Civic Review, Vol. 13, Special Issue, 2017, 151–166, DOI: 10.24307/psz.2017.0309

Bianka Parragh

Competitiveness and Economic Stimulus[1]

New Dimensions and Instruments of Monetary Policy

Summary

The revolution in economic and fiscal policy that has been brought about since 2010 and the revolution in monetary policy implemented since 2013 have provided reasonable grounds for strengthening the regional competitive position of Hungary. The business climate in Hungary has changed for the better, a tendency which was indisputably triggered by the innovative and effective role undertaken by the state. The efficient role of the state was embodied in its concept innovation, meaning a changed viewpoint at the root and branch level of economic policy. From a monetary aspect, the state's contribution to economic productivity and a monetary policy that builds on unconventional instruments to provide a long-term stimulus to the economy have proven its commitment to economic development using innovative methods in line with an economic policy that establishes a goal structure with new criteria and a new composition. This study focuses on monetary policy and analyses the effects of the successful measures and innovative methods which have enhanced competitiveness and stimulated the economy.

Journal of Economic Literature (JEL) code: E52, E58, E62, O40

Keywords: monetary policy, economic policy, competitiveness, economic incentive, economic growth

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Dr Bianka Parragh PhD, university lecturer, National University of Public Service, Faculty of Political Sciences and Public Administration, Institute of Public Finance, member of Monetary Council of Central Bank of Hungary (parragh.bianka@uni-nke.hu).

Introduction

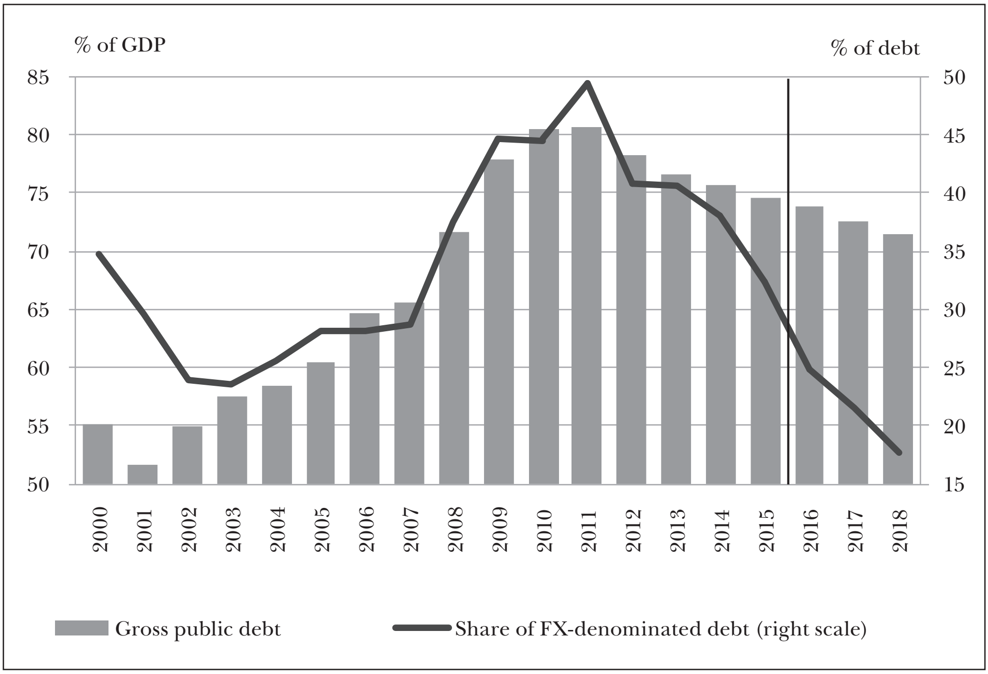
With the successful consolidation of public funds and economic stabilization after 2010, the Hungarian economy moved ever closer to maintaining equilibrium and simultaneously creating the conditions for growth and for the sustainment of growth. The appropriate priorities set by economic policy from 2010 and then following this, the re-interpretation of the mission of the National Bank of Hungary from 2013 and a monetary policy that broke with the caution that had earlier been characteristic played an important role in the stabilization of the economy. Thus from 2013 a new monetary era brought about a revolution in monetary policy. By applying unorthodox instruments and a monetary policy supporting national economic policy, the Magyar Nemzeti Bank (National Bank of Hungary – MNB) achieved significant results in the field of sustainable economic growth.

Effects on competitiveness of the responses to the outbreak of the 2008/2009 financial and economic crisis

The financial and economic crisis that spilled over from the American mortgage market, and hit the otherwise weak Hungarian economy in 2008, presented challenges both to the current national economic policy and to monetary policy. The appropriate direction of monetary policy and the monetary political instruments applied have significantly influenced the balanced growth of the economy. Competitiveness and productivity show a strong correlation, and it can be clearly seen which were the special factors typical of Hungary that, as a consequence of the 2008 financial and economic crisis, exponentially weakened competitiveness and led to the especially weakened state of the Hungarian economy.

The phenomenon of a persistent twin deficit is a simultaneous substantial budget deficit and current account deficit. A considerable phase of the market transition was characterized by a twin deficit, which meant that during the transitory period of shock therapy the balance figures deteriorated in a similar way to the 1970s. The Bokros package and the related series of careless privatization decisions made in haste in 1995 to 1996 temporarily brought some improvement until 1997. However, in 1998 the budgetary position reached a deficit of 8 per cent of GDP. Between 1998 and 2002, budgetary conditions nevertheless improved despite the persistence of the current account deficit. Nevertheless, between 2002 and 2006 a twin deficit again characterized the balance of the Hungarian economy.[2] As a consequence of Hungary's accession to the European Union, Hungary set the objective of reaching a budgetary deficit lower than 3 per cent. This undertaking was not fulfilled in any year from EU accession until 2010. This EU undertaking was satisfied for the first time in 2011 thanks to the new economic policy objectives and consequent measures implemented from 2010 onwards. The budgetary position reached equilibrium and the objective to have a deficit to GDP ratio lower than 3 per cent became sustainable. As a result the current account balance was continuously positive, thus ensuring the conditions for sustainability. In Hungary, the excessively high deficit, coupled with an unfavourable financing structure,[3] high external indebtedness, consumption instead of investment, and excessive lending in foreign exchange together contributed to the excessively high level of vulnerability of the country.

Figure 1: Gross public debt forecast – calculated with unchanged (end-of-2015) exchange rate



Source: Magyar Nemzeti Bank

Figure 1 shows the changes in the state debt, including the proportion of foreign currency indebtedness, from 2000 onwards. Hungarian retail foreign currency loans grew considerably due to the high budget deficit and mostly as a consequence of the high domestic interest rates which resulted in a large interest spread. A positive income outlook and increasing retail consumption were accompanied by a continually reduced level of savings and an abundance of liquidity at a global level.

A Hungarian economy that became progressively riskier to finance ended up in a financial condition that was dependant and exposed, because it was driven more and more by outside factors and was operated with loans, not to mention the pro-cyclical nature of budgetary policy.[4] Most developed countries reacted to the economic and financial crisis with loosening, applying an anti-cyclic fiscal policy. However, Hungary responded with more austerity and tightening, which it was forced to apply as a consequence of the previous unjustifiably loose fiscal policy and high debt, and thus it applied a pro-cyclical fiscal policy, leading to a worse contraction in GDP.

Further risks arose as excessive lending was going global and resources were primarily being used for the purposes of consumption and operation. A budget with a bad fiscal taxation structure together with the chronically unsustainable level of state debt and debt servicing deepened the crisis even more.

Low activity and employment in the labour market and the increase in foreign currency loans restricted monetary policy and increasing state debt led to a higher exchange risk. After the 2008 financial and economic crisis, Hungary had no choice but to change a growth model that had become unsustainable as it was being financed from indebtedness.

Among the actors in the market, the financial culture of enterprises, households and families has been substantially transformed to reach a higher level of quality, a trend which should continue into the future under any circumstances. Behind this process there were a whole series of pressures which could be best perceived in the expansion of foreign currency lending and overlending. A high price was paid for the transformation of the culture and this process had its victims from both a human and a financial respect, the reasons for which can be found in the previous ill-considered neoliberal economic policy that ignored national interests. What triggered lending in foreign currency was the high interest rates and the artificially strong exchange rate, as it led to a stable exchange rate with the euro by regional standards. In the sense of the real economy, the strong forint exchange rate coupled with high base rates resulted in an exposed situation, because domestic small and medium-sized enterprises became less interested in exporting and their focus changed towards importing, while the opposite trend would have been desirable for the national economy to boost competitiveness.

Increasing deficit in competitiveness in the years of the outbreak of the crisis

The process by which the local government sector became indebted to the private sector and the massive liabilities owed by the municipalities to companies significantly strengthened the trend of circular debt as a consequence of the 2008–2009 economic crisis, which continued to destroy the chances of domestic micro, small and medium-sized enterprises finding a way out.[5] It caused serious challenges in terms of competitiveness and survival to a wide circle of contractors and subcontractors who were faced with a mass of obligations from contracts that remained unpaid after the deadline even though they had been fulfilled. Further serious problems were caused by the state carrying out a substantial decentralization of tasksto local governments, but not following it with a process of decentralization of funds. As a result a serious operating deficit developed in the years preceding EU accession and local governments used investment loans for their operating expenses, a practice that they camouflaged. Upon EU accession new development assistance became available, though the necessary co-funding was not made available to local governments from the central budget. In order to solve this problem, local government issued foreign currency bonds despite not receiving continual income in foreign currency and the loans taken out were not used for productive investments. This appeared as a factual element (Lentner, 2015:42): the neoliberal economic philosophy that led to the indebtedness had failed on the secondary level of the state budget by 2008-2010.

The intensification of the interest of Hungarian-owned small and medium enterprises in importing, as described earlier, caused significant disadvantage and damage to competitiveness. Unused market advantages brought by EU accession, the attraction of substantial foreign working capital by domestic business investments, the persistently low ratio of Hungarian businesses in exports, the increase of the exchange rate exposure to a dramatic level due to the failure to replace the national legal tender with the euro,[6] the low level of financial information and knowledge, the failure of banks to provide information and warnings[7] and the ill-advised taking out of foreign currency loans by retail customers led to a crisis in the fabric of the economy.

Monetary policy for sustainable growth and a competitive national economy

"The primary objective of the Magyar Nemzeti Bank (National Bank of Hungary) is to achieve and maintain price stability. Without prejudicing its primary objective, the National Bank of Hungary supports the preservation of stability of the financial intermediary system, the enhancement of its resilience, and its sustainable contribution to economic growth; furthermore, the National Bank of Hungary supports the economic policy of the government using the instruments at its disposal."[8]

The goal of the economic policy is to increase social welfare by influencing and coordinating economic trends, with each branch of economic policy,[9] including monetary policy, contributing by realizing its own respective goals.

Taking the examples of East Asian countries, which Dani Rodrik also studied, countries that apply independent economic political solutions adjusted to their national characteristics are able to grow. Measures branded as unorthodox by international financial institutions may lead to success if the government leading the country is committed to economic growth and can intervene in the economy appropriately with innovative methods.[10] The effective and innovative role undertaken by the state can be regarded as a basis and, simultaneously, a recipe for economic growth based on development.

A new, unconventional approach – goals and instruments

The crisis confirmed that in addition to the primary goals of the central bank, as defined in the Central Bank Act it is necessary to simultaneously analyse in depth the market trends of various instruments in addition to monitoring low inflation. Excessive trends in the credit market may set back economic growth in the long term, making it impossible to reach the inflation goal at the same time. Central banks were successful in achieving price stability before the crisis, but in the meantime there was an intensification of risks that seriously jeopardized financial stability, with the result that it became impossible to ensure sustainable economic growth. The financial and economic crisis in 2008–2009 warned us that the shocks impacting the economy could be greater than ever before, therefore central banks with an inflation goal necessarily moved in the direction of greater flexibility.[11] In Hungary the current inflation goal is 3 per cent and the desirable inflation level is 3 per cent +/- 1 per cent, which constitutes the range within the tolerance band.

In addition to the central bank's primary goal of price stability, a new goal structure has been set up for which the central bank has dedicated new instruments.[12] Growth criteria have a higher priority than before as macro-prudential regulation enters as a new element in the central bank's decision-making processes.[13] The instruments for changing the base rate supplement the macro instruments which support financial stability, economic growth and monetary transmission[14] that directly influence the activity of the financial system and its risk tolerance. It is one of the central bank's goals to set up an interest environment which provides a stimulus to the real economy and which, by maintaining a 0.9 per cent key policy rate, improves the supply of loans to small and medium-sized enterprises and has an investment-inducing effect. The incentive effects of a low interest environment can be felt by a wide range of economic actors and help to achieve price stability. The system of central bank goals has become more flexible and the key policy rate that is the primarily instrument for achieving the first and foremost goal has been expanded with further central banking instruments and the MNB has started to apply its new set of tools. The Funding for Growth Scheme and the Second Funding for Growth Scheme have been introduced in order to strengthen the extended set of central banking tools and support small and medium-sized enterprises, while the Growth Support Scheme and the Market Lending Scheme have been introduced in order to reinstate a healthy market lending structure. The Self-Financing Programme as a further tool intended to reduce external vulnerability, the resolution and settlement of the issue of foreign currency loans, and the de-recognition of foreign currency loans and the aforementioned undertaking of micro- and macro-prudential liability embody the renewal of the monetary policy of the National Bank of Hungary. Using its monetary market instruments, the National Bank of Hungary helps to finance the gross debt of the national economy from internal sources by supporting self-financing. When it formulates its set of instruments, the central bank endeavours to ensure the efficiency of financial intermediation and the promotion of competition in the monetary market, thus achieving the central bank's goals i.e. ultimately helping to achieve and maintain price stability.

Harmony of monetary and fiscal policy as a criterion for economic stimulus

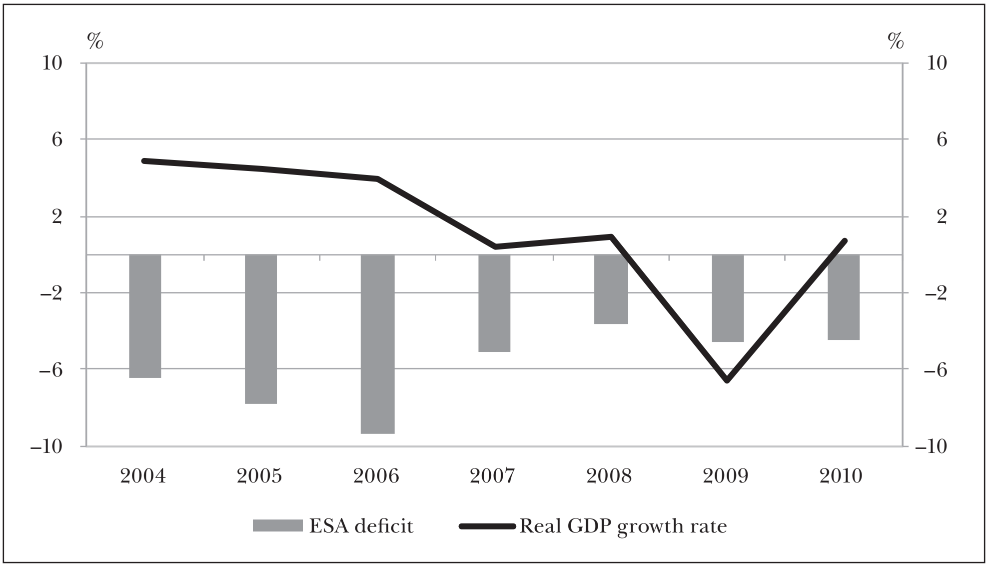
The existence and supportive nature of the harmony between monetary and fiscal policy is an important constituent of the competitiveness of the national economy.

More and more central banks[15] are highlighting the traditionally important role of a supportive fiscal policy environment in the implementation of persistent and sustainable economic stability.

Monetary policy itself is not capable of managing a crisis because new channels are needed for financing in the traditional room for manoeuvre of the central bank in a tightening environment that yields low returns. Supportive harmony between monetary, fiscal and economic policy can provide good grounds for achieving an impact that stimulates the economy and intensifies competitiveness. If these complex conditions are met, it becomes possible to apply an anti-cyclic policy that stimulates productive investments and enhances competitiveness.

Referring back to the aforementioned effect of the pro-cyclic fiscal policy that magnifies negative economic cycles, and the necessity of relaxation as a reaction to the crisis that most developed countries applied, the Hungarian economy was forced along its path due to the mass of accumulated indebtedness and the previous inadvisably loose fiscal policy at the onset of the crisis, which caused a substantial drop in GDP (Figure 2). The budgetary position improved at the expense of growth and was coupled with a shrinking economy.

Figure 2: Evolution of ESA deficit and real GDP growth rate between 2004 and 2010



Source: Eurostat

In 2009, as an effect of the international crisis the Hungarian economy shrank by 6.3 per cent, more than the other three Visegrád countries and the EU-27 average. This considerable decline was partly a consequence of the stagnation that had previously been typical and partly a requirement of strict fiscal policy at the time of the crisis.[16] There was a shortage of liquidity and a lack of trust in society and among businesses. In the years preceding the crisis the degree of mistrust towards the previous government and the loss of credibility multiplied year by year.

The risk to exposed countries drastically worsened and international institutions proved inadequate and weak. As the risk to exposed countries rose, more countries were downgraded into a category where they would not otherwise belong. Hungary was categorised as one of the 10 riskiest countries, which led to a drastic fall in competitiveness and a negative perception in the international arena.

A break with all earlier, failed crisis management techniques could not be postponed any long and the state had to intervene without delay. An economic policy that was built on order and traditional national values was implemented from 2010 onwards and closed the era of neoliberal economic policy instruments that had led to and maintained earlier excessive foreign dependency (IMF, EU) and Hungary started to build its economic policy on other cornerstones, with more emphasis in this school of through on the role of the state. The national economic policy was not intended to reduce state debt by introducing newer austerity packages, as in the Hungarian economic model the priorities are fair distribution and sharing of tax burdens, economic structures that strengthen the competitiveness of the national economy and systems that reduce state debt to a permanently low level. A key issue is the support of the material growth of the national economy, of enterprises and of the population, which at the same time is the long-term goal of the government's fiscal policy. With the use of the prime instrument of fiscal policy – taxation – the focus was on the introduction of new taxes and the fair imposition of tax burdens on international multinational companies and the commercial banks subject to their economic power, which had so far been exempted from taxes. Measures by the state, the reduction of household bills, family tax allowances, and the reduction of corporate and personal income tax rates stabilised and invigorated economic life and, most of all, improved the income position of the population.

The solution of system-level problems established system-level structural transformations. The low state debt and inflation environment have improved the perception of the country abroad, and at a time of economic recession, the maintenance of balance and harmony between monetary and fiscal policy is indispensable.

Programmes to support lending to small and medium-sized enterprises in order to boost competitiveness

After the outbreak of the 2008–2009 financial and economic crisis there was a considerable drop in corporate loan portfolios in Hungary; there was a narrowing of the possibilities of getting loans as a consequence of the otherwise unjustified decrease in banks' willingness to lend, and they mostly favoured large corporations. After 2008, a period which can be considered that of the credit crunch, there was a substantial decline, even by international standards, in loans to small and medium-sized enterprises (Matolcsy, 2015). This period was rather protracted, and its end was made possible by the monetary policy tool the Funding for Growth Scheme, which was announced in

2103 as an incentive to help lending, and which can be characterised as an innovative scheme in monetary history. Loans at the maximum interest margin of 2.5 per cent became available through the programme's provision of refinancing loans at a preferential 0 per cent interest rate for credit institutions that had experienced the persistent market disruption in lending to small and medium-sized enterprises. The strengthening of monetary transmission[17] and financial stability is among the tools of monetary policy. A few months after its introduction, the Funding for Growth Scheme yielded good results, halting the negative spiral of the loan market. Soon it reversed the trend in lending to small and medium-sized enterprises, and then in 2014 it led to an expansion in corporate lending. In the first phase, it was fundamentally refinancing that played a dominant role, while in the second phase investment loans were the focus. In 2016 the exit phase of the Funding for Growth Scheme began with the aim of reinstating healthy market lending. By November 2016 nearly 36,000 companies had been given preferential financing with a value of 2160 billion forints. The annual growth impact of the Funding for Growth Scheme is also significant; in 2013–2015 it improved the output level of the economy by 1.7 percentage points, while also providing a solid basis for an improving economic trend. Trade, the processing industry and agriculture dominated, but the Funding for Growth Scheme had a dynamic and powerful impact by international standards.

In developed market economies the small and medium-sized enterprise sector is given more attention because it has been recognised that it plays a significant role in domestic production and in the mitigation of the unemployment problem due to its ability to soak up the workforce, and so due to its economic power it can potentially play a stabilising role in the economy. The goal, in the interests of Hungary's economic growth, is to strengthen self-supporting and growing small enterprises so that there will be an ever broader and growing layer of medium-sized enterprises operating in the economy. It is of vital importance to take into account the size-specific characteristics of micro-, small and medium-sized enterprises.

The economic stimulus effect of the Market Lending Scheme

The second phase of the Funding for Growth Scheme and the Second Funding for Growth Scheme was concluded at the end of 2015. The conclusion process required a gradual exit, because risk mitigation is a primary criterion during the exit period, so that companies are not otherwise confronted with a sudden lack of funds. In January 2016 the National Bank of Hungary launched the Growth Support Scheme for the continuity of implementation of investments and their stimulus. In addition to the exit phase of the Funding for Growth Scheme, the Growth Support Scheme comprises central banking instruments that support lending with a positive stimulus, including the Market Lending Scheme (MNB, 2016). By adding the Market Lending Scheme, the National Bank of Hungary extended its set of unconventional instruments, whose main method is the interest swap deal subject to the condition of lending and whose supplementary instrument is a preferential deposit facility. In addition to this, the main instrument of the exit phase of the Funding for Growth Scheme is, in the first pillar, limited forint loans offering targeted forint-based financing and, in the second pillar, forint loans combined with a swap, in which banks change the forint loans to foreign currency, helping them to lend funds to small and medium-sized enterprises with natural hedging in foreign currency. The National Bank of Hungary has formulated the goal of this pillar as being the mitigation of market distortion that has developed due to long-term financing in foreign currency.

The boosting of the lending activity of banks was, on the one hand, targeted with the interest swap transaction linked to lending activity launched as a part of the Market Lending Scheme in order to manage the interest risks of lending to small and medium-sized enterprises in the long term. On the other hand, the lending activity of banks was intended to be increased by the stimuli that appeared in the capital requirements of banks, which can be regarded as means to invigorate the economy for better capital adequacy.

The establishment of a new corporate credit information system[18] enables the central bank to contribute to and assist well-informed lending decisions with relevant information channelled towards the banking system.

New instruments to reduce Hungary's vulnerability

De-recognition of foreign currency loans

The process of indebtedness of the Hungarian population began to unfold from the beginning of the 2000s and was more and more prevalent in the years before the financial and economic crisis that erupted in 2007. The tendency to lend in foreign currency had a strongly negative effect on all market players, and was manifested in drastically high repayment instalments as the forint exchange rate weakened. The banks added to the soaring repayment instalments that were linked to the exchange rate rise by raising interest rates unilaterally in order to counterbalance their losses and widen the exchange spread.[19]

A strong degree of cooperation between economic and monetary policy was necessary in order to successfully sort out the issues with foreign currency loans, and this was embodied in legal and economic dimensions. Firstly, the statutory legal background was framed, this being the backbone of the regulation of the settlement procedure.[20] From an economic point of view, the motivation for forint conversion had to be led by fact-based economic rationality. At the end of 2014 conditions were right for it to become possible to bring an end to the life of this decade-old financial product.[21] The two essential conditions for this were the approach of forint and foreign currency interest rates to each other, which had never occurred before, and an appropriate level of foreign currency reserves of the central bank, which was a crucial issue for banks.

In concluding the era of foreign currency loans, the National Bank of Hungary played a complex and, at the same time, indispensable role. It acted and functioned as a regulatory and supervisory authority responsible for financial stability. Thus the possibility opened up to eliminate the most perilous financial risk of the Hungarian economic history of our times and to liquidate the open foreign currency position of households.[22]

Two groups of foreign currency tenders can be distinguished in connection with the de-recognition of retail foreign currency loans,: foreign currency tenders linked to final repayment (2011–2012) and tenders for selling euros and Swiss francs in relation to settlements and forint conversion of retail foreign currency loans. The main goal of the tenders for the first group was exchange rate protection, while the primary goal of the tenders in the second group was the management and reduction of the exchange rate risk for banks.

It is an important result that foreign currency tenders help to reduce private sector foreign currency exposure and the short-term external debt of domestic banks, including the reduction of Hungary's external volatility. The balance sheet total of the MNB is lower and so the success of the central may improve.

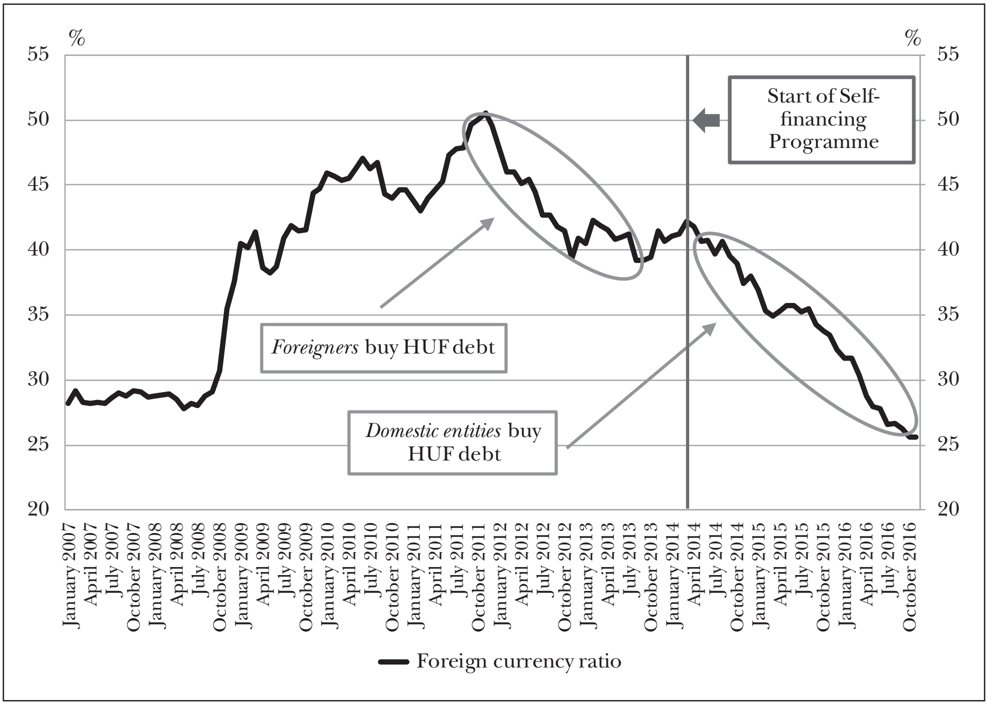
It should be highlighted that the forint conversion did not result in any change in the forint exchange rate and borrowers of mortgage-backed loans did not have to suffer when the Swiss exchange rate cap was lifted. In consequence the volatility of the country improved considerably, the ration of gross indebtedness to foreign currency fell and monetary transmission became stronger.

Significance of the Self-Financing Programme

The impact of the financial and economic crisis that was damaging the fabric of Hungarian economy from 2008 was most prevalent in the dimension of volatility, and so it became one of the prime objectives to make efforts to reduce the external volatility of the country and its dependence on external and foreign currency sources. The central bank announced its Self-Financing Programme to strengthen the financing of the state debt internally and reduce dependency on external sources. It can be classified as a positive outcome of the programme that the central bank's balance sheet became simpler, in other words narrowed down, which was coupled with improving monetary transmission.

External volatility reduces if the Government Debt Management Agency can renew any maturing foreign currency debt in forints, while striving to involve domestic players in this process. It is of fundamental importance that there should be sufficient demand for the increasing supply of forint government securities. The National Bank of Hungary can influence these trends in several ways. One possibility is to induce banks to re-channel their liquidity held at the central bank to the state securities market (government bonds instead of central bank funds), and so a drive towards the state securities market can be a solution. It is advisable for the central bank to makes its own instruments less attractive by making them less liquid. In this way the form of the central bank's key policy instrument was changed at the level of operative implementation. In the summer of 2014 the key policy instrument was switched from bonds to a deposit facility, and in the autumn of 2015 from a 2-week deposit facility to a 3-month deposit facility. With the longer term of the key policy instrument commercial banks are able to manage interest risk arising from purchases of long-term state securities, while resorting to interest rate swaps, and so instead of the 2 weeks central bank facility, state bonds maturing in several years' time show up on their balance sheet, a tendency that is reinforced by the impact of the programme to redirect towards the state securities market. In return for the interest rate swap facility banks agree to keep state securities in the long term (conditional instrument), therefore the price of the instrument is more favourable than market rates. While in the second phase the 2-weeks deposit facility was limited, in the third phase of the programme the 2-week deposit facility was withdrawn. Figure 3 illustrates the most welcome substantial change in the proportion of foreign currency debt, including the positive stimulus effect of the Self-Financing Programme, which increases the demand for state securities.

Figure 3: Foreign currency ratio of central government debt



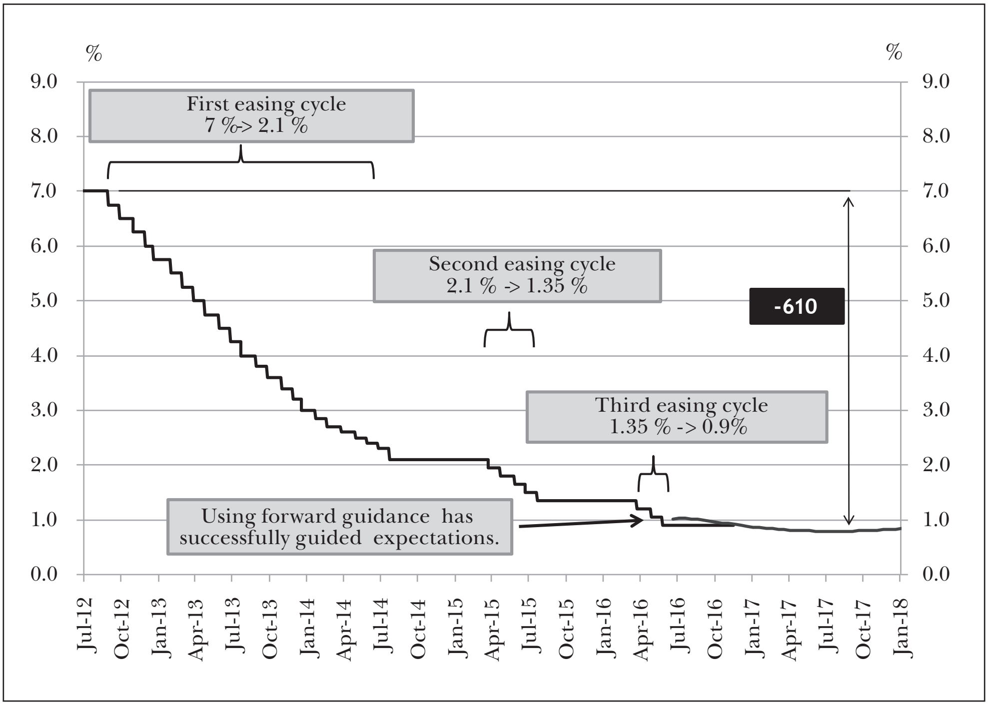
Source: ÁKK [State Debt Management Agency], 2016

The effect of innovative monetary policy initiatives and instruments on competitiveness

From the spring of 2013 the National Bank of Hungary put together a new set of objectives and a new set of instruments to reach these objectives by taking on a new role and by changing its attitude. The monetary policy can be characterised as a brave step and as requiring a new way of thinking, and is in harmony with the orientation towards economic policy in its application of innovative solutions through unconventional, unorthodox measures and instruments that were not typical in the two decades that followed the political and economic transition.[23] In order to ensure financial stability the central bank followed an innovative way of thinking targeted at triggering economic growth and reinforcing monetary transmission.

The interest rate lowering cycle of the monetary policy generated positive trends in the dimensions of the economy. The forward-looking quality of the monetary policy is also crucial, as this is how a response can be given with current decisions to inflation trends that are anticipated in the future. The favourable development of macro-economic trends, the series of coordinated measures and steps and the complex system of cooperation extended to monetary and fiscal policy improve market prospects and predictability for the market players of the competitive and private sectors, providing a positive stimulus to their future expectations.

Figure 4: Development of the base rate and market expectations



Source: Magyar Nemzeti Bank [National Bank of Hungary], 2016

The goal of the key policy instrument is to model the interest rate in the money market in the way deemed most optimal by the central bank. It should be noted that the key policy instrument can directly influence short-term interest rates, which appears as an operative objective. Based on the transmission mechanism, any change in the central bank rate is a sign that influences the expectations of market players.

Over the past few years the gross external debt of Hungary has shrunk considerably, especially the short external debt, while the central bank's international reserves have grown. The reserve adequacy is at a level that guarantees the MNB sufficient room for utilising reserves and, at the same time, the country's external debt can fall further with the positive balance of payments trends, while thanks to the inflow of funds from abroad (especially EU transfers) the central bank may retain or, in the future, expand its room for manoeuvre.

The improvement of competitiveness and the success of economic catch up have special significance from the point of view of the Hungarian national economy. The concept of improvement of competitiveness is only possible in a structure of targets that is well constructed when it comes to practical implementation, that is defined by priorities and that does not ignore timing. The countries that manage to give an impetus to their industrial production can substantially improve their competitiveness and make better use of the trends of globalisation while curbing the level of their dependency. This can be aided by an active state role model and a proactive, forward-looking approach and way of thinking. Catch up models do not provide a straightforward recipe, as every country has to find their own path, adapting the established measures to local conditions. "Practically every entrepreneurial centre in today's world is based on pro-active governmental intervention."[24] The proactive and innovative role also includes the current analysis of past events, as this is the way to reach those conclusions and set up such an algorithm that help us to avoid mistaken decisions and steps that lead to adverse situations. The change of the monetary policy regime that was carried out between 2013 and 2016 was realised by the government following a single goal.[25]

The instruments and priorities of the competitiveness policy can be summarised as follows:[26]

– ensuring stability: stability in the real economy, fiscal and financial stability; good institutions; adequate business environment;

– influencing the volume of resources: increasing activity; investment; expansion of lending activity;

– improving the quality of resources: increasing productivity; education; health care; R+D;

– operation of the state: efficiency of institutions; cutting back red tape; simplification of the tax system; whitening of the economy.

Conclusions

In a broad sense economic policy can help to improve competitiveness in many ways, and so complex cooperation is needed in the coordinated management of the branches of economic policy and in the support system to stimulate the economy.

The unconventional economic value system that was established in successive steps from 2010 relied on numerous measures that triggered an improvement in competitiveness and an active role that influenced the economy, and it yielded indisputable results in the reduction of the volatility of the Hungarian national economy.

The results that followed from the revolution in economic, fiscal and monetary policy provide good grounds for the growth-stimulating, complex and innovative economic policy to continue to develop with a commitment towards economic convergence and with the goal of achieving sustainable convergence and economic growth, reinforcing the role of the National Bank of Hungary on the path of monetary policy.

The successes of the unorthodox Hungarian crisis management and the internationally-recognised results it has achieved in terms of convergence, are substantiated by positive employment and labour market data, the persistent downward path of the deficit, the termination of the excessive deficit procedure, the permanently low base rate, the social responsibility of the National Bank of Hungary with its Growth Support Schemes and the Self-Financing Programme, the upgrading of Hungary and, most of all, the recognition of the Hungarian Model in the field of sustainable economic growth and improvement of competitiveness.

Notes

1 Research was conducted in the framework of the at National University of Public Service, Wekerle Sandor Public Finance Scientific Lab, Budapest.

2 Up until 2006 the fiscal balance showed a deficit of 6-10 per cent of GDP and the current account deficit moved between 6 and 8 per cent of GDP.

3 Unfavourable structure: low FDI and high indebtedness.

4 The pro-cyclical fiscal policy strengthens economic cycles and is characterized by austerity at the time of economic decline and fiscal expansion at the time of economic growth. This policy invigorates and tightens when the contrary would be needed.

5 Csaba Lentner writes about the process and results of indebtedness of the municipalities (Lentner, 2015, Chapter 1 & Epilogue).

6 A transition to the euro partly took place in economic and business life without the national legal tender being replaced with the euro. The basis of settlement between market players and companies was the euro and was denominated in euro and in the course of certain business settlements, euro-linked payment had to be made, e.g. rents for property, and cooperation with foreign business partners in Hungary. As a result, it became possible for a group of foreign business partners, foreign enterprises and domestic entrepreneurs to gain extra profit.

7 For more details see: Lentner, 2015, Chapter 1, an example taken from the news archive of the Hungarian News Agency (MTI) as of 31 January 2006. Title: No worries about foreign currency based arrangements – "anyone intending to take out a long-term loan may choose foreign currency-based arrangements without worry, because during the term of the loan in all likelihood there will be no movement in the exchange rate that would cause a substantial increase in repayments in the long term" – says the Hungarian Banking Association (Lentner, 2015:48–49).

8 Act No. CXXXIX of 2013 on National Bank of Hungary.

9 Branches of economic policy: for example fiscal policy, tax policy, employment policy, besides monetary policy.

10 Dani Rodrik, a professor of the Institute for Advanced Study of Princetown.

11 Avoiding the excessive volatility of real variables: ex ante inflation target band (from March 2015).

12 The standard forint market instruments are the key policy instrument, the mandatory reserve system and measures promoting the seamless operation of the interest corridor, which is supplemented by the application of high priority unconventional instruments.

13 Act CXXXIX of 2013.

[14] In the course of the monetary transmission mechanism the steps of the central bank on monetary policy have an impact on output and the development of inflation through the impact on the decisions of market players, which is possible via 5 channels: interest rate channel, exchange rate channel, asset price channel, credit channel and waiting channel.

[15] ECB, Fed.

[16] For more details see Parragh, 2014.

[17] An essential component is the efficiency of the interest rate channel.

[18] By adopting the bill proposed by the MNB, the MNB analyses credit information and company financial data from the aspects of credit risks, company characteristics and macro-economic trends.

[19] Different kinds of exchange rates at which a higher amount was made available than the amount calculated at the forint/foreign currency exchange rate, but upon repayment a greater forint amount was necessary to pay the same amount of foreign currency.

[20] Act No. XXXVIII of 2015 and Act XL of 015 on the regulation of the repayment of increased interest rates and fees to consumers.

[21] For more details see Kolozsi–Banai–Vonnák, 2015.

[22] The settlement process involved 3.6 million consumer loan agreements. The settlement and forint conversion of retail foreign currency mortgage-backed loans amounted to 3,000 billion forints, while the settlement and forint conversion of the Swiss franc-based vehicle and personal loans amounted to 300 billion forints according to the data of the MNB.

[23] Based on Palotai, 2016.

[24] Joseph Lerner, Harvard Business School, innovation expert.

[25] In more detail, see Lentner, 2016.

[26] Based on György Matolcsy, National Bank of Hungary (2016).

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