

UNLOCKING HUNGARY'S POST-PANDEMIC GROWTH POTENTIAL





Published by OMFIF Ltd.

**Official Monetary and Financial
Institutions Forum**

181 Queen Victoria St, London
EC4V 4EG, United Kingdom

T: +44 (0)20 700 27898

omfif.org | @omfif.org

ABOUT OMFIF

With a presence in London, Washington and New York, OMFIF is an independent forum for central banking, economic policy and public investment – a neutral platform for best practice in worldwide public-private sector exchanges.

For more information visit omfif.org
or email enquiries@omfif.org

AUTHOR

Taylor Pearce

Senior Economist, Economic
and Monetary Policy Institute

EDITORIAL AND PRODUCTION

Simon Hadley

Director, Production

William Coningsby-Brown

Production Manager

Sarah Moloney

Chief Subeditor

Janan Jama

Subeditor

COMMERCIAL

Christopher Garnett

Senior Adviser, OMFIF

Sofia Melis

Chief Revenue Officer

© 2024 OMFIF Limited. All Rights Reserved.

Strictly no photocopying is permitted. It is illegal to reproduce, store in a central retrieval system or transmit, electronically or otherwise, any of the content of this publication without the prior consent of the publisher. While every care is taken to provide accurate information, the publisher cannot accept liability for any errors or omissions. No responsibility will be accepted for any loss occurred by any individual due to acting or not acting as a result of any content in this publication. On any specific matter reference should be made to an appropriate adviser.

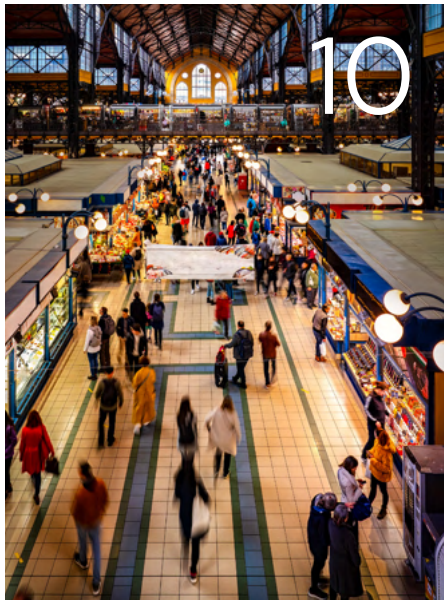
Company Number: 7032533. ISSN: 2398-4236

CONTENTS

7



8



18



5

FOREWORD

Getting back on track

6

OMFIF SUMMIT, BUDAPEST

Insights from Budapest indicate recovery and resilience in central and eastern Europe

8

IN CONVERSATION

Growth prospects for the Hungarian economy



10

CHAPTER 1

Hungary's economic resurgence

18

IN CONVERSATION

Record figures: Hungary's post-pandemic economic recovery

20

CHAPTER 2

The drive towards diversification

26

IN CONVERSATION

Hungary's role as a borrower in global bond markets

28

CHAPTER 3

Paving the way for sustainable growth



26

ACKNOWLEDGEMENTS

Throughout this project, OMFIF spoke with over 50 individuals representing key institutions, including economists, investors, policymakers, researchers and representatives from the real economy. We thank the following for sharing their views:

Organisations

Amundi, Association of German Banks, BlackRock, Centre for Economic and Regional Studies, Dorsum, Erste Bank Hungary, European Bank for Reconstruction and Development, European Central Bank, European Commission, Goldman Sachs Asset Management, Hungarian Government Debt Management Agency (AKK), Hungarian Ministry of Finance, International Monetary Fund, Magyar Nemzeti Bank, Macro Hive, MOL Group, MVM, National Bank of Slovakia, Neuberger Berman, Narodowy Bank Polski, Oesterreichische Nationalbank, OTP Bank, Perfinal Technologies, Polish Economic Institute, Raiffeisen Bank International, Scope Ratings, Sovereign Official Digital Association, Tőkeportál, United Nations Environment Programme Finance Initiative, Vontobel Asset Management, World Trade Organisation.

Individuals

András Balatoni, Director, Economic Forecast and Analysis, Magyar Nemzeti Bank; Martin Blum, Head of Desk Strategy and Capital Markets Development, Raiffeisen Bank International; Mate Brezovszki, Chief Executive Officer, Perfinal Technologies; Carlos de Sousa, Emerging Markets Debt Strategist and Portfolio Manager, Vontobel Asset Management; László Fazekas, Chief Financial Officer, Deputy Chief Executive Officer, MVM; Bálint Fischer, Chief Business Development Officer, Dorsum; Mihály Geiszbühl, Head of Capital Markets, Erste Bank Hungary; Geoff Gottlieb, Senior Resident Representative, Regional Office for Central, Eastern and Southeastern Europe, International Monetary Fund; Caroline Grady, Head of Emerging Market Research, Macro Hive; Anna Grochowska, Deputy Head of Unit at the European Commission, Directorate General for Financial Stability, Financial Services and Capital Markets Union, European Commission; Gábor Gyura, Consultant, United Nations Environment Programme Finance Initiative;

Radovan Jelasity, Chairman and Chief Executive Officer, Erste Bank Hungary; Ferenc Kementzey, Member of the Management Board, Deputy Chief Executive Officer; Head of Corporates, Markets and Investment Banking, Raiffeisen Bank International; Pawel Kowalewski, Senior Adviser, Narodowy Bank Polski; Zoltán Kurali, Chief Executive Officer, Government Debt Management Agency, Hungary; David Lodge, Head, Euro Area External Sector and Euro Adoption Division, European Central Bank; Tomomitsu Maruta, Sustainable Finance Associate Officer, Capital Markets Department, Finance Directorate, European Investment Bank; Reiner Martin, Executive Director, National Bank of Slovakia; Árpád Nagy, Treasury and Funding Director, MVM; Coleman Nee, Senior Economist, Economic Affairs Officer, Economic Research and Statistics Division, World Trade Organisation; Kaan Nazli, Senior Portfolio Manager and Economist, Neuberger Berman; Chris Ostrowski, Chief Executive Officer and Founder, SODA - Public Digital Money; David Papp, Head of Sustainable Finance Policy, Magyar Nemzeti Bank; Sandor Pataki, Director, OTP Bank; Anastasia Petraki, Head of Sustainability for Germany, Austria, German-speaking Switzerland and Eastern Europe, BlackRock; Jakub Rybacki, Head, Macroeconomics Team, Polish Economic Institute; Magdolna Sass, Director, Institute of World Economics, Centre for Economic and Regional Studies (Hungary); Maral Shamloo, Managing Director in Fixed Income and Liquidity Solutions, Goldman Sachs Asset Management; Tomas Slacik, Senior Economist, Central, Eastern and Southeastern Europe Section, Economics Analysis and Research Department, Oesterreichische Nationalbank; Carlos de Sousa, Emerging Markets Debt Strategist and Portfolio Manager, Vontobel Asset Management; Nóra Szeles, Chief Executive Officer and Co-founder, Tőkeportál; Anikó Szombati, Executive Director, Chief Digital Officer, Magyar Nemzeti Bank; Tobias Tenner, Head of Digitalisation, Associate Director, Association of German Banks; Olaf Toelke, Managing Director and Head of Corporate Ratings, Scope Ratings; Plamen Todorov, Emerging Markets Portfolio Manager, Amundi; Péter Tőreki, Head of Group Funding, MOL Group; Barnabás Virág, Deputy Governor, Magyar Nemzeti Bank; Matthias Zeinitzer, Director, iShares & Wealth CEE, BlackRock.

PARTNERS



LEAD SPONSORS



CO-SPONSORS



Getting back on track

After a difficult few years, Hungary's economy is set to experience growth that far exceeds its regional peers.

By Christopher Garnett, senior adviser to OMFIF.

THIS REPORT marks the culmination of six months of analytical and investor relations work OMFIF has done in collaboration with three of the main state actors in Hungary: Magyar Nemzeti Bank, the ministry of finance and ÁKK, Hungary's debt management office.

From the start, we took the view that much international commentary on Hungary focuses on the country's political relationships with its European neighbours – and clearly these must be taken into consideration. But the finance and business story, and Hungary's position as a creditor in global debt markets, as a magnet for foreign direct investment and as a modern technocratically managed economy must be highlighted too.

We began with a series of recorded interviews and roundtable discussions broadcast live to OMFIF's membership and audience; summaries of these discussions form parts of this report. In November 2023, we hosted a conference in Budapest with over 120 in-person attendees plus 30 speakers from across Europe. Throughout, we convened global investors – both asset managers and owners – and brought them together with state actors and policy-makers, corporates and banks, both domestic and foreign.

OMFIF's aim was to clarify concerns and to provoke discussion. The goal has been to help investors understand what Hungary needs – and to help Hungary understand what investors need.

Chapter 1 examines the macro outlook in Hungary, exploring factors influencing both cyclical and structural growth trends. Despite sky-high rates of inflation, the Hungarian labour market has shown resilience, and a proactive approach to combatting inflation is reining in price pressures. The country is slowly getting back on track to resume rates

of gross domestic product growth that are well above the European Union average.

Despite these positive developments, a series of structural factors poses risks to Hungary's growth potential, which will only become more difficult in an increasingly fragmented geopolitical environment. Trade and FDI relationships have proven resilient in the face of global shocks, but demographic decline and regional inequality need to be addressed with carefully calibrated policies.

Next, Chapter 2 delves into the developments in financing and capital markets in the Hungarian economy, both from the sovereign and corporate perspectives. As Hungary looks to diversify funding sources, ÁKK is the driving force behind these trends. The funding strategy for Hungary looks to attract a wider array of international investors, bolster the domestic investor base by encouraging retail investment and continue expansion of green, social and sustainable bond issuance.

Finally, Chapter 3 outlines sustainability and digitalisation initiatives in Hungary as part of the country's strategy to move from extensive to intensive growth. As Hungary looks to bolster research, development and innovation, policy-makers are taking an active role in facilitating green and digital growth. MNB in particular is paving the way for more private sector investment and product development in these areas.

OMFIF is committed to broadening knowledge of financial markets and the intricate relationships between economic policy-makers and international capital. We shall continue our work on Hungary into 2024 and also turn to other markets and countries whose economies are at a crossroads. We look forward to collaborating with members and readers to deepen understanding of where public and private sectors meet.



'Trade and FDI relationships have proven resilient in the face of global shocks, but demographic decline and regional inequality need to be addressed with carefully calibrated policies.'

Recovery and resilience in central and eastern Europe

Creative economic policy-making is being employed to address macro challenges in region hit hard by successive crises.

As small, open economies, deeply integrated into international supply chains, the countries of central and eastern Europe were highly vulnerable to the economic difficulties resulting from the Covid-19 pandemic and energy crises. The region suffered inflation figures that were nearly double those experienced by western Europe, with cumulative inflation nearing 30% between June 2021 and September 2023.

But the region has proved resilient. The labour market has remained strong, foreign direct investment is picking up once again and there are already signs of growth recovery. To explore trends and priorities in the region, OMFIF hosted a conference in Budapest, with speakers and attendees from all over Europe. They discussed progress and challenges in Hungary and throughout CEE.

Regional optimism despite sticky inflation

Speakers at the conference shared a cautiously positive outlook for Hungary and the entire CEE region. The primary risk to recovery now is inflation.

Geoff Gottlieb, senior resident representative of the International Monetary Fund's regional office for central, eastern and southeastern Europe, pointed out that inflation in the region is moving from the supply side – due to exogenous shocks – to a function of core pressure from wages. He noted that it is important that demand remains weak so that firms are not incentivised to pass on these price increases.

Hungary showing signs of modest recovery

After the pandemic, the Hungarian economy demonstrated resilience by achieving a record-high gross domestic product growth of 7.1%, outpacing the European Union average by two percentage points. However, this momentum was halted

by a combination of high inflation and depressed growth. Inflation in the country surpassed its regional peers, peaking at just under 25% in January 2023, but has since decreased, reaching 9.9% in October and aligning with the single-digit target. Barnabás Virág, Magyar Nemzeti Bank deputy governor, declared that he expects inflation to decline to 7% or below by the end of 2023, with patterns resembling pre-Covid 19 levels.

Mihály Varga, Hungary's finance minister, observed that the labour market has remained robust, with employment rates surpassing EU and fellow Visegrád country averages. Increased participation rates are being driven by targeted programmes benefiting women, young and elderly workers. Geographical investment imbalances have improved, particularly in the less-developed, eastern Hungarian region.

The current account deficit, dipping to minus 8.2% of GDP earlier in the year due to the high cost of energy imports, was rectified this quarter to reach positive territory (0.9% of GDP). Though the government deficit remains high at 5.8% of GDP, policy-makers are pursuing proactive fiscal consolidation in addition to the postponed recapitalisation of the central bank, to bring the country back in line with the Maastricht criteria. But risks around inflation, geopolitical tensions, EU infighting and the impact of the developed world's yield environment warrant caution.

Policy-makers leading the way to increase investment

Political risk, inflation and market volatility have made foreign investors more cautious about the region over the past two years, leading to outflows from asset classes in 2022 and 2023. Liquidity concerns were raised by asset managers on the investment panel, particularly due to the size of the Hungarian market. But the Hungarian debt management office's (ÁKK) agility and diversification were noted as key mitigating factors at the conference.

Transparent communications from Hungary's central bank were praised as beneficial for the capital markets. Asset managers at the conference noted that ÁKK has also done well in this regard by publishing all its affairs on the website and presenting all information in English. These are simple yet effective measures that go a long way towards making investors' lives easier. In this respect, other countries in the CEE region are looking to the ÁKK.

Because their bond issuances would be too large for local markets and too small for international markets, some Hungarian companies are unable to reach a benchmark or sub-benchmark size transaction – putting them at a disadvantage. But financing options via international bond markets are growing. ÁKK has a role to play here. Zoltán Kurali, head of the ÁKK, explained: 'For local corporates and government-guaranteed names, rightly or wrongly, the spreads are derived from the sovereign. Hence, we have to be very present in the international markets – in euros, dollars, Japanese yen, renminbi, so whoever issues in these markets can find a reference point.'



OMFIF summit, Budapest, November 2023



MNB spearheading the green and digital transformation

Hungary has experienced a 33% decarbonisation since 1990, but the pace has slowed in the last five years, explained David Papp, head of sustainable policy at MNB. There are positive developments in the real economy, such as solar panel construction, but there is a need for broader, more effective market mechanisms, price signals and incentives, especially regarding carbon pricing and taxation.

Corporates are turning to bond markets to finance their transition, issuing green bonds in line with EU taxonomy guidelines. To help facilitate the transition, MNB has gone further than other central banks on sustainability – it is the only European monetary authority with a green mandate alongside its primary financial stability and inflation mandates. In addition, the central bank has initiated green programmes, including refinancing programmes, green

asset purchasing and efforts to integrate climate risk into banks' prudential supervision.

MNB is also taking an active approach through a variety of fintech initiatives to help speed up digitalisation in Hungary's banking sector. Several factors could make Budapest an ideal sandbox for pilot programmes: Hungary's location in the centre of Europe, an advantageous tax environment for fintechs, proximity to universities and the size of the country. But the current macroeconomic climate of inflation and high interest rates is affecting funding.

MNB also aims to lead by example for the fintech sector by undertaking various central bank digital currency pilot projects and via the bank's innovation hub. Together, these programmes are preparing the bank for large-scale CBDC issuance – which attendees of the conference believe that Hungary is bound to achieve before the European Central Bank.

Huf1.6tn

Issuance of domestic green bonds reached Huf1.6tn by the end of 2022, including a 30-year forint-denominated green bond

30%

The cumulative inflation suffered by CEE from June 2021 to September 2023

7%

Hungary's expected inflation rate by end-2023

-8.5%

Current account deficit as a share of GDP earlier this year, now 0.9%

33%

Carbon dioxide emissions reduction since 1990

Huf30bn

First green bond issuance in 2020



Growth prospects for the Hungarian economy

Barnabás Virág, deputy governor, Magyar Nemzeti Bank, joined David Marsh, chairman, OMFIF, to discuss the country's short- and long-term economic trajectory.

David Marsh: On the macro picture of Hungary, we've had a lot of upheaval in Europe over the last three or four years. Where would you say we are now, with the main parameters of growth, inflation and the current account?

Barnabás Virág: You are absolutely right that this decade has brought about new challenges for Europe – especially for central and eastern Europe. In the last three years, we've faced a triple crisis, starting with the Covid-19 pandemic in 2020, followed by the energy crisis since the middle of 2021 and then the terrible war in Ukraine in 2022. All of these challenges have had a dramatic impact on growth trajectories, the inflation environment and on current account developments, not only in Hungary, but in the whole region.

In the case of Hungary, we can say that one of the main aspects of the story was the energy shock, which had a big impact on inflation numbers and on the country's current account position last year. The latter is a very important indicator when assessing a small and open economy like Hungary. I think, from a macroeconomic policy perspective, the key is to maintain stability in the economy, both in real economic terms and financial stability terms.

Looking at the numbers, I have to say that we are on the right path. The labour market situation remains very stable, unemployment rates are still below 4% and the recovery from the Covid-19 crisis was very fast. Of course, the war in Ukraine had a negative impact on our numbers in 2022 and we've had a technical recession in the last couple of quarters. But looking ahead, based on our high frequency indicators, the recovery will start once inflation returns into the single-digit territory. We have a good chance that the recovery here will be fast and Hungary will be able to continue the convergence process in the coming years.

DM: Hungary has had an inflation rate well above the European average during this crisis, but you're confident that the worst is over and you're going to be somehow rejoining the mainstream. How confident are you that you will get into single-digit territory for inflation?

BV: Absolutely. Inflation is the number one enemy for the economy, and the key is to bring it down to single digits. We had inflation of over 25% in January. Looking at the expectations of market participants, it's certain that we will close the year with well below 10% – in my estimation, somewhere between 7% to 8%. This is quite an achievement. Historically, it takes at least two years to bring down inflation again to single digits. Now it's clear, looking at the details, that Hungary can bring inflation under control within a year.

DM: In terms of energy, it's clear that you are very vulnerable to the energy shocks as you are still partly dependent on energy coming in from Russia. Have you managed to significantly diversify your sources of energy?

BV: For Hungary, this is a very sensitive point. We are a net importer of liquified natural gas. In line with that, the country's current account position deteriorated very sharply last year. We had a current account deficit of over 8%. Looking at this year's numbers, I think we have been on a clear and rapidly improving path in the last couple of quarters. In the second quarter, the country's current account position turned slightly positive. Now, I think we have a very good chance that the current account position can be somewhere around zero. This is a major improvement in the country's financing position, which is also very important in the current volatile global environment.

It will take some time to change the whole structure of the energy sector. But we have our own strategy and development has started. On the one hand, we are trying to diversify our import strategy. On the other hand, we are speeding up the transition to green energy, using solar and other renewable sources in our energy mix.

DM: On the trade side, you mentioned that the current account is improving. It's a difficult market to try to diversify your exports, but you are trying to make yourself less vulnerable. How has that gone?

BV: Hungary is a very open economy with a high exports-to-gross domestic product ratio. For us, strong export performance

is crucial to success. Of course, in the current volatile environment with an uncertain global economic outlook, it's tough to deliver. If we look at the outlook for the European economy or the Chinese economy, you are right that, in terms of demand side, there are some risks on the downside.

The good news is that foreign direct investment in Hungary has been strong, especially in the manufacturing industry in the last couple of years. I think the government has been very successful in attracting FDI to Hungary. Once new FDI translates into production, it will provide an extra boost to exports. It will help us to increase our market share of the global market and it will help offset the negative impact of the environment globally in the coming years.

We have to take into account that we are living in the world of fierce competition. We have to compete for skilled labour, new investments, new technologies. Competition is intensifying, especially considering the present geopolitical tensions. For an open economy, the essential point is that we should remain attractive for investors.

DM: Magyar Nemzeti Bank seems to be on a good path in terms of reserve management activities. Your relatively small holdings of gold have increased tremendously since 2018. Could you sum up the reasons why? Are you going to continue topping up your gold reserves as we go into coming years?

BV: I have to say that it's very interesting to see nowadays that many emerging market central banks have made a decision to increase their gold holdings. You're right, we decided to do so in 2018. At that time, we had a limited amount of gold in our reserves. We increased the amount of gold reserves from three tonnes to more than 94 tonnes.

The main motivation behind the decision was a diversification within reserve management. On the other hand, in this environment of geopolitical tensions and high inflation, there are tectonic shifts taking place in the world economy. That's the other aspect of our decision, which is more long term.

In terms of increasing gold holdings further, this ultimately depends on the Monetary Council's decision. It's clear that nowadays emerging country central bankers tend to be more interested in holding gold. We will monitor market trends closely and, if necessary, decide on any potential further purchases.

DM: What other things do you concentrate on when you're talking to foreign investors? There's a lot of competition, so how do you distinguish yourself from others when it comes to trying to attract investment into your country?

BV: One of the main messages for investors is that the Hungarian market and the Hungarian economy are stable. We are on track in terms of the current account position and in terms of inflation. I think the recovery in the real economy will start in the third quarter of this year, and we can expect around 4% growth for next year. We are still a very attractive destination for FDI.

DM: The MNB has developed a number of innovative instruments. In what areas can we expect Hungary to be some kind of pioneer when it comes to the greening of your monetary policy? What do you think we should be looking out for in 2024?

BV: We can say, in one respect, we were pioneers, as the Hungarian central bank was one of the first central banks in Europe to be granted a green mandate in 2021. Now, we have a green mandate in our central bank law. But, as I mentioned, public enemy number one is inflation. Once inflation is under control, we must once again raise the question of how to support the green transition. This is because I can't imagine a successful green transition in the medium term without a stable inflation environment and a stable financial sector. That's why it's key that central banks become more active in the future.

Beyond the green mandate, we also had some green programmes supporting the credit market for firms and households. Now, we also have a programme underway to reduce green capital requirements for Hungarian banks to support the build-up of green loans. I think we will continue both on the regulatory side and also on the monetary policy side to support the green transition.

DM: You are a member of the European system of central banks within the European Central Bank, a shareholder of the ECB and a member of the European Union, even though you're not in the monetary union. What is the outlook? Do you think Hungary will, in the future, join the monetary union?

BV: It's clear that we must rethink the criteria to be assessed on the potential timing of accession to the euro area. We have to focus more on the real criteria such as competitiveness, GDP-per-capita numbers and so on. My main message is that we are interested in joining the euro area but, of course, timing is key.

It is also essential for policy-makers to improve Hungary's competitiveness further to enhance productivity growth and to improve the fiscal balance and then we can return to the question of what would be appropriate timing for euro adoption.

'Inflation is the number one enemy for the economy, and the key is to bring it down to single digits. We had inflation of over 25% in January. Looking at the expectations of market participants, it's certain that we will close the year with well below 10%.'

Hungary's economic resurgence

The country is getting its economy back on track, despite structural challenges.



Key findings

1. After being hit with some of the highest inflation rates in Europe, the Hungarian economy is resuming gross domestic product growth well above the European Union average.
2. Despite these positive developments, structural factors pose risks to Hungary's long-term growth potential. This will only become more difficult in an increasingly fragmented geopolitical environment.
3. Structural reforms are needed to bolster sustainable long-term growth. Trade diversification, competitiveness and foreign direct investment are key areas of focus. Demographic decline and regional inequality will also need to be addressed.

HUNGARY STANDS at a critical juncture in its economic trajectory. With 7% gross domestic product growth in 2021, the Hungarian economy seemed poised for a robust recovery from the Covid-19 shock. However, following the outbreak of war in Ukraine, optimism was tempered by some of the highest rates of inflation in Europe, which dragged on output and growth.

Receding inflation, resilient labour market

By summer 2021, the Hungarian economy was already experiencing heightened price levels, mostly driven by pent-up demand from pandemic-related lockdowns. The Russian invasion of Ukraine in February 2022 exacerbated price pressures, adding supply shocks to an overexerted economy. As a major importer of Russian gas, with over 90% of oil and gas imports coming from Russia before the war, the price shocks reverberated throughout the economy.

By January 2023, headline inflation in Hungary peaked at 25.7% year on year, surpassing other economies in the region. Since then, the country has been in a period of steadily declining inflation. This is due to a combination of cooling commodity prices, slowing household consumption and an aggressive policy response in the form of tightening monetary conditions.

Magyar Nemzeti Bank has taken a proactive

approach to combatting inflation, having already increased the central base rate in June 2021. The bank has since maintained a firm commitment to achieving price stability, raising the central base rate to 13% in the second quarter of 2022 (Figure 1.1). By October 2023, the headline inflation rate had fallen to single digits, reaching 9.9%, and had fallen further to 7.9% by November.

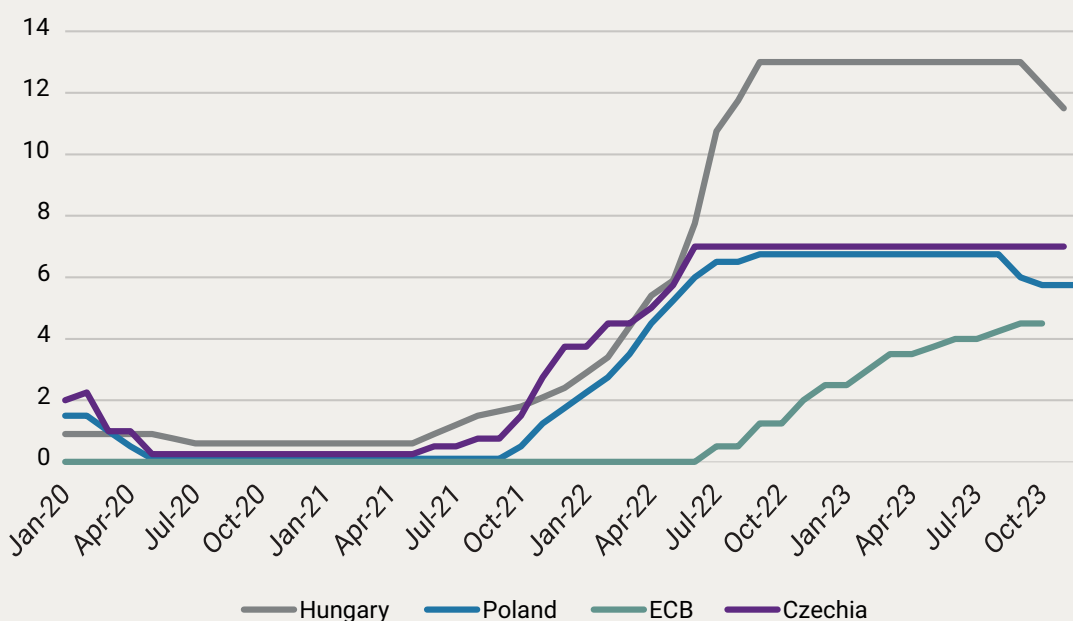
Though inflation rates have fallen drastically since the peak in January 2023, further disinflation may prove more difficult to achieve. During an OMFIF roundtable, Zsoka Koczan, lead economist on transition impact and global economics at the European Bank for Reconstruction and Development, noted that, 'Looking at historical disinflation episodes... what we see as a general pattern is relatively quicker disinflation in the first few months after the peak and then disinflation slowing over time.' This trend is visible throughout the central and eastern Europe region. 'Initially, food and energy accounted for the bulk of inflation, but the share of these has come down, so it is mostly core inflation now,' she explained.

Policy-makers have made it clear that simply reaching single-digit inflation is still 'unacceptable'. Barnabás Virág, deputy governor of MNB, in conversation with OMFIF declared that 'the target is 3% and we need to reach it'. MNB sees inflation as 'public enemy number one', he explained, ➤

25.7%
Headline inflation in Hungary peaked at 25.7% in January 2023. By November 2023, it was 7.9%.

Figure 1.1. MNB tightened earlier and harder than other central banks

Central policy rate, %



Source: London Stock Exchange Group Datastream

80.4%

The country's employment rate reached 80.4% in 2022, surpassing EU and fellow Visegrád country averages at 78.2% and 74.7%, respectively.

reiterating the bank's commitment to keep rates high until prices come down to the target level. The bank confidently anticipates further declines to 7% or below by December, with current projections anticipating a return to the target inflation rate of 3% by 2025.

While goods inflation has fallen, service price inflation has been slower to come down from its peak. At the Budapest conference, Geoff Gottlieb, senior resident representative at the International Monetary Fund's regional office for central, eastern and southeastern Europe, explained that he is seeing a turning point as the drivers of inflation shift to core pressure – specifically wages. 'In the region, nominal wages are growing faster than productivity, which is raising labour costs for firms. 'Firms have three choices: reduce employment, reduce profits or pass on further price increases.' The shift from supply-side to core-driven inflation emphasises the need for sustained weak demand to avoid passing on price increases and inducing second-round wage effects (Figure 1.2).

To this end, various components of sticky inflation are bound to impact the expectations of businesses and households. As András Balatoni, director of economic forecast and analysis at MNB, explained at an OMFIF roundtable, 'What we see at the moment is that the inflation expectations of businesses sunk significantly compared to the end of last year and are down to 2018-19 levels.' The latest data from MNB show that, after peaking earlier in 2023, the range of inflation expectations of households is also on a steady path downward.

Despite the stickiness of these components, MNB has begun gradual normalisation, having lowered the base rate via consecutive 75 basis points cuts to reach 11.5% by November. In addition, MNB has lowered the one-day deposit rate via monthly cuts of 100 basis points from the peak rate of 18%. As noted by Scope Ratings in its outlook for Hungary, this indicates a 'partial normalisation of rates, with potential for more easing in the future'. There is also potential for a pause in further cuts 'if the forint weakens significantly'.

Policy-makers in Hungary are aided in their battle against inflation by a resilient labour market, which has remained robust at 3.9% unemployment despite high inflation and aggressive monetary tightening (Figure 1.3). The country's employment rate reached 80.4% in 2022, surpassing EU and fellow Visegrád country averages at 78.2% and 74.7%, respectively. Increased participation rates are being attributed to programmes targeted at female, young and elderly workers in the labour force (see pp. 10-11).

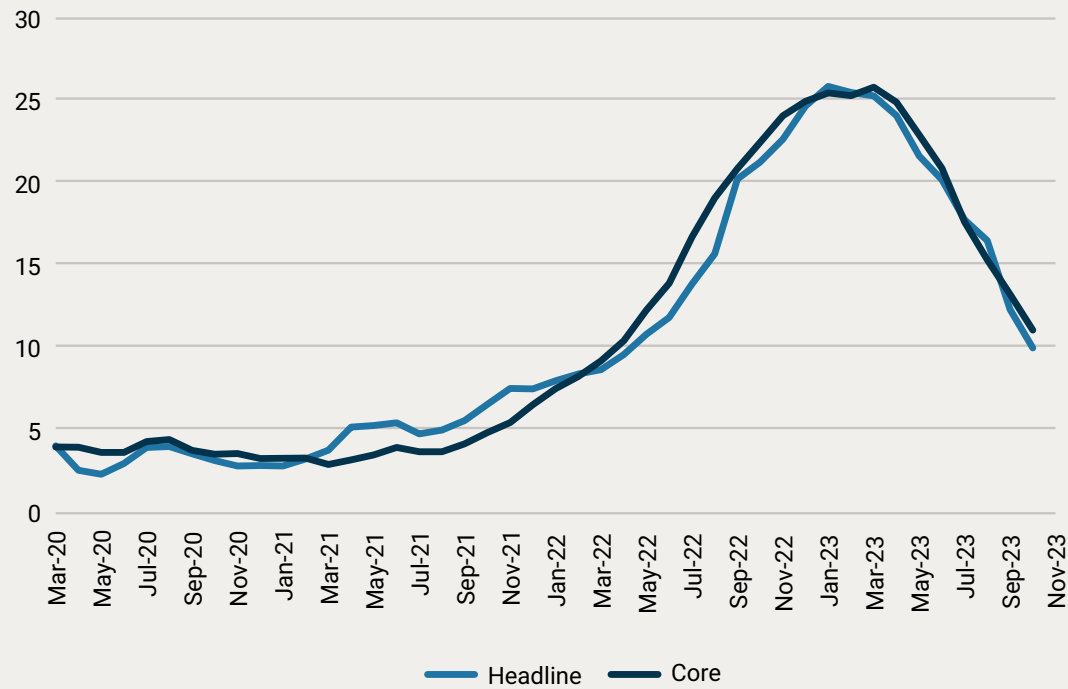
Though monetary tightening poses risks to employment, firms in Hungary have some room to tolerate wage increases. Last year's cost-push shock increased prices globally, and Hungarian companies with rising profits have had some buffers to adjust prices, including wages.

Looking ahead, the EBRD's Koczan warned that shifts in industrial production as a result of the energy shocks could have adverse effects on employment, especially in gas-intensive sectors like construction and chemicals. But, while



Figure 1.2. Inflation pressures moving from headline to core

Annual rate of inflation, %



Source: LSEG Datastream, OMFIF analysis

Figure 1.3. Unemployment reaches 30-year low in Hungary

Annual rate of unemployment, %



Source: LSEG, MNB

8.2%

Hungary's current account position deteriorated to minus 8.2% of GDP by the end of 2022. By Q3 2023, it had reached 0.9%

'Hungary's relationship with its neighbours provides a cushion to global macroeconomic shocks that have been coming so quickly in recent years,'

Coleman Nee, senior economist and economic affairs officer, World Trade Organization

employment declined in the construction sector, which Balatoni highlighted was the only sector to experience a decline, widespread layoffs have not been observed so far. The employment situation remains stable, pointing to broad labour market resilience.

Balance of payments, trade recovery and fiscal discipline

Driven mainly by the surging cost of energy imports, Hungary's current account position deteriorated to minus 8.2% of GDP by the end of 2022. By Q3 2023, it had reached 0.9%, aided by falling energy prices and tempered household consumption lowering imports, as inflation ate into purchasing power (Figure 1.4).

Fiscal consolidation is also moving in a positive direction. In response to the Covid-19 pandemic, Hungary's economic policy agenda focused on boosting support for ventures and families while cutting taxes. Consumption tax was used to fill the gap, but declining consumption has reduced tax revenue for the government. Policy-makers are now committed to recalibrating spending priorities to return to sustainable debt levels, but the government deficit remains high at 5.8% of GDP.

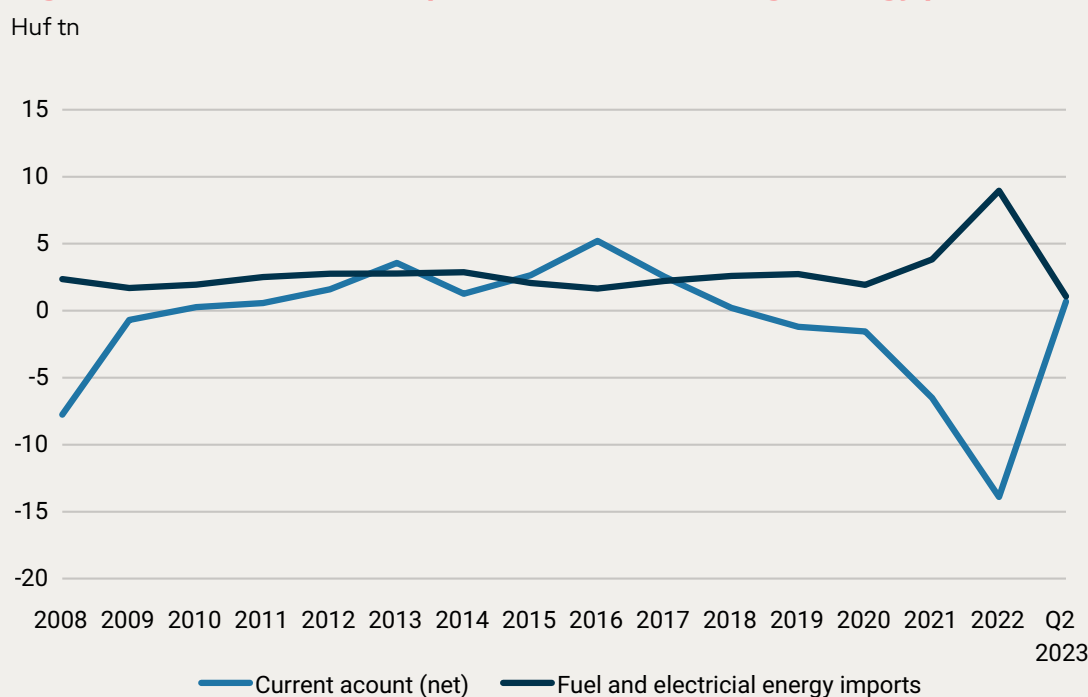
Risks relating to public investment and debt sustainability revolve around the approval and timing of the EU's Recovery and Resilience

Funds. Brussels is reviewing Hungary's reforms, and many policy-makers are optimistic that approval will pave the way for funds to flow in the next fiscal year. This would unlock up to €13bn, constituting approximately 0.8% of GDP in 2023 and 1.5% in 2024. Successful implementation would significantly improve Hungary's funding position. At the time of writing, only €1bn has been unlocked, with €7.5bn in structural funds and €5.8bn in pandemic recovery grants awaiting Commission approval. The latest MNB inflation report stated that, 'Considerable uncertainties still exist concerning the potential receipt of EU funding.' As noted by Scope, the unresolved dispute 'limits the government's room for fiscal manoeuvre.'

Cyclical growth prospects

Though inflation has dampened output, consumption and growth, Hungary is on track to recover from the recession and resume high levels of growth in the coming years. The labour market in Hungary remains tight, and MNB's Virag noted that the country is facing a 'job-rich recession'. The IMF forecasts a modest recovery of the Hungarian economy in 2024, but also expects growth to be below potential until 2025 (Figure 1.5). Risks to watch for include inflation, the flow of EU funds and the recovery of euro area and Chinese demand.

Figure 1.4. Current account position recovers as high energy prices subside



Source: MNB

Figure 1.5. Growth projected to recover by 2025

Annual GDP growth, %



Source: IMF

€6.5bn

'FDI inflows totalled €6.5bn in 2022 and are on track to reach €12bn this year.'

FDI and trade relations

Focusing on the longer-term prospects for the Hungarian economy reveals several key challenges. Even prior to the pandemic, structural trends both within and outside the country posed threats to Hungary's continued high growth period –with a compound annual growth rate of 3.3% from 2012-19.

First, Hungary's export-led growth model could be threatened in the current geopolitical environment. Coleman Nee, senior economist and economic affairs officer at the World Trade Organization's economic research and statistics division, explained that 'Global trade growth has exhibited a lack of dynamism since the 2008 financial crisis.' Nee and other practitioners expressed concern regarding the impact of geopolitical tensions on global trade flows and patterns, with trends like the Sino-American trade war and Russian invasion of Ukraine potentially leading to nearshoring and friendshoring.

Koczan voiced a more cautious outlook on the trade front. 'The exports of Hungary move very much with what happens in advanced Europe, especially with Germany,' she explained. This means that, though Hungary has 'benefited tremendously from foreign direct investment inflows in the last 15-20 years by being included in the supply chain,' such a high degree of openness and integration 'is also a mechanism through which

shocks can be propagated, and also a mechanism through which [CEE countries] will feel the slowdown that is happening in advanced Europe.'

Trade data on Hungary's supply chain relationships show a high level of stability. The share of manufacturers in Hungary's merchandise imports and exports has experienced fluctuations, potentially influenced by geopolitical tensions. But Nee observed that Hungary's merchandise exports by volume increased by 2.4% in 2023, which is higher than the EU average (projected by the WTO to grow by just 0.4% this year). Trade patterns reveal a reversion to pre-pandemic trends, with the share of intermediate goods and Hungary's trade with other CEE countries remaining relatively steady. 'In a sense, Hungary's relationship with its neighbours provides a cushion to global macroeconomic shocks that have been coming so quickly in recent years,' noted Nee.

FDI has been a key component of Hungary's success, and has reached record levels even after the pandemic. Tibor Tóth, state secretary of the Hungarian ministry of finance, said FDI inflows totalled €6.5bn in 2022 and are on track to reach €12bn this year.

At a roundtable discussion, Magdolna Sass, director of the Institute of World Economics at the Centre for Economic and Regional Studies in Hungary, noted that there has been a notable shift towards higher value-added projects in

'We see a divergence where capital cities are booming but the rest of the country is falling behind.'

Zsoka Koczan, lead economist, transition impact and global economics, European Bank for Reconstruction and Development

Figure 1.6. Hungary diversifies FDI inflows

% of total FDI inflows						
	Germany	China	South Korea	Europe	Asia	Other regions
2010	34.2	0.0	0.9	91.1	1.4	7.5
2011	33.1	0.0	3.9	92.3	5.0	2.8
2012	18.9	0.1	2.7	18.9	3.6	77.5
2013	13.0	0.0	2.8	83.7	4.6	11.7
2014	15.7	0.0	1.9	86.2	3.3	10.6
2015	14.6	0.1	2.0	86.5	3.2	10.2
2016	16.0	0.6	2.1	84.9	4.5	10.7
2017	18.3	0.5	1.7	87.8	4.2	8.1
2018	20.0	0.7	1.5	92.5	4.5	3.0
2019	17.9	0.4	1.6	92.6	3.8	3.6
2020	21.9	0.4	3.8	90.0	5.1	4.9
2021	21.0	0.2	3.9	89.1	5.1	5.8
2022	22.4	0.5	3.7	87.8	4.8	7.4

Source: MNB, OMFIF analysis

information technology, research and development and business services. Hungary also deviates from peer countries by targeting Asian investors, particularly in the e-battery space. This has led to a diversification of FDI inflows: the share of Asian investors (primarily from China and Korea) has increased to 5% of total FDI flows from 1% in 2010, while Germany's contribution has decreased to 22% from 34% over the same period (Figure 1.6).

An FDI-dependent growth model does not come without risks. Although large ventures from Asia are significant, there are concerns that they may have fewer positive spillovers on the local economy, operating more as export platform investments with lower reliance on local supplies. There is also concentration risk: Hungary's emphasis on e-battery investments further concentrates FDI activities, which increases the country's vulnerability to global supply chain activities.

Policy-makers in Hungary are also aware of these risks. MNB's Balatoni explained that the strategy for Hungary is to move up the technological ladder. FDI is most beneficial when it brings spillover effects and added value, but Hungary remains among the low value-added end of the supply chain with its exports to EU countries. To address this, Balatoni discussed the need to shift from a production-focused strategy to one emphasising research, development and innovation, as these areas offer more substantial added value. Embracing a more strategic FDI approach that prioritises quality over quantity will benefit Hungarian-owned, small- and medium-sized enterprises (see Chapter 2).

Regional inequality and demographic decline

Although Hungary's labour market appears healthy and robust in the short term, the long-term demographic outlook is negative. As with many emerging European economies, the country is 'growing old before they are growing rich', explained Koczan, noting that CEE countries 'are facing many of the issues that advanced economies are facing but at lower levels of development'. In the Hungarian case, as with elsewhere in the CEE region, low fertility rates are coupled with out-migration, dragging down much-needed workers and skills.

At present, policy-makers do not have a longer-term strategy to address the shrinking labour market and growing dependency ratios. Gottlieb noted that he 'would like to see a more coherent strategy for dealing with the demographic problem – an ageing population is a problem for growth and inflation; parents don't think kids could have a future'. There is a growing need for investment in education and health as well as improvements

in governance, labour force participation and immigration policies to address Hungary's demographic difficulties.

Some parts of the country face an even more challenging situation, as investment has favoured Budapest and the Transdanubian regions bordering Germany over rural and eastern areas. The post-socialist legacy of central planning left a gap that is now exacerbating income and wealth inequalities – a pattern that can be observed throughout the region. Former transition economies were highly urbanised relative to their level of development, with the state playing an important role in mitigating disparities. But the private sector has faced fundamental coordination issues since the state withdrew, particularly from rural regions, which is widening disparities, Koczan explained.

FDI inflows and research and development expenditures are allocated towards regions that are already benefitting from high levels of investment. This means investment flows have the potential to exacerbate, rather than alleviate, regional inequalities. Policy-makers are aware of these challenges and Balatoni said they are looking to channel investment where it is most needed in the country. But looking ahead, more deliberate policies may be needed to help direct or coordinate private sector investment to overcome interregional disparities, explained Koczan, 'otherwise we see a divergence where capital cities are booming but the rest of the country is falling behind.'

Long-term growth prospects

Over the long term, addressing interregional economic disparities and contributing to a skilled and competitive labour force will be important considerations for policy-makers. Strategic public expenditures will also be key here. Cash transfer programmes have greatly benefitted some of the most vulnerable populations in the country, including rural families, women and pensioners.

Still, regions outside of the greater Budapest and Transdanubian regions would benefit from further greenfield investment projects and vocational training programmes for young people, helping to increase productivity. This goes hand in hand with private investment: by increasing and diversifying exports, trade relations and FDI inflows could bolster the resilience of the Hungarian economy by hedging against geopolitical risk.

At the same time, public finances will face fiscal challenges linked to an ageing population. Initiatives aimed at bolstering growth should also aim to encourage green growth and drive the digital transformation of the economy (see Chapter 3). This will require creative policy-making and a more diverse array of funding sources.

'An ageing population is a problem for growth and inflation.'

Geoff Gottlieb, senior resident representative, regional office for central, eastern and southeastern Europe, International Monetary Fund

Record figures: the post-pandemic recovery

Tibor Tóth and Péter Banai, state secretaries of Hungary's ministry of finance, joined Christopher Garnett, OMFIF senior adviser, to discuss labour market reform, foreign direct investment inflows and how Hungary is bouncing back from the pandemic.



Christopher Garnett: Pre-pandemic, Hungary went through a very noticeable and widely reported golden period of gross domestic product growth. The problem during the years immediately prior to the pandemic was a lack of workers given all the new jobs that were being created. What steps are needed now to return to a stable and sustainable growth rate of, say, 4%?

Tibor Tóth: The eight to nine years before the pandemic were marked by very strong growth in Hungary's economy. But this was not achieved easily. The labour market at the beginning of 2010, when this government took over, was in a totally different shape. The unemployment rate was extremely high and the level of employment only reached 3.7m. The total number is now edging toward 4.8m, which means that more than a million people have been attracted to the labour market.

Before the pandemic, the country's average GDP growth exceeded 4%, which was a steady and sustainable growth level. It was only temporarily stopped by the Covid-19 pandemic. After the pandemic, the recovery of the Hungarian economy was one of the fastest in the European Union. In 2021, GDP growth exceeded 7% and it was close to 5% even last year. For both years, these growth levels were much higher than the overall EU level.

This year is challenging from a growth perspective. We have experienced a technical recession. But we are successfully fighting against inflation and we are optimistic that this potential growth will come back and, as of next year, we will once again be at the 4% growth level. This performance is boosted by a tight labour market (3.9% unemployment), very high investment levels of approximately 28% of GDP, strong export performance and record foreign direct investment flows.

CG: You touched on FDI. What sectors have driven that and is there any difference in the makeup of economic activity now?

TT: The good news for recovery and economic growth is that they are supported by all industries. But I would especially highlight the automotive industry, one of Hungary's flagship industries. As the biggest German car manufacturers are here in the country, they have all decided to switch to electric car production for the future. This is intensifying additional investments for the supply chain, most notably, electric battery-related investment from Korean and Chinese investors who are strongly linked to building out the new supply chain with its manufacturing capabilities.

This provides a very good background for the country. Last year's FDI figures totalled €6.5bn, and this year could even be double that to exceed €12bn. We are optimistic based on these new investments. Because of fiscal tightening, this is not coming from the state this year, it's coming from the corporate sector, local and foreign investors. This is likely to strengthen the economy, resulting in 4% growth next year.

CG: Is there a need for more dramatic labour market reform to execute on this promised economic activity? Do you see that as a continuing issue that policy needs to address, and if so, how?

Péter Banai: Major labour market reforms were made by the government at the beginning of the last decade. The unemployment rate was above 11% after the 2008 financial crisis. The activity ratio was among one of the worst in the EU together with the Baltics' numbers, so we made several reforms to incentivise stepping out of inactivity programmes.

Programmes aimed at cutting back early retirement regimes and scrutinising pension schemes have pushed people into activity. We also made serious tax cuts if companies employed people who previously were unemployed. Through these tax reforms and other legislative reforms – and as a result of the GDP growth mentioned by Tibor – between 2014-19, the Hungarian average growth rate was 4.1% while the EU average was 2.1%. As a result of this, employment was able to increase

by a million people.

From my perspective, we have a system that will provide a high level of employment in the coming years. The question is whether the new investments will be operational given the tight character of the labour market. The key to increasing productivity is how national and EU-related budget and resources are used more to this end. In the corporate sector, we are calculating a growth rate of 4%. We need to increase productivity and we have the resources to do that.

CG: You're able to execute tax cuts because you have hundreds of thousands more people employed and paying more taxes. Is the equation as simple as that?

PB: Sometimes. For example, between 2017-21, the rate of social security contributions paid by employers decreased from 27% to 13%. We made significant tax cuts to provide advantages for the labour market. As the result of these tax cuts, we were able to keep the budgetary balance.

CG: The role of a finance ministry is essentially to push back on the spending ambitions of line ministries. Do you face any particular challenges in that respect? Where are the push and pull factors in terms of allocating state budget?

PB: We have debt reduction in our constitution. Even the parliament cannot vote on next year's budgetary proposal if the green light is not given by the independent fiscal council, which scrutinises not just budgetary proposals but also the implementation of the budget. All the line ministries know they have to respect the budgetary ceilings approved by parliament.

Of course, the ministry of finance scrutinises the implementation of the budget. In Hungary, all line ministries must send a prognosis on their expenditures to the ministry six times a year. In the second half of the year, they must send this prognosis knowing whether the outcome will be significantly different from their prognosis. Then they have to pay a special amount to the central budget. If the prognosis is wrong, then there are consequences.

We have to keep the debt-to-GDP ratio on a declining path. This is an important legal rule which explains how we were able to reduce the Hungarian debt-to-GDP ratio from above 80% to 65% in 2011. As a result of the pandemic, it jumped up to 80% but it is once again on a declining path. We calculate that, by the end of the year, the debt-to-GDP ratio could be around 70% of GDP.

CG: A new ministry for EU affairs has been set

up recently. Clearly EU cohesion, structural and other funds from the European Commission have an impact on fiscal policy. What's the direction of travel?

TT: I believe we are on a good track. Last year, there were concerns among investors over whether the Hungarian government would be able to reach consensus with the Commission and reach an agreement on EU funds. Last December, we concluded an agreement on the Recovery and Resilience Programme, and we have also signed a partnership agreement that has secured funds for the country. Now we are in the process of negotiating the disbursement – when we shall receive the funds secured by these contracts.

Originally, we were more optimistic on the disbursement date. This is derived from our commitment that we are doing everything that the Commission is asking from us. We must comply with not only the horizontal conditionality requirements, which are mainly related to the rule-of-law issues, but also to the 27 milestones we have to achieve. First, we were focusing on the issue related to rule-of-law problems. In the spring, we managed to identify what concerns the Commission had and what might be potential solutions.

By the end of spring, we were able to identify new potential laws and bills to comply with those requirements. Parliament has approved all this legislation, which came into force at the beginning of June. We have had one additional requirement, a self-assessment, which we submitted to the Commission on 17 July.

Now we are just waiting for the Commission's final evaluation. We are optimistic that they are going to give the green light and we shall achieve significant breakthroughs by the end of this year.

CG: Do you plan the budget assuming none, some or all of the EU funds?

PB: The 2024 budget has taken into account all EU subsidies, not just those where we have no debate with the Commission regarding agriculture subsidies and rural development subsidies. We have also considered the use of those funds where questions are still open.

This year, approximately two-thirds of the total EU subsidies are linked to programmes where we have no issues. Only one-third of the total EU subsidies are within the 'discussed programme' category. Next year, the bulk of the money will be linked to programmes like the RRF. We believe that, soon, all open questions will be closed and there will be no problem with the transfers from the EU.

'In 2021, GDP growth exceeded 7% and it was close to 5% even last year. For both years, these growth levels were much higher than the overall EU level.'

The drive towards diversification

Issuers in Hungary are looking to diversify their financing on international bond markets via domestic retail investors and expanded GSS issuance.



Key findings

1. Hungary's debt management office, ÁKK, is diversifying its funding strategy to include more international investors and expand domestic retail participation.
2. ÁKK is paving the way for expanded corporate issuance as well, acting as a benchmark in markets where issuers have less experience.
3. Green, social and sustainable issuance is growing in Hungary, led by the efforts of Magyar Nemzeti Bank and ÁKK.

SHRINKING FISCAL SPACE and an overreliance on bank financing for corporates are pushing policy-makers in Hungary towards a wider variety of financing sources, especially via bond issuance.

Even before the pandemic, fiscal space in Hungary was tight. While the flat tax rate has been successful in attracting foreign direct investment into the country, this has increased budgetary pressure on the government in a challenging macroenvironment. Inflation has eaten into purchasing power and slowed consumption, diminishing an important source of tax revenue. At the same time, higher interest rates are holding back investment.

To address these challenges, efforts by policy-makers to increase domestic investor capacity and diversify funding sources – especially via domestic retail and international investors – are underway.

Sovereign debt strategy

Prior to the pandemic, central and eastern Europe was considered a safe investment option, deemed by investors as defensive in hard currency before 2020. But investors are more cautious about Hungary now, since the shock of the pandemic and the war in Ukraine heightened political, inflation and market volatility risks.

Outflows were witnessed across a variety of asset classes in 2022 and 2023. Liquidity concerns have also been raised, particularly due to the small size of the Hungarian market.

ÁKK has been working to overcome some of these challenges. In spite of Hungary’s smaller size making liquidity more difficult during times of stress, Maral Shamloo, managing director in fixed income and liquidity solutions, Goldman Sachs Asset Management, noted that ‘Hungary has had a very agile debt management office where, if liquidity dries up somewhere there are other sources of funding.’ This is especially important for large asset managers who require a high level of liquidity.

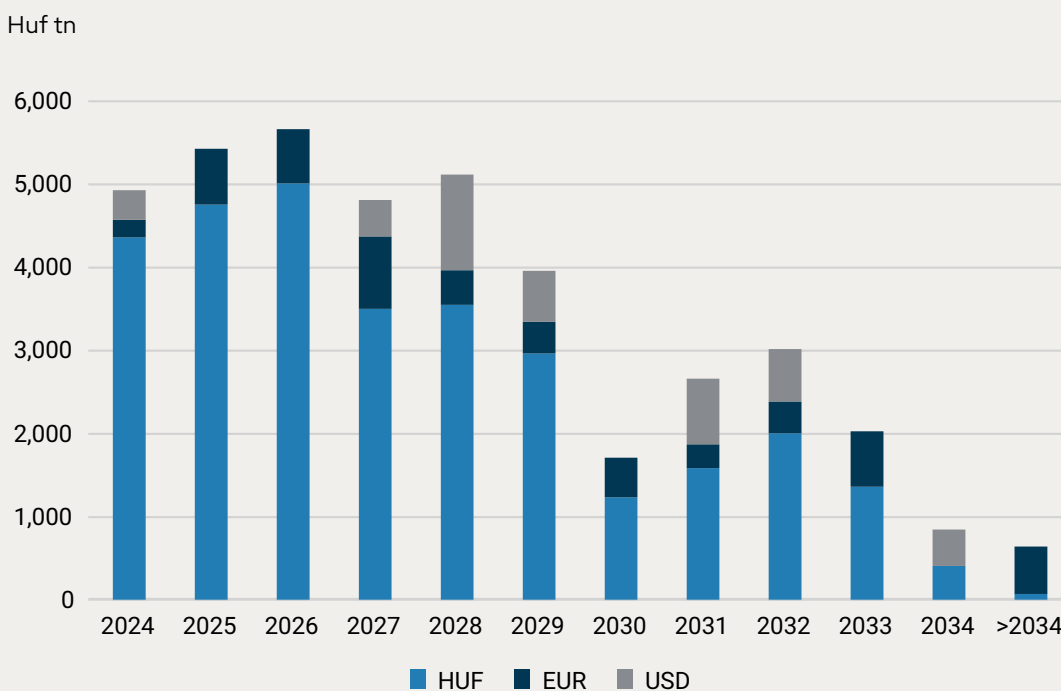
Diversification is key to Hungary’s liquidity. To diversify government debt issuance, ÁKK is deploying a three-tiered funding strategy that aims for 50% domestic institutional issuance, 30% international issuance via foreign exchange debt and 20% domestic retail issuance. The objective is to expand Hungary’s international markets presence while ensuring a sound level of FX exposure.

Hungary’s outstanding debt is currently comprised of 13% euro issuance, 14% dollar and 73% forint, which meets the 2023 benchmark target of FX representing a maximum 30% share of debt (Figure 2.1). The maturity profile of

‘Hungary has had a very agile debt management office where if liquidity dries up somewhere there are other sources of funding.’

Maral Shamloo, managing director, fixed income and liquidity solutions, Goldman Sachs Asset Management

Figure 2.1. Hungary’s diversified sovereign debt structure



Source: Scope Ratings



'Looking forward, we cannot import capital and technology anymore. We have reached a certain level of development where you have to concentrate rather on your intensive kind of knowledge-based or innovation factors of growth.'

András Balatoni, director, economic forecast and analysis, Magyar Nemzeti Bank

government debt is expected to reach 6.1 years by the end of the year, which also goes beyond the objective of a minimum 5.5-year benchmark target for 2023.

This offers an opportunity for international investors as well. Shamloo noted that, among Goldman Sachs's clients, 'On the hard currency side, we see a trend moving towards bread-and-butter higher quality assets.' She explained that she sees markets like Hungary benefiting from this, as Hungarian bonds 'provide diversification from US assets in high-yield forms.'

Another key priority for ÁKK has been expanding the retail domestic market. While consumption suffered last year, the savings rate in Hungary was much higher than in previous years. This provided a twofold opportunity to increase government funding when international capital was in retreat and to bolster domestic investor capacity. Though government bond issuance specifically targeting retail investors is in place at several European debt management offices including Belgium, Portugal and Italy,

Hungary leads Europe in this regard. ÁKK data show that the stock of retail securities increased by Huf1.1tn from the end of 2022 to October 2023 and projects retail investment to account for 20.3% of its funding by the end of the year.

The asset management industry is also taking steps to increase retail investor participation in Hungary and throughout the CEE region. Though a local bias remains, Matthias Zeinitzer, director of iShares and wealth, CEE at BlackRock, explained how they are working to offer diversification opportunities via products like exchange-traded funds. These products are making CEE investments, including in equities, more accessible to retail clients. As the industry develops in this space, increasing the retail domestic investor base will continue to be a key priority for Hungarian policy-makers.

ÁKK's efforts in investor engagement and communications have provided clarity and transparency for the financial services industry. Zoltán Kurali, chief executive officer of ÁKK, explained the importance of holding

investor calls to answer questions on a variety of macro indicators and the outlook for the Hungarian economy (pp. 12-13). In addition, ÁKK publishes quarterly updates and provides investor presentations in various languages for international issuances.

This transparent communication from Hungary's debt management office has been praised by investors and asset managers. At OMFIF roundtables and the Budapest conference, there was consensus that ÁKK is a regional leader in transparency and investor communications. 'Having everything in English, publishing everything on the website – simple things like this go a long way in making investors' lives easier', stated Shamloo, who also noted that 'other countries in the region are looking to ÁKK' to emulate its success in these areas.

Expanding financing options for corporates

Fostering domestic research, development and innovation is a key priority for Hungary's economic growth model. Andras Balatoni, director, economic forecast and analysis at MNB, explained that 'Looking forward, we cannot import capital and technology anymore. We have reached a certain level of development where you have to concentrate rather on your intensive kind of knowledge-based or innovation factors

of growth.'

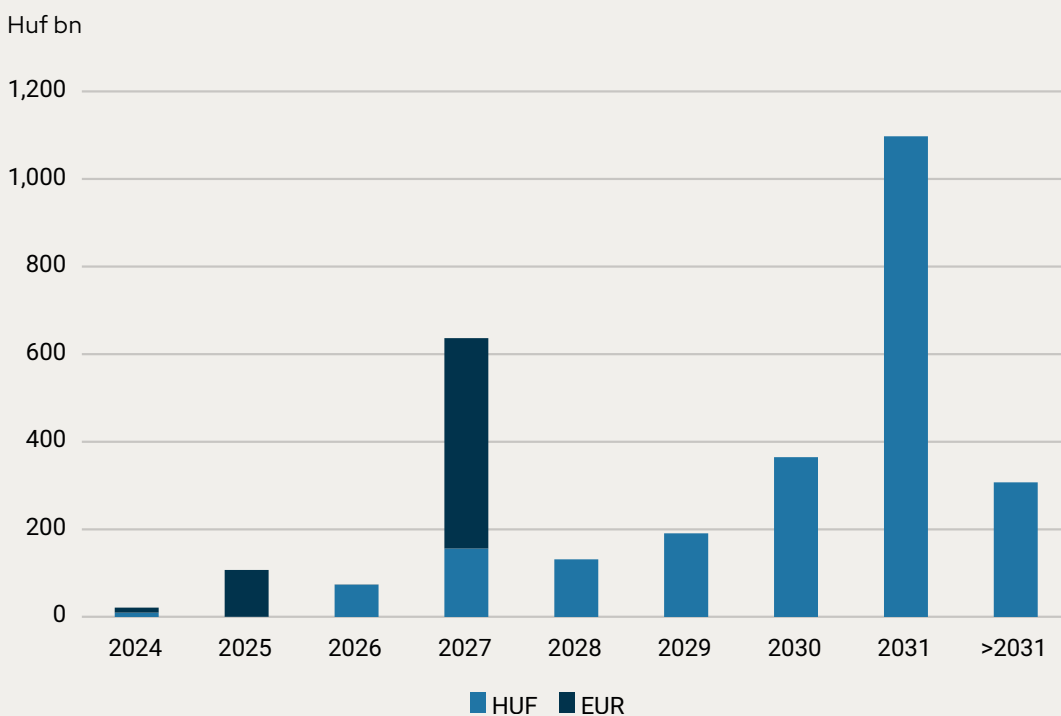
MNB participated in the Massachusetts Institute of Technology's Regional Entrepreneurship Acceleration Program and the results were published in the bank's July 2023 growth report. At the core of the framework are innovation-driven enterprises. 'We found 1,100 companies that make up 0.3% of the total population of Hungarian companies but produce 13% of exports and almost 25% of GDP growth between 2010-19,' noted Balatoni. Beyond acting as innovation catalysts for growth, IDEs also play a pivotal role in boosting employment through the positive spill-over effects generated by their activities.

But financing for corporates has only become more difficult in the current environment of high inflation and interest rates. In its corporate outlook for November 2023, Scope Ratings – the only European Central Bank-accredited ratings agency – found that the corporate credit outlook for 2024 is negative in Hungary overall. This is due to inflation, high interest rates, demand shocks and political risk.

But it also noted the stability of corporates, particularly among those with access to financing via the Bond Funding for Growth programme, a domestic financing scheme introduced by MNB in 2019. Out of 79 mandated ratings, Scope upgraded 10 corporate issuers ➤

'To diversify government debt issuance, ÁKK is deploying a three-tiered funding strategy that aims for 50% domestic institutional issuance, 30% international issuance via foreign exchange debt and 20% domestic retail issuance.'

Figure 2.2. Corporates reduce currency risk and improve maturity profile



Source: Scope Ratings

in Hungary and downgraded five with two more under review for possible downgrade. Scope said: 'One reason for the ratings stability despite high interest rates is that Scope rates issuers with fixed-rate debt related to the Bond for Growth programme of the central bank. These companies are less exposed to high interest rates.' Government support for some sectors has helped offset acute challenges to corporate creditworthiness and, as macroeconomic conditions and policy rates normalise, these financing programmes could be expanded.

Larger corporates in Hungary may be at a disadvantage in accessing the international bond markets due to their inability to reach a benchmark- or sub-benchmark-sized transaction. As large corporates operating in a small economy, their bonds are too big for the local market but too small for the international market, said Mihály Geiszbühl, head of capital

markets at Erste Bank Hungary. Additionally, compared to larger regional peers like Poland, there is a displacement in the pricing and perceived risk premium of Hungarian names, noted Péter Töreki, head of group funding at MOL Group.

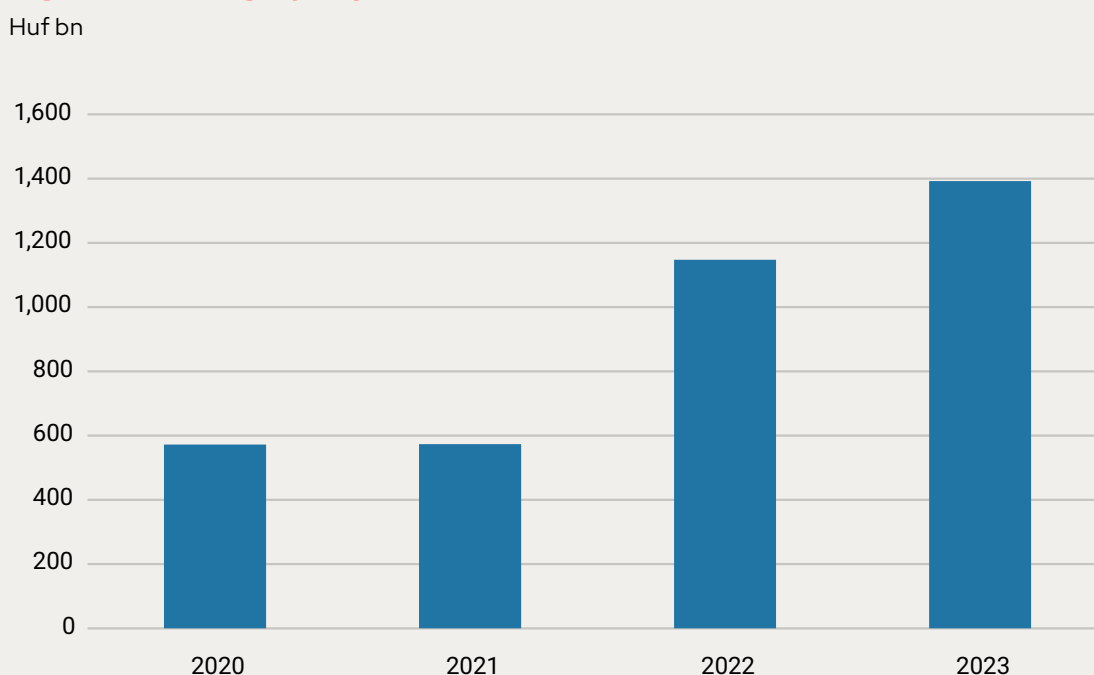
To help mitigate these challenges, ÁKK is providing a benchmark for corporate issuers in Hungary. 'For local corporates and government-guaranteed names, rightly or wrongly, the spreads are derived from the sovereign. Hence, we have to be very present in the international markets – in euros, dollars, Japanese yen, renminbi, so that whoever issues in these markets can find a reference point,' explained ÁKK's Kurali. Facilitating a wider variety of financing opportunities for domestic companies, especially small and medium-sized enterprises and IDEs, will continue to be a key role for Hungarian policy-makers going forward.



Huf1.6tn

The issuance of domestic green bonds under the Bond Funding for Growth Scheme reached Huf1.6tn by the end of 2022, including a 30-year forint-denominated green bond.

Figure 2.3. Hungary expands GSS bond issuance



Source: Scope Ratings

'For local corporates and government-guaranteed names, rightly or wrongly, the spreads are derived from the sovereign. Hence, we have to be very present in the international markets – in euros, dollars, Japanese yen, renminbi, so that whoever issues in these markets can find a reference point.'

Zoltán Kurali,
chief executive officer, ÁKK

Green, social and sustainable financing is growing

Green and sustainable investment offers attractive opportunities for investors. Policy-makers in Hungary are helping to educate and develop market participants in these areas.

Kazaan Nazli, senior portfolio manager at Neuberger Berman, stated that, 'In the hard currency space, about 24% of our funds integrate ESG, and there is a big demand for FX and ESG.' This makes Hungary an attractive market for funds looking to diversify within their environmental, social and governance investments, which Nazli noted is of growing importance to European institutional investors and pension funds in particular. As 'demand is outpacing supply right now', this gives Hungary an opportunity to expand green, social and sustainability bond issuance (Figure 2.3).

MNB's Bond Funding for Growth Scheme saw the introduction of corporate green bonds, with the first issuance in 2020 totalling Huf30bn. Subsequent green bond issuances have exceeded 10% of the total Huf1.4tn corporate bond portfolio under the programme. These green bonds, mainly associated with real estate development, align with efforts to reduce carbon emissions under Hungary's green bond framework (see Chapter 3).

The issuance of domestic green bonds under the scheme reached Huf1.6tn by the end of 2022, including a 30-year forint-denominated green bond (Figure 3). To diversify the GSS investor base, Hungary has issued green bonds in international markets, including samurai, panda and euro-denominated bonds. Despite the considerable growth, the domestic corporate bond market is still in its early stages and there is a focus on further development to enhance liquidity and efficiency.

There is an acknowledgment among policy-makers and industry players of the challenges in defining ESG criteria and the need for standardised key performance indicators. 'We have a lot of variety but there are questions about what is sufficiently green,' noted Nazli. To address this, MNB launched the Green Financial Product Finder platform earlier this year to facilitate awareness and engagement with ESG investing. The tool enables users to explore green financial products provided by banks and other financial institutions in Hungary, including loans, mortgages, deposits, funds, insurance and pensions.

As the share of funds looking to ramp up ESG investments is only due to grow in the coming years, Hungary is well positioned to capitalise on these developments.



Hungary's role as a borrower in global bond markets

Zoltán Kurali, chief executive officer of Hungary's debt management office (ÁKK), discussed the country's funding plans with Clive Horwood, OMFIF's managing editor and deputy chief executive officer, at an OMFIF roundtable. They covered domestic retail, institutional and international issuance as well as ÁKK's role in setting benchmarks for other Hungarian issuers, initiatives in green bond frameworks and international market presence.

Clive Horwood: You have been doing a lot of work with investors in recent times. Tell us about Hungary's borrowing programme this year and some of the advances you have been making.

Zoltán Kurali: We have a very frequent communication strategy with investors centred around the announcement of our financing plan that we publish and present to the press at the end of each year, usually early December. We hold virtual investor calls and then we publish the information and presentation on our website. Also we are back on the road and meeting investors physically.

The funding plans include all elements of our issuance strategy, which is based on three distinct tiers. Domestic retail issuance, which is a direct retail programme, represents 20% of our total outstanding debt. Domestic institutional issuance, which includes Hungarian government bonds and state bills, represents slightly over 50% of our total funding. International issuance in foreign currency represents about 26% of our total funding. The plan is to balance this with some bilateral and project loans.

Also, we publish progress updates every quarter. We go to the international capital markets and provide investor presentations as well as an update on where we stand, what the economy is doing and how the fiscal situation looks.

In the meantime, we frequently receive investors as part of research trips, which are led by either the primary dealers, or banks that are not primary dealers but still trade the bonds. We have direct contact with investors and meet as often as they like. We have seen quite a few investor visits in the first half of the year, where there was a massive inflow into our domestic market. In our case, besides the published progress, focus lies on the macro outlook, such as where we stand with European Union funds, the rule-of-law process with the European Commission and plans in that vein.

'There is a very strict limit that our FX ratio cannot go beyond 30% of the total. But when we go to the markets to try to catch the right moment, sometimes the mandate is not that easy.'

The third quarter report shows year-to-date progress has been pretty good. We have reached 84% of our total annual funding target by the end of the third quarter. We completed our international efforts, so that is 100% done and we are around 75% to 80% on domestic retail and institutional issuance. This is on more of a run rate basis because we issue retail every day and have auctions three days a week.

CH: What is the actual annual funding this year? How has that compared to previous years? And what is driving that?

ZK: In Hungarian forint, it is well over Huf10tn – out of which the net is over Huf4tn, – the deficit financing. In our experience, this type of result is less of a problem because we manage it. In the past, we used to rollover short-term debt maturities for about 15% of gross domestic product. But now, we are talking 7% to 8% of GDP for the next few years – a much smaller number than we were used to before my arrival in 2019.

The funding requirement is clearly smaller on a gross basis than during the Covid-19 pandemic period. The net funding requirement has also gone down, but not as fast due to economic challenges, inflation and lower-than-expected growth. But it is getting smaller. On a more forward-looking basis, we are going to face smaller gross as well as net funding requirements relative to GDP than before.

The challenge here is that, during the pandemic period, there was a central bank bid for debt and that rightfully is no longer the case. Ensuring that your diversification efforts as an issuer are optimised and maximised will prove necessary because a very important bid is not in the market and will not be in the market for a while, if at all.

CH: That transition away from central bank support in the market sounds like something you have coped with reasonably.

ZK: What helps us here is that we have a direct retail programme. Retail is as macro as it gets: the only thing it depends on is what you pay and what the savings rate is in the economy. As long as there is a savings rate – and we have one at the moment because there is no consumption but a lot of saving – it's key to shoot for market share.

Looking at 2022, because of the inflationary shock, foreign exchange volatility and the effects of the Russia-Ukraine war, the savings rate was much lower because households were adjusting to the change with a bit of a lag. In that environment, you needed to fight for funding on the return side and pay up, especially if your products are priced out.

On the other hand, we are very systematic with respect to our presence in the international markets. We try to communicate clearly to the market how much we do and how much we can do. There is a very strict limit that our FX ratio cannot go beyond 30% of the total. But when we go to the markets to try to catch the right moment, sometimes the mandate is not that easy. 2022 was more challenging in this regard.

CH: What role do you see ÁKK playing in making sure there are the right benchmarks for other Hungarian issuers?

ZK: In the international market, Hungarian issuers tend to issue dollars and euros – mostly euros. But when increased issuance volumes mean a more challenging environment in the European market, borrowers issue dollars. Because of the textbook approach to pricing, we need to keep a benchmark curve in these two currencies: that's one thing we can do. Obviously in the domestic market, we asset the benchmark curve because that is what our auctions are based upon. But if we can do this internationally, then we create a benchmark for pricing other credits as well.

Another area we consider ourselves as leaders in continues to be green issuance. We set the green bond framework up in April 2020, issued the first green bond in June 2020 and have continued to develop and improve the framework as we go along. Now we have 'framework 2.0' and we're considering frequent green bond issuance.

CH: Despite issues of policy predictability, are you still positive on the macro outlook overall?

ZK: If you look at the macro situation, as a result of inflation, people consume less. Last year, there was massive consumption at the beginning of the year owing to a certain fiscal impulse: tax rebates and so on. Then the shock came: higher energy prices, more uncertainty, higher FX volatility. People pushed the brakes a little bit and they started to save. Now savings rates are well over 10% of GDP, which is massive, given

the historical average is 5% to 6%. This has meant more inflow into government bonds, retail bonds and funds.

We don't see that the retail programme is actually threatening banking sector liquidity in any way and we'll be targeting market share rather than an absolute amount of funding. The market share is somewhere around 13% with respect to gross financial assets of households, and roughly one-third of net savings inflows every year. We don't see that being a huge problem. We have a 27% value-added tax rate, which is the highest in Europe. This is a consumption-based tax system that suffers as a result of lower consumption. At the same time, the current account improves as people consume less and as fewer imports come through.

CH: We've talked about euro and dollar funding. Are there other currencies that you consider or would consider?

ZK: Absolutely. We are already a frequent issuer in Japan's domestic market in samurai form, and in the panda market in China too. What's more, we have issued green bonds as part of our local market activity in those two markets. We continue our commitment to these markets.

This year, we didn't do yen or renminbi issuances, but last year, we did both. In 2024, we will certainly return to these markets. There is a strong link to real economy activities because the recognition we get in these two Asian local bond markets encourages positive momentum for other types of investments in the real economy. Our story is known by the banks who arrange and purchase, and it is a story they can publicise and help a domestic client base to understand. A local bond market presence helps real economy investors interpret our story.

CH: Tell us how ÁKK activities are shaping up for 2024.

ZK: The budget planning for 2024 includes a 3% deficit. Provided we agree with the Commission on the judicial reforms and rule-of-law related obstacles, then the cohesion funds will be unlocked. The post-financing element is going to create additional liquidity for us. This type of deficit is one we look to finance domestically. There is not too much FX debt redemption coming through next year, so our position will be relatively comfortable.

There is always a chance of a government acquisition of a major infrastructure asset, which might come through next year. Given that that asset is generating FX-dominated cash flows, then we can look to raise FX debt for that, because that's a natural hedge position for the government's equity stake in this asset.

'The third quarter report shows year-to-date progress has been pretty good. We have reached 84% of our total annual funding target.'

Paving the way for sustainable growth

The MNB is at the forefront of innovative approaches to sustainability and digital finance initiatives.



Key findings

1. As part of a strategy to move from extensive to intensive growth, sustainability and digitalisation are key areas where Hungary is looking to expand research, development and innovation.
2. Policy-makers in Hungary are facilitating green and digital growth and paving the way for more private sector investment and product development.
3. Future efforts should continue to bolster private investment to channel capital towards productive investments in these areas.

SINCE HUNGARY'S transition to a market economy, the country's growth model has been predicated on industrial production. But the economy has reached the end of the upgrading that can come from extensive growth. It now needs to foster research, development and innovation in two key areas: sustainability and digitalisation. Here, Hungary is going beyond other European Union member states and policy-makers are fostering a dynamic environment for private sector advancements.

Leading by example on sustainability

Hungary has achieved a 33% reduction in carbon emissions since 1990 and over half of that has happened since 2005, indicating a substantial commitment to environmental goals. David Papp, head of sustainable policy at Magyar Nemzeti Bank, explained that, in Hungary, 'modernisation efforts appear to be somewhat decoupled from emissions', which is positive. However, recent trends indicate a slowing and plateauing of decarbonisation over the past five years, despite robust economic growth. This suggests that continuing the decarbonisation will be more difficult than earlier stages of transition.

Panellists at the Budapest conference noted that investors face challenges relating to the complexity of sustainable finance and the lack of harmonisation in standards. Anastasia Petraki, head of sustainability for Germany, Austria, German-speaking Switzerland and eastern Europe at BlackRock, observed that 'financial capital by itself cannot deliver an orderly transition. It is the co-operation between governments, companies and the financial sector that's needed.'

To ramp up decarbonisation efforts, Hungarian policy-makers have introduced a series of regulations, initiatives and standards in sustainable

financing. These efforts are supported by the EU's ambitious environmental, social and governance standards. The EU's Taxonomy regulation, a cornerstone in providing clarity on environmentally friendly economic activities, has been pivotal in shaping Hungary's approach to sustainable finance.

Hungary's debt management office, ÁKK, released the country's green bond framework in 2020, which outlines eligible expenditures aligned with the United Nations' sustainable development goals and EU environmental objectives (see Chapter 2). The framework focuses on areas such as clean transportation, land use, renewable energy, pollution prevention, circular economy, water and marine resources, biodiversity and ecosystems. Notably, the framework excludes support for nuclear power, the armament and defence sector, or fossil fuel production and power generation.

The approved categories for green bond use of proceeds align with the criteria established by the International Capital Market Association's Green Bond Principles (Figure 3.1). An independent third-party opinion conducted by Morningstar in July 2023 determined that the framework is 'credible and impactful'. The report expects that Hungary's investments in these categories will generate favourable environmental outcomes and contribute to the achievement of the SDGs.

Though central banks have historically been conservative when it comes to ESG practices, MNB is going further on sustainability initiatives (Figure 3.2). MNB was the first European central bank to adopt a sustainability mandate in 2021. At the Budapest conference, Papp provided an overview of Hungary's transition, emphasising the importance of standards in creating a sustainable investment framework. MNB initiated its green

33%
Hungary has achieved a 33% reduction in carbon emissions since 1990.

Figure 3.1. Eligible expenditures under Hungary's green bond framework

2023 ÁKK GBF Eligible expenditures	EU Environmental objectives	UN SDGS
Clean transportation	Climate change mitigation	7 AFFORDABLE AND CLEAN ENERGY, 11 SUSTAINABLE CITIES AND COMMUNITIES, 13 CLIMATE ACTION
Land use and living natural resources	Climate change mitigation, Climate change adaptation, Biodiversity and ecosystems	13 CLIMATE ACTION, 14 LIFE BELOW WATER, 15 LIFE ON LAND
Energy efficiency (incl. Green buildings)	Climate change mitigation	7 AFFORDABLE AND CLEAN ENERGY, 11 SUSTAINABLE CITIES AND COMMUNITIES, 13 CLIMATE ACTION
Renewable energy	Renewable energy	7 AFFORDABLE AND CLEAN ENERGY, 13 CLIMATE ACTION
Pollution prevention and control	Climate change mitigation, Pollution prevention and control	12 RESPONSIBLE CONSUMPTION AND PRODUCTION
Sustainable water and wastewater management	Climate change mitigation, Water and marine resources	14 LIFE BELOW WATER
Climate adaptation	Climate change adaptation	13 CLIMATE ACTION
Research, innovation and awareness raising	Climate change mitigation, Climate change adaptation	7 AFFORDABLE AND CLEAN ENERGY, 13 CLIMATE ACTION, 15 LIFE ON LAND

Source: ÁKK, OMFIF analysis

Figure 3.2. MNB goes further than ECB on sustainability

	ECB	MNB
Risk assessment	◆	◆
Aiming at own green portfolio	◆	◆
Green bonds as collateral, asset purchase programmes	◆	◆
Sustainability mandate		◆
Reduced collateral requirements		◆
Reduced capital requirements		◆
Preferential asset purchases		

Source: Scope Ratings, OMFIF analysis

50%

'Green corporate exposures in Hungary increased by 50% from 2021 to 2022, while the total corporate loan portfolio saw just 15.5% growth over the same period.'

programme five years ago, focusing on two main strategies: monetary policy and financial stability. In the realm of monetary policy, several successful initiatives have been implemented, including refinancing programmes, asset purchasing, green bonds and support for residential housing.

Hungary's was also the first central bank to announce a dedicated green bond portfolio in 2019. The portfolio's risk/return characteristics align with similar investments, but it has a slightly longer maturity structure, supporting long-term green financing. The green bond portfolio is geographically diversified, comprising bonds from various countries and regions, primarily from supranational institutions and EU issuers. The portfolio includes low-risk government bonds, supranational issuers and corporate bonds.

In addition to greening its portfolio, MNB has a green preferential capital requirements programme, which the bank was able to maintain despite challenging economic conditions over the past several years. This has contributed to a significant increase in the volume of green loans. According to MNB's July 2023 Green Finance Report, green corporate exposures in Hungary increased by 50% from 2021 to 2022, while the total corporate loan portfolio saw just 15.5% growth over the same period. Concurrently, green loans to households experienced a substantial rise, reaching nearly Huf100bn by the end of 2022. Loans participating in MNB's green preferential capital requirements programme also grew by 88% to Huf427bn over the same period.

On the financial stability front, efforts have been made to integrate climate risk into banks' prudential supervision and expectations. Starting this year, a detailed examination of changes in governance and financial products has been initiated. Additionally, MNB plays a role in market development by

providing data and offering incentives to potentially reduce the cost of capital for specific green exposures.

While Hungary has made commendable progress in decarbonising its economy, more market mechanisms and price signals are needed to accelerate the transition. Industry representatives and policy-makers alike have emphasised the need for further incentives, preferred funding and education to channel investments effectively over 'punitive' taxation or exclusion measures.

The problem is not that banks lack the capital for financing, noted Ferenc Kementzey, deputy chief executive officer of Raiffeisen Bank Hungary. He stated that banks in Hungary are well-capitalised and liquid, and that the challenges for the banking sector related more to incentives and the price of funding. Though he welcomed MNB's green capital requirement programme, to meet green financing objectives, he 'would urge funding institutions like the European Investment Bank to provide more beneficial funding for the green transition'. A wider variety of funding instruments will also help companies reach their transition targets (see Chapter 2).

Since private-sector financial institutions have a crucial role to play in driving the green transition, the next phase for Hungary will be to ramp up transition financing and crowd in more private investment to green and sustainable investments.

Forging the path in fintech

In recent years, Hungary's financial sector has undergone a significant push towards digitalisation, spurred by a recognition among policy-makers of the need to enhance efficiency and reduce operational costs. MNB has been a pivotal player in this transformation, having taken on a variety of fintech initiatives to help speed up the digital transformation in Hungary's banking sector.

Speaking at the Budapest conference, Anikó Szombati, executive director and chief digital officer at MNB, laid out the central bank's endeavours in fintech. Since 2016, MNB has been advocating for and supporting the digital evolution of the banking sector in Hungary. An executive directorate was designated to oversee digital transformation and fintech initiatives, with a clear strategy outlined to ensure incumbent companies' participation in Hungary.

Industry representatives have noted that, in the current economic environment, high interest rates and inflation have contributed to a 'tech winter', and there is a lack of funding for tech ventures in Hungary. But as financial conditions normalise and funding for digital finance ventures begins flowing again, Budapest has clear advantages as a fintech hub.

Regulators and industry players alike are

looking to capitalise on Hungary's central location, accommodating tax environment, MNB's innovation hub and proximity to universities, which can foster research and development. Bálint Fischer, chief business development officer of Budapest-based fintech company Dorsum, stated that, in Hungary, engineering and tech skills are 'outstanding,' and the size of the country makes it an ideal sandbox for pilots.

Moving beyond the sandbox or pilot phase for fintech development may prove more difficult for Hungary. While Dorsum's client base is still mostly domestic, they are starting to find clients outside Hungary. Fischer pointed out that the Hungarian market 'can be used as a pilot, but can make products difficult to scale,' especially in comparison to larger European markets like Germany. He explained, 'Several fintechs are bringing their tech hubs to Hungary, but when they want to scale, this is not happening without very strong business development and finding the right product fit. This is what's lacking in the market today.'

However, Hungary's smaller size may prove advantageous. 'Germany is a wider and bigger market. You have to scale business up quite fast, which is big advantage to Hungarian banks,' reflected Tobias Tenner, head of digitalisation and associate director of the Association of German Banks. In his view, Germany is at a big disadvantage with regard to fintech funding because of the size of the market, as it takes a while to get crypto custodian licences and overcome other bureaucratic hurdles. Here, 'the process could be easier in the Hungarian market,' which he sees as an opportunity for Hungarian fintechs.

CBDC pilot programmes

Policy-makers have been seeking to overcome these challenges by collaborating with fintech companies on a variety of pilot programmes. MNB has led pioneering efforts in its development of a central bank digital currency pilot programme. In collaboration with Hungarian fintech company Perfinal Technologies, the bank initiated the first live retail CBDC pilot project in the EU earlier this year. Addressing the evolving landscape of financial technology in Hungary, Mate Brezovszki, chief executive officer of Perfinal Technologies, noted that 'MNB's top-down innovation support does work' and 'does get results' to foster innovation in fintech.

The collaborative effort has resulted in the rollout of various CBDC pilot programmes. One pilot allocates non-fungible tokens to users in exchange for solving quizzes, which can be stored and exchanged. Designed for use with parental supervision, the Student Safe app facilitates a playful learning experience for children through quiz-based modules covering financial, digital and sustainability topics. 'We want to lead by example,'

stated MNB's Szombati, reflecting on technologies like blockchain. The pilot programme features a blockchain-based system in its core ledger. This small-scale, gamified exercise, does not pose large credibility or operational risks, allowing the MNB to test the technology in preparation for a larger-scale CBDC rollout, explained Szombati.

Another 'more serious' initiative, said Szombati, targets 8-14-year-olds, offering them a free digital wallet, which is registered in the central bank and operated as a CBDC. This programme serves as a financial literacy initiative, incentivising the next generation of digital finance users. In addition, the pilot serves as an opportunity for retail users to engage with a CBDC pilot project and is preparing vendors and wallet providers for a full-scale CBDC rollout.

Hungary is continuing to support private sector development in CBDC pilots and initiatives. In addition to raising awareness by building infrastructure and introducing standards, Szombati expressed MNB's intention to continue to 'play into the sandbox story based on these pilots.' Collaboration with fintech companies will continue, as the central bank looks to build up incumbent players' skills via pilot programmes and studies.

As Hungary positions itself as a regulatory sandbox, these pilots aim to prepare the ecosystem for broader adoption of new technologies, reinforcing the country's commitment to digital transformation in finance.

Towards a digital and sustainable future in Hungary

Achieving the decarbonisation and digitalisation agendas is no easy feat for economies around the world. As the country has historically relied on energy-intensive industries, there is a pressing need for Hungary to decouple growth from carbon dioxide emissions for a sustainable future. Structural issues, such as the significant role played by the automotive industry, may require a deeper revaluation to balance economic growth with environmental sustainability.

As Hungary looks to decarbonise its energy mix, diversification will need to be carefully balanced with resilience. The scale of capital needed to transition the energy sector and to digitalise Hungary's financial sector looms large.

But the sustainable and digital transformations also present the Hungarian economy with opportunities. Policy-makers have recognised the benefits of fostering growth in these two areas and have committed to providing funding, incentives and regulatory guidance for digital and sustainable finance. In combination, these targeted objectives can facilitate industrial upgrading, increased productivity and dynamic growth across the entire economy.

'Financial capital by itself cannot deliver an orderly transition. It is the co-operation between governments, companies and the financial sector.'

Anastasia Petraki, head of sustainability for Germany, Austria, German-speaking Switzerland and eastern Europe, BlackRock



**Official Monetary and
Financial Institutions Forum**

omfif.org