

Polgári Szemle

Civic Review

LEARNED PAPER FOR ECONOMIC AND SOCIAL SCIENCES – HUNGARY



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The Economics of Arrival and Reconciliation¹

Welcome by the Editor-in-Chief



Journal of Economic Literature (JEL) codes: B20, N01

Keywords: economic growth and development, social policy, XX-XXI. century, Hungary

In the 20th and 21st centuries, there is a clear appreciation of the value of economic models that serve the development of humanity on a broader scale and in an appropriate way, and of the general responsibility for future generations that this implies. In other words, this noble task has been pushed to the forefront of thought and action, with the focus on the fair distribution of income and the protection of the environment. On the other hand, there is a tendency, especially among those who have escaped the shackles of the former colonial, semi-colonial or even socialist planned economy, to define the positive development of our economy solely in terms of the GDP growth. In this respect, as well, we have integrated ourselves into the mainstream dictated by the leading economists of the developed market economies of the North Atlantic. In fact, here in Central Europe, and particularly in Hungary, we have taken it upon ourselves to define social welfare systems, and corporate and family tax benefits and subsidies, in terms of figures and percentages, in the same way as economic growth, in order to increase the desired willingness to have children, and to express the forecast impact in figures, but above all to set GDP growth, which is rising steadily, as the basic condition for these social goals, and against this background, we have long believed - essentially on the basis of Rostow² - that infinite growth will lead to a 'state of peace' of infinite consumption. But we had to realise that we Hungarians, Central Europeans, are now - to use Rostow's terminology - at best only in the take-off period, but if we are critical and above all honest with ourselves, we are still only preparing the preconditions for the real take-off, to revive our economy, after centuries of failed attempts to catch up. So let us just ask for ourselves: are we even worth the age of mass consumption in our lifetime?

Our economic and social development is rather hectic. Nearly half a millennium after the break-up of the Western Roman Empire³ we entered the Carpathian Basin, founded a state, adopted Christianity and began to build an administration in keeping with the spirit of the times. Until the middle of the 16th century we developed dynamically and became a dominant power in Central Europe, even preventing the expansion of the Ottoman Empire for a century and a half⁴, but in the middle of the 16th century, our country was torn

apart, we lost our independent statehood, and with it the right and practical possibility to formulate our own economic policy. The centuries that followed the expulsion of the Turks were spent under Habsburg rule, amidst constant struggles for freedom, and it was only in the second half of the 19th century, during the period of dualism, that the Austro-Hungarian Monarchy saw a revival of economic and commercial life and some social modernisation, which was stifled and stalled by the First and Second World Wars.⁵ The division into Soviet spheres of influence under the Yalta Agreement and changes in the political and economic regime that began in the late 1980s did not bring about the take-off stage, nor what Rostow calls a short period of intense growth. Although it has sometimes been suggested that the final phase of the Rostow model (mass consumption) would have been reached before the “drive to maturity” stage.

No, we have hardly gotten anywhere, especially not to the development of Western European countries, which were considered to be at the level of catching up at the time. So we have been lagging behind the socialist planned economy for centuries, and unfortunately we have remained an emerging market economy - but it is true that we are experimenting with many reforms. Let us add that the models we have used have been good and have proven elsewhere. We developed the theory of the planned economy with market elements, but it has lost its force in the crossfire of retrograde forces. However, the People’s Republic of China still applies it successfully. Our market economy model, based on the import of external working capital, which was based on the spirit of the Washington Consensus, also failed. Although it is the model that made Ireland advanced. Reflecting the regime change and looking ahead, wide-ranging public finance reforms started in 2010.⁶ We have made a lot of progress compared to our previous selves. We have achieved the most successful ten years of the last hundred years between 2010 and 2019⁷, even as the pace of our fiscal reforms has slowed since the middle of the previous decade. But overall, our development gap with the international leaders has barely changed, and the pace and level of development of our eastern and central European neighbours is also far better than our own.

Like the West, we have based our economic development on growth rather than development. In fact, we have become so much ‘Rostow followers’ to this day - not paying enough attention to the exhortations of the Hungarian National Bank, which has been touting monetary and intellectual renewal since 2013 and has implemented many of it⁸ –, that we have even, as I have previously pointed out, modelled our social policy, our social care system, our tax and housing support for families on economic growth.

This is why income growth and social support have actually lost their appeal. In national currency terms, performance has risen, but when converted into euros or dollars, the increase is less impressive. What is more, labour and business productivity have not increased as expected. Yet, despite more public support, there are fewer families having children, while the fertility rate of women has increased, but the number of cohorts of childbearing age is falling. While we chase growth, we chase numbers, both in the GDP and in the increase in social support and incomes, but has the infrastructure for child-rearing improved, and are our workers decisively healthier and better educated? Has child-rearing been given

the social status it deserves? These are the only items that would really express progress, but we are still thinking in terms of the percentage increase in the volume of the GDP. We consider industrial production to be a component of the GDP, although we are no longer so much exposed to the entry of a well-educated, healthy, innovative workforce into the labour market, we are mostly concerned with the number of workers and the increase in the volume of production.

The amount of money spent on building schools and hospitals has increased, but the level of prevention of health deterioration has not increased, and we do not have more and more motivated doctors and teachers. The quantitative problems of the western world have certainly sucked us in. Our achievements of the last decade have also been mainly geared towards extensive development, putting labour reserves to work and building up independent economic policy patterns that are better adapted to the country's needs and capabilities, but which focus mainly on growth. However, our everyday lives, fuelled by growth, must be taken over by preparations for the actual take-off, i.e. the generalisation of the social and economic will to create a competitive economy and society. We need to increase the number and productivity of our small and medium-sized enterprises, which are competitive in export markets. There is a need to increase the sense of security of the population across governments. We need new industries and agricultural technologies whose production is increasingly based on knowledge capital, thereby increasing the scale and proportion of added value. There must be high quality health care, competitive education, a family-friendly living environment and a positive vision of the future, but this requires stable public finances, efficient governance, a balanced and environmentally friendly energy mix, and a middle class that is high in material, intellectual and knowledge levels, and that is able to set off on the path of civic development.

If the economic and social model of the last decade was able to survive the fifth wave of COVID-19, and we became the second best performing country in Europe in 2021, we have a chance to avoid the economic effects of another crisis, the Russian-Ukrainian war, the negative effects of rising fuel prices, inflation and interest rates, and to be the winner of the post-war reconstruction period. In other words, arriving in the circle of developed societies and economies, and being satisfied with our environment, their income conditions, the period of reconciliation.

Our scientific journal, *Polgári Szemle*, which is also certified by the Hungarian Academy of Sciences, will enter its 18th volume in 2022 and will be published in English for the fifth time⁹. It will provide a comprehensive and, we hope, scientifically sound picture of this struggling period, which has been mostly successful in recent years, of the challenges and some historical dimensions that also define our present.

It is worth reading the *Polgári Szemle* journal!

Dr Csaba Lentner university professor
Editor-in-chief of *Polgári Szemle*

NOTES

- ¹ The title of my dissertation is partly based on Katherine Trebeck & Jeremy Williams (2019), *The Economics of Arrival: Ideas for a Grown-up Economy*, (Published by Policy Press, University of Bristol) and its guiding idea.
- ² W.W. Rostow (1959): *The Stages of Economic Growth*. *The Economic History Review*, New Series, Vol. 12, No. 1 pp. 1-16. Rostow's spectrum of economic growth: 1) traditional society, 2) preconditions for take-off, 3) take-off, 4) drive to maturity, then 5) high mass consumption. The theory thus identifies a linear progression of upwardly sequential stages in the development process.
- ³ If we disregard Gyula László's theory of double occupation. See Gyula László (1978). *Magvető Kiadó*, Budapest. According to the theory of the double occupation, the wandering Hungarian tribes did not occupy Hungary in the 9th century, but „only” (re)returned home.
- ⁴ Let us add: the fact that we lost our decisive battle against the Turks on the field of Mohács in 1526, and the country was divided into three parts, the centre became a Turkish occupation, while the western and the Highlands were under the Habsburg Empire and the Transylvanian Principality under the latent control of the Turkish Porte, we only stopped the Turkish armies preparing to conquer Vienna and Europe in the territory of historical Hungary.
- ⁵ For more on the chronology of Hungarian historical development and economic-public finance life up to the beginning of the 21st century, see Lentner, Csaba (2020), *East of Europe, West of Asia: Historical Development of Hungarian Public Finances from the Age of Dualism to the Present*. L'Harmattan Publishing, Paris, <https://www.amazon.com/East-Europe-West-Csaba-Lentner-ebook/dp/B08GQC9HDT>
- ⁶ See the academic work of György Matolcsy, President of the Hungarian National Bank (MNB): <https://m2.mtmt.hu/gui2/?type=authors&mode=browse&sel=10049867> In particular, Matolcsy, György (2020): the book entitled *Economic Growth and Balance*, published by the Hungarian National Bank (MNB), <https://pallasathenekiado.hu/konyvesbolt/economic-balance-and-growth/>
- ⁷ See a book entitled *10 X 10 Years in Numbers, The Economic History of Hungary for the Last 100 years. 1920-2020, Trianon 100*, which is of related research by the Hungarian National Bank (MNB), Hungarian National Bank, 2020. Edited by Barnabás Virág, <https://www.mnb.hu/en/publications/mnb-book-series/trianon-100>
- ⁸ Palotai, Dániel – Barnabás, Virág, Barnabás (eds.) (2020): *Competitiveness and Growth*, Hungarian National Bank, <https://pallasathenekiado.hu/konyvesbolt/competitiveness-and-growth/>
- ⁹ Our previous issues in English are also available online: <https://eng.polgariszemle.hu/> and we are working on our 3rd thematic Chinese issue: <https://cn.polgariszemle.hu/>

György Matolcsy

Shifting Paradigms for the Hungarian Economy and the MNB



Summary

As a result of the fresh, new approaches taken in economic policy, significant economic convergence occurred in Hungary in the past decade, and a sustainable internal and external balance was also achieved. Thus, the formula of “balance and growth” was applied successfully for the first time in the last hundred years. Consequently, Hungary faced the coronavirus pandemic and its economic effects with a strong immune system, and the recovery was rapid. However, even as the crisis subsides, work remains to be done: we need to restore balance and implement a turnaround in competitiveness to redirect the economy back to a sustainable path. In the competitive environment of the 21st century, economies which are able to harness emerging international megatrends by accentuating their own strengths will be the winners. Over the long term, Hungary can be among these winners, by correctly assessing the changing forces and using them to our advantage, while continuously strengthening competitiveness factors.

Journal of Economic Literature (JEL) codes: E42, E52, E60, E61, G01, H12, O23

Keywords: monetary policy, megatrends, competitiveness, balance, crisis management, coronavirus pandemic, green finance, digitalisation, central bank digital currency

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(matolcsygy@mnbn.hu).

INTRODUCTION

Over the past period of slightly more than ten years, the Hungarian economy and economic policy have come a long ways. The 2008 global financial crisis hit Hungary in a weak condition, causing serious problems (Matolcsy, 2020a). After 2010, however, the economy's immune system strengthened again, owing to the fresh, new approach in economic policy. Thanks to this, Hungary was able to overcome the economic difficulties caused by the coronavirus crisis quickly and successfully. Nothing illustrates this success better than the fact that the economy needed just six quarters to recover to its pre-crisis performance during the coronavirus pandemic, which triggered the most serious global crisis in the past 70 years; by contrast, this took six and a half years after 2008.

Nevertheless, even after successful crisis management and economic reopening, we must not be complacent. The post-Covid syndrome must be avoided, and a turnaround in competitiveness has to be completed. Hungarian economic policy must be shaped and recalibrated in this spirit. At the same time, emerging international megatrends also need to be taken into account. Recognising and utilising these developments, while remaining mindful of Hungary's special features, a winning economic strategy can be formulated that leads Hungary to successful economic convergence in the coming years and decades.

THE HUNGARIAN ECONOMY BETWEEN THE TWO CRISES

The 2008–2009 global financial crisis and the subsequent decade were an important turning point in economic history and for society as well. The complex challenges generated by the global economic crisis and the related responses continue to define everyday life, with profound geopolitical, social and political consequences. It was demonstrated once again that in difficult situations, sustainable development can only be ensured with an economic policy built on creative ideas, bold decisions and constructive cooperation.

The novel problems called for new, unconventional economic philosophy approaches and new attitudes from the various branches of economic policy. As a result of the misguided economic policy of the pre-crisis years, the turbulence in 2008–2009 swept over Hungary in a particularly weak state. Consequently, Hungary experienced one of the gravest crises in Europe until 2010 that wreaked havoc in the economy. After the dust settled, the fiscal turnaround launched by the incoming government after 2010, followed by the turnaround in monetary policy from 2013 paved the way for the healthiest business cycle in Hungary's modern history during the past decade. This is because in the past century, this was the first time when the formula of economic “growth and balance” was applied for a longer period of time, instead of choosing between either growth or balance (MNB, 2021d). One of the pillars of this economic policy revolution was that the overwhelming majority of reforms were implemented during the first third of the decade. Of the 56 most important reforms, 43 were completed or launched between 2010 and 2013 (including a tax reform, the opening up to the East, strategic agreements, the forint repayment of FX debt, the various Széll Kálmán plans and a host of other reforms). In 2010, six critical areas in the economy were reformed or started to be reformed, followed by twelve more in 2011, ten in 2012 and fifteen in 2013.

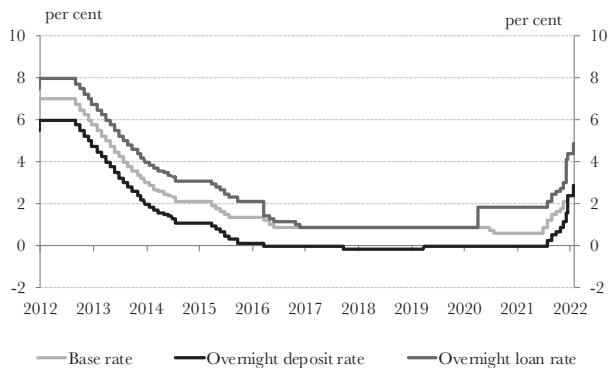
Budgetary turnaround

As a first step in its successful crisis management, Hungary managed to carry out a successful fiscal consolidation between 2010 and 2014, in parallel with fiscal and tax system reforms (Matolcsy, 2019). The tax reform that began in 2010 was implemented with a new philosophy. Its aim was to ensure fiscal balance and support economic growth. The parallel achievement of these two goals required an increase in employment and investments, which could be most efficiently achieved by cutting taxes on capital and labour. In other words, economic policy shifted its focus from taxes on labour and capital towards consumption taxes. As a result of the successful budget consolidation and lasting economic stabilisation that occurred after 2010, all of the Hungarian economy's employment indicators improved for the entire period. Thanks to the successful fiscal turnaround, Hungary exited the excessive deficit procedure after nine years, in 2013. Moreover, the fiscal turnaround also allowed the debt ratio to be reduced via the sustainable consolidation of the government budget deficit and the stimulation of economic growth.

Monetary policy turnaround

Monetary policy was completely realigned when the new leadership of the central bank took office in 2013. Reform of the central bank's policies was also strongly influenced by the efficient transformation of the institutional system, in particular integration of the financial supervisory authority into the central bank in late 2013. As part of the monetary policy renewal, the Magyar Nemzeti Bank (MNB) started its rate-cutting cycle in August 2012, reducing the policy rate in three stages by 610 basis points, from 7 per cent to the then-historic low of 0.9 per cent, over the course of four years (Chart 1). The substantial reduction in the base rate mitigated the risk of a deflationary environment and contributed strongly to the rise in output and the growth in lending, while economic balance was preserved and the economy's external financing capacity was also consistently positive.

Chart 1. Central bank base rate and the interest rate corridor



Source: MNB

Note: The chart shows the state at the time of the submission of the manuscript (31/01/2022).

In 2013, the central bank launched the Funding for Growth Scheme, which ended the credit crunch and made a huge contribution to putting SME lending on a more stable growth trajectory. This completed the turnaround in lending. In April 2014, the Self-financing Programme was announced, with which the MNB transformed its monetary policy instruments to encourage banks to keep their excess liquidity in long-term, liquid securities, i.e. government securities, rather than as a central bank deposit. This programme overhauled the financing structure of government debt. Furthermore, the MNB introduced a new monetary policy framework in the summer of 2016, by means of which it implemented a targeted, unconventional monetary easing policy while keeping the base rate sustainable and taking into account inflationary developments. The robust financing capacity that emerged through the post-crisis adjustment as well as the resulting drop in external debt and external vulnerability allowed the central bank's balance sheet to be reduced with targeted programmes and without jeopardising reserve adequacy. This all came at a time when most central banks in the world tended to expand their balance sheet totals to achieve their monetary policy goals (Csontos–Nagy–Kékesi, 2020).

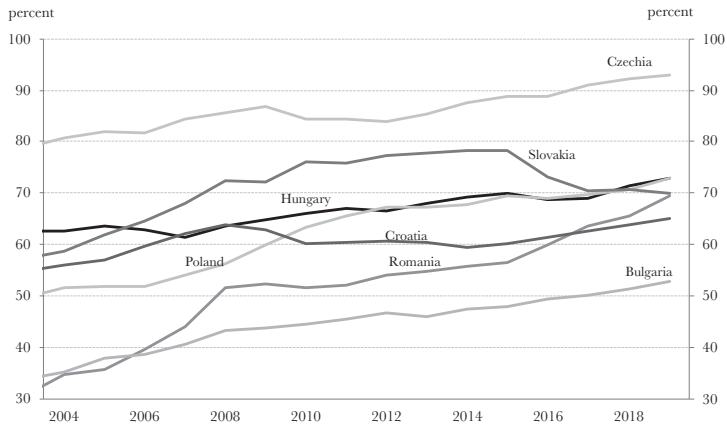
The turnarounds speeded up convergence

The decade of 2010–2019 began with a straightforward, positive national strategy, focusing on rebuilding the nation state and reorganising the market economy in accordance with Hungary's interests. This national strategy proved to be perfect, taking into account the 100 years after the Trianon Treaty and the national strategy performance of other countries in the CEE region. Instead of the earlier below-average ranking, Hungary's national strategy after 2010 was ranked the best in the CEE region. This laid the foundations for the exceptional crisis management results in 2020 and especially in 2021.

The main achievement of the successful, positive national strategy implemented after 2010 is that the nation state was rebuilt, and thus the nation as a cohesive force was created (Matolcsy, 2021e). This is sustainable in the long run as it is built on a broad-based social consensus.

Thanks to the turnaround in economic policy, this was the first time when the formula of economic “growth and balance” was used for a sustained period of time in the past 100 years. By 2019, the Hungarian employment rate, which had been at the bottom of the rankings, had risen to the top of the region and above the EU average, which is an outstanding performance. Economic growth was more than 2 percentage points higher than the EU average, while the country's balance indicators also improved. Hungary's level of economic development climbed from 66 per cent to 73 per cent of the EU average, once again overtaking Poland and Slovakia (Chart 2).

Chart 2. GDP per capita in the region as a share of EU average



Note: Adjusted for purchasing power parity

Source: Eurostat

The MNB's programmes accounted for almost one half of the GDP growth between 2013 and 2019, and thus the central bank made a massive contribution to Hungary's sustainable convergence. At the same time, the improvement in the Hungarian economy's balance position was reflected in all key indicators. The MNB also achieved unparalleled success in meeting the inflation target: for almost 90 per cent of the 2017–2020 period, inflation was within the central bank's tolerance band, which is exceptional even by international standards. In cooperation with the government and the Hungarian Banking Association, household FX loans were phased out, removing a heavy burden from the shoulders of Hungarian economic agents. The central bank also improved the powers and efficiency of the financial supervisory authority, and regulation in the banking system underwent a major change as well, leading to much better, and in many cases even certified, products for customers, while banks' capital position and resilience to shocks improved. The budget deficit steadily fluctuated around 2 per cent, government debt contracted considerably, and the share of FX debt shrank to below 20 per cent.

The next step may be a turnaround in competitiveness

Despite the unprecedented decade, there is still much to be done for the long-term sustainability of economic growth. In addition to its primary mandate for the achievement and maintenance of price stability, the MNB supports the economic policy of the government with the instruments at its disposal. In the course of this, the MNB facilitates Hungary's sustainable convergence by improving competitiveness with the expertise it has available. The MNB's Competitiveness Programme set out 330 proposals in 12 areas in

order to fully develop the country's growth potential and catch up with the most advanced economies in a sustainable manner (MNB, 2019). In the future, Hungary's growth model needs to be enhanced. The country's strengths need to be preserved and its reserves must be utilised.

This is important because based on the example of the economies that have successfully completed a digital transformation (e.g. Estonia), this area can be assumed to provide one additional per cent of GDP compared to the existing GDP (Matolcsy, 2021c). Targeted economic protection measures should be used to preserve the successful growth formula from recent years. Dynamic investments, rising consumption and growth in excess of the European Union average by 2–3 per cent based on advanced technologies, high capital intensity and double-digit credit expansion should be maintained. Sustainable convergence requires balance and growth at the same time.

CENTRAL BANK RESPONSES TO THE CORONAVIRUS PANDEMIC

Like other countries in the world, Hungary was confronted by an unexpected global public health crisis in early 2020. The coronavirus pandemic and the ensuing economic turmoil posed enormous challenges for the society and all members of the economy. However, the world had learned its lesson from the previous crisis, and so a financial crisis was successfully averted.

During the 2020 crisis, Hungary had strong immunity, adequate room for manoeuvre in economic policy and stable fundamentals, thanks to the earlier economic policy changes. Since 2013, the central bank's measures have made the financial system much healthier than before. The MNB's measures contributed strongly to crisis management: the central bank's targeted programmes provided HUF 11,400 billion in financing to a wide range of economic actors until the end of 2021.

Thanks to the quick, coordinated measures, the Hungarian economy was successfully restarted and was one of the quickest to recover in Europe. Owing to the central bank's determined steps, the prolonged, creditless recovery experienced earlier was successfully avoided.

The MNB responded to the crisis quickly in a targeted manner

The MNB responded with proper timing and massive firepower, fostering a rapid economic recovery (MNB, 2021d). The Bank faced several challenges, as the stability of the markets had to be preserved, economic stimulus measures were necessary to aid the recovery, and new challenges involving the primary objective, price stability, also had to be addressed. This required an even more complex, targeted and flexible monetary policy response than before.

From the central bank's perspective, the first stage of economic protection involved two main tasks:

- stabilisation of domestic financial market developments, and
- provision of the necessary liquidity under favourable conditions and at appropriate maturities to all economic actors.

To this end, the MNB modified its instruments and introduced several coordinated, targeted measures that focused on both the short and long segment of the yield curve (e.g. government securities purchase programme, long-term collateralised credit instrument, mortgage bond purchase programme). The MNB used the programmes to extend liquidity to the economy in the amount of HUF 11,400 billion until the end of 2021. In addition, the government and the MNB immediately introduced measures to maintain lending, in response to the new risks arising in the coronavirus pandemic. Such measures included temporary easing of capital requirement regulations and provisional tightening of liquidity and financing requirements targeting FX financing risks in Hungary. In line with the MNB's proposal, the moratorium on repayments introduced by the government eased the liquidity shortages of households and companies alike, and supported the maintenance of consumption and investments, immediately after the lockdowns started.

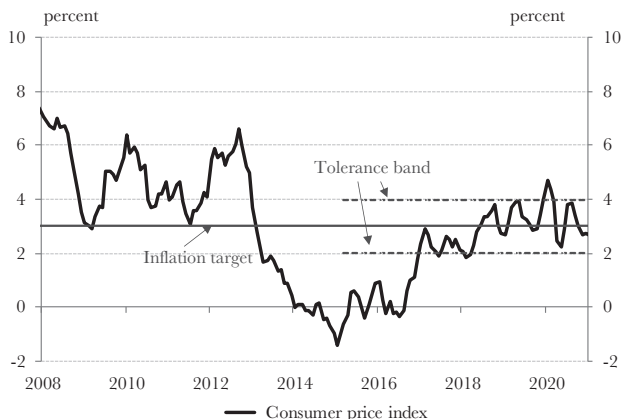
Following successful financial stabilisation, in the second phase of protecting the economy against the pandemic, restoring economic growth was the focus. Supporting this was also of key importance for the central bank, as economic recovery is also needed to achieve the inflation target. In the summer of 2020, the central bank cut the base rate twice, by 30 basis points in total, to 0.6 per cent. The interest rate cuts helped the rapid recovery of Hungarian economic growth.

As part of the phase promoting economic growth, on 20 April 2020 the MNB launched the latest extension of its Funding for Growth Scheme (FGS), FGS Go!. Due to the strong interest in this scheme, the MNB increased the available amount of FGS Go! to HUF 3,000 billion in several steps. Thanks to the MNB's Bond Funding for Growth Scheme, the liquidity of the corporate bond market expanded considerably during the coronavirus pandemic, and therefore companies now consider raising funds on the bond market as a genuine alternative to financing from bank loans. The Bank also paid dividends of HUF 250 billion to the government budget twice to contribute to the management of the coronavirus crisis and successfully jumpstart the economy.

The results of the crisis management

Overall, the MNB remained committed to maintaining price stability even during these difficult times, and successfully achieved its primary objective. The trend seen since 2017 was not interrupted in 2020, despite the coronavirus pandemic, and the consumer price index stayed within the central bank's tolerance band for almost the entire year (Chart 3). In 2020, average annual inflation was 3.3 per cent, and thus the central bank maintained price stability in Hungary.

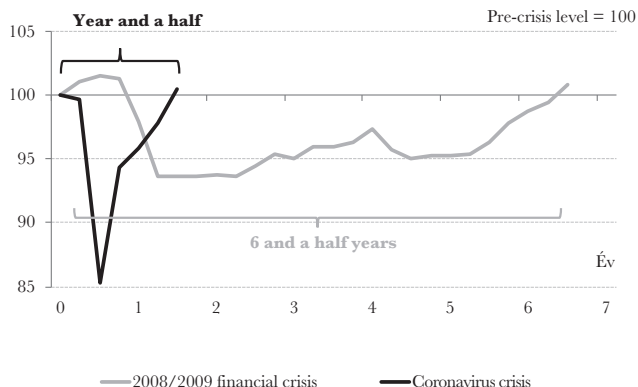
Chart 3. Inflation developments



Source: HCSO

The Hungarian economy returned to its pre-crisis levels in six quarters, whereas after 2008 this took six and a half years (Chart 4). Employment reached new historic highs in May 2021, whereas after 2008 the labour market recovery lasted for five years. Consumption recovered in just seven quarters, while, after 2008, due to the FX lending trap, this took over 10 years. The investment rate of around 20 per cent was among the worst in 2010, while today’s rate of over 27 per cent is among the best by international standards. After the 2008 financial crisis, Hungary experienced a total meltdown in its credit market, and it took 10.5 years for lending to resume in earnest. By contrast, thanks to the central bank’s successful protection measures, credit markets recovered in the year of the pandemic, after having repelled the effects of the coronavirus pandemic.

Chart 4. GDP recovery after the 2008/2009 crisis and coronavirus crisis



Note: Based on seasonally and calendar adjusted data

Source: HCSO

CONDITIONS HAVE CHANGED AS THE CRISIS SUBSIDES AND ECONOMIES RECOVER

As the crisis subsides, life is returning to normal. From the second quarter of 2021, more and more economies opened up again thanks to the progress in vaccination programmes. Hungary was able to lift the restrictions 1–1.5 months earlier than the EU average in 2021, thanks to the country's high vaccination levels by European standards and the quick, efficient economic policy responses.

Crisis management was successful, the economy was restarted, and now it is time to shift the focus to new challenges. There are 3+1 areas where balance needs to be restored:

- inflation,
- the labour market,
- competitiveness,
- the balance position.

This will help avoid the post-Covid syndrome, and the next decade can be won as well.

Inflation

Inflation is on the rise globally, which is related to the timing and speed of economies' reopening. Inflation appeared earlier wherever the economy recovered faster. In Hungary, inflation returned sooner because of the rapid recovery of the economy and the quick resurgence in demand. Apart from the spikes in inflation, the outlook has clearly risen, driven by both external and domestic factors. Persistent increases in commodity prices and freight costs indicate a higher external inflation environment. Furthermore, Hungary's inflation is also elevated by the rapid wage growth despite the pandemic, the tight labour market and the pick-up in domestic consumption, coupled with the rise in inflation expectations.

As the outlook improves, the Hungarian economy is now faced with a new situation, which requires determined action by the central bank. Now, the primary task is to prevent prolonged inflationary effects and anchor inflation expectations. Persistently high inflation erodes purchasing power and people's accumulated savings, retarding the process of recovery. Currently, 56 per cent of households' financial assets are not protected against inflation. It would be a mistake to underestimate the risk of prolonged high inflation.

Therefore, monetary policy has proactively entered into a new phase, to ensure price stability and support the return to a sustainable economic growth trajectory. Taking this into account, the central bank began its tightening cycle in June 2021, raising the base rate in eight steps to 2.90 per cent (until the finalisation of the manuscript at the end of January 2022). The tightening cycle needs to be continued until the outlook for inflation stabilises around the central bank target in a sustainable manner and inflation risks become evenly balanced on the horizon of monetary policy. The central bank also started to

gradually phase out its crisis management instruments: in June, the MNB announced the termination of the FGS Go! programme as the allocated amount had been depleted, and as a next step, use of the long-term collateralised credit instrument was also terminated effective as of the date of the July monetary policy meeting. After this, the MNB started to gradually phase out the government securities purchase programme in late August. In view of swap market developments, the decision was taken to gradually phase out the swap instrument providing forint liquidity.

Labour market

The Hungarian economy restarted in second quarter of 2021. After reopening, the phase of economic recovery became much faster, which may potentially lead to renewed labour shortages in certain sectors. The first signs of this are already visible, as the share of firms where the lack of available labour represents a potential constraint on production is increasing.

Labour market tightening further fuels the already dynamic expansion in wages. Within the CEE region, the highest wage growth was in Hungary in 2020, and it did not slow down in early 2021. The high wage share in Hungary may translate into a competitive disadvantage for SMEs over the long run. This can already be seen in the fact that small enterprises exhibit slower wage growth early in the year, showing that these firms have little room to increase wages due to their dented profits. Consequently, persistently high wage growth may place these predominantly Hungarian businesses at a competitive disadvantage compared to larger, typically foreign companies over the long run.

Competitiveness

The key to winning the 2020s is to increase the real value of gross value added per capita, in other words to improve productivity. A continued improvement in productivity requires that all relevant reserves be utilised. This is what the MNB's 330-point competitiveness programme is about, as well as the 50-point crisis management programme and the 10-point restarting programme. A complete turnaround in competitiveness is necessary for convergence and for successful crisis management in the future

Balance position

The recipe for the economic success in the past decade was maintaining balance and growth at the same time. Although balance became less important due to the challenges faced last year, this was only temporary. The balance indicators that deteriorated in 2020 need to improve in 2021 and 2022. The task is not simply to restart economic growth and convergence: a sustainable convergence path needs to be devised, with the tools and resources of the recovery. The financial resources necessary for this are already available.

THE IMPORTANCE OF THE GLOBAL MEGATRENDS DETERMINING ECONOMIC DEVELOPMENTS IN THE 21ST CENTURY

The 21st century is strongly determined by global economic and geopolitical megatrends. The momentum generated by these megatrends could benefit the country that turns out to be the best performer of the century. Hungary also needs to ensure balance and growth in this new world, which means that it is crucial to identify and continuously monitor the main megatrends.

Deglobalisation and localisation

Super-globalisation, i.e. the age of economic value creation that eliminates the framework of nations, is now being replaced by deglobalisation, i.e. local and regional production (Manfredi-Sánchez, 2021; Matolcsy, 2020b; Sharma, 2016). In the global production organisation, production and service activities are built on international outsourcing and low stocks. The coronavirus crisis highlighted just how fragile these global value chains are (OECD, 2020; Nandi et al., 2021; Handfield et al., 2021). Therefore, multinational corporations may shorten global value chains during the economic recovery, making them more regional, and increase their reserve stocks. This process is strengthened by the heightened tensions in international trade relations, as the world has entered a long “Cold War” due to the rivalry between the USA and China.

Localisation developments are supported by the fault lines within the euro area, exacerbating the strains between northern and southern Member States. Due to the institutional shortcomings of the euro area, common monetary policy leads to development for the north and more lagging behind for the south. This is not helped by further increase in indebtedness (Matolcsy, 2021d). A larger amount of money does not solve the qualitative issues with money. A separate euro would be needed for the north and the south. This seems to be impossible today, but it is still the beginning of the decade. New central bank digital currencies may provide a theoretical opportunity for broadening Europe’s monetary room for manoeuvre and introducing a dual exchange rate regime.

Existing euro area members are interested in new joiners being appropriately mature before entering the currency area. Until the appropriate foundations are established, there is no guarantee for a successful and safe introduction of the euro (MNB, 2020). The past year has shown that the forint outperformed the euro in repelling the financial and economic consequences of the coronavirus pandemic. This would not have been possible with the euro, as the central bank was able to use more targeted instruments during its crisis management with the forint. It is in Hungary’s best interest to ensure that the switch from the forint to the euro is safe and thus successful.

Digitalisation and the data revolution

Digitalisation changes everyday life. The information economy has been rapidly developing due to the coronavirus, which may not only help spread the innovations of today’s Fourth Industrial Revolution in the economy and society as a whole, but may also contribute to the

emergence of the Fifth Industrial Revolution based on artificial intelligence. Although this could lead to the disappearance of low-skilled jobs, many new, high-skilled jobs are being created. A good example for this is the reduction of human labour in certain sectors, while new occupations emerge, such as programming and data science (Shah et al., 2015). Skills- and practice-oriented specialised and further training can ensure that workers remain flexible in the new world, and increasing the number of graduates is also crucial. As a result of mass digitalisation, data is replacing raw material as the major resource of the 21st century, and its protection is a key responsibility (Seele–Lock, 2017).

International experiences show that a persistently high investment rate of about 25–35 per cent of GDP is required for economic convergence (Matolcsy, 2021a). The most important driver of sustainable convergence is the expansion of productivity, which is best increased by digital investments. If there are few digital investments and the share of construction projects is high, there is little room for boosting productivity. Even in today's crisis, those who previously focused more on the digital transition were better off. Mass digitalisation requires significant investments, which calls for raising huge amounts of fresh capital.

In digital finance, the MNB set an example by introducing the instant payment system in March 2020. In recognition of the successful introduction of the system and the unparalleled Hungarian model in the international arena, the MNB received the prestigious prize of the Central Banking Institute on 22 March 2021 (MNB, 2021c).

Transformation of the monetary system: central bank digital currency

The 21st century not only brings breakthroughs in production due to the digital revolution, the same can be seen in the financial system as well (Matolcsy, 2020c). As the coronavirus pandemic spread, reducing cash use became even more important (Boar–Wehrli, 2021), and this may lead to renewed calls to provide households and non-financial actors with electronic access to central bank money. As a result of the financial revolution, access to money will be generally quick, cheap and secure.

As cash use is reduced, the next step in financial evolution could be central bank digital currencies (Auer–Böehme, 2020). Central bank digital currencies will allow central banks to enter into more direct relationships with real economy actors, thus enabling them to more easily influence the latter's savings and investment decisions (BIS, 2018). This new type of money could fundamentally alter the way financial systems work and money is created. Therefore, several central banks are studying the issue of central bank digital currencies and their potential applications (Chart 5). In order to join other central banks spearheading central bank digital currency research, the MNB published a comprehensive volume of studies in July 2021 (MNB, 2021a).

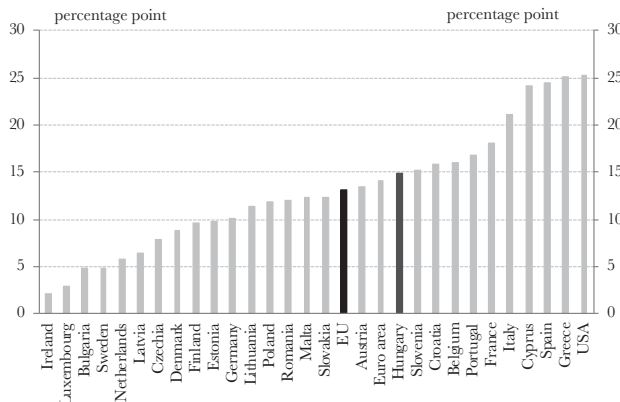
Chart 5. Countries researching central bank digital currency



Source: Edited by MNB based on Auer et al. (2020), CBDCTracker (2021) and central banks' websites
Sustainable debt management and tax reform

With the outbreak of coronavirus crisis, nations around the world went on a spending spree, increasing their government debt (Chart 6). According to the proponents of the modern monetary theory, the size of government debt does not matter anymore, because low interest rates mean that any debt can be repaid. The EU and the euro area may follow in the footsteps of Japan, where the debt-to-GDP ratio is over 260 per cent, around half of which is on the central bank's balance sheet (Matolcsy, 2021b). At the same time, debt will always be debt, and sustainability issues may resurface as the crisis subsides. Even a slight but persistent rise in inflation could suddenly change central banks' policies. Interest rate hikes could quickly make it difficult to finance debt, including government debt, hampering sustainable growth.

Chart 6. Change in government debt as a share of GDP between 2019 and 2020



Source: Eurostat, OECD

Dynamic, sustainable growth requires appropriate debt management as well as a competitive, growth-friendly tax regime and a sufficiently diversified financing system. Hungary has made great strides in establishing a growth-friendly tax regime in the past ten years. The idea behind a tax system encouraging employment and investments is that tax centralisation should shift from taxes on labour and capital towards consumption taxes: in other words, income is taxed when spent rather than when it is earned (Matolcsy–Palotai, 2018). The next step in the development of such a competitive tax regime could be the national taxation of cross-border digital services and the more active application of green taxes on polluting activities.

Green finance

Climate change has undoubtedly become one of the greatest challenges for humanity in the 21st century. Its signs and detrimental consequences can be acutely felt every day (IPCC, 2021). At the same time, it has also become clear that the previously pursued growth model is not sustainable, and a transformation of economic structure is needed that can ensure achievement of the national economy's objectives while preserving natural resources. Climate-related risks have a major direct and indirect impact on how the economy operates, and so they can influence financial stability and the monetary policy stance as well (BIS, 2020; NGFS, 2021). Therefore, sustainable growth requires not only the promotion of innovation and digitalisation but also the use of green solutions.

The natural, social and economic developments entailed by climate change shape the central bank's tasks arising from its mandate. Extreme weather events impact price levels, real economy output and labour supply, while the transition to a green economy represents a huge financing requirement on the financial markets; thus, climate-related risks both directly and indirectly jeopardise the primary objective of the central bank, i.e. the achievement and maintenance of price stability. Meanwhile, physical and transition risks affect companies' profitability, and thus also their creditworthiness along with the performance of other related financial assets, and may ultimately undermine the stability of the entire financial intermediary system. Moreover, several central banks also have a mandate pertaining to the real economy: therefore, they must address the challenges related to the implementation of environmental sustainability.

It is no coincidence that major central banks are also focusing on environmental sustainability (Dikau–Volz, 2019). It can be safely stated that the MNB recognised the importance of this topic in good time: it introduced several practical measures in recent years, thereby setting an example and pioneering such efforts at the international level. The Green Programme launched in 2019 as the flagship project and featuring a substantial supervisory aspect deserves special mention. The programme focuses on measures aimed at financial system stability and a favourable financing environment, but it also covers the promotion of climate-consciousness and the reduction of the MNB's own ecological footprint as well.

In a historic step, with its decision on 28 May 2021 Hungary's Parliament gave statutory authorisation to the MNB to support the government's policies related to environmental sustainability. The foundations of this new central banking approach were laid by the green

monetary policy toolkit strategy announced on 6 July 2021 (MNB, 2021b), the main thrust of which is to provide a uniform framework and to point out the potential ways for the MNB to incorporate climate protection and environmental sustainability considerations into its monetary policy instruments. This can contribute to the green transition and the establishment of a financial intermediary system efficiently and broadly integrating environmental aspects, which is crucial for Hungary's sustainable convergence.

Halting climate change and the transition to a green economy model requires not only pledges but also action, as soon as possible. The aim of the two pioneering initiatives, the FGS Green Home Programme and the Green Mortgage Bond Purchase Programme, is to facilitate green mortgage loans, i.e. loans extended for homes with the appropriate energy efficiency. The two programmes can make a targeted contribution to the construction of modern homes and the emergence of a more uniform stock of properties, which is key from a sustainability and a national economy perspective as well.

SUMMARY

As a result of the economic policy renewal, significant economic convergence has taken place in the last decade, while a sustainable internal and external balance has also been achieved. As a result, Hungary faced the coronavirus pandemic and its economic effects with a strong immune system and the recovery was rapid.

However, as the crisis subsides, more work remains to be done: we need to restore balance again and implement a turnaround in competitiveness to redirect the economy back to a sustainable path. In the competitive environment of the 21st century, economies which are able to harness emerging international megatrends by accentuating their own strengths will be the winners. Deglobalisation processes require that the role and structures of local cooperation be revisited, as they should be made sustainable. Investment in digital solutions offers a great competitive advantage to the countries that recognise the importance of this in time and focus their resources on such efforts. As part of this, the financial system could be transformed when central bank digital currencies appear. Tax regimes need to be revised, and debt must be made sustainable. Besides economic balance, the economy's ecological sustainability also has to be ensured, as this is the only way to achieve genuinely sustainable growth. Central banks have a huge part to play in this. By recognising and utilising international megatrends and strengthening the factors that promote competitiveness, Hungary can be among these economies.

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László Domokos

Public Finance Challenges of the COVID-19 Pandemic and Responses of the State Audit Office



Summary

Measures introduced worldwide in response to the COVID-19 pandemic have brought with them the potential for a crisis to develop. A crisis, by its nature, will pose a challenge to all of us. However, a challenge will also create opportunities to implement a qualitative change. This article presents the challenges the State Audit Office has faced during the COVID-19 pandemic, as part of its day-to-day work and when analysing the effects of the pandemic. Restrictions on personal contacts have induced organizational changes and integrity risks have increased. In response to these challenges, organizational changes have taken place, covering aspects such as work organization and digitalisation. The State Audit Office has introduced new types of audits to increase audit coverage, thereby contributing to a reduction in increased risks of corruption, and thus to the functioning of a well-governed state. The SAO has produced an increased number of analyses on public finance to serve as a basis for its advisory activities intended to help achieve the goals of the Government. In budget management, the concept of resilience had to be reinterpreted and the aim of ensuring fiscal balance had to be subordinated to the financing of measures to strengthen the resilience of the economy as a whole. A new challenge is posed by the fact that, concurrently to efforts for restarting the economy, steps must also be made to consolidate the balance of the budget.

Journal of Economic Literature (JEL) codes: H61, H70, H10, H12, O30

Keywords: challenge, digitalisation, counselling, resilience

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INTRODUCTION

The Year 2020 was extraordinary in every respect. The virus and its effects brought about a restructuring both in economy and society. Demand and supply, though relatively predictable before, became unpredictable, with demand emerging in the market for products other than previously. As part of this restructuring of demand and supply, working from home increased in importance, with a great emphasis placed on significantly reducing personal contacts. While some institutions, organizations, and companies fought for survival, others fought their daily struggles to meet a huge demand that suddenly evolved. This was particularly relevant to the public sector, where services provided by institutions increased in value; and, in areas where contact with citizens had been the norm, services were shifted to digital interfaces and solutions.

The State Audit Office, as an independent constitutional institution of the state, facilitates sustainable good governance through its activities. The pandemic exerted impacts in a number of ways on this institution as well, yet, its activities have clearly had an indirect effect on controlling the pandemic. But how can one control a pandemic? To answer this question, first it is worth reviewing academic literature discussing the impacts of the pandemic in the public sector.

While exerting a major impact on the lives of citizens, the pandemic also placed a heavy burden on governments as demand and supply changed. According to a World Bank (2020) study, governments faced three challenges during the pandemic:

- Preventing and slowing down the virus infection
- Reducing food insecurity and other infrastructure insecurity
- Creating public safety.

For addressing these three challenges, it was particularly important to create integrity. Corruption risks have the potential to reduce the speed and scale of ‘treatment’, meaning that measures will be less successful if these risks are not addressed.

Public policies were given special attention during the pandemic, with integrity being one of the essential elements thereof. Milojevic (2021) emphasizes that public policies played a major role during the pandemic, changing as fast as possible so as to provide appropriate responses to challenges, with different policy goals formulated often on a daily basis.

The government faced another rather difficult challenge, as the protection of public employees and civil servants working at ministries, municipalities or other decision-making or executive bodies were also an important aspect during the pandemic. Schuster (et al., 2020) examined those working in the public sector, as they were instrumental to identifying and solving problems and making service provision efficient. Köllő (2020) also examined changes on the labour market during the pandemic. His study shows that the decline in employment caused by the pandemic would have been much more pronounced if a transition to teleworking had not been possible in many sectors. He mentions that teleworking represented above-average benefits for women, citizens living in Budapest, and those working in the public sector; and that a transition to teleworking was observed mainly in services, especially education.

Katona and Petrovics (2021) examined the state and citizens for their readiness to co-operate, as the field of human public services requires co-operative solutions. They suggested that there is a need for increasing the flexibility of public services and improving communication and trust between the parties involved, through cooperation between the state, local governments and citizens. Tan (2020) also raised the need for a different kind of treatment, stating that this recession is different from the ones we have been used to. Túróczi (et al., 2020) highlighted that the current crisis is different from previous ones mainly because it is caused by an external factor rather than any internal problems of the economy in Hungary, which had shown stable growth in the pre-crisis period. Their article details the specifics of the COVID-19 crisis, including two factors, highlighted now as the most relevant for this study: the downturn took place over the course of a few weeks; and a significant transformation took place in demand and supply over that period.

In summary, as literature presented above suggests, the strengthening of integrity and trust increased in value during the pandemic, for the reason, among others, that economic indicators and forecasts became practically meaningless. Dudás (2021) also raises this issue when analysing the methodologies of credit rating agencies, as estimates became unpredictable. Changes took place in work organization, and uncertainty more and more affected the unpredictability of economic indicators and a deficit economy emerged.

CHALLENGES IN THE ACTIVITIES OF THE SAO

When it comes to challenges, mostly negative things come to our minds, while challenges give us the opportunity to change, or to examine things from another perspective. In order to curb the COVID-19 pandemic, citizens had to experience a number of restrictive measures. Restrictions, though imposed to a different degree in each wave, included a limitation on customer visits to commercial units, cultural institutions and restaurants; the introduction of temporary lockdown; a significant reduction in the number of services available in the health care sector; and, moreover, a limitation on the number of participants in family events.

Work organisation

In those social circumstances, the SAO also had to assess the risks associated with its internal and external activities. By internal activities we mean the presence of employees in the office, the use of community spaces, meetings held in the usual way, while external activities mean the control, analysis and advisory function of the SAO. If work had been continued as usual, there would have been a realistic chance that colleagues would become infected in their workplaces, despite the fact that it is a basic requirement to ensure healthy working conditions at all times. In this situation, the SAO's management needed to make a quick and firm decision, and decided to introduce the option of working from home and to make arrangements for a progress in digitalisation as required; this situation remained in 2021, with the difference that the principle of 2x2 weeks is used now for teleworking and working at the office, thus avoiding chances of the spreading of infection.

Although the above is an analysis of the SAO's internal work organization, the SAO also took into account the need to respond to changes in the work organization of auditees, when carrying out its audits. It was known that the audited organizations also tried to protect their employees, so it was important to reduce their workload and involve the lowest possible number of employees in audits performed by the SAO. The SAO's goal, as declared in its strategic documents, is to develop the external and internal responsiveness of the organization in order to provide meaningful answers to challenges that may arise. The SAO's digital switchover was confirmed by the National Assembly in a resolution recognising all activities carried out by the SAO to contribute to the creation of a digital auditing environment. That process was accelerated by the current pandemic situation.

For years, the SAO had been constantly monitoring and evaluating the advancement in digitalisation in its environment, therefore, it had recognised in time that a digital switchover was unavoidable. Therefore, in 2018, the SAO developed its IT strategy, by starting to modernize the operations of its organization and to increase the efficiency of its auditing activities. During the state of emergency, one of the main priorities of the SAO was to ensure continuous and smooth processes for audits to be performed as part of its core activities and for analyses to be prepared. The SAO's efforts paid off, as it successfully completed its first digital working day, for which it had created the foundations in the previous year already.

In recent years, all changes at the SAO have been made with digital criteria in mind. One of the relevant innovations was the electronic data request system that enabled us to modernize not only the work of auditees but that of the SAO as well; to make the SAO's work more transparent and also paperless, thus saving public money; and to ensure an even more efficient enforcement of integrity aspects. As the next step of digital switchover, made in response to the current situation, digitalisation is applied now in the SAO's quality assurance processes and decision-making systems.

With digitalisation gaining ground, the SAO has been able to implement methodological developments and process organization solutions as a result of which, after the elapse of 30 years, the SAO can now reach all settlements (i.e. 3197 of them) at the same time in order to strengthen their integrity. Real-time integrity audits, preventive in nature and resulting in advice, have already begun in the municipal sector. Thus, the SAO's organization has flexibly followed the transition caused by impacts of its external environment. The SAO is capable of working in a digital environment, a fact supporting the operation of good governance.

The COVID-19 pandemic has highlighted that a serious, technology-driven change is taking place around us. Data has become the raw material and the main resource of the 21st century, unavoidably requiring an appropriate digital environment capable of handling it. We need to take advantage of the opportunities offered by digitalisation, or otherwise our lagging behind may become fatal for us. What used to be special and unique has now become commonplace. A change of attitude is needed; otherwise we ourselves will become a barrier to development. We need to enter a new age of technology, thereby enabling this change to take place in our lives as individuals and as a society. This change is huge and comparable to the scale of the change of regime in Hungary. The SAO has followed the path of digitalisation for some time, a process that has been accelerated, rather than halted, by the emergence of the COVID-19 pandemic.

New audit approaches

In order to support and improve the implementation of the principles of public finance as set out in the Fundamental Law of Hungary, the SAO has not only modernized and strengthened its auditing capabilities but also focused more attention to its advisory activities in recent years. To this end, in 2020 we made structural improvements to our audit plans to help increase the efficiency of the SAO's audits and thus to support the utilisation of audit findings, as well as to strengthen the SAO's advisory activities. Such improvements also include the operation of a data request system, meaning reduced workload for audited organizations; and the definition of a list of important documents to be used for audits. Thereby, we can assess much more auditees against materiality criteria through auditing fewer documents than before, by using the achievements of digital and technological developments; and, additionally, a higher number of auditees can receive feedback on our observations in a short period of time, so as to improve the public finance situation as quickly as possible. Following the above, risk- and monitoring-based audits have gradually been given more importance, a trend representing a change in our audit approaches.

Methodological and digital developments can pave the way for further technological developments, enabling us to reduce the workload for audited organizations, to increase the efficiency of our audits, and to keep in touch without personal contact during audits, which is especially important in the current situation, because of the COVID-19 pandemic.

Risk-based audit approaches allow us to significantly reduce the time-requirement of our audits and to increase their efficiency, as audits are performed through the assessment of a few groups of documents selected to fully cover each group of auditees. In this way, the SAO can assess important areas of responsible financial management, accountability and transparency in multiple audited organizations at the same time. All this contributes, through an increase in the number of audited organizations, to a general improvement in the public finance situation and accountability.

Such audits, although related to the past, can draw attention to some risks threatening to arise in future, which may justify further detailed audits to be performed at some organizations in order to draw their attention to areas jeopardizing sound financial management. The SAO has been able to focus on two major areas in the past two years. One of them is an area of management responsibility and is about developing integrity on an organisational level; and the other one is the annual assessment of financial stability.

Information on risk areas identified in this way can also be used as preparatory information for determining focus points for more detailed audits. This detailed structuring enables us to increase audit coverage and the added value of our audits and to broaden the range of options for utilisation.

Using monitoring-type approaches and compliance audit methodologies, our audits can provide an up-to-date "snapshot" of a group of auditees, based on a few important audit documents that are relevant to the subject matter of the audits concerned; so this is about "real-time" auditing. Thus, the purpose of monitoring-type audits is to assess the "preparedness" of a large group of audited organizations. While providing benefits to audited organizations,

monitoring-based audits are also in line with the SAO's audit objectives, namely: to increase the coverage of audits while using resources efficiently; to assess previously unaudited segments in real time; to support audited organizations, thus enhancing the SAO's advisory activities; and to facilitate the functioning of a "well-governed state". Focusing on the relevant documents of the current situation and using key criteria, monitoring-based audits apply real-time evaluation to produce recommendations, partly for the present and partly for the future, thus helping auditees improve their public finance situation by strengthening their basic operational and financial management regulations and their prevention-based organizational integrity frameworks.

Both of the two new approaches enable the SAO to detect deficiencies by verifying the existence of basic conditions in different areas of operation and financial management and to provide feedback related to them in order to support improvement in public funds and public assets management.

In addition to increasing its advisory activities to leaders, the SAO helps to achieve that processes become compliant in the most effective way and in time, by supporting the establishment of management control points and the correction of detected irregularities and deficiencies in the shortest possible time. All of this supports "real-time" counselling.

During the transformation of its control technologies and other organizational processes, the SAO has been applying change management for many years, a fact greatly contributing to its ability to efficiently and quickly cope with the situation, even in the midst of the new challenges posed by the pandemic. Domokos (2019, 2020) also emphasizes the importance of this, highlighting that, without change management, the requirement of sustainability cannot be fulfilled, even by public or municipal organizations using public funds as independent legal entities.

Integrity

In addition to the SAO's internal activities, its external ones also raised more and more questions, as the auditing of institutions and organizations that were playing strategic roles in controlling the pandemic would not have been practical from several aspects. The most important goal was to save lives. On the other hand, it was clear that public confidence had to be strengthened, given that institutions of public administration and, for example, local governments were providing a number of services where cooperation was important. One of the most important tools for building trust is raising awareness of the integrity approach. Realising that, during the pandemic, citizens would face other integrity risks than before, the State Audit Office summarized its experiences in an analysis titled "Rethinking Integrity Risks and Controls during the Pandemic", highlighting the anomalies experienced in operations by organisations during the COVID-19 pandemic and the challenges faced by them, in addition to restricting personal contacts (Németh et al., 2020).

The analysis drew attention to the fact that while corruption is present in all societies, its forms may vary depending on whether there is an abundance of supply or a deficit economy. The situation caused by the COVID-19 pandemic has led to the emergence of conditions

characterising a demand market. In such a market, sellers will dictate, which is unusual but not unprecedented. A “seller’s market” has similar consequences to the deficit economy experienced during state socialism; and the state’s control over scarce health goods follows a logic similar to military resource management. The analysis found that the period of the COVID-19 pandemic was characterized by an information vacuum and a high degree of uncertainty. Meanwhile, in many cases, there was a lack of information on market realities and pricing, as well as a lack of expertise for conducting global procurements. The sudden increase in demand gave rise to extreme price volatility, so the customer side did not have the opportunity to establish a fair market price and judge cases of obvious profiteering or overpricing. As needs had to be satisfied immediately, the situation represented a significant burden for the financial management and legal infrastructures of public institutions (Németh et al., 2020, Kistóth et al., 2021).

In addition, the protection of human lives made it necessary in several areas to deviate from standards that had been applied before. This in itself cannot be considered unprecedented; each legal system includes empowering provisions allowing derogation from certain rules to deal with exceptional situations. The effects of the COVID-19 pandemic on the competitive market, on the public procurement market and on regulatory solutions for public procurement are examined in detail in two analyses published by the SAO in 2021 (Kistóth et al., 2021; Nagy et al., 2021).

Bureaucracy and over-regulation represent aggravating circumstances in the control of the COVID-19 pandemic. In addition to causing excessive bureaucracy and unjustified slowdown in processes, over-regulation may lead to unclear responsibilities, may reduce transparency and the predictability of decisions, and may therefore increase the risk of irregularities and corruption. One of the risk areas examined by the SAO’s Integrity Survey methodology is over-regulation, the complexity of regulation and its contradictions.

A high degree of uncertainty in organizational decision-making has created an increased need for making complex decisions. As integrity management systems of public institutions are designed to address risks in a traditional environment, it has become important to accurately identify new challenges. Overall, therefore, corruption schemes previously known from the deficit market are turning around, and the pattern of integrity risks is changing.

MACRO-LEVEL PUBLIC FINANCE CHALLENGES

Macroeconomic and budget-related analyses

In 2020, the SAO prepared 18 analyses covering budgetary processes and some areas of macroeconomics. The direct purpose of these analyses was to assist the work of the Fiscal Council of Hungary (FC), in accordance with the SAO’s legal obligations. In addition, the primary objective was to present the implications of the COVID-19 pandemic on public finances. The analyses handed over to the FC are necessarily retrospective due to the SAO’s mandate, and they highlight risks, draw attention to new opportunities, or ask relevant questions based on changes taking place recently or in the past 3-5 years. The COVID-19 pandemic has, at

least temporarily, broken the economic trends of the previous years, which had been rather favourable; therefore, the analyses prepared after March 2020 placed great emphasis on the challenges of 2020 and on presenting important context for post-pandemic recovery. Some of these analyses are highlighted below.

The most comprehensive analysis of this subject, titled “Analysis of the Budget for Sustainability”, revealed that a continued decline in deficit-to-GDP ratios and public debt ratios during the years analysed (2011-2019) was supported by a number of factors, in addition to a favourable economic environment (Simon et al., 2020). Although the nominal debt grew year after year, public debt ratios showed a steady improvement, due to a faster growth in the GDP. The analysis identified a number of risks increasing as a result of the pandemic, mentioning, in particular, the risk factors that affect the growth of public debt and the evolution of the GDP.

The analysis titled “Impact of EU Grants on Public Debt and Deficit” (Simon et al., 2020) explained, as a starting point, that EU grants exerted impacts not only on economic growth but also on the liquidity position of the central budget. The fact that EU grant funds are settled ex-post with the European Commission and the related time requirement represented a significant funding challenge for the central budget. The protracted settlement process of EU grant funds (advanced from the budget but not yet reimbursed by the European Commission) increased the amount of Hungary’s public debt for several years. In addition to quantifying these effects, the analysis highlighted that the Hungarian budget was able to undertake the extra burden of financing grant advances while complying with rules on general government deficit and the reduction of public debt. Concerning additional expenditures required during the pandemic, the analysis underlined that advancing EU revenues over several years was a form of making reserves, as the European Commission will have to repay such advances over the next two to three years, which will result in a significant reduction in the public debt of Hungary.

The analysis exploring changes in the financial vulnerability of the population in 2007-2019 (Kádár et al., 2020) revealed that retail savings significantly exceeded retail borrowing starting from 2010. That situation allowed the population to play an increasing role in financing the public debt. The analysis highlighted that this role is also important during the pandemic, as a greater willingness of the population to save will create favourable conditions for a situation where a significant part of the increased public debt is financed by domestic actors. The analysis concluded that the measures introduced to avoid an over-indebtedness of the population during the period analysed were appropriate to reduce the financial vulnerability of the population. The analysis underlined the need to keep in mind the risks of high indebtedness because, as the outbreak of the COVID-19 pandemic shows, situations may arise that make it very difficult to repay loans. This fact was cruelly demonstrated by the COVID-19 pandemic, as government action was needed again to prevent tens of thousands of households from becoming insolvent. The analysis emphasized the need to further strengthen public financial awareness in order to avoid excessive risk-taking.

The analysis titled “Labour market impacts of the economic protection action plan related to the pandemic situation” (Lajó et al., 2020) assessed labour market processes during the pe-

riod of the first and the second waves of the pandemic, starting from the announcement of the state of emergency through to late August. The analysis presented that the emergence of the COVID-19 pandemic broke the improving trend observed in employment rates in recent years. Changes caused by shutdowns in March and April took place in a differentiated manner on the labour market. A decline in employment data was immediately visible in some areas/sectors. A significant number of companies expected merely a temporary decline in production and a rapid restart of the economy, so employers typically sought to take temporary measures concerning workers (e.g., temporary layoffs, unpaid leave, reduced working hours, renegotiated wages, and training). This employer attitude was supported by government measures aimed at protecting jobs. Wage support programmes protected nearly 230 thousand jobs. Wage support for job protection was provided to as many as 185 thousand employees, and wage support for job creation enabled the employment of 25 thousand people. In addition, applications for wage support for employees engaged in research and development were submitted relevant to more than 16 thousand people. After an initial dramatic deterioration in employment, there was an improvement in employment starting from late July. The analysis identified it as a risk that the pandemic affected different sectors to different degrees, so recovery is expected to be of different degrees as well. Based on the above, the analysis suggested that it might be appropriate to provide more intensive support for employees to move from sectors affected over a long period to businesses recovering faster (e.g. in economic sectors that are front-runners in digitalisation).

Strengthening the resilience of the economy

One of the most important pillars of resilience against the COVID-19 pandemic is a sound public finance system. For many years, the SAO has been dealing with the issue of resilience relevant to the budget, i.e. how to adapt flexibly to interim changes during the implementation of the budget, while protecting the basic objectives of the budget and complying with public debt rule (Pulay et al., 2020; Domokos, 2020). In recent years, the SAO has primarily called for the establishment of a multi-level and multi-element system for making reserves; the mitigation of the end-of-year formation of budget residues; and the development of a transparent system for using residues.

However, at the time of the COVID-19 pandemic, resilience related to the budget had to be given a new meaning, as the primary task for the budget policy was no longer to preserve the balance of the budget but to create funds for efforts to control the pandemic, including the protection of both human health and jobs. In other words, resilience against the devastation of the pandemic had to be created in society and the economy as a whole. To that end, a stable budgetary basis and appropriate legislative powers were required. The Fundamental Law of Hungary provided the legal basis for creating the above.

Article 36 (5) of the Fundamental Law stipulates that "As long as government debt exceeds half of the total gross domestic product, the National Assembly may only adopt an Act on the central budget which provides for a reduction of the ratio of government debt to the total gross domestic product". We can recall the key experience of the global financial crisis that broke out in 2008: those countries were able to recover from the crisis faster and at lower los-

ses that had previously pursued nearly balanced fiscal policies and had ensured stable footing for financing their public debts. The fact that Hungary reduced its public debt to the GDP ratio year after year for nine consecutive years is attributable, among others, to the so-called public debt rule stipulated in the Fundamental Law as cited above. This is one of the reasons why we can state that the economic shock caused by the pandemic reached Hungary in a much better standing than the global financial crisis of 2008.

However, the drafters of the Fundamental Law were conscious of the fact that periods of economic growth will, from time to time, be interrupted by developments bringing about decline. Therefore, the Fundamental Law stipulates a rule for that situation, stating that “Any derogation from the requirement of reducing the public debt ratio shall only be allowed during a special legal order and to the extent necessary to mitigate the consequences of the circumstances triggering the special legal order, or, in the event of an enduring and significant national economic recession, to the extent necessary to restore the balance of the national economy” (Article 36 (6) of the Fundamental Law).

Lawyers refer to the rule cited above as the “escape clause”. However, as an economist, it is more appropriate to consider it as an enabling provision. An enabling provision means that a higher-level legal regulation provides authorisation for the enactment of a lower-level legal regulation, for example, an Act authorizes the Government to make a government decree on a particular subject. As general legal position holds, the authorization also represents an obligation to make the given legal regulation.

Why do I use this analogy? Because the term ‘escape clause’ gives the impression that someone has done something wrong and we waive the negative consequences thereof, having regard to the given circumstances. In the present case, however, it is not at all a matter of turning a blind eye to a forced increase of the public debt ratio. We need to put the emphasis on something quite different. The cited provision of the Fundamental Law should be considered as an authorization for the Government to deviate from the requirement to reduce the public debt ratio, to the extent necessary for mitigating the consequences caused by the triggering circumstances or for restoring the balance. Interpreting this authorisation as an obligation, I can argue that the Government would have acted improperly if it had not exercised this authority and had given priority to the aspects of fiscal balance over the measures needed to remedy the emergency situation. I have consciously used the term remedy, as the lives of many people depended on whether the Government provides funds for the measures needed to curb the pandemic. It was no less a task to preserve jobs amid the economic conditions caused by the pandemic.

Why are we talking about an escape clause then? Because subsequently in the European Union and in many other countries around the world, exemptions from compliance with some rules had to be granted after the outbreak of the pandemic. In contrast, the Fundamental Law of Hungary contained the provisions that empowered the Government to act, right from the moment when it was adopted. Here, I mean not only the above-mentioned authorization, but that the law also empowered the Government, in case of a state of emergency, to rearrange the structure of the budget adopted by Parliament in quite different circumstances and to reappropriate some budget resources to controlling the pandemic and to protecting the economy by creating two new funds, in deviation from the provisions of the Public Finance Act.

Prior to the onset of the COVID-19 pandemic in Hungary, macroeconomic and fiscal developments in Hungary had been favourable, as the real GDP increased every year between 2013 and 2019, the budget deficit to the GDP ratio stood below the Maastricht deficit target (3%) starting from 2012, while the public debt to the GDP ratio fell from 80.4% in 2011 to 64.2% in 2019. Thus, the outbreak of the COVID-19 pandemic in March 2020 exerted a shock-like negative impact on a national economy that had strong fundamentals and had been expanding for years. The first and second waves of the pandemic caused a sharp economic downturn during the year, as a result of which Hungary's GDP in 2020 fell by 4.7% in real terms compared to the previous year. This rate is more than one percentage point better than the EU average (-5.9%) due to stable fundamentals and government measures taken during the year.

In order to alleviate the economic shock caused by the COVID-19 pandemic, the Government implemented a supply-side crisis management economic policy aimed at curbing the economic downturn and achieving economic recovery as soon as possible. As a result of this supply-oriented economic policy, the investment rate in Hungary was able to increase, at least moderately, despite the unfavourable macroeconomic environment. The improving trend in the investment rate was mainly attributable to an increase in investments in the public sector in Q4 2020 and a dynamic rise in housing investments.

We must also highlight the role played by the state in preserving and creating jobs, carried out, among others, through tax incentives and exemptions, as well as targeted support for the development of knowledge and technology. As a result of crisis management, employment and unemployment data has improved by the end of the year, after reaching a low in Q2 2020. The effectiveness of the measures is also remarkable in international comparison, as in Hungary in 2020 the employment rate of those aged 15-64 decreased by 0.3 percentage points less than the EU27 average.

The challenges of restarting the economy

As the employment rate and the investment rate were kept at a high level, it provided a good basis for restarting the economy, a fact reflected in an extremely dynamic economic growth in Q2 2021, through which the amount of the GDP exceeded its level observed in 2019. However, the maintenance of this rapid economic growth is threatened by a number of factors, in addition to the new wave of the pandemic. I mean, above all, the shortages that evolved in world economy, which, on the one hand, are hampering continuous production and, on the other hand, the resulting shortage – a new phenomenon to welfare states – is causing hysterical reactions and that prices of energy and other essential articles are skyrocketing. The fact that most states pumped money into the economy without performance during the COVID-19 pandemic creates favourable conditions for the cost-side inflation to break loose. Back then, due to various physical constraints, income holders could not spend money, so it had no inflationary effect. However, after restrictions had been lifted, consumers started to buy and their needs could not be met smoothly by disordered global production chains.

In this situation, it is difficult to decide whether fiscal policy should still support the restart of the economy or should rather curb inflation by reducing the budget deficit. Therefore, a close monitoring of economic processes can serve as a basis for deciding whether it is expedient to step on the brakes or on the gas. The public debt rule also serves as a compass for decisions in such situations, as it makes the reduction of the public debt ratio mandatory once the economic downturn has ended. Consequently, the economic stimulus policy can be continued as long as the resulting GDP growth is higher than the increase in public debt. However, the reverse is also true, meaning that such austerity policies should not be pursued that result in only a slight increase in public debt, but lead to an even more pronounced slowdown in economic growth.

Based on the dynamic growth of the Hungarian economy between 2017 and 2019, and the high investment rate underpinning it, as well as investments attracted to Hungary since then, we can state that the economic growth of 5-8 percent has got its internal conditions, and they could be exploited in case of a not too unfavourable evolution of conditions in world economy. This would allow the Hungarian economy to catch up with the surge in public debt during the pandemic and gradually, but at a good pace, reduce the public debt ratio to the level of 50 percent of the GDP envisaged in the Fundamental Law.

However, reducing the general government deficit to below three percent of the GDP will also require cuts in government spending. This requirement can be fulfilled within two to three years after spending is no longer needed to deal with the negative effects of the pandemic.

But it is also clear that setting the economy on a sustainable growth path is not a matter of quantity but of quality. Sustainable growth requires sustainable competitiveness. For this purpose, various synergies should be exploited. I will only briefly describe these synergies, as the SAO's analysts have recently prepared detailed analyses on these topics, which are published on the SAO's website.

- Firstly, the link between economic growth and environmental impacts must be pointed out. The goal of achieving climate neutrality by 2050 means that the amount of greenhouse gases emitted per unit of production needs to be reduced at a rate that is significantly higher than the growth rate of the economy. This is only possible if climate protection measures are part of a complete modernization process.
- Secondly, I mention the issue of security, a term that may include many kinds of security to think of (national security, security of supply, protection against pandemics). The experience of the pandemic suggests that strong security cannot be built on international cooperation alone, and that national frameworks also need to be strengthened. From the aspect of our topic, the issue of secure financing of public debt needs to be explained in more detail. It is obvious that the most secure way of financing public debt is when it is mostly financed by domestic investors and, in particular, retail government securities. Citizens are the investors who, in the event of financial turbulence, do not withdraw their savings from the state, but rather invest them. And interest paid to them will flow back into the economy or further increase their savings. For curbing inflation, it is also important for the government

- to place savings of citizens in long-term government securities bearing interest at appropriate rates.
- A key component of sustainable economic growth is sustainable whitening, i.e. making grey employment transparent through the reduction of labour taxes. In parallel with that, the transparency of financial management is increased by means of digitalisation. This endeavour will not only mean extra revenue for the budget, but will also meet the sense of justice in society. An essential component of sustainable whitening is that the state does not keep the extra revenue coming from whitening of the economy, but “returns” it to taxpayers by reducing personal income tax and wage contributions. One form of this could be the recognition of investment in vocational training through a proportionate reduction in personal income tax.
 - Expanding employment has so far been an extremely successful means of aligning economic and social aspects. This goal should not be abandoned, despite the fact that reserves of economic activity that can be easily mobilised have already been exhausted and that increased efforts, such as custom-tailored support would be needed to achieve that additional groups (disadvantaged young people, people with disabilities, people living in small villages) also start working. A goal could be to raise the employment rate above 80 percent.
 - Another important social policy, which has proven successful so far, is the broadening of sharing the burdens of child-rearing, which can, through its positive results, be the key to long-term social sustainability (by reducing population decline and ageing).
 - Of course, we must not forget about political stability, which has been an important factor in Hungary’s ability to attract capital, due to the resulting predictability.

CLOSING REMARKS

This article detailed how the State Audit Office responded to the challenges posed by the COVID-19 pandemic. At the same time, we consider it important to emphasize that the pandemic also provided an opportunity for institutions, organizations and citizens to change their mindsets, and to use a risk-based approach in the future for making decisions, by focusing on prevention and relying on planning. As a special feature of planning, we must think in terms of deadlines and assess our own possibilities. We need to prioritize our expenditures and set on a path towards high quality spending processes. This is how citizens together can become a responsible and self-sufficient Hungarian society. Moreover, it is in the interest of society, especially in the current situation, to save and to get our share of consumption. This means there is a shared interest and a shared burden to bear at the same time. In this way, we can, through solidarity, get out of the trouble we lived through together. A population that can make plans, and can set aside and manage funds will provide added value to society as a whole that can be relied on even in crisis situations.

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Lending in crisis – 2008 versus 2020



Summary

The study analyses the reasons for and extent of the differences in lending trends in Hungary in the wake of the 2008 financial crisis and the Covid-19 crisis. In 2008, the lack of monetary and fiscal room for manoeuvre, coupled with the lack of a macroprudential framework and the unhealthy lending structure exacerbated the banking sector's procyclical behaviour and caused a credit crunch, deepening the economic downturn. When the Covid-19 crisis occurred, however, Hungary had a significantly sounder macroeconomic and lending structure, and a complex, developed macroprudential framework. All of this helped to underpin credit dynamics during the economic downturn. The large volume of guarantee and loan programmes and the payment moratorium played a pivotal role in this positive outcome, which was also supported by macroprudential measures maintaining the lending capacity of banks.¹

Journal of Economic Literature (JEL) codes: G20, H12

Keywords: coronavirus crisis, lending, crisis management

INTRODUCTION

In early 2020, the rapid global spread of a novel coronavirus caused an unprecedented shock. Due to the immediate impact of the ensuing pandemic, the disruption of global supply chains and social distancing measures, the global economy – including Hungary – faced a simultaneous contraction on both the supply and the demand side (OECD, 2020), with the extent of the downturn exceeding the decline experienced in the 2008 crisis (HCSO, 2021)

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The financial system is inherently pro-cyclical, i.e. banks' lending activity and profitability correlate with and even “amplify” the short-term business cycles in the economy. This may contribute to making economic developments more volatile and to increasing the amplitude of the business cycle (Horváth et al., 2002). The very nature of the banking system can therefore deepen economic downturns. A macroeconomic shock such as the one caused by the coronavirus impacts the credit market via several channels: the decline in demand observed in sectors affected by supply chain disruptions and lockdowns (tourism, hospitality, entertainment, manufacturing, transport) leads to adverse labour market and income effects, which in turn lead to an increase in the riskiness of the household portfolio. However, the reduction in aggregate income is also associated with a reduction in corporate profitability, which may increase the past-due or non-performing loan portfolio. In an uncertain environment, economic actors restrain their demand for credit, while banks reduce their supply of credit to mitigate the risks in their loan portfolios. The contraction in lending and the rise in the cost of risk can have a negative impact on bank profitability and hence capital adequacy, and also hamper recovery from recession (Darvas, 2013), thus exacerbating the economic downturn (Borio et al., 2001; Adrian – Shin, 2008).

Therefore, in order to prevent the banking system from deepening the downturn resulting from economic shocks, it is crucial to maintain lending capacity. This can be ensured by the authorities via fiscal and monetary policy incentives as well as macroprudential instruments. In this paper, we show how the (Hungarian) crisis management in relation to the coronavirus crisis differs significantly from the 2008 crisis. In the 2008 crisis, the lack of fiscal and monetary policy room for manoeuvre and the absence of macroprudential instruments led to a credit crunch, whereas credit expansion has been sustained in the current crisis.

The structure of the paper is as follows: in Chapter 2, we show how the macroeconomic and credit market situation in Hungary was different at the time of the outbreak of the coronavirus pandemic compared to the situation before the 2008 crisis. In Chapter 3, we discuss in more detail the developments in the corporate credit market, while in Chapter 4 we discuss the developments in the household lending segment. In Chapter 5, we present the measures in response to the coronavirus crisis that were taken within the macroprudential framework developed in the aftermath of the 2008 crisis, while in Chapter 6 we discuss the domestic experience of the payment moratorium.

EVOLUTION OF RISKS BUILT UP IN THE BANKING SYSTEM

The crisis which started in the US subprime mortgage market in the summer of 2007 and spread rapidly to developed and emerging markets made it clear that the banking system is key to the health of the economy and that imbalances in this system have serious consequences. However, when comparing the situation following the outbreak of the coronavirus with the 2008 crisis, a number of differences can be seen: while the 2007-2008 financial crisis spread from the balance sheets of financial institutions to the real economy, the current crisis started from the real economy. In contrast to the period before 2008, Hungary was hit by the shocks of the pandemic in a stable macroeconomic condition (lower and declining public debt-to-GDP ratio, stable financing structure, low unemployment rate) (Table 1).

Table 1: Evolution of selected economic indicators in Hungary before the crisis

	Indicator	2008	2019
Economic performance	GDP growth (per cent)	0.9	4.9
	Unemployment rate (15-74 year, per cent)	7.8	3.3
Government debt and budget	Government debt (in per cent of GDP)	71.8	66.3
	Foreign currency denominated debt of general government debt (per cent)	37.4	17.4
	Foreign share of government debt (per cent)	51.4	33.9
	Budget deficit (in per cent of GDP)	-3.7	-2.0
External balance	Current account balance (in per cent of GDP)	-7.1	-0.8
	Net external debt (in per cent of GDP)	52.6	7.9
	Gross external debt (in per cent of GDP)	97.1	53.3

Source: MNB (2020a)

One remarkable difference is that, in parallel, the resilience of the domestic banking system has also improved significantly over the past decade (Table 2). Banks had sufficient liquidity, profitability and healthy balance sheets to help dampen the impact of the pandemic.

Table 2: Certain indicators of the Hungarian banking system in 2008 and 2019

Key banking system indicators (per cent)	2008	2019
Liquid assets / total assets	10	30.9
Credit / deposit ratio	152	75
Foreign liabilities / total liabilities	34	12.7
Rate of loans overdue for more than 90 days	4.6	2
Capital adequacy ratio of the banking sector	11.2	20.6
Net NPL / own funds	16	2
Return on equity	11.3	11.6
Operating expenses as a ratio of total assets	2.4	2
Ratio of foreign currency loans - household loans	67	0.5
Proportion of variable rate mortgages - households	77.5	48.7
Corporate credit dynamics (year/year)	6.5	13.9
Household credit dynamics (year/year)	19.1	16.7

Note: The proportion of variable-rate mortgages in 2008 is based on expert estimates.

Source: MNB (2020a)

The structure of private sector's loans outstanding was also substantially healthier at the time of the outbreak of Covid-19, compared to the period preceding the 2007-2008 economic crisis, which also contributed to limiting the impact of the coronavirus on the credit market.

Compared to the economic crisis of 2007-2008, the composition of *corporate lending* was much more favourable before the coronavirus. On the one hand, the credit market was not characterised by excessive foreign currency (project) lending, as a result of which after 2008, in parallel with the increase in non-performing loans, loans outstanding declined until 2015 (Matolcsy, 2020). On the other hand, partly as a legacy of the previous crisis, corporate indebtedness was low, with the GDP-proportionate volume of corporate debt amounting to only 17.2 per cent at the end of 2019, the fourth lowest level in the European Union.

The central bank's actions introduced to address the 2008 crisis also played a significant role in the favourable corporate lending structure in place prior to the Covid-19 crisis: as a new, targeted element of the monetary policy toolkit, the central bank launched the Funding for Growth Scheme (FGS) in June 2013 to alleviate the persistent market disturbance in SME lending. The long-term availability of fixed, favourable interest rates provided predictability for SMEs, thus significantly stimulating demand for loans from businesses; it also increased competition for credit institutions to acquire and retain clients, thus increasing propensity to lend and contributing to the loosening of lending conditions. The scheme not only provided participating companies with a predictable and lower interest burden, but also contributed to lowering interest rates on market-based loans through increased competition, in parallel with the interest rate reduction cycle.

The FGS, which closed on 31 March 2017, was a key driver of SME lending: after its launch in June 2013, nearly 40,000 micro, small and medium-sized enterprises benefited from favourable financing of more than HUF 2.8 billion. The programme made a significant contribution to the turnaround in lending: following the launch of the FGS, the previous 5-7 per cent annual decline in SME lending stopped, and from 2015 onwards lending gradually started to grow (MNB, 2017). Subsequently, the MNB launched the FGS fix scheme in early 2019 to increase the share of more predictable fixed-rate products in investment financing. Under the scheme, which was available until 29 May 2020, participating credit institutions concluded loan or lease agreements with more than 17,000 companies for more than HUF 500 billion.²

Prior to the 2008 crisis, the structure of *household lending* was also unhealthy. Foreign currency loans, with much more favourable pricing terms than those of forint loans, pushed the population (which had significant credit demand) towards indebtedness in euro, Japanese yen and, most importantly, Swiss franc, exposing the segment to significant exchange rate risk. In 2008, more than two-thirds of household loans outstanding were denominated in foreign currency (Table 2).

Moreover, fierce risk-based competition among banks led to foreign currency loans being made available to borrowers whose income position did not guarantee long-term solvency. The situation was exacerbated by the fact that the contracts were created in a legal environment that allowed banks to unilaterally modify the contractual terms during the term of the contract, thus exposing debtors to interest rate risk, in addition to exchange rate risk (Dancsik et al., 2017).

All of this significantly increased the risks of the retail portfolio. Risk-based competition prior to the 2008 crisis, followed by the adverse labour market effects of the unfolding crisis and

a significant increase in the debt servicing burden due to the depreciation of the exchange rate and unilateral interest rate hikes by banks (MNB, 2012a:46-47) led to significant defaults in the segment: by the end of 2014, mortgage loans over 90 days past due accounted for one-quarter of the total mortgage loan portfolio, affecting around 140,000 borrowers (Dancsik et al., 2015).

By contrast, the retail portfolio before the pandemic exhibited a much healthier structure than twelve years before. On the one hand, after 2015, almost all household loans were denominated in forint, protecting borrowers from exchange rate risk. The conversion of foreign currency and foreign currency-based mortgage loans into HUF in autumn 2014, followed by the conversion of foreign currency and foreign currency-based unsecured loans, also played a significant role in this³ (for more details, see Dancsik et al., 2017). On the other hand, transparent pricing is also supported by Act LXXVIII of 2014 amending Act CLXII of 2009 on Consumer Credit and certain related acts (the “Fair Banking Act”), which made the interest rate development of credit contracts transparent and thus trackable, consequently also contributing to the predictability of repayments.

The outstanding loan stock is also more resilient to interest rate shocks: in the newly disbursed mortgage loan market, the issuance of products with variable interest rates has virtually disappeared, and at the time of the Covid-19 outbreak 60 per cent of the mortgage loan stock had an interest rate fixed for more than one year (MNB, 2021a), resulting in more predictable repayment patterns. The borrower-based measures, introduced on 1 January 2015 and amended on 1 October 2018 to encourage borrowers to opt for loans with longer interest rate fixation periods, and the Certified Consumer-friendly Housing Loan scheme introduced in summer 2017 played a significant role in this.

Moreover, in contrast to the 2008 crisis, households entered the crisis with stronger balance sheets. While for the European Union as a whole, the household sector’s debt burden as a share of income has barely decreased since the 2008 economic crisis (from 98 per cent to 90 per cent), the debt-to-income ratio of the Hungarian population was much lower at the beginning of the pandemic (33.4 per cent) than 12 years earlier (64.3 per cent) (MNB, 2021a).

This is also due to the reduction of debt accumulated in the previous credit cycle and favourable income trends, but the aforementioned borrower-based measures effective from 1 January 2015 also effectively discouraged over-indebtedness: 80 per cent of the current household loans outstanding (70 per cent of mortgages) are already linked to contracts concluded under these rules (MNB, 2021a). Lower indebtedness leads to less adjustment pressure, thus further limiting the impact of the shock caused by Covid-19.

Finally, the favourable quality of the retail portfolio is reflected in the fact that by December 2020 the default rate in this segment had fallen to 3 per cent. Naturally, as with any economic shock, the pandemic can also affect debtors’ ability to pay. At the same time, in order to maintain repayment capacity, Hungary introduced a moratorium on 18 March 2020 for all payment obligations of households and businesses.

In terms of the economic impact of the pandemic, the most vulnerable sectors were the arts and entertainment, tourism and hospitality, mining, manufacturing and transport and warehousing, and given their weight in the total loan portfolio, it is the loans to employees in the latter two sectors that pose the greatest risk in the longer term: overall, the share of the retail loan

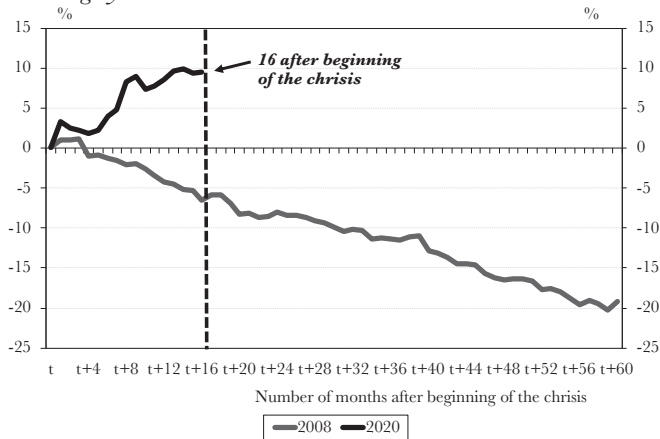
portfolio with increased credit risk is estimated to be 10 per cent (MNB, 2021a). Although there is no specific forecast for the percentage of non-performing loans in the retail lending market after the end of the moratorium, the MNB (2020a) estimated a default rate of only 10 per cent at the end of the scenario, even in a very severe stress scenario lasting for two years.

CORPORATE LENDING

The aforementioned favourable macro-financial structure provided not only fiscal stimulus during the pandemic, but also allowed the government and the Magyar Nemzeti Bank (MNB), the central bank of Hungary, to take credit market and macroprudential measures designed to prevent pro-cyclicality in the banking system, i.e. the mutually reinforcing adverse effects of the financial and business cycles.

In the corporate credit market, in addition to the moratorium, the large-volume loan and guarantee programmes that were announced helped the most to sustain lending activity: the state and central bank loan programmes announced in spring 2020 amounted to roughly HUF 2,000 billion, while guarantee programmes were announced in the amount of HUF 1,000 billion, which accounted for around 70 and 35 per cent of corporate lending in 2019, respectively (MNB, 2020a). The programmes were extended and renewed several times as the pandemic dragged on, so that for most of the programmes at least twice the original budget was available to companies to offset the negative real economic impact. This contributed to the fact that corporate credit grew by 9.4 per cent in 2020 as a whole, representing the fourth fastest pace in the European Union and a much more favourable trend compared to the previous crisis (Chart 1). The announced subsidised programmes were largely SME-focused, and accordingly the annual growth rate in this segment fell much less as a result of the pandemic, reaching almost 14 per cent at the end of 2020.

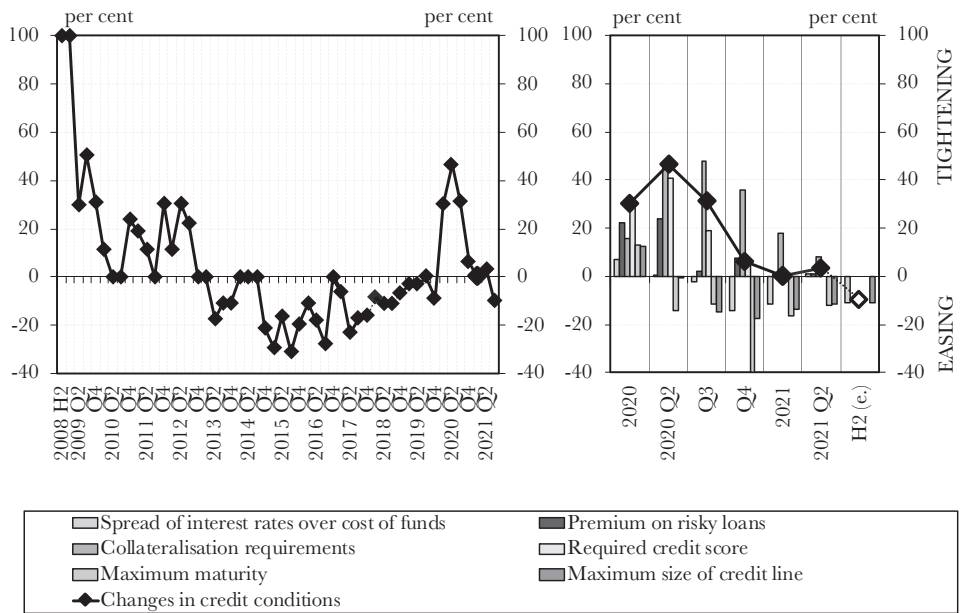
Chart 1: Percentage change in corporate loans following the outbreak of the 2008 crisis and the appearance of the coronavirus in Hungary



Source: MNB

The pro-cyclical nature of the banking system is often reflected in the tightening of non-price lending conditions, i.e. banks are more selective in who they lend to (cherry picking). The tightening of lending conditions in 2020 was much less widespread than during the previous crisis: the tightening of lending standards after the emergence of the coronavirus was limited to a much narrower range and lasted for a shorter period (3 quarters) than after the 2008 crisis, as the tightening of lending standards in Hungary prevailed for roughly 4 years thereafter (Chart 2). In addition, loan demand remained strong during the pandemic, with banks experiencing rising demand for long-term loans, which are of key importance for investment, for all but one quarter, while from the second half of 2008 until the second quarter of 2013, banks reported typically weakening demand in the long-term loan market (MNB, 2021a:28).⁴

Chart 2: Changes in lending conditions in the corporate segment

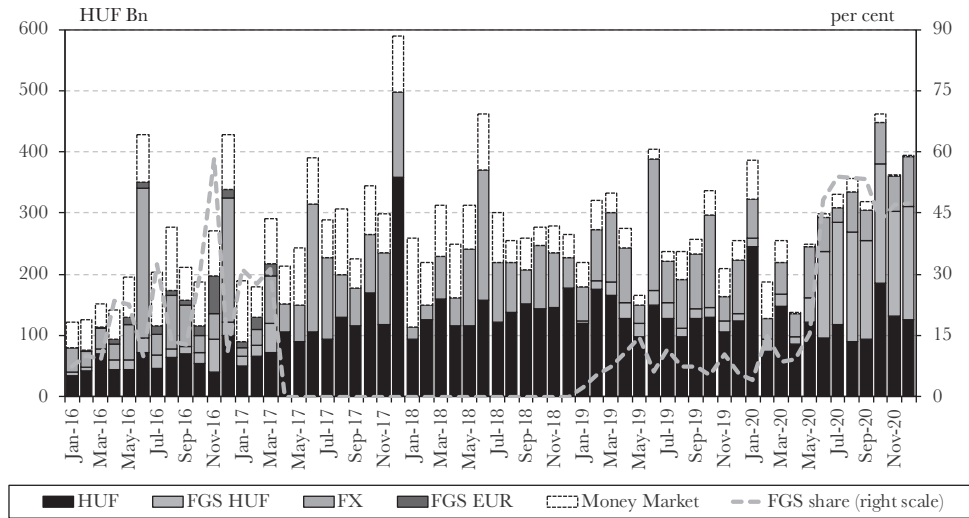


Note: Net ratio is the difference between tightening and easing banks, weighted by market share.

Source: MNB, based on banks' responses

As a result of the subsidised programmes, the aggregate issuance of new corporate loan contracts in 2020 as a whole rose substantially, exceeding the volume from 2019 by 18 per cent (MNB, 2021b). The most prominent of the state and central bank lending programmes, FGS Go!, accounted for 42 per cent of total corporate disbursements and 68 per cent of SME lending in the period from March 2020 to end-2020 (Chart 3).

Chart 3: New corporate loans in the credit institution sector



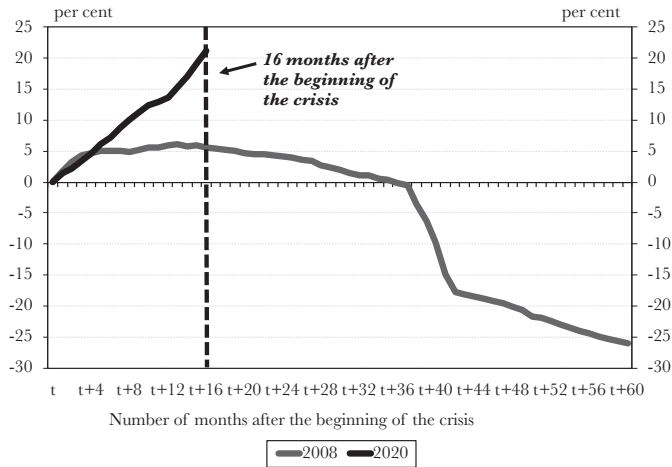
Source: MNB

State and central bank lending programmes also had a positive impact on employment. The MNB estimates that as a result of the programmes companies with more than five employees employed 4 per cent more workers, i.e. an average of 0.8 more employees at the end of 2020 compared to March 2020, than their counterparts not taking advantage of the programmes (Drabancz et al., 2021).

HOUSEHOLD LENDING

Due to the favourable structural conditions and moderate adjustment pressures discussed above, the dynamics of household lending growth were sustained during the period of the pandemic. Household loans outstanding grew by 14.5 per cent in 2020 as a result of disbursements and repayments, which was the fastest rate in the EU and also represents a much stronger expansion in lending compared to the 2008 crisis (Chart 4).

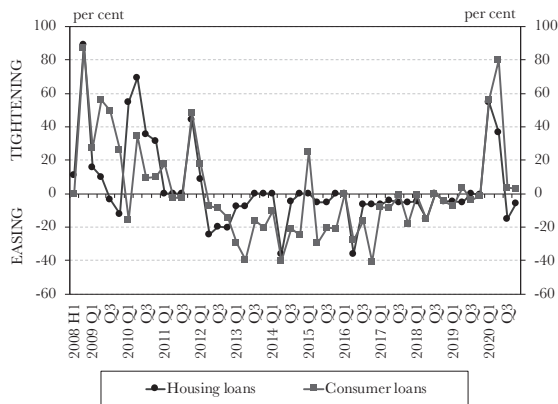
Chart 4: Percentage change in retail loans following the outbreak of the 2008 crisis and the appearance of the coronavirus in Hungary



Source: MNB

Positive transaction trends persisted even though banks’ increasing risk aversion led to tightening of lending conditions following the emergence of Covid-19 (Chart 5): according to the MNB’s lending survey, in the second quarter of 2020, in net terms, more than one-third of banks surveyed tightened conditions on housing loans and almost four-fifths tightened conditions on consumer loans, following the outbreak. In parallel with the lockdowns and increasingly gloomy consumer sentiment, banks also reported a fall in loan demand during this period, which was reflected in a decline in new disbursements, especially in the case of personal loans⁵ (Chart 6).

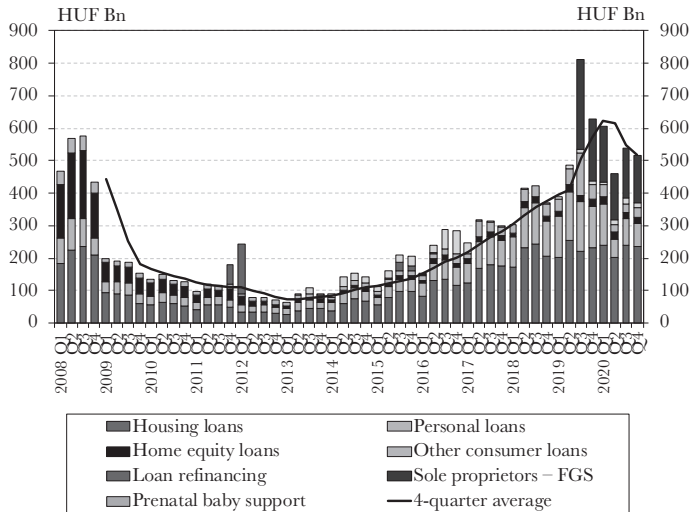
Chart 5: Changes in credit conditions in the household segment



Note: Net ratio is the difference between tightening and easing banks, weighted by market share.

Source: MNB, based on banks’ responses

Chart 6: *New household loans in the credit institutions sector*



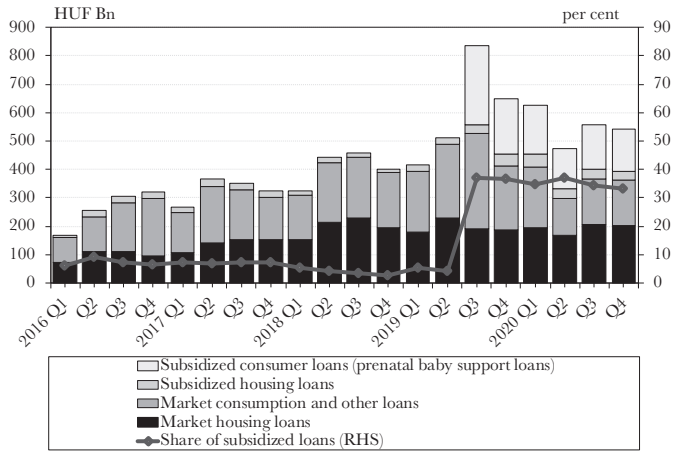
Note: Loan refinancing indicates only refinancing related to the early repayment scheme and the FX-conversion. Other consumer loans include vehicle loans, hire purchase and other loans, without prenatal baby support loans.

Source: MNB

Despite the falling demand and tightening supply, the strong retail loan expansion was partly due to the moratorium’s restraining effect on repayments: the participation rate of eligible retail loans was 54 per cent at the end of 2020 (MNB, 2021b). This means that for slightly more than half of the then-outstanding loan portfolio, principal repayments were suspended, which raised the growth rate calculated as the result of disbursements and repayments: if we include the repayments not made due to the payment moratorium, we estimate that lending growth would have been 8.4 per cent in 2020 (MNB, 2021b).

At the same time, household lending was promoted by state-subsidised loans. In the retail segment, 35 per cent of the loan volume disbursed in 2020 was state-subsidised (Chart 7). This was mostly due to the prenatal baby support loans that quickly gained popularity thanks to favourable terms and conditions, which started to be disbursed from July 2019. These loans account for the largest volume within subsidised loans, and their weight is indicated by the fact that a year and a half after their launch, in December 2020, they already accounted for 13 per cent of total household loans outstanding. The market-stimulating effect of the prenatal baby support loans is shown by the fact that, according to a survey conducted by the MNB in June 2020, 63 per cent of prenatal baby support loan borrowers said that the introduction of the product had created new goals or helped them to achieve their existing credit goals, which could only have been achieved using their own savings or not at all in the absence of the prenatal baby support loan (Fellner et al., 2020). This stimulating, but at the same time in terms of financial stability not threatening, effect of prenatal baby support loans may have also prevailed in the pandemic period as these loans were taken up by the relatively better educated, better-off segment of society, whose labour market situation also proved to be resilient.

Chart 7: Disbursement of market-based and subsidised loans in the household segment



Source: MNB (2021b)

MACROPRUDENTIAL MEASURES

In the context of the 2008 global financial crisis, it became clear that so-called microprudential policies alone – which ensure the individual stability, prudent and legitimate operation of banks – cannot prevent financial disturbances that cause significant losses to the real economy, and that macroprudential interventions focusing on the financial system as a whole and addressing risks at a systemic level are also needed. However, before the 2008 crisis, there was neither a legal nor an institutional framework for this in most countries, meaning that there was no well-defined mandate and dedicated instruments for macroprudential policy (MNB, 2018).

After the crisis, a macroprudential policy framework was developed at the international level. The regulatory process that began in the wake of the crisis resulted in the so-called Basel III set of standards, published by the Basel Committee on Banking Supervision at the end of 2010 and transposed in the EU by the Single Rulebook⁶ adopted in 2013. In Hungary, the macroprudential framework was created by the sectoral laws implementing these requirements and the MNB Act providing for the macroprudential regulatory mandate. Since then, the MNB has, on the one hand, put in place the instruments to be introduced at the EU level, and, on the other hand, actively used measures that can be taken at the national level to address country-specific financial stability challenges and risks (MNB, 2019). The focus of the MNB’s macroprudential policy has been to actively manage the risks that have previously emerged and to prevent the build-up of future risks.

Macroprudential measures also made a major contribution to addressing the consequences of the 2008 crisis and reducing the likelihood of similar systemic risks in the future. This is one of the reasons why the Hungarian financial system built up robust resilience prior to the coronavirus crisis in 2020 and thus faced the pandemic-induced stress situation with more capital, higher liquidity buffers, a more secure funding structure and better asset quality. Owing

to this, and to the central bank and government measures taken in response to Covid-19, the banking system was able to support the economic recovery by maintaining lending activity.

A comprehensive regulatory framework was already in place at the start of the Covid-19 crisis, which supported direct action to mitigate the effects of the pandemic. Prudential regulatory measures can primarily support the financial system in two areas: on the one hand, they strengthen the lending capacity of financial institutions, as these are in the best position to mitigate the real economic downturn, and on the other hand, they increase the stability of the financial system, which could be threatened mainly through rising credit losses.

Capital requirements

Banks may feel pressure to maintain their capital adequacy ratios and limit their lending at the very time when the real economy needs financial support the most. The aim of macroprudential capital buffers is to ensure that – by using the accumulated capital buffers – banks can continue to provide financial services that are important to the real economy in a crisis without breaching minimum capital requirements. The purpose of the buffers is to increase the resilience of the banking system to shocks, so that lending is not reduced and assets are not sold abruptly in circumstances where capital levels are expected to deteriorate due to a fall in profitability and an increase in lending losses. The revised capital requirement framework (including macroprudential capital buffers) following the 2008 crisis and the increased profitability following the recovery have allowed the banking system to generate significant surplus capital. Due to this, capital buffers were available to fulfil their purpose of supporting the maintenance of lending activity at the onset of the pandemic. However, there may be a number of effects, mainly related to market expectations and the design of the regulatory framework, which may discourage banks from maintaining their lending even at the cost of falling below the capital buffer requirements (Behn et al., 2020). In response, the prudential authorities have announced numerous measures to facilitate the use of capital by banks for covering losses and to reduce their incentives to restrict lending. These measures will help the banking system to maintain its lending activity even while absorbing losses (ECB, 2020).

Liquidity and funding instruments

The ECB and the prudential authorities in several EU countries have stressed that banks can use the liquidity buffers they have built up even if the liquidity coverage ratio (LCR) falls below the required level. The purpose of introducing the LCR was to ensure that banks have sufficient liquidity buffers available to use in the event of a stress situation. This prevents the need to curb lending in the event of temporary turbulence in financial markets and fundraising difficulties due to liquidity problems, and reduces the risk of contagion, which could lead to systemic liquidity problems.⁷

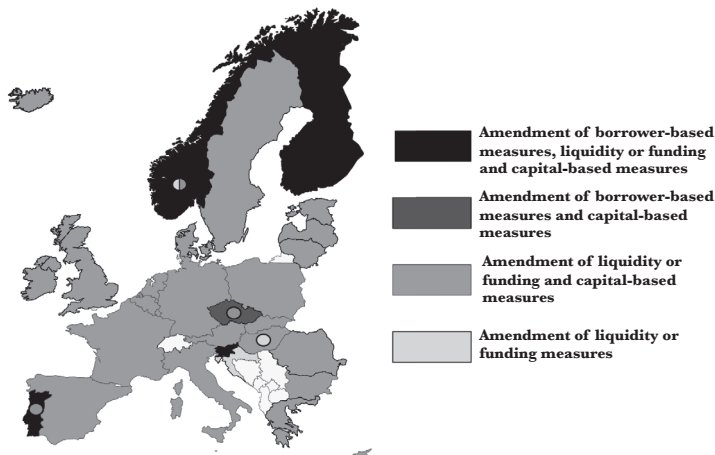
In Hungary, the MNB has introduced national macroprudential rules concerning foreign currency funding, including the foreign exchange funding adequacy ratio and the foreign exchange coverage ratio, which were temporarily tightened in spring 2020 to address the risks of the pand-

emic to bank funding in a preventive manner. The measures were justified by the uncertainties of the Covid-19 crisis affecting domestic and cross-border financial markets and capital flows, and the potential regulatory responses of Member States. However, as the uncertainty eased, in September 2020, the MNB reinstated the rules to their pre-pandemic state (MNB, 2020b).

Borrower-based measures

Borrower-based measures, which are being applied in a growing number of countries, are essentially designed to prevent the build-up of excessive retail lending risks and to ensure that adequate income and collateral reserves are available. Their countercyclical calibration may have limited effectiveness in mitigating the effects of the pandemic. In the event of the exogenous shock caused by the pandemic, regulations may be relaxed to stimulate the economy and alleviate temporary liquidity problems for the public; however, market participants tend to become risk averse in the uncertainty caused by the stress situation and generally do not take advantage even of the room for manoeuvre provided by previous regulations. However, the relaxation or suspension of the borrower-based measures could also lead to a build-up of risks and over-indebtedness, where a portfolio of less shock-resistant clients with reduced income could be built up in some sub-markets or institutions due to the prioritisation of profitability. The risks from a possible relaxation of the borrower-based measures therefore outweigh the potential benefits.

Chart 8: Macroprudential measures taken to mitigate the effects of the coronavirus epidemic in EEA countries






Note: The measures depicted on the map are loosening measures; apart from these there have also been tightening liquidity and funding measures in Hungary and Bulgaria. In the case of Hungary, these have already been withdrawn, while in Bulgaria they are still in force. The withdrawal steps taken since the introduction of mitigation measures are indicated with circles on the map. The dark brown circle indicates the withdrawal measures that have already entered into force, and the light brown circle indicates the withdrawal measures that have been announced but have not yet entered into force.

Source: MNB, ESRB

In the European Economic Area (EEA) countries, macroprudential measures to prevent disruption to lending activity and banking services have been widely used in response to the Covid-19 outbreak (Chart 8). The tools used in the context of the pandemic mostly involved reducing capital and liquidity requirements or temporarily tolerating breaches of regulatory requirements in order to maintain bank lending capacity. As regards easing capital requirements, the most typical measures included the toleration of using the capital conservation buffer (euro area countries, Hungary, etc.), the release of the countercyclical capital buffer (Latvia, Norway, Bulgaria, Ireland, the Czech Republic, etc.), the reduction in the Pillar II capital recommendation (euro area countries, Hungary, etc.) and of the systemic risk buffer (Netherlands, Hungary, Poland). As regards liquidity requirements, toleration of a temporary violation of the regulatory requirement related to the 100-per cent liquidity coverage ratio may be mentioned as a general European measure, which in some countries (Hungary, Bulgaria) was complemented by the amendment of liquidity requirements prescribed within national competence. For some countries (Czech Republic, Finland, Malta, Norway, Portugal, Slovenia), the effective borrower-based measures have also been relaxed (MNB, 2020b). Although in some countries measures have been taken to reinstate previous requirements, a general withdrawal of easing is not expected until 2022 or thereafter in most cases, given the crucial role of the banking system in recovery and re-launching the economy.

Hungary took the necessary measures in a timely manner, in line with international actions, which supported the maintenance of lending capacity (Chart 9). As regards capital requirements for banks, the MNB temporarily waived compliance with the capital conservation buffer and the Pillar 2 capital guidance, reduced the capital buffer requirement for systemically important institutions and also decided to postpone the review of the systemic risk buffer. To prevent over-reliance on short-term external funding, the MNB also modified the requirements for the foreign exchange funding adequacy ratio and the foreign exchange coverage ratio, but reinstated them in autumn 2020 in view of the evolution of risks. In the case of the mortgage credit funding adequacy ratio, the MNB decided to ease the bank cross-ownership requirement and postpone the planned tightening in response to market conditions. The temporarily reduced or freely available capital requirements more than doubled the amount of free capital available for domestic lending, as a result of which thousands of billions of forints of additional lending could be financed. For the capital buffer for other systemically important institutions (O-SIIs), it was already announced at the time of release that the capital buffer would have to be gradually rebuilt from 2022 onwards to ensure prudent operations.

Chart 9: Macroprudential policy decisions taken on a temporary basis to address the coronavirus pandemic

	Measures	Period	Measure effective
 Capital	O-SIIB release	1 July 2020 – 31 December 2021	– Maintaining lending capacity – Increasing loss-absorbing capacity
	SyRB suspension	March 2020 – (for an indefinite period)	
 lending and funding	FFAR and FECR tightening	24 March 2020 - 19 September 2020	– Prevention and bridging of temporary liquidity disturbances – Maintaining longer-term solvency
	Postponement of MFAR tightening and easing of cross-financing rules	24 March 2021 – 30 September 2022	– Reduction of long-term (mortgage bond) yields
 Other	Increased reporting and monitoring requirements	March 2020 – December 2020	– Enhanced monitoring – Increasing reactivity

Note: SyRB - Systemic Risk Buffer, O-SIIB - Other Systemically Important Institutions' Buffer, FFAR - Foreign Exchange Funding Adequacy ratio, FECR - Foreign Exchange Coverage Ratio, MFAR - Mortgage Funding Adequacy Ratio
Source: MNB

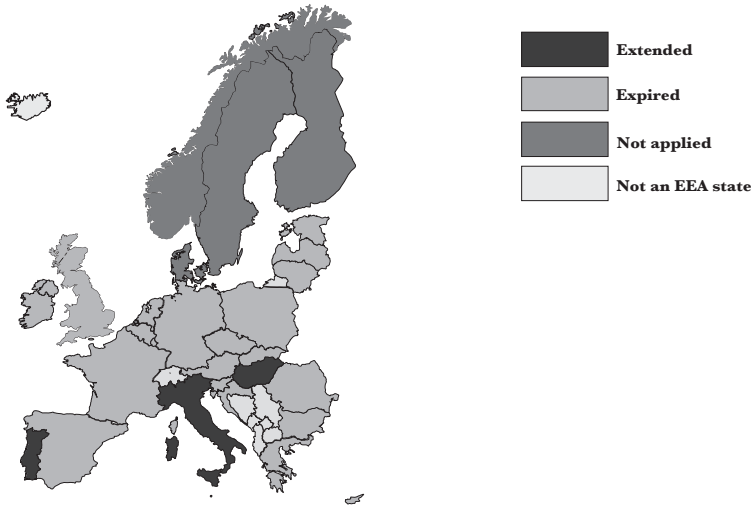
LESSONS LEARNED FROM THE DOMESTIC APPLICATION OF THE PAYMENT MORATORIUM

One of the most recent and most impactful measures affecting lending in the wake of the pandemic was the introduction of payment moratoria. Their basic aim is to help debtors who are experiencing temporary liquidity difficulties but are solvent in the longer term, thus avoiding a dramatic increase in non-performing loans and maintaining lending and economic activity. The payment moratorium compensates for the shock-like drop in the income and sales of households and businesses caused by Covid-19 by temporarily postponing the repayment of loans. The moratorium also limits or delays the occurrence of potential defaults, thus mitigating the immediate impact of the coronavirus crisis and allowing time for market players to adjust as necessary.

In the EU, almost all countries (24 in total), with the exception of Northern European countries, introduced some form of payment moratorium.⁸ However, the measures introduced show a high degree of heterogeneity in terms of the legal form of the moratorium, the conditions for its application, how to apply for it, its duration and its extension. In addition to Hungary, 14 other EU countries acted within the legal framework, while 9 countries adopted a uniform national practice on payment moratoria in the form of a banking association

recommendation. A payment moratorium as wide-ranging as the one in Hungary, covering corporate and retail loans unconditionally, was only introduced in a few EU Member States. In most countries, a moratorium is only available under certain conditions, i.e. direct exposure to the negative effects of the coronavirus epidemic (e.g. unemployment, declining sales). As regards entry into the moratorium, the situation in Hungary was unique in that it was fully automatic for the debtor, requiring no special application. In other EU countries, an opt-in type of measure was used, i.e. the debtor could request a moratorium by submitting a request, as opposed to the Hungarian situation where a declaration of opt-out was required. In the EU, a moratorium of 3-6 months was typically introduced, while countries in the Central and Eastern European region opted for a longer period of 6-9 months. The moratoria were typically extended until the end of 2020 or until June 2021 for a narrower scope of participants (Drabancz et al., 2021).

Chart 10: International practice of payment moratoria in the EU (data as of 31 July 2021)



Source: ESRB, MNB collection

In response to the pandemic, on 18 March 2020 the Government of Hungary announced a payment moratorium on all payment obligations arising from loans of households, non-financial corporations, financial undertakings and investment funds, in line with the MNB's proposal. Based on the payment moratorium, repayments on all loans disbursed until 18 March 2020 were automatically suspended until 31 December 2020 without a separate request, but debtors had the right to continue repaying their loans. The interest repayments not paid due to the moratorium are not capitalised but also not waived, and must be paid by the client in equal annual instalments at maturity, so that the repayments cannot increase after the moratorium has expired, but instead the remaining term of the transactions increases. Due to the duration of the pandemic and its resurgence from September 2020, the Govern-

ment decided to extend the payment moratorium first for 6 months and then for a further 3 months, in the same form, until 30 September 2021.

As of May 2020, around 1.6 million retail borrowers and 50,000 businesses were in the moratorium, accounting for 50-60 per cent of eligible retail and business loans. After introduction of the programme, the stock of loans under moratorium gradually declined as the pandemic situation improved and economic uncertainty eased. By June 2021, the number of retail clients under the moratorium had fallen to 1.15 million and HUF 2,800 billion in loans, representing a reduction from 58 per cent to 48 per cent of the eligible stock of loans placed by 18 March 2020, while it accounted for only one-third of total retail loans. The decline in corporate participation was sharper: the number of companies participating in the moratorium fell from 50,000 to 25,000-30,000 by June 2021. By June 2021, the related stock of loans had fallen to HUF 1,900 billion, from the initial 53 per cent to 33 per cent of the eligible stock and 20 per cent of total corporate loans.

Thus, the payment moratorium made it possible to implement an important stimulus measure at the level of the national economy. We estimate that at the level of the national economy, the payment moratorium could have left some HUF 1,700 billion of temporary excess liquidity at households and corporates benefiting from the programme by the end of 2020, which amounts to 3.5-3.7 per cent of GDP in 2019. Of this, the household segment accounted for around HUF 580-620 billion, or 1.2-1.3 per cent of GDP in 2019. In the corporate segment, the liquidity impact of the moratorium is estimated at HUF 1,100 billion by the end of the year, or 2.3-2.4 per cent of GDP in 2019. A nine-month extension of the moratorium until September 2021 could leave some HUF 450-500 billion of extra liquidity available for households and HUF 600-700 billion for corporates (Drabancz et al., 2021).

At the same time, a prolonged moratorium beyond the pandemic increases the interest accrued during the moratorium to be repaid later, significantly lengthens the maturity of loans and obscures the real repayment capacity of clients. A prolonged suspension of repayments may even worsen the payment discipline of clients in the future. Another problem for household debtors from a consumer protection perspective is that in many cases debtors are not aware of the actual impact of the moratorium on their credit contract and are unable to properly assess the risks of using it (MNB, 2021a). Consequently, once the moratorium expires, the stock of problem bank loans could rise, which could erode banks' capital positions and impair their willingness to lend through losses incurred, thus increasing overall financial stability risks. For this reason, a possible extension of the moratorium can only be justified for genuinely vulnerable clients in order to avoid the build-up of potential systemic risks. Based on the MNB's June 2021 estimate, participation in the moratorium and based on the debtor's activity and financial situation, 10 per cent of the retail loan portfolio and 12 per cent of the corporate loan portfolio are considered to be high-risk (MNB, 2021a). This group should and must be supported in starting to repay their loans gradually, while lower-risk clients should start to repay their loans according to the normal repayment schedule, in order to keep financial stability risks at a low level and to ensure that the banking system can continue to adequately supply the economy with lending.

SUMMARY

The pandemic at the beginning of 2020 resulted in an unprecedented shock to the global economy, with the scale of the economic downturn exceeding the contraction seen in the 2008 crisis. In contrast to the 2008 crisis, during which the lack of macro-financial room for manoeuvre and the absence of a macroprudential framework exacerbated the pro-cyclical nature of the banking system, leading to a credit crunch and thus prolonging the crisis, private sector loans were able to expand during the Covid-19 crisis, i.e. the banking system contributed to economic stabilisation. A profitable banking system with a more robust capital position and the more favourable macroeconomic conditions all played a significant role in this, in addition to the measures taken to combat the negative legacy of the 2008 crisis, such as foreign currency lending, (unilaterally) variable lending rates and excessive debt-to-income ratios.

The favourable macro-financial structure provided not only room for manoeuvre for fiscal stimulus during the pandemic, but also allowed the government and the MNB to take credit market and macroprudential measures designed to dampen pro-cyclicality in the banking system, i.e. the mutually reinforcing adverse effects of the financial and business cycles. A particularly important step was the introduction of a moratorium on repayments, which helped to preserve debtors' solvency during the crisis. In the corporate lending market, in addition to the moratorium, the large-volume loan and guarantee programmes which were announced helped the most to sustain lending activity. The issuance of state-subsidised loans also played a significant role in retail lending, in particular the prenatal baby support loans, which have a significant market stimulus effect. Relaxing prudential requirements for banks, such as waiving some capital requirements or tolerating their breach, has further helped to sustain lending activity by expanding banks' lending capacity.

NOTES

- ¹ The views expressed in this paper are those of the authors and do not necessarily reflect the official view of the Magyar Nemzeti Bank.
- ² <https://www.mnb.hu/letoltes/nhpfix-junius-hu.pdf>
- ³ The conversion at a fixed exchange rate also protected consumers from the adverse movements in market exchange rates in early 2015, when the Swiss central bank removed the Swiss franc's peg against the euro, which stabilised the Swiss franc's exchange rate against the forint at a 10-15 per cent stronger level.
- ⁴ Following the 2008 crisis, the potential growth rate of the Hungarian economy declined significantly due to underinvestment and financing constraints (MNB, 2012b:8).
- ⁵ The decline in personal loans was also due to the APR cap introduced in March 2020 and set to expire at the end of 2020, as the product development process led to a temporary pause in the product's distribution at a number of banks.
- ⁶ The regulation on prudential requirements for credit institutions and investment firms (Capital Requirements Regulation – CRR), and the Directive on the prudential regulation and supervision of these institutions (Capital Requirements Directive IV – CRDIV), together with the delegated acts adopted by the European Commission, implementing measures, recommendations and opinions issued by the various EU bodies concerned, the European Systemic Risk Board (ESRB) and the European Banking Authority (EBA).
- ⁷ FAQs on ECB supervisory measures in reaction to the coronavirus (europa.eu).
- ⁸ Based on the ESRB's database of measures taken in relation to the coronavirus: Policy measures in response to the COVID-19 pandemic (europa.eu).

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Integrity Risks and Controls at the Time of the Pandemic



Summary

The aim of the study is to examine the new challenges posed by the pandemic and the tools to manage them in the field of integrity. The spread of the novel coronavirus parallelly caused a surge in the demand in certain sectors, as well as a shortage of supply and the disruption of global supply chains. During the pandemic, healthcare workers had carried out their tasks under the pressure of an excess demand stronger than before, which increased the risk of corruption in the sector. Corruption schemes known beforehand have veered and the pattern of integrity risks have changed. Under the extraordinary circumstances, organisations might be obliged to choose between saving lives immediately and complying with the rules. The study points out that careful consideration is needed with regard to which rules can be neglected and which ones shall be maintained. Both positive economic incentives and sanctions have played a role in the management of integrity risks occurring in this field. The salary increase of medical doctors and sanctions related to offering and taking informal payments are important steps in the direction of strengthening integrity that clearly demonstrate the need for combined actions.

Journal of Economic Literature (JEL) codes: D73, D81, B27, H83

Keywords: integrity, risks, controls, pandemic, supreme audit institution

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INTRODUCTION

The pandemic has fundamentally shaken the structures of the world economy, causing a sudden surge in demand in some sectors, a decline in supply, and the disruption of global supply chains. In the case of protective equipment, this has led to demand-type markets where the sellers dictate ('sellers' market').

The Fundamental Law of Hungary stipulates that 'every organisation managing public funds shall publicly account for the management of those funds. Public funds and national assets shall be managed according to the principles of transparency and of a corruption-free public life'. In order to ensure a corruption-free public life, the importance of prevention and securing integrity are to be highlighted. The establishment and consolidation of a culture of integrity at public sector institutions plays an important role in the activities of the State Audit Office of Hungary (SAO), as no organization can be successful in the utilisation of public funds without learning and applying the aspects of integrity.

Below, the study examines new challenges and risks posed by the pandemic in the field of integrity; as well as some possible ways of dealing with them, with special regard to the SAO's operating environment and audit methodology.

BASIC CONCEPTS: CORRUPTION, INTEGRITY AND INTEGRITY RISKS

It shall be pointed out that an unfavourable competitive market situation cannot in itself be regarded as corruption. Yet, it is at least of the same importance, what can be regarded as corruption and as criminal offences which are prosecuted under criminal law.

According to the definition of the National Anti-Corruption Strategy (NKS, 2020), corruption is the abuse of power conferred in return for private or group advantage either offered or provided. This is in line with the definition of the European Union (European Commission, 2014), stating that 'corruption is the abuse of public office for private (economic) gain'; with the definition adopted by international organizations (OECD, 2016; World Bank, 1997), claiming that it is 'abuse of power conferred on someone for personal gain'; and with the Criminal Code.

In addition to the facts of corruption under Act C of 2012 on the Criminal Code, this realm also includes acts such as abuse of office, fraud, embezzlement, and misappropriation, which may also involve corrupt behaviour. Criminal law is based on the principle of personal responsibility thus, a procedure, a sector, a type of transaction or an economic situation in the market cannot be corrupt.

On the other hand, according to the approach that the SAO has successfully implemented in the Hungarian public sector since 2011, integrity means operating in accordance with the values and objectives of an organization. The higher the level of integrity of an organization is, the more resilient it is to corruption threats, i.e. strengthening integrity, especially at the level of individual organizations, is an important means of reducing corruption risks. At the same time, integrity is a broader concept, besides following the goals of the organization, it also means being free from corruption and from other misconduct alike, such as fraud, or arbitrariness (Pulay, 2014). In other words, integrity is a quality that builds trust.

Risk is the probability of an event occurring, so the risk of corruption or an integrity risk is the probability of the occurrence of an act of corruption or breach of integrity. Integrity risks arise, for example, in public-private business transactions; in the realm of decisions made and freedom of discretion used by civil servants; and in case if demand for some public service is greater than the resources available to meet it. Integrity risk does not, by definition, equate with a breach of integrity itself or the occurrence of corruption. Integrity risks can be addressed by elaborating appropriate controls (Pulay, 2014; Báger, 2011). Integrity controls may include actions, such as regulating conflicts of interest, developing ethical principles related to integrity, employing an integrity consultant, etc. Any risk remaining after a measure is taken to tackle the risk is called residual risk.

INTEGRITY CHALLENGES POSED BY THE PANDEMIC

Corruption, and thus integrity, cannot be interpreted in isolation from the economic-, market- and legal environment and incentives. In order to understand changes in the integrity situation due to the pandemic, it is therefore necessary first to examine the economic environment in which public institutions were performing their tasks.

Market Disequilibrium

The COVID-19 pandemic triggered an explosion-like increase in the use of medical devices, medicines and other basic hygiene products required for protection and for medical treatments, a process soon leading to an extremely demand-driven market for a number of products. Following the outbreak of the pandemic, especially during its phase requiring immediate responses, supply was unable to keep up with exponentially growing demand. Collapsing supply chains and export restrictions contributed to the imbalance between supply and demand (see OECD, 2020a). In addition, fears of a collapse in supply systems led to unrealistic demand factors (panic buying) in the markets for food, toiletries and even medical devices available to the general public, which also exacerbated stock shortages (Laato et al., 2020).

Thus, the pandemic transformed the market enormously, with shortages being reproduced and, in some cases, becoming permanent, putting buyers at great disadvantage compared to sellers. This is not an unprecedented phenomenon: If we look for historical analogies, it becomes immediately apparent that the 'sellers' market' is in many ways akin to the deficit economy experienced within the framework of state socialism. Kornai describes the notion of a shortage economy, one of the immanent features of socialist systems, that is, the sellers' market, as a market where sellers can choose from among buyers and buyers make efforts in order that sellers take decisions favourable to them (Kornai, 2010). The demand-driven market also increased the risk of fraud and unfair market practices, and in many cases the quality of goods fell below requirements, with prices going up.

Information Vacuum

The OECD states in its paper on initial responses to the pandemic (OECD, 2020a) that economic decisions were made in a particularly rapidly changing market and information environment when the pandemic broke out. No reliable information was available on the professional requirements for healthcare products, their effectiveness, the tools and methods used to provide effective protection against the pandemic, and whether they have the appropriate quality or professional certifications. In many cases, there was a lack of information on market realities and pricing, as well as a lack of expertise for conducting global procurements. The UN Office on Drugs and Crime (UNODC) draws attention to the fact that, during the state of emergency due to the pandemic, public actors also had to deal with extreme price volatility in the market for healthcare products, thus those placing orders did not have the opportunity to determine fair market prices or judge cases of profiteering and overpricing (UNODC, 2020).

Urgency

In the fight against the virus, in order to protect human lives, immediate needs had to be met with unprecedented urgency. The practice of carrying out procurements with urgency is not unprecedented in the public sector, but the fact that needs had to be met immediately placed a significant burden on the financial management and legal infrastructure of public institutions.

Derogation from Ordinary Rules

Each legal system includes empowering provisions allowing derogation from certain rules to deal with exceptional situations. The necessity of export bans during the pandemic is indisputable, but at the same time it conflicts with international rules of free trade. Several authors point out that a deregulation of financial management and procurement was carried out in a revolutionary manner in the healthcare situation caused by COVID-19 (Folliot, 2020; Gallego et al., 2020; Sanchez-Graells, 2020), as public procurement rules seemed to be unable to fulfil their basic purpose, namely, to make it possible for public bodies to procure goods and services needed to save lives in a timely manner. As suppliers dictated terms and conditions, some contracts did not even include performance obligations to protect buyers. However, special contractual clauses were introduced (e.g., requiring an advance payment), with around half of the OECD countries applying them (OECD, 2020b).

Overregulation, Bureaucracy

The opposite to deregulation is when there are bureaucratic obstacles, a so-called red tape, to decision-making. It received attention in connection with public vaccination programmes that doctors applying to become volunteer vaccinators in the UK had to attach 21 different

documents to their application, including proof of participation in trainings in fire protection, conflict management, and prevention of radicalisation (Hill, 2021). In addition to causing excessive bureaucracy and unjustified slowdown in processes, overregulation may lead to unclear responsibilities, may reduce transparency and the predictability of decisions, and may therefore increase the risk of anomalies and corruption. Complying with too many rules is also costly, and costs can be measured in human lives during a pandemic.

Ethical dilemmas, Conflicts of Interest

Due to the scarcity of resources in connection with the pandemic, new types of ethical challenges emerged in the health sector, such as conflicts of interest in the course of prioritising healthcare services and distributing available resources. There might have been cases where a member of the medical staff had to make decisions about treatments, available equipment, or vaccines for their own relatives or colleagues. At the same time, no such ethical norms or regulations were fully available based on which responsible decisions could have been made, while ethical considerations could be in conflict with inventory management priorities. Complex decisions had to be made with a high degree of uncertainty, and, in the course of decision-making processes, it was not always possible to exactly follow which interest groups' influence prevailed.

Risks Related to Competition Law

The pandemic meant significant restrictions and temporary or even permanent loss of turnover for many businesses, while many companies decided to work together even with their business rivals in order to meet demands (Jones, 2020). Collusion between parties (price-raising through cartels; horizontal collusion) is an unfair practice sanctioned by competition law, in which several forms of corruption may arise. Cooperation between competing companies and the exchange of confidential information required for this purpose are, in principle, practices that seriously infringe competition, but the pandemic situation changed the perception of this aspect as well. In the EU practice, objectively necessary, temporary and proportionate cases of restricting competition became permissible, and it constituted no infringement of competition law, either, if a Member State imposed the obligation on parties to co-operate (European Commission, 2020).

Integrity Challenges in the Health Sector

Healthcare became the most important sector during the pandemic, the integrity of which had already been in the focus beforehand. The health sector is inherently complex and challenging in terms of corruption risks: many actors are involved (hospitals, clinics, pharmacies, pharmaceutical companies, and educational institutions), and it encompasses a wide range of processes from hospital treatments to organ transplantation or drug authorization (Hoppe, 2018). The sector is one of those most exposed to the risk of corruption, both in Europe and in Hungary (European

Commission, 2017; Németh et al., 2020). In the case of public healthcare services, the greatest risk is excess demand: available resources allow fewer services to be provided than required, and citizens have strong incentives to receive these services under the best possible conditions.

All this was exacerbated by the pandemic: there was a dramatic increase in the number of people suffering from the same illness and competing for the same healthcare services, while limited medical technology and nursing capacity was available, thus creating even higher excess demand, leading to decisions on the part of many to use unfair means to influence healthcare procedures.

There was also a change in the ethical framework governing medical staff: instead of ethical norms focusing on individual patients, public health aspects were given priority, often leading, for instance, to the postponement of deferrable surgeries. All this created a new situation for the medical staff as well: earlier there had been no need to make such far-reaching decisions in the course of their daily work and in many cases they were not prepared to deal with such ethical dilemmas (Angelos, 2020).

CHANGE IN THE DIRECTION OF CORRUPTION RISKS

Upon examining corruption risks in the light of market dynamics, it becomes clear that their driving force and direction changed. When a market functions under normal circumstances, private actors may have an interest in trying to influence decisions of public authorities and public institutions by unfair means. This 'classic' transaction type related to corruption involves corruption money or benefit flows from private actors to public institutions, while the 'corruption goods' are decisions or acts of institutions or persons holding a public office.

However, in the initial period of the pandemic, private actors distributing healthcare products being in short supply were in a very favourable market position, which led in several areas to the elimination of interests underlying the classical pattern of corruption. The sellers had the power to select from among the buyers; so the buyers had to make efforts to win over the sellers. Thus, in order to gain access to certain goods, buyers became interested in influencing the sellers, and not the other way around. This type of risk could even spread over the entire supply chain, as products for which demand was the highest, typically changed hands more than once (OECD, 2020a).

HOW TO ENSURE INTEGRITY DURING A PANDEMIC?

Below, dilemmas arising in the context of integrity and pandemic management will be outlined. Then we will examine the kinds of tools available to serve as guidance to ensure integrity and to avoid fraud even during a state of emergency.

Dilemmas of Integrity and Compliance

It goes without saying that saving lives during a pandemic is the number one priority of any society with a sound set of values. However, this goal can sometimes conflict with some rules of financial management, integrity, or compliance.

Integrity protection methods developed earlier were not prepared for the new situation evolving through the pandemic. Certain norms and rules had to be overridden and extraordinary rules had to be created in order to protect human lives and to intervene quickly. It is an acceptable argument that a new situation cannot be judged on the basis of old rules, however, chaos, the lack of norms, or anarchy cannot be justified, either, and a state of emergency cannot automatically mean exemption from compliance with rules. While the importance of integrity is evident, no society can place it above all other considerations. It is therefore a serious dilemma how to set a reasonable limit so as not to endanger or delay the saving of human lives and, at the same time, to ensure that rules from which derogation is not justified are complied with even in this situation.

It should also be borne in mind that there are basic rules of financial management and integrity that must be followed, exactly because they represent basic conditions for efficient and effective healthcare services and help combat the pandemic.

Means of Maintaining Integrity

After outlining the challenges and dilemmas affecting integrity we look at the possible means of reducing risks.

Defining Key Controls of Integrity

The emergency situation made it clear that compliance with rules must be revised, with the principle of a flexible retreat in mind. It may be necessary to derogate from certain norms, but only to the extent, and for the time actually justified and necessary. Placed in the context of the operation of the SAO, we will describe how it is possible to define so-called *key controls* that are necessary and sufficient.

It means identifying integrity controls that provide meaningful and effective support to the integrity of an organization, addressing integrity issues that arise during the pandemic, and that are not a waste of resources on the part of either the auditees or the SAO.





Following this mindset, the SAO streamlined its integrity audit methodology in the first year of the pandemic. The new approach in audits of integrity was first used in the municipal sector. While in 2019 the SAO audited the integrity and internal control systems of local governments by requesting 68 different documents to be submitted, in 2020, the number of key documents required for monitoring-type audits conducted at 3197 municipalities and 1284 municipal offices decreased to 26. Of the 26 documents, the SAO audited an even smaller group of nine documents in the first phase of these audits, providing audited organizations with the opportunity to correct any identified shortcomings in advance and to develop their integrity environments.

Thus, there was a shift towards novel, real-time audits, whereby the SAO's advisory and audit functions were exercised concurrently, while ensuring full coverage of the given group of auditees and placing the emphasis on improving their integrity environments rather than finding errors.

The table below provides a list of key documents examined as part of audits at local governments and their offices, describing their significance:

Table 1: Key documents in monitoring-type integrity audits

	Key document	What is the significance of the key document for integrity?
	Accounting policy	If an organization does not have an accounting policy, its accounting procedures, records and the content of its accounting reports cannot be interpreted, so the basic conditions of integrity do not apply in its utilisation of public funds.
	Regulations for preparing an inventory, taking the inventory and the regulations for the valuation of assets and liabilities	Inventories show the actual state of assets and liabilities featured in statements. Inventories make it possible to hold those financially responsible for assets accountable, thus inventories will support the protection of assets held by budgetary organisations. In the absence of regulations for preparing an inventory, it is not possible to verify the method used by the organization for taking inventory, nor can responsibilities be identified, which poses a risk to integrity. The purpose of the regulations for the valuation of assets and liabilities is to summarize accounting valuation methods. A lack of such rules will hinder the implementation of accounting policy decisions.
	System of accounts	The system of accounts shows how accounts are supported by documents, thus supporting the integrity of the utilisation of public funds. In the absence of a system of accounts, it is not possible to ascertain whether the organization's books for the year in question were properly opened and maintained, and whether requirements were observed relevant to preparing statements that can truly reflect the organisation's financial position.
	Policy for handling integrity violations	This policy sets out what to do upon an event representing any deviation from organizational rules, objectives, or values. This policy is a key document for ensuring that such incidents are detected, liability for them is established, and all necessary measures are taken.
	Rules relating to assets declarations	Any persons having the right to make proposals for, take decisions on, or control the utilisation of public funds must make a declaration about their income and financial situation and also that of their relatives sharing the same household. This makes it possible to detect any illegal enrichment, which may also be an indicator of corruption. If an organization fails to develop related regulations, it will be unclear who and how should make assets declarations.

	Key document	What is the significance of the key document for integrity?
	Organisational and operational rules	Organisational and operational rules will make it possible to get familiar with the purpose, activities, organizational structure, and contact details of an organization. Such rules are important in terms of serving as the basis for the regular and transparent operation of the organization, making responsibilities within the organization also transparent to external actors. If roles and responsibilities are not defined, integrity risks will also increase significantly.
	Procedures for conducting procurement	Procedures for conducting procurements must be developed in a way to ensure that procurement processes are transparent and competencies are clearly stated. In the absence of such procedures, transparency will not be achieved for procurements of a value below the public procurement threshold, posing a risk to ensuring a level playing field in competition.
	Procedures for whistleblowing and handling complaints	Complaints and whistleblowing represent one of the most important channels for revealing corruption abuses. On the basis of a notification, if it proves to have sufficient grounds, action must be taken to restore a situation where legality is ensured or public interest can be met. In the absence of such procedures, the necessary measures cannot be taken, the causes of revealed errors cannot be eliminated, and no liability procedure can be initiated.
	Guidelines on gifts and hospitality	Every day, there is contact between citizens and clerks at authorities. The operation of these bodies is accompanied by the risk of the emergence of conduct to influence the speed of administration or the outcome of decisions. In the absence of regulations on accepting gifts, office staff will not be clear about what to do if a gift or other benefit is offered to them and what procedures should be followed in the event of a breach of rules.

Source: Own edited

SAO's audit considerations have been developed by focusing primarily on the regularity of financial management practices at public institutions and the existence of an integrity environment to avoid fraud; auditing key accounting documents will strengthen the integrity of the utilisation of public funds.

CUTTING RED TAPES AND A DIGITAL STATE

Kornai (1983) describes bureaucracy as a web stretched into the flow of social micro-processes, which, if too rare, allows for irregularities, but the development of increasingly detailed rules may lead to the overgrowth of bureaucracy and paralyse social life.

Cutting red tapes that is reducing unnecessary bureaucracy, contributes to a rational and efficient operation of the state and a reduction in social burdens. The pandemic has given new

impetus to the increasing trend of replacing ways of administration requiring personal presence by e-government solutions. An analysis by the SAO (Vargha et al., 2021) pointed out that, since February 2020, there has been a significant increase in the number of announcements and cases administered in the Personalized Administration Interface, and a number of new tools related to the digital state have appeared or become more widespread. The SAO's Integrity Survey (Németh et al., 2020) also highlighted that digitalisation and automation play an important role in strengthening integrity. Digitalisation will help decreasing individual decisions and rights to discretion, while ensuring immutability, authentic documentation, and transparency.

Next steps in promoting digitalisation may be to review powers in public finances and to simplify the current form of regulations on financial counter-signatures, which the SAO had already proposed in the report on its professional activities in 2017 (SAO, 2018). Currently, legislation relating to public finances requires five signatures (those of the persons making commitment, providing financial countersignature, issuing a performance certificate, providing validation, and that of the authorising officer) for payments from the budget. However, this system requires significant administration, which also poses a risk of errors. SAO's audit experience has confirmed that the identification of persons entitled to make commitment and to certify performance as well as their duties and powers are of key importance in the processes for approving payment. Reducing the number of signatures, and thus bureaucracy, may help increasingly enforce responsibility for the performance of substantive financial management tasks, and strengthen integrity in financial management.

DISCIPLINE IN FINANCIAL MANAGEMENT

The demand-driven market generated by the emergency situation necessitated stronger state intervention and direct control over scarce resources. In addition to the historical precedent of shortage economy, it is therefore worth examining the analogy of military resource management as well. Military resource management is a kind of management and a set of instruments which are typical of a state of war and in which most of the elements of production are subordinated to war or the needs of the army. Its features include the pursuit of self-sufficiency, the introduction of protective tariffs and export restrictions, and also strict inventory management. The government becomes the main supplier and customer, bringing transport and strategic sectors under close control.

Similar considerations emerged and got reactivated in the pandemic management practices of countries around the world: for example, strict and responsible management of healthcare stocks. A number of equipment and materials are delivered and used at a healthcare facility on a daily basis; and serving patients, doctors and healthcare staff is of key importance to the effectiveness of healthcare services.

In order to preserve the good condition of stocks of medical supplies, measures were taken in Hungary, such as the appointment of hospital commanders, who were granted a right to issue instructions to ensure compliance with rules related to the pandemic and to protect medical supplies. The validation and control of inventory management data is also of key importance in addressing corruption risks: it can help reduce opportunities for misusing top-selling healthcare products and related integrity risks.

DEVELOPMENT OF HUMAN INFRASTRUCTURE IN HEALTHCARE

An important area of intervention to strengthen integrity and to avoid fraud is the application of appropriate regulations, a system of sanctions and controls with preventive effects. Another defence approach, that is at least as important, is based on incentives that cause a decline in value of options for corruption. Both approaches could be identified in solutions introduced for the development of human infrastructure in healthcare in Hungary during the pandemic.

As early as in 2017, a report based on a survey by the European Commission (European Commission, 2017) pointed out that raising wages is an important means to preventing corruption in the realm of access to healthcare services. In Hungary, Act C of 2020 on Healthcare Service Relationship re-regulated the salary scale of those in service relationship, increasing incomes progressively related to length of service. Raising salaries of medical doctors can clearly be considered as a factor reducing the 'purchasing power' of gratuities, corruption and bribery, which reduces the attractiveness of this type of 'pay supplement' for healthcare professionals.

The legislation contains important amendments in relation to Act CLIV of 1997 on Healthcare and the Criminal Code, too, which, after their entry into force on 1 January 2021, severely sanction all forms of corruption in healthcare.

CONCLUSIONS

In the wake of the COVID-19 pandemic, market dynamics fundamentally changed, a fact clearly leading to a demand-driven market for protective equipment. In the new situation, parties may act legally in the course of their transactions, while their market positions are unequal. At the same time, the demand-driven market clearly increases the potential for fraud and unfair market practices. All this had an impact on economic processes representing the driving force for corruption; interest relations forming the basis for corruption patterns and the directions of corruption changed and reversed, respectively. As integrity management systems of public institutions had been established primarily to address traditional integrity risks, it is an important task to raise awareness of the new types of risks.

The transformation of market conditions in the wake of the pandemic is an unusual but not unprecedented phenomenon. In many ways, the 'sellers' market' has consequences similar to the ones of the shortage economy experienced under state socialism; and state control over resources takes place under conditions similar to those of military resource management. These prior examples in economic history can help us interpret risks and make plans for protection.

It is difficult to argue that a new situation cannot be judged on the basis of old rules, but it is important to be aware that no emergency situation can automatically justify a lack of norms or non-compliance therewith. Careful consideration is therefore needed as to which rules need to be revised in the fight against the pandemic.

SAO's approach to designate key controls may, also in other areas, contribute to saving resources, to the success of defence, and to creating an appropriate integrity environment. Reducing bureaucracy is also an important option for intervention: cutting back on unne-

cessary regulations will protect public funds, strengthen fast responsiveness, transparency, and predictability; thus decreasing the potential for corruption. Integrity and controlling the pandemic are therefore not always competing interests, and they often have a mutually reinforcing effect.

Increasing the medical doctors' salaries and sanctioning gratuities are steps to enhance integrity in healthcare and they point to the need that appropriate positive economic incentives and sanctions at the same time are both required to reduce risks of corruption. Managers of healthcare institutions also have an important role in ensuring the well-being and motivation of employees. As part of this, the development of rules of ethics for new integrity dilemmas due to the pandemic, such as vaccination and conflicts of interest, may play a key role.

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Some Issues of the Sustainability of the Hungarian Public Finance System in the Context of the COVID-19 Pandemic and the 2022 Parliamentary Elections



Summary

The COVID-19 pandemic has also weakened the Hungarian economy's performance and fiscal balance, but the negative effects can be assumed to be temporary for the time being, due to the previously stable public finances. Hungary has implemented a successful fiscal reform and consolidation between 2010-2019, which provides a good basis for defending against the crisis. At the same time, the pandemic has put even more focus on improving the competitiveness of the Hungarian economy, containing inflation, keeping the fiscal balance within an appropriate range and increasing the scale efficiency of the small and medium-sized enterprise sector. The paper presents the framework of fiscal and central bank measures during the crisis, while also pointing to the challenges for the post-crisis period stemming from the international environment, and in particular from the changes in central bank policies.

Journal of Economic Literature (JEL) codes: E42, E58, E62, E66, E66, G28, H12, H60

Keywords: Epidemic Crisis, Fiscal Policy, Monetary Mechanisms, Competitiveness, National Election, Hungary's outlooks

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INTRODUCTION

As Béla Földes, a former Hungarian financial researcher, stated in 1885, “crises have rueful consequences. They destroy individual and material values, wipe out the basic prerequisite of economic life, trust, deprive many members of society of a source of income, create destitution and poverty, disturb the population process, frequently endanger the moral strength of the people and bring about many moral evils (crimes, suicides). But crises also have some beneficial effects: they are usually the only way to restore the right proportions and direction to economic activity” (Földes, 1885). *The* outbreak of infectious diseases in Hungary in the spring of 2020, and the precautions that went with it, inevitably set back the economic performance. The pandemic crisis, and the financial problems it created, are a new type of crisis for our generation, since they are not the result of any errors made by governments or central banks, and are therefore not, so to speak, internal but external. However, the management of the crisis, the launch of a recovery and then a new period of growth, can be achieved through the central bank’s instruments, and in particular fiscal instruments, i.e. through a new upward reevaluation of the role of the State in managing the crisis. However, referring back to Béla Földes, we can see that this crisis is also having negative effects on both the economy and society. However, like all crises, it also brings with it the possibility of a new beginning, and if we take a constructive approach to the process, we can rebuild the economy by trying to correct the errors made in the past and, above all, by adapting to the changing international power relations. In other words, ‘the challenge of nature must be a wake-up call to all of us, monetary analysts, monetary policy-makers and economic policy-makers, that we cannot go back to the old ways after the crisis. We have to take account of the changed circumstances of the world and adapt our created rules, our economic theories and our economic policy practices accordingly.’ (Botos, 2020).

ECONOMIC POLICY BEFORE THE EPIDEMIC CRISIS

The transition to a market economy, the so-called raw market transition, which started in the second half of the last decade of the socialist planned economy system, has caused many budget and social problems over the last two and a half decades. The reform of the ownership relations of the economic sector was carried out without due transition, and even too quickly; protective tariffs were dismantled in a way that did not take account of the interests of domestic producers, and even the central bank refinancing instruments to support domestic businesses and farmers were dismantled. By the end of the planned economy, companies and agricultural cooperatives, which were performing particularly poorly, were increasingly unable to be bailed out by the central budget, which was struggling with liquidity problems and a heavy public debt burden, leading to mass bankruptcies, which caused the loss of around one and a half million industrial and agricultural jobs, resulting in serious social problems. At the same time, the state began to rapidly reduce its subsidies to the population, its paternalistic role, so to speak, in the light of its dwindling financial resources. As a result, a ‘transformation crisis’, to use the terminology of János Kornai (2006),

occurred. The two decades of transition to a market economy have produced continuous fluctuations (1995, 2006, 2008), not only until the mid-1990s, and in essence, the income and liquidity of society and the domestic SME sector have been affected. Therefore, the “systemic crisis of the systemic change” (Lentner, 2006) is a more comprehensive definition (extending János Kornai’s definition in time) for the period up to 2010, which better captures the essence of the situation.

The economic policy stance from 2010 onwards will be substantially different from the economic philosophy of the previous two and a half decades. There are stronger regulations of the economy, money and capital markets, and a wide-ranging tax reform that is more favourable to domestic residents and better adapted to their tax capacity. The scope and methodology of the budget control have been broadened and it has become a tool for good governance (Domokos, 2019). Families with children have benefited from a more generous support system (CSOK and other tax benefits) than two decades after the regime change, and the minimum wage and the average wage have doubled. The state buy-back of previously privatised strategic sectors has reached significant proportions, especially in the utilities, energy and financial sectors. From 2013, the monetary policy regime changed, with the central bank re-engaging in vigorous refinancing operations after almost a quarter of a century of a two-tier banking system, which was restored in 1987, i.e., launching growth loan programmes for domestic small and medium-sized enterprises and activating commercial banks, through their regulatory mechanisms, both in corporate lending and public debt financing. A low base rate path, also in line with international trends, and the aforementioned quantitative easing have led to both economic growth and a return to fiscal balance. In the words of the central bank president, “we have gone from being a lackluster to being a trailblazer again” (Matolcsy, 2020a). We have had the most successful decade in the 100 years since Trianon (for more than 100 years: Virág, 2020). The logic of active state-led economic policy is very similar to the French etatist model, to the German social market economy mechanism led by Konrad Adenauer and Ludwig Erhard after World War II, but especially to the construction of subsidy-led, state-assisted capitalism of half a century of Dualism (Austro-Hungarian Dualism/ Compromise) (Lentner, 2019).

The public debt reduction objective of the public finance chapter of the Fundamental Law adopted in 2011, and the related cardinal laws for public finance management discipline and financial stability, the most important of which are perhaps the Stability Act, the Act on the Functioning of the State Audit Office of Hungary and the two-thirds law on the National Bank of Hungary, have stabilised Hungary’s public finances through consistent enforcement. Between 2011 and 2019, the public debt-to-GDP ratio declined from 80-85 percent to 65 percent, while the share of foreigners in public debt has essentially halved, from 66 percent to 34 percent. The foreign currency shares of public debt (perhaps the most critical item because of the exchange rate exposure) fell from 50 percent to 17 percent. Meanwhile, since 2013, when the public financial system was stabilised and, most importantly, the growth-enhancing central bank measures were put in place, economic growth has been in the 4-5 percent range. Between 2013 and 2019, the country was able to achieve fiscal stability and economic growth simultaneously.

However, it is important to emphasise that the fiscal reform at the beginning of the last decade, followed by the monetary reform, and most importantly the job creation measures and public works programmes, were mainly expansionary instruments of economic stabilisation, or, given their initial timing, were only aimed at expansionary effects. The state support to domestic enterprises was mostly not linked to modernisation requirements and did not sufficiently promote mergers of micro, small and medium-sized enterprises, which are already inefficient, in order to develop more competitive plant sizes with higher added value. In 2017, the Hungarian National Bank (Magyar Nemzeti Bank) formulated a 320-point competitiveness programme (see Matolcsy, 2020/a), which included improving the efficiency of enterprise scale, export capacity and the quality of human sectors. The central bank's competitiveness programme aimed at achieving the knowledge-based economy, the qualitative aspects of the second wave of the reform, which can be considered as the second wave of the reform, and analysed international competitiveness aspects (Matolcsy, 2020b, Matolcsy, 2020c). On the fiscal policy side, after 2013, when the European Union exited the Excessive Deficit Procedure, it was observed that the fiscal measures of a fiscal nature and the tax reduction process were slowed down. There was no single-digit reduction in personal income tax, no further reduction in corporate profit tax, which, by association with the current period of the pandemic crisis, could have reflected stronger reserves and solvent demand, both in the retail and small business sectors. However, despite the performance of the previous decade, which was still successful, and despite the consistent central bank policy, the national currency and the country's international debt rating have been continuously adversely affected. As a result of the weakening of the national currency, also by external market players, and the balance of the stalling reforms, we have achieved a situation where, although we have been outstandingly successful compared to ourselves and to previous decades, our performance to catch up in the international ranking, especially in the Central European region, leaves much to be desired. See Table 1, which shows the rate of improvement and catching up.

Table 1: GDP per capita at purchasing power parity in the EU-28 as a percentage

Country	2010 (%)	2019 (%)	Change in catching-up rate (%)
Estonia	65,3	83,3	18
Latvia	52,9	68,6	15,7
Lithuania	60,3	83,0	22,7
<u>Hungary</u>	<u>65,1</u>	<u>72,7</u>	<u>7,6</u>
Poland	62,4	72,4	10
Romania	50,9	69,2	18,3
Slovakia	69,7	75	5,3

Source: Eurostat, 2020 (euro figures as a percentage of the GDP)

The fact that our regional competitors are either ahead of us in terms of catching up or are already at a higher level of development than Hungary should therefore spur economic policy to take measures aimed at even stronger innovation (for a more informed look at our competitiveness problems in an international comparison, see Csaba, 2018).

THE IMPACT AND MANAGEMENT OF THE COVID-19 CRISIS

Although the “visits of the vanguard of death in the form of epidemics” (Bruckner, 2020 b) were quite frequent in Hungary in the 20th century, we do not have an easily recalled or adaptable crisis management methodology in this field. Hungary’s ability to emerge from the crisis without relatively major shocks is well supported by the sound pre-crisis public finance fundamentals and the basic philosophy of current crisis management, which seeks to prevent major setbacks and breaks through the development of endogenous factors. The crisis management mode therefore shows a certain continuity with the proven economic philosophy and practices of the previous decade. In this way, economic agents essentially perceive the evolution of their demand as their primary concern, so the main objective of the course is to achieve its goal through demand management (raising). It is not, therefore, the reduction in solvent demand experienced in 1995, 2006 and 2008 that is the practical manifestation of the current measures, but rather the expansion of solvent demand. In other words, it is an additional source of funds for economic operators, which can be used to maintain investment and purchases. However, both corporate and household subsidies are linked to performance, or at least to the availability of labour or the maintenance of firms. Hungarian practice ignores the practice in the United States and many Western European countries of providing social income on a subjective basis (not linked to labour market activity). In essence, the aim in Hungary is an economic recovery based on expansion – see below on investment dumping – which will obviously not be without efficiency requirements, and a certain ‘business-like’ and modernising approach should be expected of the recipients of the subsidies. Obviously, the weakness of our international competitiveness, referred to earlier, and the negative impact of the efficiency and competitiveness measures that were put on hold after 2017, and the associated failure to further increase solvent demand, will make the recovery more difficult. The challenge for the current decade is to stabilise public finance positions, avoid a rise in unemployment, and to cling to the “rescue boat” of international competitiveness, i.e., avoid getting stuck in the middle development trap, which has much written literature on the subject (see for example Gill & Kharas (2007), Ohno (2010), Kolozsi (2017). The dangers of getting stuck in the middle-income trap are even more pronounced in times of a epidemic crisis in an environment of more limited public and central bank support, especially if the recovery period is protracted and the new growth period that is being built up would be fraught with financial imbalances. In other words, if for whatever reason the transition to a knowledge-based economy is delayed, the chances of Hungary getting stuck in the middle-income trap or even slipping back to an even worse position increase exponentially.

For the period 2020-2022, attention may still be focused on the recovery period. At the outbreak of the crisis, various theories and alternatives were put forward regarding the type

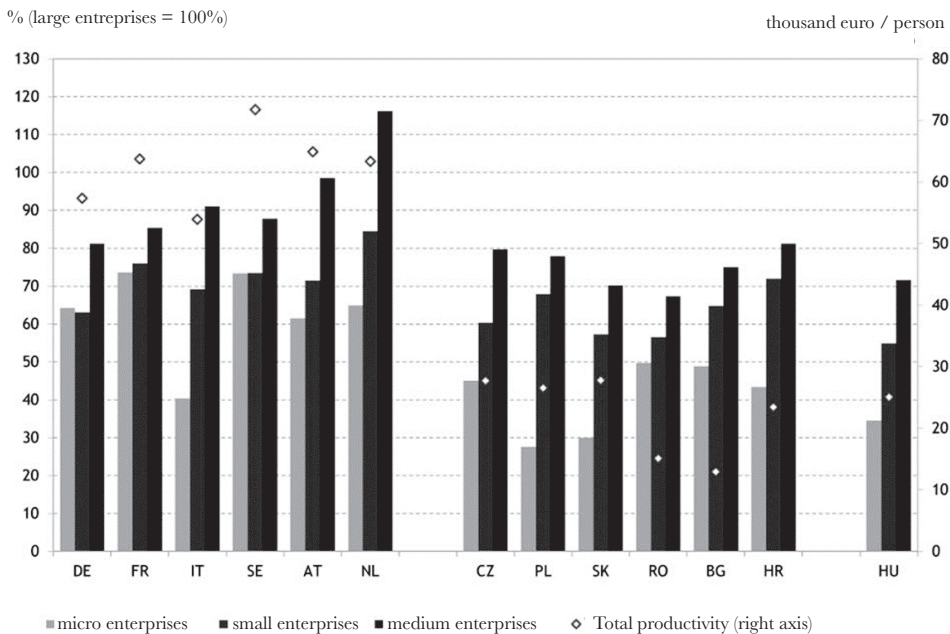
and course of the crisis, which are represented by the letters and synonyms of the Hungarian alphabet. The “V” theory, based on the logic of rebound, held for a few months in the spring of 2020. In other words, the economy will only bear the negative consequences of the crisis for a short period and will return to the normal level almost immediately after the pre-crisis situation. This theorem was basically inspired by the momentum, or rather the revival, of the hyperactive fiscal policy of 2010-2013 and then of the even more hyperactive monetary policy from 2013 onwards. Although the crisis management envelope was set at 18-22% of GDP in spring 2020, the largely uncompetitive (and at the same time subsidy-dependent) domestic ownership of companies has received substantial central bank and government support, soft loans and payment moratoria, but has hardly been able to move from a constrained to an expanded or re-inflationary phase. On the other hand, this economic crisis is a consequence of the epidemic, and the prolonged period of vulnerability (two years now) is hampering recovery. Theory U is like Theory V, with the addition that the economic situation is at its lowest point for a long period and then stabilises before recovering permanently. The ‘W’ theory predicts a rollercoaster-like fluctuation of the economic situation, i.e., the economic situation changes, recovers and then falls back again depending on the epidemic wave. The ‘L’ theory (based on the Hungarian acronym), on the other hand, envisages a sustained downturn, which is the least favourable scenario. The outcome of the epidemic crisis in Hungary can be better understood by the so-called “K” theory, which focuses on the decisive impact of the crisis on different social groups, geographical regions, sectors and industries, rather than on the aggregate outcome at macroeconomic level. It also seems to be proved that tourism (Árva - Várhelyi, 2020), catering and other service sectors are more affected by the crisis, but no sector can avoid the downturn, as the willingness to buy and invest - especially from own resources - is still hesitant or even declining. (For more on the nature of the crisis, see Czegezli et al. 2020). However, the high share of Hungarian small and medium-sized enterprises in the service and tertiary sectors could cause protracted problems, and if the situation in the sector does not improve as a result of state aid and the recovery in demand, a significant labour force could be released from these areas, triggering protracted unemployment problems.

Despite the fact that the central bank and budget support has largely not gone to a competitive SME sector, there is no delay in recognising and addressing the crisis and in taking action. And the efficiency delay, namely the judgement of effective crisis management measures, can only be interpreted in the context of the previous decade, but with the fact that the government did not revert to unconditional social benefits and instead called for job retention, which can only be described as an optimal decision that anticipates efficiency requirements.

However, it would be advisable to focus more on the competitiveness of small and medium-sized enterprises in the defensive phase and then in the growth phase to be relaunched. This group of companies, which is mainly domestically owned, accounts for 75% of business employment and only 40% of GDP, which is a competitive disadvantage. Plus, it absorbs 25-40% of the investment that can be drawn from national and EU funds. The productivity performance of this group of companies is particularly modest by international standards. See Figure 1. The employment weight of the SME sector is therefore significant, but the potential bankruptcy of this group of companies could lead to serious unemployment problems. Espe-

cially if, despite the support they receive, they do not feel the incentive to modernise, merge or improve efficiency. As a result, the main problem in Hungary may not be the fall in GDP, but the massive loss of labour from jobs linked to SMEs. After all, international companies have felt the crisis more modestly, are still able to develop, have competitive plant sizes and technology, but employ barely 20-25% of the workforce, and that too in cooperation with the medium-sized companies that work for them. Although this critical group of micro- and small enterprises (in many cases, 1-2 employees) are not even included in the GDP calculation methodology of the Hungarian Central Statistical Office (KSH), they are quasi-irrelevant from an economic point of view, but their socio-employment impact is enormous.

Figure 1: Productivity data of the Hungarian SME sector in international comparison



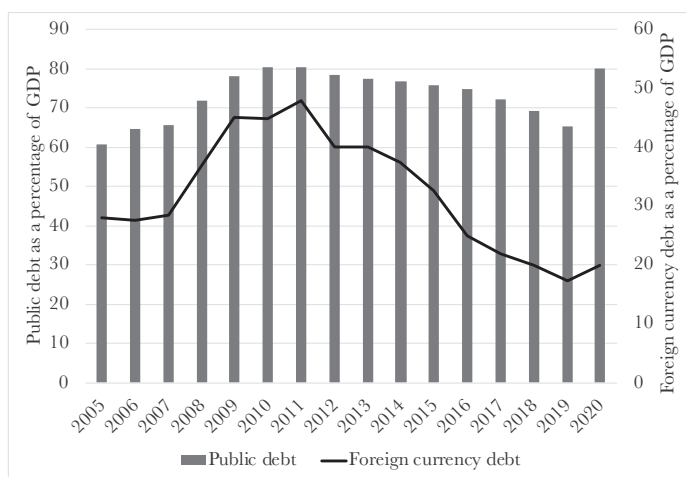
Source: MNB (Hungarian National Bank), 2020

The employment weight of the SME sector is therefore significant, but the potential bankruptcy of this group of companies, or their subsequent “silent” exit from the market as state aid is reduced, could lead to serious unemployment problems, a risk that should be realistically considered. The productivity level of Hungarian micro-enterprises is around 30-32% of that of large Hungarian enterprises, around 50-55% for small enterprises and around 70% for medium-sized enterprises. The “euro-producing capacity” per capita for different company sizes is also low, compared to both neighbouring and Western European countries (See Figure 1).

BUDGETRY AND MONETARY POSITIONS - SOURCES OF CRISIS MANAGEMENT, THREATS

In 2020, the Hungarian economy will have experienced an economic downturn of 5.2%. However, the costs of epidemic control, the fall in production and the resulting state subsidies to bridge the gap have also increased the budget deficit. As a result, the public debt, which had been eroded over a ten-year period and represented some 15-20% of GDP, was rebuilt in a year (see Figure 2 for a 'runaway' vision of public debt).

Figure 2: A vision of runaway public debt: public debt and foreign currency debt-to-GDP ratio 2005-2020



Source: MNB (Hungarian National Bank), 2020

At the end of 2021 - early 2022, the debt-to-GDP ratio is already positioned in the range of 83-85 percent, and the foreign currency-denominated ratio is also turning negative again. For 2021, the budget has been revised to a deficit target of 7.5 percent. The budget law for 2022, to the displeasure of the Fiscal Council, assumes a deficit of 5.9 percent and a debt ratio of 79.3 percent, suggesting some excessive treasury optimism. The government's target for GDP growth is 5.2 percent, although foreign analysts see a 6-6.5 percent jump as possible, but this is undoubtedly a consequence of the low base year but referring back to the structural-competitiveness problems that are driving growth, the situation is far from promising. Although GDP growth in the fourth quarter of 2021 was 7.1 percent, making Hungary the second fastest growing country in the European Union, which is a good justification for the efforts.

It can be assumed that the Hungarian economy will reach the level of the end of 2019 by the end of 2022 but will most likely be burdened by structural problems. In other words, the bulk of growth will be driven by international firms, and subsidies poured into the SME sector may continue to provide only an extensive, short-term pay-off. Against this background,

the strengthening of the economic stimulus functions of fiscal policy, rising government bond market interest rates and the increase in the foreign exchange rate should make debt management and competitiveness promotion policy a priority.

The increase in public spending, partly for investment, plus net common budget support from the European Union of around 1,500 billion forints, equivalent to 2.7% of GDP in 2021, and 2,500 billion forints under the EU's Reconstruction Fund, are otherwise subject to rule of law conditions, and the HUF 4 000 billion requested from our Chinese and Russian partners for investment purposes could cause real investment dumping in the Hungarian economy, which already has a high investment share, and (also) cause inflationary and foreign trade problems. Hungary's investment rate has been 28% of GDP in recent years, and the public investment rate is 6.5%. Strong investment activity on the one hand and high projected increases in household incomes (also) in the coming years on the other hand will boost solvent demand considerably, leading to an economic-demand glut with inflationary pressures. The strong - and difficult to manage - investment multiplier is also expected to further worsen the already far from positive balance of payments and external positions, as a rise in foreign purchases (imports) is very likely. These investment items are high relative to Hungary's GDP of around 48 thousand billion forints (around 324 billion USD in purchasing power parity) at end of 2020 and are also putting significant inflationary pressure, for which countervailing measures have already been initiated through monetary policy instruments, partly by the central bank cutting back on corporate refinancing and raising the base rate. It is also a sign of restraint that, in addition to the already substantial investment resources, the government has not, for the time being, applied for a loan quota of HUF 3,384 billion from the EU's Reconstruction Fund.

Looking at the developments in the international monetary space (Borio & Disyatat, 2021) and the recent reaction of the Hungarian National Bank (MNB), it can be seen that the drastic rise in public debt and inflation is forcing central banks, including the Hungarian one, to review the expansionary monetary policy of the previous decade.¹ At the present time, the focus is on fiscal policy reserves, in some places restraint and even the possible deficit reduction, and the disciplining power of the Fiscal Council, while monetary policy (instead of helicopter money) should focus on price and financial stability, which can (classically) further serve sustainable development. In the international arena, central banks need to neutralise the inflationary effects of rising budget deficits in governments that may not exercise strong fiscal discipline. Meanwhile, inevitably, the focus of fiscal policy should also be on growth and the proper structure of the economy. The COVID-19 crisis has brought to the fore differentiated considerations between monetary and fiscal policy, rather than a one-way demand stimulus, facing even an unprecedented economic collapse. The two policies have worked together 'smoothly' over the past decade. But there are questions: will they continue to do so as the crisis fades and the potential tensions mount?

The role of central banks, including the Hungarian National Bank (MNB), in the new type of monetary path can be directed beyond the traditional role of moderating inflation (without endangering it) to building a renewed, truly more modern economic structure. Our post-crisis manpower will be dominated by new directions of globalisation, digitalisation, the

management of growing debts, the revolution of money, the green economy, changing consumer habits, the problems/challenges of an ageing society. Global value chains are expected to shorten, supply bases to diversify, safety stocks for manufacturing to increase. The digital economy, which currently accounts for 8 percent of GDP in Hungary, will be the raw material of the 21st century, with data replacing raw materials as the new central resource. Internal tensions within the European Union, the fault lines between North and South, are likely to intensify. The challenges are likely to be met with increasingly local responses, and the role of international institutions may even fade. The role of the East-Central European region could be enhanced by its expected (relative) stability and prosperity. The risks associated with the global organisation of production could be mitigated by a *back-to-basics* approach, i.e. the exploitation of the natural environment and the benefits it brings, and the increasing value of food self-sufficiency. Recognising the risks of food and energy supply from international trade chains, most countries will seek to promote their own food and energy security. Obviously, ‘bouncing’ on these “rescue boat” will require competitive, innovative companies capable of participating in these processes, rather than those dependent on state subsidies and struggling to afford a possible increase in the minimum wage. It is along these lines that the Hungarian National bank (MNB) is “developing” its new type of monetary policy, one of the main results of which is already the inclusion of the criterion of promoting sustainable economic policy in the Central Bank Act, that is as the fourth monetary objective of the central bank, which has been given a sustainability mandate. The *promotion of a “green turn”, which has become even more prominent in the wake of the COVID-19 crisis, is a priority for the financial sector and central banks*. Central banks cannot ignore climate change and must respond to it, but further discussion and sharing of experience is needed on the extent of central bank involvement. The COVID-19 has significantly “brought forward” the strengthening of green renewal and the circular economy, as the epidemic situation creates new opportunities for green and digital transformation, which can be more effectively achieved through international cooperation, but for this to happen, a country needs to become a meaningful partner (participant). The central bank’s monetary toolkit can serve economic and social stability by focusing on these objectives, by promoting financial stability and growth, and not by (exclusively) continuing the quantitative easing (expansionary) policy of the last decade.

A FURTHER „AGGRAVATING FACTOR”: THE IMPACT OF THE 2022 SPRING PARLIAMENTARY ELECTIONS ON ECONOMIC POLICY

Despite the announcement of the postponement of certain non-essential public investments until 2022, and still no concrete promise of support from the European Reconstruction Fund, the inflationary spiral is still causing many problems for the Hungarian economy. The amount of money in circulation will be significantly boosted by the government’s Family and Housing Support Programme, the 36 percent increase in earnings projected for 2019-2022 (despite which productivity has only increased by 6.5%), the refund for families with children after the 2021 tax year (up to HUF 809,000 per family)², and the ongoing pension increases, minimum wage and skilled worker wage minimum adjustments. There are significant wage

and social transfer pressures in Hungary, which will increase inflation. Crucially, however, the increasing monetary deterioration is still only the result of spill-over effects from the international arena. Hungary is not unaffected by the weakening of supply chains and rising prices of hydrocarbon derivatives as a result of the crisis. Since 2013, the government has been able to significantly reduce household energy prices through price controls (rationing), and building on this logic, fuel prices were fixed in late autumn 2021, and from 1 February 2022, basic food prices were set at October 2021 prices. With these measures, the government plans to control the acceleration of fuel and food prices towards the end of the year and, as a result, to curb inflation.

If we put the Hungarian macroeconomic data in an international context, there is no obvious negative circumstance or effect. GDP growth in the US and China was 4.9 percent in 2021, the EU average was 4.1 percent and the euro area 3.9 percent, while the Hungarian economy, which is strengthening again, was stronger than all of them, at 7.9 percent^{7,1} in January 2022. The inflation rate in 2021 is 6.8 percent in the US and 4.9 percent in the euro area. The Czech Republic, Poland (7.7%) and Romania also have inflation rates above the tolerance band. In Germany, 6 percent. The corresponding figure for Hungary in 2021 was 7.4 percent (annualised), while core inflation was 6.4 percent, and there is already evidence that the acceleration in inflation has moderated by early 2022 due to the fuel and food price freeze. Obviously, a comparison of growth and inflation figures, including the more favourable Hungarian figure, should not be used as a basis for drawing deeper conclusions, and it should also be stressed that the increase in public debt between 2010 and 2019 is not a reflection of the fact that the inflation rate is expected to rise by more than 20 percent, inflation and interest rate cuts in the period between 2010 and 2019, the Hungarian fiscal and monetary policy has performed well, but the increase in debt-to-GDP ratio by almost 20 percent and the rising interest rate environment make debt servicing a serious challenge for the public finance authorities.

The Hungarian National Bank (MNB) reacted to the inflation and the underlying “drain” of the swollen money supply by reducing its previous unconventional instruments (the Growth Loan Programme, government bond purchases), and then, to offset the depreciation of the national currency, it started an interest rate hike cycle. Between 22 July 2020 and 2022, it raised the base rate from 0.6 per cent to 3,4 02.23.0 per cent in several steps. Between 22, September 2021 and 23, February 2022, the O/N increased from 0.7 percent to 3.4 percent, while the interest rate on the reserve base increased from 1.65 percent to 3.4 percent. The central bank’s countervailing measures, and in particular credible monetary policy, had the effect of improving the exchange rate of the forint by January 2022 (strengthening the forint by more than 15-20 cents). In mid-February 2022, because of the events of the Russian-Ukrainian war, the forint depreciated again close to HUF 370.

A new element in the central bank’s course to improve financial stability and competitiveness in the longer term is the enforcement of the green mandate. In particular, the Hungarian National Bank (MNB) is seeking to contribute to mitigating the ecological, economic and financial risks arising from environmental problems in the area of financial regulation. A major milestone is that the National Assembly decided on 28 May 2021 to make the Bank’s manda-

te the first in Europe to include the promotion of environmental sustainability. In line with its tasks as set out in the Central Bank Act, the Hungarian National Bank's (MNB's) mission is to develop its monetary policy instruments without compromising its primary objective of price stability, while ensuring long-term environmental sustainability, thereby contributing to Hungary's sustainable catching-up. Within the framework set by law, and without compromising the achievement of its other objectives, the central bank is able to use this mandate to support economic transformation in a sustainable manner and the achievement of international and domestic climate objectives. It can increase the climate-awareness of the financial system, contribute to consumer and social awareness and the adoption of best international practices, and assess the climate relevance of monetary policy instruments (for more on the Hungarian National Bank's (MNB'S) Green Programme, see Deák, 2021).

The continuity of the current crisis response methodology and the country's return to a consolidated catch-up path could be very much influenced by the parliamentary elections in April 2022 and the economic policy that will emerge as a result. Although the diverse and coordinated economic policies of the opposition coalition that is about to replace the current government are still taking shape, the mainly external pressures on the current government could overshadow economic consolidation. 2022 is a sensitive period both globally and domestically. Above all, there is a risk that the crisis management measures and macroeconomic data so far are not considered sufficient by foreign investors, leading to higher risk premiums on the bonds of the Hungarian government, which is now financing more of its public debt from abroad, and possibly a resumption of the depreciation of the forint, leading to a further deterioration of the external, balance of payments and budget balances. But regardless of the political winds, a possible new wave of the coronavirus pandemic and rising defence costs could also have a negative impact on the macroeconomic path. Furthermore, the financing of public debt, again high as a share of GDP, either from domestic markets or from abroad, could become quite acute, potentially triggering liquidity difficulties, especially in the absence of EU Reconstruction Fund transfers. The only alternative to mitigate negative scenarios is to maintain the credibility of fiscal consolidation and to consistently pursue the anti-inflationary measures taken by the central bank so far.

CONCLUSION

If we look at the epidemics of previous centuries, the basic survival strategy was to stay put, which is difficult to do in today's over-mobile society. Yet the current crisis can only bring about a reevaluation of local, national economic roles through 'stronger' and more 'purposeful' (more localised) fiscal and monetary policies. Epidemics later triggered demographic changes (population growth), replacing or even outnumbering the deceased population, and even the phenomenon of ethnic shifts (migration) was common. As well as those who survived the epidemic became stronger and more experienced than their predecessors, because they had greater vitality and, through them, increased resources. The fields had fewer people to support, the forests had more game, more meat could be put on the tables of the families that survived the epidemic, child mortality was reduced, and later, under capitalism, the number

of workers was reduced, and wages rose because of the stronger demand for labour on the market. For example, the plague ‘paved the way for a renaissance’, ‘and in the first half of the 19th century, the great cholera epidemics that devastated our country led to health conferences being held from 1851 onwards in the name of disease control’ (based on Bruckner, 2020a).

The likely impact of the COVID-19 crisis on the fiscal space can perhaps be defined as the new challenge facing monetary policies, which for more than a decade after the 2007-2008 crisis have been characterised by quantitative easing, and fiscal regulation, which has been less focused on competitiveness (see in particular the case of Hungary). Public money and central bank money must be used only in those areas that are truly efficient and useful. Fiscal and monetary regulation that follows the Prussian norms of Central and Eastern Europe must be replaced by solutions that improve social, economic and corporate efficiency.

Further pressure on the stability of the Hungarian public finance sector will come from the outcome of the parliamentary elections to be held in spring 2022, especially given that the current opposition political party – due to its heterogeneity – does not have a coherent economic policy and will obviously not be able to curb government policies that would stimulate solvent demand, while the current government side would also have a difficult task from a social point of view to curb its own income transfers (wages, pensions, tax cuts). Thus, the old-new type of consolidation role for the Hungarian National Bank (MNB) (curbing inflation, developing the green economy, withdrawing ‘excess’ money from the banking market) promises to be a large and lengthy task. (Read more: Hungarian National Bank’s (MNB’s) Green Programme 2019, 2021).

NOTES

- ¹ While it is not excluded that the Hungarian national Bank (MNB) will return to an expansionary monetary policy (an active role in growth loan programmes and public debt refinancing), this may only happen after inflation has been brought under control.
- ² On 17 February 2022, the 360-day average price: 358.38 HUF/EUR

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Attila Rákóczi – Anett Krizsán

The Activity of the Government Office of Békés County During the Period of the COVID-19 Pandemic



Summary

In the battle against the COVID-19 pandemic, our country reacted immediately and is now implementing a coherent and coordinated defence strategy. It indeed means the synchronised activity of health care organisations, military, police and disaster management forces as well as territorial public administration bodies. It closely concerns the social field and educational directorate, however protecting the economy is also greatly focused on. Government offices on (district) county level as state public administration bodies of general competence carry out a number of tasks during the times of defence against the pandemic. Initially, they were assisting in handing out protective equipment for the health care sector, making pandemic-related decisions, implementing the testing of social institutions, teachers and health care staff and executing economy protection measures. Following the availability of vaccines, the responsible county working groups are organising the scheduled vaccination activities. The study presents in detail the activities of the Government Office of Békés County in the fight against COVID-19, besides just carrying out its core tasks.

Journal of Economic Literature (JEL) codes: F16, I13, I15, M21, O12, O38, P16, Z18

Keywords: Covid-19, pandemic, defence against pandemic, public administration, territorial public administration

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INTRODUCTION

The COVID-19 virus resulting in a pandemic, caused by the SARS-CoV-2 virus has unexpectedly struck the world and caused more than 98 million confirmed cases and 2.2 million deaths worldwide since January 2020, with rarely seen significant impacts on the World's countries (Fraser et al., 2020). Researchers, Botos (2020) and Bruckner (2020) examined the international effects of COVID-19 and set up correlations relevant to domestic epidemiology. The pandemic had negative effects on many sectors such as the health care system (Deák et al., 2020) and the operation of economy (Rakesh – Prabheesh, 2021; Posgay et al., 2020). Daniel's work (2020) also points out that changes were needed to apply in the educational system as well. Moreover, the consequences included in Domokos's (2020) research highlights that, although the pandemic had created a lot of uncertainty, it still resulted in an environment that draws the attention towards the importance of change/crisis management in a more emphasised way and accelerates digital development as well.

In Hungary, as world wide, immediate actions were needed to prevent the spread of the epidemic, reducing the number of diseases, saving human lives and keeping the economy functioning were of strategic importance. The protection process was therefore implemented in a complex, centrally controlled way via sharing the tasks among the designated bodies of health care organisations, law enforcement (military, police), national disaster management forces and the public administration. The researcher, Finta's work (2020) pointed out the important role of the local municipalities in the situation. In handling the pandemic situation, the territorial public administration bodies such as the Prime Minister's Office and the county government offices were implementing their protection activities while continuously carrying out their daily core functions as well.

GOVERNMENT OFFICES

The capital and county-level government offices were established on 1 January, 2011 according to the Law CXXXVI of 2010. They are managed by the Minister heading the Prime Minister's Office. Their basic operational rules are governed by Law CXXXV of 2018 on government administration. The government commissioner manages the government office, the director general heads the government office organisation whose work is assisted by the director. The district offices of the government offices began operating two years later, on 1 January, 2013. The district offices are managed by heads of the district offices (Varga-Neszményi, 2013).

The capital and county-level government offices have several thousands of diversified rights of authority covering nearly all areas of life, including family allowances, social, agricultural, building constructions, land registry, employment, technical licensing and documentation matters, which literally concerns the entire territorial public administration (Gyurita, 2014).

The Government Office of Békés County has 14 general departments and nine district offices. The district offices are branch offices of the government office and, managed by the head of the office, which possess independent authority. They can be found all throughout the county and provide administration for the citizens. One of their most important tasks is to provide customer service, the government window and issuing legal documents. There are 16 government windows in the county, and 2 independent offices issuing legal documents. The district offices also perform employment, guardianship, public health, HACCP safety and animal health duties as well as general authority duties. The total staff of the Government Office of Békés County is 1,549 (BÉMKGH, 2021). The human resources base of government offices is mostly made up of civil servants dedicated to the public administration career. Researchers, György and Hazafi's (2018) work presents the characteristics of being employed in public service and civil service. As a result of the change in the field of defence administration in 2012, the chairmanship of the county defence committee is held by the government commissioner (Gyurita, 2014), which plays a key role in the protection against the COVID-19 pandemic.

THE PERIOD OF THE PANDEMIC OUTBREAK

Coronavirus disease (COVID-19) is an infectious disease caused by the SARS-CoV-2 virus. The first cases were detected in Wuhan, China in December 2019. On 30 January 2020, the World Health Organisation (WHO) declared the outbreak of the new coronavirus a public health emergency of international concern.

The first registered case of the COVID-19 coronavirus pandemic of 2020 was reported on 4 March, 2020 in Hungary, while the first death case was reported on 15 March 2020. The epidemic has so far struck the country in three waves. The first decree of epidemiological surveillance issued by the Government Office of Békés County was declared on 12 March 2020, and the one on the first quarantine was declared on 17 March 2020. In Hungary, the first wave of the SARS-CoV-2 pandemic lasted from March to May 2020, the second one from August 2020 to mid-February 2021, and the third one from mid-February to early June 2021. The summarised study of researchers Uzzoli and his co-authors (2021) points out that the regional economical and developmental differences and health inequalities may also be key factors in the spread of an epidemic. In many of his researches, Egri (2017 a, b) as well studies such aforementioned differences.

MEASURES RELATED TO THE FIRST WAVE

After the outbreak of COVID-19, the Government declared a state of emergency for the entire territory of Hungary from 11 March to 17 June 2020 (98 days), based on section 53, paragraph (1) of the Constitution of Hungary. On 18 June 2020 the emergency situation was replaced by a health crisis situation based on the government decree 283/2020 (VI. 17.) on introducing epidemiological preparedness as special law.

At the beginning of the pandemic outbreak, during the first wave, government offices and the county defence committees were fighting with a number of issues. During this time, the Operational Management under direct supervision of the Prime Minister's Office surveyed the capacities of the health care system (human resources, number of beds, intensive care capacities, etc.) and the availability of protective equipment at regular intervals during the defence. Besides the above, the Békés County Defence Committee also took part in creating the appropriate availability of patient beds in accordance with the central instructions (Szerencsés, 2021) and in the relocation of the county hospital. At the same time, the distribution of care protective equipment (face mask and gloves) for GPs was also coordinated by the defence committees.

According to Uzzoli and his co-authors (2021), the spread of a pandemic and the features of its distribution are influenced by several factors, among which, is the implementation of protective measures. The defence related tasks and activities of the Békés County Defence Committee were regularly reported by the online and printed media (Behir, 2020).

Distribution of Protective Equipment

During the time of the first wave, it was a strategically important task to distribute the necessary protective equipment to the GP care system. Protective equipment was handed over to adults, GP care system professionals and to dental practitioners (primary health care). Disinfectants were provided to social institutions.

Between April and August 2020, a total of 586,000 face masks, 12,660 FFP2 medical masks, 320,000 disposable gloves and 1,622 litres of disinfectant were delivered to primary health care. Furthermore, 425,650 masks, 75,600 gloves and 350 protective clothing were also distributed to social institutions. Some of the protective equipment were donated by the People's Republic of China. Since the outbreak of COVID-19, the Chinese government has been providing ongoing assistance to countries around the world, initially on protective equipment and later on the donation of vaccines. Such donations were documented by Kurecic and Haluga (2021) and by several authors's articles as well. In order to strengthen the bilateral friendship between the two nations, on most of the donation packages arriving to Hungary, the following bilingual quotes (Hungarian-Chinese), as a gesture, were written: 'God bless the Hungarian People', quoting from the lyrics of the Hungarian National Anthem and from the great Hungarian poet, Sándor Petőfi: 'Friendship is invisible by day, it shines only like a beetle at night.'

Preparation for the 2020 Graduation Exams

The pandemic also had a significant impact on education management (Nahalka, 2021), which was also true for the preparation for the 2020 graduation exams, as they were to be organised during the pandemic after implementing the distance learning period. These difficulties were also pointed out by an interviewed student in Keszthelyi's research (2021). Habony and co-researchers interviewed and listened to several students' opinions (2020). During

the preparatory phase, the advanced level examinations of graduation required from the government office to schedule the classrooms and the availability of supervising teachers with more emphasis, in accordance with the regulations. In addition, protective equipment and disinfectants were provided and distributed for the examinations. In order to ensure the successful and safe environment of holding the exams 23,715 protective masks, 15,850 disposable protective gloves and 376 litres of disinfectant (surface and hand) were handed out to the educational institutions during the first wave.

Measures Protecting the Economy

Effective health protection measures can stop the pandemic, and appropriate economy protection interventions can slowly eradicate the crisis (Evans, 2020). The impact of the pandemic on the world's economy is being studied by several researchers, including Martin A. Weiss (2020) and his colleagues, Taussef Ahmad and his co-researchers (2020) and Segal, and Gerstel (2020), too. The researcher Bagó (2020) analyses in detail the domestic situation from an international perspective. After the outbreak of COVID-19, the government also started to develop immediate plans against threats to the economy. In the framework of the Economy Protection Action Plan, from 16 April 2020 onwards, during the emergency situation, the employer was provided assistance with reduced working hours in order to preserve jobs endangered due to temporary economic difficulties. By this construction, in the event of economic difficulties related to the crisis, in case the employer employed its workers on reduced hours immediately after the declaration of the emergency, the employer and the employee could submit a common form of request to the government offices to avoid redundancies and preserve jobs. In Békés county, 363 requests were approved from a total of 5,559 people, for which nearly HUF 860 million was paid as support.

In order to protect the jobs of highly qualified employees working in the RDI sector, to maintain the wages of those working in the RDI sector, and for the permanent employment of employees in the RDI sector in the Hungarian labour market, it was first announced on 15 April 2020 and then on 4 January 2021 that in the framework of the Economy Protection Action Plan the employment of research and development workers during the crisis would be supported. In Hungary 22 requests were received, with a total of HUF 238.3 million to support the employment of 377 people.

EXECUTING TASKS RELATED TO THE SECOND WAVE

In order to take effective, rapid operational measures for epidemiological control, the Government declared the emergency situation again by Government Decree 478/2020. (XI. 3.) on 3 November 2020. During the second wave, the territorial public administration bodies and the County Defence Committees were to deal with further tasks. Among the previous task of distributing protective equipment, the calling for duty of medical and health science students, the implementation of the so called mass-testing, and executing economy protection measures were also continuously carried out.

Distribution of Protective Equipment

As detailed earlier, during the second wave of the pandemic, the continued allocation of protective equipment was also an important part of the defence. Between September 2020 and January 2021, the Government Office distributed 59,294 litres of disinfectant and 1,425 thermometers to the public educational institutions of the county. The county hospitals were provided with 4,800 rapid tests and the social institutions with 15,500 rapid tests. For the so-called mass-testing 1,481 googles, 2,190 face shields, 14,800 protective gloves, 36,760 FFP2 masks, and 30,600 rapid tests were used.

Assignment of Health Care Workers

For the operational start of the Kiskunhalas-based Mobile Epidemic Hospital of the Semmelweis Hospital and the University of Szeged's Medical Teaching Hospital, and for the reception of suspected and confirmed COVID-19 patients, health professionals were required to be called for duty. Based on Paragraph 14, Section (1) of Government Decree 521/2013 on health crisis management (XII.30.) in the event of a health crisis, health care workers may be assigned to institutions that provide primary care, or outpatient care participating in the elimination of a health crisis, or to such temporarily operating medical institution.

According to Section (2), the institution director of the inpatient care institution participating in the elimination of the health crisis situation shall request the assignment to the temporary medical institution from the county government office. The county government office then decides on the necessity of the assignment and obliges the head of the respective health care institution to carry out the staff assignment.

As a first step, on 27 April 2020, a decision was made to assign an anesthesiology and intensive care specialist and an anesthesiology and intensive care candidate-specialist from Orosháza Hospital to the Mobile Epidemic Hospital of Kiskunhalas Hospital. The assignment ended on 1 June 2020. On September 25, 2020, at the request of the National Centre for Public Health (NNK), a decision was made to re-assign the above speciality doctor and speciality doctor candidate to the Mobile Epidemiological Hospital. As a second step, five decisions were made assigning 57 people from the specialists working in the county to the Békés County Central Hospital according to the followings:

From 30 September 2020, three intensive care nurses, four auxiliary care nurses, two specialist nurses from the staff of Orosháza Hospital, one gastro-enterology specialist and two gastro-enterology nurses from the staff of the Békés Medical Centre were assigned to the Békés County Central Hospital. On 1 October 2020, three anesthesiology-intensive care specialists, one anesthesiology-intensive care resident, five intensive care nurses, 24 auxiliary nurses, three gastro-enterology specialists, one gastro-enterology specialist resident and six specialist nurses were assigned from Orosháza Hospital to the Békés County Central Hospital. Furthermore, one pulmonology specialist from the staff of the Sarkad Health Development Nonprofit Ltd., and one from the Szarvas Pulmonary Health Service were assigned to the Békés County Central Hospital. As a third step, by a repeated request of the NNK, 21

health care workers were assigned: two patient transporters from Orosháza Hospital, eight nurses, six deputy nurses and five patient transporters from Békés County Central Hospital to the Mobile Epidemiological Hospital.

Assigning of Medical and Health Science University Students and Implementing Mass Testing

According to the decision of the Operational Staff established by the Government to manage epidemiological control, it became necessary to assign medical and health science students coordinated by the government offices in accordance with Act XI (1991) defining Health Authority and Administrative Activities. The government office, as a public health administration body, takes direct actions in the field of health administration and coordination when required by exceptional circumstances (epidemics, natural disasters and other disasters, sudden medical shortages, etc.). According to Government Decree 521/2013 (XII. 30) on health crisis care an adult who is in full-time secondary or higher health vocational training, undergraduate or university-level basic health education, higher education, social basic education and health and socially accredited school vocational training may be reassigned for health crisis care tasks.

Based on the regulations cited above, for the first time in the period of the second wave of the pandemic - starting from November 2020 to January 2021 - the Government Office reassigned university students to perform the tasks of mass testing (on teachers, social institution employees, and health care workers). For the mass testing, 80 people were assigned to the Government Office, 49 to the Békés County Central Hospital and 49 to the László Elek Hospital and Clinic (formerly the Hospital of Orosháza).

In the war against the pandemic, the highest priority tasks were the testing activities. As part of the process, the screening of potentially infected individuals from large and crowded areas was an even more important process to implement against the spread of the pandemic. Ragó (2020) and co-workers in their research also pointed out the importance of mass testing in the case of health care workers. The Hungarian Government provided the legal base for the SARS-CoV-2 rapid testing of employees working in health care institutions, schools, nurseries and social institutions in accordance with the Government Decree 509/2020 (XI. 19). The scheduled and organised testing was coordinated by the government offices at county level, and the distribution of testing equipment, protective equipment, administrative sheets and disinfectants to the relevant institutions was ensured in their area of competence. The testing of educational institutions (nurseries, and schools) staff as well as government office staff was implemented with the involvement of the assigned medical students and their own staff, too. Besides dealing with its general official tasks, the available government office staff had to stand their ground dealing with the epidemiological defense related tasks, too, thus testing its ability to multiply workforce (Rákóczi, 2021). In order to carry out the testing tasks efficiently and smoothly and to determine its strategic steps, the first step was in November 2020 to assess the number of county institutions by district (regardless of their operators), and the exact number of employees needing testing (Table 1).

Table 1: Data of county institutions involved in mass testing

Type of institution	Locations	No of employees to be tested
Social institutions	103	2 805
Education institutions	385	6 949
Nurseries	50	480
County Total	538	10 234

Source: Own editing based on BÉMKH 2021

The implementation of the testing tasks required an increased, coordinated cooperation between the county's health, social and educational institutions, the local municipalities, the Government Office and its District Offices. Institutions, where the necessary qualified medical staff were available (social and health care institutions), testing was implemented by them. The testing sets and protective equipment as well as the necessary administrative sheets were provided by the Government Office. The testing of some of the nursery's staff was organised by the Government Office through the mobile nurse network. Schools, nurseries and in certain cases the creches were tested by a team (working group). The team consisted of the health science students assigned by the Government Commissioner, as the Chairman of the Defence Committee, a driver and an administrator of the Government Office. In the county 104 people were tested by 26 teams: to these 52 health science students from four universities were assigned to. From 23 November to 12 December 2020, 18,864 samples were taken from teachers, social institutions and health care workers.

Following the winter school break, on 2 and 3 January 2021, the organising of teacher's testing took place anew with six testing teams, assigning a further 14 students and involving the government officers. During the two days the total of 744 testings took place. On 16 and 17 January 2021 the primary social care workers were tested by ten teams dedicated by the Government Office with another 14 assigned students. A total of 444 people were tested.

Measures Protecting the Economy

At the time of the second pandemic wave, a supporting tool was the introduction of the Sectoral Wage Subsidy granted by the Government Offices, which was introduced by the Government for the event of temporary economical difficulties due to the emergency situation declared on 11 November 2020. The subsidy program is intended to preserve jobs by aiding the hospitality and tourism sectors and other leisure activity, passenger transporting, travel organisation businesses affected by the lockdown and its measures since 8 March 2021. This is done by providing a 50% wage subsidy to the gross salary of six months of the respective employees. In Békés County 1,058 requests were received for support, with a total of HUF 2.500 million in support for the employment of 4,797 people in order to keep job retention in the affected sectors.

TASKS RELATED TO THE THIRD WAVE

Distribution of Protective Equipment

The sets of protective equipment were continuously distributed during the third wave. Between February and June 2021, the Government Office supplied 60,907 litres of disinfectant to the county public educational institutions and 40,500 surgical masks, 14,300 FFP2 masks, 20,600 protective gloves as well as 19,080 rapid tests to the primary care. In addition to the above, similarly to 2020, the Government Office provided 5,150 face masks and 10,300 disposable protective gloves to the institutions in charge of implementing examinations in order to successfully organise the 2021 graduation exams.

The Calling of Medical and Health Science Students on Duty

As described above, starting with March 2021, the Government Office also assigned 223 medical university or college education students to the Békéscsaba station of the National Emergency Ambulance Service (NEAS), and 98 of them to the county hospital, in order to carry out the increased testing tasks.

Measures Protecting the Economy

In line with the emergency restrictions, the Government decided to introduce the programme called 'Compensation Support for the Self-Employed' financed by the national budget. A self-employed person who was not entitled to be granted any aid under certain economy protection measures during the emergency while pursuing an activity defined by the government decree related to the compensation aid for the self-employed may receive a non-refundable grant based on a claim submitted to the District Office acting as the public employment service body. The grant is financed from the national budget; it amounts to the guaranteed monthly minimum wage of HUF 219,000. So far, 2,672 applications have been received, for which the amount of HUF 527 million have been paid until the date of publishing the current study.

In accordance with the economy protection activities, the Government Office of Békés County issued a management directive. Its aim is to implement strategies defined in an action plan to solve virus emergency related economical problems. IT improvements were made as well in order to achieve a rapid and more accurate completion of application forms and financial clearance process. All tools were lined up to help the ones most in need (extended customer service, etc.). At the same time, with regards to the fact that subsidies were intended to alleviate the emergency caused economy problems, instead of the eight working days defined by the law, the decisions were made within an average of five days, which resulted in immediate actions to disburse.

ACTIVITIES DURING THE FOURTH WAVE

Distribution of Protective Equipment

Between September and December 2021, the Government Office provided 28,102 litres of disinfectant for county public education institutions, 75,900 surgical masks for the primary care, 46,200 FFP2 masks, 90,300 examination gloves and 56,675 rapid tests, 735 face shields, 490 protective goggles and 3,900 protective suits.

The Calling of Medical and Health Science Students on Duty

As described earlier, between September and December 2021, 43 students were assigned to the GP doctor's offices, 134 to the Békéscsaba station of the National Emergency Ambulance Service (NEAS) and a further 57 students to the county hospital.

Booster Vaccination of Social Institutions

From 1 August 2021 onwards, the organisation of administering the third dose of vaccinations to the social care home residents and to the social institution employees started to be implemented. The vaccination process was continuously done by mobile vaccination teams and hospital physicians. Almost all of the residential county institutions signed up for vaccination, and a total number of 3,618 residents and care patients received the third dose of vaccination.

Expanding Vaccination for the Elderly over 60 Years of Age

Following the moderation of the third wave, it was a further task to keep expanding the availability of getting vaccination. Starting in July 2021 and onwards, the aim was to reduce the number of non-vaccinated persons from the endangered age group (over 60 years of age). Mainly GPs were commissioned with implementing vaccination tasks, where it was possible to be vaccinated on site without prior registration. GPs weekly interviewed the respective persons by telephone or in person, therefore a continuous increase in vaccinating this age group could be reached.

Vaccination in Education Institutions

It was a milestone in increasing the population's vaccination coverage that the vaccination over the age of 12 was also allowed during the summer. Vaccinating this age group could be started at the county vaccination stations and at the GP offices, too. Besides, the possibility of vaccination had to be provided in the county public education institutions at the starting of school in autumn, according to the decision of the National Vaccination Team. School vaccinations were performed by school physicians and mobile vaccination teams. In Békés county, between the end of August and the middle of October 2021, a total number of 1,632

students over the age of 12 were vaccinated within the framework of a school vaccination programme in three different periods. In addition, vaccinations were certainly further performed continuously at vaccination points/stations and in GP practices as well.

THE OPERATION OF TERRITORIAL PUBLIC ADMINISTRATION DURING THE PANDEMIC

The pandemic presented the territorial public administration with an unprecedented challenge, as the Government Office and its departments still had to continue performing its official tasks in addition to fully performing the vaccination tasks. During the pandemic situation, a managing directive was issued aimed at providing a framework for both employees and customers to ensure the smooth and secure operation of the Government Office. The necessary protective equipment and disinfectants were provided to the officers working directly with the customers, administration was exclusively available by appointments at the government windows (customer service) in order to minimise the personal contact. The legal regulation made it possible to avoid customer hearings with a large number of participants, on-site inspections were only made in the most justified cases, and hard-copy based case approval came to the forefront instead. E-administration has probably never been as important as during the pandemic.

During the pandemic, the possibility of e-administration served not only customer convenience but their security as well, which, together with legal simplifications, made it possible for the administrative services to remain operational. The e-traffic of the magyarorszag.hu website and the number of applications and documents submitted by e-paper significantly increased; it also meant that the number of cases pending approval at the government windows did not decrease, while the number of walk-in-customers decreased significantly.

An impact of the pandemic is reflected in the growing popularity of e-administration, which in itself, apart from all other circumstances, is not necessarily a disadvantage, as the expectation of cost-effective, modern and fast administration is easier to provide.

ACTIVITIES OF THE BÉKÉS COUNTY VACCINATION TEAM

The coronavirus vaccination activities, the logistical process planning, the preparation of the implementation and the management of the national coordination of the vaccination process are performed by the National Vaccination Team established in accordance with the decision of the Operational Staff. In addition to the National Vaccination Team, both in the capital and in the counties vaccination teams were also set up, managed by the government commissioners (as being chairmen of the county defence committees). The county vaccination teams are to plan and organise the vaccination activities and to manage the coordination at the county level. On 20 January 2021, Dr. GYÖRGY, István, the Secretary of State of Territorial Public Administration of the Prime Minister's Office arranged for the establishment of vaccination teams for the capital and the counties. The Békés County Vaccination Team has been coordinating the county vaccination processes since January 2021, and executes the activities assigned to the chairman of the County Defence Committee, Dr. TAKÁCS, Árpád (Table 2; Figure 1) by the National Vaccination Team.

Table 2: Members of the Békés County Vaccination Team

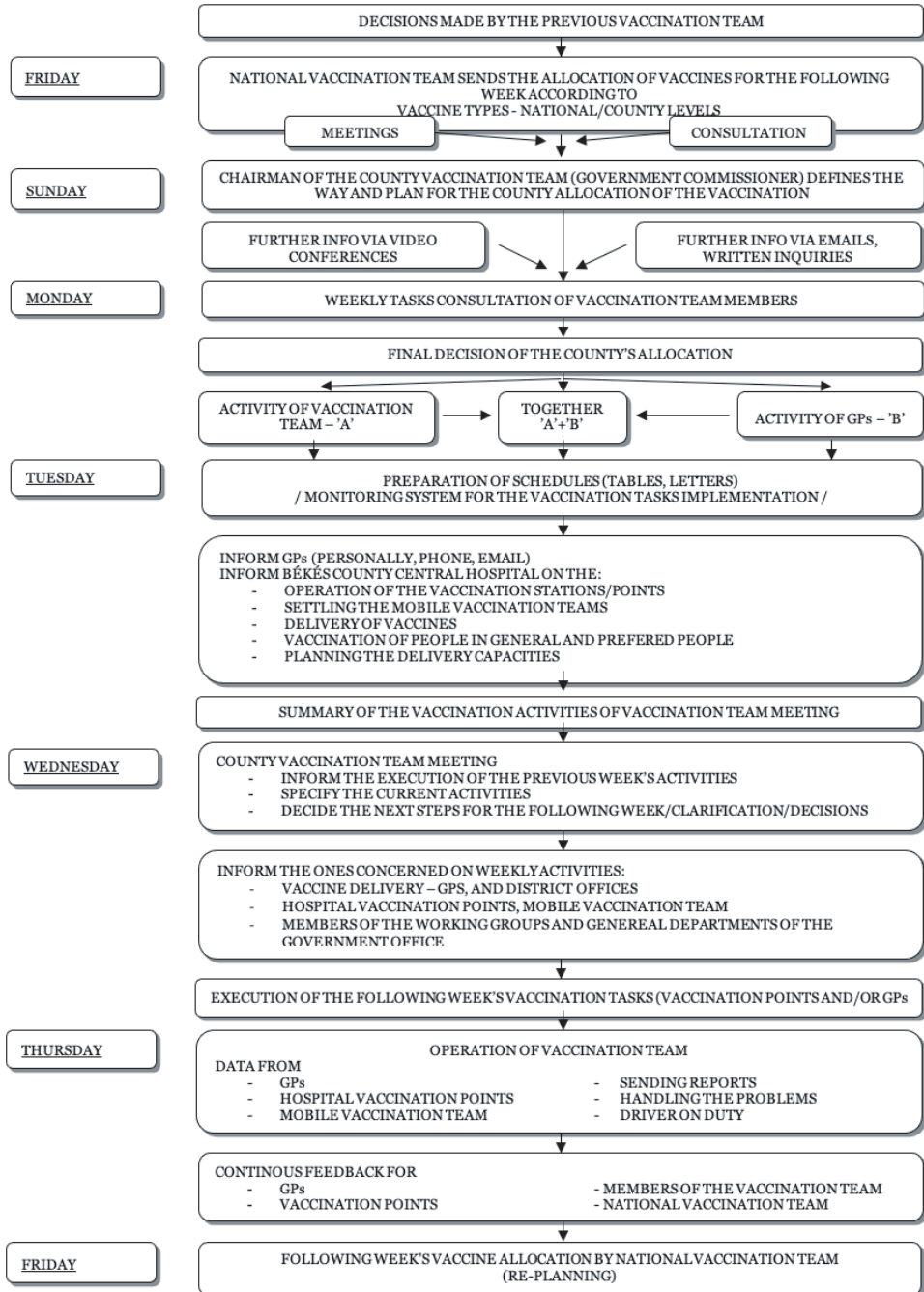
Chairman	Government Commissioner	
Members	Director General of Government Office	County Hospital Director General
	Defence Committee Deputy Director for Disaster Management	County ER Station Director
	Deputy Defence Minister of the Defence Committee	County Collegiate GP
	County Chief Physician	
Invited	Director of Government Office	Chief of County Police
	Commander of County Prison	Head of the County SZGYF

Source: Own editing based on BÉMKH 2021

Between 21 January (opening meeting) and 31 December 2021, the Békés County Vaccination Team had a total number of 21 meetings. Between the team meetings, employees on duty ensured the continuous and immediate information flow for the operational tasks. At the meetings, the Government Commissioner informed the participants on what had happened since the previous meeting, set out the tasks for the following week, listened to the questions and suggestions of the members and guests about specific issues. The team consulted the opinions before decisions were made, at the meeting tasks were agreed and recorded in a memorandum, which was sent to members and the leaders concerned.

According to Chart No. 1, the activities of the Békés County Vaccination Team were scheduled and synchronised. The allocation of the activities and the available amount of vaccines for a particular week (National Vaccine Distribution Plan) was registered weekly by the National Vaccination Team, it was sent every Friday nationally and county-wide, prepared according to the types of vaccines. In relation to that, following a short consultation, the Government Commissioner defined the county's vaccine distribution plan by Sunday. Every Monday with a weekly occurrence, following a consultation with the respective executive staff members, the final county vaccine distribution plan was decided. Hospital vaccination points, GP cabinets and mobile vaccination teams of social institutions took part in the implementation of vaccination tasks. On Tuesdays, the operational consultations took place between the public health and coordination departments of the Government Office, and persons concerned with the vaccination tasks, they then sent the necessary information for the implementation of the task. On Wednesdays, the Government Office, with the help of its district offices, arranged the delivery of the vaccines to the respective GP doctor's offices. The so-called vaccination week therefore began on Thursdays and ended on the following week on Wednesdays. This weekly repeated workflow allowed the continuous, efficient, fast execution of tasks. The team was continuously available 24 hours a day, thanks to the employees on duty, responding with prompt solutions to problems occurring during the execution of tasks.

Figure 1: Activities of the Békés County Vaccination Team



Source: Own editing based on BÉMKH 2021

Monitoring System for the Vaccination Tasks Implementation

The Monitoring System for the Vaccination Tasks Implementation has been developed for the accurate, professional monitoring of the COVID-19 vaccine administration on county level. The essence of the system is that even in any force majeure event, several authorised responsible persons have continuous access to it, ensuring the uninterrupted and smooth execution of the tasks. The operational principle of the system is a programme-controlled folder system stored on a common, secure drive. This control is based on a single A4-size document for long-term, easier overview of tasks with deadlines. In the document, one line represents one vaccination activity (for example, first or second round of vaccinations provided for social care homes or GPs, etc.). The lines included in the document are also active tabs, which, when clicked, display all the documents related to the given vaccination task, with tables, doctor correspondence, vaccine statements, and previous implementation reports, which serve as basic data and plans for repeated vaccination tasks. Using the system allows the continuous and uninterrupted planning of foreseeable tasks for planning both the vaccination teams and the required vaccines as well. By establishing and operating the system, the county vaccination tasks are carried out under continuous managerial monitoring and synchronisation, closely aligned with national guidelines and progress.

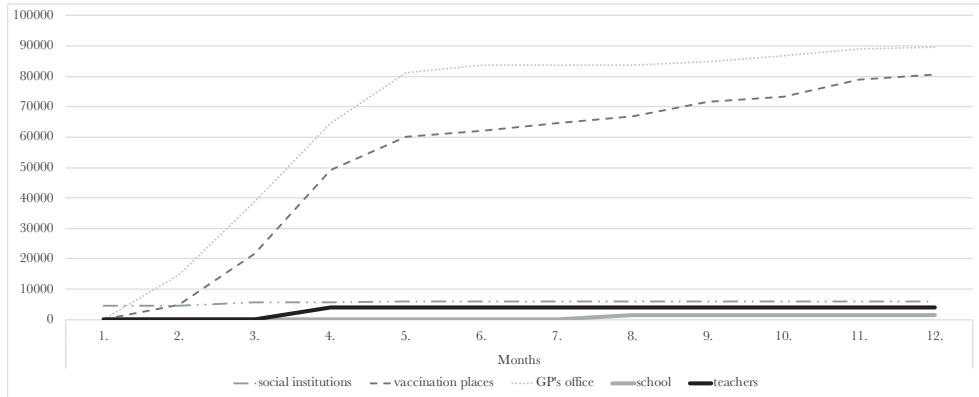
The uploaded data also provide the basis for creating the summary reports for the National Vaccination Team. The system also includes an interactive map, which contains the county-level data required for the logistical planning and execution of tasks, such as the location, address and capacity features of GP doctor's offices, specialist clinics, hospitals, designated vaccination points, ambulance stations, petrol stations, etc.

Progress in Vaccination Tasks Implementation

In the county, vaccination tasks were organised closely in line with the tasks issued by the National Vaccination Team. This synchronisation has continuously been important, as the national vaccine allocation arriving in the country on a weekly basis determined the use of vaccine types, the numbers, the age and the health status of the group to be vaccinated during a particular vaccination week in the county. At the beginning of the year, vaccination started with one of the most vulnerable groups, the in-house patients of the social institutions. This task was performed by mobile vaccination teams, staffed by the Békés County Central Hospital. Next, due to the special storage of the vaccine available at that particular time, it was only possible to get vaccinated at the vaccination points set up in the hospitals (Békéscsaba, Gyula, Orosháza) by appointing the persons to be vaccinated through general practitioners. The county municipalities provided outstanding assistance in the delivery. In a few weeks, there were the types of vaccine that could be distributed to GPs, allowing to expand the county vaccination points to roughly 189 GPs. After that, the number of central vaccination points were continuously expanded. Hence, a government office decree assigned the specialist clinics of Szeghalom, Szarvas, Mezőkovácsháza and finally Gyomaendrőd to carry out the vaccination tasks. Then the vaccination process continued in an organised and scheduled way simultane-

ously at the central vaccination points and the GP doctor’s offices, the county vaccination tasks progressed, and the vaccination increased (Chart No. 2). All this undoubtedly required intensely planned and implemented logistical background work, including the transportation of persons to be vaccinated, vaccines, and hazardous waste as well.

Figure 2: Progress of vaccination tasks



Source: Own editing based on *BÉMKH 2021*

SUMMARY

During the defence period against the pandemic, the Government Office of Békés County continuously was executing the defence activities as well as smoothly carrying out its dedicated territorial public administration duties as well. Like Bagó (2020)– who quotes from the so called 'Extraordinary Appendix' of the Hazai's Foreign Reports (issued on 24 September 1831) in the March 26, 2020 issue of *World Weekly Economy*– we also express the following hope: 'Residents who have been so far terrified, find it now easier to breathe: the fainted cheeks turn red, the 'blurred eyes are starting to laugh,' the sad faces are starting to glow, 'the good neighbours are approaching their neighbours,' the true friends are visiting their friends, true brothers are shaking hands', 'parents in love embrace with their dear offsprings, people gather bravely in ordinary places', 'people of religion appear in sanctuaries in greater numbers', 'hospitals are getting emptied', 'patients are visited without fear', 'Trade is flourishing again', 'craftsmen receive wages', 'the temples of the Muses shall be opened; the terrible wail is completely gone.'

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László Domokos – Gyula Pulay – Mária Király-Szikszai

Monetary and Fiscal Policy: How Have the Two ‘Climbers’ Helped Each Other in the Past Decade and a Half?



Summary

The independence of the Hungarian National Bank in setting monetary policy is guaranteed by law. However, the ultimate goal of monetary and fiscal policy, the promotion of sustainable growth of the national economy, is common. The creators of the two policies can be compared to climbers who climb to the same summit by different routes, bound together by a long safety rope. Such a rope is that when the central bank's reserves are exhausted, the budget is obliged to reimburse the central bank to cover its balance sheet deficit. This poses a direct budgetary risk. The supportive effect of monetary policy on fiscal policy can be seen, mainly indirectly, in the safer and cheaper financing of public debt. The opposite can be seen as an indirect budgetary risk. The paper reveals that between 2007 and 2012, the budgetary risks of monetary policy were amplified. However, from 2013 onwards, monetary measures have not created a direct budgetary risk, in fact the central bank paid dividends to the government. After 2013, monetary policy measures contributed to a significant reduction in the interest burden on public debt and an increase in the share of domestic sources in the financing of public debt. Monetary policy played an active role in mitigating the negative economic impact of the COVID pandemic. However, restoring fiscal balance, which was disrupted by the huge expenditure required to deal with the pandemic, is a different task for monetary and fiscal policy. It is important to keep monetary and fiscal policy together in this period.

Journal of Economic Literature (JEL) codes: E02, E59, H63

Keywords: monetary policy, fiscal policy, fiscal risk, foreign exchange reserves, public debt

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THE TWO CLIMBERS

Hungary's Fundamental Law¹ states and the Act on the Hungarian National Bank² (hereinafter: MNB Act) confirms³ that Hungarian National Bank (hereinafter: MNB or central bank) is independent of the Parliament and the Government, which are responsible for fiscal policy, in the formulation and implementation of monetary policy. Despite this independence, the two policies share the same ultimate objective: to promote sustainable growth of the national economy and thereby ensure the stable well-being of society. Monetary and fiscal policy could be compared to two climbers trying to reach the same summit, but not climbing up the same route. To continue the analogy, it could be argued that the safest way to keep the two climbers together is to tie them together with a long and strong rope. This allows them to move relatively independently, and a slip by one of them does not cause immediate danger to the other. At the same time, if one of them slips or falls, the other is able to hold it up, provided that they themselves stand firm.

The analogy seems all the more apt since the MNB Act requires the use of two 'safety ropes'. Under the law, the central budget is liable to reimburse the MNB if:

- the MNB makes a loss and its accumulated profit reserve is insufficient to cover the loss⁴;
- the sum of the two equalisation reserves⁵ becomes negative and the accumulated profit reserve and the profit for the year are insufficient to eliminate the negative balance⁶.

The rationale for imposing these obligations is that monetary policy must pursue the objectives laid down in the MNB Law, even at the cost of the MNB operating in the form of a joint stock company making a loss and/or its equalisation reserves being exhausted. Previously, this 'safety rope' was shorter. Until 31 December 2011, the law in force at the time⁷ required the central budget to reimburse the MNB's losses if they were not covered by its profit and loss reserve and to replenish the MNB's ' forint exchange equalisation reserve' and 'foreign exchange securities equalisation reserve' if either of them became negative. The latter two transfers of money were not recorded in current budget expenditure, but were accounted for directly as an increase in public debt. The negative balances of one of the equalisation reserves triggered the budget having to pay reimbursements totalling almost HUF 150 bn on 6 occasions between 2002 and 2010 (SAO, 2013:10).

The extension of the rope was justified because it increased the MNB's room for manoeuvre and, at the same time, its responsibility to take decisions that are appropriate from a monetary point of view but adversely affect the MNB's profitability. Since the introduction of the new rules, the budget has not been under any obligation to reimburse the MNB.

The safety net in the opposite direction does not seem to exist, as the MNB cannot finance the central budget directly. However, it is precisely the 2020 crisis that has shown that central banks - not only the MNB but also several other central banks - have contributed to the safe financing of the soaring public debt through the secondary market for government securities, i.e. indirectly, by making significant purchases of government securities. Moreover, the MNB's outstanding profitability, due to low base rates, falling foreign exchange reserves and a weakening forint, also allowed it to pay dividends of HUF 50 bn and HUF 250 bn to its owner, the state, based on its 2019 and 2020 results, respectively, which directly reduced public debt. In addition, the "MNB supports the economic policy of the Government with the monetary policy instruments at its disposal without endangering its primary objective" (Lentner, 2014:12).

However, the rope connecting the two climbers is a win-win relationship only if the two climbers are heading in the same direction. Otherwise, the rope will sooner or later tighten and climbers will inevitably start pulling each other. In principle, monetary policy is trying to put fiscal policy back on track by making it more expensive to finance public debt. It is a conflictual, win-lose situation, the occurrence of the risk itself. While a low base rate typically improves central bank performance, a high base rate worsens the MNB's position, which may also lead to additional expenditure for the budget. In order to identify this risk, it is appropriate that the State Audit Office (hereinafter: SAO or Audit Office), as the main financial and economic control body of the National Assembly, should regularly assess these effects from the perspective of whether they represent a negative or positive risk to the fulfilment of the public debt rule. The public debt rule laid down in Hungary's Fundamental Law requires that the ratio of public debt to gross domestic product (GDP), i.e. the public debt ratio, should continue to decline year by year until the ratio reaches 50 per cent.

The SAO has no audit powers over the MNB's core tasks (e.g. the use of monetary instruments, foreign exchange reserves). For this reason, the SAO periodically analyses the issue of budgetary risks. The analysis published on the SAO's website in 2013 (SAO, 2013) assessed changes in the risk factors during the period 2007-2011, while the analysis published in 2018 (SAO, 2018) assessed the evolution of risk factors for the period 2012-2016. The analysis published in 2021 (SAO, 2021) took under scrutiny the budgetary risks of monetary policy in 2017-2019 and the first half of 2020. The analyses did not assess the appropriateness or effectiveness of monetary policy, but whether the implementation of monetary policy was associated with an increase or potential occurrence in the risk of the budget's reimbursement obligation to the MNB. This risk, taking into account the MNB's balance sheet total, could be in the magnitude of up to HUF 100 bn.

An analysis assessing the budgetary risks of monetary policy should also address the extent to which the 'two climbers' have moved in harmony, for example whether monetary policy has contributed to lowering the interest cost of public debt by lowering the base rate and keeping it low, or whether, on the contrary, it has placed a heavy burden on the backpack of its 'climbing partner' by keeping interest rates high. There were examples of both in the period 2007-2020 assessed by the SAO, which are discussed in detail in the analyses.

Based on the above, the occurrence of fiscal effects of monetary policy, i.e. negative or positive risks, can be grouped into two categories:

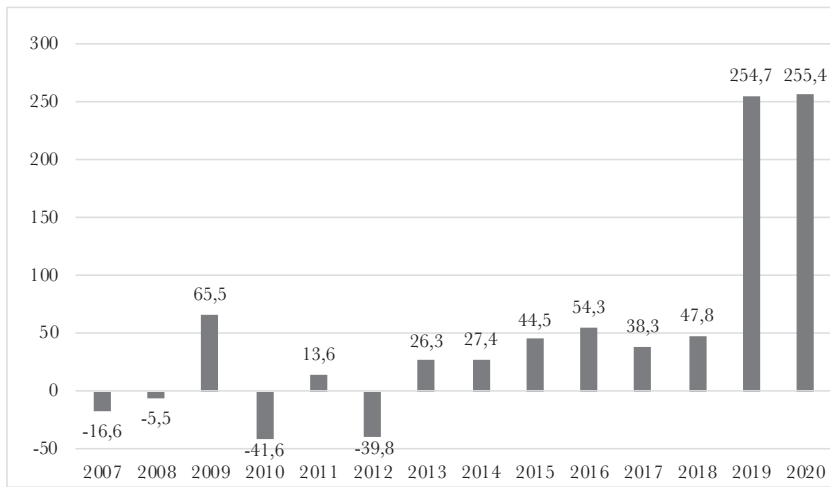
- we consider the obligation of the central budget to reimburse the MNB under the rules described above to be a direct negative budgetary risk. A positive risk is the payment of dividends by the MNB;
- an indirect negative budgetary risk is the increase in public debt as a result of monetary policy. The positive counterpart is monetary action to reduce public debt.

Drawing on the main conclusions of the three analyses mentioned above, the authors use the literature and the evidence to review the impact of monetary policy on fiscal developments between 2007 and 2020 and the factors and monetary policy choices that triggered these effects. A number of excellent papers have been published on the interaction between monetary and fiscal policy (e.g. also Matolcsy, Palotai, 2016 and Lentner, 2016). This paper does not attempt to provide a full account of the linkages, but rather to explore the monetary policy measures that have had considerable impact on the central budget.

CHANGES IN THE DIRECT BUDGETARY RISKS OF MONETARY POLICY AND THE FACTORS AFFECTING THEM

The occurrence of a direct budgetary risk depends primarily on the profitability of the MNB’s management, i.e. whether the MNB has been profitable in each year and the size of the profit reserves it has been able to accumulate in profitable years. Therefore, we will first present the changes in the MNB’s profitability and assess the factors affecting it, and then turn to the second risk factor, i.e. changes in the equalisation reserves. The changes in the MNB’s profit for the year 2007-2020 are shown in Figure 1.

Figure 1: Changes in the MNB’s profit for the year 2007-2020 (HUF bn)

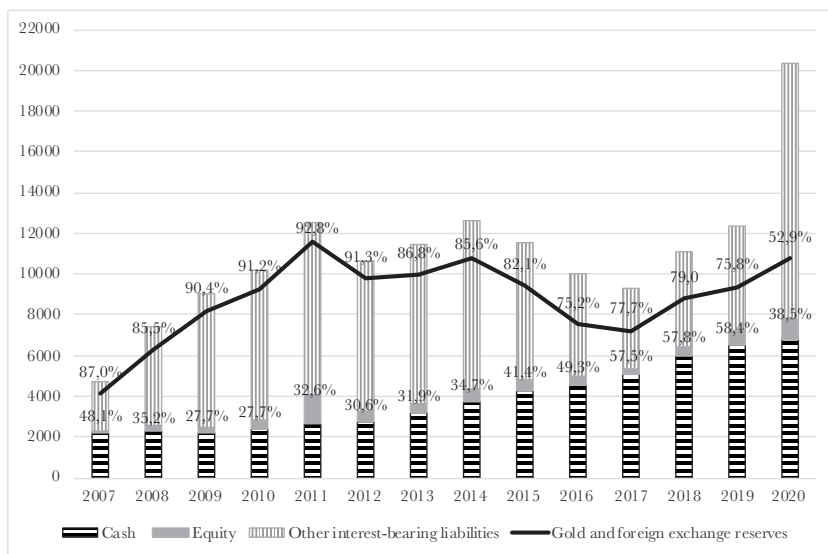


Source: Based on data from the MNB’s annual reports 2007-2020, SAO edited

The figure shows that the MNB’s operating profitability can be broken down into two distinct phases. Between 2007 and 2012, the MNB had an operating loss in all but two years. The central bank has made a profit every year since 2013. The MNB’s profitability cannot be assessed in isolation, as the central bank does not have a profit target, but must subordinate it to the achievement of monetary policy objectives. In the assessment, it is useful to start from the general context that foreign exchange reserves carry the risk of loss-making, as a significant part of the reserves must be held in liquid and/or low-risk assets, which typically yield low returns. The risk of loss-making is mitigated if the central bank can obtain cheap access to the sources financing the reserves. However, the pool of such sources is finite and, all other things being equal, the expansion of foreign exchange reserves increases the risk of loss and the contraction of foreign exchange reserves reduces it. In determining the size of foreign exchange reserves, though, safety takes precedence over profitability considerations. However, excessive reserve accumulation increases the risk of Central Bank losses to an unjustified extent.

The central bank's interest-balance (the difference between interest received and interest paid) is significantly affected by the weight of foreign exchange reserves in the central bank's balance sheet and the proportion of cheap funds in its balance sheet total. Figure 2 shows the changes in these over the period 2007-2020. In the figure, the bottom row shows the ratio of free liabilities to total assets, while the top row shows the ratio of gold and foreign exchange reserves to balance sheet total.

Figure 2: Changes in the MNB's funding structure and gold and foreign exchange reserves between 2007 and 2020 (HUF bn, %)



Source: Based on the data of MNB annual financial statements 2007-2020, SAO edited

Between 2007 and 2011, the amount of gold and foreign exchange reserves increased rapidly year on year. The increase was necessary because foreign exchange reserves were insufficient to cope with a shock during the global financial crisis that erupted in 2008 (Csontos-Szalai, 2015). The accumulated foreign exchange reserves by 2011 were already high by international standards relative to GDP or external indebtedness (Bóta, 2013), but the justification for this in a financially uncertain global environment was not debatable.

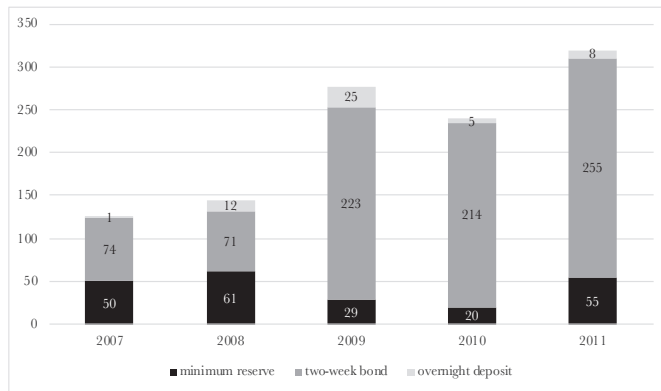
The growth of interest free liabilities did not keep pace with the growth of foreign exchange reserves until 2011, so that their share in liabilities declined from 48.1% in 2007 to 27.7% in 2009 and 2010, and the share of non-interest-bearing liabilities did not reach 40% until 2014. The increase in the MNB's equity, as a result of the rapid growth of the exchange rate equalisation reserve, could only slightly mitigate the need to increase interest-bearing liabilities. The resources needed to finance the foreign exchange reserve, which was almost tripled by 2011 compared to 2007 levels, were primarily provided by the same loan package from the International Monetary Fund, the World Bank and the European Commission, which also increased

the foreign exchange reserve. The source of the further increase in foreign exchange reserves was mainly provided by the MNB through the raising of liquid funds from commercial banks. The study published by the SAO in 2013 pointed out that, to this end, the MNB pursued a rather generous interest rate policy by international standards, in an admittedly generous attempt to improve the profitability of commercial banks, which had been hit by the financial crisis⁸. One such measure was that, unlike other European central banks, the MNB

- did not restrict the acceptance of deposits from commercial banks,
- did not widen the interest rate corridor when raising the base rate,
- paid interest at the same rate as the base rate even when the reserve ratio was higher than the minimum reserve ratio.

As a result, its interest expenditure increased sharply (see Figure 3) and the MNB’s interest-balance became heavily loss-making, increasing the direct budgetary risk.

Figure 3: Interest paid on the mandatory reserve, the two-week bonds and the overnight deposits 2007-2011 (HUF bn)



Source: Based on SAO, 2013, own edited

The SAO’s study also showed that the favourable conditions for commercial banks to deposit liquid bank assets with the MNB have reduced their interest in using their funds to expand lending or to purchase government securities. The MNB ended the year 2010 with a loss of more than HUF 41,557 million. The reason why the budget did not incur any reimbursement liability was that the MNB’s profit and loss reserve exceeded the amount of the loss. For similar reasons, MNB’s operation again showed a loss in 2012.

Several processes have contributed to the central bank’s sustained profitability from 2013 onwards. Among these, as shown in Figure 2, the share of free resources has increased again since 2012. This has created room for the MNB to gradually displace commercial banks’ liquid funds from its resources, substantially reducing the amount of interest paid to commercial banks. The MNB’s profitability benefited from the fact that the share of foreign exchange reserves on the asset side declined year on year from 2012 to 2016. The lower share of foreign exchange reserves meant that the weight of low-yielding assets on the central bank’s balance sheet decreased. At the same time, it was in principle possible to issue or buy higher-yielding assets, thereby increasing asset yields.

The reduction of foreign exchange reserves also served important economic policy and even social policy objectives. The phasing out of foreign currency loans has led to a strengthening of the banking and financial system and has reduced the country's external vulnerability. This reduced Hungary's risk premium and, through this, the cost of financing its public debt.

The most important step in reducing direct budgetary risks was the significant reduction in foreign exchange reserves between 2015 and 2017. The balanced growth of the Hungarian economy and the reduction in external vulnerabilities achieved allowed for a reduction in foreign exchange reserves from 2015 onwards (Hoffman – Kolozsi, 2017), and the MNB therefore reduced them significantly in several steps until 2017. The self-financing scheme and the HUF conversion programmes for foreign currency loans to households played a decisive role in this. With the implementation of the self-financing scheme and the shift of liquid bank assets to the government securities market, the bank deposit/deposit ratio on the MNB's balance sheet decreased significantly in 2015-2017, which improved the MNB's profitability (Matolcsy, 2020). The reduction in foreign exchange reserves was accompanied by a contraction in the balance sheet total and an increase in the share of non-interest-bearing liabilities, which accounted for 57.5% of liabilities in 2017.

From 2018, the MNB's foreign exchange reserves and balance sheet total started to increase again. However, this did not lead to any deterioration in the interest-balance, as cheap funds financed most of the balance sheet expansion. The stock of free (cash, equity) and overnight deposits accounted for 46.6% of the increase in the balance sheet total in 2018 and 94.2% in 2019. The latter had a negative interest during this period, i.e. it generated interest-balance for the MNB instead of interest expense. The balance sheet expansion has therefore not led to any significant cost increases on the resource side (Csortos – Nagy-Kékesi, 2020).

In 2018-2019, the Hungarian central bank's balance sheet total was equivalent to a quarter of Hungarian GDP, which was not high by international standards. This gave the MNB room for manoeuvre to play an active role in protecting the economy by increasing its balance sheet total significantly (to almost 40 per cent of GDP) when the coronavirus crisis broke out. Under the asset purchase programmes launched in May 2020, the MNB bought government securities for HUF 1 074,40 bn, corporate bonds for around HUF 850.0 bn and mortgage bonds at auctions and on the secondary market for HUF 60.5 bn in 2020. By purchasing government securities, the MNB sought to reduce the yields on long-term government securities, thereby helping to finance the increased budget deficit. At the same time, these instruments have provided the MNB with a higher yield, i.e. they were beneficial for the MNB's interest-balance. As the balance sheet total increased, the proportion of cheap liabilities on the MNB's balance sheet decreased, which had a negative impact on interest-balance. Among the liabilities, commercial banks' deposit holdings increased significantly, which represented an interest expense for the MNB during this period, as banks replaced overnight deposits with one-week deposits, which bear interest at the base rate and were activated from April 2020. There was also a significant increase in the stock of central budget deposits, which also bear interest at base rate, as the uncertain financial situation made it advisable to significantly increase the liquid reserves of the central budget. With the base interest rate low and further reduced in 2020, this did not represent a heavy burden for the MNB.

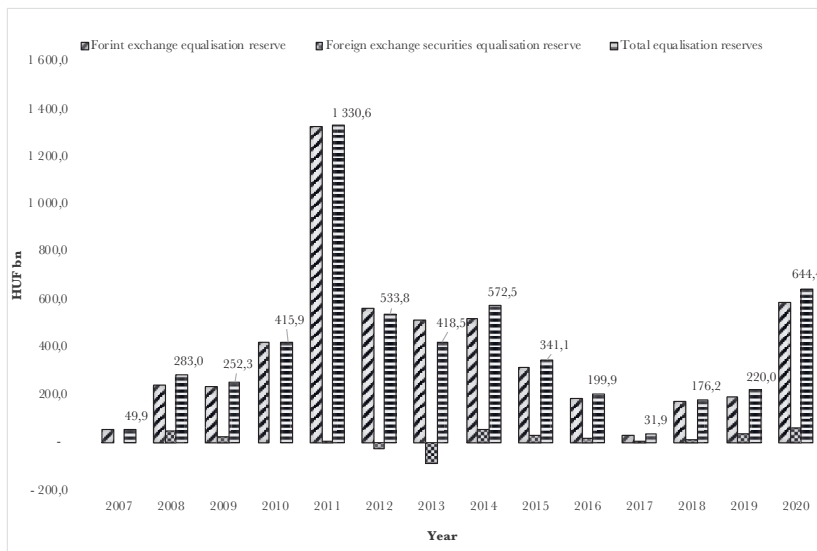
REVALUATION IMPACT AND CHANGES IN RESERVES

Gold and foreign exchange reserves account for the bulk of the MNB's assets, and therefore changes in the forint exchange rate have a significant impact on the value of these assets in forint terms. The revaluation of securities held in foreign currencies also has a significant impact. Revaluation can occur in both positive and negative directions. In order to counteract these fluctuations, the MNB is required to set up a forint exchange equalisation reserve and a foreign exchange securities equalisation reserve. The changes in these reserves over the period 2007-2020 is shown in Figure 4.

Over the period covered by the figure, the total amount of equalisation reserves has been consistently positive. It can be seen that the forint exchange equalisation reserve has fluctuated from one year to the next by up to several hundred bn forints as a result of changes in the forint exchange rate. The forint exchange equalisation reserve represents the unrealised revaluation result, which is determined by the size of the foreign currency holdings to be revalued and the difference between the current official exchange rate and the average exchange rate at the time of the purchase.

The foreign exchange securities equalisation reserve fluctuated to a lesser but not insignificant extent. This reserve, i.e., the market value difference of the securities in the MNB's portfolio, was positive in all years except 2012-2013. At the end of 2012-2013, the market spread of the securities in the MNB's portfolio showed a negative balance due to changes in yields. The central budget did not have a reimbursement commitment towards the MNB because the aggregated balance of the equalisation reserves was positive (SAO, 2018).

Figure 4: Development of the MNB's equalisation reserves 2007-2020 (HUF bn)



Source: Based on the data of MNB annual statements 2007-2020, SAO edited

Changes in the exchange rate of foreign currency holdings have two effects on the MNB's balance sheet. When foreign currency is sold, the MNB realises a profit or loss on the difference between the exchange rate at which the foreign currency is bought and sold. The difference directly affects the MNB's profit or loss. Conversely, the revaluation of foreign currency holdings does not change the MNB's balance sheet result, but is presented in the balance sheet as a change in the equalisation reserve (MNB Annual Reports, 2016-2020). Table 1 shows these two effects of the exchange rate change separately, but only for the last four years, as by 2017 the forint equalisation reserve accumulated in earlier years had been reduced to a minimum level, and consequently the reserves accumulated in earlier years no longer play a role in managing future risks.

Table 1: *Total revaluation impact of exchange rate changes on foreign currency stocks 2017-2020 (HUF bn)*

Description	2017	2018	2019	2020
Exchange rate gains and losses (realised and conversion)	61,4	74,0	229,1	286,1
Change in equalisation reserve in the balance sheet (unrealised revaluation result)	-154,4	141,6	18,2	398,6
Total impact of exchange rate changes	-93,0	215,6	247,3	684,7

Source: *Based on the data of MNB annual statements 2017-2020, own edited*

The overall revaluation impact from exchange rate changes was negative in 2017, reflecting the strengthening of the forint and the narrowing of the gap between the average exchange rate and the official exchange rate. In 2017, the total net revaluation impact was a loss of HUF 93.0 bn. It is noteworthy that the strengthening of the forint exchange rate has an immediate negative impact on the forint exchange equalisation reserve, while the realised result remains positive as long as the average exchange rate of the reserve is higher than the exchange rate at the time of selling, i.e. current rate. In 2018-2020, the overall revaluation impact turned positive as the forint exchange rate weakened and the amount of the foreign exchange reserve increased. The MNB realised exchange rate gains of HUF 61.4 bn in 2017, HUF 74.0 bn in 2018, HUF 229.1 bn in 2019 and HUF 286.1 bn in 2020 on sales and conversions associated with the daily change in the net foreign exchange position (MNB Annual Reports, 2016-2020). In 2019, the realised and conversion gains from exchange rate changes increased sharply, while the unrealised exchange rate effect decreased. This is related to both sales and purchases due to the MNB's new investment strategy and the self-binding of the gold reserve. The revaluation impact of almost HUF 400 bn by the end of 2020 was related to the sharp weakening of the forint in 2020 and a rise in foreign exchange reserves of more than 30.0%, to over HUF 2,900 bn.

The HUF 644.4 bn equalisation reserve at the end of 2020 could turn negative after an exchange rate appreciation of around 13%, assuming unchanged HUF 13,128.3 bn of foreign currency claims and the entry rate.

The equalisation reserves form part of the central bank's equity and thus participate in the financing of its assets. However, these reserves are rapidly changing items on the liabili-

ties side. This does not pose a financing problem though, as the amount of the equalisation reserves increases or decreases in line with the change in the asset side due to the revaluation. A risk arises if the equalisation reserves become negative and the MNB is unable to offset this from its accumulated profit reserve or from its profit of the current year, as the central government then incurs a reimbursement liability. To understand the likelihood of this risk materialising, let us look at how the MNB's reserves have changed over the last four years. The data are summarised in Table 2.

As the table indicates, the MNB's accumulated profit reserve and its equalisation reserves have never been in deficit in any year. There were no reimbursement obligations to the budget, so there was no direct budgetary risk arising from the MNB's monetary activity. On the contrary, the reserves increased by almost 4.4 times by the end of 2020 compared to 2017, thus minimising the risk that the budget will have a reimbursement obligation towards the MNB in a few years. Nevertheless, it is appropriate to take stock of the developments that, if they were to occur, would have a negative impact on the MNB's profitability, i.e. increase the risk that the reserves would eventually be exhausted and the central budget would be liable to reimburse the MNB.

Table 2: Changes in the MNB balance sheet data sensitive to the budgetary reimbursement liability 2017-2020 (HUF bn)

Description	2017	2018	2019	2020
Profit of the current year	38,3	47,8	254,7	255,4
Accumulated profit reserve	162,2	200,4	198,2	202,9
Forint exchange equalisation reserve	28,0	169,6	187,8	586,4
Foreign exchange securities equalisation reserve	3,9	6,6	32,2	58,0
Total equalisation reserves	31,9	176,2	220,0	644,4
Reimbursement liability of the central budget due to negative equalisation reserves	0	0	0	0
Total reserves forming part of equity	194,1	376,6	418,2	847,3
Dividend paid	0,0	0,0	50,0	250,0

Source: Based on the data of MNB annual financial statements 2017-2020, SAO edited

FACTORS AFFECTING THE MNB'S PROFITABILITY AND THE RELATED BUDGETARY RISKS

The MNB's profitability may be affected by its activities and the fulfilment of its statutory tasks, on the one hand, and by external factors, on the other. External impacts include the performance of the Hungarian economy, changes in the international economic environment. It is therefore appropriate to take these risk factors into account.

Risk of deterioration of interest-balance:

- If the central bank's balance sheet total continues to increase (as a result of an extension in foreign exchange reserves and/or an augmentation in the MNB's domestic role), and this is accompanied by a decrease of the ratio of interest-free liabilities, interest-balance will be negatively affected.
- In parallel with the increase in the base rate, the interest cost of deposits held with the MNB also increases. The risk of the interest-balance turning negative is particularly increased would rise more than the yields that could be obtained by holding foreign reserves. If domestic interest rates rise faster than interest rates relevant to investing foreign exchange reserves. These reserves are financed mainly from domestic sources, so the interest payable on them would increase to a greater extent than the yield on the foreign exchange reserve deposit.

The appreciation of the forint against the currencies constituting the foreign reserve assets would reduce the spread between the exchange rate at the time of acquisition and the exchange rate at the time of sale, i.e. the profit realised on the sale of the foreign currency, which would tend to reduce the exchange rate balance. The exchange rate balance would also be negatively affected by a reduction in the volume of foreign exchange sales by the central bank.

It follows from the above that there is a real risk that the MNB's interest-balance would turn negative again and its exchange rate balance would decline, with the result that the MNB's profitability would turn negative. To compensate for this, the available reserves appear to be sufficient for the time being for several years, so there is no significant risk that the budget will have a commitment to pay in a few years' time due to the central bank's loss and/or the negative turn in the equalisation reserves.

INDIRECT BUDGETARY IMPACTS OF THE MONETARY POLICY

Between 2007 and 2012, the MNB sought to counteract the typically overspending fiscal policy by implementing a tight monetary policy focused on the inflation target. It kept the base rate high, attracting liquid funds from commercial banks (see above), which therefore did not create additional demand for government securities. Both factors had an upward effect on the level of government securities yields, i.e. they contributed to the fact that government security in 2010-2011 was on average issued at around 6% interest rate.

The MNB's interest rate policy changed its direction in August 2012. From that date the Monetary Council of the MNB lowered the base rate, which was kept at 6.75%, in several steps to 0.9% by the end of May 2016. The 0.9% rate remained unchanged until June 2020. In addition to monetary policy intentions, the lowering and subsequent maintenance of the base rate was made possible by the improvement in the fiscal balance of Hungary, the reduction in inflation, the emergence of a significant trade surplus and the return to a dynamic growth path of the Hungarian economy from 2013 onwards. Monetary policy, through its conventional and unconventional instruments, has also contributed significantly to the latter.

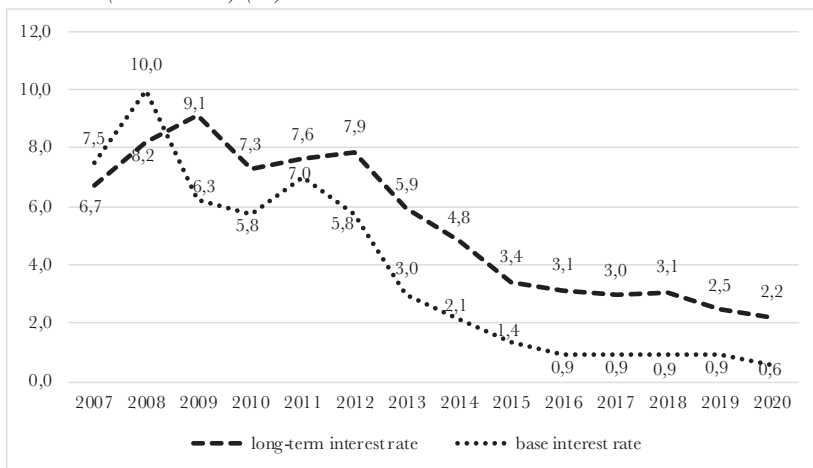
In particular, the continuous, multi-phased and steep reduction of the central bank's base rate has lowered the interest rates on government securities and, through them, the cost of debt financing. Despite the continued nominal increase in public debt, the debt service costs paid in 2016 were HUF 246 bn lower than the amount paid in 2013 (SAO, 2018:15), and in 2017-2019 there were overall additional savings of HUF 241 bn in interest on public debt compared to 2016 (SAO, 2021:19).

In March 2019, the MNB tightened monetary policy somewhat, but at that time it did not raise the base rate, but tightened the so-called interest rate corridor, adjusting the negative interest rate on overnight deposits of commercial banks in the central bank from -0.15% to -0.05%. The tightening implemented in this way did not increase the cost of financing public debt.

To counter the negative economic effects of the pandemic in 2020 and to prevent the emergence of turbulence in the money market, the MNB cut the base rate of the central bank in two steps to 0.75% and then to 0.6%, which served to expand the money supply in the economy and thus cushion the economic downturn. This move also had the effect of reducing the cost of financing public debt.

The reason for the caution in the last sentence is that a large proportion of public debt is financed by instruments, whose yields are not immediately and directly affected by changes in the base rate of the central bank. A decrease or increase of the base rate has a lagged effect on the cost of financing public debt. Therefore, rather than looking at short-term effects, it seemed appropriate to examine the relationship between changes in the base rate and the level of interest rates on government securities with maturities of more than ten years (in the jargon, the long-term interest rate). This relationship is also justified by the fact that the convergence of the long-term interest rate level towards the euro area interest rate level is one of the Maastricht criteria. The relationship examined is illustrated in Figure 5.

Figure 5: Changes in the central bank base rate and the interest rate on government securities with a maturity of 10 years or more (2007-2020) (%)



Source: Based on SAO (2021), SAO edited

The figure shows an almost textbook correlation: the long-term interest rate has followed the base rate with a slight time lag and more protracted changes, but the long-term government securities rate has always been much higher than the current base rate, which is normal for an emerging market. At the same time, the figure clearly shows that the reduction in the base rate of the central bank has made a very significant contribution to lowering the cost of financing public debt.

In 2020, the central bank has contributed to lowering yields on longer-term government securities not only by lowering the base rate but also by buying government securities. The central bank's asset purchases in the secondary market for government securities from May 2020 onwards have tended to purchase longer-dated government securities, with rising demand pushing yields lower. At the end of 2020, the central bank held more than HUF 1,100 bn worth of government securities.

THE IMPACT OF MONETARY POLICY ON THE FINANCING STRUCTURE OF PUBLIC DEBT

Until 2020, the central bank did not participate in the financing of public debt by purchasing government securities, but monetary policy measures had a significant impact on the structure of public debt financing. On the one hand, they have contributed to reducing the share of foreign currency denominated public debt and, on the other hand, they have 'diverted' domestic resources towards the financing of public debt. Let us review the most important measures and then look at their impact.

The MNB introduced a self-financing scheme in April 2014, changing the structure of central bank assets. Until mid-2015, the self-financing scheme consisted of a series of steps in which the central bank, the Government Debt Management Agency and domestic commercial banks cooperated. This included the conversion, in early August 2014, of the two-week central bank bond into a two-week deposit, which was not available for subscription by foreigners and non-bank entities.

The outflow of commercial bank funds from the central bank's benchmark facility, together with reduced liquidity, increased banks' interest rate risk, which was managed through the 3- or 5-year and later 10-year interest rate swap (IRS) facility introduced by the MNB. In the IRS operation, the MNB converted banks' fixed-rate government securities into floating-variable rate bonds. In addition to encouraging banks to buy government securities, the IRS had a particular impact on the decline in long-term government security yields.

As a result of the self-financing scheme, the external vulnerability of the Hungarian economy has been reduced as a result of the shift of public debt financing towards the forint. As demand for bank government securities rose, yields on forint government securities fell. From 2014 onwards, the share of internal funding has steadily increased, making the sustainability of the funding of the general government and the stability of the financial system more secure. Through the Government Debt Management Agency the Hungarian State repaid more than €9 bn of foreign currency debt in HUF by July 2016, reducing the foreign currency ratio of public debt from 40.1% to 25.3% (SAO, 2018). The breakdown of central public

debt by forint and foreign currency debt from 2012 to 2020, excluding other liabilities, is shown in Table 3.

In the crisis-hit year 2020, the forint debt-to-GDP ratio fell back to around the 2018 level, with an increase of 2.6 percentage points in favour of the foreign exchange ratio, at the expense of an increase in external vulnerabilities.

The HUF conversion of foreign currency loans had a positive impact on economic developments, as the additional burden of the weakening exchange rate was no longer borne by the foreign currency indebted households. The financial process also had a significant social impact. The predictability of repayment obligations has stabilised the situation of the Hungarian families concerned. By summer 2014, the amount of central bank foreign exchange reserves separated for foreign currency conversion covered the commercial banks' foreign exchange demand for the HUF conversion of around EUR 8 bn (SAO, 2018).

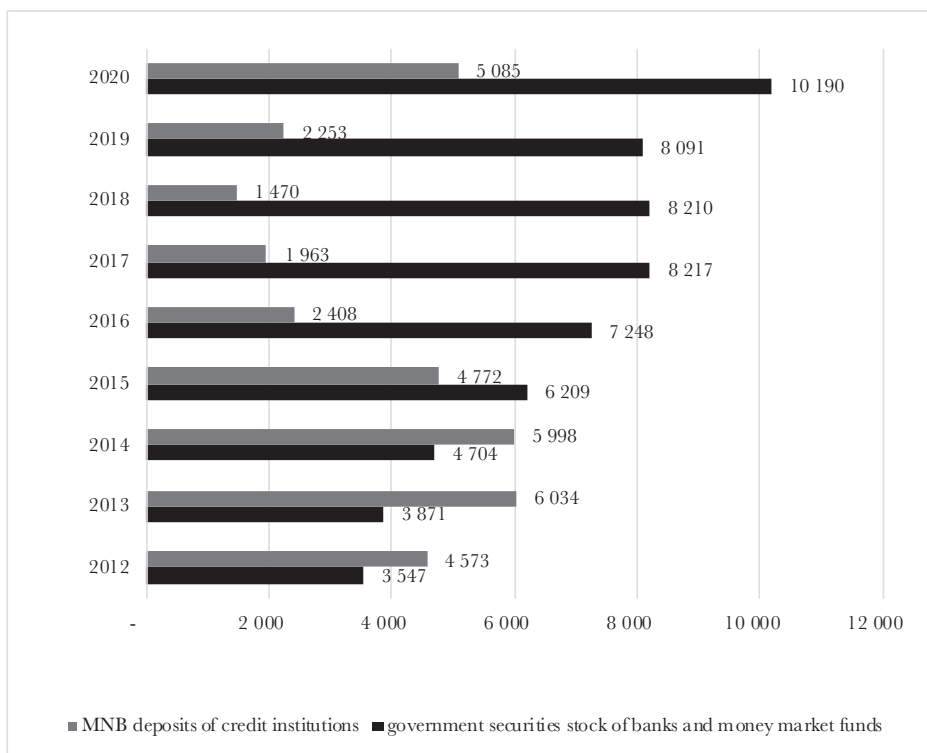
Table 3: Structure of central public debt by forint and foreign currency breakdown excluding other liabilities (2012-2020)

Breakdown of foreign currency and forint debt	2012	2013	2014	2015	2016	2017	2018	2019	2020
Share of forint debt	58,1%	59,0%	61,2%	65,6%	74,7%	78,2%	79,9%	82,6%	80,0%
Share of foreign currency debt	40,1%	40,5%	37,5%	31,3%	25,3%	21,8%	20,1%	17,4%	20,0%
Forint debt (HUF bn)	12 042	12 976	14 612	16 208	18 431	20 689	22 796	24 357	29 237
Foreign currency debt (HUF bn)	8 327	8 905	8 958	7 736	6 257	5 783	5 725	5 121	7 318

Source: SAO 2018, 2021

As commercial banks had a larger share in financing public debt through the introduction of a self-financing scheme, the dependence of the government securities market from non-resident clients has been reduced, the share of internal financing of debt increased. As a result, the country's external exposure has declined. Moreover, the shift in the internal financing of public debt towards financing in forint has reduced the foreign exchange exposure of public debt. By the self-financing scheme and by changing the MNB's guiding policy instruments (central bank bond, central bank deposit) and limiting their volume, the central bank has encouraged commercial banks to take a larger share of the public debt financing. The result of this effort is illustrated in Figure 6.

Figure 6: Trends in banks' government securities investments and MNB deposits and bonds in 2012-2020 (in HUF bn)



Source: ÁKK 2021, based on annual reports of the MNB, SAO edited

The share of commercial banks and money market funds in the financing of public debt more than doubled from HUF 3,547 bn at the end of 2012 to HUF 7 248 bn at the end of 2016, financing approximately one third of public debt. In 2012-2014, the stock of government securities held by banks and money market funds was lower than their deposits and bonds with the central bank. However, from 2015 to 2017, the share of government securities in bank claims increased dynamically and increasingly exceeded the commercial bank liquidity held with the MNB. A comparison of bank stocks of government securities with the change in banks' deposits and bonds held with the MNB clearly shows that the central bank has succeeded in diverting the bank liquidity previously held by the MNB towards the financing of public debt. For two years after 2017, the amount of government securities held by banks and money market funds declined slightly, as banks used their resources to finance the growing demand for credit from businesses and households.

In 2020, banks' preference for safe investment of government securities resumed, resulting in an increase of more than HUF 2,000 bn in the stock of government securities held by banks and money market funds, to more than HUF 10,000 bn, about a quarter of the 2019

stock. (The figures are somewhat distorted by the fact that until 2019 banks were allowed to hold government securities repurchased from their retail clients, and this stock they retained remained on their books as retail government securities. The removal of this option increased the stock of government securities held by banks and money market funds in the financial statements and reduced the stock recorded as household investment.) At the same time, however, the stock of deposits held by commercial banks with the MNB more than doubled, meaning that in 2020, bank liquidity was no longer being squeezed out of the MNB and into the government securities market.

To sum up, it can be concluded that monetary policy measures have contributed to an increase in the share of public debt financed from domestic funds, and through this to more secure financing and a reduction in costs.

OUTLOOK

After 2012, Hungary embarked on a development path characterised by both dynamic economic growth and the preservation of external and internal economic balance. To achieve this, monetary and fiscal policy needed to cooperate well, and a number of measures and their positive effects have been described in this article. However, it should also be noted that in a period of dynamic and balanced economic growth, it is relatively easy to harmonise the two policies, to achieve and maintain a win-win situation. Returning to the climber analogy used at the beginning of the article, we can say that the two climbers want to reach the same summit in good weather and with good visibility. The good weather ended at the beginning of 2020. And in the big storm that followed, the common goal was to cushion the downturn, which monetary policy measures effectively helped to do.

But once the crisis is over, the conditions for cooperation will change. The common goal of achieving dynamic, balanced and sustainable growth will remain, but the fiscal policy set by the political bodies will place more emphasis on growth, and the statutory obligation of the MNB will be to maintain price stability, which requires balanced economic and fiscal developments. This is a creative tension that the advocates of monetary policy independence have consciously undertaken. Their starting point is the historical experience that if inflation is given free rein in order to emerge quickly from an economic recession, the result will be stagflation, i.e. economic stagnation with high inflation. However, the independent central bank has the duty to act to ensure price stability. The tightening of monetary policy increases the likelihood of direct and indirect budgetary risks. In this case, the most severe direct budgetary risk is that the central bank's interest rate result could be negatively affected by a much faster increase in domestic interest rates than in international interest rates, which are relevant for foreign exchange reserves.

The MNB's balance sheet data for the first half of 2021 indicate that these risks have increased. In the first half of 2021, the MNB recorded a profit of HUF 8.8 bn, compared with HUF 255.4 bn at the end of the previous year. The gain from changes in foreign exchange rates has narrowed considerably, but remains the most significant profit item. The interest-balance turned negative, despite a decrease in gold and foreign exchange reserves by

HUF 1,457.0 bn, while maintaining safe levels. The negative result is partly explained by the fact that the share of interest-free liabilities in the balance sheet fell from 38.5% at end-2020 to 36.2%. Cash in circulation increased by HUF 209.3 bn, while equity fell by almost 60% (HUF 638.1 bn).

The foreign currency interest-balance amounted to a surplus of HUF 0.9 bn in the first half of 2021, HUF 15.4 bn lower than in the same period of the previous year. Interest-balance on international reserves decreased in the low international interest rate environment.

Due to the changing global economic environment and the high domestic inflation that has emerged, the central bank started monetary tightening from June 2021, with monthly increases in the base rate. The 30 basis-point increase at the end of June had little impact on the profitability for the first half of 2021. However, the rising base rate will shift central bank profitability in the second half of the year in a negative direction, as international interest rates relevant for the investment of foreign reserves will not or barely rise for the time being, while the interest rate paid on domestic funds, which finance a large share of foreign reserves, will rise rapidly. All of these factors point towards the emergence of direct budgetary risks. The MNB's accumulated profit reserves, after the dividend payment of HUF 250.0 million, stood at HUF 208.3 bn at the end of the first half of 2021. The equalisation reserves together amounted to HUF 243.7 bn. In view of this, it is unlikely that the budget will have a compensation liability in 2022, but a reduction of several hundred bn in the amount of reserves during the first half of 2021 indicates a serious budgetary risk for the future.

More serious than the direct risks are the indirect budgetary risks, as the increase in the central bank base rate will have the effect of raising interest payments on public debt in forint, which will significantly increase the interest expenditure of the central budget, given that the bulk of public debt (more than 80% at end-2020) was financed by government securities denominated in forint. The increase in the base rate has a lagged impact on the cost of financing public debt, as it does not directly affect the interest rate on longer-term fixed-rate bonds. In fact, however, if the current interest rate level is significantly higher than the previous fixed rate, investors will seek to replace their bonds with higher yielding paper, even at a loss of exchange rates, which creates both an interest rate and a funding risk for the financing of public debt.

In the first half of 2021, the MNB participated in the financing of public debt through buying government securities on the secondary market with an additional amount of almost HUF 1,400 bn, on top of the more than HUF 1,100 bn in 2020. The decision of the Monetary Council to phase out the central bank's purchases of government bonds will make it more difficult to finance the high fiscal deficit from domestic funds, due to the large central budget spending planned for 2021-2022 to stimulate the economy. In addition, high inflation is increasing the likelihood that households will invest a larger share of their savings in capital goods that promise above-inflation returns. The resulting decrease in demand for government securities will have the effect of raising both short-term and long-term interest rates.

The rise in interest rates also makes it more expensive to invest in partly credit-financed projects. The resulting deterioration in rates of return is forcing many domestic firms to postpone investment, leading to a slowdown in economic growth.

To return to the metaphor of the title of our article, the steeper the climb, i.e. the more inflationary pressures monetary policy has to counterbalance, the more its necessary actions will increase the indirect and direct budgetary risks, i.e. it will put more and more burden on the back of the other climber, fiscal policy, slowing down its movement.

Among these circumstances, a win-win situation could result if the ‘two climbers’ jointly find the nearest peak to which they both have to climb in order to reach the target summit. The closest target is the reduction of the public debt ratio, which has once again become a constitutional obligation as the economic downturn has passed. This is supported by the dynamic rise in the denominator of the indicator, GDP at current prices. Consequently, increasing GDP is also important for achieving equilibrium.

A greater challenge is to reduce the government sector deficit below three per cent of GDP while maintaining dynamic economic growth, i.e. to reduce the deficit-to-GDP ratio while also contributing to rapid GDP growth. However, the deficit-to-GDP ratio of 7.5 per cent in 2021 cannot be brought below three per cent of GDP in two to three years just by increasing GDP. This will require abandoning budgetary spending that is no longer strictly necessary to deal with the aftermath of the crisis and to re-launch the economy. Reducing the budget deficit will also reduce aggregate demand and thus has a downward effect on inflation.

We also ask the question: in such a situation, how appropriate is it to use unconventional monetary instruments to support the dynamics of the economy, even at the cost of increasing the balance sheet total of the MNB? It follows from what has been written above that this would increase direct budgetary risks and tie up commercial bank resources. This is also evident from the central bank’s balance sheet in the first half of 2021, where the balance sheet total was 6.7% higher at 30 June 2021 compared to the end of 2020. The amount of gold and foreign exchange reserves has decreased, as previously described, and consequently the expansion has been driven by the MNB’s role in supporting domestic economic growth. On the asset side, the government securities purchase scheme, the Growth Credit Scheme extended with a new scheme, the three-year and five-year covered forint loans and the measures taken under the Growth Bond Scheme contributed significantly to the increase in the balance sheet total. On the liabilities side, this was financed by an increase in deposits of credit institutions of around 37% compared to the end of 2020. Banks’ forint deposits increased by HUF 1,858.7 bn, of which HUF 1,323.4 bn was accounted for by an increase in the stock of one-week money market deposits, which carry relatively high interest rates. There was also a modest increase in the stock of government deposits in forint and foreign currency, from HUF 2,890.3 bn to HUF 2,979.2 bn. As a result of these changes, interest-balance suffered a loss of HUF 13.3 billion. The figures show that a significant expansion of the balance sheet total is only possible by increasing the amount of high interest-bearing liabilities, which in turn greatly increases the chances of direct budgetary risks occurring.

In view of the above, only the use of unconventional monetary instruments that promote quality spending, for example by linking competitiveness to greening the economy, seems to be effective. In this case, the benefits may be greater than the increase in budgetary risks. Answering questions on the active role of monetary policy is beyond the competence of the State Audit Office. However, the raising of these questions points to the need for good coope-

ration between fiscal and monetary policy in the re-launching phase of the economy, as this is the only way to maintain high investment rates, increase the domestic share of public debt financing and avoid a significant increase in the interest burden on public debt by keeping long-term interest rates low.

NOTES

- ¹ Fundamental Law of Hungary, Article 41 (1)
- ² Act CXXXIX of 2013 on the Magyar Nemzeti Bank
- ³ and Section 4 (1) of the MNB Act
- ⁴ Section 166 (4) of Act CXXXIX of 2013 on the Magyar Nemzeti Bank
- ⁵ The HUF exchange equalisation reserve and the foreign exchange securities equalisation reserve. The former is the difference between the value of the MNB's receivables and liabilities denominated in foreign currency at the official exchange rate and the average purchase price, and the latter is the difference established based on the market valuation of the MNB's receivables denominated in foreign currency based on securities.
- ⁶ Section 147 (3) of Act CXXXIX of 2013 on the Magyar Nemzeti Bank
- ⁷ Section 17 (4)-(5) of Act CXXXIX of 2001 on the Magyar Nemzeti Bank
- ⁸ Report of the Magyar Nemzeti Bank 2009, pp. 21-22 and Ferenc Karvalits (2013), pp. 73-75

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Transformation of Money in the Digital Age



Summary

In the new digital age, the transformation of money is inevitable. Our study focuses on this challenge and the potential public policy response to it: the concept of central bank digital currency (CBDC). We briefly outline the historical development of money and the challenges posed by the current digital transformation for the financial system, especially in the area of monetary policy. In response to the Fintech and BigTech challenges and the potential 'digital' dollarisation of national currencies, the idea of a central bank digital currency is emerging as a growing and almost unanimous response among central banks. Implementation, however, involves a very complex set of decisions, fraught with design issues, challenges and risks. These decisions, in turn, need to be driven by general motives and the specific problems to be addressed. In the concluding part of our paper, we briefly look at where the introduction of central bank digital currency is most advanced in the world. Although we do not yet see the final full-scale introduction of CBDC in countries with significant economic weight, we have no doubt that the evolution of money will continue in this direction.

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INTRODUCTION

Throughout history, both the form and key functions of money have constantly changed, accompanied by evolution in the way we conceptualise money in economics and everyday life. Over time, the driving forces in this process have included many factors of varying significance: the prevailing concept of money, the surprisingly diverse changes in the dominant monetary theory, the expansion of money functions, the evolving role of central banks, geopolitical trends and technological breakthroughs. The achievements of the latest industrial revolution and the results of digitalisation have also been felt in the financial sector, and the (re)shaping of the form and concept of money is perhaps one of the most affected areas in the 21st century.

While it is evident that we have transitioned from commodity money with intrinsic value through representative money to the point where trust is the central, inescapable element of current ‘fiat’ money, the developments seen in recent years and decades raise many questions, the answers to which are far from trivial. Where does the trust in money come from? What ‘institution’ can best provide this trust for society? Can technology-based solutions at least partly take over the role of a central institution with a legal mandate? How can central banks maintain their privileged role in a financial and economic environment that is undergoing an extremely dynamic change, and is it even necessary for them to do so? What role can one of the most talked-about and most actively studied concepts of recent years, central bank digital currency (CBDC), play in this process? The revolution of money is taking place before our very eyes, unstoppable and pervasive, and thus it is critical for not only practising economists, but essentially for everyone to try to understand it as well as possible.

In this study, we first illustrate the ever-changing, dynamic nature of the functions and theory of money in a brief historical overview. We then present some of the key current challenges brought to the fore by the changing technological-socio-economic environment. Finally, we focus on central bank digital currency (CBDC) as one possible response to these challenges.

For money and the financial system, one of the most influential changes of the present is the acceleration of technological development. The conceptual novelty of this may be that, while previous changes had more to do with the form in which money was presented, the current challenges are increasingly substantive in nature. Alongside the rise of new payment technologies, digital money substitutes, cryptocurrencies, stablecoins and the like offer an increasingly attractive alternative to at least partially replace traditional money. Although we are not yet at the stage where the solutions available completely fulfil the classical functions of money, the issuers of such are clearly moving in this direction and undoubtedly achieving some partial results. This also means that – for certain purposes and functions – they offer solutions that are already popular with an ever-broader social stratum and thus represent real competition to ‘traditional’ forms of money and national currencies.

Digital dollarisation and its effect on monetary sovereignty, or in extreme cases, the loss of monetary sovereignty, may pose a serious challenge for central banks. One response to this could be the concept of CBDC, which central banks have begun to explore as a priority area

in recent years. Although this is a constantly developing field, it is now possible to adequately identify and present the motivations behind the introduction of CBDC and the expectations related to it, as well as the decisions and economic, social and public policy considerations arising in the planning and implementation process. With the rapid proliferation of relevant analyses, a number of central banks are now at an advanced stage, not only in terms of research, but also in testing with pilot projects, giving us the opportunity to briefly review the related international experiences.

THE EVOLUTION OF FORM AND CONTENT

Historically, money had a very similar settlement function as it does today, even though it was constantly changing with technological breakthroughs. The settlement function of money has an importance beyond itself when the monetary sovereignty of a country is considered. The origins of central banks responsible for issuing money today can be traced back in history to the issuance of the highest quality financial liabilities used for broad settlement (Horváth – Horváth, 2021). Ulrich Bindseil's book, published in late 2019, shows that institutions in Italy, Amsterdam and Hamburg were already performing the functions of central banks in the 15th and 16th centuries. As defined by William Potter as early as 1650, one of the most important functions of central banks is to be able to issue the highest quality financial liabilities, which are widely used for settlement by economic actors within the community. In many cases, the central bank's ability to do so was confirmed by law, as Knapp explained in his 1905 paper on the state theory of money. As one of the theories explaining the creation and origin of money, the state theory of money suggests that the birth of money did not originate in barter, but rather may be a concomitant condition for the consolidation of the central powers necessary to organise various forms of government.

The state theory of money formed the basis of the chartalist notion of money, according to which the value and utility of money is not related to its intrinsic value, but to the state authority issuing it. According to Graeber (2015), monetary systems based on mentalism and chartalism using money with an independent value have appeared in alternating periods throughout history. The more volatile periods, characterised by extensive conflict, have been those of metallic monetary systems, with declining confidence in central power (Ábel et al., 2016), which supports the central role of the state in maintaining the value of money. The early experiences of the central banks show that social trust and secure settlement are the primary determinants, while the technology that can bring this about is actually less relevant. Thus, regardless of the theoretical approach, the most important basis for a well-functioning money is trust, supported by some institutional arrangement or legal framework (Carstens, 2018). As is the case for the functioning of money, one of the most important for a well-functioning financial system is the existence of trust, which – in modern monetary systems – is maintained by the central bank by preserving price stability and financial stability (Borio, 2019).

With the emergence of so-called internal money, the importance of external money, the final means of settlement provided by the central bank, also grew. When the parties involved

in real economic transactions start to use each other's debts as money, we can talk about the emergence of internal money. The bank deposits that we currently use as money, and which are increasingly part of the monetary aggregates of banks' private debts, can be seen as internal money, while settlements between banks are in central bank money, today mostly in the form of central bank liquidity (Horváth – Horváth, 2021). The growing prominence of endogenous money theory, according to which money creation is not primarily carried out by the central bank but by commercial banks via the provision of credit, highlights the increasing importance of domestic money, which is also being felt in practice through the gradual decline in the use of cash in transactions. The presence of reliable external money and confidence in the institution issuing it also have a stabilising effect on internal money within the financial system. The existence of a single external currency is a key element for the stable functioning of the financial system and the financial sovereignty of a given nation state or economic area, and its preservation is therefore an important consideration for central banks.

As in many other areas, the financial system could see significant transformation through technological developments. The technological revolution of money started in the financial system, where traditional commercial banks are increasingly facing challenges from FinTech companies offering innovative alternative solutions that effectively combine technology and finance. However, the threat posed by BigTech companies in the form of the emergence of financial alternatives is even more serious and global, and could compel central banks to think hard and innovate. Since the financial crisis in 2008, central banks have already been much more involved than in previous decades in stimulating the economy and shaping yields more actively (e.g. via asset purchases, targeted loan schemes), a novel role that has been further strengthened by the COVID-19 crisis. And the concept of central bank digital currency, which has come to the fore in recent years, has been explored by a number of central banks, for different reasons. Looking ahead, the role of the state and the central bank in the financial system will presumably continue to increase in the coming decades. "States are renegotiating the terms of money creation with the financial system. States, through central banks, will have an even stronger presence in the private financial system through digital money, new regulation and new money creation." (Matolcsy, 2020¹).

DIGITAL TRANSFORMATION OF THE FINANCIAL SYSTEM AND MONETARY POLICY CHALLENGES

In recent decades, the monetary system has evolved at an ever-quicker pace, initially mainly through changes in the form of money. The changes made possible by technological advances have been driven mainly by efficiency and convenience, and further catalysed by the openness and confidence of younger generations in digital solutions. Undoubtedly, in contrast to traditional economic thinking, which focuses on real variables, the change in the form of money has its economic effects, but we cannot ignore its technological, sociological, political, cultural and other aspects as well (Dodgson et al., 2015). Although the

low international interest rate environment has made cash more popular as a means of accumulating wealth in many places, its role in transactions is gradually declining in many developed countries as financial processes become virtualised, raising the possibility that it may be removed entirely from circulation over time. Consequently, a situation may arise where households and non-financial operators cannot directly hold risk-free money with claims on the central bank.

The financial innovations of FinTech companies can have an impact on monetary policy as well as financial stability. By seeking to replace or even complement the activities of traditional banking actors, non-banking, technology companies also affect monetary policy transmission and the financial aggregates observed by central banks (Bernoth – Gebauer, 2017). The effect of the emergence of FinTech companies providing services linked to national currencies on the impact of monetary policy is not yet clear to economists and may strengthen or weaken the effectiveness of interest rate policy, depending on regulation and market characteristics. On a theoretical basis, points can also be identified whereby the increasing presence of non-bank operators may even strengthen the transmission of monetary policy. For example, non-bank financial companies that are less constrained by macroprudential rules and potentially more leveraged may have a lending channel with a more prominent role, or be less affected by capital requirements that could dampen the impact of moves in the interest rate (Bernoth – Gebauer, 2017). However, while such theoretical effects are mostly due to regulatory differences between traditional and non-traditional financial actors, empirical results are not conclusive with regard to the effects of non-bank actors on monetary policy measures.

The emergence of cryptocurrencies has opened a new chapter in the transformation of the content and nature of money. Distributed ledger technology (DLT), which allows secure and controlled transactions to be carried out without a central controller, could in itself drive significant changes in the financial system. At the same time, the emergence of private digital currencies poses a greater challenge from a monetary policy perspective. Cryptocurrencies differ in nature from all previous popular forms of money in that they are widely available, electronic and can be used for direct peer-to-peer transactions, even though they are not issued by a central bank. In the wake of this, the rapid rise of Bitcoin and other cryptocurrencies has led economists to fundamentally rethink their views on money and the role of central banks in the era of the money digitalisation (Carstens, 2018).

The spread of private money, in parallel with the traditional banking sector, may also pose a new challenge for national currencies and thus for states, in a process that we can refer to as digital dollarisation. This phenomenon is essentially similar to traditional dollarisation, where the currency of one state is replaced by the more trusted currency of another. Digital dollarisation may occur when the role of a country's currency is partly or entirely taken over by the currency of a digital platform (Brunnermeier et al., 2019). Digital payments can provide an alternative form of deposit, hence making traditional deposit collection more difficult or costly. Moreover, digital currency issuers can compete with the banking sector not only on the funding side, but also on the lending side, competing for customers from commercial banks. Some economists argue that, like FinTech companies, the

emergence of digital currencies could provide an incentive for traditional financial services providers to operate more efficiently and offer more services, thus ultimately benefiting consumers. However, if the issuer of a digital currency starts to perform classical banking functions such as deposit taking or lending, monetary policy transmission may be compromised, as the central bank cannot directly influence the lending and deposit rates of such currencies through its interest rate policy.

Experience with cryptocurrencies in circulation so far suggests that they pose only a limited threat to the role of national currencies for the time being (Horváth – Horváth, 2021). For a virtual external currency to take over the role of a national currency, it must not only enjoy a high degree of social trust, but also be at least approximately capable of performing the classical monetary functions. The main criticism of popular cryptocurrencies in fulfilling monetary functions is the volatility of their exchange rates, which have fluctuated significantly in recent years. Coins with the highest market capitalisation, such as Bitcoin or Ethereum, are all quoted in US dollars, also partially reinforcing the dominance of USD. However, there is also a question as to whether these currencies are aiming to take on the role of traditional currencies at all, or whether they are aiming to play the role of the ‘digital gold’ often referred to in Bitcoin.

However, a subset of cryptocurrencies, namely stablecoins, were created specifically to address the problem of volatility, and may even pose a more direct threat to national currencies. Stablecoins work on the basis of a stabilisation mechanism to preserve their value relative to traditional national currencies (ECB, 2020). While stablecoins are undoubtedly better suited to perform monetary functions than more volatile cryptocurrencies, they are not currently so widespread as to threaten the role of national currencies.

The risk of digital dollarisation is particularly high in relation to currencies developed by tech giants with their own digital ecosystems and massive user bases (Horváth – Horváth, 2021). The phenomenon was brought to the attention of regulators by the announcement of the Facebook-backed currency Diem (originally called Libra). Following intense feedback from regulators, the Diem Association, which is developing the currency, refined the original concept, for example by ‘rebranding’ the virtual currency under development as a payment system.

The emergence of digital currencies at the expense of national currencies could lead to a partial loss of monetary sovereignty and, in extreme cases, to its complete loss. The widespread use of financial services and currencies developed by technology companies could also significantly alter the functioning of the financial system, leading to disintermediation, as economic operators would use the platforms of tech companies instead of traditional banks (Brunnermeier et al., 2019). With a sufficient user base, digital currencies could displace national currencies, limiting the scope for action of central banks. In such a situation, as monetary transmission weakens, central banks would be less and less able to influence interest rates and monetary aggregates, and hence the behaviour of real economic actors. Such a narrowing of the scope of the central bank’s action could become a serious problem in crisis situations in particular (Szalai, 2021).

CENTRAL BANK DIGITAL CURRENCY – A POSSIBLE CENTRAL BANK
RESPONSE TO THE CHALLENGES

Central banks have started to focus on the concept of digital central bank currency (CBDC) in order to preserve their monetary sovereignty in the face of the challenges posed by digitalisation. There is no widely accepted definition of digital central bank currency, and in our study we use the BIS definition (BIS, 2020). Accordingly, central bank digital currency is a digital form of money issued by the central bank in its own currency, different from traditional central bank reserve or settlement (CPMI-MC, 2018). Initially, leading central bankers emphasised that the digital financial revolution should not endanger national currencies, but now they are explicitly highlighting the issue of monetary sovereignty.² There is no doubt that central banks must respond in some way to the challenges posed by the digitalisation of finance. In this chapter, we briefly show how central bank digital currency can address these challenges and how it can benefit the implementation of monetary policy.

Possible motivations for the introduction of CBDC

For a country or an economic area, access to electronic payment and financial services and the reduction of the associated costs require a continuous series of analyses and interventions by public policymakers and, more specifically, by central banks. Over the past decade, and especially over the past two years, the possibility of introducing CBDC has increasingly dominated the public debate, with most of the world's central banks exploring the possibilities CBDC could offer. A limited number of central banks have already launched pilot projects to test a specific form of CBDC for possible future introduction. The motivational factors behind the intention to introduce CBDC can be grouped according to the international literature as follows (Fáykiss – Szombati, 2021):

- **Maintaining monetary sovereignty:** Among the ongoing innovations in technology and payment systems, the 2019 announcement by the Facebook Libra Alliance (now Diem) to develop a fast, low-cost, accessible payment solution for anyone, based on the worldwide Facebook customer base, was a highlight. The proposal came under strong regulatory attack as it would have significantly restricted monetary sovereignty at the level of each country concerned by creating a dual monetary system and would have also posed significant financial stability risks by allowing exit from the domestic monetary system. The proliferation of payment solutions from global technology companies has increased the need to maintain central control over local payment systems in many countries around the world³ and has accelerated local CBDC projects. The introduction of CBDC would allow the state to retain the ability to create money (Horváth – Horváth, 2021). CBDC can also help to preserve the national currency's unit of account function. A payment instrument unit of account function is increasingly important in the digital age and is of great importance from an efficiency point of view, as it facilitates transactions by reducing legal and financial uncertainties (Borio, 2019).

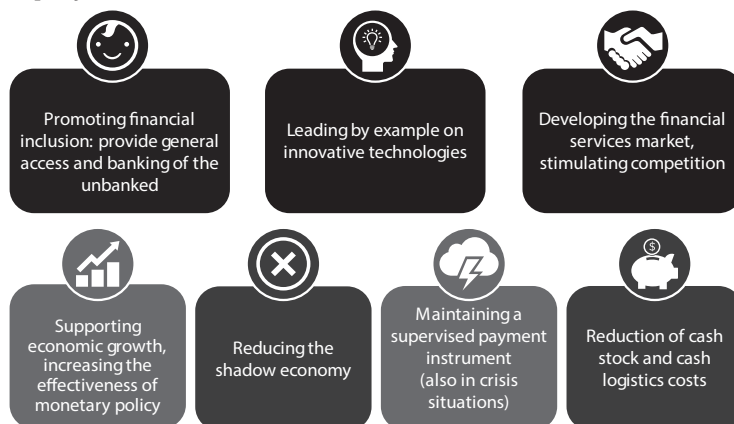
- **Providing a digital payment alternative to cash for a wide section of society:** In addition to the direct costs of cash management, policymakers also want to reduce the social costs that result from the exclusion or reduced access to modern bank account-based digital payment solutions for certain social groups. CBDC can also bring fast, cheap, secure digital payment solutions to these groups, which can mean enhanced digital skills, better empowerment, greater security and greater entrepreneurial freedom for the wider society. Overall, it can support the development of a more socially efficient payment system, including a reduction in the use of cash.
- **A new monetary policy instrument for central banks:** CBDC would allow the central bank to directly influence the level of deposit interest rates perceived by a very wide range of economic operators. This could result in a monetary policy instrument that could address the Keynesian liquidity trap and change the velocity of money when necessary. According to Silvio Gesell's idea, real economy transactions could be speeded up not only by an interest rate, but also by a kind of maturity. In Bindseil's view (Bindseil, 2020), perhaps the most efficient solution would be for the CBDC to function as electronic cash (anonymous and interest-free) up to a certain limit, while above this limit it would earn interest, which the central bank could adjust according to the monetary policy.
- **Creating an instrument for targeted stimulus:** the COVID-19 pandemic, coupled with the resulting restrictive measures, led to a significant global economic downturn. In order to mitigate the social impact of the significant loss of income and unemployment, fiscal authorities in many countries around the world decided to pay an extraordinary, immediate, universal benefit. However, getting this to the people quickly and in a targeted way was far from straightforward, so the US administration, for example, started issuing checks. A general CBDC with wide public access could provide a good basis to ensure the viability of the rapid, targeted stimulus tools needed in similar cases.
- **Central banks can even provide credit to the real economy in the form of digital central bank currency,** as was the case with early central banks. Direct central bank lending could strengthen monetary transmission, as it would allow the central bank to have a direct impact on the perceived credit interest rates of economic operators. By having the central bank directly influence lending rates, monetary transmission can be maintained even if there is a disruption in the functioning of credit markets (Felcser et al., 2021). In addition, the central bank can also use its lending activities to buffer the economic damage caused by the pro-cyclical behaviour of traditional financial actors. Early central banks were no strangers to holding a smaller proportion of credit instruments directly linked to the real economy on their balance sheets (Bindseil, 2019). At the same time, the main criticism of direct central bank lending is that it would replace the banking system itself, which already has the infrastructure and risk-taking practices in place.
- **Developing a new platform for innovative services:** in the context of creating a central infrastructure to support long-term financial innovation, a growing

number of central banks⁴ consider that a completely new payment system, capable of handling alternative payment solutions such as smart contracts, may be needed to complement the existing system and gradually incorporate new types of payment solutions and new business approaches based on them.

Social and public policy considerations for the introduction of CBDC

Public policy intervention in the payments system and public commitment to a new, as of yet unimplemented, CBDC solution can be expected from central banks if a clear market problem, failure or public policy consideration can be identified that triggers thinking outside the current framework and a new form of central bank manifestation. Based on the international literature, Chart 1 gives an overview of possible directions.

Chart 1: Public policy considerations behind CBDC initiatives



Source: Authors' work based on BIS and central banks' websites

Although several of these factors are typically behind each of the ongoing central bank projects, the following can be identified as common points for the more advanced countries:⁵

- **Digitisation of cash, expanding the possibilities of financial transactions by strengthening financial inclusion:** the spread of digital payment solutions has increased the need for a digital payment instrument issued and guaranteed by the state, which is widely accepted as a means of payment, similar to cash, and which can perform the function of a payment instrument in digital form. A free, uniformly accessible, secure and fast electronic payment system, operated by the central bank, could open up access to financial services for those who previously made payments exclusively in cash.
- **Ensuring the robust operation of a payment instrument and system, including in crisis situations:** to overcome possible malfunctions of electronic payment solutions currently provided by the private sector, it may be necessary to

build and maintain a back-up system, which should be operated by a central actor such as the central bank. Similarly to cash, this system would be based on a generally accepted, widely available cost-free and risk-free payment instrument which is digital.

- **Developing the financial services market, stimulating competition:** as an alternative to payment services, CBDC could be a good starting point for the development of truly instant, low-cost payment platforms. In the same way, such a platform can support further developments and technological innovations, for example through smart contracts linked to payment transactions, where further processes can be triggered once payment is completed.

Expectations for a CBDC framework

In designing the operational framework for CBDC, policy makers will face a number of dilemmas and, in some cases, constraints, and it is necessary to weigh up the potential benefits and drawbacks in the design process. However, some general principles can be identified for the development of CBDC, which are relevant for the potential instrument and support sustainable, successful implementation in the longer term (Brunnermeier et al., 2019; Adrian – Griffole 2019; Auer et al., 2020a; Kahn et al., 2018; Riksbank, 2018; BIS, 2020; ECB, 2020a). It is important that (i) the introduction of CBDC has an appropriate public policy rationale and (ii) does not jeopardise the central bank’s fundamental monetary and financial stability objectives, i.e. that the introduction of a new type of central bank currency has neither a negative impact on the conduct of monetary policy in general or on the stability of the financial system, nor limits the central bank’s ability to fulfil its mandates. In addition, (iii) it should be essentially complementary, i.e. it should be able to work in parallel with other types of money already available (cash, commercial bank money, central bank money), not replace them. Finally, (iv) it is important to promote financial and economic efficiency, and (v) to facilitate or even stimulate innovation.

The following main functional requirements can be identified for a CBDC framework (Fáykiss – Szombati, 2021):

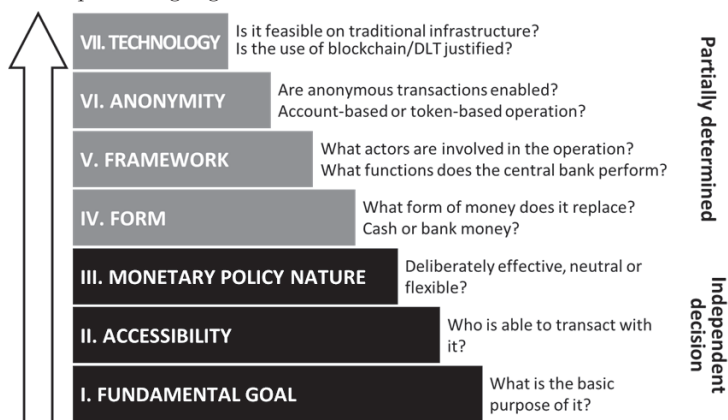
- **Central bank expectations:** From a central bank perspective, it is important that CBDC is resilient, secure and convertible into other forms of money in accordance with the central bank’s function. Scalability is important: it should be gradually expandable, able to handle higher volumes and transaction numbers. It should be consistent not only with the legal environment in which it is issued, but also with all other related legal requirements.
- **User needs:** The importance of specific user needs depends strongly on the potential user base of CBDC. With an universally available CBDC customers want a fast, user-friendly, easy-to-understand and inexpensive service, operating 24/7.
- **Market considerations:** It is important that CBDC is interoperable with other payment systems. It should support the exploitation of comparative advantages, encourage competition for complementary services, be flexible and even expandable in a modular way.

With regard to these expectations, it is worth pointing out that, while these basic functional expectations can be considered general, their criticality will depend on the other design frameworks for CBDC, in particular the range of accessors. For example, in the case of an essentially ‘wholesale’ CBDC, resilience, security and scalability are critical requirements, while cost-effectiveness or user-friendliness are less important. By contrast, a CBDC that is essentially ‘retail’, i.e. accessible to the general public, may have higher expectations in terms of user-friendliness, inclusiveness or modularity.

Key decision points and considerations in the design of CBDC

As indicated above, in designing the operational framework for CBDC, policymakers face a number of dilemmas and, in some cases, constraints. This framework basically identifies seven major decision steps that are useful to consider when designing a CBDC (Chart 2). These decision steps essentially build on each other.

Chart 2: Decision ‘steps’ in designing a CBDC



Source: (Fáykiss – Szombati, 2021).

For the first three ‘steps’, there is still a relatively high degree of freedom for each dimension, but after that, many decisions may be partially determined (Fáykiss – Szombati, 2021):

- I. Definition of the fundamental goal**, which can be used to define the motivation for the introduction of CBDC.
- II. Defining accessibility**, i.e. which economic and social actors will have direct access to the CBDC.
- III. Determining the monetary policy nature** of the CBDC, whether it will be an active, neutral or flexible instrument for monetary policy purposes, and whether the central bank will apply certain restrictions (for example, on the amount that can be held on the account or the size of transactions).

- IV. Defining the specific form of the CBDC**, i.e. what form of money it can be (cash, central bank money, etc.) and what functions it can have. Relevant to this issue is whether it is ‘token-based’ (essentially linked to possession, e.g. private key, digital asset) or ‘account-based’ (linked to the owner, similar to bank accounts).
- V. To define the operational framework**, i.e. which actors will be involved and what functions the central bank will perform in this context.
- VI. A record of how anonymity is handled**, where it can be specified whether anonymous transactions can be carried out, and if so, under what restrictions and at what levels (‘multi-level anonymity handling’).
- VII. Determining the technology to be used**, i.e. whether the system would operate on the traditional infrastructure or other systems, e.g. blockchain-based systems, would be developed.

INTERNATIONAL EXPERIENCES AND MAIN RESEARCH AND IMPLEMENTATION DIRECTIONS FOR CBDC

A significant number of central banks globally are now exploring CBDC at some level (Chart 3). In a recent BIS survey (Boar – Wehrli, 2021), 65 central banks, including the MNB, were surveyed, and the results show that 86% of them are working on CBDC, 60% are experimenting and 14% are in the development phase.

Chart 3: Countries researching CBDC



Source: Edited by MNB based on Auer et al. (2020b) and central banks’ websites. As of 31 August 2021.

The importance of the survey is reflected in the fact that the central banks surveyed account for 91% of global GDP. It is therefore not surprising that, in addition to the motivations outlined earlier in this paper, the risk of missing out is now also driving central banks to start research. However, despite the gradual announcement of CBDC projects, with a few exceptions, no formal

decision has yet been taken by central banks on the future issuance of CBDC.

Europe is still lagging behind other regions. In addition to the successive announcements of CBDC projects, it is worth analysing their maturity level. Starting a research phase is considered a low entry threshold, while announcing a pilot programme requires a higher level of commitment. The Global CBDC Maturity Index by PwC (2021) shows which countries are considered pioneers (Chart 4). The results show that, compared to the European region, countries in Asia, the Caribbean and South America are ahead in the development of CBDC. Emerging and developing countries are in the lead for ‘retail’ CBDC, while developed countries are ahead in ‘wholesale’ CBDC (PwC, 2021). This is because developed countries have well-established retail payment systems, so putting them on a new footing with ‘retail’ CBDC would have fewer benefits and higher risks than in developing countries. By contrast, ‘wholesale’ CBDC offers attractive opportunities for countries with developed interbank and capital markets.

Chart 4: PwC Global CBDC Maturity Index

Retail CBDC		Wholesale CBDC	
1.	Bahamas	1.	Thailand
2.	Cambodia	2.	Hong Kong SAR
3.	Mainland China	3.	Singapore
4.	Ukraine	4.	Canada
5.	Uruguay	5.	United Kingdom
6.	Ecuador	6.	France
7.	Eastern Caribbean	7.	Republic of South Africa
8.	Sweden	8.	European Union (Euro area)
9.	South Korea	9.	United Arab Emirates
10.	Turkey	10.	Japan

Source: (PwC, 2021)

The Bahamas was the first official issuer of a retail CBDC. In October 2020 (CBoB, 2020), the island nation officially issued the ‘Sand Dollar’, the world’s first ‘retail’ CBDC. The primary motivation of the central bank was to promote financial inclusion. The country’s geography meant that the commercial banking network could not serve some of the population efficiently, and cash logistics were also hampered. Through retail CBDC, the central bank saw an opportunity to directly support financial inclusion and reduce transaction costs. Citizens and businesses can open a digital wallet to use the Sand Dollar through verified financial intermediaries. In the KYC⁶/AML⁷ framework used, a multi-level digital wallet is available, with two levels for the residential and one for business clients. At the first retail level, no ID is required, but a maximum monthly balance of \$500 for storage and \$1,500 for tran-

sactions is available. The second level requires satisfying similar identification criteria to those for opening a commercial bank account, but with a less limited wallet use. Financial stability risks are thus limited at all available levels to mitigate sudden or large outflows of commercial bank funds (CBoB, 2019, 2021).

China, the world's second largest economy, has one of the most advanced 'retail' CBDC pilot projects (e-CNY). Live testing of the digital yuan is already underway in several regions of China, with nearly 21 million retail CBDC account opened. There are three main motivations underlying the development of e-CNY. The first is to assure that the central bank can ensure accessibility and usability of central bank money in a modern, digital society, and, through that, promote financial inclusion. The second objective is to promote efficiency, security and competition in the retail payments market. The nature of the payments market favours large companies, due to strong network externalities (Kiff et al., 2020), which may in turn undermine certain public policy objectives and lead to failures on the market. The third motivation is to promote the international role of the yuan and improve the efficiency of cross-border transactions. The PBoC uses a two-tier hybrid model, where end-users access digital yuan through controlled financial intermediaries. Similarly to The Bahamas, in China there are also multiple tiers of digital wallets available depending on KYC requirements. Further expansion of e-CNY testing is expected at the Beijing 2022 Winter Olympics (PBoC, 2021).

In the European Union, the Swedish central bank's e-krona project remains the most advanced (Riksbank, 2021), but important steps were also taken with the ECB's digital euro in October 2020, when the first comprehensive report on the digital euro was published and a public consultation was announced in parallel to involve the public and business in the conceptualisation of the digital euro (ECB, 2020a). After the evaluation of the results, the official decision was taken to launch the two-year research phase of the digital euro (ECB, 2021a). The aim of the research is to prepare the central bank for the development and introduction of the digital euro, which is expected to take another three years (Panetta, 2021). In addition, the ECB and euro area central banks published joint pilot results on the feasibility of different technological models: centralised account-based and decentralised distributed ledger technology (DLT) solutions and their interconnectivity (ECB, 2021b).

The first official issuance of 'wholesale' CBDC has yet to occur, but several international projects are at an advanced stage. It is generally observed that research phases are shorter than for 'retail' CBDC, but pilot programmes are long (PwC, 2021). This can also be explained by the fact that, based on international experience to date, central banks are conducting multi-level pilot programmes. Usually, the first stage involves testing use cases within the national jurisdiction, while the next stage is for testing cross-border processes through international cooperation. A good example is the Swiss National Bank's (SNB) Project Helvetia, which first tested the feasibility of replacing of central counterparties (CCPs) with a clearing system based on DLT technology (SNB et al., 2020). Project Jura, which is the continuation of Project Helvetia, is working with the Banque de France to investigate the role that 'wholesale' CBDC can play in cross-border transactions (SNB, 2021). The project in Singapore has gone down a similar path: the ongoing Project Dunbar builds on the Monetary Authority of

Singapore's (MAS) earlier successful Project Ubin experiment, and aims to design, develop and test multi-CBDC platforms for cross-border transactions and settlements (MAS, 2021). In addition to MAS, the project also involves the Australian, Malaysian and South African central banks and the Singapore Centre of the BIS Innovation Hub (BIS, 2021a). The Multiple CBDC Bridge (m-CBDC Bridge) project is also worth mentioning, which aims to develop a working prototype of a multi-CBDC platforms that supports instant cross-border PVP⁸ operations in multiple currencies (BIS, 2021b). It also builds on a previous experiment, a joint project between the Bank of Thailand and the Hong Kong Monetary Authority (Project Inthanon-LionRock), which examined the improvement of the efficiency of cross-border transactions using distributed ledger technology (BIS, 2021b). Based on international practice, it is clear that the potential of 'wholesale' CBDC to increase the efficiency of cross-border transactions can be truly explored in the context of multi-stakeholder cooperation projects.

NOTES

- ¹ <https://novekedes.hu/mag/a-penzforradalom-evei-jonnek>
- ² For example, Banque de France President Francois Villeroy de Galhau said that "Europe needs to move as quickly as possible on digital money before risking the erosion of monetary sovereignty." (<https://www.reuters.com/business/monetary-sovereignty-risk-push-digital-euro-french-central-banker-2021-06-29/>)
- ³ Among the most important central banks, the European Central Bank, the Fed, which was previously sceptical on the subject, but also the PBoC.
- ⁴ Examples include the ECB, the Bank of England and the Monetary Authority of Singapore.
- ⁵ For example, The Bahamas, China, Cambodia.
- ⁶ Know Your Customer
- ⁷ Anti-Money Laundering
- ⁸ Payment versus payment

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Anita Boros – Barbara Eszter Huszár

Green Financial Products in the European Banks' Portfolios – with a Hungarian Perspective



Summary

Recently, the financial sector has also become increasingly sustainability-oriented. National central banks and national credit institutions are trying to follow the ever-expanding international regulatory framework and to develop new financial instruments to implement ESG requirements. Our research looked at the green finance portfolios of the ten major European banks by the total assets in 2021 to assess the market for green financial products. We have also examined the green instruments of the ten major domestic banks by balance sheet total, with the hypothesis that the green product market for domestic banks can learn a number of lessons from the green product portfolios of the major European banks.

Journal of Economic Literature (JEL) codes: F64, F65, G11, G15, G2, G3, K20, K32, O16
Keywords: sustainable finance, green finance, green investment, green bond, green credit

METHODOLOGY OF THE STUDY

Our research looked at the green finance portfolios of the ten major European¹ and Hungarian² banks by their total assets in 2021 to assess the market for green financial products. We researched whether, in the current international regulatory environment, what are the

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most typical green market products, what are the bank disclosures on them and what are the sustainability objectives that banks are issuing these instruments to support, and whether there are specific green finance products in the European banks' portfolios.

The banks in our study have different histories, structures, portfolios and sizes, some operating as large organisations spanning continents, and some have developed their green finance product range to address different sustainability challenges, supporting corporate, institutional and individual customers in their transition to a more sustainable business model. The focus on sustainability can also be observed in the specialised subsidiaries of the European banks we studied, such as those dealing with fleet management and leasing, asset management and insurance, which have been restructuring their offerings in recent years to support the ecological transition. The biggest European banks have undergone significant green finance development processes and have gained substantial experience in the recent years, which is certainly an example for Hungarian banks.

For both European and Hungarian banks, in the comparison charts, a score of 100%, i.e. score of 10, was taken as the value if all ten banks addressed a given question, and 0 if none of them did. The figures in the graphs show the number of banks that have addressed a given green finance issue. The level of detail and depth of this is quite different for both groups, i.e. the big European banks and the domestic banks. However, it is clear that the biggest European banks are continuously developing their green market product range.

Our research looked at the more narrowly defined green finance documents made publicly available by credit institutions and published on the banks' central websites, using different comparison methodologies. Accordingly, we did not examine related business or corporate governance disclosures.

KEY INDICATORS OF GREEN FINANCE

Lately, we are witnessing a global sustainability explosion: social expectations are changing, the demand for sustainable products is growing and the epidemic situation has highlighted a number of issues that have put the focus on protecting our existing assets, in particular our health, environment and nature. According to preliminary estimates, the United Nations Development Goals (SDGs) will require between \$5 billion and \$7 billion per year worldwide by 2030.³

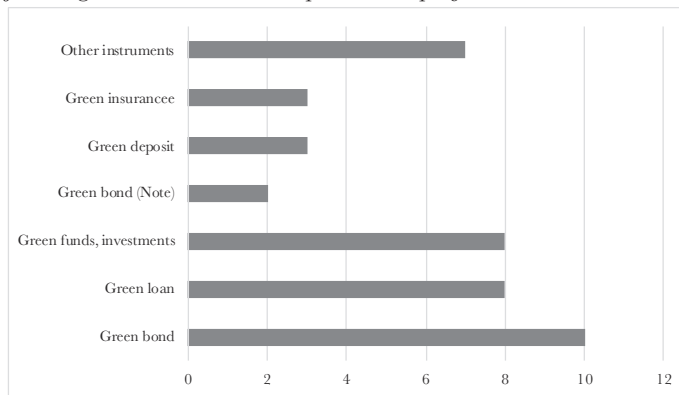
The European Green Deal is Europe's strategy for growth, with a key objective of ensuring health and prosperity and making the European climate neutral by 2050. The EU-level green economy goals, sustainable and inclusive economic recovery after the COVID-19 pandemic and Europe's long-term sustainable economic development require significant investments: this implies an energy system investment of €336 billion per year (2015 constant prices), equivalent to 2.3% of GDP.⁴ Under the Multiannual Financial Framework of 2021-2027 and the European Union's Recovery Instrument (NextGenerationEU), the EU plans to invest an estimated €605 billion in projects to tackle the climate crisis, €100 billion in investments to support biodiversity, and 30% of the €750 billion NextGenerationEU envelope will come from green bonds.⁵

The NYU Stern Center for Sustainable Business, in partnership with Rockefeller Asset Management and Casey Clark, has examined the relationship between ESG and the financial performance in over 1,000 research articles published between 2015-2020.⁶ The study found that ESG improves financial performance over a longer time horizon. This was confirmed by our research, which found that all the European banks we studied had conducted very intensive green finance research and preparatory work in recent years to make the green finance transition. As a result, sustainability finance in these banks is no longer just a catchphrase, but a set of well thought-out processes, both strategic and operational, across corporate and business segments.

THE MOST TYPICAL GREEN INSTRUMENTS

In recent years, in order to build a sustainable financing ecosystem, legal frameworks have been adopted in Europe to support the flow of capital to sustainable projects in the EU internal market. These legal frameworks also have a clear impact on the target areas for financing and on the green finance instruments that banks have developed over the past years. Apart from presenting the regulatory regime, this article will focus on green financial products and will therefore only refer to the EU Taxonomy Regulation, which is also of particular relevance for bank green finance, and⁷ which has performance criteria to determine which economic activities contribute significantly to the objectives of the Green Deal. According to the preamble of the Taxonomy Regulation,⁸ the provision of financial products that serve environmentally sustainable objectives is an effective way to channel private investment towards sustainable activities, thereby supporting investor confidence and awareness of the environmental impact of these financial products and corporate bonds, creating visibility and addressing concerns about “greening” (Reboredo, Juan, 2018:38-50). The documents published by the banks we studied show that the most common instruments are green bonds, followed by other loans and investment grants.

Figure 1: Green financing instruments in the European banks’ portfolios



Source: own editing

Green bonds

Green bonds are fixed-interest instruments, the proceeds of which are used exclusively for projects that bring environmental benefits (Syzykov et al., 2019). Since the World Bank issued the world's first green bond, the green bond market has undergone a significant transformation and the number of issuances has increased significantly.⁹ According to the HSBC Green Bond Report, the green bond market grew by 51 per cent per year in 2019, with a total of USD 258.9 billion issued. According to Climate Bonds' Q3 2021 report, although there was an issuance slowdown in 2020 due to the epidemic situation, global issuance in 2020 has already surpassed 2019 levels, with issuance at the end of Q3 2021 reaching USD 354.2 billion, significantly higher than the USD 294.4 billion issuance level in 2020.¹⁰

The European Parliament's 2021 study¹¹ presents seven financial instruments that play an important role in the green economic transition as elements of green finance. The first is the green bond, a debt security that can be used to finance environmental or climate projects by investing in any of the following areas: renewable energy, energy efficiency, pollution prevention and control, biodiversity, clean transport, sustainable water management, climate change adaptation, green products, manufacturing technologies and processes. The sustainability bond is different in that it is designed to finance a combination of green and social projects. These include non-financial, corporate SDG bonds, SDG bonds issued by banks and financial institutions, asset-backed and project SDG bonds, public sector SDG bonds and municipal SDG bonds. Environmentally sustainable bonds (Reboredo, 2018:25-38) are the main instruments for financing investments in low-carbon technologies, energy and resource efficiency, sustainable transport infrastructure and research infrastructure. Such bonds can be issued by financial or non-financial corporations or sovereigns.¹²

The Parliament's study also mentions the concept of a sustainability-linked bond, where the financial or structural characteristics (e.g. interest rate) may vary depending on whether the issuer has achieved its pre-defined sustainability targets. This instrument is relatively new to the global financial market, with the first SDG-linked bond issued in September 2019 by the Italian-based international energy company Enel.¹³ In January 2021, the European Central Bank made sustainability-linked bonds eligible for inclusion in asset purchase programmes and for use as collateral.¹⁴

The so-called blue bond is usually issued by governments or development banks to finance maritime and ocean projects. The Seychelles Blue Bond was the first of its kind, launched in October 2018 by the Republic of Seychelles to support the expansion of marine protected areas, the development of control of priority fishing areas and the development of the blue economy of Seychelles.

Finally, the Parliament also mentions the social bond, which is intended to finance social projects, including projects aimed at ensuring food security and sustainable food systems or even alleviating unemployment resulting from the socio-economic crisis. The use of social bonds remains limited compared to green bonds.

Green bonds are supported by the so-called international Green Bond Standards, which allow for comparability of sustainability targets, transparency of resource use and the as-

urance of the investors' sustainability expectations. These include the ICMA1 Green Bond Principles, issued by the International Capital Market Association ('ICMA') in 2014. The rules set out in the ICMA set a voluntary minimum for issuers. These targets are complemented by mandatory certification elements in the Climate Bonds Initiative.

It is also worth referring to the draft¹⁵ EU Green Bond Standard, which was developed because different standards and market methods make it difficult to compare different bonds (Ursule et al., 2021), create an uneven market playing field for issuers and risk distorting investment decisions. According to the impact assessment for the draft European Green Bond Standard,¹⁶ the number of green bonds issued in the EU-27 grew by around 47.2% and the volume by around 50.9% per year between 2015 and 2020. In 2020, 48% of the €253 billion of global green bond issuance was in euro, but this segment accounted for only 4% of total corporate bond issuance.¹⁷ To develop the green bond market, the Commission committed to developing an EU green bond standard in its Action Plan on Financing Sustainable Growth, adopted in March 2018. The final report of the Technical Expert Group on Sustainable Finance (TEG) was published in June 2019, with a usability guide published in March 2020.

The draft of the Green Bond Regulation sets out a single set of emission criteria at EU level. In line with the existing banking practice (Shaydurova et al., 2018:710-715), the draft also stipulates that the proceeds of bonds using the designation "European Green Bond" or "EuGB" may only be used to finance economic activities that are environmentally sustainable.

The green bond market also varies by continent: green bond issuance in Africa accounts for 0.18% of total market capitalisation, compared to 0.4% in North America (US and Canada), 1.9% in the euro area and 0.89% in China (World Bank Group, 2019). The green bond has become a global financial green instrument in just a few years (Monket et al., 2020), and specific solutions have recently entered the financial market: in 2018, for example, HSBC Amanah Malaysia issued the world's first SDG Sukuk (*Sustainable Development Goals (SDG) sukuk*), a type of bond designed to comply with Islamic religious laws.¹⁸ There are also mixed green bonds, such as Societe Generale's issuance of a bond using the yield of a third-party Green Bond (the benchmark bond) as a source of funding,¹⁹ and Groupe BPCE's regular issuance of Social Samurai Bonds (SSBs), *which are* bonds denominated in yen by non-domestic issuers and are primarily aimed at refinancing loans in the education, health and other social sectors, in the Japanese market since 2012. Also specific to the original green bond concept is the green *repurchase* agreement, which Deutsche Bank AG adopted in September 2021 and signed the first green repurchase agreement, providing securities to a trustee in exchange for financing green projects. BNP Paribas SA entered into a similar transaction with Agricultural Bank of China Limited.²⁰

Bank Information on Green Financial Products

All the major European banks we surveyed have bond instruments related to sustainable finance in their portfolios. All the major European banks have a prospectus on green financial products, which is available on their websites. These prospectus documents paint a very hetero-

generous picture. In our research, we found that references to green finance products or product groups already appear on the main website, mostly with a primary reference to the *Green Bond Framework* or the Sustainable Finance Framework. Disclosures on individual products are in line with the bank disclosure rules for all European banks, but the majority of large European banks have recognised that disclosure has a key role beyond this: in most cases, it is provided alongside easily understandable summary disclosures, alongside a range of bank disclosure documents that are designed and structured in the traditional sense. In some cases, however, we found that information on green products could only be found after lengthy research, sometimes scattered in wordy bank documents. Also in a minority of the European banks we examined, we found that the published documents were well structured and understandable to specialists, but for those without financial expertise, they contained too much information, abbreviations and hyperlinks to further documents, reducing the clarity and ensuring publicity and transparency. In view of this, it is suggested that the main messages are set out in an infographic or summary document for those banks where too much information can be difficult to navigate.

In addition to the Green Bond Framework and other documents required for general banking operations (such as the auditor's report), a number of other documents on the websites of the major European banks support customer information. For example, *the Final Terms, pricing supplement, prospectus, offering circular as applicable, of the relevant Green Bond issuances, the Green Bond Investor Presentation, or the Second Party Opinion on the Green Bond Framework from independent second party.*

In the case of Hungarian banks, green financing is still in its infancy, so the information is usually limited to a specific product group or product. The European banks we studied have all developed a framework for issuing green bonds, which aims to regulate issuance, thereby supporting projects and businesses that have a positive impact on environmental sustainability (Cao, 2009). Most banks require that this impact be measurable and monitorable through specific indicators.

These green standards define a priori the economic activities eligible under the sustainability objectives that can be accepted under green bond frameworks.

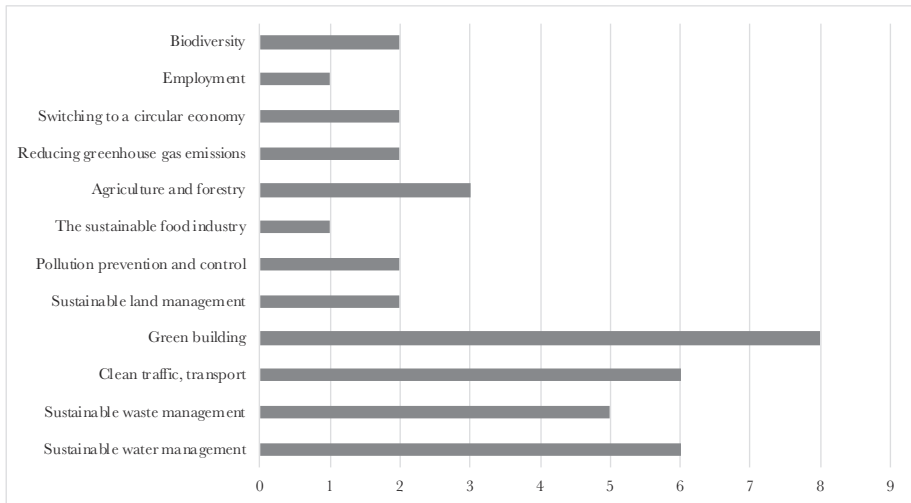
The Eligible Green Assets can be categorised into different eligibility categories and the major European banks we surveyed also publish their *Eligibility Criteria*.

European banks mostly finance renewable energy projects that promote the transition to a low-carbon economy (Gibon et al., 2020). The proceeds from green bonds are used by the issuing bank to finance projects or companies that make a positive contribution to reducing the impact of climate change or addressing other environmental challenges (e.g. biodiversity, waste and water management efficiency).

As shown in the figure above, the major European banks have extended their green market solutions to address a number of sustainability issues in their green finance lending targeting. In addition to environmental sustainability issues, some banks also regulate social sustainability-related financial instruments separately.

All of the European banks we surveyed also published rules on the selection criteria. In general, identification and selection is a two-step process that includes internal screening and external third-party review. The internal screening selection is intended to ensure that the banks identify the impacts and associated sustainability criteria for eligible projects.

Figure 2: Green bond funding targeting: green eligibility categories for European banks (2021)



Source: own editing

The banks keep records of the eligible loans, in some cases separately in the form of green and social sub-registers (Barua, et al, 2019). The registers include details of the bond (ISIN, pricing date, maturity date, etc.), the green, social and sustainability eligibility category concerned, and a description of the expected social and/or environmental benefits. The banks will also identify areas that they will not provide green finance to support, most commonly in the case of support for weapons, tobacco, gambling, hazardous chemicals, or agricultural solutions that threaten deforestation. The banks will report on the issuance of green financial products, in particular green bonds, in line with the ICMA Green Bond Principles 2018, Social Bond Principles 2020 and the Sustainability Guidelines 2018.

In the Hungarian banking system, the Hungarian National Bank (hereinafter: MNB) is a key player in the establishment of green economy principles, supporting domestic banks in the green transition with a number of guidelines and recommendations. As a result, an increasing number of green products have started to be developed in the Hungarian financial market. The MNB launched its corporate bond purchase programme, the Growth Bond Programme (NKP), in July 2019. Under the Growth Bond Programme (NKP), the central bank buys HUF-denominated bonds issued by non-financial non-public corporations and public enterprises domiciled in Hungary that have a credit rating of at least B+, a maturity of between 3 and 30 years and a total nominal value of at least HUF 1 billion. In August 2020, as an important milestone for the Hungarian capital market, the first Hungarian green corporate bond issue was launched under the Growth Bond Programme (NKP): CPI Hungary Kft. (CPI Property Group), one of the largest real estate developers in Hungary, issued HUF 30 billion in sustainability-rated debt instruments.²¹ According to the MNB, by the end of September 2021, all Hungarian green corporate bonds had been placed under the Growth Bond

Programme (NKP) framework, with a total of 13 green bond series successfully issued by 12 issuers. At the end of Q3 2021, the MNB had a total of HUF 189 billion of green bonds on its balance sheet, which means that, uniquely among – European central banks, 20% of its corporate bond portfolio – was sustainability-labelled instruments.

In January 2022, the MNB also issued a Green Bond Guide, the primary purpose of which is to provide support for further domestic market-based green bond issuance after the end of the Growth Bond Programme (NKP), including the time and resources required for the issuance and the main differences with conventional corporate bond issuance.

The MNB's guidance highlights that, unlike conventional issuance, green bond issuance requires additional documentation, including the definition of sustainable use targets prior to issuance and a statement of the appropriate use of resources and the impact of environmental targets after issuance.²²

In addition, in December 2021, Hungary became the world's first foreign sovereign Green Panda bond issuer to enter the Chinese bond market, issuing a green government bond worth RMB 1 billion, or about HUF 50 billion, in December 2021, marking an important step in Hungary's financial history. According to the Ministry of Finance, the bonds were available to Chinese domestic and foreign investors with a maturity of three years.

Other Credit Instruments

In addition to bonds, the European Parliament's study also looks at various credit instruments. In the Parliament's definition, a green loan is a loan whose amount is used exclusively for green projects. An important feature of a green loan is that the borrower periodically reports to the lender on the actual use of the amount borrowed, using both qualitative performance indicators and quantitative performance indicators. A sustainability-linked loan, on the other hand, is a loan for which the interest rate is variable because it is linked to selected sustainability performance indicators, such as carbon emissions.²³ In December 2021, for example, the European Investment Bank co-financed the first green loan scheme in Central and South-Eastern Europe, the first of its kind in this region, for the Hungarian housing renovation programme, which focuses on improving the energy efficiency of homes.²⁴ All European banks have lending instruments that can be integrated into this sustainability target. The NHP Green Home Programme was introduced in Hungary in 2021 to support the green home loan market in Hungary. The Monetary Council of the Central Bank has set the NHP Green Home Programme credit line at HUF 200 billion. Under the Programme, the Central Bank will provide refinancing loans at zero interest for a maximum term of 25 years to credit institutions, which will continue to give credit to consumers in the form of a HUF-denominated loan secured by a mortgage for the purchase or construction of energy-efficient new residential housing and land for new housing construction in Hungary, with a maximum annual interest rate of 2.5%, and to other credit institutions for the same purpose. The NHP Green Home Loan is available at all ten of the major domestic banks. The NHP Green Home Loan can only be used for the purchase or construction of an energy-efficient new dwelling house or apartment with a primary energy demand of 90kWh/m²/year and

an energy rating of at least “BB”, located in Hungary. In addition, the MNB has extended the Green Corporate and Municipal Capital Allowance scheme for credit institutions, which also supports various energy efficiency investments, according to a notice published in early September 2021. From 1 July 2021, the MNB allowed for a more favourable inclusion of green resources in the Mortgage Finance Compliance Measure (JMM).²⁵ 2021 also saw the launch of the Green Mortgage Bond Purchase Programme, one of the first asset purchase note programmes in the world to focus on sustainability.²⁶ Four banks operating in Hungary have now issued green mortgage bonds: OTP Mortgage Bank, Takarékszövetkezet Mortgage Bank, UniCredit Mortgage Bank and Erste Mortgage Bank Ltd. The proceeds of the underwriting will be used to finance the construction of energy-efficient residential properties and the energy-efficient renovation of second-hand properties.

Sustainable Investments, Funds

The major institutional investors and credit institutions are increasingly able to positively influence the development of corporate social and environmental responsibility through their investment policies. Accordingly, one of the very important green financial instruments of credit institutions is to support green investments (Lingyun, 2020).

Sustainable investment is an umbrella term for investment. It includes ethical investment, which does not support companies or industries that may have a negative impact on society and the environment (Lewis et al., 1990). Also included here is ESG Investing, which supports companies that meet certain environmental, social and governance requirements and takes into account corporate ESG efforts.²⁷ In contrast, Impact Investing²⁸ supports companies whose activities have a measurable positive environmental or social impact. To help investors choose between investments, banks usually provide guidance in the form of advice, but we have also seen a major European bank that provides its clients with a separate database of the characteristics of the fund managers available. Lloyds Bank, for example, has launched a free online Home Energy Saving Tool (*Green Buildings Tool*) that calculates potential savings based on information about the building.

Investors are increasingly conscious of their sustainable choices, according to the April 2020 Schroders Global Investor Survey.²⁹ 47% of investors surveyed now prefer to invest in sustainable investment funds rather than those that do not take sustainability factors into account.

A number of funds have been set up recently in the Hungarian banks we examined. In October 2020, the Budapest Alapkezelő Zrt. (Budapest Fund Management Ltd.) launched a fund named Budapest NEXT Sustainable Environment Fund, which aims to invest in the shares of companies that contribute to maintaining the global ecological balance and develop and sell technologies and products that promote environmentally sustainable development.³⁰

The regular investment programme of Erste Bank Hungary also offers sustainable investment opportunities through the Erste Future green package. This is one of the most popular investment packages, which includes two or three sustainability-themed investment funds, depending on the clientele, in which more than 3,000 customers invested HUF 2 billion in 2021 in nearly 24,000 transactions.³¹

OTP's Hungarian product is the OTP Climate Change 130/30 Fund, which is designed to achieve longer-term (5-7 years) financial goals and build a portfolio for those who expect the rise of global green industries to deliver returns on their investments over the timeframe indicated.³²

At least 80% of the assets in the portfolio of UniCreditBank's Amundi Climate Aware ESG Mixed Funds Fund in Hungary are invested in ESG-oriented funds. In addition, a key component of this fund is the CPR Invest - Climate Action investment fund, which focuses on climate-conscious companies.³³

K&H Bank's KBC Eco Fund Impact Investing fund in Hungary invests in the shares of international companies whose products have a positive environmental and social impact on global development.³⁴ In addition, the K&H Sustainable Development Dynamic Mixed Fund takes into account the environmental and social impact of the investment in addition to the returns available and the fund portfolio is designed accordingly. The fund invests its assets only in assets (bonds, equities) that comply with the strict investment rules for sustainable development in the KBC Group.³⁵

SUMMARY

In our research, we looked at the green finance portfolios of the ten major European and Hungarian banks by total assets in 2021, with the aim of assessing the market for green finance products. Our aim was to determine which are the most typical green market products in the current international regulatory environment and what are the bank disclosures on them.

Based on the documents, literature and publicly available bank prospectuses reviewed, we found that green bonds are the most common instrument for European banks, followed by other loans and investment grants. All of the European banks we studied have already developed a framework for issuing green bonds and have a prospectus for green financial products publicly available on their websites, but it is important to note that these prospectuses are very heterogeneous, with a lack of uniformity in structure and detail.

In the Hungarian banking system, the MNB is a key player in laying down green economy principles, supporting domestic banks in the green transition with a number of guidelines, and as a result, an increasing number of green products have started to be developed in the Hungarian financial market. However, it is important to note that green financing is still in its infancy for Hungarian banks, so the information available from banks is usually limited to a specific product group or product. Nevertheless, Hungary has already achieved a number of internationally important green finance milestones, such as the first green loan scheme at regional level by the European Investment Bank linked to the Hungarian housing renovation programme, or the outstandingly high volume sustainable corporate bond portfolio of the Hungarian Central Bank.

NOTES

- ¹ HSBC Holdings plc, BNP Paribas SA, France, Crédit Agricole Group, France, Banco Santander SA, Spain, Société Générale SA, France, Barclays plc, UK, Groupe BPCE, France, Deutsche Bank AG, Germany, Lloyds Banking Group plc, UK, Intesa Sanpaolo SpA, Italy.
- ² OTP Bank, K&H Bank, UniCredit Bank, Erste Bank, Raiffeisen Bank, Takarékbank, MKB Bank, CIB Bank, Budapest Bank and MFB. We also refer to the fact that Magyar Bankholding, Budapest Bank Zrt., MKB Bank Nyrt. and Magyar Takarékbank Zrt. started their effective operations on 15 December 2020.
- ³ Sustainable positive impact bond framework Societe Generale 2020. In.: https://www.societegenerale.com/sites/default/files/documents/Notations%20Financi%C3%A8res/sg_sustainable_and_positive_impact_bond_framework_june_2020.pdf (13.01.2022.).
- ⁴ Impact Assessment accompanying the Communication „Stepping up the EU’s climate ambition for 2030, Investing in a climate-neutral future for Europe’s citizens”, SWD(2020) 176 final.
- ⁵ A financing strategy for the transition to a sustainable economy. COM(2021) 390 final. <https://eur-lex.europa.eu/legal-content/HU/TXT/HTML/?uri=CELEX:52021DC0390&from=EN>
- ⁶ STERN: ESG and Financial Performance. [https://www.stern.nyu.edu/experience-stern/about/departments-centers-initiatives/centers-of-research/center-sustainable-business/research/research-initiatives/esg-and-financial-performance\(2022.01.13.\)](https://www.stern.nyu.edu/experience-stern/about/departments-centers-initiatives/centers-of-research/center-sustainable-business/research/research-initiatives/esg-and-financial-performance(2022.01.13.)).
- ⁷ Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 establishing a framework for the promotion of sustainable investment and amending Regulation (EU) 2019/2088 (07.12.2021).
- ⁸ Preamble paragraph 11.
- ⁹ <https://www.hsbc.com/investors/fixed-income-investors/green-and-sustainability-bonds>
- ¹⁰ <https://www.climatebonds.net/2021/11/2021-already-record-year-green-finance-over-350bn-issued>
- ¹¹ European Parliament: Green and Sustainable Finance 2021 February. Available at: <https://www.ecb.europa.eu/pub/html/index.en.html> (Date of download: 15 December 2021).
- ¹² Proposal for a European Green Bond. Recital 3.
- ¹³ Enel: Sustainability-linked bonds. Available at: <https://www.enel.com/investors/investing/sustainable-finance/sustainability-linked-finance/sustainability-linked-bonds> (Date of download: 14 December 2021)
- ¹⁴ ECB to accept sustainability-linked bonds as collateral. Available at: <https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200922~482e4a5a90.en.html> (Date of download: 14 December 2021).
- ¹⁵ COM(2021) 391 final (Date of download: 14 December 2021).
- ¹⁶ Commission working document and impact assessment report. Accompanying Proposal for a Proposal on European Green Bonds SWD/2021/181 final (Date of download: 14 January 2022).
- ¹⁷ 2021 European Financial Stability and Integration Review 2021.
- ¹⁸ <https://www.undp.org/press-releases/hsbc-amanah-malaysia-issues-worlds-first-sdg-sukuk>.
- ¹⁹ https://www.societegenerale.com/sites/default/files/documents/2020-12/sg_sustainable_and_positive_impact_bond_framework_-_ip_september_2020.pdf (Date of download: 4, January 2022).
- ²⁰ <https://www.bloomberg.com/news/articles/2021-09-10/deutsche-bank-expands-esg-debt-products-with-first-green-repo>, (Date of download: 7, January 2022).
- ²¹ MNB: First domestic green corporate bond issue under the NKP. Available: <https://www.mnb.hu/sajtozoba/sajtokozlemenyek/2020-evi-sajtokozlemenyek/megtortent-az-első-hazai-zöld-vállalatikötvény-kibocsátás-az-nkp-keretében> (Date of download: 16 December 2021)
- ²² <https://www.mnb.hu/letoltes/mnb-zold-kotveny-utmutato.pdf> (Date of download: 27, January 2022).
- ²³ <https://eur-lex.europa.eu/legal-content/HU/TXT/HTML/?uri=CELEX:52021DC0390&from=EN>
- ²⁴ <https://www.eib.org/en/press/all/2021-467-cib-signs-its-first-green-loan-in-hungary-to-unlock-eur300-million-for-improved-energy-efficiency-of-homes>
- ²⁵ The MNB supports the future issuance of green mortgage bonds and the spread of green mortgages by amending the regulation on forint maturity matching. Available: <https://www.mnb.hu/sajtozoba/sajtokozlemenyek/2021-evi-sajtokozlemenyek/az-mnb-zold-jelzaloglevelek-jovobeni-kibocsátás-és-a-zöld-jelzaloghitelek-elterjedését-támogatja-a-forint-lejratati-össz>

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- ²⁷ ESG Investing: Practices, Progress and Challenges. In.: <https://www.oecd.org/finance/ESG-Investing-Practices-Progress-Challenges.pdf> p.14. (Date of download: 6 January 2022)
- ²⁸ McKinsey Quarterly A – closer look at impact investing. In.: <https://www.mckinsey.com/industries/private-equity-and-principal-investors/our-insights/a-closer-look-at-impact-investing> (Date of download: 6 January 2022)
- ²⁹ The independent online survey questioned more than 23,000 people from 32 countries who will invest at least €10,000 in the next 12 months and have changed their investment portfolio in the last 10 years. In: https://www.schroders.com/en/sysglobalassets/_global-shared-blocks/gis-2020/theme-2/schrodersgis_t2report_global.pdf (Date of download: 10 January 2022).
- ³⁰ <https://www.bpalap.hu/befektetesi-alapok/budapest-next-fenntarthato-kornyezet-alap> (Date of download: 13 January 2022).
- ³¹ <https://future.ersteinvestment.hu/oldalacsomag/23> (Date of download: 10 January 2022).
- ³² https://www.otpbank.hu/otpalapkezele/hu/A_Klimavaltozas?gclid=Cj0KCQjAt8WOBhDbARIsANQLp942q4GI3mo-1Koj038_UEMh2BbwzEHIDlyQsyb88iw-DyPSV6GLIYN4aAkicEALw_wcB (Date of download: 2 January 2022).
- ³³ https://www.unicreditbank.hu/hu/maganszemelyek/megtakaritasok/befektetesi_alapok/klimatudatos.html ((Date of download: 10 January 2022).
- ³⁴ <https://www.kh.hu/megtakaritas-befektetes/kozeptav-hosszutav/nyiltvegu-befektetesi-alap/reszveny-nyersanyag/kbc-eco-fund-impact-investing> (Date of download: 10 January 2022).
- ³⁵ <https://www.kh.hu/megtakaritas-befektetes/kozeptav-hosszutav/nyiltvegu-befektetesi-alap/vegyes/fenntarthato-fejlo-des-dinamikus> (Date of download: 10 January 2022).

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Viktória Deák

The MNB' Green Programme



Summary

This paper establishes that central banks, supervisors and the financial system play a key role in mitigating climate change and other environmental anomalies. However, the situation in Hungary highlights the challenges faced by the financial system that make it difficult to assess, manage and measure financial risks related to climate change. In order to maintain the stability of the financial system and promote sustainable finance in Hungary, the Hungarian central bank launched its Green Programme. The paper examines the measures taken so far in this initiative and their results. Finally, it notes that since the start of the programme, the domestic green financing environment has likely improved, but additional tools will be required, in particular to increase the preparedness of the financial sector for financial risks related to climate change.

Journal of Economic Literature (JEL) codes: G28, O16, Q54

Keywords: green finance, sustainability, climate change, financial system, central bank

INTRODUCTION

Climate change and other environmental anomalies are among the most significant problems of the present era; this fact and the negative consequences are nowadays the subject of considerable media coverage. In addition to transitioning to production with low greenhouse gas (GHG) emissions, it is also vital to change our consumption patterns as soon as possible, because if we continue to follow the “business as usual”¹ scenario of “no action”, we will face irreversible and damaging consequences for the environment, society and the economy in the

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decades to come. The importance of the issue is reflected in the fact that central banks, financial supervisors and financial markets now also consider the issue a priority and are involved in tackling the problem. But the question arises: what tools can central banks and supervisors use to respond to these challenges? This paper describes the impact of climate change on the financial system and the related central bank roles. It also assesses the situation and the fundamental challenges of the financial system in Hungary, and shows how the Green Programme launched by the Hungarian central bank addresses the problems.

THE ROLE OF CREDIT BANKS IN THE FACE OF CLIMATE CHANGE

Climate change and other environmental problems can cause significant losses not only for ecosystems and society, but also for the economy and, through it, the financial system. The Network for Greening the Financial System (NGFS), an organisation bringing together central banks and supervisors, pointed out as early as 2018 that “climate-related risks are a source of financial risk. It is therefore within the mandates of central banks and supervisors to ensure that the financial system is resilient to these risks.” (NGFS, 2019:2). Looking at climate change and possible societal responses to it, the Bank of England concluded that financial risks from climate change are essentially a reflection of two risk factors: physical and transition. While physical risk refers to the likelihood of loss events caused by increasing climatic events and environmental anomalies such as floods, droughts, heat waves, sea-level rise or loss of biodiversity, transition risk can result from the transition towards a low-carbon economy, which may be manifested *inter alia* in market and technological change, as well as environmental policy measures. To reduce physical damage, it is necessary to shift the current carbon-intensive economy towards a more sustainable, low-emissions economic model. If the pace of transition is too fast for real economic actors, the functioning of these industry players will be jeopardised, which could threaten not only the stability of the financial sector but also price stability (Bank of England, 2018). It is therefore justified to apply micro- and macroprudential policies adapted to the effects of climate change, to fully identify systemic risks and to introduce risk mitigation measures in the functioning of the financial system. Christine Lagarde, President of the European Central Bank, also highlighted the risk of disregarding and delaying, because the later we take the necessary steps, the greater the losses we face (Lagarde, 2020).

On the other hand, the financing needs of tackling climate change and other environmental problems is of a scale that cannot be met by public finance alone, and therefore the involvement of private funds is essential. Although many central banks only have a secondary mandate to support economic policy, by mobilising the financial system, the increase in and improvement of financing for sustainable investment will contribute to a successful transition to a low-carbon economy, which will also reduce the financial sector's climate change risks in the long run. With the right incentives in place, a reallocation of financial flows can be achieved without endangering price stability, whereby the financial sector reallocates capital from high-emissions to low-emissions activities, thus supporting the transition of the real economy to a sustainable path (DG Trésor, 2017).

NATIONAL SITUATION – KEY CHALLENGES

Hungary is one of the most vulnerable countries to climate change in the European Union (ITM, 2018), which means that the Hungarian financial system's exposure to environmental risks is also significant. In March 2021, the Magyar Nemzeti Bank (MNB) published for the first time its Green Finance Report, which provides a snapshot of the environmental sustainability of the Hungarian financial sector. The document presents a detailed analysis showing that, among other things, there are a number of deficiencies and fundamental obstacles to the transition of the financial intermediation system to a sustainable path (MNB, 2021a).

The Report highlights the importance of mitigating these problems. With the proper assessment and management of environmental risks and long-term strategic planning, financial institutions are expected to reduce the financing of unsustainable economic activities and promote the implementation of environmentally sustainable investments. This will not only contribute to the transition to a low-carbon economy, it will also stabilise the financial system by reducing the exposure of the financial system to climate risks (MNB, 2021a).

The Green Finance Report is based on a survey conducted by the central bank in 2019 and 2020, which examined the attitudes and preparedness of the banking sector from different approaches in the context of mainstreaming environmental sustainability aspects. The surveys show that the prudent management of risks from climate change is deficient, as more than half of domestic institutions have a short- to medium-term planning horizon of typically 3-4 years for business planning. However, business planning for over 10 years or more would be appropriate to properly address climate risks. Another significant problem which increases the climate exposure of financial institutions is that the identification of climate-related financial risks is not yet addressed in more than half of the banking sector. Although most credit institutions consider it relevant to identify climate risks, they lack the resources, expertise or methodologies to be able to assess them. The main reason is that the traditional risk management methodology relies on historical data, which does not allow for the assessment of climate risks due to lack of data, and thus requires different methodologies, such as stress tests, scenario analyses and quantification of risk exposures. As climate risks are difficult to measure and can only be assessed over the long term, the above methods are also in the development phase (MNB, 2021a).

The MNB also attempted to quantify the preparedness and climate risk exposure of credit institutions. It assessed the preparedness of financial institutions in four areas, and accordingly identified the level of preparedness in terms of internal governance, risk management, business model and strategy, and disclosures. The scoring-based methodology was based on self-reporting by credit institutions, with results showing a wide variation in the areas covered, but overall low levels of preparedness were observed. In the categories of business model and strategy and disclosures, more than 75 per cent of banks were found to be significantly underprepared. This means that environmental sustainability considerations are not taken into account in the strategy development process, or that the related disclosures are extremely incomplete or there is no available information at all on the sustainability-related actions taken by financial institutions, or data on the emissions by financed activities (Fejes, 2021).

The analysis also looked at banks' exposure to climate risk, which is also estimated to have significant implications. The methodology looks at the corporate loan portfolio of intermediary institutions, based on the greenhouse gas intensity (GHG)² of the sectors of the national economy which are financed. The model assumes that highly GHG-intensive companies carry a high transition risk, i.e. they may incur significant losses in the transition to a sustainable economy depending on the evolution of climate policy and regulation. Based on the analysis, by balance sheet total, 57 per cent of the banking sector has more than 15 per cent exposure to the most polluting sectors within its corporate loan portfolio. This ratio is high enough to result in significant losses for credit institutions in the event of a sudden green transition (Fejes, 2021).

The climate risk exposure of the financial intermediary system can be reduced by increasing the financing of green investments and phasing out the financing of unsustainable economic activities. In addition, financing economic activities and investments that can be considered environmentally sustainable, such as renewable energy production, energy efficiency improvements and electromobility, represents a major business potential for the financial sector. The MNB (2021) concluded in a study that renewable energy is a stable, crisis-resilient and dynamically emerging sector, and contributes to achieving Hungary's climate policy objectives. The increase in the share of renewable energy by 2040, set by the Hungarian state, foresees a large expansion of photovoltaic solar power capacity. The expected capacity expansion of solar power plants can be coupled with a total new investment of around HUF 2,250 billion, the financing requirements of which could mean up to HUF 1,600 billion in new lending by the target decade. It can therefore be seen that the need for investment in the green economy transition is very high, especially in the energy sector, which also offers a business opportunity for the financial sector (MNB, 2021b).

Nevertheless, the penetration of financing for sustainability and the range of financial products is low in Hungary. Quantified through a few examples, according to the MNB database, the share of green bonds issued by non-financial enterprises was 11 per cent, the green share of government debt securities was 3.9 per cent, while the share of sustainable investments was approximately 0.5 per cent in 2020. Given the novelty of the products, data collection and reporting methodology for the listed financial instruments is not standardised and it is difficult to aggregate the positive impact of the products at the portfolio level (MNB, 2021a).

For loans, this ratio is difficult to estimate. The fundamental problem is, for example, the quantification of the green stock of corporate loans. The difficulty stems from the lack of a uniform green definition; therefore, it is only possible to estimate the proportion of loans disbursed for green purposes in Hungary. Due to these limitations, a more reliable estimate can only be given for loans related to energy production, where the solar power plant loan portfolio is 2.5 per cent of the total domestic corporate loan portfolio, according to MNB calculations (MNB, 2021a).

Green retail lending may also represent a significant business opportunity for the financial sector, as 97 per cent of Hungary's housing stock is considered to be energy inefficient, which is linked to significant carbon emissions (MNB, 2021a). The uptake of green housing loans,

and with this the energy upgrading of residential real estate, is further hampered by the level of information and income situation of Hungarian society. A study by the Hungarian Energy Efficiency Institute (2021) highlights that – although the rate of renovation is relatively high in Hungary – the depth of renovation is low, and thus does not bring the desired energy efficiency improvements. Households that renovate are not sufficiently informed about the long-term benefits of energy efficiency, and therefore they undertake easy and of course low-investment renovations resulting in a “lock-in”³ effect (MEHI, 2021). However, investments in renewable energy and appropriate energy efficiency in residential buildings could make a significant contribution to climate change mitigation, and their financing could also provide credit institutions with a more stable retail loan portfolio (MNB, 2021a).

Summarising the situation in Hungary, the level of preparedness of Hungarian financial institutions is low, their exposure to climate risk is substantial, and this is reinforced by the low level of sustainable finance and financial products, which is further exacerbated by the lack of decision-makers and financial professionals with expertise in sustainability issues and the low level of public awareness. If there is no change in the period ahead, the systemic risks listed above will intensify, which will have a significant impact on the stability of the domestic financial system.

THE GREEN PROGRAMME OF THE MAGYAR NEMZETI BANK

Responding to the global environmental challenge, the Magyar Nemzeti Bank launched its Green Programme in 2019, with the basic objective of improving the environmental sustainability of the domestic financial system. Under the programme, the central bank, in accordance with its statutory mandate, “supports the maintenance of the stability of the financial intermediary system, the enhancement of its resilience, its sustainable contribution to economic growth, furthermore the economic policy of the government using the instruments at its disposal” (MNB, 2019a:7).

The Programme is built around three pillars, the most important of which are the measures affecting the financial system. These measures are complemented by programme items on social and international relations and activities to green the MNB’s own operational activities, which also have a major impact on the development of sustainable finance (MNB, 2019a). Since its launch in 2019, the central bank has already taken a number of steps to make the financial system more sustainable. In addition, in August 2021, the Hungarian parliament issued the MNB a sustainability mandate through an amendment to the law, and thus climate and environmental aspects may play a more high profile role in its activities without jeopardising the achievement and maintenance of price stability (MNB, 2021c). In light of this, the rest of the paper explores possible solutions to the above challenges.

Pillar I: Initiatives in the financial sector

The central bank’s actions under the first pillar seek to achieve three main objectives, which are closely aligned with the central bank’s mandates. Accordingly, the Green Programme’s primary tasks are to develop a financial system resilient to environmental economic shocks,

to identify risks from climate change and other environmental anomalies, and to develop a green domestic financing environment.

To explore the systemic risks from climate change and environmental degradation, the MNB conducted a long-term climate stress test⁴ that illustrates the resilience of the banking sector to severe economic shocks and downturns up until 2050. The stress test is based on a dynamic modelling of three climate scenarios, in which the variable under study is the evolution of non-performing loans in the domestic banking system. Different climate scenarios highlight the importance of acting at the right pace. The model predicts that if the “Failed transition” climate scenario occurs, the proportion of non-performing loans will rise to over 20 per cent due to adverse environmental impacts on the economy, which will seriously undermine the profitability and capital position of credit institutions, thereby threatening the stability of the financial system. Credit institutions experienced a similar deterioration in portfolio quality during the 2008 global financial crisis. The “Disorderly Transition”, through delayed market measures, would create transition risks for carbon-intensive sectors, coupled with a sudden devaluation of their assets and confidence shocks. In a fast-changing market environment, the functioning of the financed real economic players is threatened, which has an almost immediate negative impact on the financial intermediary system. In this case, a significant spike in the non-performing loan ratio should be expected in the short term. It is important to note that even the “Orderly Transition” scenario, where the transition is achieved through continuous and scheduled decarbonisation measures, envisages a lower fluctuation of non-performing loans. However, it must also be recognised that the expected losses on this trajectory can be minimised. The stress test helps the financial intermediary system to understand the financial risks associated with climate change. It also highlights the need to integrate appropriate risk mitigation measures into risk management systems and to increase the financing of low-carbon sectors within the corporate loan portfolio.

It has already been clarified that improving the green finance environment helps to reduce the climate exposure of the domestic financial system and mitigates the risks of transition, and that green finance needs to be developed in Hungary. For these reasons, the Hungarian central bank has introduced a unique green preferential capital requirement programme to expand green financing. Since capital requirements affect the cost of capital of bank loans, the preferential treatment provided in this manner can help achieve green lending targets without reducing bank profitability. The preferential capital requirements scheme has been promoted on both the retail and corporate business sides, with a rate of 5 percent, and in some cases 7 per cent, of the exposure to which the preferential rate applies. The retail preferential rate covers energy efficient (at least BB energy rating) housing loans, introduced on the basis of the “green hypothesis”. According to the green hypothesis, financing an investment to improve energy efficiency has a lower credit risk than transactions that are identical in all other parameters. This can be justified by the fact that the reduced energy consumption associated with modernisation results in lower regular monthly costs⁵ for the household, and that modernisation increases the value of the property, which results in a better loan-to-value ratio (MNB, 2019b).

The corporate preferential capital requirement programme, launched in December 2020, aims at a shift in the balance sheet of credit institutions towards industries less exposed to transition risks. The preferential treatment was initially targeted at banks' green bond exposures and renewable energy loans. At the end of the first half of 2021, 90 per cent of the banks relevant to the programme were participating (by balance sheet total). Participating institutions benefited from HUF 42 billion in green bonds and HUF 121 billion in photovoltaic power plant loans. In September 2021, based on the success of the programme, the green corporate preferential capital requirement was extended to other areas such as electromobility, sustainable agriculture and food, and energy efficiency investments. As a new element, transactions that have been originated under the credit institutions' own or the borrower's green financing framework can also benefit from the preferential treatment (MNB, 2021d).

In addition to increasing the green loan portfolio, the sustainable development of the green bond and equity market is certainly also important, as the mobilisation of capital market resources is also needed to finance Hungary's environmental and climate goals. The MNB started developing the Sustainable Capital Markets Strategy in July 2020 to expand sustainable investment. The strategy aims to ensure that capital market instruments can finance investments that contribute to mitigating climate change and ecological problems at a higher rate than the scale described above, and to foster more favourable access to finance for environmentally sustainable companies. The initiative will enable the exploration of the supply and demand-side constraints to the development of sustainable financial instruments, the identification of market development measures to support development and the development of a supportive regulatory environment. The final results of the project are expected in the first quarter of 2022 (MNB, 2020a).

In order to improve the resilience of the financial system the MNB issued its recommendation No 5/2021 (IV. 15.) on climate change and environmental risks and the integration of environmental sustainability aspects in the activities of credit institutions (also known as the Green Recommendation⁶) in April 2021. The recommendation sets out fundamental expectations for credit institutions, which, in the spirit of comprehensiveness, cover several areas of credit institutions' operations: business model and strategy, corporate governance, risk management and disclosures. The recommendation to promote a quasi-institutional reform will increase the preparedness of financial institutions for the regulatory changes relevant to financial risks arising from climate change, as the current situation shows that a significant portion of the domestic banking sector does not take into account environmental sustainability aspects in its operations, while it is highly exposed to climate and environmental risks. The recommendation provides guidance on the full identification, appropriate measurement, management, control and transparent disclosure of these risks. By doing so, the central bank is helping credit institutions to mainstream environmental sustainability considerations in their business activities. As part of its supervisory activity, the MNB expects credit institutions to conduct a self-assessment survey in line with the Green Recommendation, based on which it will initiate prudential discussions according to a schedule developed by the banks, thereby helping to ensure the preparedness of credit institutions.

Last but not least, in line with the green mandate of the MNB, it has also looked at how green considerations can be mainstreamed into the monetary policy toolbox in addition to what has been discussed the above. As a result, the central bank has launched two additional programmes to further strengthen the financing environment for the renewal of the residential real estate stock, as detailed above. The Green Mortgage Bond Purchase Programme aims to create a domestic green mortgage bond market, which will contribute to the uptake of green mortgages. In addition, to further encourage green housing lending, the Green Home Programme was launched as part of the Funding for Growth Scheme, which provides green loans at preferential interest rates to households with the aim of building or purchasing near-zero energy homes (MNB, 2021e).

Pillar II: Social and international relations

Measures and policies under the first pillar can ensure the stability of the financial intermediary system and support the real economy in the transition to carbon neutrality, but to achieve this, adequate human capital is essential.

The second pillar of the Green Programme is intended, *inter alia*, to increase the pool of experts with sustainability expertise. It has been found that the assessment, management and evaluation of financial risks arising from climate change and the development of green financing services and financial products are also hampered by the shortage of financial experts with sustainability expertise. The central bank's key objective is therefore to promote a green mindset in the financial literacy of young people and the financial workforce. Equipping undergraduate economics students with green finance skills is key to ensuring sustainability in the financial sector. Under the Green Programme, a semester-long green finance course has so far been delivered at four prominent universities in Hungary. Since the autumn semester of the 2019 academic year, more than 600 students have taken part in one of the courses, a number that will continue to grow in the coming semesters. Specialised training for those already in the labour market is also important for the development of a sustainable banking sector in Hungary, and several courses on green financing and advisory services have been launched for them, organised by a subsidiary of the MNB (MNB, 2021f).

It is easy to see that central banks, supervisors and financial intermediaries, although they are experts in finance, do not have scientific qualifications. On the other hand, NGOs, communities and civil society organisations working on climate protection and the natural environment have special roles, knowledge and capacities that create synergies with the financial and regulatory powers of the MNB. The programme therefore also pays particular attention to the cooperation between domestic and foreign market and social actors relevant to green finance, which can help in fine-tuning domestic financial measures related to sustainability. The practical form of cooperation is organised on several platforms, including international working groups, workshops, conferences and social consultations. As an example, since 2019 the MNB has been a member of the Network for Greening the Financial Systems, participating in international work on green finance, thus promoting the sharing of experiences and the adoption of international good practices. The annual international Green Finance Conference also provides an opportunity to learn the views of experts (MNB, 2019a).

Pillar III: Further greening the MNB's own operations

Through its mandate as the guardian of the financial system and price stability, the Magyar Nemzeti Bank plays a key role in the Hungarian financial sector, and its activities are therefore of macroeconomic importance, but its impact on the microenvironment is also not negligible. With the latter in mind, in 2011 the central bank declared its responsibility towards the environment and its commitment to the continuous improvement of its environmental performance (MNB, 2020b).

The MNB's activities also have a substantial environmental impact, consisting of direct and indirect environmental impacts arising from its own operational activities and the direct environmental impacts of the assets on the central bank's balance sheet. Accurate information on the latter, indirect GHG emissions is not yet available. Therefore, as a next step, the central bank, following international recommendations, has started to prepare the so-called TCFD Report (Task Force on Climate-Related Financial Disclosures), which will provide a snapshot of the intensity of the carbon footprint of the financial portfolio managed by the Magyar Nemzeti Bank. The TCFD Report describes a way to integrate climate risk into the MNB's corporate governance, strategy creation and risk management, enabling a stronger and more resilient central bank presence for the Hungarian financial intermediary system, while encouraging the engagement of financial market participants through its own example (MNB, 2021g).

The MNB also pays particular attention to emissions arising in the course of its operational activities. The environmental commitments made in the Environmental Declaration will be implemented in line with the third pillar of the Green Programme. As a result, the central bank has committed to carbon-neutral operation from 2021, setting an example for domestic credit institutions. According to the ambitious environmental and climate pledge, a reduction in carbon dioxide emissions of 30 per cent by the end of 2022 and of 80 per cent by 2025 will be achieved, for example by installing photovoltaic panels on its properties, i.e. by covering electricity consumption from renewable sources. The rest of the carbon emissions will be neutralised in the form of compensation (MNB, 2020b). This commitment is also demonstrated by the fact that the central bank started to offset its environmental impact in 2020, thus neutralising the carbon footprint of the Green Finance Conference 2019, which took place earlier, with a habitat reconstruction programme near the village of Pápateszér. To compensate for emissions that cannot be further reduced, neutralisation projects will continue in cooperation with the NGO WWF Magyarország (MNB, 2021h).

SUMMARY

The study concludes that there is a need for the Hungarian central bank to develop a supervisory strategy tailored to the financial risks arising from climate change and other environmental anomalies. Systemic risks arising from climate change may affect the stable functioning of the financial system and thus put price stability at risk. To address these challenges, the transition of the domestic financial system to a sustainable path is justified, but financial institutions

still need to overcome a number of obstacles identified in the study. Based on a holistic approach, the Magyar Nemzeti Bank aims to provide solutions to the problems that have been identified, which could strengthen the preparedness of the financial system and reduce its climate exposure. The creation of a domestic green financing environment is also an important milestone in maintaining the long-term stability of the financial system and supporting the transition of the real economy to a sustainable path. It is important to note, however, that while the MNB's efforts are necessary to steer the financial system towards a sustainable path, they are not sufficient on their own, as the collaboration of domestic financial institutions is essential. As the study demonstrates, financial institutions can be mobilised with the right incentives. Successful transition will require a strong commitment in the coming years. Finally, there is a need for a well-prepared financial system that is resilient to environmental economic shocks and offers green financing in the coming decades, for which the Green Programme of the Magyar Nemzeti Bank provides the ideal framework.

NOTES

- ¹ “Business as usual”/“No change” scenario, i.e. we move forward without any change in regulations and policies.
- ² It shows how many grams of GHG emissions result from the production of 1 forint of value. The higher the ratio, the higher the GHG intensity of the given activity.
- ³ In Hungarian “belakatólás”. “In our case, when poorly planned renovations preserve an outdated situation for additional years with no energy savings or emission reductions” (Sáfián, 2021).
- ⁴ The results of the climate stress test conducted by the MNB are expected to be published by the end of 2021.
- ⁵ Monthly maintenance costs related to the residential real estate, such as: electricity consumption, water consumption.
- ⁶ Recommendation No 5/2021. (IV. 15.) of the Magyar Nemzeti Bank on climate-related and environmental risks and the integration of environmental sustainability considerations into the activities of credit institutions <https://www.mnb.hu/letoltes/5-2021-zold-ajanlas-2.pdf>

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Changes in Financial Competence by Different Generations as the Aftermath of the Pandemic



Summary

Financial awareness and financial literacy is one of the key competences of our time. The accelerated digital world requires individuals to acquire a new set of skills and competences that are essential for success in everyday life. The acceleration of digitalisation has brought a new dimension to the concept of financial literacy and awareness. The emergence of new financial and banking products and services has created new challenges for individuals. A wide range of products and aggressive advertising campaigns are finding consumers, offering very favourable opportunities, generating countless market and financial bubbles. Digitalisation has received a further boost from the pandemic. In the face of this information dumping, we can only survive if we have a solid financial foundation and the proper financial socialisation. In this paper, we aim to explore deeper dimensions of the financial culture, competence, and awareness, based on the results of a primary research, pointing out changes and transformations in financial awareness.

Journal of Economic Literature (JEL) codes: G40;G51; G53

Keywords: financial culture, financial awareness, primary research, pandemic

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LITERATURE REVIEW

Money, as a measure of the performance of the economy and as a means of accounting for performance, is one of the most important factors in capitalist society. A society heavily influenced by the media sees the importance of money everywhere, in the daily printed and electronic press, on television and on the World Web. Money can buy everything from electronic gadgets to dream trips, but we now feel that health and friendship are also included. The behavioural norms that characterise an individual are formed through individual experiential learning on the one hand, and through socialisation on the other, through the internalisation of existing moral and social norms, and of the wider culture. These can also have a very strong impact on our finances (Botos et al., 2012; Csernák, 2013). In fact, we can now discover a degree of interconnectedness that has led to the linking of the two ideas. Financial culture is not a recent concept, as it was used as early as the 1900s (Kovács et al., 2012). It is a financial term whose clear and universally accepted definition has not yet emerged.

Assessing financial culture for an economy and society is not an easy task, but it can be said that in the global financial world, measuring financial culture is a measure of the development of individuals in an economy and society. (Bárczi-Zéman, 2015).

Recent publications have not defined the meaning of this concept in the same way, and even today there is a debate about whether financial culture is a concept at all or whether it is more than a concept. In a study on the same subject, Béres and his co-author, argue that financial culture is more than a definition; it is a concept. According to this conceptual view, financial culture refers to financial knowledge (financial literacy), financial skills and experience, and financial awareness, all of which are present together and simultaneously (Béres-Huzdik, 2012).

Many experts agree that financial literacy is almost always related to financial knowledge. Moreover, it is not only knowledge but also the use of knowledge that leads to responsible behaviour. Harnessing financial knowledge can lead to responsible and informed decisions that can reduce future risks, household financial vulnerability, or make personal finances more predictable.

The ongoing and intense coronavirus pandemic, the financial, economic, and psychological impact it is having on us are changing our thinking and habits. Today's fast-paced life, digitalisation, new financial systems, and a robotised world have introduced new dimensions for us (Matolcsy et al., 2020), yet the world and the economy are still lagging behind in the challenges posed by the Covid pandemic. Events not seen since the 2008 crisis have made us realise the fragility of the welfare society and the volatility of unlimited abundance. We have also been made aware of the extent to which the hedonistic acquisition of wealth cannot be financed solely and exclusively by credit, while ignoring all aspects of financial awareness (Kolozi-Lentner, 2020). More than ten years after the economic crisis, the knowledge of finance, money and related knowledge has become more and more important, almost a part of our lives, and this is only reinforced by the crisis situations (Németh et al., 2016; GaraiFodor-Csiszárík-Kocsir, 2018; Deutsch-Pintér, 2018; Pintér, 2016). The so far visible effects of the crisis are the more than a 5% drop in the GDP, which is even higher in some regions.

This inevitably has an impact on consumption and changes in consumer habits. This will also bring about a change in financial thinking, with a focus on savings. But is this true for all generations?

The importance of financial socialisation and awareness first became clear to society in the period following the change of the regime, when we were confronted with the expectations of the market economy, and we did not have the basic information needed to cope with it (Schüttler, 1998). We have slowly recovered from the shock of the regime change, but in the meantime, we have done little to educate the next generation in financial matters. Later we were hit by the 2008 crisis, bringing the lack of financial literacy into an even sharper focus. There were certain ignorance's of the workings of the economy, sloppy management of finances, plunged scores of families into poverty, and destroying their existence. For the time being the myth of free money and quick riches was lost in this series of events (Marsi, 2008; Ács, 2009). The crisis and subsequent events have drawn attention to the gaps in financial literacy (Klapper et al., 2012; Bélyácz–Pintér, 2011). Because of the general prosperity and unlimited liquidity before the crisis, certain age groups were socialised in such a way that they did not learn to handle money and did not develop the necessary awareness to correct the cyclical movements of the economy. After the crisis, the importance of financial education (Sági et.al, 2020a; 2020b) was stressed. Noteworthy initiatives have been launched to deepen financial literacy, targeting the young and old alike. The importance of addressing financial education for the younger generations, covering all aspects of life, from family budgeting to conscious purchases was recognised. The cyclical nature of the economy means that downturns are always followed by upturns, as was the case in the post-crisis period following the Mediterranean crisis. The boom brought about by the fourth industrial revolution was interrupted by the coronavirus crisis. However, these effects have come more readily to us in terms of financial culture. Active financial education and awareness-raising competitions have raised awareness of the importance of financial thinking, but the effects of this will only become apparent years later, when knowledge will be at a theoretical level. Atkinson and Messy (2015) identify three dimensions of financial awareness: conscious planning, money management and conscious financial product selection. Increased practical implementation of these three dimensions would have been needed during the pandemic.

MATERIAL AND METHOD

In this paper, we present a systematic review of the relevant national and international literature and present partial results of our primary research. We conducted a quantitative research in the form of a pre-tested, standardised online questionnaire survey. Subjects were recruited using a snowball sampling procedure, which resulted in 6,873 evaluable questionnaires. The research tool consisted exclusively of closed questions at nominal measurement level (single-choice and multiple-choice questions) and metric scales (the Likert scale and the semantic differential scale) to analyse consumer attitudes and values. The themes of the research tool were developed due to the relevant secondary data analysis in the form of the following themes: financial awareness, perception of the value of money, changes in financial

management caused by the pandemic situation. In this paper we focus on the partial results of the quantitative phase of our research project. Within that, we have also given priority to the perception of the value of money and the analysis of financial awareness.

To process the quantitative results, we applied descriptive statistics, bivariate and multivariate analyses using SPSS 22.0 software. In this paper, the results of multivariate correlation analysis of descriptive statistics are presented. The factor analysis used in this study was based on the KMO value, total variance value and professional explanatory power, and the final factor structure was chosen. For the segmentation, a K-means clustering procedure was implemented, which is a statistically appropriate method due to the number of sample elements exceeding one thousand. For the characterisation of each segment, Pearson's Chi-square significance values were used to establish statistical correlations, while the absolute values of the Adjusted Residual (Adj.R) were used to establish and analyse internal correlations (Sajtos, Mitev, 2007).

During the quantitative research phase, our main objective was to analyse the following hypotheses:

- H1: Consumer segments can be distinguished according to dimensions of financial awareness.
- H2: A correlation can be established between financial awareness and financial and economic studies.

The logical framework for the presentation of the partial results presented in this paper is the evaluation of the above hypotheses. The main socio-demographic characteristics of the sample are as follows: 50.6% of the 6873 respondents were male and 49.4% female. Only 7.2% of the respondents have a bachelor's degree, 57.2% have a secondary degree, 26.3% have a bachelor's degree and 9.3% have a master's degree. In terms of age, the largest proportion of the sample (39.4%) is from Generation Z (18-25 years). They were followed by 21.8% of respondents aged 26-35 and 17% of respondents aged 36-45. Respondents aged 46-55 years represented 13.1% of the sample, while respondents aged 55 years and over, represented only 8.5% of the sample. Given that the hypothesis of our research is that there is a statistically verifiable correlation between financial and economic education and perceptions of the crisis, we consider it important to characterise our sample along these lines. More than half of our respondents (57.1%) have no previous economic-financial education, such knowledge being characteristic of 57.1% of our respondents.

RESULTS

Our research aimed to segment our sample based on financial awareness. First, we conducted a factor analysis on the elements of the financial awareness that we investigated. As a result, we chose the 4-item factor structure that statistically and professionally provided the best solution: Factors of conscious financial management, which included being well informed, monitoring prices and promotions, and a thrifty approach. Risk-taking and profit, the most dominant elements of which were a preference for the current value of money and risk-taking for higher profits. Promotions and discounts, which included a preference for

promotions and cheaper products, as well as a price preference at the expense of quality. The loyalty factor included factors such as staying in the bank and parental role modelling in financial awareness.

Table 1: Factors of financial awareness

Factors	Factors of conscious management	Risk taking and profit	Promotions and discounts	Loyalty factor
I try not to spend all my money, but also save some of it.	0.700	-0.070	0.131	0.090
Whenever I make a financial decision, I always do my research.	0.700	-0.021	-0.059	0.152
When I buy, I check the prices.	0.694	-0.107	0.139	0.149
I always monitor my finances.	0.611	0.167	-0.012	0.069
As a family, we discuss our joint purchasing decisions.	0.554	0.062	0.259	0.061
When I shop, we always pay attention to special offers.	0.533	-0.084	0.502	0.081
I prefer buying more expensive but durable things.	0.531	0.326	-0.259	0.163
For financial matters, I try to rely on external sources of information (consultants, economic news portals, etc.).	0.522	0.364	-0.002	-0.065
My parents are always saving money too.	0.502	-0.012	0.246	0.274
I would rather spend my money than save it.	-0.125	0.709	0.145	0.131
I am willing to risk some of my money if it is an investment that provides a high income.	0.199	0.678	0.052	-0.220
I trust advertising that promotes financial products.	-0.098	0.662	0.296	0.083
My current money is always worth more than the money I will save in the future.	0.136	0.619	0.111	0.063

Factors	Factors of conscious management	Risk taking and profit	Promotions and discounts	Loyalty factor
I would not tie up my money for the long term because I do not trust banks.	0.024	0.513	0.247	0.190
I think the right thing to do in a family is to let the one who earns the money decide on spending.	0.055	0.401	0.354	0.255
I buy something when it is on sale.	0.099	0.238	0.709	0.075
If I can, I save money by buying lower quality and cheaper things.	-0.024	0.305	0.648	0.101
I tend to buy more than one item on sale.	0.194	0.251	0.585	0.057
I always do my finances at the same bank.	0.267	0.087	0.051	0.733
When making financial decisions, my parents/close friends' opinions are my primary guide.	0.209	0.122	0.169	0.700

Source: authors' own research, N=6873, Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization, total variance: 58,5%; KMO= 0,894

In a second step, we performed K-means clustering on the factors to validate the hypothesis.

As a result, we were able to characterise four distinct target groups (H1 confirmed):

- Conscious financial decision maker.
- Action and information risk takers.
- Preference-averse.
- Frugal Loyalists.

Knowledgeable financial decision-makers are characterised by the fact that they thoroughly inform themselves about prices and information before making financial decisions, prioritising the opinions of advisors and external experts for the latter. They tend to make financial decisions together as a family. They are the ones who strive not to spend all their money, but to save it. They are also the main buyers of more expensive but better quality and durable goods.

Action- and information-oriented risk-takers are particularly likely to value their current money more than a future saving. They would not deposit their money for the long term because they do not trust banks. On the contrary, they are willing to take greater risks for a higher future return. Their shopping is characterised by a preference for bargains and a willingness to sacrifice quality if it means saving money. They are consumers who are not long-term thinkers when it comes to money, but rather want to maximise the amount of money they can spend today.

Thrifty Loyalists are also financially conscious, thinking and considering the long term when it comes to their finances. This segment is characterised by listening to their parents when making financial decisions and are loyal consumers who always manage their finances with the same bank. They tend to follow their parents' example when making financial decisions. They also tend to be thrifty as a result of following their parents' example.

Non-preference respondents are the group who do not rate any factor as more important than average. They are the consumers who are the most easily influenced because of uncertainty and an unformed preference system. In the case of this segment, information, examples, and behaviours provided by external sources of information play a particularly important role, since, unlike the Thrifty Loyalists, they do not take examples from within the home or family. Thus, for this group, financial education has a great responsibility to convey the importance and example of conscious management in a credible way.

Table 2: The Link Between Financial Awareness and Financial-economic Literacy

The link between financial awareness clusters and financial-economic literacy			Have you studied economic-financial subjects before?		
			yes	no	total
Financial awareness clusters	Conscious Financial Decision Makers	persons	629	453	1082
		in % of the financial awareness clusters	58.1%	41.9%	100.0%
		adjusted st. res. (Ad.R)	11.2	-11.2	
	Action and Information Risk Takers	persons	714	1256	1970
		in % of the financial awareness clusters	36.2%	63.8%	100.0%
		adjusted st. res. (Ad.R)	-6.8	6.8	
	No Preference	persons	903	1315	2218
		in % of the financial awareness clusters	40.7%	59.3%	100.0%
		adjusted st. res. (Ad.R)	-2.3	2.3	
	Thrifty Loyalists	persons	688	915	1603
		in % of the financial awareness clusters	42.9%	57.1%	100.0%
		adjusted st. res. (Ad.R)	0.2	-0.2	
Total in % of the financial awareness clusters		persons	2934	3939	6873
		42.7%	57.3%	100.0%	

Source: authors' own research, N= N=6873; Pearson's Chi-square test, sig=0.000

To analyse our second hypothesis, we examined whether, for segments based on the financial awareness factors, a correlation could be detected with whether the individual had learned these financial and economic skills. Based on the results of the Pearson Chi-square test of significance for the cross-tabulation, H2 was confirmed. ($\text{sig}=0.000$). The analysis of the internal correlations showed that, according to the absolute values of the adjusted standardised residuals, the group of knowledgeable financial decision-makers included a much higher proportion of respondents with financial and economic knowledge than expected. For Action and Information Risk Takers, it is precisely this lack of knowledge that characterises the members of this group, similarly to the No Preference group.

The results provide unequivocal evidence that financial and economic knowledge plays a crucial role in determining the dimensions of financial awareness that characterise an individual. The results underline the crucial importance of financial and economic literacy education, which is related to the financial decisions of individuals, and that those with financial literacy are more likely to make informed, frugal, and economically sound decisions.

CONCLUSIONS

One of the main aims of our research was to demonstrate that financial awareness can be used to segment the sample. Based on the results, we were able to create (H1 confirmed) and characterise well-differentiated segments, such as the group of Conscious Financial Decision Makers, characterised by the intention to save and the ability to make informed financial decisions. Furthermore, the segment of “Risk takers who are not averse to risk and who put action and cheapness criteria before quality”. A cluster of “Preference-free” individuals with immature values and “Thrifty loyalists” who follow their parents’ example and are loyal to their chosen financial service provider.

The segments based on financial awareness were characterised according to the economic and financial background of their subjects. After establishing the correlation between the two variables (H2 confirmed), we can also say that financial awareness is reinforced by the existence of financial, economic knowledge. This confirms to a large extent the importance of educating and teaching young people about finance and economic issues, and of adequately integrating this kind of knowledge into the curricula. The results of the research clearly show that in the absence of such knowledge, individuals are much more willing to take risks in financial matters and investments without due consideration and justification. If more people are to be able to make well-informed financial decisions based on sound information, there is a need for education and targeted transfer of financially literate knowledge.

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The Impact of the Tightening of Banking Regulatory Requirements on the Profitability and Concentration of the Banking Sector in the European Union



Summary

The stability of banking systems is a fundamental requirement for any national economy. Instability in the banking system and the consequent possible bank failures pose a threat to the functioning of the whole economy through a chain of infection. The crisis of 2008-2009 also highlighted the vulnerability of banking systems, creating the need for stricter capital and liquidity requirements for banks. Tightening the rules could also carry the risk of “over-regulation” in mega-markets, which might also worsen the profitability of financial institutions. The study examines the changes in the profitability of the banking system of the European Union and Hungary over the period between 2008 and 2019, as well as the impact of the tightening regulations on the ratio of non-performing loans.

Journal of Economic Literature (JEL) codes: G21, G28, H12

Keywords: banking regulation, profitability, non-performing loans

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INTRODUCTION

The justification for the tightening of capital and liquidity requirements for the credit institutions sector, which has been very common of the past decade(s), cannot be questioned. However, the questions arises as to how the increasingly stringent requirements affect the functioning of the credit institution system, or what extent they affect the sector's ability to generate income and whether they cause any noticeable changes in the concentration of the credit institution sector? In our study, we have examined, mainly based on the European Central Bank database, that the current level of regulation can be considered as an “over-regulation”, so it is not significantly reducing the profitability of credit institutions and to what extent the changes in capital requirements have triggered the processes of increasing concentration within the sector. We have extended our research to the countries of the European Union and we have also examined the situation in Hungary in relation to certain aspects of the research. We have analysed the extent to which the phenomena in Hungary are in line with trends in the European Union level. Our research covers the period between 2008 and 2019. In some cases, we analysed the extent to which the situation of credit institutions has changed in 2019 compared to the “crisis year” of 2008, while in the other cases we attempted to identify trends that emerged during the period under review. In some cases, we also refer to the pandemic period of 2020.

LITERATURE BACKGROUND

Regulation of banks is always essentially a bargaining process between the state and the credit institutions. The stability in the operation of the financial sector and the avoidance of bank failures are in the interests of the national economy and society. One specific feature of banking systems is that, although they are surrounded by a safety net (strict licensing conditions, specific legal and regulatory environment, inter-bank institutions, effective internal decision-making and control systems), bankruptcy of the banks cannot be ruled out and from a bankruptcy - in the worst case - can even start a contagion chain (Széles–Baranyi, 2016).

Because of their prominent role in the national economy, it is important that banks are subject not only to rules, but to much stricter rules than a traditional business. The rules are also determined by the history and culture of the country concerned. Banking rules are completely different in the United States and the European countries. In the US, the separation of commercial banking and investment banking was already made in 1933 in the Glass- Steagall law (Pál, 2009), however in Europe there is no such regulation. In the topic of banking deregulation, the Gramm – Leach – Bliley law was adopted in 1999, which allowed the concentration of banking players. As a result of this, universal banking giants emerged, which carried increased risk. This regulation also played a role in the crisis of 2008-2009. It is no coincidence that in 2010, legislation was enacted, known in the jargon as the Dodd-Frank Act, which demands stricter prudential supervision.

By the review of the literature suggests that a distinction can be made between a narrower

and a wider definition of banking regulation. while the wider form of regulation also takes into account other factors that determine the functioning of banks, such as financial rescue, the state's lender of last resort (LoLR) function or the deposit insurance (Erdős-Mérő, 2010).

It can be observed that the former risk-based regulation has nowadays become rule-based and has been complemented by the regulation of systemic risks (Mérő, 2018). Banking regulation can be further divided into two big groups, micro-prudential and macro-prudential regulation. Micro-prudential regulation is responsible for the proper functioning of institutions in the sector at national level, while macro-prudential regulation focuses on the whole banking system. According to Baker (2013), prior to the 2008 crisis, regulation was only applied to individual institutions and not to the whole system, so the macro-prudential level was missing. Financial stability was taken for granted in the system; as a result, regulation did not include requirements for differential conditionality.

The 2008-2009 crisis led to the conclusion that the existing regulations were not able to keep up with the changes in the banking system, and that the banking system, which was considered safe and stable until then, suffered huge losses despite the rules. The capital requirement in relation to the risks assumed can be assessed on the basis of capital adequacy, so among the prudential regulations, the examination of this is very important.

The central role of capital in financial regulation can be supported by the following main arguments:

- The right amount of capital reduces the risk that fluctuations in the bank's profitability will lead to a bankruptcy.
- In case of financial problems, capital is the first line of defence to absorb the shock, thus reducing the additional costs for other stakeholders.
- Prudential requirements make bank owners more cautious, as they require proportionately more capital from them if they take on more risk.
- Capital rules contribute to the development of risk-proportionate pricing and help to develop an appropriate risk-taking strategy.

Nowadays financial regulation was laid down in the Basel III package of measures by the Basel Committee on Banking Supervision, established in 1974 by the heads of the G10 central banks. The Commission's first task was to develop the basics and examination methods for an early-warning system to forecast credit institutions bankruptcy, but since then its remit has become much wider. One of the Commission's priorities is to promote international cooperation between banking supervisors. The current active Basel III package contains new global regulatory standards and an implementation plan for these standards on bank capital adequacy and liquidity. The previous regulatory "package", Basel II - which entered into force in 2004 - was only in force for a short period after its introduction. The crisis of 2008 created a situation that call for a rethink of the previous regulation (Andres, 2018).

In 2010, the decision was taken to create the Basel III Capital Accord, which aimed to establish new rules at the micro level, but mostly at the previously incomplete macro-prudential level. Currently, the regulation of capital requirement for banks is composed of three pillars:

- minimum regulatory capital requirement: meeting the minimum required levels of own funds,
- additional capital requirement: the amount of capital set by the bank and the supervisory authority,
- additional capital buffers: capital surplus that can be used in case of unexpected events (Kovács–Marsi, 2018).

The last additions to the Basel III regulatory package were made in December 2017, mainly due to the tightening of capital requirements and the standardisation of rules (Serregdi, 2019). The final set of proposals is often referred to as Basel IV, due to the multiple changes made to it. With the introduction of the new rules, it was predicted that economic growth and loan placement would initially decrease, but the losses thus implied would still be less than the economic and social impact of a bankruptcy.

According to the analysis of Demirgüç-Kunt and Huizinga (2010), in 2008 there were 30 banking groups operating in 19 different countries around the world with sources exceeding half of the GDP of the country in which they were based. The issue of moral hazard arises for these institutions, they have to know the magnitude of the risk they are taking, yet they continue to increase their investments and they are bailed out by the state if in case of problems that appear.

However, in the case of the bankruptcy of the 30 systemic risk banking groups included in the 2008 report, countries would not have been able to provide a bailout, as the economic weight of the institutions was greater than the influence of the state. For this reason, the too big to fail (TBTF) principle has now been replaced by the too big to save (TBTS) principle, so some banks have now reached a size that is too big to save (Méró, 2012).

The Basel Committee on Banking Supervision has also developed an indicator-based approach, which including both quantitative and qualitative criteria, to identify banks that are systemically important for the global economy from systemic risk perspective (BCBS, 2011). As banks grow in size, they are becoming more spatially concentrated. Among the 20 largest banks, eight were based in Asia (China and Japan), eight in Europe and four in the US. Among the European banks, four were French, two British, one German and one Spanish. Banco Santander in Spain had assets exceeding 100% of Spanish GDP, but 7 banks had assets exceeding 50% of GDP. Tóth and Zéman (2017) argue that determining the degree of concentration in the banking system is important because the timely identification of a monopoly situation reduces the likelihood of negative effects, helps new entrants to decide to enter the market and allows players on the market to determine competition.

Ten years of significant regulatory reforms following the global financial crisis have helped to ensure that the financial system was well prepared to withstand the shocks caused by the COVID-19 pandemic. Many of the measures announced by the ECB following the outbreak of the coronavirus were aimed at mitigating the negative impact of the pandemic shock on the stability of the financial system and the real economy. Thus, several national authorities decided to release part of the capital buffers accumulated in previous years.

RESULTS

Profitability trends in the European Union banking system

As we mentioned earlier, the tightening of regulation has also made it obligatory to comply with higher capital requirements and to achieve adequate liquidity levels in the EU banking system. We have assumed that an increase in the share of assets with lower return-generating capacity but higher liquidity, combined with tightening capital requirements, will only allow for lower profitability within the EU banking system (Lentner–Nagy, 2020). Our assumption is based on that the mandatory and applicable capital requirements have helped banks to operate more safely, while at the same time the higher capital reserve and liquidity insurance requirements have contributed to decrease in profitability.

The profitability of banks - like other economic organisations - is influenced by a number of external and internal factors, such as the economic environment, government regulators, owners expectations of returns, economic activity, etc. (Fenyves et al., 2020). Of course, the ability of financial institutions to generate income is also influenced by a number of specific factors, including the financial institutions willingness of taking risks or the quality of their customers.

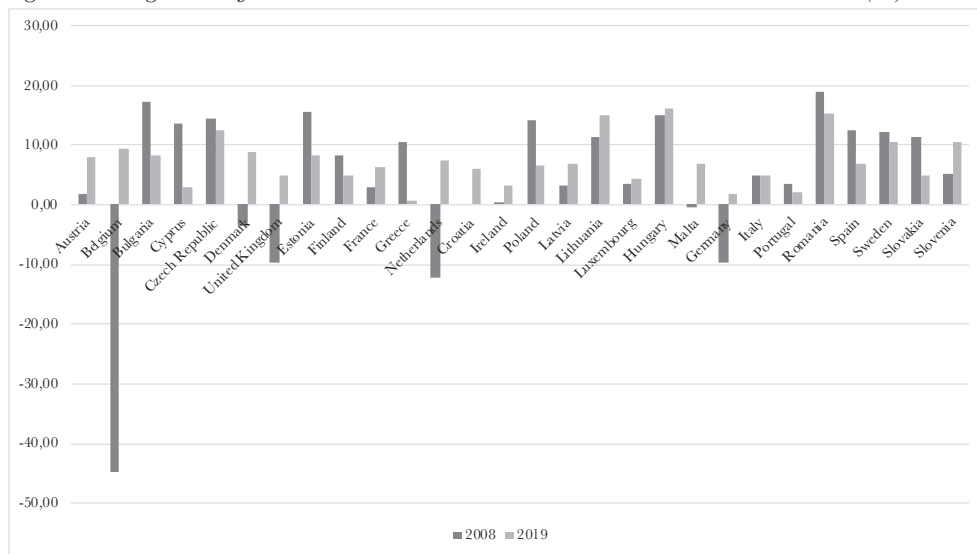
Profitability shows the ability of business organisations to generate income, essentially what result they can achieve with the available assets (Fenyves et al., 2019). Financial institutions can be considered as specialised businesses. In order to ensure that bank owners do not only focus on their own profit needs but also put the interests of depositors before their own interests, it is important to strictly regulate bank profitability, which can prevent excessive risk taking, and through prudent bank operations, keep customers' deposits safe.

In the first part of our research, we tried to support our hypothesis by analysing profitability indicators since the 2008-2009 crisis. The analysis was based on the statistical database of the European Central Bank and the analyses of the European Banking Federation.

Examination of return on equity

There are a number of indicators available to measure profitability, what they have in common is that they relate a certain category of results to a projection base (Becsky-Nagy–Fazekas, 2021). One of the most commonly used profitability ratio is the return on equity (RoE), which compares the bank's profit after taxation to its equity. The higher its value, using a unit of equity, the financial institution has generated more profit after tax. High profitability indicates that banks are in a favourable position to increase their capital buffer in the near future through retained earnings. Figure 1 shows the average values for each EU Member State, based on 2008 and 2019 data.

Figure 1: Average values of the RoE -Indicator in the EU Member States in 2008 and 2019 (%)

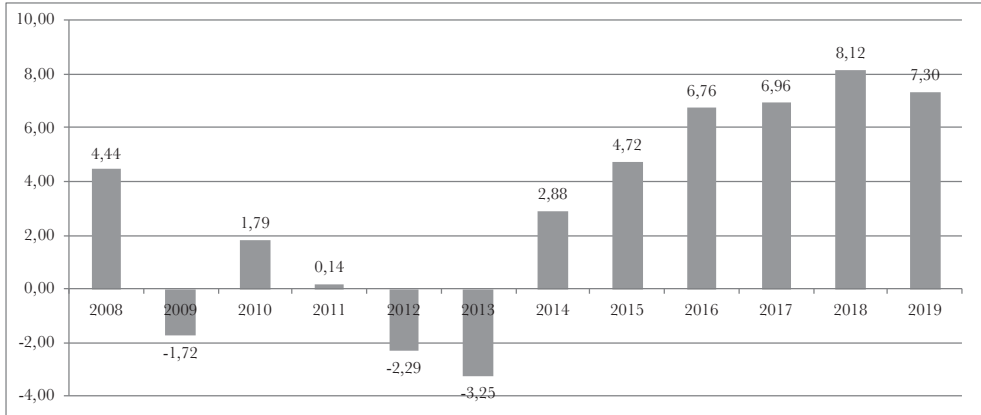


Source: own editing based on the European Central Bank statistical database

Among EU member states, Hungary had the highest RoE in 2019 at 16%, followed by Romania (15.20%), Lithuania (15.10%), the Czech Republic (12.50%) and Sweden (10.60%). The average RoE of the Hungarian banking system in 2019 was already above the pre-crisis 2008–2009 level, which was still quite high. The Cypriot banking system suffered the largest average loss of equity over the period 2008-2019, in 2012 (-100.83%), due to the significant exposure of its banking system to Greece and the crisis in the Greek banking system that also affected the island’s economy. This negative event continues to have an impact on both countries to this day, to the extent that Greece was the only country with a negative RoE in 2018 (-0.36%), but in 2019 there was no longer a county like this. So in 2019, there were six EU countries with a RoE above 10%. Over the period we have examined, there are seven EU countries whose banking system has had a positive RoE in each year (Bulgaria, Czech Republic, Finland, Poland, Luxembourg, Sweden and Slovakia). The data show that the banking system in Western European countries was hit by the crisis in 2008 and 2009, while the impact in Central and Eastern European countries was felt only afterwards. The crisis had the greatest negative impact on the profitability of the banking systems in the Baltic States (Estonia, Latvia and Lithuania) and Ireland.

Figure 2 illustrates the average RoE values calculated from EU Member State data in the examined period. After the lowest point in 2013, the indicator increased despite the subsequent introduction of the Basel III capital rules.

Figure 2: Average value of the RoE Indicator in the European Union 2008- 2019 (%)

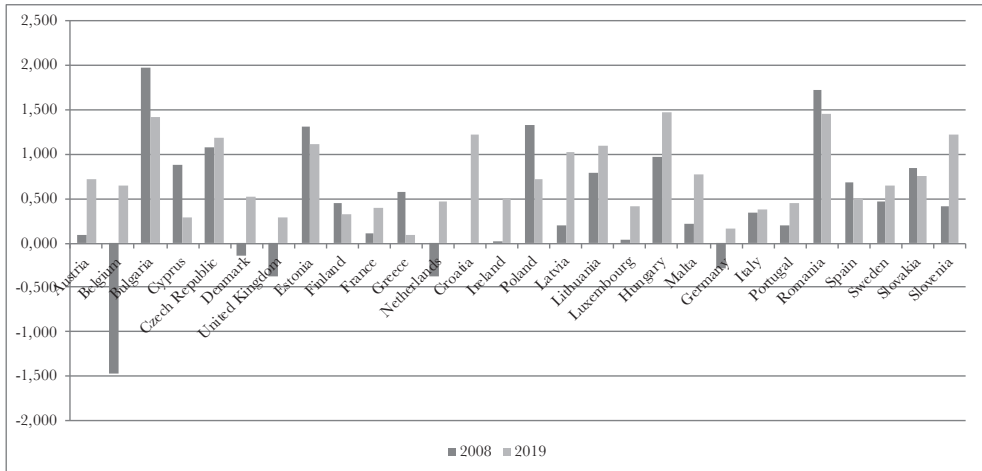


Source: own editing and calculation based on the European Central Bank's statistical database

Examination of return on assets

The Return on Assets (RoA) indicator compares the bank's profit after taxation to the total average value of assets. It shows how much profit a financial institution can generate with the available assets.

Figure 3: Average values of the RoA Indicator in the EU Member States in 2008 and 2019 (%)



Source: own editing based on the European Central Bank statistical database

Figure 3 illustrates that although the indicator has improved over the past period, the sector is still characterised by a relatively low level of profitability. This reflects the combined

effect of a number of factors, such as the increase in bank balance sheet totals and the accumulation of capital and liquidity reserves, which have the effect of reducing the return on assets indicator of financial institutions.

Looking at the RoA data of the member states, it can be seen that, following the 2008 crisis, the indicator fell in all twenty-seven member states at that time. The most significant negative changes were observed in Cyprus, Estonia, Latvia, Lithuania, Belgium, Slovenia, Spain and Cyprus.

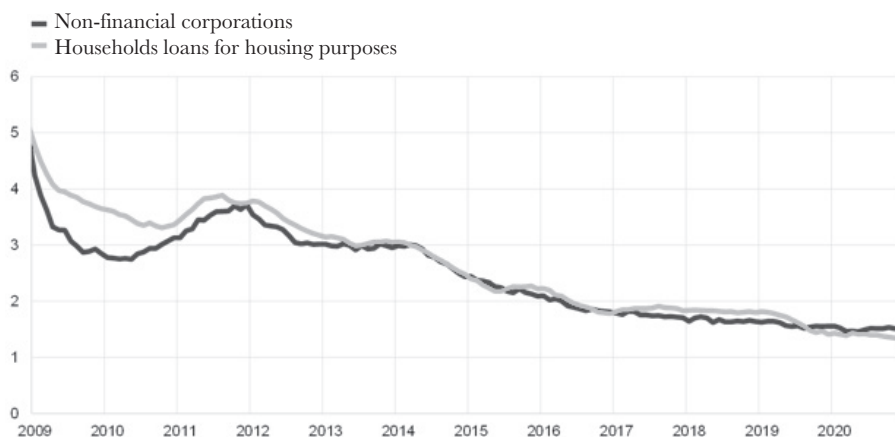
In 2019, the value of the indicator was positive in all countries. However, only Estonia recorded RoA values above 3 percent and 2 percent in a given year (3.14 in 2011 and 2.01 in 2012), while the other countries did not reach a value of 2.0 in any of the years of the examined period.

Looking ahead, the profitability of the credit sector is expected to decline in the short term in many countries - in no small part due to the introduction of credit moratoriums - and this phenomenon is already visible for 2020.

Most countries in the European Union have introduced some form of payment moratorium. The exceptions include the Nordic countries of Northern Europe (Sweden, Finland, and Denmark), where no moratorium was introduced at all, the United Kingdom, Ireland and Iceland only 3-6 months, and most of the countries of Central and Eastern Europe 6-9 months the length of the moratorium. Hungary was one of the first countries to introduce a moratorium, and no EU country has currently introduced a longer moratorium than the one in Hungary.

Of course, the expected decline in profitability is also influenced by the fact that credit interest rates have fallen to historic lows. This has allowed the banking system to provide supportive financing conditions for businesses and households. By the end of 2020, the interest rate on loans to households for housing purposes will have fallen to 1.32 percent and the interest rate on loans to non-financial corporations to 1.46 percent (Figure 4).

Figure 4: The Changes of Average Credit Interest Rates in the Euro Area Countries



Source: European Central Bank

Concentration processes in the EU and Hungarian banking systems

According to Gál (2010), the process of concentration is a spatially interpretable concept whereby the number of independent financial institutions is reduced by the acquisition of banks located in geographically common markets, and as a result there are fewer and fewer players in the market. In statistical terms, concentration is defined as the phenomenon where the multitude's determinant part of the total sum of value concentrated in a few units of the multitude (Baranyi et al., 2018). An analysis of the degree of concentration in the banking system is necessary to ensure the prudent functioning of the system.

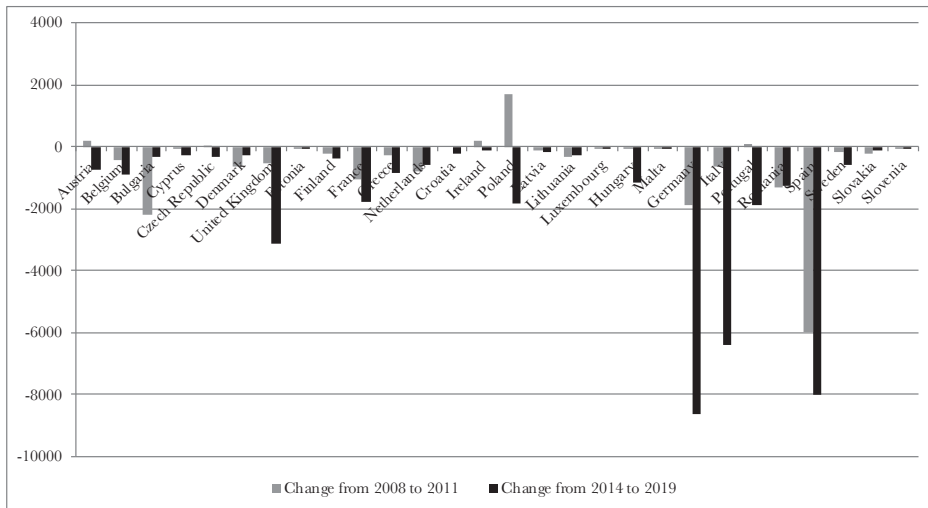
We assume that, the effect of the tightening of banking regulation make increase in concentration processes within the banking systems of EU Member States, as some institutions in the banking systems were unable to meet the higher capital requirements. Statistical methods were used to verify or reject our assumption.

To measure the concentration of the banking system is a suitable tool to analyze the changing of the number of credit institutions, the Herfindhal-Hirschmann Index (HHI) or the concentration ratio (Illés et al., 2017). We use these indicators to examine changes in the concentration of the EU and domestic banking system.

Changes in the number of credit institutions

The number of credit institutions in the EU countries has been steadily declining since 2008. At the same time, the number of bank branches has also started to fall dramatically. This process has been significantly influenced by the spread of digitalisation processes within the sector.

Figure 5: Change in the Number of Bank Branches in the EU Member States, 2008-2011 and 2014-2019



Source: Own editing, based on the European Central Bank statistical database

Figure 5 illustrates the change in the number of bank branches in the EU member states over two periods. In the four years between 2008 and 2011, the number of branches decreased by total 8,672, with the largest decrease in Spain (-5,962 pieces). At that time, there were still countries (Austria, Czech Republic, Ireland, Poland and Portugal) where the number of branches increased slightly, but overall the trend in the following years was similar to the previous one. From 2014 to 2019, the number of branches decreased by 30,501. The largest decreases were also observed in Spain (-7,995 pieces) and Germany (-8,644 pieces). It can therefore be concluded that the decline in the number of bank branches has been much more strongly influenced by the spread of digitalisation than by the financial crisis. It is also interesting to note that the rate of decline in the number of bank branches slowed down towards the end of the period under review, with several countries (Denmark, Latvia, Slovakia and Slovenia) seeing a stagnation in the number of bank branches and some (UK, Estonia, Portugal, Romania and Sweden) even seeing an increase in 2019 compared to 2018.

In the Euro Area, a further decline was observed in 2020 due to continued changes in community business models. The number of branches in the Euro Area fell from 186,000 in 2008 to 118,600 in 2020. The number of branches decrease particularly sharply in Latvia (-85.6%), Netherlands (-72.5%) and Estonia (-71.2%).

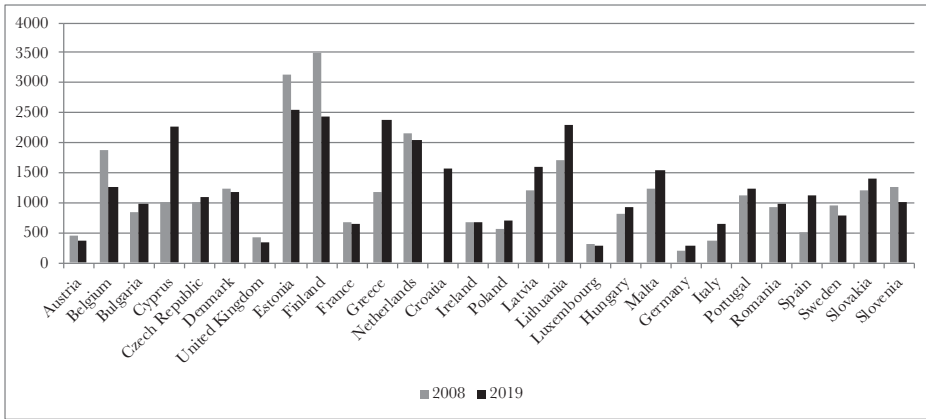
Examination of the Herfindhal-Hirschmann index

The HHI index is the sum of squares of the market shares of companies, typically expressed as a percentage, ranging from 0 to 10,000. When the index is close to zero, there are many companies in the market with a low individual market share, and competition prevails. However, in the case of a high value, there are few players in the market, high levels of concentration and, as a result, the risk can be increased in the sector. According to the European Central Bank's guidelines, an HHI below 1,000 is low, between 1,000 and 1,800 is moderate, and above 1,800 is meaning highly concentrated (ECB, 2015).

The European Central Bank's database uses the total assets of a country's banking system as the basis for calculating the Herfindhal-Hirschmann index. It is calculated by comparing the assets of the banks in each Member State with the total banking assets of the European Union and then squaring this sum to obtain the concentration value.

Figure 6 shows that there are significant differences between the HHI values of the member states. The countries with the highest values in the period of 2008-2019 are Estonia (2.545), Finland (2.420), Greece (2.382), Lithuania (2.289), Cyprus (2.276) and the Netherlands (2.039) - (values in brackets refer to 2019), which means that these countries are highly concentrated. In 2019, these countries accounted for 40% of the EU HHI value. Germany and Luxembourg (277-277) had the lowest concentration values over the considered period.

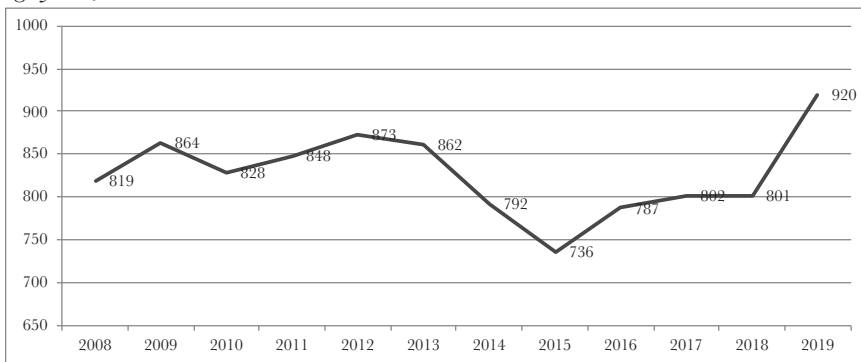
Figure 6: Average Herfindhal-Hirschmann Index Based on the Total Bank Assets in the EU Member States in 2008 and 2019



Source: Own editing, based on the European Central Bank statistical database

Overall, the value of the index tended to increase in most EU member states over the period (e.g. Cyprus, Greece, Latvia, Poland, Portugal, and Slovakia), but the opposite trend was observed in several countries (most strongly in Belgium, Estonia and Finland). High concentrations above the HHI of 1,800 - as mentioned above - are found in the banking systems of Estonia, Finland, Greece, the Netherlands and Lithuania. It is not possible to identify geographic regions with the same type of phenomena, for example, while Finland has a high concentration, Denmark has a medium concentration, Sweden has a low concentration and similar phenomena can be observed in other geographic regions. Our country is in the middle of the range with a low concentration value of around 900. The change in the average HHI index of the Hungarian banking system is illustrated in Figure 7.

Figure 7: The Average HHI Values Based on the Calculation of the Total Banking Assets of the Hungarian Banking System, 2008-2019

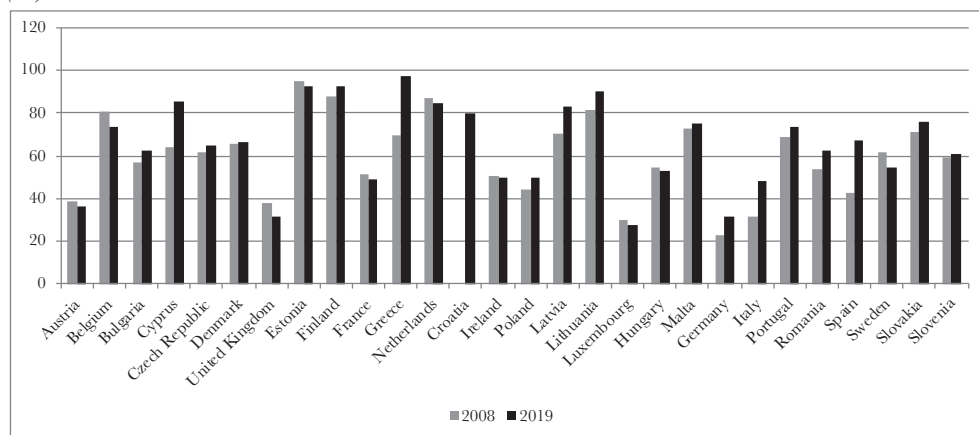


Source: Own editing, based on the European Central Bank statistical database

Concentration ratio test

The concentration ratio shows the market share of the largest banks in the market. Figure 8 shows the share of the five largest banks (CR5) in the EU Member States in 2008 and 2019. This indicator also confirms the findings for the HHI index.

Figure 8: Changes of the Market Shares of the 5 Largest Banks in the Member States in 2008 and 2019 (%)

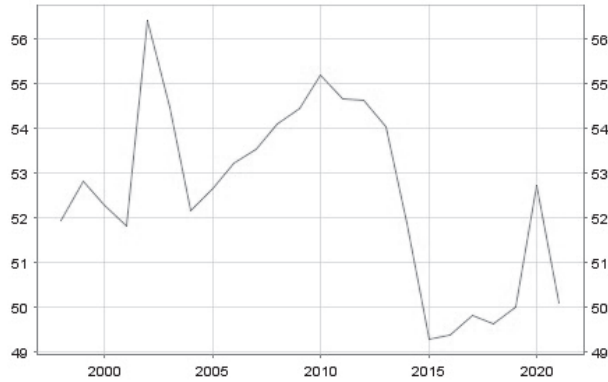


Source: Own editing, based on the European Central Bank statistical database

In 2019, the highest values were recorded in Greece (97.35%), Estonia (92.95%), Finland (92.95%), Cyprus (86.89%), Lithuania (90.44%), the Netherlands (84.66%) and Finland (81.61%). In these countries, the five largest players covered a significant part of the sector, almost all of it in the case of Greece. Hungary is also in the middle of the range with an average of 52%. Germany and Luxembourg have the lowest values of around 30%. In terms of trends, the weight of the five largest credit institutions in the sector increased over the examined period in the southern countries, Cyprus, Malta, Greece, Italy, Portugal and Lithuania. The market concentration of the Hungarian sector, considering the five and ten largest credit institutions, has changed only slightly between 2008 and 2018. The concentration of the five largest banks has consistently been around 50%. This is illustrated in Figure 9.

As a result of various mergers, banks around the world continued to grow in size after the crisis. The largest bank in the United States, JP Morgan Chase, would have the 8th largest economy in the world if it were a country, ahead of Brazil, Canada or Russia (Andres, 2018). In other words, the growth of banks and the resulting TBTF risk is still present in the market. Nowadays, under the directives introduced by the European Union, the primary objective is to rescue credit institutions from their own resources, so that taxpayers' money is not used to bail out financial institutions in distress or those that are important from a systemic risk perspective. This is also the purpose of the Banking Union's Single Supervisory Mechanism and Single Financial rescue Mechanism, which can be mobilised from EU resources when it is not possible to rescue an institution at national level.

Figure 9: The Concentration of the Hungarian Credit Institutions Sector of the 5 Largest Credit Institutions by the Market Share, 2008-2018 (%)



Source: statistical database of the European Central Bank sdw.ecb.europa.eu

CONCLUSION

Our analysis shows that - contrary to our preliminary assumptions - the introduction of the Basel III regulatory framework has not led to a drastic decline in profitability in the banking systems of the EU member states. While tightening capital and liquidity requirements have reduced banks' ability to generate income, other effects (mostly a clear improvement in the quality of the loan portfolio and some measures taken at the national level) have been able to compensate for the negative impact of regulatory tightening on profitability in most countries. However, it can be observed that the profitability of banking systems (in particular the return on assets) has remained at a low level over the period under review, with the increase in bank balance sheet totals playing a significant role.

The number of banks and bank branches in the European Union also fell sharply between 2008 and 2019, and this trend was much more pronounced between 2014 and 2019 than during the crisis and in the years immediately after the crisis. The spread of digitalisation has played a greater role in the decline in the number of branches than post-crisis cost-cutting measures. However, it can be noted that in the last years of the examined period, this process has slowed down and, in some countries, has already started to reverse, albeit to a small extent. There is no any consistent trend in the direction of change in the concentration of the banking system. While in the majority of EU member states the degree of concentration in the banking system has increased, in other countries (mainly in northern Europe) the opposite trend can be observed. The banking system in Hungary is characterised by low concentration, and there has been no significant shift in this respect over the examined period. It can therefore be concluded that the banking system in the EU and in Hungary has become somewhat more concentrated following the crisis, but there is a strong differentiation between countries.

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Viktor Vágner

Impact of IFRS Adoption for Individual Reporting Purposes on the Profit of Hungarian listed Companies



Summary

The purpose of this article is to analyze the effects of the mandatory transition to IFRS (International Financial Reporting Standards) in Hungary at the beginning of 2017 (Act CLXXVIII of 2015) on the profits and financial performance of companies listed on the Budapest Stock Exchange. The research assumes a change in accounting regulations that will affect the measurement of results and valuation procedures that will have a significant impact on the financial condition of companies. The method of the analysis is the inverse of the comparability index - originally developed by Gray (1980), which allows the results to be compared between different accounting systems. The calculation of the indexes is based on financial data published in the individual annual reports of the various accounting systems mentioned above for listed companies transitioning to IFRS. The study uses mathematical-statistical calculations to compare the values of the indexes. In connection with the establishment of the study, it was found that there is a significant difference between the results and indicators of the examined companies according to the IFRS and the Hungarian Accounting Standards, of which higher average values can be observed in the case of IFRS.

Journal of Economic Literature (JEL) codes: M41

Keywords: International Financial Reporting Standards, comparability, accounting harmonisation, Hungary, IFRS adoption, Gray index, income statements, earnings management

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INTRODUCTION

The process of implementing uniform accounting standards began decades ago. Single set of directives have existed within the EEC since the 1970s, but they were still too comprehensive and general to produce comparable financial statements. The solution was the establishment of the IASC (International Accounting Standards Committee) in 1973, the main purpose of which was to establish unified International Accounting Standards (IAS) (Hajnal, 2017). From 2001, the successor International Accounting Standards Board (IASB) integrated IAS into the new regulations and continued to standardize by issuing IFRSs. In 2002, the European Union issued EC Regulation No 1606/2002, which required Member States to require companies listed on stock markets to apply IFRS in their consolidated financial statements from 2005 onwards instead of national rules. It left it to each Member State to decide whether to adopt IFRS for separate reporting or for which other entities to allow or require the transition to IFRS (Csebfalvi, 2012a). As a result of the EU harmonization, listed companies have been required to publish consolidated financial statements in accordance with the IFRS (International Financial Reporting Standards) since 2005. The regulation has also entered into force in Hungary.

Developments in accounting regulations within the European Union have also accelerated the start of the process of developing the domestic accounting standard. In Hungary, before the accession to the European Union in 2004, steps were taken towards harmonization only in the interest of the planned harmonization, after which the harmonization efforts began to intensify. As a result of two years of preparatory work to implement the new European Accounting Directive 2013/34 /EU, it was decided in 2015 (Decision No. 1387/2015) to apply the IFRS for individual financial statements (or separate financial statements in accordance with IFRSs). The aim of this multi - stage implementation was to provide entities and authorities with adequate preparation time for the transitioning companies (Kovács–Menich, 2021). The new national accounting system came into force on January 1, 2016, the primary objective of which was to ensure better compliance with international accounting directives and international comparability by establishing consistency between the Hungarian accounting legislation and the IFRS. Although the accounting profession in Hungary is highly qualified and Hungarian accounting closely follows the central measures of the EU and the developed Western world in the age of digitalisation (Hegedűs et al., 2020), there is no doubt that the change in the law on individual financial reporting has been a big change. As of January 1, 2017, it became effective for individual financial statements that companies listed on the European Union's stock exchange, as well as credit institutions, financial companies and other credit institutions will be required to apply IFRS. While entities whose parent company prepares consolidated financial statements in accordance with the IFRS, and the insurers, investment firms and other payment institutions are permitted to prepare their financial statements in accordance with international standards, these companies are not required to prepare their financial statements in accordance with national accounting regulations (Act CLXXVIII of 2015).

Thanks to legal harmonization, the application of the international accounting system will allow greater comparability of accounting documents showing the performance of companies applying IFRS around the world. To date, the IFRS has emerged as one of the most dominant global accounting regulatory systems, as evidenced by the growing number of adopters internationally. According to the latest survey of the IFRS Foundation, 144 (87%) of the 166 jurisdictions surveyed in 2018 require the application of IFRS from a majority of entities, while 12 jurisdictions (7%) allow the application of IFRS to any of the interested entities (The IFRS Foundation, 2018). According to a 2017 survey, 127 companies out of a total of 400,841 registered companies in Hungary reported according to the IFRS. Despite the seemingly low number, the effects of these companies on the Hungarian economy are very significant (Tóth, 2017).

Accounting data is the basis for decision-making in various areas of management, as well as for investors, creditors and business partners. We need true, fair, real and accurate data to make the right decision (Tangl–Vajna, 2016). National accounting regulations in line with international directives draw the attention of preparers to the provision of complete, reliable, true and balanced information, which also applies to the presentation of their multifaceted performance (Kardos–Madarasi, 2013). However, due to the different regulatory criteria and evaluation methods of the international standards, significant changes in the accounting and financial data according to the IFRS can be observed compared to the same income statement or balance sheet data reported according to the Hungarian Accounting Act (Zéman, 2018).

The results of this study contribute to the debate that cultural, political, economic, institutional and many other differences between countries are hampering the process of accounting harmonization worldwide and that the adoption of accounting directives has not significantly reduced European differences. European accounting harmonization remains an elusive goal (Ali et al., 2016; D’Alauro, 2019).

The aim of this work is to analyze the level of comparability of Hungarian listed companies calculating their incomes according to the IFRS, by identifying and analyzing the extent and direction of the differences between the financial statements issued according to the Hungarian and international standards.

LITERATURE REVIEW

Common law vs. code law

Differences in accounting between and within countries tend to be very deep, influenced by a number of cultural, social or economic factors and therefore resist long-term harmonization (Nobes, 2011). Due to the different national accounting traditions and local legal systems of each state, the process of accounting harmonization also develops differently. The transition from a rule-based accounting system to a principle-based accounting system has been applied in different ways in Europe, and the comparability and equivalence of financial statements has not been sufficiently achieved across Europe (Haller, 2002). It has been observed that

where dual financial statements are prepared, the international standard results in different results than national regulations (Gray, 1980, 1988; Ding et al., 2005).

The extent of value changes is highly dependent on the legal system of each country. Based on this, two major groups can be distinguished when classifying the accounting systems of countries: countries that apply the Anglo-Saxon model and countries that apply the continental model (Nobes, 2011). The Anglo-Saxon model includes countries that are part of the former British Empire (in addition to the United Kingdom, some examples are: the United States, Canada, Australia, New Zealand, Malaysia, etc.) and exercises common law. The continental model (Germany, Belgium, Spain, Portugal, France, Italy, Japan, South American countries, etc.) emphasizes code law (Clarkson et al., 2011).

In the Anglo-Saxon model, the origins of regulation are more related to commons and traditions. These countries are characterized by strong, active capital markets, investor-centered financial statements, little government influence and legal formalization, a self-regulated accounting profession, and independent tax- and financial reporting. In the continental model, the norms derive from the legal text, that is, in order for something to have value, it must be mentioned clearly and specifically in the law. In these countries, financial markets are less important, financial statements are more targeted at creditors and tax authorities, there is greater government intervention and fiscal-oriented government regulation, greater formalism and uniform application of rules, less accountant professional decision-making, close link between financial- and tax reporting, and a greater degree of conservatism in measuring profit (Nobes, 1998; 2008; 2011). Companies in the continental model have to expect a significant difference between their own accounting regulations and the IFRS (Istrate, 2013).

Hungary is a continental code law country, where national accounting shows many similarities to German terminology, accounting principles and valuation procedures. The Hungarian Accounting System is a detailed, comprehensive and prescriptive regulation, characterized by a lack of flexibility. It is characterized by strong state control, legal and tax influence (Borbély–Evans, 2006). Hungarian corporate taxation is closely related to the Hungarian Accounting Act (Fehér–Kurai, 2020). It is strongly defined by the Hungarian social values and the prudence principle (Takáts, 2014).

Contrary to the Hungarian formalist tradition, the IFRS is based on rules of principle, where the application of certain standards depends on flexibility and judgment in interpretation. The IFRS standards proclaim the primacy of accounting content over the legal form in which the principles of true and fair view prevail. The IFRSs are based on an assessment of economic reality as opposed to a purely regulatory assessment that promotes investor transparency. IFRS favors better quality and more comparable preparation of financial statements, limiting the income increasing application of accounting practices among managers, thereby better reflecting economic reality (Barth et al., 2012).

Due to the move away from detailed rules and the more principled approach of convergence with IFRS, the study assumes that the transition to IFRS will have a major impact on the financial statements. Thus, the hypothesis of this work is that in Hungary the transition to IFRS for individual reporting purposes usually results in significantly different results for listed companies than the previous Hungarian standard.

Measuring IFRS Harmonization

A number of studies examine the progress made in each country in harmonizing IFRSs (IASs) between local accounting rules, that in terms of regulatory principles and valuation methods and numbers what legal (de jure) and numerical (de facto) differences the IFRS shows against national accounting regulations.

According to a comprehensive study, there are significant differences in the de jure harmonization of financial reporting between EU Member States. On this basis, the lowest level of adoption of IFRS is demonstrated by Austria, where the IAS Regulation has been applied to the least extent in national law. Similarly, in France, Spain and Hungary, only the minimum requirements are met, and the range of companies applying IFRS is quite narrow (Procházková, 2012).

Strouhal et al. (2017) used the Jaccard and Lance-Williams coefficient method for de jure harmonization to examine the level of harmonization of local accounting legislation with IFRS in the V4 countries (Czech Republic, Slovakia, Hungary and Poland). Examination with both methods has shown that Hungary is lagging behind most, while Slovakia the least in terms of harmonization.

The transition to IFRS has had a major impact on accounting- and financial data in many countries that have adopted IFRS. In the following, we examine research on the impact of IFRS on financial statements and the performance of companies with the Gray (1980) index on the international and domestic stage.

Gray's (1980) methodology has been used in a number of works to compare de facto differences in accounting harmonization between international and national standards, for example: in England (Weetman–Gray, 1990); in Finland (Adams et al., 1993); in Sweden (Hellman, 1993); in Australia (Norton, 1995); in England, Sweden and the Netherlands (Weetman–Grey, 1991). Following the mandatory adoption of IFRS in Europe in 2005, the following studies were conducted with the method of the Gray-index: Beckman et al. (2007) and Haller et al. (2009) for Germany, O'Connell and Sullivan (2008) for large companies in seven Eurocontinental countries, Cordazzo (2013) for Italy, Tsalavoutas–Evans (2010) for Greece, Fifield et al. (2011) for the United Kingdom, Ireland and Italy, Hellman (2011) for Sweden, Lopez–Viana (2008) for Portugal, Iatridis (2012) for UK hedging firms, Istrate (2013) for Euronext markets (Belgium France Netherlands Portugal), Ali et al. (2016) for UK Alternative Investment Market (AIM) listed companies. Studies confirm that in the companies surveyed in these countries, IFRS had a significant initial impact on the companies' incomes, with a significant positive impact. Hellmann (2015) found statistically significant differences in the measurement of net income between strong (Class A: UK, Australia, the Netherlands, and Denmark) and weak (Class B: Sweden, France, Italy, and Spain) equity financing groups. Its outcomes suggest that the international accounting classifications developed decades ago have still persisted in the accounting figures of large companies in the countries since the mandatory adoption of the IFRS for consolidated reporting purposes in 2005.

The changes in the value of IFRS financial statements prepared for individual reporting purposes have been examined in the following studies.

Istrate (2014) examined the impact of the mandatory transition to IFRS on individual financial statements for listed companies in Romania (68) using the accounting data for the comparative year 2011, also using the Gray index. In terms of net income, the averages of the Gray indexes showed overall a decline in income, except for premium stock companies, which recorded modest growth, but this trend is offset by a sharp decline in other firms. The impact of IFRS on operating profit is already clearer, showing a consistent decline in income. The mean values of the Gray index showed a significant decrease in ROE, ROA, and ROS due to the transition to IFRS. The lower values of IFRS incomes on average may seem surprising, which the author explains by the fact that the individual financial statements do not include Goodwill, which, due to the elimination of IFRS implementation in 2005, has been identified in the literature as a significant contributor to increase net income in consolidated reports.

Tofanica (2015) also examined the impact of the first application of the IFRS in the 2012 financial statements of listed companies in Romania using the Gray index. The average Gray index of the outcomes of the 66 sampled companies shows that the majority of companies are neutral in adopting IFRS (they do not differ significantly from national regulations), while the results calculated on the basis of Romanian Accounting Standards are on average lower (deviation exceeds 5% on average) than IFRS figures.

Finally, Robu et al. (2019) the impact of the transition to IFRS at the individual level for 63 listed companies in Romania in the period 2007-2016 were also examined. Comparability of accounting information was done by the Gray index and panel data analysis. The main results showed significant differences in the financial position and performance information under RAS and IFRS. The main differences were at the level of both profitability indicators and financial structure indicators.

The positive and negative effects of the introduction of the IFRS for individual reporting purposes can also be identified with regard to the financial performance of Romanian companies, the vast majority of these authors report a significant impact. The results can be considered relevant for this study, as Romania can also be classified as part of the European continental accounting model as a code law country (Istrate, 2014).

Turning to domestic studies, by the end of this work no empirical study has been published that would have identified the effects of the adoption of IFRS in Hungary with the Gray index. Therefore, the most significant studies related to the de facto measurement of the IFRS are presented below.

Fekete et al. (2008) examined whether the consolidated financial statements of Hungarian listed companies after 2005 complied with the IFRS disclosure requirements. Based on this, the average value of the IFRS disclosure index is 0,6169 (62%), which indicates a significant non-compliance with the disclosure.

Beke (2011) examined the impact of the adoption of international accounting standards on the management performance and business decisions of companies listed on the Budapest Stock Exchange. Differences between national rules and international accounting standards were measured using a logistic regression model comparing the period before (2006) and after (2007) the adoption of the standards, in order to determine whether IFRS reduce

the level of profitability and business profit. The sample included 65 companies using the IFRS and 260 companies using local accounting rules. The results of the research showed an unpleasant view of the performance indicators following the application of the IFRS. The adoption of IFRS in the companies surveyed had a significant impact on the decline in net profit and income and even more on the deterioration of solvency, however, the author noted that he experienced a higher level of quality reporting due to the transition to IFRS.

Beke and Tiszberger (2012) in their research examined whether the economic and financial indicators of listed companies that adopt international standards show a significant difference compared to companies with more than 50 employees who prepare annual reports and follow Hungarian regulations. In the course of their research, they carried out a comparative study on whether the financial performance of companies that have already adapted to international standards shows a significant difference compared to companies that follow Hungarian Accounting Standards. Based on the Hungarian practice, no significant difference could be detected between the two accounting clusters in the examined period (2005–2007). The averages of the sales to taxed profit and sales to operating profit indicators are lower for the companies preparing IFRS reports than for the companies preparing reports according to the Hungarian Accounting Standards, but the decrease was not considered significant.

Csebfalvi (2012) also examined the effects of the adoption of international standards on the changing business environment, for example the extent to which the IFRS affected Hungarian companies in terms of business performance in the studied periods (before introduction 2004-2006 and after introduction 2008-2010). As in the case presented earlier, he also used the financial statements of 65 listed companies prepared in accordance with the IFRS and 260 companies in accordance with local accounting rules. He pointed out that the introduction of IFRS had a negative impact on company balance sheet data, net profit values, and profitability and solvency ratios. On the other hand, it found it positive that IFRSs provide higher quality information and clearer and more transparent information compared to domestic regulatory standards.

Albu et al. (2013) in 4 countries (Hungary, Czech Republic, Romania and Turkey), a total of 23 interviewees (5-7 per country) examined the introduction of IFRS among SMEs. The smaller effect of the accounting regulations (*de jure*) was found in Hungary and in the Czech Republic. However, the *de facto* application of international standards has been controversial in countries due to reduced professional competencies, close links with taxation and lower levels of implementation.

The impact of IFRS on taxation in Hungary was examined by Fehér-Karai (2020). It was found that in the year of transition, the average effective tax rates for companies in 2017 decreased significantly and that the elimination of the positive effects of fair value on profit before tax resulted in a significant decrease in the effective tax rate. The results show significant differences in the profit before tax calculated on the basis of the two different accounting systems. These are partly due to the transition to IFRS and partly due to the change in the tax rate. Due to the transition, the tax liability of companies decreased and the change in the effective corporate tax rate became significant.

In summary, previous studies show that the adoption of IFRS has more negative effects for consolidated reporting purposes, while only a single study reports the positive effects of the transition from the period of application of the IFRS in 2017 for individual reporting purposes. However, it can also be seen from the secondary data that the impact of IFRS on the profits of the Hungarian companies is by no means negligible. This study reflects the expectation that the adoption of IFRS in Hungary, as in other countries, will have a significant impact on the income statement and financial performance of companies, and thus on the comparability of accounting numbers. Although the purpose of this work is not to analyze the reasons for the differences, but rather to present the impact of accounting regulatory changes in the financial statements for information purposes.

RESEARCH DATA AND METHODOLOGY

The main objective of the study is to compare the international standards (IFRS) and the Hungarian accounting profits and financial ratios using the inverse of the Gray (1980) comparability index, for instance to determine the extent of the de facto impact of changes due to through the income statements and financial ratios of companies. The index was originally developed by Gray (1980) and was called the conservatism index. Later, Weetman et al., (1998) renamed the index to the comparability index (CI) to focus more on relative accounting, without having to judge which accounting treatment is more or less conservative (Street et al., 2000; Gray et al., 2009)

Most studies start from the original comparability index of Gray (1980):

$$CI(ComparabilityIndex) = 1 - \frac{Profit_{NewGAAP} - Profit_{PreviousGAAP}}{|Profit_{NewGAAP}|} \quad (1)$$

We also find authors who provide figures for previous standards in the denominator (Bekman, 2007; Istrate, 2014; Tofănică, 2015; Robu, 2019):

$$CI = 1 - \frac{Profit_{NewGAAP} - Profit_{PreviousGAAP}}{|Profit_{PreviousGAAP}|} \quad (2)$$

A formula similar to the one below is described by Street et al. (2000); Gray et al. (2009), and Istrate (2013) used:

$$CI^{-1} = 1 - \frac{Profit_{PreviousGAAP} - Profit_{NewGAAP}}{|Profit_{PreviousGAAP}|} \quad (3)$$

This study uses the inverse of the original Gray-index in the Hungarian legal environment, modeled on Pires–Decourt (2015) and Souza–Shikida (2021):

$$ICI = 1 + \frac{Profit_{IFRS} - Profit_{HAS}}{|Profit_{HAS}|} \quad (4)$$

Where:

ICI = Inverse Comparability Index

$\text{Profit}_{\text{IFRS}}$ = Profit (or loss) according to IFRS

$\text{Profit}_{\text{HAS}}$ = Profit (or loss) according to the previous Hungarian Accounting Standards.

The values of the inverse comparability index can be interpreted as follows:

- ICI = 1: the two sets of standards give the same value;
- ICI is higher than 1: IFRS values are higher than those of the Hungarian standards;
- ICI is lower than 1: IFRS values are lower than values obtained using the Hungarian standards.

Gray (1980) identified the ratios based on three groups: a pessimistic, neutral, and optimistic zone, which he classified into nine categories from the highly pessimistic or conservative (<0,50) category to the optimistic or less conservative (> 1,50) category. Based on the inverse of the original classification, the following ranges were set up:

- neutrality (index values between 0,95 and 1,05), with three subclasses: between 0,95 and 0,99; 1; Between 1,01 and 1,05;
- pessimism (IFRS is more conservative than previous standards for; <0,95 index) with three subclasses: below 0,50; between 0,50 and 0,74; between 0,74 and 0,94;
- optimism (IFRS is less conservative than previous standards; >1.05 for), with three subclasses: between 1,06 and 1,25; between 1,25 and 1,50 and above 1,51.

From Equation (4), the hypothesis of this work can be formulated as follows:

- H0: the IFRS standard generates the same results as the Hungarian standard;
- H1: the IFRS standard generates different results (pessimistic or optimistic) than the Hungarian standard.

The use of inverse index is more in line with the objectives of this study, in contrast to the interpretation of the original index, because when an increase in results generates values greater than one, and vice-versa, it expresses the effect of the IFRS in a more intuitive way.

Although there is no generally accepted threshold given the materiality of differences, traditionally five percent of revenue represents the level of whether an item is material or not (Street et al., 2000). In Hungary, according to the Accounting Act, an accountant may classify an item as material if the adjustment exceeds 2% of the balance sheet total for a given business year (Act C of 2000).

The subject of the analysis was companies trading in premium shares on the Hungarian stock exchange, with the exception of credit institutions and equivalent financial enterprises. The securities of the highest value, for example the premium category, include a total of 20 joint-stock companies, three of which are financial institutions and insurers under the supervision of the National Bank, which provide accounting data in a different reporting structure from other joint-stock companies. Companies operating in the financial sector have fundamentally different accounting concepts due to their core business, and due to the specifics of the accounting system, comparability could have been difficult to ensure in this sector, therefore 17 publicly owned companies were included in the analysis. The research data is derived from the individual annual financial statements of companies published in accordance with the IFRS in 2017 and the annual reports prepared in accordance with the Hungarian Accounting Act from the year 2016, namely the period before the first IFRS financial statements, consists of net sales, operating profit, profit before taxes and taxed profit. For a single company, the one year earlier IFRS financial statements (2016) and Hungarian

financial statements (2015) were used, thanks to the fact that the IFRS were first adopted on a voluntary basis a year earlier. The basic data of the study are from 2016 for 16 companies and from 2015 (first-time adaptation) for the comparative period of transition to IFRS for individual reporting purposes.

It is important to highlight the extent to which the financial data provided in the individual annual accounts has improved or deteriorated as a result of the transition due to different regulatory criteria and procedures. The performance of companies is measured in terms of profitability, using different types of Return on Sales (ROS) indicators.

Several methods of calculating the ROS indicator are known, practically projecting each profit category onto sales.

We used three types of determination of the ROS indicator in the study:

- Sales to operating profit = operating profit / net sales;
- Sales to profit before tax = profit before tax / net sales;
- Sales to taxed profit = taxed profit / net sales.

The studies cover only one business year per company and do not reflect trends in performance in previous and subsequent years, as the ultimate goal of the studies was not to evaluate and compare the performance of each year from the periods surrounding the introduction of the IFRS, but to try to point out the volume and significance of the differences between the indicators shown.

The analysis was also performed using mathematical-statistical methods: Shapiro–Wilk normality test and Wilcoxon test. For the whole sample ($n=17$), none of the variables had a normal distribution (p -value of the Shapiro–Wilk test $<0,05$; the distribution of the datasets on the density diagram is not symmetrical bell-shaped) and therefore the study was continued with the Wilcoxon test.

The latter is known to be a non-parametric test used to compare two sets of scores and to examine changes in scores, or when these differences are not normally distributed. These statistical tests were performed to check whether the means (medians) of the financial data and indicators after the application of IFRS differ from the means (medians) of the data according to the Hungarian Accounting Act and the indicators formed from them.

Because the data in the sample are not normally distributed, the study focuses on the median effect of the IFRS measurements rather than the mean through the comparability index. The Wilcoxon test is used to determine if the values of the index are statistically different from the neutral median value of 1,0.

Weetman et al. (1998) note that due to outliers, the comparability index (CI) tends to be extreme when the denominator approaches zero. Therefore, the study uses the method proposed by Gray et al. (2009): quartiles 1 and 3 (Q_1 and Q_3) were calculated, thus the interquartile range was determined ($IQR = Q_3 - Q_1$), and then all values outside $Q_1 - 1,5 \times IQR$ and $Q_3 + 1,5 \times IQR$ intervals have been removed.

Regardless of whether a small sample group is tested, it is not necessary to remove outliers when using the Wilcoxon test. The non-parametric statistical method allows room for comparison of data from different firm- and industry-specific companies, as it is a paired test, and comparing financial data of different sizes is not a problem, as the Wilcoxon test is based on ranking of differences. For this reason, the results obtained by the non-parametric statistical test can be considered reliable together with the outliers. However, in the study, tests were also performed with the removal of outliers.

RESULTS

Impact on the profit

In this chapter, the main results of the study are presented in tables comparing the changes in the financial data of companies according to Hungarian Accounting Standards (HAS) and International Financial Reporting Standards (IFRS) using the inverse of the Gray (1980) index from the comparative period of the first application of IFRS. Table 1 shows the values and statistical figures of the inverse comparability index of net sales, operating profit, profit before tax and taxed profit according to HAS and IFRS. To the question of whether there is a significant difference between the two accounting systems in the value of the main income categories, a Wilcoxon test was performed and the result obtained is indicated by the p-value.

Table 1: Inverse Comparability Index (ICI) values for the main income statement categories from the comparative period of first-time adoption of IFRSs

Firm	Net Sales		Operating profit		Profit before tax		Taxed profit	
	ICI	ICI after elimination of outliers	ICI	ICI after elimination of outliers	ICI	ICI after elimination of outliers	ICI	ICI after elimination of outliers
1	1,000	1,000	1,708	1,708	1,237	1,237	1,189	1,189
2	1,162	-	1,657	1,657	1,657	1,657	1,638	1,638
3	1,000	1,000	1,083	1,083	15,369	-	15,206	-
4	3,822	-	18,897	-	0,223	-	0,221	0,221
5	0,532	-	1,678	1,678	1,555	1,555	1,571	1,571
6	1,292	-	2,268	2,268	-9,775	-	-13,848	-
7	1,034	1,034	-12,145	-	1,118	1,118	1,128	1,128
8	1,000	1,000	1,036	1,036	1,031	1,031	1,097	1,097
9	1,002	1,002	4,726	-	1,165	1,165	0,709	0,709
10	1,000	1,000	1,138	1,138	1,145	1,145	1,150	1,150
11	0,772	-	1,432	1,432	2,044	2,044	1,997	1,997
12	1,000	1,000	1,788	1,788	1,197	1,197	0,994	0,994
13	0,508	-	1,080	1,080	1,074	1,074	0,922	0,922
14	0,947	0,947	0,670	0,670	1,040	1,040	0,539	0,539
15	1,006	1,006	1,140	1,140	1,089	1,089	0,996	0,996
16	0,955	0,955	1,793	1,793	1,558	1,558	1,901	1,901
17	0,778	-	2,542	2,542	0,664	0,664	0,963	0,963

Firm	Net Sales		Operating profit		Profit before tax		Taxed profit	
	ICI	ICI after elimination of outliers	ICI	ICI after elimination of outliers	ICI	ICI after elimination of outliers	ICI	ICI after elimination of outliers
mean	1,106	0,995	1,911	1,501	1,376	1,255	1,081	1,134
median	1,000	1,000	1,657	1,544	1,145	1,155	1,097	1,097
p-value	0,666	0,787	0,008*	0,002*	0,089**	0,005*	0,949	0,330
IQR	0,059	0,002	0,710	0,671	0,515	0,398	0,649	0,437
SD	0,727	0,025	5,589	0,516	4,495	0,341	5,158	0,483

*Indexes significant difference from 1,00 at p-values of 0,01, or less.

**Indexes significant difference from 1,00 at p-values of 0,10, or less.

Source: own research based on the financial statements of the surveyed companies

Based on the Inverse Comparability Index of net sales, it can be seen that sales increased by an average of 10,6% for the whole sample (n = 17) (mean of ICI = 1,106), while after removing the outliers (n = 10) 0,5% decreased (mean of ICI = 0,995), which is thus considered insignificant. The change compared to 1 is not statistically significant either. The p-value of the Wilcoxon test (p = 0,666 and p = 0,787) is higher than the significance level of 0,05, therefore we have to accept the null hypothesis and conclude that the median net sales values obtained by the transition to IFRS do not differ significantly from median values according to.

By calculating the inverse comparability indexes of operating profit, the study seeks to answer the extent, direction, and significance of the changes associated with the transition to IFRS. In this case, there is a clear increase in value due to the IFRS, as the average increase in operating profit is almost double (mean of ICI = 1,911), which resulted in a significantly high average increase of 1,5 times (mean of ICI = 1,501) even after the removal of outlier values. The Wilcoxon-test indicates that the difference between the inverse comparability index and 1 is statistically significant. These index values are significant at the 99% confidence level with a 1% probability of error; the Wilcoxon p-value (p = 0,008 and p = 0,002) is much lower than the 0,01 significance level, so we can say that median operating profits under IFRS according to Hungarian accounting are significantly different, i.e. they are significantly higher than the median values according to Hungarian accounting.

Subsequently, the inverse comparability index of the Profit before tax of the companies were calculated on the basis of the data of the two accounting systems from the same period, and we can observe that the index values increased on average by 37,6% (mean of ICI = 1,376), which is only at the 90% confidence level, there is a 10% probability of error is considered significant (p = 0,089). After removing the outliers, the average increase due to the transition is 25,5% (mean of ICI = 1,255) and it can be seen that the median IFRS values differ significantly from the median values according to the Wilcoxon-test, as the index values are statistically significantly higher (p = 0,005) than 1, among companies using IFRS.

Finally, in the case of the inverse comparability index of companies' profit, the extent and significance of the changes in value resulting from the transition to the IFRS were also interpreted. According to the indexes, profit according to IFRS improved, with an average increase of 8,1% for the entire sample (mean of ICI = 1.081) and an average increase of 13,4% after removing outlier values (mean ICI = 1,134). However, the difference is not significant at all compared to 1, as the Wilcoxon p-value is already much higher ($p = 0,949$ and $p = 0,330$) than the significance level of 0,05, so the p-value they do not differ significantly from the median HAS values for net income.

It can be seen that the profit categories show a large standard deviation (SD), which in turn supports the removal of outliers. Without it, it cannot be said that all companies increased their profits to a similar extent during the transition.

In Table 2, companies were classified into 3 groups (including 3 subgroups) based on the values of the inverse comparability indexes based on the conservatism scale proposed by Gray (1980).

Table 2: Number of companies by intervals of the inverse comparability index (ICI) for the main income statement categories

Invers IC classified by subgroups		Net Sales	Operating profit	Profit before tax	Taxed profit
		Number of companies	Number of companies	Number of companies	Number of companies
I	<0,5	-	1	2	2
II	0,5-0,74	2	1	1	2
III	0,75-0,94	3	-	-	1
Pessimistic (<0,95)		5 (29%)	2 (12%)	3 (18%)	5 (29%)
IV	0,95-0,99	1	-	-	3
V	1	5	-	-	-
VI	1,01-1,05	3	1	2	
Neutral (0,95-1,05)		9 (53%)	1 (6%)	2 (12%)	3 (18%)
VII	1,06-1,25	1	4	7	2
VIII	1,26-1,5	1	1	-	2
IX	>1,5	1	9	5	5
Optimistic (>1,05)		3 (18%)	14 (82%)	12 (70%)	9 (53%)
TOTAL		17 (100%)			

Source: Own research based on Gray's (1980) classification and financial statements of the companies surveyed

If we analyze the number of companies used in the sample within the three ranges suggested by Gray (1980), we can see that the majority of companies (53%) in terms of net sales fall in the neutrality range, for example IFRS sales do not differ significantly from

HAR sales. Of the surveyed companies, only three companies (18%) fall into the optimistic range (The IFRS is less conservative than the Hungarian regulation), while five companies (29%) fall into the pessimistic range (IFRS is more cautious than the Hungarian regulation).

The grouping based on the values of the inverse comparability index of the operating profit of companies is much more spectacular than this. The majority of companies (82%) are above 1,05 (optimistic), i.e. the operating profit according to IFRS significantly exceeds the values in accordance with Hungarian regulations. Of the surveyed companies, only one company can be classified in the neutral range and two companies in the pessimistic range.

The proportion of companies in the optimistic range based on the inverse comparability indexes of profit before tax is also significant. The results suggest that the application of the IFRS has led to a significant increase in profit before tax. 70% of the companies surveyed are above 1,05, while 18% are in the area of pessimism and 12% in the area of neutrality.

In the breakdown by taxed profit, we can see that the majority of companies (53%) fell into the optimistic group, while the rest fell into the pessimistic (29%) and neutral (18%) ranges. Overall, this means that the application of IFRS has led to less conservatism in profit than the Hungarian regulation, i.e. the impact of IFRS on profit is not negligible.

Overall, comparability indexes exceeded the materiality level of 5% in terms of net sales 94% of the sampled companies, in terms of profit before tax 88%, and in terms of taxed profit 82% of the companies.

Impact on financial performance

In the rest of the article, the study illustrates the differences between the Hungarian Accounting Standards (HAS) and the International Financial Reporting Standards (IFRS) from the comparative period of the first application of the IFRSs using the inverse comparability index values of the ROS indicators compiled from companies' financial data. Table 3 shows the values of the inverse comparability index of the ROS indicators, which can be used to determine the extent and direction of value differences resulting from changes in the accounting system. To answer the question of whether there is a significant difference between the two accounting regulatory systems, we performed a Wilcoxon test based on the values of the inverse comparability index formed from the ROS indicator. With the help of the test, we compare the values of the inverse index, which are derived from the data prepared on the basis of Hungarian and international accounting rules for the comparable period of the listed companies. The results obtained are summarized in the table below.

Table 3: Inverse comparability index values for ROS indicators from the comparative period of first-time adoption of IFRSs

Firm	Sales to operating profit		Sales to profit before tax		Sales to taxed profit	
	ICI	ICI after elimination of outliers	ICI	ICI after elimination of outliers	ICI	ICI after elimination of outliers
1	1,708	1,708	1,237	1,237	1,189	1,189
2	1,705	1,705	1,705	1,705	1,689	1,689
3	1,083	1,083	15,369	-	15,206	-
4	4,944	-	0,058	0,058	0,058	0,058
5	3,154	3,154	2,923	-	2,954	2,954
6	2,207	2,207	-7,568	-	-10,721	-
7	-11,676	-	1,147	1,147	1,157	1,157
8	1,036	1,036	1,031	1,031	1,097	1,097
9	4,720	-	1,163	1,163	0,707	0,707
10	1,138	1,138	1,145	1,145	1,150	1,150
11	1,264	1,264	2,058	2,058	1,996	1,996
12	1,788	1,788	1,197	1,197	0,994	0,994
13	2,128	2,128	2,116	2,116	1,816	1,816
14	0,596	0,596	0,986	0,986	0,458	0,458
15	1,133	1,133	1,082	1,082	0,990	0,990
16	1,877	1,877	1,631	1,631	1,991	1,991
17	2,697	2,697	0,282	0,282	0,667	0,667
mean	1,265	1,680	1,621	1,203	1,376	1,261
median	1,708	1,706	1,163	1,155	1,150	1,150
p-value	0,009*	0,002*	0,089**	0,078**	0,329	0,252
IQR	1,074	0,931	0,673	0,489	1,109	0,904
SD	3,551	0,704	4,197	0,572	4,645	0,726

*Indexes significant difference from 1,00 at p-values of 0,01, or less.

**Indexes significant difference from 1,00 at p-values of 0,10, or less.

Source: own research based on the financial statements of the surveyed companies

Based on the values of the inverse comparability index in Table 3, we can observe that the sales to operating profit increased by an average of 26,5% as a result of the transition to IFRS (mean of ICI = 1,265) and by removing the outliers by an average of 68% (mean of ICI = 1,680) for the companies examined, which can be considered extremely high.

The increase compared to 1 was statistically significant, as indicated by the p-value of the Wilcoxon test in both cases (p-value = 0,009 and p-value = 0,002). From this we can conclude that the median sales to operating profit indicators obtained with the transition to IFRS are significantly higher than the median values according to the Hungarian accounting.

By calculating the values of the inverse comparability index of the sales to profit before tax indicators, we also looked for the answer to the extent, direction and significance of the changes in the indicator in connection with the transition to IFRS. It can be read from Table 3 that sales to profit before tax indicators prepared in accordance with the IFRS also improved significantly on an average, increasing by 62,1% compared to the indicators assessed according to the Hungarian accounting (mean of ICI = 1,621). After the removal of the outliers, the deviation remains high, with the ROS indicators increasing by an average of 20,3% as a result of the transition to the IFRS (mean of ICI = 1,203). According to the Wilcoxon-tests, the values of the index are more than 90% significant (p-value = 0,089 and p-value = 0,078), which means that with a 10% probability of error, the differences are already significant, i.e. the median values according to the IFRS are in the case of sales to profit before tax indicators, these are significantly higher than the median values according to Hungarian accounting.

Finally, in the case of the sales to taxed profit indicator, we also performed the inverse comparability index calculations from the same comparison period according to the data of the two accounting systems. Based on the results presented in Table 3, we interpreted the significance of the changes in value resulting from the transition to IFRS for the income position of companies. According to the comparison shown in Table 3, similarly to the sales to profit before tax, the average values of the indicators for sales to taxed profit improved by 37,6% compared to the average values of HAR (mean of ICI = 1,376), which was also maintained by the removal of outliers, as the increase was still significant, that is 26,1% (mean of ICI = 1,261). According to the Wilcoxon test, however, the difference is not statistically significant at all, as the p-value is already much higher (p-value = 0,329 and p-value = 0,252) than the generally accepted significance level of 0,05, i.e. the median values according to IFRS are not differ statistically significantly from the median HAS values for sales to taxed profit.

To interpret the indexes, the study again uses the interpretation of Gray (1980), who sets a conservatism scale for different groups depending on the value of the index.

Table 4: *Number of companies by intervals of the Inverse Comparability Index (ICI) for the ROS indicator*

Inverse IC classified by subgroups		Sales to operating profit	Sales to profit before tax	Sales to taxed profit
		Number of companies	Number of companies	Number of companies
I	<0,5	1	3	3
II	0,5-0,74	1	-	2
III	0,75-0,94	-	-	-

Inverse IC classified by subgroups		Sales to operating profit	Sales to profit before tax	Sales to taxed profit
		Number of companies	Number of companies	Number of companies
Pessimistic (<0,95)		2 (12%)	3 (18%)	5 (29%)
IV	0,95-0,99	-	1	2
V	1	-	-	-
VI	1,01-1,05	2	1	-
Neutral (0,95-1,05)		2 (12%)	2 (12%)	2 (12%)
VII	1,06-1,25	2	6	4
VIII	1,26-1,5	1	-	-
IX	>1,5	10	6	6
Optimistic (>1,05)		13 (76%)	12 (70%)	10 (59%)
TOTAL		17 (100%)		

Source: Own research based on Gray's (1980) classification and financial statements of the companies surveyed

It was previously noted that during the transition to IFRS there was a significant change in the majority of the sample in the main profit categories, excluding sales, and the change was mostly positive, i.e. the values in IFRS generally increased significantly compared to the Hungarian regulation.

In terms of the relationship between operating profit and sales, the figures for the sales to operating profit indicator show a clear increase in IFRS, as 76% of companies have an index higher than 1,05 and only 24% of companies (12-12%) fall outside this range. The value of the sales to operating profit indicator represented by the IFRS resulted in an increase in the number of companies under the Hungarian accounting system, which is in line with the previous finding that the IFRS significantly increased operating profit.

The sales to profit before tax comparability indexes developed similarly to the previous indicator. In 70% of companies, the index exceeds the threshold of 1,05 (optimistic), while in 18% it remains below 0,95 (pessimistic) and in 12% it is around 1 (neutral). Due to the increase in profit before tax from the transition to the IFRS, the ROS ratio also increased significantly compared to the previous Hungarian regulations.

As noted above, there was a significant change in profit for the sample as a whole during the transition to the IFRS. As a result of the relationship between taxed profit and sales, the value of the ROS indicator increased significantly (optimistic; $p > 1,05$) in most companies (59%) and decreased significantly (pessimistic; $p < 0,95$) to a lesser extent (29%), while 12% of the companies did not cause a change (neutral; $p = 0,95 - 1,05$) in the value of the sales from the taxed profit indicator to the IFRS.

Overall, the comparability index for both sales to operating profit, sales to profit before tax and sales to taxed profit exceeded the materiality level of 5% for 88% of the sampled companies.

CONCLUSIONS

In the framework of the comparative analysis, the inverse values of the Gray (1980) Comparability Index calculated using the financial results of Hungarian listed companies published on the basis of two different accounting rules and the return on sales (ROS) indicators formed from them were presented. Based on the local Hungarian Accounting Standards (HAS) and International Financial Reporting Standards (IFRS) income statement and profitability indicators of the companies' annual reporting, the research shows the extent and direction of the transition to IFRS for individual reporting purposes in the comparative year of IFRS application (In 2016 and in 2015 for 1 company). In addition to the inverse of the Gray (1980) Comparability Index, a non-parametric statistical test was used to examine the significance level of the impact of the transition to IFRS on income statement and financial performance. Through the example of 17 Hungarian listed companies, the research pointed out the link between the transition to IFRS for individual reporting purposes and resulting of this the development of financial data.

The results of this research are in line with research conducted in countries with a Euro-continental accounting culture and show that the application of the IFRS for individual reporting has a significant impact on the profit and financial performance of listed companies. All this means is that by determining the comparability indexes of the transition to the IFRS, it is possible to show an improvement in the profit and return on sales indicators reported by companies. The main profit categories excluding net sales after the removal of outliers, where there is a minimal average decrease, improved significantly on average in the IFRS standard environment (above 10%). Only the average increase in taxed profit is lower than this value (8,1%), taking into account the total pattern. Statistical tests show that changes in value are more than 99% statistically significant for operating profit and more than 90% statistically significant for profit before tax.

The ROS indicators formed using the income statement categories show significantly higher values than in the Hungarian regulatory environment, in this respect the transition to IFRS produced more efficient, profitable indicators. The lowest increase in the average indicator after removal of outliers was for sales to profit before the tax indicator (20,3%) and the highest for sales to the operating profit indicator (68%). The extent of increase is also statistically significant, although in the case of the former only at the significance level of 0,1, but in the case of the latter it is already at the significance level of 0,01. Thus, the statistical test rejects H_0 , thus confirming the optimism hypothesis in IFRS.

However, if the comparability of the figures under the two sets of standards is examined, this is significantly impaired, as the vast majority of the companies surveyed exceeded the materiality level of 5% (94% of the sampled companies in terms of net sales, 88% of the companies in terms of profit before tax, 82% of the companies in the case of taxed profit, and uniformly 88% of the companies in the case of the ROS indicators). This indicates a significantly different profit under IFRS and HAS, i.e. the standards significantly affect the comparability.

From this study, it can be concluded that the HAS has not yet achieved full harmonization with the IFRS and with the de jure amendments to the accounting legislation that came into force on January 1, 2016. As the transition at the individual level has widened the gap between profits, this suggests low de facto convergence. However, the study covers only a single business year and comparability indexes should be calculated in the pre and post adaptation periods to confirm the results. The problem is that the companies only provided comparative data in one business year. Longer-term studies are needed to determine whether the IFRS experience of these companies results in greater comparability with Hungarian accounting.

Extreme differences, when the ICI is much higher or lower than 1, suggest that there is no consensus among companies not only on regulations but also on the interpretation of standards, which may lead to further differences in the preparation of accounting policies. Probably because of the principle-based standards, the interpretations resulted in a bold assessment and estimation for most companies. Most of these companies would merit a separate case study. Deviations of more than 5% of profit also raise very important questions for the audit profession when it comes to declaring compliance with the IFRSs.

These significant differences are very important for the evaluation of companies and the measurement of performance, because they can influence the decisions made by users and investors on the basis of financial statements, and may even lead to different conclusions among management, which may affect strategic decision-making. Therefore, the correct interpretation of accounting information and financial data is imperative.

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Norbert Forman – Richárd Kása – Róbert Tóth

Resignation, Digitalization, and the Hospitality Industry within Hungary

Part 1



Summary

As a result of the Coronavirus pandemic, our lives changed. It affects how we work, how we interact with others, and how we cope with stressful situations. We examine the relationship between digitalization and resignation in the Hungarian hospitality industry in this study. Reviewing the literature on the link between these variables forms the first part of the research. Part two will present actual data in support of the findings in part one. These two parts address the following research question: The impact of COVID-19 on the hospitality job market?; the impact of the resignation wave on businesses trying to restart?; can digitalisation be a solution to these limitations?

Journal of Economic Literature (JEL) codes: M15, M21

Keywords: digitalization hospitality industry, resignation

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INTRODUCTION

First and foremost, the COVID-19 pandemic had an impact on the job market, especially in the hospitality sector. Due to the COVID-19 pandemic, this sector was subject to most of the restrictions and had the most unknowns. Secondly, the resignation wave was in a way a side effect of the Coronavirus pandemic, although it wasn't directly caused by it. While some sectors were restricted, others were not. In other words, jobs in other markets were not lost in a substantial way, so people started to migrate to the safer job markets. A ripple effect occurred for sectors that lost jobs due to the pandemic and now wish to reopen and recruit. Unfortunately, they are faced with the harsh reality that people do not desire to work in the sector anymore, which means they cannot find employees.

As a new key objective, we propose digital transformation to make the hospitality industry more successful and viable. Industry 4.0 is a part of the digital industrial revolution that was first introduced by the German government (Kagermann et al., 2013). The European agency for SMEs announced in 2019 that our goal should be to become a “resource-efficient European economy” (EC, 2003). Furthermore, digitalization was accelerated by outside forces as well as the COVID-19 pandemic (Neto et al., 2020). Since progress toward digital transformation began a while ago, many of the design principles have already been developed (Hermann et al., 2016).

CORRELATION BETWEEN THE COVID-19 PANDEMIC AND THE RESIGNATION WAVE

Hotel and restaurant lockdowns were among the first to occur. As employers sought to cut costs, they were ruthless, activating a “force majeure” clause in contracts that told staff that their contracts were terminated without legal compensation. After the economy stabilised, the hospitality industry reopened but employers had difficulty finding staff due to a lack of trust (Horn, 2021). According to a McKinsey study cited by Horn, 40% of the hospitality industry's participants expect to quit their jobs in the next six months. This sudden employee firing led to the collapse of social responsibility within the hospitality industry, which is strongly connected to the local community.

Though the lockdowns mostly affected the hospitality industry, the resignation wave movement affected other industries as well, including the medical field. Resignations in this sector are not caused by employers forcing them to leave, but by overworking and burning out. In a survey of doctors in the UK, half said they planned to work fewer hours in the next six months and 21% said they might leave the field. Furthermore, compared to last year, early retirement rates are on the rise (Sheather, 2021).

The COVID-19 pandemic clearly had a ripple effect throughout many industries, causing employees to resign. There are indirect factors involved as well, such as more stressful environments or more tasks at the workplace, as well as direct factors, like being forced to do so.

ARE DIGITIZATION AND DIGITALIZATION THE SAME?

Researchers Li et al. and Sebastian et al. view digitization as the transformation of an analogue task into a digital one (Li et al., 2016:514-528; Sebastian et al., 2017). The concept of digitization is defined by Yoo et al. as the encoding of analogue-form information into a digital format (Yoo et al., 2010). “The increasing use of digital technologies for connecting people, systems, companies, products, and services” (Coreynen et al., 2017:42-53). Essentially, we consider digitization as the conversion of analogue data into digital format, which does not impact value creation activities, as would digitalization.

Digitalization according to Pagani and Pardo is a method to improve existing processes within an organisation to increase employee and/or customer satisfaction through a better user experience (Pagani – Pardo, 2017:185-192). Li et al. researchers also approach the issue from a similar point of view, they believe that digital technologies can be used to alter business processes to achieve certain gains (Li et al., 2016:514-528). “Digitalization involves standardising business processes and is associated with cost-cutting and operational excellence” (Ross, 2017). We believe that digitalization is using digital technologies to improve processes within an organisation to improve user experiences, improve overall product quality, and decrease costs.

Digitalization and digitization have many slightly different definitions, however, at their core they are very different even if they appear similar. Therefore Brennen and Kreiss see digitization as: “the physical process of converting analogue streams of information into digital bits” and digitalization as: “the way a variety of social domains are restructured around the technology of digital communication and media infrastructure” (Brennen – Kreiss, 2016, p. 1-11).

DIGITALIZATION AS AN ORGANIC PART OF AN ORGANISATION

New industry structures are created because of digitalization, while old ones disperse (Gimpel et al., 2018). Employees are taking on a new way of working (Brynjolfsson – McAfee, 2014), which changes how they collaborate with each other and the organisation as a whole. Customers are increasingly choosing with which organisations and products they want to interact (Gimpel et al, 2018) due to new ways of connecting. A digital platform connects customers, products, and organisations, enabling them to interact with one another (Gimpel et al., 2018; Gartner, 2016). It has been suggested that the adoption of new digital technologies will facilitate this connection between customers, products, and organisations to assist in bridging the gap between these three major players (Legner et al., 2017:301-308). There are four stages to digitization: creation, processing, transmission, and actual use (Loebbecke, 2016:357-373) and they can be divided into the following three groups: homogenization of data, reprogrammability, and processing of digital content (Yoo et al., 2010:724-735).

This is not something revolutionary or the culmination of evolutionary steps; it is a part of an evolutionary process that will last for years or perhaps decades (Porter and Heppel-

mann, 2014). In the race to build a successful business, it is crucial to create cutting-edge products quickly and make the necessary changes, which is one advantage of digitization. IoT, blockchains, social media, computing (SMAC) and advanced analytics are among the digital technologies that exist today (Fitzgerald et al., 2014:1-12), so the possibilities are endless. A good example of showcasing the benefits of digitalisation is comparing mobile phones as physical products to software companies like Instagram. Despite the widespread use of mobile phones and huge population reach, it took 75 years for the number of mobile phone users to reach 100 million. In contrast, Instagram reached the same number of users in just a little more than 2 years (Statista, 2017), leveraging digitalization alone.

DIGITAL TRANSFORMATION WITHIN AN ORGANISATION

By focusing on digitalization, the company hopes to increase its productivity by transforming its business model, processes, services, and products. There are ways to trigger changes to the business model of a company within its ICT capabilities, such as data processing, data storage, and data exchange (Carr, 2003) that could lead to digitisation of data and automation of processes. Moreover, this can result in an increase in performance as well as a competitive advantage for one organisation over the other. New digital formats result in lower costs, greater reliability, and greater flexibility (Breeding, 1992). Organisations with an information system can organise, coordinate, share, and automate work (Alter, 1999). This has led to the digitization of processes, services, and products within the organisation's infrastructure over time (Bharadwaj et al., 2013:471–482). “Digital transformation” refers to changes in core business processes, customer interfaces, products and services, as well as the use of information and communication technologies (ICTs) (Federal Ministry for Economic Affairs and Energy, 2017). The data, people, and processes in a successful digital transformation end up working in harmony together and bringing value to the company.

Numerous studies have been conducted to understand how to initiate digital transformation within a business, resulting in the following steps that support this process and help the business achieve its digitalization goals (Legner et al., 2017). Steps include updating employees' digital skills, implementing the build-measure-learn model in the organisation, optimising communication channels with all stakeholders, adopting a customer-focused mindset, and incorporating IT into your business model along with security.

Although the digitization and digital transformation of an organisation can improve its performance, time to market, and overall satisfaction, it can also have a negative impact on employees. It can adversely affect their career satisfaction and motivation to work and can increase depression rates among employees as well (Broughman – Haar, 2017). As a positive note, the implementation of smart technology, artificial intelligence, robotics, and algorithms (STARA) in the organisation did not increase feelings of job insecurity (Smith – Aaron, 2016).

THE STAKEHOLDER OF DIGITAL TRANSFORMATION

The three areas of digital transformation are: external drivers, digital transformation, and strategies (Parker et al., 2016, Van Doorn et al., 2010:253-266). The external drivers are competition, customers, and technology, since those are the essential elements that act like a spark plug to ignite the transition to digital transformation. We can then move on to the second area, which is digitalization, digitization, and digital transformation once the need for digital transformation is identified. Lastly, there is the third area, which involves leveraging a digital business model that combines resources, structure, KPIs, and a strong focus on metrics and monitoring. Due to external forces, the last step is tricky as it involves restarting the process. However, when the process is restarted, the organisation will retain its prior learning and grow from there.

The conversion of analoguedata to digital is a major driving force. It is not the only factor driving digitalization within an organisation, as cost-savings are also an important factor. But even these two aren't as difficult to achieve as digital transformation within an organisation. It can also result in a transformation of the business model since it focuses on the entire organisation and not just a few processes (Kane et al., 2015:1-25). Digital transformation is based on leveraging digitization, digitalization, and digitization as three of the main driving forces to transform a non-digital company into a digitally oriented one.

Since communication is moving online, we must process higher and higher amounts of data that can only be handled in a digital format. E-commerce is expected to reach \$5.88 trillion in 2022 (Statista, 2019). Customer demand is also a driving force since they are adapting to technology at a faster rate than previously. They are becoming more dependent on smart devices such as phones and watches and are becoming more active in the online world. It is because of this change that the customer journey is changing and affecting online and offline sales (Kannan – Li, 2017:22-45). With companies becoming more global, competition is also a driving force. A decade ago, companies such as GE or Exxon ranked among the best within the S&P 500 Index, but now data-rich companies like Apple and Alphabet have taken over the market (Top 10 S&P 500 Stocks by Index Weight). Considering these three driving forces, they form a core part of what initiates the desire towards digital transformation.

Resource control pertains to controlling the organisation's assets and capabilities (Barney, 1991:99-120). Another driving force is to develop or purchase these resources if a company wants to redefine how it offers value to customers. By harmonising the ways of working with digital networking, big data, and digital assets within an organisation, value can be added. As a result, the goal is to leverage resources as driving forces for digital transformation to increase performance. Another key driver is the organisational structure, since not all types of structures are qualified to embrace digital transformation. It is imperative to model the organisation's structure in a way that it will ultimately support this transformation. Providing managers with KPI's is the single most critical factor that drives their decisions. Monitoring revenue and sales growth as well as measuring the customer journey, employee satisfaction and performance is part of the process. Resources, structures, and KPIs work together to ensure the leanest approach toward digital transformation.

DIGITAL TRANSFORMATION WITHIN THE HOSPITALITY INDUSTRY

With the advent of the new digital age, so-called digital platforms have become more of a necessity than an advantage over competitors. Companies that fail to embrace them will lose market share to those who do (Accenture, 2018). Organisations that embrace digital transformation can notice a significant improvement in customer satisfaction and retention (Chathoth et al., 2016). Digital is the future of the hospitality industry, according to Martin Zsarnoczky (Zsarnoczky, 2018).

Even though not all organisations are ready to successfully incorporate digitalization into their day-to-day operations, the knowledge gained in one can be used in another to advance digital transformation in the right direction hence synergy can be created between multiple organisations. In their research, Chudnovsky et al. observed that Russian hotels lack the necessary skills to successfully adopt digital transformation. Therefore, they turned to Germany for assistance, since Germany offers business coaches who assist with the implementation of digital transformations within an organisation (Chudnovsky et al., 2021). By optimising internal processes and improving data processing within the hospitality sector, guests will be better understood, and services will be more customised (Sheresheva et al., 2020).

As part of the digital transformation within the hospitality industry, different technologies are integrated within different elements of the hotel such as its procedures, products, and the physical building. This is with the purpose of improving guest satisfaction and increasing revenue. Digital transformation in hotels is largely driven by the following technologies:

- PMSes and CRM's generate Big Data, which is a large volume of ordered and unordered data.
- Using artificial intelligence to analyse and discover patterns and trends amongst the Big Data.
- Because AI and machine learning share the same ability to learn as humans, both can identify patterns in data and make predictions autonomously. This could be useful in analysing how a change in Coronavirus rates would affect reservation behaviour to manage resources.

All the above-mentioned technologies will be gathered into Business Intelligence to display information in a manageable format.

DIGITAL TRANSFORMATION BUSINESS RESTART CHECKLIST

Many companies are expecting the digital transformation to happen overnight because they do not have the experience to understand how the process works. However, if the experience is gained and the digital transformation steps are followed, there is nothing stopping the organisation from achieving a successful digital transformation.

Globally, digital transformation can be a good strategy for increasing revenue, customer satisfaction, and staying relevant for hospitality organisations. A tech-driven mindset will

also help organisations counter the effects of the Coronavirus and resignation wave.

In accordance with the literature review we conducted regarding digitization, digitalization, and digital transformation; we have compiled the following checklist:

Table 1: Restart Checklist, Source

Step	Content
1	Integrate IT into the business model of your organisation. Along with a customer centric mindset.
2	Ensure that your employees have up-to-date digital skills.
3	Keep an eye on cyber-threats and make sure you are visible online.
4	Collect valuable data, such as Big Data, with the help of a PMS or CRM.
5	Utilise Business Intelligence tools to output results to key business stakeholders.
6	Take advantage of machine learning and artificial intelligence algorithms within your business.

Source: Own creation

The above-mentioned digital transformation business checklist can lead to a successful digital transformation of the business it is implemented in.

CONCLUSIONS

Many job losses within the hospitality industry induced fear among employees. Due to this fear, these businesses lost trust, and when things settled down and they tried to reopen, they struggled to find the necessary staff. This was one of the effects of the resignation wave. In addition to this, even employees who survived the pandemic but saw their co-workers lose their jobs felt fear and a desire to seek another job.

As we saw, digital transformation can have a positive impact on an organisation. The growth of digitalization in companies has been fuelled partly by external factors like the COVID-19 pandemic, followed by the resignation wave, as well as by this new digital age known as Industry 4.0. Essentially, digitalization is a good remedy to combat these two side effects and successfully restart a business. Because of digitalization, organisations will be able to improve processes, resulting in a reduction in the workforce needed. Digitalization will also restore employee confidence, as they will be able to work remotely in case another pandemic occurs like the COVID-19 pandemic.

It is our task in the next part of this article to display data which will illustrate the correlation between the elements, namely resignation and digitalisation within the Hungarian hospitality industry.

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György Jenei

The Impact of the Theory of Max Weber on Bureaucracy to our Present Day



Summary

The study highlights the role of Weber's family background in his young academic career. It then details one prominent theme in Weber's multifaceted and defining history of influence, which is the impact of Weber's theory of bureaucracy on modern public policy and organizational theory. The study details the varied impact of Weber's theory of bureaucracy. The study also focuses on simplifications, misunderstandings, effects that facilitate debates, and critical moments. The paper also focuses on the impact of Weber's theory on the history of the Hungarian public administration, with its disabilities and distortions. It discusses the influence, as well as the role of Weber's theory in the public policy approach.

Journal of Economic Literature (JEL) codes: B00, H00, Z13

Keywords: goal rationality and bureaucracy, anxious approach on the perspective of capitalism, legalism and managerialism, Hungarian impact

INTRODUCTION

Max Weber's oeuvre had - in the twentieth century, but even today -, a prominent influence in various branches of the social sciences, including sociology, philosophy, economics, history, and public administration. This effect was not always based on the authentic Weber oeuvre. One reason for this is, although Max Weber's works were written in German, the followers

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and critics of Weber's theories argued their points based on the English translations. The impact also contains creative misinterpretations, and the history of this impact is still being written today.

The other reason is that Max Weber's oeuvre does not always contain clear answers to the problems he raises and analyzes. Furthermore, due to the voluminous and diversified afterlife of his works, the influences stacked on top of each other. As a result, those researchers who did not even read the original Weber works, but knew only his interpretations, were considered Weber followers as well.

MAX WEBER'S FAMILY BACKGROUND AND ITS IMPACT ON THE SPECIFIC NATURE OF HIS WORK OF LIFE

Emil Maximilian Weber was born in Erfurt on April 21st, 1864, as the eldest child of a family of seven. He came from a bourgeois family known as one of the richest families of German-English origin in the 19th century; they belonged to the German merchant elite. His paternal grandfather was a smart and reliable entrepreneur in the textile industry who had significant international connections. His maternal grandfather (his mother's maiden name was Fallenstein) came from one of the most successful German-English merchant families operating in Frankfurt am Main.

His maternal side owned the majority of the companies of the Frankfurt-based Souchay clan who were in the textile industry in London and Manchester. As a result the family was one of the richest families in Germany in the mid-19th century. His paternal side was the international weight of the Bielefeld-based Weber clan who was represented by Hamburg's trading and shipping companies (the 150-year-old Weber Schäer in Hamburg is still one of the most prominent importers of raw rubber and exporters of machinery).

It is noteworthy that on his maternal side, the Fallenstein clan was related to the Bunge family, who had firms in Antwerp and South America. Even today, the Bunge family-businesses are among the richest private businesses in the world in grain growing and shipping (see: Roth, 2002:64-68 for details).

During Christmas 1879, one of his relatives presented Max Weber with a Goethe calendar, which contained the biographical data of many relatives of his family. Weber also obtained a G.F. Fallenstein biography written by Georg Gottfried Gervinus. From these sources, 15-year-old Weber made a large family tree thus, he was clear about his family background from a young age (Roth, 2002:65). Based on his family background and the family's current relationships, the young Weber was knowledgeable about South American wheat exports, as well as North American railroad construction capitalism and related customs matters. This makes it easy to understand why he chose to begin his initial studies in commercial law, the topic of his dissertation, as well as his first works.

The foundations of his approach can also be explained by his cosmopolitan family background, but Weber's father and many members of the family were influential political figures in the politics of the Wilhelminian Germany. Roth therefore calls Weber a "cosmopolitan nationalist" (Roth, 2002:64).

They were featured as German liberals in their political life, but this liberalism cannot be understood without the national liberalism of Friedrich List. They opposed the liberalism of Adam Smith and shared the views of Friedrich List, as List sharply emerged against the fact that economics completely neglected the nationalization of mankind and the aspirations of the nation as a higher unity (Heller, 1945:24). The essence of classical school can be characterized by the two famous theorems of Adam Smith. His first theorem says that state intervention in the economy is not needed, because when the whole system of privileges and restrictions has been eliminated, the clear and simple system of natural freedom will automatically recover. On the other hand, Adam Smith justifies the state non-intervention by assuming an *invisible hand*. According to him, each person is led by an invisible hand to pursue a goal that he has never been set for himself (Smith, 1952).

In contrast, Friedrich List forms the German version of liberalism (List, 1841). According to Antal Balla, List was the first among the scientists who reconciled purely national views and goals with the new production order of economic liberalism (Balla, 1926) (Quoted by Hegedüs, 1938). Contrary to the principle of non-intervention by the state, he considered it necessary for the state to intervene. This meant creating a system with protective tariffs. He believed that Smith's liberalism favored the economically advantaged, and did not give the weaker a chance to advance. However, government intervention was not seen as an eternal condition for development, and that the protective tariff system should be taken over by free competition as soon as the lagging countries progress with the leading countries. (In the Hungarian Reformation, Gergely Berzeviczy and István Széchenyi followed the teachings of Adam Smith, whilst Lajos Kossuth followed the trend of protective tariffs and founded a defense association – in addition, he knew Friedrich List personally).

The Hungarian National Liberals initiated and led the Compromise of 1867, which resulted in the establishment of the Austro-Hungarian Monarchy. Prominent amongst them was Ferenc Deák, the initiator of the compromise, Count Gyula Andrássy, the first prime minister of the Hungarian government, who soon became the Foreign Minister of the Monarchy. It is also important to mention the names of the Minister of Education and Culture, Baron József Eötvös, and the Minister of Finance, Kálmán Széll.

In Weber's case, I wouldn't dare label the oeuvre. His oeuvre was labelled as liberal imperialism, social imperialism, and Roth even called it "cosmopolitan nationalism" (Roth, 2002:64), as Weber always considered throughout his life the peaceful integration of Germany into the world economy without war, based on competitive advantages, even in practical politics.

SOME CHARACTERISTICS REGARDING THE HISTORY OF HIS WORK OF LIFE

The historical impact of Weber's theory is roughness. Much of his work did not have a significant impact, and even remained unknown for a long period of time. For example, two parts of his studies entitled "The Exchange" (Die Börse, 1894:17-48; 1896:49-80) were published in 1924 - four years after his death - by his widow, Marianne Weber, in the

“Gesammelten Aufsätze zur Soziologie und Sozialpolitik” (Weber, 1924). Weber wrote his works on the stock exchange between 1894 and 1896. Two excerpts of this were first published in 1905 in a 514-page manual (*Volkswirtschaftliches Lesebuch für Kaufleute*, 1905:614-657) with the knowledge and consent of Weber, then living in Heidelberg. Even this was not known until 2002, when Borchardt published them (2002:239-241).

Another historical feature of Weber’s work of life is that the interpretations of different trends contained both debates and contradictions; furthermore they also build on each other, while obscuring the content of the original Weber oeuvre, and unintentionally distorting it. By the end of the 20th century, the picture of Weber’s oeuvre often differed from the original. This meant that researchers who declared or classified themselves as Weberian were by no means likely to take positions based on the original Weber oeuvre. Reviewing the history of sociological impact, Ágnes Erdélyi writes that researchers have read more about Weber, than from Weber himself (Erdélyi, 1993).

Bence Marosán’s summary during the conference on the 90th anniversary of Max Weber’s death at the Institute of Philosophical History of Eötvös Loránd University in 2010 (Marosán, 2010:4-7), contains various moments discussing the differences between the history of influence and the authentic oeuvre. In our study, we examine only one moment of the impact history, which is the bureaucratic organization and the place and role of bureaucracy in modern societies.

WEBER’S THEORY OF MODERN BUREAUCRACY AND THE MODERN PUBLIC ADMINISTRATION

The place and role of modern bureaucracy is a prominent chapter in the impact made by Weber’s oeuvre. This history of impact covers a wide range of social science disciplines. The present study focuses on the public policy as well as the organizational theory dimensions.

At the end of the 19th century and during World War I, many social scientists addressed the importance of bureaucratic organizations in industrializing societies, and argued that bureaucracy was gaining increasing social and political power. Of these theories, by far the most influential was Max Weber’s theory of bureaucracy. It is unavoidable in both the public policy and public management spheres. This theory has provoked controversy, and the evaluation of the growing power of bureaucracy in the 20th century and the 21st century is of paramount importance.

There are a number of differences between the original Weber theory of bureaucracy and the history of its effects.

One of the starting points of the bureaucratic theory is Weber’s doctrine of social action. In the doctrine of social action, Weber distinguishes four types of action. These are: traditional, emotional, charismatic, and rational-legal action.

The basis of power based on traditional action, according to Weber, is the inviolability of traditions that have prevailed since the start of time and the legitimacy of the persons whose power prevails (Weber, 1947:328).

Power relating to emotional action is based on the emotional legitimacy of the majority of society, manifested in the direction of the person or persons exercising power.

The basis of power based on charismatic action, according to Weber, is free from criticism towards a person endowed with a special and exceptional inviolability, heroism, or individuality to set an example (Weber, 1947:328). Weber sees this type of power as a temporary phenomenon that characterizes a period of social unrest. The charismatic nature of the relationship between the leader and society makes it impossible for stable institutions to develop. While the weak point of charismatic power is instability, the weakness of traditional power is in its static nature.

Weber infers from this, that power based on rational-legal action is superior to any other types of power. Weber justifies this on the grounds that this power is based on a belief in the legitimacy of normative rules, and on the fact that persons elected to power under the rules have a right of disposition in the political system. This type of power rests on a bureaucratic system of administration in which long-serving civil servants run, following rules, of course.

Weber links the development of a rational-legal bureaucratic system to the development of a modern industrial society.

WEBER THEORY OF BUREAUCRACY IN PRACTICE

Two types of legal-rationality and rule of law were developed in practice during the 19th century, the French and the German.

The French model is also known as the Napoleonic model, and the essence of this model is that the state is unified and enforces the public interest, and the public administration is centralized, hierarchical, unified, and accountable; civil servants are also highly trained (Wright, 1990). This model has had an impact on Mediterranean countries such as Italy, Spain and Portugal.

The German rule of law primarily affected Austria and subsequently with that, Hungary was affected. In contrast to the French model, the Prussian state, which embodied the German model, was not based on the bourgeois revolution that abolished the monarchy, but on the power of the Prussian ruling elite. This meant that the Prussian ruler followed laws and rules – considered “enlightened” in that sense – and applied those laws and rules equally and fairly to different social groups and individuals, demanding the neutrality of civil servants and judges.

That is, the essential difference was that while the French principle of legality (*principe de légalité*) was an expression of the will (*volonté générale*) (Ziller, 2003), in Prussia and the Habsburg Empire it represented the absolute power of the ruler.

Later, after 1945, the liberal constitutional rule of law (*Rechtsstaat*) was a fundamental turning point in the development of many European states, (Kickert, 2008), and the Napoleonic and Prussian rule of law converged.

Legislation had become the basis for state functions. Administrative activity had to be based on the enforcement of the requirement of legality and the efficiency of the administrative actions on the establishment of the rule of law and the capacity to act, as well as the functioning of a professional, modern bureaucracy.

Weber's theory of bureaucracy had been put into practice. According to this, civil servants were no longer at the personal service of the king, or the service of an impersonal statehood. They had appropriate qualifications and experience-based expertise, and professional formally prescribed duties, with lifelong employment, regular pay and a pension (Weber, 1922).

Weber sees the spread of a rational bureaucratic system as a consequence of the emergence of complex economic and political systems.

Weber makes clear the superiority of bureaucratic administration over all previous types of administration when he set out the criteria for bureaucratic administration. These, in Weber's ideal approach, are as follows:

- a permanent organization with a special function or functions that comply with rules in their actions. Durability and consistency are ensured through written rules and decisions within the organization,
- the organization is built on hierarchical personal relationships. The area of power is clearly defined within the hierarchy and the rights and responsibilities of civil servants are defined at each level,
- staff are separated from the ownership of administrative assets. Members of the staff are free in their personal capacity and are only liable to their superiors for their impersonal official duties,
- appointed on the basis of the qualifications of the staff (i.e., not elected) and promoted on the basis of merit,
- staff are assigned a fixed salary and are appointed for a fixed period. The level of salary depends on the rank in the hierarchy. Employment is continuous for a specified period of time and usually means until retirement (Weber, 1947:329-341).

In the politically changing history of the 20th century, a trend prevailed unbroken, and it is the growing power of bureaucracy.

THE RELATIONSHIP OF WEBER'S THEORY TO THE WEBERIANS

Theoretically, on the other hand, there are a number of differences between Weber's original theory and the position of the *Weberians*, that is, the Weber followers. At first, Weber did not evaluate the principle of the worthlessness of social sciences, based on the methodological principle he created, but only logically analyzed the necessity; whilst the Weberians considered bureaucratic control and its fulfillment to be positive.

Ontologically, by Weber, there is no asymptotic approximation to the ideal type. His approach cannot be understood without the prerequisite of knowledge of the South German version of Neo-Kantian theory of value, and without the works of Heinrich Rickert and of Wilhelm Windelband (as a side note- Weber was a colleague of Rickert at the University of Freiburg and had a friendly and working relationship with Windelband in Heidelberg).

What is the essence of the Neo-Kantian theory of value? According to this, the values do not exist, they only prevail.

Their function is the comparative analysis of social historical situations and processes.

The Neo-Kantians distinguished nomothetic sciences, (that is, the natural sciences) and ideographic, that is, event sciences (these were the social sciences). The natural sciences revealed regularities and the social sciences established uniqueness. The ideal type, according to Weber, is apt to typify uniqueness, but never value it.

The social sciences cannot establish regularities, but instead they are stuck in the essential generalization at the level of typification. So in the original theory of Weber, the ideal-typical level of legal-goal-rational governance cannot exist, but serves to typify uniqueness through comparison.

Weber followers also misunderstood the requirement of rationality. Weber's conception of rationalism was complex.

He distinguished four kinds of rationalism. These are: practical, theoretical, value, and formal rationalism.

The practical rationality of human action of the individual follows pure, pragmatic and individualistic interests. According to Weber, the practical rationality of social life has equal importance in all field of society (i.e., no sphere), including the economic one.

Human actions can and should be evaluated on this measure of rationality.

While enforcing theoretical rationality, people consciously dominate the growing reality using precision abstract concepts (this type of 'Weber' was also known as 'intellectual rationalism'). The theoretically elaborated theories are confronted with the practical experiences with logical deduction and induction, with the exploration of causal relationships, and with their symbolic 'meaning'. That is, theoretical rationality is formed by the processes of abstract cognition. Weber argues that people have a need to transcend habits and randomness by exploring connections. This is a human's "*metaphysical need*".

He was convinced that the confrontation of theory and practice has repercussions on human actions, and may even initiate the introduction of new rules of action. Thus, a 'religious doctrine' such as 'Karma' in the Hindu religion, or the doctrine of the Calvinists 'predestination', - in certain circumstances - have a significant impact on people's daily lives.

Thirdly is the value rationality - similar to practical rationality, but unlike theoretical rationality, it "directly" organizes human actions into patterns (this is also what Weber calls essential rationality).

However, it is not based on a pure intention-consequence calculation, but on the basis of an evaluation on the past, the present, and the 'value requirements' of a better option. A value requirement is not simply a single given value, but it refers to groups of values that differ in terms of overall validity and internal consistency.

Value (essential) rationality "standardizes" the individual processes of human actions.

Fourth, formal rationality - according to Weber, with few exceptions, such as Roman law - is generally related to industrialization, mainly to economic, and to the legal and scientific spheres, but above all too bureaucratic rule. In contrast to the practical rationality, which is an intended-consequence calculation based on pragmatic, personal interests. Formal rationality performs calculations against generally accepted rules, laws and regulations.

It is technically indisputable that the “most rational” type of domination is bureaucratic control. This type of rationality only exists if expert lawyers can create laws that take into account the clear and general characteristics of each case, purely on the basis of the feasibility and legal logic of the processes (types of rationality are described in detail in Kalberg, 1980:1151-1159).

It has already been mentioned that Weber did not question the need for bureaucratic rule, however, he sought equilibrium. To create a balance to the necessity of bureaucratic domination, it must be reconciled with the individual autonomy of practical rationality (failing which, the individual inevitably would be schematized - what Weber considered a real danger), the sovereignty of theoretical rationality, and the everyday effects and demands of value rationality. Weber was sceptical and anxious because he could not find a way to balance these four kinds of rationalism.

In the English translation of Weber’s works, rationality was equated with efficiency. Weber, on the other hand, considered the correct predictability of administrative actions to be a requirement, which meant not only a cost-benefit calculation - otherwise bureaucratic administration has an indisputable advantage in this respect - but also a consideration of social consequences in addition to the technical dimension. (Albrow, 1970:157). In other words, in addition to efficiency, he also considered the requirement of effectiveness to be a guide. This is a significant difference. Between the two principles, the principle of efficiency is more traditional than the principle of effectiveness. Efficiency means critically evaluating and measuring the cost-benefit of a public service. In this case, the critical measure basically uses an economic-technical toolbox. The principle of efficiency is essentially a managerial principle; in other words, it seeks to optimize the relationship between costs and benefits.

The principle of effectiveness, on the other hand, assesses the extent to which a public institution is able to achieve its goals and the extent to which it is able to solve existing social problems. That is, it perceives what is the direct or long-term consequence of a decision or action made by a public institution. This principle rarely can be applied to a single action because decisions or actions of public institutions are generally not isolated. In reality, there is always a coherent line of decisions and actions, and therefore public policy programs and action lines need to be analyzed and evaluated in order to have a starting point for further action. Enforcement of the principle of effectiveness requires a multidisciplinary approach to public administration, in which, in addition to administrative law, a public finance, public institution management and public policy approach is also required.

Weber’s notion of rationality is thus complex, with multiple caveats. This concept includes both formal and material rationality, which sometimes can mean the opposite. Illustrating the difference can be made with the example of a train timetable: if someone wants to travel somewhere, there is a formal rationality based on the timetable, which can be misleading if the selected train is regularly delayed, because then material rationality prevails. That is, in such cases, knowledge of material rationality is important to adapt, and following formal rationality can be problematic.

By unilaterally enforcing formal rationality, we can even cause harm. This can be demonstrated by a number of examples (Osborne-Gaebler, 1992:350-354; 1994:334, 337).

The first example is the case of the training of welding workers in a school in the state of Massachusetts. In the story, the school released skilled workers of equally high quality at ever-lower costs. Therefore, the number of trained workers had increased year on year. They set the standard ahead of other vocational schools as an example to follow.

However, once they looked at the state's unemployment lists. It turned out that the number of unemployed welding workers increased during the period in question. Formal rationality (i.e., efficiency), did not show this problem. It was also necessary to enforce the criterion of material rationality (i.e., effectiveness). A review of the employment situation revealed that more and more unemployed people were trained with an increasingly favorable cost-benefit ratio.

Another example is when driven by the intention to increase votes; the cost of education per student was reduced, which in turn reduced the personal tax. This seemed favorable when compared to the level of taxes in other countries. However, the exclusive application of the efficiency measure in this case is also misleading. If it turns out that, in the meantime, the standard of teaching lags far behind other countries, it becomes a source of public dissatisfaction. In other words, in addition to measuring educational costs, the criterion of effectiveness (i.e., material rationality), must also be applied.

In the history of impact, however, Weber's notion of rationality is often simplified and identified with formal rationality.

There is a significant difference in the perception of the relationship between bureaucracy and politicians. Weber's prophecy is that the influence of modern bureaucracy, both in character and complexity, will increase as a result of its management expertise. As a result, Aberbach distinguishes four types - these can also be considered stages of development - in the theories characterizing the relationship between politicians and civil servants.

The basic formula of the first theoretical type is simple: the politician decides, and the civil servant implements in politics. Aberbach also marks the theory by the name of Woodrow Wilson. For example, with the following quote from Wilson: "governance is outside the real realm of politics. Government issues are not political issues... They are part of political life just as the methods of accounting offices are part of the life of society" (Wilson, 1887:209-210) (Cited by Aberbach et al., 1981:4). The message of the first type is clear: civil servants obediently serve their political superiors.

On the other hand, according to Weber, discretionary decisions and non-discretionary decisions are inseparable in practice. Other researchers share this view. Paul Appleby, for example, believes that according to Weber, the theoretical separation of the work of politicians and civil servants is obscured and displaced in practice, and that anyone who believes in this separation is ridiculous (Appleby, 1949: XII.174).

Many researchers point out that the information and expertise of politicians is not enough to make decisions about emerging social problems. Politicians have comprehensive visions of the problems of the future, but regarding how to put their visions into practice

and how to transform their goals into relevant, achievable plans, as well as how to implement these plans, and how to respond to new unexpected developments; in these matters politicians largely depend entirely on civil servant advisers.

This basic formula allows civil servants to arbitrarily interpret the laws and rules that apply to them under the guise of anonymous neutrality. This is detailed by Guy Peters when he writes, “The supposed separation of politics and implementation gives civil servants the opportunity to engage in politics without being accountable for the consequences of their political actions” (B. Guy Peters, 1979:137-138) (Cited by Aberbach et al. 1981:5).

Over the course of the 20th century, Weber’s conceptual approach was realized, which is not the mentality of the “politician decides” and the “civil servant executes” model. Weber laid the groundwork for the public policy decision-making model, which already developed at the end of the 19th century. The essence of this model is valid also in the 21st century, which means that top-level civil servants have a decisive influence on the thematization of decision-making, and its effective implementation requires a “flexible” interpretation of laws and rules. Civil servants do this rarely out of self-interest, but because they see it as a requirement for effective and efficient implementation. Many civil servants prefer “bureaucratic politics” to be dominant rather than the term “party politics”.

In modern historical processes, the political role of the bureaucracy is increasing in the civil servant-politician relationship. In the new type of political decisions, civil servants emerge as representatives of facts and knowledge, whilst politicians represent interests and values. With this, a new moment emerged that was in line with Weber’s prophecy about the increased role of bureaucracy. In addition to the “shadow” bureaucracy, which used the “parliamentary back entrance”, the bureaucracy is already openly involved in public policy decisions.

Karl Mannheim (1946) developed a theoretical basis similar to Weber for the open role of bureaucracy in public policy decisions by separating “political rationality” and “administrative rationality”. Mannheim goes straight to the point where the civil servant does not even take into account political rationality but approaches all political problems solely on the basis of administrative rationality (Mannheim, 1946). However, Aberbach goes further and includes a third moment in analyzing the political decision-making role of politicians and civil servants. This means a further increase in the role of bureaucracy and covers the whole process of public policy decision-making. According to him, the essence of the difference is that politicians articulate the vague, overarching interests of disorganized individuals, and bureaucrats do the same with organized social groups. An essential feature of the division of labor, according to Aberbach, is that politicians are ideologically driven and bureaucrats, by contrast, are practice-oriented and pragmatic (Aberbach et al., 1981:9).

This is a further fulfillment of Weber’s prediction of an increase in the role of bureaucracy. This, in turn, forces politicians and civil servants alike to consider the political and administrative consequences of their intentions and actions. This already foreshadows the need for the appearance of the next, fourth moment, which Aberbach calls a true, unmistakable “hybrid”.

The fourth moment, and with it is the fourth historical stage, during the end of the twentieth century and is characterized by a convergence of political and civil service roles. This stage is also called the bureaucratization of politics and the politicization of bureaucracy. Senior civil servants are placed in a dual position because they simultaneously play a Janus-faced role; bureaucrats inward, and political leaders outward. This dual requirement also applies at the middle level of the bureaucracy, where tasks require both technical skills, and knowledge and flexible alignment with policy direction and strategy. In the hybrid phase, the career ladders of politicians and civil servants are no longer isolated and they are no longer just parallels that meet only at infinity. Although career ladders “slip together,” there are different variations in different modern political systems. For example in Britain, in 1964 the hybrid type was indicated when, Harold Wilson appointed leading party members to senior civil service positions who were ‘outsiders’ in the sense that they were neither civil servants moving up the career ladder nor Members of Parliament.

In Germany, regular party activity is quite common among high-ranking civil servants, and at the same time there are former senior civil servants among the members of the Bundestag.

In France and Japan, there is a high level of transition between political and civil service career ladders. For instance, a civil servant may reach the Cabinet of Ministers for membership based on managerial expertise, where tasks also require political skills. In a few years, after the development of political skills, they will be able to hold political leadership positions. This is usually the case for ruling parties - a typical example of this was the French President Giscard d’Estaing - but it is also the case for opposition types in opposition parties.

However, this historical process does not dispel Weber’s concern either, because the dominance of bureaucracy prevails here as well. Instead, the problem arises even more generally: how different social groups are able to control and influence the political decision-making and implementation process in which the same person appears, sometimes as a politician, sometimes as a senior civil servant. This also means that political party activities and administrative activities overlap or intertwine, appearing to social groups as a “mechanized fossil”.

A fundamental characteristic in the history of influence is that we must place Max Weber’s theory in a bucket consisting up of controversial theories. As in public policy pluralist theories see bureaucracies as agencies that seek to respond to the needs and demands of social groups and individuals, while also attempting to assert their own interests. Elitist theories naturally see bureaucracy as an important source of power alongside other large organizations. Marxist theories regard bureaucracy as an instrument of the ruling class.

Corporatist theories focus on the process of policy-making and assume the autonomous and dominant role of bureaucracy in this process. Even at this level, it can be stated that elitist and corporatist theories took over certain moments of Max Weber’s theory of bureaucracy by emphasizing the dominant role of bureaucracy. The starting point and approach of Marxist theories, on the other hand, is contrary to Weber’s theory.

Pluralists, on the other hand, develop both a sympathetic and a critical relationship with Weber’s theory in such a way that this critique is not realistic in every aspect. The theoretical fabric is further colored by the lack of homogeneity in all four basic theoretical trends;

we may encounter different - and often contradictory - approaches within each of the basic theoretical trends.

One example is that one of the prominent neo-Marxists, Miliband (1969), says that bureaucracy is not neutral, but instead serves the interests of the economically dominant capitalist class. Miliband is clearly an “instrumentalist”. Among the Neo-Marxist critics of Miliband, one of the prominent authors is Poulantzas (1973). According to him, it is impossible to assert economic dominance directly as a social power. Bureaucracy, therefore, expresses the relationship of classes and groups within society and is relatively autonomous in relation to economic dominance. This also means that the bureaucracy can also take action in favor of oppressed classes.

Despite the controversy, Neo-Marxists take the view that bureaucracy serves the interests of the economically dominant class in a strategic perspective over the long run. They do not take into account that the class of capitalist entrepreneurs is not a monolithic block, but consists of groups with different interests and taking on tension with each other, which significantly influences the functioning of the bureaucracy. Both their “instrumentalist” and “structuralist” approaches run contrary to the theory of bureaucracy by Max Weber, who seeks to offset the trend of increasing power in bureaucratic organizations through reforms in the democratic political system due to shortcomings in democratic control and influence.

Another example is the elitist tendencies. In the elitist view, unlike the pluralists, political power is not divided among social groups, but is concentrated in the hands of a minority. And bureaucracy is an instrument of this political power.

This is explained by classical representatives of the foundations of elitism such as Mosca (1939) and Pareto (1935). In the United States, the debate between the elitist Hunter (1953) and the pluralist Dahl (1961) has resulted in a position in which elitism also includes a moment of pluralism. This can be called democratic elitism, where opposing and different opinions between social groups are governed and led by different elites. The competition of the elites is expressed in the regular elections, which are also manifested in the exchange or even circulation of the elites.

According to the elitists, the elite tendencies are structured. This is explained in detail by Bottomore (1966). It distinguishes a structured political elite who exercises power from the alleged political class. This elite is made up of government, bureaucracy, military leaders and, in some cases, families with political influence, aristocrats, royal families, and leaders of large economic enterprises. It distinguishes it from the political class, which, in addition to the political elite, includes leaders of opposition parties, trade unions, economic leaders, and politically active intellectuals.

THE IMPACT OF MAX WEBER'S THEORY OF BUREAUCRACY IN THE HUNGARIAN PUBLIC ADMINISTRATION

After 1920, the independent Hungarian state followed the principles of the rule of law, following the path of the Prussian model. The rule of law was fragmented. This meant that special legislation was prescribed for the operation of the various legal institutions.

This was a common European phenomenon during the 1920s. Trianon, the annexation of the country's territories, required the reorganization of the Hungarian public administration. The National Savings Committee was assigned with this task. Efforts had been made to simplify and streamline public administrative activities. Comprehensive arrangements were provided in the 1929 Act on the Unified Arrangement of Public Administration (Marsovszky, 2018:91). Max Weber's theory of bureaucracy prevailed only by fortune.

Max Weber's theory of bureaucracy and the principle of effectiveness was attempted to be implemented by Zoltán Magyary from 1930, who chaired the inter-ministerial committee dealing with the reorganisation of public administration between 1930 and 1931. Prior to that, during his more than two decades of administrative work, he became acquainted with internationally influential theories. He was influenced at the same time by American scientific management, the organizational sociology of administration based on the theory of Max Weber, and the classical German-Prussian public administration and law.

Whilst getting acquainted, primarily with his proposals for improving the administration of scientific life, he received a mandate from the Prime Minister István Bethlen, requesting a government commissioner to rationalize the entire Hungarian public administration. Zoltán Magyary submitted a detailed program, but in the preparatory work phase the implementation of the program was interrupted because "the executive and the managerial elite of the government was contrary to the values of the political and administrative rationalization at that time" (Ilona Pálné Kovács, 2011:175). Magyary resigned from his administrative reform function and retired to Tata. He began to deal with empirical research on the operation of local governments.

Imre Verebélyi summarized the essence of Magyary's ideas of reform, as he writes: "Zoltán Magyary considered the simultaneously the importance of legality, economic efficiency, and effectiveness in the field of public administration. In the conditions of Hungary at that time, the emphasis was on improving efficiency and reducing the one-sided legal approach. This was because the approach of formal legality was much more important than managerialism in Hungarian administrative traditions and contemporary administrative practice. Zoltán Magyary tried to reduce this disproportion in Hungary between the two world wars, by working to improve the efficiency of public organization, which was in the background at that time" (Verebélyi, 2010:17).

Imre Verebélyi chose a suitable Magyary quote, in which Magyary himself explained in detail regarding the need for a turnaround, saying: "The great achievement of the 19th century was the establishment of the rule of law. The rule of law means protecting the individual against the administration, ensuring the individual's authority, and protecting him or her by an independent court. It was a great and valuable achievement, and it will not be given up again. However in the post-industrial state, it isn't only in the individual's interest anymore... The more that the public administration expands - and this trend, as we have seen, is expanding everywhere, and at a more rapid pace since the war - the more important are the results, and the more the public directs their attention to them. The rule of law was unilaterally exaggerated, and this led to a fading of all aspects other than the legal aspect in the admi-

nistration; the public administration was also conceived solely as law and the application of legislation... Of course, it is easier to be a lawyer than to meet the requirements of economy efficiency and effectiveness by complying with the law. It requires more; a different kind of relationship with citizens. So in many ways it requires a new attitude, a sense of responsibility not only to comply with the law, but also to meet the legitimate needs and requirements of citizens, the public, and the people. Economic efficiency and effectiveness must be achieved within the framework of legislation; it can be reconciled with it" (Magyary, 1937. Quoted by: Verebélyi, 2010:17).

In his program, Magyary marked the tasks he considered to be the most important. These were:

- establishing cooperation between administrative levels,
- the separation of the organizational and individual performance appraisal system,
- encouraging institutional reform initiatives,
- arrangement of the powers of public administration institutions,
- balancing central and local administrations,
- enforcement of the efficiency and effectiveness criteria,
- promotion of public activity,
- the need for appropriate expertise,
- favoring justice over the administration of justice,
- broadening of the judiciary (Marsovszki, 2018:92 and Budai, 2017:39-40).

Zoltán Magyary's approach was also valuable because it not only integrated the three already established disciplines of public administration (public administration law, public economy and finance, and public institution management), but also anticipated the public policy approach, which had international effect from the 1950s, due to the works of Harold Lasswell (Lasswell, 1951).

We can illustrate this statement with several Magyary's quotations from the work entitled "Hungarian Public Administration". To justify our claims, we selected the following two quotations: "However, in the public administration, the state is interested in not only the legal effects of the action, but also in the action itself" (Magyary, 1942:84). "So the state must also be interested in how to organize, how to achieve results, when to act, and which of the various possible solutions are better than the other, and why?"

It means that during the action of the state, the state is not only interested in the legal aspects of its action, but also in the way of action, the technique of action, and the value of action" (Magyary, 1942:84-85).

Magyary consciously continued the scientific tradition founded by Lorenz von Stein, which clearly went beyond the approach of public administration law. The science of public administration (German: *Verwaltungslehre*; French: *doctrine administrative*) is in Magyary's view, a complex approach to the world of administrative problems. He emphasizes that the public administration is not an executive institution, but instead an action of the state. That is, public administration is not only legislation and law enforcement, the operation and relationship system of institutions and organizations, and the budget and public finances; but also a series of decisions and actions.

Magyary's proposals fully reflected Max Weber's theory of bureaucracy, but these proposals were not implemented.

After Magyary's resignation, Gyula Gömbös first planned to restructure the public administration, which he did by following fascist patterns. World War II disintegrated the public administration, decimated personnel, and caused enormous losses. This is especially true for the period during Szálasi's reign, as a result of which Hungary became a largely devastated and losing country. As a consequence, the country's state power, army, and administrative elite left the country.

HUNGARIAN PUBLIC ADMINISTRATION BETWEEN 1945 AND 1949

After 1945, reconstruction and restoration tasks were on the agenda. Self-activity, the momentum of local and spontaneous organizations was enormous. Local administrations began to function, but there were parallelisms, tensions, and clashes between the National Committees -consisting of party nominated persons- and the re-emerging municipalities, and opacity and uncertainty were caused by the intervention of the occupying Soviet troops.

In 1946, István Bibó, the Head of the Public Administration Department of the Ministry of the Interior, formulated two proposals for the reform of public administration („The reform of the Hungarian public administration” and „The problems of the Hungarian public administration reform”). He emphasized two moments in counterbalancing the party's political aspirations; they were the legitimacy and the decisive role of the local government level. These circumstances were not conducive to the enforcement of the Weberian administrative approach, nor the ideas of Magyary's reform.

SOCIALIST PUBLIC ADMINISTRATION (1949-1989)

After 1948, a socialist administration was built following the Soviet model, which meant a totalitarian dictatorship and a system of councils implementing the will of the party power. With this, local governments were abolished and completely centralized control prevailed. Power was based on a one-party system and on arbitrary repression. The government only implemented the party's resolutions. Civil servants were selected on the basis of political allegiance and ideological commitment, without having expertise. The party power developed a holistic planning system, with theological and ideological foundations. They were formed by the theories of the four “new evangelists”: Marx, Engels, Lenin and Stalin.

Neither formal, nor material rationality prevailed in public administration. Weber's criteria of efficiency and effectiveness were not interpretable in these circumstances either. An important step towards formal rationality after 1956 was the Consolidated Administrative Procedure Act, which came into effect in 1957. However, the criteria of material rationality, efficiency, and effectiveness still did not apply. The decision-making model had not fundamentally changed. In concrete terms, this meant that the state party made decisions that formed a “basic political direction” and were always right. At the same time, civil servants were no longer bound only political loyalty, but also professional leadership and organizational

expertise. Thus, from a formal-administrative point of view the legitimacy of rationalism was recognized and demanded. On the other hand it provided an opportunity to blame implementation errors and disabilities, because the “core policy direction” was always considered infallible.

Before 1956, if the construction of the metro in Budapest did not proceed at the desired pace, it was either political sabotage or, to quote Sartre, “the ground was counter-revolutionary” because it did not adapt to the goals of voluntarism. After 1960, however, if there was a lack or deficit between the party’s decision-making goals and actual results, there were never any decision-making mistakes in the background, but inconsistencies or organizational shortcomings of the implementation or the administrative leadership.

That means that the implementation phase was essentially a disciplined implementation, without any autonomy.

In the 1980s, a change began in the relationship between decision-making and implementation. The autonomy of public institutions and civil servants increased, they influenced the preparation of decisions, the thematization of decisions, the elaboration of the content of decisions, as well as the timing of decisions. Based on this, the former totalitarian system was transformed into an authoritarian system in which the party’s basic function and leading role in decision-making remained, but the requirement of professionalism increased. During the transitional period of 1989, the autonomy of the Hungarian government gradually developed, such that it became a significant factor in the change of regime.

Previously, everyday political practice was characterized by a detailed government decision based on the decisions of the higher party bodies, which were cast into a legal form that complied with the requirements of legislative codification.

However, since May 1989, governmental autonomy has developed, in which the government has taken on an independent political role, became independent from the party, and has become a decisive factor in the peaceful and constitutional transition to a market economy, liberal democracy, and the rule of law. The main stages of government independence were:

- From March 1989, no government intentions were received in the form of preliminary proposals to the party’s governing bodies, nor was the government receiving “executable” instructions from the leading party bodies. The party and governmental mechanisms were separated.
- The government prepared decisions and submitted them to parliament through internal consultation, coordination, and conciliation mechanisms. A government that was accountable to parliament had been formed.
- It meant that the development of governmental autonomy when it was announced that the Central Committee of the Hungarian Socialist People’s Party and the Patriotic People’s Front had waived the right to nominate ministers. With this, the Prime Minister was given a free hand to transform the government. This happened in May 1989.
- The National Round Table, which met in June 1989, gave final political legitimacy to the model, the conditions for which the government had already established by then.
- This meant that in addition to formal rationality, there was already a shift towards objective rationality. The government has also enforced the criterion of effectiveness.

PUBLIC ADMINISTRATION AFTER THE CHANGE OF REGIME

At the time of the change of regime, the organizational and institutional framework of the rule of law was established. The practical implementation of Weber's theory of bureaucracy has begun. However, the dynamics of development differed from the development pattern of developed market economies.

In these countries, at the end of the 19th century, the positive economic and social policy functions of state redistribution appeared. It was necessary by the fact that the dominant role of market redistribution resulted in opposite social tensions, and its inability to develop the social policy resources for the operation of the economy in the long run.

State intervention first took place in the Bismarckian state. After that, the state redistribution increased implemented by the activities of the bureaucracy. During the 20th century, the role of bureaucracy grew unbroken, while political systems changed many times. Max Weber's vision of the necessary increase in the power of bureaucracy became true.

However, from the eighties in the 19th century, state redistribution was in crisis. A paradigm shift had begun, the essence of which was that market participants and private companies that had been excluded from public services 100 years earlier, had been involved in the provision of public services. The bureaucracy also began to use market methods, because only the effectiveness of public service activities could legitimize welfare states, and the political systems of developed market economies.

Competition has unfolded in the provision of public services, with the participation of public institutions, private companies and NGOs.

The transformation began with making public institutions fit for competition by separating regulatory-supervision from the service function, and incorporating incentives that made public institutions fit for competition. Only then, in the second phase, were market participants involved in the provision of public services. Different service providers entered the multi-player competition with equal opportunities. In practice, public institutions had proven their ability to compete.

The participants in the competition also formed associations in which public institutions, private companies, and non-governmental organizations participated as partners. The goal was to build a strong, flexible, and adaptable government. It turned out that a larger government is not stronger, just as a minimized state is not weaker. Weber's theory has become partial, but it has been unbroken in the field of regulation and control and its requirements have become more complex due to the multi-player competition. Privatization in the area of separating the regulatory and supervisory function, have not proven to be effective.

In Hungary and in the Central-Eastern European region, on the other hand, the introduction of New Public Management (i.e. the involvement of market participants in public services) began at a time when the rule of law, and the regulatory and control function of the bureaucracy had not yet been consolidated and public institutions were not ready for competition. Although the complete dismantling of the socialist administration could only be carried out in a space of time, the abolition of the council system and the establishment of an independent system of self-government resulted in the formation of organizations that

would have required a strong, consistent system of regulation and control. On the other hand in Hungary the building of the rule of law and using New Public Management tools are accumulated to each other.

This has made the functioning of the public administration unstable and has created uncertainty that has paved the way for corruption and necessitated ad hoc adjustments. As a result, as Ilona Pálné Kovács states: "Although the need for transparency, quality and cost savings appeared in almost all government programs, voicing the criteria of "good governance", the public administration still had to be reorganized cycle by cycle under the slogan of either reform or modernization. It was the basic position of all governments to deny the former, not only conceptually but also personally. This is also the fate of the expert works that proposed changes of the foundations of public administration" (Pálné Kovács, 2011:176-177).

A typical example of dysfunctionality had also emerged in the area of privatization. It was a unique innovation when it was called privatization, when Hungarian public institutions sold to the German and French state public institutions. Question: How can this procedure be called privatization at all? After 2002, a situation with crisis symptoms emerged. They disrupted and impeded the efficient and effective functioning of the public administration. The main features of the crisis were as follows:

- Consensual democracy has been replaced by confrontational democracy. Competition between the parties, which is one of the essential features of liberal democracy, has intensified to such an extent that the political system had become fragmented. This reduced the problem-solving capacity of the political system. Fragmentation had resulted in an "internal" political life in which actors in the political system invented problems for themselves. The cardinal problems of the political system were mostly peripheral for society, and the public resonance was therefore low for the events of political life. The passivity of society was increasing.
- The legal-institutional mechanisms of participatory democracy functioned irregularly and became vacant, and the political institutions with an integrative function (trade unions, professional chambers, churches) were unable to counterbalance the fragmentation of the political system.
- NGOs did not have the strength to force representative democracy in the direction of participative democracy. In fact, the inadequacy of civil dialogue and the emerging political patronage have created a duality among NGOs. Some NGOs became less and less involved in the aspirations of civil society, and party dependence became increasingly stronger. Many times, the price of state support was an increasing dependence from the parties. This has resulted in NGOs being placed in a secondary, vulnerable position in public policy-making.
- Although the legal-institutional framework of the rule of law (Rechtsstaat) has developed, there were serious shortcomings in their day-to-day operation, which were reflected in the shortcomings of the separation of powers and the dominance of the executive. Party-state, political patronage, and client systems were emerging, for which the term "democracy," seemed to be not adequate.

- Public institution management reforms have been linked to an ideological premise that private institutions are inherently more efficient and effective than public institutions. This practice has not been proven anywhere in the modern world, because the essential driver of reforms is precisely the competition with many participants. It has also been shown that a public monopoly is a factor limiting the efficiency of public services, but replacing it with a private monopoly has no efficiency-enhancing consequences. It has the same effect. Moreover, the assumption of the supremacy of market mechanisms has ignored the value orientation, which is necessary at the public services, and it ignored the requirements of openness, transparency, and accountability, all of which are essential in liberal democracies.

At the central level, the line between the ruling parties and the government has blurred, and reflexes and instincts about party statehood have revived in public opinion. The situation was more favourable at the local level, because local governments were not always directly linked to party aspirations.

There was a real danger that, if the trends would have been continued, a neo-patrimonial state would emerge that would lead us to the periphery of the EU. The danger of a turn off process emerged, similar to that which had already occurred in Hungarian history, firstly during the Turkish occupation, and secondly after having been part of the Soviet empire. Only the transition to a market economy, political democracy and Legal State that began after 1990, prevented the turn in the Hungarian province of the Soviet empire from moving towards the hopeless depths of the economic periphery.

It was a particularly serious symptom that the principle of the rule of law and the efficiency and effectiveness of the public administration were violated many times. That is the reason why Lajos Lőrincz writes: “The task is still what Magyary pointed out: among the aspects of legislation concerning public administration, the aspects of efficiency must be placed in one of the first places” (Lőrincz, 2010:42).

THE SZÉLL KÁLMÁN PLAN AND THE “ZOLTÁN MAGYARY PUBLIC ADMINISTRATION DEVELOPMENT PROGRAM” FROM 2010 TO THE PRESENT

In 2010, the number one task was to eliminate the danger of turn off. It was necessary to treat the external and internal imbalances stemming from past flawed economic policies, the rising public debt, the missing balance of payments deficits. Not only that, but the increasing debt of local governments and a significant part of the population together with the needs of international creditors demanding austerity due to high foreign currency debt also had to be treated.

The Széll Kálmán plan implemented structural reforms in important areas, which prevented the turnaround, and opened the way for sustainable economic development. The increase in the number of employees has begun and tax reforms have taken effect. The construction of an economic growth model that relies on internal resources instead of indebtedness had begun. It has averted the debt risk and reduced external vulnerabilities, a new balance

has been struck; growth-friendly fiscal consolidation, and complex support for families and childbearing has taken place.

The realization of the goals of the Széll Kálmán plan made it possible for the Hungarian economy to deal with the economic difficulties caused by the COVID-19 pandemic, and the plan is currently in a bullish trajectory. The ten year balance sheet shows that the basic strategic directions have essentially been achieved, if not always at the planned pace. There are some backlogs in the current situation.

The fundamental economic task in the near future is to make a shift from the level of medium development in the direction of developed market economy, with the activation of new resources of development dynamics. At the beginning of 2010, the response to the threat required a comprehensive reform of state power, which was accompanied by reform steps that included the transformation of the constitution and the basic branches of power.

This laid the foundations for catching up in sustainable development, and thus opened the way for the implementation of the Széll Kálmán plan in the last decade, but the branches of power and the constitutional reform also necessitated a comprehensive reform of the executive, with a clearly defined strategy, and with action plans.

The Széll Kálmán plan already included measures aimed at the cheaper and more efficient operation of state institutions, and also addressed some of the problems of the social care system. The first version of the Magyary program (Magyary program 11.0) is a comprehensive public administration development program that has developed an efficient and effective public administration, and resulted in the simplification of the lives of citizens and businesses in four areas. This restored and consolidated the requirement for the regulative and control function of the bureaucracy.

- First, the Magyary program 11.0 prepared an organizational cadastre, on the basis of which it settled the issues of competence and management, reviewed the outsourcing, the physical and IT equipment.
- Secondly, it created a public task cadastre, which was the basis for deregulation and implementation-level legislation and administrative strategy-making.
- Thirdly, it developed a new concept and type system of administrative procedures, covering both internal and external office procedures and the procedures of the clients.
- Fourth, it renewed its staff by enforcing a comprehensive target system.

The Magyary program 12.0 analyzed the previous implementation of the Magyary program, and defined the conceptual essence of the transformation. It was the service of *Public Good*, which best serves the needs of individuals, communities and businesses.

Further versions of the Magyary program have not been published. Instead of that, for the period 2014-2020, two programs specified the tasks. They were the “Public Administration and Public Service Development Operational Program” and the “Public Administration and Public Service Development Strategy”.

The main system-level goals of the Hungarian program are:

- Effectiveness; Efficiency; Efficacy;
- Flexibility (security);
- Accountability and transparency; Adaptability (development).

Its main organizational goal is to implement new public management in the public sector, among the tools of which it also uses the results of the New Public Management movement and uses its toolbox.

According to Per Lagreid: “New Public Management (NPM) reforms have been around in many countries for over the past 30 years. NPM is an ambiguous, multifaceted, and expanded concept. There is not a single driving force behind it, but rather a mixture of structural and polity features, national historical-institutional contexts, external pressures, and deliberate choices from political and administrative executives.

There is no convergence towards one common NPM model, but significant variations exist between countries, government levels, policy areas, tasks, and over time. Its effects have been found to be ambiguous, inconclusive, and contested (Lagreid, 2017).

The Magyar program cannot be considered as a model of the New Public Management movement. The Magyar program is rather a combination of Weber bureaucracy theory and the tools of New Public Management (Rosta, 2012). It separates steering from rowing. In the application of the regulatory-control function, due to the multi-stakeholder public service and privatization, it will further develop this function along the Weber Trail. At the same time, in the field of “rowing”, the state is retiring, and other actors (private companies and NGOs) are gaining ground.

Of course, there is no perfect administration, just as Weber’s ideal type does not exist. Economic and social needs require further progress in two points in particular, in the involvement of local governments and the active involvement of the population (Pálné Kovács, 2011:178). Both steps would increase resources.

The Hungarian movement has unfolded and will continue without a unified theory. Theories are different, but they do not hinder the development of the movement. The movement is called neo-Weberian synthesis by some and post-new public management by others. However, a theory that encourages the movement, summarizes its results, and develops a strategy and action plans for moving forward has not yet been born. Nevertheless, a requirement can certainly be set in the words of Marcel Proust: “The real voyage of discovery consists not in seeking new lands, but in seeing with new eyes” (Osborne-Gaebler, 1992: xxii).

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Gergely Egedy

Nation vs. Civilization? The Rise of „Civilizational States”



Summary

After the end of the Cold War, the triumphant West came to the conclusion that the values which it represented were of universal relevance, and this in turn would provide the basis for its long-term hegemony. However, this assumption has been challenged – or even disproven – by the spectacular rise of the so-called „civilizational states”, i.e., states that define themselves not as nation-states but as civilizations, trying to revive the traditions of their erstwhile empires. This study first wishes to explore the main characteristics of the most important civilizational states, China, Russia, India and Turkey, and then it points out that in contrast to these self-conscious countries the civilization of the West has to cope with serious internal problems threatening its existence. The conclusion of the author is that the West has no other choice than to renounce its claims on universalism and at the same time defend by all means its own unique cultural legacy.

Keywords: the hegemony of the West, civilization state, geopolitics, cancel culture

INTRODUCTION

Is it in the 21st century that the age of empires will arise again? After the Peace Treaty of Westphalia (1648), empires were gradually replaced by nation-states on the stage of international politics. In the first quarter of our century, however, we can witness the parallel development of the Western-dominated world order by key states in international relations seeking to revive their former imperial past, building on their own civilizational heritage. For a long time after winning the Cold War, the West assumed that no one would be able to ques-

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tion its dominant position, but that was not the case. On the contrary, we can see that China, India, Russia or even Turkey are increasingly rejecting the Western-style democratic system and market economy, along with the idea of universal human rights. It is a peculiar historical development that while the idea of the exceptionality of the West is being questioned by more and more people, the above-mentioned states define themselves as distinct and unique civilizations. Can the West respond to this challenge, and what are the chances of traditional nation-states? This issue is all the more pressing because the Covid-19 pandemic has brought not only a health and economic crisis but also a crisis of civilization to the entire world.

THE SIGNIFICANCE OF CIVILIZATIONAL TRADITIONS

In March 1947, the renowned English historian Arnold Toynbee was featured on the cover of Time magazine with the thesis that civilization was a more important factor in history than the classes centered on Marxist philosophy of history.¹ The editors therefore called him the most influential thinker of the XXth century for his recognition. In a peculiar way, however, the idea of emphasizing the key role of civilizations in the ideological battles of the Cold War was relegated to the background, and even Samuel Huntington (1999) made little reference to Toynbee in his 1996 high-impact work, *The Clash of Civilizations*. Yet there would have been plenty of reasons for it, as Ian Hall (2018) points out in his interesting study, as the foundations were laid by the eminent historian. The dramatically growing geopolitical importance of civilizations would be hard to question. The famous journalist Gideon Rachman (2015) rightly wrote after the 2015 terrorist attacks in Paris that the events “narrowed the space for those who want to push back against a narrative of ‘The Clash of Civilizations’”. The first non-Western reflection on Huntington’s concept was the 1998 work by Kishore Mahbubani of Singapore, which boldly asked the question, “Can Asians think?” It is hardly a coincidence that several people have described him as an “Asian Toynbee”.

Perhaps the most important and in any case striking factor in the transformation of the world order is that in the non-Western world the so-called civilizational states play an ever-increasing role. What do we mean by this concept? We think of states that base their legitimacy not on a nation but on their own civilizational heritage. It is well known that in the West, the essential condition for the legitimacy of the state is democratic functioning, but in the case of the civilizational states, the existence or absence of democracy does not matter much: the state is expected to preserve civilization, and its success in this respect in itself ensures civic loyalty. We can put it this way, that culture is clearly more important here than the politics; these states use history for their own legitimacy. According to several Asian authors, the distinguishing feature of a civilizational state is that it has not only political power but also extraordinary moral authority- in this it differs from the Western state type.

The concept of the civilizational state has appeared in the literature for a decade. The latest and most accurate summary was made by Christopher Coker, a professor at the London School of Economics in his 2019 book (*The Rise of the Civilizational State*). He emphasized, and rightly so, that the marginalization of Western liberal universalism is fundamentally

transforming the content of geopolitics, bringing the fault lines of civilization to the fore. That is, in geopolitics, the importance of the geographical and political elements decreases, while that of the cultural and civilizational aspects increases. Coke rightly points out that although the civilizational states have many different features, they all agree on one thing which is the rejection of Western universalism. Western culture is presented everywhere as a destructive force: in China, which is greatly difficult to explain, even church music such as Handel's *Messiah* or Verdi's *Requiem* is not allowed to be presented, and in Russia, Netflix is also seen as subversive (Coke, 2019: 170; 177).

In his 2014 book, *The World Order*, Henry Kissinger concluded that competing ideas of civilizations could provoke conflicts that were more dangerous than traditional interstate struggles.

However, new developments have been highlighted not only by historians and political scientists, but also by more far-sighted politicians. French President Macron, for example, made it very clear in a speech in August 2019 at a regular annual gathering of the country's diplomats that China, India and Russia are "true civilizational states" that have strongly transformed the political world order and the way we think about it." (The Ambassadors' Conference, 2019). We are accustomed to a world system based on the dominance of the West - France in the 18th century, Britain in the 19th century and America in the 20th century - and the importance of the new powers has long been underestimated. However, this was a mistake. We know that civilizations can sink, the French head of state continued, and this threat is also threatening Europe at the moment. So we have no choice but to adapt.

CHINA: A CLASSIC EXAMPLE OF THE CIVILIZATIONAL STATE

China can rightly be said to be a civilization that wants to act as a state in the international arena. Zhang Weiwei, a professor at Fudan University, in his book published in his homeland in 2011 (and a successful English edition entitled "The China Wave: The Rise of a Civilizational State") proudly emphasizes that China has combined the world's oldest civilization with a modern state in all respects. According to him it would be fatal for China to adopt the Western model. The country must follow its own path, as Teng Xiaoping, who had initiated the reforms in the last two decades of the XXth century, did, and as a result is in better shape than ever before in its history. China's GDP has increased 18 times from 1979 to 2011, the first publication of the book dedicated to the memory of Teng-Xiaoping! The author explains that Western experts have long predicted the failure of the Chinese system, but they were not right: the predictions collapsed, not China. In this narrative, the commitment of Chinese culture to a strong and unified state thwarted the territorial disintegration of the country, the secession of Tibet, or Xinjiang inhabited by Uyghurs. Zhang *expressis verbis* states that success does not simply belong to a country, but to a civilization.² The civilizational state is a "new model of development" that does not follow any pattern because it builds on the unique features of its own heritage and, while able to learn from others, retains its own identity (Zhang, 2011: 49-50). As a result, it does not need recogni-

tion from the West either. "Sun Tzu's Art of War does not need the stamp of approval of Clausewitz, Confucius does not need the acknowledgment of Plato, and China's current 'macroeconomic regulation' does not need the approval of the US Federal Reserve Board." – as it can be read.³ On the contrary, according to the Chinese professor, Sun Tzu's book will have an impact on Western military thinking, all of humanity can learn from Confucius, and Chinese economic policy can provide significant lessons for the United States. In the interpretation of the "Chinese wave," China, contrary to the West, which is constantly looking for progress and change, builds on the wisdom of its ancestors and owes its rise to it. This, of course, is a way of thinking that is profoundly different from what is common in the West. The West's biggest problem with China, as explained in detail by the British Martin Jacques, who wrote a bestselling book about China's rise in 2009, is that the West simply doesn't understand.

Confucianism undoubtedly plays a key role in this legacy. Xi Jinping, the secretary general of the Communist Party of China, has repeatedly emphasized the importance of the Confucian heritage - a sharp break from the Communist Party's previous line. In 2017, the party's 19th Congress defined the Confucian-Leninist model based on a one-party system as "Chinese-style socialism". The basic idea of Confucianism is social harmony and this fits well with the Beijing leadership's efforts to maintain domestic political stability even in the midst of rapid change. The remarkably rapid economic growth has been accompanied by the creation of large social inequalities, and Confucianism has proved extremely useful in curbing them. That the contrast between the rich and the poor has escalated in an unprecedented way, even Zhang (2011: 9-10) acknowledges and considers it one of China's biggest concerns. Stability is paramount, professes Deng Xiaoping, whom Zhang considers to be his spiritual master. Confucius' teachings are now also taught in the Chinese schools, to which we should add that the party has, of course, re-evaluated the original Confucian teachings on several important points.

In this context, China does not link its new identity to the history of the 19th and 20th centuries, as it only brought humiliation to it, but to earlier centuries when it could think of itself as an empire. The sharpest wound in the self-esteem of the Chinese is the British initiated Opium Wars (Coke, 2019: 107). Beijing describes the criticism aimed at its political system as the "ideological globalism" of the West and rejects it as such, even claiming that critics want to push the country back into semi-colonial status. Furthermore, in some circles in Beijing, it is not only stated that China is a unique and exceptional country, but also that it is morally superior to the "barbaric" outside world. This idea is also based on an ancient tradition. Part of this is the statement that China, as a great power, does not behave like those do: it is not driven by any intention to expand (Coke, 2019: 118). The same is said by Zhang (2011) when he points out that his homeland extends the Confucian idea of harmony to the international system: while Western civilization is "dangerous," Chinese civilization is fundamentally peaceful. At the same time, Liang Xiaojun (2016), a professor at the China University of Foreign Affairs, emphasized that "China is destined to lead, but it is not ready yet".

RUSSIA UNDER THE SPELL OF EURASIA

Today's Russia also shows the hallmarks of a civilizational state. Moscow has defined Russia as a civilization that is neither Western nor Eastern, but a special, "Eurasian" mixture of the two. This idea is not new either. Already in the first half of the 20th century, the dominant "Eurasianian" line of Russian geopolitical thinking, marked by the names of Nikolai Trubeckoy and Pyotr Savicki, among others, asserted that the Russian civilization united Europe and Asia. In other words, it is not part of either Europe or Asia, but an independent, special entity (Szilágyi, 2019). The exponents of "Eurasianism" have in fact taken over the idea of "Slavophile" Nikolayevich Danyilevsky that Europe does not exist at all; it is merely the western edge of Eurasia (Szilágyi, 2019: 25-15). Russia has far more grounds than China for calling itself a "central empire," he argues, pointing out that Russia, occupying the central part of Eurasia cannot be interpreted as a nation-state, but only as a civilization and empire (Szilágyi, 2019: 19). Going back to this tradition, President Putin stressed that his country is more than a nation-state; it is a "multiethnic civilization" that, like its predecessor Byzantium, absorbed both Eastern and Western elements. Putin emphasized, which is quite remarkable, that nationalists also need to understand that by calling into question the 'multiethnic nature' of the Russian state, they are jeopardizing our 'genetic code' (Valdai International Discussion Club, 2012). The argument that if Russia became a nation-state it would cease to be a civilization also fits into this approach. (Thus, Peter the Great's attempt to carve a modern nation-state out of Russia is especially damaging from this point of view.)

The Orthodox Church was given a special role in the Russian civilizational state. The Moscow patriarch called Putin an outright "miracle of God." According to Vladimir Pasukov, a Russian political scientist living in England, Putin revived the idea of Russian Messianism - a fundamental element of the Russian cultural code (Coke, 2012: 122). The philosopher Alexander Dugin, Putin's former adviser, is a well-known ideologue of Russia's foreign policy expansion; he is greatly convinced that Russia is inconceivable without an empire and he emphasizes that "Russia can only be examined with a thorough understanding of the characteristics of Russian society by simultaneously studying the past and the present."⁴ (This view is also represented by the Putin-friendly "Eurasian" Izborsky Club, organized in 2012, which calls into question the legitimacy of an independent Ukraine.) According to Dugin, the West has already lost its traditions; values are only preserved by Russia. That is why we have to confront the West - or we will disappear - he claims. It can be said, therefore, that the Russian leadership intends to make the rejection of the West an integral part of Russian identity.⁵ Russian researcher Lev Gudkov no longer set the victory in World War II over the Germans as a triumph over Hitler's empire, but as a defeat for the entire West (Coke, 2012: 12). However, there is much truth in Roger Cohen's view that while China is potentially a winner's challenge, meanwhile Russia is a loser's challenge to the West (Coke, 2012:185).

THE DOOM OF ATATÜRK

Erdogan is looking for a way back to the Ottoman imperial past for the Turkish state. Ankara excels in creating a civilizational state and in emphasizing its opposition to the European civilization. In the spirit of embracing the imperial past, he radically rejects the inheritance of Kemal Atatürk, the creation of a modern secular Turkish state. The Hagia Sophia in Istanbul, declared a museum by Atatürk in 1934, was transformed into a mosque in July 2020 as a symbolic gesture of the split that became known worldwide. What could be a more symbolic message than that Erbas, the head of the Turkish ecclesiastical hierarchy, indirectly but unequivocally cursed Atatürk from the pulpit of the church that had been turned into a mosque during the conquest of Constantinople in 1453? (Zaman, 2020). Both Moscow's Orthodox Patriarch Kirill and the U.S. Secretary of State Pompeo have called for the status of the 1,500-year-old world heritage building not to be changed, but the request was in vain.

However, this stubbornness is not surprising. Ankara no longer demands to be a member of the EU - on the contrary, it is no longer just blackmailing Europe over migrants, it is threatening it. "Give birth not to three children but to five, you will be the future of Europe," Erdogan told the Turkish people in the Netherlands after calling the Hague government "Nazi" because it had not allowed two of its ministers to take part in a Turkish community campaign (Darroch, 2017). Europe's opinion no longer matters: Ankara has accused the EU of a colonial attitude for blaming the gas exploration it began off the coast of the Greek islands. Supporters of Erdogan say the West remains with anti-Islamist ideals which are moved by the spirit of the Crusades. The Turkish head of state declared at the UN that the members of the Security Council could not take over the world (UN Security Council Needs to be restructured, 2021). Foreign Minister Mevlüt Cavosuglu went even further when he put the "Resumption of holy wars" into perspective (Hurriyet Daily News, 2017).

INDIA: THE DENIAL OF NEHRU AND GANDHI

Like the Turkish leadership, Narendra Modi's government also condemns the creators of modern India, especially Jawaharlal Nehru, for embracing Western concepts such as socialism instead of building on the Hindu heritage of the subcontinent. He also does not sympathize with the intellectual legacy of Gandhi, the former legendary leader of the Indian National Congress, who proclaimed non-violence. By bringing civilization to the forefront, Modi's party, the Bharatiya Janata Party, which has ruled India since 2014, has taken a stand on Hindu nationalism and is seeking to establish its old rival, the National Congress, as a "westernizing" force. Under this government, English-style democracy, the basic elements of which are enshrined in the British-minded constitution, has been severely undermined. A spectacular sign of this is the discrimination against the Muslim minority. In 2019, the citizenship law was amended so that while Buddhists, Sikhs and Christians fleeing from neighboring countries (Pakistan, Bangladesh, Afghanistan) to India are quickly granted Indian citizenship, Muslims however, cannot expect this (Reuters, 2019). According to Zhang, the democratic elements of India's political system are largely responsible for why India lags far behind China (Zhang, 2011: 139).

The civilization of India is, of course, a more controversial formula than that of China, as it is characterized by a wide variety of religions, ethnicities, and languages, but this does not negate the fact that we can find a unique civilization based on Hinduism. Octavio Paz (1985), a Nobel Prize-winning Mexican poet and diplomat and former ambassador of his country to India, thoughtfully remarked that Indo-European India is “the opposite pole of the West,” in fact; it is the “reflection”. Paz, who worked in Delhi in the 1960s, saw India as striving not to shape history but to avoid it as much as possible. Today, this could hardly be said of the Indian government. Having been elected in 2014, Modi stated that “the 21st century will be the century of India” and also indicated that he also counts on the Indian diaspora in different parts of the world as guardians of the Hindu civilization.

THE WEST AND THE “CANCEL CULTURE”

We can see, then, that the “civilizational states” of Eurasia have no problem in defining their roots and identity, in fact, this is their main resource. But can we say the same about the West? Hardly so, it can be said.

In the eyes of the West, China and Russia are currently the main threats, and its leaders, meanwhile, tend to forget that there are sharp contradictions within their own civilization as well. Although Francis Fukuyama was adamant about the global victory of liberalism in 1989, he was well aware of the internal problems of the Western civilization.

Therefore, he rightly warns us, in his augmented work to the “End of History” entitled “The End of History and the Last Man,” that the dilemmas of the survival of the Western political system are mostly dealt with only at the level of foreign policy, even though the West is threatened by internal threats no less powerful than by the rival superpowers (Fukuyama, 1994: 410).

Operational disruptions are marked by failures to deal with the Covid-19 pandemic, but the “Black Lives Matter” (BLM) movement that unfolded after May 2020 could also be included in the crisis. The world-famous practice of tearing down statues is a way of separating the past from the present, and thereby it manifestly declares war on the traditions of the Western civilization, those which preserve more democratic elements than any other civilization in the world. The BLM, which enjoys a widespread mass support, reminds the famous English philosopher John Gray of the professed millenarianist-messianic sects of the late Middle Ages, because like them, they sought worldly salvation, the perfect society, in a utopian and anarchist way (Gray, 2020). The “social justice warrior” (SJW) is convinced that for a better world, it is enough to destroy the old thus, to destroy the Western culture. According to Gray, their movement also bears some parallels with the Bolsheviks, but the latter had definite goals and ideas, and they have no vision. Of course, the problems are not new; the legitimacy of Western civilization has long been undermined in many American universities (Egedy, 2016: 62-66). Modern thinking does not prevent the nihilistic war from being waged against liberal democracy in the future from their sweet children,” - says Fukuyama (1994: 471). At the moment, we are now at the point where the “enlightened” BLM supporters would make public apology for standing up for the Western civilization a mandatory norm.

Thus, the most serious problem in today's Western civilization is a kind of schizophrenia - the recently deceased Roger Scruton (2005) aptly defined it as „cancel culture”. While in the “non-Western” world they seek to explore and focus on the heritage of their own civilization, in the West there is an expectation to deny the traditions that distinguish us from others. It is as if the West is sacrificing its own civilization for the sake of a universalism that no one needs... This attitude, of course, profoundly weakens the resilience of our civilization in an era when it would be needed more than ever. So a change of direction is inevitable; the West must rely on its own heritage and give up shaping the world in its own image. The West must accept the fact that their civilization is extremely rich but it is not universal.

CIVILIZATION AS AN ALTERNATIVE TO THE NATION

Macron rightly said in his previously quoted speech that the civilizational states have a much greater initiative than the old European states. The general secretary of the Janata Party, which rules India, has said that “from now on, Asia will rule the world and that will change everything, because here we have civilizations, not nations”.⁶ This is certainly a key phrase: paradoxically, it contrasts civilizations with the nations associated with the West.

It is all the more noteworthy because the idea of civilization was developed in 18th century Europe, and in this context it was not unreasonably believed by the great French historian Fernand Braudel that the plural use of civilizations could mean the rejection of the civilization when used singularly. The nation-state as a political form is historically truly tied to Western civilization, as real nations have only emerged in this circle. It is fair to ask whether the reference to civilization is not a peculiar covert form of nationalism. In any case, Adrian Pabst (2019), a professor at the University of Kent, argues that these states represent a specific hybrid doctrine: nationalism at home and the emphasis and protection of their civilization in the international arena. Let us add to this that the offensive attitude of the civilizational states clearly calls into question the position of traditional nation-states in the international system.

The last two centuries belonged to the nation-state; will it now belong to the civilizational states? As is well known, today's nation-states face a number of challenges: on the one hand, from large supranational integrations, and on the other, from states that think within the imperial framework. It is reasonable to ask whether the EU itself is not on its way towards becoming a ‘civilizational state’... (Zhang writes in the Chinese Wave that “if the ancient Roman Empire had stayed united till now and transformed into a modern state, Europe could also be a medium-sized civilizational state.”). Scruton (2005: 170-173) is, of course, right that the nation-state is not the only possible source of social membership, but it is also undoubted that, with all its flaws, it has the most organic connection with our Judeo-Christian civilization heritage, and it provides the patterns of community that can best ensure a person's dignity. So we have a reason to defend the Western civilization that sustains nations, and thus our Hungarian identity as well.

NOTES

- ¹ Arnold J. Toynbee, March 17, Time (TIME Magazine Cover) <http://content.time.com/time/co- vers / 0.16641.19470317.00.html> Download: 2021, Oct. 29.
- ² The development of the state of Chinese civilization is followed in detail in Chapter 3 of *The Wave of China*. Zhang: i.m. 47-82.
- ³ Zhang: i.m. 3. (The Fed is the US central bank)
- ⁴ Quotes Dugin: Szilágyi: i.m. 25. Perhaps Dugin's most important work is entitled 'Fundamentals of Geopolitics' and was first published in 1997. Also available in Hungarian: *The Fourth Political Idea*, Quintessence Publishing House, Debrecen, 2017.
- ⁵ Let us add, however, that for the Russians the West is not as distant and foreign as for China - this explains why the so-called „western” tradition is also powerful.
- ⁶ Quotes: Macaes, Bruno: *The Attack of the Civilization-State*, Noema, 2020, June 15, <https://www.noemamag.com/the-attack-of-the-civilization-state/>. Download: 2021, Oct. 29.

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Márton Gellén

Public Administration Shaped by Demand for Crisis Management

Hungary: Struggling with Crises and Taking the Blame for It



Summary

The issue of centralization is one of the classics of public administration science. Hungary's public sector reforms have raised the interest of international academic inquiry. Accounts of the reforms appear to share the same intrinsic judgement that centralization should be rejected per se while decentralization is unquestionably desirable. This has been contrasted recently with the evident need for effective crisis management that is usually attributed to clear hierarchic relations and top-down initiatives. The proposed paper has a context-oriented standpoint having in mind the important lesson of the policy transfer (and policy failure) theory, that solutions that appear to work in a certain context, might not work in another. In order to examine the Hungarian development path with a somewhat more detailed perspective, the following methods are used in the article: path dependence theory (pendulum effect) of public sector reforms on a factual basis and making comparison with the recent development path- a reference country in the region (Slovakia). The article puts forth propositions for the future how the crisis consolidation process is recommended to be completed by corresponding literature.

Journal of Economic Literature (JEL) codes: H12, H83, P21

Keywords: transition, centralization, public administration reform, democratization

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CRITICISM AND DEVELOPMENT PATH

The current paper analyzes contemporary developments in Hungarian public administration and public service delivery. It appears that Hungary has gained popularity among theorists of political science and public administration as a research subject. Such popularity cannot be rationalized by Hungary's size or influence but by its unique development path of being a forerunner of democracy and becoming – as critics say – a semi-authoritarian pseudo-democracy. First of all, one should argue that there is a certain common latent assumption that certain countries ought to develop on a given path and if not so, a 'problem' occurs that generates theoretical criticism and scientific propositions of correcting, amending or modernizing reality to the ideal image of reference. Theorists' generally have a strong commitment of assuming an ideal development path which is best summarized in the public administration development path theory. The most obvious pattern of the development path for a country's public administration is the linear one. The linear – and somewhat naive – common theoretical perception on transition was that if the peoples of Central and Eastern Europe want democracy and capitalism all they need are good institutions installed as quick as possible and the new institutions will work effectively. This approach was cherished by such renowned theorists such as Rustow (1970) in terms of democratic transition and Sachs (1994) in terms of "shock therapy" or in other words: introducing capitalism overnight. Although both authors emphasize conditionality of transitions, they both believe in the necessity of transitions from point "A" to point "B". The concept of a linear development path of any polity enables criticism by any protagonist of point "B". The vision of a linear development path can be traced behind the "accession" drive of reforms that is also called "Europeanization" (Ágh, 2013). In terms of development path theory this signifies that the "B" (desired) status is represented by an external (moral) authority that demonstrates its superiority by its highly developed institutions and significantly higher living standards. In Hungary's case the neighbouring Austria has been a reference point as a country model in the early phase of transition.

International (financial) institutions have also been the promoters of policy transfer in terms of public finances, democratic institutions, property rights, human rights, public administration and public service performance, e-government and many other components of a young democracy. Institutional and policy transfer approach is well known in corresponding literature. According to Randma-Liiv, creating and stabilizing democratic institutions and market economy were the first priorities of public sector reforms in Hungary but these reforms did not facilitate public administration to become stabile, democratic and professional (Randma-Liiv, 2008). This is not surprising since each international policy transfer institution is somewhat locked in its own mission statement and internal bylaws that limit its activities. The controversial nature of the operations of policy transfer institutions was analyzed by Sobis and de Vries (2009) in detail. The EU and the post-Communist countries' interaction is a special field within policy transfer oriented transition literature. Schimmelfennig (2005) and Vachudova (2005) argue that EU accession was a decisive motivation for the democratization of the new member states since they had an additional motivation to fulfil the Copenhagen criteria. Other development path trajectories designed to fit descriptive theore-

tical approach offer less room for normative criticism. Path dependence theory has various non-linear approaches in public administration theory. Bouckaert and Pollitt (2011:26) enable the assumption of a dialectic development path without proving it but offering it for further analysis. Pendulum-path is also a legitimate theory arguing that the strong state is one extreme and the minimalist or “hollow” state is the other extreme (Peters, 2008:11). According to this theory, countries tend to move on the pendulum path and appear to periodically change their direction of development (Wollmann–Marcou, 2010). György Jenei identified two development paths of Hungarian public administration after the regime change. One is the sustaining-preserving path with periods of modernization. According to Jenei, the sustaining-preserving period in Hungary lasted from 1990 to 2005. Onwards from 2006 the development path changed drastically first to the marketising than to the minimalization path (Jenei, 2009a). The changes of the 2006 reforms reflected the changes of the role of state in the general sense signifying that the (Weberian) concept of the capacity-building state gave way to a capacity-minimizing understanding of state right before the economic crisis. From the public administration theory one can crystallize that it is quite normal that certain countries tend not to remain in a constant status nor do they develop in a linear way but sometimes they tend to develop in a reverse route of the pendulum – leaving open the question whether this is still to be called ‘development’. In the Hungarian domestic theory there are at least two theorists who formulated a ‘vicious circle’ “development” path. Sajó powerfully demonstrated the self-sustaining worsening of a state-society relationship in Hungary (Sajó, 2008) while Szócska formulated a similar argument regarding the vicious management circle of Hungarian public health sector (Szócska, 2010).

CONTEMPORARY ACADEMIC CRITICISM ON THE HUNGARIAN DEVELOPMENT PATH

In the followings I collected the critical accounts of scientific importance regarding the Hungarian public administration development path. Hajnal, Csengődi, Ágh and other critics begin their analysis with the enumeration of vivid examples of recent powerful reforms of the contemporary Hungarian public administration. Since distinguished theorists collected such measures repeatedly, hereby I briefly enlist the major elements of reforms.

Hajnal and Csengődi start their analysis from emphasizing the reality that the landslide political victory of 2010 changed political landscape from a bipolar, coalitions-dominated party politics to a unipolar two-thirds majority parliament and to a virtually homogenous political landscape at the local level (Hajnal–Csengődi, 2010). Landslide victory itself is considered an institutional failure for the democratic institutions in Hungary by Ilonszki and Várnagy (2014). This statement appears to be rather strange since it implies the latent assumption that young democracies – due to a hidden ideal – ought to be governed by coalition governments. Hajnal and Csengődi argue that Central and Eastern European political culture can be characterized by “clientelism, politicization, corruption and nepotism” (Hajnal–Csengődi, 2010:39). It would be difficult to refute this statement however; it would be rather obvious to relativise it by reminding ourselves on Greek or Italian realms of politics-administration

relationships. Hajnal (2015) as well as Gellén (2014) argue that legalism is also an important element of Hungarian public administration legacy; they also prove that – despite strong legalistic tendencies – politicization has been increasing since the mid-2000s in terms of informal arrangements of political control above bureaucracy. Continuing the EU – new member state interaction principle (shared by Randma-Liiv, 2008; Schimmelfennig, 2005; Vachudova, 2005) – Sedelmeier (2014) argues that backsliding in democracy is the primary problem after the EU accession both in Hungary and Romania. Ágh’s criticism is somewhat similar (Ágh, 2013). Politicization – in terms of positioning political cadres to key positions overwhelmingly dominating public administration and public service institutions – is an important finding of his study. He emphasizes centralization as a main tendency of the Hungarian public domain, “reinforced by the recurring financial constraints” (Ágh, 2013:1123). In fact, Ágh has an important remark that is important as a path dependence determinant factor: permanent fiscal constraint: when there was decentralization on the local and county level (1990-2010), fiscal deficit was decentralized.

It is important to consider whether only Hungary is exposed to such scrutiny regarding democratic quality. The answer is no. In international literature we find numerous scientific articles on challenges of various European democracies such as Italy under the Berlusconi era (Donovan, 2003; Hopkin, 2005) or the institutional incompleteness of facing the crisis (Mammone–Veltri, 2008). An important aspect in recent pro-democracy is that decline of disposable income draws back natural citizen participation in democratic activities (Pianta, 2013). Slovakia also used to be labelled as a semi-democratic or defected democracy by international scholarship (Henderson, 2004). Later on Slovakia „distinguished itself in the first half of this decade by launching a coherent set of economic reforms that limited government and transferred social and economic risk to individuals” (Fisher et al., 2007:977) carrying out a series of successful neoliberal reforms in the economy. Still, liberal approach in economics did not flawlessly apply to political rights: “Yet, the ethno-national agenda of the post-communist Slovak state- and nation-building meant that the minority was *de facto* excluded from political policy-making and institution-building, during the 1990s further policies were put into place to further restrict minority political participation in the country” (Agarin–Regelmann, 2012:450). In fact, international scholarship scrutinized the far from immaculate nature of Slovak party financing and “shadow democracy” after the notorious “Gorilla-scandal” (Bértoa et al., 2014). The list could be made longer: The corruption situation in Romania undermining democratic institutions (Hein, 2015), and the insufficient human rights in minority issues in Romania and Bulgaria (Ibryamova, 2013). Naturally – without lengthy explanations – it is easy to comprehend that contemporary developments in Greece do not appear to promote democracy since it is difficult to maintain democracy when fundamental human needs such as job security or access to one’s own wealth are not ensured. Similarly it is difficult not to recognize a threat to democracy when bank assets are confiscated en masse such as it happened in Cyprus recently.

As a conclusion from the literature review – that could be longer – it can be concluded that scholarly criticism is not at all limited to Hungary in terms of the quality or the maturity of democracy. This chunk of theory shares a certain approach towards democracy: namely a

certain unconditionality of democracy. Interestingly, relatively few scholars who deal with any aspects of democracy defects, flaws or backslides in the Central and Eastern European region pay significant attention to the fact that democratization itself is not necessarily a linear “A” to “B” path. Even fewer connect failures of democratization to certain historical conditions such as governance challenges in stern times of a financial, economic and social crisis that fulfils the definition of a perfect “wicked problem” or a full scale “perfect storm of a global recession” (Roubini, 2008). There are exceptions however such as Lazarus’ account on Georgia whereas good governance and good democracy are displayed as colliding interests (Lazarus, 2013). Ágh formulated a similar argument in 2001 by contrasting institutional performance with the quality of democracy in Hungary (Ágh, 2001). That time Ágh observed that although the level of democratization was satisfying but institutional performance was suboptimal in Hungary. It can be stated that similar policies can be labelled as a threat to democracy or as necessary reform steps for the purpose of efficiency (or any other legitimate ambitions such as simply winning the elections by a democratic party). As an example I refer to Peillon’s account from 1993. Peillon analyzed centralization reforms in public service delivery in 13 Western European countries. In five cases he could not find sufficient data. In eight cases however, he found that public service delivery on the local level was significantly centralized by the central state. In his account he does not even mention any backsliding in democracy (Peillon, 1993). Pollak and Puntcher-Riekmann have a logical statement that EU institutions – although they do not replicate the administration of a member states – per se create centralization while creating fragmentation on the national level (Pollak–Riekmann, 2008).

REGIME CHANGE WITH LIMITATIONS

In the followings I present a brief selection of the main characteristics of the Hungarian public administration development path until 2010. From 2010 I enlist the main measures done by the government by collecting the lists of critical theory. Finally, I make an attempt to draw a conclusion on what appears to be an exaggeration from critics and what needs to be corrected by the policy maker. By 1989, a pluralistic, democratic constitutional state came to life, having the first election in 1990, whereas local governments had a vital role in the process of democratization. In 1989-1990, the “big bang” of the regime change affected the entire constitutional system – with certain flaws however. In the formal sense, however, the constitution itself remained Act No. XX 1949 – having in the newly amended preamble that the constitution itself is temporary. Designing the local government system was also part of the smooth transition. The law on local governments was issued by the new Parliament in 1990 but it was prepared by the Ministry of Interior before the regime change happened (Gellén, 2012:154). Throughout the years of 1990 it turned out that the Socialist Party can effectively use local politics for maintaining its territorial network of interests and cadres. This turned out to be obvious later on when former heads of local soviets (former or Party commissars) successfully rebooted their former careers as town mayors en masse (Ellis, 1997). Unlike in Romania or in Poland, there were no significant policy steps to create a workable lustration regime in Hungary (Horne, 2012). Political contradictions of this transitional period offer an

understanding of why the Hungarian path to administrative development did not prove to be a continuous success story throughout the ensuing decades (Orenstein, 2008). The following are among the most important strategic factors of the post-regime change period:

Regime change happened in two phases. The first and most important phase happened before the political regime change (joining IMF Treaty: 1982, Act on Companies: Act No. VI, 1988, Act on Personal Income Tax: Act No. VI, 1987, Act on VAT: Act No. VI, 1978). The second phase took some time to unfold since the new democratic institutions needed time to develop and their legal guarantee systems took further time to be established. This phase-difference involved that newly established ownership rules and other legal institutions provided entrenchment for those who successfully transferred political clout into economic power. The non-democratic nature of this phenomenon was soon recognized by foreign observers as well (Ayres–Braithwaite, 1992:7). Administrative and welfare systems became under unbearable pressure because of a social and economic collapse. The first correction of the newly established democratic administration and public services system took place in 1995 (Kornai, 1996). In 1996, Hungary had to re-enter a standby loan agreement with the IMF. The pattern of post-communist systemic meltdown is well-known in the entire Central and Eastern European region of this time: oversized state-owned enterprises collapsed after the immediate disappearance of foreign markets – primarily due to the lack of solvency of post-Soviet partners (Román, 2005:55-56). Large public sector education, health, and pension systems were only modestly changed since it was these systems that absorbed the masses leaving the labour market (OECD, 2008:57-139).

- Privatization was not under social control, apart from sporadic victories, and mass privatization led to the loss of work competence and the loss of markets.
- The remaining work force was partly moved to services or low-added-value industries.

A so-called dual economy was conserved, with approximately 700,000 micro- enterprises that had little real chance for growth, and with a few (mostly foreign owned)¹ multinationals who brought production to Hungary (Pavlínek, 2004).

INSTITUTIONAL DEVELOPMENT PATH

Interestingly, the first wave of reforms hardly gained inspiration from the contemporary public administration theory. Onwards from the 1990s new institutional economics inspired a huge wave of international advice of donor organizations for public sector reforms since this approach generated intellectual spotlight for the importance of institutions including public sector institutions and institutional settings – determined by law. International donor organizations started to reform strategic settings of the target countries having their primary focus on the rule of law institutional systems and property rights (Prado–Trebilcock, 2009). After having the framework settings of rule law, other key institutions have been taken into focus such as jurisdiction and constitutional courts. Having a historical perspective, current theorists argue that probably other institutions could have more impact of the everyday experience of democracy and rule of law such as law enforcement, attorneys, revenue authori-

ties, and dispute resolution. So the typical sequence in Central and Eastern Europe was that primarily democratic and rule of law institutions were established and stabilized while public service (and public administration) institutions were being reconstructed. The latter however, suffered delay to the market economy institutions (Ayres–Braithwaite, 1992:7). Minimalization path – according to Jenei – arrived to Hungary in 2005 with a series of opaque PPPs and other outsourcing projects that marked the deconstruction of the institutional capacities of public sector (Jenei, 2009a). Finally, Hungarian central budget defaulted in 2008 and the country had to enter an IMF standby loan agreement again. This indicated that the minimalization path of the Hungarian administrative and public service capacities did not contribute significantly to a better fiscal balance.

THE SLOVAK EXAMPLE: PARALLEL DEVELOPMENT

The Slovak Republic as a neighbouring country serves as an excellent benchmark for better understanding the development path of Hungarian reforms. Despite the remarkable parallelism between the public administration development paths of the two countries, otherwise active international theorists did not appear to pay attention so far to extend their scrutiny to the systemic commonalities of the two countries.

Both countries exited Communism at the same historical time and entered the EU the same year (2004). Jacko and Malíková (2013) offer the following summary of the Slovak public administration development path.

Table 1: Timeline of Slovakia's key public-administration developments

Year	Process	Events & measures
1989		Fall of communist regime in Czechoslovakia ²
1990–1998	Decentralisation & deconcentration	Creation of municipal self-governments ³ , dissolution of Czechoslovakia and creation of Slovakia (1993). Territorial change and reconstruction of state administration (1996). Creation of new districts [okres] (79 in total) and regions [kra] (8) with own district and regional offices representing and carrying out tasks by civil servants on behalf of the central government ⁴ .
1998–2004	Decentralisation & Modernisation ⁵	New public-administration reform strategy, creation of 8 regional self-governments (i.e. higher territorial units). Creation of the Civil Service Office and Ethical Code of Conduct for civil servants ⁶ . Public Service Act ⁷ passed and first regional elections held.
2004		EU accession

Year	Process	Events & measures
2005–2012	Politicisation	Civil Service Office abolished, and its roles were moved to ministerial service offices (return to resortism). Abolition of Regional Offices and fiscal decentralisation to regional and municipal self-governments. New Civil Service Act ⁸ removed all remaining civil-service neutrality safeguards.
2012–	Modernisation II	New one party government elected – public administration reform ESO commenced ⁹ . Plans announced to reduce the number of local state-administration offices from 613 to 79 until 2016. Regional Offices of Specialised State Administration abolished on 1 January 2013.

Source: Jacko–Malíková, 2013

The development path summarized in Table 1 appears to have a precise replication of what the public administration theory identified in Hungary. Decentralization period reflects the accounts of Ágh (2014), Jenei (2009b) while post-EU accession period appears to be “backsliding in democracy” (Ágh, 2013) – according to Jacko and Malíková (2013) without calling it as such. Attila Ágh however detected that “backsliding in democracy” appears to be a common post-EU accession pattern (Ágh, 2010). In terms of comparing Slovakia and Hungary it is “politicization” that dominates the post-EU accession period. Politicization is widely criticized by the public administration theory because it contradicts the Weberian model of separating public administration from politics. Regarding Hungary, Meyer-Sahling researched politicization powerfully, many domestic theorists took his example for further research such as Hajnal and Csengődi (2013). Still earlier accounts can also be found on this theme. Gryzmana-Busse connected politicization with the instability of party systems in Central and Eastern Europe arguing that governing parties are not embedded in the societies of the new democracies, their power positions are not secure therefore they tend to opt for more established power security by taking over public administration (and public service) structures (Gryzmana–Busse, 2003). Despite politicization is one of the central arguments of theorists warning from democratic decline in Central and Easter Europe, Western theory views politicization as an essentially democratic phenomenon that happens from time to time in Western Europe. Rouban argues that politicization can be useful in the process of bringing down traditional bureaucratic interests (Rouban, 2003). It is a matter of contradiction to state that after a Communist dictatorship, multi-party politicization is labelled ‘non-democratic’ while it is democratic in established democracies. First it would have to be proven that the nature of politicization is different in Central and Eastern Europe than elsewhere. Lacking this argument, theorists make attempts to prove that a given politico-administrative system is non-democratic because it is politicized. In terms of Hungary this appears to be the case by Ilonszki and Várnagy (2014) and Hajnal and Csengődi (2010) stating that a monocentric party structure is par excellence non-democratic. Interestingly, this argument cannot be found regarding Slovakia despite “In March 2012, Slovakia saw an unprecedented election result with the Smer-SD party winning enough votes and seats that it formed the government

unilaterally and is seven seats short of a constitutional majority.” (Jacko–Malínová, 2013:6). In fact regarding Slovakia one can easily find non-democratic tendencies regarding minority rights and especially regarding the connection between minority rights and public administration reforms (Topidi, 2003). Both the tendencies of politicization and the single-party government appear to match. In terms of politicization Jacko and Malínová conclude the following “The year 2001 was crucial for the public-administration-reform continuance – both in terms of decentralisation and modernisation. The peak reform efforts were reached in 2004 when Slovakia joined the EU. Afterwards, Slovak civil service has experienced a move back in terms of further politicisation of politico-administrative relations.” (Jacko–Malínová, 2013:10). The next question is whether the institutional reforms have similar characteristics – in terms of development path – after changes took place in both countries. The change from multiparty coalition systems to single-party governance systems were in both cases drastic departures from the two decade long era of coalitions. This happened in Hungary in 2010 and repeated in Slovakia in 2012.

FRAMING CENTRALIZATIONS

Hungarian developments are mostly listed by above cited authors as follows: centralizing 75% of the competencies of local governments while establishing township offices and county government offices under the supervision of the Ministry of Public Administration and Justice, later on (after 2014 this portfolio was taken by the recently re-established Prime Minister’s Office). Public services were also centralized, especially public schools and hospitals. Two welfare sectors: public education and public health service received their central organs of institution-management. Such centralization steps are able to fulfil requirements that were agreed with IMF by the previous government on better fiscal control of these sectors.¹⁰ Naturally, higher level of centralization is more appropriate for politicization if the ruling political structure has a strong central structure. On the other hand, a decentralized structure might be appropriate for implementing politicization for a decentralized political structure. This is not only an academic argument. It is known that the Hungarian Socialist Party (successor of the former Communist party) has been typically strong on the local level. Therefore decentralized structure was used to favour the Socialists while centralizing favoured the Fidesz party structural interests. This basic element of political reality is hardly discussed in academic literature of the recent public administration theory.

In Slovakia, municipalities having local governments amounted to 2890, while in Hungary it amounted to around 3200. It has been a common understanding in Slovakia that administration became too fragmented, complicated and too expensive to run. “As a result, one of the clearest government reform goals of 2012 was to decrease the number of most state-administration offices from 613 to 72.” (Jacko–Malínová, 2014). Similarly, in Hungary, county government offices incorporated previous patchwork of public administrative organs. In Slovakia government dissolved 64 regional offices of specialised state administration and merged most remaining local state administration offices (Jacko–Malínová, 2014). “One stop shop” front offices were created in the 79 Slovak districts similarly as “Government windows”

in Hungary. In Slovakia the Ministry of Interior is in charge of local government issues, same as in Hungary while in the latter country Prime Minister's Office (between 2010-2014 Ministry of Public Administration and Justice) is in charge of County Government Offices that incorporated most of the sectoral public administration. In Slovakia the system of regional Support Units (*Jednotky podpory*) has been established in each of the District Offices in order to do purchasing and certain organization activities more efficiently. The county level Government Offices in Hungary also contain the idea of utilization of economies of scale in purchasing, IT, logistics, HR, and office and facility management.

CONCLUSIONS

It appears that in certain cases certain forms of centralization appeared to be rational in Central and Eastern Europe in controlling the socio-economic crisis. Still, international theorists appear to dislike centralization reforms if they occur in Central and Eastern European countries. It appears so far that at least at the technical sense – and also in the fiscal sense – such reforms might have proven successful. Has politicization happened? Definitely but it has been happening since the political marketing approach became a main governance principle in the former Communist countries (Mazzoleni–Schultz, 1999). Are these steps harmful for democracy? It would be difficult to prove that centralization itself would hinder democracy. What can be proved relatively easily is that centralization creates opportunity to decrease central funding from centralized institutions. This is what the IMF suggested to Hungary in 2008/2009 (IMF, 2009).

Having a look at the 2015 OECD Government at a Glance report on Hungary, one might get puzzled.

Table 2: Structure of general government expenditures by function, as a share of total general government expenditure (%) in Central and Eastern European countries, 2012 (Government at a Glance. How Hungary Compares, 2015)

	General public services	Defence	Public Order and safety	Economic affairs	Environmental protection	Housing and community amenities	Health	Recreation, culture and religion	Education	Social protection
Austria	13	1,3	2,9	11,3	1	1,2	15,4	1,9	10,8	41,3
Czech Republic	11,3	2	4,1	12,5	3,1	1,6	17,6	6,1	10,9	31
Germany	13,7	2,4	3,5	7,7	1,3	1	15,7	1,7	9,7	43,3
Hungary	18,6	1,7	4	12,8	1,5	1,9	10,8	3,9	9,9	35,1
Poland	14,1	2,8	4,1	11	1,3	2	10,9	2,8	12,9	38,1

	General public services	Defence	Public Order and safety	Economic affairs	Environmental protection	Housing and community amenities	Health	Recreation, culture and religion	Education	Social protection
Slovak Republic	15,9	2,8	6,4	9,3	2,5	2	16,3	2,6	10,2	32
Slovenia	12,1	2,2	3,7	8,1	1,5	1,6	14,5	3,7	13,3	39,3
CEEC	13,3	2,5	4,6	10,2	2,1	1,8	14,8	3,8	11,8	35,1
OECD	14	3,5	3,9	9,9	1,7	1,6	14,6	2,7	12,3	35,9

Source: Own edition

On one hand Hungary has the lowest relative expenditure in percentage of total public expenditures on health (10.8%) and on education (9.9%). Both of these fields are targeted by centralized supply organizations in Hungary while general public services have the highest rate (18.6% of public expenditures). One could think that certain elements of expenditures have been simply transferred from the sectoral categories to the general public services category due to recent centralization efforts. In the case of Hungary, the contrary is true. According to the OECD, Hungarian central government debt was among the highest across the OECD: 85.2% of GDP in 2012, using the System of National Accounts (OECD, 2012). The annual central budget debt service is approx. 7.7% of total government expenditures that is included in the „General public services” column¹¹ (OECD, 2015:33). If we correct the general public services data by ratio of debt service per annum, it appears that Hungarian public administration itself was exposed to extreme cost cuttings from 2010 onwards; it appears to operate at a relatively low cost. Centralization appears not to be harmful for democracy; on the other hand, centralization may be a prime weapon of ‘fiscal dictatorship’. It can be added that de-centralized structures can work as stabile and comfortable conflict-containers. Centralization does not solve the conflicts instead it elevates the conflicts from the local to the higher level. What can be seen in retrospect is that the Hungarian local government’s debt equalled 1.9% of GDP in 2005 which increased to 4.9% of the GDP by 2009. The new government halted this trend and fiscally consolidated the local government sector. What happened was that the central supply agencies in education and in the public health sector began to operate as new conflict containers as they accumulated structural debt. Today this is far less than what local government debt used to be.

NOTES

- ¹ Dual economy is a systemic market development failure characteristic in the Central and Eastern European region - according to Petr Pavlínek - whereas foreign direct investment creates a separate economy upon the domestic economy and the two have very limited connections with each other (Pavlínek, 2004).
- ² Three levels of public administration, which were each run by the system of national councils.
- ³ Municipal Act 369/1990.
- ⁴ Act no. 221/1996 [Zákon o územnom a správnom usporiadaní Slovenskej republiky].
- ⁵ Modernisation is sometimes also referred to as “professionalization of public administration” or “civil service reform”.
- ⁶ Civil Service Act 312/2001.
- ⁷ Act no. 313/2001.
- ⁸ Act no. 400/2009.
- ⁹ One of the first legislative measures of the reform has been Act no. 345/2012 on Some Measures Regarding Local State Administration.
- ¹⁰ <http://www.imf.org/external/pubs/ft/scr/2009/cr09105.pdf> Retrieved: 12,12,2019.
- ¹¹ Author’s own estimation based on Final Accounts on Central Budget Delivery, State Audit Office, Hungary. [xternal/pubs/ft/scr/2009/cr09105.pdf](http://www.imf.org/external/pubs/ft/scr/2009/cr09105.pdf) Retrieved: 12,12,2019.

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Digitization in Healthcare

Assessment of Telemedicine Based on an Empirical Hungarian Research



Summary

Digital healthcare is constantly evolving, with more and more innovations emerging in the industry. This has been accelerated significantly with the emergence of the COVID-19 and the development of the pandemic situation. The relocation of healthcare to the online space, i.e. telemedicine services, has already emerged in the early 21st century, but it was undoubtedly the pandemic in 2020 that has provided new opportunities for companies in the sector to develop. The aim of our study is to explore the opinions and the knowledge of the Hungarian people about telemedicine services. Based on the results of an online survey (188 respondents), it can be said that a significant proportion of people do not know what exactly telemedicine is. The key benefits of telemedicine services are the less crowded hospitals and doctor's offices, faster administration, and recognition of severe symptoms. The respondents considered as main disadvantages were the unclear price-to-service ratio and the collection of misunderstood information and the services offered outside public financing. The telemedicine services that most people have already used are the e-prescription, booking of personal consultation and the e-referral. Looking to the future, the majority is optimistic and expects the development of digital healthcare. Based on the results, we have identified six possible digital marketing campaigns for the telemedicine companies, taking into consideration the goals, the content, and the target audience.

Journal of Economic Literature (JEL) codes: I19, L83, O30

Keywords: telemedicine, digital healthcare, telemedicine services and opportunities

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INTRODUCTION

Digital healthcare is constantly evolving, with more and more innovations emerging in the industry. The control of the COVID19 pandemic and the treatment of patients with the virus became the priority for the hospitals and doctor's offices worldwide, thus putting other healthcare activities into background. Due to this, the demand for the possible relocation of the healthcare to the online space and telemedicine companies were established which provide various online healthcare services, supplementing the services of the conventional healthcare system. In addition to the search engines, the usage of the medical applications have also grown significantly during the period of the pandemic, globally by 65%, with the highest proportion in South-Korea (135%) and India (90%), and also in several European countries (Statista, 2021).

The availability, the equality and the cost-effectiveness are the key issues which the healthcare is facing both in the economically developing and developed countries. The modern information and communication technology (later as ICT) – the spread of computers, internet, and phones; revolutionizes the way individuals communicate with each other, seek and exchange information and enrich their lives. Enormous potential is lying in these technologies for overcoming the obstacles present in the area of providing available, cost-effective, and high quality healthcare services both in the developing and the developed countries. According to Matolcsy (2020), the future will be simultaneously local, regional and digital, which may be the first step towards a fifth industrial revolution based on artificial intelligence and bringing fundamental changes to the social organization. The digital healthcare system uses these technologies to span the geographical boundaries and to enhance the availability of the healthcare services. This is particularly useful for the rural and the inadequately covered communities in the developing countries; for the groups which traditionally suffer from the lack of availability of the proper healthcare services. However, according to even the most pessimistic social scientists, the healthcare situation will improve (Lentner, 2020).

Telemedicine is the new paradigm of the healthcare, where the patient is still under medical supervision even between two visits (American Telemedicine Association (2013). According to Perednia (1995), the telemedicine, defined in a broad sense, means the use of the telecommunication technologies. All this is realized in order to provide medical information and services. The interest towards the industry grew dramatically in the 90's. Since then the application of telemedicine has been a rising trend (Kurjak-Kós, 2001). Its popularity is unquestionable in North America, Australia, South Africa and in the Scandinavian countries. However, its inland spread has not yet achieved major success. In the vast majority of the cases, the goal of the telemedicine is not to be a "small hospital", the home deployment of the professional equipment operated by the medical staff at the hospital, but the development of such protocols and medical devices which least impede the usual lifestyle of the patient, provides security for them, and sufficient data for the medical experts.

Nowadays the use of mobile phones is constantly expanding and this trend is expected to continue in the future. These devices use several different interfaces but the two platforms with the largest market share are the Android operating system and the iOS operating system.

By their widespread integration into the lifestyle of the users the mobile phones can support the individual activities anywhere, anytime. In addition, due to the several built-in sensors the devices are capable of measuring and analysing the various medical parameters.

Telemedicine is yet in its early stages, and though there are high hopes in it, in order to maximize profit, its analysis is required. The ICT may be quite costly, just as the programs related to it. Actually, most often mentioned restriction to the introduction of the global solutions of telemedicine is the high costs (Botrugno–Zózimo, 2020). In the 2010 survey of the WHO, 70% of the countries stated that they needed more information on the cost and cost-effectiveness of the telemedicine solutions, and 50% of them requested more detailed data on the required infrastructure for the incorporation of the telemedicine solutions. Further information on the clinical use of telemedicine was requested by 60% of the countries. While the developing countries see the problems that can be related to the resources – such as the high costs, underdeveloped infrastructure and the lack of technical expertise – as the limiting factors of the telemedicine, the developed countries must consider the legal obstacles – such as privacy and confidentiality (WHO, 2010; MacHado et al., 2021).

Enormous quantity of valuable insights, procedures and technologies become available in the field of healthcare every year. However, only a small portion of these methods and technologies becomes accepted and used in the everyday treatments. Difficulties often occur in the introduction of the innovative technologies. The incorporation of new insights and developments into the healthcare may be only partially successful or sometimes entirely unsuccessful, but several innovations have been already incorporated (Grol et al., 2013). Medical science took its direction towards a more humane version based on partnership and joint decision making.

The aim of our study is to explore the opinions and knowledge of the Hungarian people about telemedicine services. We aimed to answer the following research questions: how informed the people are about the telemedicine, what they think of the benefits and disadvantages of the telemedicine services, or how willing they are to use them and what they think about the future of the digital healthcare. After the literature review, the results of an online quantitative research will be described. Our research took place in spring of 2021 in April, during the 3rd wave of the COVID-19 pandemic in the time of the stricter governmental actions and restrictions.

LITERATURE REVIEW

In the 90's the personal computers became widely available and the e-health also emerged. When these computers were connected to form a network, the telemedicine services began to appear. The emergence of the community media provided room for the medical science and healthcare 2.0, while the penetration of smartphones gave rise to the mobile health applications (Aker–Ray, 2010). According to Van De Belt (2010) there is no relevant difference between the medical science and the healthcare 2.0. Eysenbach (2001) agreed with this statement but added that the medical science 2.0 is a wider concept which includes the consumer-oriented medical science. Another concept which emerged in the literature of medical

science and healthcare 2.0 is the so-called “patient authorization 2.0”. The concept can be described as the active participation of the citizen in their own medical situation using the information and communication technology (Van De Belt, 2010). It can be assumed that the medical science and healthcare 2.0 leads to the patients’ authorization because the patients can access the health-related information more easily thus will be capable of making more conscious decisions.

The new phenomenon which is called digital healthcare, brought changes in the provision of the treatment of patients and the application of medical science. The digital healthcare is the cultural transformation of how the disruptive innovation (technological innovation transforming entire industries and markets) provides continuously available digital and objective data for both the experts and the patients. It leads to such doctor-patient relationship in which the participants make decisions jointly as equal parties (Meskó et al., 2017). Since the technological innovations became inseparable from the healthcare system the change of paradigm is inevitable for it will become financially unsustainable worldwide,

With the COVID-19 outbreak putting an enormous load on the institutions, accelerated the measures taken so far and promoted the emergence of new means. In the pandemic situation people try to avoid personal visits to doctors whenever possible, so it is necessary to offer some remote solution the doctors can use for secure communication with their patients via the Internet (Szatmári, 2021a).

In the 21st century, the number of patients with chronic diseases and the cost of modern healthcare are growing more and more, the life expectancy is higher, and as a result of this, globally the system lacks several millions of doctors, nurses, midwives and other medical professionals. Globally, 75 countries have less than 2.5 medical professionals for a population of 1000 people (Meskó et al., 2017, Aluttis et al., 2014). The development of the technology offered several new possibilities in the healthcare. In addition to the joint decision making, the active participation in the recovery processes and the monitoring of the patients’ own condition using sensors from their home are such services which are not only demanded but are also possible by the technique used. In the conventional healthcare the patients were not involved either into the decision making or the disease management concerning their own health. The professionals were to undertake full responsibility for the medical decisions and their consequences. The patients became fully dependent on the processes, infrastructure, information and the decision making of the healthcare employees. This uncertainty and vulnerability provided the primary motivation to provide patients with a greater influence, and more information.

As a consequence of the COVID-19, several researchers (Botrugno–Zózimo, 2020; Julesz, 2020; Ricci et al., 2020) have studied telemedicine. Due to the social distancing and the remote services, thus remote healing came to fore. The patients’ expectations have changed, the interest in the feedback of former patients has grown, in which, reading their feelings and experiences, patients are better informed when they visit their doctors. Patients use the search engines such as Google or Bing, to find health-related information. 5% of the searches on Google can be related to health. According to one study, 60% of the users look at the assessments of Yelp before visiting an expert (Szatmári, 2021b).

According to Eysenbach (2001), e-health includes more than just the technological development in the healthcare. E-health is an emerging branch in the intersection of medical science informatics, the public healthcare and the business, referring to the healthcare services and the information transmitted or enhanced on the internet and the related technologies. In a broader sense, it is not just a technical development but a way of thinking, attitude, commitment towards the global thinking in order to be able to develop healthcare locally, regionally and worldwide by the information and communication technology.

According to experts telemedicine is an effective and cost-effective method of healing; however it lacks the breakthrough in its introduction. The results achieved so far show without doubt that the larger extent of relocating healthcare into the online space can provide improvement in efficiency and effectiveness. The electronic transmission and remote assessment of the digital imaging examinations, the remote consultations, for example EKG evaluation by the cardiologist or a telepsychiatry remote intervention are common procedures today, but they can also include the interventions of remote surgery with an active or passive participant (Kurjak-Kós, 2001).

As for the doctor-patient telemedicine, the patient supervision, certain procedures and interventions do not require the constant and continuous existence of the direct physical doctor-patient relationship. The application of telemedicine on one hand, contrary to the conventional medicine, requires the involvement of fewer resources; on the other hand, it makes treatment available in space and time for the patient in several cases when conventional medicine cannot provide opportunity. Third, it allows even the continuous treatment and monitoring outside the doctor's office without the significant increase of the costs. By the application of telemedicine, therefore, the number of office visits can be greatly reduced, removing a part of the load from the overcrowded doctor's offices, which may improve the quality of life for the patients. It can be excellently applied to support self-care, provides possibility to check certain parameters at home, and the timely recognition of severe symptoms and conditions (Daragó et al., 2013).

The justification of telemedicine is unquestionable, yet several factors impede its wide-range introduction in our country, however, there is no doubt that the pandemic situation gave a further boost to its development (Julesz, 2020). Other problems do occur like the lack of information of patients, doctors and financiers, their distrust in the new method, on the other hand the unclear circumstances related to the applicability and application, such as:

- *Data protection*: The hazard of unauthorized third parties getting into possession of sensitive information related to the patient's health condition (MacHado et al., 2021).
- *Health literacy*: Despite of the use of digital technologies, the development of healthcare depends greatly on the health literacy. Those with lower health literacy have lower general health conditions, visit doctors more often, use less of the preventive practices and in general they mean higher costs to the healthcare system (Csizmadia, 2016). Health literacy has a greater role in reshaping health conditions than the income, education or being part of any ethnic group. Patients with lower health literacy level are less likely to enjoy the possibilities provided by e-health (Meskó et al., 2017).
- *Technological deficiencies*: To use the digital healthcare, participants are to be competent

in using computers and the media. Healthcare is facing a great challenge: whether the technological transformation will improve health literacy or on not, will deepen the already existing digital gap?

- *Ethics*: Two key problems arise: on one hand the deterioration of the doctor-patient relationship due to the lack of personal contact, on the other hand, collection of misinterpreted information from the digital medical devices and unreliable online sources which may lead the patients to such decisions which do not incorporate the experts' opinion, thus jeopardizing their medical condition.
- *Law*: Currently the issue of the scope of responsibility of the healthcare provider providing care, thus - understandably - they are reluctant to use it. In case of the application of telemedicine there is no actual professional directive which could provide clear protection for the physician in case of judicial procedure and it is also unclear what guarantee or warranty claim can a patient apply in connection with the care.
- *Financing*: Since the health insurance has not adopted the telemedicine services under public financing, their financing is outside of its scope. In case of employees it can be accounted as a part of occupational medicinal activity or the telewellness as cafeteria.

The application of telemedicine requires various sensors, other telecommunication devices and services, but at the same time its application can save costs on certain basic and specialty care both on the part of the patient and on that of the society. By sharing responsibility, the specialists share the burden and the consequences of the choice of the appropriate therapy with their patients. The paradigm shift may bring about such advantages as the relief from the recurrent tasks of the job position, which would enable the doctors to spend more time with their patients and to devote more focused attention for them. Those skills which are hard to fulfil, such as empathy, care for the community and the human touch, may become the essential elements of the healthcare.

The use of digital healthcare requires teamwork, so the era of “lone hero doctors” would end. The success of healthcare is based on the cooperation, empathy and joint decision making. What is needed for this is a newly defined cooperation between the doctor and his patient. The well functioning doctor-patient relationship is still an essential part of the recovery process. Introduction of new approaches, views is needed in the medical education, including the college years where the students acquire such skills which prepare them to work with the technology (Meskó et al., 2015). The today's generation grows up using technology; some become so-called “digital natives”. It is inevitable for them to seek a digital solution for any medical problem. Therefore, if we are unable to integrate the digital healthcare into the conventional one appropriately and safely, we expose the new generations to a great risk (Prensky, 2009).

METHODOLOGY

In the empirical part of the study we set the objective of the study to discover how much informed the people are in connection with the telemedicine:

- What do they think about the advantages and disadvantages of the telemedicine services?

- How willing they are to use them?
- What they think about the future digital healthcare?

The objective of our research is to determine what is required to be communicated by the marketing specialist of a telemedicine company towards the potential consumers. Thus we aimed to discover the benefits and disadvantages telemedicine services. This reveals the benefits the company has to communicate and the disadvantages for which alternatives are to be found or compensation offered.

In the questionnaire on which the *quantitative research* is based, we used non-metric and metric scales.

- The measurement of the knowledge of telemedicine was based on self-declaration and was done on a nominal scale (yes; no and not heard about it; no but heard about it).
- *9 advantages* – (1) nonstop availability, (2) faster administration, (3) consultation from the comfort of home, (4) less crowded hospitals and doctor's offices, (5) transparency of the medical data, (6) continuous monitoring, (7) support self-care, (8) timely recognition of severe symptoms, conditions, (9) less resource involvement from the part of the state – and 8 disadvantages – (1) distrust towards the system, (2) collection of misinterpreted information from the digital medical devices, (3) deterioration of doctor-patient relationship due to lack of personal contact, (4) inadequate data security, (5) lack of professional control, (6) services out of public funding, (7) no clear price-to-service ratio, (8) technological deficiencies – were examined. The evaluation of the scale was done on an interval scale with the endpoints 1: not at all important – 5: very important.
- For the *willingness* to use 11 aspects were examined - booking appointment for personal consultation, online consultation, electronic medical prescription, electronic referrals, nonstop availability of specialists, continuous monitoring of medical parameters, data storage for the individual and his family, setting medical goals, prevention practices and tips, health insurance packages for individuals, health insurance packages for companies, which were handled as categorical variables, respondents were able to choose one of five options (would not use, perhaps would use, would use, have already used, I don't know what is this service).
- The respondents could choose from 3 options regarding the *future of digital healthcare*: (1) The system remains undeveloped, people will keep on relying on the conventional healthcare. (2) Further innovations can be expected until the end of the pandemic, digital solutions will spread, however, people will return to the conventional healthcare after the end of the pandemic. (3) The digital healthcare evolves further and will be widely implemented. Consultations, care and treatments will be done in the online space as possible. The conventional healthcare will continue to provide services which cannot be performed digitally. They also had the opportunity to express their own opinions.
- The *socio-demographic characteristics* (gender, type of residence, occupation, educational level) are variables measured on a nominal scale.

For the answering of the research questions we chose the single cross sectional survey from the primary research methods. The planned sample size was 200. The empirical survey took place in April 2021 in the form of an online self-administered questionnaire. University students and the authors took part in the polling, having collected the responses with Facebook in a week, using snowball sampling technique. Finally, 188 persons were reached, 28% of men, 72% of women. In the research we focused on the adult population, that is, on those between the age of 18 and 80. The average age of the respondents is 37.4 years, the standard deviation is quite high (15.4 years), the mode is 23 years, and the median is 34 years. The groups of youth, middle-aged and elderly were separated by transcoding. Based on the further demographic criteria the sample illustrates the following distribution (Table 1).

Table 1: Demographic composition of the sample

Age	young (18-34 years)	middle-aged (35-60 years)	elderly (61-80 years)		
	51.1%	38.3%	10.6%		
Place of residence	village	municipality	city	county-seat	capital city
	11.1%	14.3%	25.5%	39.4%	9.7%
Occupation	student	employee	entrepreneur	unemployed	pensioner
	19.1%	67%	4.8%	1.0%	8.1%
Level of education	technical school	GCSE	professional qualification of higher education	degree (BA, MA)	
	2.7%	33%	9.0%	55.3%	

Source: Own edition, $n=188$ persons

Before the presentation of the result we consider important to highlight that the sample is not representative, does not consider the entire Hungarian population, the young age group, those living in a county seat and those having a degree are overrepresented in the sample. At the same time, we assumed that this group has deeper knowledge regarding the subject examined. To answer the research questions, we used single variable statistical methods; the data processing was done using the Excel program. The results are presented with regard to the demographic background variables.

RESULTS

At first we examined the knowledge on telemedicine. Only 33.5% of the respondents stated to know its meaning. 46.8% had never heard the expression and 19.7% have heard about it but cannot tell us what it is. The more educated the person is, the more known to them is the

concept of telemedicine. Only 24.2% of those with a GCSE, 29.4% of those with a degree and 40.4% of those with a diploma claimed to have known the meaning of the concept of telemedicine. The average age of those knowing this concept is 39.9, those having never heard the expression are younger, their average age is 34.7 years old and those having heard but do not know what it means are 39.5 years old on average.

Benefits and Disadvantages of the Telemedicine Services

With regard to the benefits of telemedicine services nine aspects were examined (Table 2), which the respondents assessed on a 5-point Likert scale. The key benefits of the services are the less crowded hospitals and doctor’s offices, faster administration and recognition of severe symptoms. The least important benefits are the lower resource involvement, the continuous monitoring and the support of self-care, however, the latter two aspects received an evaluation above 3.5, so they are rather considered important benefits. The less crowded hospitals, doctor’s offices, the support of self-care and the less resource involvement from the state were marked more important by women than by men. The younger the age group, the more important are the less crowded hospitals and doctor’s offices and the faster administration benefits. For the middle aged, the least important are the lower resource involvement and the consultation from the comfort of home, and the support of self-care is the most unimportant for the elderly. The benefits are considered most important in the capital city. In addition to those living in the capital, the recognition of severe symptoms is very important for city dwellers, and the less crowded waiting rooms is the most unimportant for those living in the municipality/village.

Table 2: Benefits of the telemedicine services

Benefits	Average	Standard deviation
Less crowded hospitals and doctor’s offices	4.37	0.89
Faster administration	4.34	0.93
Timely recognition of severe symptoms and conditions	4.25	0.96
Transparency of health data	4.02	1.03
Consultation from the comfort of home	3.93	1.09
Non-stop availability	3.92	1.19
Support of self-care	3.79	1.04
Continuous monitoring	3.68	1.12
Lower resource involvement from the part of the state	3.45	1.19

Source: Own research, n=188 persons

The faster administration is the most important for students and for the pensioners it is the least essential. In addition, the consultation from home and the support of self-care is the least important for pensioners. For the entrepreneurs, the transparency of the medical data is the most important; the least important is the non-stop availability. The less crowded hospitals and doctor's offices are equally important for the students and employees, and the lower resource involvement is the least essential for the employees. The non-stop availability, the faster administration and the support of self-care is equally important for all educational levels. It is only the consultation from the comfort of home which is more important for those having a higher education degree, the other benefits are more important for those with a GCSE.

Regarding the disadvantages of telemedicine services nine aspects were examined which the respondents assessed on a 5-point Likert scale. (Table 3) The respondents considered as main disadvantages were the unclear price-to-service ratio, the collection of misunderstood information and the services offered outside public financing.

Table 3: Disadvantages of the telemedicine services

Disadvantages	Average	Standard deviation
No clear price-to-service ratio	3.34	1.05
Collection of misinterpreted information from the digital medical devices	3.11	1.09
Services outside of public funding	3.06	1.1
Lack of professional control	3.06	1.14
Deterioration of doctor-patient relationship due to lack of personal contact	2.82	1.23
Inappropriate data security	2.79	1.26
Technological deficiencies: insufficient competence to use computers and the media	2.79	1.34
Mistrust towards the system	2.76	1.27

Source: Own research, n=188 persons

For women, the strongest disadvantage is the unclear price-to-service ratio, the misinterpreted information and the lack of professional control. Men highlighted most the unclear price-to-service ratio, the services offered outside public financing, and the misinterpreted information as disadvantages.

The middle-aged people consider the drawback factors as the weakest. Among the listed disadvantages are the misinterpreted information, the unclear price-to-service ratio and the technological deficiencies are the least strong factors. From the age groups, the elderly marked the services offered outside public financing the weakest and the deterioration of doctor-patient relationship as the strongest disadvantage.

It can be stated on those living in the capital city that for them the misinterpreted information and the technological deficiencies are the strongest drawbacks while the lack of

professional control is the weakest aspect. The deterioration of doctor-patient relationship is the strongest disadvantage for people living in the cities and in the municipalities/villages.

The lack of trust and the deterioration of doctor-patient relationship means stronger drawback for those with a GCSE, while the lack of professional control, the unclear price-to-service ratio and the inadequate data security is stronger for those having a degree. In addition to the unclear price-to-service ratio and the misinterpreted information, those with a GCSE marked the deterioration of doctor-patient relationship; those having a degree marked the lack of professional control as the strongest disadvantage. Contrary to this, the data security, the lack of professional control and the technological deficiencies for those with a GCSE, while for those having a degree the deterioration of doctor-patient relationship, the lack of trust and the technological deficiencies were the weakest of disadvantages.

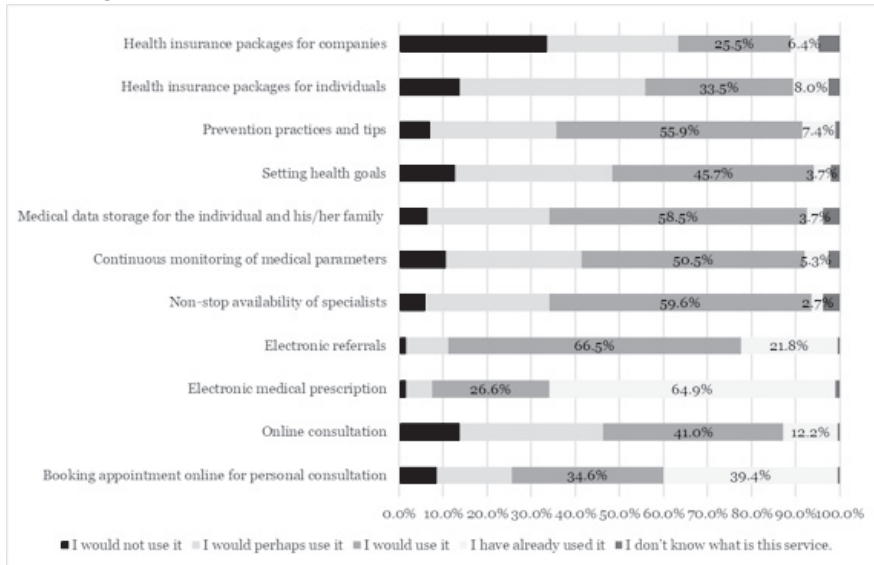
The misinterpreted information for the students, the deterioration of doctor-patient relationship for the pensioners and for the entrepreneurs the services offered outside public financing is the strongest factor. The weakest disadvantage for entrepreneurs and pensioners is the lack of professional control, and for the employees it is the technological deficiencies.

The lack of trust and the deterioration of doctor-patient relationship means stronger drawback for those with a GCSE, while the lack of professional control, the unclear price-to-service ratio and the inadequate data security is stronger for those having a degree. In addition to the unclear price-to-service ratio and the misinterpreted information, those with a GCSE marked the deterioration of doctor-patient relationship; those having a degree marked the lack of professional control as the strongest disadvantages. Contrary to this, the data security, the lack of professional control and the technological deficiencies for those with a GCSE, while for those with diploma the deterioration of doctor-patient relationship, the lack of trust and the technological deficiencies were the weakest disadvantages.

Willingness to Use

In the case of telemedicine services, the majority (64.9%) have already used the electronic prescription, while the other services have been used less among the respondents. 39.4% of the respondents have already booked online a personal consultation appointment, 21.8% of them requested electronic referral. Regarding the usage of services, the highest openness can be experienced towards the electronic referrals, the non-stop availability of specialists and the medical data storage but more than 50% are interested in the prevention practices and tips. The health insurance packages and the online consultations are the least to be used. The telemedicine services are relatively known among the respondents. Least known are the health insurance packages and the continuous monitoring of medical parameters (Figure 1).

Figure 1: Willingness to use related to the telemedicine services



Source: Own research, n=188 persons

Regarding the use of telemedicine services, women are more open towards the services than men. Women would mainly use the e-referral, the medical data storage and the non-stop availability, men, on the other hand in addition to the online consultation, e-referral and the non-stop availability would use the prevention practices. There is no such young person among the respondents who would not use the e-referral and the e-prescription, moreover, it is the young age group which would use the setting of health goals and the prevention practices and tips the most, however, they would use the online consultation the least. The responses reveal that the younger the age group is, the more they would use the medical data storage, continuous monitoring and the booking of personal consultation services. It can be said of the elderly that they would use the e-prescription and the e-referral the least. In case of both the young people and the middle-aged the first three services which they would use most contain the medical data storage, the non-stop availability and the e-referral. The opinion of the elderly differs in that they would prefer the prevention techniques and tips to the medical data storage.

Those services which the respondents would most use differ according to the type of their residence. The biggest demand for the use of services is in the capital, but the online consultation would be used more in cities and municipalities/villages than in county seats and the capitals. Furthermore, the least demand for booking personal consultation and the continuous monitoring are in municipalities/villages, the setting health goals is least demanded in the cities.

The biggest demand for the use of telemedicine services is among students, the least is among pensioners which probably correspond to their attitude to technology and their

digital literacy. In addition, the booking of personal consultation and the health insurance packages for companies would be least used by the entrepreneurs, the online consultation would be least used by the employees. Furthermore, there is no student or entrepreneur in the survey who would not use the e-referral and the e-prescription. As for the pensioners it is worth mentioning that they know every service listed in the questionnaire. The sequence of the services most to be used is different for the groups but the marked services are the same: non-stop availability, medical storage and prevention practices. Among those with a diploma the demand for the services is higher. Furthermore, those having a degree in higher education would use mainly the e-referral, the medical data storage and the non-stop availability, while those with a GCSE would use the prevention practices in addition to the non-stop availability and the medical data storage.

The Future of Digital Healthcare

Finally, we were interested in the opinions related to the future of the digital healthcare. 24.5% of the respondents assume that the system remains undeveloped; people will use the conventional healthcare. Interestingly it is mostly the youth who identify with this scenario. The decisive majority is optimistic, 36.7% thinks that further innovations can be expected until the end of the pandemic, digital solutions will spread, however, people will return to the conventional healthcare after the end of the pandemic. According to 37.2% the digital healthcare evolves further and will be widely implemented. Consultations, care and treatments will be done in the online space as possible. The conventional healthcare will continue to provide services which cannot be performed digitally. Proportionally more people chose this option from the elderly age group than from the youth. The other response option was chosen only by three persons who were pessimistic: “Very many people are far from the digital health future regarding both preparedness and trust.” “It requires a lot of development; I do not think it will spread within five years. This needs the improvement of informatics and competence.” and expressed their dissatisfaction with the system.

CONCLUSIONS

The objective of this study was to assess the awareness of the Hungarian population related to telemedicine, using an exploratory empirical research. A significant portion of the respondents do not know what telemedicine is or have never encountered this concept, or have encountered it but do not know its exact meaning or content. The key benefits of telemedicine services are the less crowded hospitals and doctor’s offices, faster administration, and recognition of severe symptoms. The least important benefits are the lower resource involvement, the continuous monitoring and the support of self-care. The respondents considered as main disadvantages the unclear price-to-service ratio and the collection of misunderstood information and the services offered outside of public financing. The telemedicine services that most people have already used are the e-prescription, booking of personal consultation and the e-referral. The services which would be least used are the health insurance data packages both for companies and individuals, the on-line consulta-

tion and setting health goals. Most do not know the health insurance packages for companies, the medical data storage, the non-stop availability and the setting of health goals services. Looking to the future, the majority are optimistic and forecast the development of digital healthcare.

Based on the results, we have identified five possible digital marketing campaigns for telemedicine companies, taking goals, content, and target audience into consideration. In case of (1) brand building the objective is the more intensive use of the service, the branding and the promotion of the brand's visibility, and the increase of commitment. Regarding content, the presentation of the company and its services should be highlighted. The emphasis of the benefits and of the services is also important here but the main issue is that the brand, the company should be known by as many people as possible. The target audience in this case may be the youth, those living in the capital, those having a higher education degree and the students.

In case of (2) substitute services the objective is to present the substitution services to the conventional healthcare system which are the telemedicine services. During communication, those services are to be focused on, which offer better, more efficient solutions for the problems arising at the conventional services. In this case the target audience of the campaign is the women, those having a higher education degree and the students.

In connection with the (3) complementary services it is to be demonstrated that which other services can the telemedicine companies offer. These, combined with the conventional ones, the users get a more comprehensive overview about their health situation. In this case the emphasis is on those services which offer some surplus in addition to the conventional ones and the possible combinations with the conventional ones and the information thus obtained. Target audience is the middle-aged and those with a GCSE.

Creating (4) educational contents would also be important. It would be important to concentrate on dispelling the impeding factors to reduce the recognition of the disadvantages. The detailed presentation of the disadvantages in which counter-arguments, possible compensations or explanatory/educational contents are given for the greater acceptance, and the target audience in this case is the women and those having a higher education degree.

For the (5) description of the services campaign the objective is to describe the palette of telemedicine services to those groups where the services are less known or the number of the already used services is relatively low. Regarding content, the listing of the telemedicine services, their complete presentation, the description of their use and availability would be in focus, and the target audience would be the men.

Finally, the (6) increase of usage intensity would also be important. The aim is to increase the willingness to use telemedicine services, by describing and emphasizing the key services and benefits. In this case, the target audience would be the elderly, and pensioner men.

This research paper is not without limitation. First of all, we would like to highlight the relatively small sample size, and the non-representative sampling technique since the respondents were contacted from our own acquaintance. In the future we would like to run the research on a larger sample, even in an international outlook since telemedicine started to develop dynamically in the developed countries due to the pandemic. Due to the spread and the newer and newer waves of the virus it would be worth to conduct a longitudinal research and to compare the results with respect to the extension of services.

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Nándor Birher – Péter Bertalan – Ákos Jezsó

Central Europe is not Just a 'Meteorological Concept', but a 'Spiritual Kingdom'



Summary

The lessons we learned from the 20th century, more precisely the period that began with the 'Trianon Peace Treaty' and (seemingly) lasted until the change of regime, still have an impact on the life in our region. Central Europe is much more than a meteorological, economic concept: it is a common destiny shaped by struggles against each other and the experience of interdependence. It is a 'spiritual kingdom' that has been able to present the world's most significant philosophers, physicists, musicians, and painters, and at the same time be the center of the bloodiest wars in world history. This 'spiritual kingdom' was also influenced by religious beliefs, including Vatican diplomacy that represented the interests of Catholicism.

Keywords: Central Europe, peace treaties, culture, Vatican diplomacy, values, common history

INTRODUCTION

It is obvious that today the Central European region can give a new impetus to create an applicable interpretation of European history. It is also clear why the latest papal encyclicals (Laudato 'si on the protection of creation or Fratelli tutti on a more just society) have

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come to the fore again to such an extent in both political and public discourse. The recent International Eucharistic Congress in Hungary and the visits of the Pope to Budapest and Slovakia drew attention to the importance of our region in the promotion of interfaith dialogue and peace. In the following study, we examine how strongly Central Europeanness is linked to the principles of Christianity and how these principles can determine the future of the region.

CENTRAL EUROPE

Until the existence of the Austro-Hungarian Monarchy, it was not necessary to create a separate 'ontology' in order to explain the ethnically and religiously diverse existence of our region. With more and less enthusiasm over the years, the nationalities living here made the region one of the most dynamically developing regions in the world in the early 1900s, in terms of economy, science and the arts. Although there were struggles, under the banner of Habsburg Catholicism, ethnic and religious tolerance was achieved in a way that created a society capable of dynamic development. However, not everyone was happy with this strong state. Archaic structures were swept away by a new wind of liberalism and materialism by the time of World War I.

The impact of "Trianon," the "Vienna Decisions," and the years of socialism on the region has led to the need for reconstruction, or more precisely rediscovery. What these processes have resulted in is today called Central Europe.

But what exactly is this entity? Enthusiastic attempts were made to define this in the early 1990s, but today only the practical-economic aspects that define the V4 collaboration remain. However, it would be timely to look at deeper foundations as well.

CENTRAL EUROPE: A CULTURAL ISLAND OR A SANDBAR?

The political unity of Central Europe disintegrated a hundred years ago as a result of the fall of the Austro-Hungarian Monarchy. However, the former continental empire has survived in many elements and still exists today. Not only in the exquisite stones of its built heritage, but also in the common cultural heritage of the people living here, which is such a strong link that it can bridge the gaps arising from differing interests that make coexistence difficult. There are plenty of such gaps. It is enough to look at the different demographic interests of the countries in the region: each of them seeks to fill the area it dominates as much as possible with its own ethnicity, marginalizing national minorities. As the region is ethnically mixed and diverse, the national habitat of the people living here almost everywhere extends beyond national borders and the pursuit of exclusivity is a source of serious conflicts of interest. Since the fall of the Austro-Hungarian Monarchy, many such conflicts have taken place and yet, Central Europe is still united by something.

What is this power? Is it the common culture? Perhaps it is the spiritual link that underpins Central Europeanness and is part of the European culture. We must realize that European culture, which provides European values, is a cornucopia of shades which can

only be seen as a unified, organic whole, an all-encompassing system that interprets all the flavours of life correspondingly. I am thinking not only of the different Byzantine and Roman heritage, or of the different cultural backgrounds of the Protestant and non-Protestant people, but also of the much local, regional specificity in Europe. Unity in diversity – we could say is also part of the European culture but, if there is no unified all-encompassing, general rule, then there is no unity, only similarity. The culture of Central Europe is so diverse that it enriches the great European cultural environment.

A good example of a social reaction stemming from different cultural heritage and sensitivities is the kneeling before international football matches during the anthem, which has recently spread to Western European countries that once had overseas colonies and took their share of the slave business. Viewed from Central Europe, these former slave-holding Western countries gained enormous wealth partly due to the system of slavery. They have enjoyed all its benefits for centuries, and this has contributed, among other things, to the fact that the financial centers of the European continent have moved west – and they are still there. However, Central Europe is free from the heavy racist burden of slavery. There was no social or ethnic conflict between the white and black races, no economic, political or other exploitation here – not least because the black population in the area is minimal.

However, the institution of slavery also affected Central Europe, but in the opposite way: in the Middle Ages, the raiders of the Turkish Empire (which spanned three continents) dragged hundreds of thousands of the population of Central Europe to Istanbul or even further afield. Mainly Hungarians, but also other peoples living in the territory of the former Kingdom of Hungary, such as Slovaks, Croats and Romanians. Thus, while Western Europe enjoyed the economic advantage of the institution of slavery for centuries (e.g., the Belgian Congo), Central Europe suffered from it for centuries. It is therefore offensive to kneel here (moreover, it is even culturally unusual), which, in contrast to the original Western intent, in this area conveys the message that former colonial empires are forcing the peoples once tormented by the institution of slavery to apologize for the spiritually depressing legacy of slavery. That is, the victim should apologize because the sinner has committed a sin against the victim, and when the victim rejects it, the sinner declares them racists. To avoid this, we would only need to get to know each other better. Tolerance, a European value stemming from Christianity, begins with understanding and not with labelling. For this, however, the ideas of Christianity should be considered as real, living, European values. This is one of the questions that divide Europe: how should the continent relate to its Christian roots? In the West, it has been exceeded in many respects, but not yet in Central Europe.

So what is the Central European Strategy? What made the culture of the people here successful? Understanding. Of course, this was not easy: they went through wars, failures and breakdowns until they recognized this and learned the lesson that in an area so ethnically mixed, there is no other way to live together peacefully.

CENTRAL EUROPE: A REGION VERSUS A SUBREGION?

For a long time, public consciousness has divided Europe, both geographically and politically into two parts: Western Europe and Eastern Europe. This “generous” division is more accepted the more we go to the West. Due to the changes that are taking place, a more complex, more precise definition of the region is needed today. Some Hungarian historians, including István Hajnal¹, Jenő Szűcs², István Bibó³, regard Central-Eastern Europe (Bibó, 2011) an independent region (Szűcs, 1983). The Hungarian historian Emil Niederhauser still considers and accepts Eastern Europe as a historical concept. Central-Eastern Europe, in his view, is only a sub-region, although this sub-region has well-defined characteristics.

The two approaches do not conflict, but rather complement each other and help to better understand the changes that began in the late 1980s. Emil Niederhauser⁴ considers the following to be the most important features of development in Eastern Europe (Niederhauser, 2001):

- The most important characteristic of the region is the varied and mixed ethnic composition. It is noticeable that the number of nations here is much larger than in Western Europe. This fact is also important because it is one of the main drivers of all historical development.
- There are centuries-old traditions of lagging behind the West. Eastern Europe began its path of medieval development later than Western Europe. The Ottoman-Turkish conquest set back the pace of development. The geographical location of the eastern part of the continent is also a decisive factor.
- The national development that began in the 18th century and the first half of the 19th century in Western Europe obscured and softened social contradictions. In Eastern Europe, the differences were recognized in national categories, for example, ‘Hungarian’ meant nobility for Romanians and ‘Romanian’ meant serfdom for Hungarians.
- For the vast majority in the region, state power seems absolutist, limitless, and almost unpredictable.
- In the West, the modern age has deprived rulers of the factor of vocation. The divine vocation in the East was replaced by the revolutionary vocation, the messianic promise of communism. There has really been no change in the way the mechanism works.
- In Eastern Europe, the national momentum is the most important for historical development. However, a peculiar paradox of historical development is that there have been multinational empires in this region for many centuries: the Ottoman, Habsburg, Polish-Lithuanian, and Russian Empires.
- When the concept of the nation-state was born, everyone in Europe followed the French example. Everyone refused to acknowledge that due to the mixed ethnic composition in Eastern Europe, it was virtually impossible to draw precise ethnic boundaries, so a pure nation-state remained unfeasible.
- Catching up with Western Europe and modernization - due to the autocratic nature of the states - meant the top-down modernization process and paternalism in the 18th and 19th centuries. Due to paternalism, parliamentarism remained in an immature state.

- The fate of Eastern Europe has so far been decided by the great powers. The revolutionary struggles for independence of the people of Eastern Europe are therefore failing with tragic consistency.
- The awakening of national self-awareness has drawn attention to assimilation. Natural assimilation takes place in much larger areas than forced assimilation. Forced assimilation has intensified, in which the great powers played a significant role (Kovács, 2021).
- We must not forget the religious, denominational issue either. In Eastern Europe, the separation of the Western and Eastern Churches caused the first major rupture. The other major line is between Christians and Muslims. To this day, religious differences can also convey political differences.
- Dominant ideas have always come from the West to Eastern Europe. The farther the area is from the starting point, the weaker its impact is. An exception to this was Marxism, which was distorted and intensified in Leninism. This system of ideas denied national consciousness and suppressed it with the slogan of internationalism. This hell machine, built into Eastern European societies, exploded in the 20th century, and its strengthening is still a real threat in our region today.

It is clear that Eastern Europe is also, in our view, a historical concept that we can use from the early Middle Ages, as opposed to a geographical concept independent of time. The concept of Central and Eastern Europe is also a historical concept that can be defined as such from the 10th century. Then those states were formed that protected the areas of Europe that fell west of them as Pannonia protected the Roman Empire by limes. The state formations of Hungary, Poland, the Czech Republic, Croatia and the Balkans have performed this task in different ways and under different conditions through the storms of history. This is the main characteristic and fate of Central and Eastern Europe as a region. Of course, this function does not only follow from the geopolitical situation. The features of Eastern Europe have changed since the 10th century, as the West and the East meet here in our region. The tragedy of the history of the nations living here, including the Hungarian people, is that the current power field has decided which effect should be stronger.

This is why the characteristics that only really characterize this area have emerged. Here are just the most important:

- From a social and economic point of view, Western Europe is constantly keeping the areas to its east to lag behind.
- It can be clearly shown, however, that the countries of the region have always tried to bring in the delay in different ways, depending on their social and economic situation.
- To this day, the West has considered Central Europe, which is a protection zone and also a buffer zone, exclusively from the perspective of its own political interests. Hungarian history, including the 150-year-old Turkish rule, provided good examples of this.
- It is also disadvantageous for us that the small nations of the area are judged according to the influence of the current great power of the region. However, these small nations have an independent national consciousness, have their own historical

identity, and do not want and do not acknowledge the simplistic and homogenizing approach to history and politics. The region became a victim of this when the international political public consciousness reclassified us to Eastern Europe because of the slogan of the socialist camp. Here we have to ask the inevitable question of how to relate to our own history.

History is a process. The last decades cannot be ruled out. Some consider the last half century as a wrong detour and believe we need to go back to the starting point. But this is not feasible for any country in the region, including us. The decades after 1945 caused permanent changes in the structure of our society. Old Hungary has dissolved, and the horizontal and vertical segmentation of society has disappeared. In the meantime, the world, including Europe, has changed: artificially created “welfare” societies have emerged in Western Europe. With their materially oriented, often hedonistic society, they are an example for Central and Eastern Europe: the less educated masses, who consider consumption the most important, want to follow it at all costs, even by living on their own resources and life.

However, it is also a fact that it is precisely because of our experience in Central Europe and our history that we are able to hold on much more strongly to the roots that have held us here in the past centuries, millennia, and which may mean our future.

THE CONCEPT OF EASTERN EUROPE

The concept of Central Europe has a very colorful content, ranging from the Herderian concept of ‘big central (German) authority’ to the V4 cooperation (Mező, 2001). What is common to all definitions, however, is the fact that the region is defined simultaneously by the complexity of diversity, the resulting tension and wealth, and the ability to cooperate. It is clear that this is not simply a geographical concept, but a common culture, a destiny, as described by Milan Kundera in his work ‘The Abduction of the West, or the Tragedy of Central Europe’. The boundaries of this area are ‘imaginary’, until the (typically tragic) events of history require that the boundaries be clearly defined.

This is when Central Europe really grows stronger, representing an idea of common values: in the words of Timothy Garton Ash, a kind of ‘spiritual kingdom’ emerges in history. The words of this kingdom are often heard not in Central Europe, but rather in Cambridge, Freiburg or another continent. Think, for example, of the recent Central Europeanism of Ludwig Wittgenstein, Hans Kelsen, Edmund Husserl, Herzl Tivadar, Martin Buber, or Eder Teller. Maybe it is not even possible to ask whether something or someone is Central European? Rather, the question should be, to what extent is it Central European? After all, our common culture now permeates the whole world to some degree.

At the same time, of course, there are areas that can be described in terms of geographical and cultural identity, where Central Europe as an idea of common value is increasingly present (Módos, 2005). It is worth recalling some of the thoughts of György Konrád on the issue, who, as a true Central European, discusses common horrors and common values during the change of regime (Konrád, 1990).

Mass cultures are national. The Central European dream is not a mass cultural phenomenon, but rather romantic and subversive. The concept of Central Europe already transcends and questions the boundaries of the area. There is Eastern and there is Western Central Europe, the cohesion between them is deeper, while their separation from each other is a less significant historical phenomenon. Central Europe still exists as a task for those who live there, tasks that have existed for a thousand years do not tend to disappear without a trace. How can nations living in intermingling learn to live together peacefully? Diversity is given; if we accept reality, we will respect our diversity. Expanding in Central European culture is a natural way for us. The better we know each other, our neighbors, the more we are Central Europeans; not so much through birth but through learning. Who does not want to get to know his neighbors becomes culturally weakened. We mostly went far to study, omitting each other with our attention because we believed we were underdeveloped. We felt that someone like us couldn't be interesting. The more we get rid of our minority consciousness, the more we can marvel at each other. Today we are still a little ashamed of each other as a poor relative. Until we discover each other, we will remain provincial.

What is Central European strategy? It is the strategy of understanding. The more we realize how interesting our Central European neighbors really are, the more interesting we become. Central Europe will exist to the extent it becomes an issue to itself. It is an attractive interest in the many prosperities and unhappiness of the people of the Danube basin. Who can create balance and how between East and West? Central European Literature: East-West or West-East Literature. The East we are analyzing is within us. The westerner who analyzes is also within us. With our eastern side, we mock our western side and vice versa (Konrád, 1985).

Thus we can be sure that our region/culture is not some fiction or, as Peter Handke put it, a 'meteorological concept'. In our region, the past has never been completely erased because it 'bleeds the fabric of history' over and over again. We live here from this past, the past based on classical culture and Christianity. This is a repetitive process in history. In addition to the need for economic cooperation, a thread is emerging that seems to be weak but it is really strong. This thread is the area of Judeo-Christian dichotomy and organic unity. We will look at a minor aspect of this after the Treaty of Trianon.

AN EXAMPLE: CENTRAL EUROPE AS A "SPIRITUAL KINGDOM" AND THE VATICAN DIPLOMACY

The treaties that (apparently) ended World War I not only fundamentally rewrote the fate of individual nations and countries, but also caused serious trauma to the churches. The disintegration of the Austro-Hungarian monarchy meant not only the end of an economic power, but also the disintegration of the region's multi-colored but tolerant religious unity. All this was particularly detrimental to Catholicism, and therefore to Vatican politics. According to Vatican diplomat János Csiszárík, the region's Vatican diplomatic networks, which have developed over the centuries, have been replaced by lawyers and journalists (Bertalan-Csiszárík, 2020), so maintaining religious unity and peace has been a major challenge for all church actors.

The conversation recorded by Csiszárík illustrates this situation perfectly:

“When the first French ambassador addressed his self-introductory speech to the Pope, Msgr Canali continued, then, the ambassador in his speech called the long-running and objectionable cult laws intangible, and His Holiness responded to this speech, which was customarily presented to him in advance, without reacting to the impertinence of the French ambassador, with the glorification of France. I was an ear witness of this scene with great sadness. (Msgr. Canali is the ceremonial secretary of the congregatio and, as such, is always an impeccable witness at the reception of heads of state at large diplomatic presentations.) However, Msgr Canali continued, I was just outraged by what I am telling now: On one occasion the whole diplomatic corps was gathered to appear before the undersecretary, the Cardinal. But it’s good that you didn’t have to be there yourself, Msgr., because apart from some excellent personalities, that is, apart from your ambassador, who is an impeccable gentleman, it was a terribly mixed company. It was full of journalists, lawyers and other not very gentlemanlike element. As he went before the company, the Cardinal Undersecretary declared with delight: What would St. Peter, who was surrounded by some poor fisherman, say if he saw this bright congregation?! In the Vatican, they are trembling at the thought that the number of representations could decrease. Sometimes they are more willing to make incomprehensible sacrifices, but let that not happen. Apart from France, Portugal and the Czechoslovak Republic are classic examples of this. The more reckless the ambassadors are, the more they achieve. But will your ambassador tell me, Canali continued, what you are now complaining about? ” No doubt he will tell that, I said, except that he is not very similar to his colleagues in working with the same recklessness. Canali then went on to say: the Czech ambassador, Pallier, is said to be a Mason. The indulgent can easily be neglected here. Nobility is not very suitable for achieving great results. In vain did your ambassador in a company boast that he was the nicest representative in the office next to the Holy See. The less upscale are easier to prosper. The Czech ambassador is constantly in the Vatican and very often visits the cardinals of the congregation.” (Bertalan–Csiszárík 2020).

In this new, constantly changing situation, Catholic diplomacy had a huge task; and the articulation of positions on faith and society has become an inevitable task. Vatican politics in the period between the two World Wars was well characterized by the papal encyclicals and circulars issued at that time. The starting point is the suffering of the world, one of the causes of which, according to Vatican diplomacy, is the crisis of identity in Europe. The Vatican has rightly identified the problem as a global, ideological social problem, therefore the solution must be also global. At the same time, however, it was also identified - although it was never sharply articulated - that one of the roots of the problem was in Central Europe, in the disintegration of the previously effective Austro-Hungarian Monarchy.

From 1914 to 1921, Pope Benedict XV issued twelve encyclicals with the following titles: *Ad beatissimi apostolorum, Humani generis redemptionem, Quod iam diu, In hac tanta, Paterno iam diu, Pacem, Dei munus pulcherrimum, Spiritus Paraclitus, Principi apostolorum Petro, Annus iam plenus, Sacra propediem.*

The topics of the encyclicals were: *Appealing for Peace, Proclaiming the Word of God, On the future peace conference, St. Boniface, Children of Central Europe, Peace and Christian Reconciliation, Of St. Jerome, St. Ephraim of Syria, Children of Central Europe, Third Order of Saint Francis, Of Dante, Of St. Dominic.*

It is clear from the list that Benedict XV dealt with both spiritual and direct political issues it is also noticeable that he accurately listed the threats to the world. For our subject it is of particular importance that in the encyclicals *Quod iam diu* (Benedict XV, 1918) and *Paterno iam diu*, the Pope also spoke explicitly about the people of Central Europe and the peace treaty at the end of World War I. He stressed in these documents that the desired peace was only partially achieved, as there are still serious social and societal tensions in each country. He emphasized that the solution required not only political action but also true religiosity and justice in the Christian sense, as 'decisions of unprecedented depth' must be made in the formulation of peace treaties. The Pope stressed that only Christian spirituality could be the foundation that creates unity among nations, just as it did after the fall of the Roman Empire⁵.

It was clear to the Vatican diplomacy that a unified political direction was needed, based on the values of Christianity. This aspiration is also the foundation of Christian social teaching and Christian socialist, Christian Democratic parties, and it will be a fundamental value of the emerging European community.

Although Marxism triumphed in the formation of social order in various forms, Christian values remained unavoidable.

"Corruption was not only common in the industrial class of large cities – other classes also deviated from the paths of the old order and law. Not only did a certain so-called educated classes advance in boundless immorality, but it also armed itself with the weapons of false scholarship to lend the appearance of law to its ungodly course of action. The people of these classes could not stand the external state order, and in order to destroy it, they first had to attack the Christian religion" (Schaeffer, 2006).

It was precisely because of the role of the moral force that it became clear that the state alone was incapable of resolving the social issue. Instead of religion, Marx's theory became more and more a moral guideline. At the same time, in social matters, the church must act autonomously. The Pope declared that in industry man is treated as a machine and they try to "operate" it as cheaply as possible. The church, on the other hand, sees the image of God in man. This can be the basis of true human dignity and the solution to the social issue. Only the community that accepts and experiences that man is a creature, a child of God, can recognize the true essence of human dignity. We cannot allow, he states, the community of people to be replaced by the community of money. 'How could the so-called human rights defined in the constitutions, of which the worker gets so little as long as the power of money oppresses social human rights, help us?' Workers need to be given their own wages, private property is not only a right but also a duty towards the other person. However, the basis of all this can only be pure morality. Ideally, 'the material strength invested in work raises moral strength.' (Schaeffer, 2006:109).

One of the major causes of the post-World War I chaos, social and political catastrophes, was the strengthening of socialist, communist ethics against Christian ethics. However, the socialist state formations that existed for only a short time only brought even more blood and poverty. The ecclesiastical response to it was worked out by Pope Pius XI.

STILL RELEVANT TODAY: RELIGIOUS UNITY AND PEACE, SOCIAL
VALUES AND THE PROTECTION OF CREATURES – ENCYCLICALS

Pope Pius XI, experiencing the many sacrifices resulting from world unrest, drew attention in 1928 to the fact that only a common religious conviction could preserve a state of fragile peace. In the encyclical called *Mortalium animos* (on “Promoting True Religious Unity”) he wrote: “...of strengthening and of extending to the common welfare of human society that fraternal relationship which binds and unites us together, and which is a consequence of our common origin and nature. For since the nations do not yet fully enjoy the fruits of peace - indeed rather do old and new disagreements in various places break forth into sedition and civic strife - and since on the other hand many disputes which concern the tranquillity and prosperity of nations cannot be settled without the active concurrence and help of those who rule the States and promote their interests, it is easily understood, and the more so because none now dispute the unity of the human race, why many desire that the various nations, inspired by this universal kinship, should daily be more closely united one to another. A similar object is aimed at by some, in those matters which concern the New Law promulgated by Christ our Lord. For since they hold it for certain that men destitute of all religious sense are very rarely to be found, they seem to have founded on that belief a hope that the nations, although they differ among themselves in certain religious matters, will without much difficulty come to agree as brethren in professing certain doctrines, which form as it were a common basis of the spiritual life.” (Pius XI, 1928).

Many encyclicals were issued during the two World Wars. Although these raised important and topical issues, their specific social impact, in the light of the cataclysms, was small. Yet, as a lesson, even today, it is worth elaborating on them.

Thus, Pius XI carried out intensively the legal-theological work of promulgating encyclicals. He issued thirty-one encyclicals between 1922 and 1937, of which the very first one draws attention to peace, the peace of Christ, and among which we find such great ones that warned with full clarity about the impending horror of fascism and communism. It may have been too late. However, it is not too late to learn that the disasters that threaten us can be (theoretically) detected in time and thus prevented.

Encyclicals of Pope Pius XI

Ubi arcano Dei consilio, Rerum omnium perturbationem, Studiorum ducem, Ecclesiam Dei, Maximam gravissimamque, Quas primas, Rerum Ecclesiae, Rite expiatis, Iniquis afflictisque, Mortalium animos, Miserentissimus Redemptor; Rerum orientalium, Mens nostra, Divini illius Magistri, Quinquagesimo ante, Rappresentanti in terra, Ad salutem, Casti connubii, Quadragesimo anno, Non abbiamo bisogno, Nova impendet, Lux veritatis, Caritate Christi compulsi, Acerba animi, Dilectissima nobis, Ad catholici sacerdotii, Vigilanti cura, Mit brennender Sorge, Divini Redemptoris, Nos es muy conocida, Ingravescitibus malis.

The topics of the encyclicals: On the Peace of Christ in the Kingdom of Christ, St. Francis of Sales, St. Thomas Aquinas, St. Joseph, The Diocesan Relations, Introduction to the Feast of Christ, Catholic Missions, St. Francis of Assisi, The Church Persecution in Mexico, Religious Unity, On the Atonement of the Sacred Heart, On the Promotion of Eastern Studies, On the Promotion of Spiritual Practices, On Christian Education, On the 50th Anniversary of Priestly

Service, on Christian Education, on St. Augustine of Hippo, Christian Marriage, Renewal of Social Order, Italian Catholic Action, The Economic Crisis, The Council of Ephesus, The Sacred Heart, The Church Persecution in Mexico, The Church Persecution in Spain, About the Catholic Priesthood, About Movies, About the Church and the German Empire, About Atheist Communism, About Religious Relations in Mexico, The Rosary.

As already mentioned, the papal encyclicals at first sight fell into the category of “never received” literature. However, they set out social truths that should have been taken into account to avoid disasters. Typical examples are “Mit brennender Sorge” (exceptionally written in German) or its counterpart, “Divini redemptoris”. One took a stand against fascism, the other against communism, although too late, which may have been one of the reasons they fell on deaf ears.

Yet, this pastoral, legal, and religious level of the encyclicals has given basic orientation to all members of the Catholic Church. Due to the religious nature of ecclesiastical regulation, there is a fundamental difference between ecclesiastical and secular interpretations of power. It is essential to be aware of this particular way of regulating religions even today, especially because religiously based, but typically non-Christian norms are emerging in the world.

Consideration of religious norms would have been essential between the two World Wars, just as it would be important now to pay attention to papal teaching about, for example, nature conservation, social justice or research ethics. These principles are neither fanatical nor discriminative, but have been in line with Europe’s thousands of years of tradition. For this reason, it is important to keep in mind their values, which are still valid today. An example is the encyclical called *Quas primas*, written by Pope Pius XI in 1925, which introduced the Feast of Christ the King, with the following reasons:

“We referred to the chief causes of the difficulties under which mankind was laboring. And We remember saying that these manifold evils in the world were due to the fact that the majority of men had thrust Jesus Christ and his holy law out of their lives; that these had no place either in private affairs or in politics: and we said further, that as long as individuals and states refused to submit to the rule of our Savior, there would be no really hopeful prospect of a lasting peace among nations. Men must look for the peace of Christ in the Kingdom of Christ; and that We promised to do as far as lay in Our power. In the Kingdom of Christ, that is, it seemed to Us that peace could not be more effectually restored nor fixed upon a firmer basis than through the restoration of the Empire of Our Lord.

When once men recognize, both in private and in public life, that Christ is King, society will at last receive the great blessings of real liberty, well-ordered discipline, peace and harmony. Our Lord’s regal office invests the human authority of princes and rulers with a religious significance; it ennobles the citizen’s duty of obedience”(Pius XI, 1925).

The “ideological” foundations of the Vatican politics are described in detail in the papal texts as mentioned here. As indicated, this mode of regulation can be of great importance, as it is where the level of regulation of law, morality, and religion is linked (Birher – Homicskó, 2021). However, all this is not worth much if we fail to incorporate the truths expressed in the encyclical into everyday practice.

Central Europe is the region where the ideal of Christianity enshrined in the aforementioned papal encyclicals is still somewhat alive, and it is this ideal that still lays the foundations for the

cultural unity of the region. So it is precisely these aspects that may hold us together in the future. *Common History, Common Values*

The region not only has a historically tense, yet viable tolerance from a religious point of view, but also has a real common awareness of values. The roots of this awareness can be seen in our ability to start again and again in spite of all conflicts. Or more precisely, we cannot proceed separately.

NOTES

- ¹ István Hajnal historian, university professor, member of the Hungarian Academy of Sciences, doctor of history.
- ² Jenő Szűcs outstanding Hungarian historian of the 20th century, university professor, doctor of history.
- ³ István Bibó internationally outstanding and in Hungary the most important political thinker in the 20th century.
- ⁴ Emil Niederhauser Hungarian historian, cultural historian, university professor.
- ⁵ E una volta che questa Lega tra le nazioni sia fondata sulla legge cristiana, per tutto ciò che riguarda la giustizia e la carità, non sarà certo la Chiesa che rifiuterà il suo valido contributo, poiché, essendo essa il tipo più perfetto di società universale, per la sua stessa essenza e finalità è di una meravigliosa efficacia ad affratellare fra loro gli uomini, non solo in ordine alla loro eterna salvezza, ma anche al loro benessere materiale di questa vita; li conduce cioè attraverso i beni temporali, in modo che non perdano quelli eterni. Perciò sappiamo dalla storia che, da quando la Chiesa pervase del suo spirito le antiche e barbariche genti d'Europa, cessarono un po' alla volta le varie e profonde contese che le dividevano, e federandosi col tempo in una unica società omogenea, diedero origine all'Europa cristiana, la quale, sotto la guida e l'auspicio della Chiesa, mentre conservò a ciascuna nazione la propria caratteristica, culminò in una unità, fautrice di prosperità e di grandezza (Benedict XV, 1920).

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Gábor Hamza

The Outstanding Codifiers of Hungarian Private Law

Substantive and Procedural Law



Summary

The preparation of the codification of Hungarian private law is linked to the Act XVIII of 1791. The legal commission set up under this article was responsible for preparing a draft private law bill. This draft, which took two years to complete and could not be considered up-to-date, only appeared in print decades later, in 1826. Political developments also prevented the second codification attempt provided for by Act XV of 1848. From 1853, the Austrian General Civil Code came into force in Hungary and Transylvania, so codification work was not resumed until the Austro – Hungarian Compromise in 1867. The idea of creating a code governing private law, substantive law and procedural law became predominant from 1895 onwards, when the Minister of Justice, Sándor Erdély, set up a committee to prepare a unified draft of the Civil Code. The drafting of the Code of Civil Procedure and Procedure, Act I of 1911, was largely due to Sándor Plósz. Géza Magyary also played a major role in the drafting of the code, which entered into force in 1915. Károly Szladits played a prominent role in the preparation and dogmatic foundation of Hungarian private substantive law for decades. The Private Law Bill of 1928, which, since it was not enacted, was considered by the courts *as a ratio scripta*. The influence of Károly Szladits' ideas can be seen both in the Hungarian Civil Code adopted in 1959, which entered into force on 1 May 1960, and in the new Second Hungarian Civil Code adopted in 2013, which entered into force on 15 March 2014.

Keywords: codification in Hungary, Géza Magyary, Sándor Plósz, Károly Szladits

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SÁNDOR PLÓSZ

Sándor Plósz, jurist, university professor, state secretary, minister of justice, full, board and honorary member of the Hungarian Academy of Sciences, was born in Pest on 10 June 1846. He died in Budapest on 29 May 1925, a few months after his retirement. In recognition of his scientific work, he was elected a corresponding member of the Hungarian Academy of Sciences on 5 June 1884. Following his election as a Corresponding Member, he gave his inaugural lecture on “On the system of grounds and means of proof” on 17 June 1889. He was elected a full member of the Academy on 4 May 1894. After his election as a full member, he delivered his inaugural lecture on ‘The concept of nullity in civil procedure’ on 8 April 1895. An abstract of the lecture was published in the Bulletin of the Hungarian Academy of Sciences in the same year.

It was a sign of his scientific work that he was elected an honorary member of the Hungarian Academy of Sciences on 9 May 1902. Four years later, on 23 March 1906, the Academy elected him a member of its Board of Directors. For almost a year, between October 1909 and April 1910, Sándor Plósz was Vice-Chairman of the Philosophical, Social and Historical Sciences Division of Section II of the Academy, and between April 1910 and April 1913, he was President of the same Division. As President of Department II, he read out the thesis of Lajos Farkas (1841-1921), professor of Roman law at the University of Cluj, former colleague and corresponding member of the Hungarian Academy of Sciences, on the academic dissertation entitled ‘The Roman *Obligatio* Conceptually in Medieval and Modern Legal Theory’ on 9 December 1912.

Between 24 April 1913 and 4 May 1916, Sándor Plósz was the second president of the Hungarian Academy of Sciences - today this position is equivalent to the vice-president’s function. It is worth mentioning here that this term was used in the Statutes between 1869 and 1948, replacing the term “Vice-Chairman”(Terminus Technicus) used between 1830 and 1857 and the term “Vice-President” used between 1858 and 1868.

It is definitely worth mentioning that the Hungarian Academy of Sciences awarded Sándor Plósz the Grand Academic Prize in 1912 for his outstanding scientific and codification work. As a side note, for the sake of comparison, I would like to note that this exceptional recognition, which was only due to a few academics, can be compared today to the Academic Gold Medal, founded in 1960 and awarded for the first time in 1961.

Sándor Plósz’s father was Lajos Plósz (1809-1886), a renowned ophthalmologist, and his mother was Emilia Emmerling. His wife was Ilona Hamza (1852-1926), daughter of Máté Hamza, a prominent member of the Pest City Council.

It is worth mentioning that Sándor Plósz’s brother, Pál Plósz (1844-1902) was a renowned biochemist, a full professor at the University of Cluj and later at the University of Budapest, and a corresponding member of the Hungarian Academy of Sciences. His other brother, Béla Plósz (1863-1945), a veterinarian and college teacher of national fame, was a member of the Hungarian Academy of Sciences.

Sándor Plósz studied law in Vienna and Pest. He finished his studies in Pest in 1866. He practised law in Pest for two years. First in a law firm, and from the following year at the

Financial Prosecutor's Office in Pest, as a trainee lawyer. In 1868 he was inaugurated as a Juris Doctor. In the same year he was admitted as a general lawyer, and the following year as a deputy lawyer. In November 1867 he became a clerk at the Pest City Court, in 1871 a deputy judge at the Single Court of Lipótváros, and in 1872 a judge at the Royal Court of Justice in Pest. Between 1872 and 1881 he was a full professor of civil law and of the law of promissory notes and commercial law at the University of Pest.

From 30 July 1894 to February 1899, he was Secretary of State at the Ministry of Justice. From 26 February 1899 to 18 June 1905, he was Minister of Justice in the government of Kálmán Széll, in the first Khuen-Héderváry government, and in the first government of István Tisza.

For more than a decade he was a member of the constituency of Baja, then of Regőce, and between 1910 and 1914 of Lugosi. In 1914 he became a member of the Upper House.

Sándor Plósz was the most authoritative representative of Hungarian civil procedural law in his time. On behalf of the government, he drafted the Code of Civil Procedure in 1885. A few years later, between 1889 and 1894, he also drafted several orders of the law on proceedings upon request ("sommás" procedure in Hungarian) and the complete code of procedure published in 1893.

As a member of Kálmán Széll's government, he started to rework the proposals on the judiciary. He presented the revised proposal to the House of Representatives, which became the basis for the amendment of the law.

During the discussion of the budget of the Minister of Justice, he envisaged the entry into force of the Code of Criminal Procedure on 1 January 1900, a more extensive reform of the Criminal Code than had been planned so far, and the creation of a law regulating the uniform civil procedure. It is important to emphasise that Sándor Plósz also planned to create a private law and to amend the bankruptcy law.

The most significant result of his work is undoubtedly the first article of Act I of 1911 on the Code of Civil Procedure. His name is inextricably intertwined with the outstanding, internationally acclaimed work of modern Hungarian codification, the Civil Procedure Code of 1911. It is worth mentioning that as a professor of the law of legislation, of promissory notes and of commercial law, he left behind significant works in all three fields.

Sándor Plósz established his scientific reputation early in his career. In 1876, he published his study on the law of action, in which he conceptualised the so-called abstract theory of the law of action. Published in 1895, and reprinted in 1895, his Handbook of the Law of Bills of Exchange was considered by his contemporaries to be one of the most valuable works on the law of bills of exchange. His studies, written in German, earned him considerable international prestige. On the occasion of the 500th anniversary of the University of Leipzig, founded in 1409, he was awarded an honorary doctorate, Doctor Honoris Causa, in 1909.

Sándor Plósz spent more than half a century in the university cathedra. In 1873 he was appointed to the chair of procedural law at the University of Cluj. He only took a break from teaching during his time as Secretary of State and Minister. At the end of his political career, he declined the post of President of the Curia, saying that his place was at the university chair.

Despite half a century of teaching, Sándor Plósz did not write a textbook. The texts of his lectures, entitled “Hungarian Civil Law”, were collected by one of his students, Károly Vass. The work “Hungarian Civil Law”, based on the lectures of Dr. Sándor Plósz, professor emeritus at the University of Budapest, compiled by K. Vass, in Budapest, 1906. He summarized the experiences of his teaching career, abundant in critical comments, in his work “On the Reform of Legal Education”, published in 1922.

He retained his office during the short-lived Khuen-Héderváry government (27 June 1903 - 3 November 1903), and then during the first government of István Tisza (4 November 1903 - 18 June 1905). As Minister of Justice, he submitted a revised and amended version of the bill on the Code of Civil Procedure to the House of Representatives on 29 January 1902. His detailed report on the proposal was submitted to the House of Representatives by the Committee on Justice, which, however, did not discuss the proposal during the term of Sándor Plósz’s ministership, due to ‘the political circumstances that had arisen’.

Sándor Plósz’s first study, published in 1871, was followed by treatises in Hungarian and German, as well as manuals, small monographs, bills, explanatory memoranda and drafts. His most important studies were collected by his colleagues in a volume entitled “Collected papers of Sándor Plósz”. The volume was published two years after his death, in 1927.

Sándor Plósz’s study “On the Law of Action”, published in 1876, is of particular importance. A year after the publication of this study, Karl Heinrich Degenkolb (1832-1909) published his study *Einlassungszwang und Urteilsnorm. Beiträge zur materiellen Theorie der Klagen insbesondere der Anerkennungsklagen* (Leipzig, 1877), in which the eminent German jurist made the right of action independent of the existence of the right asserted in the action. Although three years later Sándor Plósz published his theses on the law of action in German in his *Beiträge zur Theorie des Klagerechtes* (Leipzig, 1880), international jurisprudence still considers Degenkolb, a legal Romanist (Roman jurist) and litigator, to be the founder of the so-called abstract theory of the right of action. In this context, it is worth noting that Degenkolb, in his work *Beiträge zum Zivilprozess* (Contributions to Civil Procedure), published in Leipzig in 1905, acknowledges the primacy of Sándor Plósz, while at the same time highlighting the differences between their positions.

Sándor Plósz considered it an important task to develop and regulate the concept of legal protection. For the realization of this task, he undertook the preparation of a proposal for a code of civil procedure based on the verbal and non-verbal system, following the Western civil procedure codes, in 1882, in compliance with the order of the Minister of Justice Tivadar Pauler.

Published in 1885 Draft of the Hungarian Code of Civil Procedure a 613-section bill by Sándor Plósz. The bill was based on the German Civil Procedure Code (*Zivilprozessordnung*) of 1877.

However, the draft has come in for criticism from many sides. Domestic jurists considered the English and French ideals of procedural law to be more important than German dogmatics. The heated controversy over the draft hampered the work of the Hungarian legislature. The reform was launched years later, in 1889, when Dezső Szilágyi became Minister of Justice, who intended to implement the reform of the law not in one step but in several stages.

He therefore started the reform where it seemed easiest, namely with the procedures upon request (i.e. *sommás*), since a large part of it was oral anyway. Once again, Alexander Plósz was commissioned to draft the bill and the explanatory memorandum. The Law of 1893: XVIII was a significant step towards the reform of civil procedure. It was a comprehensive reform of the *sommás* procedure, establishing a district court procedure based on verbal, non-verbal and the free consideration of evidence.

Dezső Szilágyi, Minister of Justice, had asked Sándor Plósz to prepare the draft bill on the Code of Civil Procedure. Plósz completed and slightly revised his earlier proposal of 1885. However, the draft, published in 1893 and submitted for discussion in 1895, was not submitted to the House of Representatives. Although Sándor Plósz was Secretary of the State for Justice in 1894, no progress was made towards a complete reform of civil procedure in the last decade of the 19th century.

It is a well-known fact that between 1903 and 1910, five governments and seven ministers of justice succeeded each other. As a result, the codification of civil procedure was not a priority for the government and the legislature during these years. The second Wekerle government, which had brought relative political stability to the country, tried again to reform the law of procedure. In 1907, the Minister of Justice, Antal Günther, again submitted a proposal based on the 1902 draft by Plósz. However, he made significant changes to the text of the draft. The draft bill only reached the House of Representatives' Committee on Justice. However, the debate was interrupted in 1908 after a few sections had been discussed.

Decades of procrastination ended in 1910-1911. On 16 July 1910, Ferenc Székely, Minister of Justice in the short-lived second Khuen-Héderváry government, submitted to the House of Representatives a bill on the Code of Civil Procedure, the fifth since 1885. The bill, which Sándor Plósz drafted together with Ármin Fodor and Gyula Téryf, did not differ significantly from the 1907 version. The Committee on Justice forwarded the 792-section bill to the House of Representatives with a favourable opinion.

The House of Representatives completed its deliberations on the bill in quickly, in just a few days. Both government and opposition speakers highlighted the outstanding role of the rapporteur, Sándor Plósz, in the reform of the Hungarian civil procedure law. The text adopted by the House of Representatives was discussed by the House of Lords on 20 December 1910. The House of Representatives approved the text of the draft without any changes or amendments. After its ratification on 8 January 1911, the first article of Act I of 1911 on the Code of Civil Procedure was promulgated in the same month. However, the law did not enter into force until years later, on 1 January 1915.

In the following year in, 1912, Sándor Plósz was awarded the Grand Prize of the Hungarian Academy of Sciences in recognition of his work in the drafting of the first article of the Civil Procedure Act of 1911, which can be considered the predecessor of the Academy Gold Medal, established in 1960 and awarded for the first time in 1961 by the Presidium of the Hungarian Academy of Sciences.

In the last decade of his life, in the 1920s, Sándor Plósz was preparing a major work on the development of the Hungarian law, including an international perspective, but his serious illness prevented him from working on the material.

From 1898, he was awarded the Order of Lipót, from 1899 he was an internal privy councillor, and from 1902 he was awarded the Order of the Iron Crown, first class. It is worth mentioning that Sándor Plósz was elected honorary citizen of Újpest. The celebration of his seventieth birthday in 1916 was a sign of respect for him.

At the Hungarian Academy of Sciences, Géza Magyary (1864-1928), a full member of the Hungarian Academy of Sciences, was a full professor of Roman law at the beginning of his teaching career, then of commercial law, the law of bills of exchange and civil law, who was also awarded the Grand Prize of the Hungarian Academy of Sciences posthumously in 1929, an honorary presentation was delivered in 1927, too.

In the second half of the 19th century and the first decades of the 20th century, Sándor Plósz was one of the most respected jurists in Hungary, especially in the fields of common law and litigation. His very wide-ranging works analysing a number of legal institutions and his outstanding work in the field of codification are of great value even in the first third of the 21st century.

Sándor Plósz's main works

- On the Law of Action. Magyar Igazságügy, 1876.
- Handbook of the Hungarian Law of Bills of Exchange. Budapest, 1877.
- Contributions to the Theory of the Right of Action. Magyar Igazságügy, 1879.
- Contributions to the Theory of the Right of Action. Leipzig, 1880.
- Reform of Civil Litigation. Budapest, 1883.
- Draft of the Hungarian Civil Procedure Code. Budapest, 1885.
- The Evidential Value of Private Documents, in Particular Their Form. Hungarian Justice (Magyar Igazságügy) 1886.
- The Hungarian Civil Code. Budapest, 1888.
- Draft of the Law on the Right of Appeal in the Sommás Procedure (draft Bill commissioned by the Royal Hungarian Minister of Justice). Budapest, 1889.
- Commercial Law (after lectures notes by Dávid Kohn). Budapest, 1890.
- Draft of the Law Amending Article XXII of Act No. 1877 on the Procedure in Small Claims. Budapest, 1890.
- Draft of the Law on the Hungarian Code of Civil Procedure (draft bill commissioned by the Royal Hungarian Minister of Justice). Budapest, 1893.
- Explanatory Memorandum to the Draft of the Hungarian Civil Procedure Code. Budapest, 1893.
- Hungarian Civil Law. Budapest, 1906.
- On Admission at Trial. Budapest, 1907.
- The Structure of Civil Proceedings in the New Code of Civil Procedure. Budapest, 1911.
- The Nature of the Legal Presumption. Rule of Law, 1912.
- The Code of Civil Procedure. Budapest, 1912.
- On the Burden of Proof. Budapest, 1916.

- Two lectures from the Hungarian Civil Procedure. Berlin, 1917.
- On the Reform of Legal Education. Budapest, 1922.
- Collected Essays of Sándor Plósz. Budapest, 1927.

GÉZA MAGYARY

Géza Magyary, jurist, university professor, full member of the Hungarian Academy of Sciences, was born on 16 September 1864 in Alsólóc (Bratislava County), he died on 9 October 1928 in Budapest. In recognition of his scientific work, he was elected a corresponding member of the Hungarian Academy of Sciences on 12 May 1905. Following his election as a Corresponding Member, he gave his inaugural lecture entitled “Newer trends in international procedural law” („Újabb irányzatok a nemzetközi perjogban”) on 10 December 1906. The lecture was published as an abstract in volume 13 of the series “Lectures from the Social Sciences” (Értekezések a Társadalmi Tudományok köréből) in the Academic Bulletin in 1907. He was elected a full member of the Academy on 3 May 1917. After his election as a full member, he delivered his inaugural lecture entitled “International adjudication in Hungarian law” („A nemzetközi bírászkodás a magyar jogban”) on 8 October 1917. The abstract of the lecture was published in volume 2 of the series “Lectures on Philosophy and Social Sciences” (“Értekezések a Filozófiai és Társadalmi Tudományok köréből”) in the Bulletin of the Hungarian Academy of Sciences (Magyar Tudományos Akadémia Értesítőjében) in 1918.

It is definitely worth mentioning that Géza Magyary was awarded the posthumous Grand Academy Prize by the Hungarian Academy of Sciences in 1929 for his outstanding scientific work. By way of comparison, this exceptional award, which is bestowed on only a few academics, can be compared to the Academic Gold Medal, established in 1960 and awarded for the first time in 1961 by the Presidium of the Hungarian Academy of Sciences. It should also be mentioned that Géza Magyary was elected a full member of the Szent István Academy in 1916.

He was also a member of the Board of the Hungarian Lawyers’ Association. He held a number of highly attended lectures in the Litigation Section of the Hungarian Bar Association, of which he also served as President.

Géza Magyary’s father was Mihály Magyary, his mother Anna Kákonyi. It is worth mentioning that Géza Magyary was the uncle of Zoltán Magyary (1888-1945), an internationally renowned scholar and teacher of administrative law.

Géza Magyary continued his secondary school studies in Nagyszombat, at the prestigious Archbishop’s Catholic High School where he also passed his school examination. He began his higher education at the Royal Academy of Law in Bratislava. After moving from Bratislava to Budapest, he continued his studies at the Faculty of Law and Political Science of the Budapest University of Sciences, receiving his doctorate in law in 1887. In order to broaden his professional knowledge, he spent extended periods of study in France and Germany.

Between 1887 and 1889, he worked as a trainee lawyer, then for a short time he was a law clerk at the Royal Court of Budapest. He later passed the bar exam in Budapest as a teacher at the Reformed Law Academy in Kecskemét, where his friend Béla Szászy (1865-1931) -

who was elected a corresponding member of the Hungarian Academy of Sciences shortly before his death on 15 May 1931 - was a fellow teacher.

His academic teaching career began in 1890. From 1890 to 1893 he was a teacher of Roman law at the Reformed Law Academy in Kecskemét. In 1892 he published his work on Roman law, “On liability for damages based on misconduct.”, based on both secondary literature and a thorough exegesis of the sources.

In his works, Géza Magyary often referred to institutions known in Roman law and also took into account the Hungarian legal historical tradition. He also followed the legal traditions of European states, carefully studying and presenting the latest findings of foreign literature.

From 1893 to 1905, he taught commercial law at the Law Academy in Oradea, as well as promissory and litigation law. In 1895 he was qualified (habilitated) as a private lecturer in commercial law at the Budapest University of Sciences. In 1905, he became an extraordinary public lecturer in civil law at the Budapest University of Sciences. In 1907 he was appointed full professor on the subject. He taught civil law in Budapest until his death which was in 1928. In the academic year 1909-1910 he was also Dean of the Faculty of Law and Political Science.

At the beginning of his career, Géza Magyary was mainly involved in commercial law, the settlement of monetary claims (securities, bills of exchange, cheques) and certain aspects of insurance law. As a jurist, he later dealt with questions of private law, especially civil procedure, taking into account the results of European jurisprudence, especially German, French and Italian.

His nearly thousand-page work on Hungarian civil procedural law, published in 1913, was for decades considered a fundamental work. More than a decade after the author’s death, the work was revised by Endre Nizsalovszky (1894-1976) and published in a third edition in 1940.

It is important to note that in 1920, Géza Magyary edited the series of publications entitled the *Tára Civil Law* (*Tára Polgári Törvénykezési Jog*) was launched. In addition to a comprehensive examination of domestic and international civil and criminal procedural law, Géza Magyary also dealt in depth with several important issues of these branches of law, such as the rules of procedure, admissions, appeals and review.

During the years of World War I, Géza Magyary was involved in the Central European Economic Association. He wrote on Hungarian-Bosnian economic relations and the legal tasks that could be carried out in the East to promote economic interests. There is little knowledge of that he played a major part for the legal preparation of Law XVII of 1916, which provided for the recognition of the Islamic religion.

It is definitely worth mentioning that Géza Magyary took an active part in the work of the Higher Education Association. The Higher Education Association, which is unfortunately only known to a small circle of people today, was founded in 1911 on the initiative of Frigyes Medveczky (1855-1914), a full member of the Hungarian Academy of Sciences, who also studied law at the Budapest University of Sciences, on the model of the French *Société de l’Enseignement Supérieur*. Frigyes Medveczky was also President of the Association for Higher Education.

The Association of Higher Education was made up of 350 public full professors from higher education institutions in Hungary. It is worth noting here that it would be desirable to prepare an overview of the Hungarian history of quality assurance in higher education, universities and colleges in Hungarian and in foreign languages, which, regrettably, has not yet been done.

We should also mention the so-called Science Emergency Committee (Tudománymentő Bizottságot), which was established in the autumn of 1922 on the initiative of Géza Magyary and modelled on the German organisation (Notgemeinschaft der Deutschen Wissenschaft), which had a similar function. The chairman of the Committee was Albert Apponyi (1846-1933), a highly respected member of the board of the Hungarian Academy of Sciences. The Commission was to operate for three years.

The task of the Association for Higher Education and the so-called Science Emergency Committee was primarily to ensure quality in the field of science in Hungary, which was facing serious financial problems.

Géza Magyary published several studies - among others - in the Legal Gazette (Jogtudományi Közlöny) between 1894 and 1918. The Legal Gazette published, to mention only a few, "The powers of the representatives of the general partnership, The New German Code of Civil Procedure (1899), The Role of the Royal Prosecutor's Office in Civil Procedure 1-2 (1903), Comments on the Draft Code of Civil Procedure 1-2 (1910), Kornél Emmer (1912), On the Verge of Enforcement of the New Civil Procedure (Az új polgári perrend életbeléptetésének küszöbén) (1915) and his works on Scientific procedural law (1918).

After the First World War, Géza Magyary took an active part - representing Hungary - in international scientific life. He was the only Hungarian member of the Institut de Droit International.

Tihamér Fabinyi (1890-1953), a jurist and politician, who was elected as a member of the Board of Directors of the Hungarian Academy of Sciences on 11 April 1940, delivered a memorial speech on Géza Magyary at the plenary session of the Hungarian Lawyers' Association on 20 October 1929. Béla Szászy, a friend of Géza Magyary and for many years a colleague and President of the Hungarian Lawyers' Association, gave the opening and closing remarks.

János Vinkler (1886-1968), a corresponding member of the Hungarian Academy of Sciences, and a full professor of Hungarian Civil Law at the University of Pécs, delivered the memorial lecture.

Géza Magyary, a versatile, outstanding scholar of Hungarian and international civil procedural law, was one of the most respected jurists in Hungary in the first decades of the 20th century, especially among the scholars of private law and litigation. His works, which cover a very wide range and analyse numerous legal institutions, are of considerable value even in the first half of the 21st century.

Main works of Géza Magyary

- The Legal Succession of Relatives in Our Law Before 1848 (A rokonok törvényes öröklési rendje 1848 előtti jogunkban). Magyar Igazságügy 1890.
- On Liability for Damages Based on Misconduct (A vétségen alapuló kártérítési kötelemekekről). Kecskemét, 1892.
- The Publishing Deal (A kiadói ügylet). Budapest, 1893.
- A cheque. Budapest, 1895.
- The Quality and Powers of Representation of Insurance Agents (A biztosítási ügynökök képviseleti minősége és jogköre). Budapest, 1896.
- The Basic Doctrines of Hungarian Civil Procedure: The Doctrine of Actions in Law-suits (A magyar polgári peres eljárás aaptanai: A perbeli cselekvések tana). Budapest, 1898.
- International aspects of Hungarian Civil Procedure: International Civil Procedure (A magyar polgári perjog nemzetközi vonatkozásai: Nemzetközi polgári perjog). Budapest, 1902.
- Securities in the Draft Civil Code: Additions to the Council of Deeds (Értékpapírok a polgári törvénykönyv tervezetében: Adalékok az okiratok tanához). Budapest, 1902.
- Admission at Trial (A perbeli beismerés). Budapest, 1906
- New Directions in International Procedural Law (Újabb irányok a nemzetközi perjogban). Budapest, 1907.
- Preparation of an International Treaty on the Enforcement of Authentic Instruments Between Hungary, Austria and Germany (A közokiratok végrehajtása tárgyában Magyarország, Ausztria és Németország közt kötendő nemzetközi szerződés előkészítése). Budapest, 1909.
- Hungarian Civil Procedure Law (Magyar polgári perjog). Budapest, 1913.
- Law Enforcement Assistance between Hungary and Austria (A végrehajtási jogsegély Magyarország és Ausztria közt). Budapest, 1914.
- The Guiding Principles of Contemporary Justice (Korunk igazságszolgáltatásának vezéreszméi). Budapest, 1914.
- The Legal Nature of Legal Presumptions (A törvényes vélelmek jogi természete). Jogállam, 1914.
- The Peace Movements and the World War (A békemozgalmak és a világháború) . Budapest, 1915.
- Reforming our Legal Education (Jogi oktatásunk reformja). Jogállam, 1915.
- Law Enforcement Assistance Between Hungary and Germany (A végrehajtási jogsegély Magyarország és Németország közt). Budapest, 1916.
- Compulsory Compensation Outside Bankruptcy in Hungary (Der Zwangsausgleich ausserhalb des Konkurses in Ungarn). Zeitschrift für das gesamte Handels- und Konkursrecht 1916.
- International Adjudication in Hungarian Law (A nemzetközi bíraskodás a magyar jogban). Budapest, 1917.
- Our Legal Work in the East (Jogi feladataink Keleten). Budapest, 1917.

- International Adjudication in Hungarian law (A nemzetközi bírászkodás a magyar jogban). Budapest, 1917.
- International Adjudication (A nemzetközi bírászkodás). Budapest, 1918.
- Compulsory Settlement Outside Bankruptcy in Croatia and Slavonia (Zwangsausgleich ausserhalb des Konkurses in Kroatien und Slavonien). Zeitschrift für das gesamte Handels- und Konkursrecht 1918.
- Academic Civil Procedure (Tudományos polgári perjog). Jogtudományi közlöny 1918.
- Hungary and the League of Nations (Magyarország és a Nemzetek Szövetsége). Jogállam 1920.
- Szász-Schwarz Gusztáv. Hungarian Law Review 1920.
- Reform of the League of Nations (A Nemzetek Szövetségének reformja). Magyar Jogi Szemle 1920.
- International Arbitration in the League of Nations (Die internationale Schiedsgerichtsbarkeit im Völkerbunde), Berlin, 1922.
- Rules of procedure relating to the protection of minorities. Project presented to the International Union of Associations for the League of Nations by the Hungarian Society of Foreign Affairs in Budapest. (Règlement de procédure relative à la protection des minorités. Projet présenté à l'Union Internationale des Associations pour la Société des Nations par la Magyar Külügyi Társaság à Budapest). Budapest, 1923.
- Hungarian Civil Procedure Law. Second Revised Edition (Magyar polgári perjog. 2. átdolg. kiadás). Budapest, 1924.
- Revised draft of a procedural regulation relating to the protection of minorities presented by the Hungarian Society for Foreign Affairs and for the League of Nations (Projet révisé d'un règlement de procédure relative à la protection des minorités présenté par la Société hongroise des Affaires étrangères et pour la SdN). Budapest, 1925.
- On the Question of Compulsory International Arbitration (Zur Frage der internationalen obligatorischen Schiedsgerichtsbarkeit). Deutsche Juristenzeitung 1925.
- The Hungarian Academy of Sciences and Hungarian Jurisprudence (A Magyar Tudományos Akadémia és a magyar jogtudomány). Budapest, 1927.
- Yearbook of Italian law comparison and law preparation (Az olasz jogösszehasonlítás és törvényelőkészítés évkönyve). Jogállam, 1927.
- In Honour of Sándor Plósz (Plósz Sándor emlékezete). Budapest, 1927.
- Jurisdiction of the Permanent Court of International Justice (La juridiction de la Cour permanente de justice internationale). Paris, 1928.
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KÁROLY SZLADITS (1871-1956)

The Hungarian legal community knows Károly Szladits as one of the founders of modern Hungarian private law in the 20th century and as for his personality named for establishing scientific schools. Károly Szladits was an outstanding legal scholar of the first half of the 20th century, both in Hungary and internationally, whose work has given and continues to give guidance to the present and future generations of lawyers. Károly Szladits was born on 27 December 1871 in Dunaszerdahely (in today's Slovakia). He studied law in Budapest. On the basis of a decree issued by the Minister of Religion and Public Education in 1893, he was the first person to be awarded the title of Doctor of Laws *sub auspiciis Regis* on 12 October 1895, in the ceremonial hall of the Hungarian Academy of Sciences.¹ His doctoral thesis, entitled *On the Taxonomy of Private Subject Laws (Alanyi magánjogok rendszertanához)*, analyses the complex issue of the distinction between the law of property and obligations.² In 1896 he became a member of the committee set up to prepare the Civil Code. He took an active part in the work of the committee for several decades until 1928, when the Hungarian Private Law Bill was drafted.

During his university teaching career he obtained his first private teaching qualification in Hungarian private law at the Royal Hungarian University of Sciences in Budapest. In 1917, as the successor of Mór Katona as a full professor, the *venia legendi* (authorization to teach) was extended to his lecture on Austrian private law (*österreichisches Privatrecht*).

It is worth mentioning that Károly Szladits was appointed as a full professor with the title and character of Ministerial Advisor to the Minister of Justice (Eckhart, 1936:624). From 1917 to 1942 he was a full professor at the University of Budapest (from 1921 the Royal Hungarian Pázmány Péter University) for 36 years. He regularly published annual reports on the latest developments in legal practice in the columns of the prestigious professional journal *Jogállam*. He held the post of Dean of the Faculty of Law and Political Sciences and, after its expiry, the post of Provost for one year.

It is worth noting that, at the recommendation of Oszkár Jászi³, Mihály Károlyi offered the Ministry of Justice to Károly Szladits, who took a role in the autumn of 1918, during the "Aster Revolution (sometimes referred to as the so called Chrysanthemum Revolution)". Having learned of the assassination of Count István Tisza before the inauguration ceremony, Szladits immediately resigned from the office and the portfolio (Asztalos, 1973:82). On 22 January 1919, he declared that he wished to see '*representatives of the New World here*', and he was secretary of the Association of College Teachers, and regularly discussed issues of judicial codification with Zoltán Rónai, the People's Commissar for Justice, a member of the Revolutionary Governing Council. In view of this relationship, he was suspended from teaching for the 1919/20 academic year.⁴

This is most probably the reason why Bálint Kolosváry, who was appointed as a full professor years later, in 1928, was elected dean in the academic year 1930/31, ahead of Károly Szladits, who only took up this post in 1931/32. This happened even though Szladits was not involved in political life, his public activities were related to science. Irrelevant in our view is the fact that Szladits was also a member of the Twentieth Century Journal (*Husza-*

dik Század), which was launched in 1900, and of the Social Science Society (Társadalomtudományi Társaság), which was founded in 1901.

In the period between the two world wars, private law was taught by two full professors at the Royal Hungarian University of Pázmány Péter Tudományegyetem Budapest, which took the name of Eötvös Loránd in 1950: Bálint Kolosváry and Károly Szladits. Endre Nizsalovszky took over the teaching of private law from Szladits the following year, in 1943.

At the beginning of the 20th century, the teaching of civil law began with Roman law in year I (eight hours per week), followed by economics in year II and private law in year III. In year III there were two private law colleges, 5-5 hours each semester, one of which was *Hungarian Private Law with reference to the Austrian Civil Code* (general doctrines, personal and property law), while the other was *Hungarian Private Law II* (contract law, family and inheritance law). Interestingly, Hungarian Private Law I was given by Szladits⁵, and generally covered much less Austrian private law than Kolosváry, who gave Hungarian Private Law II. In Year IV, students studied Commercial Law and the Law of Bills of Exchange, and Hungarian Civil Law, both 5-5 hours per week.⁶

Károly Szladits and his school considered liberal capitalist private law as real private law. The influence of Gusztáv Szászy-Schwarz can also be seen in his academic work.⁷ Szladits' relationship with Gusztáv Szászy-Schwarz, whom Szladits⁸ called '*the only true great Pandekta jurist*', is characterised by the fact that Szladits was a pupil of the Roman jurist together with Géza Marton. Szászy-Schwarz's way of thinking, that Roman law should be presented '*in its present validity*' (Hamza, 2001:2), became characteristic of Szladits in relation to Hungarian private law.

Károly Szladits's role model and teacher at the university was⁹ Béni Grossschid (Benő Zsögöd), who took up the fight to defend Hungarian law, which had undoubtedly become obsolete in the 1848 civil revolution, and saw in it the chance of further progress, which had to be established as a new Hungarian private law in contrast to German law (Asztalos, 1973:75). Szladits respected him as the master (Weiss, 2006:112), the true *praeceptor Hungariae*. However, Szladits did not become Grossschid's epigone (Asztalos, 1973:74-76), and '*Szladits's style was almost Grossschid's concave-convex*' (Asztalos, 1973:82). Grossschid, who Gusztáv Szászy-Schwarz described as a "*temperamental retrograde*" (Eckhart, 1936:83), was undoubtedly a distant personality, writing only academic works, not textbooks. He did not develop close relationships with his students, the only exception being Szladits. While Grossschid thus had only indirect disciples, Szladits created a real school. He had the unsurpassed merit of translating the ingenious, but at the same time difficult to read and not very fluent, ideas of Grossschid into a form that was comprehensible and easy to learn. It is worth recalling the principles that Szladits advocated in his codification of private law. His view of the Civil Code is that '*Our code, can have no more beautiful and noble task than to provide a framework for our judicial practice which regulates, but does not prevent the heartbeat*'.¹⁰

Szladits compiled the court practice, republished Grossschid's *Chapters* and added *glossaries* to them, and took upon himself the editing and partial writing of the six-volume work "*Great Szladits*" (*Nagy-Szladits*). In his work entitled "*Outline*" (*Vázlat*), he laid down a systematic,

comprehensible and readable foundation for the institutions of private law. His collection of Judicial Practice in Private Law (Magánjogi bírói gyakorlat) (Szladits, 1928) should be highlighted, he edited the Private Law Arbitration Library (*Magánjogi Döntvénytár*) starting with Volume IX. Szladits's works are also taken into account in many cases by lawyers today, and it is not uncommon to find references to his works in civil litigation, pleadings and court decisions. Together with László Villányi (Fürst), he compiled *The Hungarian Judicial Practice. Private law. I-II. (A magyar bírói gyakorlat. Magánjog I-II)*¹¹ furthermore, edited, with Villányi and Miklós Ujlaki, the volume on the *Law of Obligations (Kötelmi jog)* published by Grill in *Hungarian Laws and Regulations (A magyar törvények és rendeletek)*.¹²

Károly Szladits was elected a corresponding member of the Hungarian Academy of Sciences in 1932, and 11 years later, in 1943, a full member. As a sign of his exceptional esteem, he was elected an honorary member of the Hungarian Academy of Sciences (MTA) in 1948. He was actively involved in the work of the Hungarian Lawyers Association and the Law Section of the Hungarian-Soviet Society. Due to his linguistic skills his academic achievements were appreciated in French and English academic circles. He was an internationally known and respected jurist. In the encyclopaedia of portraits of jurists edited by Michael Stolleis (Juristen, 2001), a total of ten Hungarian lawyers (jurists) are listed: István Werbőczy, Ignác Frank, Károly Csemege, Béni Grossschmid, Gusztáv Szászy-Schwarz, Géza Marton, Bódog Somló, Ferenc Deák, Bertalan Szemere and Károly Szladits.

In addition to the German influence, the Szladits school also attaches great importance to other laws, for example Anglo-Saxon laws. The Szladits school included, among others, his son, Károly Szladits, Jr., Kornél Zalán, Imre Zajtay, György Csanádi, Gyula Eörsi, Miklós Világhy and Andor Weltner. The opposite pole of the Szladits school was the predominantly conservative school represented by Bálint Kolosváry, which adhered to the Grossschmid tradition. After the First World War, Károly Szladits' works were known and cited by lawyers in the Carpathian Basin who were well versed in the Hungarian language. This influence can still be detected in the third decade of our century, although it would undoubtedly require further research.

The members of the Szladits school expressed their gratitude to their master in a collection of essays¹³ entitled *Festive Essays (Ünnepi dolgozatok)*, published in 1937, which, with a partially changed authorial team, they will do again on the occasion of the 70th anniversary of his birth.¹⁴ As a member of the Hungarian Academy of Sciences, Section II, on the recommendation of the Section, he was awarded the László Szalay Prize in 1948, which was a serious recognition of authors of works on law, philosophy and national economy (Soltész-Soltész, 2017).

It is noteworthy that in 1953 Károly Szladits was the first to be awarded the Kossuth Prize for as a lawyer. His individuality also influenced his private life. Károly Szladits provided peace of mind and a hiding place for Mária Székely Küllőiné, a diaconal translator and interpreter, at his house at 7 Érmellék Street, for the translation of the so-called Auschwitz Protocol into Hungarian.¹⁵ With regard to Szladits' influence on non-lawyers, it is also worth mentioning the psychologist György Hunyady, a full member of the Hungarian Academy of Sciences, who lived in the same house as Károly Szladits in the 1950s. György Hunyady was

asked by Szladits' wife to organise the professor's library, and it was in the course of this work that György Hunyady found the works of Gyula Kornis (History and Psychology), which influenced his decision to pursue a career in psychology.

The motto of the life of Károly Szladits, who died on 22 May 1956, in the 85th year of his life, can be summed up in the words of László Asztalos: "A professor should not be *proud of what he has achieved, but of the fact that he has students who surpass him*" (Asztalos, 1973:93). In our view, Károly Szladits' dedicated love for jurisprudence and legal education, his school-establishing work, is faithfully reflected in this statement in the third decade of the 21st century.

NOTES

- ¹ In the same year, Lóránt Hegedűs was also awarded the title of Doctor of State Sciences „sub auspiciis Regis”. F. Eckhart: History of the Faculty of Law and Political Science 1667-1935 (*A jog- és államtudományi kar története 1667-1935*). In: *A királyi magyar Pázmány Péter Tudományegyetem története* (The History of the Royal Hungarian Pázmány Péter University), Budapest, 1936, 641, o. For the award of a doctorate, see the recent Hungarian literature: Hamza G. - Hoffman I. : *Antecedents and current situation of honorary doctorate in Hungarian and Austrian legal education* (*A kitüntetéses doktorraavatás előzményei és mai helyzete a magyar és az osztrák jogászképzésben*). Magyar Tudomány (Hungarian Science) 2014, p.152-157,
- ² Revised from K. Szladits: *Property and Obligations Law (Dologi és kötelmi jog)*. Appeared in the Legal Studies Bulletin (Jogtudományi Közönyben jelent meg) 1895/42.
- ³ For a summary of Oszkár Jászi, see G. Hamza: Europeanism and Oszkár Jászi's worldview (Európaiság és Jászi Oszkár világszemlélete). *Law Journal (Jogtudományi Közöny)* 67, (2012) pp. 83-86.
- ⁴ Of the seven lawyers who were subject to disciplinary proceedings, the Certifying Committee recommended disciplinary proceedings against Professors Kmety, Szladits and Pikler, while it expressed regret for the behaviour of Professors Grosschid, Plósz, Magyary and Illés, but disciplinary proceedings were initiated against all of them. See L. Asztalos, *A civilisztika ...* sgd. p.19.
- ⁵ Last time in the school year 1942/43. Before that, in the academic year 1941/42, Bálint Kolosváry was the lecturer of this subject. See L. Asztalos, *op. cit.* p. 14.
- ⁶ See in this connection in detail ASZTALOS L. : *Op. cit.* sgd. p. 8.
- ⁷ Here we refer to the fact that SZLADITS was also documented of being friends with the eminent legal philosopher Bódog Somló (kindly published by Péter Takács in his „Addition to the commemoration of Charles Szladits” („Adalék a Szladits Károllyal kapcsolatos megemlékezéshez”).
- ⁸ K. Szladits: *The memory of Gusztáv Szász-Schwarz (Szász-Schwarz Gusztáv emlékezete)*. Kecskemét, 1934. p. 9.
- ⁹ For Grosschmid's work see E. Weiss : *Béni Grosschmid*. In *Hungarian Jurists III (Magyar jogtudósok III)*. ed. by G. Hamza. Budapest, 2006. sgd. p. 99.
- ¹⁰ Nizsalovszky E. : *Op. cit.* p. 273.
- ¹¹ Budapest, 1935.
- ¹² Budapest, 1934.
- ¹³ *Festive essays on the occasion of the 30th anniversary of Dr. Károly Szladits' university teaching (Ünnepi dolgozatok dr. Szladits Károly egyetemi tanári működésének harmincadik évfordulója alkalmából)*. Budapest, 1937. 112 p.
- ¹⁴ *Festive papers for the 70th birthday of Dr. Károly Szladits, professor (Ünnepi dolgozatok dr. Szladits Károly egyetemi tanár 70. születésnapjára)*. Budapest, 1941.
- ¹⁵ See also: *Hős az, aki legyőzi a félelmet. Történet egy tolmácsról, aki találkozott a történelemmel [A hero is one who overcomes fear. A story of an interpreter who met history]* (by Dr. Lászlóné Küllői Rhorer). Európai kulturális füzetek, 1987.

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Antal Visegrády

The Alternative Dispute Resolution in Major Regulatory and Indicative Legal Cultures



Summary

After clarifying the nature of the legal culture, the present study examines the operation and effectiveness of alternative dispute resolutions in six European (including English and Hungarian) Islamic, African, Hindu, and Far Eastern (Chinese and Japanese) legal systems. The final conclusion of the article is that a clear rearrangement in the world of legal cultures has begun since the 20th century, in two main directions. On the one hand, Western legal cultures, among other reasons, are more open to exploring and increasingly open to alternative dispute resolutions due to civic dissatisfaction with the judiciary. On the other hand, in Eastern legal cultures, the role of law in conflict resolution is gradually increasing.

Keywords: Legal Culture, Alternative dispute resolutions, European rights, African and Asian Rights

FUNCTIONS OF LAW

As known, one of the functions of law is to interact in shaping the relations between citizens and organizations and in resolving conflicts between them and the state. Law is only one means of social management of conflicts and disputes. Almost worldwide, the circumvention of the law and the organizations applying the law during the resolution of disputes can

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be perceived, and the so-called increased use of informal mechanisms. The reasons for this are manifold, including the flexibility and effectiveness of non-formal dispute resolution. The most important organization of the legal system for dealing with conflicts and disputes is the court. Historically, however, two other types of dispute resolution procedures have emerged (the latter in two forms). One is the agreement of the parties through direct negotiations, possibly with helpers and experts. Another type of conflict resolution is based on the involvement of a third party. Lastly, in some cases it is not possible to choose the parties; they have to turn to a third party or organization who decides on the basis of a predetermined rule (law).

Participation of the law in the resolution of conflicts, therefore, does not mean the monopolisation of the resolution of conflicts by the law. It depends on the traditional legal culture of society, which method of conflict management is most effective and which ones the parties choose. Based on all this, combining theoretical and empirical exploration, vigorously applying comparisons of law in European, Chinese, Japanese, Hindu, Islamic, and African legal cultures, we examine the ways of resolving disputes and their effectiveness.

The ADR (alternative dispute resolution) “movement” began in the United States in the 1970s with the goal of offering more effective dispute resolution alternatives than litigation. ADR is booming these days because it has proven in several ways to be more than just another means of resolving disputes. The ADR has become an institutionalized part of many judicial systems in many countries worldwide. With the development of the ADR, mediation has become a widespread, preferred method of dispute resolution by many because its procedures are less complex and more flexible. Instead of subjecting them to an “external” system of norms, the goal is to find a solution that is acceptable to both parties in a conflict situation that is mutually reinterpreted by the parties.

NATURE OF THE LEGAL CULTURE

The topic of the legal culture is much broader and more comprehensive than the fact that its richness of thought could be perceived in the context of an article as marginal. Linking law to the concept of culture is a relatively recent phenomenon. In the middle of the 19th century, the concept of culture that is still accepted today is that culture means everything that it has created through the physical and mental work of human society. At the beginning of the 20th century, the German Jurist, Kohler (Kohler, 1909) regarded the most important task of law and jurisprudence as contributing to the advancement of culture. For him, law is a creative science and law evolves to satisfy the needs of society. Professor Radbruch (1978), a German professor, defined law as a cultural power, a component of culture. Zjelmann (1900) saw the main value of comparing law in that it allows law to be perceived as a cultural phenomenon.

Legal culture is still an intensively researched terminus technicus. Perceptions can be divided into at least three types. L. Friedman (1997) separates the “internal” legal culture, which means the set of attitudes and values of the legal profession, from the “external” legal culture, which is the attitude and value set of the laity, society.

The other group of authors, such as Nelken (1997) is a proponent of a broader definition. In this way, the law and the tendency to sue are included in the concept. Finally, there are those who suggest a different concept than “legal culture”. Cotterrell (1997) replaced it with the notion of “legal ideology”. According to him, “Legal ideology consists of the elements of value and cognitive ideas assumed, expressed and formed in the practice of the development, interpretation and application of the legal doctrine in the legal system.”

Upendra Baxi (1991) differentiates between “residual”, “emerging” and “dominant cultures”. The first is a remainder of the past, but it is also actively involved in the cultural processes of the present. The emerging culture is associated with emerging strata or groups, but is usually difficult, slow, and subordinate to the dominant culture. Applying this theory to the legal culture, the author emphasizes that residual elements are active, expressing living experiences and even values. The situation of the dominant culture is unstable compared to the other two, the situations may change. There is also a viewpoint that sees a danger in legal culture introducing an anthropological element that is difficult to define into law.

As for the latest developments, the concept of “comparative legal cultures” has emerged, which, according to its representatives, can serve as a primary means of exploring more deeply the connections and interconnections that work in the creation and operation of many factors of law. The evaluation of this new Ianus faced (double sided) trend can be a way out of the uncertain situation associated with the paradigm shift in the field of comparative law, and on the other hand it can contribute to the integration of comparative law into the broader framework of legal history, legal ethnology or sociology of law.

There is a constant interaction and a multifaceted relationship between culture and law, which can be summarized in two basic theorems: on the one hand, law is one of the components of the culture of a given society, and on the other hand, there is no law or legal system that is not influenced by the culture of society.¹

The legal culture consists of the following elements:

- the written law and the law in force (‘law in books’ and ‘law in action’);
- institutional infrastructure (court system, legal profession);
- models of legally relevant behavior (e.g. litigation), and
- legal awareness.²

In broad lines, a distinction can be made between the so-called *regulatory* and *indicative* legal cultures. The former covers Western cultures, where the acceptance of law takes place as a rule of conduct indeed, in a normative sense, but by no means to the same extent. In the common law system, for example the authority of the court is more preeminent than in other countries. However, the European so-called continental legal cultures are not uniform either. To note just two examples: In contrast to the German legal culture, which traditionally values law and is at the forefront of civil litigation in Europe, Dutch legal culture is characterized by the legal term *Beleid* (the English policy), which means following favorable laws and avoiding harmful laws (circumvention). An utmost example of this is that until the enactment of the Euthanasia Act of 1993, according to which medical assistance for suicide is permitted and not punishable in exceptional cases, the Criminal Code had banned it, but the medical practice continued with assistance for suicide. The Dutch are working to resolve their conflicts out of court.

In indicative legal cultures - such as the Asian and African legal cultures - the law is not necessarily normative in the true sense of the word, nor is it perceived as such by society. They traditionally had an informative and indicative significance, and this social attitude is only reinforced by the increase in the number of unenforceable, often symbolic, laws. A separate scientific trend, the so-called "Law and Development" deals with the problem of how modern legal acts and legal institutions are introduced / taken over and function from regulatory legal cultures in the legal cultures in question. The legal culture of the Central and Eastern European region is characterized by a historically developed legal approach, the essence of which is a belief in legal regulation, excessive trust in legal regulation. Simultaneously, there has been and still is an approach to social problems within a certain legal framework. The effectiveness of the law was also influenced by the growing importance of the norms of behavior developed by real processes due to untraceable legal regulations.

At the same time, studies on the legal culture of Hungarian society indicated knowledge and approval of legislation embodying traditional values (e.g. in 1976: 83% of respondents said that an increase in the number of divorces was "unfavorable") (Sajó, 1976). However, the divorce rate is very high in Hungary. All of this sheds light on the contradictions in the legal culture.

To sum it all up, a legal culture that shapes the behavior of organizations and citizens in line with the objectives of the legislation enhances the effectiveness of the law, otherwise it reduces the effectiveness of the law. There is no country with a single, unified legal culture. This is because there are many different cultures in each country, due to the complexity of societies (communities, groups). Another view speaks directly to legal "subcultures". He notes as an example the legal-anti-culture of criminals (Noll, 1972) and the legal culture of law enforcement. The latter is well illustrated by the fact that the courts condemn conscientious objectors in northern and southern Norway, while acquitting them in western and central Norway. Although legal cultures in the same society lead to different behaviors, relevant research has also shown that age, gender, income, nationality, race, and so on, therefore this is why they are correlated with an attitude towards the law.

Legal culture has historically developed just like political culture and the latter influences and may even shape the characteristics and realization of the former. Legal culture is always between tradition and innovation. The development of a legal culture is a long-term process, involving not only intrinsic growth but also the task of nurturing an existing culture. Hence, a legal culture is not only an adherence to what has developed, but also a change for the sake of change.

An interesting and valuable explanation for the development of legal cultures is given by Alan Watson's (1974) theory of transplantation. Many case studies show the mystery and novelty of the similarity of legal development in the most diverse socio-economic formations and legal arrangements from the ancient Middle East to present-day New Zealand, rather than in original ingenuity, rather, it lies in taking over what is already known elsewhere and at most thinking it further. Transferring of law is a universal development factor for the legal system. In his recent work, he explains (Watson, 1978) that his studies of the history of law have convinced him that, since the rulers of the Western world had little interest in the private

law, this task gradually fell into the hands of a non-legislative elite (e.g. Roman jurists, medieval English judges and continental legal professors). These legal developers then developed their own legal culture, detached from social reality, which determined, on the one hand, the parameters of their legal thinking and, on the other hand, the nature of the legal system they considered worthy of lending and the extent of lending. This culture differs from society to society, but it does have common historical characteristics. Thus law and legal culture do not develop mechanically from economic, social and political relations!

We can also give a modern example of all this. In Austria, in 1977, the institution of the ombudsman was taken over from the Scandinavian legal system and transformed into a parliamentary oversight body called the 'People's Advocacy', in accordance with their political system. However, under various circumstances, it has survived its "transposition" into the Austrian legal system and has proved its worth in the meantime.

EUROPEAN LEGAL CULTURES³

In the following, we review the operation of alternative dispute resolution in six European countries, including Hungary, with other researchers working on family mediation and arbitration.

In the Czech Republic, the concepts of arbitration, mediation and conciliation are defined and regulated in the current legislation. Under Czech law, there is no mandatory mediation in either civil or criminal cases. The only binding requirement required by law is the first meeting, which can be up to 3 hours long and involves a visit from a registered mediator. The law regulates mandatory exams for registered mediators. An alternative dispute resolution culture is beginning to emerge in the Czech Republic. The growing number of civil and administrative cases and serious social conflicts all serve as a motivation for the wider practical application of the ADR and mediation, and a sufficient number of professionals is ready to actively support this process.

There is no specific definition of ADR in the Slovak legal system. Various laws include out-of-court dispute resolution, such as mediation or arbitration. Under Act 2004/420, mediation is an out-of-court activity in which the parties have a contractual or other legal dispute, assisted by a mediator to resolve their dispute. Law 2003/550 provides the legal definition of mediation in criminal matters. In this case, by definition, the activity of mediation is an out-of-court dispute resolution process between the victim and the accused party.

Due to the quick rise in the number of divorces and the deteriorating family relations in recent years, another form of mediation has also been enshrined in law. As a means of resolving family conflicts, Law 2004/420 provides for mediation, civil disputes, disputes arising from family relationships, and business and labor disputes, as well as cross-border disputes, in all the legal cases already mentioned. Arbitration is allowed in Slovakia or internationally in property cases (both commercial and private) that are conducted in the territory of the Slovak Republic.

The activity of mediation may be carried out only by a natural person who is registered with the Slovak Ministry of Justice and who carries out this activity in his own name and at his

own risk, for profit, in accordance with the regulations applicable to him. There are currently about 740 intermediaries and 25 centers registered with the Ministry of Justice. Persons who are not restricted in their capacity to act, have a university degree, or have a notarized document certifying that they have received appropriate training abroad, are not on the criminal record, and have completed some special mediation training may register. A university degree is enough to be able to work as a mediator and apply to the list of mediators. Moreover, you must complete an accredited mediation course, along with a special final exam, at a training institution that is eligible to provide such training. In Slovakia, the use of mediation is far from satisfactory. It seems that Slovak citizens find their disputes in mediation less reliable in court than out of court, rather than a court judgment that can be sanctioned and enforced.

The use of the ADR is becoming increasingly popular in Lithuania. Gradually, the notion that a court settlement may be the only way to settle the disputes of disputing parties is fading. In this country, there is the possibility of both judicial and extrajudicial mediation. Mediation is defined as a civil dispute resolution procedure. In doing so, one or more mediators shall assist the parties in resolving their dispute amicably. Intermediary services shall designate intermediaries, ensure an appropriate regulatory framework, and make available the costs and material and material resources available. A third, independent, impartial person shall be involved in the dispute between the parties. The mediator must comply with the mediator's professional experience requirements, confidentiality, and the European Code of Ethics for Mediators. In Lithuania, the ADR is also widely used in disputes concerning the protection of consumer rights.

In Italy, family mediation with its originality stands out among the methods of conciliation, arbitration and mediation. The other model, which is already widespread throughout Italy, is completely cut off from the judicial environment, roughly equivalent to the level of advice. In Italy, there has been no mass application of family mediation in civil matters, and this situation cannot change as the Italians are steadfast in this conservative attitude. However, collaborative law is a real breakthrough in the ADR in Italy. This legal procedure is based on the parties to the dispute participating in the negotiations with their lawyers and, in some cases, with other experts (e.g. financial experts) in order to avoid an uncertain outcome of the court proceedings and to reach an agreement, which best meets individual expectations.

In Hungary, according to the Act 2002 / LV on Mediation, mediation is a special litigation prevention, conflict management and dispute settlement procedure, the purpose of which is to resolve the dispute between the parties not involved in the dispute by mutual agreement of the parties involved in the dispute establishment of an agreement. Act CXXXIII of 2006 deals with mediation in criminal matters and defines mediation and its purpose in different contexts. "It shall be the duty of the mediator, during the mediation, to contribute impartially, conscientiously and to the best of his knowledge to the conclusion of an agreement between the parties." Employees of natural or legal persons are entitled to conduct mediation proceedings from the date of their official registration. In accordance to the Mediation Act, the Ministry of Justice is responsible for the list of mediators. To be included in the contact list, an applicant must meet the following conditions: must have a higher education degree and at least five years of relevant professional experience from the date of obtaining the qualification, must have completed professional training in mediation, must have no criminal record

and must not be subject to a ban on pursuing the profession of mediator. In accordance with IRM Decree 63/2009 (XII, 17), the following professional training must be completed for inclusion in the list of intermediaries: a 60-hour theoretical part with specific content and an completed practical unit that represents a completed, complete mediation case with feedback from the trainer. Natural persons are required to undergo continuous professional training. Continuing education takes place in consecutive continuing education periods of five years.

In Hungary, various forms of the ADR are used, such as community issues, child protection and family matters, conflicts in the education system, labor and trade disputes, and criminal matters. Along with bottom-up activities, top-down initiatives are needed to support the ADR culture at the societal level. Further steps are needed to harmonize the different ADR specifications and services to facilitate their joint application. Despite the fact that the ADR had historical antecedents in Hungary (e.g. large family court, Romani court), there is a strong propensity to sue in Hungarian legal culture, which indicates the importance of the court as an institution involved in resolving legal disputes. All this draws attention to education, as the socio-cultural competence of those “involved” in the debate is also needed.

Henceforth, we turn to the presentation of British alternative dispute resolution. The Ministry of Justice is responsible for civil and family mediation policy and promotion of mediation in England and Wales only. In order to ensure the proper quality of mediation in civil disputes brought before a court by a mediator (with the exception of family law disputes under the jurisdiction of England and Wales), the Department of Justice and Her Majesty’s Courts and Tribunals Service have set up two civil mediation procedures, which allows the parties to settle their disputes, depending on the value of the claim. The Small Claims Mediation Service is an internal service operated by the HMCTS for small claims cases, usually under £ 10,000. For cases with a higher value (above £ 10,000), the Department of Justice, in co-operation with the Civil Law Mediation Council, has set up an accreditation system through which organizations providing mediation services can apply to be entered on the civil mediation register and the courts before them refer to the parties. The CMC is an organization representing civil and commercial law intermediaries. In the case of family law mediation, self-regulation applies, and mediators can join a number of membership-based organizations or accreditation bodies.

Mediation can settle a number of everyday civil and commercial disputes, including housing issues, business and workplace disputes, small claims and other claims, land boundary disputes, labor and contractual disputes, personal injury and negligence claims, and intra-community disputes such as harassment or harassment issues. Civil mediation is not regulated by law and is not a prerequisite for court proceedings. However, parties to civil lawsuits are required to seriously consider the possibility of mediation before going to court.

The practice and procedures of the civil chambers of the Court of Appeal, the High Court, and the County Courts are governed by the Code of Civil Procedure (CPR). The primary purpose of the CPR Code of Conduct is to assist courts in the fair judgment of cases. Part of this primary objective is that the court should actively deal with cases. In this context, the parties concerned should be encouraged to use alternative dispute resolution, if the court considers this to be the appropriate procedure.

Although the use of mediation is entirely voluntary, the Code of Civil Procedure sets out the criteria to be followed in deciding on the costs to be assessed. The court should take into account any efforts made before and during the proceedings to resolve the dispute. Thus, if the successful party has previously refused to accept a reasonable proposal to use mediation, the judge may decide that the losing party is not obliged to reimburse the successful party's costs. Mediators in England and Wales are not bound by a separate code of conduct at a national level. However, CMC accreditation is conditional on the civil mediator complying with a code of conduct modeled on the European Union Code of Conduct. It is not the job of the professional regulator and the government to encourage compliance with any voluntary code. There are no national training bodies for civil law mediators in England and Wales. The training of civil law intermediaries takes place in the private sector, in a self-regulatory manner. Profession regulates itself and trains its members itself.

If the parties to a civil dispute before a court have reached an agreement as a result of mediation, they can ask the court for judicial approval of their agreement. If the court finds the agreement reached fair, it approves it. This makes the agreement a legally binding and enforceable "agreement".

MUSLIM LEGAL CULTURE⁴

Islamic law, as a source system of religious law, bears a strong resemblance, often similar to other similar legal systems, primarily Jewish and Zoroastrian law, but is also fundamentally identical to the source system of Hindu law. A common feature of these legal systems is that the basic rules are derived from their Qur'an. Traditional Islamic law (sharia) is enforced by the Qadi through its decisions; however, there are other dispute settlement procedures in addition to it.

In early Islam, the procedure of the market inspector (muhtasib), who investigated fraud, abuse, and non-payment in the markets, was important. It deviated from the Qadi's procedures in two important respects: the market inspector could also act *ex officio*, and the purpose of the procedure was intimidation, so the use of force during the procedure did not count as an infringement or exceeding the competence. Later, the market supervisor's task extended to the moral supervision of the community's life and they could take action against conduct that violated Islamic standards. Although he had a connection to religious law, he did not follow the rules of his Qadi procedure. Another long-established actor in Islamic law is the Mufti. The mufti can be defined as a jurist, his task is to make theoretical decisions and make fatwa. Anyone who is unsure whether a particular act is correct (halal) or forbidden (haram) can turn to the Mufti. The Mufti's procedure also differs from that of a Qadi in important respects: while a Qadi can only be a physically healthy, free, Muslim man, a Mufti can be a handicapped person, a slave, or a woman who can make decisions. Another difference is that there is no direct coercive force behind the mufti's decisions, while in the case of qadi's judgments. To this day, muftis are important players in the legal system, and their decisions can even legalize or prevent state acts. As anyone can turn to them with questions, cases awaiting resolution can now be posted on online forums, where answers can also be read, making it easier for Muslim people to find justice.

In a system of law on which the revelations of Allah are based, the Qur'an has the first place in the hierarchy of sources of law. The Qur'an does not see itself as a code, merely as a guideline. In the Qur'an, approximately there are 350 poems with legal content. At the same time, the mediation already appears in the Qur'an: "And if you fear dissension between the two, send an arbitrator from his people and an arbitrator from her people." (Q- 4:35). "If two parties of believers fight each other, make peace between them; then if *after that* one of them transgresses against the other, fight the party that transgresses until it returns to the command of Allah. Then if it returns, make peace between them with equity, and act justly. Verily, Allah loves the just. Surely *all* believers are brothers. So make peace between your brothers, and fear Allah that mercy may be shown to you."(Q- 49: 9-10).

One of the most important battles in the Arab and Islamic history was in Siffin which was fought not only by weapons, but also by arbitrators. Typically, Upper Egypt and the Sinai Peninsula are still inhabited by large-scale communities, with minor or more severe conflicts. The oldest and wisest members of the families are called upon to resolve them through negotiations, if they do not wish to apply to a state body, the police or a court. The problem arises when a member of a community commits an offense against another member of the community that the state must take action against, like homicide. The perpetrator then receives his/ her punishment (imprisonment) under state law, however, the community nevertheless acts against the opposing community on an "eye for an eye" basis (which has also been applied to this day) and the endless bloodshed begins. Conflicts between communities can be ended if someone from the murderous community "offers his soul," that is, appearing in a white funeral shroud in front of the hostile community (they can kill the person, but they do not), ending the hostility, but because the offering he can no longer be a valuable, esteemed member of the community. So this is an ancient, traditional form of mediation that lives on to this day.

Malay customary law belonging to the Muslim legal culture tried to make it difficult or to prevent divorces, especially those that have been pronounced hastily. Therefore, if a man wants to divorce his wife, he must first hold a small ceremony, the name of which is Besuarang, to which he must invite his and his wife's relatives. Here he presents his grievances and explains the reasons that led to his intention to divorce. At this point, the guests, especially the elderly, get involved and, through mediation between the parties, try to re-establish harmony and avoid a divorce. Divorce can ultimately only take place if the mediation does not lead to any results.

AFRICAN LEGAL CULTURE⁵

Today's legal systems in Black Africa are pluralistic, as most of them have three coexisting sources of law:

- customary tribal law,
- colonial law (English, French, Dutch, Belgian, Portuguese, Spanish law), and
- a right created since their independence (the former French colonies, for example, issued more than 100 codes).

The “most massive” of the three is the tribal customary law, which spread through oral tradition and was based on fear of the supernatural forces and public opinion. Breaking the custom risked people reaping the “wrath of the earth,” the most serious consequence of which could be expulsion from the community. Their interest was focused on the group rather than the individual, the cohesion of which was the most important goal, so, for example, obligations pushed individual rights into the background.

A member of an African tribe lives his entire life with the same people, usually with close or distant relatives, and can only achieve all their goals if it is done together with the relatives. Together, they raise, educate, teach their children and make a living together, and form the same political group and religious community. If someone breaks the “law” in any way, it causes confusion that causes chaos over all the other activities.

If in such a small group two people quarrel over the possession of a certain piece of land or cow, it can cause social mayhem or, worse a split in the group, which can lead to the disintegration of the group. The task of tribal judges is not only to determine who is right, but also, in general, to restore the shocked social balance for the survival of the tribe. They must not only decide the case before them, but also reconcile the litigants, while preserving the general principles of the law. This dual goal of enforcing the law and reconciling the parties is the best proof that the principle of natural truth is indeed to be found in Africa.

All of these are well exemplified by an incident in the Tiv tribe in Nigeria. Once a man fell from a tree and fell on another clan member who died, however, the member who fell had no injury. The killer’s clan immediately offered compensation, but the victim’s clan did not accept this and insisted on killing the culprit. As their claim was not waived, this right was also recognized by the tribal judge; but according to the principle of the Talio, the sinner had to be punished in the same way as he sinned. The judge, therefore instructed the killer to walk up and down under the tree, and sent the victim’s relative to the tree to fall from it again and again until the killer got his punishment. This judgment did not bring reassurance to the plaintiff, even though the other relatives of the murdered would have been satisfied with the compensation by then, the judge said that they had already lost their right to do so. Anyone who once refuses to resort to a more compassionate remedy cannot expect lighter treatment, even when the situation turns unfavorable for the person.

According to the most competent researchers, 80-90% of the African population still follows the old way of life and refrains from any modernization movement. In fact, they continue to follow former customary law and prefer traditional arbitration, or even conciliation, over state courts.

HINDU LEGAL CULTURE⁶

Hindu law is the right of a community in India and other countries in Southeast Asia that professes to belong to Hinduism. For Hinduism, there are only “people” who are classified by the social category to which they belong. People belonging to different castes have specific rights, duties, and even morals, and it also means a defined hierarchy between different categories.

The rules of human conduct are explained by the Sastras, one of which is Dharma. It is based on the belief that there is a universal order inherent in the nature of things that is necessary to preserve the world, and that the gods are only guardians of that order. Dharma expresses the eternal laws that sustain this world. At the heart of dharma is the idea of duty, not law. It dictates to everyone how to behave if they want to be a decent person and care about the afterlife. The duties thus imposed vary according to the circumstances of each person and the age of the individual, and are particularly strict for senior people.

The explanation of dharma can be found in the manuals called dharmasastras and in the brief commentary on these manuals, the nibandhas. Because dharma is incapable of regulating worldly life alone, there are two other sources of Hindu law: custom and fairness. Legislation and judicial precedent are not considered sources of law by dharma and Hindu theory. Judicial organizations may well be established in Hindu law, in the realms and kingdoms of traditional times, yet the reconciliation and conciliation remained the primary means of resolving disputes. This characteristic is related to the fact that the great traditional Eastern cultures, precisely in order to maintain the conditions smoothly and harmoniously, give less importance to the individual and give priority to duty over entitlement.

A number of bodies acting as courts in civil matters could pass judgments, which could be judged by their own law and not by the power delegated by the ruler. The Kula was a kind of family court that ruled on disputes between family members. The Shreni was a court of the same trades ('guilds'), which also had judicial power over its members. Craftsmen, peasants, creditors, dancers, etc. had such courts. It is likely that these bodies dealt primarily with arbitration between members, and their decision should be seen as a compromise proposal rather than a court ruling. Either party had the right to appeal against the aggrieved decision to the ruler, who, however, rarely acted in person.

Although it is not our job to present the strife management of Hindu religious culture, we will touch on it briefly. There are a number of principles that apply to the treatment of strife between a devout and a non-believer, both in prevention and in the aftermath of the strife. In the Hindu conception, conflict prevention and education play a more prominent role. Many principles apply to conflicts between people of different religions, as well as to conflict resolution between people of the same religion. By way of example, the Krishna-believing tradition sees the prevention of strife as the practical realization of loving relationships based on forward-looking and mutual respect between fellow believers.

Let us just mention that even in the Burmese conception of law belonging to the Hindu legal culture, mediation, compromise and the peaceful settlement of disputes were thought to be more important than formal litigation and the conduct of a given case.

THE LEGAL CULTURES OF THE FAR EAST⁷

We get a very varied picture of the countries of the Far East, whether we look at their history or their current situation. From this diversity, we believe that, at least from a European perspective, some features can be identified that are characteristic of the entire Far East. Unlike the West, the peoples of the countries of the Far East do not build the foun-

dations of the order of society and justice. Although there is a right there, it has only an ancillary function and a very small role. People only go to court if they apply the law only if the contradictions cannot be eliminated otherwise and the disturbed order cannot be restored in any other way. The solutions of the law and the use of violence resulting from them are most deplored. The social order rests primarily on the methods of persuasion, the mediation process, and on the one hand the vigilance of the constant self-judgment, and on the other hand the spirit of temperance and reconciliation.

Until 1853, Japan, one of the most important countries in the Far East, had no connection with the West, much less with China. There are many historically developed rules in Japanese society that have the origin of decency rather than morality. They regulate the behavior of people so that they must witness to each other in every situation that occurs in their life. These rules of conduct which are similar to Chinese rites are called *Giri*. The mother, son, husband and wife, brothers, owner, creditor, debtor, etc. they all have their separate *giri*. The *giri* replaces the law, and to some extent the moral order, and is followed voluntarily, because by not keeping the *giri* it would provoke the disapproval of society, which would be shameful and destructive to the Japanese. For a respected Japanese man, the law is an undesirable, and even despicable, something to be wary of as far as possible. In a word, the Japanese do not like the law. The Japanese prefer the personal, the concrete, the unique; their round emotional attitude is violated by the angular, rational nature of the law and court proceedings. Japanese society is built on the spirit of *Wa*, which is a peaceful unity and conformity in a social group. There is no place for debate in such a society.

The Japanese, if possible, do not engage in litigation because it is simply incompatible with the traditional Japanese character. However, there are other historical reasons why courtrooms are avoided. Firstly, social stability and the rule of *on-giri-ninjo* provided relatively few opportunities for legal intervention. Secondly, pre-modern Japanese codes were made available only to court officials, and only they could rotate them.

In Japan, even before the pre-trial phase, the first form of conciliation, *jidan*, is used, in which the police play a major role. If the mediator is unable to settle the dispute amicably, the parties will go to court. Throughout the proceedings, the judge must endeavour to reach an agreement between the parties and withdraw from the proceedings (Section 136 of the Japanese Pp. States this). Moreover to this procedure, called *wakai*, it is possible to use a conciliation committee, the *chotei*, to propose a way to reach an amicable settlement. For the sake of appearance, a judge of that committee is not taking part in the proceedings, so that the dispute may appear to have been settled by agreement between the parties, with the successful participation of the two conciliators.

Under current Japanese law, there are two *chotei* procedures: the *kadsi-chotei* for family cases, which is used in family courts and has some special features, and for the civil cases, and the *mindzote*, which is used in all ordinary courts. Every year, 20% of disputes brought before the courts are subject to *chote* proceedings.

According to the Japanese literature, *chotei* is really only a real alternative to legal proceedings for those who have a fairly high level of legal knowledge and good advocacy

skills. At the same time, the Chotei still plays an important role in the judiciary - with its economy (court labor savings, procedural fees). Since 1974, lawyers and non-legal professionals have been the main sources of recruitment and there is an opportunity for selected mediators to receive training.

The conception of the social order in China, which is based on tradition and developed free of all foreign influence until the 19th century, is in stark contrast to the Western conception. The basic idea of this conception, regardless of any religious dogma, is the postulate that there is a cosmic order that interacts between heaven, earth, and people. Whether there is order or disorder in the world depends on the behaviour of mankind as long as they can control their actions, obeying the immutable laws of the Cosmos.

Secondly, the necessary harmony means harmony between people. In social relations, the idea of reconciliation must prevail, and consensus must be sought. Conviction, all kinds of sanctions and decisions made by the majority must be avoided. Disputed affairs should be “resolved” rather than solved and decided. Solutions must be accepted voluntarily by everyone on the basis that they consider it fair. These solutions must not make anyone feel that they are losing their authority. Education and persuasion should come to the fore, not violence and power.

It is a highly respected tradition among the Chinese that a sense of humanity (ching) should be considered first in resolving disputes, rites (li) and rationality (lii) in the second place, and law (fa) should be referred to only last. Today’s Chinese law distinguishes between out-of-court mediation by popular mediation committees and out-of-court mediation by the lowest government judiciary from conciliation within mediation (conciliation). People’s mediation is partly separated from official mediation, where the latter includes mediation by judicial clerks and court mediation. In-court mediation is only required as a procedural condition in divorce cases. Otherwise, with the consent of both parties, mediation may take place as an out-of-court proceeding. If the mediation by the People’s Court fails, the judge who previously conducted the mediation must make a judicial decision in the case immediately. From 2004 onwards, it is possible, with the consent of the parties, for the court to entrust certain bodies or persons with the mediation of the case, and any settlement will be recognized by the court.

Hence, in the Chinese dispute settlement system, traditional mediation, as well as official and court mediation, near-court mediation and court litigation, operate on the one hand - and take a huge burden off the courts in terms of numbers.

The institutional system of mediation committees is structured as follows and linked to the system of government in the metropolitan and rural areas. In the urban area, the highest level is the city government, with subordinate district governments, street offices, and at the lowest level, residents’ committees. In the countryside, the province is the highest level, followed by the county, municipal and small town administrative levels, and the lowest level of the hierarchical chain is the village committee.

The Chinese government regularly provides data on the mediation. According to the 2002 yearbook, 4,636,139 civil disputes were brought to mediators. According to the 2003 Yearbook, 95% of mediated cases were successful in the first three quarters,

although only 70% of the parties stated that they would follow the agreement. In 2003, 139,000 quarrels were prevented, including 19,110 suicides, involving 2,546 people, preventing them from becoming criminal affairs in 45,895 civil quarrels, preventing 126,372 people from fighting, and being involved in gang armed fighting, and preventing group petitions in 41,518 cases, affecting 1,166,417 people. In addition to modernization and the transformation of traditional society, these experiences also play a role in the shift in conflict management towards law and justice, which can be traced statistically, despite the aforementioned embellishment data.

While in 1981 673,926 civil court cases were pending against 7,805,400 mediation cases, by 2006 there were 4,385,732 civil court cases in 4,628,018 mediation cases, so the proportion of the two types of conflict management has almost completely levelled off.

In Asia, the Chinese legal culture is a dominant culture that developed its own conception of law, politics, and society on which the normative structure was built, and then through the export of this complex world, similar solutions emerged elsewhere, with local variants. In particular, it fundamentally influenced Korean and Vietnamese legal thinking, which was nuanced, even modified, by local traditions, but could neither be superseded nor exalted.

If we look at Vietnamese society, it is still not characterized by legal-based thinking, which for many centuries has become accustomed to the law being best regarded as a command of state power. Other means, especially illegal ones, must be used to resolve social conflicts and goals. In this way, legal conflicts are still not resolved primarily in court, but through a system of mediation and coercion in social relations and networks.

As for the other country in China's legal culture, Korea, like Japan, the laws were kept secret and not even made available to members of society. As a result, the law had virtually no social esteem, even less than what is experienced in China.

In criminal cases, they sought to reach an agreement and exclude formal proceedings, which led to the law penalizing private agreements to be condemned, as revenge was considered a moral obligation in the case of the killing of a close relative following the Confucian model. In Korea, *hyangyak* is the institutional mechanism for resolving rural conflict. The meaning of this is a community treaty, an agreement, and its essence is to strictly enforce the Confucian morality again. *Hyangyak* also includes the behaviors expected of members of a given community (village) and their punishment, but left the jurisdiction not to the royal officials but to the local elite, the *yangban*. So the conflicts were resolved locally, thus they were quickly resolved, they remained in place, and much was done for the broad representation of generally accepted Confucian morality.⁸

As a final conclusion, it can be deduced that a clear rearrangement in the world of legal cultures has begun since the twentieth century, in two main directions. On the one hand, Western legal cultures, among other reasons, are exploring and increasingly open to alternative dispute resolution due to civic dissatisfaction with the judiciary. They sort of discover and are open towards the alternative dispute resolution ways. On the other hand, in Eastern legal cultures, the role of law in resolving conflicts is gradually increasing.

NOTES

- ¹ D. Nelken (ed.), 1997.; Kulcsár K., 1997. 129-148.; Péteri Z.: 2010. 80-92.
- ² Kondorosi F – Maros K. – Visegrády A., 2008. 12.
- ³ Mercz E. – Aradi E. – Posch E., 2011-2013.
- ⁴ R. David – C. Jauffret-Spinozini – M. Goré, 2016. 369-393.; Glenn, 2004. 170-221.; Bányai F. – Nagypál S., 2014, 119-132; Jany J., 2006.; Visegrády A. 2021, 93-96.; U. Kischel, 2019. 789-852.
- ⁵ R. David – C. Jauffret-Spinozini – M. Goré, 2016. 481-516.; J. Murungi, 2013; Varga C., 2000. 139-156.; Visegrády A., 2021. 101-104.; U. Kischel, 2019. 631-674.
- ⁶ R. David – C. Jauffret-Spinozini – M. Goré, 2016. 395-428; Bányai F. – Nagypál S., 2014.; Jany J., 2006.; Visegrády A., 2021. 91-93; U. Kischel, 2019. 752-773.
- ⁷ R. David – C. Jauffret-Spinozini – M. Goré, 2016. 429-479.; J.M.Smits (ed.), 2012. 137-139.; Jany J., 2016. 396-521.; Jordán G., 2008; Kondorosi F. – Maros K. – Visegrády A., 2008. 109-142.; Bányai F. – Nagypál S., 2014.; U. Kischel, 2019. 675-751.
- ⁸ C. Kuk, 2010.

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Katalin Bella

Organization of the State and Party Supervision of Book Publishing in Hungary 1948-1956



Summary

After the Second World War, Hungary was forced into the sphere of the Soviet Union, which was accompanied by the introduction of a socialist based planned economy, the merger of state and party control, and the establishment of a one-man leadership. The author interprets the place and role of book publishing in the cultural policy of the period between 1948-1956 (also called the Rákosi era after the all-powerful leader) and aims to present the institutions governing book publishing. Due to the nature of basic research, the work relies primarily on archival research. The archival corpus that can be included in the research is vast and divergent, containing documents on cultural management and literary policy more broadly, from official provisions to more confidential records. The study examines the cultural governance organization of the dictatorship and its practical operation through a specific segment of the system, the operation of censorship of book publishing, and also demonstrates the organization of state and party supervision of publishers was a paramount task between 1948-1956.

Keywords: A monopolization of the institutional system of book publishing, literature-based ideological state and party governance, censorship

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INTRODUCTION

My study summarizes¹ the development of the publishing supervisors and the management through these institutions. The publishers were among the institutions of the ideological sphere, and the organization of their state and party supervision was one of the most important tasks in the period between 1948 and 1956, marked by the name of Mátyás Rákosi². The transformation of the cultural institutional system began in the spring of 1948, and the Hungarian Workers' Party (MDP) brought cultural policy under its control step by step, which naturally was accompanied by the gradual monopolization of the cultural institutional system (Sárközi, 2009: 57). The leadership of the MDP (Hungarian Workers' Party) carried out radical profiling at the highest levels: the Ministry of National Education, informally known as the Ministry of Ideology, was established, and under the supervision of József Révai, the press management, free culture, the film and theatre professions and the book profession were included.

A striking feature of the transformation that began with the year of the turnaround was that intellectual politics gradually narrowed into a cultural and literary-centred ideological control. Simultaneously this meant that literature was described as of being an immeasurable exaggeration and that, in fact, its independence and freedom were greatly reduced.

Changes in the rigor of literary management have also determined the room for manoeuvre of the book profession, as politics, if not chosen to use the most extreme intimidating means, could steer a writer in the direction of expected intellectual behaviour by publishing or banning their works. Book publishing can be considered as an extension of the current literary policy, so its treatment is perfectly summed up in the quote attributed to Béla Köpeczi, according to which "The ÁVÓ (The State Protection Authority) will be given in consignment sooner than book publishing!". The history of the authorities governing book publishing begins in 1948, after a year of change, with the process of nationalizing the book profession. It includes the organization of the National Publications Office, the operation of the Literature Department of the Ministry of National Education, the establishment of the Publishing Council and the organization of the Publishing Directorate-General.

THE NATIONAL PUBLICATIONS OFFICE

Organization of the Publications Office

Until the summer of 1948, there was no independent supervisory body for book publishing, it was managed by the press department of the Prime Minister's Office. One of the committees of the MDP (Hungarian Workers' Party), the State Propaganda Committee, was the one that formally submitted a proposal that the ideological governance of the book industry should be resolved by setting up a committee modelled on the best practices of radio and film party committees.³ The proposal became a decision, so the Book Committee was established for the principled management and coordination.⁴ In addition, the General Council of Economy has decided that the new state publishing organization should be operated under the name of the National Publications Office, as an unregulated but obvious censorship forum for book publishing. The

head of the publishing house, György Vértes, was asked to organize this (Varga, 1985: 108-109).

The most important of his duties was to control and manage the nationalized printing companies under the supervision of the Party's Book Committee, so that the guidelines of literary policy prevailed in the further operation of publishers and prevented publishing of books.⁵

Thus, with the decision establishing the National Publications Office, the basics were in place, but only the basic, the organization belonging to them, the real structure of the National Publications Office was not yet, however the Book Committee functioned as if the Publications Office made its decisions (Varga, 1985: 110-111). Simultaneously with the establishment of the National Publications Office, the General Council of Economics and the Book Committee decided that in order to further develop Hungarian book publishing, it considered it desirable to maintain the publishing companies with their own profile.⁶ This trust-like reorganization, or de facto "separation," was finally ordered in January 1949. This is how the Révai National Publishing Company (NV), Franklin National Publishing Company, Athenaeum National Publishing Company, and the Hungária National Publishing Company (Varga, 1985: 134) were established. The task of the Publications Office was therefore to comprehensively take over, reorganize and manage the publishers who had become publicly owned, and to "break into the state oath". The task was not difficult because "the foals were gentle."⁷ It was also a matter regarding authorities. A book could only be published if the licensing stamp was affixed to its manuscript. The licensing stamp was handled by the press department of the Prime Minister's Office which either permitted or prohibited. This power was conferred on the Publications Office in 1948. The implementation became the responsibility of Sándor Lukácsy, the head of the review department of the Publications Office, who eventually performed censorship duties. According to the memory of many: he became the lord of life and death in literature, which only partially corresponds to reality,⁸ ⁹since it was primarily the politics that decided.

Already in the time of the Publications Office, it can be seen the writers were treated differently throughout the period under discussion: those in power felt insecure, so they wanted confirmation, and they found support in the writers and artists, who were often inclined to the role. Many thought that transformation could only be started from above, at the initiative of the authorities (Standeisky, 1996: 11). At the same time, however, there was a kind of constant a priori suspicion of the creative sphere.

All this, even though the organizational framework began to take shape, meant that there was no, or did not actually put into practice, a document or plan of principle that would have defined what was actually accepted for publication and what was not left in the hands of readers.¹⁰ The objection to the manuscript was not a real problem with publishability, like an aesthetic or efficiency counter-argument, but the problems with the manuscripts were largely voluntarist, determined by those actually in charge of publishing.

Difficulties in the operation of the Publications Office

Based on what has happened so far, it may seem that the Publications Committee and the Publications Office have taken over and started publishing books at lightning speed, but it was quite difficult. The first problem was caused by sudden, ill-considered measures, making decisions without a real background.¹¹

The second is that the real decisions were not made by the Publications Office but by the Publications Committee.¹² However, the real role of the Publications Committee could not have been known to the general public, yet the publishers of the book were aware of it. No statement was made to inform the public that the evaluation of the books to be published did not fall within the competence of the Prime Minister's Press Department or that the evaluation was not actually carried out there. However, due to weaknesses and errors of human nature, the actual role of the Publications Office and the Political Party Publications Committee became public: according to archival sources, the participants in the organization passed on its existence in confidence, and the list of members of the non-existent Book Committee. However, an honorary copy had to be sent to the members, and then one of the publishers, making a protocol error, appeared in solemn form with the committee before the Book Committee, causing a scandal, and so on.

The third pitfall was that the competences of the Publications Office overlapped with those of bodies whose work it was already formally supposed to do, but whose status meant that the formal transfer had not taken place: with the press department of the Prime Minister's Office.¹³ Even without full authority, the office maintained constant contact with the publishing departments of the nationalised printing houses, summoned their managers to meetings, gave advice and instructions on the choice of publications, made the publication of a particular publication subject to its approval, examined the publishers' stock of youth books and, on the basis of the lists received, stopped the sale of certain youth publications,¹⁴ also those that have just been approved by the Prime Minister's Press Department.¹⁵ The persistence of overlapping responsibilities between the Press Department of the Prime Minister's Office and the Publications Office shows that the Publications Office was not even able to perform its most basic function, even though it was set up precisely to manage the book publishing of nationalized publishers.¹⁶

The fourth difficulty was that the Publications Office was unable to plan ahead due to illegality.¹⁷ This was a problem in very sensitive areas, as during the three-month organization period, the Publications Office would have been primarily responsible for market organization, in addition to intellectual management, which it could not do without a formal mandate. A poorly organised managed book market¹⁸, where "patronage" should have been provided by the General Economic Council, were blamed solely on the failure of the Publications Office, saying that since the Council of Ministers had still not legalised its operations, it could not inform the book market operators of the plans it had in place, should the Council of Ministers legalise its operations, to balance the slowdown in book buying with the organisation of the market in other directions.¹⁹

Lastly, the deterrent effect of personal problems should be detailed. György Vértés, who received the high dignity of the management of the Publications Office, but soon became "undesirable", according to the official version, because instead of carrying out his work according to the decision of the Publications Committee, he started to build an independent apparatus (Varga, 1985: 111). In hindsight, it is difficult to decipher how much the dislike of Vértés exacerbated the actual organisational problems, and whether this or the earlier difficulty was more real. The problems relating to György Vértés himself can be summarised

as follows: one of them may have been that he belonged to György Lukács's circle (we are already well after the Lukács controversy²⁰): Lukács got him an editorial chair, they maintained friendship, went to meetings.²¹ The other one was that he really wasn't really fit for a leadership position: he was considered an incapacitated leader.²² The third problem may have been a series of personal conflicts.²³

As a result, at the end of 1948, the party's Agitation and Propaganda Committee (APB) decided to investigate the affairs of the Publications Office and ruled on the matter. At its meeting on 14 December 1948, it noted that the organization, financial and economic conditions of the Publications Office were in the greatest state of turmoil. The days of the National Publications Office were already numbered, it could not become the real governing body of the book industry.²⁴ Although it did not last very long, the National Publications Office left quite vivid memories in the memory of the writers. Sometimes it really helped a young author get started.²⁵ However, the authors mostly emphasize their²⁶ censorship, ²⁷but it is striking that they have no knowledge of the real power and background work of the Publications Committee.²⁸ The competence of the disbanded National Publications Office and a part of its staff were taken over by the Ministry of National Culture established at that time.

THE MINISTRY OF NATIONAL EDUCATION

The peculiarity of József Révai's leadership style was that he wanted to act as a reform dictator until 1953, using a conciliatory and aesthetic method (Kalmár, 1993: 715). His logic of power was not only governed by directives and administrative methods, but also acknowledged the interplay between the legitimation processes (Kalmár, 1993: 725-726).

Révai used three methods of exercising power:

- revelations made or published at national forums or other important occasions;
- his positions on specific issues, which have become the limits and reference points for dialogue between the political leadership and the intelligentsia; the three most important debates he created and directed were the Lukács debate, the architectural debate and the Reply debate;
- the literal 'hand-waving', namely, personal manipulation, i.e., the need to seek advice and opinions on everything, and when this is not done for whatever reason, decisions are delayed by uncertainty (Bolvári-Takács, 2002:16).

To create a legitimizing ideology, Révai used the first two methods, and manual control prevailed on two "levels": on the one hand, he manipulated writers differently, and on the other, he intervened personally in book publishing, operating with whip and honeycomb tactics (Standeisky, 1996: 26).²⁹ In the meantime, the "regular" channel of service, the Ministry of Popular Education, functioned as the "official" contact with the Minister of Culture. Of course, Révai also "used" this in addition to direct control, mostly employing the ministerial apparatus in the preparation of plans and bureaucratic approvals, i.e., manual control was also exercised through the state administration factor.

The Ministry was created on 11 June 1949, taking over the supervision of cultural affairs from the Ministry of Religion and Education. The Minister of Popular Education was res-

possible for matters transferred from the competence of the Minister of Information to the President of the Council of Ministers; the Hungarian Central News Agency Ltd. (Magyar Központi Híradó Rt.) of the Ministry of Information; the affairs of the state theatres and the artistic entertainment establishments of the regional municipalities (public authorities); the affairs assigned to the National Film Office; the affairs of general arts policy; and the supervision of the Liszt Ferenc Academy of Music, the National Hungarian College of Drama and Film, the College of Fine Arts, the College of Applied Arts, the music conservatories and music schools; the supervision of the cultural affairs of social organisations; the supervision of the affairs assigned to the National Library Board; the supervision of the public libraries. Révai maintained the supervision of the presidential, audit, personnel, literature and film departments (Bolvári-Takács, 2011: 16-19).

In the case of the Ministry of Culture, I will not discuss anything other than the ideological regulation that the plans were intended to implement, because this was the main task of the Ministry, although the inextricably close interconnection of the period inevitably brings up the specifics of Révai's other cultural management procedures.

The power mechanism of the 1950s had as much of an impact on the natural evolution of the publishing process as possible. The superiors intervened at the very beginning, trying to determine what works the authors would offer for publication, and which of these publishers to accept and reject, so the publisher was not independent from the beginning. In order to sign the contract, a ministerial permit had to be requested, and a plan sheet with a short summary had to be submitted, even if it was a first-volume "schematic" young man, and even if it was about Illyés. If a position was taken in favor of the release, the contract was approved two to three weeks later.

When the work was finished, several people read it, reporting back in a detailed editorial report. On the basis of these, a very detailed editor's report had to be written, signed by the editor, the supervising editor, the workshop's literary manager or head of proofreading, the authorisation form by the director, and then the whole package was sent to the ministry. If there were no objections, the authorisation form was returned with the stamp, without which the printing house in Hungary could not accept manuscripts.³⁰

In addition to / over there was the general regulation of the whole book publishing process: planning. The general, forward-looking and continuous preparation and control of the annual plans was intended to ensure the ideological foundation of book publishing and the creation of an ideological framework. In these plans, the prevailing view of the socialist realist worldview was centrally prescribed, but without any attempt being made to describe precisely in appendices and background documents how this would be feasible. Instead, the list of works to be published was adapted to current party politics and cultural policy ideas by prescribing thematic proportions.³¹ These strict thematic proportions had to be observed in the following topics: the classics of Marxism and Leninism, political literature, Hungarian literature, Soviet literature, literature of the People's Republics. In contemporary Hungarian literature, the most important sub-themes were, for example, "the struggle for peace against imperialism and its agents", "our people's army is the guardian of peace", "our revolutionary traditions", "the struggle of the working class for socialism", "the building of socialism in the countryside", "criticism of the past".³²

Publishers were also required to prepare their own plans during the year: as required, semi-annually, on a quarterly basis. Here, the works that had already been submitted for approval were presented by the publisher with a detailed description, and then these plans also had to be sent to the party headquarters with the intervention of the ministry for approval. Here, the authorities compiled the annual plans for publishing the books by summarizing these publishing plans and tailoring them to ideological ideas. The plan for the following year was often preceded by a document summarizing the situation for that year, against which new rates were set. Managers of book publishing expected that publishers achieve significant results in terms of both numbers and content, and work in this area was a key issue for the entire company.

Although for ideological supremacy, design itself was more important than product. The plans were debated at the party headquarters, positions were held, planning meetings were held in the ministry and elsewhere, where the simple editors were not official, only the directorate. The Plans were constantly being refined, fine-tuned, these imaginary ratios were created, but never was the annual book output compared with the preliminary plan. They didn't care, the reality was obviously a handicap, but ideologically everything seemed to be in order, except for the scandals, which were unpredictable.³³

There was some improvement between 1953-56,³⁴ but then a new tool emerged as a covert mode of control: paper frame allocation. In the following years, the paper framework, which is a more indirect management tool, played an increasingly important role in the regulatory mechanism of expenditure policy in the following years. Paper shortages were a constant problem in the 1950s. The amount of paper was set by the National Planning Office for publishers. The superior bodies of book publishing also tried to determine the desired level of publicity for each work or category by controlling and restricting the supply of paper, i.e. the number of copies of books was not an economic issue but a matter of political consideration. The definition of the paper quota is already included in the implementation of the plan for 1953, but from 1954, 1955, and 1956, it had really become an indirect governing tool of publishing planning, the covert implementation of cultural policy intentions.³⁵ All this took place under the heading of economy, which at first was rather demanded from publishers only verbally, but later became a real compulsion for them. Obtaining the right amount of paper was a fierce battle for publishers, as the lack of paper remained the only manipulative barrier to increasing book production, an insurmountable obstacle (Bart, 2000: 19-21).

In summary, publishers simultaneously tried to adapt to pre-determined thematic proportions and which author knew what they were willing to do during the year and whether this was approved on the other "licensing front," when works were licensed individually. Planning and individual licensing took place in parallel. The basic administrative need for all this was the ministry seal, but this still did not mean the end of the licensing process: once the seal was in place and the printing press could accept the manuscript, it made two proofs, which were also requested by the ministry. Then a copy of the finished book (technical copy) also had to be sent to the Ministry, and this granted the marketing authorization. So when the ministry gave permission to print a manuscript, it was authorising a manuscript that was first authorised when the contract was signed, secondly authorised in the plans, and thirdly de facto when

it went to press. We can see, therefore, that manuscripts were subjected to four or five filters. In addition, the higher authorities had the right to consult the manuscript if they had any suspicions or reservations, which happened quite frequently in the fifties.³⁶

THE PUBLICATIONS BOARD AND THE PUBLICATIONS DIRECTORATE GENERAL

By 1950, the era of nationalisation was essentially over. Between 1950 and 1954 we can speak of the “era of reorganisations”. How were nationalised publishing houses, publishing and book distribution managed? - Before nationalisation, the larger publishers had their own printing presses and employed book distributors. Now, publishing was taken over by the Ministry of Culture, printing presses by the Ministry of Light Industry, and distribution by the Ministry of Trade (and then there was the question of the party’s publisher, Szikra, which was not affected by nationalisation and remained with its printing press and distributors). Unlike in other socialist countries, Hungary did not set up a central censorship office, and books were authorised for publication by the ministries, often after reading the manuscript. There was some discussion of changing this procedure and introducing central licensing and registration. This was not done. The cumbersome and often bureaucratic procedure provoked widespread dissatisfaction, and the College of the Ministry of Popular Education, already in the new situation, criticised the secretariat in March 1954 and proposed simplification.³⁷ It had been suggested a year earlier that a unified system for the production and distribution of books and periodicals should be established: the proposal was that by 1 October 1953 the publishers should be merged and their direct supervision taken over by the Publishing Council.

Establishment and tasks of the Publishing Council

The founding of the Publishing Council took place in February 1953, during the last phase of Révai’s reign. Its creation already shows that total autocracy is ultimately unsuitable for the effective management of culture, as ad hoc decisions and the many personal interests involved make the process of management stagnant and completely opaque. Even the official explanatory memorandum acknowledges the anomalies, that the creation was necessary because there was no national plan, so there was frequent duplication and therefore serious disproportionality.³⁸

The idea of establishing a Publishing Council had been raised as early as 1952 (Varga, 1985:266), but the decision was finally taken only in early 1953. This was the decision of the Council of Ministers of the Hungarian People’s Republic No. 2005/2/1953 on the establishment of the Publishing Council. In order to carry out the ‘operational tasks’ (i.e. the actual management) of the Publishing Council, the Publishing Council Secretariat had to be organised, the head of which, who was also the Secretary of the Publishing Council, was appointed by the Council of Ministers.³⁹ The chairman of the Publishing Council was Gábor Kerek (formerly the head of the literature department of the Ministry of National Education (without author, 1952: 5)), and his deputies were Béla Köpeczi and Tibor Fajth (from 1945 he worked for the General Economic Council and later for the National Economic Council).

One of the most important proposals in the short life of the Publishing Council was the proposal for a uniform system of production and distribution of books and periodicals, as it contains the seeds of many measures that were later implemented. The essence of the proposal, dated 24 April 1953, was that publishers should be merged by 1 October 1953, their direct supervision being taken over by the Publishing Council, and that the Publishing Council should also take over supervision of book distribution from 1 January 1954. Taking over the supervision of the printing industry was postponed to a later date.

The plan to merge the publishers was as follows. The most important element of the plan is that literature would be retained, but alongside it would be created the Publishing House of Foreign Works, from the New Hungarian Book Publishing House and the corresponding division of literature. In addition, the Youth Publishing House, the Heavy Industry Publishing House, the Light Industry and Domestic Trade, Agriculture, Planning and Economics, the Scientific Publishing House (which would also publish legal, health and sports publications), the Akadémia Publishing House and the Music and Arts Publishing House would be retained. We can see that the book publisher *Művelt Nép* was not envisaged, but, as in the previous draft, the initial idea of the later *Magvető* emerges, here we can discover the birth of the idea of the later *Verlag Europa*.

The publishing houses not under the supervision of the Publishing Council remained *Szikra* Publishing House and the National Council of Trade Unions (*SZOT*) Publishing House (*Népszava*). A separate problem was the issue of publishing periodicals, where the establishment of a separate Journal Publishing House was considered, alongside which the professional publishers would publish the journals and official periodicals of the various ministries. As far as we know, the separate Journal Publishing House did not materialise (there was already an earlier body, the Journal Publishing Company)⁴⁰.

On the issue of book distribution, the problem for publishers was the extent to which the monopoly on book distribution should be maintained, and whether publishers should be allowed to distribute certain of their own; and how to make publishers interested in selling works. Disputes over the price of books and the number of copies were also within the competence of the Publishing Council.⁴¹ This consideration already indicates that the easing after Stalin's death allowed for some shift in the direction of capitalist relations. The result of the easing was also the rational change in the "principled management" of publishers. On the basis of the analysis preserved as of 23 June 1953, the nature of the changes can be perfectly summarized.⁴² The need for a general correction after Imre Nagy's new government program can be clearly traced, even as the report takes stock of what needs to be changed. Publishers are planning to be the first, but the method of authorizing manuscripts is also ripe for change. Révai's dual control has now changed: hair-splitting and linear bureaucracy through the ministry, as well as manual control based on individual "whims." By blaming the lack of "open debates of principle," that is, somewhat freer, non-offensive-toned exchanges in literary life, they also signalled an end to accountability in unpredictable public debates.

It was acknowledged that the excessive centralization that characterized the entire state apparatus also left its mark on the relationship between the Literary Department and publishers. Publishers were forced to turn to the Literary Department with every little problem, and after a while the literary department was seen as a purely administrative body - meaning the analysis suggests that content censorship did not take place here, apparently by Révai himself or in the form of self-cen-

sorship by publishers, if they did not want to be as articulated as in the Lukács debate or the Déry debate. In other words, it was stated that after the decisions of the party's Central Leadership in June and the new government program, it became clear that in the work of the Literary Department, as in the work of publishers, the perception of literature as a direct instrument of agitation and the excessive use of administrative means prevailed, it should be noted that it is not stated in the text that this was due to coercion!

After taking over the management of the publishers in popular education, the Publishing Council drew up a draft for regulating relations and sought to strengthen the autonomy of the publishers and decentralise work to a certain extent. It was therefore clear that in many respects the content of the work of the ministry needed to be improved in order to give publishers greater autonomy and thus greater responsibility. Accordingly, the Literature Department sought to introduce new methods, such as information reports prepared by the rapporteurs and quarterly assessments of publishers' work based on published works. There was even a moment when it was suggested that in future manuscripts should be licensed by the directors and that the department itself should not be responsible for licensing. In terms of 'management in principle', the emphasis was on the preparation and approval of drafts. He obliged the rapporteurs to become familiar with problems that arose in connection with the manuscripts as they went along.

It is important to emphasise that the aim was to reduce bureaucracy, bureaucratise, unpredictability and individual influence, but not censorship or the oppressive and unrealistic expectations placed on proof-readers, e.g., that their task was still to force from the writers a socialist realist masterpiece, capable of legitimisation, reflecting reality, but at the same time showing the budding communism of the future, instead of a schematic propaganda literature. To this end, the role of the editor was left unchanged, with the Publishing Council approving the manuscripts, and this approval was based, for the majority of manuscripts, on the editorial reports, which still had to take account of both the aesthetic quality and the ideological conformity of the manuscript.⁴³

Thus, it was also considered necessary to create an appropriate forum for discussion of the above issues. For this purpose, it was also considered that an editorial board should be set up, which should include an official representative of the Writers' Association and the Publishing Council. If the contentious issues cannot be resolved in a reassuring manner, the manuscript should be submitted to the management of the ministry. The management of the ministry communicates the decision on important matters in the presence of the head of the department and the editor of the book in question, and even, if necessary, in the presence of the writer. It was stipulated that in addition to the speakers, one of the heads of the Publishing Council should take part in the discussions at the lectureship meetings. The publishers 'councils should discuss the issues with the publishers' leaders in the form of personal discussions.

So instead of the administrative, bureaucratic way of sending all manuscripts to the Literary Department, the idea of censorship, which can be more flexibly implemented, is introduced: if someone from the controlling body is already present at the manuscript meeting, it is easier to make the work "publishable", but the unrealistic editorial liability of the past can be avoided. The end of the Publishing Council's operation comes in 1954, the 1954 Plan stipulating that the Publishing Council Secretariat should be transformed into the Publishing Directorate General, which is it should change from a coordinating body to a managing body.

Establishment of the Directorate General for Publishing

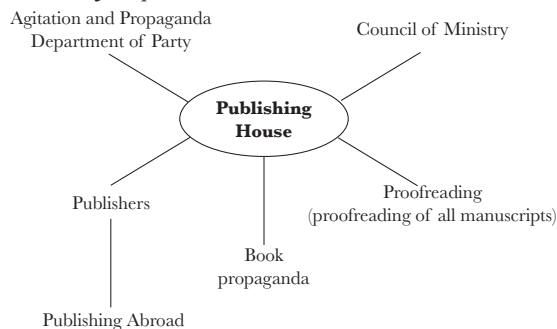
Previously, the purpose of subordinating publishers to ministries was to give ministries more control over the publication of professional books. However, with the merging of publishers, not all ministries can have publishers, and one publisher serves the needs of several ministries, so it is more appropriate for a neutral body, the Directorate General for Publishing, to take control. This will make governance more professional and also more impartial, argues the argument for placing publishers under the Directorate General.⁴⁴

After several attempts at coordination, when the unified system of book and newspaper publishing, distribution and printing was being established, at the end of 1953, several important proposals for changes were submitted to the Council of Ministers for the reorganisation of state publishing. It was concluded that the organisation of state publishing was too decentralised and that it was therefore necessary to create the General Directorate of State Publishing, together with the merging of publishers, and that there could be no delay in halving the number of publishing companies. Twenty-four publishers have been merged into ten plus six publishing companies. In addition, the Writers' Union publishing house should be set up.

The General Directorate of Publishing should operate under the supervision of the Minister of Popular Education, who should be placed above the other ministries as far as publishing is concerned, provided that they make proposals to the Council of Ministers for the whole publishing sector. Some publishers should be directly subordinated to the General Directorate, others only indirectly for the time being.⁴⁵

This transformation had antecedents. The clearest pattern is the Soviet body: the Glavpoligrafizdat (Levitsky, 1964: 63-64). It was at this time, when the Directorate General was established, that the Political Committee authorized a delegation to study the organization of Soviet publishing (Varga, 1985: 306). However, based on our research, we can conclude that a similar body in the German Democratic Republic (GDR) may have been a role model. During their visit to Hungary⁴⁶, Irene Gysi, the head of the Berlin publishing house Rütten und Loening,⁴⁷ reported on the reorganization of the Literary Office in the GDR (see Figure 1), where we can also see the efforts to centralize.⁴⁸

Figure 1: Structure of the Literary Department⁴⁹



Source: Author's own edition

On April 1, 1954, a government decree announced the establishment of a Directorate General for Publishing.⁵⁰ The first president was Gyula Kállai, who was soon followed by Béla Köpeczi. The new institution came under the supervision of the Minister of Folk Culture and functioned as a department of the ministry. Due to its prerogatives, it soon exceeded these limits and functioned as a real ministry of the press. The responsibilities included preparing and submitting an annual plan for book publishing to the government; the distribution of the ever-scarce paper quota among publishers; regulation of the operation of publishing companies; proofreading and material standards; professional training of employees; establishing rules on expenditure; the distribution and control of the use of state subsidies, as well as the development of the book system, the elaboration of the remuneration principles of the publishing and distribution staff, and the management of the international relations of book publishing.

Four publishers joined the Directorate General, the Literature, the Új Magyar Könyvkiadó (New Hungarian Publishing House), the Ifjúsági Könyvkiadó (Youth Publishing House) and the Művelt Nép (Cultured People). In 1954, the Magvető Publishing House, which specializes in publishing today's Hungarian literature, joined them. The Director General took care of the profile and rights of the publishers and managed the struggles around the paper quota. Eventually, their competence extended to the printing organization and book distribution.⁵¹ Given the proportions, the tasks and the small size of the Directorate-General (about sixty people), we can rule out the possibility that it was specifically a censorship office. In this it was also similar to the ALV in the GDR, whose activities were also diversified (Barck et al., 1998:22). Of course, it also had censorship-related tasks: the decision made it responsible, for example, for authorising the marketing and withdrawal of books.

The final approval of the plans was awaited by the Council of Ministers, but only well-combed drafts were allowed. The actual "screening" (sometimes censorship) was decided through discussions and discussions between the publishers and the board. This was also where the circulation was approved, and the necessary public subsidy was immediately allocated. Any surplus was deducted and paid into the so-called Cultural Fund, almost as a punishment, so that the money could be used for further subsidies. This system penalised and homogenised the profit-making of publishers. Since publishers were breaking even, there was no obstacle to publishing more and more books if the customer, the buyer (the state), added the subsidy. Until the 1970s, the sky seemed to be the limit for book publishing - limited only by the purchase of imported paper.

The quantity prescribed by the National Planning Office - first 5000 and then 8000 tons - was distributed among the publishers by the General Directorate of Publishing, regardless of the thickness and quality of the paper. Publishers could be adept at paper types, but they weren't capable of miracles. Successful, high-volume works were printed on thin paper and sold at a higher price. Substantial amounts of foreign currency had to be sacrificed for works flowing in from the West, including writers' fees and translation costs. This framework was by no means unlimited, it was about "regulating" the influx of Western literature.⁵²

The Publishers Conference

Mátyás Rákosi, the party's general secretary, opposed the reforms and accused Imre Nagy, the chairman of the government, of endangering socialism. The apparatus followed Rákosi, the intelligentsia within the party followed Nagy. All this happened before the 20th Congress of the Communist Party of the Soviet Union, which meant that the power struggle was not decided there either, and Rákosi could count on the support of the conservative part of the Soviet leadership. The debate between the two tendencies in Hungary began already after the announcement of the new government programme, and was mainly manifested in ideologically sensitive areas. Literature had the greatest room for manoeuvre, since it could play a political role by means of a lever. In March 1955, the Central Executive condemned Imre Nagy's 'revisionism', mainly because of his agricultural policies and 'nationalism'. The resolution also criticised the "revisionist" phenomena in publishing and the press, warning that publishing had become the focus of political struggles "against our will". This decision was followed by a note of 28 March from Ernő Gerő to the members of the Political Committee, which was not discussed by the committee but which influenced the official assessment of the situation of publishing.⁵³

The Rákosi leadership was dissatisfied with publishing, and thus with the work of the Publishing Directorate. As a first step, the Scientific and Cultural Department of the Party Centre ordered the withdrawal of the books mentioned by Gerő (ironically, after March 1956, Gerő's books had to be withdrawn from circulation), and then requested manuscripts for inspection.

In response to this his July 1955 issue of *Csillag*, Köpeczi reviewed the development of Hungarian book publishing after 1945 and highlighted the favourable change that had taken place since 1954, especially in the proportions. He emphasized the increase in the number of copies of the publisher. In 1953, 231 literary titles were published, and in 1955, 456, so they were more relaxed on the reins.⁵⁴ The dogmatic secretary-general, Ernő Gerő, who wrote a letter to the Political Committee - did not like all this - criticizing the publishing principles (there is little Hungarian literature, etc.). The letter was not discussed on the merits by a party body, but his suggestion to have a publishing conference to discuss the issues raised was embraced. In the momentum of the preparations, Sándor Lukácsy called for the dissolution of the Directorate General in the press. His proposal was rejected, but he has faced the biggest ordeal since the short existence of the Directorate General Publishing (KF): he had to convene a publishing conference. The organization of the Publishing Conference has begun. However, the drafts prepared in advance had to be modified, due to the 20th Congress of the Communist Party of the Soviet Union (February 1956), the replacement of Rákosi with Gerő (July 1956), and as a result a completely new situation arose.

The well-prepared three-day meeting, which was attended by a total of 170 staff members from the publishers, the Directorate General, the Ministries, the press and, of course, the party headquarters, was successfully concluded. The main report was given by Béla Köpeczi. Fifty people spoke in the heated debate of the first day. Of course, the abolition of the Directorate General was not seriously considered.⁵⁵ Most of the criticism went to the State Book

Distribution Company, which had a monopoly position.⁵⁶ They called for the emergence of new distribution organizations, possibly tailored to publishers, and the need for healthy and normal competition, so that either new publishers or rural publishers become nationally important.⁵⁷ Politically, the publishing congress had decided to phase out personal cult materials. As a result of the rapid political changes, entire groups of pamphlets and books were sent to the warehouse and then to shreds - there were the successive works on the unveiling Soviet and Hungarian party congresses, or the slandering literature of the “Tito gang”, all of which became redundant.⁵⁸ The reduction of the stock of warehouses had accelerated, and economy had become an increasingly important aspect in the operation of publishers.⁵⁹

In order to improve the distribution of books in the towns, new shops, but at least consignments, were called for. It had been suggested that they may even sell books in the town’s grocery stores. The Director General’s Publishing’s attention was also drawn to the shortcomings of foreign book distribution.⁶⁰ High quality books (both in terms of content and appearance) were intended here. The second generation of the West has still not been accepted, and authors and works have not fallen out of the public consciousness due to unfair stigma.⁶¹ The 1956 revolution did not cause a major break in the enforcement of the resolutions.

SUMMARY

The cultural control of the Rákosi dictatorship, initially completely, then after 1953 somewhat more permissive, but clearly placed the path of works from writer to reader under its control. This required restrictive, in the euphemism of the time, ‘administrative’ measures, and covered everything that could regulate the development of the writer-reader relationship, including every aspect of the production of the book as a ‘product’, as a ‘commodity’, from the monopoly on the allocation of the necessary paper to the control of distribution, the book distribution network and libraries (Czigány, 1990:29). We are now considering a section of this, namely the control exercised via state institutions.

NOTES

¹ In other words, it does not cover the equally important but “outside” institutional methods, ie the diversified activities of the manual control of József Révai, including the discussion of the role of lecturers. For this, that is, for the forced careers of the reviewers as covert censors and as the auditors of the aesthetic standard according to Révai, see. (Bella, 2019).

² Communist leader in Hungary between 1945 and 1956.

³ Its members are Erzsébet Andics as the head of the committee, György Lukács, László Bóka (Kultusz), Szilárd Ujhelyi (Intellectuals Department), István Kondor (Propaganda Department), Dezső Nemes (Trade Union Council), Tibor Barabás (Writers’ Association), Imre Keszi (Free People) and George Vértes as Secretary of the Commission. The committee was supplemented by Zoltán Horváth (Népszava) and Hedvig Kürti.

⁴ Hungarian National Archives (hereinafter MNL) M-KS 276. fond. 86. cs. Note from Károly 9. Tóth.

⁵ MNL 276th Fund. 86. cs. 9. hr Note from Károly Tóth.

⁶ MNL 276th Fund. 86. cs. Note from Károly 9. Tóth.

⁷ The words of the literary historian Sándor Lukácsy above. Sándor Lukácsy was the head of the lectureship of the National Book Office in 1948, then he was employed by the Ministry of National Education until 1949-51. His

- recollections are particularly important, as he was a high-ranking functionary in the above-mentioned party state bodies, a devout communist who, after his disappointment, explained in detail the anomalies of the offices and the shortcomings of his own task. intellectuals. Several recollections have survived, two of which we cite at length.
- ⁸ „Ágnes Nemes Nagy [...] Good, unpublished. [...] I didn't forbid them either, because they wouldn't go to the publisher, and if they had taken it, it would have been kicked out by Endre Elijah, who is beating his chest today to see how resilient he was. [...] Everyone knew, themselves, that this was not going to happen now.” See, Oral History Archive (OHA) 19 Recollection of Sándor Lukácsy. Author: Rainer M. János 1986 pp. 108-112.
- ⁹ “The book committee didn't give detailed guidelines; they were more in the air. There was no question of an emigrant author's work [...] the silence of the New Moon magazine was caused by a non-personal ban; even without a blacklist, the nationalized publishers did not dare to ask for a manuscript, or, with respectable moral courage, they did not give in, and did not want to be in the service of official literary politics.” See, (Lukácsy, 1985: 12).
- ¹⁰ PIM Media Library K00886 Mátyás Domokos and Pál Réz talk - Ágnes Kelevéz asks: About Szépirodalmi Kiadó. 10/02/1990.
- ¹¹ “The comrade will go into the National Book Office tomorrow and take over the leadership of the Literature Department. I didn't even know there was a National Book Office. It wasn't, it was just organized. [...] That's how I got into a national function. Twenty-five years old.” See, (Lukácsy, 1985: 11). „The work of the Book Office is completely imaginative, they throw up their work and try to make Vértes decisions based on theoretical issues instead of doing their daily work based on theoretical considerations.” See, MNL M-KS Fund 276. 86. cs. 9. hr. István Kende: Note on the report of the Book Office. December 7, 1948
- ¹² “In addition to the Central Management of the MDP, a so-called A book committee, which was in fact the governing body, or the governing body. , See, OHA 19 Lukácsy uo. 106. p. Furthermore, “The party did not have much confidence in its own state bodies at the time. A committee has been set up at the party headquarters to oversee and manage the Book Office. I was not a member of the committee, but I attended its meetings as a rapporteur. There was a meeting every week, and the committee had a say in the smallest matters, in fact, it made all the decisions itself, the office just implemented and wore its ode because there was no talk of the committee's existence. Every Tuesday (or Thursday?) The session began at five o'clock and often lasted until midnight. My job was to make a detailed oral report on each manuscript, whether submitted to the office by a public or private publisher or other organization, or a private individual, and to propose permission or prohibition. I was a master of life and death without being able to breathe without the approval of the committee. In fact, it was up to me to decide, because my report was always the last item on the agenda, even at night, and the tired committee usually nodded at everything. My decision, however, depended largely on the reviewers. I didn't manage to read all the manuscripts, I relied on the report of the publishers many times, sometimes I asked for the opinion of outside reviewers, mostly writers. They cross-censored each other.” See, (Lukácsy, 1985: 11).
- ¹³ MNL M-KS Fund 276. 86. cs. 9. hr. December 6-10, 1948. Reports by Ferenc Gál, Sándor Lukácsy, Nemesné, Júlia Poll, Károly Tóth, György Vértes.
- ¹⁴ MNL 276th Fund. 86. cs. 9. hr. Note from Károly Tóth.
- ¹⁵ „Some publications have been banned by the Book Office, which in my opinion is certainly not a mistake, but the fact that there was a dichotomy after the Prime Minister's Press Department allowed certain books and the Book Office banned books after the books came out caused serious damage.”,The press department of the ME (Prime Minister's) press department is not ideologically or culturally sufficiently informed about the guidelines to be followed. [...] The consequence of ambiguous, reciprocal and illegal measures is that the Book Office prohibits the distribution of a book, but as it does not notify the press department of the Prime Minister of its decision, the book will be published freely.” See, MNL M-KS Fund 276. 86. cs. 9. hr. December 6-10, 1948. Reports by Ferenc Gál, Sándor Lukácsy, Nemesné, Júlia Poll, Károly Tóth, György Vértes
- ¹⁶ György Vértes: “One of the reasons for the perception among stakeholders that two authorities - the Press Department of the Prime Minister's Office and the Book Office - are reviewing press releases is indiscretion, which I assume is the members of the Party Book Committee. Indeed, it happened that the party's Book Committee made a decision in the afternoon, and I heard that from others without mentioning it to anyone. An example of the indiscretion of the press department of the Prime Minister's Office: it has happened that - I do not remember what kind of manuscript anymore - a question asked by a party in the press department of the Prime Minister's

Office was answered by urging the Book Office. I have also notified the cheese department of the Prime Minister's Office. „ See, MNL M-KS Fund 276. 86. cs. 9. hr. December 6-10, 1948. Reports by Ferenc Gál, Sándor Lukácsy, Nemesné, Júlia Poll, Károly Tóth, György Vértes.

¹⁷ Comrade Vértes told us that the Book Office would manage the Hungarian book publishing [...]. He contradicted the argument that it was not possible to work as planned until the operation of the Book Office was established by law.” See, MNL M-KS Fund 276. 86. cs. 9. hr. December 6-10, 1948. Reports by Ferenc Gál, Sándor Lukácsy, Nemesné, Júlia Poll, Károly Tóth, György Vértes.

¹⁸ Károly Tóth: “In my opinion, the Book Office acted incorrectly in this matter, because it should have been settled first. the the issue and price of books that can be distributed. The Book Office regulated prices and book dealer discounts. Although this discount eliminated the big deal after receiving the same discount for buying 1 or 100 books, it did not ensure that private wholesale and retail trade could be replaced by a public distributor. „ See, MNL M-KS Fund 276. 86. cs. 9. hr. December 6-10, 1948. Reports by Ferenc Gál, Sándor Lukácsy, Nemesné, Júlia Poll, Károly Tóth, György Vértes.

¹⁹ MNL 276. fond.86. cs. 9. his. Note from Károly Tóth.

²⁰ The Luke debate began in 1950: Révai attacked Luke as a „deviant”, „bourgeois” man who disrespected Soviet „socialist realism” and sentenced him to silence.

²¹ “I was with György Lukács very often then, because we met in a committee every week, but anyway, through Vértes, whom György Lukács put in the editorial office of the Forum, and Vértes continued to edit the Forum during the Book Office era, Lukács liked him very much and thus, through Vértes, I was sometimes there [...] at the gatherings held at the old owner of the old Bródy, Hungária Nyomda, with whom György Lukács was very good, because the Bródy company, the Hungária company, published the his books, and there were such snacks.” See, OHA 19 Lukácsy uo. p 106.

²² “He hasn't [suffered so much] in the Library Office, it's more the stupidity of the Vértes. We were very good friends, but when I saw that he was an ineffective leader, it upset me, because I wanted to act.” See, OHA 19 Lukácsy uo. pp. 108-112. István Kende: “Vértes is in no way qualified to run the Library Office. What is needed for this function is first and foremost a good organisational and cohesive force capable of managing this area in a planned and organised way. [...] Vértes strangely tries to maintain a dichotomy between ‚George Vértes’ and ‚Head of the Library Office’. He appears in one capacity and in another at various Party and official bodies. „Rosta was the head of the Press Department of the Hungarian Communist Party (MKP) in June 1948, and then held a similar position in the Prime Minister's Office: Caesarean.” See, MNL M-KS Fund 276. 86. cs. 9. hr. István Kende: Note on the operation of the Book Office. November 27, 1948.

²³ “The president of the Book Office was György Vértes. He is an old communist and educated man, with many good intentions and little skill. He left the substantive work pretty much to me; he was mainly concerned with being afraid. There was a reason for it: at that time, he had a conflict with Rákosi in the Szeged prison. Poor Vértes!! Not only was he tormented by fear, but also by an army of troubles. The Book Office was drilled. Interests and jealousies clashed, for publishers, printers, the book trade; the tasks and powers were unclear. The president of the Book Office was barely visible at his workplace, mostly sitting in the meeting rooms or halls of other offices. He tried to work out the inexplicable, to strengthen his position. He didn't go. He was best drilled by his own boss: the head of the supervisory body of the Book Office, Sándor Nógrádi, Secretary of State for the Prime Minister's Office.” See, (Lukácsy, 1985: 11).

²⁴ “I can't remember who was sitting at the long table with the cigarette ash; Márton Horváth was the chairman. It soon became clear that Vértes' case was in bad shape. Every speaker was bemoaning his inefficiency and his mistakes. The coup de grace was given by Nógrádi. Comrade Vértes proved himself totally unfit to lead such an important institution. In six months, he had not even managed to get the Library's operating rules approved. Vértes was finished. And he did it with a dog's breakfast. Because Nógrádi forgot to note that the operating rules should have been approved by him, the Secretary of State for the Prime Minister's Office. „ (Lukácsy, 1985: 13).

²⁵ “By the book day of 1949, five poets could only be in the tents. [...] The then book office [...] decided that these five poets would be taken over by five major book publishers as a kind of social burden. [...] The three first-volume poets [...] László Nagy (then also László F. Nagy) at Hungária, Péter Kuczka at Révai, I - as the youngest - at Dante.” See, (Lakatos, 1993)

- ²⁶ László Cs. Szabó in 1949: „The State Book Office, established in 1948, banned the publication of three of my finished or future books at the same time.” (Varga, 2013: 80)
- ²⁷ The ban on László Lator’s ready-to-publish volume, *The Ancient Forest*, is officially justified because it is irrational and pessimistic, in fact there are some poems in the volume that contain very strong political overtones. See, (Szlukovényi, 2012: 435).
- ²⁸ Border Winning Life Path c. In his autobiography he also remembers for a long time the Secular Intellectual Inquisition called the Book Office, but he attributes all the measures of the Book Committee to the Office. See, (Border, 1995).
- ²⁹ Mátyás Domokos, Pál Réz, interview by Ágnes Kelevéz, February 25, 1992, About the History of the Literary Fiction Publishers’, Part 1, recording, Media Library, K01158, Petőfi Literary Museum.
- ³⁰ Some of the main issues in the work of the Fiction Publishing House, Series 89, file 415, M-KS 276 fonds, National Archives of Hungary, Budapest.
- ³¹ Szig. biz. Proposal for the 1951 book publishing plan of the Hungarian book publishing house, November 27, 1950, Series 89, file 375, M-KS 276 fonds, National Archives of Hungary, Budapest.
- ³² Mátyás Domokos, Pál Réz, interview by Ágnes Kelevéz, October 2, 1990, About the Literary Fiction Publishers’, recording, Media Library, K00886, Petőfi Literary Museum.
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- ³⁴ Item 0019/11/1953 Thematic Plan of the Publishers of Fiction, New Hungarian, Youth and Educated People 1954, Box 2, Folder Top Secret-1953 Filed 001-0075, Fonds XIX-I-21-b, National Archives of Hungary, Budapest.
- ³⁵ Mátyás Domokos, Pál Réz, interview by Ágnes Kelevéz, February 25, 1992, About the History of the Literary Fiction Publishers’, Part 1, recording, Media Library, K01158, Petőfi Literary Museum.
- ³⁶ Béla Köpeczi: The truth of the facts. Chapters from the history of cultural policy. 1953 - 1988. Unpublished memoir. We are grateful to Dr. László Solymosi for making the manuscript available to us. 17. p.
- ³⁷ MNL XIX-I-3-u 2. dob.2776. lot 1953. The plan for the publication of state books in 1954.
- ³⁸ MNL XIX-I-21-a 1st drum. 1953-55. Miscellaneous cases without registration number. 2/19/2005 Decision No
- ³⁹ MNL XIX-I-3-j-1952. documents of the year (XXII.) Newspaper Publishing Company.
- ⁴⁰ MNL XIX-I-21-a 1st drum. 1953-55. Miscellaneous cases without registration number. Unified system. Outline and Problems April 24, 1953.
- ⁴¹ MNL XXIX-I-34 Publishing House of Fiction. Unordered material. Issues of principled governance of publishers.
- ⁴² A good example of all this is that when Tibor Déry’s travelogue (*About Hungary, People*), published in 1954, recorded his experiences in 1952, the proofreaders were recruited for finding out that Déry, as Miklós Szabolcsi writes in the history of literature in 1978, „With a careful but overemphasized objectivity it gave a picture of the social, political, public supply and cultural conditions of the various regions of the country”. See, MNL XXIX-I-34 Publishing House of Fiction. Unordered material. Issues of the principled management of publishers., And (Szabolcsi, 1978: 1034-1036).
- ⁴³ MNL XIX-I-21-a 2nd drum. 1953-1956. annual documents. 875/1954 Rationalization of publishing companies and subordination to the Directorate-General for Publishing.
- ⁴⁴ MNL XIX-I-21-b 2nd drum. TÜK documents. Strictly confidential. Filed under documents 001-0075 Submission to the unified system. 1953.
- ⁴⁵ The exact name of the office is Amt für Literatur und Verlagswesen (AVL).
- ⁴⁶ Her husband, Klaus Gysi, is a prominent cultural politician. (O’Doherty, 1992: 308)
- ⁴⁷ Irene Gysi was well informed in other cases as well. (Barck et al., 1998: 47).
- ⁴⁸ MNL XIX-I-3-u 14. dob. 3423. The report of Ferenc Rákos. December 3, 1953.
- ⁴⁹ 1043/1954. (VI. 17.) of the Council of Ministers.
- ⁵⁰ MNL XIX-I-21-a 1st drum. 1953-55. Miscellaneous cases without registration number. Establishment of the Directorate - General for Publishing.
- ⁵¹ An interesting addition to the creation of the Publishing DG is Miklós Radnóti’s „vision”. We quote the following

from István Vas: “On the occasion of such a social planning, Miklós said that he wanted to be the coordinator of the socialist book publishing. He also talked about the details, but I didn’t quite understand what he was thinking. A decade later, it occurred to me that, in essence, the authority of the publishing director was hovering before him — of course, he imagined it quite differently. At the time, I replied to him, I would be fine if I could be a reviewer at a publishing house, if they would pay me to read and comment on what I read.” (Vas, 2003).

⁵² Köpeczi: *im pp.* 19-21.

⁵³ Köpeczi: *im* 23. p.

⁵⁴ Comment by Géza Hegedüs, Director of Magvető Publishing House: “Is KF needed? [...] We are doing socialist book publishing, [...] that is, the publishing house is not a separate body in society, [...] even if we abolish KF, ... in time we will figure out something [...] about which it will turn out that the KF. [...] They come with the manuscript as if the publisher had a Public Account that sells oranges or lemons for cheap money. (Serenity.) [...] No KF required? No way, just get some paper! (Serenity.)” MNL XIX-I-3-u 41st drum. 3 / d. item: Material of the first Hungarian publishing conference; pp. 5-7.

⁵⁵ In defense, Imre Zala, the director of ÁKV, said: “So how does ÁKV sell? [...] Writes the reviewer of *Népszava*: [...] Lakatos: The story of table tennis [about:] “The special value of the work is that it clearly shows [...] the role of table tennis in different social systems. The Book Distributor publishes an advertisement inviting readers to purchase the said book, which describes, among other things, the Neanderthal man’s table tennis training method.” MNL XIX-I-3-u 41. dob. 3 / d. item *ibid.* pp. 68-75.

⁵⁶ “If that poet came to us and we told him that he is a very respected comrade, we don’t like his poems, he went to the comrades in Jászberény and he was rejected there, he is still convinced that there is a click system. But if both the third and fourth publishers refuse, you might still get the idea that it’s not the click system that is at fault, but that you wrote the wrong thing. „ XIX-I-3-u 41. dob. 3 / d. item *ibid.* 13. p.

⁵⁷ Béla Abody in relation to “Mus-literature”: “Publishers could believe that their “state conscience” could be reassured that, based on the protocolists, they also published a large amount of secondary literature. Or for the sake of good literature, they started an exchange business: a gypsy for a king. There was only one argument for this pseudo-literature: a political argument.”

⁵⁸ “Every eighth Hungarian citizen receives a book by Béla Illés, including infants. (Serenity.)” XIX-I-3-u 41. drums. 3/d. item *ibid.* pp. 51-54. Béla Abody: “Then there are also muse publications that appear primarily for psychological reasons. The proofreader is in a very difficult position when the author beats his bloody heart on the table, threatens, spends the night in the proofreader’s stairwell, wakes him up by phone at 6 a.m., refers to his starving children, his sad-eyed mother, and the opinion of the Writers Association. [...] It is necessary to eliminate from the work of the reviewer the psychological wolf piles into which the publishers’ money and paper ultimately fall. [...] I suggest that we make a decision that states unequivocally: there is only one argument in favor of the publication: the quality of the book in question.” XIX-I-3-u 41. dob. 3 / d. item *ibid.* 56. p. Tibor Fajth, Deputy Head of KF: “The number of copies can be determined by the publisher in the final degree, [but thus] it is impossible to refrain from making the publisher responsible if these copies do not run out. ÁKV will only take for granted what it finds for sale, and we want to ensure that it takes over everything that it finds for sale with common sense and the rest with the right of return. [...] Our publishers have taken on this responsibility because they have had to realize that they are either taking the step to make the publisher’s own plan, responsible for the works and copies published, and KF will not have a say in this., neither the ÁKV, nor waive their independence. „ XIX-I-3-u 41. dob. 3 / d. item *ibid.* pp. 154-156.

⁵⁹ György Bárány, Editor-in-Chief of *Magyar Szemle*: „The distribution of Hungarian books and periodicals abroad takes place abroad through a conspiratorial, unknown network of agents treated as strictly secret.” XIX-I-3-u 41. dob. 3 / d. item *ibid.* 125. p.

⁶⁰ Péter Veres: “I don’t know what happens to Kassák. Between the two world wars there was Kassák, there was a Genius of Varna and I could even list the not too much but existing labor movement literature. I have not heard the truth in the paper and it is specifically included in the spending program. [...] Old Cholnoky may have been reactionary in his social views, but what he says about the deserts is not reactionary, and then we have to find (applause) a way to extract such values from Hungarian literature.” XIX-I-3-u 41. dob. 3 / d. item *ibid.* pp. 123-134.

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János Károly Printz

Hungary's Olympic Successes



Summary

The games that took place in the ancient city of Olympia every four years for over a millennium held great interest for the people of Greece, and the same is true for the modern Olympics, which have recently celebrated their 125th anniversary. The title of Olympic champion has always commanded great respect, granting victorious athletes lifelong recognition in their homeland. Hungary has been a part of the Olympic Movement since the revival of the Games. Our athletes have represented our nation at every Summer and Winter Olympic Games except for two, and they never returned without victories from the Summer Games. Not too long ago, the first Hungarian gold medal was won in the history of the Winter Olympics. The performance of Hungarian Olympians has always been remarkable. As a result, statistics and assessments show that Hungary is a real sports nation, among countries that boast the best results. This has been demonstrated by the six gold medals and altogether twenty podium finishes achieved in Tokyo. With the recent successes at the Tokyo Olympics in mind, the purpose of this paper is to provide a brief overview of certain relevant aspects of the history of the Olympics and the success achieved by Hungarian athletes throughout the years. It also aims to examine the room for maneuver of the evaluation and analysis of the Olympic results, including dynamic approaches and comparisons with international results.

Keywords: Olympia, Olympism, Olympic Games, Olympians, Hungarian team, championship, gold medal, podium finishes

THE 2020 TOKYO SUMMER OLYMPICS IN 2021

One of the most anticipated events of the year 2021 was the Summer Olympics, the organization of which was accompanied by many doubts and worries. In the midst of polemics and austerity measures, the Olympic flame in Tokyo was finally lit on July 23, 2021, and the competition began. More precisely, they continued because, according to the practice developed at the last Olympics, some of the events of the Olympic program took place before the grand

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opening, including, now traditionally, the soccer matches. The XXXII Summer Olympics definitely fit into the ranks and history of the Olympics in a unique way. As known, the biggest sporting event in the world should have been held a year earlier, in 2020 however, due to the pandemic at the time, a decision was made to postpone the games for a year. During the history of the Olympics, nothing has broken the rigorous four-year rhythm of their organization, except when only two years elapsed between the two Winter Olympics. This created the possibility of the winter and summer competitions to be held in the same years and would not coincide.

The basic principle has been unquestionable so far, that the Olympics can be postponed but, the right to organize them cannot be lost. Three of the designated Summer Olympics have been missed so far, the Games scheduled for Berlin in 1916 due to the First World War and the 1940 Games due to the Second World War, which would have originally taken place in Tokyo, followed by Helsinki and the XIII Games awarded to London four years later.

An important rule is that the numbering of the summer games will remain the same for missed games. This also meant that the current successful Tokyo Olympics bore the XXXII serial number, but it was actually the 29th Summer Olympics held. Of the winter games held for the first time in 1924, two have been missed so far (1940 and 1944) which, however, were not even given a serial number. In the year of the canceled Tokyo Olympics, the director of the Winter Games would also have been the Japanese city of Sapporo, and then St. Moritz of Switzerland was given the right to organize, which was transferred to the Bavarian Garmisch Partenkirchen by another decision. Eventually, none of the three candidates could compete at the time, although two could be later compensated (St. Moritz in 1948, Sapporo in 1972), and „Garmisch”, like the Swiss, had previously (1936) been able to host the Winter Olympics. The Olympic Games could actually take place only 12 years later in the designated city of the 1944 winter venue which was the Italian Cortina d'Ampezzo, and in seven decades, the city will have the opportunity to do so again as a co-organizer with Milan (Horváth, 2021).

The postponement of the Olympic Games last year does not affect the timing or schedule of the next ones. The next Summer Olympics will thus take place in three years in Paris, followed by Los Angeles four years later, according to the original rhythm. By these times, the “world order” in the global fight against the pandemic is hopefully being restored.

Unfortunately, the one-year wait did not bring about any changes that would have made it possible to hold the Olympics in the usual way, naturally in terms of infrastructure and the way it was conducted. The competitions were practically behind closed gates, and the Olympians had to comply with strict pandemic rules, all of which made their mark on the atmosphere of the Olympic Games. Despite the former, it can be said that the second Tokyo Olympics - which kept its place for 2020 - was different from the others, but with its own difficulties and peculiarities, including its appearance, it still entered the ranks of the outstanding games.

From different aspects, the question often arises what makes an Olympics the Olympics? And this question was perhaps particularly legitimate now. The spectators were very missed from the stadiums, halls and swimming pools, but they could watch the fights from a distance. The competitions, which even in the past were sometimes extremely fierce, ended with respectable achievements, results and even records. At the Tokyo Olympics, you could still

admire the great personalities, making the chances come to fruition, or even the big surprises. Strangely this time, the medals were placed around the necks of the winners by their own hands but, as always, they still shone brightly. The Olympics and then the Paralympics were a major celebration of the sport in Japan and worldwide. The members of the Hungarian delegation also took part in all this. The athletes of our Olympic team represented Hungary in a worthy way in the competitions, while holding six Olympic championship titles, 14 additional medal and 156 nominal scores. This is an outstanding achievement for Hungary in any approach, in the light of our past, our Olympic traditions, and in the worldwide expectations.

THE CRADLE AND REBIRTH OF THE OLYMPICS WITH HUNGARIANS

Hungarians also joined the modern Olympic movement from the very beginning. The birthday of the modern games is well known, and at a conference on amateurism at the Sorbonne in Paris on June 23, 1894, participants accepted Pierre de Coubertin's proposal to revive the ancient Olympics and to form the International Olympic Committee (IOC). Undoubtedly, the rebirth of the Olympic idea is mainly due to the French baron and teacher, but his supporters and followers also include the Hungarian Ferenc Kemény, who was a member of the IOC and served on the board until 1907 (Kertész–Vad, 2009).

Nothing characterizes Hungary's rank in the Olympic movement from the very beginning better than the fact that during the uncertainties surrounding the organization of the first Olympics in Athens, Budapest was also mentioned as an option at the millennium celebrations as a possible location. Ferenc Kemény, as a member of the IOC, also played an important role in the fact that the Hungarian Olympic Committee was established on December 19, 1895, a substantial year after the decision of Paris, and was chaired by Albert Berzeviczy (Takács, 2012).

Coubertin's thought went back to ancient ideals and models, which was not without precedent. The ancient Olympic idea was revived by the Renaissance, then, over the centuries, references and even studies of the glorious past appeared more and more frequently, and local competitions under the name Olympic were regularly held in more than one place, such as in England but Greece as well (Szabó, 2012). Local, regional games still exist today, but they are not a real rival to the Olympic Games, in fact many are under the auspices of the IOC (Szikora, 2021). It is known that the modeling events of the ancient Olympia also stood out from the cult competitions of a similar nature, of which the games in Delphi (Pythos), Nemea and Isthmia definitely deserve to be highlighted (Mező, 1929; Keresztényi, 1980; Kertész, 2008). The restoration of the Olympics in the 19th century was undoubtedly given the greatest impetus by the archaeological excavation of ancient sites. The excavations from 1875 to 1881 were conducted under the direction of the German Ernst Curtius (Takács, 2012).

According to the notes on the mention of the Olympic idea in Hungary by Professor János Kisvárdai's lecture in Sárospatak in 1490, his student, László Szalkai, later the Archbishop of Esztergom, left it to posterity and became known as the "Szalkai Codex". From previous times we are left with several works related to the Olympics, one author in particular should be mentioned, Dániel Berzsenyi, who also called for the practical

implementation of the ancient model. Perhaps the best example of the latter was provided by physical educator Lajos Vermes, who organized the “Palic Olympics” in his narrower patriarch near Subotica in the middle of the 19th century (Szabó, 2012; Takács, 2017b).

As for the ancient games that are the benchmark, several scholarly authors say their beginnings are overshadowed by the “foggy past”. The first sure date of the Olympic Games is 776 BC, since the first recorded champion is known from this year, Koroibos who won the stadium race. From then on the Greeks calculated the four-year Olympic cycles. The fixed date before this is still 884 BC when, according to tradition, the king of Elis, Iphitos, the ruler of the neighboring Pisatis, Cleisthenes, and the Spartan lawgiver, Lycurgus, decided to hold the Olympic Games in honor of Zeus every four years (Kertész, 2008, 2021).

The end of the history of the ancient Olympics dates back to the banning of the cult of Zeus, which is associated with the reign of Emperor Theodosius I of Rome, who, according to one version, also banned the Olympic Games. Several sources dates it to 393 AD (Takács, 2017a). Recent research and publications, on the other hand, link the fate and end of the Olympic Games to Theodosius II, who ruled between 408 and 450 AD, and this certainly meant the end of the competitions held in the ancient stadium and other facilities in addition to the Olympic Holy Park (Kertész, 2008, 2021). However, research has shown that the Olympic Games continued for some time in other locations (Keresztényi, 1962, 1980). In fact, the Olympics in these times (especially so in the Sixth Century BC) was stricken by earthquakes and floods, as well as the fact that at the same time we can speak of a history of at least 1,000 years in the ancient Olympics (M. I. Finley–H. W. Pleket, 1980).

The initiative of Pierre de Coubertin modernized the ancient pattern in several respects. Thus, instead of a permanent venue, it “globalized” the right to organize, offering more and more opportunities to the competing cities. However, for the first time, the Olympics remained on Greek soil, and in April 1896 Athens was waiting for the Olympians (K. Georgiadis, 2003), where they came from 13 countries, so did the Hungarian delegation which began the road to successful Olympic performance was paved for other Hungarian athletes and swimmers, thanks to our prized swimmer, Alfréd Hajós for the two championship titles and other athletes’ outstanding results.

DEVELOPMENT OF THE NEW OLYMPIC GAMES

The following can be said in a nutshell about the period after rebirth of the Olympic Games: the range of the games, from the “childhood illnesses” to the beauties and difficulties of growth, through the dynamic and problematic eras, has been carried on with all the hallmarks of a successful history of development (Gallo, 2008, 2011; Keresztényi, 1980). Based on the aforementioned, changes in the conduct of the Olympics, competitions, and appearances can be divided into various sectors (Maraniss, 2008; Preuss, 2015; Printz, 1989). Each author marks the periods and inflection points in the history of the modern Olympics in a variety of approaches, the more detailed discussion of which goes beyond the scope of this study. The first three Olympics of the 1900s, starting with Paris, in the shadow of the world

exhibitions, fit the competitions of the French capital and especially St. Louis with the adjective “chaotic”. Four years later, in 1908, the English tried to separate the two events. Thanks to this, an Olympic atmosphere and a “real” Olympic stadium welcomed the athletes in the city on the banks of the Thames. It should be mentioned that in the midst of preparing for the next Olympics held in Stockholm, Pierre de Coubertin’s highly influential work “Une Olympie moderne” was published in 1910. There was an eight-year hiatus after the games, which took place in 1912 in order and in accordance with the needs of the age, then the conclusion of another phase in the history of the Olympics can unfortunately be linked to another world war.

In the 1920s and 1930s, modern Olympism became much richer. The five-ring flag appeared in Antwerp in 1920, and four years later the motto of the Olympics became final and well-known in Paris: *Citius, Altius, Fortius*, which was just augmented with an important word in Tokyo: “Together, or “Communiter”. (The four well-known Hungarian meanings are “Faster, Higher, Stronger - Together”.) An Olympic village was opened in the capital of Paris, although it was still a barracks district, but at the gates “Village Olympique” is set. Eight years later, this location was far surpassed by the 700 comfortable houses in Los Angeles. Here they also changed to the sixteen-day programs. The Olympic flame was first lit in 1928 in the stadium in Berlin - among other things, through Hungary – which arrived from Olympia for the opening of the grandiose event (Kertész-Vad, 2009).

The post-World War II Olympics, as evidenced by the numbers, showed a balanced development, with serious turbulence. This was especially true of the races held in remote Melbourne in 1956 (shared with Stockholm for the duration of the equestrian races). The time of the Roman Olympics and the 1964 Tokyo Olympics can rightly be called a period of technical change (Maraniss, 2008), when the Games were literally re-launched. The low point at the time for the Olympic movement was the Munich Games, which were hit by a terrorist attack. In the case of Montreal, struggling with organizing and infrastructure funding problems predicted of the ups and downs in the early 1980s, when political factors also had a depressing effect on the directors (Moscow, Los Angeles for the second time) and the entire Olympic movement. Seoul brought hope for recovery in 1988, with the organizers striving to create the “best of all time” Olympics... The content of the concept was adopted by the International Olympic Committee initiating the reforms on 8-9 December 2014 in Monte Carlo; the Olympic Agenda 2020 was used for guidance. However, the year also marked in the title of the material faced new challenges, new challenges had to be faced, which led to the decision to forcibly, postpone the summer games. In the pandemic situation that was considered manageable, the Tokyo Olympics could be opened in an unusual way with a delay of one year, and finally a memorable event and competition took place in Japan.

The history of the winter games began a good quarter of a century later than the summer, in 1924 with the reclassification of competitions in Chamonix, France. The snowy and icy events from then on took place in the same years as the summer games, until the nineties, when they alienated from each other with a change of rhythm. In this way, a summer or winter Olympics is held every two years from Lillehammer. (The 1994 Winter Olympics in

the Norwegian city followed the 1992 Albertville Games.) There has also been turmoil in the history of the latter, warrants due to the war, resignations, and competitions organized in the midst of more modest or even special conditions. All of this has sparked and sustained the interest of the sports-loving world, which today focuses on the Beijing Winter Olympics scheduled for 2022. As is well known, the next Winter Olympics will be held in the Chinese capital from February 4 to 20, 2022. This will make Beijing the first venue to host both summer and winter games.

HUNGARIANS AT THE OLYMPICS

The Hungarian team did not participate in only two of the modern Olympics with a history of 125 years. As the losing central power for the 1920 Antwerp Olympics, Hungary was not invited, but in 1984, along with several nations, it stayed away from the Los Angeles Summer Games for political reasons. The Hungarian Olympic delegation did not return from any of the Summer Olympics without a championship title, the peak being the 16th championship achieved in Helsinki in 1952. Hungary has participated in all the Winter Olympics, but we can only be proud of the Olympic champions since the last competitions, in the short-distance speed skating relay competition.

All Olympics are success and participation; there are many stories that don't fit within the framework of a short writing. The list of results can be found in the official publication of the Hungarian Olympic Committee entitled *Hungarians at the Olympic Games 1896-2016* (Aján et al., 2016), which will be published again at the beginning of next year, supplemented by the Hungarian successes of the recent Olympics. The rankings of Hungarian athletes at the Summer and Winter Olympics are summarized in the following tables. At the Olympics, the gold medal is popularly the title of the championship, and the number of gold medals is synonymous with the first place in communication and publications. Therefore, the context according to which the Hungarian Olympians won a total of 183 gold medals, 158 silver and 181 bronze medals at the previous summer and winter games is completely accepted.

On the podium, each member of the doubles and teams will receive their own medal, therefore in the case of such victories, the number of medals actually received may be a multiple of the (one) gold, silver or bronze counted and communicated as a priority. At the Olympic History Exhibition, which opened in the Millennium Park from July 21 till October 10, 2021, entitled "Our World-Speaking Champions," 302 portraits were available interactively on the wall of the champions. The number of Hungarian athletes with Olympic gold medals at the Tokyo Olympics increased, as Bálint Kopasz, Tamás Lőrincz, Kristóf Milák, and Sándor Tótká took part in the competition. Dóra Baranyi and Anna Kárász won the medal for the first time among the ladies in the kayak race, while Tamra Csipes and Danuta Kozák experienced the Olympics five times before and Áron Szilágyi twice, in London and Rio. According to this the total of 308 Hungarian gold medals has been won so far. Fencing competitors would immediately announce that at the closing ceremony of the first Athens Olympics, all Olympic winners received a diploma, as well as silver or copper

medals (not gold) and an oil branch (Szabó, 2012). However, the statistics, of course, record this as a gold medal recognition.

Unfortunately, 165 of the 308 Hungarian champions of the Olympics are no longer alive, while 143 are still living in Hungary or abroad. The five-time gold medalist Ágnes Keleti is the world's oldest living Olympic champion and is still an active and cheerful participant in various events. The youngest Hungarian Olympic winner is Kristóf Milák, who also successfully competed in Tokyo at the age of 21, while Alda Magyari, is the youngest, who as a goalkeeper greatly contributed to the bronze medal of the women's water polo team (www.mob.hu).

Based on the tables, at a glance, the tendencies that characterized the success of the Hungarian Olympic Games are outlined, and this is confirmed by the figures. The number of podium finishes achieved by the Hungarians was ten or less until Amsterdam, and our athletes initially enriched the Hungarian success with typically two or three gold medal positions per Olympics.

In terms of the number of gold medals, the pre-World War II peak (Berlin) was achieved in London 12 years later, followed by the all-time 16 in Helsinki, which has since stood out on the charts illustrating the Hungarian Olympic victories.

In a narrow statistical approach, the Hungarians won an average of 8.2 gold medals in the Olympics held after 1945. One of the extremes is Beijing where three gold medals were won, the other that is mentioned are 16 gold medals. Interestingly, the middle value (the median) is also eight in the row, and the Olympics of the last almost 75 years most often ended with eight Hungarian gold medals. Does this suggest that we Hungarians are “quadrant” to eight gold medals per Olympics? Not at all. The history of the Olympics has so far proved that their records and beauty include the realization and failure of chances and dreams. That is why it is not even unrealistic to expect that the performance of the Hungarians will surpass the triumph of Helsinki one day. Helsinki is also the leader in terms of the number of Hungarian medals (42), followed by Munich (35) and Mexico City and Moscow (32-32). Expectations and evaluations must also take into account the growing radiance of the Olympic movement. (This is well illustrated by the tables and related figures). The number of countries participating in the Summer Olympics has been growing steadily and dynamically, with minor problems, for some time.

The number of participating countries doubled for the 1900 Paris Games following the first Athens Olympics (from 13 to 26), approaching fifty in Berlin (49) and surpassing it in London in 1948 (59). Athletes from more than a hundred nations first took part in the Olympics in Mexico City in 1968, and the number of countries in Greece in the 2000s exceeded 200 (Athens: 202 countries) and has remained above that number ever since. (The team of athletes with refugee status was also there at the Olympics in Tokyo.)

The winter competitions in Chamonix were attended by athletes from 16 countries, with the number of delegations participating in the Winter Olympics approaching fifty (49) in Sarajevo six decades later, and more than half a hundred in Calgary four years later (57).

Eighty or more countries have already participated in the last four Olympics, and their number in Pyongyang (92) is approaching a hundred.

245 competitors took part in the first modern Olympics. The number of athletes competing in the Olympics has already exceeded 1,000 in Paris (1,225), which has doubled in 12 years to Stockholm (2,547 Olympians). The number of athletes in the Roman Olympics, which was one of the inflection points of the development of the Games, exceeded 5,000, and in 1996 it exceeded 10,000 for the first time in Atlanta (10,306 people). After the Olympics on the centenary of the modern Games, the number of people “stabilized” around 11,000, and in Tokyo it began to approach 12,000 again. The dynamic growth of the number of participating athletes is related to the expansion of the number of countries, the enriching program of the Olympics, which was accompanied by the appearance of new sports and competitions, and the proportion of Olympic and women’s mixed competitions.

For the first time, competitions in skateboarding, karate, sports climbing and surfing were held in Tokyo, but 3x3 basketball, freestyle BMX, was also a novelty. The application of the qualification system and the recurrent revision of the Olympic program (e.g. the omission of certain competitions or organizing them in a round) are used to control the number of participants. The curtail of the program can be classified as the so-called artificial elimination of placements (Nagy, 2020), whereas in the past it was possible to achieve two Olympic places (individual and team - by simply adding up the individual results of the team members, the number of points, the number of individual places, etc.), for example in pentathlon, and in gymnastics.

The number of participants in the Winter Olympics was close to 500 at the second time (St. Moritz, 1928), 1,000 exceeded in Innsbruck in 1964 (1,186), more than 2,000 took part in the 1998 Winter Games in Nagano for the first time (2,177), and the number of competitors at the last Pyongyang Winter Olympics approached 3,000 (2,833). According to preliminary expectations, approximately 2,900 athletes from 85 countries will compete at the Beijing Winter Olympics in February 2022 (www.mob.hu).

In addition to expanding opportunities, but in the face of increasing competition, Hungarian athletes have to do well at the Olympics. Five of the seven members of the Hungarian delegation to the Athens Olympics in 1896 took the podium. As it is well known, our first champion had two priorities in swimming. He returned with three points out of the four Hungarian Olympians who traveled to St. Louis in 1904. This time Zoltán Halmay won two championship titles in swimming. Of course, similar proportions could not be expected from the larger Hungarian delegations of the later Olympics. The number of Hungarian athletes already exceeded one hundred at the Stockholm Olympics; later more than two hundred Olympians represented Hungary at six Olympic venues (Berlin, Munich, Moscow, Barcelona, Atlanta, and Athens). Not far behind was the Hungarian team in Tokyo, in which the number of our female competitors participating in the Olympics (93 people) exceeded that of men (82 people) for the first time. This has happened several times during the Winter Olympics.

A small Hungarian delegation usually traveled to the Winter Olympics. The most populous delegation of the Hungarian Olympians took part in the 1964 Innsbruck Games. True, the Hungarian team made it to the ice hockey tournament at that time. Eight years

later, only one competitor, the figure skater Zsuzsa Almássy, represented Hungary in Sapporo and took the fifth place. The 19 members of the latest Hungarian team in Pyongyang have collected 15 Olympic points and finally have “broken the ice”. Our athletes were able to return from the 23rd Winter Olympics with a gold medal due to the success of the men’s relay in the short track speed skating competition, not even by one in terms of numbers.

Table 1: Rankings and “Olympic” scores of Hungarian athletes at the Summer Olympics (1896-2020)

Year	Place of the Olympics	I. place gold	II. place silver	III. place bronze	IV. place	V. place	VI. place	Score
1896	Athens	2	1	3	2	-	1	38
1900	Paris	1	2	2	3	3	-	40
1904	St. Louis	2	1	1	1	1	-	28
1908	London	3	4	2	5	4	1	73
1912	Stockholm	3	2	3	5	3	2	66
1924	Paris	2	4	4	2	4	5	69
1928	Amsterdam	5	5	-	3	4	3	80
1932	Los Angeles	6	5	5	4	6	2	113
1936	Berlin	10	1	5	7	8	4	136
1948	London	10	5	13	10	10	2	199
1952	Helsinki	16	10	16	6	9	7	269
1956	Melbourne	9	10	7	10	11	6	199
1960	Rome	6	8	7	9	7	4	155
1964	Tokyo	10	7	5	7	15	6	182
1968	Mexico City	10	10	12	4	7	2	196
1972	Munich	6	13	16	9	9	10	226
1976	Montreal	4	5	13	10	9	10	163
1980	Moscow	7	10	15	13	13	10	234
1988	Seoul	11	6	6	14	15	12	215
1992	Barcelona	11	12	7	5	11	9	211
1996	Atlanta	7	4	10	8	6	7	152
2000	Sydney	8	6	3	5	10	4	137
2004	Athens	8	6	3	8	8	6	144
2008	Beijing	3	5	2	8	6	4	94
2012	London	8	4	6	4	5	7	129

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Year	Place of the Olympics	I. place gold	II. place silver	III. place bronze	IV. place	V. place	VI. place	Score
2016	Rio	8	3	4	4	5	1	110
2020	Tokyo	6	7	7	10	9	3	156
	TOTAL	182	156	177	176	198	128	3 814

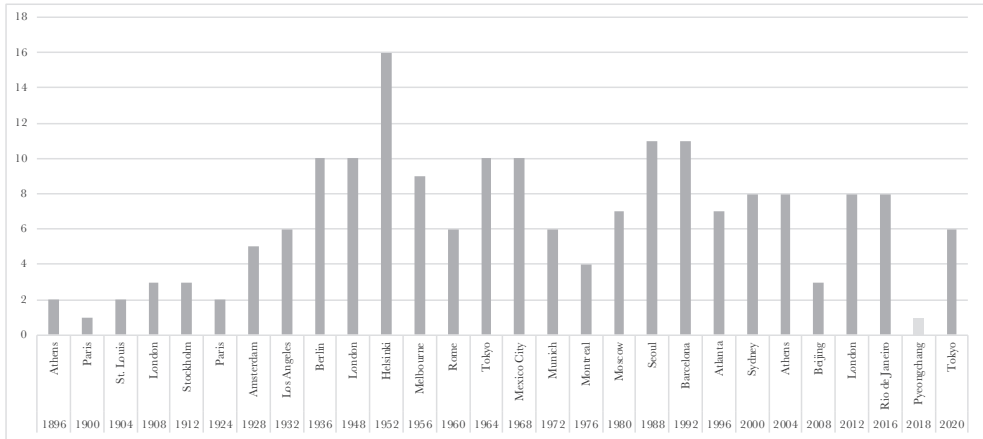
Source: Own editing based on the official publication of the Hungarian Olympic Committee entitled *Hungarians at the Olympic Games 1896-2016*

Table 2: Rankings and “Olympic” scores of Hungarian athletes at the Winter Olympics (1924-2018)

Year	Place of the Olympics	I. place gold	II. place silver	III. place bronze	IV. place	V. place	VI. place	Score
1932	Lake Placid	-	-	1	1	-	-	7
1936	Garmisch-P.	-	-	1	1	-	-	7
1948	St. Moritz	-	1	-	1	1	-	10
1952	Oslo	-	-	1	-	-	-	4
1956	Cortina d' A.	-	-	1	-	-	-	4
1968	Grenoble	-	-	-	-	-	1	1
1972	Szapporo	-	-	-	-	1	-	2
1976	Innsbruck	-	-	-	-	1	-	2
1980	Lake Placid	-	1	-	-	-	-	5
2006	Torino	-	-	-	1	1	-	5
2010	Vancouver	-	-	-	-	1	1	3
2014	Szocsi	-	-	-	-	-	1	1
2018	Pyeong-Chang	1	-	-	1	2	1	15
	TOTAL	1	2	4	5	7	4	66

Source: Own editing based on the official publication of the Hungarian Olympic Committee entitled *Hungarians at the Olympic Games 1896-2016*

Figure 1: Changes in the number of Olympic championship titles won by Hungarian athletes at the modern Games



Source: Own editing based on the official publication of the Hungarian Olympic Committee entitled Hungarians at the Olympic Games 1896-2016

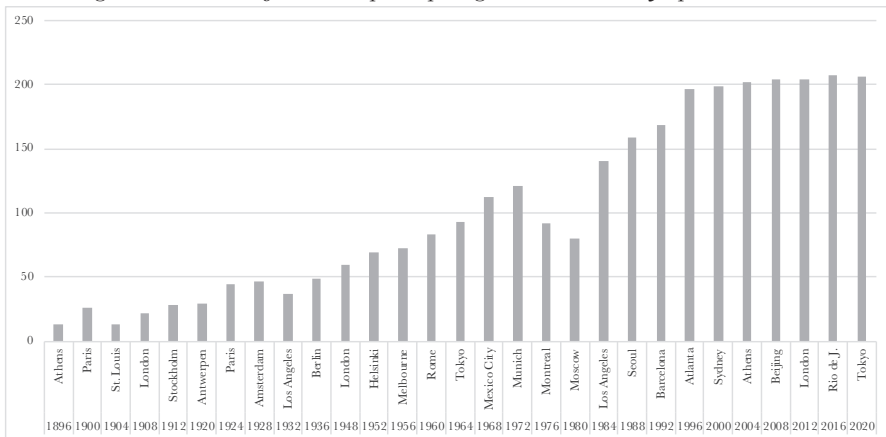
Table 3: Changes in the number of countries and athletes participating in the Summer Olympics and in the number of sports and competitions in the program (1896-2020)

Year of the Olympics	Place of the Olympics	Number of countries	Competitors (per capita)	Number of sports	Number of events	HUN men (per capita)	HUN women (per capita)	HUN participation (per capita)
1896	Athens	13	245	9	43	7	-	7
1900	Paris	26	1 225	18	87	17	-	17
1904	St. Louis	13	687	15	87	4	-	4
1908	London	22	2 035	22	110	63	-	63
1912	Stockholm	28	2 547	14+1	102	119	-	119
1920	Antwerpen	29	2 669	22+1	154	-	-	-
1924	Paris	44	3 092	18+1	126	86	3	89
1928	Amsterdam	46	3 014	15+1	109	93	16	109
1932	Los Angeles	37	1 408	15+1	117	52	2	54
1936	Berlin	49	4 066	20+1	129	197	19	216
1948	London	59	4 099	18+1	136	107	21	128
1952	Helsinki	69	4 925	18	149	162	27	189
1956	Melbourne	72	3 342	18	151	91	20	111

Year of the Olympics	Place of the Olympics	Number of countries	Competitors (per capita)	Number of sports	Number of events	HUN men (per capita)	HUN women (per capita)	HUN participation (per capita)
1960	Rome	83	5 348	18	150	153	27	180
1964	Tokyo	93	5 140	20	163	150	32	182
1968	Mexico City	112	5 531	19	172	135	32	167
1972	Munich	121	7 123	22	195	187	45	232
1976	Montreal	92	6 028	22	198	124	54	178
1980	Moscow	80	5 217	22	203	182	81	263
1984	Los Angeles	140	6 797	22	221	-	--	-
1988	Seoul	159	8 465	24	237	152	36	188
1992	Barcelona	169	9 367	26	257	159	58	217
1996	Atlanta	197	10 306	27	271	148	66	214
2000	Sydney	199	11 084	29	300	109	69	178
2004	Athens	202	11 902	29	301	119	90	209
2008	Beijing	204	10 904	28	302	88	83	171
2012	London	204	10 958	26	302	93	59	152
2016	Rio de J.	207	11 237	28	306	88	66	154
2020	Tokyo	206	11 417	33	339	82	93	175

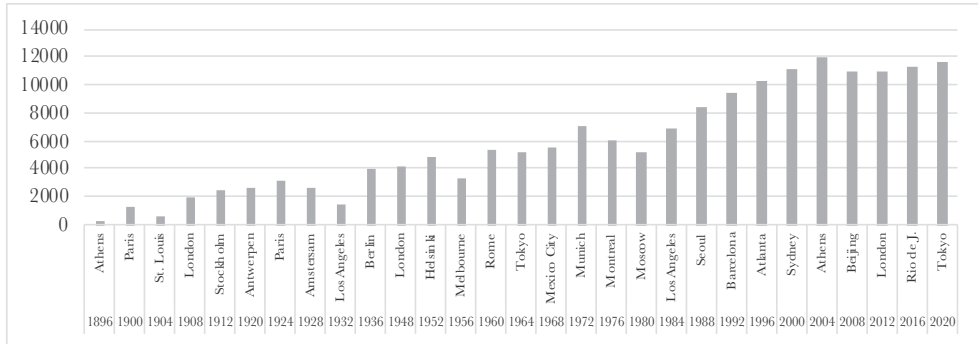
Source: Own editing based on the official publication of the Hungarian Olympic Committee entitled *Hungarians at the Olympic Games 1896-2016*

Figure 2: Changes in the number of countries participating in the Summer Olympics



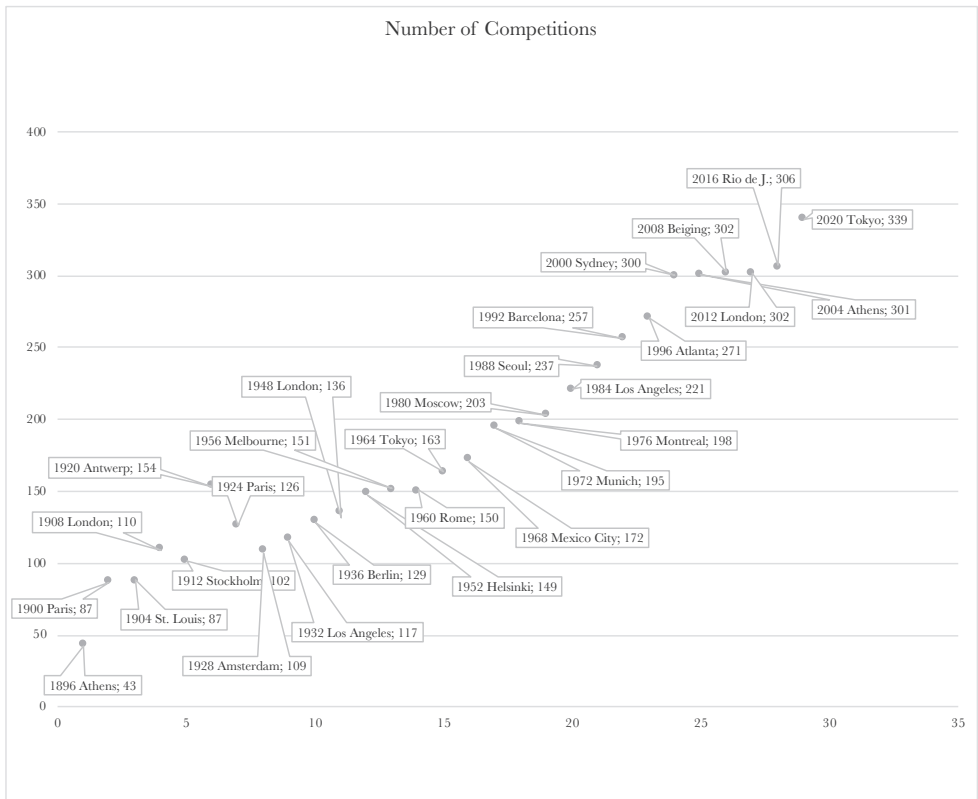
Source: Own editing based on the official publication of the Hungarian Olympic Committee entitled *Hungarians at the Olympic Games 1896-2016*

Figure 3: Changes in the number of athletes participating in the Summer Olympics



Source: Own editing based on the official publication of the Hungarian Olympic Committee entitled *Hungarians at the Olympic Games 1896-2016*

Figure 4: Development of the number of competitions at the Summer Olympics



Source: Own editing based on the official publication of the Hungarian Olympic Committee entitled *Hungarians at the Olympic Games 1896-2016*

Table 4: Changes in the number of countries and athletes participating in the Winter Olympics and in the number of sports and competitions in the program (1924-2018)

Year of the Olympics	Place of the Olympics	Number of countries	Competitors (per capita)	Number of sports	Number of events	HUN men (per capita)	HUN women (per capita)	HUN participation (per capita)
1924	Chamoniox	16	294	4	14	4	-	4
1928	St Moritz	25	495	5	13	12		12
1932	Lake Placid	17	306	4	14	2	2	4
1936	Garmisch-P.	28	755	4	17	22	3	25
1948	St. Moritz	28	713	5	22	17	5	22
1952	Oslo	30	732	4	22	8	4	12
1956	Cortina d' A.	32	818	4	24	1	1	2
1960	Squaw V.	30	665	4	27	2	1	3
1964	Innsbruck	36	1 186	6	34	22	6	28
1968	Grenoble	37	1 293	6	35	8	2	10
1972	Sapporo	35	1 232	6	35	-	1	1
1976	Innsbruck	37	1 128	6	37	2	1	3
1980	Lake Placid	37	1 071	6	38	1	1	2
1984	Sarajevo	49	1 277	6	39	7	2	9
1988	Calgary	57	1 428	6	46	3	2	5
1992	Albertville	64	1 808	6	57	13	11	24
1994	Lillehammer	67	1 801	6	61	5	11	16
1998	Nagano	72	2 177	8	68	8	9	17
2002	Salt Lake C.	77	2 399	8	78	14	11	25
2006	Torino	80	2 608	7	84	11	8	19
2010	Vancouver	82	2 632	7	86	6	9	15
2014	Sochi	88	2 780	7	98	7	9	16
2018	Phjongcs-hang	92	2 833	7	102	9	10	19

Source: Own editing based on the official publication of the Hungarian Olympic Committee entitled Hungarians at the Olympic Games 1896-2016

According to the data, the number of sports in the Winter Olympics is relatively stable, while the number of participants and competitions is expanding dynamically. The reason for this can be found in the fact that the specialist materials and statistics classify the competitions into some traditional sports groups, but the internal structure of the program is expanding. Consequently several sources divide competitions into 15 sports / disciplines.

THE VALUE AND EVALUATION OF OLYMPIC SUCCESSES

First of all, when remembering the value of the Olympic successes, we must not forget the classic statement that in the Olympics it is not (so much) victory that is important, but the participation. The idea quoted is more than once attributed to Pierre de Coubertin, the father of the modern Olympics, from whom many of the foundations of modern games are indeed derived, but the theorem in question was not uttered by him for the first time, but on July 19, 1908, during the then Olympics, at St. Paul's Cathedral in London from Bishop Ethelbert Talbot of Pennsylvania. However, according to the rumor, a few days later, the president of the IOC himself used this wording that remained the archbishop's proverb for posterity. It is undeniable that young people who choose to play Olympic sports may have the strongest desire to take part in the biggest sporting event in the world, representing their country, sensing and feeling its greatness, and atmosphere.

However, the focus of the Olympic Games is only on contest and competition, and "winning the Olympics" is an incomparable experience for those who experience it, just as cheering for the success of competitors on behalf of our nation, whether on the spot or remotely, in front of screens, or in other ways. Olympic successes can be clearly measured in Olympic championship titles, medals, rankings or "simply" in the participants' excellent performance that surpassed others or in the past. In the case of an athlete, the greatest result is the Olympic championship title, but the number of gold medals is also the main indicator of the Olympic role of athletes in each nation. All podium finishes are very serious, the silver or bronze medals also shine beautifully, and the "non-medal" excellent achievements deserve recognition.

As a result of the above, Olympic successes are typically measured in championship titles, gold medals and the number of medals. This is where the preliminary expectations are expressed, and then the number of gold medals and additional medals is the focus of the subsequent analysis and evaluations. Competitors typically professionals and fans consider the actual results in the light of the preliminary odds, expectations and the Olympic performances of others nations or previous periods. In the meantime, we cannot forget about good rankings, of which scoring positions - in addition to the winners traditionally the 4-6 places have the greatest value. Although there is no official competition for the overall performance at the Olympics among the nations and certain countries' sport delegates, the number of first places won is still counted on the medal table, supplemented by an unofficial points competition, which calculates the number of places in the various sports transfers and aggregates and ranks countries using this method. The values of the scoring places in the currently more widely used tables are; I place: 7, II: place 5, III: place 4, IV:

place 3, V: place 2, and finally VI place: 1. The scores listed are used by an “agreement”. By assigning different orders of magnitude and other differences to each placement, the overall scores may change mathematically, but the ranking based on the test calculations performed will not be substantially affected. Just one example, if the first place were recognized with 10 points instead of 7 points (there is such a version), only three changes (changes of places) would take place in the first 25 places of the last Tokyo Olympics, which would not affect Hungary's 13th place.

Experience has shown that the ‘unofficial’ Olympic score table is increasingly being relegated to communication and publications, and that the performance of each country's Olympic delegation is being compared with that of the medals won. It is known that according to the logic of the medal table, the ranking is determined primarily by the number of gold medals, in the event of a tie, the number of silver medals decides the result, and the same is true for the silver and bronze medals won.

The delegation of Hungarian athletes took a prominent place in the medal table of the Summer Olympic Games and in the unofficial points competition on several occasions. In this respect, the Helsinki Olympics were also the peak, when Hungary was third in both rankings. The Hungarian delegation also took the “podium” position on the medal table of the Berlin Olympics, and together with 1952, there were six Olympics between 1948 and 1988, when our nation could be found in one of the first six places on the medal table and according to the Olympic points. In the rankings in question, the Hungarians also finished among the best (in the first twenty) at the last Olympics, but - due to the completion of the Olympic field, they reached somewhat more modest positions than previously.

With the expansion of the program of the Olympics and the number of participants, and in connection with this the intensification of competition, the methods of more complex analysis and evaluation of the results came to the fore, which relied on several criteria for presenting the performance of each country. These include, in particular, specific indicators such as changes in the number of Olympic titles, medals or ‘Olympic points’ per capita in a given country (e.g. per million people), or the inclusion of economic indicators in the analysis (e.g. changes in the GDP per capita) correlation with the numerical Olympic results). More than once, research examines the effectiveness of each country in certain groups of countries and participants (e.g. geographical regions, categorized according to their Olympic traditions). Hungary is well placed in all of the above approaches, and is one of the leaders in terms of Olympic success per capita (or even one million).

In terms of population-based Olympic successes, there is few other nations ahead of Hungary, and this applies to the history of the modern Olympics until recently. Undoubtedly, this is fundamentally true of the Summer Olympics, as nations with a long tradition of winter sports diligently collect medals and placements on snow and ice. Consequently, taking into account the first places in the Summer and Winter Olympics, we have Sweden with a long sports tradition, a similar population and Norway, which currently has a population of just over half of Hungary's population, which is also valid for the specific data. However, it is only on the basis of the Summer Olympics that we are ahead of the two northern countries in terms of league titles and the number of medals. As for the

recent performance in Tokyo, the Hungarian delegation finished 15th in the medal table and 13th in the leaderboard. In the case of a dozen of the countries participating in the Olympics, including Hungary, the number of medals per one million people reached or exceeded two, and the six gold medals were in the top twenty in terms of the number of championship titles per one million people. All this means that according to the data, the position achieved so far in the list of results projected for the population has been maintained, although so far Hungarian athletes have not had the opportunity to take advantage at the time of the Olympics. The success of even a small number of athletes in a small country can take its Olympics to the forefront. A good example of this is Tokyo, where, for example, the San Marino delegation won medals for the first time in the history of the Olympics and even three at a time (1 silver and 2 bronze ones in sport shooting and wrestling), which is a very high specific performance based on a population of 30,000. An interesting comparison is provided by an analysis of the proportion of championship titles, gold medals / medals or unofficial points available to the participating delegation at each Olympics. Available points can be calculated based on the competition numbers. However, when applying points 22 (7 + 5 + 4 + 3 + 2 + 1) per number, it should be noted that not all places can be considered in the same way for all, for example because the fate of third-fourth places is not decided. In this case there are two bronze medals, but there is no fourth place. When the results of the 339 events in Tokyo (National Sports, 2021) were announced, 340 champions (individuals or teams) could have reached the top of the podium due to the tie between the two winners of the men's high jump, bringing the number of second place winners by one less than 338. There was also a tie (bronze medal) among the bronze medalists, and in martial arts typically 2-2 bronze medals were found (18 in wrestling, 15 in judo, 15 karate, 8 in boxing and 8 in taekwondo). According to the above, the number of 3rd places were 402 in Tokyo.

Assessing the Hungarian performance in Tokyo with this method, they won almost 2% (1.8%) of all championship titles and a similar share of medals, including gold, at the Olympics, and roughly "every 50th" also applies to the share of all Olympic scores. The data for the top six finishers in the medal table, supplemented by the percentage of medals won, show that more than a tenth of the medals (medal placements) to be won in Tokyo were taken by US competitors. The performance of Chinese athletes has approached 10% of all medals, and thanks to their more balanced medal collection, the Russian team and Britain have overtaken Japan in this approach. In terms of Olympic championship titles, athletes from the U.S. and China went head-to-head, with both delegations eventually accounting for more than 11% of the "gold medals". The 0.3 percentage point (11.5% - 11.2%) difference is due to a single gold medal discrepancy (39-38) in favor of the United States.

Medals 1-6 delegations can claim for themselves almost half of the gold medals (48.0%), 42.3% of the second place, and one third of the bronze (33.6%).

The former series of numbers indicate a strong concentration of the performance of the members of the Olympic family in medals, while the proportions in terms of the color of the medals also indicate a growing amount the countries achieving the podium finish.

This is supported by Figures 1-25 of the Medal Board. According to them, they won three-quarters of the medals (74.9%) and 80.9% of the championship titles. The virtue of this method is that it is suitable for measuring concentration in the light of all the medals available, but needs to be refined to determine the exact percentages / proportions. In a significant part of the competitions, according to the rules, it is not even theoretically possible for a nation to be represented by more than one entrant, for example to achieve more than seven points. For example, ball games with teams, among others, are typical, although the Olympics at the “dawn” of modern games provided exceptions (Miller, 2003).

Table 5: Number of medals in some countries and share of total medals available at the 2020 Tokyo Summer Olympics

Rank	Country	Gold pcs.	Silver pcs.	Bronze pcs.	Medals pcs.	Gold %	Silver %	Bronze %	Medals %
1.	USA	39	41	33	113	11,5	12,1	8,2	10,5
2.	China	38	32	18	88	11,2	9,5	4,5	8,1
3.	Japan	27	14	17	58	7,9	4,1	4,2	5,5
4.	United Kingdom	22	21	22	65	6,5	6,2	5,5	6,0
5.	Russian Team	20	28	23	71	5,9	8,3	5,7	6,6
6.	Australia	17	7	22	46	5,0	2,1	5,5	4,2
1-6.	Total	163	143	135	441	48,0	42,3	33,6	40,9
15.	Hungary	6	7	7	20	1,8	2,1	1,7	1,9
1-25.	Total	275	258	276	809	80,9	76,3	68,7	74,9

Source: Own editing based on the Medal Table published on the National Sport online interface

The above information proves that the examination of the Olympic results cannot miss more complex, specific approaches and the use of information that can be compared in a relevant way. A good example of the above is an analysis published in National Sports, which evaluated the Tokyo Olympic performance among Central European countries (National Sports, 2021), highlighting Hungary's traditionally outstanding performance in maintaining its leading position in the region.

Ultimately, the Olympic performance can also be evaluated in a strict way for individual Olympians, based on their medals and points. The closer the analysis is to the particular athlete, the better the former classic quantitative criteria can be supplemented with qualitative elements, trait personality traits, preparation conditions, background, etc. As for the individual medal table of the Hungarian Olympians, Tokyo made a difference among the best in that Danuta Kozák was included in the group of six-time Hungarian Olympic champions, Rudolf Kárpáti and Pál Kovács, with his success in the kayak four.

Table 6: List of Hungarian athletes who have won more than three Olympic championship titles

Name	Sports	Number of gold medals	Period of Olympic participation
Aladár Gerevich	Fencing	7	1932-1960
Rudolf Kárpáti	Fencing	6	1948-1960
Pál Kovács	Fencing	6	1936-1960
Danuta Kozák	Kayak- Canoe	6	2008-2020
Krisztina Egerszegi	Swimming	5	1988-1996
Ágnes Keleti	Gymnastics	5	1952-1956
Tamás Darnyi	Swimming	4	1988-1992
Dr. Jenő Fuchs	Fencing	4	1908-1912
Győző Kulcsár	Fencing	4	1964-1976

Source: Own editing based on the official publication of the Hungarian Olympic Committee entitled *Hungarians at the Olympic Games 1896-2016*

When evaluating individual performances, it should also be taken into consideration that the possibilities for collecting Olympic medals vary from sport to sport and competition to competition. In ball games, team members have the opportunity to win one medal per Olympics. The same can be said for a significant portion of individual numbers, such as boxing, weightlifting, or just sailing. It is no coincidence that in the interactive program of the conference in honor of the heroes of the Olympics at the time of the study (www.mob.hu, 2021), the participants nominated a number of Olympians among the biggest individuals who did not appear in the former list or did not win a championship, but with their other achievements and individualities they stood out from the Hungarian participants in the Olympics. (Among others, the three-time gold medal excellence, the pentathlete András Balczó and the water polo player Dr. György Kárpáti, the soccer player Károly Palotai and Ferenc Puskás, the hammer thrower Gyula Zsivótzky and the women's basketball team, which qualified but did not make it to the 1984 Olympics, was also on the ballot papers submitted for the heroes ballot papers.)

A number of conclusions can also be drawn from the examination of Olympic successes by sport. Some countries and nations have particularly successful Olympic sports and competitions, and fortunately Hungary is no exception. For decades, only Hungarian success in men's fencing was achieved, both in teams and individuals, Krisztina Egerszegi won at three consecutive Summer Olympics on 200m backstrokes, Danuta Kozák (so far) sitting in the kayak foursome, Papp "Laci" boxing, the dueling team from 1964 to 1972, and the men water polo team from 2000 to 2008. In Tokyo, Áron Szilágyi also signed up for the triples, and even before that he was in the 51st year (National Sports, 2021), when he won the seventh gold medal in fencing in Rome. It may come as a surprise to younger people that Hungary tops the medal table for men's football tournaments at the Olympics with three first places (1952, 1964, and 1968) and a second place (1972) and a third place (1960).

According to the following table, Hungarian athletes (including art competitions) have won Olympic gold medals in about fifteen sports and have won medals in thirty sports. Only one of these, skating, is part of the Winter Olympics program.

Almost all of the items listed in the table can be considered successful sports in some way. Here you can refer to for example the nine triumphs of water polo players. This water sport was featured in 28 Olympic programs, but on one occasion (in 1904) the tournament was “held” with the participation of only one team.

It follows from the above that the competition of the men's polo team ended with Hungarian primacy in one third of the Olympic competitions. Gold medal placements from fencing, swimming and kayaking (95) account for more than half (51.9%) of all Hungarian Olympic championship titles (183), with a high share (1781 points, ie 45.9%) also from the Olympic points achieved by Hungarian athletes. This is illustrated in Diagram 5 and 6 as well.

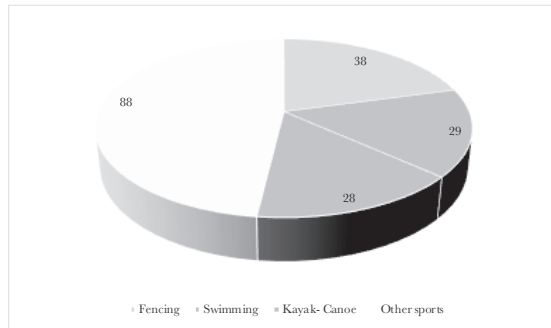
Table 7: Olympic “scoring” positions of Hungarian athletes by sport (1896-2020)

Rank	Sports	I. place gold	II. place silver	III. place bronze	IV. place	V. place	VI. place	Score
1.	Fencing	38	24	28	26	25	14	640
2.	Swimming	29	27	20	29	27	19	578
3.	Kajak-kenu	28	31	27	21	14	13	563
4.	Kayak- Canoe	20	17	19	29	24	14	450
5.	Gymnastics	15	11	14	13	11	14	291
6.	Athletics	10	12	18	19	21	13	314
7.	Boxing	10	2	8	2	21	-	160
8.	Pentathlon	9	8	6	3	3	3	145
9.	Water polo	9	3	5	4	5	2	122
10.	Shooting	7	3	7	4	9	11	133
11.	Soccer	3	1	1	-	1	-	32
12.	Weight lifting	2	9	9	7	6	15	143
13.	Judo	1	3	6	-	12	-	70
14.	Skating	1	2	4	5	7	4	66
15.	Art competi- tions	1	2	1	-	-	-	21
16.	Handball	-	1	2	7	1	1	37
17.	Rowing	-	1	2	2	6	4	35
18.	Sailing	-	1	1	-	-	-	9
19.	Equestrianism	-	-	1	2	1	1	13
20.	Tennis	-	-	1	-	1	-	6
21.	Karate	-	-	1	-	-	-	4

Rank	Sports	I. place gold	II. place silver	III. place bronze	IV. place	V. place	VI. place	Score
22.	Volleyball	-	-		2	1	1	9
23.	Table tennis	-	-	-	2	-	-	6
24.	Cycling	-	-	-	1	6	2	17
25.	Basketball	-	-	-	1	-	-	3
26.	Polo	-	-	-	1	-	-	3
27.	Diving	-	-	-	1	-	-	3
28.	Taekwondo	-	-	-	-	2	-	4
29.	Archery	-	-	-	-	1	-	2
30.	Rythmic gymnastics	-	-	-	-	-	1	1
	Total	183	158	181	181	205	132	3880

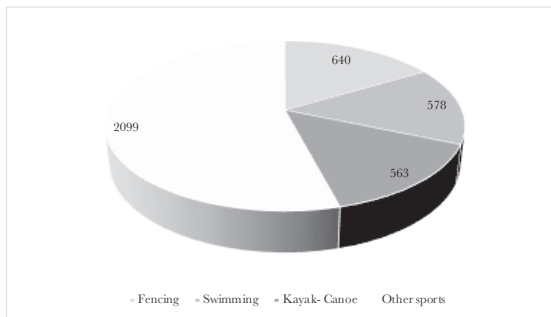
Source: Own editing based on the official publication of the Hungarian Olympic Committee entitled *Hungarians at the Olympic Games 1896-2016*

Figure 5: The share of Hungarian “successful sports” in the Hungarian Olympic



Source: Own editing based on Table 7 of the study

Figure 6: The share of Hungarian “successful sports” in the Olympic points achieved by Hungarian athletes



Source: Own construction based on the data in Table 7 of the study

The Hungarian championship titles also increased in Tokyo in the three sports that took the “podium” of the list, as well as in the wrestling “lined up” behind them, as follows.

Table 8: Hungarian Olympic champions in Tokyo in the XXXII. Summer Olympics

Olimpian Champions	Sport	Event
Tamás Lőrincz	Wrestling	Men's Greco-Roman 77kg
Bálint Kopasz	Kayak and Canoe	Men's Single Kayak 1000m
Sándor Tótká	Kayak and Canoe	Men's Single Kayak 200m
Dóra Bodonyi Tamara Csípes Anna Kárász Danuta Kozák	Kayak and Canoe	Women's Kayak Four 500m
Kristóf Milák	Swimming	Men's Butterfly 200m
Áron Szilágyi	Fencing	Men's Individual Sabre

Source: Own editing

Two of the Tokyo silver medal winners were won by Hungarian athletes in the kayak-canoe and swimming competitions, and one each in wrestling, fencing and - for the first time in the history of the Olympics - in sailing (Zsombor Berecz). In addition to the kayak-canoe and fencing, which won one bronze medal, judo, karate and pentathlon was entered and the men's and women's teams were also in third place on the podium. Among the scorers, cycling, sport shooting and taekwondo were also “introduced to” 4-6 places. Thus, our Olympians have collected a total of 156 Olympic points in a dozen sports based on 42 points. At the last Winter Olympics, Hungarian athletes scored five points in short-distance speed skating. One of these was the medal place, but the gold went to the members of the 5,000-meter relay (Csaba Burján, Viktor Knoch, Shaolin Sándor Liu), and this success meant the first Winter Olympic Championship for Hungary (Amler, 2018).

Beijing here we come!

CONCLUSION

One of the greatest “inventions” left to mankind by the ancient Greeks is the OLYMPICS. The summer and winter games, which take place every four years with a two-year postponing, touch even those who are not sports fans. As the opening of the Olympics approaches, the question arises more and more often - in the public discourse, in the press, but also officially, how many gold, how many medals can be expected, and during the competitions

every day many people count how expectations and dreams have come true. In such cases, the probability of success of the potential competitors and teams can be pondered again and again, always expecting pleasant surprises. Then the evaluation can follow after all the competitions and matches that have taken place!

The success of the Hungarian delegations in the Olympics consists of the performance of individual competitors and teams. Effective methods are needed to evaluate the achievement of the set goals and to compare them with other countries and nations. As a result of countries concentrating about obtaining medals, it is obvious to use medal tables to compare delegations, but there is an unofficial ‘points race’ that converts the rankings of individual nations (delegations) into single-point data, thus providing a basis for ranking the performance of countries participating in the Olympics. In both approaches, Hungary was one of the leaders in Tokyo, and this is especially true when the population of each country is included in the evaluation as another criterion.

Based on a deeper examination of the methods of analysis of the Olympic results, the study also draws attention to the need to use models for complex evaluations that reach appropriate conclusions in terms of sports, social and economic impacts in addition to the mentioned quantitative categories. Regular analyzes can provide continuous support for the assessment and confirmation of the effectiveness of the Hungarian Olympians, and at the same time they can contribute to the current Olympic preparations and the new successes of the Hungarian athletes.

Concerning the future vision, let the study close with the idea expressed by Thomas Bach, Chairman of the International Olympic Committee, when igniting the Olympic flame going to Beijing according to which in our fragile world, the Olympic Games always form a bridge and never raise walls (www.mob.hu., 2021).

NOTES

- ¹ At the time of the conclusion of the study, the news came that the flame of the Beijing Olympics had been ignited in Olympia, “speaking out” of the Winter Games and the Paralympics Games starting a hundred days later (www.mob.hu, October 18, 2021), and that the flame arrived in China, where after a brief ceremony, it was transported to the Beijing Olympic Tower. From here, it will reach the Olympic Stadium by about 1,200 torchbearers, touching the competition zones of Beijing, Zhangjiakou and Yanqing (www.mob.hu, October 21, 2021).
- ² The data used in the official publication of the MOB, which is considered to be authoritative even in the case of discrepancies in the literature, are supplemented here and in the additional tables and figures of the study with the data of the 2018 Pyongyang and / or 2020 Tokyo Olympics.
- ³ The table only includes the Winter Olympics in which Hungarian athletes achieved a “score” (1-6).
- ⁴ Due to the ban on the importation of Australian horses, the equestrian competitions of the 1956 Summer Olympics were held in Stockholm. The data in the table contains the combined data for the two locations. The intellectual competitions held from 1912 to 1948 are not classified as independent sports by some authoritative sources, which is why the table also marks them separately (as +1).

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Péter Sasvári – Brigitta Ludányi

Changes and Impact of Minimum Publication Requirements for University Full Professor Applications in Social Sciences in Hungary



Summary

On 1 September 2020, the Guidelines for the preparation and evaluation of university full professor applications, as amended by the Hungarian Accreditation Committee's Decision 2020/6/IV/2 and adopted by the Board Decision 2019/5/VII/4, entered into force. The revised requirement system represents the transformation of the previous benchmarks. The focus of academic performance has shifted to journal publications but beyond domestic publications, international publications – a prerequisite for international visibility and a prominent place in quality ranking – have also become a condition for achieving academic degrees. The present study examines the impact and consequences of the new requirements on university full professor applications and, more broadly, on international academic recognition, through the publication activities of lecturers at Hungarian universities with a profile in economics and social sciences. Does the “new” regulation of the Hungarian Accreditation Committee affect the scientific progress of the individual and the community or institution?

Journal of Economic Literature (JEL) codes: F6, O3, Z0

Keywords: Hungarian Accreditation Committee, university full professor application, requirement system, social sciences, journal publication

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INTRODUCTION

In June 2020, the Hungarian Accreditation Committee (hereinafter referred to as HAC) adopted the amended guidelines for university full professor applications (the document titled *Guidelines for the preparation and evaluation of university full professor applications*, as amended by HAC Board Decision 2020/6/IV/2, adopted by HAC Board Decision 2019/5/VII/4, in a consolidated structure with the amendments), which will enter into force on 1 September 2020. The guidelines set out minimum, general and specific criteria, including those for higher education and academic activities. The forward-looking set of criteria outlined in the decision is part of a major process in the international academic community leading to a complete overhaul of the current benchmarks.

The international scientific field is attracting more and more actors, making success and recognition increasingly dependent on journal publication performance (Wuchty et al., 2007). Today, it is no longer enough to publish only in one's own country, because in an increasingly competitive and transparent world, where digital tools make it easier to see what is happening, international publication performance is a prerequisite for international ranking. The model of application-based funding is also gaining more ground in Hungary at all levels of the scientific ladder. This new type of funding system expects result-orientation on the one hand; regular and transparent evaluation systems, international and domestic research, and teaching excellence, furthermore struggle for resources and support, from all institutions and employees in the Hungarian higher education system (Kozma, 2011).

Participants in the Hungarian academic system can advance in both their levels and job titles according to their performance and individual merit. The academic steps are the PhD degree (Kiss, 2014), followed by the habilitation (Dobos et al., 2016; Sasvári–Urbanovics, 2019), the doctorate of the Hungarian Academy of Sciences (hereinafter: HAS) (Zalai, 2006), and finally the member of the Hungarian Academy of Sciences (full and corresponding member of the HAS) (Polónyi, 2010). Substantive professional selection takes place in the HAC university full professorial review system, and the HAS doctoral application system (Bazsa, 2017). Job positions are also rising in parallel, with the assistant lecturer, assistant professor, associate professor, and the university full professor levels respectively (Sasvári–Urbanovics, 2019). The university full professor is the highest academic title in the scientific community in Hungary.

The purpose of this paper is to present the revised 2020 guidelines for journal articles. The change is positive for those publishing in the faculties of social and economic sciences in terms of the minimum publication requirement but may pose difficulties in achieving international rankings in the longer term.

THEORETICAL BACKGROUND

The revised university full professor HAC regulations coming into force in September 2020 will allow researchers in the social and economic sciences to submit journal articles to the HAS international A and B listings in addition to, or instead of, Q1 and Q2 articles and

monographs. Social sciences can be divided into the following disciplines, as described in the appendix to the HAC Guidelines for the preparation and evaluation of applications for university full professors:

- political sciences and law,
- military sciences,
- public administration,
- media and communication sciences,
- political sciences,
- law enforcement sciences,
- and sociological sciences¹:

And economics can be divided into:

- management and organisation sciences,
- economics,
- and regional sciences.

The revised guidelines set out the minimum requirements as follows: “the minimum requirement is that the applicant must be the author of at least two Q1 or Q2 articles in a foreign language, in an area relevant to the professional field, or of an article in category A or B of the international journals of the HAS, or of at least one monograph published by a recognised international publisher” – Guidelines, page 13.

There are three possible ways to meet the minimum publication requirements:

1. The first possible way is to write a qualified journal article according to the Scimago Journal Rank (SJR) international journal ranking. An important element of the transition is that journals (and through them articles) are ranked based on their SJR value ranking within a specialized category into four classes of equal size (both at the provider and in the HSB), starting from the top 25% of the ranking and ending with the bottom 25%. This so-called ‘quartile ranking’ (Q1: top 25%; Q2: 25-50%; Q3: 50-75%; Q4: 75-100%) allows, at least in principle, direct comparison of journals and articles from different disciplines and fields (i.e., according to their position in their respective fields) (Soós, 2017).
2. Section IX of Economics and Law – including sociology, demography, and political sciences of Hungarian Academy of Sciences was originally established as a body of academic members from these two major disciplines. The scientific or doctoral committees of this section (hereinafter referred to as SEL) act as a body in the procedure for the award of the HAS doctor’s title of science, and these are the following: Committee on Legal and Political Sciences (CLPS), Committee on Business Administration (CBA), Committee on Military Science (CMS), Committee on World Economics and Development Studies (CWEDS), Committee on Political Science (CPS), Committee on Regional Studies (CRS), Committee on Sociology (CS), for doctoral matters concerning demography, either the Committee on Sociology or the Committee on Business Administration, with the addition of doctoral members of the Interdepartmental Standing Committee on Demography (CD). According to the list of journals of the Committees, the targeted professional audience (authors and readers)

and the international profile of the journal, two categories are distinguished: international and national journals, which are classified into four categories (categories A, B, C and D; category A is the most important and category D the least important). The SEL list ranking has the distinct advantage of allowing a qualitative assessment of international journals that are largely outside the scope of international databases such as Scopus and Web of Science. Only SEL has such a categorised list, which covers social and economic sciences as defined by the HAC.

3. The third possible way is to write a monograph published by a recognised international publisher. A monograph is an independent, professional piece of writing, which deals with a scientific issue from all aspects, exhaustively and coherently. The peer-reviewed journals for economics include a list of publishers which can be considered 'recognised' (see Annex).

So, the revised version in terms of minimum publications

- makes it easier for applicants to include the SEL international list, on the one hand;
- it is a clarification in the field of economics, as it indicates which books from which publishers are acceptable, on the other hand.

The international SEL-listed journals are divided by committees. Each committee list contains journals in categories A, B, C and D. The following committees have a journal list: CLPS, CBA, CMS, CWEDS, CPS, CRS, CS and CD. A journal may be included in one or more international SEL committee lists. The committees have agreed to accept a journal article on another committee's list with a rating of at least D if it is submitted by the applicant.

THE RESEARCH PROCESS

For the sake of clarity, it is important to note here that our analysis was extended to 21 Hungarian higher education institutions in the field of social and economic sciences: Corvinus University of Budapest, Budapest Business School, Budapest Metropolitan University, Budapest University of Technology and Economics, University of Debrecen, Eötvös Loránd University, Eszterházy Károly Catholic University, Gál Ferenc College, University of Kaposvár, Károli Gáspár University of the Reformed Church in Hungary, University of Miskolc, University of Public Service, Neumann János University, Óbuda University, University of Pannonia, Pázmány Péter Catholic University, University of Pécs, University of Sopron, Széchenyi István University, University of Szeged, and Szent István University.

Of the 21 universities, there are 41 faculties or institutes dealing with social and economic studies. These are the following:² BCE-GTK, BCE-KTK, BCE-TK, BGE-GKZ, BGE-KKK, BGE-KVIK, BGE-PSZK, BME-GTK, DE-ÁJK, DE-GTK, EKE-GTK, ELTE-ÁJK, ELTE-GTI, ELTE-TÁTK, GFF-GK, KE-GTK, KRE-ÁJK, KRE-BTK, ME-ÁJK, ME-BTK, ME-GTK, METU-ÜKT, NJE-GTK, NKE-ÁNTK, NKE-HHK, NKE-RTK, OE-KGK, PE-GTK, PE-MFTK, PPKE-BTK, PPKE-JÁK, PTE-ÁJK, PTE-KTK, SOE-LKK, SZE-DFK, SZE-GK, SZIE-AGK, SZIE-GTK, SZTE-ÁJK, SZTE-BTK and SZTE-GTK.

The faculties were grouped into 3 categories based on their activities:

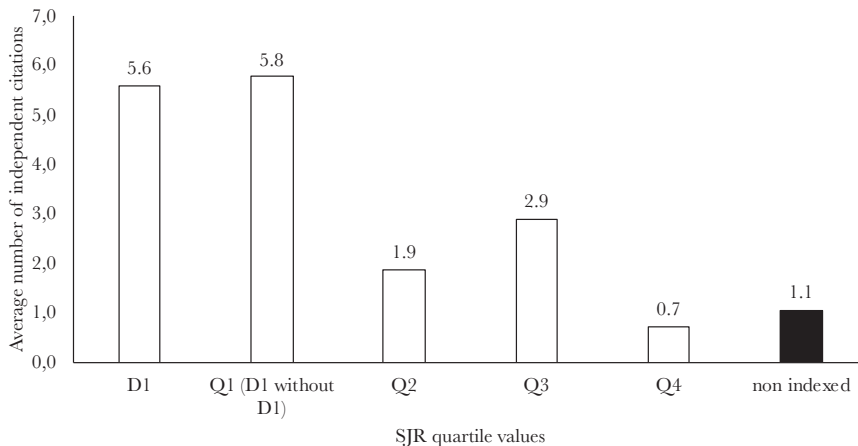
1. Faculties of Political Science, Law, International Law and Law Enforcement (10 pieces):
2. Faculties of Economics, and Business and Economics (23 pieces),
3. Faculties of Social Sciences, Humanities and Military Sciences (8 pieces).

The data on the publication performance of the faculties and institutes included in the study were downloaded from the Hungarian Scientific Bibliography (hereinafter: HSB), a national bibliographic database, the use and continuous updating of which is a legal obligation for all researchers holding scientific positions (Act XL of 1994 on the Hungarian Academy of Sciences). We were only able to examine those publications that were assigned to the particular higher education institution. International journal articles A, B, C and D in the SEL-list, as well as articles Q1, Q2, Q3 and Q4 were retrieved from the HSB system.

RESEARCH RESULTS

Researchers at the institutions surveyed published 1,281 SJR Q journal articles and 657 SEL international publications between 2017 and 2018. Some of the SJR Q publications are SEL-listed, and some of the SEL-listed journals are SJR Q publications. Out of the 657 SEL-listed messages, 63% (414) are SJR Q publications, the remaining 37% (243) are not. There were 1,777 independent references to SEL-listed communications up to 2019. Of the 1,777, 85% (1,520) were for journal articles with an SJR Q rating in addition to SEL.

Figure 1: Evolution of the average independent citations of SEL publications



Source: Author's own compilation

The figure above represents well that the highest average citations are for D1 (top decile) and Q1 publications (5.6 and 5.8 citations per article). The table below shows which SEL committee list was most frequently used by the higher education institutions surveyed. The CLPS list is preferred by ten faculties, the CBA list by 16 faculties, CRS by three faculties, CS by eight faculties and CMS by one institution.

Table 1: Most frequently used international committee lists of the higher education institutions surveyed in 2017 and 2018

No.	Faculty and institution	CLPS	CBA	CMS	No.	Faculty and institution	CBA	CMS	CRS	CS
1	DE-ÁJK	x			20	BGE-GKZ	x			
2	ELTE-ÁJK	x			21	BGE-KKK	x			
3	KRE-ÁJK	x			22	ELTE-GTI	x			
4	ME-ÁJK	x			23	KE-GTK	x			
5	NKE-ÁNTK	x			24	ME-GTK	x			
6	NKE-RTK	x			25	METU-ÜKT	x			
7	PPKE-JÁK	x			26	SZE-GK	x			
8	PTE-ÁJK	x			27	NKE-HHK		x		
9	SZE-DFK	x			28	BGE-KVIK			x	
10	SZTE-ÁJK	x			29	EKE-GTK			x	
11	BCE-GTK		x		30	SZIE-GTK			x	
12	BCE-KTK		x		31	BCE-TK				x
13	BGE-PSZK		x		32	KRE-BTK				x
14	BME-GTK		x		33	ME-BTK				x
15	DE-GTK		x		34	OE-KGK				x
16	ELTE-TÁTK		x		35	PE-MFTK				x
17	PE-GTK		x		36	PPKE-BTK				x
18	PTE-KTK		x		37	SOE-LKK				x
19	SZTE-GTK		x		38	SZTE-BTK				x

Source: HSB

Researchers from the faculties studied write

- SJR-listed Q-publications and
- SEL-listed journal articles.

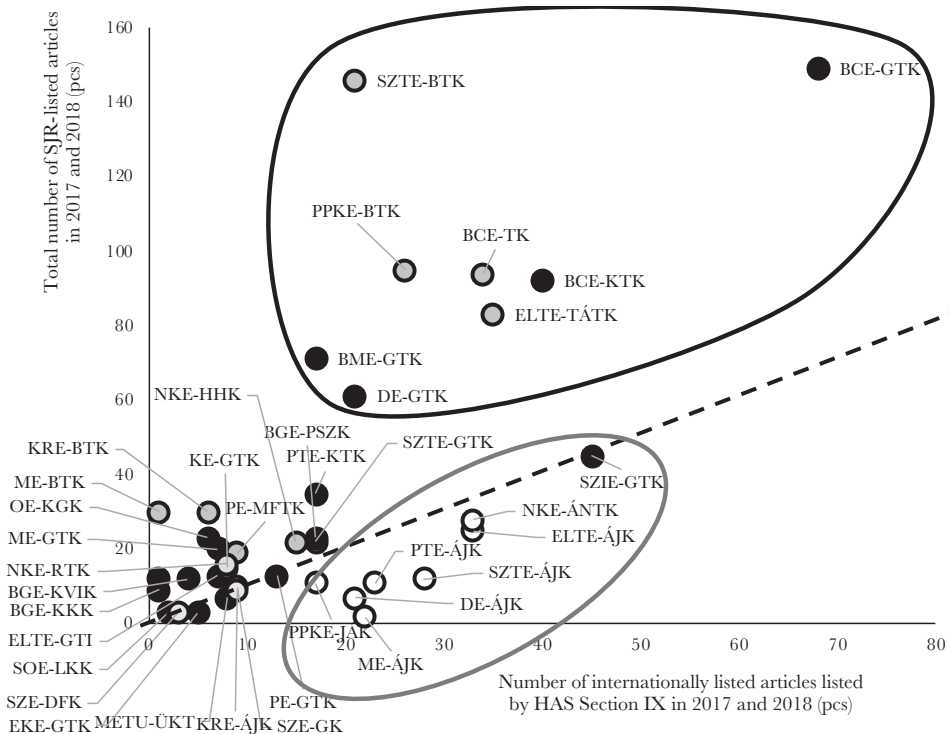
The amount written by a faculty member is influenced by

- how many people work in a given organisation,
- and in which discipline the institution is active.

On this basis, the institutions surveyed can be divided into three groups:

1. *Group I*, with a higher proportion of SJR-listed articles and a lower proportion of SEL-listed publications. There are four faculties dealing with business and economics (BCE-GTK, BCE-KTK, DE-GTK and BME-GTK) and four faculties dealing with social sciences (SZTE-BTK, PPKE-BTK, BCE-TK and ELTE-TÁTK) in this group.
2. *Group II*, with a higher proportion of SJR-listed publications and a lower proportion of SJR-listed journal articles. Here we find eight university faculties, of which seven (NKE-ÁNTK, ELTE-ÁJK, PTE-ÁJK, SZTE-ÁJK, DE-ÁJK, PPKE-JAK and ME-ÁJK) primarily use the CLPS list and one (SZIE-GTK) uses the CRS list.
3. *Group III*, with a very low number of SEL-listed and SJR-listed publications. This can be partly explained by the size of the institution and its lack of orientation. Here we find the remaining 25 faculties.

Figure 2: Comparison of the number of international SEL- and SJR-listed articles in the faculties surveyed in 2017 and 2018



Source: Author's own compilation

The question arises as to whether a Q1 quartile item can be classified as a category A, Q2 as a category B, Q3 as a category C and Q4 as a category D item.

Table 2: International SEL- and SJR-listed articles by category and quartiles based on 2017 and 2018 data

Committee	Cat.	Number of journal articles (pcs)						Proportion of journal articles (%)					
		Q1	Q2	Q3	Q4	n.a.	sum	Q1	Q2	Q3	Q4	n.a.	sum
CLPS	A	3	6	6	17	59	91	3%	7%	7%	19%	65%	100%
CLPS	B	5	0	6	1	64	76	7%	0%	8%	1%	84%	100%
CLPS	C	0	1	4	1	23	29	0%	3%	14%	3%	79%	100%
CLPS	D	0	0	0	0	3	3	0%	0%	0%	0%	100%	100%
CD	A	1	0	0	0	0	1	100%	0%	0%	0%	0%	100%
CD	B	0	0	0	0	0	0	-	-	-	-	-	-
CD	C	0	1	1	0	0	2	0%	50%	50%	0%	0%	100%
CD	D	0	1	0	0	4	5	0%	20%	0%	0%	80%	100%
CBA	A	48	6	0	0	0	54	89%	11%	0%	0%	0%	100%
CBA	B	33	19	10	0	0	62	53%	31%	16%	0%	0%	100%
CBA	C	6	14	21	1	5	47	13%	30%	45%	2%	11%	100%
CBA	D	13	18	32	2	17	82	16%	22%	39%	2%	21%	100%
CMS	A	0	0	0	0	0	0	-	-	-	-	-	-
CMS	B	1	0			9	10	10%	0%	0%	0%	90%	100%
CMS	C	0	0	6		10	16	0%	0%	38%	0%	63%	100%
CMS	D	0	3	0	0	0	3	0%	100%	0%	0%	0%	100%
CWEDS	A	5	0	0	0	0	5	100%	0%	0%	0%	0%	100%
CWEDS	B	13	5	0	0	0	18	72%	28%	0%	0%	0%	100%
CWEDS	C	3	5	3	2	2	15	20%	33%	20%	13%	13%	100%
CWEDS	D	1	1	1	2	0	5	20%	20%	20%	40%	0%	100%
CPS	A	15	2	0	0	0	17	88%	12%	0%	0%	0%	100%
CPS	B	11	3	3	0	1	18	61%	17%	17%	0%	6%	100%
CPS	C	3	6	10	3	7	29	10%	21%	34%	10%	24%	100%
CPS	D	1	4	4	3	4	16	6%	25%	25%	19%	25%	100%
CRS	A	8	0	0	0	0	8	100%	0%	0%	0%	0%	100%
CRS	B	7	9	2	0	1	19	37%	47%	11%	0%	5%	100%
CRS	C	0	4	9	2	19	34	0%	12%	26%	6%	56%	100%
CRS	D	2	3	1	0	24	30	7%	10%	3%	0%	80%	100%
CS	A	40	2	0	0	0	42	95%	5%	0%	0%	0%	100%
CS	B	31	12	4	1	1	49	63%	24%	8%	2%	2%	100%
CS	C	14	10	4	4	1	33	42%	30%	12%	12%	3%	100%
CS	D	2	5	10	3	2	22	9%	23%	45%	14%	9%	100%

Source: HSB

In the case where the main diagonal of the percentage table

- 80–100% value is given, it can be matched,
- 20–79% can be only partially matched,
- 0–19% cannot be matched.

There is no correspondence for the CLPS list and there is correspondence for the other committee lists for Q1-A. For the years 2017 and 2018, we examined the number of international journal articles for 41 institutions, which clearly shows that authors in the field of political sciences and law prefer to publish in SEL-listed journals A, B, C and D that are not SJR Q. A list of the most commonly used journals can be found below:

Table 3: Analysis of international SEL-listed publications of faculties of political science, law, international studies and law enforcement by journal in 2017 and 2018

No.	Journal name	Country of issue	HAS category ³	Best quartile in 2019	SJR-listed article (pcs)	Non-SJR-listed article (pcs)
1	JOURNAL ON EUROPEAN HISTORY OF LAW*	Czech Republic	CLPS (ÁJB) A	Q4	15	15
2	CURRENTUL JURIDIC	Romania	CLPS (ÁJB) B	-	0	15
3	ZBORNIK RADOVA PRAVNI FAKULTET (NOVI SAD)	Serbia	CLPS (ÁJB) B	-	0	14
4	LEX ET SCIENTIA	Romania	CLPS (ÁJB) A	-	0	7
5	EUROPEAN REVIEW OF PUBLIC LAW	Great Britain	CLPS (ÁJB) A	-	0	6
6	OSTEUROPA-RECHT	Germany	CLPS (ÁJB) B	-	0	6
7	ECONOMICS & WORKING CAPITAL	Great Britain	CLPS (ÁJB) B	-	0	5
8	JOURNAL OF EAST-ERN-EUROPEAN CRIMINAL LAW	Romania	CLPS (ÁJB) C	-	0	5
9	PRAVNI VJESNIK	Croatia	CLPS (ÁJB) C	-	0	5
10	JAHRBUCH FÜR OST-RECHT	Germany	CLPS (ÁJB) A	-	0	4
11	Other				36	61
Number of journal articles (pcs)					51	143
Proportion of journal articles (%)					26%	74%

**Indexed by Scopus from 2019*

Source: HSB

In contrast, when it comes to media and communication, political and sociological sciences, academics prefer to publish their articles in SEL-listed journals that are also SJR Q-listed:

Table 4: Analysis of international HAS-listed publications of faculties of social sciences, humanities and military sciences by journal in 2017 and 2018

No.	Journal name	Country of issue	HAS category	Best quartile in 2019	SJR-listed article (pcs)	Non-SJR-listed article (pcs)
1	FRONTIERS IN PSYCHOLOGY	Switzerland	CS (SZTB) B	Q1	9	0
2	SCIENTIFIC REPORTS	Great Britain	CS (SZTB) B	Q1	7	0
3	ZEITSCHRIFT FÜR PÄPYROLOGIE UND EPIGRAPHIK	Germany	CLPS (ÁJB) A	Q2	5	0
4	REVISTA ACADEMIEI FORTELOR TERESTRE	Romania	CMS (HTB) B	-	0	4
5	VALUE IN HEALTH REGIONAL ISSUES	United States	CBA (GMB) D	Q1	4	0
6	DEATH STUDIES	United States	CS (SZTB) B	Q2	3	0
7	GERMAN LAW JOURNAL	Germany	CLPS (ÁJB) B	-	0	3
8	PLOS ONE	United States	CS (SZTB) A	Q1	3	0
9	CENTRAL EUROPEAN PAPERS	Czech Republic	CLPS (ÁJB) C	-	0	2
10	COLD WAR HISTORY	Great Britain	CS (SZTB) C CWEDS (NFDB) C CPS (PTB) B	Q2	2	0
11	Other				90	15
Number of journal articles (pcs)					123	24
Proportion of journal articles (%)					84%	16%

Source: HSB

Based on the publication habits of the institutions surveyed, it can be concluded that more than 70% of researchers working in business and economics choose indexed journals that are also ranked by SJR.

Table 5: Analysis of international HSA-listed publications of economics, and business and economics faculties by journal in 2017 and 2018

No.	Journal name	Country of issue	SEL category	Best quartile in 2019	SJR-listed article (pcs)	Non-SJR-listed article (pcs)
1	DEUROPE	Serbia	CRS (RegTB) C	Q3	4	10
2	VISEGRAD JOURNAL ON BIOECONOMY AND SUSTAINABLE DEVELOPMENT	Slovakia	CRS (RegTB) D	-	0	13
3	REGIONALNAJA EKONOMIKA: JUG ROSSII	Russia	CRS (RegTB) D	-	0	9
4	FINANCE RESEARCH LETTERS	Netherlands	CBA (GMB) C	Q1	7	0
5	JOURNAL OF CLEANER PRODUCTION	Netherlands	CBA (GMB) A	Q1	6	0
6	CENTRAL EUROPEAN JOURNAL OF OPERATIONS RESEARCH	Switzerland	CBA (GMB) B	Q2	5	0
7	ECONOMIC ANNALS-XXI	Ukraine	CS (SZTB) D	Q3	5	0
8	ECONOMICS & WORKING CAPITAL	Great Britain	CLPS (ÁJB) B	-	0	4
9	ECONOMICS AND SOCIOLOGY	Poland	CS (SZTB) C	Q1	4	0
10	EUROPE-ASIA STUDIES	Great Britain	CS (SZTB) A CRS (RegTB) B CWEDS (NFDB) B CPS (PTB) A	Q1	4	0
11	Other				237	76
Number of journal articles (pcs)					272	112
Proportion of journal articles (%)					71%	29%

Source: HSB

SUMMARY

The change in the minimum publication requirement for the revised university full professor application – due to the acceptance of publication in journals in the SEL-list – is a very positive decision for applicants, but it has and will have a cost for institutions and faculties of social sciences in the longer term.

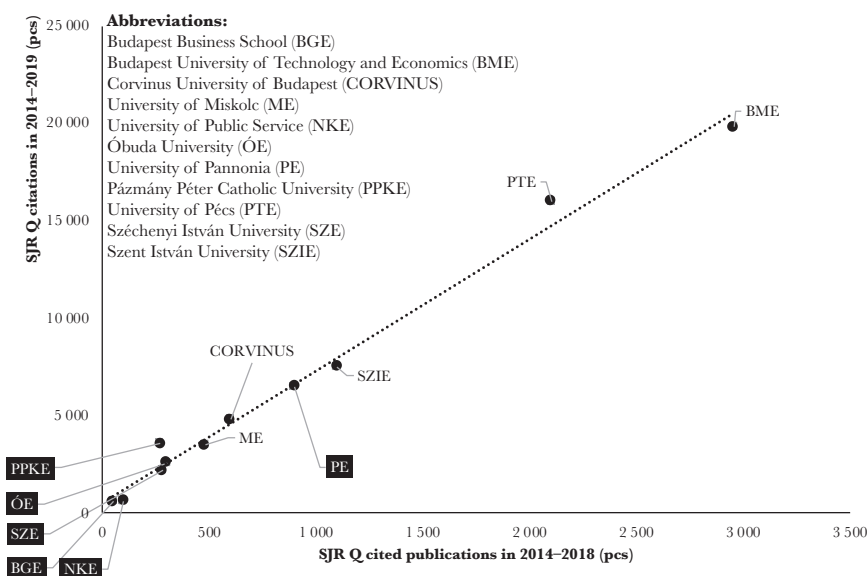
Institutional data show that for those working in the fields of political sciences and law, public administration, media and communication sciences, political sciences and law enforcement sciences, this change is of great help in meeting the minimum criteria, as the primary SEL list publications are written by academics working in these fields. For those working in sociology, this change is of less importance, as the list of journals they use is almost 100% synchronous with the SJR Q-list. Similar conclusions can be drawn for researchers in economics.

If we look at which SEL journals are most commonly used in the institutions surveyed, we can find similar results:

- 26% of lecturers in the faculties of political science, law, international, and law and enforcement,
- 71% of researchers in the faculties of economics, and business and economics,
- and 84% of the faculties of the social sciences due to the predominance of users of the CS (SZTB) list have published articles in international SEL journals that are also in the SJR Q-list.

The published both SEL and SJR-listed publications have a much higher average citation rate, which may be a motivation in the longer term. International rankings require SJR-listed journal articles and references. This is the most important parameter in the process of setting up their rankings (Csóka, 2019; Kosztyán et al., 2019; Kovács, 2020). Since it is not mandatory for social researchers to write SJR-listed publications, there is an increased chance that researchers publishing in this way will not be able to help their own institution to achieve ranking positions.

Figure 3: Number of universities ranked in the QS International Ranking 2020 by number of publications and citations received



Source: HSB

If we look at and analyse the SEL international lists, we can see that only a subset of journals – e.g., in the case of the CLPS (ÁJB) and CMS (HTB) lists – are indexed by SJR. For us, the main question is *how institutional management can motivate social science researchers to write in SJR Q journals, which are important for international ranking, if the use of the SJR list is not a mandatory element for their individual promotion.*

NOTES

- ¹ Guidelines for the preparation and evaluation of university full professor applications, (Guidelines for the preparation and evaluation of university full professor applications, as amended by HAC Board Decision 2020/6/IV/2, adopted by Board Decision 2019/5/VII/4, in a consolidated structure with the amendments), Link: <https://www.mab.hu/wp-content/uploads/2020/06/Egyetemi-tan%C3%A1ri-%C3%BATmutat%C3%B3-korrekc%C3%B3-3val-egys%C3%A9ges-szerkezetben.pdf>
- ² *I. Faculties of political science, law, international law and law enforcement:* 1. Eötvös Loránd University, Faculty of Law, ELTE-ÁJK; 2. University of Public Service, Faculty of Public Governance and International Studies, NKE-ÁNTK; 3. University of Szeged, Faculty of Law, SZTE-ÁJK; 4. University of Debrecen, Faculty of Law, DE-ÁJK; 5. University of Pécs, Faculty of Law, PTE-ÁJK; 6. University of Miskolc, Faculty of Law, ME-ÁJK; 7. Pázmány Péter Catholic University, Faculty of Law, PPKE-JÁK; 8. Károli Gáspár University of the Reformed Church in Hungary, Faculty of Law, KRE-ÁJK; 9. University of Public Service, Faculty of Law Enforcement, NKE-RTK; 10. Széchenyi István University, Deák Ferenc Faculty of Law, SZE-DFK.
- II. Faculties of economics and business:* 1. Corvinus University of Budapest, Faculty of Business and Management, BCE-GTK; 2. Corvinus University of Budapest, Faculty of Applied Economics, BCE-KTK; 3. Szent István University, Faculty of Economics and Social Sciences, SZIE-GTK; 4. University of Debrecen, Faculty of Economics and Business, DE-GTK; 5. University of Pécs, Faculty of Economics, PTE-KTK; 6. Budapest University of Technology and Economics, Faculty of Economic and Social Sciences, BME-GTK; 7. University of Szeged, Faculty of Economics and Business Administration, SZTE-GTK; 8. Budapest Business School, Faculty of Finance and Accountancy, BGE-PSZK; 9. University of Pannonia, Faculty of Business and Economics, PE-GTK; 10. Széchenyi István University, Kautz Gyula Faculty of Business and Economics, SZE-GK; 11. Eötvös Loránd University, Institute of Business Economics, ELTE-GTI; 12. Budapest Metropolitan University, Faculty of Business, Communication and Tourism, METU-ÜKT; 13. University of Miskolc, Faculty of Business and Economics, ME-GTK; 14. University of Kaposvár, Faculty of Business and Economics, KE-GTK; 15. Eszterházy Károly Catholic University, Faculty of Economics and Social Sciences, EKE-GTK; 16. Óbuda University, Keleti Károly Faculty of Business and Management, OE-KGK; 17. Budapest Business School, Faculty of Commerce, Hospitality and Tourism, BGE-KVIK; 18. Budapest Business School, Faculty of Business Administration Zalaegerszeg, BGE-GKZ; 19. Budapest Business School, Faculty of International Management and Business, BGE-KKK; 20. University of Sopron Sándor Lámfalussy Faculty of Economics, SOE-LKK; 21. Gál Ferenc College, Faculty of Business and Economics, GFF-GK; 22. Neumann János University, Faculty of Business and Economics, NJE-GTK; 23. Szent István University, Faculty of Agricultural and Economics Sciences, SZIE-AGK.
- II. Faculties of social sciences, humanities and military sciences:* 1. Eötvös Loránd University, Faculty of Social Sciences, ELTE-TÁTK; 2. Corvinus University of Budapest, Faculty of Social Sciences and International Relations, BCE-TK; 3. University of Public Service, Faculty of Military Science and Officer Training, NKE-HHK; 4. Péter Pázmány Catholic University, Faculty of Humanities and Social Sciences, PPKE-BTK; 5. University of Szeged, Faculty of Humanities and Social Sciences, SZTE-BTK; 6. University of Pannonia, Faculty of Modern Philology and Social Sciences, PE-MFTK; 7. Károli Gáspár University of the Reformed Church in Hungary, Faculty of Humanities and Social Sciences, KRE-BTK; 8. University of Miskolc, Faculty of Humanities, ME-BTK.
- ³ Abbreviations: CLPS (ÁJB) = Committee on Legal and Political Sciences, CBA (GMB) = Committee on Business Administration, CMS (HTB) = Committee on Military Science, CWEDS (NFDB) = Committee on World Economics and Development Studies, CPS (PTB) = Committee on Political Science, CRS (RegTB) = Committee on Regional Studies, CS (SZTB) = Committee on Sociology

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ANNEX

1. Addison-Wesley
2. Akadémiai Kiadó
3. Allen and Unwin
4. Ashgate/Avebury
5. Aspen
6. Basic Books, Inc.
7. Berg, Oxford
8. Blackwell
9. Bloomsbury
10. Brill
11. Bruylant
12. California University Press
13. Cambridge University Press
14. Cameron May
15. Clarendon Press
16. Columbia University Press
17. Cornell University Press
18. Curzon Press
19. Duke University Press
20. Earthscan
21. Edward Elgar
22. Elsevier Science
23. Frank Cass
24. Garrisberg MacMillan
25. Harcourt Brace Jovanovich, Inc.
26. Harper & Row Publishers, Inc./Ballinger Publishing Co.
27. Hart
28. Harvard University Press
29. Harwood Academic Publishers
30. Heinemann
31. IWA publishers
32. James Currey
33. John Wiley
34. John's Hopkins Univ. Press
35. Jossey-Bass
36. Karthala
37. Kegan Paul International
38. Kluwer Academic Publishers
39. Lawrence Erlbaum
40. Lit Verlag
41. Longman
42. Lynn Rienner
43. M.E. Sharpe Inc.
44. Macmillan/Palgrave Press
45. Marcial Pons
46. McGraw-Hill
47. Methuen
48. MIT Press Cambridge Mass
49. Oxford University Press
50. Palgrave MacMillan
51. Pearson
52. Pennsylvania University Press
53. Pergamon Press
54. Permanent Black/Orient Longman
55. Pluto Press, London
56. Polity Press
57. Praeger
58. Princeton University Press
59. Random House Inc, NY
60. Routledge Cavendish
61. Routledge Curzon
62. Rowman and Littlefield Publishers
63. Rutgers
64. Sage Publications
65. Scholar's Press
66. Simon & Schuster
67. Springer
68. St. Martin Press
69. Stanford University Press
70. State University of New York Press
71. Suhrkamp Verlag
72. Swets Blackwell
73. Taylor & Francis
74. Texas University Press
75. Thompson Learning
76. Thomson – Sweet & Maxwell
77. University of Chicago Press
78. University of Pennsylvania Press
79. Verso
80. Westview Press
81. Wiley
82. Yale University Press
83. Zed Books

APPENDIX

It is worth mentioning that the guidelines do not define the requirements according to the scientific committees of the HAS, but according to the classification of disciplines. This classification has always been the standard for applications for university full professors. On this basis, the guidelines define the following in the social sciences:

Business and Economics:

- Management and Organizational Sciences,
- Economics,
- Regional Sciences.

Social Science:

- Political Sciences and Law,
- Military Sciences,
- Public Administration,
- Media and Communication Sciences,
- Political Sciences,
- Law Enforcement Sciences,
- Sociological sciences.

Scientific committees of the HAS, Section IX:

- Committee on Legal and Political Sciences (CLPS (ÁJB)),
- Committee on Human Resources (CHR (EEGTB)),
- Committee on Business Administration (CBA (GTB)),
- Committee on Military Science (CMS (HTB)),
- Committee on Economics (CE (KTB)),
- Committee on World Economics and Development Studies (CWEDS (NFTB)),
- Committee on Political Science (CPS (PTB)),
- Committee on Regional Studies (CRS (RegTB)),
- Committee on Future Research (CFR (SJTb)),
- Committee on Sociology (CS (SZTB)).

György Suha – Péter Szatmári

Adaptive Dynamics of Foreign Trade and Foreign Policy Strategy in Sub-Saharan Africa



Summary

Geographically situated in the Global South as the geological extension of the Afro-Eurasian land mass, Africa is centrally situated at the very intersection of global strategic dynamics. Based on this special political and economic position, Africa is re-defining its partnership with various regions of the world, including Central Eastern Europe. These countries played an important role during the African anti-colonial struggles and their early years of nation-formation in the development of the African human capital. Hungary as member of the European Union prides itself with its extensive experience in agriculture, education, science, technology and innovation, it will actively participate in reshaping relations with the countries of the continent. This paper attempts to analyze the current government policy for Hungarian involvement in Africa, with a fuller insight into the foreign economic relations as the most dynamic and thriving framework of cooperation. Finally, it touches upon issues of various trade and investment related financial instruments, and best practice methods of intervention as key elements of a successful long-term strategic Hungarian policy towards Africa.

Journal of Economic Literature (JEL) codes: F35, F53, G18

Keywords: Sub-Saharan region, diplomacy, foreign economy, scholarship program, knowledge transfer, Southern Opening, development policy, international development financing, trade development, migration

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A QUARTER OF A CENTURY OF FINDING A WAY FROM A DISADVANTAGED POSITION

Unlike many of our European Union partners, Hungary has never had an African colonial empire. We have no direct political experience of the social processes of the continent, we do not have centuries of economic and cultural roots, and our extremely difficult but wonderful native language is only understood by Africans who have studied in our country. Thus, the government has built the current Hungarian presence in the sub-Saharan Africa with a serious disadvantage, but at the same time with remarkable consistency and commitment, which may be symbolic in economic terms but our results in foreign policy are unquestionable. For a real assessment of the process, it is useful to review the main milestones of the Africa Strategy in recent decades. At the very end of the 1980s, the three defining pillars of Hungarian foreign policy were, in addition to the Euro-Atlantic integration, the settlement of the situation of the Hungarian diaspora across the border and the strengthening of the co-operation with neighboring states. Then, after the regime changed, achieving full EU and later NATO membership was a clear priority for Hungary. Unfortunately, this intention to catch up with the West did not include a global, economic-oriented foreign policy, which the developed world had already seen as an operational norm, or the bilateral relations with the region outside Europe - in the terminology of the time, with developing countries.

This also meant that the newly proclaimed Republic of Hungary had in fact withdrawn from the partnerships of the more distant continents and thus from sub-Saharan Africa. Hungarian foreign missions were drastically reduced, six of the previous eight embassies were closed¹.

The Hungarian Africa policy in the 1990s was characterized by total passivity, the dismantling of bilateral relations, and the disintegration of the system of economic and cultural relations. The ad hoc nature of our relations with the states of the sub-Saharan region is well illustrated by the fact that a visit on a Foreign Minister-level from Hungary took place only once during the decade, in 1993, and a visit from the Prime Minister and Heads of State was unprecedented before the beginning of the 2000s. According to a foreign affairs paper prepared in 2005², the accession to the European Union opened the possibility for Hungary's Africa policy to receive a new framework, and for the sub-Saharan region to finally return to the political map of Hungary.

It is undeniable that, at the time of our accession, the sub-Saharan region has long been a priority for most of the EU and its Member States, as, in addition to the Member States (in particular the French, British and Portuguese actors inheriting the colonial structure), major players in international life (China, India, Brazil, USA, Japan, and Russia) paid increasing attention to the large, low-demand, albeit (then still) relatively small purchasing power of the African market. It has also become clear to Hungarian decision-makers that the listed states are constantly looking for opportunities to mobilize the market (e.g. through privatization, and implementation of infrastructure programs), and the EU is increasing its presence in the region through tenders launched and funded under the 2001 Cotonou Agreement governing political and economic relations between the EU and the ACP countries.

The founding members of the EU, as well as members who joined later, before Hungary, have long been aware of the importance of the continent's vast reserves of raw materials (e.g. oil, natural gas, gold, diamonds, copper, cobalt, and noble wood) and the related concession opportunities. Imports of some tropical agricultural products (citrus fruits, coffee, tea, cut flowers, and fish) were also an excellent business opportunity for them. In addition to economic aspects, the well-conceived interest of the EU member states - and according to the increasingly widespread opinion, its moral duty is to stabilize the region and to deal with its humanitarian problems. The illegal influx of refugees induced by poverty and privation has directly affected the EU member states due to their geographical proximity. At the same time, the elimination of conflict zones was part of the fight against terrorism and organized crime. Development aid, including those from the European Development Fund (EDF), has thus played an important role in shaping EU policy towards Africa.

Hungary's membership in the EU has therefore brought about a significant change in our relations with African countries. As parties to the Cotonou Agreement, we have become members of a permanent, structured contact mechanism through, which we have had the opportunity to get to know each other better. It has also become possible for Hungarian economic professionals and civil actors to build a more realistic and direct system of relations with Africa. From the expansion of our multilateral relations, Hungarian diplomacy hoped for a beneficial effect in bilateral relations as well.

As early as 2005, it became clear that Hungary, as a member of the EU, could not isolate itself from the problems of the sub-Saharan region either, as Hungary could have become a destination country for some of the economic and political refugees coming from the region. Although this has not happened in this form, as a Member State we have adopted a new set of values that takes into account not only our own national interests but also solidarity and human rights considerations. As a member of the EU, we also had to make donor commitments, primarily in the form of a contribution to the EDF resources. It is a clear conclusion that a part of our contribution can only be recouped if Hungarian economic, professional and non-governmental organizations also apply for the EU ACP programs that have opened to us through accession.

A few years later, a government strategy was made to interpret and enhance the country's global presence. According to István Tarrósy, *"it is indisputable that Hungary also had a basic interest in making clear its intention, which defined the country's activities with long-term effects in the transnational global reality."* (Tarrósy, 2020).

After Hungary held the rotating presidency of the EU Council in the first six months of 2011, it became timely to review Hungary's foreign- and Europe-policies. As a part of this, the concept of Hungary's "global openness", prepared a year earlier, gained momentum, as an independent organizational unit which was established in the Ministry of Foreign Affairs for this purpose: a Deputy Secretary of State for Global Affairs was established, led by a head of foreign affairs, who managed bilateral relations with Asia, Australia, the Pacific, and Africa.

For Hungary, the establishment of a new Africa-policy is in fact linked to the third Orbán government: the “Southern Opening” announced in 2015 marked the beginning of the revival of foreign and political relations with sub-Saharan Africa, which had been severed and neglected after the regime change. This has now brought a number of visible and tangible results: we reopened embassies (Addis Ababa, Accra and Luanda - together with Abuja, Nairobi and Pretoria, there are a total of six Hungarian diplomatic missions in the sub-Saharan region), we established a representative office in Kampala and also managed to establish an institutional framework for trade relations and political dialogue.

The government’s clear goal is to preserve and further develop the achievements of Hungary, so by 2030 it could become one of the most active and recognized countries in Central Europe in sub-Saharan Africa. We must pursue this goal in line with our general foreign policy objectives, in particular our efforts to diversify exports, increase exports, curb migration and protect Christian communities. As in the past, we intend to act as equal partners in the sub-Saharan countries in the future as well, pragmatically seeking a mutually beneficial cooperation, along with making a significant contribution to the development of our African partners. The basis of the strategy is these specific initiatives and projects.

Sub-Saharan Africa is a dynamically growing region that is geographically, socially, politically, culturally and economically diverse and complex, offering many economic opportunities, but also many challenges; therefore, in order to achieve our goals, we need purposeful, focused action, a flexible set of tools and a strategy based on appropriate financial resources, with specific initiatives and projects.

In line with the government’s intentions, Hungary is working in partnership with the countries of sub-Saharan Africa to achieve the following three main goals by 2030:

- doubling trade turnover, implementing Hungarian projects with added value, contributing to the development and economic growth of African partners;
- expanding our political relations so that we can be valuable and useful partners for African governments and making them interested in developing our relations as well;
- deepening our cooperation in tackling migration challenges, strengthening our security cooperation.

In the sub-Saharan states, which most often have a highly centralized state administration and economic governance, it is essential to strengthen and broaden our political relations in order to achieve our foreign economic goals. According to the experience of our diplomats and Hungarian economic actors active in the region, a permanent physical presence in the sub-Saharan region is key to successful relationship building. We are not yet present in Francophone African countries, so in the case of the Ivory Coast and Senegal, which can be considered particularly promising foreign economic partners, the Ministry of Foreign Affairs and Trade (MFAT) is currently examining the possibility of establishing representative offices; at the same time, in order to use resources efficiently, efforts must be made to build political relations in a targeted and focused way. In order to facilitate personal relationships with African partners, the government will continue to hold the Budapest Africa Forum on a regular basis.

A new element is that the strategy considers the expertise and contact capital of African students graduating their higher education in Hungary within the framework of the Stipen-

dium Hungaricum (SH) program as a key resource. By creating an alumni network, the relationship with former SH students can be institutionalized. The Ministry of Foreign Affairs and Trade is constantly examining how to encourage them to study in Hungarian as well, and how to deepen their general knowledge about Hungary (e.g. launching country specific courses).

In the countries of the sub-Saharan region – and especially in the Sahel – due to the combined presence of pull and push factors, special attention must be paid in the coming period to stopping migration, enhancing our cooperation in tackling its root causes, and strengthening our security cooperation. In implementing the strategy, we will take into account the strategies, decisions and resolutions of the European Union with the African continent as a whole, including in particular the countries of the Horn of Africa and the Sahel, in which aspects of combating violent extremism and terrorism also play an important role.

Through international development projects that improve local quality of life, we contribute to tackling the root causes of migration locally, thereby reducing and ultimately eliminating the pressure on Europe. As a priority, in addition to dealing with acute situations, we focus on long-term developments that can generate lasting solutions to encourage staying in place (e.g. job creation, the creation of adequate health and education infrastructure) and open the way for further cooperation.

The implementation of the policy on the protection of Christian communities, treated by the government as a new strategic element, has a marked impact on the Hungarian-African bilateral relationship, as the problem of persecution and discrimination of Christian communities affects several countries of sub-Saharan Africa. In the spirit of the Hungarian policy supporting persecuted Christians, within the framework of the *Hungary Helps* program, we are implementing projects in these states that enable those in need to thrive in their homeland.

Taking into account the development strategies of the sub-Saharan governments, we use education and training as an essential tool for “*helping locally*” given local needs and skill levels, and we develop vocational training cooperation with our main African partners while maintaining the Stipendium Hungaricum scholarship program. Vocational training can be a point of breaking for a wider section of society compared to higher education, provides marketable qualifications at relatively low cost in a short period of time and is suitable for targeted support of specific groups (e.g. women). We are further expanding the range of participants in education with the help of low-system required applications of digital education (e-learning) developed in Hungary. By the end of the government cycle, education and training will be one of the most important image elements of Hungary’s Africa brand.

In addition to strengthening the importance of border protection in connection with migration, we will initiate the sharing of relevant Hungarian experiences and offer capabilities in the sub-Saharan issuing and transit countries. Given that the Africa Strategy covers a number of areas falling within the remit of different ministries, a coordinated and coherent implementation requires the establishment of an inter-ministerial committee meeting at least once a year, which is responsible for the coordinated implementation of the strategy.

BUILDING FOREIGN ECONOMIC RELATIONS

Our trade relations with sub-Saharan countries are insignificant in relation to the size and population of the group of countries, which is mainly due to the geographical distance and the different trade culture of our countries. In addition, Hungarian companies are extremely conservative in terms of exports, find it difficult to enter foreign markets, and even then, due to the advantages provided by the common market, they prefer the markets of the EU partner countries (Suha, 2017). The policy of the Southern Opening defined the diversification of Hungarian exports as a goal, thus making the Hungarian economy more resilient in the event of a possible European economic recession. The development of our trade relations with Africa serves precisely this goal, as our exports to the region contribute to Hungary's positive foreign trade balance, given that we have a significant foreign trade surplus vis-à-vis all African countries.

Based on trade data from recent years, there have been no significant changes in Hungary's ten most important trade partner countries³. Based on 2017 export data, South Africa (\$200.8 million), Angola (\$45.1 million), Nigeria (\$33 million), Ghana (\$15.5 million), Senegal (\$15.2 million) Ethiopia (\$11 million), Kenya (\$8.6 million), Cameroon (\$8 million), Ivory Coast (\$6.5 million) and Uganda (\$5.9 million) were in the top ten. However, with the exception of Angola, Senegal and Ivory Coast, all ten of our important partners show a decline in exports, while our imports from these relations have increased almost steadily since 2015 (-4% for 2016, 131% for 2017 and an increase of 31% for the first ten months of 2018 compared to the same period of the previous year).

In 2017, foreign trade with the countries of the region approached \$1.2 billion, of which Hungary's exports amounted to \$880 million (equivalent to Hungarian exports to Denmark, which is less than 1% of total Hungarian exports). Looking at sub-Saharan Africa as a whole, Hungarian exports were characterized by a continuous decline compared to 2015 (-10% in 2016 and another -12% decrease in the following year). From 2018 onwards, however, the trend is positive, with a slight increase in exports compared to the same period of the previous year, with an 8% increase in turnover totaling \$1 billion.

In the period since the launch of the 2015 Southern Opening policy, the structure of our exports to the African continent has shown only a slight change. In terms of exported products, the most significant product group until 2017 was clearly machinery and transportation equipment, valued at \$644.5 million in 2015, \$588.2 million in 2016, \$458.7 million in 2017, and \$335.2 million in the first ten months of 2018. Processed products accounted for the second largest group of our exports until 2017, which, however, shows a change based on data for the first ten months of 2018 and is already appearing as a primary export product.

In terms of service exports, based on the 2017 results, Hungary's primary destination countries are South Africa (\$13.5 million), Kenya (\$3.6 million), Ghana (\$3.3 million), Nigeria (\$2.4 million) and Seychelles (\$1.9 million). It should be noted that of the countries listed, only Kenya shows an increase in exports, looking at the data from 2015 (64% from 2015 to 2016 and 20% from 2017).

HIGHLIGHTED SECTORS AND RELATIONS

Our trade with the countries of the African continent is affected by a number of factors, including geographical distance and the technological development of the industry. Especially with regard to product exports, the primary aspect of the entry of Hungarian companies into foreign markets is the distance of the destination country from Hungary. For this reason, as an area of development, the greatest potential is the export of services and know-how, the support of which is the main goal of developing a strategy focusing on the region.

Regarding the sub-Saharan region, Hungarian producers can have a competitive advantage primarily in the food industry and agriculture, paying special attention to the following areas: seeds, fruit and vegetable processing lines, packaging technical equipment, as well as machinery and irrigation systems. As for the energy sector, there would be a demand for Hungarian technology primarily in relation to renewable energy. Unlike the American and Asian relations, which are often looking for the most modern technological solutions, the lower-tech export base of the domestic economy can also be competitive in this region. At the same time, this is not exclusive, as in some African countries (e.g. Kenya) there has been a significant demand for state-of-the-art ICT technology and developments, in which Hungarian manufacturers and developers have a competitive supply.

There are significant opportunities for setting up joint ventures based on technology and knowledge transfer with the involvement of a local partner. At the same time, the focus of the export strategy targeting the African region should be on medium-sized or larger, capital-intensive, experienced Hungarian exporting companies with the appropriate capacities and willingness to invest, as well as local language skills.

In general, it can be said that financing barriers also hinder the successful market penetration of Hungarian companies.⁴ In terms of pre-financing, there are serious administrative burdens that are often difficult for African partners to cope with. It can also be stated that the local partners are mostly used to the pre-financing of the product/service by the foreign party, but most Hungarian companies do not have sufficient capital or goods base to conduct the business.

According to the unanimous opinion of almost all Hungarian Africa-researchers (Tarrósy, Suha, Búr) since the regime change, the sub-Saharan region can be an ideal foreign market for Hungarian agricultural technology both in terms of product exports (seeds, soil improvers, agricultural irrigation technologies), and higher technology ICT solutions.

As a new technology supply element, there is a growing demand all over the world for the border protection devices offered by Hungarian companies, the provision of physical space and airspace, and the protection solutions used to prevent illegal migration (drone and radar protection). The tools of economic diplomacy can be an effective way to help outstanding Hungarian companies of the sector to access foreign markets.

In many cases, the countries of sub-Saharan Africa are characterized by underdeveloped telecommunications systems and an IT services sector with significant operational problems. However, most countries in this region will not go through the earlier stages of technical development but will engage at a near-high tech level. The ICT sector will play a key role in this, in terms of public administration development, business opportunities and education. Substantial

results can be expected mostly in the case of complete investments to be implemented in a bundle (e.g. building network systems, *smart city*, *smart agriculture* solutions, etc. supporting more basic infrastructure developments). It is expedient to offer solutions and technologies in the framework of diplomatic visits and GVBs. The export of various financial, IT and banking security technology developments, packages and services may appear as a focus area in the measures aimed at increasing Hungarian exports. The exportable solution packages offered by the Hungarian ICT sector are most typical in the following areas: fintech (digital finance technologies), e-commerce, banking solution packages (mobile payment technologies, electronic toll payment systems, etc.), cyber security (security technology, and data recovery technologies), smart agriculture (smart agro-informatics solutions), smart city, digital solutions for waste and water management, and health informatics (e.g. medical imaging). It is important to stress that there is no direct correlation between general economic development and the level of technology required by IT needs. An example of this is Nigeria, which is among the lasts on the WTO list in terms of competitiveness but ICT-based solutions, including internet commerce, are developing extremely fast in the country; today, nearly 10% of the population, about 16 million people, shop online every day⁵.

The development of e-government systems (online cash registers, digital identification, and usage-proportionate toll system) and the technologies used in central and local administration (security documents, identity cards, and banknote printing) are also potential entry points for Hungarian companies⁶ to the region, and Hungarian expertise in e-government can give a new impetus to exports to Africa. Based on the positive feedback from the preliminary market research on the online cash register system and the negotiations started in Nigeria and then in Kenya, Hungary may have significant potential in Africa in the solutions introduced for the purpose of economic whitening.

In addition to market interests, the African region has great importance because of its contribution to the local management of migration. Opportunities for water cooperation across Africa are mainly in the areas of urban development and the development of efficient water management systems, wastewater treatment, drinking water treatment, mobile water treatment equipment, wastewater recycling, further development of water infrastructure and water education. The region is characterized by outdated water infrastructure. Millions of people are struggling with water scarcity or the problem of pollution of existing water resources, which means that millions of people do not have access to clean drinking water and sanitation services. There is a significant demand for world-class Hungarian water technology and water management companies in Africa as well however, the export of these technologies can be realized mainly within the framework of tied aid lending and international development programs.

The Hungarian pharmaceutical industry is characterized by a high degree of concentration, the four largest companies (Gedeon Richter, Egis, Teva, and Sanofi) account for 85-90% of production and exports, but it should be noted that 4-5 domestic small and medium-sized pharmaceutical companies can also be placed in this category with appropriate financial and technical assistance. In several countries, due to low domestic production, there is a significant demand in the medical device and pharmaceutical markets, mainly for generic products, as well as imaging diagnostic equipment, orthopedic implants and cardiac surgical supplies.

According to several UN reports⁷, there are many countries in Africa where, due to the shortage of medicines, it is possible to sell any Hungarian product. In most cases, there are no restrictions, but the administration of drugs is a complex process and requires action at the highest government level. In order to facilitate the entry of interested Hungarian companies into the market, it is necessary for foreign economic attachés to contact local partners and partner companies directly. It is a general experience that in a given country it is only possible to enter the market with the proposal or cooperation of a local company. At the same time, with regard to the Republic of South Africa, the expansion of Hungarian knowledge-based cooperations can be mentioned as a point of breaking out, which has a greater potential for cooperation than the licensing of medicines due to pharmaceutical regulations.

With regard to medical devices, some Hungarian companies in the regions have already established contacts and there have been examples of doing business, but the market has not yet been fully mapped. In the areas marked in orange in the second map below (mainly Ghana, Nigeria, Kenya, Ethiopia, Uganda and the Republic of South Africa), it is worth exploring market opportunities together, and with the help of domestic companies.

The Republic of South Africa is the leading economic and trade center in the sub-Saharan region and, as a result, has been our primary export partner for decades, mainly due to its political and financial stability. In recent years, several technologies transfer projects and joint ventures have been initiated, but a fundamental problem is that Hungarian companies find it difficult to invest in the country due to lack of capital or willingness, as a result of which, in most cases, South African government subsidies and market access fail.

In the West African region, most Hungarian companies that currently want to establish closer trade relations with African countries have already appeared with successful projects. Thanks to established interstate and trade cooperation, business relations enjoy support from both sides at the highest political levels.

Due to the increase in foreign economic activity, after a continuous and significant decline in exports in recent years, our Kenyan exports increased by 84% to a total of \$13.3 million, based on indicators measured in the first ten months of 2018. Kenya's economic and development conditions provide an ideal platform for both the export efforts of Hungarian companies offering low-level agricultural and manufacturing technology and the entry of Hungarian companies with the most advanced information and financial security technologies.

The international development cooperation launched in 2018 is the best example of how Uganda can be a key relationship in the future to strengthen and deepen Hungarian export efforts. Through the development programs, many Hungarian companies have shown great interest in the developments to be implemented in Uganda from the very beginning, and thanks to these initially acquired contacts, they will be able to participate in further initiatives in other relations in Africa with greater security and willingness. The opening of the representative office also serves this purpose.

The opening of a commercial office in Abidjan to support Hungarian businesses in the country with high capacity and already established links in the African business and public sector could contribute to supporting the increased demand for Hungarian products and services from the region.

METHODS OF INTERVENTION: FINANCIAL AND OTHER FORMS OF SUPPORT

Hungary's international development activities⁸ in sub-Saharan Africa serve a dual purpose: on the one hand, to support the local management of the root causes of migration through development programs there, and on the other hand, to provide opportunities for Hungarian economic actors and other executives to emerge in foreign markets. The experience gained in this way serves as a reference for Hungarian actors and provides visibility both for the given company and partner, and for the international role of the Hungarian Government. With the accession of Hungary to the European Union and then to the OECD Development Assistance Committee (DAC) in 2016, Hungary has made commitments to increase its ODA to 0.33% of its annual gross national income by 2030, as did other EU Member States that joined in 2004 and after. Hungary's ODA in 2017 was 0.11%, which points to the need to mobilize additional resources. Following our commitments and our foreign economic goals, we aim to further increase the amount and proportion of our international development assistance to Africa.

In view of the above, the focus of Hungary's international development activities in Africa has been on those countries that have a significant market size and favorable economic prospects, as well as that they play, or could play an important regional role. As a result, Hungary will put East Africa at the forefront of sub-Saharan Africa until 2030. A significant factor in the selection of the target region is that Hungary has several foreign missions in the region, so our diplomats in the region play an important role in performing the logistical, professional and coordination tasks related to development projects and in the long-term sustainability of the projects.

In order not to put Hungary at a great disadvantage in the development policy competition in East Africa, it is justified to implement a project of strategic size (worth HUF 6 billion) annually, with the involvement of Hungarian economic actors. Larger projects contribute to the fulfillment of our commitments in the field of international development policy and to the realization of our migration and other foreign policy interests. Given the local needs and the comparative advantages of the Hungarian companies, Hungary plans to implement development projects in the fields of water management, agriculture, health, education and ICT, which will help the country to catch up and achieve sustainable development and gain market share for the contractor. On the Hungarian side, the field of cyber and document security can be a key sector, in which Hungarian companies are already present on a market basis in the region and thus their international development-based support can also contribute to reaching other markets.

The international development of the Africa Strategy began with the launch of a comprehensive development program in Uganda⁹. The project has a budget of HUF 5.168 billion, the resources required for its implementation are provided by a government proposal.

In addition, Hungarian diplomacy is constantly examining the development needs and opportunities of other East African countries. In this respect, Ethiopia, Kenya and Tanzania are emerging as possible additional destinations. Following a mapping of local needs, further

comprehensive programs would be launched in these countries as well. These objectives and the resource requirements assigned to them are also in line with the National Export Strategy developed by the Ministry of Foreign Affairs and Trade.

In Hungary's international development policy implemented in a multilateral framework, it has become essential to make more efficient use of domestic contributions to the external relations chapter of the EU budget, as well as to the European Development Fund (EDF)¹⁰ and other international development funds. In addition to facilitating and supporting a strong Hungarian position on the issue of migration on the international stage, these payments create an opportunity for domestic economic actors and non-governmental organizations interested in or already experienced in the region to participate in the implementation of development projects in the regions supported by the funds.

The European Commission, the European External Action Service, the Representations of the European Union (EUDEL) and the Member States, as well as the African countries concerned will define the EU's development objectives for the African region in the next multiannual financial framework (2021-2027) and pre-allocated amounts. Based on these, so-called country strategies and indicative framework programs will be prepared, setting out the priorities for the coming years, which will then be implemented through the announcement of each developed proposal. The Hungarian goal is to develop objectives, country strategies and framework programs, which formulate areas of expertise and criteria and will enable a successful Hungarian application. During the preparation of these documents, our missions can obtain meaningful information through close cooperation with EUDEL in the given partner country, and can influence the content elements of the programming documents, especially the presentation of Hungarian economic and development interests thus, facilitating more efficient domestic applications. Hungary's foreign missions play a significant role not only in the preparation of individual programming documents, but also after that, the projects already developed and announced for tender also play a significant role in delivering and raising the awareness of Hungarian partners with experience in the region.

A tied aid loan is a preferential export subsidy granted to developing countries for the purchase of goods and services from a donor country. It is the only internationally and nationally recognized state export aid instrument with a donation element. The results of tied aid loan programs cannot be expressed in quantitative terms alone in the form of economic benefits. It must also be taken into account that by providing support, the development of bilateral political relations is also a priority for Hungary. It is also not a negligible aspect that tied aid loan partner countries are all part of global multilateral integrations, so by promoting bilateral relations, Hungary will also significantly increase its multilateral advocacy capacity. According to the reports of our foreign missions, Hungary has been given serious recognition by the leadership of the partner countries by offering tied aid loan programs and successfully implementing completed projects, and the population of the beneficiary states could be made aware that the affected developments were implemented with the support of Hungary, so the programs have visible results at the level of public diplomacy as well.

Based on the above aspects, we consider tied aid lending¹¹ to be a key tool in establishing and strengthening Hungary's economic relations with Africa. The classification system devel-

oped by the OECD determines the value of gross national income per capita below which a country becomes eligible for a tied aid loan. According to the 1 January 2019 classification in force, there are 3 eligible states in North Africa and 41 in sub-Saharan Africa, therefore the African continent shows the highest eligibility among continents, both in proportion and in absolute terms.

From Hungary's point of view, tied aid lending can be interpreted primarily as an export promotion tool, with which we intend to achieve the qualitative improvement and quantitative expansion of exports, as well as the adjustment of the structure of exports to economic policy goals. When planning the activity, it is of paramount importance that this tool enables Hungary to enter new markets that would be inaccessible to us in other forms. The experiences of the already completed aid loans show that significant new economic opportunities have opened up for our companies, which would have a further positive impact on our national economic data and foreign policy relations. Therefore, the extension of the aid lending policy is in the best interest of Hungary among the eligible countries of Africa, in accordance with the policy of the Southern Opening.

Sub-Saharan Africa has the largest number of countries eligible for tied aid loans, including most of the least developed countries as defined by the United Nations. This is also important because in the case of such countries there is no need to examine project eligibility, so it is also possible to carry out financially sustainable projects. Similarly, to South and East Asia, water management, waste management, transport, health, agriculture and e-government can be mentioned as potential areas for development. In addition, the utilization of energy, especially solar energy, can be highlighted. In Africa, there is significant demand for water management and agricultural projects not only due to population growth, but also due to climate change and desertification. The strategy of the Southern Opening directs the attention of Hungarian foreign economic policy towards sub-Saharan Africa and tied aid lending is a suitable (in many cases, the first and only) means to appear in new markets. It is important to note that in addition to opportunities, Africa also brings a number of challenges, with the lender and project implementers facing significant political, security (ethnic conflicts, international terrorism), administrative, financial, and infrastructural risks, depending on the country. Based on our experiences so far, potential destinations in the region include Kenya, Nigeria, the Republic of Cape Verde, Ethiopia, Eritrea, Tanzania, Uganda and Ghana, which have a stable political and social system to start foreign trade cooperation with. In the case of Kenya and the Republic of Cape Verde, the Government made a decision in 2018 to offer an aid loan. We are providing \$50 million in tied aid loans to Kenya for health care, agricultural and food developments, while Hungary has offered the Republic of Cape Verde €35 million for irrigation and water management investments.

Our key development policy commitment is also to support the States in the migration-emitting regions, the largest of which are in sub-Saharan Africa in terms of potential emigrants, in order to provide livelihoods and decent living conditions for the local population in their homeland. In all cases, tied aid loan programs are aimed at the development of basic social infrastructure (health care, water supply, waste management, and agricultural development), so there are direct positive effects on local living conditions. Thus, the develop-

ments of tied aid loan programs also fit into the overall objective of *Hungary Helps*, announced by the Government. With this, Hungary can not only take part in international development policy efforts, but it can also dynamically increase the population retention power of the mentioned communities, with which the tendency to emigrate can be drastically reduced.

Previously, domestic export promotion programs targeting Africa have typically focused on the export of goods or services in the classical sense, so the government had created the financial, institutional and training conditions for these. However, the fall in export performance in the recent period points out that the encouragement of exports of goods and services should not dominate Hungarian export development trends in Africa. In the light of international experience, individual economies, typically in the Southern and Eastern Openings, in order to keep their developments and factors of production in check, are taking measures, as a result of which, instead of classical exports of goods and services, capital investment in a given country can increasingly be the more effective solution. Recognizing this, many foreign states (including Poland, the Czech Republic, and Romania in the region) support not only direct exports of goods or services through government means, but also foreign investments by domestic enterprises.

Given that the establishment of companies in these markets can be a competitive advantage for Hungarian companies, the Foreign Economic Section of the embassies should pay special attention to the company establishment regulations in the host country and provide professional support to Hungarian investors interested in the region. At the governmental level, the creation of financial funds should also be considered, which would contribute to the foreign market investments of Hungarian companies and thus substantially increase our presence in the African foreign market. An example of this concept is the non-repayable grant scheme already developed for Montenegro and Serbia, supplemented by a preferential EXIM loan. A similar support framework is proposed for the sub-Saharan region, taking into account the specific characteristics of the region.

In March 2014, the Trust Fund Partnership Agreement between IFC (International Finance Corporation) and EXIM was signed as a decisive step in cooperation with the World Bank Group. With the agreement, Hungary became an active donor to the World Bank Group, which took the relationship between Hungary and the international organization to a new level. The total amount to be paid into the Cooperation Fund is \$20 million. On our part, the source is provided by EXIM at the expense of the central budget. By joining the IFC Cooperation Fund, Hungary now has a much more intensive access to the global network of the IFC and the World Bank Group than before.

Bearing in mind the experiences of the period since the announcement of the Southern Opening Policy in 2015, it can be said that Hungarian small businesses are less interested in African relations. The primary reasons for this are the large geographical distance and the extremely high cost requirements, which are essential for organizing a trip. Experience has also shown that, due to the different business cultures, a number of face-to-face meetings between partners are needed to build and maintain business relationships, given that African entrepreneurs place a strong emphasis on face-to-face contact. E-mail correspondences and forwarding product presentation materials, which are common in Europe, are not preferred

there. Taking these characteristics into account, in the future, in addition to small enterprises in African relations, it will be expedient to place special emphasis on supporting the export aspirations of capital-intensive and experienced Hungarian, medium-sized enterprises. In order to give special support to Hungarian exporters, the Ministry of Foreign Affairs and Trade has launched the Priority Exporter Partnership Program, in the framework of which the Ministry concludes agreements on the deepening and extension of cooperation with successful companies engaged in foreign market activities that are decisive for the domestic sectors and exemplary for novice exporters. The aim of the program is to increase the contact with these Hungarian companies with great export potential and to expand their target countries.

In many cases, it can be seen that in the case of the export of Hungarian equipment and machinery, the operation, repair and use of the given equipment exceeds the technical capacity of the designated persons. Not all Hungarian exporters guarantee to provide technical support for the product and in case of improper use or failure, the equipment will be taken out of use. A good solution to the problem seems to be to provide product-related professional trainings with the involvement of the deservedly famous Hungarian higher education institutions. These export development programs combined with education could be implemented in cooperation with Hungarian companies in the regions that are less developed in the field of vocational training. The primary goal of the cooperation is to present the operation of the equipment and technologies exported by Hungarian companies and to train the locals participating in the training. Tailor-made trainings greatly contribute to the maintenance of the product or service. The long-term results of the programs can also be to increase the market perception of Hungarian products and companies, to build market confidence and to increase the number of people with qualifications in the local labor market.

The involvement of young African students, studying in Hungary within the framework of the Stipendium Hungaricum program, in the cooperation with Hungarian companies may appear as a priority in the medium- and long-term export development goals. The primary aspect is to acquaint the students studying in this field during the years spent in Hungary with the key sectors characteristic of the Hungarian economy and with the most significant Hungarian companies of the sectors, exporting or intending to export to Africa. Upon their return home, these young people could appear as “representatives” of the Hungarian company in their own country, which could not only help companies with the often extremely complicated licensing and administrative procedures, but also provide companies with easier access to market and state actors in that country.

Exports are significantly hampered by the restrictions and regulations faced by the exporter in the host state. The often cumbersome and time-consuming licensing procedures characteristic of African relations can in many cases deter Hungarian manufacturers from entering the African market, which is also hampered by the often chaotic and corrupt bureaucratic system. This is mainly the case in the food, agriculture and pharmaceutical licensing procedures. Based on the examples of Kenya and Nigeria, the use of Hungarian economic diplomacy tools and the intervention of foreign missions is the only way to speed up these procedures. However, supporting the companies and monitoring individual cases can put a huge strain on the foreign economic capacity of embassies. The best way to reduce

the difficulties is to develop framework agreements that benefit Hungarian companies and to standardize the technical conditions for the given product categories by facilitating technical cooperation and letters of intent between the specialized institutions of the two countries. These interdisciplinary, intergovernmental conventions, as well as the cooperation between authorities, are particularly important in some protectionist economic policy relations (e.g. Nigeria).

BEST PRACTICES OF BUSINESS DIPLOMACY

Based on the experiences of the network of foreign economic attachés operating in African relations and the reports of Hungarian companies, only those Hungarian companies that are able to present their products on the spot to those interested can prevail in the African markets. Virtual product presentations (PowerPoint presentations, paper-based and online product catalogs) in most cases do not result in a deal. Therefore, it is essential that the attachés be able to present the products of Hungarian companies to potential African partners in the course of their work, primarily at major international exhibitions and in the framework of model farm concepts. However, sending the product samples offered for this purpose in a given relation is often difficult, as it is disproportionately expensive for Hungarian small and medium-sized enterprises trying to open up to African markets to use the services offered by courier services. A good opportunity to solve the problem seems to be the financial support for sending the product samples, which appears as an export promotion tool, which can significantly facilitate the export efforts of Hungarian small and medium-sized enterprises wishing to open up to the markets of the Southern Opening countries. The initiative is also promising because it opens up new opportunities for the presentation of Hungarian goods, which is a critical factor in all African regions.

Hungary is the 6th largest seed exporter in the world after France, the Netherlands, the United States, Germany and Chile. Seed production, which is an export-oriented product, takes place on an area of about 100 thousand hectares. In addition to the success of seeds, there is another opportunity to export innovative soil improvers, conditioners and pesticides. The introduction of these products to the foreign market is greatly aided if, in addition to the research results and variety descriptions, the farmers of the host market can experience the quality and applicability of the products under the local climatic- and soil conditions. In the case of the export of waste management technologies, the presentation of the working technique and technology is also essential.

In Africa and Asia, traders and farmers typically decide to purchase an agricultural input product based on personal experience, accepting only the results of local, tangible tests. An excellent tool to support this is the establishment of Hungarian model farms in the agricultural areas of the host country, where animal husbandry (chicken, and fish), crop production (vegetables, fodder and floriculture), irrigation water management, fruit and vegetable processing and composting can be presented to entrepreneurs, and in the framework of vocational training, it may also be possible to teach these technologies and exchange business knowledge, even with the involvement of Hungarian higher and vocational education institutions. Anot-

her clear advantage of setting up these model farms is that potential local partners, producers and traders can see the quality of the products for themselves. Therefore, the farm concept means not only the provision of arable land for interested Hungarian companies, but also opportunities to enter the market within the framework of services: professionally supervised, prepared one-hectare production area; conducting comparative tests and protocols led by experienced Kenyan experts; advising on registration and authorization procedures for placing products on the market; presentation of test results, communicating them to East African customers and interested parties; and market entry consultancy (identification of resellers, distributors, wholesalers, promotion of contacts).

In order to support the sector in foreign markets, the goal is to establish (in addition to Kenya) other similar model farms (4-5), mainly on the African continent, where there is a high demand for varieties that tolerate the local climatic condition well, and for soil improvement solutions that can reduce water usage. The program would initially be funded from a budget, but if successful, the system could later become self-sustaining from the sale of farm-tested crops (after authorization).

Currently, the development of the model farm concept has started in Kenya, Nigeria and Ghana, and a similar type of farm is operating in Zambia, for example, which is operated by a Hungarian entrepreneur and would provide potential ground for the implementation of the concept.

The first pilot project is the Sámuel Teleki Hungarian Farm, which has been under preparation since 2015, and which is planned to be established in cooperation with a local partner in Kenya. The aim is to test Hungarian vegetable and spice production and Hungarian agro-innovation solutions under local conditions in a 12 + 12-month test period in the traditional production area of Kenya.

In the locally established accelerator centers (selected and partially prepared in Hungary) Hungarian companies could spend a few weeks, where they would participate in business negotiations and look for an investor with the help of the local startup development partner and the embassy's foreign economic attaché (the program is not specifically aimed at immediate exit). Industry focal points of the accelerator program for Africa: agricultural ICT solutions, health care, fintech, cyber defense, and drone technology. Thanks to the cooperation between the Kenyan Embassy and the Hungarian National Chamber of Commerce, the concept made its successful debut in Nairobi. Immediately after the end of the program, negotiations between the local partner and the Hungarian company began, which later led to a specific business. Financial and technical support for the program can also provide an excellent development framework to help other businesses enter the African market.

NOTES

- ¹ In Guinea, Tanzania, Ghana, Mozambique, Angola and Ethiopia. Only in Kenya and the Republic of South Africa did the Hungarian diplomatic mission operate continuously.
- ² Referred to by the Geopolitical Council Africa Research Center conference at the Institute of Foreign Affairs, Oct. 22, 2008.
- ³ source: CSO database, 2020, and MoE (author's announcement)
- ⁴ According to the National Export Strategy (p. 5)
- ⁵ <https://oxfordbusinessgroup.com/country/nigeria/ict>
- ⁶ An excellent example is the expansion of the State Printing House in Africa: <https://www.vg.hu/penzugy/afrikai-orszagokat-celoz-a-nyomda-2-862605/>
- ⁷ <https://www.un.org/africarenewal/magazine/december-2016-march-2017/dying-lack-medicines>
- ⁸ <https://enz.kormany.hu/magyarorszag-nemzetkozi-fejlesztesi-es-humanitarius-tevekenysege>
- ⁹ <https://nefe.kormany.hu/uganda-palyazat-2>
- ¹⁰ https://ec.europa.eu/info/strategy/eu-budget/eu-budget-news-events-and-publications/documents/european-development-fund_en
- ¹¹ Tied aid loan

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Widening the Use of Mediation in the Domestic Criminal Justice System



Summary

In Hungary, criminal mediation is available for crimes against persons, property and traffic offences. The legal requirement is, on the one hand, that the perpetrator admits to the crime and, on the other hand, that the perpetrator compensates for the damage caused, punishable by imprisonment of up to three years, within the framework of the mediation procedure. If the above conjunctive conditions are met, the offender is not punishable. The legal regulation of the mediation procedure in Hungary has undergone changes in the last few years which justify the conclusion that the extension of the mediation procedure is a legitimate legislative objective in Hungary. This is evidenced by the fact that criminal mediation can be used even if the offence in question is not punishable by law with a prison sentence of more than five years. In this case, the sentence may be reduced without limit. However, under the current national legislation, criminal mediation is excluded if the offender is a repeat offender, and it is not available if the offender is serving a custodial sentence with a final court decision. Mediation is therefore still a limited institution, despite the continuous demand for its expansion, and its positive benefits, such as the joint processing of trauma experienced by the victim and the offender, the possibility of reparation, or the promotion of social bonding, are not fully integrated into the re-integration policy of prisons. Instead, prisons use the so-called mainstream reintegration tools, with particular attention to education and forms of employment.

Journal of Economic Literature (JEL) codes: K14, K15, K19, K49

Keywords: mediation, mainstream reintegration, social value, competence development, reintegration strategy, behavior correction

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REINTEGRATION POLICIES IN THE DOMESTIC CRIMINAL JUSTICE

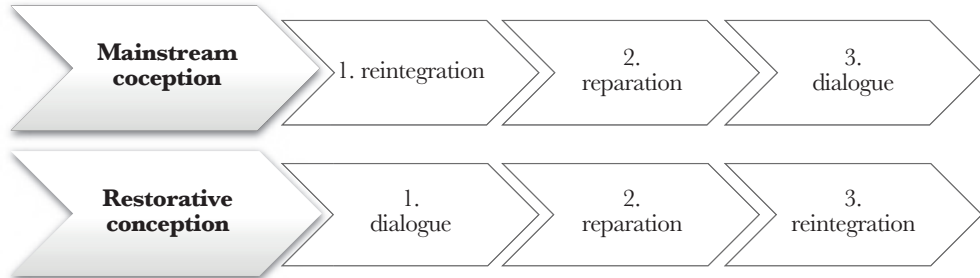
In the justice system of a well-functioning society, criminal law under the rule of law is based on the concepts of both punishment and reintegration. In such a multipolar justice system, mainstream reintegration policies are increasingly becoming obsolete. This has given rise to the development of a new approach to criminal justice, which is no longer confined to the traditional range of prison activities (education, employment) aimed at developing competences. With the development of this new approach, the focus of reintegration is increasingly shifting towards the processes of personal development promoted by interdisciplinary and multidisciplinary disciplines such as criminal psychology, social psychology or criminal pedagogy, and its horizon is expanding to include the system of social relations. To ensure the long-term effectiveness of social reintegration, it is essential to broaden the reintegration approach of prisons, to rethink the current strategy, to integrate social bonding programs more effectively into crime prevention programs and to motivate inmates' willingness to participate. Although almost all the relevant Hungarian penal studies on the subject analyze possible tools for reintegration - and do so with expanding means - the strategy of focusing on personal development has not been widely adopted in Hungarian prisons. Therefore, there is a need for in-depth study of alternative dimensions of reintegration tools and their practical utility, with a particular focus on mediation, which can have significant reintegration effects through relational rehabilitation.

The domestic penitentiary institutions try to restore the criminogenic factors (such as attitudes, personality, willingness to take responsibility, etc.) that motivate people to commit crimes, mainly through behavior correction-based reintegration programs. Although reintegration concepts focusing on personality development and supported by several disciplines are currently to be found in the national literature, the need for reintegration on the part of both the state and society is driving the institutions to integrate theories into practice and to constantly innovate their methods. They do so with the aim of promoting the reintegration of inmates into society with prosperous results. However, a complex, strategic application and systematic analysis of these methods is still to be carried out. The question arises why an interdisciplinary approach to reintegration is so important. The answer lies in the personality-transforming effect of these methods, since a well-designed reintegration process can transform the offender into a repentant, the victim into a survivor and the conflict into a community.

The EFOP flagship project "Reintegration of Inmates" is a positive innovation for reintegration efforts in Hungary, with around HUF 4.2 billion channeled into the Convergence regions by spring 2021, thus helping to promote successful social inclusion. The reintegration paradigm shift in Hungarian penitentiaries is also benefiting from the National Council for Crime Prevention's strategy until 2023, which calls for innovative programs to be implemented during imprisonment in Hungary. The strategy is unique in that it aims to reduce re-offending by developing the personality, personal competences and social skills of inmates. However, in addition to improving the quality of the reintegration guidelines currently in use, it is necessary to open up to new, alternative tools and to introduce a restorative approach.

The restorative approach differs from mainstream reintegration in that its starting point is a reinterpretation of crime as an interpersonal conflict that causes damage to human relationships (Christie, 1977). The restorative adjective is directed at the primary goal of the approach, which is none other than the restoration of the violated order. Furthermore, restorative theory aims not only to support the victim but also to reintegrate the perpetrator (Barabás, 2020).

Figure 1: Mainstream and restorative justice paradigm shift



Source: based on Kerezsi (2011), edited by the author

The advantage of a paradigm shift is that a forward dialogue can even naturally lead to successful reintegration. And the link between the two is created by the personality transforming factors induced by dialogue, in this case mediation. All of this suggests that without a social dialogue-based program focusing on personal development, it is not possible – even at the level of the model set by the legal framework – to sustain a successful reintegration framework in the long term (Duff, 2001).

The Reintegration Situation in Hungary, with a Special Focus on Mainstream Reintegration

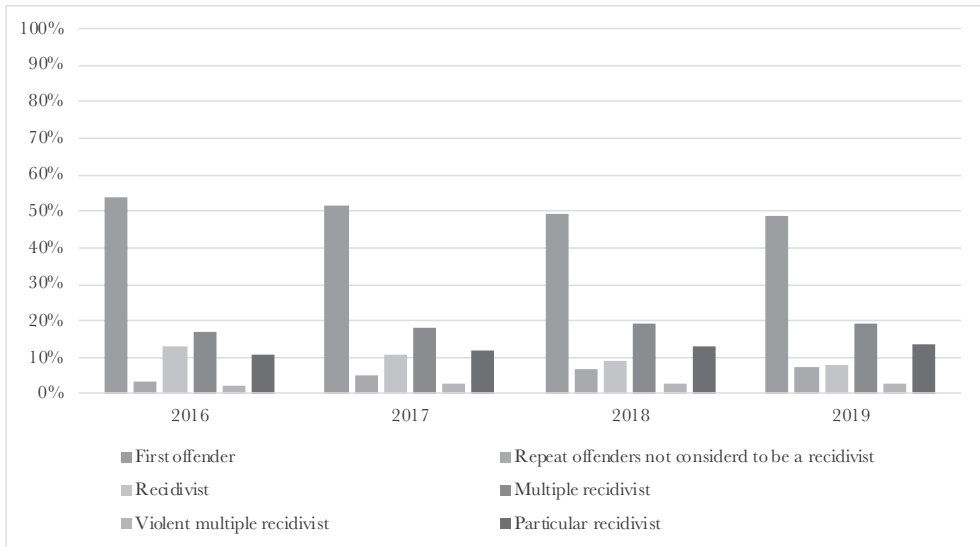
In domestic penitentiary institutions, an average of 7400 inmates are serving their prison sentence in a prison enforcement grade (55% of the average prison population). In contrast, the proportion of inmates serving their sentence in prison is around 34 %, i.e. on average 34% of inmates are exposed to the destructive effects of a more severe enforcement level and to more pronounced social isolation. On the positive side, while the total prison population increased by around 3% in 2020 compared to the previous year, the number of inmates serving their sentences in the penitentiary system decreased by the same amount (according to the Hungarian Prison Service).

Inmates, especially those serving long sentences in the penitentiary system, represent a continuous and serious challenge for the reintegration of inmates in the domestic penitentiary system, as they are subject to increased deprivation of liberty, isolation from the environment, lack of contact and other deprivation effects. This can have a negative impact on the personality of the detainee. However, a mediation process based on dialogue, repentance and moral confrontation can be a suitable means of mitigating these

negative effects, even if the use of mediation does not entail an immediate suspension of the custodial sentence or the preferential measures that inmates would otherwise wish to receive.

In the case of social reintegration methods and reintegration models, particular attention should be paid to ensuring that detention-related personality and behavioral problems are addressed by the detention facilities. The struggle for reintegration caused by a long period of imprisonment is evidenced by the recidivism rate.

Figure 2: Distribution of first offenders and recidivists in relation to the total prison population (%)

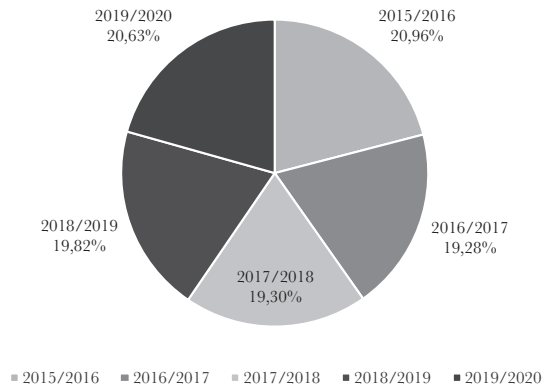


Source: Prison Statistics Review 2016-2020, edited by the author

More than 51% of inmates were first-time offenders in the years under review, and the proportion of recidivists is decreasing. However, the statistics, which at first glance seem convincing, are worth examining further, as the proportion of repeat offenders is rising. The trend is similar for multiple repeat offenders. It can therefore be concluded that criminal policy efforts to reduce offending are presumably not ineffective, but that the current police measures are not significantly reducing and stabilising the number of new offences.

The current model of prison reintegration is dominated by education and employment, which suggests that prisons see the development of social bonds primarily as a means of promoting successful entry into the labor market (Schmehl, 2015). The results expected from these forms of reintegration are supported by data on inmates who have participated in education and employment.

Figure 3: Percentage of inmates in education (%)



Source: *Prison Statistics Review (2020)*, edited by the author

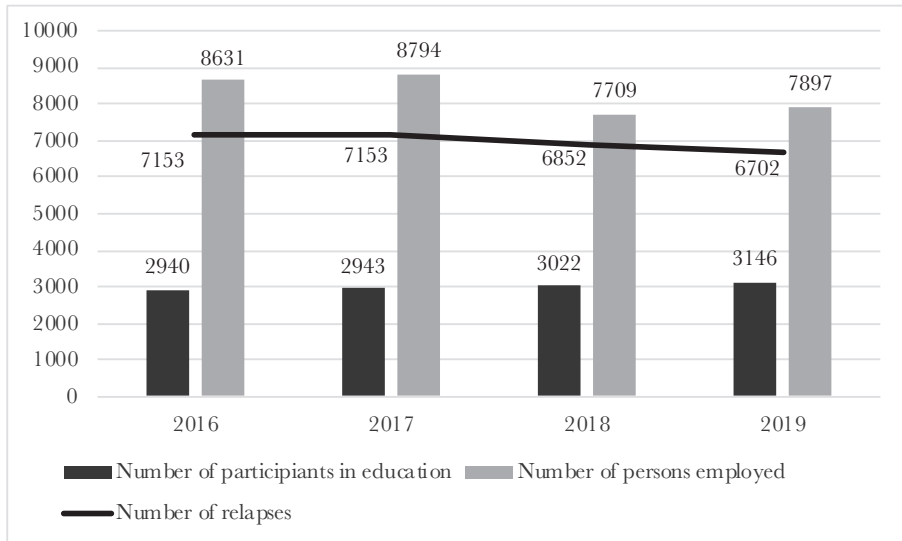
The proportion of inmates in education as a percentage of the total prison population has been permanently increasing from the 2016/2017 school year until the 2019/2020 school year. In terms of the type of education, inmates tend to attend mainly secondary education (40%) and vocational training (30%). There is little interest in general education (29%) and tertiary education (1%).

It should be noted that in mainstream reintegration, prisons rely as much on the positive returns to employment as on education. For this reason, institutions should constantly strive to ensure that the right number of employers are available by providing the maximum number of jobs available (Szakolczai, 2015). This is ensured through the establishment of companies with a mainly industrial and agricultural profile, through the employment of prison service institutes, and through public-private partnerships (PPPs). In order to determine whether the mainstream reintegration model can be considered effective, it is useful to examine the correlation between the number of people participating in education and employment and the number of reoffenders.

It should be noted, however, that the trend in recidivism and the prison population may be influenced by the use of a more restrictive penal policy, with the intended legislative aim of deterring offenders by providing for dissuasive penalties.

While the number of inmates in education shows a slight but steady increase, with on average more than half of all inmates taking up employment, the rate of recidivism, including recidivists, repeat offenders and multiple recidivists, is much lower (3% on average), so the correlation is weak. The need to increase the effectiveness of the programs used in the current reintegration model is therefore well justified by the statistical results. However, extending reintegration policy to include a mediation element could support domestic criminal policy objectives in the short, medium and long term.

Figure 4: Relationship between mainstream reintegration and relapse



Source: Prison Statistics Review (2020), edited by the author

THE CHALLENGES OF MAINSTREAM REINTEGRATION

Addressing Interdisciplinary Challenges

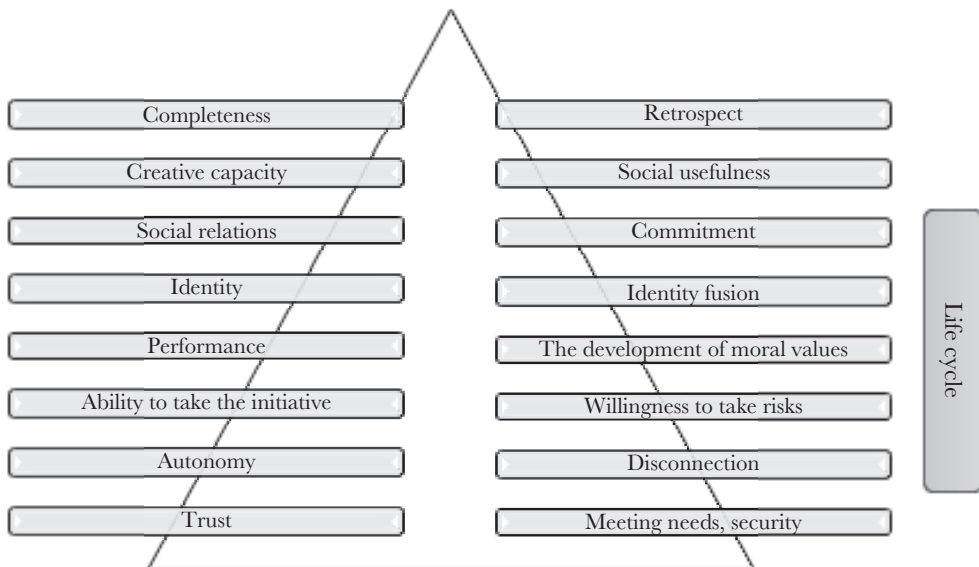
Research on offending behavior has shown that after the offence has been committed and the victim has been perpetrated, untreated trauma typically causes distress, disconnection and a gradual deterioration in quality of life. This is of course cumulative for perpetrators and victims of more serious or violent crimes, but can also occur in the context of less serious crime (Barabás, 2020). Therefore, it is of utmost importance to address the trauma caused, either during the ongoing criminal proceedings or during the period of imprisonment after the final sentencing.

Several factors can hinder effective reintegration. From the point of view of the inmates, the total institution is clearly difficult to tolerate. A further obstacle is that, despite the tightening of penal policy, if non-compliance does not become part of the personality, i.e. if non-compliance is not *internalized*, the punishment must be applied permanently in order to have a deterrent effect. External shaping forces are therefore constantly needed, as socially accepted behavior does not become a belief in itself (Zimbardo et al., 2017). And the behavioral modifying power of punishment will disappear when the threat of punishment ceases to exist (Skinner, 1953). A factor that hinders the effectiveness of punishment is the *lure of the perceived reward*, i.e., when the promise of the reward is so great that it is able to override the price to be paid through the potential punishment (Lewitt-Dubner, 2005). A system that controls behavior through punishment will therefore fail if the reward cannot be controlled.

It is also a common phenomenon in the domestic prison system that punishment becomes counterproductive because the prison environment triggers *aggression*. Finally, we cannot ignore the phenomenon of *fear*, which can also prevent the acquisition of the desired behaviour (Zimbardo et al., 2017).

For the social control of crime advocates, it is important not only to prevent the spread of criminogenic acts, but also to curb and prevent all forms of deviance that come within the law enforcer’s view (MacKenzie, 2006). The so-called Erikson thesis helps in this respect. In his psychosocial theory of development, Erikson divided the process of socialization into eight stages of human life, each with its own crisis. In his concept, if overcoming crises is not successful, the personality is distorted and deformed until the crisis is resolved (N. Kollár-Szabó, 2004). Crises are preceded by a crisis of values, which inevitably leads to deviant behaviour (Antalóczy, 2014).

Figure 5: Erikson’s psychosocial development model



Source: based on N. Kollár-Szabó, 2004, edited by the author

In the process of personality development, Erikson differentiated the criteria essential for the development of a healthy personality (confidence, the ability to be independent, i.e. autonomy, initiative, etc.) by defining the optimal outcomes for each stage of life (sense of security, ability to detach, willingness to take risks, etc.). Failure to achieve the model outcomes can lead to a personality crisis. These crises can be considered as potential intervention points in the reintegration of inmates. The need to identify these intervention points is supported by Gendreau’s research, which records a strong association between antisocial attitudes, deviant social relationships, previous antisocial behaviour and poor family and parental relationships

with offending behaviour. Consequently, reintegration programs should also take these areas of personality into account (Gendreau, et al., 1992). Thus, the effectiveness of programs to promote social reintegration and reduce recidivism requires programs tailored to the circumstances, personality and individual needs of the prisoner in the domestic prison system. This justifies the need for sociological, psychological and other interdisciplinary social sciences, as well as the practice of faith in prisons (Dowden-Andrews, 1999).

Domestic Reintegration Challenges of the COVID-19 Pandemic

The emergence of the COVID-19 virus, and the prevention of its spread within the prison service institutions has presented them with a number of technical and health challenges. The development of a concept to mitigate the epidemiological security risks, the adaptation of the prevention strategy and the implementation of effective mechanisms have undoubtedly required extraordinary resources. In addition, the changed environment has also led the institutions to rethink their reintegration tools (e.g. contact management). In order to achieve this, it is particularly important to ensure the possibility of social contact, since by depriving inmates of social ties, prisons can reinforce the very behavioral, mental and emotional patterns in inmates that hinder their subsequent reintegration into society. COVID-19 has therefore called for the use of new technical tools that can simultaneously ensure the containment of an epidemic that is increasingly spreading in a closed space and in the community, and the long-term effectiveness of social reintegration (Somogyvári, 2021).

From March 2020, Hungary suspended the visits to institutions and the permission to leave institutions temporarily. The initial austerity measures were followed by gradual easing from summer 2021 onwards. However, from November 2021, on the recommendation of the Operational Staff of the National Command of the Prison Service visits to penitentiary institutions were again suspended (Czenczer, 2021). However, the prison service institutes provide alternative means of communication, which are smoothly implemented, and communication via Skype is now available free of charge for all inmates. The innovation of contact is of utmost importance, as good quality family relationships can reduce the likelihood of re-offending, with the complex effect of improving recidivism rates, which ultimately benefits society as a whole.

Although the pandemic and the extraordinary challenges posed by the risk of the epidemic and its spread have challenged the National Command of the Prison Service, the relevant domestic empirical research (including the National Command of the Prison Service's own study) suggests that the National Command of the Prison Service management of the epidemic is effective in terms of measures to support reintegration.

BROADENING THE PRACTICAL APPLICATION OF MEDIATION – THE NEED FOR A PARADIGM SHIFT IN THE DOMESTIC PRISON SYSTEM

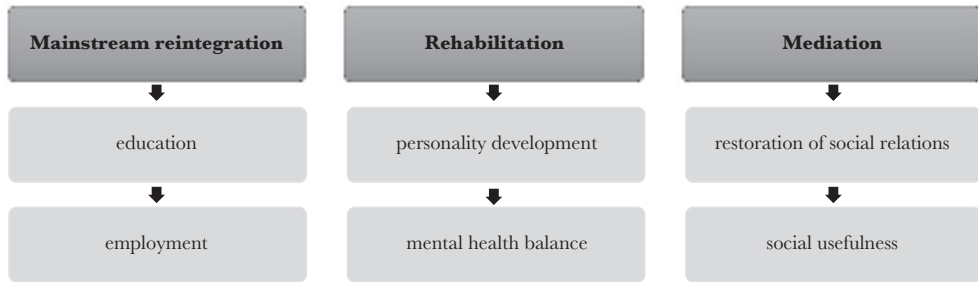
In Hungary, the law enforcement authorities have had the possibility of mediation in criminal matters since 1 January 2007, and since 1 January 2014 mediation has also been available

for less socially dangerous offences, i.e. for misdemeanours. Certainly, the use of mediation is not limited to criminal cases, as it was already possible in civil cases (Barabás, 2020). It is important to note, however, that mediators primarily focus on the victim, helping him or her to deal with his or her grievances. Although victim support is an essential element of postmodern criminal procedure, it cannot be ignored that mediation can be just as helpful for the offender's social reintegration, as it can contribute to the development of a sense of responsibility, responsibility and moral judgement.

The introduction of the new legal institution was made possible by the fact that Act LI of 2006 introduced active repentance into the Criminal Procedure Code as a ground for decriminalization, which is an integral part of the mediation procedure (Barabás, 2020). The broadening of the mediation process is represented by its inclusion in the Penal Code, Article 171 of the Code extended the use of mediation to the settlement of grievances between inmates. According to this provision, the disciplinary authority may terminate proceedings for misconduct committed by a prisoner against another prisoner or suspend the execution of the sentence if the prisoner participates in mediation.

It should be noted that the use of treatment ideology and pedagogical optimism still does not guarantee the avoidance of re-offending, but it can help (Lőrincz, 2018). It can reshape wrongly fixed mindsets and help reintegration into society, all without complex, well-structured corrective behavioral therapy, and it can also “penetrate to the depths of the personality”, but it can also contribute to reducing pro-criminal attitudes. The need for a paradigm shift in the reintegration paradigm in the domestic penitentiary system, i.e. the introduction of mediation as a reintegration tool, is further justified by the many advantages of mediation. One such advantage is that the parties can spend as much time as they really need to resolve the conflict. The parties therefore have the opportunity to address the conflict of interest through innovative solutions. The flexibility of the procedure helps to address all dimensions of the conflict and reinforces the sustainability of the agreement to be reached between the parties. Mediation also paves the way for individual rehabilitation, i.e. the restoration of the offender's personality and patterns of misbehavior, and ultimately for successful social reintegration (Colson, 2021). A paradigm shift in the domestic penitentiary system would thus make possible what the formal justice system is unable to do, by creating the possibility of resolving the conflict between the offender and the victim, and the joint processing of the crime experienced can undoubtedly contribute to reintegration (Resch, 2014). It is precisely these positive effects that demonstrate that the use of mediation during imprisonment could bring about a new turnaround in recidivism statistics. Social reintegration requires a multi-directional effort, so that the right attitude of the person released from prison is important (desire to avoid re-offending, repentance, etc.), but also the supportive and forgiving reaction of the environment (Kerezi, 2011). However, by removing the conflict between the parties, which has been brought within the purview of the penal system, from the reach of society, the state has also removed the possibility for the community to restore the disordered legal order itself, and the victim has lost the opportunity to participate in resolving the conflict (Christie, 1991). Herein lies the preventive function of the prison system, which is to protect society not only from crimes that have already occurred, but also from future crimes (Koósne, 2015).

Figure 6: Factors guaranteeing social reintegration in prison service institutions

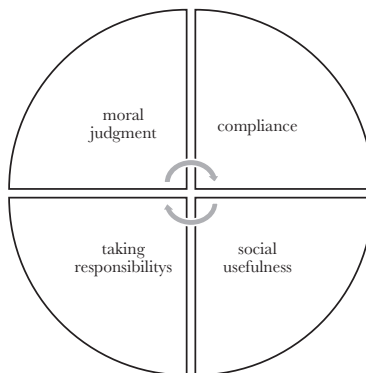


Source: edited by the author

Social reintegration programs are necessarily multifaceted, focusing on individual qualities, the personality of the offender and the restoration of social relations. It is important to note, therefore, that the measures advocated in Figure 6 must work in tandem and in parallel to promote social rehabilitation. However, the process can only be successful in the long term if the principles learnt are taken out of the ideological field and internalized into internal convictions. The mediation process is quite diversified and could therefore support the reintegration of inmates into society in a number of remarkable ways (Vári, 2008).

According to the Ministry of Justice’s statistical bulletin, mediation was ordered in nearly 60,000 criminal cases in Hungary between 2007 and 2018, with the parties reaching an agreement in an average of 85% of the cases concluded, while nearly 90% of the agreements concluded were fulfilled. In infringement cases, mediation was ordered in around 11,000 cases between 2014 and 2018. In infringement mediation, the parties reach agreements in 50-60% of completed cases and more than 85% of agreements are fulfilled. The statistical results presented demonstrate the widespread justification for the use of mediation in criminal matters, and their effectiveness can be predicted for the prison sector.

Figure 7: Expected social impact of prison mediation



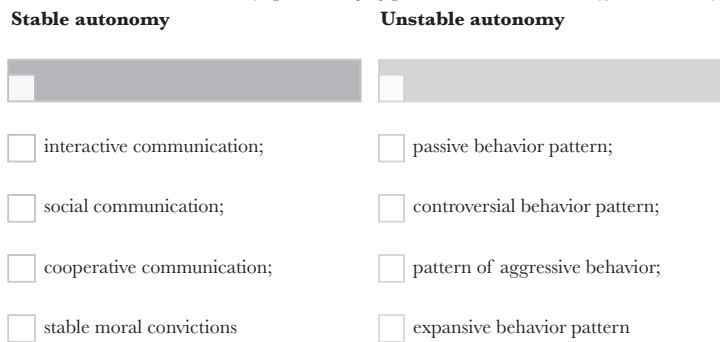
Source: edited by the author

Róbert Hecker-Réz, a prominent Hungarian representative of the Christian-based field of leadership theory, pastoral psychology and mediation, highlights the practical usefulness of the so-called “autochirical” therapeutic method in his works published in 2021. The autochirical therapeutic method, based on a Christian approach, is a psycho-pedagogical vision in which the abandonment of an incorrectly fixed communication pattern is necessary in order to start an interaction that helps the parties to achieve their common goal. Interpreted in the context of the autocirical method of mediation, mediation is a healthy self-analysis and the ability to understand the other party through the development of a communication toolbox. The autocirical method is thus a transposition of already dedicated social science ideas into a new multidisciplinary context, aiming at identifying points of intervention within the framework of a communicative coordinate system between the parties, where the parties’ disengagement is transformed into cooperation. Consequently, a key issue in mediation is to structurally revise poorly anchored communication traditions, i.e. to identify areas where the parties involved in the process follow patterns of behavior that are not the result of individual, i.e. internal, beliefs, but of a learned role or of the circumstances that shape it (Hecker-Réz, 2021).

Internal conviction is a phenomenon that is present in individual decisions and, as an integral part of the personality, it expresses the way the person concerned thinks, considers and communicates in a given situation. By shaping decision-making mechanisms based on such conscience, communication between the parties can be improved and the mediation process can be made more effective. Consequently, mediation in the prison sector can be effective not only in the short term, as it helps to repair the harm between the parties, but also in the long term, as it helps to alleviate the anxiety and fear of the parties caused by the violation of the law. It also helps the prisoner to develop conscientious decision-making based on social values, which ultimately contributes to law-abiding behavior (Hecker-Réz, 2021). Furthermore, mediation helps the prisoner’s reintegration efforts by developing the prisoner’s willingness to cooperate, empathy and problem-solving skills, which are crucial components of successful social reintegration, in a process that requires cooperative and disciplined behavior (Feuer, 2008). It follows from the above that mediation in prison can be seen not only as a corrective but also as a preventive method. However, it is also important to mention the beneficial effects of mediation for the victim, beyond the compensation of material damage and the processing of the damage caused by non-material damage. *Erikson*, the originator of social development theory, divided human development into eight stages and identified the so-called basic conflicts that characterize each stage of life. According to his thesis, an individual emerges from the developmental process in a healthy state in which his individual values and judgement are strengthened. A well-resolved conflict can result in the development of confidence, autonomy, initiative and competence, which can be put to good use in resolving future conflicts. Although *Erikson* writes about personality, his findings are equally applicable to interpersonal relationships (Lovas-Herczog, 2019). Mediation can shed light on precisely these stumbling blocks in the process of social development. The effectiveness of the communication channel is therefore of crucial

importance in a mediation process that also has a reintegration effect. It is important to note, however, that the success of the latter can be determined to a considerable extent by the personalities of the parties involved, i.e. the autonomy of the individuals involved in the process. An autonomous person is guided in his or her dialogue by a set of values, on the basis of which he or she takes a stand and assumes responsibility for his or her decisions (Maier–Wrana, 2008).

Figure 8: Communication characteristics of personality types that determine the effectiveness of mediation



Source: Hecker-Réz, 2021 based on author's editing

While a person with stable autonomy has the communication competences necessary for effective mediation (i.e. mediation that results in an agreement and resolution of the conflict), a person with unstable autonomy faces a number of difficulties in the communication process. A person with unstable autonomy is an interactive, cooperative and increasingly socially disengaged individual.

Individuals with unstable autonomy involved in mediation typically have a communication pattern that can be described in four models. In the passive behavioral model, the person concerned has self-deprecating behavioral traits, foregoing individual initiative, and consequently tolerating the other party's behavior and foregoing the possibility of cooperation. In contrast, the person following the controversial pattern of behavior has a disagreement-seeking, provocative communication, seeking to widen the gap between the approaches of the parties. The aggressive behavior pattern of a person with a similar pattern to the controversial behavior is characterized by hostile and violent communication, as he sees his counterparts as rivals and is therefore not only unable to cooperate but also unable to understand the other's point of view. Finally, the expansive-type communicative strategy is characterized by a tendency to incorporate the other person into one's relationships and by so-called communicative autocracy (Hecker-Réz, 2021). Given that the nature of grievances in the prison system means that the resolution of grievances requires not only the intervention of an outside third party, the mediator, but also a particular focus on communication and the pattern of behaviour of the parties, as these are the determinants of the success of mediation, identifying and developing communication competences as necessary is a crucial task. For this reason, mediation with a broader scope, i.e. social science methods supported by multidisciplinary disciplines (including the development of communication), could increase the effectiveness of the process.

In addition to correcting the individual communication strategy, the correct positioning of the people involved in the negotiation process is also a key factor. The legitimacy of the positioning process is demonstrated by the fact that during mediation the parties use their communication strategies and methods, which are already familiar at the individual level and are typically controversial. However, innovative mediation transforms positional negotiation into interest-based and value-based negotiation. The mediator has a crucial role to play in this process. If the interests and needs of the parties are clarified in the process of interest-based and value-based communication, the quality of communication between the parties may change, with the parties' efforts towards a solution coming to the fore. The interests and emotional needs expressed by the parties in mediation can then be used as a basis for working together towards resolving the conflict and jointly working through the trauma (Deák, 2020).

The Basic Pillars for the Practical Application of Mediation in Prison Settings

A society, a community, and the people living in it are well characterized by how they resolve their disputes and crises, and by the conflict management procedures they use (Lovas–Herczog, 2019). Mediation is precisely a tool for describing the crisis management state of a society, and even for developing conflict management mechanisms once appropriate intervention points have been identified. *Thomas* and *Kilmann* differentiated between methods of dealing with interpersonal conflicts on the basis of the causes of the crisis, while at the same time highlighting the dual dimension of self-assertion and attention to the needs of the other party that is co-existent in the conflict management process (Thomas–Kilmann, 1974). Accordingly, the first pillar of mediation in prison settings, in addition to the review of the communication strategy and the individual correction of communication mechanisms described above, is to identify the causes of the conflict, i.e. the motives behind the violation.

Figure 9: Types of conflict

Value conflict	<ul style="list-style-type: none"> • Rationalization; • emotional independence in communication;
Conflict of interest	<ul style="list-style-type: none"> • exploring individual interests; • cooperative interest reconciliation;
Relationship conflict	<ul style="list-style-type: none"> • resolving the conflict over previous statements; • application of empathic skills;
Resources-conflict	<ul style="list-style-type: none"> • exploration of resources; • sharing resources according to the expressed individual needs and requirements;
Information-conflict	<ul style="list-style-type: none"> • clarification of the information leading to the solution; • recording relevant information as required.

Source: Lovas–Herczog, 2019 based on author's editing

The second pillar of the mediation process is to find the common interest of the parties, which has the positive effect of developing in the parties the cooperative skills needed to resolve the conflict. Although the different interests of the parties involved often imply an apparent conflict of interest that points towards the irresolvability of the conflict between them, in many cases it is the impartial third party, the mediator, who can move the parties out of their positions and help them find common interests (Lovas–Herczog, 2019).

SUMMARY

Traditional reintegration programs based on education and employment are necessary but not sufficient components of social reintegration, as they are not in themselves capable of addressing the criminogenic factors critical for reintegration. In the latter case, mediation can be an effective tool during the period of serving the sentence, as it can help the offender to confront his/her own actions, and dialogue keeps the offender in the social system, thus reducing the isolating effects. Remorse and reparation can only be expected from those who still belong to something, which is why it is crucial to keep the offender within society (Gönczöl, 2005).

Successful social reintegration requires a multi-faceted approach. At present, the domestic penitentiary institutions are characterized by the maintenance of traditional reintegration lines and the constant need for innovation in these directives, with innovations being increasingly integrated into the reintegration methodology. This welcome process is to a large extent due to those professionals who are calling for a paradigm shift, but also to the church organizations which firmly believe in the malleability of the individual. Consequently, reintegration can only be effective in the future if the prisons are prepared to look beyond the current practices and to examine the practical advantages of broadening mediation, while maintaining the mainstream tools used so far. This will of course require training of the staff involved.

NOTES

- ¹ https://prison.servicegov.hu/sites/default/files/Bortonstatisztikai_Szemle_2020.pdf
- ² <https://prison.servicegov.hu/sites/default/files/Bortonstatisztikai%20Szemle%202018%201.pdf>
- ³ <https://igazsagugyiinformaciok.kormany.hu/kozvetitoi-eljaras-bunteto-es-szabalyertesi-ugyekben>
- ⁴ <https://www.euro.who.int/en/health-topics/health-determinants/prisons-and-health/news/news/2020/3/preventing-covid-19-outbreak-in-prisons-a-challenging-but-essential-task-for-authorities>

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Anett Tózsér

The Role of Hungaricums in the Development of Settlements



Summary

Due to the national strategic significance of the topic, the Research Institute for National Strategy aimed to examine the impact of Hungaricums in the development of the affected settlements. In the literature review, we examined the development of the concept of the Hungaricums, evaluated its national strategic significance, and discussed the impact of the Hungaricums on local and national identity. During the primary research, we conducted a questionnaire survey among those Hungaricums in the Hungaricum Collection, which are related to a settlement. We looked for the answer to the question, among other things, to what extent the Hungaricum determines the practice of settlement development, how the management of the settlement relates to it and how the population. We also asked the organizations concerned to what extent the Hungaricums have an impact on job creation and cooperation in the given settlement and region. The results showed that if, in the opinion of the respondents, a Hungaricum plays a more significant role in the development of the settlement, the inhabitants are also more proud of these values. It also turned out that in addition to the greater utilization of the Hungaricum in settlement development, the value can have an impact on job creation and community building at a higher territorial level (not only at the local level, but also at the regional, national or even international level).

Keywords: Hungaricum, national value, local identity, national identity, Carpathian Basin

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INTRODUCTION

There are two possible interpretations of Hungaricums. One is to define the content of the concept according to what we Hungarians consider to be our own, what we believe to be the things that best characterise Hungarians. The other approaches the concept from the foreigners' point of view: it considers it important what foreigners think of as Hungarian, what are the products that they think can be associated with Hungary and with the Hungarians.

Hungaricums as a whole are thus values that are specific to Hungarians and for which Hungarians are known throughout the world. Hungarians therefore play a key role in shaping the image of the country. Foreigners often identify Hungarians with the “Hungaricums” that are known throughout the world. Gulyásleves¹, “Tokaji aszú”² and the “Hortobágyi National Park”³ are internationally recognised brands. The collection of Hungaricums and their promotion to a wider public will help to improve the image of Hungarians abroad and will also help to strengthen the sense of national identity. In Hungary, until 2012, Hungaricums were not officially collected and there was no uniform regulation on what can be a Hungaricum (Tózsza-Zátori, 2013). Today, the regulation allows, for example, the achievements of Hungarian scientists, cultural values and works of art from Hungary, Hungarian food products, indigenous or bred animal and plant species, or natural values of Hungary to become Hungaricums.

The collection of national values is not unique. Most nations collect values that express their identity and are considered patriotic. Thus, we can speak of “Polonicums, Germanicums, Italicums, Francophoncums or Anglicums”. If there were a French, English or German catalogue of values like the Hungarian one, the list would certainly include iconic brands of these nations, such as the Eiffel Tower, the Louvre, the croissant, the rooster (France); Windsor Castle, the Tower of London, Yorkshire pudding, the English bulldog (England); Bavarian leather trousers, beer, the Berlin Wall, and the Frankfurt sausage (Germany).

Hungary's Fundamental Law, guided by the unity of the Hungarian nation, states that Hungarian national values are unique values to be preserved and protected, and that their protection contributes to the development and consolidation of a sense of national identity (Fundamental Law of Hungary, 25 April 2011).

Referring to the Fundamental Law of Hungary, István Tózsza drew attention to the fact that in the difficult challenges of the 21st century, the preservation of values is a great task for us. We cannot give up our values and the heritage left to us by our predecessors, because our common values are the guiding principle for knowing where we are going and what the true meaning of our lives is (Tózsza, 2019).

The term “Hungaricum” can rightly be considered a unique phenomenon in the world, as it refers to “*material or spiritual values that are considered Hungarian by Hungarians or foreign peoples and identified with the nation, which are Hungarian in origin and reputation*” (Zentai, 2015:5). Act XXX of 2012 on Hungarian National Values and Hungarian Hungaricums (hereinafter referred to as the Hungaricum Act) states that Hungarian Hungaricum and national values

should be collected, cultivated and preserved, as they play a key role in strengthening national cohesion and national consciousness. They should also be promoted, as they play an important role in building identity and image, and can also bring economic benefits. They also have a role to play in national strategy, as the *scope of the Hungaricum is not limited to Hungary, but covers all communities made up of Hungarian people* (jogtar.hu).

Due to the national strategic importance of the Hungaricum theme, the National Institute for Strategic Studies has set itself the objective of studying the Hungaricum movement and the role of Hungaricums in the development of the settlements concerned.

Firstly, we explored the interpretation of the concept of Hungaricum, the provisions of the Hungaricum Act and its national strategic significance by means of literature research. In addition, the impact of Hungaricums on local and national identity was discussed.

To complement the literature synthesis, a questionnaire survey was conducted in the settlements where Hungaricums are located. Based on this, we selected those values that are linked to settlements from the 76 Hungaricum currently (April 2021) listed in the Hungaricum Collection. We have also highlighted those that have or could have a tourism impact. We then identified the organisations responsible for the management of the selected SCIs and carried out a comprehensive questionnaire survey with the help of the managers and representatives of these organisations. In total, 35 organisations linked to the municipalities concerned were asked to complete our questionnaire. Of the 35 organisations asked, 30 completed the questionnaire.

In the primary research, we investigated how, to what extent and by what means the Hungaricums have the greatest impact on the development of a municipality. To research this issue, the questionnaire survey sought answers to the following questions:

- To what extent is the Hungaricum a determining factor of settlement development, how does the management of the settlement relate to the Hungaricum?
- What is the attitude of the population towards the Hungaricum associated with their settlement or region?
- At what levels (local, regional, national, international) does Hungaricum have an impact on job creation, businesses, NGOs, and communities?
- To what extent does Hungaricum have an impact on job creation, on businesses based on Hungaricum, on cooperation between the local government, businesses and NGOs in the settlement?
- How many jobs does this mean? What proportion of the settlements' income comes from businesses that can be linked to a given Hungaricum?
- How and to what extent does the Hungaricum have an impact on job creation, business creation and cooperation in the region (county) concerned?
- How and by what means could Hungaricums be used to a greater extent in order to strengthen the identity of the settlements?

The expected results will help to raise awareness among municipalities and professional organisations of the further opportunities for the use of Hungaricums and the social and economic benefits that can be derived from their use.

THE CONCEPT AND INTERPRETATION OF HUNGARICUM

The conceptual interpretations that preceded the Hungaricum Act expressed the concept of a Hungaricum differently, yet they were uniformly exclusively concerned with material products. It can also be seen from these definitions that they were primarily formulated in relation to agricultural and food products (Szabó, 2012; Zentai, 2015).

The Parliamentary Resolution on the Protection of Hungaricums was the first to define the concept of Hungaricum in legal terms. However, like previous interpretations, this legislation focused on agricultural and food products. According to this, these values are uniquely and uniquely Hungarian specialties, i.e. Hungaricums, which have become particularly important in today's fast-paced, globalised world. Hungaricums have a geographical, historical, linguistic and ethnographic identity. They are specific Hungarian products whose characteristics include the essential and prominent Hungarian national character and which, in connection with our natural endowments, indigenous breeds and production and breeding traditions, have characteristics that are specifically Hungarian. By their Hungarian character, their specificity and their quality, Hungaricums can significantly enhance our reputation and increase our esteem throughout the world (Resolution No. 77/2008 of 13 June 2008 on the protection of Hungaricums).

The Hungaricum Act of 2012 has already set out a precise definition of a Hungaricum. The definition in the Act contains more than the previous ones, as the product designation has been extended to include intellectual and cultural goods. These are collectively referred to as values. In this context, the Act has distinguished three categories of values: '*Hungaricums*', '*outstanding national values*' and '*national treasures*'.

According to the 2012 law, a Hungaricum is a generic term that "*in a uniform classification, classification and registration system, denotes a value worthy of distinction and emphasis, which, with its characteristic feature, uniqueness, distinctiveness and quality, is the peak achievement of the Hungarians*". According to the Act, *national value* is any intellectual, material, natural, community, natural, community value or product, tangible or intangible, related to the culture of production, knowledge, traditions, the Hungarian landscape and wildlife, accumulated and preserved. An outstanding national asset is an asset that is of national significance, characteristic and well-known for Hungarians, that significantly enhances our reputation and can increase our esteem around the world (jogtar.hu).

National values define a broader set of values, so they include not only the highest achievements, but all the values that characterise Hungarians. This leads to the conclusion that all Hungaricums are national values, but not all national values are Hungaricums. With regard to the distinction between Hungarian national value and Hungaricum, it is also important to point out that while the former is defined as the accumulated and preserved spiritual, material, natural, community value or product that can be associated with Hungarians, the latter, i.e. Hungaricum, is defined as a national value worthy of distinction, which, with its characteristic properties, uniqueness, distinctiveness and quality, represents the peak achievement of Hungarians (Tózsá– Zátori, 2013).

In the context of the law, we can confirm the following approach and use it as a starting definition for our research. "*Hungaricums are Hungarian products of a unique quality, specific to Hungary,*

or unique natural or cultural values found only in Hungary: a species of animal or plant native to Hungary or bred here, a nationally known Hungarian folk art or fine art, a special architectural work, a monument, music, language and Hungarian literature. It includes traditional cultural values, folk traditions and natural values that are unique to Hungary” (Tózsza-Zátori, 2013:9).

Based on the regulations of the Hungaricum Act, the implementing regulation provides for the categories of national treasures to be identified by subject when collecting and identifying them. According to this, the categories of identification are: agriculture and food economy, health and lifestyle, the built environment, industrial and technical solutions, cultural heritage, sports, the natural environment, tourism and hospitality (Act XXX of 2012 on Hungarian National Values and Hungaricums; Tózsza, 2019).

The Hungaricums Collection currently (as of April 2021) contains 76 outstanding national treasures. Most of them are in the cultural heritage category. The Hungaricums are divided into the following categories: agri-food (25), health and lifestyle (5), built environment (1), industry and engineering (3), cultural heritage (31), sport (2), natural environment (3), tourism and hospitality (6) (Collection of Hungaricums).

By decision of the Hungaricum Committee of 31 January 2013, according to the relevant Section III § 12 (2) of the Hungaricum Act, i.e. by virtue of the Act, UNESCO World Heritage Sites and Intangible Cultural Heritage Sites are also Hungaricums (What are the Hungaricums?).

THE NATIONAL STRATEGIC IMPORTANCE OF THE HUNGARICUM ACT

The development of the Carpathian Basin network economy and the implementation of the national strategic framework programmes can also benefit greatly from the issue of Hungaricums. The Act on Hungarian National Values and Hungaricums is a law with a national approach, whose target group and target area is not only Hungary, but all communities made up of Hungarian people (Tózsza, 2019).

One of the most important provisions of the 2015 amendment of the Hungarian Hungaricum Act was the creation of a Hungarian model for the collection of foreign values. On the basis of these provisions, foreign organisations participating in the Hungarian Standing Conference can operate a Hungarian National Treasures Abroad for their own regions. In addition, local governments and legal entities from abroad may establish a municipal or regional treasury for their own country, provided that they are supported by the foreign organisation invited to the Hungarian Permanent Conference. The aim is to enable the collection of values at a local level beyond the national borders, to launch grassroots initiatives there and to ensure that they are channelled into the unified National Value Pyramid system. As a result of the amendment, the cross-border collection movement has started to be actively organised. In this system, the largest Hungarian block abroad is represented by a regional value depository, the Szekler land Value Depository and Value Depository Committee (Act LXXX of 2015 amending Act XXX of 2012 on Hungarian National Values and Hungaricums; Tózsza, 2019). Most of the Hungaricum Collection's settlement related Hungaricums are located in Hungary, two of them are related to Hungarian territories outside Hungary (the built heritage of Torockó and the Pentecostal Pilgrimage and the Shrine of Csíksomlyó) (Hungaricum Collection).

THE ROLE OF HUNGARICUMS IN SHAPING LOCAL AND NATIONAL
IDENTITY

Marika Németh believes that the positive self-esteem of our own nation requires that it be endowed only with valuable qualities. Valuing our own group is in our own interest and protection and is an indispensable condition for a viable national consciousness. Hungaricums, which represent specific local and national characteristics, contribute to this (Németh, n.d.).

Márta Nótári added that patterns of national feeling and identity are alive and well among the Hungarian population (Nótári, 2008). Sociological studies have identified an increase in economic nationalism in our times. According to these, ethnocentrism assumes the superiority of the domestic or national market, one of the reasons for which is that some nations have consumers with a specific ethnocentrism (orientation towards a particular nation). This type of orientation also influences an individual's choice of products. According to Nótári, consumer ethnocentrism is highest among the Hungarian population aged 60 and over. This may be due to the fact that different levels of ethnocentrism - national identification, national preference - develop at older ages. József Berács and Erzsébet Malota noted that if an individual considers it important, for example, to win a Hungarian gold medal at the Olympics, he is likely to have a more positive opinion of Hungarian products (Berács–Malota, 2000).

In addition to the importance of national identity, Káposzta and his fellow researchers have highlighted the role of local identities (Káposzta et al., 2015). They found that one of the consequences of globalisation is the changing and valorisation of the role of regions and localities. As a consequence of the new territorial policies, local, endogenous resources are also playing an important role in our country as the building blocks of self-reliance. The use of local resources ensures that capital invested remains local and is recycled. In addition, emphasising and promoting local diversity, promoting the characteristics of place, developing and selling local identity and the various quality goods and services that go with it, is also a way of protecting against globalisation.

The research results of the Káposztas have demonstrated that the production of Hungarian products has a number of direct and, above all, indirect benefits for the society and economy of the regions studied, albeit still limited. They contribute, among other things, to the creation and preservation of local jobs and to an increase in the incomes of raw material producers and hence in local tax revenues. Another important finding is that the Hungaricums they have studied are not at all or not sufficiently emphasised in the development plans of the regions concerned. They therefore believe that more attention should be paid to the integration of these endogenous resources into national and local development strategies. It can also be noted that festivals, fairs and thematic tours are typical tools for presenting these values to the local population (and tourists) (Tóth et al., 2017).

RESULTS AND CONTEXT OF THE PRIMARY RESEARCH

At the time of the survey, there were 76 Hungaricums in the Hungaricum collection. These include both Hungaricums linked to specific localities and Hungaricums with a general scope - not linked to a specific place. The latter include, for example, Goulash soup, Dobos⁴ cake, brandy⁵ or Chimney⁶ cake (Hungaricums Collection).

The questionnaire survey was carried out among 35 Hungaricums linked to a settlement. Most of the Hungaricums in the Hungaricum Collection are related to settlements and regions in Hungary, two are related to Hungarian areas outside Hungary (the Pentecostal pilgrimage and shrine of Csíksomlyó and the built heritage of Torockó).

In the primary research, we assumed that if respondents believe that a particular Hungaricum plays a more important role in the development of a settlement, then the people living there will also feel more pride in these values. We hypothesise that by making greater use of these values in settlement development, they can also have an impact on job creation and community building at a higher territorial level (not only at the settlement level, but also at regional, national or even international level).

In the course of the questionnaire survey, we contacted the local organisations that are either responsible for the dissemination of the Hungaricums or their management and asked them to fill in our questionnaire. Of the 35 organisations invited, 30 completed the questionnaire. Organisations that manage more than one Hungaricum were asked to fill in a questionnaire for each value separately. Thus, two completed questionnaires were received from the Tokaj Wine Region Development Nonprofit Ltd., which also filled in a questionnaire on the Tokaj-Hegyalja Historic Wine Region Cultural Landscape and the Tokaj Aszú produced in the wine region. Two questionnaires were also received from Pick Szeged PLC., which also filled in questionnaires on Pick winter salami and Herz Classic winter salami. The Viski Károly Museum in Kalocsa helped us by filling in a questionnaire on the folk art of Kalocsa (writing, embroidery, daubing) and on the Kalocsa spicy paprika-flavoured speciality. The Zsolnay Heritage Management Ltd. also returned two completed questionnaires, one on the Zsolnay Cultural Quarter and the other on the Early Christian cemetery of Pécs (Sopianae). Szegedi Paprika Fűszer- és Konzervgyártó Zrt. completed a questionnaire on the Szeged paprika and on the foie gras preparations.

Each of the other organisations completed a questionnaire on one Hungaricum:

- CsabaPark about Csaba sausage and Csaba special thick sausage;
- the a Gyulai Turisztikai Nonprofit Kft. [Gyulai Tourism Nonprofit Ltd.] about the Gyulai sausage and Gyulai sausage pairs;
- the Makói József Attila Városi Könyvtár és Múzeum [József Attila City Library and Museum of Makó] about the onion of Makó;
- the Debreceni Értéktár Bizottság [Debrecen Values Committee] about the Debrecen paired sausage;
- the Eger Tourinform Office about the Eger Bikavér wine;
- the [Szóreg Cultural Centre] about the Szóreg Rose Garden;
- the Hévíz Tourinform Office about Lake Hévíz and the traditional Hévíz spa;

- an expert on Torockó's built heritage;
- the Mohácsi Városszépítő és Városvédő Egyesület Idegenforgalmi és Turisztikai Szervezete [Tourism Organization of the Mohács Town Planning and Conservation Association] about the Mohács Busó Festival, a model of the winter ending masquerade tradition;
- head of the Matyóland Tourism Association, on Matyó folk art and the traditional embroidery culture of the community;
- the Lechner Knowledge Centre's Directorate for Cultural Heritage Protection on the Budapest - the Danube banks, the Buda Castle District and the Andrassy Avenue World Heritage Site;
- the Hollókői Világörökség-kezelő Nonprofit Kft. [Hollókői World Heritage Management Nonprofit Ltd.] about the Old Village of Hollókő and its surroundings;
- the Pannonhalmi Főapátság [Pannonhalma Archabbey] about the millenary Pannonhalma Benedictine Archabbey and its natural environment;
- the Hortobágy National Park Directorate the Hortobágy National Park - from the Puszta;
- the Fertő-táj Világörökség Magyar Tanácsa Egyesület [Hungarian Council of the Fertő-Táj World Heritage Site Association] about the Fertő/Neusiedlersee cultural landscape;
- the Halasi Csipke Alapítvány [Halas Lace Foundation] about the traditional lace from Kiskunhalas;
- the Vizsolyi Református Egyházközség [Reformed Parish of Vizsoly] about the Vizsolyi Bible (the first Hungarian translation of the bible);
- an expert on the Pentecostal pilgrimage and shrine at csíksomlyói;
- the Aggteleki Nemzeti Park Igazgatóság [Aggtelek National Park Directorate] about the caves of the Aggtelek Karst and the Slovak Karst;
- the Karcagi Birkafőzők Egyesülete [Karcag Sheep Cookers Association] about the Karcag mutton stew;
- the Bajai Települési Értéktár Bizottság [Baja Municipal Values Committee] on the Baja fish soup.

The questionnaires were completed between 11 February and 16 March 2021. When evaluating the questionnaires, groups were formed of Hungaricums of the same category and with the same characteristics. This allowed us to better examine both the similarities within the groups and the differences between the groups. In the sub-chapters of each chapter, the impact of the natural and cultural World Heritage sites, the agri-food products and other cultural heritage on the identity exercised on the identity of settlements and regions was analysed separately based on this grouping.

Treating *World Heritage sites* as a separate category is justified both because of their outstanding value and because of the significant proportion of World Heritage sites in the sample, which account for almost a third of the 30 sites examined (8 sites - 27%). The World Heritage sites include Budapest - the banks of the Danube, the Buda Castle District and the Andrassy Avenue, the Hollókő Old Village and its landscape, the Pannonhalma Abbey, the

Fertő Valley World Heritage Site, the Sopianae Early Christian Cemetery of Pécs, and the Hortobágy National Park - the cultural landscape of the Puszta, the Aggtelek and Slovak Karst caves and the Tokaj-Hegyalja Historical Wine Region. Together, these sites belong to the category of the cultural heritage and the natural environment of the Hungaricum Collection.

Food products account for the largest share of Hungaricums in our research (12 values - 40%). In this group, we also analysed the products classified in the Hungaricum Collection in the categories of the agri-food economy, and tourism and hospitality. These include Szeged paprika, foie gras products, Kalocsa red paprika, Csaba sausage, Tokaj Aszú wine, Debrecen sausage, Makó onion, Herz and Pick Winter salami, Egeri Bikavér wine, Karcag Mutton Stew and Baja Fish Soup.

Cultural heritage includes the values included in the cultural heritage category of the Hungaricum Collection (including those on the Representative List of the Intangible Cultural Heritage of Humanity), in addition to the World Heritage sites mentioned above, and the built environment. In this group, the Sőregi Rose, the Vizsoly Bible (first bible printed in the Hungarian language), Matyó folk art, Kalocsa folk art, Kiskunhalas traditional lace, the Hévíz Lake Spas, the Csíksomlyó pilgrimage, the Mohács Busó Festival, the constructed heritage of Torockó and the Zsolnay Cultural Quarter (10 sites) were examined. These values represent one third, (33%) of the present research.

First, the respondents asked how much Hungaricum is a determining factor in the development of the settlement, and how the local government considers the Hungaricums.

When comparing the three categories, it can be observed that the most significant use of local development is the use of food products, which was indicated by 92% of the respondents. For the World Heritage sites, it was assumed that they would be integrated into the municipal development to a similar extent as food products, but compared to the assumed result, only half of the respondents indicated that the settlement administration would significantly integrate these values into the urban development. It was instructive for us to ask why these values, which are attractive to all nations of the world, are not more prominently reflected in the urban development tools. Also in relation to cultural heritage, half of the respondents considered that it is a significant element in urban development. However, in addition to the positive opinions, the relatively high proportion of less positive opinions (one third and one half of the responses respectively) for world heritage and food products may point to the need to promote urban marketing and development activities in both product groups. The analyses also show that, in the case of the World Heritage sites and cultural heritage, public attitudes are still more positive towards these assets than their involvement in urban development. Food products are an exception to this, as their use by settlements is more significant than their perception by the public.

We also asked how respondents felt about the public's attitude to these values and how proud they are of them.

A comparison of the three groups of Hungaricums showed that the *public's perception of* cultural heritage was the most positive. For these, 80% of respondents said that the public felt proud of these values. This was followed by the perception of food products. In their

case, 67% of respondents believed that the public had a positive attitude towards these values. This was followed only by the world heritage sites, which yielded a similar instructive result as the question of the presence of these values in the development of settlements. A more positive perception and a greater sense of pride in the public's perception of the sites were assumed beforehand. Here, half of the respondents felt proud of their World Heritage sites, while the other half of the respondents felt that the importance of these outstanding sites was moderate or less important.

The next survey question asked respondents to identify the territorial level (local, regional, national, international) of the impact on businesses, NGOs and communities.

The aggregated analysis of the Hungaricums confirmed that, for those values that have an impact on jobs and businesses at a national or regional level, the majority of respondents considered that the Hungaricum is a key factor in the development of their localities and that the people living there are generally proud of these values. However, only 40% of the respondents said that the Hungaricums had an impact on jobs and businesses at local levels, and the attitudes of local residents to the value were mixed. Hungaricums that have an international impact on businesses have a variable presence in urban development programmes: the Budapest and Hévíz sites are outstanding and good, while the role of the Szőregi rose in urban development can be rated as "mediocre". At the same time, the local population tends to be proud of these assets.

For those Hungaricums that do not have an impact on NGOs and communities, it can be concluded that they do not have an impact on businesses either, or at most only at the local level. The data analyses also showed that the Hungaricums that have an impact on NGOs and communities at municipal or regional level also have an impact on enterprises at municipal or regional level, with few exceptions. For those values that have an impact on NGOs and communities at national and international level, the impact on enterprises also tends to be more widespread at regional, national or international level.

The three categories of Hungaricums were also compared in terms of the level of impact of their values on businesses and communities.

It was found that food products have the greatest impact on businesses at a national level, confirmed by a third of respondents. Most respondents (40%) said that the cultural heritage has the greatest impact on businesses at regional level, while for the world heritage, half of the respondents said that it has the greatest impact at local, municipal level.

In terms of community organisation, we can highlight the impact of the World Heritage sites at national or international levels. The UNESCO World Heritage Programme, ensuring the World Heritage sites having an international presence, is decisive in this respect. This programme aims at registering the cultural and natural heritage of humanity, and countries that are inscribed on this list must therefore undertake to protect the World Heritage sites on their territory so that future generations can enjoy their beauty. This responsibility therefore also justifies the community impact generated by the World Heritage sites at national and international levels.

World Heritage Sites are followed by cultural heritage sites that have an impact primarily at the municipal level. These values have a major impact on communities at the muni-

cipal level, even though UNESCO has set out in its Convention comprehensive international principles for the conservation of the intangible cultural heritage included in this group and is using its own instruments to promote its recognition at local, national and international level. The main explanation for the impact at the municipal level is that folk traditions, which are over-represented in the cultural heritage category, play a key role in the preservation of municipal heritage values and the development of local identity and the various services associated with them, and that they determine the way in which traditions are passed on, particularly at local level.

Finally, food products, although having a community impact mainly at the municipal and regional level, received a large proportion (one third) of the opinions reflecting a relatively weak community-building potential. The respondents therefore believe that the community-building potential of food products is much greater than they have been able to exploit. This is also partly explained by the fact that it is mainly the products included in the tourism and catering category (Baja fish soup, Karcag mutton stew), as well as the wines included in the food products category (Tokaj aszú wine, Egri Bikavér wine) and Csaba sausage that have a greater community-organising factor, since these products are the main basis for community events and traditional programmes. These 'established traditions' are needed by the communities of the municipalities, as they are the most important factor in shaping the identity of the population and building communities. Indeed, the aim of gastronomic festivals is to preserve traditions and shape the community by reviving culture, since eating together is an important community-building factor and can therefore also shape identity. However, it can be seen that in the sampling of the research, these products account for only a third of the value of the food products.

We also looked at the impact of Hungaricums on job creation, Hungaricum-based businesses, and cooperation between local government, businesses and NGOs in a given municipality.

In previous data analyses, the highest proportion of organisations surveyed on the World Heritage sites indicated that they have the most significant impact on job creation and business at the municipal level. Returning to the present research question, it can also be seen that the World Heritage sites themselves were rated as having a greater (50%) potential and ability to create jobs at the municipal level than cultural heritage and food products. The World Heritage sites were followed by cultural heritage sites (30%) and then by the food products in terms of job creation potential (17%). Among the three groups, we can notice the underestimation of the impact of food products on job creation in settlements and the contradictory answers resulting from subjective opinions. This can be seen, for example, in the perception that Tokaj Aszú wine and Eger Bikavér wine, which are classified as having a low or medium impact on job creation in municipalities, perform better than products that are classified as having a higher impact on job creation in municipalities.

The majority of respondents in all three groups therefore consider that Hungaricums have a relatively small impact on job creation in municipalities. The opinion of a significant majority of respondents who stress the small potential for job creation (two thirds of respondents for food products, half of respondents for world heritage and 40% of respondents for

cultural heritage) may also draw the attention of managers to the need to make better use of the opportunities this situation offers.

However, a small capacity to create jobs does not mean that these values do not have an impact on municipal cooperation and communities. For all three groups, these values were shown to have a greater impact on municipal cooperation and community building than on job creation.

For the number of businesses, the level of employment and the contribution of business income to annual revenue, we highlight the following results.

For food products, the largest proportion of respondents (50%) indicated between one and ten businesses, a higher proportion than for World Heritage (25%) or Cultural Heritage (30%). However, in all three cases, the highest proportion of respondents mentioned between one and ten enterprises in each locality.

Among the World Heritage sites, the Budapest World Heritage Site and the Tokaj wine region are the two sites with the highest number of businesses and the highest number of people employed. Among the food products, most enterprises can be found in Tokaj Aszú wine and these enterprises employ the most people. Among the cultural heritage sites, Lake Hévíz is the largest “employer” and the one with the largest number of enterprises.

In addition to the municipal impacts, we also asked stakeholders how and to what extent the Hungaricums have impact on job creation, business stimulation and cooperation in the region (county) concerned.

By comparing the three groups, it can be concluded that food products have a greater economic impact at the regional level than World Heritage sites and cultural heritage sites. At the municipal level, world heritage sites came first, followed by cultural heritage sites and finally food products.

In the case of food products, one third of respondents said that they make a significant contribution to regional job creation and half of the respondents said that they make a small or medium contribution to regional job creation. On the other hand, for World Heritage products, a quarter of respondents said that they contribute significantly to job creation, while two thirds said that they contribute less to job creation. In the case of cultural heritage, 20% of respondents reported a high regional economic impact, a third a medium regional economic impact and 40% a low regional economic impact.

The majority of the responses therefore supported a low regional economic impact (half of the responses for food products, two thirds of the responses for world heritage sites and 60% of the responses for cultural heritage sites). These responses confirmed that the job creation potential of these assets was even less exploited at regional level than at municipal level. Thus, when comparing the regional economic impacts with the impacts on the municipality in all three groups, we find that the municipal than the regional job creation impact is more significant for all three groups.

In the context of regional cooperation, it was also confirmed that Hungaricums have a greater incentive for cooperation than they contribute to job creation at the regional level. This was confirmed for food products by a third of the respondents, who considered food products to be a significant driver of cooperation at the regional level, while 67% of them considered

them to have a significant impact on cooperation at the municipal level in particular. A similar result was found for World Heritage sites, where a third of respondents said that they are a significant driver of cooperation at the regional level, but 63% of respondents confirmed that World Heritage sites have a significant impact on cooperation mainly at the municipal level. Cultural heritage has the most significant impact on cooperation at regional and municipal levels. For these, half of the respondents said that cultural heritage makes a significant contribution to cooperation at the regional level, while two thirds of the respondents said that it contributes to cooperation mainly at the municipal level. Here again, we can therefore highlight the finding for all three groups that the impact on cooperation is more significant at the municipal level than at the regional level.

We also sought to find answers to the question of how and by what means to make greater use of Hungaricum to strengthen the identity of the municipality.

In the World Heritage group, respondents highlighted the need to strengthen cooperation between the municipalities, businesses and NGOs concerned and to integrate the World Heritage development programme into the support schemes. Reaching out to young people, passing on values and integrating them into education were also among the suggestions. A special chapter was devoted to the promotion of municipal/regional marketing activities and the need for normative marketing support, as well as to the development of communication tools (advertising and media tools, publications, tomorrow, community identity events).

Among food products, several respondents stressed the importance of subsidies. In this group of answers, the uniform quality assurance, the development of a trademark system, the Hungaricum product protection heritage preservation tenders, personal support for heritage guards and support for heritage sites were highlighted. The need for more support for activities requiring a large manual workforce was also raised. The third category of responses highlighted the potential for tourism. Respondents mentioned the creation of a product manufactory, where the history of the product and the entire production process could be presented, with tasting and shopping opportunities. Within the marketing theme, regional communication tools, multilingual publications and image films, the development of online communication tools, participation in exhibitions and the organisation of identity events were also mentioned.

In the context of cultural heritage, the idea of creating a network of quality-certified Hungaricum shops was raised. The exploitation of Hungaricums could also be enhanced through the development of attractiveness (creation of a museum to preserve and display their tangible and intangible heritage) and through ongoing marketing communication activities (media and advertising tools, publications, educational programmes, community colleges, camps, conferences, training courses, events involving young people, and interactive programmes). The organisations consulted consider it important to familiarise children with these values from an early age (nursery and primary school), as this can strengthen the long-term sustainability of the municipality and encourage young people to stay in their homeland.

SUMMARY AND CONCLUSIONS

Research in the literature has shown that Hungaricums play an important role in the development of a viable national identity, since one of the conditions for a positive self-esteem of our nation is that it should be endowed with valuable qualities. However, in addition to the national feeling and national identity patterns that are alive among the Hungarian population, the role of Hungaricums in local identity can also be highlighted. They have a special, authentic value. Hungaricums are an opportunity for rural areas to break out of their rural environment and can play an important role in the development of a diverse range of products in cities. The preservation and exploitation of Hungarian products has a number of direct and, above all, indirect benefits for the society and economy of the regions concerned. They contribute, among other things, to the creation and safeguarding of local jobs and to an increase in the incomes of raw material producers and hence in local tax revenues.

Festivals, fairs and themed tours are tried and tested ways to showcase these values to native citizens and tourists. Revived culture allows for the preservation of traditions, community development and the shaping of identity. On the other hand, active participation and involvement has led to a growing demand on the part of consumers for offers of authentic value. This in turn can bring economic benefits to local communities and develop their infrastructure.

In the questionnaire survey, we sought to find out to what extent the Hungaricum is a decisive factor in the development of the municipality; how the municipality's leadership and the population relate to the Hungaricum. We also asked the organisations concerned at what territorial level (municipal, regional, national, international) does the Hungaricum have an impact on job creation and communities, and to what extent does it have an impact on job creation, businesses and cooperation in the municipality or region concerned. Finally, our study also looked at how and by what means the Hungaricum could be used to a greater extent to promote the development of the municipality and strengthen the identity of its inhabitants.

Primary research has shown that the use of values in community development is related to the perception of values. Positive attitudes of municipal leaders towards the use of values may also influence public perceptions. Indeed, in municipalities where the municipal authorities pay a great deal of attention to the use of these values, there is a more positive perception and a greater sense of pride on the part of the population.

This may lead us to ask why people should be more proud of their cultural heritage than of their world heritage sites, which are the outstanding treasures of humanity. To this end, it is worth bearing in mind that the cultural heritage group is made up mainly of assets that are on UNESCO's representative list of intangible cultural heritage. This includes the Busó Festival of Mohács, folk art from Kalócsa, Matyó folk art and handmade lace from Kiskunhalas. The above question may be explained by the fact that these values are cultural expressions passed on as knowledge of living communities, which still strongly determine the identity of the communities, groups and individuals concerned, while these forms of expression and shared knowledge are recognised as their own cultural heritage. This shared knowledge can contribute significantly to the sustainability of a community and provide resources for its survival.

The aggregated analysis of Hungaricum has shown that the more prominent presence of a given value in the development of a settlement generally also leads to a more widespread territorial impact on job creation and businesses, and a more positive perception of the value by the population. This suggests that food products have an impact on job creation and business stimulation mainly at national level, cultural heritage at regional level and world heritage sites mainly at municipal level. In terms of community building, however, World Heritage sites and cultural heritage are the most important. It also emerged that a third of the respondents believe that the community-building potential of food products is much greater than they have exploited.

NOTES

- ¹ Goulash is a soupy dish with plenty of stock, onions and peppers, diced potatoes and chips. Gulyás is one of the most popular beef-based dishes of Hungarian origin and is known all over the world. Quality paprika is an essential part of the recipe. The birth and spread of gulyás is linked to the pastoral life of the lowlands, which was based on extensive livestock farming (Hungarikumok Gyűjteménye - Hungarian Collection of Values; Hungarian National Values and Hungarikumok Szövetsége).
- ² An aszú wine produced in the Tokaj wine region in the north-east of Hungary, i.e. a dessert wine made from acidified grapes. Tokaj has a microclimate and soil conditions that are unique in the world, which are particularly favourable to the formation of aszú (Collection of Hungarian Valuables).
- ³ The Hortobágy, Europe's largest continuous grassland, was not created by deforestation but by the work of pastoral communities, and has been able to preserve its biodiversity ever since. It is the largest and oldest national park in Hungary and, in the eyes of many, the essence of the country, synonymous with the Hungarian wilderness (Hungarian Heritage Collection - Hungarian Value Register).
- ⁴ The creator of the Dobos cake (1884) was József C. Dobos (1847-1924), a famous confectioner from Pest. The Dobos cake is a circular cake with a Dobos cream between five layers of the cake. The cake layer and the cream are of almost equal thickness. The top of the Dobos cake is made of a Dobos sugar top made with golden brown caramelized sugar (Collection of Hungarian Food and Dobos Cakes - Hungarian National Inventory).
- ⁵ Pálinka is a protected fruit spirit produced in Hungary. The most common raw materials for pálinka are plums, pears, apples, apricots, sour cherries, cherries, grapes, grape marc or strawberries, but it can be made from any fruit produced in Hungary (Hungarikumok Gyűjteménye - Hungarian Collection of Traditional Hungarian Values).
- ⁶ The chimney cake gets its name from the fact that the elongated, cylindrical shape of the cake is reminiscent of the chimney used to vent smoke. By the end of the 18th century, the cake had spread throughout the Hungarian-speaking world. At the beginning of the 20th century, its surface was flavoured with granulated sugar and walnuts (Hungarikumok Gyűjteménye - Hungarian Collection of Traditional Hungarian Products - Hungarian Valuables).

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Adél Vehrer

Associations and Communities in Hungary in the Second Half of the 19th Century



Summary

The 19th century saw a boom in the organisation of civil communities in all European countries. Legislative changes gave room for the institutionalisation of associations, clubs and circles, and as a result the number of these organisations multiplied. Research on associations is a multifaceted task, as they cover a range of disciplines depending on their type. Their literature and approaches are therefore diverse. Cultural history, social history, sociology, statistics, legal history, literary history and ethnography can all play a role in the study of associations. The present study examines the types, number and membership of associations in Hungary in the 19th century in a European comparison.

Journal of Economic Literature (JEL) codes: N93, Z11, Z13

Keywords: community, association, 19th century society

INTRODUCTION

The process of civil enlightenment in Hungarian country side began in the reform era and took place in a highly complex way. For centuries before, the society and culture of the Hungarian peasantry had been organised by institutions mediated by tradition - family, kinship,

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neighbourhood, rural community. In the process of civil enlightenment, traditional communities were transformed and new types of communities emerged from the second half of the 19th century. The first associations and circles were established, which played a decisive role in cultural and community life in the following decades. It is indisputable from the sources that from the 18th century onwards, the various associations, societies and circles increased and strengthened the social - economic, political and cultural - public sphere, and at the same time accelerated the process of civil enlightenment itself (Bősze, 1997:5).

The need to be connected is an important human need. Csányi (2012) interprets the formation of human communities as an evolutionary innovation, as an active formation that is both a biological and a cultural construct. He believes that for human nature, being in community is the optimal space for functioning, and thus interprets belonging to a community as a basic need. Historically, communities have existed in all European countries, but their organised, institutionalised forms have been recorded from the 17th century onwards. British clubs, according to Clark (2000), were formed for recreation and leisure, but they were also a place to discuss official business, to hear the latest news and to hear gossip. The members joined a community to get away from their daily work, family worries and to relax. Alexander Hamilton, a Scotsman, sums up the activities of the clubs as follows: "we meet, converse, laugh, discuss, smoke, drink, socialise, argue, agree, philosophise, inspire, pun, sing, dance and have fun together ... we are really and truly a club."¹ Warren (1963) distinguishes five functions of communities:

- socialisation or value transmission,
- economic empowerment or social participation,
- the possibility of social life,
- social control or norm enforcement and,
- mutual support or cooperation to achieve common goals.

According to Kocsis (2000), communities are a multifunctional social group to which members are linked by birth, marriage and many other ties. In Hungary, from the second half of the 19th century onwards, various civic, social and reading circles and associations played an increasingly important role in the organisation of public and social life. Most of them had their own or rented premises for meetings, usually subscribed to newspapers together, and sometimes had their own small library. They were also responsible for organising balls and entertainment evenings. According to Szilágyi (2000), these organisations, which were fundamentally not peasant in origin, were able to integrate into the rural institutional system because they were able to adapt to the bourgeois social environment and to local peasant needs. The associations and communities of Western Europe and Hungary thus had similar functions, but the former tended to operate in cities, while the latter played a dominant role in rural life.

The associations and circles in our country covered almost all aspects of everyday life. In addition, if their membership was drawn from people of the same class, stratum or group, they were also suitable for the development of the sense of identity of the given social class. The excellence of the associations lay in their role in creating communities and traditions, in maintaining communities, in self-organisation and in carrying on traditions. Membership of

an association also meant status, recognition of the individual and a positive social image in the community. The communal strength of associations, their ability to preserve traditions, by raising awareness of belonging to a narrower patriarchy, also did much to foster patriotism (Bószé, 1993:74).

Rural communities in our country were based on traditional economic cooperation before the 19th century. The peasant family was a natural framework for daily work and the organisation of farming, but also an accepted unit in relations with the outside world. However, the individuals born into a traditional community could not be autonomous and independent of others by virtue of their productive work. They had to cooperate with other families in an organised and regular way, and he had to be integrated into the rural community. The many different subtasks of production and livelihood work were inherently unsolvable within the family framework because they required more labour and specialised skills (Szilágyi, 2000:558-559). One of the most important types of rural associations in the second half of the 19th century was the farmers' group, which placed the earlier spontaneous cooperative efforts within an institutional framework. At the same time, the headquarters of the farmers' group was also the main arena for cultural and entertainment activities. It expressed an effort to transcend traditional cultural ideals (it had a reading room, card games, chess, billiards, a courtyard for skittles, and girls and boys entertained the rural people with artistic performances), but it also fully served the community entertainment possibilities sanctified by local tradition (balls were held in its large hall) (Szilágyi, 2000:575).

The various venues of association life - assemblies, readings, lectures, debates, discussions and art performances - gave the events a forum character. Community members could use these occasions for public speaking, speaking out, expressing their opinions and, as a result, indirectly influencing the life of the community. Another form of community cooperation and sacrifice was the voluntary discipline undertaken by the membership, often reflected in the statutes. There were several associations in which the implementation of the basic function stood or failed to comply with it. For example, the need for teamwork in fire-fighting associations, which required military discipline, and the team spirit of sports clubs was indisputable (Bószé, 1993:77).

ASSOCIATIONS IN EUROPEAN COUNTRIES

Associations and societies can be found in many European countries from the earliest times and have played a significant role in political and cultural life everywhere. Examples of organised groups of traders or religious groups can be found as early as antiquity. Later, in Renaissance Florence there were more than 150 major groups, and in the port of Genoa 134. In addition to organising social gatherings, these groups also played a patronage role in Mediterranean countries, mainly by presenting plays by young authors. In the late Middle Ages, literary communities flourished in the cities of the German Lowlands, and played a significant charitable and economic role. In Germany in the second half of the 18th century, we find a large number of middle-class societies, most of them patriotic societies concerned with social reform, reading societies (430 were formed up to 1800), musical societies and political societies (Clark, 2000).

The mass appearance of organised associations can be dated back to the 19th century throughout Europe. While earlier, traditional social relations were mostly informal, the 19th century saw the emergence of formal social life and the institutionalisation of communities. Along with the process of civil enlightenment and the formation and development of the civilian public, respectively associated with the name of Habermas (1993), the ideal of freedom of association and assembly, which limits the power of the state, and the closely related right of association were formulated.

In the 19th century, these rights appear in most European civil constitutions. First the Dutch constitution of 1814, then the Belgian constitution of 1831, which is considered to be the model civil constitution, then the French constitution of 1848 and the German imperial constitution of 1849 provided for the right of association. The Austrians settled this issue in 1867. They were followed by Serbia, Switzerland, Bulgaria, Denmark, Spain, Portugal and Finland (Bószé, 1997:17).

The situation of leisure associations in 19th century France was also the result of a long process of positive change. Laws passed in 1791 and 1795 banned all professional associations and tightened the state's control. Later, the Penal Code of 1810 stipulated that only with the approval of the government could an association with more than 20 members be formed to organise regular meetings for religious, political, literary or any other purpose. As a result, the French associative life only began to flourish in the second half of the 19th century. The 1848 constitution was the first to declare the principle of freedom of association. According to the legal regulations, it was not easy to establish an association even later, from 1852 this required prior approval, and finally in 1868 the free establishment of professional associations was allowed (Baker, 2017).

McLean (2000) traces the antecedents back to the first half of the 18th century for Scotland. In Glasgow, it was a particular phenomenon that from the 1740s onwards the university played a significant role in the formation of associations. The main players in community life were professors and city merchants, but clergymen also appeared in some societies. By this period, an urban and socially engaged middle class had already emerged, whose members wanted to impart knowledge and demonstrate their own knowledge at social occasions. Societies also played a role in shaping the style of the period in areas such as conversation, fashion and housing culture. Urban social life later gave rise to a very lively organised social life, with literary and scientific clubs at its heart. In addition to the university professors, the citizens of the city were also involved in these societies, so that the topics of social life were organised around literary criticism, art and music, as well as academic issues. This process facilitated the cultivation of talent and the development of commerce and industry. Many clubs provided not only channels for the exchange of ideas, but also for networking and patronage, as in the Mediterranean countries. It also provided an opportunity for a social experience for those who wanted to forget the worries of everyday business on social occasions.

Not all communities in Britain in the 18th and 19th centuries chose the path of institutionalisation. Many forms of public social life were urban phenomena (theatrical performances, balls, concerts, scientific lectures), while in the country side there were fewer clubs, mainly for charitable purposes. Urban societies were also characterised by the fact that the majority of

their members were almost exclusively men, while women were encouraged to join philanthropic organisations and music clubs if they wished to play a social role.

In Hungary, the issues of the right of association were addressed by the liberal ideology that emerged during the reform era. The theoretical and practical development of the benefits of association was carried out by István Széchenyi. In the 1840s, Lajos Kossuth began to emphasise the importance of associations in organising society and uniting the bourgeoisie. Despite this, comprehensive legal regulation had been squeezed out of the Hungarian law (Bószé, 1997:17). However, the increase in the number of associations required their regulation after a while. The first detailed legal regulation in Hungary was in 1868, which left the language of the association to the founders and minimised state supervision. Favourable conditions made the formation of associations flourish. Thereafter, no new law on associations was enacted in the period under review, and lower-level legislation and ministerial decrees governed these organisations (Kósa, 1998:296). As a consequence, the meaning of the concept of association itself is contested, as it was not defined in the legislation of the period.

THE CONCEPT OF AN ASSOCIATION

In the 20th century, several attempts were made to define the concept of association precisely. They have been interpreted as free associations that pursue the collective interests of society beyond the scope absorbed by the state, or as a type of bond between society and the individual. According to Dékány (1943), the most important criterion is that the members of an association join the community voluntarily, and therefore these associations are artificial social organisations, which acquire their members through voluntary membership. The organisation is formed for a specific purpose, so the association is an artificial, single-purpose entity. Dobrovits (1936), using the exclusion method, narrowed down the scope of associations. He considered them as social organisations of a permanent nature, based on free association and not formed for a specific, non-profit-making purpose. Reisz (1988) emphasised that an association is a spontaneous expression of the needs and expectations of a micro-community in local society, and that it represents a common interest, action and the voluntary nature of its members.

Conceptual uncertainty was a challenge not only in our country, but also in the Anglo-Saxon countries. Clark (2000) has also attempted to explore the concept of association, drawing on modern anthropological and sociological definitions. According to him, English clubs are voluntary associations, informal organisations in which participation has no financial implications, periodic or regular meetings are typical, and therefore an important characteristic is their organisation, and their leadership is characterised by a tendency towards oligarchy and a lack of regulatory roles. In addition, the clubs and societies are predominantly male and meet regularly and in an organised way, mostly in pubs, where they are active socialites. The purpose of the gatherings may be free-aged, locally themed, educational, political, philanthropic or any other.

The most comprehensive definition of the term in Hungary is that of Sándor Bószé: “A voluntary association established by natural and legal persons for the realisation of economic,

social, political, cultural, scientific, professional and other common objectives, with a self-government, a defined organisational structure and independent management, whose members pay a fixed membership fee, established by officially authorised and controlled statutes. The association does not engage in activities of an explicitly economic or profit-oriented nature and does not generally pursue political aims. As an interest protection institution, it also represents the common interests in relation to the objectives set out in its statutes vis-à-vis third parties. It acts as an intermediary between government or political parties and local aspirations. The rights of members of an association are generally not equal, depending on the level of the membership fee paid. The association may operate in the administrative area defined in its statutes“ (Bószé, 1993:69-70).

TYPES OF ASSOCIATIONS

In addition to the definition of the concept, another problematic issue is the classification of types of associations. The reason for this is that many associations had complex, multi-faceted functions. A point of reference for us can be found in the statutes of associations, in which, at the time of their formation, they set out the common objectives - economic, social, political, cultural, professional, scientific, etc. - that their members wished to pursue (Bószé, 1997:18).

The categorisation of associations is difficult not only in our country but also in other European countries. In France, for example, Baker (2017) categorised 19th century associations as follows:

- communities linked to occupations (for example, seasonal workers' groups),
- communities formed to carry out larger economic tasks (e.g. construction),
- linked to recreation (for example, family and neighbours' winter evening gatherings, or informal gatherings of young men),
- social gatherings where members of the community have fun and play games (communities for playing cards, singing and chatting),
- religious communities (e.g. devotion and charity fraternities).

According to Clark (2000), there were over 130 different types of associations in the British Isles in the 18th century, the main types being:

- alumni associations (for schools, colleges and universities),
- arts organisations,
- book clubs,
- charity clubs,
- debating clubs, gambling clubs,
- horticultural societies,
- literary societies,
- Masonic and pseudo-Masonic societies,
- music societies,
- neighbourhood clubs,
- philanthropic societies,
- professional associations,

- regional and ethnic associations,
- sports clubs,
- scientific and cultural societies.

In Hungary, the plan to census associations first appeared in 1848 in the programme of the National Statistical Office led by Elek Fényes. However, the first census of associations - prepared by the Statistical Committee of the Hungarian Academy of Sciences - was not published until 1862. However, this was not a targeted census but was based on the use of various official data (Domokos, 1968:221). In the following, the categorisations are listed in chronological order.

From a statistical point of view, the earliest information on associations and societies in Hungary is based on the data of the 1874 survey, published by Gyula Vargha (1880). On the basis of this nationwide survey, Vargha defined the following types of associations:

- self-help associations,
- charitable associations,
- educational and training associations,
- social associations,
- practising associations,
- Industry associations,
- producer cooperatives,
- consumer associations,
- economic associations,
- trade associations,
- water regulating associations
- fire-fighting associations,
- scientific and literary associations,
- art associations,
- religious associations,
- mixed associations.

Vargha's categorisation defined and at the same time closed the field of scientific investigation for almost a century, and it was in fact only in the second half of the 20th century that attention was again focused on the subject of associations. Since the 1980s, however, there has been an increased interest in the subject. This is particularly true of the lively research movement to investigate the associations of the individual counties during the period of the Austrian- Hungarian Dualism. The authors of the summaries of the counties of Vas, Somogy, Baranya and Nógrád attempted to classify the types of associations.

Based on Attila Márfi's research in Baranya, he highlights the following two categories of associations:

1. Grouping by regulatory supervision
 - Workers' associations,
 - Benefit, sickness, funeral, burial, marriage and pension vouchers,
 - Political, national and other associations.
2. Classification by legislation

- Joint-stock companies, cooperatives and other associations for profit regulated by the Commercial Code,
- Special associations governed by special law: health insurance funds, mining associations, industrial associations and trade associations,
- Ordinary associations, associations with an ideological purpose, formed by the voluntary wish of the members, without coercion, but not for commercial purposes (Márfi, 1985-86:195).

Based on his research in Somogy County, Bősze (1986) takes several aspects into account when classifying associations. These are the common purpose, the community of interest, the intermediary role, the official authorisation and control, the rights of membership, the membership fee, the municipality and the geographical location. These are used as a basis for defining types of associations, with the proviso that not all of the types of association were found in the county under study (e.g. no nationality-based associations were found):

1. economic (e.g. agricultural),
2. professional and vocational self-education clubs (e.g. farmers' associations, professionally organised associations of intellectuals and employees)
3. political,
4. cultural-educational (e.g. reading, singing, folk art, nursery),
5. socio-social (e.g. casinos, social clubs, table societies),
6. public benefit (e.g. spa, beautification, fire, ambulance),
7. aid provider (e.g. self-help, philanthropy, funeral),
8. worker (e.g. worker training, self-help and trade associations),
9. sporting circles,
10. other associations (Bősze, 1986:37-38).

In a later research Bősze (1993) analysed the archival records of Somogy County during the Austrian- Hungarian Dualism period (1867-1918) and further refined the above categories based on the overall picture obtained. Group 2 included the associations of craftsmen and merchants, Group 4 the cultivating, public culture and free education circles, Group 6 the housing and health associations, and Group 7 the women's associations (Bősze, 1993:70).

Reisz (1988:933) established four categories to define types of associations:

- grouping by nature or purpose,
- grouping by social class,
- grouping by nationality,
- grouping by denomination.

The possibility of grouping them by nationality or denomination is obvious, but both types of associations have also fulfilled other roles based on their purpose and nature. Reisz classifies the following types of communities by character and purpose:

- casino as a social club with special functions,
- advocacy,
- culture, self-education,
- sports, entertainment, social,
- charity.

It sets up the following categories by social groups:

- youth,
- women,
- civic-intellectual,
- artisan-worker,
- agricultural,
- cannot be associated with any social group (Reisz, 1988:934).

Brunda (1993) presents a specific type of associations, the cultural associations, in the following grouping:

- Public cultural associations (folklore, cultural associations, music and singing groups, drama groups, nationality associations),
- Social circles (people's circles, reading circles, casinos, officers' and non-commissioned officers' social circles, table societies),
- Economic, professional associations (farmers' associations, industrial associations, trade associations, workers' associations, intellectuals' associations)
- Religious and charitable associations,
- Youth, stag and hen clubs,
- Associations with political and patriotic content (the so-called 48 Conservative Party circles, the Independence Party circles, and the so-called Deák Political Circles, civic circles, and patriotic associations).

NUMBER OF ASSOCIATIONS

All the studies on the subject of associations note that the number of such organisations had increased dramatically by the end of the 19th century. In England and Wales, the number of newly founded scientific societies almost doubled between the 1870s and 1900s. Between 1860 and 1880, the number of British musical societies increased by 50 %, rising from 478 in 1900 to 960 in 1929. Horticultural societies also flourished, with at least 70 operating in London at the end of the 19th century, while there were 300 fishing clubs and 2,000 pigeon clubs in the capital. The number of working men's clubs belonging to the National Federation, founded in 1862, rose from 68 in 1870 to 710 in 1900 and to 2007 in 1920, and the number of registered drinking clubs quadrupled between the 1880s and just before the First World War. The number of clubs registered to sell drinks almost doubled between 1914 and 1935 (to 15,657), although part of this increase may have been due to a reduction in the number of licensed pubs. The Scouts tripled the number of their local groups between 1910 and 1938, when they had nearly half a million members, mainly in South England. The number of new hobby and sports clubs formed during the period also increased as the demand for such leisure activities grew. In the 1880s there were over 100 amateur football clubs in Liverpool and well over 300 in Birmingham. Between 1870 and 1900, nearly 270 rugby clubs were formed, and a further 86 were formed over the next 20 years. The number of amateur football clubs in England rose to 30,000 by the 1940s. In 1930, a survey of popular leisure activities in Liverpool found that going to club events was the second most popular form of

recreation, second only to reading the newspaper. This was a popular form of leisure among both the middle and working classes (Clark, 2000:474-477).

The role of associations in civil society in Hungary also varied in the period under study. In this diversity, we can distinguish between economic, political, professional, cultural, social, charitable, benevolent and leisure associations. Of these, the largest number of associations were industrial associations, with 1 247 being set up by 1878. This represented 32,1 % of the total number of associations. The number of charitable associations (475) and cultural associations (433 reading associations alone) were also very significant. Most of the associations were concentrated in settlements with a population of 10-50 000 inhabitants. According to the 1878 survey, the average duration of associations was 10 years. The sub-surveys show that in many cases a citizen was a member of several associations at the same time. The average of different collected data gave an average of 169 members per association in 1878 (Kósa, 1998:296).

It is estimated that in the second half of the 19th century, the number of associations in Hungary reached the tens of thousands during the gradual, steady growth period. After a period of more intensive association formation, the trend slowed down somewhat in the late 1900s, and the number of associations reached a peak of around 20,000 in the years before the First World War. The years from 1912-1914 were marked by a decline, and in the first year of the war the number of remaining associations were around 14,000 (Sebestény 2003:383-384).

In the period under study, there were only two more accurate statistical surveys of the number of associations in Hungary, in 1862 and 1878. 18According to a survey of the Statistical Committee of the Hungarian Academy of Sciences, in 62 of the 12,600 settlements in Hungary, only 194 had associations. At that time, the names of the associations, their headquarters and the number of members were recorded. A total of 579 associations were found in the country, of which 96 were in the capital, another 377 in larger towns and only 16 in the country side (Dobrovits, 1935: 28). Table 1 shows that the most popular were the social clubs, but charitable associations also played a significant role.

Table 1: Associations in Hungary in 1862 by main groups

Type of association	Number of associations
Conversational	264
Charitable	156
Scientific, industrial and commercial	75
Other	46
Economic	38
Total	579

Source: Dobrovits, 1935: 28

The next data collection was carried out by the National Statistical Office in 1878, during which 3,995 associations were counted. Table 2 shows that the survey and the classification of associations into types was much more detailed. The number of industrial associations had increased dramatically by this time, but the number of social clubs and charitable societies remained significant.

Table 2: Associations in Hungary in 1878 by main groups

Type of association	Number of associations
Industrial	1275
Social	964
Self-help	535
Practitioner	312
Firefighter	246
Charitable	225
Educational and instructive	131
Economic	82
Scientific and literary	59
Religious	43
Other	43
Commercial (sales)	42
Water regulatory	19
Consumption	12
Art	4
Producer co-operative	3

Source: Dobrovits, 1935:29.

A century later, in 1988, the 1878 survey data were re-examined by the Office for National Statistics and the data were reinterpreted to produce a reinterpreted set of data. Table 3 shows the top ten most popular types of associations. The percentages show that advocacy is a very effective community-building force for industry associations. And the popularity of reading circles was an indication of the social demand for education and learning that emerged in this historical period.

Table 3: The first ten most numerous types of associations in our country in 1878

Type of association	Number of associations	Proportion of associations
Industrial	500	12,64 %
Reading circle	458	11,58 %
Self-help	252	6,37 %
Volunteer firefighter	240	6,07 %
Casino	232	5,86 %
Funeral	231	5,84 %
Shoemaker	206	5,21 %
Charitable	183	4,63 %
Glee club	154	3,89 %
Conversational	124	3,13 %

Source: Reisz, 1988:942.

Examining the number of members of associations completely changes the popularity ranking, as shown in Table 4. The predominance of self-help is evident from the data, as in these associations, the payment of membership fees guaranteed financial assistance in case of hardship. This was a realistic possibility when the number of members was large.

Table 4: The first ten types of associations with the largest number of members in Hungary in 1878

Type of association	Number of members of the association	Ratio by number of members
Funeral	14,6679	21,80 %
Self-help	11,9357	17,74 %
Charity	41,205	6,12 %
Volunteer firefighter	40,853	6,07 %
Industrial	35,114	5,22 %
Reading circle	30,871	4,59%
Casino	24,534	3,65 %
Art lover	24,166	3,59 %
Glee club	18,812	2,80 %
Shoemaker	16,413	2,44 %

Source: Reisz, 1988:943

Later statistics show an explosion in the number of associations. In the first half of the 20th century, their number quadrupled compared to 1878, as shown in Table 5.

Table 5: Change in the number of associations

Year	Number of associations
1862	579
1878	3,995
1932	14,365
1937	16,747

Source: Dobrovits, 1938:414.

CONCLUDING THOUGHTS

Civil society flourished throughout Europe in the second half of the 19th century. The many associations, clubs, societies and circles played a key role in economic development, cultural promotion and community life. Research in different countries shows similar results, but also differences.

Several attempts have been made to define the concept of an association, as this definition has generally not been provided in the legislation. This is why the typology of associations also varies widely. In all countries, there are professional associations, charitable associations, associations for scientific, cultural and educational purposes, and associations for leisure and recreation. The above types can be found in many places, depending on religious denomination and nationality.

By the end of the 19th century and the beginning of the 20th century, the number of associations and their membership had tripled in many parts of Europe, or quadrupled in some types. This process was halted by the First World War and then completely stopped in Hungary after the Second World War.

If you compare the club scene in the Anglo-Saxon countries with that in Hungary, you will also find differences. British clubs and societies were predominantly urban phenomena in the 19th century and have remained so, with only a few types appearing in rural areas. In Hungary, club life is at least as varied in the country side as in the towns. There is a striking difference in the types of associations. In many cases, the British population was concentrated in academic circles linked to universities, and much more often formed associations for recreational, leisure or sporting purposes. In Hungary, on the other hand, industry associations linked to the professions and agricultural associations and farmers' associations were more predominant, due to the rural nature of the country. In all countries, these organisations strengthened the social public sphere, thus accelerating the process of civil enlightenment. In Western Europe, however, their uninterrupted development led them to follow a very different path from that in Hungary.

NOTES

¹ The original quote is: 'we meet converse, laugh, talk, smoke, drink, differ, agree, argue, philosophize, harangue, pun, sing, dance and fiddle together ... we are really and in fact a club.'

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Zsuzsa Buzás – Tamás Csontos – Ágnes Maródi

Testing Teacher Candidates’ Knowledge Elements of Research Methodology in an Online Test Environment



Summary

It is necessary to prepare future teachers to be able to access, interpret and use research results, and publish of their research work. The acquisition of research methodological material and knowledge are therefore essential for teacher candidates. In Hungary, there have been only few studies on research skills and knowledge, and we have little testing experience in this area. The development of research skills of students typically starts late and stops in secondary school, all of which can have an impact on higher education and teacher training. Our research goal was to examine the research methodological knowledge of primary school teacher candidates and kindergarten teacher candidates using an online test that examines the most important knowledge elements of the research methodology with its various tasks. We examined whether there is a difference in the levels of research knowledge test performance between primary school teacher and kindergarten teacher candidates.

Keywords: research knowledge, tertiary education, online test

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INTRODUCTION

The theoretical framework for research-based teacher education has been developed by Finnish researchers and has become one of the features of the general school systems nowadays. Its effectiveness can be measured by online testing of associated skills and knowledge in higher education among students at regular intervals. Acquisition of research methodological knowledge is essential for teacher candidates. It helps them, among others, in the critical analysis of the pedagogical literature and in their practical pedagogical work resulting in measurements and analyses, in research planning as well as in the implementation and evaluation of their activities and publishing the results. During their studies future teachers become familiar with digital technologies of research practice, and the integration of ICT tools in education. Korom and her colleagues (2016) study the most important elements of scientific inquiry skills online among high school students. According to their results, there is no change in inquiry skill development in Hungarian secondary education. Based on their research those students who study science subjects at an advanced level performed significantly better (70.4%) than those who study science subjects at an intermediate level (60.5%). Korom, B. Németh and Pásztor (2013) also carried out online research into the development of inquiry skills in a 20-item online test. According to their research, in the 6th grade the test does not measure reliably, and the reliability indicator also indicates problems in grade 6 (Cronbach- α = 0.67). This the reason for this may be that the upper age group is not yet familiar with concepts such as a *research question* or *hypothesis*. Thus, based on this research, the development of research skills starts late and stops in secondary education; all has an impact on higher education and teacher training.

RESEARCH-BASED TEACHER TRAINING

The COVID-19 pandemic led to major education policy changes around the world in 2020. Around one and a half billion students in 194 countries – 90 per cent of the students in the whole world – are currently benefiting from digital distance learning outside the classroom, typically at home, since March 2020. Within a short time, new teaching methods and technological tools have been integrated into traditional school learning and new types of educational coalitions have emerged as a result of international cooperation (Holle, 2020). The concept of research-based teacher education is to prepare teachers themselves to directly access, interpret and use research results and to carry out research work, as well. According to this teacher training model, teachers can be both creators and immediate users of new scientific results, thus significantly accelerating innovation and shortening the process from the creation to the use of research results (Csapó, 2015). Candidate teachers need to be trained to monitor where good practice is emerging, where new scientific findings on teaching can be found, or how computer-assisted teaching methods and tools can be used to make teaching more effective. They should have information on where and how they can become involved in research and development programmes, the results of which can be used in their teaching. Research-based teacher education is developing a new role model, i.e. the research-innovating teacher.

Teachers are continuously developing themselves throughout their lives and are able to implement the latest research findings in their everyday teaching practice. Research-based teacher education is most consistently implemented in the Finnish education system, which is considered one of the best in the world (Csapó, 2015). Finland's education system is a model to be followed by professionals of many nations. Today, Finland is one of the most educated nations in the world, with a third of the population having a university degree or an equivalent. All subjects are taught by teachers in grades one to six. Finnish pupils are usually ranked between 1st and 7th in the OECD countries in the PISA tests in reading, mathematics and science. Finnish teacher education integrates the role models of researcher and teacher, thus promoting continuous innovation in education (Kárpáti, 2008).

Teaching is a very popular career option in Finland. Due to its popularity, some teacher training courses can be over-subscribed by a factor of fifteen to twenty, and over-subscription for special teacher training has been more than thirty times in recent years (Bús, 2015). According to national statistics, in 2017, nearly 1100 students passed the entrance test for the Helsinki teacher training programme, of whom 121 (11.3%) were accepted to start their studies. According to the university's website, the Jyväskylä teacher training programme had 2,389 applicants in 2014, of which only 80 (3.3%) were accepted; a year later, only 90 (5.9%) were accepted out of the 1,525 applicants. This means that only a fraction of applicants are admitted to teacher training (Szabó, 2018).

A large immersion base allows selecting the most suitable students. The admission procedure is very complex; in addition to the marks obtained, candidates must pass a written test based on pre-set and independently researched literature. A Master's degree is required for different BA teaching courses. Educational science is central to the curricula of the BA and MA training. The subjects of educational science account for roughly half of the teacher training, apart from other elective, language and communication courses. A specific course deals with the effective application of ICT tools in teaching. Finnish future teachers are trained to read and interpret scientific publications. In the master's programme, they are expected to carry out five to seven weeks of independent quantitative or qualitative research (Bús, 2015).

RESEARCH SKILLS AND KNOWLEDGE

The methodological issues of pedagogical research in teacher education cover a wide range of topics, from general methodological knowledge to the presentation of specific research strategies, methods, tools, data collection and processing procedures. In Hungary a one-semester research methodology course is usually offered to students of pre-school and teacher education in the second academic year, usually in the autumn semester. The volume *Introduction to Methods of Pedagogical Research* edited by Iván Falus in 1996 is compulsory reading. The knowledge to be acquired typically covers the aim, subject and characteristics of pedagogical research, the design of pedagogical research (definition of the research problem, techniques for exploring and processing the related literature, the rules of reference, hypothesis, sampling, designing the data collection method, designing the data analysis, and publishing the results) and the knowledge related to writing the research design. Other topics include

the implementation of the research design: characteristics of a good hypothesis, methods of pedagogical research (field research, historical research/documentary analysis, questionnaires, testing, qualitative and quantitative research), sampling, analysis and data processing, as well as the publication of research results, and publication (abstract, formal requirements, general requirements). Other topics related to the course include the development and development opportunities of digital competence, the role of ICT tools in education in the areas of skills development, learning and assessment and measurement. The course also focuses on the preparation of the thesis, the selection and discussion of the research topic. The research methodology course relies to a certain extent on the specific elements of prior scientific thinking, research skills and knowledge related to scientific investigations, which are also key elements in the standards of science education and play a central role in international studies. By upper secondary school, students should already have a good understanding of how science works, the nature of scientific research and the basic skills needed to formulate research questions and hypotheses, design investigations, represent data, analyse and interpret data, and draw conclusions. Research skills are not measured in isolation but embedded in the content areas (biology, physics, chemistry and geography) (Csapó, 2015). There is a wealth of experience on how to evaluate the effectiveness of research-based learning. Typically, the use of scales that describe scientific thinking in terms of three activities (formulating hypotheses, designing and carrying out investigations, and interpreting research results) has been proposed. Using technology-based diagnostic tests that can be easily integrated into everyday pedagogical practice, Korom (2015) investigates the development of primary and secondary school students' scientific thinking and inquiry skills. To the best of our knowledge, inquiry skills assessment in higher education is being implemented for the first time in teacher education through an online platform.

ONLINE TESTING AND EVALUATION

In the 21st century, digital literacy is an essential set of skills that includes the use of digital tools, digital literacy and active participation on the internet. Digital presence refers to the ability to use digital tools and online applications to a degree that ensures that individuals are both valuable and useful to society. Digital content acquisition is an essential competence for teachers and students in school life, as it can facilitate, support and motivate them to acquire different types of knowledge.

Digitalisation is constantly shaping the demands on education systems and the methods of learning and teaching. In the current pandemic situation, the face-to-face interactions between teachers and students have almost disappeared, and it has become clear that teaching and learning activities without digital tools can no longer be effective in the long term.

According to digital pedagogy as a new approach to teaching, the teacher's task is not to teach information, but to teach students how to find their own answers and solve problems. Another important aspect is the division of labour - and the development of social skills in this process - because finding, evaluating and applying information is more effective when done in parallel and from multiple perspectives.

The success of the digitalisation of education depends largely on applying the right digital skills. According to an OECD analysis based on international surveys, teachers have above-average ICT and problem-solving skills, but they score lower than other tertiary educated groups. Teachers believe that it would be useful to develop their digital competences. However, it is not enough to train teachers in the use of ICT tools, but rather to emphasise a changed pedagogical approach (Ollé et al., 2014).

Digital tools are creating new opportunities not only in the learning and teaching process, but also in assessment and evaluation. The attitudes and expectations of the new generations are very different from those of previous generations, and their use depends on the technology habits of students, the digital competences of teachers, task writers and data analysts (Holle, 2018). Countries that have adopted digital tools in education are at the top of the OECD PISA international education results (e.g. Finland and Korea) or among the countries that have made significant progress (Malaysia and Kazakhstan). Online assessment has several advantages, e.g. it is anonymous, fast, motivating for learners, easy to use, interactive, and environmentally friendly. It allows images to be uploaded and large sample sizes to be tested, even abroad. Several online platforms are available, with an interface that can provide a fast, valid, reliable testing method and effective support for both teachers and education professionals. Compared to paper-based tests, online test systems offer a wider range of response options. For example, clicking on images, parts of images, texts, parts of texts, numbering based on the order of clicking, letters, words, sentences, texts, numbers, shapes, images, sounds, videos, and tasks that require moving virtually any task item to a given target area, input boxes and text boxes that require typing letters, numbers, and words (Molnár, 2018).

TESTING THE ELEMENTS OF RESEARCH KNOWLEDGE

Studies have typically targeted upper primary and secondary school age groups, where students' inquiry skills have been explored. To our knowledge, this is the first survey of inquiry skills of future kindergarten and primary school teachers. We aimed to test their knowledge using technology-based methods, tools and procedures. In our research, we sought to answer the question whether their research knowledge can be measured with tasks on an online platform, whether the test and its subtests are reliable. We investigated whether there is a difference in the test performance levels between future kindergarten teachers and primary school teachers.

Sample

The sample consisted the students of a teacher training faculty in a county seat (N=59; the proportion of men is negligible) (Table 1).

At the teacher training faculty, students study research methodology for one semester, 45 minutes per week. The sample includes second-year students. Future kindergarten teachers are due to complete their thesis in the next academic year, while future primary school teachers are due to complete their thesis in two years. Their research methodology course helps them, among others, to choose a thesis topic.

Table 1: Sample characteristics

Training profile	N	Female (%)	Male (%)
Kindergarten teacher	33	100	0
Primary school teacher	26	92.2	7.8
Total	59	96.6	3.4

Source: own construction


Testing device

The online test consisted of 35 closed questions in three sub-tests: (1) research design questions: identifying the research question, designing their research (2) conducting the research, using different research methods and (3) publishing the research results.

For future teachers it is essential to be familiar with online test editing platforms (e.g. eDia; Electronic Diagnostic Measurement System, or Google Forms). Online platforms are usually suitable for computer-based testing. In order to use them, it is necessary to know the basic concepts, for example the concept of the test itself and its parts (subtest/subtest, task/item). The teacher candidates had to choose the appropriate methods and tools for their thesis research and be familiar with their characteristics.

Figure 1: Example of a task related to the types of research

10. What type of research can the image below best relate to?
Click on the correct answer! 1 mark



- qualitative research
- quantitative research
- interview
- content analysis

Source: own construction

In pedagogical research, teacher candidates must be familiar with the related literature, as literature review plays a crucial role in their studies. The aim of the literature review, the most important aspects of research, and the conditions for publication were included in the third subtest (Figure 2).

Figure 2: An example of a task related to literature review

15. What are the secondary literature sources? Click on the correct answer!	1 mark
<input type="radio"/> journals	
<input type="radio"/> books	
<input type="radio"/> dissertations	
<input type="radio"/> textbooks and notes	

Source: own construction

Data retrieval

The research was conducted in autumn 2020. Due to the pandemic situation, the second-year teacher candidates completed the test in their homes. The data was collected with Google Forms and analysed using SPSS 17.0 software.

Results

The reliability of the overall test (Cronbach's alpha = 0.811) is good, so the test is suitable for testing students' research knowledge (Table 2). The Cronbach's alpha is lower for the three subtests. The test reliability for kindergarten teacher candidates is Cronbach's alpha=0.701, while the test reliability for primary school teacher candidates is Cronbach's alpha=0.691. This may be due to the small number of tasks and the small number of participants in the pilot study. Both numbers can be increased in the future.

Table 2: Test reliability

Subtests	Number of the items	Cronbach-alfa
Theoretical background	13	0.581
Carrying out research	15	0.546
Publication	7	0.281
Whole test	35	0.811

Source: own construction

Internal correlation of the test and subtests

The correlation analysis shows that the performances on the test and the subtests are moderately and strongly correlated, i.e. the measured knowledge structure is homogeneous (Table 3). The strongest correlation was found between the whole test and the subtest related to publishing ($r=0.86$, $p<0.001$). The correlation was also strong between the whole test and the subtest on the theoretical background ($r=0.83$, $p<0.001$) with a moderately strong correlation between the whole test and the subtest on the implementation of the research (0.57 , $p<0.001$).

Table 3: Intercorrelation of the subtests

Variations	Full test	Theoretical background	Research
Theoretical background	0.83**		
Research	0.57**	0.30*	
Publication	0.86**	0.51**	0.36**

Source: own construction

The analysis of the students' performance

The average performance of the teacher candidates in the research methodology test was 84%, with a corresponding standard deviation of 8.52. The highest numbers of correct answers were given for the questions on the theoretical background, the characteristics and specificities of research - with more than 80% of them answering the questions correctly. This was followed by the results of the subtests on knowledge related to theoretical background, publication and the implementation of pedagogical research, with a high proportion of correct answers. The performance of the future primary school teachers was significantly better than that of the future kindergarten teachers in both the whole test ($t=2.576$, $p=0.13$) and the test related to the implementation of the research ($t=2.924$, $p=0.05$). The results are summarised in Table 4.

Table 4: Test achievement by field of study (%)

Subtests	Kindergarten teachers		Primary school teachers	
	Average (%)	SD (%)	Average (%)	SD (%)
Theoretical background	79.48	16.05	84.02	11.9
Research	75.35	12.52	84.36	10.65
Publication	77.05	16.72	83.51	8.75
Whole test	77.22	11.21	84.06	8.52

Source: own construction

Task 3, i.e. the question on the characteristics of different digital technology tools, was the most difficult for the students. Only 40% of them were able to solve the task. Students also found it difficult to identify a particular research method (around 40%). The questions on the process of pedagogical research and the research topic (task 1 and 5, respectively) proved to be the easiest, as everyone answered them correctly.

Future teacher students' performance was significantly higher on the question about subject pedagogic knowledge (task 3) ($t=2.601$, $p=0.012$), and the mean of the kindergarten students was significantly higher on task 13 related to the research problem ($t=2.092$, $p=0.041$).

The performance of future primary school teachers on the subtest tasks related to the implementation of the pedagogical research was significantly higher than that of the kindergarten teacher candidates on several tasks. The question on semi-structured interviews (task 18) was answered correctly by more than 80% of primary school student candidates and only half of the future kindergarten teachers ($t=2.403$, $p=0.020$). While all future primary school teachers gave the correct answer to the question on qualitative research instruments, only one third of the future kindergarten teachers did so ($t=2.738$, $p=0.008$). Also, the mean scores of the primary school teacher candidates were significantly higher for the question on sampling (task 34) ($t=2.192$, $p=0.032$) and the question on questionnaires (task 18) ($t=2.403$, $p=0.020$). The most difficult items were task 31 (39%), 30 (54%) and 28 (58%); all of them are related to digital technology tools.

In the section on interpreting research results, the performance of the future primary school teachers was significantly higher on referencing (task 35) ($t=2.619$, $p=0.011$). A high number of students solved correctly the task on online pedagogical journals and abstract formatting requirements (task 12 and 32, respectively), but less than half of the students gave a correct answer to the question on secondary literature sources.

SUMMARY

Due to the global pandemic, the 2020 school year brought a number of unforeseen changes and unexpected events that changed the teaching-learning process and its methodology in many ways. As teaching and assessment is now online, digital assessment and evaluation is playing an increasingly important role in improving the quality of feedback. The aim of our study was to investigate some of the characteristics and related basic concepts of research knowledge among future kindergarten and primary school teachers. We conducted our research using a technology-based online assessment tool that was suitable for recording and processing data and easy to navigate. The reliability of the test for primary school teacher candidates was found to be good (Cronbach's $\alpha=0.811$). The average performance of the students on the test was 84%, with a corresponding standard deviation of 8.52. The results of the pilot study indicate that the knowledge of future primary school students is significantly higher than that of the other group. One of the reasons for this may be that kindergarten teacher candidates do not study subject pedagogy and that there is more time available for future primary school teachers to deepen their knowledge. As far as the subtests are concerned, the scores for the question on the implementation of the research were also signifi-

cantly higher for primary school teachers. This may be due to the higher scores required to enter the degree programme, and perhaps their science skills are also better than those of their kindergarten teachers. However, this has not yet been investigated. There were only two male students in the sample, which may indicate a low level of appreciation of the teaching profession.

Our online assessment tool, used in the Research Methodology course, can help to assess students quickly and accurately. The results can be used to redesign teaching-learning strategies, plan and implement educational goals and activities. In addition to completing the online test, the students had to submit a research plan related to their theses. The most popular topics among kindergarten teachers were movement development (e.g. swimming, water habituation, coordination ladder or other movement therapies), speech development, opportunities for dramatic interactive storytelling, early foreign language acquisition, the use of digital tools by preschool children and the exploration of their musical abilities.

Future primary school teachers selected a wide range of topics as well, e.g. the use of digital tools, spelling, foreign language teaching or internet addiction. Other topics included literacy research, motivation, school bullying, education of Roma children, music education, emotional intelligence, health education and physical education, forest school, and zoo pedagogy. Theses in the field of vocal music cover a wide range of research areas; for example, the study of different musical skills, testing skills, the use of digital tools in music education, the role of choirs and orchestras in music education, eye-tracking and online studies in the field of music reading, the study of the transfer effects of music, studies related to specific instruments, the role of motivation, creativity, the relationship between music and movement, the role of music in language teaching and reading, the relationship between music and mathematics and visual fields, listening to music in school, film score, the study of specific methods (Kokas pedagogy, the Kodály concept, László Sáy's creative musical exercises), comparative studies of textbooks and teaching materials, the role of folk traditions, and etc.

Our research investigated the research methodology skills of teacher candidates. Measuring and testing BA students' inquiry skills online can open up further research opportunities, which can serve as a basis for developing programmes to develop their skills and knowledge, as well as their motivation. With a valid and reliable assessment tool, students will not only enhance their scientific inquiry skills and research methodological knowledge, but will also come closer to one of the fundamental goals of the 21st century teacher education: to become innovative researchers, as well.

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Borbála Szedmák – Roland Z. Szabó

Reinventing Symphony Orchestras and Music Education Through Leading Hungarian and International Examples



Summary

The article highlights the importance of business model innovation and digitalization in the case of symphony orchestras and music education. In order to “survive” and prosper in the future as well, orchestras need to be able to respond to the changing needs of consumers, adapt to changes in the world and fundamentally rethink their business models. Similarly, music education has to be tailored to the 21st century: taking personal lessons is not a prerequisite anymore for learning a musical instrument, and there are many opportunities offered by digitalization that can make home practice more efficient and enjoyable.

After conducting secondary research, reviewing 50 leading applications in music education, and analyzing 24 of them in details, and conducting interviews with ten symphony orchestra managers, ten symphony orchestra musicians, and five music teachers, we have identified some novel aspirations to provide excellent examples of how the business model can be re-defined.

Journal of Economic Literature (JEL) codes: L19, L30, L82, M19, Z19

Keywords: culture management, business model innovation, symphony orchestra, music education, digitalization

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INTRODUCTION

Regardless of the industry, in today's ever-changing world no business model is permanent: it has to be tailored to the current needs, market, social and environmental conditions in order to prosper in the future as well. The importance of business model innovation is also highlighted by the current COVID-19 situation: only those organizations can survive or succeed during the pandemic are the ones who can renew their operation. The situation parallelly gives an opportunity to the organizations and simultaneously forces them to change and fundamentally rethink their operation. The pandemic causes an extremely difficult situation for symphony orchestras, as they have to cancel their performances and redefine how to reach their audience. Orchestras which can react quickly – or can react at all – to the new circumstances will be able to survive this period and may gain competitive advantage. In the case of those which cannot tailor their operation to the present situation – and in a broader sense, to the changing needs of the 21st century their survival is questionable.

Similarly, music education has to be renewed as well. Digital solutions, applications can break down the barriers of time and space and with their help, we can take part in the master classes of the best artists in the world, with whom we would probably never be able to meet in person, and we can even improve the pace of our development. In the pandemic situation, digitalization has become essential in the world of music as well, both in orchestral life and in music education. Naturally the transition to an online operation is accompanied by many difficulties and challenges, but there are many technologies and applications that can make it easier.

THEORETICAL BACKGROUND

Although the first appearance of the term 'business model' dates back to the 1950s, the concept of the business model became popular only around the mid 1990s, with the advent of the internet and information technologies (Zott et al., 2011; Downs – Velamuri, 2018). Though Porter (2001) interpreted business modeling as a useless concept, several studies have pointed out its practical benefits. Nowadays, in a rapidly changing world, fast responsiveness to challenges, adaptability to changes, and the ability to dynamically renew the operation of an organization are gaining even more importance. It provides an opportunity for fast, focused, real exploration and learning with little use of resources (Horváth et al., 2018).

Business models represent the operational logic of the organization, in other words, the system of "business" ("how the organization creates, delivers and captures value," Osterwalder – Pigneur, 2010:14), and focuses on the way that value is created. According to these three dimensions, the authors have developed a business model canvas with nine building blocks (BMC: Business Model Canvas, see Table no. 2).

Business modeling tools are not only suitable for reviewing the operation of for-profit organizations. In the case of non-profit organizations, serving social goals as well, value creation has a dual focus: in addition to economic value, they also have to create social value (Weerawardena et al., 2019). Although these organizations do not focus on maximizing profits,

they cannot ignore economic considerations. A business model is only viable and an organization can only pursue its social or cultural goals if it generates increase in revenue and not by reducing costs.

Digital transformation is fundamentally changing how organizations operate and deliver value to customers. The advancement of technology inevitably affects competition and strategies (Mészáros, 2020). According to the list by Forbes (2020), the most valuable companies have platform business models (e.g., Apple, Google, Microsoft, Amazon, and Facebook). In recent decades, platforms have become the new management paradigm and have been studied widely (Csontos – Szabó, 2018), for example in the case of smart cities (Csukás – Szabó, 2019) or in connection with Industry 4.0 (Szabó et al. 2019). Platforms are often considered ‘network orchestrators’ (Libert et al., 2014) and can facilitate value creation by providing opportunities for content producers (‘creators’) to present their offers to other segments (Van Alstyne, 2016, Gawer – Cusumano, 2014, Eisenmann et al., 2011). It is important to emphasize the significance of ICT in knowledge transfer and on-the-job learning (Hortoványi – Ferincz, 2015) in connection with platform business models as well; it can be an internal development barrier if some employees are unable to use the platform.

In a rapidly changing world, no business model is permanent, it needs to be continuously improved and updated in order to survive and operate successfully. Thus, in the case of symphony orchestras, it is not enough to rely on the existing repertoire and follow traditional models. One of the biggest challenges for symphony orchestras is the question of the next generation of concert-goers (Bibu et al., 2018). Concerts can only reach a narrow section of the population, as opposed to cinemas or theaters which are much more popular. Art that no one wants to pay for cannot survive according to Alexander (2015). Orchestras must therefore strive to reach and address a wider range of consumers. Today’s consumers value creativity, innovation, active involvement and multi-sensory experiences (Ercsey, 2014). These factors have to be taken into account in order to address potential customers.

Without innovatively rethinking their operation and “services”, orchestras will find it difficult to win against other segments of the entertainment industry (e.g., pop music concerts, cinemas) in the competition for people’s leisure time (Radbourne – Arthurs, 2007). Similarly, music education has to be renewed as well. In our digitalized world, personal presence does not have to be a prerequisite for learning to play a musical instrument. New solutions are needed which can fulfill the changing needs of students.

Business model innovation is therefore very much needed to ensure the prosperity of orchestras and to meet the needs of music students in the 21st century. Business model innovation means that there is a significant change in one or more elements of the organization’s business model (Horváth et al., 2018). In order to successfully commence the business model, entrepreneurial managers are needed who can drive economic growth (Hortoványi, 2012) and can “develop and play an altogether different game” instead of “playing the game better than the competitors” (Markides, 1997:9). Borgulya and Kovács (2020) also highlight the impact of leadership on business success and innovation: without

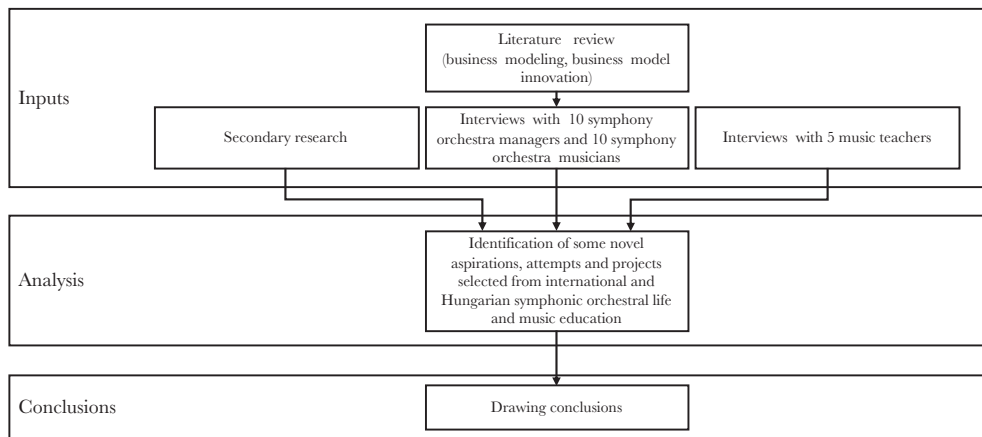
effective leadership communication management, there is no innovation and change.

By redefining the business model and the standards of an industry, the organization can achieve a more customer-oriented approach and address potential future customers as well. This article aims to give an overview of some novel aspirations selected from the international and Hungarian orchestral life and music education in order to provide examples of how the business model.

METHODOLOGY

In order to answer our research question (What kind of novel aspirations and innovative projects can be identified in the case of symphony orchestras and music education?), we have conducted a primary and a secondary research. Figure 1 summarizes the main steps of our research.

Figure 1: Methodology



Source: own editing

In the frames of the primary research, we have conducted interviews with ten symphony orchestra managers and ten symphony orchestra musicians. Our main questions were focusing on the challenges of orchestras, the effects of COVID-19 on the symphonic orchestral life, and the novel projects and ways how they are trying to reach more people, especially the youth. We were also interested in their opinions about the international scene; however, in the case of foreign orchestras, our research mainly relies on existing documents, and articles.

In order to identify the main trends in music education, we have also conducted five interviews with music teachers. During these interviews, we were interested in their opinions about how digitalization can change the sector and how it is possible to encourage more students to learn music.

We have worked with semi-structured interviews: we have prepared a guideline in advance, however, during the interview we have deviated from it if necessary, in order to go into more details on some topics. This interview technique has given us a fairly high degree of freedom and as a result – by following the recommendations of Agee (2009) – it has allowed us to identify new, unexpected, previously unexplained phenomenon by not sticking to a pre-designed set of questions. The interviews lasted 60–90 minutes, respectively. For recruiting interviewees, we have used snowball sampling (Naderifar, Goli – Ghaljaie, 2017). We have reached the theoretical saturation point after ten interviews both in the case of managers and musicians and after five interviews in the case of music teachers: new topics have no longer emerged (Constantinou et al., 2017).

As part of the secondary research, we have also reviewed 50 leading applications in music education and analyzed 24 of them in detail in order to define the main advantages and disadvantages. Furthermore, we analyzed the customer segments that these apps would like to address and the value proposition that they offer to customers.

Based on the interviews and the secondary research, we have identified some novel aspirations and innovative attempts which are detailed in the following section.

RESULTS

Online Streaming Through Platforms

Digitization opens up new ways for orchestras to rethink their value proposition and also to reach and address audiences in an unusual way. Nowadays, “digital thinking” is essential in the field of cultural management as well (Hunt, 2019). Live concert streaming is no longer a novelty. However, the Berlin Philharmonic’s Digital Concert Hall project was the first initiative that used social media to broaden the audience globally by making the orchestra’s concert recordings available to consumers around the world via the Internet (Digital Concert Hall, 2019). Thus, the audience can access the orchestra’s recordings or even live concerts at all times and places. Nowadays, almost all orchestras – both international and Hungarian – make available previous concert recordings and live performances by online streaming, which is currently gaining even more importance in the pandemic situation.

According to the research of the Association of Hungarian Symphony Orchestras (2020), Hungarian orchestras have previously used the Internet to share their productions; however, no content has been created specifically for the online space. In 2020, as a result of the pandemic, it has fundamentally changed, the vast majority of orchestras have started to use social media to stay in touch with their audiences, and due to the closure of concert halls, online, live concert streaming has become a popular way to perform. Streaming typically serves a dual purpose: on the one hand, it helps to keep in touch with the audience, and on the other hand, it can also generate income, if the orchestra makes its “products” available in exchange for a “ticket”. For online streaming, most orchestras use YouTube Live, Facebook Live, or Instagram Live which are widely known and easily accessible platforms. Although it is worth examining some further options which are more professional and give better opportunities for the monetization of the

productions (e.g., Dacast used by the Royal Academy of Music or Brightcove used by the Metropolitan Opera, the Sydney Symphony Orchestra, and the San Francisco Opera). Some of these platforms are specialized for music (e.g., Stageit) and besides ensuring the conditions of streaming; they also market the performer and their show (Corton, 2020).

LOLA – a software to decrease latency and a platform to connect musicians

Nowadays, there are many technologies and applications which make it possible to teach and play music online (e.g., Skype, Messenger, Viber, Teams, Google Meet). These are widely known, easily accessible, and free solutions that do not require any special tools. In many cases, however, latency and the poor quality of sound cause serious problems. In contrast, LOLA (low latency AV streaming system) can reduce latency to less than 30 milliseconds and as a result, it is suitable for distance musical interactions, even in the case of a very ‘tempo sensitive’ repertoire where timing is a critical factor (Drioli et al., 2013). Thanks to LOLA, several successful productions have taken place in recent years, even if the performers were thousands of kilometers apart (LOLA, 2021). The ease of use of the software is proven by the fact that concerts were successful even in cases when the musicians started to get to know each other and the software just one day before the concert (without any special training).

Interactive Productions with Gamification

As previously mentioned, one of the main problems for symphony orchestras is that they can hardly address the youth. The Australian Discovery Orchestra has responded to the challenge with an excellent idea: as part of its digital strategy, it has turned its previous recordings into “virtual experiences”. The audience can listen to the piece by playing a video game: they have to solve various challenges and complete tasks in order to earn points and „keys” which unlock the next part of the piece (Grasmayer, 2017). In another video game, the orchestra focuses on music education in a similar way, by using a virtual environment, short videos, and audio materials (ADO, 2021).

Effective Workflows Enhanced by Virtual Reality

The cooperation of two Finnish VR pioneers (Zoon and Varjo) and the Finnish National Opera and Ballet (FNOB) points out that new technologies have a *raison d'être* in the field of culture as well, by contributing to more efficient workflows. In the frames of the collaboration, FNOB has the chance to pre-visualize the upcoming productions without much investment. As a result, FNOB can save stage time and make the processes more effective (Teivainen, 2020).

Applications in Music Education

Nowadays, applications are available for almost all types of instruments, with instructional videos, real-time feedback, and – in some cases – with gamified challenges, in order

to help students to learn music in a playful, enjoyable, and interactive way. As Buzás (et al., 2021) emphasize, it is important to create a flow experience and deliver interesting and valuable content to students. The applications introduced below keep these principles in mind. Many apps are developed by professional musicians and the video lessons are produced by well-known artists which guarantee high quality. Moreover, customer reviews highlight that the apps are suitable for all levels of proficiency from beginners to advanced musicians, and can fulfill the needs of all students by containing songs and lessons for all genres.

Table 1: *Applications in Music Education*

		Main advantages	Main disadvantages	
Piano	Playground Sessions	– Developed by professional musicians	– Some applications are not free and/or there is no free trial or the free version is limited to a few songs – Some applications are only suitable for Android and/or iOS products	
	Flowkey			
	Skoove	– Interactivity		
	ArtistWorks Piano with Christie Peery	– Video lessons produced by well-known artists and teachers		
	Pianoforall	– Lessons for all levels of proficiency		
	Piano Marvel			
	Piano With Willie			
Guitar	Fender Play	– User-friendly, easy-to-use interface	– Some applications have problems with recognizing correctly the notes being played	
	ArtistWorks Guitar	– Customizability		
	TrueFire	– Tempo can be adjusted to the skills of the student	– In some cases, there are technical problems, bugs (e.g., logging in)	
	JustinGuitar			
	Jamplay	– Real-time feedback		
	Orange Learn			
	Jamorama			
Violin	Trala: Learn Violin	– Statistics about the performance and progress		– Opportunity for consulting with teachers (e.g., weekly Skype conferences)
	MyOngaku	– Gamified challenges		
	Scales Practice			
	Modacity	– Songs and lessons for all genres		
	PlayAlong Violin			
	Violin Notes Flash Cards			
	Classical Violinist			
Cello	Cello Coach			
	PlayAlong Cello			
	Cello Racer			

Source: own editing

It is important to emphasize that these applications cannot replace a music teacher and personal lessons, as they cannot put enough emphasis on the artistic details, nor can they correct for example the posture, fingering, or bowing. However, they can help students learn the basics, make home practice more effective, and also have a motivating effect: learning in a playful way can encourage young people to start their music education. As a result, these applications can also contribute to building the next generation of music-lovers and concert-goers. Table 1 summarizes the main advantages and disadvantages of the analyzed applications.

It is clear how the applications try to address the students; they have a well-formulated value proposition for them (e.g., providing a convenient, customizable and entertaining way to learn music usually at a cheaper price than taking private lessons). However, the value proposition for music teachers is not defined, although – as previously detailed – the applications could contribute to the success of their work as well. According to the interviews conducted with music teachers, they do not see how these applications could complete their work. The overall opinion of teachers is that the apps are not suitable for learning to play an instrument and the only way is to take personal lessons. In the future, it would be beneficial to address and involve teachers as well as they could be a channel to students and help promote the apps.

CONCLUSIONS, SUGGESTIONS

Compared to the „traditional” symphony orchestra performances, the previously detailed innovations, novel aspirations renew the value proposition: the orchestras add new elements (e.g., gamification and interaction) and raise convenience and accessibility. By leveraging digital opportunities, orchestras can redefine the concert experience, reach audiences in a novel and perfectly convenient way, and can overcome the barriers of geographical distance; location is not restricted to concert halls anymore. The applications focusing on music education also significantly enrich the value proposition; they add new elements (e.g., real-time feedback or gamified challenges), and make music education available to all, everywhere. By adapting to the demographical and social changes of the 21st century, these above-mentioned orchestras and app developers can address new customer segments, including younger people also. Besides renewing the value proposition and expanding the customer segment, they also significantly change other building blocks of the Business Model Canvas (Table 2).

Table 2: Business Model Innovation of Applications Focusing on Music Education and of Symphony Orchestras

Building blocks of BMC	Applications in music education	Orchestras exploiting the opportunities offered by digitalization
Customer segments	The youth and those who have never had a chance to take music lessons in person (e.g., due to geographical distances, costs, etc.)	Children, young people, and those who would be unable to attend the performance in person (due to e.g., geographical distance)

Building blocks of BMC	Applications in music education	Orchestras exploiting the opportunities offered by digitalization
Value proposition	Newness: real-time feedback, gamified challenges Convenience and accessibility: music education is available to everyone, everywhere Customization: learning can be tailored to individual needs Price: cheaper than private lessons	Newness: integrating gamification and adding interaction Convenience and accessibility: location is not restricted to concert halls anymore
Channels	AppStore, Google Play Store	Platforms, social media, the webpage of the orchestra
Customer relationships	Automated services, co-creation (reviews)	Automated services, co-creation
Revenue structure	Freemium model, in-app purchases, subscription fees (monthly, yearly)	Revenues from streaming
Key activities	Developing and marketing the application	Online concert streaming through platforms, turning the previous recordings into “virtual experiences” (video games), using VR for more effective workflows
Key resources	Technological, human, and intellectual resources: the technology of the app and the knowledge of the developers and founders	Technological, human, and intellectual resources: the platforms and technologies and employees who can use them
Key partners	Famous artists and teachers who promote the application	VR companies, platform owners
Cost structure	Cost of developing and marketing the app	Costs of using a platform or software (e.g., LOLA), recording productions, and creating video games
Social benefits	Music education is available for a wider range of people, the same amount of music teachers can teach many more students, music education contributes to building a more intelligent society	Delivering cultural values to a wider audience, including the youth, beneficial effects of classical music on health (e.g., stress-relieving effect) and society (e.g., contributing to an empathetic and tolerant society)
Social costs	App developers could use their knowledge for other (social) goals	Resources, subsidies used for supporting the operation of orchestras could be used for other social goals

Source: own editing

LIMITATIONS OF OUR RESEARCH

In the present study, we have reviewed 50 leading applications in music education and analyzed 24 of them in detail, by focusing on four instruments: piano, guitar, violin and cello. In the future, more musical instruments could be taken into account and further applications should be analyzed in order to get a wider picture of the industry. The results on business model innovation are based on interviews: the opinions of ten symphony orchestra managers, ten symphony orchestra musicians, and five music teachers. However, we reached the saturation point in the qualitative research; in order to get even more generable results, it would be useful to examine the topic by using quantitative methods. Finally, the study is centered around symphony orchestras and music education; other cultural segments (e.g., theater) are not reviewed and analyzed. These limitations show the possible directions for further researches.

SUMMARY

In accordance with Horváth et al. (2018), Csontos – Szabó (2018), Hortoványi – Ferincz (2015), Van Alstynne (2016), Gawer – Cusumano (2014), Eisenmann et al. (2011), and Libert et al. (2014), our research has underpinned the importance of business model innovation and digitalization in the cultural sector as well and has highlighted how virtual reality, platforms, applications, and other software and technologies can contribute to the successful operation of an orchestra and the effectiveness of music education.

Although, business model innovation and digitalization raise some further questions and challenges for orchestras: they have to balance between serving economic goals (e.g., being profitable) and social goals (e.g., creating social value). Furthermore, when innovating the value proposition and creating productions that address the audience in an unusual way, they have to preserve the traditional values of symphony orchestras as well. Digitalization also poses great difficulties: previously, the operation of orchestras relied on live performances, while currently – as a result of the pandemic - they have to focus on the online space. It requires different models and productions: the previously successful performances are not necessarily popular in the virtual space. In order to overcome these barriers and achieve long-term success, orchestras have to continuously experiment, adapt to the changing needs of their customers and handle the changes of the world.

In the 21st century it is necessary for music education to be tailored to the needs of the students. In our digitalized world, taking personal lessons should not be the only possibility of how one can learn to play a musical instrument: new and innovative solutions are needed which can break down the barriers of time and space. During the pandemic, it has become impossible for most students to continue their music education in the same way as before: they had to look for alternative solutions and take advantage of the opportunities offered by digitalization.

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The Financial and Economic Review (In Hungarian Hitelintézetési Szemle) edited and published by the Magyar Nemzeti Bank, following a significant content and formal renewal of recent years, has become one of the most widely read economic and financial scientific journals in Hungary, which also has a large readership

abroad. In 2014, the management of the Magyar Nemzeti Bank in connection with its social responsibility activities and in the framework of broad support for education, financial literacy and scientific activities, decided to take over the Hitelintézetési Szemle, a scientific journal with decades of history, from the Banking Association and renew it.

The MNB set the objective that the journal – with its easy-to-understand but scientifically sound studies processing applied results, as well as its valuable essays, book reviews and conference reports – should effectively promote the examination and international presentation of the economic performance of the Hungarian economy and financial system and, where appropriate, that of the Central and Eastern European region, as well as the analysing evaluation of the current issues of the economics, finance and related disciplines, thereby also contributing to the successful renewal of economic thinking and economic policy activities. In this way, the Financial and Economic Review aims to create a unified platform for domestic and foreign researchers, educators and readers with a scientific interest, which can be used as a starting point for a deeper understanding and analysis of the region's economic and social processes. At the same time, the journal also helps the authors of academic papers to be references at international level. In pursuit of these goals, the Financial and Economic Review relies on an experienced and high-skilled international editorial board, and in the course of peer review, the scientific knowledge and professionalism of renowned experts of higher education institutions and research institutes.

Since the Magyar Nemzeti Bank first published the Financial and Economic Review, more than 200 separate writings have been included in the regular issues of the scientific journal in the form of peer-reviewed studies, essay-type papers, book reviews, reports on conferences and other scientific activities.

The result of the renewal of the Hitelintézetési Szemle is also confirmed by its scientific qualification. In addition to a category B rating from the Doctoral Committee on Economics, the journal of the Hungarian Academy of Sciences, as of 2017, also has a category B rating from the Regional Scientific Committee and a category C rating from the Demography Committee as a recognition of professional work at the editorial office. Since 2017, besides the Hungarian MATARKA and the international IDEAS/RePEc systems, the articles published in the journal are also listed in the Digital Object Identifier (DOI) system, which also supports the ever-wider presence in the international scientific community.

conomic and social developments in the region. The publication has been reviewed and has been qualified by the Hungarian Academy of Sciences. It is a popular publication space for Hungarian and international authors. Both the publication and the peer-review processes are subject to the highest level of moral and ethical principles.

Our editorial board, which consists of renowned experts from Hungarian academic life and the state administration, considers its main goal to be the professional and authentic presentation of current economic and social changes. Many years ago, when the journal was launched through the hard work of György Matolcsy (Chairman of the Editorial Board) and Balázs Botos (former Editor-in-chief) and with support from the Polgári Magyarorszáért Foundation, its principal endeavours were formulated as providing opportunities for publication for the conservative intelligentsia and scientists representing concepts that were outside of mainstream thinking, and enabling the publication of essays with a conservative approach to economic and social disciplines. The ideas of the experts and authors organised around Polgári Szemle greatly promoted the first steps and the work of the conservative government that has been in office since the summer of 2010, given that during the years spent in opposition valuable studies and workshop discussion papers and books were born of the inspiration of collective thinking and a value-creating atmosphere.

Since January 2011, when the current editorial board took on the role of their predecessors in carrying out governmental functions, particular importance has been placed, in the board's strategy to function as an academic workshop and in the studies by the associated circle of authors, on the presentation of the taxonomy applied in the fundamental transformation of economic policy and in state reorganisation. In addition to foreign affairs and international business, the articles by our authors with an international perspective touch upon the struggles of the European Union and the numerous territories in the euro area that are challenged by problems, and their implications for Hungary, the renewal of public finances and social policy. The changing conditions and operation of regional policy, regional development, public administration, public and higher education and healthcare – in other words, the challenges for public administration and social policy – are also discussed through easy-to-understand and yet academic presentations.

And what if we need a “softer song”? You can read articles about the origin of the Hungarian language by professors of literature, about our history and the brave actions of our ancestors and the fateful events of world history, and reviews of books published by Hungarian authors and of essays by foreign authors with relevance to Hungary and influence on our daily lives. Our purpose is to provide space in our bi-monthly issues for the lecturers and PhD students of provincial universities and for young conservative intelligentsia, and an opportunity for less well-known academics at the beginning of their careers to publish their writing. Please keep sending us your papers both from within Hungary and from beyond our borders!

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