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Why the Hungarian PM was Right

On my way to Budapest....



We have been living lately in a sea of lies, manipulations and half-truths. For several years the Hungarian Government has shown neglect for its budgetary deficit and its indebtedness. For once, Prime Minister Viktor Orbán and senior officials, after one week in office, tell us the naked truth. Hungary produced some fake numbers and its public debt situation is overstretched. The spokesman said the economy's plight was the result of the previous government's having "manipulated" figures and "lied" about the economy. It was however stupid to speculate on one's own default as a senior official did it. Hungary is on a course similar to Greece and vows not to let it deteriorate like the Greeks did. It is possible, but it will be strong medicine and need European support.

However, there is a key difference: Hungary is not part of the Eurozone: borrowing in Euros meant taking an exchange risk. However, it is not as catastrophic as it was in 2009 when it took 320 forints to buy a euro. Today, the rate is at 289.

Hungary, like most Eastern European countries members of the European Union, continues to use its local currency, but at the same time, borrows and often purchases in Euros. This is known as the Euro-ization of Eastern Europe and contains an exchange risk in the foreign debt.

It also means that the European Central Bank, the bank of the Eurozone, is not supposed to take part in this situation, and that the Hungarian Government only has the European Commission or the IMF to turn to in these circumstances.

The reality is that the bonds issued by Hungary on the Euro-market are held by banks and central banks, mostly in the European Union. While there is no obligation of solidarity, there is a de facto solidarity between the EU members. Prime Minister Orban left the European Commission President, Jose Barroso, with encouragement to put its house in order...Didn't we hear that before?

The sheer size of Hungary (10 million inhabitants, making it half the population of Greece) makes this situation even more marginal in the grandiose scheme of things. Why do markets immediately panic? Hungary will need to reschedule its foreign debt and reduce its public deficit through an austerity program announced by the Prime Minister before the Greek crisis.

I would have preferred to see this difficult situation up front, rather than going through six months of peeling an onion that proved to be much worse than anticipated. We know what to do. We all have budgetary problems, including the United States and Japan. Let's fix them. As to the market panic, it remains a buying opportunity. I bought BP shares today.