The effect of the crisis on bank competition in Hungary

Éva Várhegyi

The banking sector in Hungary has been hard hit by the financial and economic crisis since in the autumn of 2008. The detrimental effects were enhanced initially by protectionist policy measures taken by West European governments that worsened the competitive conditions for bank subsidiaries in the East-Central European region. The article focuses on the effects of the crisis and its management on bank behaviour and competition. The analysis shows that the financial and market effects on banks have not been uniform: their competitive positions are affected by the crisis-management measures taken by the government and by their owners. Expansion of the credit market is presumably slowed by owners' and regulators' reactions to the crisis, due to higher risk sensitivity and capital requirements. Concentration on the Hungarian banking market may be increased by takeovers and market exits, but these need not necessarily weaken competition.

Forint exchange rates, interest levels and foreign currency-based debt
The role of the exchange rate

Tibor Erdős

The author recounts the factors that led to the increase in foreign currency-based credits. The underlying reason is chronic overspending by the state, with the accompanying wage inflation and resulting inflationary pressure. The central bank sought to curb this with anti-inflationary policies, by keeping interest rates and the forint exchange rate high. This breached the principle of interest-rate parity: while it pushed forint interest rates much higher than foreign-currency interest rates, there was for a long time little expectation of nominal or real forint devaluation. The situation was exploited by foreign depositors and by borrowers at home. As a result, the forint was almost entirely squeezed out of the domestic market for short-term credit, domestic monetary regulation became largely ineffective. The high demand for personal credit coincided with growth in external debt, which much increased the external vulnerability of the economy. Under those conditions, inflation could be curbed only by a persistently overvalued forint exchange rate, though that is not an exchange rate's prime purpose. The author argues that the predicament could have been averted if domestic foreign currency-based credit had not expanded, if interest-rate parity had applied, and if inflation had retained its braking force. Paradoxically, inflation would have been no faster in spite of the falling exchange rate, and convertible currency-based loans would not be causing trouble today.

Pyrrhic deflation or a persistently low-inflation environment?

Péter Bihari and Ákos Valentiny

This contribution to debate uses theoretical and practical considerations to consider the grounds for saying that an exchange rate is overvalued. In examining the effect mechanism of monetary policy, it stresses the importance of considering expectations. It deals with the relations between interest rates, inflation and growth in Hungary. It applies considerations of monetary policy when arguing against the necessity for lower interest rates and a weaker currency in the Hungarian environment.

Towards an institutional explanation of the country's weak innovation performance. A contribution to debate on obstacles to participating in international innovation competition

Balázs Hámori and Katalin Szabó

Why is Hungary's economy still in a critical state similar to the one before the change of system? Why is the indebtedness not being halted, the economy consolidated or vital structural reforms performed? The authors see the direct cause in lopsided development and a dual economic structure. The introduction of market economic institutions was not followed by rapid, overall development towards a knowledge-led, information economy. Several indicators show how Hungary has fallen behind in competition for international innovation. The inadequacy is not a fortuitous, exogenous attribute, but explicable in terms of a real institutional setup underlying the formal market institutions, and of actual behaviour patterns found in the economy. Only in part has substance been gained by the institutions and legal frames of a market economy that theoretically would provide free and open access to resources. The scope for successful entry into the market or political arena remains very narrow, so that in Douglass North's terms, Hungary's is still "a society based on restricted access." Innovation is stifled and development repeatedly impeded by the fact that market players' chances differ widely depending on their connections with the state and its institutions and such connections are used regularly in rent-seeking.

The effect of accession on intra-sectoral trade in agricultural products between Hungary and the European Union

Attila Jámbor

Based on the latest specialist literature, the article examines what effect the 2004 EU accession has had on agricultural trade between Hungary and the EU–15, and on the structure of such trade, particularly on trade within the sector. It is found that a rising proportion of agricultural trade has been conducted with the EU since accession, but these markets account for a decreasing proportion of the increment in such trade. A decisive proportion of agricultural trade has continued since accession to be conducted with other sectors, but it has increasingly become intra-sectoral. Research confirms the significant difference between the degree and the level of intra-sectoral trade, despite the surprising conclusion that there is a case where a strong relation appears between the Grubel–Lloyd index and vertical trade. The great post-accession change in trade within the whole sector was due decisively to change within the vertical sector. If economic policy terms, the findings make it clear that the competitiveness of Hungary's agricultural exports has deteriorated since accession.