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To cite this article: Krisztián Németh (2025) Monetary policy in the service of financial nationalism. The case of post-2013 Hungary, *Post-Communist Economies*, 37:3, 161-186, DOI: [10.1080/14631377.2025.2461945](https://doi.org/10.1080/14631377.2025.2461945)

To link to this article: <https://doi.org/10.1080/14631377.2025.2461945>



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Published online: 18 Feb 2025.



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Monetary policy in the service of financial nationalism. The case of post-2013 Hungary

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ABSTRACT

Recognising the limitations of the thin-centred, context-specific nature of economic nationalism, the paper aims to clarify and empirically enrich this concept by focusing on the small, open, transnationally integrated countries of the (semi-)periphery. The paper identifies the ideal-type monetary policies of economic nationalism for this specific universe of cases. Hungarian monetary policy after 2013 is identified as a critical case to show how economic nationalism manifests itself in monetary technicalities within the EU environment. The paper examines three flagship programmes of the Hungarian National Bank and shows that they were imbued with economic nationalism. Although extreme macroeconomic imbalances had developed by the end of the period, the paper insists on a value-neutral conceptualisation of economic nationalism. On the one hand, it presents a number of achievements of the programmes that can be appreciated not only from a narrow nationalist perspective. On the other hand, it shows that economic nationalism tends to undermine central bank independence, contribute to politically induced business cycles and overheat the economy. The results suggest that small, open, transnationally integrated countries can optimise policy outcomes by striking a subtle balance between autonomous decision-making and meeting the external demands of the globalised world economy.

ARTICLE HISTORY

Received 20 June 2024

Accepted 21 January 2025

KEYWORDS

Financial nationalism; monetary policy; small open economy; transnationally integrated developing economy; Hungary

1. Introduction

Economic nationalism is a politically charged term which makes it difficult to achieve conceptual clarity (Pickel, 2003). One might feel that economic nationalism is often used as an easy interpretation of any protectionist, statist or illiberal economic policy – saving the intellectual work of determining what economic nationalism is. This paper aims to contribute to the conceptual clarity of economic nationalism by focusing on a specific policy area. It examines how economic nationalism manifests itself in monetary policy. The Great Financial Crisis (GFC) triggered both a fundamental shift in monetary policy (Moschella, 2024) and a resurgence of economic nationalism (Lupo-Pasini, 2019), so it is imperative to examine how the two processes interact.

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The ‘traditional’ literature – equating economic nationalism with a set of protectionist/mercantilist policies – has been challenged by ‘revisionist’ authors since the early 2000s (Fetzer, 2022). The revisionists (e.g. Helleiner, 2002; Pickel, 2003; Shulman, 2000) broadened the concept by emphasising the necessarily nation-specific content of economic nationalism, as opposed to a universal doctrine of policy making. As a result, economic nationalism is presented as a thin-centred, highly context-specific ideology that is compatible with a wide range of policies depending on the particular national interests.

This paper is partly conceptual and partly exploratory. It is conceptual in the sense that, building on the revisionist literature, it determines the ideal type monetary policies of economic nationalism. This addresses the research gap of limited interaction between the research on economic nationalism and the more technical literature on monetary policy. Scholars have already targeted the state’s increasing role in finance (Naqvi, 2021; Karas, 2022) and the intersection of nationalism and monetary policy (Johnson & Barnes, 2015; Piroska, 2022). However, only a few of the contributions showed an interest in the more technical aspects of monetary policy.

I share Nakano’s (2004) argument that economic nationalism can be described by a ‘systematic theory’. However, since, according to the revisionist concept, such an undertaking cannot produce a universal economic doctrine, we must moderate our mainstream-type demand for universality. Context specificity requires a clear definition of the universe of cases. Only for a relatively homogeneous set of cases can ideal-type policy measures be derived from the broadly defined ideology of economic nationalism. So, I will narrow the scope as follows: similar to Naqvi (2021), I focus on previously liberalised, small, open, transnationally integrated developing countries on the (semi-) periphery. Their growth model is dependent on the transfer of capital and technology from foreign direct investment (FDI), leading to an asymmetric dependence (Naseemullah, 2022). Their policy space is constrained by the disciplinary power of the global capital and financial markets, the potential reversal of capital flows, the judgement of rating agencies and international financial organisations (IFIs), or occasionally the requirements of supranational integrations.

The paper is exploratory in the sense that it presents empirical results on how economic nationalism manifests itself in monetary policy, using the critical case of Hungary. The research aims first to identify the techniques by which monetary policy can serve economic nationalist agendas. Second, the possible benefits and costs of implementing nationalist monetary policies are also examined.

In the universe of cases described above, post-2013 Hungary is a critical case in several respects. A large body of literature supports the claim that Hungarian economic policy has turned towards economic/financial nationalism since Viktor Orbán and his Fidesz party came to power in 2010 (Johnson & Barnes, 2015; Mérő & Piroska, 2016; Piroska, 2022; Varga, 2021). Sebők and Simons (2021, p. 5.) highlight the large ‘scale and innovative nature’ of the post-2010 transformation of the Hungarian economic policy, portraying the Hungarian case as a radical manifestation of financial nationalism. Although Orbán was elected in 2010, it was not until 2013 that György Matolcsy, an economist with close ties to Fidesz, was appointed governor of the central bank. Accordingly, Várhegyi (2014) concludes that a radical change in monetary policy has only been observed since 2013.

Importantly for my exploratory analysis, Hungary has had more than a decade of the same economic nationalist prime minister with a parliamentary supermajority and the

same central bank governor in office without interruption, which is long enough for economic nationalism to unfold in a quasi-laboratory setting. The Hungarian case is also unique in that it is part of a strong regional integration based on mostly liberal principles, the European Union. How to increase national policy space vis-à-vis the regulatory influence of the EU is a particular challenge – requiring probably more subtle forms of nationalist policies. Finally, Hungary has attracted attention for its extreme macro imbalances in the post-Covid period – inflation peaking at 25.7%.¹ I propose the explanation that Hungarian economic policy, especially monetary policy, between 2013 and 2020 was consistent with economic nationalism. I argue that economic nationalism has the potential to deliver success and exploit global opportunities in the national interest. But it also tends to undermine central bank independence, create politically induced business cycles and overheat the economy, leading to macroeconomic imbalances.

The empirical analysis is based on a review of all announcements made by the Monetary Council, the main governing body of the Hungarian National Bank (MNB).² The announcements serve as primary data sources to ensure the comprehensiveness of the research. I also rely on the Inflation Reports and Reports on Financial Stability published regularly by the MNB, supplemented by various background materials prepared by the staff. Macro statistics are obtained either from the Hungarian Central Statistical Office (HCSO) or from the central bank.

The rest of the paper is structured as follows. [Section 2](#) reviews the literature on economic nationalism. [Section 3](#) justifies the focus on monetary policy and presents the ideal-type monetary policies of economic nationalism. In [Section 4](#), after an overview of Hungarian monetary policy, three flagship programmes of the MNB are presented in more technical detail. Their consistency with economic nationalism and the potential benefits/costs of the programmes are assessed in [Section 5](#). [Section 6](#) summarises the conclusions.

2. Literature review – the concept of economic nationalism

Fetzer (2022) does not support the use of the term ‘economic nationalism’ because of the one-sided international political economy (IPE) focus of previous research in this field. He proposes to integrate it into the general research on nationalism. In my view, bridging the gap between the general literature on nationalism and the techniques of monetary policy may be too ambitious. That is why I consider the concept of economic nationalism to be a useful intermediate concept.

I define economic nationalism as a value-neutral concept. Furthermore, I deliberately avoid the debate whether nationalism goes hand in hand with authoritarian governance (Piroska, 2022, p. 271) or is naturally linked to the historical spread of democracy (Nakano, 2004, p. 218). I agree that the rise of populism and authoritarian forms of governance in the post-GFC era makes such a debate highly relevant, although it is beyond the scope of this paper.

In line with value-neutrality, I reject the traditional conceptualisation of economic nationalism as a set of protectionist policies or simple economic mismanagement. Accordingly, I build the conceptualisation on the ‘revisionist’ stream of literature that has developed since the early 2000s.

Shulman (2000) was one of the first revisionist authors to reject the traditional concept of economic nationalism. Rather than a set of policies, he defines economic

nationalism, building on Smith (1991), as an ideology that seeks to promote the autonomy, unity and identity of the nation – achieved either through international integration or disintegration. Shulman lays the foundations for a broad, context-specific concept by emphasising the trade-offs between the three goals. He recognises that international integration can be a boost to economic performance, from which a nation can draw its identity (national pride). On the other hand, becoming integrated potentially reduces autonomy. Nationalist policymakers must therefore balance the three objectives, and the resulting policies are always nation-specific, determined by particular national preferences.

In line with Shulman's conceptualisation, Helleiner (2002) makes two claims about economic nationalism. First, it can only be understood in terms of its national content. However, since nations are very diverse, the second implication is that, contrary to (neo)liberal thinking, economic nationalism cannot be described by universal policy prescriptions. Building on the Listian³ roots, economic nationalism accepts the nation as an indispensable intermediary between the individual and humanity. Accordingly, economic nationalism promotes prosperity at the national level – in contrast to liberalism, which is concerned with either the individual or humanity as a whole (Helleiner, 2002). The prioritisation of the national level is explicitly articulated by Clift and Woll (2012), who add the promotion of insiders as a further constitutive element of economic nationalism.

Other revisionist authors emphasise different elements of the autonomy-unity-identity triad, or sometimes add additional ones. Nakano (2004) states that economic nationalism is about the avoidance of any policy that would be detrimental to the unity of the nation. D'Costa (2012) builds his concept on the East Asian example, emphasising an activist state to promote the developmentalist national goals of growth, competitiveness, welfare or structural change. To do this in today's highly internationalised world economy, it was necessary to adopt the nationalist toolkit, aimed at reaping the benefits of globalisation at the national level (D'Costa, 2012). Johnson and Barnes (2015) define financial nationalism as a subset of economic nationalism, which seeks to promote the aforementioned triadic goals through financial means. However, their focus is clearly on the autonomy dimension. They present financial nationalism as a strategy against external conditionalities and constraints. Their definition is close to that of Sebők and Simons (2021) stating that financial nationalism is a 'grand strategy' to regain autonomy.

Consistent with my review above, Fetzer (2022) identifies three strands in the literature that also define three distinct core elements of economic nationalism: discrimination in favour of insiders, increasing autonomy, and finally, promoting economic strength and development by exploiting the opportunities of globalisation. However, Fetzer criticises the literature for being biased towards IPE perspectives – all three elements can only be interpreted in an international context – and for neglecting domestic factors. While recognising the validity of Fetzer's critique, I argue that in the universe of cases examined, the IPE-focused definition is appropriate. In the specific context, the demand-side elements of economic nationalism – for example, the dissatisfaction of national business (Scheiring, 2021; Varga, 2021), the frustration of local managers, the threat of a reversal in the direction of capital flows (Naczyk, 2022) or the great influence of international financial institutions (Appel & Orenstein, 2018) – justify the IPE perspective.

3. The ideal-type monetary policies of economic nationalism

3.1. *The merits of focusing on monetary policy*

Since the GFC, monetary policy has undergone a fundamental transformation as central banks have expanded their toolkit, including quantitative easing (QE) and forward guidance (Borio, 2020). To a certain extent, the transformation has taken place on a forced trajectory, challenging the independence of central banks. In the post-GFC era, the combination of previously accumulated government debt and the fiscal rules – especially those of the European Union enshrined in the Maastricht Treaty – have placed severe constraints on fiscal policy to implement stabilisation (Lehmann et al., 2020). As a result, central banks had no choice but to take the lead in crisis management. Their balance sheets have expanded radically and interest rates have approached the zero lower bound. Consequently, monetary policy has approached the point of exhaustion (Bartsch et al., 2019). This transformation has important implications.

First, through QE, monetary policy has implemented a massive redistribution of wealth (Masciandaro et al., 2023) in favour of owners who have benefited from the rise in asset prices. Second, once their balance sheets had been radically inflated and economic agents had become accustomed to abundant liquidity, central banks' independence was challenged by the troubling question of how to respond to resurgent inflationary pressures. The necessary policy response of raising yields poses a threat to both public finances and financial stability. A striking example is the massive unhedged interest rate risk and – with its materialisation – the resulting failure of Silicon Valley Bank in March 2023.

I argue that the noise of the monetary transformation described above, the increased role of central banks in redistribution, and their reduced independence all provide a global trend into which a nationalist monetary turn – with similar symptoms but different drivers – can easily fit without causing much international consternation.

Another aspect that paradoxically underlines the usefulness of central banks in implementing financial nationalism is their legally protected independence. In the literature, financial nationalism is associated with the undermining of central bank independence (Johnson & Barnes, 2015). However, formal independence could also be used as a shield against criticism from the international community (Piroska, 2022).

Finally, the strong focus on monetary technicalities is relevant for a better understanding of economic nationalism. If it can be shown that nationalism is palpable in the deeper technique of monetary policy – something that is not visible to the wider public – it serves as indirect evidence that economic nationalism is more than a mere tone of discourse or a mode of political mobilisation. Rather, it is an underlying ideology, an 'explanans' (Pickel, 2003, p. 118) behind the policy outcome.

3.2. *What makes monetary policy nationalist?*

Based on the literature review and the identified three core ideas of economic nationalism, in this section I propose a definition of nationalist monetary policies in small, open, transnationally integrated developing countries.

Economic nationalism is often presented as an alternative ideology to neoliberalism (Helleiner, 2002, Nakano, 2004). Reflecting this ideological conflict, there is

a consensus in the literature that economic nationalists oppose the expert-based, technocratic, and thus neoliberal type of central banking that relies on the independent status of the monetary authority (Johnson & Barnes, 2015). Piroska (2022) draws attention to the nationalist view that independent central bankers are more loyal to international central banking principles and the logic of financial markets than to perceived national interests. Epstein (2019) – resonating with the nationalist view – notes that the neoliberal product of central bank independence means independence from the government and, at the same time, dependence on financial/capital markets – an obviously undesirable situation for nationalists. Therefore, economic nationalism leads to stronger enforcement of government preferences in the central bank. As a result, nationalist monetary policy is expected to accommodate a broader set of objectives, as opposed to the hawkish focus on inflation targeting.

Further practical implications for nationalist monetary policy can be derived from the three core components of the concept. First, according to the autonomy-centred literature, monetary policy takes measures to remove external constraints and (re)gain policy room for manoeuvre. Consequently, the central bank promotes the national currency (Johnson & Barnes, 2015). In (semi-)peripheral, small-open economies, it means above all the elimination of foreign currencies from domestic finance. Indeed, the foreign denomination hampers the autonomous capacity of monetary policy to act, as the dynamics of lending and deposit taking would depend on external interest rates. Moreover, the accumulation of foreign denominated debt blocks the applicability of the exchange rate channel, as the stimulative effects of a devaluation would be offset by increased instalments and reduced consumption. Such obstruction is particularly undesirable for nationalist central bankers, as they tend to resort to dirty floating exchange rate regimes (Johnson & Barnes, 2015), mainly to promote the export sector (D’Costa, 2012). Closely related to the latter, nationalist monetary policies reject or delay accession to monetary unions. By definition, accession entails the loss of monetary sovereignty.

Taking into account the reduced independence from the government, nationalist monetary policy tends to increase the policy space not only for itself but also for fiscal policy. Related measures could include supporting the government’s bond issuance. The latter can be implemented directly through secondary or primary purchases by the central bank. An indirect solution is to incentivise the banking sector to buy government bonds. Depending on the nature of these incentives, they potentially fit the concept of financial repression, defined as the subordination of finance to the state (Ban & Bohle, 2021).

In line with economic nationalism’s insistence on policy autonomy and its aim of promoting sometimes vaguely defined national interests that are subject to constant reinterpretation, economic nationalism has a word to say about the perennial debate on the discretionary versus rule-based conduct of monetary policy. Discretion is better suited to economic nationalism, although not all discretionary policies are necessarily nationalist. It is important to note that decision-making autonomy – not constrained by rules – may come at the cost of a reduced ability to anchor expectations. Reduced ability could translate into higher interest costs of disinflation. Similarly, in the context of developing and dependent countries, discretion may reduce the ability of the central bank to signal creditworthiness to foreign investors (Maxfield, 1997). These are costs of discretion, that nationalists are likely to be more willing to bear than their non-nationalist counterparts.

Second, according to the developmentalist component of economic nationalism highlighted by D’Costa (2012), the central bank makes efforts to contribute to growth, competitiveness, economic restructuring and the development of dysfunctional financial markets. In other words, the central bank assumes certain development banking functions (Piroska, 2022). In this context, Nakano (2004) explicitly highlights the affinity between economic nationalism and Keynesian policies. Stimulating aggregate demand is, by its very nature, a policy of activating economic performance at the national level. Moreover, the associated redistributive effects could also foster some of the domestic elements of nationalism highlighted by Fetzner (2022) (e.g. unity through solidarity).

Applying Nakanos’ insights to the contemporary economic debates, I expect that nationalist monetary policies also have an affinity with the high-pressure economy due to the catching-up pressure in the (semi-)peripheral context examined. High-pressure economy is a term originating in Okun et al. (1973) to describe an economic policy that deliberately stimulates demand in order to raise GDP above its potential level and reduce unemployment below its natural rate.

Based on the third component of the concept – the promotion of insiders – the developmentalist central bank functions are used in a targeted manner to benefit those domestic actors that are considered crucial for the national economy. Preferential access to finance is offered to strategic sectors and companies. Preferential refers to either a low interest rate or a preferably long maturity. Under the two-tier banking system, such policies can be implemented either indirectly through cheap but conditional refinancing loans offered to commercial banks, or directly through bond purchase programmes.

Individual features in the above list do not necessarily make monetary policy nationalist. I consider monetary policy to be nationalist when these features and their combinations are prevalent behind most policies, especially the central bank’s flagship programmes.

4. Empirical analysis

4.1. *An overview of the Hungarian monetary policy and its international environment*

Leading central banks, having embarked on an expansionary path, have provided abundant liquidity to global financial markets in the post-GFC era. Lower interest rates in the core economies encouraged investors to seek higher yields in the periphery (Ban & Bohle, 2021). Combined with low global inflation and substantial domestic spare capacity left over from the crisis, this created room for interest rate cuts in Hungary. This policy space facilitated expansion without jeopardising the macroeconomic balance. Naqvi (2021) draws attention to the fact that the potential policy space is not automatically exploited – active domestic policies are needed to seize the opportunity. D’Costa’s (2012) dynamic concept of economic nationalism is exactly about taking advantage of the ever-changing opportunities offered by the global economy. In this sense, Hungarian monetary policy since 2013 has been consistently nationalist. In March 2013, the first announcement of the MNB’s Monetary Council under the newly appointed Governor György Matolcsy highlighted weak external and domestic demand, a turning point in inflation, the need for

further easing of the policy stance, but also the potential threat of a change in global investors' risk appetite.⁴

In the MNB's Inflation Report of December 2013⁵ a special section was devoted to the reasons for the low global inflation. Three quarters later, the Inflation Report of September 2014⁶ raised the question of whether something had changed structurally in inflation, leading to a possible flattening of the Phillips curve. It is important to note that the steepness of the Phillips curve has direct implications for monetary policy. The steeper the curve, the greater the inflationary cost of expansion. If the flattening is indeed taking place, it is an incentive for central banks to be more expansionary. However, the wording of the section on the Phillips curve is rather cautious. It emphasises that the flattening cannot be considered as proven. A press release on 9 December 2016⁷ no longer reflects the previous caution. The flattening of the Phillips curve is said to be a fact. The policy implication is also outlined: the high-pressure economy is presented as the right answer to the challenges of our time. The evolution of the MNB's approach can be seen by taking the above announcements one after the other. From an initially cautious position in 2013, the MNB was finally in a position to fully embrace the high-pressure economy aimed at exploiting the opportunities of the global financial environment.

The environment in which monetary policy was conducted in the first half of the decade was shaped by two other factors. First, the households were heavily indebted in foreign currency. According to the Report on Financial Stability of November 2013,⁸ 58% of the total outstanding amount of household loans was denominated in foreign currency. The majority of these households had neither a financial nor a natural hedge against currency risk. As a result, monetary policy and its transmission mechanisms were severely constrained. Second, we also need to take into account that until June 2013 Hungary was under an excessive deficit procedure (EDP) initiated by the European Commission.⁹ Csaba (2022) points out that Orbán – as a newly elected prime minister – arranged one of his first visits to Brussels to obtain an exemption from the 3% deficit limit. His proposal was rejected and as a result, Hungary faced a severe, externally imposed budgetary constraint. From a monetary policy perspective, it could be argued that the EDP – a government issue – is of limited relevance. However, it should not be ignored. Assuming that there was indeed a nationalist alliance between the government and the central bank, I will show that monetary policy took action to reduce the fiscal pressure on the government. These efforts took the form of implicit profit targets for the MNB (Piroska, 2022) and the delegation of some fiscal expenditure from the budget to the central bank.

The above-mentioned nationalist-driven developments in Hungarian monetary policy blend into the global trend of increasing central bank competencies and the associated exhaustion. Although different, the Hungarian and global monetary trajectories appear congruent from a distance.

4.2. Three flagship programmes of the MNB

In this section, I present the architecture of three flagship programmes of the MNB between 2013 and 2020. A brief overview of the programmes is given in Table 1. While this section presents the three programmes in technical detail, the implications are drawn in the separate Discussion section.

Table 1. Summary of the three flagship programmes of the MNB.

Programme	Abbreviation	Start date	Short description	Subsection
Funding for Growth Scheme	FGS	June 2013	Conditional (SME-oriented) refinancing loan offered by the MNB to commercial banks	4.2.1
Self-financing Programme	SFP	June 2014	A programme to encourage banks to buy government bonds	4.2.2
Bond Funding for Growth Scheme	BGS	July 2019	Corporate bond purchase programme	4.2.3

4.2.1. Funding for growth scheme

The Funding for Growth Scheme (FGS) was announced within a month of György Matolcsy taking office on 4 March 2013. It then went through a long evolution over the next nine years, with some fine-tuning resulting in different phases of the programme. Despite the modifications, the core elements of the FGS have not changed: it was a 0% refinancing loan offered by the MNB to commercial banks on the condition that they pass on the funds to SMEs at a fixed interest rate not exceeding 2.5%. Throughout the phases of the FGS shown in [Table 2](#), it financed different SME credit targets: new investments, working capital, pre-financing of EU funds and the repayment of foreign-denominated loans. The maturity of the refinancing loan offered by the MNB matched the maturity of the underlying SME loan. Apart from a few special cases and the last two phases of the programme (FGS Go, FGS Green Home Programme), the maximum maturity was 10 years. From October 2021 the FGS Green Home Programme took a completely new direction by financing retail customers to build and buy energy-efficient homes. Apart from the latter, the FGS was an SME product.

The FGS was designed to intervene in the SME credit market, to halt the five-year decline in the corporate credit portfolio (Hegedűs & Schmidt, [2022](#)) and to avoid the negative spiral effects of a credit-less recovery. Although the interest rate reduction cycle had already started in August 2012, market disruptions blocked its pricing into SME loans (Nagy, [2015](#)). The FGS was therefore introduced as a targeted instrument to promote SMEs' access to credit and to strengthen monetary transmission. The FGS was not an unprecedented monetary policy instrument. In particular, the Funding for Lending scheme launched by the Bank of England in 2012 served as an example (Komlóssy et al., [2014](#)).

4.2.2. Self-financing programme

The name of the Self-financing Programme (SFP) resonates well with economic nationalism. One of the stated objectives was to reduce external vulnerabilities and constraints by increasing the role of domestic sources in the financing of the government (MNB, [2022](#)).

The mechanism of the SFP was based on a broader set of constituent elements, which are presented in [Table A1](#) in [Appendix A](#). The main idea behind the Programme was that commercial banks have two ways to manage their currently excessive liquidity: either keep it in instruments issued by the central bank or buy other eligible securities, in Hungary mostly government bonds (Gór-Holecz et al., [2016](#)). The Self-financing Programme was based on the intention to squeeze the commercial banks out of the first option, more precisely out of the central bank's main policy instrument. Prior to August 2014, the two-week bond issued by the central bank served as the main policy instrument through which the MNB could sterilise excess liquidity. The conversion of the

Table 2. The phases of the Funding for Growth Scheme.

Phase	Time range	Credit target	Available amount	Speciality	Created liquidity sterilized? (Yes/No)
I. Phase	June 2013 – September 2013	New investment, working capital, pre-financing of EU funds	425 billion HUF		No
		Redemption of foreign currency loans	325 billion HUF		
II. Phase	October 2013 – December 2015	90% used to provide new loans (investment, working capital, pre-financing), max 10% for loan redemptions	2000 billion HUF	Financial leasing and factoring were also included	No
FGS+	From March 2015	100% used to provide new loans	500 billion HUF which is part of the 2000 billion HUF of Phase II	Credit risk sharing is offered by MNB to banks. Targeted to finance SMEs for whom the 2.5% marge is not sufficient to cover credit risk.	No
III. Phase	January 2016 – March 2017	HUF denominated investment loans	300 billion HUF	Foreign denominated loans are available if the SME has natural hedge against currency risk	No
		Foreign denominated investment loans	300 billion HUF		
FGS fix	January 2019 – May 2020	HUF denominated investment loans	Originally 1000 billion HUF, later partially reallocated to FGS Go	Minimum 3-year maturity, the purpose is to enhance the ratio of fixed-interest-rate loans	Yes
Beyond the time range of the current research					
FGS Go	April 2020 – September 2021	Both new loans and loan redemption	Increased to 3000 billion HUF in several steps	Covid-crisis management tool, max maturity: 20 years	Yes
FGS Green Home Programme	From October 2021	Building and buying energy-efficient houses and flats	Original 200 billion increased to 300 billion HUF	Offered to households, not SMEs, with a max maturity of 25 years	

Source: Hegedűs and Schmidt (2022).

two-week bond into a two-week deposit has reduced the attractiveness of the main policy instrument through the following channel: The deposit cannot be redeemed before maturity, nor can the deposit be used as collateral for loans from the central bank. It therefore has subordinate characteristics for the liquidity management of commercial banks.

The stated aim of the Programme was to redirect commercial banks' excess liquidity away from central bank liabilities and into other interest-bearing instruments, mainly government bonds. In addition to simply increasing the demand for government bonds, there was also the specific objective of improving the maturity structure of government debt. To achieve the latter objective, the central element of the Programme was the conditional interest rate swap (IRS), where the MNB paid a variable interest rate in

exchange for the fixed rate. The purpose of the IRS was to channel the banks' liquidity into long-term fixed-rate government bonds. Such assets alone carry significant interest rate risk, but this is manageable through the IRS offered. The IRS was available to the MNB's partners at preferential pricing. The discount reflected the condition that the participating banks were obliged to increase their holdings of eligible securities in accordance with the amount of the IRS they had drawn down (MNB, 2022).

As shown in Table A1, a number of additional measures can also be interpreted as elements of the Self-financing Programme. In September 2015, the main policy instrument was converted again, from a two-week deposit to a three-month deposit. The extended maturity further reduced the liquidity and therefore the attractiveness of the instrument. From October 2016, an explicit quantity restriction was imposed on the 3-month deposit, and by the end of 2018, the 3-month deposit was completely phased out, leaving the mandatory reserve as the official main policy instrument.

In order to ensure that banks' liquidity was effectively channelled into government bonds, changes have also been made to the mandatory reserves. The previously optional reserve ratio of 2, 3, 4 or 5% became a mandatory reserve requirement of 2% in December 2015, only to be further reduced to 1% a year later. The restructuring of the reserve requirements prevented banks from parking their excess liquidity in mandatory reserves, on which the MNB pays the same interest rate as on the main policy instrument. Holding excess reserves above the required level was also discouraged, as the overnight deposit rate – which is paid on excess reserves – turned negative in March 2016 (Csávas et al., 2016).

In order to gain a full understanding of the Self-financing Programme, it is useful to examine how it affects the balance sheets of the various actors. For the sake of illustration, let's assume that the SFP squeezes an amount of 'x' out of the main policy instrument. Figure 1 shows this first step:

	MNB		Commercial banks	
	Assets	Liabilities	Assets	Liabilities
Step 1: Liquidity squeezed out from MNB's main policy instrument		- x main policy instrument	-x main policy instrument	
		+ x commercial banks' liquid accounts	+ x liquid account by MNB	

Figure 1. Balance sheet effects of the Self-financing Programme, Step 1.

In step 2, commercial banks look for alternative investments and buy newly issued HUF-denominated government bonds. The value of the bond issue is deposited in the Single Treasury Account (STA), the account held by the central bank for the central budget:

In step 3, the central government pays back its foreign-denominated bonds from the new HUF issue. At the expense of foreign exchange reserves, the central bank provides the required foreign exchange against the STA:

	MNB		Commercial banks		Central government	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Step 2: Commercial banks look for alternative investment: government bond		- x commercial banks' liquid accounts + x Single Treasury Account	- x liquid account by MNB + x government bond (HUF)		+ x Single Treasury Account	+ x issued bond (HUF)

Figure 2. Balance sheet effects of the Self-financing Programme, Step 2.

	MNB		Central government	
	Assets	Liabilities	Assets	Liabilities
Step 3: Foreign denominated bond repaid by HUF issue	- x foreign exchange reserve	- x Single Treasury Account	- x Single Treasury Account	- x foreign denominated bond

Figure 3. Balance sheet effects of the Self-financing Programme, Step 3.

In an alternative scenario presented in [Appendix B](#), – in contrast to step 3, the central government uses the newly issued HUF bonds to repay HUF-denominated bonds held by foreign investors. Assuming that foreign investors leave the country, the consequences are very similar: The country's gross external debt is reduced (Gór-Holecz et al., 2016), at the cost of foreign exchange leaving the country. As a result, net external debt remains unchanged. Meanwhile, the MNB's balance sheet is shrinking.

4.2.3. Bond funding for growth scheme

The MNB launched its Bond Funding for Growth Scheme (BGS) in July 2019. Although the amount allocated to the BGS was increased several times – and it was later used as one of the programmes to deal with the Covid crisis – the initial amount was HUF 300 billion (~ EUR 930 million). The sources were used to purchase the bonds of domestic non-financial corporations either in the primary or secondary market. The BGS was structured to give the MNB a large degree of freedom and discretion to directly finance companies beyond its traditional banking partners. The stated objectives were to improve the underdeveloped corporate bond market in Hungary, to diversify the financing of the corporate sector, to promote bond markets as an alternative to bank lending and to improve monetary transmission by increasing competition between alternative sources of financing.

The BGS showed a strong affinity with economic nationalism in terms of its embedded discretion, the support for domestic corporations and its aim to develop a dysfunctional domestic market. A possible counter-argument could be that the BGS was not a Hungarian nationalist deviation from mainstream monetary policy, but was fully in line with the European trend. The MNB explicitly referred to the ECB's Corporate Sector Purchase Programme (CSPP) and the Bank of England's (BOE) Corporate Bond Purchase Scheme (CBPS) as examples on which it built the BGS (MNB, 2019).

Table 3. The assessment of the consistency of Hungary's monetary policy with economic nationalism.

Ideal-type monetary policies of economic nationalism	Flagship programmes of the MNB			Other examined MNB policies supporting the specific item on the agenda of economic nationalism
	Funding for Growth Scheme	Self-financing Programme	Bond Funding for Growth Scheme	
Directly serving government preferences – reduced independence	✗	✓ Promoting the government's access to favourable finance	✗	
Taking fiscal burdens off the government	✓ Cost of supporting the SMEs	✗	✗	Educational functions assumed by the MNB; Implicit profit target of the MNB
Financial repression	✗	✓ Forcing banks to buy government bonds	✗	
Reduce external constraints and vulnerabilities, elimination of foreign currencies	✓ Partly used to repay foreign currency loans of SMEs	✓ Reduce the foreign debt of the government; Improve the sovereign rating and the perception of capital markets	✗	Phasing out the households' foreign-denominated loans
Developmentalist policies	✓ Develop the dysfunctional SME loan market	✗	✓ Develop the dysfunctional corporate bond market	
Stimulation of the aggregate demand (expansionary monetary policy)	✓ Lower interest rate for SMEs, create central bank money	✓ Reduce government bond yields	✗ Not particularly stimulative – money created was sterilised	Interest rate policy – low real interest rates in regional comparison; Presumably undervalued exchange rate
Promotion of insiders	✓ Domestic SMEs	✓ Domestic government	✓ Domestic large corporations	
				Low HUF interest rates benefit mainly domestic companies dependent on the local financial sector

However, there are two key differences. First, the exemplary programmes were much more rigorous in accepting only investment grade bonds. Second, the respective programmes of the ECB and the BOE were announced in 2016, when both central banks were struggling with below-target inflation. In this sense, CSPP and CBPS were used as monetary tools of quantitative easing and stabilisation (MNB, 2019). However, this is not the case with the BGS: in the three months prior to the announcement of the BGS in March 2019, core inflation accelerated and exceeded the 3% level. From December to February, core inflation was 2.9%, 3% and 3.5% respectively. Furthermore, in December 2018 the MNB reported positive output gap. In such an economic environment, the BGS was intended to be neutral from a monetary policy perspective. Therefore, the central bank money created as a by-product of the purchases was sterilised. Thus, unlike the FGS and also unlike the CSPP and CBPS, the MNB's corporate bond purchase programme was not primarily used for stabilisation purposes.

In summary, corporate bond purchase programmes to stabilise economies were not unprecedented in the 2010s. On the other hand, the timing and the parameters of the BGS suggest that it was rather used to serve developmentalist goals of economic nationalism. Going a step further into political considerations, a frequently articulated position is that the government-linked companies received preferential treatment (Herman, 2022). Another assumption is that the BGS came at just the right time for those government-related companies that had already exhausted their credit limits from commercial banks (Brückner, 2019). The latter could be interpreted as a politically biased way of strengthening the national capitalists (Scheiring, 2021), a potential source of national autonomy in contrast to the dominant role of foreign capital in many small open economies of the (semi-)periphery.

5. Discussion

In this section, I first show that the three flagship programmes of the MNB were consistent with the concept of economic nationalism defined above. Then, in order to gain a better understanding of nationalist monetary policies, I present the achievements and costs of these programmes. Anticipating my conclusions on policy-making, the small, open, transnationally integrated countries of the (semi-)periphery should strike a subtle balance between autonomous decision-making and meeting the external demands of the globalised world economy. The former – in affinity with economic nationalism – has the potential to make real gains and reap certain benefits of globalisation in the national interest. However, too much nationalism with limited central bank independence leads to harmful consequences: eroded trust of international capital markets, inflationary bias, etc. On the other hand, as Rodrik (2011) shows using the example of Argentina in the 1990s, economic policy subordinated to hyper-globalisation is also a dead end. The latter sooner or later comes into conflict with domestic constituencies. To sum up, there is a narrow policy space in which to find the optimal policy.

5.1. Consistency with economic nationalism

Comparing the conceptual framework with the empirical results, I conclude that the Hungarian monetary policy was indeed in line with economic nationalism. It is not the SFP, the FGS or the BGS alone that make monetary policy nationalist, but their combination. The fact that all three flagship programmes were imbued with economic nationalism confirms the assumption that Hungarian monetary policy can be considered nationalist in the period under review. The paper's findings on consistency with economic nationalism are summarised in Table 3. In the first column the ideal-type monetary policies of economic nationalism are presented according to Section 3.2. The signs ✓/✗ denote if a certain policy served/did not serve the specific point of the nationalist agenda.

5.2. (Nationalist) achievements of the MNB's policies

Contrary to the traditional definition of economic nationalism, which equates it with economic mismanagement, some of the MNB's achievements must be recognised beyond the narrow nationalist interpretation. Even in the absence of a nationalist

mindset, sufficiently bold counter-cyclical policies in times of negative output gap, addressing market failures in the case of dysfunctional money and capital markets, improving the market perceptions of the country and restoring the channels of monetary transmission are welcome. Other achievements, however, are more controversial, such as the multipurpose use of monetary policy to promote insiders exclusively, or to expand the policy space of the government. The latter may compromise the primary objective of price stability.

5.2.1. The development of dysfunctional financial markets and the promotion of the related domestic actors

The combination of FGS and BGS has facilitated financing for a wide range of domestic companies, from SMEs to large corporations. In the case of the FGS, its original objective was to intervene in the dysfunctional credit market of the SME segment. Between the onset of the GFC and 2013, the total loan portfolio of the corporate sector declined by 25% (Hegedűs & Schmidt, 2022). Ban and Bohle (2021) point out that SMEs were in a particularly difficult situation. In their view, dependent financialisation led to an outcome where foreign-owned banks were less likely to lend to non-financial institutions, especially smaller ones. In 2010, the share of SMEs in the total corporate loan portfolio was significantly lower than in Slovakia, Slovenia and the Czech Republic. At the same time, the interest rate on SME loans was significantly higher in Hungary (p. 13). Thus, Ban and Bohle (2021) confirm the MNB-related authors in their assessment that the SME credit market was dysfunctional. Apart from the financial aspects, Kovacs and Domonkos (2024) show that industrial policy, with its one-sided focus on multinationals, has also neglected Hungarian SMEs. Accordingly, the FGS loans, with a maximum interest rate of 2.5%, were a previously missing element in the policy mix that could actually stimulate SME lending.

As far as the BGS is concerned, it aimed to improve the underdeveloped corporate bond market in Hungary. In 2018, the bond market of non-financial corporations amounted to about 1.5% of GDP, which was significantly lower than not only the EU27/EU28, but also the East-Central European average (MNB, 2019). As Bécsi et al. (2021) show, the BGS could indeed provide a boost to the otherwise dried up market: the stock of corporate bonds rose to 3.2% of GDP by the end of 2020. Szekeres (2021) concludes that the financing available under the BGS was favourable compared to competitive interest rates. In addition, the financing offered for a minimum of 3 years and up to 30 years had the potential to lengthen the maturities of corporate financing. The BGS was therefore nationalist in the sense that it had a developmentalist approach and promoted a certain circle of insiders, namely the large domestic companies active in the bond markets.

5.2.2. Appeasing the capital markets, reducing external vulnerabilities and constraints

Among the examined programmes, the Self-financing Programme, with the stated objective of reducing external vulnerability, was the one that primarily enhanced the country's perception in the capital markets. Improved perception could ease external financing constraints, and thus contribute to greater policy autonomy, a core element of economic nationalism.

Going into detail, MNB (2022) acknowledges that it is the country's net external debt that is of particular importance in terms of external vulnerability. However, Figures 1–3

show that the Programme had no direct impact on the net external debt: external liabilities were reduced at the expense of foreign exchange reserves. In terms of net indebtedness, the latter two offset each other. This is one of the main points of criticism articulated by Surányi (2016). In order to reduce net foreign debt, the balance between savings and investments – in practical terms the current account balance – should be improved. However, the latter would impose costs on the real economy that the MNB considered too high in 2014. As a result, MNB (2022) concludes that the socially optimal choice for reducing external vulnerability was the SFP, whose mechanism moderates only the gross external debt. Even the highly critical Surányi (2016) acknowledges that the Programme was well received by foreign actors such as the European Commission or the IMF.

I argue that the SFP was used to circumvent the methodology of the rating agencies. It was used to raise Hungary's sovereign rating at minimal cost to the real economy. Moody's (2013) provides an insight into their sovereign rating methodology. One of the factors used to assess the fiscal strength of countries was the share of foreign denomination in their general government debt. This is precisely what the Self-financing Programme directly influenced. Therefore, the Programme had the potential to be effective in promoting better ratings and better risk perceptions in the capital markets. To cite a few examples: in November 2011, Moody's revealed that one of the key reasons for downgrading Hungary's credit rating was 'the country's vulnerability to external shocks stemming from the government debt structure' ... 'Approximately, 64% of general government debt is held by non-residents, of which two thirds is denominated in foreign currency' ... 'At an expected 131% of GDP in 2011, Hungary's [gross] external debt is very high'.¹⁰ Fitch explained the downgrade of Hungary on 6 February 2012 by a number of factors, including 'Hungary's high stock of government, external and private sector foreign currency debt'.¹¹ The above vulnerabilities are exactly the ones that the SFP addresses. Consequently, in May 2016, Fitch explicitly recognised the Programme as a contributor to Hungary's upgrade. In its report, Fitch highlighted that the proportion of government debt denominated in foreign currency has fallen from 49% in 2011 to 28% in 2016. At the same time, the share of non-resident holders of local currency debt fell from 40% in 2012 to 23%.¹²

At the end of 2014, the MNB, in cooperation with the government, took another step that contributed to reducing the gross external debt and increasing the policy space: phasing out the households' foreign-denominated loans. Eliminating foreign currencies from the domestic economy was fully in line with the logic of economic nationalism. To avoid turbulence in the foreign exchange market, the MNB made more than EUR 9 billion available to the commercial banks to facilitate the conversion (MNB, 2022).

5.2.3. Monetary policy serving the government's policy space

Piroska (2022) has highlighted some of the aspects through which the MNB eased government financing, in particular the implicit profit target of the central bank. The profits were then used to carry out government functions, such as education. However, the delegation of fiscal expenditure to the central bank – in order to transgress narrow fiscal limits in the EU environment – was much more extensive than presented by Piroska (2022). The Funding for Growth Scheme convincingly illustrates this.

The FGS imposed a fiscal burden on the MNB. Refinancing loans were offered at a fixed interest rate of 0%. Central bank lending implies central bank money creation. The newly created money is expected to be deposited by the MNB at the current interest rate. In this way, FGS has a cost that is determined by the difference between the actual interest rates on the MNB's deposit and the 0% rate. As a result, the MNB has taken over government functions – namely the support of SMEs – with all their fiscal burdens.

My argument is that the assignment of fiscal responsibility to the central bank can have a moderating effect on the deficit through several channels: First, Paragraph 166 of the Central Bank Act,¹³ which was in force during the period under review, stated that if the MNB's current annual loss exceeds its retained earnings, the government is obliged to cover the difference within eight days of receiving the financial statement. Thus, sooner or later, the budget realises the financial burden of the reallocated responsibilities, either in the form of a reduced dividend received from the MNB or in the form of an obligation to cover the MNB's losses. It is important to note, however, that the realisation of these expenses occurs with a time lag, which could be crucial in a period when the EDP has just been lifted.

Second, as presented in the previous point, it is a legal but not an economic obligation that the loss of the MNB has to be covered by the budget. Stella (1997) points out that central banks do not even need positive capital to operate and maintain their ability to pay. However, laws can be amended by simple or qualified parliamentary majorities, both of which are a given for the Orbán governments. In fact, from December 2022, when inter alia the widening of the FGS-related interest rate differential led to massive losses for the MNB, changes have been enacted that relax the government's obligation to cover the losses. These changes have created the legal possibility for the MNB to operate with negative equity and at the same time reduced the fiscal pressure on the government.

5.2.4. Expansionary monetary policy stimulating output and employment

The FGS was an expansionary monetary policy measure introduced at a time of subdued growth and below-target inflation. The expansionary nature was embodied in several features. On the one hand, it was a targeted instrument to lower interest rates for SMEs. On the other hand, the provision of refinancing loans to commercial banks created new central bank money and thus inflated the MNB's balance sheet. Third, the FGS could be seen as implicit forward guidance. The MNB had an incentive to keep interest rates low in order to avoid losses on the FGS-related interest rate differential.

The Self-financing Programme is also an expansionary tool. Its peculiarity lies in the fact that the expansion is taking place despite the contractionary effect on the central bank's balance sheet. The contraction takes the form of lower sterilisation stocks on the liabilities side and lower foreign exchange reserves on the assets side. Meanwhile, the expansionary effect works by creating additional demand for government bonds, pushing up the bond price and lowering the interest rate. Based on the estimate of Csávás et al. (2016), the programme has reduced government bond yields with maturities of 3–10 years by 75–90 basis points.

Despite the opposite effect on the central bank's balance sheet, consistency can be found between the FGS and the SFP. It can be argued that the generation of additional

central bank liquidity through the FGS actually amplifies the effect of the SFP. There is more central bank money to be squeezed out of the MNB's main policy instrument. In this sense, the combination of the two programmes could even be interpreted as a disguised form of monetary financing. It is not the central bank that buys government bonds directly, but it provides the commercial banks with the funds and incentives to do so.

5.3. Costs related to the MNB's policies

5.3.1. Interest rate risk and credit risk

The FGS entailed a massive interest rate risk for the central bank, as the refinancing loan was provided on a fixed and long-term basis. The risk materialised with the post-Covid inflation spike, necessitating interest rate hikes. Thus, the FGS contributed to the extreme central bank loss of HUF 400 billion (~ EUR 1 billion) in 2022, which increased further in 2023, pushing the MNB's equity into negative territory.

Regarding credit risk, the MNB purchased bonds with a rating of no lower than 'B+' under the Bond Funding for Growth Scheme. Based on the information published by the MNB,¹⁴ Scope Ratings has assigned a rating to more than 87% of the participating companies. As stated in the documentation on Scope's rating methodology, 'ratings at the B level reflect an opinion of weak credit quality'.¹⁵ Rating B is below the lowest investment grade, which is 'BBB-'.¹⁶ Therefore, unlike the corporate bond purchase programmes of the ECB and the BOE, the BGS was not designed to keep credit risk at a fairly low level.

5.3.2. The risk of overheating the economy

The post-crisis trend in global monetary policy has been to increasingly sacrifice political independence – the extent to which central banks are insulated from the influence of elected politicians – in favour of an expanded mandate and political legitimacy. Balls et al. (2016) find that such a sacrifice has limited costs in advanced economies – as long as operational independence¹⁷ is guaranteed. However, they caution that in emerging and developing economies with less established institutions, political independence is likely to be a more important condition for avoiding inflationary monetary policy. These findings imply that in the universe of cases we examine, economic nationalism, with its tendency to undermine central bank independence, poses a markedly high risk of politically induced business cycles and overheating the economy. As far as Hungary is concerned, I argue that the expansionary stance of monetary policy has indeed gone beyond counter-cyclical stabilisation.

First, Hungary is a converging economy within the European Union. Eurostat data show that Hungary's GDP per capita, expressed in purchasing power standards, increased from 68% of the EU-27 average in 2013 to 75% in 2020.¹⁸ Based on the Balassa-Samuelson effect, the theoretical expectation in converging economies is to observe real appreciation of the domestic currency (Balassa, 1964). However, comparing the theory with actual data on the real effective exchange rate (REER)¹⁹ leads to some striking observations: as shown in Figure 4, the Hungarian forint did indeed show a real appreciation trend from the turn of the millennium until the early years of the 2010s. From 2012/2013, however,



Figure 4. Real effective exchange rate (REER) of the Hungarian Forint, 2000=100. Source: MNB

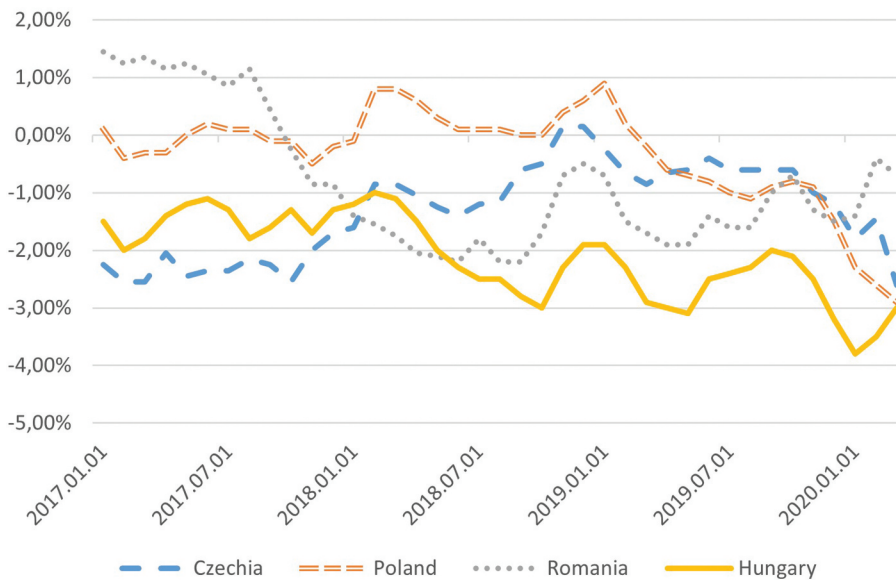


Figure 5. Regional real interest rates calculated as the difference between the key policy rate and the HICP inflation. Sources: Czech National Bank, MNB, Narodowy Bank Polski, National Bank of Romania, Eurostat

a new trend has emerged with a steady real depreciation of the forint. The former is indirect, implicit evidence, in line with Surányi (2019) that monetary policy during the Matolcsy-era has consciously, but not overtly, weakened the forint. Meanwhile, the MNB officially maintained a free floating exchange rate regime.

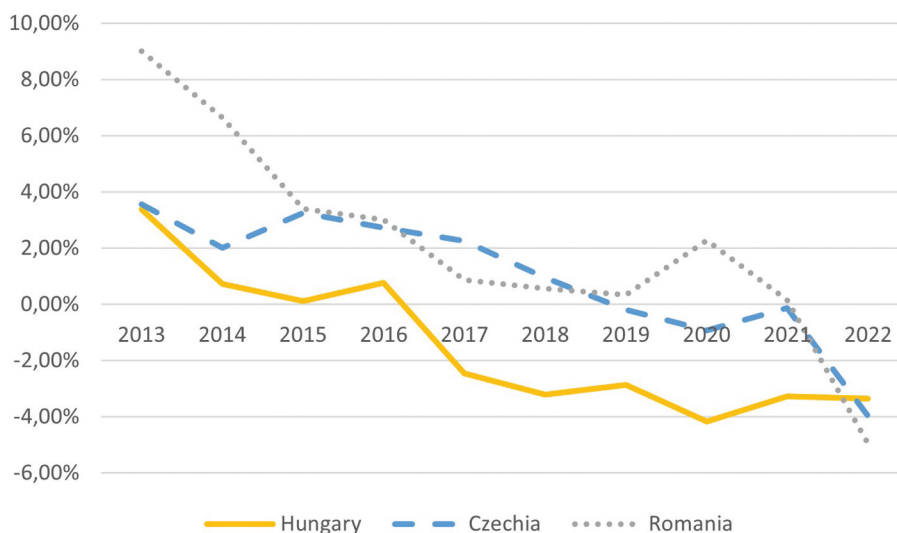


Figure 6. Regional comparison of the real interest rates based on World Bank calculations. Notes: No data available for Poland Source: World Bank

Second, the MNB's interest rate policy was also highly stimulative. The regional comparison presented in Figures 5 and 6 confirms this. In Figure 5 the real interest rate is calculated as the difference between the central bank's key policy rate and the HICP-based inflation rate for each month. From June 2017 until the Covid crisis, Hungary was consistently at the bottom.

In Figure 6, I have cross-checked my findings with the annual data provided by the World Bank (WB). The WB's real interest rate is calculated as the difference between the respective lending rates and inflation, the latter measured by the GDP deflator. According to the World Bank, Hungary had the lowest real interest rate in the region continuously between 2013 and 2021.

The effects of the overheated economy were already becoming apparent in the 2010s. By early 2020, inflation had reached the above-target rate of 4.7%. The current account surplus, which was 4.6% of GDP in 2016, had completely melted away by 2019. Karas (2022) reports labour shortages and rapid real wage growth between 2015 and 2020. Based on these, two conclusions can be drawn. First, even before the Covid and the Russian-Ukrainian war, Hungarian monetary policy had exhausted most of its policy space, which was sorely lacking to manage the subsequent crises. Second, the years of monetary expansion sent the message to the markets that the MNB had a bias for growth over inflation. With these two implications, it is not surprising that Hungary suffered from the largest macro imbalances in the region after the outbreak of the war. Inflation peaked at 25.7% in January 2023 and the current account deficit was 8.2% in 2022. The main policy rates in the surrounding countries peaked at 6–7%. In contrast, the MNB had to apply an extremely high interest rate of 18% to stop the depreciation of the forint and curb inflation. The previously nurtured expectations around a loose monetary policy had to be re-anchored once again around the inflation target. However, convincing the markets came at a cost in terms of interest expenses, resulting in massive losses for the central bank. In conclusion, there is a link between the nationalist monetary policies that were applied in the 2010s and the extreme macroeconomic imbalances in the 2020s.

6. Conclusions

With a strong focus on monetary policy, the paper aimed to clarify economic nationalism conceptually. I argued that the main elements of nationalist monetary policy are the reduction of central bank independence, taking over fiscal expenditures from the government, efforts to reduce external constraints and vulnerabilities, eliminating foreign currencies in the domestic economy, assuming development banking functions, Keynesian stimulation of aggregate demand and the exclusive promotion of insiders.

Both the literature and my own findings support the claim that post-2010 Hungary is a critical case of economic nationalism. The paper presented three flagship programmes of the Hungarian National Bank for the period 2013–2020 – the Funding for Growth Scheme, the Self-financing Programme, and the Bond Funding for Growth Scheme. All three programmes were found to be imbued with the core ideas of economic nationalism, namely discrimination in favour of insiders, promotion of autonomy and developmentalism. They illustrated how economic nationalism can manifest itself in monetary technicalities. They also showed that monetary policies of economic nationalism cannot be equated with monetary mismanagement. Certain achievements must be recognised beyond the narrow nationalist interpretation. The programmes examined were effective in stimulating the dysfunctional SME lending and corporate bond markets. The SFP has contributed to the improvement of Hungary's credit rating and a better risk perception in the capital markets. The MNB was also effective in easing the fiscal pressure on the government and boosting economic growth. Therefore, these findings confirm those of Johnson and Barnes (2015) that international capital markets do not necessarily punish nationalist practices, especially when economic conditions are favourable. On the other hand, the monetary policy of economic nationalism entailed significant credit and interest rate risk. The latter materialised in the period of high inflation in the post-Covid period, leading to massive losses for the MNB. In addition, economic nationalism, with its tendency to undermine central bank independence, especially in countries with weak institutions, poses the risk of politically induced business cycles. The latter entails the risk of an inflationary bias and an overheated economy. In the case of Hungary, extreme macroeconomic imbalances in the 2020s drew attention to these potential negative consequences of economic nationalism.

Taking into account both the benefits and the costs revealed in the Hungarian case, I insist conceptually on a revisionist, value-neutral conceptualisation of economic nationalism. From a policy perspective, small, open, transnationally integrated countries of the (semi-)periphery have a narrow policy space in which to make a subtle trade-off between the potential benefits of autonomous decision-making and the point at which the risks of nationalist economic policies materialise.

Notes

1. Source: Hungarian Central Statistical Office, https://www.ksh.hu/stadat_files/ara/hu/ara0039.html
2. The announcements are available: <https://www.mnb.hu/monetaris-politika/a-monetaris-tanacs/kozlemenyek>

3. Friedrich List, perhaps the best-known 19th-century theorist of economic nationalism, lived between 1789 and 1846.
4. <https://www.mnb.hu/monetaris-politika/a-monetaris-tanacs/kozlemenyek/2013/a-monetaris-tanacs-allasfoglalasa-a-marciusi-inflacios-jelentesben>
5. <https://www.mnb.hu/letoltes/dec-2013-inf-report-publik-eng.pdf>
6. <https://www.mnb.hu/letoltes/ir-angol-vegleges.pdf>
7. <https://www.mnb.hu/sajtoszoba/sajtokozlemenyek/2016-evi-sajtokozlemenyek/a-magas-nyomasu-gazdasag-valasz-a-kor-kihivasaira>
8. <https://www.mnb.hu/en/publications/reports/financial-stability-report/report-on-financial-stability-from-2000-to-november-2013-1/report-on-financial-stability-november-2013>
9. https://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/30_edps/126-12_council/2013-06-21_hu_126-12_council_en.pdf
10. https://www.moodys.com/research/Moodys-downgrades-Hungary-to-Ba1-negative-outlook-PR_231319
11. <https://www.fitchratings.com/research/sovereigns/fitch-downgrades-hungary-to-bb-negative-outlook-06-01-2012>
12. <https://www.fitchratings.com/research/sovereigns/fitch-upgrades-hungary-to-bbb-outlook-stable-20-05-2016>
13. Act of CXXXIX., 2013.
14. <https://www.mnb.hu/monetaris-politika/novekedesi-kotvenyprogram-nkp>
15. <https://scoperatings.com/dam/jcr:489a367c-01ba-4b3e-b203-1de2dca46da2/Scope%20Ratings%20Rating%20Definition%202023.pdf>
16. <https://www.scoperatings.com/ScopeRatingsApi/api/downloadmethodology?id=288180ad-b908-4f1b-872b-40617a2da901>
17. Operational independence (or instrument independence) is the autonomy of the central bank in the choice of monetary policy instruments.
18. <https://ec.europa.eu/eurostat/databrowser/view/tec00114/default/table?lang=en>
19. Formally, $REER = (EP^*)/P$ where E refers to the nominal exchange rate, P^* to the foreign price level and P to the domestic price level. An increase of the REER means real depreciation.

Disclosure statement

No potential conflict of interest was reported by the author(s).

Funding

This work was supported by the Budapesti Corvinus Egyetem [Corvinus Doctoral Scholarship].

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Appendix

Appendix A: The phases and elements of the Self-financing Programme

Table A1. Components of the Self-financing Programme.

Date	Phase	Measure
April 2014	First	Announcement of the Programme
June 2014		Introduction of the conditional interest rate swaps in which MNB pays variable interest rate in exchange for fix rate
August 2014	Second	The conversion of MNB's main policy instrument from 2-week bond into 2-week deposit
September 2015		The conversion of MNB's main policy instrument from 2-week deposit into 3-month deposit (imposing quantity constraint on the remaining 2-week deposit that was previously deprived from the special status of being the main policy instrument)
September 2015		Restructuring the interest rate corridor to make MNB's overnight collateralised loan more attractive. Cutting the maturity of credit tenders by half to further support the liquidity management of the banks.
December 2015	Third	The optional reserve requirement (2, 3, 4 or 5%) is replaced by a mandatory 2% reserve ratio
April 2016		Phasing out the 2-week central bank deposit
July 2016		Phasing out the Self-financing Programme related IRS tenders
August 2016		Reducing the frequency of the tenders on the 3-month deposit from weekly to monthly
October 2016		Quantity restriction imposed on the 3-month deposit
December 2016		Lowering the mandatory reserve ratio to 1%

Sources: MNB (2022), Gór-Holecz et al. (2016), Official announcements of the Monetary Council of the Hungarian National Bank.

Appendix B: Balance sheet effects of the Self-financing Programme, Alternative scenario

	MNB		Commercial banks		Central government	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Alternative Step 3: HUF bond held by foreign investors repaid by new HUF issue		- x Single Treasury Account	+ x liquid account by MNB	+ x current account of foreign investors (HUF)	- x Single Treasury Account	- x HUF bond held by foreign investors
		+ x commercial banks' liquid accounts				

Figure B1. Balance sheet effects of the Self-financing Programme, Alternative Step 3.

	MNB		Commercial banks	
	Assets	Liabilities	Assets	Liabilities
Alternative Step 4: Foreign investors leave the country, MNB provides currency for commercial banks	- x foreign exchange reserve	- x commercial banks' liquid accounts	- x liquid account by MNB	- x current account of foreign investors (HUF)
			+ x foreign currency - x foreign currency	

Figure B2. Balance sheet effects of the Self-financing Programme, Alternative Step 4.