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Financial nationalism and its international enablers: The Hungarian experience

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ABSTRACT

Viktor Orbán and his centre-right Fidesz party won Hungary's April 2010 parliamentary elections in a landslide, running on a nationalist-populist platform of economic self-rule. This paper explores Hungary's financial nationalist turn and its surprisingly successful resistance to IMF and EU pressures to change course. We open by theorizing financial nationalism, and then trace its ideational roots and contemporary character in Hungary. We subsequently argue that two international factors ironically enabled Orbán to take his financial nationalist ideas from theory to practice: 1) IMF and EU policies that first contributed to Fidesz's electoral victory and then made it difficult to counter Orbán once in power; and 2) the tolerant behavior of international bond markets. In particular, Orbán's willingness and ability to use unorthodox, financial nationalist policies to control government deficits and debt both reduced EU and IMF leverage over Hungary and encouraged bond markets to overlook the unsavory politics that produced those numbers.

KEYWORDS

Nationalism; financial crisis; central banking; IMF; European Union.

The crisis has had some paradoxical effects: on the one hand it has unleashed a tendency to reengage in financial nationalism if not mercantilism; on the other hand it has contributed to the recognition that a very high degree of interdependencies between economies called for a much higher level of cooperation. These two opposing forces are presently competing.

-ECB president Jean-Claude Trichet, April 2010[1]

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In April 2010, Viktor Orbán and his center-right Fidesz party came to power in Hungary by running on a nationalist-populist platform of 'economic self-rule'. Unlike the classical economic nationalist programs of the 1960s and 1970s, however, 'Orbánomics' emphasized financial nationalist policies rather than achieving greater autonomy in trade and production. Financial nationalism is an economic strategy that employs financial levers – including monetary policy, currency interventions, and other methods of interaction with local and international financial systems – to promote the nation's unity, autonomy, and identity. In pursuing this strategy, Orbán repeatedly disregarded the International Monetary Fund (IMF) and the European Union (EU), publicly denounced the IMF and its loan programs, undermined the independence of Hungary's central bank, and challenged the role of foreign banks and currencies in Hungary. Campaigning on the successes of Orbánomics, Fidesz again dominated the April 2014 parliamentary elections, emerging with its second parliamentary supermajority. In his 2014 State of the Nation address, Orbán boasted that 'we had had enough of the politics that is forever concerned with how we might satisfy the West, the bankers, big capital and the foreign press . . . Over the past four years we have overcome that . . . subservient mentality . . . Hungary will not succumb again!'[2]

How and why could Hungary persistently pursue financial nationalism in defiance of key international actors? If ever there were a country that should have been powerless in the face of global economic forces, it was Hungary. It has a small market and GDP. It is highly integrated with European trade and financial markets. It has no natural resources. It was a new member of the European Union and in difficult financial straits. To make matters worse, of the 21 non-euro countries in its region, Hungary's economy was the most exposed to the crisis-ridden euro zone.[3]

This paper seeks to explain Hungary's financial nationalist turn and its surprisingly successful resistance – at least for the time being – to many of the economic and political pressures emanating from the IMF and EU. We open with a discussion of financial nationalism, and then trace its ideational roots and contemporary character in Hungary. We subsequently argue that two international factors ironically enabled Orbán to take his financial nationalist ideas from theory to practice: IMF and EU policies that first contributed to Fidesz's landslide electoral victory and then made it difficult to counter Orbán once in power, as well as the tolerant behavior of international bond markets. In particular, Orbán's willingness and ability to use unorthodox, financial nationalist policies to control government deficits and debt both reduced EU and IMF leverage over Hungary and encouraged bond markets to overlook the unsavory politics that produced these numbers. The conclusion discusses the implications of these findings for the relationship among international

markets, international institutions, and national politics in post-crisis Europe and for our understanding of contemporary financial nationalism more broadly.

WHAT IS FINANCIAL NATIONALISM?

Nationalism is 'an ideology seeking to establish or promote the unity, identity, and autonomy of a nation or potential nation' (Shulman, 2000: 368). Recent IPE scholarship has conceptualized economic nationalism in a straightforward way as an economic strategy designed to accomplish these goals. Financial nationalism, in turn, is a subset of economic nationalism that focuses on using monetary and financial policies as instruments to pursue a nationalist agenda.

The current international discourse on financial nationalism emphasizes its economically suboptimal and protectionist character, dismissing it as a retrograde phenomenon to be overcome through pressure and coordination by right-minded international actors. For example, in an influential essay entitled *The Financial Crisis and Financial Nationalism*, Claessens (2009:263) writes that:

> The financial crisis has necessitated many interventions to support financial systems and resume intermediation. By nature, these measures are distortive, directly—as they support financial intermediaries in non-market ways, and indirectly—as they distort financial intermediation and resource allocation . . . given a tightly integrated global financial system, there is a need to avoid large distortions and an escalation of these forms of nationalism.

Indeed, as our opening quotation from Jean-Claude Trichet illustrates, many in the international financial community raised warnings about the dangers of financial nationalism after the global financial crisis. Allegations of 'currency wars' sparked by leaders such as Japan's Prime Minister Shinzo Abe represent one manifestation of this concern (Pringle, 2012). This popular usage of the term equates financial nationalism with currency-based protectionism and casts it in direct opposition to common sense and such positive outcomes as international coordination and financial stability. Similarly, for many years, the dominant conception of economic nationalism equated it chiefly with trade protectionism, gave it a normatively negative cast, and addressed the concept primarily to explain why political leaders might choose 'suboptimal' strategies for achieving economic growth.

Contemporary scholars, however, now insist that economic nationalism must be understood more broadly and not necessarily in contradiction to economic liberalism (Crane, 1998; Helleiner and Pickel, 2005;

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Abdelal, 2001; Shulman, 2000; Harmes, 2012; D'Costa, 2009). Economic nationalists may thus champion either pro- or anti-integrationist policies, as well as policies that span the liberal-protectionist spectrum, depending upon their particular conceptions of national identity and their associated beliefs about which economic policies will best promote the nation as a sovereign political, economic, and cultural collective. Following this scholarly reconceptualization of economic nationalism, we understand financial nationalism in similarly broad terms. We view financial nationalists as capable of pursuing a wide range and combination of policies along the liberal-protectionist and integrationist-autarkist spectra depending upon specific historical circumstances, the identity frames of nationalist leaders, and where these leaders draw the invisible lines between insiders and outsiders in the national community.[4]

Nevertheless, the nationalist goal to achieve and preserve autonomy for the nation means that when nationalists hold political power, the *most typical* manifestations of financial nationalism will involve strategies in pursuit of monetary sovereignty that privilege national 'insider' financial institutions, currencies, connections, and resources over those of outsiders. This acknowledges the historically privileged place of national money and finance in nation-building efforts and in nationalist ideologies (Helleiner, 2003). Nationalists are typically skeptical of universal economic ideologies and of ceding control over national monies and financial institutions to international authorities. As such, financial nationalism in practice will typically involve attempting to reduce the influence of external conditionality and constraints on domestic politicians' ability to make and implement economic decisions on behalf of the nation. Importantly, this does not necessarily imply the adoption of protectionist trade policies or the rejection of economic integration or cooperation more generally; indeed, contemporary financial nationalists cannot place themselves in permanent and sweeping opposition to globalized markets and international standard-setting efforts if they want to achieve their goals.

We understand this dominant strain of financial nationalism to manifest itself in five interrelated policy choices. The international financial community generally supports the first two, but the remaining three fly in the face of international recommendations. First, financial nationalism requires achieving and defending monetary sovereignty. This usually means preserving a national currency and defending its exclusive use as a means of exchange and store of value on national territory. In certain cases it can also involve promoting the internationalization of the national currency as a symbol of national strength and as a tool of foreign policy. Monetary sovereignty is a prerequisite for the second attribute: controlling monetary policy. Financial nationalists will usually prefer a

dirty float to either freely floating exchange rates or pegged/fixed exchange rates, as it gives them more autonomy to use monetary policies to pursue their goals.

In this same vein, financial nationalists are often suspicious of independent central banks, so the third common characteristic is the attempt to undermine central bank independence. Controlling monetary policy for nationalist purposes typically means control *by nationalist politicians*, not by actors independent from government. Moreover, independent central bankers as technocratic professionals may identify more strongly with the international financial community's norms and practices than with their home governments (Johnson, 2002; 2006a; 2006b). As such, in the minds of financial nationalists, independent central bankers may appear to be a disloyal fifth column within the state, controlling key national institutions yet sharing primarily international networks and mindsets.

The fourth attribute is preference for national financial institutions over foreign ones, with national (insider) banks typically defined by ownership rather than physical location (Epstein, 2013). This preference can involve outright discrimination against foreign banks, preferential policies for insider commercial banks, as well as building and promoting domestic development banks. Nationalist politicians commonly assume that domestic financial institutions will be easier for the government to influence, will not cut and run in crisis, will be more likely to further national prosperity and autonomy through their lending and reinvestment policies, and may even serve as national champions promoting the nation's image and interests on the international scene.

A key task in operationalizing the concept of financial nationalism, therefore, lies in identifying which groups, institutions, and individuals nationalist governments consider to be national insiders (Clift and Woll, 2012). There are no hard and fast rules, since the process of giving insiders their label is a fluid one of social and political construction. Such status may be framed in terms of territory, citizenship, ethnicity, and other such traditional markers. For example, a national diaspora community and its associated financial interests and institutions may be granted insider status, while minority identity groups within state boundaries may be defined as outsiders. Importantly, insider status can also be defined by perceived loyalty to the national community. Like technocratic central bankers, other domestic individuals and institutions seen to represent or to have been compromised by their association with foreign interests and communities may find themselves targeted by financial nationalists. Working for a foreign financial institution, keeping financial resources overseas, or identifying with a transnational professional community may all be seen as evidence of disloyalty to the nation, and thus as grounds for implicitly (or even explicitly) revoking the privileges of

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membership. Contemporary Russia has imposed such a loyalty test, in which the Putin government has labeled as disloyal and punished many elites possessing overseas financial resources as well as domestic NGOs receiving financial support from overseas. Alternately, when the nationalist ideology includes a close identification with a broader political community outside of territorial boundaries (such as the European Union in the case of post-Soviet Estonia), groups, institutions, and individuals from that community may be granted a certain level of insider status in the nation.

The final attribute of financial nationalism is skepticism of the International Monetary Fund, the World Bank, and other international institutions. Financial nationalists particularly resent and reject the policy conditionality associated with financial support from such international bodies as demeaning, constraining, and inappropriate for the nation. International financial standards, international borrowing, and international policy coordination freely agreed upon, with rules made by and applied equally to all, may be perfectly fine and even desirable for financial nationalists. However, intrusive international loan conditionality that dictates government policy choices or erodes a government's monetary sovereignty is not.

Why have globalization processes not significantly weakened the attraction of financial nationalism? Again, studies of economic nationalism have a compelling answer. Far from making economic nationalism obsolete, globalization processes can intensify the interactions between national identity and economic policy (Shulman, 2000).[5] Moreover, scholars of economic patriotism (a variation on economic nationalism) point out that the relevant national identity community may be a supra- or sub-state unit such as the EU or a region; economic patriotism merely suggests a value ordering where the homeland – however defined territorially – ranks higher than the economic interests of the individual in setting economic policy priorities (Clift and Woll, 2012). Furthermore, the importance of identity politics in economic policy making may be heightened during episodes of globalization-fueled international economic instability, as existing policy paradigms and institutions lose legitimacy, uncertainty reigns, and politicians must act quickly to serve their key constituencies under conditions in which transnational coordination has often become difficult and contentious. Economic instability under conditions of globalization can thus both increase the attractiveness of economic nationalism as an ideology and contribute towards bringing nationalist parties and politicians to power. When a crisis has its roots in the international financial system, this may in turn encourage nationalist leaders to turn more specifically to financial nationalism as a response.

The global financial crisis and subsequent European sovereign debt crisis thus provided fertile ground in Europe for a resurgence of financial

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nationalism. Indeed, many Western European governments moved quickly to protect their own domestic financial institutions at the expense of other EU member states as the crisis broke (Dabrowski, 2010). However, only in Hungary under the Orbán government did crisis-era financial nationalism take on an extreme and persistent form. An exploration of financial nationalism in Hungary reveals in stark terms the complicated ways in which nationalism and globalization can interact and at times reinforce each other. Below, we explore the roots of Hungary's financial nationalism, its key characteristics, and the international factors that enabled it to move from theory to practice.

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THE ROOTS OF FINANCIAL NATIONALISM IN HUNGARY

The Hungarian experience since the onset of the financial crisis reveals the multifaceted nature of contemporary financial nationalism. The election of Prime Minister Viktor Orbán and his Fidesz party in April 2010 ushered in an era of financial nationalism with roots both in Hungary's twentieth-century history and in its more recent experiences with economic crisis.

Hungarian national identity has long rested on a self-perception of Hungary as a key European society and culture. Hungary was not only a core member of the Austro-Hungarian Empire, but the Hungarian nation transcends its current state borders to spill across Central Europe. As a result of the 1920 Treaty of Trianon reassigning large, historically Hungarian communities to neighboring Czechoslovakia and Romania, millions of ethnic Hungarians live outside of Hungary. Hungarians entered the post-socialist period secure in their European self-identification politically, economically, and culturally, and harboring nationalist sentiments that reified the proud Hungarian nation and its ethnic communities both within and beyond its shrunken borders. Reflecting Hungary's identity as a so-called kin-state, the 1989 Hungarian constitution formally recognized the state's 'responsibility' for ethnic Hungarians outside of state borders, a responsibility reinforced by subsequent legislation granting special cultural and legal privileges to transborder Hungarians (Batory, 2010b). More broadly, the reassertion of state sovereignty across newly post-communist Central and Eastern Europe after 1989 and the commensurate de-legitimization of the avowedly anti-nationalist communist ideology provided ample space for the revival of the 'national question' in its myriad forms.

This history, combined with the universally popular prospect of EU membership after communism's collapse, led Hungary's post-communist party politics to split primarily across nationalist rather than economic lines (Evans and Whitefield, 1995; Fox and Vermeersch, 2010;

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Harris, 2012). Fox and Vermeesch argue that the EU accession process provided an opportunity for a revitalized 'backdoor nationalism' in Hungary because it allowed the conflation of EU integration with national reunification and removed EU-mandated economic reforms from the political agenda. In particular, in the run-up to accession Orbán's libertarian youth party Fidesz successfully 'rebranded itself as the party of the Hungarian nation' in opposition to the Hungarian Socialist Party (MSzP), a strategy that first brought it to power as a center-right force from 1998–2002 (Fox and Vermeersch 2010, 330).[6] Throughout the pre-accession years, this Hungarian mainstream nationalism as expressed through the political system remained compatible with economic liberalism and integration. Once Hungary had achieved EU membership in 2004, however, Hungary's relationship with the EU became fodder for an anti-globalist (and thus anti-EU) right-wing nationalism that began with fringe movements and gained increasing traction after the global financial crisis. The extreme nationalist party Jobbik received 17 percent of the popular vote in the 2010 elections that Fidesz and its small Christian Democratic coalition partner won so handily with 53 percent, bringing the total vote for the duelling nationalist parties to a staggering 70 percent. This speaks both to the strength of nationalist sentiment and to the weakness, collapse, and disorganization of other Hungarian parties that had once challenged the ruling Socialists.

Indeed, the global financial crisis, which occurred while the Hungarian Socialist Party once again held power, provided a golden opportunity for nationalists to regain the upper hand politically. To see why, we can review economic developments in Hungary up to that point. Communist-era Hungary, although politically subordinate to Moscow, had been known since the 1960s as an economic innovator. It developed a complex mixed economy and substantial domestic economic expertise, and had already joined the IMF by 1982. Not surprisingly, therefore, Hungary in the 1990s was among the first post-socialist states to integrate itself into the broader European economy. The Hungarian government made joining the EU a key goal, with the explicit intention to re-assume what Hungarians considered to be their rightful place in the European polity and economy (Vachudova, 2005).

As part of that process, after economic difficulties in the early 1990s, the newly elected Socialist government adopted an austerity program in 1995 and accepted an IMF stand-by loan to support restructuring in 1996. These policies included eliminating capital controls and adopting European financial regulations (Enoch and Ötker-Robe, 2007). In the financial sector, the government re-capitalized its banks, tightened banking regulation and supervision, raised capital requirements, and imposed new accounting standards. The result was a reorientation of banking activity and a privatization of the sector, largely to foreign owners, that helped

create a foundation for over a decade of growth (Bartlett, 1996; Bartlett, 1997; Kormendi and Schnatterly, 1996; Várhegyi, 1999; Farkas, 1999; Barnes, 2003). By 2005, foreign banks headquartered in other EU states accounted for more than 82 percent of bank assets in Hungary (Bohle, 2014). Similarly, trade as a percentage of GDP expanded from about 65 percent in 1994 to over 160 percent in 2008, and the share of exports going to developed countries jumped from about 70 percent to between 80 and 90 percent (World Bank WDI). In sum, Hungary's economy quickly became highly integrated with and dependent upon the global economy, particularly the economies of Western Europe.

A peculiar facet of this integration was the rapid growth of mortgage and business loans made in foreign currency.[7] In the late 1990s, the Hungarian government began subsidizing housing loans, which were generally made by Hungarian banks in Hungarian forint. When it cut back on the policy in 2003–04, it created space for the market in foreign-exchange loans to grow rapidly. With the reduction in subsidy, interest rates on forint loans rose and banks with access to foreign currency could undercut forint lenders. Furthermore, since Hungary had announced its intention to join the euro zone eventually – which would require the government to maintain a stable euro-forint exchange rate in the years prior – both lenders and borrowers seemed to believe that such loans held little currency risk. From 2003 to 2008, credits to households grew by more than 20 percent per year, and the share of foreign-currency loans as a part of overall loans to households leapt from 5 percent to 70 percent (Bohle, 2014).

During this period of growth and integration, public debt was relatively high: between 60 and 80 percent of GDP. This was higher than in other Central European countries, although it was in the neighborhood of some significant European economies, including France and Austria. This debt burden prompted advice from international advisors to tighten the governmental belt, particularly in health-care provision and pensions (see, e.g., the annual OECD *Economic Surveys*). Such advice was unpopular domestically, and the Socialist politician Ferenc Gyurcsány ran for re-election in 2006 on a platform of 'reform without austerity'. After the Socialists had won the April election, however, he did an about-face and proposed strict austerity measures that would cut the government deficit to 3 percent of GDP by 2008. In September 2006 an audio recording from the previous May came to light in which the Prime Minister admitted that the Socialists had been knowingly lying to the public about the state of the economy for nearly two years, sparking massive outrage and demonstrations.

The government's austerity policies were a success in the sense that the debt essentially stopped growing in 2007, but unfortunately so did the economy (the World Bank put economic growth at 0.1 percent in 2007).

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The policies also reinforced the Socialists' unwelcome public reputation as the party of austerity, first earned during their 1995−98 term in office. But even worse for the Gyurcsány government, the austerity measures did not protect Hungary from the impact of the 2008−09 global financial crisis. The crisis weakened the forint, which radically undermined the ability of mortgage holders and others to repay their foreign-currency-denominated loans. To halt the slide in the forint, the government accepted a loan of 20 billion euro from the IMF, World Bank, and EU, and in exchange pledged to redouble its austerity efforts. Those measures included cuts in wages and pensions, as well as the elimination of the 13-month salary for government employees (Cordero, 2009; BBC, 2012). Nevertheless, the economy shrank another 6.8 percent in 2009, even as central government debt rose from 75 percent to 83 percent of GDP. Furthermore, part of the agreement led to financing more of the government's debt on a shorter-term basis, both directly, since IMF loans typically matured in four years, and indirectly, because of its influence on the structure of new international loans (BBC, 2013).

Hungary's financial and trade openness and its international integration, formerly a point of pride and source of strength, thus appeared to have made it exceptionally vulnerable to contagion from the crisis (Connolly, 2012). Moreover, pro-cyclical austerity policies enforced by the IMF and EU not only failed to improve the economic situation in the short term, but made matters worse politically as Orbán and other opposition leaders blamed the Socialists, austerity-oriented international conditionality, and foreign-owned banks for the economic struggles of ordinary Hungarians. As Mark Blyth provocatively puts it in *Austerity: The History of a Dangerous Idea*, 'Populism, nationalism, and calls for the return of "God and gold" are what unequal austerity generates' (Blyth, 2013: 15). Austerity amid crisis set the stage for financial nationalism in Hungary, as Viktor Orbán and his Fidesz party contested the 2010 parliamentary elections on a nationalist-populist platform, vowing to cut taxes, restore economic growth, and support local business. Fidesz and its tiny Christian Democratic coalition partner won in a landslide and secured a two-thirds parliamentary supermajority, enough to enact constitutional change.

FINANCIAL NATIONALISM UNDER ORBÁN

Once in power, the Orbán government quickly introduced its own particular kind of center-right financial nationalism, using its supermajority to adopt unorthodox financial policies aimed at increasing Hungary's monetary sovereignty and privileging national insiders, while at the same time pursuing the financially orthodox goals of deficit and debt reduction. To the extent that it could square this circle successfully, Hungary could avoid triggering EU economic sanctions and continue to tap

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international bond markets, thus avoiding the need for an IMF agreement and the unwelcome conditionality associated with it.

In its pursuit of economic self-rule, the Orbán government most clearly identified the IMF, the incumbent leadership of the National Bank of Hungary (the Magyar Nemzeti Bank, or MNB), and foreign-owned commercial banks as 'outsiders', a label that in the case of bankers included a strong undercurrent of anti-Semitism. The European Union occupied an intermediate position in this regard; the Orbán government rejected the euro and chafed against EU conditionality and advice, but it valued Hungary's EU membership as an acknowledgement of Hungary's status as a European nation equal to all others. Other Fidesz outsiders included ethnic minorities within Hungary, such as the Roma, as well as supporters of the ousted Socialist government; Orbán and Fidesz had a long track record of equating the Socialists with the former communist regime and identifying communism as an alien ideology imposed on Hungary by foreigners. Insiders not surprisingly included Fidesz supporters and most Hungarian-owned businesses and organizations, as well as the Hungarian diaspora. Tellingly, one of the Fidesz government's first acts upon taking power was to amend the Hungarian citizenship law to grant ethnic Hungarians outside of its borders the right to apply for a Hungarian passport and to vote in Hungarian elections – that is, to flip a phrase, the right to representation without taxation (Pytlas, 2013).

To illustrate the interlocking logics behind Orbán's financial nationalism, we will focus in greater detail on four of its primary manifestations: reducing the influence of foreign-owned banks and foreign currencies in Hungary in order to increase Hungary's monetary sovereignty and privilege national insiders; undermining the MNB in order to gain political control over monetary policy; denouncing and then rejecting IMF funding and advice; and balancing the budget on the backs of 'outsiders' in order to gain greater financial autonomy from the IMF and EU. Taken in combination, these policies exhibited the full range of the typical characteristics of financial nationalism.

Reducing the influence of foreign banks and currencies

The Orbán government introduced several related policies in this realm, including hiking taxes on financial institutions, discouraging and converting foreign-currency loans, suggesting that Hungary had too many foreign-owned banks, and indefinitely postponing euro adoption. Foreign-owned banks in particular represented an easy and natural target; not only had they introduced the foreign currency loans that proved devastating to Hungarian companies and households after the financial crisis, but the sovereign debt crisis led their parent banks to instruct them to reduce lending sharply in Hungary, and indeed throughout CEE

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(European Bank for Reconstruction and Development, 2013). In response, Orbán said repeatedly that Hungarians should control at least half of the Hungarian banking sector, and adopted policies to punish foreign banks that led to significant losses in the sector and expectations that some foreign banks would abandon Hungary altogether (Reuters, 2014).

For example, the first 'crisis tax' that the Orbán government proposed and levied was aimed directly at the heavily foreign-owned banking sector, seeking to raise Ft200 billion by requiring payment of 0.15 percent on their first Ft50 billion ($226 million) of 2009 assets and 0.5 percent on assets beyond that limit. Not surprisingly the government expressed no sympathy for the banks, and the conservative newspaper *Magyar Nemzet* defended the tax as a legitimate means of government finance, considering that 'mostly foreign banks' had achieved after-tax profits of over Ft300 billion in 2009 yet had cut back on loans to the Hungarian domestic market (Szabo, 2010).

International financial institutions wanted Hungary to reduce its deficit, but they did not want to raise taxes on the financial sector in order to do it, and they repeatedly called for a more 'business-friendly' environment in the country. However, Finance Minister György Matolcsy, the architect of the measures, insisted that the bank tax was not negotiable (Economist Intelligence Unit, 2010). Fidesz officials defended this tax in nationalist terms, with MP László Kövér, for example, arguing that '[Foreign banks channel] the incomes of a poor country which had been worn out by socialism in order to increase the welfare of other countries. Therefore, protecting the interests of barely existing national capital has all the moral grounds . . . There is a raw political power play going on between the government and the international banking world' (Reuters, 2010b).

The government followed this up with a proposal in October 2012 to introduce a 0.01 percent tax on all transactions by financial institutions, including the MNB. Again defending his policies in explicitly nationalist terms, Orbán stated that:

> Hungary is governed by the Hungarians. If parliament decides there will be a transaction tax, there will be a transaction tax . . . Hungary has been unabashed to come up with solutions of its own. This is natural, since Hungarians are rebellious and at the same time innovative in character . . . I believe we have won the battles that we started through our unusual or innovative solutions [but] there are serious interests. Most of them are foreign, and they are willing to go great distances to reduce their losses and end the current policies (Racz, 2012).

The proposed tax on the MNB itself proved to be a bridge too far, as European Commission threats to invoke infringement procedures forced

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the Hungarian government to exempt the MNB from the levy (Hinge, 2012). The revenue-generating tax remained in effect for private financial institutions, however, to the great chagrin of Hungary's foreign banking community. The Hungarian government raised the tax even higher in the spring 2013 budget, contributing to record losses in the banking industry.

Orbán made it clear that Hungary would postpone euro zone entry indefinitely, even suggesting that Hungary now had no obligation to join the euro zone despite the commitment it made upon its EU accession in 2004 (Sinico, 2012). The Fidesz government also took aim at foreign-currency private debt, primarily denominated in euros and Swiss francs. In September 2011, over the objections of the foreign banking community, the Hungarian parliament passed a law permitting mortgage holders to pay down their foreign-currency balances at fixed, below-market exchange rates. According to the EBRD, this program 'reduced household foreign exchange debt by about 23 per cent and implied costs to banks of almost 1 per cent of GDP'.[8] The government then floated a trial balloon in March 2013, suggesting that it might consider using some of its foreign-exchange reserves to convert certain foreign-currency loans into forints at a favorable rate. As Orbán put it, 'Foreign-currency loans in my mind are basically an issue of sovereignty. It means that we are unable to take advantage of having our own currency, the forint, which is currently an advantage against the euro zone' (Feher, 2013a). Markets initially reacted negatively to this suggestion, especially coming as it did on the heels of Orbán's latest statements saying that so much foreign ownership in the banking sector was 'unhealthy' and that at least 50 percent should be held by Hungarians (MTIE, 2013b). The MNB then announced in early April that it would provide 250 billion forint ($1 billion) of foreign exchange to commercial banks at market exchange rates in order to refinance small and medium enterprise (SME) foreign-currency loans into forints (Central Banking Newsdesk, 2013b).

Undermining the MNB

Even during the 2010 election campaign, Orbán and his Fidesz party heavily and persistently criticized the MNB and its governor András Simor for having allowed foreign-currency loans to proliferate in Hungary, for not cutting interest rates fast enough, and for not considering the adoption of unconventional monetary policy measures such as quantitative easing to stimulate the economy. They also considered Simor personally disloyal to Hungary because he had owned the Cyprus-based Trevisol Management Company while leading the MNB (Jaidev, 2010a). Orbán 'dubbed Simor an "offshore knight" and said that the country wanted 'to be proud of the central bank, including its leaders'' (Jaidev,

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2010b). He also cut Simor's salary by 75 percent in October 2010, along with the salaries of other top central bankers, as part of a program to cap government salaries.

Simor lashed back at Orbán, demanding that the independence of the central bank be enshrined in the constitution during the constitutional revision process and appealing to the international financial community and to international norms in rejecting governmental pressures. The EU and IMF took Simor's side, but their efforts failed to stem the government's attacks on the MNB. Before the four external rate-setters on the MNB Monetary Council came to the end of their terms in February 2011, the government changed central bank legislation to make all four external members parliamentary appointees, as opposed to the previous system in which the central bank choose two and the government the other two. The government used its new powers to replace the four who stepped down with like-minded allies. The new members subsequently drove interest rates steadily downwards by overriding the votes of the three internal MNB members (including Simor) at repeated Monetary Council meetings in defiance of IMF warnings about the likely inflationary pressures that would result.

On 30 December 2011, the parliament passed by a vote of 293−4 controversial new central bank legislation that conflicted with international norms on central bank independence and operations in a variety of ways, provoking an outcry by the MNB, IMF, and EU (Yassin, 2012). While the government backtracked quickly on the most dramatic measure − a proposal to merge the MNB with the Hungarian Financial Supervisory Agency (HFSA) and subordinate the MNB governor to the head of the unified body − it was not persuaded to temper the rest of the legislation until the European Commission initiated legal action against Hungary to prevent the law from taking effect (Central Banking Newsdesk, 2012).

Attacks on the MNB increased again in February 2013, as the State Audit Office used powers granted to it through the new legislation to accuse the MNB of having illegally passed state secrets in the form of proprietary financial information to the IMF, another indication of the institution's perceived disloyalty to the Hungarian nation (Bowker, 2013b). Most significantly, in March 2013 Orbán replaced Simor − who had reached the end of his term − with György Matolcsy, an Orbán ally and outspoken proponent of easing monetary policy. Indeed, the MNB lowered the central rate by another 25 basis points shortly after Matolcsy took office, and then again at subsequent regular intervals. Matolcsy followed up his appointment by conducting a thorough housecleaning at the MNB, firing multiple top long-time MNB staffers (including the bank's chief economist, the head of financial analysis,

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and the director of the research department) and demoting two vice-governors. Many others quit as well, including vice-governor and financial stability department director Júlia Király, who publicly denounced Matolcsy's staffing choices and policies on her way out the door (Bowker, 2013a). The MNB and the HFSA did merge in October 2013, but with the MNB leadership retaining control; under Matolcsy, this development served the government's interests quite well.

Matolcsy and the government worked hand-in-hand to pursue Orbán's financial nationalist program. Of special note, beyond the persistent rate cuts and support for reworking foreign currency loans, in April 2013 the MNB introduced the 'Funding for Growth Program', a massive monetary stimulus package that provided commercial banks with zero-interest loans (with preference to domestic banks) that would then be channeled to Hungarian SMEs at a 2.5 percent interest rate. As Matolcsy noted in announcing the program, 'Hungarian SMEs get loans, if they can, at interest rates three or four times higher than foreign companies operating in Hungary. We consider this unacceptable (Eddy, 2013). This program was designed to boost GDP, counter the drop in business lending, reduce the proportion of foreign-currency loans in the business sector, and funnel resources to insiders. By late 2013 the program had already provided $3.19 billion in funding, with even larger amounts planned for 2014 (Feher, 2013b).

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Rejecting the IMF

Although the Fidesz government initially sought to negotiate a renewed standby loan with the IMF, Prime Minister Orbán made it clear that he intended to protect Hungarian national sovereignty in the process. As Orbán stated at a news conference in April 2010, 'In my view, neither the IMF nor the EU's financial bodies are our bosses. We are not subordinate to them . . . We'll be able to come to an agreement with the IMF about the contents of a package that will take effect already this year but . . . we will not accept diktats' (Szakacs and Than, 2010). Difficulties emerged almost immediately as the IMF and the EU challenged the Orbán government over its revenue-generating strategies, attacks on the central bank, and proposed budget deficit target. Rather than backing down, the government stuck with the key elements of its policies, and Orbán stepped up his nationalist rhetoric, stating that:

> We interpret our agreement with the IMF – our participation in the IMF's system of cooperation – as a borrowing agreement. The IMF sees it as an economic policy agreement. This is not in our interest . . . The Hungarian interest is that if necessary we should make loan agreements with the IMF on a regular basis. It is not in our interest

> to sign economic policy agreements with the IMF, as that unnecessarily limits the room to manoeuver of . . . the Hungarian government, Hungarian parliament and lawmakers (Reuters, 2010a).

Negotiations broke down in July 2010, at which point Hungary declared that it did not need IMF support. A declining forint coupled with the downgrading of Hungarian bonds to 'junk' status brought Hungary back to the table in November 2011. The government reached out to the IMF because, as Orbán later explained, 'We needed an agreement with the IMF so that we could raise the funds and loans available from the world outside the IMF in a cheaper way' (Szakacs and Than, 2012).

Nevertheless, the fundamental obstacles to agreement between Hungary and the IMF remained. Orbán argued that Hungary should be able to chart its own course, since the real reason the country was even considering outside assistance in the first place was because of the crisis in the EU, not because of mistakes inside the country (MTIE, 2012). In fact, his government went so far as to take out full-page ads in Hungarian newspapers in October 2012 that proclaimed, 'We will not give in to the IMF!' and 'We will not give up Hungary's independence' (Agence France Presse, 2012). In December 2012 the Orbán government once again pointedly broke off talks with the IMF after the IMF refused to sanction Hungary's economic program. As we will discuss later, Hungary's unexpected ability to tap international bond markets in the absence of such an agreement made this continued defiance possible. As a further demonstration of autonomy and defiance, in July 2013 Orbán's new MNB governor Matolcsy sent a letter to IMF director Christine Lagarde indicating that the MNB would begin proceedings to shut down the IMF's longstanding representative office in Budapest (Central Banking Newsdesk, 2013a). The IMF Resident Representative left Hungary at the end of her term in August; at the same time, the Hungarian government repaid in full its remaining debt to the IMF.

Punishing outsiders to balance the budget

In order to shed the need for IMF funding and escape EU wrath, the Orbán government needed to address Hungary's persistent government debt and deficit issues. We will discuss later the part of this equation that involved raising new money on the bond markets. Here, we focus on the new taxes, revenue grabs, and program cuts that disproportionately targeted national outsiders in Hungary.

Upon coming to power and announcing that the budget situation was far worse than the Socialist government had claimed, the Orbán government immediately raised revenue by nationalizing over $14 billion of

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private pension fund assets (primarily denominated in foreign currencies), shares, and properties, as well as by imposing a 'crisis tax' on large businesses in banking, retail, telecommunications, and energy. The government in its first years also fired over 3,200 civil servants (five percent of the total), effectively cut many unemployment benefits, imposed hefty retroactive 'severance taxes' on government severance packages exceeding two million forint, de-registered selected churches to redirect tax monies to the government, and slashed university budgets, all policies directed primarily at political opponents.[9] At the same time, the government worked to keep inflation down and its support up through populist programs like enforced utility price cuts.

In doing so, the Orbán government explicitly equated Fidesz supporters with the Hungarian nation and counted the party's Socialist opponents along with foreign bankers and officials as national outsiders. As such, Fidesz's preferential insider policies represented more than run-of-the-mill political corruption or favoritism. The government in effect justified discrimination against its opponents not simply on the grounds that they were opponents, but on the grounds that they were not equal members of the Hungarian nation. Orbán, in just one of many examples, has stated that 'While the communists [*sic*: Socialists] were destroying the community, we started building one after 2010' (MTI, 2013). He also tellingly summed up his government's economic achievements: 'We have introduced a system in which we distributed the public burden between multinational companies and Hungarian people in a more proportionate way than before. This is why we could complete the restructuring without any austerity measures . . . the grand work of restructuring the Hungarian economy could not be prevented by outsiders, either from the capitals of other European Union member states or from Brussels' (MTIE, 2013c). In saying this Orbán in effect denied that austerity had, in fact, been imposed on 'outsiders' within Hungary.

This financial nationalism was an all-encompassing, polarizing, and effective political and economic strategy. Indeed, despite international condemnation and the lack of IMF financing, Orbán's unorthodox policies did achieve many of the orthodox economic goals that previous Hungarian governments had failed to attain. The public sector debt to GDP ratio fell, GDP itself began to grow again after a post-crisis dip, the once-high inflation rate had fallen to below two percent by April 2013 – the lowest number since 1974 – and Hungary registered a steady current account surplus. Perhaps most notably, Hungary's budget deficit fell below three percent and in June 2013 the EU lifted Hungary from the Excessive Deficit Procedure (EDP) to which it had been subject ever since its EU accession in 2004. As Minister for the National Economy Mihály Varga boasted to the *Financial Time*s in January 2014, 'Hungary has proved it is able to recover and stand on its own two feet, it has regained

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its financial sovereignty, and shown that its people are capable of achieving and maintaining economic growth in their homeland' (Varga, 2014). Although this financial nationalist path may not prove sustainable over the long term, the rise and persistence of Orbánomics as well as the economic results achieved since 2010 do demand explanation. In the following section, we identity a surprising set of answers in the enabling attributes of international institutions and the international financial system.

FINANCIAL NATIONALISM'S INTERNATIONAL ENABLERS

How could Fidesz introduce and maintain its financial nationalist policies in defiance of pressures, expectations, and advice from the IMF, EU, and targeted foreign financial institutions, particularly while in the midst of the European sovereign debt crisis and with an economy so heavily dependent upon that of Western Europe? While Fidesz's financial nationalist ideas are a homegrown phenomenon, international influences enabled their implementation and relative success – that is, Hungary's financial nationalist policies were unwittingly and unexpectedly facilitated by the very agents of financial globalization and integration that so vigorously denounced them. Chief among these international enablers were the IMF, the EU, and the bond markets.

The crisis and the Fidesz supermajority

The IMF and EU required Hungary's ruling Socialists to adopt unpopular and in the end ineffective austerity policies, contributing to the fall of the Socialist government and to Fidesz winning a parliamentary supermajority. The Orbán government then used this supermajority to transform the political system and to implement its financial nationalist policies over the protests of the opposition, the EU, and the IMF.

As we have seen, despite the Socialist government's pre-crisis austerity measures, the crisis hit Hungary's currency so hard that Prime Minister Gyurcsány was forced to seek IMF assistance to stem the forint's fall in October 2008 and then to resign in March 2009 in favor of a technocratic 'government of experts' led by the MSzP's Minister of National Development and Economy Gordon Bajnai. Bajnai spearheaded the implementation of the austerity policies demanded by the IMF and EU as a condition of the country's bailout loan. As a key election study put it, 'the austerity measures Mr. Bajnai announced delivered the coup de grace to the Socialists,' especially because 'many blamed the Socialists for the severe impact of the global economic crisis in the first place' (Batory, 2010a). As Hungarians responded to the crisis with economic voting, the April 2010

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parliamentary elections turned into a referendum on the MSzP's economic policies (Stegmaier and Lewis-Beck, 2011). The overwhelming economic protest vote against the Socialists resulted in the Fidesz parliamentary supermajority.

In devising and implementing his unorthodox financial nationalist policies, Orbán relied heavily on his strong mandate. Not only did Fidesz win a two-thirds supermajority in the national parliament – the only supermajority government in post-crisis Europe – but in October 2010 local elections Fidesz candidates won mayoral races in 22 of 23 major cities and control over all 19 county assemblies (MTIE, 2010a). Moreover, Fidesz's two closest challengers represented opposite sides of the political spectrum: the Socialists and the far-right Jobbik party. With the Hungarian political opposition weak and divided, the Orbán government could afford to ignore the opposition and steadily pursue its own preferred policies without the need for compromise or even dialogue. This electoral dominance also removed an important source of potential domestic leverage for international actors such as the IMF and the EU, who could not effectively appeal to opposition parties or to the Hungarian public when the Orbán government adopted unorthodox financial policies – or indeed, any other kinds of policies as well.

In fact, the parliamentary supermajority made possible major institutional reforms that further reinforced the party's dominance (Bánkuti, Halmai, and Scheppele, 2012).[10] One early reform stripped the Constitutional Court of its ability to adjudicate cases concerning state finances and, therefore, economic policies (Reuters, 2010c). A series of further changes to the judicial system packed the Constitutional Court with Fidesz appointees, lowered the retirement age for judges, and founded a National Judicial Office under Fidesz control to appoint and discipline judges. In the financial realm, the government has strongly pressured the courts to approve its plan to convert foreign-currency mortgages to forints at 'highly favorable exchange rates, with foreign-owned banks swallowing the difference' (Scheppele, 2014). A media law passed in 2010 and modified over time placed state-owned media outlets under the control of the National Media and Communication Authority, which was staffed by Fidesz appointees (Agence France Presse, 2010; MTIE, 2010b). Even after both the EU and Hungarian courts determined that the law undermined press freedom, the government's subsequent amendments still left the Authority in charge, albeit without the power to force journalists to reveal their sources (Agence France Presse, 2011b, 2011c).

In a broader attack on democratic protections, Fidesz introduced a new constitution in 2011 that undermined checks and balances. This constitution came into effect on 1 January 2012. Among its measures to further concentrate fiscal control in the government's hands, it created a

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government-appointed budgetary council that could call new parliamentary elections in the face of a budget stand-off (Molnar, 2011). Furthermore, it hamstrung future governments by requiring two-thirds majorities to pass budgets and extending the terms of government appointees. In the evaluation of one commentator:

> Fidesz's nationalist vision has potentially been enshrined forever: even if the party loses future elections, its appointees will keep exercising power, while the party itself will in all likelihood retain considerable influence, since no other political grouping is likely to muster a two-thirds majority (Mueller, 2011).

Finally, the Orbán government introduced a new electoral law in late 2011. The law reduced the number of seats in parliament by almost half (from 386 to 199), increased the proportion elected by single-member district rather than party list, allowed non-resident Hungarians to vote in the party-list balloting, eliminated the second round of voting, and struck the minimum-turnout requirement (Agence France Presse, 2011a). These changes, in combination with Fidesz-led redistricting and control over the media, allowed Fidesz to secure its second supermajority in April 2014 despite winning a smaller proportion of the popular vote than it had in 2010. In short, Fidesz relied on its supermajority, won in the wake of the global financial crisis and unpopular, internationally mandated austerity measures, to solidify its control over the domestic political system and to implement its financial nationalist policies.

Once the supermajority was in place and Orbán was free domestically to implement his financial nationalist policies, as long as the government kept the deficit and debt under control the IMF and EU could do little to change matters. With no further need for IMF financing, the Orbán government effectively removed the IMF's ability to insist on policy reforms. In the case of the EU, divisions within the EU Commission and Parliament, Hungary's technical compliance with macro-economic standards, Hungary's non-membership in the euro zone, and Orbán's ability to subordinate the MNB de facto when the EU rejected the most egregious legal changes to the central banking law rendered the EU nearly toothless in confronting Orbán. Meanwhile, Hungary's EU membership ironically facilitated Orbán's policies by reassuring bond traders, keeping European markets fully open to Hungary, and providing the government with billions of euros in direct financial assistance each year through the EU Cohesion Funds. Preliminary estimates indicate that Hungary received 24 billion euros in EU funding during the EU's 2007–13 budget cycle.[11] The Orbán government even cynically used its EU membership to raise money from non-residents, passing a law in December 2011 creating 'permanent residency bonds' that gave lifetime Hungarian

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permanent residency to approved non-EU citizens willing to pay heavily for the freedom to travel visa-free throughout the Schengen zone.[12]

Tolerant international bond markets

Domestic political obstacles are only one type of potential resistance to a financial nationalist policy agenda. In a world of globalized finance, bond markets can discipline politicians just as effectively as an opposition party can, or even more so. If bond-market investors begin to pull their capital, politicians can be left without the funds to support their policies, regardless of domestic support.

In early 2012, it appeared that Hungary would face just such a problem. A bond-swap auction was canceled in January when demand was insufficient to make the swap advantageous for the government. The next day, an auction for 12-month debt went forward, but the government had to offer a yield of almost 10 percent, the highest since April 2009, and still the auction sold only 35 billion forint in new paper rather than the planned 45 billion (Kenway, 2012). Yields on 10- and 15-year bonds likewise rose. The financial press tended to blame Hungary's woes on its renegade policies, which, it was argued, weakened the forint and undermined the future strength of the economy. The unwillingness of the IMF to extend credit to Hungary was seen both as evidence that Hungary's policies were untenable and as a sign that there would be no IMF insurance for holders of Hungarian bonds.

Throughout that year, the IMF and various credit-rating agencies warned that Orbánomics was damaging Hungary's credibility, undermining the confidence of investors, and threatening its ability to borrow on international markets. A Fitch spokesperson, for example, said in October 2012, 'Recently there has been some talk of Hungary going it alone; that would bother us' (Reuters, 2012). Hungarian bonds were already rated BB+ (a junk rating) at the time, but the threat was that they could go lower if Hungary eschewed IMF advice. After negotiations broke down again in late 2012, the IMF continued to criticize Hungarian polices and warn of consequences in international bond markets. In January 2013, for example, the Monetary Council of the MNB lowered its main lending rate by 25 basis points, and the IMF warned that the decision might weaken international interest in Hungarian bonds (Szakacs, 2013).

The threatened punishment from bond markets, however, never fully materialized. Instead, despite explicitly rejecting advice from international financial organizations and in contrast to the negative predictions of credit-rating agencies, the Hungarian government successfully floated an international bond in February 2013 (MTIE, 2013a). It consisted of $1.25 billion of five-year paper and $2 billion of 10-year, and it was

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oversubscribed nearly fourfold. The yields were around 4.2 percent on the shorter-term issues and 5.5 percent on the longer-term, both respectable showings. Likewise, the government issued domestic bonds on 21 February, 7 March, and 21 March 2013 (IntelliNews, 2013b, 2013c, 2013a). Each issue, which included paper with maturities from three to 15 years, was oversubscribed twofold. Again, the yields gave no indication that investors considered the economy to be a basket case, coming in about 5.3 percent on three-year issues, 5.7 percent on five-year, and 6.35 percent on ten-year, all of which were close to their secondary market benchmarks. Hungary again issued $2 billion in 10-year foreign-currency bonds in November 2013, in an offering that was heavily oversubscribed. It planned to issue up to $5 billion more in forint and foreign-currency bonds in 2014, with an increasing emphasis on forint-denominated bonds to hedge against currency risk.[13]

A broader view shows even less evidence that bond traders sought to punish Hungary for Orbán's policies and none that they were successful if they tried. The Orbán government has held dozens of successful bond auctions.[14] While auctions were occasionally canceled or raised less money than planned, predictions that Hungary would simply be unable to attract funds have been wrong repeatedly. Furthermore, international support for Hungarian bonds has not waned and instead seems to have risen. In 2010, about 25 percent of Hungarian bonds with a maturity of over a year were owned by foreigners and about 30 percent by insurance companies and pension funds. After private pension assets were nationalized at the end of 2010, foreign holdings jumped to more than 35 percent (and rose to almost 50 percent by mid-2013), while the proportion held by domestic insurance companies and pension funds dropped well below 20 percent (see Figure 1).

Finally, if we examine the yields on Hungarian bonds, we again see that any attempted punishments from the bond market were small, short-lived, and ineffective. The Hungarian Government Debt Management Agency (AKK) reports only one auction during the Orbán period when it had to offer a return of greater than 10 percent to attract buyers.[15] Likewise, the yield on 10-year Hungarian bonds rose over 10 percent on the secondary market for only a week during the period. Furthermore, while the spreads between Hungarian and, say, German bonds sometimes rose above eight percentage points, they never grew nearly so large between Hungary and such countries as Spain or Iceland, and they became negative between Hungary and Portugal, Ireland, and Turkey (Figure 2a).[16] Within the post-communist world, Hungarian bonds paid a positive premium in comparison with Czech and Polish bonds, but often a negative one in comparison with Russian and Romanian (Figure 2b). In addition to the absolute size of the Hungarian premium, important lessons can be drawn from the trends in that premium over

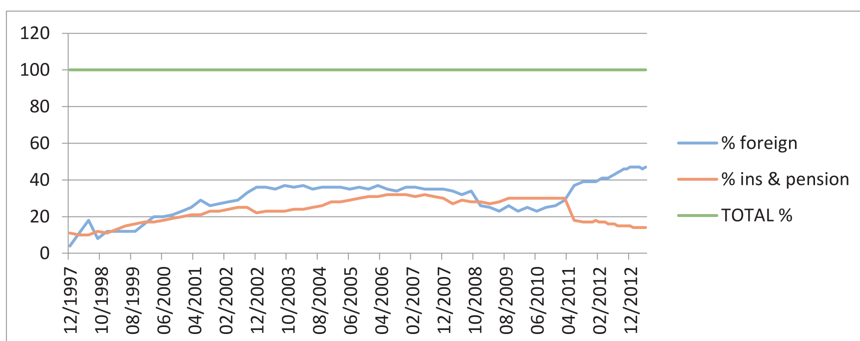

Figure 1 Long-term (greater than one year) Hungarian government debt held by different actors (%).
Source: Calculated from data reported by AKK <http://www.akk.hu/object.22f56590-a33a-49e1-aa1d-2354ca868b42.ivy>.

time. In particular, it reached its zenith in 2009, well before Orbán came to power. The yield charts also show that when it did rise, the premium tended to recede quickly.

Most importantly for Orbán's financial nationalism, Hungary was never forced to temper its policies significantly in order to reduce the premium. From the perspective of bond markets, there seems to have been little that was special about Orbán's sins.[17] They periodically expressed displeasure with Hungary, but not to an extent that was out of step with disapproval of similar countries or with pre- Orbán Hungary, and Hungary was strongly preferred over euro zone countries facing the worst of the sovereign debt crisis.

How has Hungary's relative success in the bond markets been possible? The country would seem to be in a weak position to resist the pressure of global markets, which are usually assumed to discourage financial nationalism. Furthermore, as Iain Hardie (2011) has shown, countries like Hungary with relatively highly financialized government bond markets generally face higher borrowing costs and less tolerant international investors in crisis situations. Layna Mosley (2003) has argued that governments need to assuage bond investors' fears about three types of risk: default, inflation, and exchange-rate. In interviews with traders, she found that being a developed country generally serves as a proxy for being a good default risk. In those cases, bond investors look at a small number of 'macro-indicators'– usually the rate of inflation and the ratio of the budget deficit to GDP, and sometimes the exchange rate and the ratio of government debt to GDP – to assess inflation and exchange-rate risk. Emerging markets such as Hungary, however, do not usually receive the benefit of the doubt. Instead, bond investors are

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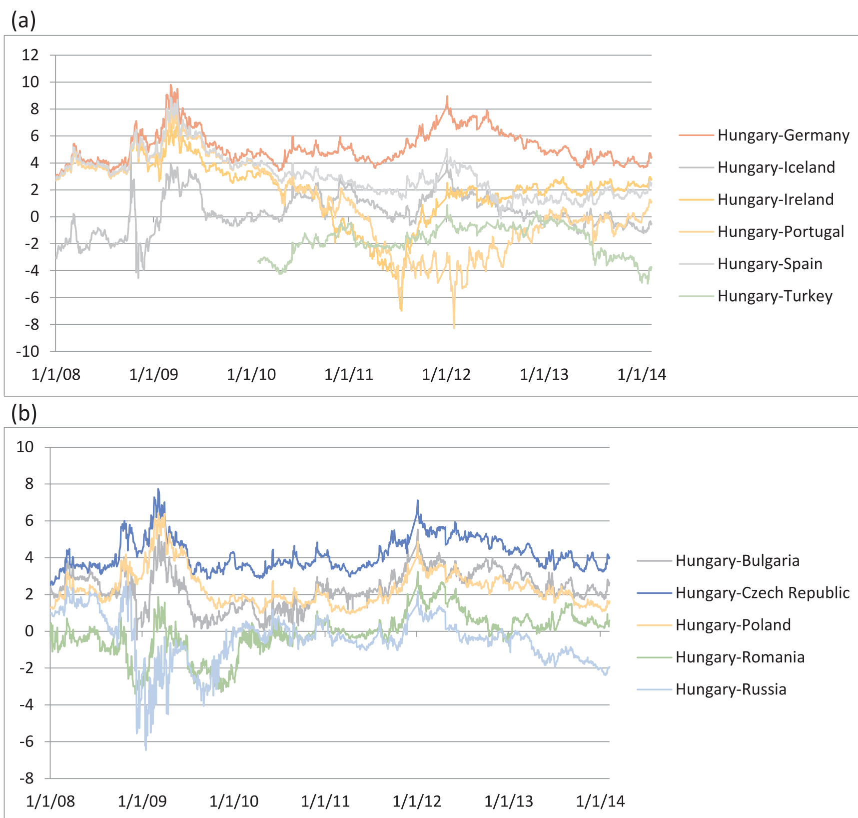

Figure 2 a) Spreads between 10-year Hungarian bonds and those of selected other European governments. b) Spreads between 10-year Hungarian and other post-communist government bonds.
Source: Calculated from data gathered from <www.tradingeconomics.com>.

concerned about emerging countries' inflation, exchange-rate, *and* default risks. Consequently, Mosley finds, they pay attention to many more details – such 'microindicators' as particular government spending choices, types of taxes being extracted, and political trends.

The Hungarian story is not quite that clear. As demonstrated earlier, the micro-indicators have generally been unfavorable under Orbán: both the economic and the political steps taken by the Orbán government are out of step with the 'business-friendly' policies that should be necessary for a non-core country to attract international capital. Indeed, the international credit rating agencies and the IMF – which appear to reason, at least implicitly, like the bond investors that Mosley (2003) studied – issued increasingly dire warnings through 2012.[18]

Does the Hungarian experience undermine Mosley's findings? It is more accurate to say that the argument should be broadened. Default, inflation, and exchange-rate risk are all important, but there are other ways to deal with them than are commonly advocated.

First, as discussed previously, a center-right financial nationalist government like Hungary's can design its policies to keep government deficits and debt in check. That is, it can produce the positive macro-indicators that bond investors examine in order to gauge inflation and exchange-rate risk. Furthermore, it can do so even as it violates democratic principles, stokes nationalism, undermines central bank autonomy, and taxes foreign banks. Second, default risk is determined by *relative* characteristics, whether in relation to potential reward or in relation to risk-reward ratios of other countries. Tables 1 and 2 demonstrate that Hungary was able to keep its macro-indicators within the range of its neighbors. Of particular note is the fact that the budget deficit – despite Orbán's rejection of IMF austerity measures – declined in 2011, dropped steeply in 2012, and remained below the EU's mandate of three percent of GDP thereafter: the government used nationalist policies to raise revenue and curtail spending, thus achieving orthodox ends though unorthodox means. Hungary has maintained a higher debt to GDP ratio than other post-communist countries, but it has consistently been below some of the major European economies and the United States, and it declined in 2012.

Finally, events beyond Hungary's borders may make it easier for Hungary to stay within desirable bounds. For example, if neighboring states that were once assumed to be good default risks experience turbulence – as in the European sovereign debt crisis – other countries can begin to look more appealing. Perhaps even more important, when the international financial system is awash in liquidity because of US Federal Reserve and European Central Bank policy, emerging market countries like Hungary with slightly higher yields than average become more appealing.[19] This, in fact, is the flip side of a common observation about globalization and sovereignty: countries can be buffeted by forces beyond their control, but they can be buoyed by them as well. Taken together, Hungarian bonds looked to investors like a good high yield-to-risk investment, since the bonds had relatively low ratings for a country with solid macro-economic indicators.

FINANCIAL NATIONALISM AND ITS IMPLICATIONS

Hungary's experience demonstrates that even countries deeply embedded in the international financial system can successfully pursue financial nationalist policies. Despite warnings to the contrary, the country taxed foreign businesses, undermined central bank independence, and generally rejected international economic advice. Nevertheless, the

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Table 1 Government deficits as % of GDP, 2008−2014

	2008	2009	2010	2011	2012	2013 (*)	2014 (*)
Bulgaria	2.872	−0.916	−4.003	−1.975	−0.462	−1.804	−1.725
Croatia	−1.308	−4.153	−5.108	−5.234	−3.837	−4.742	−4.705
Czech Republic	−2.207	−5.784	−4.767	−3.258	−4.391	−2.905	−2.884
Estonia	−2.306	−2.039	0.397	1.667	−0.245	0.321	0.18
France	−3.343	−7.564	−7.091	−5.289	−4.863	−3.98	−3.503
Germany	−0.074	−3.075	−4.152	−0.753	0.139	−0.406	−0.133
Greece	−9.925	−15.609	−10.829	−9.573	−6.295	−4.105	−3.291
Hungary	**−3.694**	**−4.551**	**−4.376**	**4.197**	**−1.974**	**−2.736**	**−2.795**
Iceland	−0.539	−8.578	−6.378	−4.989	−3.838	−2.668	−1.829
Ireland	−7.301	−13.783	−30.535	−13.08	−7.601	−7.562	−4.966
Italy	−2.673	−5.425	−4.338	−3.684	−2.916	−3.235	−2.088
Latvia	−7.543	−7.849	−7.314	−3.161	0.135	−1.442	−0.491
Lithuania	−3.294	−9.427	−7.239	−5.523	−3.339	−2.852	−2.705
Poland	−3.684	−7.408	−7.857	−5.021	−3.931	−4.604	−3.431
Portugal	−3.697	−10.174	−9.851	−4.401	−6.432	−5.461	−3.998
Romania	−4.83	−7.265	−6.42	−4.259	−2.515	−2.347	−2
Russia	4.875	−6.31	−3.422	1.543	0.416	−0.718	−0.302
Slovak Republic	−2.014	−8.026	−7.661	−5.061	−4.348	−3.022	−3.823
Slovenia	−0.275	−5.534	−5.351	−5.613	−3.21	−7.004	−3.758
Spain	−4.493	−11.19	−9.701	−9.596	−10.849	−6.683	−5.778
Turkey	−2.667	−5.99	−2.989	−0.654	−1.611	−2.267	−2.303
United Kingdom	−4.983	−11.251	−9.966	−7.832	−7.948	−6.143	−5.783
Hungary rank (22 is highest deficit)	15	5	7	1	7	9	11
(*) Estimates							

Note: Calculated as total revenue minus total expenditure, so negative numbers indicate deficits.
Source: International Monetary Fund, World Economic Outlook Database, October 2013.

economy trundled along and the government maintained support from its populace and from international bond markets. In fact, a Standard and Poor's ratings upgrade before the April 2014 elections lowered Hungarian bond yields and allowed Hungary to issue even more debt than expected. Bond yields fell again in heavily oversubscribed offerings after Fidesz's electoral victory, accompanied by calls from foreign market players to increase Hungary's debt rating to investment grade.

Of course, Hungary's is not the only government seeking to develop its economy on its own terms. The global financial crisis, by revealing the dangers, inequities, and institutional inadequacies of the existing international financial system, has raised fundamental questions about

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Table 2 Government debt as % of GDP, 2008–2012

	31/12/08	31/12/09	31/12/10	31/12/11	31/12/12
Austria	63.8	69.2	72.3	72.8	74
Belgium	89.2	95.7	95.7	98	99.8
Bulgaria	13.7	14.6	16.2	16.3	18.5
Croatia	29.3	36.6	44.9	51.6	55.5
Czech Republic	28.7	34.6	38.4	41.4	46.2
Denmark	33.4	40.7	42.7	46.4	45.4
Finland	33.9	43.5	48.7	49.2	53.6
France	68.2	79.2	82.4	85.8	90.2
Germany	66.8	74.5	82.5	80	81
Greece	112.9	129.7	148.3	170.3	156.9
Hungary	**73**	**79.8**	**82.2**	**82.1**	**79.8**
Iceland	70.5	87.8	92.8	101	96.2
Ireland	44.5	64.4	91.2	104.1	117.4
Italy	106.1	116.4	119.3	120.7	127
Latvia	19.8	36.9	44.4	41.9	40.7
Lithuania	15.5	29.3	37.8	38.3	40.5
Norway	48.2	43	43	28.3	
Poland	47.1	50.9	54.9	56.2	55.6
Portugal	71.7	83.7	94	108.2	124.1
Romania	13.4	23.6	30.5	34.7	37.9
Russia	7.9	11	11.7	9.6	8.4
Slovakia	27.9	35.6	41	43.4	52.4
Slovenia	22	35.2	38.7	47.1	54.4
Spain	40.2	54	61.7	70.5	86
Sweden	38.8	42.6	39.4	38.6	38.2
Switzerland	39.2	37.7	36.3	35.5	35.3
Turkey	40	46.1	42.2	39.4	36
United Kingdom	52.3	67.1	78.4	84.3	88.7
United States	76	87.1	95.2	99.4	101.6
Hungary rank (29 is highest debt/GDP ratio)	25 of 29	23 of 29	20 of 29	20 of 29	18 of 29

Source: <www.tradingeconomics.com>, accessed 8 February 2014.

the future structure of national and international financial governance, and contemporary financial nationalism may provide an increasingly politically attractive set of answers. Governments in the so-called BRICS, for example, have exhibited variations on this contemporary strain of financial nationalism, collectively calling for the reform of international financial institutions and the establishment of an alternative

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development bank (Armijo and Katada, 2014; Ban and Blyth, 2013). Russia, China, and Brazil further aspire to internationalize their currencies and establish nationally based regional financial centers. The oil-rich post-communist states of Russia, Kazakhstan, and Azerbaijan have little interest in international financial institutions' recommendations, much less the conditions that would be imposed if they accepted IMF or similar loans. Leading economies as well, including the United States, the United Kingdom, and Japan, have pursued their own paths, increasing their money supplies in order to stimulate domestic demand and, at least indirectly, devalue their currencies and thus promote exports. These policies reflect both a lack of confidence in the current international system and the desire to use this historical moment to promote national currencies and financial institutions in pursuit of nationalist ambitions.

While financial nationalism always entails some efforts to protect an economy from the vicissitudes of capitalism, the Hungarian experience shows that this strategy requires neither withdrawal from nor resistance to the entirety of the global economy. The Orbán government did not pursue import-substituting industrialization or close its capital accounts. Instead, it sought to maintain and increase its financial sovereignty, the ability to fund the projects it valued when it decided to do so. The Hungarian economy remained open to and dependent on trade with its European neighbors. The government taxed foreign business, often questionably, but it did not forbid or expel foreign direct investors. The foundation of this approach is to borrow on international and domestic bond markets rather than from the IMF as much as possible, since the latter imposes specific, explicit policy conditionality, while the former allows greater leeway in domestic policy formation. Ironically, while the amoral, unyielding pressure of international capital flows is often (correctly) blamed for forcing governments to adopt policies they would prefer not to, those same forces enabled Hungary's version of financial nationalism.

Highlighting the reasons for Orbán's economic successes simultaneously calls attention to how difficult they may be to sustain. With regard to domestic policy, the supermajority that facilitated Orbán's policy agenda also allows him to over-reach. Stories of worrisome changes at the central bank or rumors of new restrictions on foreign banks continue to emerge on a regular basis. On the revenue front, the government's windfall from nationalizing pensions is being spent down, and foreign direct investment is unlikely to replace it in the current environment. We have shown that simply flouting international advice is not enough to elicit punishment, but if unfettered policymaking eventually raises the deficit or weakens the forint, bond traders may look for better opportunities elsewhere. Indeed, while bond markets may allow for

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greater policy flexibility than the IMF and EU, they can also turn strongly and quickly against a country. This may happen either because of a downturn in domestic economic indicators or because of a change in the constellation of investment alternatives. Regarding investment alternatives, perhaps the greatest challenge to Hungary is the US Federal Reserve's decision to slowly back off on quantitative easing and, eventually, the maintenance of record-low interest rates (Rodrigues *et al.*, 2013). This is simply the phenomenon we described earlier, but in reverse: trends beyond Hungary's control may undermine, rather than buoy, its ability to borrow. A sustained recovery in the euro zone could have a similar effect by weakening the forint relative to the euro, presenting a challenge to monetary policymaking.

Even a reversal of fortunes for Hungary, however, would not undermine the practical or theoretical implications of its experience. In practical terms, Hungarian financial nationalism has already reshaped a major European state politically and economically in unexpected ways that diverge from existing pan-European norms. This will have long-term implications for the distribution of power in Hungary and for Hungary's participation in the EU and euro zone. More broadly, the Hungarian experience has provided two unwelcome lessons for the EU. First, it shows that the Union is institutionally unable to effectively sanction member states outside the euro zone that choose to resist all but a core set of EU political and economic directives.[20] Second, Hungary's status as an EU member state outside the euro zone gave it the policy flexibility and autonomy necessary to carry out its financial nationalist policies. The contrast between the Hungarian post-crisis experience and that of the peripheral euro-zone countries that could not use monetary policy to adjust to crisis conditions and were forced into painful, externally imposed austerity programs lays bare the structural weaknesses of the euro zone and reaffirms the decisions of Hungary and other non-euro states to delay membership. For scholars of international political economy, the Hungarian experience demonstrates that financial nationalism is not simply a pipe dream of ill-informed politicians in developing countries. Financial nationalist policies can be pursued in the heart of Europe, without automatically undermining economic development goals, and with an unwitting assist from the same international actors and institutions that denounce those policies.

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NOTES

1 Keynote address by Jean-Claude Trichet, President of the European Central Bank, at the Council on Foreign Relations, New York, 26 April 2010. Accessed on 10 July 2013 at < http://www.bis.org/review/r100428b.pdf>.

2 Prime Minister Viktor Orbán's State of the Nation Address, Government of Hungary, 16 February 2014, <http://www.kormany.hu/en/prime-minister-s-office/the-prime-ministers-speeches/prime-minister-viktor-orban-s-state-of-the-nation-address>.

3 EBRD *Transition Report* 2012 (38): 'The index is calculated as the sum of the share of eurozone countries in exports weighted by the share of exports in GDP, the share of eurozone cross-border claims on a country weighted by short-term external debt as a share of GDP and the share of eurozone FDI weighted by the share of FDI in GDP.'

4 The establishment of Estonia's currency board in 1992 (in place until Estonia joined the euro zone in January 2011) represented an excellent example of financial nationalism that manifested itself in unusually orthodox, liberal, and European integrationist terms (Bohle and Greskovits, 2012). Estonian nationalists viewed the currency board as a tool for Estonian national autonomy from the Soviet Union/Russia and as a symbol of the Estonian nation, so much so that serious economic challenges resulting from adherence to the currency board never led to meaningful political pressures to abandon it. Joining the EU and then the euro zone was the culmination of nationalist aspirations to confirm Estonia as a full-fledged Western nation.

5 While this is most obviously true when globalization pressures spur a protectionist backlash, the relationship between globalization and economic nationalism can be more complex and less self-evident. In perhaps the most comprehensive study of this kind, Rawi Abdelal (2001) demonstrated that historically rooted understandings of national identity (which he termed national purpose) explained the different post-Soviet external economic orientations of Latvia, Belarus, and Ukraine. In particular, the Baltic states' aggressively pro-European, pro-EU integrationist policy arose from deep nationalist roots.

6 As an anonymous reviewer pointed out, 'in many ways, Orbán's later nationalism is the collective form of his earlier libertarianism in which the motto "don't tread on me" would be most appropriate. Therefore his journey across the political spectrum involved less movement than most people have thought.'

7 This paragraph draws on Bohle (2014) and Enoch and Ötker-Robe (2007).

8 See the EBRD Country Assessment at <http://tr.ebrd.com/tr13/en/country-assessments/1/hungary>.

9 Thanks to an anonymous reviewer for these observations; see also the 2011 US Country Report on Human Rights Practices for Hungary at <http://www.state.gov/documents/organization/186571.pdf>.

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10 Freedom House has continually downgraded Hungary during this period, characterizing it as only 'Partly Free' beginning in 2012.
11 Gergő Rácz, '€24 billion net EU funding for Hungary in 2007-2013', *Budapest Business Journal*, 16 April 2014, <http://www.bbj.hu/economy/eur24-bln-net-eu-funding-for-hungary-in-2007-2013_78519>.
12 The program costs would-be residents 300,000 euro, 250,000 of which would be invested in Hungarian government bonds and returned at no interest after five years. See the Hungarian government's publicity website touting the program at <http://www.residency-bond.eu/>. The program started off slowly but exhibited stronger sales in late 2013, with a reported 430 sold by the end of the year (MTI, 2014).
13 Foreign-currency debt made up 41 percent of Hungary's total government debt stock in 2013 (Feher, 2014).
14 See the website of the Hungarian Government Debt Management Agency (AKK), particularly <http://www.akk.hu/object.096c690e-60fd-4c53-9785-5b297e6d8cd4.ivy>.
15 See <http://www.akk.hu/object.096c690e-60fd-4c53-9785-5b297e6d8cd4.ivy>.
16 The spread between Hungarian and Greek bonds was also very large and negative.
17 Csonto and Ivaschenko (2013) likewise demonstrate that, at least in the short run, global factors influence bond spreads more significantly than country-specific attributes, including economic policies. They also show that this trend holds more strongly when a country's fundamentals – such as GDP growth, inflation, budget deficit, and foreign debt – are in order.
18 Some scholars have argued that credit-rating agencies are subject to political pressures, so their ratings should not be seen as impartial measures of reality. Furthermore, the list of micropolicies that the IMF and credit-rating agencies typically emphasize can actually undermine the goals they profess to have, as their likely short-term effects are economic contraction.
19 As Walter (2008) has observed, the signals that international financial institutions send to financial markets through benchmarking exercises such as Financial Sector Assessment Programs are markedly less effective under conditions of high international liquidity.
20 See Sedelmeier (2014) for a discussion of the EU's inability to sanction Hungary for violations of democratic practices.

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