Financial and Economic Review, Vol. 22 Issue 4, December 2023, 179–189.

Report on Some of the Sessions of the Hungarian Economic Association Congress*

Ferenc Tóth – Benjámin Nagy – Gábor Szarka – Lilla Bánkuty-Balogh

On 21–22 September 2023, the 61st Annual Congress of the Hungarian Economic Association (HEA) was held in Eger, Hungary. This is the largest annual conference of the Hungarian economics community with one of the most significant traditions. At the opening plenary session, György Matolcsy, Governor of the Magyar Nemzeti Bank (MNB, the central bank of Hungary), Mihály Varga, Minister of Finance, and Péter Ákos Bod, university lecturer, Professor Emeritus of Corvinus University, Vice President of HEA, held a roundtable discussion on economic policy moderated by Gyula Pleschinger, President of HEA and member of the Monetary Council of the MNB. Following this, László Windisch, President of the State Audit Office of Hungary and member of the Board of the Sustainability Section of HEA, gave a presentation.[1] *In this report, we give an account of the bank chiefs' roundtable discussions and the sessions on monetary policy, sustainability and competitiveness issues as well as the need to measure sustainable development.*

Roundtable discussion of bank leaders

At one of the most prominent and well-attended sessions, the *Roundtable discussion of bank leaders*, *Pál Péter Kolozsi*, Director of the MNB's Monetary Policy Instruments, Foreign Exchange Reserve and Risk Management, associate professor at the MNB Knowledge Centre for Sustainable Finance, John von Neumann University, and President of the HEA Finance Section, gave the welcome speech. The roundtable discussion was moderated by *Barnabás Virág*, Deputy Governor of the MNB and member of the Board of the HEA's Competitiveness Section, with senior executives of Hungarian commercial banks. The participants included *Éva Hegedüs*, President and CEO of GRÁNIT Bank Zrt., Secretary General of the HEA, *Ádám Egerszegi*, Deputy General Manager of MBH Bank Nyrt., *Radován Jelasity*, CEO of ERSTE Bank Hungary Zrt. and President of the Hungarian Banking Association,

* The papers in this issue contain the views of the authors which are not necessarily the same as the official views of the Magyar Nemzeti Bank.

Ferenc Tóth: Magyar Nemzeti Bank, Senior Economic Expert. E-mail: tothf@mnb.hu
Benjámin Nagy: Magyar Nemzeti Bank, Senior Professional Secretary. E-mail: nagybe@mnb.hu
Gábor Szarka: Budapest Stock Exchange Plc., Professional Secretary to the CEO. E-mail: SzarkaG@bse.hu
Lilla Bánkuty-Balogh: John von Neumann University, Master Lecturer. E-mail: bankuty-balogh.lilla@nje.hu

[1] Available on HEA's YouTube page: https://www.youtube.com/watch?v=GNWCywpUu74

Pál Simák, Chairman and CEO of CIB Bank Zrt. and *László Wolf*, Deputy CEO of OTP Bank Nyrt., Vice-President of the HEA.

Barnabás Virág gave an overview from the macro side in his presentation entitled *Banking System 2023: after the storm, before the calm?* He highlighted that the global economy was facing serious real economic challenges. The inflationary pressures that have been unprecedented for 50 years and a high interest rate environment that has been unexperienced for two decades at the global level is putting the financial system to a severe test. An important question is whether recent American and European banking market events were harbingers of further systemic risks or merely isolated events caused by a changed environment. Regulatory efforts have been successful and, as a result, the capitalisation of the European banking system is now much more robust than in 2008, and banks are operating in a much safer manner. As deposit-side interest rate transmission is weak, increased net interest income has been a key factor in the growth in profitability of EU banks, which are increasingly being subjected to special taxes to help restore the fiscal balances of more and more countries. As the economic cycle is losing steam, the main risks to the EU banking system are from the real estate market, which is highly overvalued, and from profitability. The big question is whether these developments will have consequences for the balance sheet of the banking system. The resilience and capital position of the Hungarian banking system remains strong, with ample liquidity, but factors such as high inflation, low growth, the declining deposit portfolio, slowing lending dynamics, real estate market risks and, consequently, the sustainability of profitability pose a major risk. However, the return on equity within the sector improved materially in 2023.

The Deputy Governor of the MNB noted that the credit institutions sector had achieved a net profit after tax of HUF 675 billion in 2023 H1, according to individual (non-consolidated) data. This was the highest half-year result since the turn of the millennium. The main source of this was the increase in net interest income received from the MNB, which amounted to HUF 627 billion. Retail deposits decreased by HUF 821 billion between December 2022 and June 2023, but this was amply offset by the liquidity effect of the interest payments by the central bank. The repricing of retail time deposits was significantly below the rise in short-term interbank yields, with strong interest rate transmission only seen for corporate deposits. The lending capacity of the banking system was historically high, but was constrained by a lack of demand. The slowdown in corporate loan growth was a common phenomenon in the EU, with the uncertain economic environment discouraging lending. Corporate demand for foreign currency and short-term loans had been buoyant over the past year, with foreign currency loans requiring close attention. New household lending had halved. At the same time, credit risks had not materialised so far, helped by a stable labour market. The Hungarian banking system had made significant progress in the field of digitalisation.

The first question on the *functioning of the markets and the banking system* was how much more turbulence was expected. Bank executives pointed out that lending had also fallen radically at the international level, e.g. mortgage applications in the USA were at their lowest level since 1990 and retail lending in the euro area was at its lowest level since 2015. This was likely to improve next year. The biggest challenges were confidence, and how the interest rate environment, the war and the green transition would develop going forward.

As we heard, the *European banking system* was in better shape, both compared to the USA and to the situation in 2008, and banks had performed well in stress tests. One reason for this may be that the European Banking Authority was more rigorous and consistent than the US system. On the risk front, the problem of Italian government bonds had emerged. Retail lending was also expected to recover soon, thanks to a stable labour market.

The *profitability* of EU banks may remain high in 2024, as it had this year, since European interest rates might be even higher on average next year than this year. However, this might be significantly affected if further countries introduce bank taxes.

Several factors were behind the significant *deposit outflows*: in the past, sharply falling real wages, and nowadays the draining effect of the government securities market. Statistics showed that the real assets of the public in the banking system were declining and that deposit outflows were not only going into government securities but also partly into investment units as well, and thus overall there was a significant restructuring from liquid assets to investments. In addition, there was a clear reduction in the savings portfolio for a significant part of the population. Alongside the shift towards government securities, there was also increasing demand for foreign currency deposits.

The decline in *corporate credit demand* was much smaller for large companies than for small firms, because while large firms export abroad, small firms tended to produce for the domestic market, where there had been a significant drop-off in demand. According to banking sector representatives, there was a lack of subsidised and targeted investment loans. Improving business productivity and competitiveness would be very important. At present, companies preferred to take out working capital loans and were replacing their existing more expensive loans. Green lending had an important role to play in the green transition, but this was not a task for banks only, support from policy and demand was also required. The vast majority of green lending was concentrated in three sectors: transport, energy and property development.

Barnabas Virág concluded by saying that the banking system would hopefully be able to handle the uncertainties ahead well, and the next congress could be about how to lend more efficiently, improve productivity and accelerate the energy transition in a growth phase.

Session of the Monetary Policy section

The session of the Monetary Policy section focused on the search for a new equilibrium and the impact of the high inflation environment on monetary policy. The session was opened by *Ádám Banai*, Executive Director responsible for the Magyar Nemzeti Bank's Monetary Policy Instruments, Financial Stability and Foreign Reserve Management and Co-Chair of the Monetary Policy Section of the HEA. *M. Zoltán Jakab*, Senior Economist at the IMF and member of the Board of the Monetary Policy Section of the HEA, highlighted the challenges in the current economic environment and economic policy in his opening speech: the coronavirus pandemic had caused both demand and supply shocks globally, and energy shocks not only threatened security of supply but may become permanently embedded in inflation expectations; coordination with fiscal policies was essential for the effectiveness of monetary policies, and a number of factors were pushing towards a change in the equilibrium real interest rate.

Előd Takáts, Chairman of the Monetary Policy Section of the HEA and advisor to the Deputy Chief Executive Officer of the Bank for International Settlements (BIS), presented the liquidity risks arising from the operation of central clearing houses in the context of extreme price volatility in a turbulent market environment. Following the 2008 crisis, the clearing of derivatives transactions, which had previously been concluded on a bilateral basis, was shifted to central clearing houses to increase market transparency and mitigate risks. In the course of its operations, the central clearing house joined the parties that previously transacted directly, depositing liquidity with the clearing house and keeping it available on an ongoing basis in the form of margin to ensure that the given derivative transaction could be closed without expected loss in the event of default by any party, thereby eliminating counterparty risk. However, the amount of liquidity required to be held with the clearing house varied according to market conditions and the value of the given derivative transaction. This meant that counterparty risk was transformed into liquidity risk: in the event of extreme market price changes, the contracting parties would have to transfer large amounts of margin, which could consume large amounts of liquidity. In extreme cases, this withdrawal of liquidity could also jeopardise the proper functioning of institutions. Similar developments had taken place in relation to European gas futures deals in recent years. The military conflict in Ukraine, the EU sanctions policy and other energy market developments could lead to extreme increases in energy prices, even within a single day, which imposed significantly increased margin requirements on market participants holding derivative positions. In the current period of ample liquidity, thanks also to the central bank's handling of the coronavirus crisis, this risk had not materialised significantly and had not caused markets to malfunction, but *Takáts* stressed that, in parallel with the normalisation of monetary policies, greater attention should be paid to the liquidity risks arising from the operation of systemically important central clearing houses.

Piroska Mohácsi Nagy, Visiting Professor at the London School of Economics and Political Science (LSE), former Head of Department and Advisor to the International Monetary Fund, compared the communication between central banks in global dominant and emerging markets. In terms of transparency in central bank communication, emerging market central banks had made significant progress over the last two and a half decades, approaching the Federal Reserve (Fed), the European Central Bank (ECB) and the Bank of England. Moreover, in terms of comprehensibility, their communications were, until the coronavirus pandemic, more transparent than those of the advanced central banks, given the level of education required to understand their publications. A *sentiment analysis* of central bank communications shows that in the years following the 2008 financial crisis and the European debt crisis, and during the coronavirus pandemic, monetary policy communications from both advanced and emerging markets moved in synchronicity, conveying easing messages. However, in 2021–2023, emerging market central banks, including the MNB, started to communicate tightening messages earlier than advanced market ones in response to the unfolding global inflation. A thematic decomposition of communications showed that the Fed, in line with its dual mandate, often included labour market factors alongside inflation, which likely reduced the clarity of its communications when inflation was rising rapidly. Importantly, it had also made quantitative tightening a dominant theme. By contrast, inflation had typically been the focus of the ECB's communication, and the technique of *forward guidance* was actively used until 2022. The tone and themes of the communications of regional central banks were closer to those of the ECB, with the difference that they adopted a more flexible form of forward guidance, with less commitment and thus the possibility of a more data-driven approach. With the exception of Poland, the central banks in the region were rightly still communicating a tightening policy as inflation remained high. Due to the smaller size of their economies, the openness of their financial markets and hence their vulnerability to rapid capital flows, as a special point, the communication of emerging market central banks also emphasised messages about exchange rates. *Mohácsi Nagy* stressed that central bank communication had a particularly important role to play, especially in the rapidly changing economic environment that had characterised recent years. She pointed out that there was room for improvement in the communication of both developed and emerging market central banks, in particular by improving transparency through the communication of fiscal policy coordination and the economic policy mix.

The roundtable discussion following the presentations, moderated by *Ádám Banai*, was joined by *Zsolt Kuti*, Executive Director of the Magyar Nemzeti Bank, responsible for Monetary Policy, Financial Analysis and Statistics. Participants agreed that if a liquidity problem arose in a market stress situation arising from the operation of the central clearing house that jeopardised the efficiency of monetary transmission or financial stability, the central bank should intervene in accordance with its legal mandate. However, the form of central bank intervention was questionable and it was particularly important that it take place within appropriate controls and to the extent necessary. Participants also underlined that the role of central bank communication had increased in recent years. On the one hand, with the acceleration of information flows and financial market movements, central banks needed to convey their messages more effectively and in a shorter time frame to market participants, who were able to respond in increasingly quickly by shifting large amounts of liquidity. This also implied that central bank messages need to be more carefully formulated, as correcting a communication error could have significant costs in fast-moving financial markets that could respond instantaneously. On the other hand, broad and transparent communication was also particularly important for democratic accountability in turbulent times, when central banks needed to provide citizens with non-professional financial knowledge with an understandable account of macroeconomic and inflationary processes and developments in monetary policy.

Session of the Sustainability and Competitiveness Section

At the session of the Sustainability and Competitiveness section, after three presentations, the invited speakers discussed the domestic and international situation of green financing as well as the challenges and tasks for companies from the ESG side and the green transition in a roundtable discussion.

At the full-house event, *Richárd Végh*, CEO of the Budapest Stock Exchange and President of the HEA Sustainability Section, welcomed the participants. This was followed by the opening presentation of *Csaba Kandrács*, Deputy Governor of the MNB, responsible for the supervision of financial institutions and consumer protection, and member of the HEA Sustainability Section's Board of Directors, with the title *The State of Green Finance in Hungary*. He started his presentation by outlining the complex impact caused by the appearance of mankind on the planet's climate. The environmental impacts of climate change had a significant impact on the economy and the financial system, which was a challenge for central banks, including the MNB, to address. The MNB was the first central bank to receive a green mandate. Sustainability was a key priority for the MNB, not only for the stability of the financial system and the impact on the real economy, but also for price stability, which was why in 2019, the MNB had launched its own green programme built on three pillars: measures to address the financial system (mapping environmental risks, developing a green financing environment, improving the resilience of the financial system), and developing relations (education-research, international professional relations), as well as greening the MNB's own operations (making them more sustainable, reporting). The actions of the central bank regarding the financial system were very significant, with the promotion of green lending resulting in green bond holdings reaching HUF 83 billion in 2023 Q2, green corporate loans reaching HUF 459 billion and green housing loans reaching HUF 112 billion. In addition to green lending incentives, the MNB was also working on the development of an ESG[2] methodology for corporate lending and had launched a two-year research and methodology programme with the OECD and the European Commission to assess and address the financial risks of biodiversity loss. Consequently, it could be said that the MNB's green activities were unique in the region.

This was followed by a presentation by *Richárd Végh*, who presented the capital market aspects of sustainability. The main message of his presentation was that sustainability was a competitiveness issue for companies all over the world, not only for large corporations but also for small and medium-sized enterprises. Sustainability had been a high priority for the capital markets for a very long time, as the ESG methodology was first adopted in the field of stock market investing. Companies were expected to operate sustainably by consumers, regulators and investors. Consumers' attitudes were increasingly ESG-conscious, both in terms of yield expectations and engagement, which had a positive impact on corporate operations. On the regulatory side, the European Union had also made sustainable development a priority, which it wished to attain inter alia through emission quotas and their regulation to reduce the carbon footprint (ETS,[3] CBAM[4]). In addition to direct carbon footprint emissions, it also sought to standardise the definition (taxonomy) and the different reporting principles associated with it (CSRD,[5] SFDR[6]). Companies were also increasingly coming forward with science-based issuance

[2] ESG: ESG stands for environmental, social and governance, and aims to monitor the non-financial risks inherent in the day-to-day operations of companies

[3] ETS: Emissions Trading System of the European Union. Under the ETS, allowances, or emission rights, are created for greenhouse gas emission quotas that participating companies or organisations can buy, sell or exchange.

[4] CBAM: Carbon Border Adjustment Mechanism, a mechanism to compensate for the carbon intensity of imported goods ("carbon duty"), aims to make the comparability of carbon emissions between European companies and their competitors that import from countries with less stringent environmental regulations and higher greenhouse gas emissions fairer and more balanced.

[5] CSRD: Corporate Sustainability Reporting Directive. It aims to tighten and standardise corporate sustainability reporting obligations in the European Union.

[6] SFDR: Sustainable Finance Disclosure Regulation. The SFDR aims to promote transparency and comparability of sustainability information in the financial sector and empowers customers to make informed decisions about sustainable investments.

targets (SBTI[7]), and the number of such companies was growing rapidly on the capital markets of developed countries as well. On the investor side, 45 per cent of net asset value in Europe was already held in so-called Article 8 SFDR funds, which were considered sustainable, but the penetration of these funds in Hungary was still very low, at only 2 per cent. The Budapest Stock Exchange supported the competitiveness of Hungarian companies in the context of sustainability through a number of instruments (EU funds, education, training, consultancy, investor outreach) and as a listed issuer it was at the forefront of these initiatives (Xtend platform, ESG guide, BSE Sustainability Report, Green Platform).

In his closing presentation, Government Commissioner *László György* presented the Harmonic Growth Index (HGI) developed by the Makronóm Institute. The HNI was a composite indicator that measured all dimensions of sustainable growth at the macro level, in 6 pillars and 32 hard indicators. By applying these variables, the Index was able to make the sustainable growth of each country comparable on a factual basis according to the ESG criteria framework. The six pillars of sustainable growth were economic, financial, environmental, social, and demographic sustainability, and that it should be work-based and knowledge-based. In terms of socially unsustainable growth, *György* mentioned the example of the United States of America, where GDP grew dynamically between 1980 and 2017, but the income of the bottom half of the population had not grown at all and infrastructure had not developed at the same rate. In terms of demographically unsustainable growth, he mentioned South Korea, where dynamic economic growth had been accompanied by a radical decline in fertility. The comprehensive analysis was the result of around two years of work by the Makronóm Institute and covered the period between 2005 and 2019, including 87 countries. Based on these indicators, we can say that Hungary's development over this period had been balanced and sustainable (significant real wage growth, infrastructure development, balanced budget), and by 2019 it was ranked 29th in the overall HGI ranking, and first in the HGI ranking of developing countries.

The panel discussion following the presentations was moderated by *István Máté-Tóth*, Deputy CEO of the Budapest Stock Exchange. The panellists were *Csaba Lentner*, professor at the National University of Public Service, *Orsolya Oszabó*, consultant at Egon Zehnder Budapest, *Sujit Chaudhuri*, associate professor, board member of the Sustainability Section of the HEA, and *Sándor Vízkeleti*, CEO of Amundi Alapkezelő Zrt., president of the Association of Hungarian Investment Fund and Asset Management Companies (BAMOSZ), board member of the Sustainability Section of the HEA.

[7] SBTI: Science-Based Targets Initiative is a global initiative to help companies and organisations develop and achieve science-based climate targets. The principles of SBTI allow companies to set targets that are consistent with scientifically accepted guidelines for mitigating global warming.

The panel discussion explored the opportunities and risks of ESG from a corporate perspective. *Orsolya Oszabó* drew the audience's attention to the fact that the "S" of the ESG objectives, i.e. the social objectives, were still difficult to quantify, but more and more guidelines and regulations were emerging from the EU. She cited the 2002 initiative to require 40 per cent of board members of public companies to be from the under-represented sex from 2026. The first companies to adapt would gain a competitive advantage. *Sujit Chaudhuri* highlighted that ESG and sustainability had not yet been present in education, while it was a cardinal goal in employment, among other areas. Regarding the sustainability challenges, *Csaba Lentner* highlighted the intensive energy consumption of Hungarian households, a situation that had not improved in recent years. The spread of green credits and bonds could significantly improve energy use, but access to them was still very limited (ease of access, administration). *Sándor Vízkeleti* highlighted the domestic lag in corporate governance as a competitiveness risk.

In addressing the tasks and challenges ahead, *Orsolya Oszabó* stressed the importance of long-term preparation (e.g. bringing up internationally competitive Hungarian female leaders in the last 10–15 years). *Sujit Chaudhuri* pointed out the double standards used by companies in developed countries (different transparency in the home and target countries) and the discrepancy between the return on investment in sustainability (4–7 years) and the actual predictable time horizon (3 years). *Csaba Lentner* stressed the importance of applying accounting principles that ensure transparency. *László György* stressed the importance of meritocracy as opposed to political fads, and *Sándor Vízkeleti* also highlighted the importance of long-term, intentional development work (citing the example of Norway in bringing up capable female leaders).

Concluding the panel discussion and the session, *István Máté-Tóth* underlined that there were clear positive aspects of ESG and sustainability regulation, but there were also controversial points. However, regardless of we think about the details of the rules, they will affect a significant part of domestic companies, and so it was important to support their preparation to successfully meet the new requirements.

Sustainable GDP – the need to measure sustainable development

The session entitled *Sustainable GDP – the need to measure sustainable development* was chaired by *Gergely Baksay*, Executive Director of the MNB, Chairman of the Competitiveness Section of the HEA, who is also one of the editors of the MNB's handbook *Sustainable GDP – Global Discussion Paper* which is currently under publication. In his introductory presentation, Gergely Baksay said that competitiveness was a recurring theme in the opening plenary presentations, which highlighted the importance of measuring quality as well as quantity in economic performance. The question arose: how could GDP be measured in a new way, what were the limitations of this index, and what new ways of measuring economic performance in the 21st century could be used to reflect sustainability? The discussion paper aimed to apply the same approach to measuring economic performance as the publication entitled *New Sustainable Economics* published by the MNB in 2022, according to which the purpose of economic life was sustainable growth and well-being. *Baksay* pointed out that GDP was not intended to measure these factors by definition, but it was also not necessarily an accurate indicator for measuring certain dimensions of economic performance. Developed in the 1930s by Russian-American Nobel Prize-winning economist Simon Kuznets, it was one of the most influential statistical indicators in history, but it was born in the era of industrial mass production and was best suited to measure it. GDP alone was no longer precise enough to assess the performance of digital services, the sharing economy, the platform economy, the distribution of income, household work, voluntary work and the social utility of activities in general. Finally, it did not measure at all "soft" factors such as the state of our environment, our physical and mental health, self-actualisation, the degree of freedom or even happiness, which were important determinants of human well-being. The stated aim of this research and discussion paper was to help develop a measurement methodology that moved from measuring material wealth and prosperity to a comprehensive measure of sustainability and well-being. The authors of this publication would like to introduce an alternative economic measure called *Sustainable GDP* (*sGDP*), which takes into account economic, financial, social and environmental sustainability, in addition to the level of development.

Later in the session, the five invited authors of the discussion paper presented their research in detail. University professor *Magdolna Csath*, Vice President of the Innovation Section of the HEA, spoke about the shortcomings of GDP as a measure of economic performance. She pointed out that GDP was essentially a "flow" index, relying on process indicators such as physical capital investment or consumption, and did not address the "stock" effects of growth on national assets such as the value of natural or human capital. This was particularly important in the sense that GDP consequently prefers a short-term perspective and even positively values overconsumption. Magdolna Csath also highlighted problems related to measuring the performance of the digital economy, such as transfer pricing of value-adding activities in global value chains or the failure to take into account the social value creation of the sharing economy.

Eszter Baranyai and *Lilla Bánkuty-Balogh,* Master Lecturers at the MNB Institute of the John von Neumann University, examined the impact of factors other than GDP on well-being. Among their findings was that economic development and life satisfaction do not show a direct correlation, which made it necessary to investigate the factors of subjective well-being not covered by GDP. Factors influencing well-being were examined along the lines of external (e.g. physical environment, institutions, community life) and individual factors (e.g. personal attributes, health, values and attitudes), and their measurability and relevance for economic policy were discussed.

Gábor Bartus, Secretary of the National Council for Sustainable Development, spoke about the definition of sustainability as a concept and its measurement limitations. He stressed that there is no universally accepted standard for assessing sustainability, as it always depended on context (place and time). He then gave examples of current methods of measuring sustainability, such as resource/capital/asset inventories, composite indicators and modified GDP indicators, and pointed out that the economy actually developed at a different pace when qualitative changes in resources were taken into account.

Pál Bóday, Presidential Advisor of the Hungarian Central Statistical Office (HCSO), presented how the HCSO integrated the indicators of the UN Sustainable Development Goals (UN SDGs) in practice to measure certain aspects of sustainability, under the theme of sustainability and economic growth. He provided insights into factors that were complementary to the national accounts system and were measured by the Environmental-Economic Satellite Accounts, such as resource productivity, greenhouse gas intensity or the evolution of environmental taxes.

After the presentations, the audience had the opportunity to ask questions, and *Gergely Baksay* formulated some closing words. In his summary, he noted that the sGDP project did not aim to change GDP as a measure, as throughout history several indicators had been used in parallel to measure the economic situation and development. For example, the amount of royal wealth accumulated or the unemployment rate. Nowadays, it was mainly economic growth and inflation that were monitored, and the role of inequality as an indicator was also growing. The aim of the sGDP project was that, in five to ten years, the indicators used at the economists' annual meetings and beyond would include whether sustainability had improved, deteriorated or stagnated over time, and that this could be expressed in a single indicator that could be referred to in a standardised way.