



# **POLITICAL FORECAST**

## **HUNGARY**

**16 July, 2008**



**POLITICAL CAPITAL**  
POLICY RESEARCH & CONSULTING INSTITUTE

This document is strictly confidential  
*The Political Forecast has been drafted for Political Capital clients only and should not be disclosed or quoted to any third party in whole or in parts. The information contained in the forecast is not to be disclosed to the media.*

**Political Capital**

Policy Research and Consulting Institute  
H-1037 Budapest, Bokor utca 1-3-5.  
Phone and Fax: +36 1 242 2913  
Email: [info@politicalcapital.hu](mailto:info@politicalcapital.hu)



## FORECAST

### The government and MSZP

- Over the past few weeks, Ferenc Gyurcsány's position as the head of the government and MSZP has improved for a number of reasons:
  - Thanks to Viktor Orbán's leaked speech involving proposed austerity measures by the next government and a Socialist campaign built on that speech, in the past couple months the gap between Fidesz and MSZP narrowed.
  - The decision by Daimler-Benz and the European Innovation Centre to move to Hungary disproves arguments by Fidesz and most economists that increasingly Hungary has become less attractive as an investment target in the region.
  - Following the Fodor-Gyurcsány meeting, SZDSZ's recently elected president announced he saw no possibility for a return to the coalition, i.e., even a replacement of the Prime Minister would fail to guarantee MSZP a solid parliamentary majority.
- Potential consequences of the recovery:
  - On the left, 'internal' and 'external' voices calling for the prime minister's resignation will diminish. The relevance of these calls continues to be diminished by the fact that no viable political or personal alternative has emerged within the party.
  - To some extent Fidesz may return to its populist rhetoric based on welfare promises it pursued leading up to the referendum, and decide to promote its messages related to austerity measures to a select audience within the business community.
- Recent public-opinion poll data and the reports on new investments have not fundamentally altered political parties' scope for action. The government could significantly improve its popularity only if, reducing the perception of drift within the government, it adopted and implemented a coherent action plan and demonstrated the viability of the government. At the same time, problems related to a minority government will resurface with renewed strength in Parliament's autumn session and this could easily erode the Gyurcsány-cabinet's barely outlined policy plans.
- Bringing some excitement to this year's summer doldrums, parties will shape their



strategies to be followed at the autumn Parliamentary session in response to the political climate and public mood developing over the summer. If the government manages to improve its public acceptance, it could improve the chances of its political survival in the autumn session. As a result, over the summer the government and MSZP will try to polish the government's image through impressive measures:

- The government and MSZP will hold intensive and well-publicised consultations related to the reform of the welfare, health insurance and tax systems. While specific measures are not known as yet, their general outlines can be estimated (see more under "Leading Trends"). The government will try to simultaneously address the general electorate and investors (the issue of limiting eligibility for welfare benefits offers an excellent option in this context).
- The government continues its campaign of consumer-protection inspections and related communication, and the summer beach season provides a captive audience.
- As a draft of the new Civil Code will be submitted to Parliament in the autumn, the government is expected to publicly promote some of its component parts during the summer.
- Government measures will continue to be aimed at increasing its popularity. If not for the short term, the government is expected to make an effort to implement some measures aimed at curbing food and energy prices (as suggested by the Prime Minister's remarks about the 'Robin Hood tax' striking energy companies and the reduction of VAT on fuels).
- At Parliament's autumn session, the survival of the minority government and Ferenc Gyurcsány's position will be determined primarily by the support of the SZDSZ faction. This has also forced Ferenc Gyurcsány to curry favour with SZDSZ by promising fundamental reforms in some areas. As a result, again there is a realistic chance for the reform of the tax system.
- In essence, the success of the government's policy and the PM's survival depends on whether Ferenc Gyurcsány manages to establish a political balance between MSZP in need to improve its leftist credentials and SZDSZ trying to project a strong identity.



## SZDSZ

- However, the potential strengthening of SZDSZ may seriously undermine the stability of the minority government. With the election of Gábor Fodor as the next president of the party, support for SZDSZ has slightly improved. In case the trend holds and, by the autumn opinion polls, brings SZDSZ to within striking distance of the parliamentary threshold, chances may increase that SZDSZ will work for the ouster of the minority government and support an early election.
- As suggested by Gábor Fodor's emerging strategy, he hopes to attract voters from three electoral camps: former liberals, undecided voters and voters with weak ties to the right (the latter is suggested by the emphatic use of the term 'national' in the party's new promotional materials). At the same time, the strategy may be stalled by intra-party divisions and a lack of political coherence, a recurring charge made by rivals of the new SZDSZ president.

## The opposition

- Recent opinion polls do not hamper Fidesz in realising its strategic objectives: while its popularity has temporarily declined with its opening to SZDSZ and the floating of its policy plans, the party's scope for action has increased for the long term.
- During the summer the party is expected to prevent MSZP's attempt to 'break out' of a tight position. In the future Fidesz attacks will come from three directions:
  - The inaptness of the minority government and the inevitability of early elections.
  - Charges of government corruption.
  - Rising prices and the government's inability to take counter measures.

## Political aftermath of the gay procession

- Radical demonstrators perturbed the procession on Gay Pride Day; the violent events were condemned later by the parties of the parliament. The Prime Minister tried to step up strong willed and keep the issue on the agenda for long, still what he did was proving his own isolation, as the other parties uniformly condemned his "Hungarian Charta" initiative, and he failed to come up with a real solution for the situation.



- Presumably the Hungarian Charta is fated to fail even before coming into force. As of today, the rally in September is expected only to mobilize socialist voters, as the Prime Minister has been unable to organize joint efforts against the radicals.
- The short lived initiative gave the opposition another chance to criticize Gyurcsány's regular but fugitive programs.
- Even the SZDSZ did not support the Hungarian Charta. Doing this it marked its opposition character in an issue without further consequences, but nevertheless important.
- The radical right was satisfied with perturbing Gay Pride Day. The party Jobbik, which is seeking parliamentary presence, claimed the disturbance its own success. This suggests that the far right remains isolated, but it is hard to say whether this will go hand in hand with its political recruitment. Even so Jobbik lately could only increase its reputation, but its support it could not.
- Similar affrays are expected, particularly on the 18th of September, and the 23rd of October. Presumably the public opinion will become fed up with the street violence, and pressure to solve the situation will increase on the cabinet, the police, the judiciary, and the public prosecutions.



**Political Capital analyst consensus: one-month, short term forecast (with change over to the previous month in parenthesis):**

Category	Average evaluation		Interpretation
Ferenc Gyurcsány's position	5 (+2)	Medium (Weak)	There are conflicts within the party / government over major issues, and in some instances the leader is forced into a retreat. At the same time there is little chance that these conflicts will lead to a replacement at the top in the near future.
Viktor Orbán's position	9 (-1)	Very Stable	The party/parliamentary majority shows no intention to remove the politician; he always carries his point and has no serious conflicts with his party.
Governing side's commitment to reforms	3 (+1)	Weak (Very Weak)	The government party do not plan the reform of major public service systems (the tax system and state administration) and will only initiate change strictly needed for the maintenance of these major systems over the medium term.
Connection between Fidesz and the radical forces	6 (+1)	Medium	Officially Fidesz has reduced links to the radicals, however in practice it recurrently addresses its far-right voters and tries to integrate them into its own camp.
Intensity of peaceful demonstrations, strikes	5 (-3)	Medium (High)	Employees are in conflict with the government, which has reached public awareness. Representatives of some sectors hold demonstrations or minor walk outs, although these do not represent a threat to the national economy as a whole.
Activity of radical movements	7 (-1)	High	Radical communities have strong social-political influence and organisational structures. The actions and mobilisation of radicals are considerable and reach beyond radical organisations. Certain minorities often suffer symbolic attacks and the probability of violent actions is high; this could also adversely affect the business-investor climate.
Budget discipline	5 (0)	Medium	The government tries to harmonise political expectations and its deficit target, although it cannot (or does not wish to) resist all efforts aimed at softening the budget at the same time.
State influence/ intervention on/into the economy	6 (+1)	Medium	Fundamentally the government respects market rules, although at times it interferes in the competition among players through tampering with stock exchange processes, negative or positive discrimination of certain market players as well as providing privileges for state-owned companies.

**Methodology:** In each month the analysts at Political Capital provide estimations regarding the political events of the upcoming month along a 10-grade scale and previously established criteria. The published analyst consensus is the unweighted mean of the analysts' evaluation at Political Capital.

1-2	Very low/very weak/very unstable
3-4	Low/weak/unstable
5-6	medium
7-8	Strong/high/stable
9-10	Very strong/very high/very stable



## Key Points to Watch: calendar for the next two weeks

### Economic events and data to be released

07.14	Industrial output (KSH - 2008. may)
07.17	Number of employees and earnings in the national economy(KSH –2008. januar-may)
07.17.	Press conference on June budget (Finance Ministry)
07.18	Building industry (KSH – 2008. may)
07.24	Retail (KSH – 2008. may)

### Political Events

07.15.	The Volán trade union leaders agreement ont he protest against the privatisation plans
07.16.	Consession treaty on the construction of M6 between the government and M6 Tolna Konzorcium
07.20.	Orbán Viktor speech at Tusnádfürdő
07.22.	Julia Timosenko visits Hungary

## LEADING TRENDS

### Gains on the left: technical adjustments or turning trends?

After statements by Viktor Orbán made in a private meeting were made public, the Gyurcsány-cabinet, in the process of abandoning its reform policies, saw its first chance in a long time to go on the offensive and demonstrate its social sensitivity. Thus it embarked on a campaign aimed at pensioners and Fidesz was forced on the defensive. Based on subsequent opinion polls the debate did have an effect and the gap between MSZP and Fidesz narrowed. Support for MSZP increased by 1-3 percent, and it declined for Fidesz by a larger margin, around 2-5 percentage points, i.e., in the entire population the difference between the two parties declined by 5-8 percentage points. However, in the category of



voters with clear party preferences Fidesz continues to lead by a factor of two and the scope of action available for the two parties has not changed to an appreciable degree. In themselves, these data have no effect on the political power structure. Instead, the degree to which these figures influence the respective policies of the involved parties is more relevant. The outcome of the current survey may become relevant in the following cases:

- It may have the effect on MSZP by making it more self-confident, the direction followed by the government more distinct and the party may stand more firmly behind the government and its own recommendations. However, it will come face to face with the difficulties of governing in the autumn, greatly exacerbated by having to run a minority government. The closing gap thanks to Viktor Orbán's statements primarily reflects a 'protest mood' and has nothing to do with the government's performance; without a spectacular improvement in the government's performance no breakthrough is expected.
- It may improve Ferenc Gyurcsány's position if it convinces party members that he can again win the election for MSZP.
- It may affect Fidesz policy in the sense of 'scaring off' the party from making similar statements in the future, allowing for the return of a strong social agenda in its communication. There are already signs pointing in that direction: in the past few weeks party politicians have often talked about the government's responsibility for curbing prices, increasing compensation for distant-heating charges and the protection of pensioners.

### SZDSZ and political meetings

In the series of meetings with party leaders conducted by Gábor Fodor, his talks with the presidents of Fidesz and MSZP generated the greatest interest. Fidesz president, Viktor Orbán, who also initiated the meeting, made an attempt to demonstrate: his party is ready to enter into any alliance in the interest of ousting the government and to make clear that the responsibility of forcing an early election rests solely with SZDSZ. Moreover, the Fidesz president also needed the meeting to continue his policy of opening to the left and reinforce his party's image as the best prepared for the job of governing. At the same time, the president of the former coalition party SZDSZ needed the meeting to underscore his gift for compromise, to move SZDSZ to the middle and improve the party's bargaining position. Since the public continues to interpret all SZDSZ moves in the context of its role in keeping / removing the government from power, from SZDSZ the main question remains: comes autumn, what position will it develop vis a vis the government and its measures following the meetings that increased the party's weight in the political arena, and whether it can communicate its position with force to its electorate. Soon SZDSZ will have to develop a clear stance in relation to the two sides and, if it fails, its chance of building a new image may be lost.





Primary party preferences in June based on data by four public-opinion pollsters (following publication of the Orbán speech, with change over to the previous month in parenthesis)

Institute	Medián	Századvég-Forsense	Szonda-Ipsos	Tárki
Sample size (person)	1200	1000	1500	1000
Date of survey	early June	June 11-18	June 16-23	June 6-18
Population eligible to vote (Total population)				
Fidesz-MPSZ	41 (-2)	25 (-5)	31 (-6)	32 (-3)
MSZP	20 (+3)	14 (+1)	18 (+2)	17 (+3)
SZDSZ	3 (+1)	2 (+1)	2 (+1)	2 (-)
MDF	3 (-2)	2 (-2)	2 (-1)	3 (-1)
KDNP	-	-	0 (-)	-
MIÉP	-	-	1 (+1)	-
Jobbik	-	-	1 (+1)	-
Other	3 (-)	2 (+1)	1 (-1)	5 (+3)
Does not know/ did not respond	30 (-)	55 (+4)	44 (+3)	41 (-2)
Decided voters with party preference				
Fidesz-MPSZ	61 (-4)	63 (-2)	61 (-7)	61 (-6)
MSZP	28 (+4)	26 (-)	28 (+4)	27 (+4)
SZDSZ	3 (+1)	3 (+2)	3 (+2)	4 (+1)
MDF	4 (-1)	5 (-)	3 (-)	3 (-1)
KDNP	-	-	0 (-1)	-
MIÉP	-	-	n.a.	-
Jobbik	-	-	n.a.	-
Other	4 (-)	3 (-)	n.a.	5 (+2)

### Fidesz: double-edged risks

In the past few weeks Fidesz risked reducing its voter base on both sides of the political divide and was forced to put up a defence on two fronts as, following its proposal for “freezing pension benefits”, it had to reassure pensioners and after a meeting with the former arch enemy SZDSZ it had to appease its core supporters. However, from a strategic point the risk taking was a rational move, as Fidesz managed to expand its scope for action. For Fidesz has recognised: if it wishes to avoid sharp conflicts faced by the Gyurcsány-cabinet after taking office in 2006, to win the next election it must start to prepare the ground for governing now and must develop at least a symbolic distance from the simplistic and popular policies communicated prior to the last referendum, policies that cannot be delivered by any party in power. It is also conceivable that, anxious of losing more supporters, it may return to a rhetoric based on welfare promises aimed at all segments of the electorate, a policy it



pursued prior to the referendum.

Since the formation of the minority government MSZP did indeed reinforce its leftist character (opening public discourse on reducing distant-heating charges, raising pension benefits, increasing wages in the public sector and enforcing the principle of social entitlements), clearly messages domestic voters like to hear from political parties. This also forces Fidesz to make slight adjustments, already evident as the party urges even higher distant-heating compensations, a curbing of rising food and fuel prices or when it criticises plans for the extension of the retirement age (denied by the government).

### MSZP: strategic dilemmas still in the forefront

In the interest of operating a successful minority government, logic dictates that MSZP develop a viable action plan, gain the support of one or another Parliamentary party for each cause and/or policy decision in advance for a needed majority. However, such a program is not only hampered by MSZP's difficulty in finding a partner in Parliament for its initiatives, but also by the fact that the outlines of a Socialist strategy are barely visible. Waiting for SZDSZ, the Prime Minister and leading Socialist politicians keep talking about their trust in the outside support of the former coalition partner, while at the same time they move in a direction emphasising their leftist commitments that, while they may regain a few disappointed voters, represent policies unlikely to be supported by SZDSZ. Daimler's investment in Kecskemét and the location of the European Union Innovation Centre in Hungary have clearly become issues used by the government to build its communication on a successful development policy. However, it remains to be seen in the medium term what scope of action the development policy and the utilisation of Union grants offer the minority government. For even in the Daimler case it is evident that the government must compete for voters' recognition with the affected local government, in this case led by Fidesz. For the time being MSZP takes a wait-and-see position and tries to formulate its own strategy (independent of other players) in negotiations behind closed doors. This strategy may ensure the viability of the minority government at best until the budget vote, and even so it is expected that the need for compromise inherent in minority governance will regularly overrule the cabinet's proposals in parliament.

### The reform of the tax and welfare systems: new government proposals

As, instead of decreasing, the number of tax proposals advanced by the government and MSZP have only increased in the past few weeks and months, concrete government measures are expected to be revealed only in the autumn. Of a host of proposals the followings may gain a consensus within MSZP and win the support of SZDSZ as well:

- o Tightening eligibility for welfare support, reducing the amount of welfare in relation to the minimum wage.
- o Reduction of labour costs (in increase of the VAT may provide coverage for that).



- o Reducing the number of tax allowances.
- o The cancellation of the solidarity tax.

The government cannot expect to receive SZDSZ' support for its recently announced popular proposals (reduction of distant-heating charges, "Robin Hood tax" levied against energy companies, reduction of excise tax or VAT on fuels). However, it cannot be ruled out that MSZP may force Fidesz, accusing the government of impotence in the face of rising prices, to lend its support for at least some of its amendment proposals.

The Minister of Social Affairs and Labour, Erika Szűcs presented her welfare reform proposal to the socialist parliamentary group last week. The policy proposal would divide beneficiaries into two subgroups: one would keep receiving systematic support, the other would receive an "availability contribution" when they cannot find a job and the local government can't provide them either. The plan is expected to involve eighty-thousand people into social employment. The proposal had a positive reception on behalf of the experts, but passing it as a bill requires the support of the SZDSZ, which is expected to take advantage of its extortion potential and attach the socialists' proposal to an important issue of its own.

#### Tensions ease between the NBH and the cabinet

Ferenc Gyurcsány and András Simon harmonized over the inflation target: the PM was more moderate compared to other politicians, but emphasized, that although the main goal of the government was to boost economic growth, it did not attack the national bank, so there is a good chance that the current 3% target would last.