

The Hungarian Currency is 75 Years Old

Welcome by the Editor-in-Chief



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Independent statehood and an independent monetary system are inseparable categories. The independence of a nation is expressed by the fact that its ruler has its own money minted or its central bank, authorized by the parliament, issues money, the acceptance of which in commerce is guaranteed by law. In line with international monetary practice, also we, Hungarians used precious metal coins and then switched to paper money; initially, the gold standard and later mostly its commodity standard dominated. One of the glorious spots in Hungarian history is the War of Independence of 1848–1849, and one of the first tasks of the newly-formed government was to commission the Hungarian Commercial Bank of Pest to issue the currency of the forming national government.¹ The monetary independence of the country – adding the declaration of the budgetary right, that is, the right to create an independent budget –, the fundamentals of independent public finances were laid down. After the Compromise, the Austro-Hungarian forint became the legal, silver-based currency of the Monarchy and was replaced by the gold-based korona in 1892. The independent Kingdom of Hungary, established after World War I, created the Hungarian korona on the disintegrating foundations of the Monarchy, which was gradually stabilised following a serious hyperinflation, and then, in 1927, the Hungarian pengő was introduced. It is an important moment in the Hungarian monetary history that after World War I, monetary policy was conducted by the National Bank of Hungary, established on 24th June, 1924, and its direct – although not fully competent – predecessor, the State Note Institute, expressing the monetary independence of the state. The forint, introduced in August, 1946 was one of the instruments of stabilisation after World War II, and has been enjoying unbroken trust for seventy-five years. It expresses the sovereignty of the nation and an independent national character.

Under the Central Bank Act, the National Bank of Hungary, having exclusive power and authority to issue the national currency, undertakes the activities related to the production and circulation of cash. Even when it was first issued 75 years ago, the forint ensured stabilisation. It contributed to beating inflation and to the economic reconstruction after World War II. During the times of the socialist planned economy system, the role of money – like in

other socialist countries – was somewhat pushed into the background, but the New Economic Mechanism of 1968 and the market economy transition launched in the 1980s contributed greater value to its role again.² The forint has all economic functions of money. As a result of wide-ranging tax policy reforms after 2010 and the monetary policy regime change implemented in 2013 there has been a stable, dynamically growing economy behind the national currency,³ the fundamentals of which could not be shaken by even the pandemic crisis caused by COVID-19. However, based on the trends of our “fashionable world” and the zeitgeist, expected by certain people, the intention to replace our national currency with the euro appears from time to time.

On 1st of August, 2021 we celebrated the 75th anniversary of the introduction of the forint. In order to celebrate this milestone in our history suitably, the Central Bank of Hungary organised a conference in its headquarters as part of a series of celebrations throughout this year. The event was about the past, present and future of the Hungarian currency, with special regard to its role fulfilled during and after the COVID pandemic, and the participants exchanged opinions in relation to the future introduction of the euro.⁴ The keynote presentation was delivered by György Matolcsy, governor of the Central Bank of Hungary. In his exposé he presented a 12-point manifesto of the Central Bank of Hungary on the successful and safe introduction of the euro. He pointed out that the primary task of the Hungarian economic policy is to ensure the sustainable convergence of the Hungarian economy, therefore the introduction of the euro cannot be a self-serving step; the key to its introduction is proper timing and the achievement of the euro maturity. He said that the decision on the introduction of the euro and its timing must be based on a considerate, comprehensive cost-benefit analysis. Furthermore, the conditions of a successful and safe euro-accession must be evaluated on the basis of a new, wide-ranging set of criteria (Maastricht 2.0). György Matolcsy's main thesis is that the sufficient maturity of the real economy is a condition for a successful introduction and sustainable convergence is based on the development and execution of a comprehensive competitiveness reform plan, going beyond the introduction of the euro. With reference to our present circumstances, it has been set out that prior to the accession to the eurozone it is essential to restore price stability again and adequately anchor inflation expectations. Creating growth and balance simultaneously (again) is a top priority, for which achieving adequate room for manoeuvre in fiscal policy is crucial. György Matolcsy considers that in order to avoid the emergence of economic imbalances it is necessary to have business and financial cycles which are synchronised with the euro area, and in the regulation of the latter ones a still effective prudential policy should be pursued. In order for successful process management, the deepening of the monetary and banking system, the improvement of its competitiveness require the acceleration of digitalisation, a sustainability turnaround being in line with digital and environmental conditions,⁵ which should be started before the introduction of the euro.

The Central Bank of Hungary is committed to the successful and safe introduction of the euro, along the concept supported by the professional background and the conditions specified therein, the Manifesto of the Central Bank of Hungary claims.

In relation to the introduction of the euro (as well) it is factual that Hungary is committed

to European values. We have been dwelling the middle of Europe for one thousand one hundred years. Throughout the centuries after losing the battle of Mohács in 1526 we languished under foreign powers, but for just over a decade we have been pursuing an independent fiscal policy, we have been setting our budget independently, and the Central Bank of Hungary has been issuing money, supporting sustainable economic growth, promoting financial stability and protecting the purchasing power of the money according to its statutory mandate. However, undoubtedly, we are in an emerging stage in terms of development, that is, we are not developed enough, and the pandemic crisis has also arisen. Therefore, we have every reason to apply independent money, an independent national currency, that is, an independent monetary policy, and not to submit ourselves to the normative decisions of the European Central Bank yet. The countries which introduce the euro lose their right to issue money, and also lose the privilege to develop an independent monetary policy and the independent system of central banking institutions. We are not yet mature enough to submit ourselves to the rules of the Frankfurt-based European Central Bank. The euro is obviously good for the Germans, good for the Dutch and other developed countries, but the euro area has not been invented to be completely good for the Greeks and the Italians, and especially not for the poor relatives from Eastern Europe. It will be worth joining the euro area if the purchasing power of Hungarian wages and the performance of Hungarian companies is similar to that of the Germans and the Dutch. On the other hand, the European Union and the euro area itself as well are on a rather shaky footing. They are losing competitiveness against both China and the United States. Their internal problems are not negligible, either. And we are as much of a European so much of an Asian people. As an independent country we most naturally conduct trade and foster good relationships also with our Far Eastern and Slavic friends. A good strategy, also in the 21st century, does not stake all upon a single cast. And we seek to be good strategists.

However, now the main task is to ensure the careful use of a strong investment multiplier and the dynamic growth of incomes, and most importantly, to halt the increasing government deficit, generated by the fiscal policy, and the increasing inflation triggered by it, and thereby to build a strong, resilient national economy behind the forint again.⁶ For this, the monetary policy intention and toolkit are available, but we would achieve results sooner if fiscal policy adapted to the Central Bank's methodology of economic reconstruction and assume the "behaviour"⁷ which is increasingly prevalent also internationally.

The research community, holding a set of civic values, behind *Polgári Szemle* seeks to present a thorough assessment of the situation and ways of solution for the consolidation of the economy.

It is worth reading *Polgári Szemle*!

Budapest, 20th August, 2021

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NOTES

- ¹ Although it was left out of the April Laws, Point 9 of the 12 Points, declared on 15th March, 1848, initiated the establishment of the National Bank of Hungary. In those turbulent times and events, it did not happen then. For further details about this period, see LENTNER, Csaba (2019): *East of Europe, West of Asia – Evolution of Public Finances in Hungary from the Age of Dualism to the Present Day*. L'Harmattan Publishing, Paris, (Chapter 2).
- ² On the economic history of the forint in detail see: HUSZTI, Ernő (2011): *Egy valuta története... A forint forgalma a stabilizációtól az euró előszobájáig*. (The history of a currency.... The circulation of the forint from stabilisation to the anteroom to the euro). L'Harmattan Kiadó. Huszti Ernő (2021): *A forint gazdaságtörténete* [The economic history of the forint (Pecunia regit mundum)]. Self-published.
- ³ For the results and achievements of the tax policy and monetary regime change see: MATOLCSY, György (2020): *Egyensúly és növekedés 2010-2019. Sereghajtóból újra éllovas*. (Equilibrium and growth. From bringing up the rear to vanguard again). Magyar Nemzeti Bank (Central Bank of Hungary)
- ⁴ For the details of the conference see the official press release by the Central Bank of Hungary: <https://www.mnb.hu/sajtoszoba/sajtokozlemenyek/2021-evi-sajtokozlemenyek/a-forint-75-szuletesnapjat-unnepli-a-jegy-bank> The presentations can be viewed here: <https://www.youtube.com/watch?v=Bo4NGligvps>
- ⁵ For details see: *Egy új kor hajnalán - Pénz a XXI. Században* (At the dawn of a new age – Money in the 21st century by the Central Bank of Hungary) A Magyar Nemzeti Bank tanulmánykötete a digitális jegybankpénzről (A volume of essays on digital currency by the Central Bank of Hungary)
- ⁶ In addition to the “commodity standard” behind the forint it is also an important fact that since the country has had significant gold reserves 2011/7. The National Bank of Hungary increased its precious metal reserves from 3.1 tons to 94.5 tons, making Hungary the leader in the region's gold reserves per capita. In today's world, gold is important in terms of both security and strategy. We can conclude that the forint has a significant gold standard in addition to a continuously expanding GDP.
- ⁷ BORIO, Claudio – DISYATAT, Piti (2021): *Monetary and Fiscal Policy: Privileged Powers, Entwined Responsibilities*. SUERF Policy Note, Issue No 238, May 2021 (p. 12)