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Outline of the Evolution of the Hungarian Monetary Policy from the Restoration of the Two-level Banking System to the Present Day

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Abstract: This study outlines the development of Hungary's monetary policy, and the course and changes in its objectives and instruments since the beginning of the market economy transition in the late 1980s. The author's basic thesis is that the period since the two-level banking system was reinstated after four decades of a planned economy system, in 1987, can be basically divided into three development phases with significantly different characteristics. The first phase was an 'attempt to introduce' an imported monetary mechanism, or perhaps an urge to comply with it, while the second phase was an approach of a monetary regime change launched in 2013 and supporting economic growth and financial stability strongly and directly, which lasted until the appearance of the traumatic elements of the Covid-19 pandemic crisis. The third phase is evolving today, under the circumstances of adapting to the conditions of the real essence of the twenty-first century, i.e. a new type of international competitiveness, which is pursued by the Central Bank of Hungary as stipulated by the Fundamental Law and the cardinal Central Bank Act of Hungary.

Keywords: regime change, monetary policy, pressure for competitiveness

1. Introduction – the general nature of central banking policies

In Continental Europe, until the crisis of 2007–2008, it was generally believed that monetary policy was an activity of fiscal policy, in the course of which the monetary government influenced interest terms and thereby also impacted macro-economic demand.[1] In practice this means and entails that the most important instrument for the implementation of the monetary policy for most central banks was the determination of the levels of applicable interest rates. Increasing the applicable interest rate and consequently reducing the money supply are known as restrictive monetary policy. A restrictive policy temporarily holds back economic growth, but it also helps to curb

[1] The study seeks to follow A. P. Samuelson & D. W. Nordhaus's classification (2005, pp. 479–489), although deviance from that is justified by time and changed practice and circumstances.

inflation. Implementing measures aimed at expanding the money supply by lowering the applicable interest rate is referred to as an expansionary monetary policy. This temporarily stimulates the economy, although it may adversely affect inflation.

After these decades of applying this approach (that is, the monetarist solution), usually considered as an axiom during boom phases, was overridden by the crisis which arose in Anglo-Saxon subprime markets, and, although the determination of the base rate enjoyed primacy in the Federal Reserve's target system and the set of instruments aligned with it (and at the same time, in the entire Anglo-Saxon central banking practice), its outcome dimension is measured by the extent to which it alleviates unemployment and improves the employment rate, while making the inflation index 'bearable' is only its umpteenth objective.

In the boom phases of developed countries central banks play a prominent role in controlling the money supply, within the framework of which so-called quantitative reference values are applied. These quantitative reference values are determined by mid-term price stability, the interest rates of long-term loans, government deficit, the level of government debt (essentially, the Maastricht nominal convergence criteria) as well as changes in the money supply, the velocity of money and the strength of the exchange rate (for more detail, see Huszti, 2006).

This one-dimensional monetary model, based on controlling the money supply and with a correspondingly loose approach to banking regulation ended in worldwide failure. Economic growth and financial stability 'built' on price stability had faltered by 2007–2008.[2] That is, central banks were mostly (in Hungary, to a lesser degree) successful at achieving price stability, but in the meantime, risks undermining financial stability had emerged. Perhaps the collapse of Anglo-Saxon subprime markets could have been avoided if in practice unreasonable and barely controlled lending for building residential properties, real estate investments and other ludicrous trade transactions in order to boost the economy increasingly vigorously and high leverage ratios had not saturated the market relatively rapidly, which resulted in a significant rise in the ratio of non-performing and doubtful loans. Ultimately, the financial actors of the decades preceding the crisis had followed (unfortunately) without criticism Alan Greenspan's former basic concept, that 'the market-stabilizing private regulatory forces should gradually displace many cumbersome, increasingly ineffective government structures'.[3] Greenspan's theoretical guidance was widely put into practice not only in the United States but, with the globalisation of financial market operations, all over the world.[4]

In the late twentieth century, the traditional banking system was globalised also in its branches of business, i.e. it became a banking system with a homogeneous practice (mostly with a concentrated, international ownership background) prevailing internationally, with various financial activities (insurance, leasing, factoring, capital market

[2] Essentially, I am using Olivier Blanchard's approach (2012), with 'an added value', noting that in emerging markets placing the burden of the exclusivity of price stability on their central banks' consequences were even more severe.

[3] Adopted from The Financial Crisis Inquiry Report, 2011.

[4] For the description of the excessive lending practice of American monetary markets see Lentner (2012) and Kecskés (2015). For the meltdown of the Hungarian loan market stifled by foreign currency loans see Kovács (2013) and Lentner (2015).

businesses) included in one single 'plant', which the supervisory and controlling practice was unable to keep pace with. The Washington Consensus, the 'dismantling' of the Glass Steagal, the Maastricht and Copenhagen Criteria and the market practice which formed in line with the European Union's four freedoms all ultimately created a neoliberal market economy model, in which the innovation of banking products was not followed by the development of supervisory and control activities.[5]

According to the approach which prevailed for decades, the bank (the plant), as a market operator, enforcing the laws of supply and demand – based on Greenspan's logic – is able to make responsible decisions, particularly when granting loans. In fact, neither self-restraint, a prudent decision-making mechanism nor effective regulation and supervision were exercised. The collapse of the system by 2007–2008 forced not only the reconsideration of regulation and supervision in a strict sense, but also placed the further operation of the neoliberal system of the market economy under stricter state regulation.[6]

2. The fundamental problem of the monetary practice of the transitioning Hungarian economy (1987–2013)

From the late 1980s onwards, three reforms: the Companies Act (Act no. VI of 1988) promoting the market economy transition, the act guaranteeing investments by foreigners and the decision allowing for the establishment of a two-tier banking system steered Hungary towards a market economy. The transformation of the economic model was accelerated by the excessive indebtedness of the country, the almost complete dysfunctionality of public assets, narrowing foreign export markets, a sharp decline in the demand of domestic market outlets, and, in particular, an increasingly marked demand for Western products of higher quality. Clearly, reactivating an economy requires high volumes of working capital and financial capital imports capable of further financing an exceptionally high government debt. There was neither the intellectual capacity nor the patience to fix the economy by means of internal resources. All that existed was a vague political promise to create a social market economy made in right-wing political circles which were organising and preparing themselves for a regime change from the late 1980s. It should also be noted that this was the period when the social market economy model existed only in fragments in Western Europe and was being replaced by a neoliberal mode of production applying the principle of freedom of multinational companies and an economy without any limitations.

The transformation of the Hungarian economic regime, including the introduction of a two-tier banking system, and in particular, the development of the central bank's roles, took place in accordance with the expectations of this lopsided, but increasingly neoliberal world. Commercial banks, 'seceding' from the Central Bank of Hungary

[5] The American practice basically 'bypassed' the attention of the supervisory authority and lost its transparency as securitisation processes became common and vigilance against risks was artificially relaxed. See Kecskés (2017).

[6] Its main components include: the Dodd-Frank Act, stricter regulation of and control over credit rating agencies, enhancing micro- and macroprudential supervision by central banks and other authorities.

(Magyar Nemzeti Bank, MNB), as well as brand new, domestically established banks, struggled with capitalisation and management problems from the very start. Their operations were overwhelmed by a situation where they simultaneously had to manage the increasingly doubtful loans of inefficient state-owned companies and the resource requirements of a new entrepreneurial class lacking capital and business knowledge. In addition to forced credit exposures, the situation of state subsidies provided by the central budget was also characterised by similar duress. Private start-up companies were granted loans not according to efficiency criteria but only to a degree necessary for keeping them operable, but due to 'confusion' and the lack of coordination of comprehensive financial (taxing, aiding, market, central banking) instruments, both credit and state aid was used with low efficiency.

> In the early 1990s, government deficit much more depended on how roles in financing companies were divided between the budget and the credit system rather than how much additional demand was created by the state... companies, including their subsidies, were financed from continuously rolling loans. In other words, the credit system assumed quite a significant part of public (fiscal) functions, therefore also a significant part of the demand created by the state was realised in the form of companies' credit expansion, that is, bypassing the budget (Antal, 2004, p. 75).

The (initially) increasing value and efficiency of the banking sector can be accounted for by the fact that from 1987 to 1990 sectoral profit increased by 223.7 per cent (Nyers, 1991). The impact of the unfolding transformational crisis, however, could also be felt in the banking sector, as the downturn of the real sector also negatively affected the performance of the banks, resulting in a series of bank consolidations.

Supervision over the operations of commercial banks is exercised by the central bank, which influences financial institutions through its regulatory activities. From the early 1990s, however, the MNB began to continuously remove its refinancing instruments, gradually phasing out refinancing loans with lower interest rates and longer terms in the undercapitalised corporate sector, so that by the mid-1990s start-up companies and farmers found themselves in a hopeless situation due to the gradually reduced state subsidies and simultaneous phasing out of protective duties in what had become an increasingly fiercely competitive market. They were 'dragging down' the commercial banks, which were stumbling from one consolidation to the other. The same kind of process of dismantlement took place in the field of the refinancing of government debt by the MNB (Kolozsi & Lentner, 2006), i.e. the MNB also let the fiscal sector down, and due to the government's failed taxation and state aid policies, additionally financing a continuously increasing government deficit and debt required the involvement of foreign investors, which, due to risk premiums being set higher than the market rate, caused a massive outflow of revenues from the country and even entailed vulnerability to international markets.

The central banking practice applied in developed market economies was also adopted in the central banking policy of Hungary after the regime change, which had destructive effects on both the national economy and society and which caused severe problems in financing both Hungarian enterprises and government debt, and even the loss of resources and income. The second wave of adopting Western banking practice without criticism dates to the period after the turn of the Millennium, when the corporate clientele – as a result of the above processes –had a decreasing demand for loans and were being financed by parent companies and capital market instruments, which encouraged the banking sector to shift towards the retail market, especially demographic groups with low credit ratings even by Hungarian standards, which over time led to a culture of excessive lending. Despite this trend, no substantial measures were taken by the MNB to curb retail credit outflows without adequate collateral, and this would be one of the main contributors to the crisis which unfolded at the end of the 2000s.

The function of the banking system is to build market conditions and, in the period following its consolidation, this is expected to strengthen the market economy, which serves the national economy as a whole through financing real market operators, therefore reducing government deficit and debt. Instead, as a result of its excessive lending operation in the 2000s, the banking system in Hungary inflicted further budgetary and social damage, which had to be repaired by further fiscal and central banking sacrifices since 2010, now within an active state-governed framework.

'The function of the Central Bank is, by influencing the changes in the value of the currency, to achieve such a state of employment and the international payment position that is considered desirable, and through this, to promote economic growth accepted as optimal' (Hagelmayer, 1969, p. 165). Of these functions, the MNB's attempts to increase employment and growth were pushed into the background in the first decades of the market economy. Ernő Huszti (1987), argued that the MNB's room for manoeuvre depends on the share of the growth of the annual credit volume which is accounted for by the amount of loans granted to the budget. The MNB can influence the expansion of solvent demand, also manifested in the growth of the aggregate money supply, only to this extent. The MNB, however, provided an opportunity for this expansion of commercial loans by playing a smaller and smaller role in financing the budget, as less and less resources were allocated to it. Huszti believed that the MNB has primacy in shaping commercial banks' lending and controlling solvent demand. Since the capacity to refinance the real sector dropped in the activities of the MNB after the first third of the 1990s, and its role in refinancing the budget had also finished by 2000, the contingent assets of the MNB could be focussed to a significant degree on the aggregate money supply and the regulation of commercial banks' lending, thereby aiming at boosting macroeconomic progress.

In the 1990s, Hungary was not yet a Member State of the European Union, but it implemented its central banking regulatory guidelines rapidly and without adequate consideration. The main objective of the regulation adopted within the EU on 1 January 1994 was to make the public sector subject to the same conditions pertaining to indebtedness as applied in the private sector. In order to enhance the market sensitivity of the public sector, central banks were prohibited from purchasing government securities directly at the time of their issue, but they could purchase securities on the secondary market without limitations, as securities purchased there had already been 'priced' by the market. The aim of this regulation was to give fiscal policy a better perception of the price of deficit, but if the structure of the budget is poor, this perception and its expected positive effect are hardly significant, because the generation of deficit is permanent, despite its heightened interest rate sensitivity. Furthermore, the expectations of the EU and international financial institutions (such as the International Monetary Fund and the World Bank) to reduce the level of aid provided to the real economy and indirectly to reduce social policy aid, and the swift compliance with these requirements by Hungary – without an adequate transition – also caused internal problems, since domestic, less creditworthy start-up enterprises would have had an enormous demand for the MNB's refinancing loans.

As the management of the economy produced temporary potential for growth despite the boom following the world economic shock in 1997–1998, the results achieved by the Hungarian economy between 1999 and 2002, and then a loose fiscal policy after 2002 put the commercial banking sector onto a dynamic, credit-expanding path. Despite the improvements in some of the macroeconomic figures in the real sector, the standard of living and real wages in Hungary fell short of the expectations of the population. However, excessive lending, which was common internationally, and the 'globalisation' of this trend spreading into Hungary (Lentner, 2015), led to Hungarian banks issuing spectacular credit quotas after the turn of the Millennium, while the Hungarian retail and local government sectors created an inexhaustible demand for this credit supply. The MNB, designed to regulate the loan market, exhibited a laissez-fair attitude (Matolcsy et al., 2015; Bethlendi et al., 2015), while the government was unable to provide solvent demand at a satisfactory and expected level (in terms of wages and social benefits), which resulted in a peculiar 'compensation' or 'supplementation' (of loans) being provided by the banks. Lending, however, lagged behind the creditworthiness of borrowers, which later, after the outbreak of the global economic crisis, caused problems in society and for the national economy, which later triggered a series of consolidation measures by the central bank. Although both external empirical experiences of a new type of crisis management (for example, Galema & Lugo, 2017), in particular in the field of central banking and internal theoretical approaches (for example, Neményi, 2009; Neményi, 2011) were directly available after the outbreak of the crisis, substantial crisis management measures were implemented only after the change of government in 2010, particularly after the change of the central banking regime in 2013.

When the Economic and Monetary Union was established, it was generally considered that, with the introduction of the euro, the elimination of the exchange rates of national currencies, and the enforcement of strict regulations on the operation of the EMU, including the control of the central budget balances of Member States, Member States would be free of financial imbalances or crises (Losoncz, 2010). The Maastricht convergence criteria, which are applicable to the candidate countries of the EU and to euro zone aspirants, who are required to meet them, presumed a quasi crisis-free situation. However, due to the weakness of fiscal positions, the banking crisis which arose in 2007–2008 soon caused a fiscal shock and a government debt crisis across Europe, particularly in Hungary and other significantly indebted countries, the banking systems of which had been weakened more severely than average.

The ability of fiscal policy to generate solvent demand sufficient for social and corporate needs fell short of expectations, and the banking system sought to fill this gap by making loans but ignoring classic lending regulations. After the banking crises, however, commercial banks –partly to meet their needs for state consolidation – adopted more 'low-key' business policies, in which the acceptance of tightening regulations and corporate social responsibility prevailed in a more comprehensive and robust way. The mandate-objective system of central banks, which has assumed a key role in crisis management since 2008, also underwent certain changes, by which the value system of central banks' social responsibility was also modified, as it became more carefully adapted to the macroeconomic dimension and the social context. However, the Central Bank of Hungary started to align with this only in 2013 (Lentner, 2013; Zéman et al., 2018).

3. The central banking regime change after 2013

The framework of monetary policy substantially changed as a result of the crisis of 2007–2008. According to Blanchard (2012), the separation between monetary and prudential competencies became less rigid within the new monetary policy framework and, in addition to price stability, financial stability also became a priority for central banks, while some unconventional elements were added to the central banking toolkit, as a result of which central banks started to play a greater role in crisis management. During crisis management, most developed central banks soon achieved an interest rate level of zero and in many cases interest rates sank into the negative range. However, the reduction of interest rates did not prove to be a sufficient remedy, so the central banks of developed countries increasingly put emphasis on quantitative easing. The central banks of the United States, the euro area, Japan, the United Kingdom and Sweden launched securities purchase programmes, in particular programmes to purchase government bonds (Abidi & Ixart 2018; Macchiarelli et al., 2017; Arrata & Nguyen, 2017; Funashima, 2018; Ramcharan & Yu, 2016).

Emerging economies took a different path and near-zero interest rate levels were far less characteristic of them. In this group of countries, Eastern and Central European countries were able to achieve a relatively low interest rate level, while the interest rate levels of emerging Asian and South American central banks were farther from zero. Higher risk premiums, resulting from the greater external vulnerability of these economies and their inflation rates, which are higher than those of developed economies, as well as their more dynamic growth, largely account for these differences.

The distinct and independent monetary policy of the MNB presents an opportunity to create a constructive harmony between fiscal and the central banking policy. Nevertheless, the operation of the central bank and the programmes it implements are determined under the Central Bank Act, Section 3(1) of which includes the following provision: The primary objective of the MNB shall be to achieve and maintain price stability. Section 3(2) states that, without prejudice to its primary objective, the MNB shall support the maintenance of the stability of the system of financial intermediation, the enhancement of its resilience and its sustainable contribution to economic growth; furthermore, the MNB shall support the government's economic policy, using the instruments at its disposal.

Between 2012 and 2019, the MNB, taking its statutory powers and assigned tasks into account, reduced the base rate from 7 per cent to 0.9 per cent and kept it at that level. This decline in yields significantly reduced the Government's interest expenditure, saving 4.5 per cent of the GDP (1,600 billion forint) between 2013 and 2018. The Funding for Growth Scheme, announced in the spring of 2013 as one of the MNB's credit incentives, offered banks a refinancing loan at a 0 per cent interest rate, which would enable them to lend to small and medium-sized enterprises (SMEs) at an interest rate margin capped at 2.5 per cent (Kolozsi et al., 2017). In 2015, the Funding for Growth Scheme was replaced by the Growth Supporting Programme, which aimed at transitioning corporate lending to market conditions. The MNB introduced the Self-Financing Programme in the middle of 2014 to reduce external vulnerability (exposure to foreign currency risk). In this programme, the MNB encouraged banks to keep their liquid assets in other liquid assets, particularly in forint-denominated government securities, instead of in deposits at the MNB. The accommodation of banks to the measures of the MNB was manifested in the increase of the purchase of government securities by banks, which considerably contributed to the improvement of the structure of financing government debt (through the increase of the banks' holdings of government securities and the decrease of foreign currency debt). When household loans denominated in foreign currencies were being phased out, the MNB took a pro-active role in the negotiations between the government and the Hungarian Banking Association, and after that, it substantially contributed to the conversion of foreign currency-denominated household loans into Hungarian forint-denominated ones by providing the required foreign currency liquidity (9 billion euro) for the banking sector. By the end of 2015, the balance of Hungarian households had practically no foreign currency-denominated loans, and this risk was eliminated once and for all from the Hungarian economy (for more details, see Matolcsy & Palotai, 2018).

In Hungary, the corporate credit portfolio shrank by 4–5 per cent annually between 2009 and 2013. The sustainability risks of Hungarian processes are well illustrated by the fact that while in other countries hit by a major financial crisis the decline in lending usually stopped by the fifth year following the crisis, Hungary's loan portfolio was still decreasing in 2013. The resolution of the lending anomaly became one of the priority objectives of the Hungarian economic policy. Above all, the general reduction of interest rates aimed to halt the decline in lending. The sharply falling trend of the corporate credit portfolio was broken after 2013 and a credit freeze became avoidable. The SME credit portfolio, which had been decreasing for years prior to 2013, has seen continuous growth since 2015. In 2017, the growth dynamics of the corporate credit portfolio reached 10 per cent, and taking private entrepreneurs also in consideration, the credit portfolio of the SME sector expanded by 12 per cent. By Q2 of 2018, the annual growth dynamics reached 15 per cent. In line with the MNB's forecasts, the increase of SME lending has stabilised in between 5 and 10 per cent, which is within the range considered necessary for sustainable economic growth by the MNB.

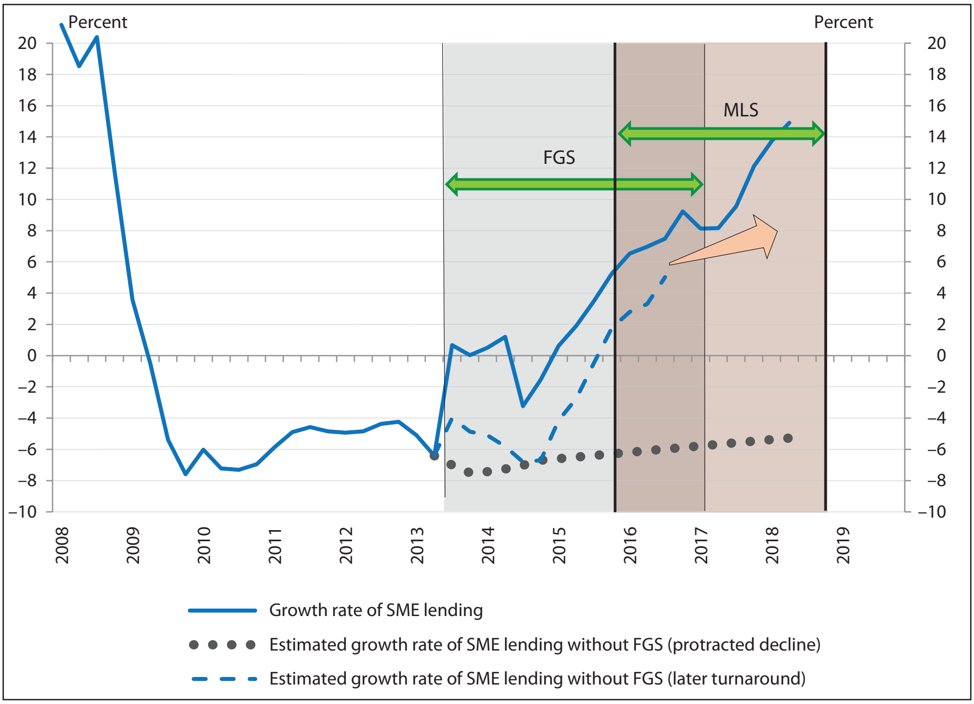

Figure 1.
Annual changes in SME lending

Source: From the charts of the Central Bank of Hungary, 2019.

The financial crisis which broke in 2008 and soon expanded globally, hit Hungary in a fragile and vulnerable state. One of the main reasons for this was that, in an international context, the amount of external and foreign currency-denominated debt of the Hungarian national economy was outstanding. A large proportion of this high external and foreign-currency denominated debt was related to public finances, as the state relied heavily on foreign investors and international organisation which were financing Hungary in 2008, particularly the International Monetary Fund. After the change of direction in the monetary policy in 2013, the MNB considered the reduction of external vulnerability to be a strategic goal.

The gross external debt of public finances started to moderate in 2014 and to decrease markedly during 2015. From 2014–2016, the gross external debt of the state dropped from 50 per cent of the GDP to 40 per cent. The foreign currency ratio of the gross debt of the central budget decreased from 42 per cent in March 2015 to less than 30 per cent in March, 2016, and to 27.1 per cent in June, reaching pre-crisis levels, and was subsequently further reduced.

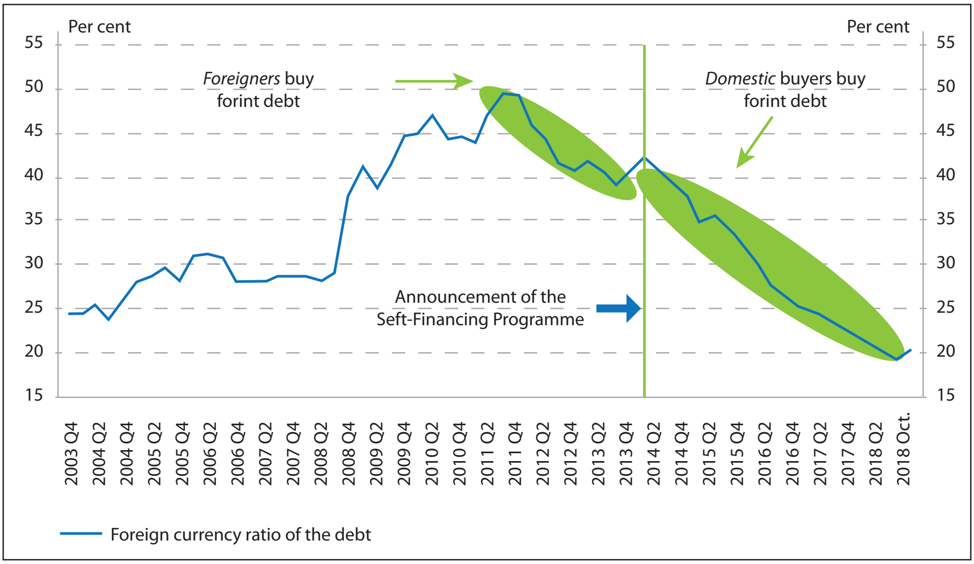

Figure 2.
Development of foreign currency ratio of the gross debt of the central budget
Source: From the charts of the Central Bank of Hungary, 2019.

4. Conclusions and consequences – at the beginning of a new central banking path

The policy followed by the central bank between 2013 and 2020 can be accounted for by the fact that the pursuit of a set of macroeconomic objectives (moderating inflation, promoting growth and achieving financial equilibrium) and goals for society (improving public welfare and the situation of disadvantaged groups of the population, such as foreign currency borrowers) and the instruments adopted to achieve them have contributed to the improvements in the positions of the national economy and society to a very large extent. A different set of objectives and instruments (as in the decades prior to 2013), i.e. focussing exclusively on inflation (but handling even that poorly) had a clearly destructive effect. Put another way, monetary policy elements or even systems which are not in line with the economic characteristics of the country and which are mostly imported are neither appropriate nor effective.

International experience shows that excessive intervention to improve the processes of the national economy adversely affects the direction of monetary development when central banks may almost convince themselves that the reasonable operations of commercial banks can reasonably be sacrificed on the altar of firm demand management (Huszti, 1996, p. 53). This theorem may be true for the refinancing activity of central banks. After the crisis of 2007–2008, central banks also played a role in the recovery of the economies. This is particularly true of the Hungarian central banking practice after 2013. If a central bank, however, also adopts an almost passive fiscal policy in reorganising the economy and then steering it towards the path of competitiveness (and exerts a substitution effect instead of an auxiliary one), serious problems could occur.

Hungary's fiscal policy was successful between 2010 and 2013. Income tax decreased by 20–21 per cent, corporate tax was basically halved, the aspects of sharing public burdens also prevailed more strongly; therefore, Hungary was characterised by simultaneous financial stability and economic growth until the pandemic crisis of 2020. After 2013, however, the reduction of income type taxes came to a halt, and the primary objectives of the Ministry of Finance did not include exerting economic control to pursue an intensive growth path and the improvement of the economies of scale of the SME sector, but instead the maintenance of the financial equilibrium attained earlier, while the MNB pursued a refinancing policy which also endured during the spring and autumn waves of the pandemic. Ultimately, it can be concluded that the hyperactivity of the Central Bank has become a kind of counterbalance to a slowdown in fiscal practice.

The unimplemented fiscal and SME sector reforms are being seen in a lower added value of products manufactured and services provided in Hungary, especially by the corporate sector, which has failed to achieve economies of scale in the past three decades and, in particular, in the dynamic economic context of the decade preceding the pandemic crisis. Seventy per cent of the employees of the market sector are in the SME sector, which has a 40–45 per cent share of the GDP, but receives only 30 per cent of the investments in the national economy. This on its own suggests a deficit of efficiency, in particular in domestically owned enterprises, only a small number of which are capable of producing an exportable commodity base and which cannot even implement a rise in the statutory minimum wage without support from the state. Of some 756 thousand employers, 710 thousand have fewer than 10 employees. In Hungary, the productivity of micro-enterprises is 20 per cent, that of small enterprises is 35 per cent and of medium-sized enterprises is about 40 per cent that of the large (mostly multinational) company sector. This is by far the worst worldwide, even in comparison with neighbouring countries. Evidently, corporate structures and sizes have not developed which would enable more efficient production. Meanwhile, significant investment resources are being received and expected from the Reconstruction Fund; furthermore, Hungary is also awaiting considerable investment loans from China and Russia.[7] The problems are compounded by a budget deficit planned by the Ministry of Finance at a level well above that stipulated by the Maastricht Fiscal Criterion of 3 percent, which produces significant further solvent excess demand in the economy, which may entail rampant inflation. Preserving the stability of the value of incomes earned by companies and the population has become a primary task in Hungary, and the responsibility for moderating inflation specifically belongs to the MNB. Consequently, the MNB has been forced to moderate the refinancing role it assumed in the previous decade and in

[7] The annual normative support from the EU amounts to 2.7 per cent of the GDP (HUF1,500 billion), HUF3,390 billion is expected from the Reconstruction Fund, the planned Chinese and Russian loans give a total of HUF4,000 billion, and beyond that, the Ministry of Finance calculates a deficit of 5.9 per cent for 2021 after the downturn and the deficit of 5.1 per cent in 2020. To illustrate the overheating economy and the multiplier effect of investments, cf. Hungary's annual GDP is approximately HUF50,000 billion.

the first year of the pandemic crisis since the refinancing resources of the MNB, resulting in newer investments, would further increase inflation in the economy, and – it should be added – most of these investments would be directed at a still uncompetitive SME sector which has become reliant on subsidies.

A new situation has also arisen in the world at large; therefore, a central banking policy returning to an emphasis on the control of inflation again is not unique. More sophisticated cooperation between fiscal and monetary policies has become more important, which orients central banks that had earlier excelled at refinancing towards holding back macroeconomic and social stimuli.[8] Meanwhile, after earlier fiscal and monetary turnarounds, the MNB is turning even more towards the development of a knowledge- and capital-intensive economy,[9] since Hungary, despite the fact that it has achieved the most successful ten years of the past one hundred years in the past decade, has had relatively poor results in the catching-up competition among the new states of the European Union (see Table 1).

Table 1.
Per capita GDP measured at purchasing power parity as a percentage of the EU28

Name of country	2010	2019	Extent of improvement (catching-up)
Estonia	65.3	83.3	18%
Latvia	52.9	68.6	15.7%
Lithuania	60.3	83.0	22.7%
Hungary	65.1	72.7	7.6%
Poland	62.4	72.4	10%
Romania	50.9	69.2	18.3%
Slovakia	69.7	75	5.3%

Source: Eurostat. MNB – 2020 (euro data as a percentage of the GDP).

The circumstances which have evolved by the end of 2021 justify an adjustment to the path of the MNB in its fiscal policy, with less emphasis on an intensive growth path, the first signs of which have been manifested in the increase of the base rate, and, as a result, the improvement of the exchange rate, the moderation of the inflationary spiral, and a stronger orientation towards environmental aspects, in that the MNB has received a sustainability mandate as its fourth mandate from the National Assembly of Hungary.

8 On the new, prominent responsibility of central banking policies see Borio and Disyatat, 2021.

9 For details of the opportunities of the Hungarian economy embedded in an international context see Matolcsy, 2020.

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