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FROM THE DEBT TRAP TO A SOVEREIGN ECONOMY

Introduction by Minister of Finance to the thematic issue of Economy & Finance published on the 10th anniversary of the Pénz7 event series

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One of the most frequently used visual aids in economics is Maslow's pyramid illustrating the hierarchy of human needs. Security of existence is at the very bottom of the pyramid, and indeed, it is one of the most fundamental needs in our lives. The scope of the concept had become ever broader over human history, and it means something very different to us today than to our predecessors a few centuries ago. The most significant 'instruments' of existential security in the 21st century are undoubtedly money as well as financial products and services. Just as we learn to master our instruments in all other areas of life, it is equally important to acquire the necessary skills in the case of money. But money is an artificial, man-made instrument and its effective use cannot be learned the way one learns to walk. You do not need a theoretical basis for walking. But that is generally not the case in finances today. Over the first decades after Hungary's transition to democracy, many have learned their lessons from experience at their own expense, because they were not prepared for the changes. Hungary has come a long way over the last decade or so, from the brink of sovereign default towards an increasing self-financing capacity. We should take a brief overview of those preliminaries to better understand the significance of financial awareness.

Socialist planned economies prevailed in Central Europe until 1990. That externally imposed, unrealistic system – partly for ideological reasons – got people out of the habit of being financially aware. And unfortunately, what we do not know, we usually do not even know of. So we first had to recognize that countries of the Eastern Block, including Hungary, are sorely lacking in knowledge of the correct use of money, in financial culture. It took almost the entire 1990s for that realisation to settle in, but it was not before 2010 that effective steps were taken towards recovery. Hungary was in an unfavourable state in 1990 in several respects. The economy had a long record of borrowing and reckless fiscal management. At the same time, Hungary faired very poorly in using borrowings effectively, let alone repaying them. For 40 years, the upcoming generations have been groomed on that bad example of a regime and its state-operated companies that denounced personal property per se. And you obviously do not want to improve or develop something that you denounce. In other words, financial awareness had a negative prestige during Socialist times.

After the transition, the government imposed greater and greater cuts and austerity measures to mend the gaping budget deficit. As in anywhere else in the world, the Hungarian real economy responded by going underground. The black economy, hidden income and manoeuvring gained dominance. It should be added that central guidance did not help either – spontaneous privatisation was followed by a period of bank failures and bank consolidations. The word 'money' carried basically negative connotations, linked to problems such as debt, bankruptcy, to owe and insecurity. Positive connotations, evoking solutions such as opportunity, means, investment and to prosper, came rarely to mind.

The time horizon of thinking about money was also restricted as people without any savings and heavily in debt plan more for tomorrow than for the longer term. By 2010, when we finally got the opportunity to govern the country for an extended period, not only the central but also local governments, enterprises and families were indebted. Let us recall some figures to illustrate its magnitude. Public debt was above 80% and more than 300 000 Hungarian families with a foreign currency loan were facing imminent bankruptcy.

That was where we started in 2010. We could rely only on this: the whole country felt that time had come for a change. First, we turned the upside-down economic policy back on its feet. This was embodied in the introduction of a work-based economic policy, which offered people the possibility to live on their own income instead of public aids. It brought a significant change also in terms of financial awareness. Supports will never secure independence, opportunities and an outlook for families. It is more advisable to expect those values from one's own earnings. In retrospect, we can establish that the work-based economic policy was an important practical tool of increasing financial awareness in the adult population of Hungary. The model proved successful and created those 1 million new jobs it had promised. It revealed that the reason behind unemployment in many cases was not unwillingness to, but lack of work.

As parallel measures, we assumed local government debts, and developed and implemented a process for the conversion of foreign currency loans into Hungarian forints while keeping the interests of the debtors in mind. Wage setting negotiations have been entrusted to employers and employees to ensure that the state only places as much burden on the economy as it can bear. In addition, we introduced successive tax cuts, but collected the remaining ones more and more efficiently. Fairer distribution of fiscal burdens also had a positive effect on tax compliance, as a result of which Hungary has made one of the greatest achievements within the EU in 'whitening' the economy in the last ten and a few years. We successfully decreased the difference between legally collectible and actually collected taxes from 22% to only 4.4%.

As legislators, it has always been a priority for us to incorporate checks against undue or excessive indebtedness into Hungarian law. The earliest corresponding measure was perhaps the integration of a debt control provision into the Fundamental Law of Hungary. The state thus started transformation with itself. That constitutional rule provides that whenever government debt is above 50% in 'peacetime', only such a central budget can be passed that provides for a reduction of the ratio of government debt. The provision had been applied all along until the COVID-19 outbreak and again after the ripples of the pandemic subsided. We have also reviewed certain detailed provisions on banking, spanning from the operation of the central bank to lending by subsidiary banks. The list of measures would not be complete without mentioning lastly our most important step in public finance, i.e. conversion of the composition of government debt. Actually, that was the culmination of our efforts. While in 2010, only 3% of government bonds were held by Hungarian families, that ratio is now around 22%. Accordingly, Hungary is increasingly self-financing and is less dependent on external operators. That change also means that a larger proportion of the interest paid on sovereign debt stays within the country borders, to the benefit of Hungarian households. Finally, we should also mention our family support scheme, which also has some components encouraging long-term financial planning. Some of those are the prenatal baby support loan (babaváró hitel) and the Family Housing Support Program (CSOK).

The developments outlined above show a revival in financial awareness, which is now back in the public mind and perceptible in economic circulation. However, it has been a lengthy and costly process for all.

Therefore, it was obvious from the start that we should try to protect the next generations from the pit that many of the previous generation had fallen into. Bad decisions at the individual level should be avoided in the future and the best instrument in this concern is to teach the upcoming generations the basics of money management, the gist of the financial system, savings and own resource management already at school age.

The framework for the dissemination of financial knowledge was set down in 2017 in the 'Financial Awareness Strategy' of Hungary, originally developed for a seven-year period until 2023. Among others, the strategy sets out the objectives of implementing financial education in the school curriculum, encouraging self-provision, improving knowledge and accessibility of financial products, and supporting responsible borrowing. These objectives are particularly important nowadays, as ever more complex financial products appear on a constantly changing financial market. Cryptocurrencies have arrived, online shopping is becoming increasingly widespread, customs rules are changing, consumer protection is evolving, and banking and non-banking financial market products are also proliferating. A good understanding of these areas by adulthood is indispensable for being able to capitalise on opportunities and avoiding traps.

The banking sector and the government have established excellent cooperation for increasing financial awareness. The first Pénz7 (Money Week) event series was launched in 2015 on the initiative of the Hungarian Banking Association. The one-week event series organised annually promotes relevant knowledge for financial awareness in primary and secondary schools. Today, seven organisations collaborate in the organisation of the scheduled programmes, in which the Ministry of Finance and Magyar Nemzeti Bank also participate. In 2017, the Pénz7 initiative became part of the Global Money Week international event series, which aims to tackle poverty by targeting children and young people. As financial awareness is also crucial for combating poverty effectively, the programme is of global importance. Since 2020, the Global Money Week is coordinated by the OECD, and no less than 176 countries have joined the initiative so far. Financial knowledge has been disseminated to 60 million children in the participating countries in the form of classes, information brochures, workshops and competitions. In Hungary, the programme covered 1100 schools and almost 150 000 pupils in 2023, with the participation of close to 1 700 teachers.

A recent OECD publication made special mention of the highly popular PénzFutam (MoneyRun) programme item in the Hungarian Pénz7 schedule. The accompanying event takes place in the so-called PénzFutam adventure trails, freely accessible at more than 210 locations throughout Hungary, to extend the knowledge of school-age children in an interactive and playful manner. And if activities are concerned, we should not forget about the recently established Money Museum, which also offers an interactive exhibition on the history of money to youngsters since 2022.

A further example of government-supported methods and tools to mention is the website okosanapenzzel.hu (i.e. 'use your money wisely'). Here, visitors of all ages may find useful material on diverse topics in finance and economy, and access off-the-shelf learning resources and interactive tasks. The so-called ZsetON savings calculator is also available here, helping the younger age groups in keeping track of and managing their daily finances.

Summing up the above, financial education and increasing financial literacy and awareness is a standing item on the agenda of the Ministry of Finance. It is therefore an objective set in the Financial Awareness Strategy to make Hungary an international leader in financial awareness in a few years. Since today's children are the economic leaders of tomorrow, awareness-raising trainings and programmes can contribute significantly even in the medium term to a stronger and more independent Hungarian economy. The success of these programmes is reflected in Hungary ranking 4th among 39 countries in the most recent OECD study on financial knowledge, showing that we are on the right track. On the other hand, the fact that Hungary was at the brink of bankruptcy in 2010 and is now increasingly self-sufficient through the bond stock owned by the population, can be considered an affirmative internal feedback. Hungarians have never been short of ideas and creativity. I am confident that by raising the level of financial awareness we can put that creativity to better economic use and propel the country into a period of innovation and intensive growth of the economy.