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YPFS Lessons Learned Oral History Project: An Interview with Ádám Balog

Ádám Balog
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Introduction

The Yale Program on Financial Stability (YPFS) interviewed Ádám Balog regarding his experience as a top government official in Hungary’s Ministry of Economy and the central bank of Hungary (Magyar Nemzeti Bank, or MNB) during the aftermath of the Global Financial Crisis (GFC). Balog gained his initial professional experience as a business and financial consultant for private multinational corporations in the second decade of Hungary’s transition to market economics system.

In 2010 Balog joined government service at as Deputy State Secretary for Taxation and, in 2013, he was named Deputy Governor of the MNB and Member of the Monetary Council. In 2016, Balog left the state sector to become President and CEO of MKB Bank Zrt and has since focused on investments and served primarily as a board member of the Hungarian Chamber of Commerce, and the President of the CEE section of the Hungarian Economic Association. He has also published articles on economic policy matters.

Hungary experienced the GFC in 2008 and acutely in March 2009. Unable to finance its external debt, Hungary negotiated a three-party agreement with the International Monetary Fund (IMF) and the European Union. In this interview, Balog describes the conditions in Hungary prior to the crisis and the challenges and decisions that he worked on during its aftermath.

This transcript of a telephone interview has been edited for accuracy and clarity.

Transcript

YPFS: First, please tell us about the background leading to your experience in the Hungary Ministry of Economy and Hungary’s National Bank. You came to these positions as a relatively young leader, from a study of business and economics and a lawyer, and then a professor of finance. How

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1 The opinions expressed during this interview are those of Mr. Balog and not those any of the institutions with which the interview subject is affiliated.

2 A stylized summary of the key observations and insights gleamed from this interview with Mr. Balog is available here in the Yale Program on Financial Stability’s Journal of Financial Crises.
did you choose this career path? And then how did you come to these positions of responsibility in the period 2010-2015?

Balog: We have to start here with the fact that Hungary is a small economy. But, unfortunately, still as a small economy, it does require a certain number of economists to run the country. So, probably it’s a bit different from bigger countries. In Hungary, there’s much more professional movement between different areas of finance, in the state and the private sector as well. My career is a little bit unusual because I worked for big multi-nationals like PWC and GE, and then for the state, and then for the National Bank, and lastly, I ran a mid-sized Hungarian bank. So, I’ve really seen from all angles the economy of Hungary. This has its pros and cons. So, obviously I see from many angles, but it was not easy to dive into the specific nature of the different positions. It took some time.

YPFS: So, in a small country like Hungary, your path was somewhat unusual. But since Hungary’s transition, is that something that is increasingly happening, that somebody comes from the private sector with a young career and then works his or her way into the state sector, into the leadership ranks? Do you have that kind of circulation of people from the private sector into the government?

Balog: Yes, especially in that area of finance. To be with the big multi-nationals seven, eight years, gives you such an experience which you then can use in the administration as well. So, I worked for PWC as a tax guy, so I’ve seen not just the Hungarian tax situation, but a lot of countries in Europe. That gave me an insight. That gave me a feeling that maybe we can do it in a different way as well. And you don’t have to know actually how, but you have the inspiration that maybe you can do it within Hungary. So, this helps. Since then, I’ve seen many colleagues arriving from multi-nationals, or big Hungarian companies, to the administration. And then many go back actually. But again, this is really something which a small country needs. We need some more flexibility in order to be operative.

YPFS: It’s remarkable the different perspectives you’ve had. And I can see that’s valuable to the country. When you went into the state sector, the Ministry of Economy, the department you were working in there was taxation. What was that office doing? And what were your responsibilities?

Balog: The Deputy Secretary at my time was responsible mainly for legislation. All type of taxes, plus some extra, like gambling. In addition to that, I had a supervisory role for the tax authority.

YPFS: So, working on legislation on taxes and supervisory, you find yourself in a Hungarian context that is experiencing a severe impact from the global financial crisis, right? You’re in the tax department at that time?
Yes. Well, I arrived a little bit later, because there was a change of government in the meantime. But still, we were in the middle of the crisis. It was early 2010. And it was a difficult situation. Everyone was looking for adjustment opportunities, how to adjust the economy and the state to the new situation. And tax policy is obviously a place where you have to make decisions.

The simple answer would have been to increase taxes for certain taxpayers, in order to boost the budget, and to support certain restructurings in the economy. But, unfortunately, the tax income per GDP at that time was already very high. It was close to 40% of the GDP in Hungary. Sometimes 37, 38, but it’s close to 40. I think in the US that the tax income per GDP is below 30%. So, Hungary’s taxation level was huge, and we already had a crisis upon us. So, it was really not easy just to simply increase taxes.

Actually, we needed to think about restructuring. And that’s what we did. We restructured the taxation from direct taxes towards indirect taxes. And we introduced a lot of new policies to improve tax morale. So, the tax collection efficiency of the tax authority improved. Furthermore, it was also necessary to impose crises taxes on certain sectors on a temporary basis. Luckily, most of these were really temporary.

For me it was very important to create a fair and more sustainable tax environment that would support future growth.

YPFS: What was the nature of the restructuring of the taxes?

Balog: We saw that employment taxes are already very high. As we had foreseen, due to the decreasing incomes there was an adjustment in the real economy. If this real economy had been hit by even higher taxes on employment, we just would not have survived. So, actually we had to decrease them in order to give some room for the real economy to adjust without even more layoffs. Simply put, by decreasing the taxes we gave some income back to the employees and the employers.

But we had to get this tax income back from somewhere. So, we increased the excise duty, we increased VAT. We increased environmental taxes. All in all, it resulted in a little bit of an increase of the total tax income, but there was a big restructuring in costs as well.

YPFS: To step back, could you describe Hungary’s experience coming into the global financial crisis, in 2007? With US sub-prime markets showing weakness, starting to cause trouble in global markets, Hungary had been in a different situation, also under an austerity program that it is trying to hold to in the 2000s, correct?

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Excise duties are on alcoholic beverages, fuel, tobacco; VAT refers to value-added tax on almost everything.
Balog: Yes, a lot of things happened in the years prior to the GFC in Hungary. We only joined the NATO in 1999, then the European Union in 2004. And actually, Hungary had just become a market economy in 1990. So, we really had only 17 years all in all to be prepared for a GFC-size crisis. We did many good things; we did many bad things in these years. But all in all, it is crucial to understand that this is not a matter of a 50-60-100 years old market economy. Those who graduated after Hungary became a market economy were still under 40 when the GFC hit. One has to bear this in mind. You cannot expect the same knowledge from a rookie as from a veteran.

Hungary had its issues already before the GFC. And it's very important to understand these when evaluating our short-term and long-term reactions to the crisis. In Hungary, somewhere from the beginning of the 2000s, a lot of imbalances started to be built up. Our current account balance was continuously negative, sometimes deeply negative. The budget deficit was always below target. In 2006, it was almost 10% budget deficit, just one and a half years before the crisis. Monetary policy was probably overcompensating and therefore too tight, so the real economy was not able to finance itself in a sustainable manner.

All of these imbalances made us quite vulnerable towards external shocks. Obviously, all these deficits required external financing. And the difficult thing was that there was actually cheap external financing. Until the GFC hit, there was an abundant amount of cheap external financing. And this clouded our judgment before the GFC so that we did not focus enough on adjusting these imbalances of the Hungarian economy. After 2006, the government tried to make certain measures, austerity measures, in order to close these gaps. But this was too late when the GFC hit. The way we experienced the GFC is that suddenly liquidity disappeared. Quite simply, it just didn't come. We got used to issuing state bonds, bought by international investors, in foreign currencies. And suddenly they were not bought. Or they were, but at a much higher price. This was the first thing that we experienced.

The risk premium of course increased. We were of course downgraded by rating agencies. But these were already the results of the above situation.

YPFS: In this context, a number of emerging market countries had learned lessons from the 1990s. Hungary was maybe not in the same basket, but how did you see the Asian emerging market crash with the Thai Baht of the 1990s? Because a number of those countries were able to accumulate reserves and then insulate themselves. In Hungary, was it even a discussion that this could happen?

Balog: Well, we have to carve this question into two. Did we recognize what happened in South Asia? Did we understand that position? I think, yes. Many people in Hungary, including the policymakers understood. It was openly debated that
we had certain vulnerabilities, which remind us of the situation in South Asia. So, it was not like no one was aware of the situation and we were just blindly running to a GFC.

However, there were certain factors which clouded the judgment of the decision makers. First, there was this cheap, excessive liquidity, which probably made it too easy to make a mistake. The other thing was that, again, we joined the EU in 2004 and the feeling ... it's hard to explain it, but it's like, you've finally arrived. You waited for decades to join the club and, yes, now you are in. You are a member of the EU. Politicians and bureaucrats in Hungary thought that our risk premium would decrease immediately, that funding would be more and even cheaper, and, especially, they thought that they would receive a lot of EU funds. So, these facts probably clouded the judgment.

And the funny thing was that they were right. This is one lesson which I took from the GFC—"What," is a very important question. What can happen? What has happened? What should you do? But it's also a question of "when." So, when will this happen? When has this happened? When should you do this or that? Because many bureaucrats thought that a huge amount of EU funds would pour into the country and improve the balance of payments through the capital lines. Unfortunately, they were right, but just five years later. They didn't understand the "when" enough.

So, my lesson learned here it that timing is key.

**YPFS:** Timing. The capital came later or earlier? Can you explain that timing?

Balog: The capital came later. So, we joined the EU, then the next budgetary cycle started in 2007. Then we applied for the EU funds, and they arrived in 2010-2011. And the peak was five years after the GFC when Hungary was already in much better shape. And they did much good for the Hungarian economy, these EU funds. There was just an unrealistic expectation of these funds coming earlier.

**YPFS:** Right. And in this context of joining the European Union and NATO and market opening, was there any conversation about Hungary joining the Euro?

Balog: We had been constantly talking about joining the Euro in the last 11 years (since I've been in policymaking). But at that time, before the GFC, it actually was not a real question for Hungary. We did not meet the criteria which the Eurozone described for you to be able to join. The Maastricht criteria of the EU require your budget deficit and state debt to be under certain levels; a certain stability is required by these criteria, which we would not have met by that time.
YPFS: Looking back, would it have been desirable in any way for Hungary to have joined the Euro?

Balog: It’s again coming back to my questions about economic policymaking, about what to do and when to do it. And how to do it. We’re talking a lot about what, but timing is crucial. As we have seen, probably certain Southern European countries joined the Euro too soon. With the GFC arriving “too soon” as well, this resulted in difficulties for them. There is a great amount of literature about the Eurozone and its effects on these countries, and generally on the Eurozone after the crisis and in the crisis. Without going into all the details, the way I see it is that the Eurozone involves the economies of scale question. According to Robert Mundell, if there is a geographic area which has more or less similar economies, which align on similar cycles, then probably it’s worth considering a single currency. It’s an optimal currency area then. But also Mr. Mundell included a small word: “if” certain conditions are met.

For Hungary, these theoretical conditions, not just the legal ones, were not met. The theory requires that employees are very mobile and can easily move around the currency periphery. But Hungarian people at that time would have had serious problems with moving out of Hungary and working in foreign languages. Hungarian is a special language. Around 15 million people speak it in the whole world, and no one else really understands it. But today it’s very different. Today a whole generation grew up speaking perfect English or German. And the mobility increased tremendously as well. But at that time, before the GFC for example, this was not the case.

And all in all, whether it was good for us or bad for us, I would say that when you have to adjust your economy to a new situation, it’s good to have more automatic rebalancing in place. So, you can do this adjustment, you can survive these adjustments through the FX channel, and you can set the income channel. All these channels were available for us, and probably we used all of them. If we had not been able to use the FX channel, the automatics of the FX channel, then the other channels would have been hit more severely. And there is no ceteris paribus in this case because we don’t know what would have happened. I think it would have been more difficult for the Hungarian economy to adjust without having the forint.

YPFS: Regarding the transmission of the GFC to Hungary, can you describe for us the role of private loans from the Western banks? How did that work out with large banks and then ending up in retail exposures?

Balog: We had a huge risk already in place before the GFC began and that was the Swiss franc loans in the Hungarian household sectors, and also to some extent the small and medium enterprise (SME) sector. This can actually remind us of the South Asian story in the 90s. That part of the economy was taking huge hard currency loans, because they were cheap. At least at the time they were
asking for it. When the household sector took these loans, Swiss franc to forint was like 160, so it was like 160 forints per Swiss franc. And this increased to about 308 in around three years. So Hungarian forint depreciation against the Swiss franc was 50%. Before the crisis, we already had this huge amount of Swiss franc loans in the Hungarian economy. Mostly in the household sectors. Obviously, these were coming from banks, so this was a risk for the banks as well.

Plus, the state in general, as I told you before, was highly indebted against foreign investors. Around 60% of the total state debt at the peak was financed from abroad, maybe even more. This was how we stood before the GFC. Huge government debts were denominated in hard currencies, a current account deficit, a budgetary deficit, and the whole household sector was sitting in a big Swiss franc loan position.

Then the GFC hit. What we have seen, the fiscal supply had decreased, which was shocking compared to the abundant liquidity before. In a very short time, financing of the state became very difficult and expensive. By the end of 2008, we saw that something was wrong. Our National Bank had to increase their interest rate to about 10%. State debt became very expensive. That was in the beginning of 2009, from March to May; the Hungarian state debt market completely dried up. Our state bonds practically had no liquidity. The money simply did not come, and the liquidity disappeared from the state bond market. And then, the risk premium increased, and we were downgraded by the rating agencies. And after that, obviously, financing of the state, of the other nongovernmental sectors, generally became extremely expensive. And this slowed down the whole economy.

And then, this all fed the Swiss franc problem. Suddenly, Swiss franc had blown up and the household sector realized that their debt was twice as much as they thought it was. And then it became not just a problem for the government, but a problem for the borrowers, and the landlords, the banks. And then the IMF and European Union assisted Hungary in surviving the crisis.

**YPFS:** When the IMF came to Hungary and made a relatively large agreement, did it come with substantial restructuring conditionalities?

**Balog:** Well, by that time the European Union had, as well, tools to assist a country in such a situation. The IMF and the EU came together, and it was a common agreement, a three-party agreement for Hungary. So, we had to talk to both of them. But yes, they obviously wanted conditions, reducing the budget deficit, big changes in spending, restructuring of the budget. At the time, they usually required austerity measures; the same happened in Hungary.

This has changed a lot. If you look across the last ten years, what the leading central banks are doing is very different from what they would have been able
to do at that time. Especially in Europe, I think. At the time of the GFC, austerity measures were required for external assistance, and this was required of all the independent currency countries. This was the same in Hungary and this started in 2009-2010. Budgetary cuts, decreased spending, little tax hikes in certain areas. This was what they wanted from the country in return for the help.

YPFS: And does that implementation go as planned? For Hungary, the financial market rock bottom is March 2009, with the IMF/EU agreement. And then, this reset. Does this plunge Hungary into a long recession? How does it stabilize?

Balog: Let me start at the end, what is my takeaway of working together with the EU and IMF, because I have worked with them for years. I think what any economy in such a situation has to understand, but also what these big intragovernmental organizations need to understand, is that such help, by its nature, can be only interim. And it can only have an average result. I think only a sovereign country, its leadership, can make really good decisions in such a situation. Surely, being honest, they can make the really bad ones as well. But, help, such as the IMF and EU help, can only be average. And the state has to accept that. It's not a goal to provide you with the luxury lifeboat and bring you to a beautiful island until everything is over. It's just enough to keep your head above the water. But then you have to do it. It's your responsibility. It's your country.

On the other hand, the IMF and EU and all other players who wished to help other countries in such a recession, should consider that their nature can be only interim. If they do go there and quickly help, quickly ask a return of certain adjustments, this works. This is accepted and the country is even happy about it. But, if they are there for a year or two years or three years, this is not really sustainable. We have politicians, we have elections, we have our decision makers, policymakers. This can't go on for too long. Everywhere brings up pressures and tensions after a while. If you keep these rules that, "Okay guys, we are here. We are here for a short period. But you have to do what we say. And bear in mind that we just keep your head above the water and then you have to struggle for yourself." If these rules would have been clear for all the parties, I think there would have been many fewer tensions, for example in Hungary, but elsewhere as well.

YPFS: That's really interesting, Dr. Balog. This gets to timing, your earlier point, in perhaps a different way. To have an interim, temporary hands-on presence as opposed to a continuous presence on the part of the international authority, what is the difference really? The loans they are giving are long-term, so is it about the physical presence in negotiations, about control of the economy?
Balog: Yes, I'm talking about the physical presence and the hands-on direction of the administration. Obviously, they have the requirements agreed upon in an agreement, until the loan is there, because it's their money, for example, the money of the international community. But they should consider setting the scene and saying what other borderlines apply, laying out parameters, but then leaving the country to work out itself how it would best manage the situation. I think probably this would work better in most of the situations.

YPFS: In Hungary's experience of this period of this particular episode, which way did it go? Was it a continuous IMF hands-on presence more than desired?

Balog: It's very subjective. I experienced it as a little bit too hands-on.

Let me tell you just one example which really burned into my memories. We worked a lot in the tax department to improve the tax collection of the tax authority. To improve the overall tax morale, we provided serious new digital tools for the operation of the tax authority. And we took it very seriously. We made a lot of models, took into account the experiences of other countries, etc. And we came back to the IMF/EU with a future tax income improvement number that reflected these new tools and new regulations. It was probably around half a percent of the GDP in two, three years.

In the negotiation, it was the point of the EU and the IMF that they don't accept anything from widening of the tax base because it is their policy not to accept anything in kind. We were not able to do anything, they did not accept anything, and we had to put some more austerity measures on the table which they liked.

The sad thing is our new policies actually worked. So really this money came into the budget in two, three years' time. Even more income came in than we originally planned.

I don’t want to exaggerate the importance of that point. It's just to give you a feeling of what I have experienced. I firmly believed that it would work, my people believed it would work. Politicians believed it would work. Tax authority believed it would work. And we did it finally. But, in the meantime we increased certain smaller taxes in order to achieve the requirements of the EU and IMF as well. Strange.

YPFS: That's a very telling example. Turning now to your monetary policy experience, you played a crucial role in the Hungarian National Bank. Could you describe for us the main decisions that were made, and your takeaways, from that experience?
It was a great experience. I'd never worked for a Central bank before. But it was great to see how Central banks are communicating with each other. How this whole Central bank club has been built up in the world economy, to be the largest part of the world economy. It was very good to see that people are talking the same language, the same economic language. They can understand each other, even across the oceans, and the different cultures, and different histories.

National Banks are very important because they keep such a big knowledge, and such a great understanding of the economy in Hungary and the world economy, which makes them really important. Actually, this is something which makes them very independent as well. I still believe that knowledge makes you independent. But I don't want to run into a distraction there.

So, our National Bank was also, obviously, in a difficult situation in the GFC and after. They had to maintain the interest rate level much higher than was good for the economy -- in order to maintain the price stability, and in order to maintain the financial stability, in order to make the funding possible. For the Hungarian state, the Hungarian economy, they really needed to be quite tight, after the crisis.

But then the interesting period was somewhere between 2012 and 13. After the Taper Tantrum of 2012, we were also after our Hungarian shock as well. And then we've seen that inflation dropped down heavily. The rating agency started to say some good news about Hungary as well. But we were not there yet; they were not really able to say that we are OK. We were just between the two phases of the Hungarian economic history.

And in 2012, those in the MNB at that time had to decide, "OK, now we start to decrease the interest rate." Because we think that this should be the right moment. This should be the right moment, and this should be right phase, and the right interest rate in order to reach price stability, which is the single most important role of the National Bank. And if you see the statistics, before this period (2012-13), the National Bank would regularly overshoot the inflation target. The inflation was above 3%. And after 2012-13, it actually undershoots the inflation target. That may mean that the decrease was even late and slow. This was a period of huge debate, a lot of calculations, a lot of discussion. And, for me this was the most interesting period of handling the aftermath of the GFC.

Very interesting. To be precise, the target is the price level or is it the interest rate?

The target is inflation. The general target is price stability. The target is 3% inflation plus/minus 1% flexibility gap or band because, this is where we have to be with the inflation.
YPFS: And does the FX come in directly as a part of that? Or just indirectly?

Balog: It's just indirectly. The Hungarian forint is flexible. It's floating, without any bands whatsoever. And the Hungarian National Bank does not have any mandate to directly influence it. It may influence it, intervene with shocks coming in suddenly. But, on the long term, it floats freely. They only take into account with the model, if it has an impact on the inflation, which it can, obviously.

YPFS: And so post-crisis, some in Hungary's central bank were saying that it's time to lower the rates, but this was a matter of debate. The timing. Could you describe that debate during your time in the Monetary Council?

Balog: I arrived with the National Bank President György Matolcsy in March 2013. The debate was about, generally, two big topics. One was the general financial stability of the country and the fear that again we would be in a situation where we will not have enough external financing. Because, by that time we still needed quite a large percent of external financing. It decreased after 2011, but by that time it was still too high. Now, it's quite comfortable. But by that time, it was still too high.

So that was the fear that, guys, if you decrease it too much then these investors will qualify us again as the risky country and they will not finance us, to put it very simply. Or they will finance us at a very high price. The other school, the other part of the table, thought that, "OK, but what we see is that loans are decreasing, there's a huge leveraging that's happening in the bank's books, the economy country-wide can't speed up because the financing of that is too expensive. And this will result in not meeting the price stability goals because it results in a kind of stagflation or something that is definitely not a goal of the National Bank. Plus, we have seen in the models that on the next one and a half years, inflation will go down. So, we have room to maneuver in lowering the interest rates.

So, to put it simply, there was the financial stability approach and the real economy approach. These two were fighting, and both stated good reasons. But after a while we have seen there are fewer and fewer concerns about financial stability in the short-term and more and more concerns about the reviving of the economy. And then the decision was made through votes in the Monetary Council that interest rates have to be cut. There were some who disagreed, they voted differently. Then fewer and fewer Monetary Council members voted differently. And after a while, but many years later, the voting became quite unanimous, as with regards to the interest rates.

YPFS: This shift in the central bank's thinking, its growing concern with reviving the real economy, was it happening as a reflection of economic forces solely? Or was it, on the contrary, influenced directly by the predominant political force? Regarding the central bank's independence, there is a
natural tension here, but did the shift happen purely from the economics or was it also influenced by the political force?

Balog: It was a professional decision made by economists and prepared by analysis of the National Bank. And the debate which we had was a strictly economic one. Obviously, the state, the government, had a view. Discussed sometimes openly, sometimes not. I, as a member of the Monetary Council by that time, did not experience any direct push from the government to go this way or the other way. But they were part of the discussion. They also had good arguments on the table. The National Bank listened to these openly but decided independently.

The track record shows that these decisions were made right and were made in time. The timing was right. So, if I would have to evaluate, without any stories, just simply looking at the numbers of the National Bank, then the National Bank looks like a more and more independent National Bank since the beginning of the 2000s. Because the price stability goal was met more and more closely. Between 2007 and maybe 2012, there was some overshooting. Then for a few years some undershooting. But then they had, I was not already there, they had more than 40 months of meeting the target of inflation, which is probably the first time in the Hungarian history that that happened. And then the COVID came, which is a bit of a different story. And now Putin’s crazy war. But we are not here to discuss that.

YPFS: From this monetary policymaking experience of yours, what are your main lessons learned about the role of the central bank, Dr. Balog?

Balog: OK. Well, I love economic history. It is very hard to understand, obviously, but in certain periods in the past, what was the thinking? How people reacted to certain words. Even probably the words had the different meaning than right now.

Looking back at the central bank history, what I’ve seen is central banks were made a long, long time ago to finance the state. Then after many years, economists and policy makers realized that this is very dangerous. Because if the central bank is financing the state, then this crates huge bubbles. So, they created this idea of an independent central bank. Central banks got a lot of tools to reach this independence. As I told you earlier, knowledge of the central bank is by itself tremendous. And they maintain it and they take care of it. And they consult each other, and they incorporate the knowledge of each other in their decision making. This really helps a lot. But, still the most important part of the independence is: Does the National Bank help the state or doesn’t it? How does it help the state?

So, after looking through all these history books, and experiencing some in real time, the conclusion I reached is that national banks really have to be
independent, but not just from the government. The central bank has to be independent from the financial sector as well. It has to be independent from intergovernmental organizations. They really have to be able to use their specialized knowledge to make the best decisions it has to make at a given time. This can include also financing the state, as practically happened in big central banks in the past few years. But it only works if it’s the decision of the central bank. The question is: Who made the decision? And it’s very important that the central bank gets to make the decision. And it can’t ever operate from other way around. Okay, this decision has been made. This is good for the government. Then it’s not an independent decision. It’s another way around. You have to find the source.

I think that numbers talk for themselves in the case of the Hungarian National Bank. We have been able to meet the targets for a long period of time. And actually, the Hungarian National Bank was the first that started to hike the interest rates in Europe. So, it again shows that if difficult decisions have to be made, they are really able to do it.

YPFS: Great. Any other points you wanted to add to the interview?

Balog: Just to make the closing points. I told you “when” and “how” matters, not just the “what.” So, how you do it. Do you have the necessary infrastructure to do it? Are you in the position to do it? It’s like introducing the euro. It’s a good decision, probably yes as the end of the day. But, how you do it. How you prepare for it…. if you do not make it right, then this can cause huge problems for many, many years.

Another thing which is my takeaway from the crisis is that, as we talked about, how intergovernmental organizations that can help, like IMF and the EU — this can only be an interim solution and it can only have an average result. But if it always has this average result, it can keep your head above the water, which usually is just enough. And then you have to be happy about it. But on a longer term, an independent state must itself make the really good decisions and the really bad ones.

YPFS: It’s a relatively positive framing that you give. It’s crucial what the state, what the government decides. But usually, it’s felt or understood as between a horrible option or one that is even worse. Two bad choices. So, I guess it’s interesting to think what would make a bad choice a really good choice, in your terms.

Balog: We decided that we believe in democracy, we elect our governments democratically, and then we trust them, and they make good decisions. Not easy, but I think there’s no other way. I don’t think that we can give the task to certain groups of economists and other experts, and they can solve it. Because these are not just economical questions but political questions as well. How you
manage your political situation. How you manage your budgets. How you manage your country. And, you have to be a politically stable country to have a continuous and sustainable improvement.

There are only a very few countries in the world, which can survive political instability, I mean economically. There are a few only. With very strong institutional background. However, to build this up, you need strong leadership for a while.

But usually, we need economic and political stability to reach economic convergence. But I see what you mean, honestly. I know it's a question. But luckily, I'm just an economist.

YPFS: **Interesting.**

Balog: One last thing: Hungary is a small and open economy. As such, it's very different from the large ones. And, especially different in vulnerability towards external factors, as we discussed before many a time. So, cash is king. Whatever your long-term goals are, whatever your political or economic ambitions are, you have to be able to maintain your liquidity. This is a short-term goal, but it's always there. So, yes, you have to balance it at the long-term, you have to make your decisions towards your long-term goals. And I think this is the experience of the South Asians in the 90s. This is the experience of Southern Europe and Hungary in the GFC. You can't avoid that. Until you are in this size and you are this open to the world economy, then you have to bear that in mind.

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