank $1.3 billion respectively.

- The IMF immediately made available more than $6 billion, with the remainder being available in five installments subject to quarterly reviews.

- The Stand-By Arrangement was approved under the fast-track Emergency Financing Mechanism of the IMF.

- The rescue package primarily concentrates on securing government finances and stabilizing the banking sector.
IMF and EU Rescue Package

- The IMF-supported economic program aims to implement a fiscal adjustment package to ensure that the government's debt-financing needs decline.

- Fiscal adjustment achieved in part through reductions in the overall government wage and pension bill.

- In addition, nominal wage adjustments and pension bonuses postponed.

- Prior to this rescue package’s approval the European Central Bank made available 5 billion euros to help support liquidity in the local interbank market.
Need for IMF Help and Some Early Consequences

- The rescue package helped to introduce changes in Hungarian economic policy, however it is clear that external pressures triggered the need for adjustment.

- Changes after March 2009 when Gyurcsany resigned
On Sources of Hungarian Fiscal Deficit

- Hungary’s 2002 election campaign heightened competition among its political parties and propelled populism to such an extent that the subject of political litigation resulted in large monetary contributions from the state budget to various citizen groups.

- Examples include arranging for pensioners to receive a 13th monthly payments or increasing the salary of public employees by 50% all in the hopes of securing votes.

- Simultaneously, strong lobbying groups and political clients pushed for state subsidies and favors. Checks and balances in budget negotiation were rather weak.

- Statesmanship seemed to have disappeared.

- Inefficient state monopolies and fragmented and costly municipal system just raised the social costs of the crisis.
On Sources of Hungarian Fiscal Deficit

- Thus, government debt increase is not just a result of mass demonstrations but rather of political inter-elite conflicts.

- Changing the situation seems very difficult as those who receive transfers feel that they are entitled to them.

- Tax evasion in Hungary is widespread and morally acceptable. Compared to the Czech Republic, Slovakia, Hungarian taxes are very high and were even increased two years ago under the populist slogan of ‘taxing the rich’.

- Much larger is tax avoidance and the share of non-official economy in Hungary than in Slovakia; Vámosi-Nagy, the former vice-chair of the Hungarian tax authority estimates that the non-official economy is around 20-25% of the GDP; this share is similar to Greece or Spain, lower than in Sicily, and double of the EU-15 average; (Sweden 4-5%);
Activity and Unemployment

88. Activity and unemployment

Source: HCSO
Levels, seasonally adjusted
Total Volume of Retail Trade

77. Total volume of retail trade

Source: HCSO
Seasonally adjusted annualised monthly growth rates. The data of total retail sales contain beyond the narrow retail sales the turnover of motor vehicles and automotive fuel as well.
Quarterly Growth Rates of Automobile Sales

76. Quarterly growth rates of automobile sales

Source: Association of Hungarian Motor Vehicle Importers
Quarterly GDP Growth Rate

69. Quarterly GDP growth rate

Source: HCSO
Seasonally adjusted quarterly growth rate
Change in Export and Import Volumes

67. Change in export and import volumes (goods and services)

Source: MNB
Annual growth rate
Net Borrowing of the Household Sector

66. Net borrowing of the household sector

HUF billions

Source: MNB
Monthly change, seasonally adjusted data.
Problems Economics Cannot Solve …

- Getting state institutions to function better is easier to discuss than to accomplish. It has long been clear that intangible factors to do with national culture and levels of social trust play a bigger role than explicit rules.

- The EBRD highlights “values, attitudes and practices” in determining what constitutes “acceptable behaviour within a firm…or by government officials”.

- Economics offers little guide to that.
Problems Economics Cannot Solve …

- Legal system. Slow and unpredictable justice is a turn-off for foreign investors worried about contracts and property rights.

- A feeling that life is unfair sharpens the divide between winners and losers and risks political upsets.

- Competition: Informal barriers to entry and old networks of communist-era pals keep bits of the economy off limits to outsiders, at huge cost to efficiency.
Politics

- Rise of populism and nationalism observed, especially in Hungary; new radical political party strongly anti-western, anti-Roma, anti-semitic, anti-neighboring countries;

- Also significant worsening of the Slovak – Hungarian situation on the state level; might create serious regional problems; thanks EU and NATO membership
References


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