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Some Issues of the Sustainability of the Hungarian Public Finance System in the Context of the COVID-19 Pandemic and the 2022 Parliamentary Elections

Summary

The COVID-19 pandemic has also weakened the Hungarian economy's performance and fiscal balance, but the negative effects can be assumed to be temporary for the time being, due to the previously stable public finances. Hungary has implemented a successful fiscal reform and consolidation between 2010-2019, which provides a good basis for defending against the crisis. At the same time, the pandemic has put even more focus on improving the competitiveness of the Hungarian economy, containing inflation, keeping the fiscal balance within an appropriate range and increasing the scale efficiency of the small and medium-sized enterprise sector. The paper presents the framework of fiscal and central bank measures during the crisis, while also pointing to the challenges for the post-crisis period stemming from the international environment, and in particular from the changes in central bank policies.

Journal of Economic Literature (JEL) codes: E42, E58, E62, E66, E66, G28, H12, H60
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Introduction

As Béla Földes, a former Hungarian financial researcher, stated in 1885, "crises have rueful consequences. They destroy individual and material values, wipe out the basic prerequisite of economic life, trust, deprive many members of society of a source of income, create destitution and poverty, disturb the population process, frequently endanger the moral strength of the people and bring about many moral evils (crimes, suicides). But crises also have some beneficial effects: they are usually the only way to restore the right proportions and direction to economic activity" (Földes, 1885). *The* outbreak of infectious diseases in Hungary in the spring of 2020, and the precautions that went with it, inevitably set back the economic performance. The pandemic crisis, and the financial problems it created, are a new type of crisis for our generation, since they are not the result of any errors made by governments or central banks, and are therefore not, so to speak, internal but external. However, the management of the crisis, the launch of a recovery and then a new period of growth, can be achieved through the central bank's instruments, and in particular fiscal instruments, i.e. through a new upward revaluation of the role of the State in managing the crisis. However, referring back to Béla Földes, we can see that this crisis is also having negative effects on both the economy and society. However, like all crises, it also brings with it the possibility of a new beginning, and if we take a constructive approach to the process, we can rebuild the economy by trying to correct the errors made in the past and, above all, by adapting to the changing international power relations. In other words, 'the challenge of nature must be a wake-up call to all of us, monetary analysts, monetary policy-makers and economic policy-makers, that we cannot go back to the old ways after the crisis. We have to take account of the changed circumstances of the world and adapt our created rules, our economic theories and our economic policy practices accordingly." (Botos, 2020).

Economic Policy before the Epidemic Crisis

The transition to a market economy, the so-called raw market transition, which started in the second half of the last decade of the socialist planned economy system, has caused many budget and social problems over the last two and a half decades. The reform of the ownership relations of the economic sector was carried out without due transition, and even too quickly; protective tariffs were dismantled in a way that did not take account of the interests of domestic producers, and even the central bank refinancing instruments to support domestic businesses and farmers were dismantled. By the end of the planned economy, companies and agricultural cooperatives, which were performing particularly poorly, were increasingly unable to be bailed out by the central budget, which was struggling with liquidity problems and a heavy public debt burden, leading to mass bankruptcies, which caused the loss of around one and a half million industrial and agricultural jobs, resulting in serious social problems. At the same time, the state began to rapidly reduce its subsidies to the population, its paternalistic role, so to speak, in the light of its dwindling financial resources. As a result, a 'transformation crisis', to use the terminology of János Kornai (2006),

occurred. The two decades of transition to a market economy have produced continuous fluctuations (1995, 2006, 2008), not only until the mid-1990s, and in essence, the income and liquidity of society and the domestic SME sector have been affected, Therefore, the "systemic crisis of the systemic change" (Lentner, 2006) is a more comprehensive definition (extending János Kornai's definition in time) for the period up to 2010, which better captures the essence of the situation.

The economic policy stance from 2010 onwards will be substantially different from the economic philosophy of the previous two and a half decades. There are stronger regulations of the economy, money and capital markets, and a wide-ranging tax reform that is more favourable to domestic residents and better adapted to their tax capacity. The scope and methodology of the budget control have been broadened and it has become a tool for good governance (Domokos, 2019). Families with children have benefited from a more generous support system (CSOK and other tax benefits) than two decades after the regime change, and the minimum wage and the average wage have doubled. The state buy-back of previously privatised strategic sectors has reached significant proportions, especially in the utilities, energy and financial sectors. From 2013, the monetary policy regime changed, with the central bank re-engaging in vigorous refinancing operations after almost a quarter of a century of a two-tier banking system, which was restored in 1987, i.e., launching growth loan programmes for domestic small and medium-sized enterprises and activating commercial banks, through their regulatory mechanisms, both in corporate lending and public debt financing. A low base rate path, also in line with international trends, and the aforementioned quantitative easing have led to both economic growth and a return to fiscal balance. In the words of the central bank president, "we have gone from being a lackluster to being a trailblazer again" (Matolcsy, 2020a). We have had the most successful decade in the 100 years since Trianon (for more than 100 years: Virág, 2020). The logic of active state-led economic policy is very similar to the French etatist model, to the German social market economy mechanism led by Konrad Adenauer and Ludwig Erhard after World War II, but especially to the construction of subsidy-led, state-assisted capitalism of half a century of Dualism (Austro-Hungarian Dualism/ Compromise) (Lentner, 2019).

The public debt reduction objective of the public finance chapter of the Fundamental Law adopted in 2011, and the related cardinal laws for public finance management discipline and financial stability, the most important of which are perhaps the Stability Act, the Act on the Functioning of the State Audit Office of Hungary and the two-thirds law on the National Bank of Hungary, have stabilised Hungary's public finances through consistent enforcement. Between 2011 and 2019, the public debt-to-GDP ratio declined from 80-85 percent to 65 percent, while the share of foreigners in public debt has essentially halved, from 66 percent to 34 percent. The foreign currency shares of public debt (perhaps the most critical item because of the exchange rate exposure) fell from 50 percent to 17 percent. Meanwhile, since 2013, when the public financial system was stabilised and, most importantly, the growth-enhancing central bank measures were put in place, economic growth has been in the 4-5 percent range. Between 2013 and 2019, the country was able to achieve fiscal stability and economic growth simultaneously.

However, it is important to emphasise that the fiscal reform at the beginning of the last decade, followed by the monetary reform, and most importantly the job creation measures and public works programmes, were mainly expansionary instruments of economic stabilisation, or, given their initial timing, were only aimed at expansionary effects. The state support to domestic enterprises was mostly not linked to modernisation requirements and did not sufficiently promote mergers of micro, small and medium-sized enterprises, which are already inefficient, in order to develop more competitive plant sizes with higher added value. In 2017, the Hungarian National Bank (Magyar Nemzeti Bank) formulated a 320-point competitiveness programme (see Matolcsy, 2020/a), which included improving the efficiency of enterprise scale, export capacity and the quality of human sectors. The central bank's competitiveness programme aimed at achieving the knowledge-based economy, the qualitative aspects of the second wave of the reform, which can be considered as the second wave of the reform, and analysed international competitiveness aspects (Matolcsy, 2020b, Matolcsy, 2020c). On the fiscal policy side, after 2013, when the European Union exited the Excessive Deficit Procedure, it was observed that the fiscal measures of a fiscal nature and the tax reduction process were slowed down. There was no single-digit reduction in personal income tax, no further reduction in corporate profit tax, which, by association with the current period of the pandemic crisis, could have reflected stronger reserves and solvent demand, both in the retail and small business sectors. However, despite the performance of the previous decade, which was still successful, and despite the consistent central bank policy, the national currency and the country's international debt rating have been continuously adversely affected. As a result of the weakening of the national currency, also by external market players, and the balance of the stalling reforms, we have achieved a situation where, although we have been outstandingly successful compared to ourselves and to previous decades, our performance to catch up in the international ranking, especially in the Central European region, leaves much to be desired. See Table 1, which shows the rate of improvement and catching up.

Table 1: GDP per capita at purchasing power parity in the EU-28 as a percentage

Country	**2010 (%)**	**2019 (%)**	**Change in catching-up rate (%)**
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, 2020 (euro figures as a percentage of the GDP)

The fact that our regional competitors are either ahead of us in terms of catching up or are already at a higher level of development than Hungary should therefore spur economic policy to take measures aimed at even stronger innovation (for a more informed look at our competitiveness problems in an international comparison, see Csaba, 2018).

The Impact and Management of the Covid-19 Crisis

Although the "visits of the vanguard of death in the form of epidemics" (Bruckner, 2020 b) were quite frequent in Hungary in the 20th century, we do not have an easily recalled or adaptable crisis management methodology in this field. Hungary's ability to emerge from the crisis without relatively major shocks is well supported by the sound pre-crisis public finance fundamentals and the basic philosophy of current crisis management, which seeks to prevent major setbacks and breaks through the development of endogenous factors. The crisis management mode therefore shows a certain continuity with the proven economic philosophy and practices of the previous decade. In this way, economic agents essentially perceive the evolution of their demand as their primary concern, so the main objective of the course is to achieve its goal through demand management (raising). It is not, therefore, the reduction in solvent demand experienced in 1995, 2006 and 2008 that is the practical manifestation of the current measures, but rather the expansion of solvent demand. In other words, it is an additional source of funds for economic operators, which can be used to maintain investment and purchases. However, both corporate and household subsidies are linked to performance, or at least to the availability of labour or the maintenance of firms. Hungarian practice ignores the practice in the United States and many Western European countries of providing social income on a subjective basis (not linked to labour market activity). In essence, the aim in Hungary is an economic recovery based on expansion – see below on investment dumping – which will obviously not be without efficiency requirements, and a certain 'business-like' and modernising approach should be expected of the recipients of the subsidies. Obviously, the weakness of our international competitiveness, referred to earlier, and the negative impact of the efficiency and competitiveness measures that were put on hold after 2017, and the associated failure to further increase solvent demand, will make the recovery more difficult. The challenge for the current decade is to stabilise public finance positions, avoid a rise in unemployment, and to cling to the "rescue boat" of international competitiveness, i.e., avoid getting stuck in the middle development trap, which has much written literature on the subject (see for example Gill & Kharas (2007), Ohno (2010), Kolozsi (2017). The dangers of getting stuck in the middle-income trap are even more pronounced in times of a epidemic crisis in an environment of more limited public and central bank support, especially if the recovery period is protracted and the new growth period that is being built up would be fraught with financial imbalances. In other words, if for whatever reason the transition to a knowledge-based economy is delayed, the chances of Hungary getting stuck in the middle-income trap or even slipping back to an even worse position increase exponentially.

For the period 2020-2022, attention may still be focused on the recovery period. At the outbreak of the crisis, various theories and alternatives were put forward regarding the type

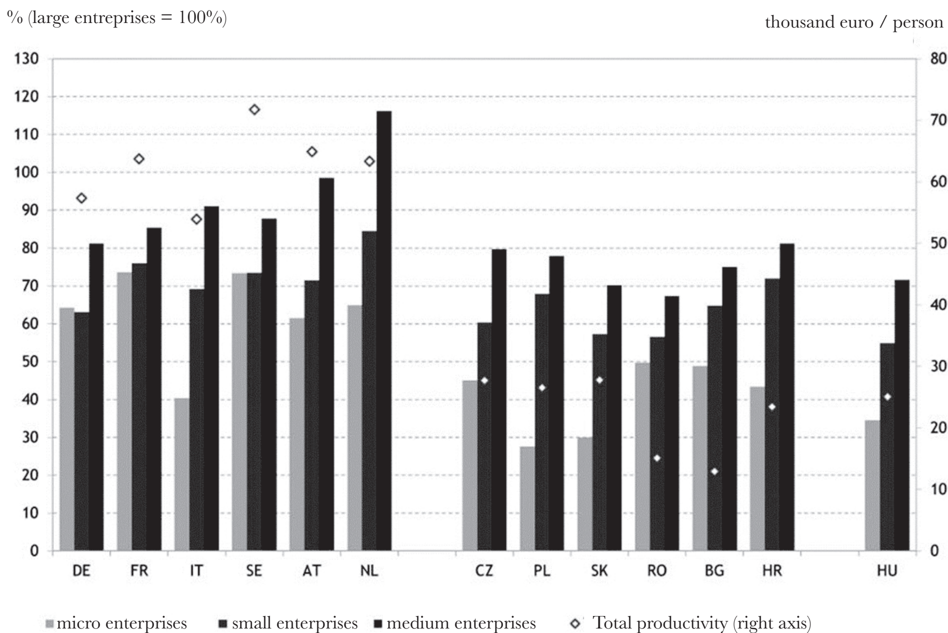
and course of the crisis, which are represented by the letters and synonyms of the Hungarian alphabet. The "V" theory, based on the logic of rebound, held for a few months in the spring of 2020. In other words, the economy will only bear the negative consequences of the crisis for a short period and will return to the normal level almost immediately after the pre-crisis situation. This theorem was basically inspired by the momentum, or rather the revival, of the hyperactive fiscal policy of 2010-2013 and then of the even more hyperactive monetary policy from 2013 onwards. Although the crisis management envelope was set at 18-22% of GDP in spring 2020, the largely uncompetitive (and at the same time subsidy-dependent) domestic ownership of companies has received substantial central bank and government support, soft loans and payment moratoria, but has hardly been able to move from a constrained to an expanded or re-inflationary phase. On the other hand, this economic crisis is a consequence of the epidemic, and the prolonged period of vulnerability (two years now) is hampering recovery. Theory U is like Theory V, with the addition that the economic situation is at its lowest point for a long period and then stabilises before recovering permanently. The 'W' theory predicts a rollercoaster-like fluctuation of the economic situation, i.e., the economic situation changes, recovers and then falls back again depending on the epidemic wave. The 'L' theory (based on the Hungarian acronym), on the other hand, envisages a sustained downturn, which is the least favourable scenario. The outcome of the epidemic crisis in Hungary can be better understood by the so-called "K" theory, which focuses on the decisive impact of the crisis on different social groups, geographical regions, sectors and industries, rather than on the aggregate outcome at macroeconomic level. It also seems to be proved that tourism (Árva - Várhelyi, 2020), catering and other service sectors are more affected by the crisis, but no sector can avoid the downturn, as the willingness to buy and invest - especially from own resources - is still hesitant or even declining. (For more on the nature of the crisis, see Czeczeli et al. 2020). However, the high share of Hungarian small and medium-sized enterprises in the service and tertiary sectors could cause protracted problems, and if the situation in the sector does not improve as a result of state aid and the recovery in demand, a significant labour force could be released from these areas, triggering protracted unemployment problems.

Despite the fact that the central bank and budget support has largely not gone to a competitive SME sector, there is no delay in recognising and addressing the crisis and in taking action. And the efficiency delay, namely the judgement of effective crisis management measures, can only be interpreted in the context of the previous decade, but with the fact that the government did not revert to unconditional social benefits and instead called for job retention, which can only be described as an optimal decision that anticipates efficiency requirements.

However, it would be advisable to focus more on the competitiveness of small and medium-sized enterprises in the defensive phase and then in the growth phase to be relaunched. This group of companies, which is mainly domestically owned, accounts for 75% of business employment and only 40% of GDP, which is a competitive disadvantage. Plus, it absorbs 25-40% of the investment that can be drawn from national and EU funds. The productivity performance of this group of companies is particularly modest by international standards. See Figure 1. The employment weight of the SME sector is therefore significant, but the potential bankruptcy of this group of companies could lead to serious unemployment problems. Espe-

cially if, despite the support they receive, they do not feel the incentive to modernise, merge or improve efficiency. As a result, the main problem in Hungary may not be the fall in GDP, but the massive loss of labour from jobs linked to SMEs. After all, international companies have felt the crisis more modestly, are still able to develop, have competitive plant sizes and technology, but employ barely 20-25% of the workforce, and that too in cooperation with the medium-sized companies that work for them. Although this critical group of micro- and small enterprises (in many cases, 1-2 employees) are not even included in the GDP calculation methodology of the Hungarian Central Statistical Office (KSH), they are quasi-irrelevant from an economic point of view, but their socio-employment impact is enormous.

Figure 1: Productivity data of the Hungarian SME sector in international comparison



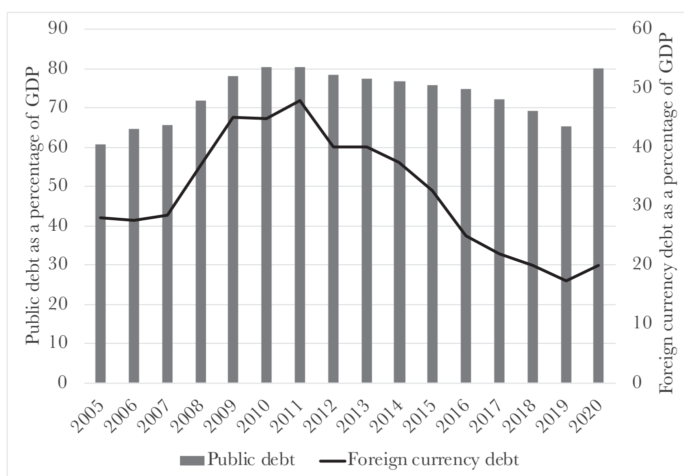
Source: MNB (Hungarian National Bank), 2020

The employment weight of the SME sector is therefore significant, but the potential bankruptcy of this group of companies, or their subsequent "silent" exit from the market as state aid is reduced, could lead to serious unemployment problems, a risk that should be realistically considered. The productivity level of Hungarian micro-enterprises is around 30-32% of that of large Hungarian enterprises, around 50-55% for small enterprises and around 70% for medium-sized enterprises. The "euro-producing capacity" per capita for different company sizes is also low, compared to both neighbouring and Western European countries (See Figure 1).

Budgetry and Monetary Positions - Sources of Crisis Management, Threats

In 2020, the Hungarian economy will have experienced an economic downturn of 5.2%. However, the costs of epidemic control, the fall in production and the resulting state subsidies to bridge the gap have also increased the budget deficit. As a result, the public debt, which had been eroded over a ten-year period and represented some 15-20% of GDP, was rebuilt in a year (see Figure 2 for a 'runaway' vision of public debt).

Figure 2: A vision of runaway public debt: public debt and foreign currency debt-to-GDP ratio 2005-2020



Source: MNB (Hungarian National Bank), 2020

At the end of 2021 - early 2022, the debt-to-GDP ratio is already positioned in the range of 83-85 percent, and the foreign currency-denominated ratio is also turning negative again. For 2021, the budget has been revised to a deficit target of 7.5 percent. The budget law for 2022, to the displeasure of the Fiscal Council, assumes a deficit of 5.9 percent and a debt ratio of 79.3 percent, suggesting some excessive treasury optimism. The government's target for GDP growth is 5.2 percent, although foreign analysts see a 6-6.5 percent jump as possible, but this is undoubtedly a consequence of the low base year but referring back to the structural-competitiveness problems that are driving growth, the situation is far from promising. Although GDP growth in the fourth quarter of 2021 was 7.1 percent, making Hungary the second fastest growing country in the European Union, which is a good justification for the efforts.

It can be assumed that the Hungarian economy will reach the level of the end of 2019 by the end of 2022 but will most likely be burdened by structural problems. In other words, the bulk of growth will be driven by international firms, and subsidies poured into the SME sector may continue to provide only an extensive, short-term pay-off. Against this background,

the strengthening of the economic stimulus functions of fiscal policy, rising government bond market interest rates and the increase in the foreign exchange rate should make debt management and competitiveness promotion policy a priority.

The increase in public spending, partly for investment, plus net common budget support from the European Union of around 1,500 billion forints, equivalent to 2.7% of GDP in 2021, and 2,500 billion forints under the EU's Reconstruction Fund, are otherwise subject to rule of law conditions, and the HUF 4 000 billion requested from our Chinese and Russian partners for investment purposes could cause real investment dumping in the Hungarian economy, which already has a high investment share, and (also) cause inflationary and foreign trade problems. Hungary's investment rate has been 28% of GDP in recent years, and the public investment rate is 6.5%. Strong investment activity on the one hand and high projected increases in household incomes (also) in the coming years on the other hand will boost solvent demand considerably, leading to an economic-demand glut with inflationary pressures. The strong - and difficult to manage - investment multiplier is also expected to further worsen the already far from positive balance of payments and external positions, as a rise in foreign purchases (imports) is very likely. These investment items are high relative to Hungary's GDP of around 48 thousand billion forints (around 324 billion USD in purchasing power parity) at end of 2020 and are also putting significant inflationary pressure, for which countervailing measures have already been initiated through monetary policy instruments, partly by the central bank cutting back on corporate refinancing and raising the base rate. It is also a sign of restraint that, in addition to the already substantial investment resources, the government has not, for the time being, applied for a loan quota of HUF 3,384 billion from the EU's Reconstruction Fund.

Looking at the developments in the international monetary space (Borio & Disyatat, 2021) and the recent reaction of the Hungarian National Bank (MNB), it can be seen that the drastic rise in public debt and inflation is forcing central banks, including the Hungarian one, to review the expansionary monetary policy of the previous decade.[1] At the present time, the focus is on fiscal policy reserves, in some places restraint and even the possible deficit reduction, and the disciplining power of the Fiscal Council, while monetary policy (instead of helicopter money) should focus on price and financial stability, which can (classically) further serve sustainable development. In the international arena, central banks need to neutralise the inflationary effects of rising budget deficits in governments that may not exercise strong fiscal discipline. Meanwhile, inevitably, the focus of fiscal policy should also be on growth and the proper structure of the economy. The COVID-19 crisis has brought to the fore differentiated considerations between monetary and fiscal policy, rather than a one-way demand stimulus, facing even an unprecedented economic collapse. The two policies have worked together 'smoothly' over the past decade. But there are questions: will they continue to do so as the crisis fades and the potential tensions mount?

The role of central banks, including the Hungarian National Bank (MNB), in the new type of monetary path can be directed beyond the traditional role of moderating inflation (without endangering it) to building a renewed, truly more modern economic structure. Our post-crisis manpower will be dominated by new directions of globalisation, digitalisation, the

management of growing debts, the revolution of money, the green economy, changing consumer habits, the problems/challenges of an ageing society. Global value chains are expected to shorten, supply bases to diversify, safety stocks for manufacturing to increase. The digital economy, which currently accounts for 8 percent of GDP in Hungary, will be the raw material of the 21st century, with data replacing raw materials as the new central resource. Internal tensions within the European Union, the fault lines between North and South, are likely to intensify. The challenges are likely to be met with increasingly local responses, and the role of international institutions may even fade. The role of the East-Central European region could be enhanced by its expected (relative) stability and prosperity. The risks associated with the global organisation of production could be mitigated by a *back-to-basics* approach, i.e. the exploitation of the natural environment and the benefits it brings, and the increasing value of food self-sufficiency. Recognising the risks of food and energy supply from international trade chains, most countries will seek to promote their own food and energy security. Obviously, 'bouncing' on these "rescue boat" will require competitive, innovative companies capable of participating in these processes, rather than those dependent on state subsidies and struggling to afford a possible increase in the minimum wage. It is along these lines that the Hungarian National bank (MNB) is "developing" its new type of monetary policy, one of the main results of which is already the inclusion of the criterion of promoting sustainable economic policy in the Central Bank Act, that is as the fourth monetary objective of the central bank, which has been given a sustainability mandate. The *promotion of a "green turn", which has become even more prominent in the wake of the COVID-19 crisis, is a priority for the financial sector and central banks.* Central banks cannot ignore climate change and must respond to it, but further discussion and sharing of experience is needed on the extent of central bank involvement. The COVID-19 has significantly "brought forward" the strengthening of green renewal and the circular economy, as the epidemic situation creates new opportunities for green and digital transformation, which can be more effectively achieved through international cooperation, but for this to happen, a country needs to become a meaningful partner (participant). The central bank's monetary toolkit can serve economic and social stability by focusing on these objectives, by promoting financial stability and growth, and not by (exclusively) continuing the quantitative easing (expansionary) policy of the last decade.

A Further „Aggravating Factor": The Impact of the 2022 Spring Parliamentary Elections on Economic Policy

Despite the announcement of the postponement of certain non-essential public investments until 2022, and still no concrete promise of support from the European Reconstruction Fund, the inflationary spiral is still causing many problems for the Hungarian economy. The amount of money in circulation will be significantly boosted by the government's Family and Housing Support Programme, the 36 percent increase in earnings projected for 2019-2022 (despite which productivity has only increased by 6.5%), the refund for families with children after the 2021 tax year (up to HUF 809,000 per family)[2], and the ongoing pension increases, minimum wage and skilled worker wage minimum adjustments. There are significant wage

and social transfer pressures in Hungary, which will increase inflation. Crucially, however, the increasing monetary deterioration is still only the result of spill-over effects from the international arena. Hungary is not unaffected by the weakening of supply chains and rising prices of hydrocarbon derivatives as a result of the crisis. Since 2013, the government has been able to significantly reduce household energy prices through price controls (rationing), and building on this logic, fuel prices were fixed in late autumn 2021, and from 1 February 2022, basic food prices were set at October 2021 prices. With these measures, the government plans to control the acceleration of fuel and food prices towards the end of the year and, as a result, to curb inflation.

If we put the Hungarian macroeconomic data in an international context, there is no obvious negative circumstance or effect. GDP growth in the US and China was 4.9 percent in 2021, the EU average was 4.1 percent and the euro area 3.9 percent, while the Hungarian economy, which is strengthening again, was stronger than all of them, at 7.9 percent7,1 in January 2022. The inflation rate in 2021 is 6.8 percent in the US and 4.9 percent in the euro area. The Czech Republic, Poland (7.7%) and Romania also have inflation rates above the tolerance band. In Germany, 6 percent. The corresponding figure for Hungary in 2021 was 7.4 percent (annualised), while core inflation was 6.4 percent, and there is already evidence that the acceleration in inflation has moderated by early 2022 due to the fuel and food price freeze. Obviously, a comparison of growth and inflation figures, including the more favourable Hungarian figure, should not be used as a basis for drawing deeper conclusions, and it should also be stressed that the increase in public debt between 2010 and 2019 is not a reflection of the fact that the inflation rate is expected to rise by more than 20 percent, inflation and interest rate cuts in the period between 2010 and 2019, the Hungarian fiscal and monetary policy has performed well, but the increase in debt-to-GDP ratio by almost 20 percent and the rising interest rate environment make debt servicing a serious challenge for the public finance authorities.

The Hungarian National Bank (MNB) reacted to the inflation and the underlying "drain" of the swollen money supply by reducing its previous unconventional instruments (the Growth Loan Programme, government bond purchases), and then, to offset the depreciation of the national currency, it started an interest rate hike cycle. Between 22 July 2020 and 2022, it raised the base rate from 0.6 per cent to 3,4 02.23.0 per cent in several steps. Between 22, September 2021 and 23, February 2022, the O/N increased from 0.7 percent to 3.4 percent, while the interest rate on the reserve base increased from 1.65 percent to 3.4 percent. The central bank's countervailing measures, and in particular credible monetary policy, had the effect of improving the exchange rate of the forint by January 2022 (strengthening the forint by more than 15-20 cents). In mid-February 2022, because of the events of the Russian-Ukrainian war, the forint depreciated again close to HUF 370.

A new element in the central bank's course to improve financial stability and competitiveness in the longer term is the enforcement of the green mandate. In particular, the Hungarian National Bank (MNB) is seeking to contribute to mitigating the ecological, economic and financial risks arising from environmental problems in the area of financial regulation. A major milestone is that the National Assembly decided on 28 May 2021 to make the Bank's manda-

te the first in Europe to include the promotion of environmental sustainability. In line with its tasks as set out in the Central Bank Act, the Hungarian National Bank's (MNB's) mission is to develop its monetary policy instruments without compromising its primary objective of price stability, while ensuring long-term environmental sustainability, thereby contributing to Hungary's sustainable catching-up. Within the framework set by law, and without compromising the achievement of its other objectives, the central bank is able to use this mandate to support economic transformation in a sustainable manner and the achievement of international and domestic climate objectives. It can increase the climate-awareness of the financial system, contribute to consumer and social awareness and the adoption of best international practices, and assess the climate relevance of monetary policy instruments (for more on the Hungarian National Bank's (MNB'S) Green Programme, see Deák, 2021).

The continuity of the current crisis response methodology and the country's return to a consolidated catch-up path could be very much influenced by the parliamentary elections in April 2022 and the economic policy that will emerge as a result. Although the diverse and coordinated economic policies of the opposition coalition that is about to replace the current government are still taking shape, the mainly external pressures on the current government could overshadow economic consolidation. 2022 is a sensitive period both globally and domestically. Above all, there is a risk that the crisis management measures and macroeconomic data so far are not considered sufficient by foreign investors, leading to higher risk premiums on the bonds of the Hungarian government, which is now financing more of its public debt from abroad, and possibly a resumption of the depreciation of the forint, leading to a further deterioration of the external, balance of payments and budget balances. But regardless of the political winds, a possible new wave of the coronavirus pandemic and rising defence costs could also have a negative impact on the macroeconomic path. Furthermore, the financing of public debt, again high as a share of GDP, either from domestic markets or from abroad, could become quite acute, potentially triggering liquidity difficulties, especially in the absence of EU Reconstruction Fund transfers. The only alternative to mitigate negative scenarios is to maintain the credibility of fiscal consolidation and to consistently pursue the anti-inflationary measures taken by the central bank so far.

Conclusion

If we look at the epidemics of previous centuries, the basic survival strategy was to stay put, which is difficult to do in today's over-mobile society. Yet the current crisis can only bring about a revaluation of local, national economic roles through 'stronger' and more 'purposeful' (more localised) fiscal and monetary policies. Epidemics later triggered demographic changes (population growth), replacing or even outnumbering the deceased population, and even the phenomenon of ethnic shifts (migration) was common. As well as those who survived the epidemic became stronger and more experienced than their predecessors, because they had greater vitality and, through them, increased resources. The fields had fewer people to support, the forests had more game, more meat could be put on the tables of the families that survived the epidemic, child mortality was reduced, and later, under capitalism, the number

of workers was reduced, and wages rose because of the stronger demand for labour on the market. For example, the plague 'paved the way for a renaissance', 'and in the first half of the 19th century, the great cholera epidemics that devastated our country led to health conferences being held from 1851 onwards in the name of disease control' (based on Bruckner, 2020a).

The likely impact of the COVID-19 crisis on the fiscal space can perhaps be defined as the new challenge facing monetary policies, which for more than a decade after the 2007-2008 crisis have been characterised by quantitative easing, and fiscal regulation, which has been less focused on competitiveness (see in particular the case of Hungary). Public money and central bank money must be used only in those areas that are truly efficient and useful. Fiscal and monetary regulation that follows the Prussian norms of Central and Eastern Europe must be replaced by solutions that improve social, economic and corporate efficiency.

Further pressure on the stability of the Hungarian public finance sector will come from the outcome of the parliamentary elections to be held in spring 2022, especially given that the current opposition political party – due to its heterogeneity – does not have a coherent economic policy and will obviously not be able to curb government policies that would stimulate solvent demand, while the current government side would also have a difficult task from a social point of view to curb its own income transfers (wages, pensions, tax cuts). Thus, the old-new type of consolidation role for the Hungarian National Bank (MNB) (curbing inflation, developing the green economy, withdrawing 'excess' money from the banking market) promises to be a large and lengthy task. (Read more: Hungarian National Bank's (MNB's) Green Programme 2019, 2021).

Notes

[1] While it is not excluded that the Hungarian national Bank (MNB) will return to an expansionary monetary policy (an active role in growth loan programmes and public debt refinancing), this may only happen after inflation has been brought under control.

[2] On 17 February 2022, the 360-day average price: 358.38 HUF/EUR

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