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Would there be growth if the MNB did not hit the gas?

The monetary policy turnaround beginning in 2013 has brought about a number of new and innovative measures, the most notable of which are the interest rate cutting cycle, the Funding for Growth Scheme, the Self-Financing Programme and the contribution to the conversion of foreign currency loans into forints. As a result of the Bank's programmes, about [HUF 10 thousand billion](#) of saving and additional sources of financing were realised in the national economy until the end of 2018. Consequently, the Bank's programmes contributed nearly half of last year's economic growth, which was over 5 per cent. Between 2013 and 2018, the MNB's programmes directly [contributed](#) 6 percentage points to growth, and furthermore, an indirect economic stimulus effect of similar magnitude by the Bank was also achieved. Throughout this period, the Bank treated the maintenance of price stability as a priority, consistent with its statutory duties. Consequently, inflation has been close to the target in recent years. The Bank has realised this significant stimulatory effect while maintaining its profitability.

The monetary policy turnaround, aimed at maintaining price stability, provided significant support to the fiscal budget, as the decline in yields in the government securities market as a result of the Bank's programmes resulted in interest savings of a total of HUF 2,400 billion between 2013 and 2018. Government securities yields were most affected by the MNB's interest rate cutting cycle, during which the central bank base rate fell from 7 per cent to 0.9 per cent. Interest expenditures of the fiscal budget were about 2 percentage points lower in 2018 than in 2013, which the government was able to use to cut taxes and reduce the deficit and debt.

As a result of the MNB programmes, the burdens of households and corporations related to borrowing decreased by a total of HUF 2,900 billion between 2013 and 2018. The Bank's interest rate cuts not only led to a reduction in interest paid by the state but also made household and corporate borrowing cheaper. Economic agents can borrow in the domestic currency without exchange rate risk, which they can spend on the development of their economic activities and households on the improvement of their everyday life and housing conditions.

The Funding for Growth Scheme laid the foundations for a turnaround in lending in 2013. Then, under its three stages, more than HUF 2,800 billion of funds were allocated. This contributed about 3.5 percent to economic growth between 2013 and 2018. The programme helped Hungary to avoid a prolonged credit crunch, and subsequently, lending processes became significantly more favourable both qualitatively and quantitatively. The FGS contributed to the uptake of long-term, fixed and favourable interest transactions, which led, among others, to an increase in investment. The new phase of the programme launched in 2019, the *FGS fix*, provides significant support to SMEs to borrow at predictable terms. This year, the sector has received a total of HUF 300 billion of loans, in addition to the HUF 2,800 billion disbursed in the earlier phases of the programme.

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Households previously taking out foreign currency loans saved about HUF 2,100 billion as a result of forint conversion and settlement. The phasing-out of foreign currency loans was made possible by the successful cooperation between the Banking Association and the MNB following the Curia's decision. In the absence of the measures, several hundreds of thousands of foreign currency debtors should have suffered from the dramatic appreciation of the Swiss franc in January 2015, which had been caused by the Swiss National Bank's decision to abandon the exchange rate floor. Had the settlement and forint conversion not taken place, a nearly 78 per cent higher amount of more than HUF 80,000 in monthly instalments should have been paid instead of the average HUF 48,000 payable.

To summarise, the monetary policy turnaround beginning after 2013 has efficiently and successfully contributed to the Hungarian growth turnaround, as shown by the above selected examples. The Bank's programmes have had an economic effect of more than HUF 10 thousand billion and contributed nearly half of economic growth. The Bank has already contributed and will continue to contribute to the sustainable economic growth and financial system stability without jeopardising its primary objective to maintain price stability. The Bank's measures have a long-term and continuous impact, and consequently, they serve as a basis for current and future economic growth and long-term convergence.

A marked contribution by the Bank to growth is reflected in the stimulation of bank lending; therefore, the third part of the article series discussing the foundations and future possibilities of convergence will focus, among others, on this area.