An economic recovery plan for Hungary, version 2.0

(Summary for the press – 11 December 2013)

This study is a summary of a research started in the summer of 2012 at GKI.

1. **Hungary has failed to advance towards the average development level of the EU since its accession in 2004 (though many countries have surpassed Hungary). Between 2011 and 2014 the Hungarian economy follows a hardly more than stagnant trajectory without perspectives, still lagging behind the CEE region.** The government's economic policy caused **legal uncertainty** and **unpredictability**. **Almost everybody's property, business or savings may be compromised any time. A small elite accumulates fabulous wealth, the middle class is weakening, and poverty is deepening and spreading.** Although the government debt can be financed and the **excessive deficit procedure was terminated**, the government achieved the improvement in the budget balance by the **nationalization of private pension funds** and by levying **huge distorting sectoral taxes**. **As a consequence, capital and skilled labour are leaving Hungary. Small businesses are suffering in the frozen economy.** Participating in **public work schemes** are better than unemployment but does not lead to real jobs. **The lives of families have become more difficult: the poor are poorer and the rich are richer. In political terms Hungary is becoming isolated from the EU.**

   If Hungary is unable to achieve **positive changes** in the essential elements of the present system characterized by sharp political and social opposition, and if the **leaders of Hungary** continue to believe that the other half of the country (or the political spectrum) is the main cause of all troubles, instead of their own mistakes, then **Hungarian families are going to waste another decade**.

2. **The main task of the newly formed government in 2014 will be to create the conditions for social dialogue (democratic roundtable). That is, returning to the European values of democracy, freedom, the system of checks and balances, transparency, and fair and humane and professional governance.** In order to revitalize the economy, **confidence in the Hungarian economy and investments should be urgently restored by a set of convincing measures.**

3. **In the first stage of the period leading to economic recovery (until 2016) a host of government measures should be taken to boost economic growth, to create new jobs, and to alleviate the social crisis, and significant changes and corrections in the operation of the state should be prepared including:**
   - increasing **capital** inflow, and attracting **new projects**;
   - **concluding peace with the banking system**, in return for increasing the credit portfolio, some bank levy should be remitted;
   - **households defaulting on their house-building loans** should have preferential rental options and debt relief in return for right of ownership;
   - **facilitating the creation of new jobs**, for example, in the electronics industry, the care of the old, child care, health care, the green economy and organic farming;
   - **establishing programs** to transport little children to schools, to mitigate the reproduction of unskilled young people, and to help those finishing education in finding jobs;
   - developing flexibility, creativity and innovation in **basic education**, in addition to the five basic skills;

- **genuine integration** in public transport (rail and road);
- Creating a professional forum drafting the outlines of a **better quality health care service system**;
- **improving the quality of public education** in a better equipped, more concentrated institutional system;
- **improving the quality of higher education**, free of charge in the first year, and later upon payment depending on academic achievement and social status.

4. **Money necessary for the initial steps requiring budgetary expenditures, tax cuts or social adjustments can be allocated by reallocating resources.**

   - **Changing the system of public duties and charges** from the beginning of 2015 **by restricting special sectoral levies in a few years to an internationally tolerable limit and by immediately reducing the public burdens of low-income employees;**
   - **personal income tax, as well as capital gains, will be progressive;**
   - taking measures to reduce tax evasion, to narrow benefits, and to **whiten** the economy;
   - the preferential **corporate income tax** option will apply to only **really small firms**;
   - returning to the **principles of social security, and establishing a closer link between the payment of taxes and services received** (health care and pension);
   - significant and genuine **simplification of tax returns**;
   - **in the context of the most urgent adjustment of social systems**, those who were already retired should be **treated as pensioners** (retrospectively), except those whose disability pensions were discontinued due to a change in the condition causing disability;
   - **as a first step, extending the unemployment benefit period** to 5 months for new unemployed people;
   - **child tax credit and child benefit** would decrease only at those having exceptionally high incomes;
   - wages increase beyond the rate of inflation in the **public sector**.

5. A successful recovery policy may initiate investments, economic growth, increase employment and raise incomes of the state as well. **This could allow some room for manoeuvring in fiscal policy from 2016 on, i.e., budget surpluses could be allocated in accordance with priorities.**

6. **In a multi-speed EU it is in Hungary's long-term interest to be as close as possible to those core countries whose aims are deep integration and fast and competitive economic development.** It is **important** for Hungary to **participate** in the emerging banking union of the EU, in the reviving monetary union supported by a fiscal union (i.e., the **political union taking shape that encompasses only a certain number of EU member states**). After these conditions are met, Hungary should immediately apply to join the **ERM2**, the anteroom of the Eurozone. This does not conflict with the need to **expand rapidly our cooperation with the developing regions of the world**.

7. During this period the **average annual growth rate of GDP may be up to 1.5-2 per cent**. This would mean that **between 2014 and 2018 Hungary's GDP will grow as rapidly as the EU average rate at least, and at the end of the period by more than that**. In the 2014-2018 period, society's material well-being can be expected to increase only modestly. It is particularly important to utilize all opportunities that can improve **social welfare in a broader sense** through peaceful dialogue, tolerance, re-democratization of the media and the genuine strengthening of civil society.