The National Bank of Hungary

Gyula Domány

It was almost exactly one hundred years ago, on 24 June, 1924, that Hungary's independent central bank, the National Bank of Hungary, began its operations. Our editorial staff commemorates this anniversary by republishing a lecture given by one of the most eminent financial economists of the time, Gyula Domány, at the Hungarian Economic Society before the adoption of the law on the central bank. In our view, the article is worthy of attention not only from an economic history point of view, as many of its conclusions provide important lessons for today.

Possibilities and limits of banking regulation in the endogenous money theory framework – The banks' soft budget constraint

István Ábel and Katalin Mérő

The article questions whether the current system of bank regulation can guarantee that banks are subject to a hard budget constraint. We use the framework of post-Keynesian endogenous money theory. Banks deposit loans in companies' bank accounts, and no external source is needed for the transaction, so banks can in principle create an unlimited amount of money if there is a demand for credit. However, banks' ability to create money is limited by a number of factors. Using János Kornai's concept of a soft budget constraint we analyze the factors that cause inherently soft budget constraints for banks. We point out that neither monetary policy, nor the profit goals of banks, nor the banks' internal risk management practices would guarantee that banks face a hard budget constraint. This must be imposed on them by an external factor, the banking regulation. However, the current system of banking regulation is not well suited to do this, so the soft budget constraint is inherent to banking. This contributes to the fact that banking crises are natural part of the financial system.

Local intersectoral linkages: hybrid input-output tables in the Pécs city region

Norbert Szabó and Hanga Lilla Bilicz

Regional input-output tables (IOT) are increasingly used in economic impact assessment to support the design of sectoral policies. With the popularity of regional IOTs and increasing urbanization processes, there is a growing demand for sub-regional input-output modeling. Regional-county level analyses cannot account for the differences between urban economies and the specificities of their interconnections with other regions. However, estimating city-level IOTs is difficult due to the limited data available. This paper presents the steps of compiling a hybrid two-region IOT, based partly on a survey and partly on secondary data, covering the Pécs urban area and the rest of the country. The study concludes with an illustrative policy analysis assessing the sectoral development potential of the Pécs city region.

The role of mortgage energy efficiency in the probability of default and in determining capital requirements

Gyula Gróf, Balázs Sárvári and Bálint Várgedő

Our study aims to contribute to the literature on mortgage defaults and energy efficiency of the collateral. The risk differentials of green mortgages are highly relevant from a policy perspective, especially for the determination of capital requirements that are traditionally risk-based. As a theoretical background, we describe the channels through which the energy efficiency of households can reduce the probability of default. Within this decomposition, we distinguish between the effects of disposable income, financial literacy, the effect of wealth and the effect of the real estate collateral. We analyze the effect of the increased disposable income of energy-efficient households on the probability of default of mortgage loans in Hungary, where the central bank introduced a preferential capital requirement program for green mortgage loans. The primary outcome of energy efficiency gains is savings in energy units. In our study, we present the process of determining the theoretically and measurably achievable energy savings resulting from the limiting mechanisms. Due to the changing energy prices, we will not convert the energy measurement units into currency. The primary goal of our study is to present the methodology of how the results of energy savings can be included in credit risk.

The causes and background to the 2021-2023 surge in inflation

András Balatoni and Péter Quittner

In the decade of 2020, overlapping inflationary waves followed each other consecutively. The demand-supply frictions after the COVID-pandemic, the energy crisis and the Russian-Ukrainian war had a significant impact globally but affected the European Union and its eastern member states more severely. High energy usage and the dependence on energy imports from Russia made the Eastern European

region more vulnerable to the shocks of the previous years. In Hungary, however, six additional country-specific factors also played a role in having the largest inflation rate among the EU countries between November 2022 and October 2023. The (1) deficiencies in the food industry's competitiveness and its higher cost sensitivity, (2) the largest increase in enterprises' energy prices in the EU, (3) the strongest profit-driven inflation, (4) the expansionary fiscal policy, (5) the negative effects of market distortion, and the (6) weakening forint with stronger exchange rate pass-through into prices were all responsible for the inflation peak of almost 26 percent at the beginning of 2023.

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