Chapter 31

Hungary: No Euro Until 'Maastricht 2.0 Criteria' Are Met

György Marinkás

Abstract

The first part of the current chapter introduces Hungary's convergence data through convergence reports from years that the author deems milestones and, based on the relevant scientific literature, tries to answer why the Hungarian Central Bank took a cautious approach to the country's accession to the Eurozone and why academic literature adopted the 'real convergence' thesis as a basic principle. The second part introduces the constitutional and statutory framework of the Hungarian Central Bank's aims, functioning, and structure and presents certain academic debates on the chosen regulation. The third part of the book introduces the Hungarian Central Bank's monetary policy for crisis management in two parts: crisis management tools aimed at tackling the Euro crisis and tools aimed at mitigating the negative economic effects of the COVID-19 pandemic and the Russo-Ukrainian War. While tackling the first two crises required unconventional tools, such as near-zero interest rates and active refinancing, the latter required a return to old-school restrictive monetary policy, with high base rates and the phasing out of refinancing tools.

Keywords: *Hungarian Central Bank, monetary policy, convergence criteria, real convergence, Maastricht 2.0., Economic and Monetary Union, Eurozone, Banking Union, COVID-19, Russo-Ukrainian War*

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1. Lessons related to the introduction of the Euro: The positive and negative experiences of Member States within and outside the Eurozone with the common currency

1.1. Hungary and the Maastricht Convergence criteria

At the time of writing this chapter,[1] Hungary is a European Union (EU) Member State with a derogation under Art. 139 para. (1) of the Treaty on the Functioning of the European Union[2] (TFEU), which means that the provisions of the Treaties defined in para. (2) of said article shall not apply to Hungary. Based on Art. 140 para. (1) of the TFEU: 'at least once every two years, or at the request of a Member State with a derogation, the Commission and the European Central Bank shall report to the Council on the progress made by the Member States with a derogation'. Summarising the provisions of paras. (2) and (3), the Council shall, on a proposal from the Commission, after consulting the European Parliament and after a discussion in the European Council, decide whether the Member State with a derogation fulfilled the criteria set in para. (1) and abrogate the derogations of the Member States concerned. If it decides to abrogate the derogation, the Council shall, on a proposal from the Commission and after consulting the European Central Bank, irrevocably fix the rate at which the Euro shall be substituted for the currency of the Member States concerned and take other measures necessary to introduce the Euro. In doing so, the Council shall proceed with the unanimity of the Member States that use the Euro as their official currency and the Member States concerned. Notably, Hungary has never met the criteria set in Art. 140 para. (1); thus, the mechanism according to Art. 140 para. (3) has never been triggered. The following part of this chapter introduces certain convergence reports that were issued in the years the author of the chapter deemed milestones.

In 2004, the year when Hungary entered the EU, the price stability (inflation) rate was above the reference value of 6.5%. The government finance measures, namely the annual government deficit and the government debt-to-GDP ratio, were 6.2% and 59.1%, respectively. This means that the preceding value was above the reference value and the latter was below the reference value. Meanwhile, the long-term interest rates were above the reference value of 8.1%. Legal compliance was incomplete and the country did not participate in the ERM II.[3]

In 2010, when the currently governing party was elected into power, inflation (4.8%) was above the reference value. Annual government deficit (4%) and government debt (78,3%.) were above reference value. Long-term interest rates reached

1 November 2023.

2 Consolidated version of the Treaty on the Functioning of the European Union, OJ C 326, 26.10.2012, 47–390.

3 European Central Bank, 2004.

8.4%, rising above the reference value. Legal compliance was incomplete and the country did not participate in the ERM II.[4]

In 2014, one year after György Matolcsy became the governor of the Hungarian Central Bank (HCB), the convergence indicators improved. The inflation rate fell to 1%, dropping below the reference value. The annual government deficit rate was 2.2% and long-term interest rates were 5.8%, meeting the Maastricht criteria. Meanwhile, in terms of the government debt-to-GDP ratio (which was at 79,2%), legal compliance, and ERM II participation, the country did not fulfil the criteria.[5]

In 2020, before the negative economic effects of the COVID-19 pandemic kick in, the price stability indicator was 3.7% – somewhat higher than the Maastricht requirement. However, the annual government deficit was 2%, complying with the reference value. The government debt-to-GDP ratio was 66.3% that is, above the reference value. The long-term interest rate was 2.37% – that is, below the reference rate. However, legal compliance was incomplete and the country did not participate in the ERM II.[6]

According to a 2022 report, Hungary no longer complied with any of these criteria. The inflation rate was above 6.8% in April 2022,[7] the annual government deficit had reached 6 %, and the government debt-to-GDP ratio was also above the reference value of 76,4%. The long-term interest rate was reported to be 4.1% – also above the reference value. Meanwhile, legal compliance was incomplete and the country did not participate in ERM II.[8]

As Menich-Jónás concluded, if we compare the former target dates for the introduction of the Euro with these data, it can be concluded that, in 2002, it was unrealistic to expect accession in 2007.[9] As Péter Mihályi wrote in a 2012 study, fulfilling the Maastricht Criteria has dropped lower and lower down the list of priorities of successive governments.[10] Instead, as Neményi and Oblath argue, short-term political considerations successively override medium-term stability-oriented macroeconomic policies – the instability and unpredictability of its economic and political policies have caused Hungary to lag behind other regions.[11] As Ákos Péter Bod summarised in 2007: 'The peculiarly Hungarian [...] story is that we were closer to meet the Maastricht criteria in 2000 than in 2006, which is (if I may say so) a laughing stock.'[12]

The author of the current article agrees with the above authors that, as made clear by the convergence reports, before 2014, Eurozone accession was rather wishful

4 European Central Bank, 2010.
5 European Commission, 2014.
6 European Central Bank, 2020.
7 This clearly does not indicate the extremely high inflation rate throughout the year after the Russo-Ukrainian War's economic effects peaked.
8 European Central Bank, 2022.
9 Menich, 2007, p. 70.
10 Mihályi, 2012, p. 918.
11 Neményi and Oblath, pp. 587–588.
12 Kenessei, 2023.

thinking due to the undisciplined fiscal policies of the former governments and the global financial crisis that started in 2007. However, in his view, somewhere between 2014 and 2020, Hungary had the opportunity to fulfil the Maastricht criteria and access the Eurozone with some extra effort. Nevertheless, doing so was not among the government's plans based on the 2017 statement of Mihály Varga, Minister of Finance, who explained that Hungary intentionally does not fulfil every criterion.[13] Neszmélyi and Pócsik[14] argued that, even in 2021, after the outbreak of the COVID-19 pandemic, we were not far from reaching compliance. However, based on the 2022 Convergence Report, Hungary's indicators started to deteriorate with the COVID-19 pandemic, and in 2022, the Russo-Ukrainian War affected the country's economic performance.

1.2. Pros and cons of joining the Eurozone

When examining the expected advantages and disadvantages of joining the Eurozone from a Hungarian perspective, it is worth examining the studies issued under the aegis of the HCB. In their 2002 study, Csajbók and Csermely[15] emphasised that it is important to raise the question of whether a so called 'optimum currency area' (OCA) will come into existence between the Member State and the Eurozone. In their view, it is also important to determine whether a common monetary policy can be as efficient as a member state's monetary policy in countering economic cycles. Their main finding was that the introduction of the Euro may raise the long-term (20-year) average growth rate of Hungary's GDP by 0.6 to 0.9 percentage points. They identify and quantify three benefits and costs. The benefits include reduced transaction costs, expansion of foreign trade, and a drop in real interest rates. In their view, the costs are lower *seigniorage* revenue and the loss of independent monetary policy. Meanwhile, they also identified certain dangers of the accession. For example, if non-resident investors are confident that Hungary will join the Eurozone soon, it may trigger speculative capital inflows and start off a 'convergence play' similar to the ones that had involved other countries earlier in preparation for accession to the Eurozone. Additionally, the rapid fulfilment of the Maastricht criteria for inflation and the fiscal deficit may cause economic discrepancies. There is a danger that rapid disinflation and fiscal adjustment, aimed at a changeover in 2007, may entail an excessive sacrifice of growth. However, they summarised their cost-benefit analysis as follows: 'The quantifiable benefits arising from joining the Eurozone considerably exceed the costs entailed, resulting in higher economic growth and faster real convergence towards Western Europe'.[16]

13 MTI, 2017.
14 Neszmélyi and Pócsik, 2021, pp. 646–647.
15 Csajbók and Csermely, 2002, p. 208.
16 Csajbók and Csermely, 2002, p. 11.

Later studies were more cautious about the issue of accession. In their 2014 study, Kisgergely and Szombati argued[17] that accession would mean loss of the country's monetary sovereignty. They also questioned whether the *Single Supervisory Mechanism* and *Single Resolution Mechanism* were more efficient than domestic supervision mechanisms and concluded that they were not.[18] They argued that the competence between community and domestic authorities was not clear enough – that is to say, it was not clear who would have the last say; furthermore, the mechanism seemed to be bureaucratic and no clear rules existed on the burden of crisis management. As for the advantages, they argued that accession would secure our place at the 'core' and would also mean access to the crisis management fund (a sum of EUR 55 billion in 2014, an amount greater than Hungary could allocate alone). They also highlighted the professionalism of the ECB staff, which would contribute to enhancing the national staff's knowledge.

In their 2017 study, co-authors Nagy and Virág[19] (who later separately revisited the concerns of the study[20]) argued that while accession to the Eurozone does not result in 'automatic real convergence', failure is guaranteed if the country introduces the common currency before reaching a given level of real convergence. In order to avoid such a scenario, they elaborated the so-called 'Maastricht 2.0.' criteria; in their view, the following criteria should be met before accession: GDP per capita and wage levels should reach at least 90% of that of the Eurozone; synchronised business and financial cycles and an available, effective countercyclical political toolkit should be established; the economy should be close to full employment; an advanced, stable, and competitive financial sector (with 90% convergence) should be established; and structural balance should be achieved (based on government debt between 0 and –2% of GDP, with a debt target of 50%).

After introducing the HCB's points on this issue, one may introduce the opinions of the Hungarian academic community and practising economists. In the last 20–25 years, the basic thesis agreed upon by them became that, in the case of a premature, politically motivated accession without economic convergence, serious economic harm is inevitable.

The fulfilment of the Maastricht Criteria is necessary and, at the same time, insufficient to reach real convergence, as argued by Péter Mihályi.[21] Zsolt Darvas argues that the Maastrich criteria are not proper tools for measuring a country's readiness for accession. Neither are the above cited Maastricht 2.0. criteria. In his

17 Kisgergely and Szombati, 2014, p. 30.

18 These findings on the BU's institutions were well-founded back in 2014: the chapter on European monetary policy, which also elaborates on the short comings of said institutions, support these findings. However, based on the developments of the recent ten years, most of these shortcomings were addressed.

19 Nagy and Virág, 2017.

20 Virág, 2020, p. 309; Nagy, 2020.

21 Mihályi, 2005, pp. 716–717.

view, the level of economic development is not that important.[22] It is worth devoting a few lines here to the Greek example since it proved the importance of disciplined economic governance. As Darvas argued in 2017, it was not the introduction of a common currency that in itself induced serious problems in Mediterranean countries. In his view, the main problems were insufficient demand, poor budget structure, and wage increases in excess of productivity.[23] In 2008, Darvas and Szapáry concluded[24] that, due to certain characteristics of the Eurozone,[25] common monetary policy induced less-developed Member States to borrow excessively.[26] The Greek Sovereign Debt Crisis proved 'once and for ever' the dangers of premature, politically motivated accession since the accession in itself did not bring real convergence, as evidenced by Neményi and Oblath in their 2012 study.[27] In the author's view, the Greek Sovereign Debt Crisis was also the turning point that made the 'real convergence first' thesis the most accepted among Hungarian scholars.

By contrast, the comparative study of Kutasi and Nagy[28] proves that pursuing a disciplined economic policy and reaching a level of real convergence is important, even if the country does not wish to access the Eurozone. In their study, they scrutinised the economic indicators of V4 countries; that is, they explored how the economic performance of Slovakia – the only V4 country that adopted the Euro – compares to the economic performance of countries with their own national currencies (namely, Hungary, Poland, and the Czech Republic). It is worth mentioning that while the Czech central bank chief seems to categorically refuse accession to the Eurozone, its Polish counterpart displays a more amicable attitude.[29]

Based on the above-mentioned study by Kutasi and Nagy, the Slovak labour force became the most expensive in the region because Slovakia, which lacked sovereign monetary policy, was no longer able to devalue its own currency to keep the Slovak labour force cheap. Regarding price stability, they concluded that the Czech and Hungarian national currency inflation rates unexpectedly fit the Maastricht criteria better than the Slovak ones. From 2015 to 2016, Slovakia experienced deflation, similar to Hungary and Poland in the same period. Only the Czech Republic was not affected by deflation. Kutasi and Nagy further argued that only the Slovak debt-to-GDP ratio displayed growth during the examined period. Regarding the current account, they found that the common currency did not provide any advantage to Slovakia. Finally, they argued that data on the amount of foreign direct investment

22 Czelleng, 2018, p. 105.
23 Czelleng, 2018, p. 104.
24 Darvas and Szapáry, 2008, p. 873.
25 Artner and Róna 2012, pp. 83–102.
26 It is worth mentioning that the great availability of credit worldwide at the turn of the millennium would have induced the Greek government to obtain large amount of credit anyway, as Imre Tarafás argues. See: Tarafás, 2013, p. 362.
27 Neményi and Oblath, 2012, pp. 673–677.
28 Kutasi and Nagy, 2019, pp. 7–23.
29 *Central bank head: 'Euro adoption could be considered by Poland within 8-10 years'*, 2023; *Czech central bank governor not betting on euro adoption in next decade*, 2017.

show almost the same trajectory in Hungary and Slovakia, whereas the Czech Republic and Poland performs better. Regarding the results of Kutasi and Nagy, the author of the current chapter only mentions that, based on his own findings, government debt-to-GDP ratios declined until around 2019/2020 in all V4 countries and started to grow in 2020[30] – a year outside the scope of the above co-authors' study.

Bod, Pócsik, and Neszmélyi in their 2020 study evaluated the results of the Slovak Euro more positively. Although they also mention the disadvantage of Slovak firms in terms of the wage share cost compared to producers in floating currency countries, they argue that since the price of imported materials and parts fell more than that of exported goods, the improvement in the exchange rate mitigated the effects of more 'expensive' wages. They also acknowledge that the actual benefits of Euro adoption have been somewhat lower than initially expected, which may be attributed to external factors, such as the global economic crisis and the prolonged crisis in the Eurozone. In their view, it can even be risky to state that the EMU and its strict fiscal rules protected the national economy from suffering greater losses as a result of these fiscal shocks. However, membership in the Eurozoneis not in itself a guarantee of sustainable growth. Instead, it is the strong and longstanding commitment to the integration process and to obeying its rules that warrants growth: disciplined economy policy minimises the risk of economic policy 'slippage' and prevents costly forced adjustments.[31]

As an interim conclusion articulated by Darvas and Gottfried, one may state that a country may also be successful without the Euro. Similarly, in 2012, György Surányi stated that no country is immune to bad, irresponsible economic policies, either as a member of the EMU or an outsider.[32]

Regarding the expected advantages, two additional facts should be emphasised. On the one hand, Hungary's import–export volume to the EU is already high, and it has almost reached its potential maximum.[33] In other words, accession to the Eurozone would not offer Hungary any room for improvement. However, some do not agree that accession to the Eurozone has any additional prestige value. As Gottfried argues, we are already devoted to the EU and NATO; accession to the Eurozone would not offer any additional value. However, Brexit has eroded the possibility of non-Eurozone members empowering their interests. In addition, every new entry to the Eurozone erodes the possibilities of those still staying out.[34] Vértes made a similar argument, stating that the main dilemma is the fear that missing out means being left behind.[35] It is also worth mentioning that Kisgergely and Szombati, in their 2014 study conducted under the aegis of the HCB, also emphasised that accessing the

30 Based on the data available at the following website: *Trading Economics* [Online]. Available at: https://tradingeconomics.com/ (Accessed: 5 November 2023).

31 Bod, Pócsik and Neszmélyi, 2020, pp. 339, 343, 345–346.

32 *Surányi: kell a magyar euró, de nem túl gyorsan*, 2012.

33 Menich-Jónás, 2021, p. 72. See also: Virág, 2020.

34 Gottfried, 2021, p. 113.

35 Czelleng, 2018, p. 103.

Eurozone would mean belonging to the core. Brexit and its effect on the 'outsiders' ability to enforce their interests was also emphasised in György Surányi's opinion, who, unlike Gottfried, thinks that accession offers prestige:

> The financial and economic crisis, the crisis in the Eurozone, the influx of refugees, Brexit, the election of Donald Trump, all together and clearly push the European Union in the direction of deepening cooperation between member states. In this process, a country that is unable or unwilling to come into the inner circle could be marginalized or effectively left out of the European Union.[36]

The loss of monetary sovereignty is maybe the most often cited argument against the introduction of the common currency, which is more often refuted by pointing out 'the reality'; namely, that the Hungarian economy is small and open one, therefore, a fully independent monetary policy – in György Surányi's words – is only an 'illusion'. Thus, losing it is not an unacceptable sacrifice. For Székely, the devaluation tool is overestimated; he argues that it is only sufficient to buy time and only to a limited extent – specifically, only in order to facilitate other economic measures to solve the problem.[37]

Finally, the issue of setting the target date must be addressed. As co-authors Bod, Pócsik, and Neszmélyi argue, no single date is absolutely perfect for accession from an economic point of view: all calculations are questionable. Furthermore, unpredictable circumstances can play a serious role; to put it simply, the outcome may depend on luck. While the decision on setting the target date should not be short-sighted, only political consensus over several government cycles can support the success of currency exchange and compliance with the resulting financial conditions.[38] In Mihályi's opinion, the 'original sin' was committed by subsequent Hungarian governments, who repeatedly pushed the deadline, inducing unfounded expectations in economic operators and the population. The government should either manage the introduction of the Euro or tell us that we will not access the Eurozone in the near future.[39]

As for the future, something has changed in 2023: both György Matolcsy, the current Governor of the HCB, and the finance minister, Mihály Varga, started to talk about the 'Hungarian Euro' even though it does not seem viable before 2030.[40] Although these discussions do not mean that Hungary has an official target date, this turn came somewhat out of the blue for two reasons: first, Hungary's accession was off the agenda at such high levels for a while, and second, Matolcsy displayed a rather sceptical attitude towards the Euro early on.[41] However, his recent thoughts suggest that this scepticism has since melted:

36 *Surányi: Euró nélkül kimaradunk az unió belső köréből*, 2017.
37 Czelleng, 2018, p. 105.
38 Bod, Pócsik and Neszmélyi, 2020, pp. 321, 323–324.
39 Mihályi, 2012, p. 918.
40 MTI, 2023.
41 Matolcsy, 2019.

> Perhaps around 2030 or a bit later we could reach […] 90% of the EU's average in terms of development, then it is worth entering the Eurozone as the Euro has many advantages […] Until then, it is worth using the extraordinary room for manoeuvre that having a national currency allows the Hungarian Central Bank to boost the economy.[42]

2. The legislative framework of the HCB's functioning and scholarly opinions

2.1. The legislative framework on the HCB's aims, structure, and governance

The legislative framework of the HCB's structure and functioning is set out in the Fundamental Law of Hungary[43] (FLH), which, in Art. 41 para. (6), states that the detailed provisions are to be settled in a so-called 'cardinal act'.[44] The currently effective cardinal act is *Act 139 of 2013 on the Magyar Nemzeti Bank*[45] (the HCB Act).

According to the first sentence of Art. 41 para. (1) of the FLH, the central bank of Hungary shall be the *Magyar Nemzeti Bank* (hereinafter: *Hungarian Central Bank*,[46] HCB). According to the second sentence of Art. 41 para. (1) of the FLH, the HCB shall be responsible for monetary policy, as regulated by a cardinal act (the HCB Act). Art. 41 para. (2) of the FLH – enacted by the Fifth Amendment of the FLH in 2013[47] – doubled the HCB's mandate, stating that the HCB shall supervise the financial intermediary system as well.

Meanwhile, Art. 3 of the HCB Act states that the primary objective of the HCB is to achieve and maintain price stability. However, the second paragraph of this article states that the HCB shall support the maintenance of the stability of the system of financial intermediation, the enhancement of its resilience, and its sustainable contribution to economic growth; additionally, it also outlines that the HCB shall support the government's economic and environmental policy by using instruments at its disposal, provided they do not go against its primary objective.

The 'Basic and other tasks' of the HCB are set out in Art. 4 of the HCB Act. The HCB is entrusted with the task of implementing and defining monetary policy as well as issuing banknotes and coins in Hungary's official currency, which shall be Hungary's legal tender. To preserve the external stability of the economy, the HCB

42 *Hungary central-bank chief sees chance for Euro adoption only after 2030*, 2023.
43 The Fundamental Law of Hungary (25 April 2011).
44 In other words: organic law.
45 Act CXXXIX of 2013 on the Magyar Nemzeti Bank.
46 The author decided to use the terminology 'central bank' instead of 'national bank'.
47 Fifth Amendment of the FLH, 16 September 2013.

is responsible for holding and managing official foreign exchange and gold reserves and is also entrusted with the task of conducting foreign exchange operations in relation to the management of foreign exchange reserves and the implementation of exchange rate policy. The HCB is entrusted as a supervisory authority, which oversees the payment and securities settlement systems and acts as a resolution authority.[48] The HCB shall collect and publish statistical information required for carrying out its tasks and fulfil its statistical reporting obligations to the ECB under EU law. The HCB is also mandated to establish a macro-prudential policy for the stability of the entire financial intermediation system. Further, the HCB must work to enhance the resilience of the financial intermediation system and ensure its sustainable contribution to economic growth. In doing so, the HCB contributes to the balanced implementation of the system of intermediation in financing the economy by stimulating and restraining lending in the event of excessive credit outflows. Last, but not least, the HCB is mandated to settle disputes out of court between consumers and entities or persons through the *Financial Arbitration Board*[49], a professionally independent body operated by the HCB.[50] Part Two of the HCB Act provides detailed rules on these duties.[51]

The HCB and its members shall be independent in carrying out their tasks and meeting the obligations conferred upon them under the HCB Act.[52] Furthermore, they shall neither seek nor take instructions from the Hungarian government; from the institutions, bodies, and offices of the EU (with the exception of the ECB and the other exemptions described in the HCB Act); from the governments of Member States; or from any other organisations or political parties.[53]

Arts. 5–7 of the HCB Act contain rules on the legal status of HCB. The HCB shall be a legal person seated in Budapest and should function as a company limited by shares.[54] The state owns shares of the HCB.[55] Shareholder establishes the statutes of

48 This is detailed in the following point.

49 See: Arts. 96–130/B of the HCB Act.

50 Art. 4 para. (10) of the HCB Act: 'The MNB shall settle disputes out of court – via the Financial Arbitration Board – between consumers and the entities or persons covered by the acts defined in Art. 39 relating to the establishment and performance of legal relationships for the use of services.'

51 Chapter III, Arts. 16–30, contains rules on the 'Certain Basic Tasks of the HCB', including: monetary policy, minimum reserves, central bank base rates, exchange rates, issuing operations, payment transactions and oversight, central bank information system. Chapter IV, Arts. 31–38, contain the rules on the 'Basic tasks related to the identification and management of systemic risks', namely: the monitoring of credit supply, measures to prevent the excessive credit outflow, the countercyclical capital buffer, measures to mitigate systemic liquidity risks, measures to reduce the probability of bankruptcy in systemically important institutions, measures mitigating systemic or macro prudential risks, additional tasks relating to the management of systemic risk. Chapter V, Arts. 39–44, contains the rules on the HCB's supervisory tasks.

52 Art. 1 para. (2) of the HCB Act.

53 The detailed rules on the nexus between the HCB and the institutions named in the HCB Act are elaborated on in detail in Arts. 131–148 of the HCB Act.

54 However, according to Art. 5 para. (2), the company name of the HCB did not need to be entered in the Register of Companies and the designation 'company limited by shares' did not need to be included in the company name of the HCB.

55 Art. 5 para. (5): 'The subscribed capital of the HCB is HUF 10,000,000,000 that is ten billion forints.'

the HCB in a Shareholder Resolution. The shareholder is represented by the minister in charge of public finances (hereinafter: the minister) and presented to the National Assembly (hereinafter: Parliament). The executive board has a duty to notify shareholder of accounting reports.[56] The Act on Civil Code[57] shall apply to the HCB as a company limited by shares – with the exceptions laid down by the HCB Act.

Art. 41 para. (3) of the FLH states that the president of the Republic shall appoint the Governor and Deputy Governors of the HCB for six years. Arts. 10 and 11 of the HCB Act elaborate on this in detail: the head of the HCB shall be the governor, who is appointed by the president of the Republic on the prime minister's proposal for a six-year renewable term. The HCB shall have at least two and at most three deputy governors appointed by the president of the Republic based on the prime minister's proposal. The decision of the President of the Republic to appoint and dismiss the governor of the HCB and deputies requires the countersignature of the prime minister.

According to Art. 8 para. (1) of the HCB Act, the bodies of the HCB include the *Monetary Council*, the *Financial Stability Council*, the *Executive Board*, and the *Supervisory Board*.

According to Art. 9 of the HCB Act, the Monetary Council is the HCB's supreme decision-making body. The scope of competence of the Monetary Council shall include making strategic decisions concerning monetary policy, issuing the legal tender of Hungary, holding and managing official foreign exchange, conducting foreign exchange and collecting and publishing statistical information,[58] making decisions on the reserve ratio and the interest to be paid on reserves,[59] making decisions on the exchange rate regime,[60] defining the strategic framework within which the Financial Stability Council makes its decisions with respect to the supervision of payment and securities settlement systems and the macro-prudential supervision of financial intermediary systems (including the resolution of certain institutions),[61] establishing the rules of procedure of the Monetary Council, and making decisions on any other matter in the exclusive competence of the Monetary Council as defined by law. As a rule, the Monetary Council meets once a month, but may be convened at any time if deemed necessary. The Monetary Council shall consist of at least five and at most nine members, as follows: the governor of the HCB as chairman of the Monetary Council, the deputy governors of the HCB, and other members elected by Parliament for six years. Hungarian citizens with outstanding theoretical knowledge and practical professional expertise in issues related to monetary, financial or credit institution activities may be appointed or elected members of the Monetary Council, after attending a hearing of the Parliament's Standing Committee for Economic Affairs. While the governor and vice-governors shall take an oath before the president of the

56 As it is set in point 'b' Art. 12 para. (4).
57 Act V of 2013 on the Civil Code.
58 Tasks defined in Art. 4 paras. (1)–(4) and (6) of the HCB Act.
59 Tasks defined in Art. 20 para. (1) of the HCB Act.
60 Tasks defined in defined in Art. 22 para. (2) of the HCB Act.
61 Tasks defined in defined in Art. 4 paras. (5) and (7)–(9) of the HCB Act.

Republic upon taking office, other members of the Monetary Council shall take an oath before Parliament.

The Executive Board consists of the governor of the HCB as the chairman of the executive board, who acts on behalf of the executive board, and the deputy governors of the HCB.[62] The Executive Board is responsible for implementing the Monetary Council's decisions.[63] Based on para. (5), the Monetary Council may authorise the Executive Board to decide on any matter within its scope of competence. The Executive Board reports these decisions to the Monetary Council. The governor of the HCB may submit any matter within its scope of competence to the executive board for decision-making.

Article 13 of the HCB Act contains provisions related to the Financial Stability Council. Within the strategic framework defined by the Monetary Council, the Financial Stability Council and the person or body determined by a decree of the governor[64] shall act on behalf of the HCB in decision-making concerning overseeing the payment and securities settlement system and the macro-prudential policy for the stability of the entire system of financial intermediation.[65] The Financial Stability Council shall continuously monitor the stability of the system of financial intermediation and the financial markets as a whole and shall analyse and consider the risk factors threatening them and issue opinions if necessary or decide on the measures required to reduce or eliminate such risks. If necessary, the recommendations, opinions, and risk warnings of the *European Systemic Risk Board* (ESRB)[66] relevant to the financial intermediation system were placed on the agenda of the Financial Stability Council of the HCB. Furthermore, the Financial Stability Council publishes non-binding recommendations for persons and bodies covered by the acts defined in Article 39 that describe the grounds of jurisdictional principles followed by the HCB, annually defines the priority target areas of the HCB's control activities, and makes decisions to order a resolution or implement a resolution measure.[67]

According to Art. 14 of the HCB Act, the Supervisory Board is responsible for the continuous supervision of the HCB on behalf of the owner. Under Art. 15, an HCB auditor may be appointed for a maximum of five years. The auditor may not be reappointed as an auditor of the HCB within 5 years of the expiry of the mandate.

According to Article 41(5) of the FLH:

> Acting on the basis of authorisation by an Act and within his or her functions laid down in a cardinal Act, the Governor of the Hungarian National Bank shall issue decrees; no such decree shall conflict with any Act. On issuing decrees, the Governor

62 Art. 12 paras. (2)–(3) of the HCB Act.

63 Based on Art. 12 para. (1) of the HCB Act as detailed in para. (4).

64 As Art. 13 para. (11) of the HCB Act provides.

65 Art. 4 paras. (5) and (7)–(9) of the HCB Act.

66 Including decisions addressed to national supervisory authorities calling for specific measures in the event of serious jeopardy to the stability of the European financial system.

67 According to Art. 4 para. (8) of the HCB Act as defined in a separate Act.

of the Hungarian National Bank may be substituted by the Deputy Governor he or she designated in a decree.[68]

Article 41(4) of the FLH provides for democratic accountability when it stipulates that the Governor of the HCB shall give an annual account of the activities of the HCB to Parliament. This provision is echoed in Article 2 of the HCB Act, which states that the governor of the HCB shall be obliged to provide oral and written reports to the Parliament, and is further elaborated on in Article 131 of the HCB Act.[69] The following seven articles elaborate on the nexus between the HCB and the government as well as that between the HCB and the public:[70]

2.2. The legislative framework of the HCB as a financial supervisor: The HCB and the Banking Union

As mentioned above, Article 41(2) of the FLH doubles the HCB's mandate, stating that the HCB should supervise the financial intermediary system. The HCB is a member of the European System of Central Banks and European System of Financial Supervision. With this membership, the HCB shall perform the tasks imposed on it by the European Banking Authority, European Insurance and Occupational Pensions Authority, European Securities and Markets Authority, and the ESRB.[71] The HCB should cooperate in the supervision of financial intermediation with the European Commission and entities of the Banking Union, including the Central Banks of other Member States.[72] The HCB cooperates with the ESRB in performing its duties related to macro-prudential policy for the stability of the entire system of financial intermediation[73] and cooperates with the European Banking Authority with respect to its

68 Art. 171 of the HCB Act provides a detailed list of issues to be regulated by a decree of the governor.

69 The governor of the HCB shall report to the Parliament's standing committee for economic affairs in writing. At the request of the standing committee, the governor of the MNB is obliged to attend in person and supplement the report orally. Furthermore, the governor may be requested on an ad hoc basis by Parliament – and certain functionaries of the Parliament – to provide information orally or in writing.

70 Based on Arts. 132 and 133 of the HCB Act, the HCB shall be consulted regarding any draft legal acts related to the tasks of the HCB, the operation of financial system and on the proposal on the central budget by the government. To this end, the minister shall provide information on the proposal to the HCB without delay. The HCB is entitled to send its opinion on the proposal directly to the minister and the governor of the HCB shall present this opinion at the meeting of the Budgetary Council. However, the governor is not bound by this opinion as a member of the Budgetary Council. Based on Art. 134 of the HCB Act, the government shall invite the governor of the HCB to attend its meetings if the agenda concerns the competences of the HCB. Under Art. 136 of the HCB Act, the government and the central administrative bodies are obliged to provide information related to their activities at the request of the HCB.

71 Under Art. 1 paras. (1)–(3) of the HCB Act.

72 Under Art. 140 para. (1) regarding the duties set out in Art. 4 para. (9) of the HCB Act.

73 As set out by Art. 4 para. (7) of the HCB Act.

tasks as a resolution authority,[74] as defined by a separate act.[75] The HCB must meet the notification, data, and information supply requirements of these authorities.[76]

2.3. The evaluation of the chosen regulatory path in scholarly literature

As István Simon described,[77] in the current regulatory framework of the HCB, the FLH is a so-called 'core constitution', which directs the Parliament to pass cardinal laws on subjects specified within it. In line with this, the HCB is regulated by cardinal acts, which regulate fiscal rules. However, some such rules were incorporated directly into the FLH. Unlike the previous Constitution,[78] which did not contain regulations on the currency, Article K) of the FLH declared that Hungary's official currency was the forint. As Simon argues, while the previous Constitution was neutral in terms of economic policy – as well as other issues – the Fundamental Law is not. [79] In his view, the causes of the constitutional and policy changes were rooted in the crisis before 2010.[80] Simon argues that while it has a symbolic meaning and practical importance, i.e. the forint fulfils the functions of money in Hungary, but what is even more important changing the legal tender of Hungary would mean amending Fundamental Law, which requires at least a two-thirds majority vote and thus the existence of proper democratic legitimacy. Others, however, contest this decision of the drafters, arguing that this provision runs counter to the obligations arising from the founding treaties of the European Union, since, upon accessing the EU, Hungary agreed to adopt a common currency. A quick research done by the author on the constitutional and statutory rules of the V4 countries and Germany revealed that the constitutions of the Czech Republic,[81] Poland,[82] Slovakia,[83] and Germany[84] do not nominate legal tender; instead, they are regulated by their statutes on their central

74 Art. 4 para. (15) of the HCB Act: 'In performing the function provided for in Paragraph (8), adequate arrangements shall be in place to ensure operational independence of the department responsible for enforcement of resolution functions from other departments of the MNB, including that these functions must be performed under the direct control and supervision of the governor or any of the deputy governors of the MNB.'

75 Act XXXVII of 2014 on the further development of the system of institutions strengthening the security of the individual players of the financial intermediary system (Resolution Act).

76 Art. 140 paras. (3)–(12) contain detailed provisions on the HCB's obligations to notify the above entities.

77 Simon, 2018, pp. 113–114.

78 Act XX of 1949.

79 As József Szájer, who chaired the committee responsible for drafting the FLH, argues in his memoirs it is a value-based constitution in other regards as well: Szájer, 2014, pp. 736–737, 774–775; see also: Árva, 2022; Kiss, 2023, p. 424; Jakab, 2011, p. 379.

80 Simon 2018, p. 114.

81 Ústava České republiky č. 1/1993 Sb. (16. prosince 1992).

82 Konstytucja Rzeczypospolitej Polskiej (2. kwietnia 1997).

83 Ústava Slovenskej republiky (1. septembra 1992).

84 Grundgesetz für die Bundesrepublik Deutschland (23.05.1949).

banks. Art. 13 of the Czech National Bank Act[85] states that the Czech Republic's legal tender should be the Czech Koruna. Art. 31 of the Polish National Bank[86] law states that the currency of the Republic of Poland should be banknotes and coins, denominated in złoty and grosz. Art. 15 para. (1) of the Act on the Slovak National Bank[87] states that Slovakia's legal tender should be the Euro. In the case of Germany, legal tender is determined in Art. 14 para. (1) of the law on the German National Bank (Bundesbank),[88] which states that banknotes denominated in Euros are the sole unrestricted legal tender. Thus, one may argue that the solution chosen by the drafters of the FLH is unusual, or 'unorthodox', since even the Czechs, who are the most dismissive of the idea of a common currency among the V4 countries,[89] dispensed with regulating the national currency in the constitution, which would make it impossible for a government without a qualified majority to introduce the Euro, like the FLH. The author of the current chapter is of the view that what Simon identifies as a wise regulatory choice by the drafters of the FLH is undesirable, since once a situation may occur in which the country cannot access the Eurozone despite being mature enough in terms of real convergence and having the political will to do so.

Finally, the author conducted some research on the constitutional and statutory rules of the V4 countries and Germany to explore whether they contain a phrase similar to the HCB Act, according to which the HCB should facilitate the government's economic policy. As Simon reiterated,[90] Art. 127 para. (1) of the TFEU contains a similar provision[91] related to the ECB. The above research reveals that both the Acts on the Czech Central Bank and the Polish Central Bank contain a regulation almost identical to the Hungarian one. While Art. 98 para. (1) of the Czech Constitution provides that the primary purpose of the Czech Central Bank shall be to maintain price stability, sentence two of Art. 2 para. (1) of the Act on the Czech National Bank states that:

> Without prejudice to its primary objective, the Czech Central Bank shall support the general economic policies of the Government leading to sustainable economic growth and the general economic policies in the European Union with a view to contributing to the achievement of the objectives of the European Union.

85 Zákon č. 6/1993 Sb. o České národní bance.

86 Ustawa z dnia 29 sierpnia 1997 r. o Narodowym Banku Polskim.

87 Zákon 566/1992 (z 18. novembra 1992) o Národnej banke Slovenska.

88 'Gesetz über die Deutsche Bundesbank in der Fassung der Bekanntmachung vom 22. Oktober 1992 (BGBl. I S. 1782), das zuletzt durch Artikel 14 Absatz 3 des Gesetzes vom 28. Juni 2021 (BGBl. I S. 2250) geändert worden ist'.

89 *Eurobarometer – Introduction of the Euro in the Member States that have not yet adopted the common currency* [Online]. Available at: https://europa.eu/eurobarometer/surveys/detail/2187 (Accessed: 5 November 2023); Republikon Intézet, 2022, p. 5.

90 Simon, 2018, p. 137.

91 'Without prejudice to the objective of price stability, the ESCB shall support the general economic policies in the Union with a view to contributing to the achievement of the objectives of the Union as laid down in Article 3 of the Treaty on European Union.'

Meanwhile, based on the third sentence of Art. 227 para. (1) of the Polish Constitution, the Polish Central Bank '[…] shall be responsible for the value of Polish currency.' Art. 3 para. (1) of the Act on the Polish National Bank states that the basic objective of the Polish Central Bank is to maintain price stability while supporting the economic policy of the government, insofar as this does not constrain the pursuit of the Polish Central Bank. Art. 56 of the Slovak Constitution, which contains provisions for the Slovak Central Bank, does not mention price stability. Art. 2 para. (1) of the Act on the Slovak Central Bank states, 'The main goal of the Central Bank of Slovakia is to maintain price stability. For that purpose, the Central Bank of Slovakia participates in the common monetary policy determined by the European Central Bank for the Eurozone […].' Art. 41a para. (1) of the Act of the Slovak Central Bank reflects the provision in Art. 127 para. (1) of the TFEU when stipulating that, as part of the Eurosystem, the Slovak Central Bank supports the general economic policies of the EU with the intention of contributing to the achievement of the goals of the EU without prejudice to maintaining price stability as its main goal. According to Art. 88 of the German Basic Law, monetary policy was transferred to the ECB.[92] The second sentence of Art. 12 of the Act on the Bundesbank states, 'As far as is possible without prejudice to its tasks as part of the European System of Central Banks, it shall support the general economic policy of the Federal Government.'

3. The monetary aspects of crisis management

3.1. Handling the 'Eurozone crisis'

However, the current study focuses mainly on the monetary policy of the HCB aimed at handling the 2010 Eurozone crisis and the 2008 financial crisis (hereinafter: the Eurozone crisis). It is worth mentioning that, Csaba Lentner provides a good oversight of the pre-crisis monetary policy of the HCB and how the HCB changed its perception on its role during the handling of the crisis. This study also highlights certain similarities and differences between international tendencies and the HCB's approach. The HCB's pre-crisis monetary policy was based on the one-dimensional monetary model; that is, it focused on controlling the money supply and featured a loose approach to banking regulation according to the neoliberal market economy model,[93] which gained momentum in the eighties and resulted in

92 The second sentence of Art. 88 of the Basic Law of Germany states that '[The German Federal Bank's] tasks and powers may be transferred within the framework of the European Union to the European Central Bank, which shall be independent and committed to the primary objective of maintaining price stability.'

93 Simon, 2018, pp. 119–120.

worldwide failure by the end of the 2000s. While central banks were mostly successful at achieving price stability,[94] risks undermining financial stability have also emerged simultaneously.[95]

As argued by Oliver Blanchard[96] and co-authors Kolozsi and Novák,[97] among others, the 'post-crisis' monetary policy framework brought two major changes in the 'Western World': on the one hand, the separation between monetary and prudential competencies became less rigid – that is, financial stability also became a priority for central banks in addition to price stability, since disinflation trends allowed the central banks to focus on other tools without jeopardising their inflation targets. On the other hand, some unconventional elements were added to the central banking toolkit, and, as a result, central banks started to play a greater role in crisis management.

Most developed countries' central banks soon achieved interest rates near zero and, in some cases, even negative interest rates. However, this traditional tool proved to be insufficient for the crisis at hand. Therefore, the central banks of these countries started to apply quantitative easing (QE).[98] Notably, the ECB has only recently started phasing out QE and increasing its base rate (this is further detailed in the chapter on the EU's monetary policy).

In Lentner's view, the distinct and independent monetary policy of the HCB presented an opportunity to create a constructive harmony between fiscal and central banking policies.[99] As detailed above, the operation of HCB and the programmes it implements are determined under the HCB Act. Based on Art. 3 paras. (1)–(2) the primary objective of the HCB shall be to achieve and maintain price stability; however, without prejudice to its primary objective, the HCB shall support the maintenance of the stability of the system of financial intermediation, the enhancement of its resilience, and its sustainable contribution to economic growth. The HCB shall also support the government's economic policy using the instruments at its disposal.

Regarding the HCB's crisis management tools, the author of the current chapter highlights the most significant ones in the following paragraphs; however, the author does not endeavour to introduce every part of every measure, considering the restrictions on the length of the chapter and the rich work that has already been done on this issue in HCB documents and academic literature.

First, like most central banks in developed countries, the HCB reduced the base rate from 7.0% to 0.9% and maintained it at that level between 2012 and 2019.[100]

94 Lentner, 2021, p. 104.
95 Lentner, 2021, pp. 104–105.
96 Blanchard, 2012, pp. 7–13.
97 Kolozsi and Novák, 2017, p. 397.
98 Kolozsi and Novák, 2017 pp. 397–400.
99 Lentner, 2021, pp. 109–111.
100 *Policy rate and interest rate corridor* [Online]. Available at: https://www.mnb.hu/en/monetary-policy/monetary-policy-instruments/policy-rate-and-interest-rate-corridor (Accessed: 5 November 2023).

According to Lentner, this decline significantly reduced the government's interest expenditure, saving 4.5% of the GDP (HUF 1,600 billion) between 2013 and 2018.[101] As its second tool for handling the crisis, the HCB launched the *Funding for Growth Scheme* (*Növekedési Hitelprogram*, hereinafter: FGS),[102] which it announced in the spring of 2013. This scheme offered banks refinancing loans at a 0% interest rate, enabling them to lend to small- and medium-sized enterprises (SMEs) at an interest rate margin capped at 2.5%.[103] According to a study conducted under the aegis of the HCB, loans disbursed under the FGS generated new investments amounting to HUF 137 billion and HUF 210 billion in the first and second phases of 2014, respectively.[104] According to another HCB study, this scheme contributed substantially to employment over time.[105] Further, FGS and its derivatives also played an important role in mitigating the negative effects of the COVID-19 pandemic – as elaborated on later.

The third tool of the HCB crisis management program was the introduction of the *Self-Financing Program* (*Önfinanszírozási Program*, hereinafter: SFP) in the middle of 2014 to reduce external vulnerability. The programme was much needed since, at the onset of the crisis and in the first years of the crisis, the financing of the Hungarian economy displayed an unhealthy structure: it was over-reliant on foreign financial sources denominated in foreign currency. In 2013, the foreign currency debt's share of the public debt was still above 40% when almost a dozen European countries had virtually no debt denominated in non-domestic currencies, except for Croatia, Bulgaria, Romania, and Lithuania.[106] The HCB encouraged[107] banks to keep their liquid assets in other liquid assets, particularly in forint-denominated government securities, instead of depositing them in the HCB. The SFP can be divided into three phases. The first phase, 2014, started in summer and involved the deposit of the biweekly central bank benchmark and the introduction of the *Conditional Interest Rate Swap* (IRS). The most important change in the second phase, announced in June 2015, was the extension of the maturity of the benchmark instrument and the gradual introduction of the two-week deposit facility limitation on the two-day deposit facility. In the context of EU harmonisation, the HCB tailored its policy on reserves to better fit the practice of the ECB, which also had a positive effect on demand for government securities. The third phase was the full phasing out of the two-week deposit in April 2016.[108] According to studies issued under the

101 Lentner, 2021, p. 110.

102 *Funding for Growth Scheme (FGS)* [Online]. Available at: https://www.mnb.hu/en/monetary-policy/funding-for-growth-scheme-fgs (Accessed: 5 November 2023).

103 Lentner, 2021, p. 110.

104 Bauer, 2016, p. 58.

105 Oláh, 2022, pp. 26–33.

106 Kolozsi and Novák, 2017, p. 405.

107 It has to be highlighted that the self-financing scheme is not a regulatory one, the HCB only adjusts the parameters of the central bank instruments offered to banks, while not imposing any mandatory rules on how banks should react to the new situation. See: Kolozsi and Novák, 2017, pp. 405–406.

108 Kolozsi and Novák, 2017, pp. 405–406.

aegis of the HCB[109] and scholars, the SFP initiative was successful[110] as the purchase volume of government securities by banks increased, which considerably contributed to improving the structure of financing government debt. *Kolozsi* and *Novák* argue that the most striking success of the SFP was that in 2014 and 2015 when the HCB was able to refinance maturing foreign currency debt in forints and do so with a substantial increase in demand from the banking system. The ratio of central government foreign currency debt has declined markedly as well: between December 2013 and September 2015, the ratio of gross debt in foreign currency to total government debt declined from 40.5% to 33%. Furthermore, the share of foreigners has fallen to 25%, the domestic banking sector became the largest public finance financier (with a share of 35%), and Hungarian households now hold more than one sixth of the total share of Hungarian government debt denominated in forints.[111]

The fourth element is the phasing out of household loans denominated in foreign currencies, which also reached an unhealthy level, thereby increasing the vulnerability of the country's economy. The HCB first played a proactive role in the negotiations between the government and the Hungarian Banking Association, and by providing the required foreign currency liquidity[112] for the banking sector, approximately EUR 9 billion, it substantially contributed to the conversion of foreign currency-denominated household loans into Hungarian forint-denominated loans.[113] As a result of this programme, one of the highest household foreign currency-denominated exposures decreased to one of the lowest in Europe, from 14% to 1% of the GDP, based on the HCB's 2015 report. In practice, Hungarian households had no foreign-currency-denominated loans by the end of 2015. As co-authors Matolcsy and Palotai[114] wrote, this risk was eliminated once and for all from the Hungarian economy.

Lentner argued that the HCB's crisis management was a great success for several reasons. First, the HCB contributed to halting the decline in lending, which was one of the priority objectives of Hungarian economic policy. The corporate credit portfolio shrank by 4–5% annually between 2009 and 2013 in Hungary and was still decreasing in 2013. This sharp declining trend broke after 2013, and a credit freeze became avoidable. Since 2015, SME credit portfolios have experienced continuous growth.[115] Second, the gross external public finance debt began to moderate in 2014, reaching 50% of the central budget, and decreased significantly in 2015 to 40%. The foreign currency ratio of the gross debt of the central budget also decreased from 42% in March 2015 to less than 30% in March 2016 and 27.1% in June the same year, reaching pre-crisis levels. Subsequently, it reduced further. However, other scholars

109 Bodnár et al., 2016, pp. 35–65.
110 Lentner, 2021, p. 110.
111 Kolozsi and Novák, 2017, pp. 410–412.
112 Hoffmann, Kolozsi and Nagy, 2014.
113 Kolozsi and Novák, 2017, pp. 403–404.
114 Matolcsy and Palotai, 2018, pp. 5–42.
115 Lentner, 2022, p. 110.

present varying opinions. László Csaba argues that the success is highly attributable to external, one-time factors, including low global energy prices, growth recovery in the EU, and sustaining the zero bound interest rate in global capital markets. In his view, it is hard not to see how European trends are followed by Hungarian ones; when the EU entered a recession from 2011 to 2012, Hungary followed.[116] Similarly, from 2013 to 2017, when Europe recovered, Hungary also recovered.[117] In Csaba's view, Hungarian economic performance was satisfactory, but by no means exceptional.[118]

3.2. Handling the crisis induced by the COVID-19 pandemic and the Russo-Ukrainian War

By the time the serious negative economic effects of the COVID-19 crisis started to hit the Hungarian economy, the HCB's targeted measures had helped put the Hungarian economy on a sustainable path to catch up, while also strengthening the economy's immune system, according to György Matolcsy.[119] In the words of co-authors Csortos and Nagy-Kékesi, the HCB has sufficient 'firepower' to deal with the challenges posed by the COVID-19 pandemic.[120] Although the pandemic initially lowered inflation, it caused market dysfunction.[121] In response, the HCB decided to modify its monetary policy instruments and defined three objectives: first, to provide adequate liquidity to the banking system and financial markets while maintaining price and financial stability. Second, to allow more flexibility in short-term yields in response to the negative money market developments induced by the coronavirus and, last but not least, to ensure that the HCB is able to shape and influence long-term yields, which have gained increasing importance in recent years, directly and in as many relevant markets as possible.

The HCB reduced the policy rate and provided long-term liquidity, temporarily suspended penalisations for breaching reserve requirements,[122] and enhanced the 'good–old' FGS and the relatively new *Bond Funding for Growth Scheme* (*Növekedési Kötvényprogram*, hereinafter: BGS).[123] The HCB also enhanced its asset purchase programs[124]

116 Except for the banking sector, which in Hungary remained solid.

117 Csaba, 2022, pp. 5, 8, 10.

118 Csaba, 2022, p. 1.

119 Matolcsy, 2020, pp. 13–35.

120 Csortos and Nagy-Kékesi, 2020.

121 Hungarian Central Bank, 2020a.

122 Hungarian Central Bank, 2020b, p. 20.

123 From mid-2019, the MNB, supplementing its present set of unconventional monetary policy instruments, will launch a corporate bond purchase programme with a facility amount of HUF 300 billion, within the scope of which it will buy the bonds of non-financial corporations of good credit rating. Furthermore, within the scope of the scheme, it will be also possible to purchase securities backed by corporate loans, through which the MNB wishes to contribute to the spread of securitisation in Hungary. See: Hungarian Central Bank, 2020b, p. 22.

124 Hungarian Central Bank, 2020b, pp. 22–24.

(APPs): while before the pandemic, the HCB had purchased securities worth about 1.2% of GDP, during the pandemic and until the end of 2021 (when these purchase programs expired), the HCB bought bonds worth an additional 9.1% of GDP – most of them government securities.[125] APPs were an important component in alleviating market dysfunction, ensuring adequate liquidity support to mitigate the abiding tendency toward liquidity hoarding and shorter investments during a crisis, and, later, easing government funding costs. The HCB also temporarily eased certain micro-and macro-prudential rules. After the initial depreciation, the exchange rate stabilised. Meanwhile, the negative real interest rates remained relatively stable.[126]

As the most serious effects of the pandemic were mitigated, the HCB, like the ECB, launched a policy that could be labelled a 'return to normalcy'. In June 2021, the Monetary Council decided to increase the base rate from 0.60% to 0.90% and followed this move with several similar cautious increases, resulting in a base rate of 3.40% in February 2022. On 24 August 2021, the HCB's Monetary Council decided to moderate its refinancing role and gradually phase out purchase programs. The Council underlined that the HCB was ready to intervene to maintain market stability with occasional and targeted purchases if deemed necessary. However, it also emphasised that occasional purchases do not indicate a change in devotedness to the restrictive stance of monetary policy.[127]

Due to the extraordinarily high inflation rate induced by the Russo-Ukrainian War, the HCB objectively took into account price stability and decided to drastically raise the base rate and significantly restrict its refinancing role as assumed in the previous decade and in the first year of the pandemic crisis. As for the base rate, the HCB increased it by 1% from 3.40% to 4.40% from February to March 2022. By September 2022, it reached 13% and remained at this peak until October 2023, when the Monetary Council decided to cut it to 12.25% due to the improved economic situation.[128]

4. Conclusions

In the first part of the current chapter, the author introduced data on Hungary obtained from convergence reports from the years that were deemed milestones and he concluded that, before 2014, the Eurozone accession was wishful thinking due to the undisciplined fiscal policy of the former governments and the financial crisis that started in 2007, as pointed out by many scholars. However, in his view, somewhere between 2014 and 2020, Hungary would have had the opportunity to fulfil

125 Delgado and Gravelle, 2023, p. 36.
126 Lybek, 2023, p. 15.
127 Delgado and Gravelle, 2023, p. 37.
128 Hungarian Central Bank, 2023.

the Maastricht criteria and access the Eurozone with some extra effort. Nevertheless, for decision makers, concerns other than accession were more important. This ship sailed a while ago: the 2022 Convergence Report showed that indicators started to deteriorate as a result of the COVID-19 pandemic and the Russo-Ukrainian War, which affected the country's economic performance. Currently, there is no official target date; however, based on the declarations of government members and the governor of the HCB, Hungary may meet the so-called 'Maastricht 2.0' criteria determined by the HCB by 2030. This means that, by this time, real convergence could reach a level where accession would have less negative consequences than positive ones. Scholars mostly shared the views of the HCB regarding this cautious approach to Eurozone accession.

The second part of the chapter introduced the constitutional and statutory framework of the HCB's aims, functioning, and structure, as well as certain academic debates on the regulation, including the decision of the drafters of the Fundamental Law of Hungary to grant a constitutional rank to the forint by nominating it as Hungary's legal tender in the Fundamental Law. This solution was praised and criticised at the same time: while it grants that the introduction of the common currency is only possible if a certain level of democratic legitimation is possessed by the actual government (namely, a two-thirds majority), the author of the current chapter argues along with other scholars that it may lead to a situation in which Hungary will not be able to adopt the Euro despite fulfilling the Maastricht criteria and having the political will. Perhaps it is no wonder that other V4 countries and Germany, whose regulations were examined by the author in this regard, did not grant constitutional status to their currencies. Even the Czech Republic dispensed with such regulatory solutions despite being the most reluctant to introduce the Euro.

The third part of this chapter introduces the HCB's monetary policy for crisis management in two parts: crisis management tools aimed at tackling the Eurozone crisis and those aimed at mitigating the negative economic effects of COVID-19 and the Russo-Ukrainian War. During the Eurozone crisis, Hungary was in a vulnerable condition, mainly because of the country's dependence on foreign funding, denominated in foreign currency, which applied to both government and household debts. After the change of direction in monetary policy in 2013, the HCB considered the reduction of external vulnerability a strategic goal and successfully accomplished it. Specifically, the SFP helped reduce the state budget's dependence on foreign sources, with the ratio of the government's foreign currency debt declining markedly from 40.5% to 33% between 2013 and 2015. Hungarian households became holders of Hungarian government debt denominated in forints. Similarly, by providing the required foreign currency liquidity to the banking sector, the HCB contributed to converting foreign currency-denominated household loans into Hungarian forint-denominated loans. As a result, households had practically no foreign currency-denominated loans by the end of 2015. Low (almost zero) interest rates and refinancing programs also contributed to the successful tackling of the negative effects of the crisis by providing liquidity to the economy. These tools proved to be effective in mitigating the negative economic effects of the COVID-19 pandemic. The Funding for Growth Scheme, which came to light as a response to the Eurozone crisis, proved to be an effective tool alongside its derivatives. However, the negative economic effects of the Russo-Ukrainian War required a rather different approach: the challenges of the new crisis characterised by high inflation rates, contrary to the disinflation trends of the Eurozone and COVID-19 crisis, required a return to 'good-old' restrictive monetary policy with high interest rates and the abandonment of refinancing. The cut in the base rate in October 2023 after it spent more than a year at a peak (13%) underscores that the HCB picked the right tools to fight the crisis.

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