

# Interview with Katalin Botos<sup>1</sup>

Szabolcs Grébel

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*“I reiterate the necessity for all those engaged in thoughtful enquiry to devote their attention to the investigation and comprehension of the interconnection between economic and ethical considerations, as a fundamental objective.”*

*Prof. Dr. Katalin Botos’ work and research over the decades has covered a very diverse range of subjects in economics, but her research on the banking sector and the financial system has been outstanding. In her professional career, she has held positions as Deputy Minister of Finance, Minister of Banking and President of the Banking Supervisory Authority. The title of the biography, published last year, provides an excellent model for economists.*

**In your biographical and professional book, *The Life of an Economist in the Service of the Public*, published last year, you make special mention of your high school years and your interest in literature, as evidenced by the many citations in the book. Which poets’ thoughts influenced your later work?**

From an early age, I have been fascinated by Hungarian literature, largely due to the excellent teachers I had in high school. Of all the genres, I was particularly drawn to poetry, including works by both folk and middle-class poets. János Arany, in particular, made a lasting impression on me. Subsequently, I developed an increasing admiration for Sándor Petőfi, largely as a result of my husband’s influence. Their correspondence had a great influence on me. In 2011, the year I retired, I chose a line from a Petőfi quote as the title of a work I published, also inspired by his biography: ... a breath that fogs the glass.’ The whole sequence of verses reads: ‘Life’s a shadow merely, of racing clouds that are cast upon the river, a breath that fogs the glass’<sup>2</sup> I still feel the same way today... And I admire the young genius who, in his short life, was able to express the elusiveness of human life so wonderfully... But in my adolescence, I was greatly influenced by the poets of the West. I loved Árpád Tóth’s poetry and Dezső Kosztolányi’s poetry. Árpád Tóth: In the Palace, a work hardly known to the average student, won me a prize in the school recitation competition... I liked Ady, but especially his poems of God were close to me, thanks to my high school.

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<sup>1</sup> Professor Emerita, University of Szeged, Pázmány Péter Catholic University

<sup>2</sup> Translated by Leslie A. Kerry

Later, the Hungarian poet I most admired was Attila József. His intellectual height, I think, has never been surpassed. But I also feel that modern Hungarian poetry is my own. In this, I am extremely fond of authors of the most varied motivations: the middle-class Weöres, the folk Sinka, or the later Gáspár Nagy, Mihály Váczi, Péter Szentmihályi Szabó. Incidentally, I still know many of the greats of world literature by heart. Burns' poem John Anderson, my Jo ... for example, often comes to mind nowadays...

**After the Catholic High School, you continued your studies at the Marx Károly University of Economics. Who were your role models and what was the direction of your research during your university years?**

It was a big surprise to me that Marx Károly University of Economics was a surprisingly tolerant school back then! My lecturer in finance was István Hagelmayer. Margit Dombi, another young assistant teacher, together with Hagelmayer, judged my admission, and – although I came from a Catholic high school – they both recommended my admission, with the highest possible points. (Interestingly, I wrote my admission essay in the following way: The Rákóczi War of Independence – in the perspective of poetry... Literature was with me here too.) Later Margit and I became personal friends; – there was not much age difference between us. It was thanks to her that I was admitted to the Ministry of Finance in 1971. István Hagelmayer's intellectual openness had already had a great influence on me at university; next to him was Miklós Riesz, whom I held in high respect. I also appreciated Antal Mátyás very much, both as a person and as a subject, and strangely enough, mathematics was one of my favourite subjects. I was the only one who finished all the semesters of the finance department with an A in my class, under Professor Jenő Szép. After all, I graduated with summa cum laude.

**In the Public Finance Quarterly 2023/2, an interview with Professor János Száz was published<sup>3</sup>, in which he mentioned the Institute for Financial Research led by István Hagelmayer, of which you were a member. Please describe your recollection of this period, and provide a summary of the principal findings of your PhD thesis on the investment policy coordination of the Comecon.**

After graduating from university, I joined the International Investment Bank: I was a scholarship fellow there. István Neményi, the CEO, who also had lectured at the university, put me in the Central Office and introduced me to university teaching as a sort of teaching assistant. From there I moved to the Ministry of Finance, to the Department of International Finance. The reason for the invitation was an article I had written on finance, in which I showed that the transferable ruble did not fulfil the functions of money. I was appointed Deputy Head of the Comecon Department

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3 Vidovics Dancs, Ágnes. (2023). János Száz 70. *Public Finance Quarterly*, 69(2), 143-148. Access source <https://journals.lib.uni-corvinus.hu/index.php/penzugyiszemle/article/view/1401>

and had a very exciting experience there. I was very positively supported by Finance Minister Lajos Faluvégi. I was in charge of the financial section of the Comecon Complex Programme, with a lot of travel to Moscow. I had my advanced Russian language certificate, but I also spoke German and English. What's more, I obtained a PhD degree with extraordinary rapidity, on 'Investment Policy Coordination in the Comecon'. It should be noted that István Hetényi, Vice-Chairman of the OT, had criticised it. Unfortunately, it was immediately classified, because it contained such strong criticisms of socialist international cooperation... However, on the basis of all this, in 1975 István Hagelmayer invited me to the Institute for Financial Research, of which I became director. Here I headed the international department: a small but powerful team. In the 12 years I spent there, I became an internationally renowned expert on the finances of the Comecon, proving that the transferable ruble was not only not convertible, but not really transferable: international cooperation in the Comecon was of a natural nature. It was in vain that the Hungarian reform sought to put the domestic economy on a market basis: this foreign economic factor limited the effectiveness of the 1968 'new mechanism'. I received many invitations from foreign embassies and won a few short scholarships abroad, including guest lectures.

*(My in-depth knowledge of bilateral and multilateral clearing has become useful to me again today, as we are revisiting these financial solutions in our current post-modern world.)*

In parallel with Eastern finance, I also became involved in international finance, as I became the head of the International Monetary Finance Working Group of the COMECON Academies. This position should have gone to István Hagelmayer, who was one of the best experts in the region on the role of gold in international finance. It was mainly my Russian knowledge that brought me into this field of scientific organisation. Then there was the fact that in my department, with the help of a great colleague, we analysed the theory and practice of the IMF mechanism. A paper was written, which attracted the attention of the Soviet Embassy... Especially as we were just a few days before the Hungarian government submitted its application for admission to the IMF. It was then that the embassy secretary took our institute's publication from me ...

So, in fact, *the first 30 years were spent researching the socialist and capitalist international financial system and led to timeless findings.*

A comprehensive grasp of the regulations set forth by the International Monetary Fund has proven invaluable in shaping my future endeavors. It became evident that the Hungarian indebtedness was a consequence of the inherent dynamics of the cooperation between the Common Market and the international financial system, including fluctuations in the dollar interest rates. The examination of the international balance of payments and budget deficits led to the publication of my book, *World Financial Imbalances*, which was awarded the degree of Doctor of Science by the Academy of Sciences in 1987.

My attention then turned increasingly to the relationship between public debt and economic policy. The issue became increasingly interlinked with politics.

**Please identify the most significant economic policy measures implemented during the period of regime change.**

The change of regime occurred at the Institute of Agricultural Economics, which was disbanded by the authorities in the latter years. This was in contrast to the fate of the Institute of Financial Research, which remained intact. This transition led me to an area of particular political significance during the period of regime change: the ownership of agriculture and agricultural finance. As a result of my expertise in banking and finance, I was able to contribute significantly to the preparations for the change of regime.

Prior to this, I had not engaged with politics on a personal level, my involvement being limited to the expression of my professional opinion. The fact that my husband was one of the many who suffered in 1956 acted as a deterrent to direct opposition politics. As a result, we eschewed involvement in politics, thereby foregoing the prospect of a more prominent career. In 1989, however, I became a member of the Hungarian Democratic Forum. I was invited by József Antall to assume the role of State Secretary for Finance. I felt a strong affinity with the Ministry of Finance, having developed a personal familiarity with nearly all of the staff. For a period of time, I effectively served as the Minister for the Economy, following the resignation of Ferenc Rabár in September. One of my most significant accomplishments was the formulation of a balanced budget in the inaugural year, which averted the collapse of the government. This was a feat that had never been achieved before or since. Undoubtedly, it entailed the imposition of austerity measures, a course of action that was not universally embraced.

However, Antall's concept of the Ministry of the Economy was a significant undertaking for a single individual. Consequently, I had no desire to assume the role of a minister within the existing structure. My primary responsibility as a minister was the establishment of banking laws and the collaborative development of a framework for bank consolidation.

The most significant institutional transformation of the period was privatisation. However, this was not achieved in the most optimal manner. There were also domestic political factors (demands from small farmers) and an uncritical belief in market mechanisms on the part of the ruling parties. All of this was skilfully exploited by the opposition and more pragmatic forces to enrich themselves and transfer the ownership of Hungarian wealth to foreign entities.

The Ministry of Finance was the primary actor in the privatisation of banks; my own role was that of establishing the fundamental principles of consolidation. In this area, I believe I am almost the only person in the country who is aware of the German practice, and we have enacted legislation that is, for the most part, reasonable.

In 1992, József Antall appointed me chairman of the State Banking Supervision. I returned to public service and resigned from politics. However, the opposition did not take this seriously, whereas I did. The government that came to power in 1994 exerted pressure on me to resign as chairman. Nevertheless, my team and I had been through challenging years, periods of significant bank closures and failures, and had

ultimately achieved success.

**Over the course of your career, you have conducted research in a multitude of fields within the discipline of economics, including banking, finance, investment, pensions, health policy, and business ethics. In which areas of your research do you consider your achievements to be the most significant?**

Returning to the university cathedra, I taught at two universities: the Pázmány Péter Catholic University (PPKE), the University of Szeged ... (I taught at three places at times: in Miskolc, for example, for a year, then I was invited by the predecessor of Corvinus). I also visited the University of Sopron, Lámfalussy, regularly during the 16 years (and even afterwards). Before the change of regime I worked only as an associate professor, but in 1991 I was appointed professor by Árpád Göncz and in 1995 by Ferenc Mádl.

Between 1995 and 2011, I consider it a great achievement to have organised a Faculty of Economics (Szeged), to have established and run an Institute of Economics (PPKE), to have run the Institute of Finance and International Economics (Szeged) and to have founded two doctoral schools (in Szeged and at Pázmány) in two fields of study: economic history, i.e. history, and economics. I have taught at both universities – in Szeged, to this day. I have also taught at the PPKE The Faculty of Law and Political Science. In other words, I have done a very wide range of academic work. It could be said that in the last third of my life, my theoretical and practical activities have been combined, but always through the eyes of a financial economist!

It is my contention that the analysis of liquidity, solvency and prudence in the banking sector, and the analysis of the causes of indebtedness in public finance, was both contemporary and timeless in its approach. It is my contention that the underlying causes of international indebtedness and its profound economic policy implications remain opaque to both the general public and even to economists. Furthermore, the proposal to reform the pension system represents a significant aspect of my research. It is regrettable that the system of child points, which would introduce a pension channel for children who have been employed and educated, has not yet been implemented. It can be argued that this is the key to the future. Without a growing population of children, Hungary will eventually face a demographic crisis. Similarly, without a sufficient number of young people who have received an education, the country will be unable to compete internationally. In collaboration with my husband, with whom I frequently engage in professional endeavours, I have conducted an in-depth examination of the remuneration structures prevailing across a spectrum of economic sectors. It is evident that the human resources and agriculture sectors have been subjected to a significant degree of neglect, resulting in a notable lag behind other sectors. Nevertheless, it is evident that real wages exert a significant influence on the stability of the political system. It has been demonstrated that the humanities and health sectors in Eastern Europe are lagging behind those in the EU countries. In other words, these circumstances are the result of underlying systemic factors. The fact that in Yalta we were abandoned to the model experiment of a socialist planned economy, and that wages in these sectors were neglected in all Comecon countries, especially in our case due to our indebtedness, meant that

governments could only maintain wages at the level they did when they could, at the cost of further debt. This was the case both before and after the change of regime. The present government is attempting to catch up, but is coming up behind schedule. The labour force is very old, and replacement is difficult.

In the final stages of my creative career, I returned to research on the international financial system. In 1983, I wrote a book entitled *Money – International Money*. In the last decade, I have – to put it somewhat immodestly – managed to catch up with the world’s lead experts in theoretical finance. I find that the changing nature of modern money in our postmodern age raises old-new dilemmas. In particular, the challenge to the dollar’s supremacy, the rise of the yuan, the resurgence of clearing systems. But the emergence of digital currencies is also of unforeseen importance today.

**Furthermore, your biography demonstrates to the readers the significance you ascribe to ethical considerations in business. In your view, how do economics and religion interrelate in the present era, and what message would you convey to future economists?**

We have now reached the final question, which has been presented in a logical sequence. Indeed, over the past two decades, economic and ethical considerations have constituted a central focus of my research. I am pleased to note that, a few years ago, Oxford University Press invited me to contribute a chapter to a book on the relationship between economics and world religions. I was the only author from an Eastern European country to be included in the volume. I have devoted a great deal of time to reading on this subject. It is evident that there is a growing interest in the relationship between ethics and economics. It may be a bold assertion, but it is becoming increasingly evident that this is a matter of life and death. The deterioration of our natural environment and the decline in the quality of our human relations can be attributed, to a significant extent, to a lack of ethical conduct. It is a fundamental tenet of all religions globally, whether Eastern or monotheistic, that profit should not be a primary motivator in human conduct. This is the situation that prevails in secular societies in the present era. What are the potential consequences of this process? The social tensions that are accumulating between the northern and southern regions of the globe, as well as the conflict between the wealthy and the impoverished within Western societies, have the potential to reach a critical point of eruption. Furthermore, the issue of pension provision can be attributed, at least in part, to the prevalence of human comfort and selfishness. This image portrays the potential collapse of Western civilisation. Those with progeny have a moral obligation to consider the legacy they are leaving for future generations. *I reiterate the necessity for all those engaged in thoughtful enquiry to devote their attention to the investigation and comprehension of the interconnection between economic and ethical considerations, as a fundamental objective.* ■