

The Dynamics of Monetary Policy

Welcome by the Editor-in-Chief



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The role of central banks has also increased since the 2007-2008 crisis. Worldwide, they play a decisive role not only in the consolidation of commercial banks, but also in the management of the public debt, and even in helping the misguided, overspending fiscal policy courses. In the crisis process that has been going on since 2020 and is now in its fourth year, the main problem has become galloping inflation. The national banks have also taken a leading role in overcoming this. Furthermore, in the construction of the energy-saving economic structure, the circular and green economic model while new dangers are on the horizon. In his book published in recent weeks, György Matolcsy¹ defines the new waves of the pandemic, or one of its consequences, the shopping frenzy following the pandemic, as such a crisis instigator. These not-so-lucky phenomena reduce savings, which is also an incentive for money to deteriorate, and at the same time it is a phenomenon that sacrifices the future for the present. And the Russia-Ukraine war has added to all this: a European energy crisis as a result of Brussels' misguided sanctions policy. In its domestic remedy, the Hungarian National Bank is once again (with an unchanged stance) in the collision zone of unfavorable developments, and at the same time at the epicenter of the search for solutions and even of effective crisis management.

If we go back to the beginning of the Hungarian system change, the picture of how the Hungarian National Bank is perceived is also varied. We can say that the situation was not better before, with the exception of the "golden era" between 2010-2019, which brought about the reorganization of the state financial space of the Hungarian state and a rich and eventful period of success.

In 1987, the two-tier banking system was restored. The commercial banks that had been "nationalized" forty years earlier were removed from the Hungarian National Bank. The period of building the social market economy began during the government period, which was still determined by the early, Lakitelek (a municipality in Bács-Kiskun County) ethos, within the framework of which the system-changing Hungarian central bank played a leading role in lending to agricultural producers and small and medium-sized enterprises that chose to become independent farmers. Moreover, it also helped the government of the time in financing the national debt. However, the dark clouds already gathered during the MDF (Hungarian Democratic Forum) government, the refinancing of the real sector with preferential loans soon ceased, and even later the Hungarian National Bank was withdrawn from lending to the national debt.

The steps to deprive the entire Hungarian economy of its central bank were explained by the establishment of the central bank's independence, behind which was the continuous suggestion of the perspectives of the EU accession. Contrary to misleading expectations and false claims, it can of course be stated with certainty that the premature creation of the central bank's independence at the time, its complete separation from fiscal-government policy, i.e. the elimination of its refinancing functions, did not prevent the overspending of the state budget, since the main reason for the deficit was the budgetary on the income side of the balance sheet, there was an underachievement of tax revenues. The international companies that were established received almost 100 percent tax benefits and even establishment support from the state, while domestic companies were burdened with disproportionate taxes, the fulfillment of which certainly hampered their ability to develop and accumulate capital, and they went bankrupt. The small and medium-sized enterprises that were left without central bank loans were left without longer-term loans with reduced interest rates just when they would have needed cheaper and more predictable sources the most. Dumping- priced products poured in from the West, burdened with lower and lower customs duties, with which the domestic producers could not compete effectively, and their chances of survival and development became minimal.

Hungarian political life at that time only created domestic enterprises and the domestic middle class in thought, at the level of government programs, while the reality was the opposite, the rejection of domestic urbanization. The social modernization based on an independent form of ownership, an independent existence, the independent bourgeois form of existence, preferably representing a National-Christian value system, has "gone to waste" in Hungary many times, one might say "burned to ashes".

The Central Bank insensitively observed the excessive indebtedness of families and municipalities, and then, when the catastrophic exchange rate deterioration occurred in 2008, the Hungarian National Bank of that time did not consolidate and did not rush to help those in trouble.

For the sake of a comprehensive historical obituary, let us also add that those economists who criticized the central bank's disconnected practices in the first quarter century of regime change, or later, when they criticized the lack of consolidation of foreign currency loans, were certainly outside the mainstream of neoliberal economics. Their academic and professional careers began to falter...

It took until 2013 for Hungary's central bank to put its activities back into a macroeconomic, national economic plan and social context. The Growth Loan Program, implemented in the previous decade, gave thousands of small and medium-sized enterprises a chance to thrive again, while providing a foothold and a safe haven for thousands of families. And the Hungarian National Bank's monetary policy of easing the financing of public debt has significantly reduced the public debt-to-GDP ratio, lowering the interest payable on public debt by thousands of billions of euros. This has been a massive relief for the Hungarian state and ultimately for the Hungarian economy and society. Since the end of the previous decade, the Hungarian National Bank has been increasingly vocal in its proposals to modernize the economy and increase the efficiency of small and medium-sized enterprises. The Bank has been increasingly vocal in its opinions on energy security and the development of an efficient

agricultural structure. It is unfortunate that those who have been pursuing a flawed central bank policy for decades are now the most vocal critics of the monetary policy of the current Hungarian National Bank leadership.

The articles from the National Bank published in this issue of the Citizen's Review are therefore worth reading through this lens. For these studies provide answers to the question of what the Central Bank is doing for the economy and society as a whole. And let us also reflect on what a former central bank would do in the current situation, which was an uncritical servant of the IMF and World Bank expectations imposed on the country. What would a central bank that was the "main patron" of the previous government's austerity economic packages do? What would a former central bank leadership do, which assisted the country in taking on heavily indebted, high-risk foreign currency loans and looked on impassively as foreign currency-indebted families struggled in foreign currency debt?

The intention to reduce inflation to a minimum level, as expressed by Prime Minister Viktor Orbán, requires, in addition to easing the failed Brussels sanctions policy, but also a shift towards effective competitiveness of the Hungarian economy. Small and medium-sized enterprises must be more efficient, more productive, more future-oriented and more energy-efficient. Be more food self-sufficient. Produce more, produce smarter, and rebuild the Hungarian food industry. To do this, let's give tax breaks and loans with low interest rates and favorable conditions. Produce more energy, consume less. Let us build wind turbines, let us use the potential of hydropower. These should be accompanied by low-energy investments and energy-efficient housing. Promote energy production and less energy use through tax incentives and subsidies.

And as a result of all this, we should have achievements that can be ensured largely by our own efforts and by our own organization, that is, let us take more decisive steps in the direction of a sustainable economy! In addition to growth, let us restore the financial balance, as in the previous decade, at the public finance, local government, corporate and family-household levels. And most of all, to refer back to the main challenge of creating a stable economic environment by reducing inflation to a minimum level.

In the 4-6th Hungarian-language issue of Volume XVIII, we will present methodologically supported essays on this reconstruction, backed up by scientific methodology.

It is worth reading the *Polgári Szemle*!

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Editor-in-chief of *Polgári Szemle*

NOTES

¹ György Matolcsy (2022): On the Edge of Times: The rerun of the 1940s and 1970s. PublishDrive. The referenced idea is from the section entitled The Patterns of the Crisis. p. 25

Matolcsy György

Az új évtized mintázatai

On the Edge of the New Decade



Összefoglalás

A 2020-as évtized első éveinek válságai, kínálati sokkjai, megugró inflációja több ponton is hasonlóságot mutat a nyersanyagpiaci események által uralt 1970-es, valamint a háborús 1940-es évekkel. A '70-es évek gazdaságpolitikai hibái megismételhetők, de el is kerülhetnek, aminek érdekében fontos tanulni az 50 évvel ezelőtt hibákból. A mostani évtized első három éve a válságkezelés jegyében telt, ami hátráltatta a hosszú távú, strukturális döntések meghozatalát. A „Nagy mérséklődést” (Great Moderation) felváltja az instabilitás kora (Great Tension). A jegybankok jelenleg világszerte az infláció ellen küzdenek. A külső és a belső egyensúly egy kis, nyitott gazdaság számára változatlanul kiemelten fontos, ezért az infláció mellett a folyó fizetési mérleg és a költségvetés hármas egyensúlyát egyszerre kell megteremteni. A 2010-es évtizedben már bevált egyensúly és növekedés képletét a 2020-as évtizedben a fenntartható egyensúly és fenntartható felzárkózás hosszú távú stratégiájává kell továbbfejleszteni. A folyamatban a jegybanknak továbbra is hangsúlyos szerepet kell vállalnia. Rövid távon az infláció letörése a legfőbb feladat, biztosítva a magyar gazdaság egészséges működéséhez elengedhetetlen árstabilitást. Évtizedünkben végérvényesen erősödik a zöld átállás és az egyre szélesebb körű digitalizáció szükségessége. A folyamatot a jegybankok a teljes pénzügyi közvetítést érintő átfogó stratégiákkal és megfelelően célzott intézkedésekkel gyorsíthatják. Az évtized meghatározó karakterjegye lesz a jegybanki működés megújítása. A meghatározó innováció – amivel a világ jegybankjai most még csak kísérleteznek – pedig a jegybanki digitális pénzek bevezetése lesz, ami új korszakot is nyithat a pénztörténetben.

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Kulcsszavak: monetáris politika, megatrendek, versenyképesség, egyensúly, válságkezelés, koronavírus-járvány, zöld pénzügyek, digitalizáció, digitális jegybankpénz