Pál Péter Kolozsi

How Can We Escape the Middle Income Trap?

Dániel Palotai – Barnabás Virág

Competitiveness and Growth

National Bank of Hungary, 2016

Summary: The global financial crisis has refocused attention on the sustainability of economic processes and the competitiveness of the economy. It has become obvious that lasting growth is not possible without balance and competitiveness. Accordingly, after having taken the most needed crisis management actions, Hungary has achieved a complete turn-around in terms of its economic policy, which, by breaking away from previous dichotomy, has aligned macro-financial balance and real economy-related growth. The structural adjustments and stabilisation prepared the ground for mutually reinforcing competitiveness reforms, as a competitive Hungarian economy represents a competitive labour market and human resources, a competitive corporate sector, a competitive state and a competitive financial and banking system all at the same time. A monograph entitled Competitiveness and Growth published by the National Bank of Hungary may serve as a common thread for the required transformations, which envisages the need for improving the balance between production factors and value creation capabilities, so that Hungary might step on a new path leading to balanced status, and might escape the middle income trap. The societal utilisation of the monograph is clearly marked by the fact that by the beginning of 2017 actual actions have been taken in the case of many proposals mentioned in the paper.

Keywords: competitiveness, growth, reform, stabilisation
JEL codes: E58, E62, H20, J20, O40

Competitiveness has been one of the most frequently used and referenced terms in economics and economic policy over the last decades, and particularly in the last few years. This recent appreciation of competitiveness has certainly a lot to do with the 2008 global economic crisis and its aftermath causing considerable damage in certain countries, and one of the many lessons learnt was that growth is valuable only, if it is sustainable – there is no such thing as cheap success, not even in the age of cheap loans; fundamentally unsubstantiated processes will sooner or later lead to a meltdown. It further focused attention on the importance of international competitiveness that the years spent in financial crisis resulted in growing

E-mail address: kolozsip@mnb.hu

income inequalities, social and political tensions that had their impacts also on the economic environment. Meanwhile, growth prospects have become rather suppressed, and according to more pessimistic opinions one should prepare for long-term stagnation (*secular stagnation*[1]), external imbalances are on the rise, whereas public finances are increasingly stretched in many countries. Many people look into the future with anxiety mixed with a certain feeling of insecurity, with particular regard to the fourth industrial revolution threatening (or promising) to radically change the whole economic structure, as well as putting the stability of the institutional environment to test.

Based on experiences gained in economic history, in Hungary competitiveness is even more important: unfortunately, for the very reason that our country faced the imperative to choose between balance and growth in the approximately four decades starting from the 1970s, apart from for some short, exceptional time periods, namely it was unable to permanently achieve a sustainable balance between public finances and the current account, or economic growth at the same time (Matolcsy, 2015).[2]

The fact that the National Bank of Hungary (MNB) launched a series of books in 2015 featuring at first *Equilibrium and Growth* followed by a monograph Competitiveness and Growth in 2016 clearly indicates that competitiveness has become the focus of attention in Hungary.[3] The book published by the central bank and edited by *Dániel Palotai* and *Barnabás Virág* analysed the current challenges of competitiveness in Hungary by looking at the competitiveness of access to employment, the corporate sector, the state, human resources and the banking sector and at the possibilities of more effective utilisation of EU grants, and then gave concrete recommendations for resolving the related issues. After describing the general frameworks of competitiveness, this essay attempts to evaluate the competitiveness challenges faced by Hungary, and to explain the related recommendations given by the central bank, as well as the related measures taken.

WHAT MAKES A NATIONAL ECONOMY COMPETITIVE?

It is not easy to define what exactly makes an economy competitive, or uncompetitive for that matter. Earlier, simplistic, therefore not too forward-looking, approaches seemed to be widely popular, according to which competitiveness was equivalent to low cost level (for example, low wages), namely the indicator of competitiveness was thought to be some real exchange rate based on some kind of a price index. Others emphasized that competitiveness was ultimately nothing else, but a healthy economy, good education system or innovative capacity, or public safety and legal certainty, public services and quality infrastructure, or even favourable climatic conditions. The approach adopted by the World Economic Forum (WEF)[4], having compiled a competitiveness report every year since 1979, has been more holistic, and therefore more complex, according to which competitiveness is a combination of those institutions, policies and other factors that define the productivity of a given national economy. According to other generalist approaches, competitiveness is determined by the capability of a given country to promote the prosperity and well-being of its citizens (population), to increase the standard of living, what is more, to support people in taking ownership for their country, and for the community. According to the European Commission[5], competitiveness means, on the one hand, that companies successfully meet the challenges of domestic and international markets, and on the other hand, the capabilities of certain countries as to what extent they can support development in the corporate sector. Consequently, competitiveness is a fundamental determinant of economic growth and job creation.

In terms of more generalist definitions, the contradictions are perhaps merely apparent, and subject to focus only, as a productive economy represents increasing output and income, which potentially also advances prosperity and well-being. There is little doubt that productivity is an important element of competitiveness, as without productivity, there is no growth and the increase of incomes cannot be supported either, however, the level of income has a great impact on the quality of human life. At the same time, it is also important to note that real competitiveness means that increased productivity is shared among a growing number of people, i.e. the general economic and living standard of the affected country should also improve, and this competitiveness should lead to prosperity. Truly competitive economies are the ones that are able to achieve sustainable and inclusive growth by continually increasing the probability that society as a whole may benefit from such economic growth.[6] Naturally, all this is affected by many factors, including education, healthcare and infrastructure often captured in the definitions.

The deeper layers of competitiveness clearly depend on the values shared by and on the rules applied by the given union of countries, i.e. on the institutional environment. The importance of institutions, having been unduly neglected for a long time by neoclassical economics, has been increasingly recognised by economists, and today it is not questioned any more whether the standard of institutions and regulation is of primary importance for economic development (as it is clearly of primary importance), but the main focus is on the question as to what institutions are needed so that an economy may enter and remain on a growth path. There is no consensus about the question as to what drives institutional development, and what factors are responsible for "stalled" development. According to *Rodrik* and *Subramarian* (2003), the primary explanatory factors of development are the institutions (*market creating institutions*) guaranteeing the protection of private property underpinning market economy, *market regulating institutions, market stabilizing institutions* and *market legitimizing institutions.* According to *Douglas North,* one of the living legends of the Institutional Economics school of thought, although it is almost impossible to determine the ideal theoretical institutional mix, however, some general conclusions may be drawn from past experience.[7] By summarising the thoughts shared by North (1992) we may come to the following conclusions.

❶ The institutional matrix consists not only of formal rules, but of informal norms and habits that also form economic performance. Formal rules must be aligned to informal foundations, in other words, every country must address the challenges by building upon and matching its own capabilities. The copying of "western" scenarios compiled by others would not be a good solution.

❷ Politics is a societal subsystem where rules underpinning economic performance are created. Therefore, it is important that the political institutional system should be stable and legitimate.

❸ One prerequisite for a competitive economy is adaptability.[8] Good economic performance is based on the flexibility of the institutional matrix, a regulatory framework, state (societal) and political (economic) operations capable of adapting to technological, demographical and other changes.

Based on international experience gathered by World Bank, again it is demonstrated that the competitiveness of an economy is based on multiple successive factors: the affected country must be equally characterised by economic openness, macroeconomic stability, future-orientation with high saving and investment ratios, and high quality state governance. *(See Figure 1)*

Consequently, competitiveness is a complex notion, no economy can be made competitive by the isolated development of a certain partial field.[9] Therefore, it is to be welcome that after the publication of Competitiveness and Growth, competitiveness-related professional discourse in Hungary may again revolve around a monograph discussing scientific and international experiences, which does not reduce the development of competitiveness to easily-ticked tasks, but clearly opt for a complex approach to competitiveness.

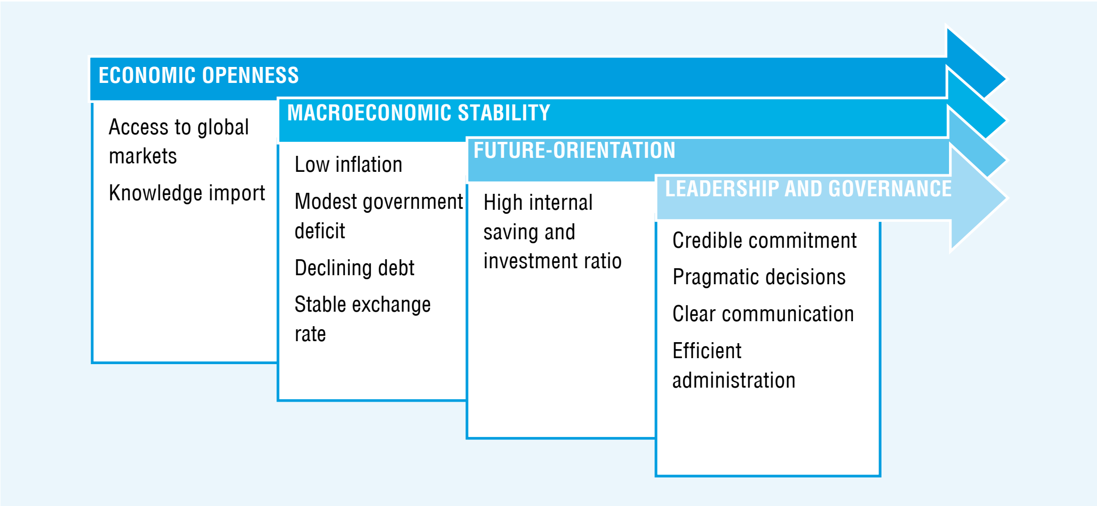
WHY IS COMPETITIVENESS AN ACTUAL ISSUE IN HUNGARY TODAY?

The new economic policy launched in 2010–2013, based on the experiences gained during the global economic crisis, focused on the alignment of macro-financial balance and real economy-related growth, by breaking with a previously prevalent dichotomy. The turnaround at first in the fiscal policy, and after 2013 in the monetary policy was intended to serve this financial and economic stabilisation goal. However, the sustainability of positive processes and the need to overcome the disparities present in the Hungarian economy, and its catching-up to Western European development levels require that after its stabilisation the primary focus of Hungarian economic policy should be on the enhancement of competitiveness (Matolcsy, 2016). This is particularly important, because as opposed to the wishful thinking demonstrated by many people, convergence does not take place automatically, but it requires hard and systematic work – in the past five decades the number of those countries that remained stuck in the developing status was higher than the ones departing from that stage.[10]

Stabilisation in the past few years has made it possible for Hungary to be able to concentrate on longer term competitiveness. After

Figure 1

CONDITIONS REQUIRED FOR COMPETITIVENESS IN THE LIGHT OF INTERNATIONAL EXPERIENCES



Source: MNB (National Bank of Hungary), World Economic Forum (2017) the spillover to Hungary of the 2008 global financial crisis, the first two years were devoted to fire fighting, so the fundamental and systematic reforms were launched in 2010 only. However, the initial situation in 2010 was not easy: a financial and a debt crisis had to be addressed in parallel, as well as the problems of a distorted budgetary structure, low labour market activity by European standards and of low potential growth, all the while conventional (expenditure and deficit-increasing) budgetary measures were not available for Hungary due to the international financial and political environment.[11] Consequently, the alignment of balance and growth in practical life required a prudent fiscal policy, the reduction of public debt, tax reforms, employment reforms, settlement of domestic foreign currency loans and a new approach to monetary policy. As a result of the decisions made and steps taken, activity and employment rates increased, the rate of unemployment decreased, the government deficit dropped below the 3 per cent GDP-proportionate level as required by the European Union and the government debt ratio stepped on a sustainably decreasing path,[12] while in parallel, the external indebtedness of the Hungarian economy decreased considerably, and in 2013 Hungary was released from the excessive deficit procedures launched by the European Union. The Forint-based refinancing of foreign currency government debt, also supported by MNB's Self-Financing Programme[13], was an important step, as a result of which the foreign currency ratio of government debt decreased to 25 per cent from 50 per cent in 2011.[14] The foreign currency exposure decreased not only on the government's side, but also on the side of the population, as retail foreign currency loans were fully eliminated in 2014 and 2015. MNB's interest rate reducing policy and self-financing measures created a beneficial interest-related environment both from the aspect of growth and budgetary financing, as a result of which the interest expenses of public finances declined by almost 1% of the GDP in two years' time. The Funding for Growth Scheme launched by the central bank in 2013 provided favourable funding to over 36,000 Hungarian small- and medium-sized enterprises in the amount of close to HUF 2,500 billion, as a consequence of which the Scheme, as per MNB's estimate, contributed to the country's economic growth to the extent of approximately 2 per cent between 2013 and 2016. These positive processes were recognised by the fact that Hungary was moved again by the largest credit rating agencies to the investment grade in 2016, which means that the economy is well-balanced, i.e. it is possible to maintain sustainable growth, in other words, to focus on the enhancement of competitiveness.

However, we might still have a certain feeling of dissatisfaction, despite our achievements. There is no doubt that the regime change has transformed Hungary into a better and more liveable country, however, it is a fact that 25 years ago many people had a shared dream that has not yet come true – despite the developments seen, Hungary's economic backlog compared to Western European countries has not been eliminated, what is more, certain countries within our region outperformed us in the previous decade. The rate of convergence was the slowest in Hungary in the past two decades: when compared to the 28 EU member states, the average convergence rate of per capita GDP, adjusted for purchasing power, was 0.4 percentage point in Hungary between 1991 and 2015, while the same parameter in Slovakia and Poland exceeded 1 percentage point.[15]

Nevertheless, the "alignment" of balance and growth has created a new situation, as it opened the theoretical possibility for Hungary to take the necessary steps for catching-up. According to the approach represented by the authors of Competitiveness and Growth, it requires an improved balance between the production factors and the value creation capabilities, as a result of which Hungary might step on a new path leading to balanced status, and might break with the *middle income trap*. The new investment will lead to enhanced productivity that will allow increased wages, thus will boost macroeconomic demand. Higher demands will entail higher level of employment, which, assuming an appropriate institutional environment, will generate further investments, and the demonstrated mode of action will be resumed again. Successful convergence requires the effective cooperation of economic operators: companies have tasks in the fields of investment, research and development and innovation, the government has tasks with respect to stability, education and the institutional system, whereas the financial intermediary system has a role in the efficient allocation of the private sector's financial resources and in risk management, while Hungarian families and the civil society provide the corresponding human background to all this.

HOW CAN WE MAKE THE HUNGARIAN ECONOMY MORE COMPETITIVE?

One of the added values represented by the monograph written by *Dániel Palotai* and *Barnabás Virág* and published by the central bank is that it contains 50 concrete recommendations for decreasing the backlog of Hungarian competitiveness, in addition to discussing the theoretical principles of competitiveness. According to the authors, a competitive Hungarian economy represents a competitive labour market and human resources, a competitive corporate sector, a competitive state and a competitive financial and banking system all at the same time. The societal utilisation of the monograph is clearly marked by the fact that by the beginning of 2017 actual actions have been taken in the case of many proposals mentioned in the paper – in support of the above, I wish to describe hereunder the related actions taken so far, and I will also discuss the key ideas still to be implemented.

1 It may be viewed as a step taken in the direction of competitive access to employment that the contribution rates payable by employers decreased significantly in 2017, i.e. to 22 per cent from 27 per cent, and in 2018 an additional 2–2.5 per cent of reduction is expected, which might be continued throughout 2019–2022 subject to the increase in wages. Another move in this direction is that the monthly minimum wage was increased to HUF 127,650 from HUF 111,000, and that the guaranteed minimum wage was raised to HUF 161,250 from HUF 129,000, which might be also continued in 2018. The reorganisation of the communal work programme with a view to increasing its efficiency, the enhancement of the relationship with the competitive sector and the encouragement of atypical forms of employment (tele-working, part-time work) represented important changes. Nevertheless, in the opinion of the above mentioned authors, considerable additional reserves can be identified in the labour market, for example in the fields of the pension scheme and of the safeguarding of jobs. *(See Table 1)*

2 The competitiveness of human resources requires education and healthcare services to be of an adequate standard. Progressive measures have been taken in the field of education (in particular, introduction of the career cycle of teachers, dual vocational education and training), but there are still many things to do in this field (for example enhancement of curricula adjusted to labour

Table 1

RECOMMENDATIONS PROVIDED BY THE MONOGRAPH ENTITLED COMPETITIVENESS AND GROWTH FOR IMPROVING THE COMPETITIVENESS OF ACCESS TO EMPLOYMENT*

Competitiveness of Access to Employment
1. Reduction of labour-related taxes
2. Orientation to work of social groups with lowest level of employment
3. Increase of the ceiling applicable to the Job Protection Action Plan to the level of the minimum wage
4. Development of the communal work system: education and encouragement of market-based employment
5. Strengthening the elements of the pension scheme that support continued activity on the labour market
6. Incentivizing the use of atypical forms of employment

*: those items are highlighted that were accomplished by the beginning of 2017 or have reached the stage of implementation

Source: author's own editing

market needs and improvement of language proficiency). The Hungarian health system, the competitiveness-related importance of which was previously emphasised by *Lentner* (2007b), amongst others, suffers from lack of resources. The monograph recommends to provide the resources, in part, by involving private funds, and it also recognises the domestic enhancement of health-related prevention as a key objective. This latter is intended to be supported by the new National Youth Strategy, the objectives of which include the health promotion of school-age children by utilising the methods and devices of school-related social assistance. In addition, the objectives set by the book also include the enhancement of self-provision and the increase of the rate of graduates holding diplomas in technical and natural sciences. *(See Table 2)*

3 Adequately high and appropriately structured capital accumulation is essential for successful convergence, therefore, it is one of the key factors of corporate competitiveness. It is further supported by the fact that the so far progressively imposed corporate income tax, having applied 10 and 19 per cent tax rates earlier, has uniformly dropped to 9 per cent from 2017. In addition, the eligibility criteria of simplified and advantageous tax treatment applicable to small-sized companies (kata, kiva) have been eased, and the latter's rate has been also decreased. In terms of the quality of accumulated physical capital, the companies' research and development (R&D) activities constitute a strategic field; according to international experience, the middle income trap may be avoided by improving innovation capabilities. In this field Hungary's performance is relatively good when compared to other Central Eastern European competitors, however, it lags behind the average standard in the European Union, accordingly, further incentivization might be employed here. Every measure improves corporate competitiveness that minimises tax evasion (as it distorts competition and effective capital allocation), with particular regard to the fact that the ratio of the shadow economy represents a little more than the fifth of the overall GDP, which is higher than the average level prevalent in the European Union.[16] Several measures have been taken to reduce the size of the shadow economy in Hungary in the past years; the most important budgetary impacts have stemmed from the linking of online cash registers with the online surface of the National Tax and Customs Administra-

Table 2

RECOMMENDATIONS GIVEN BY THE MONOGRAPH ENTITLED COMPETITIVENESS AND GROWTH FOR IMPROVING THE COMPETITIVENESS OF HUMAN RESOURCES*

Competitiveness of Human Resources
1. Measures affecting demographic processes
2. Provision of additional funding by involving private funds in the financing of the health sector
3. Enhancement of prevention in health-related issues
4. Linking childbearing and pension-related matters
5. Strengthening the role of self-provision
6. Increase of the budgetary and private funds used for educational purposes
7. Improvement of primary and secondary education standards
8. Enhancement of language proficiency in secondary education
9. Further enhancement of the rate of those holding higher education qualifications
10. Increase of the rate of those holding diplomas in technical and natural sciences
11. Increase in the R&D expenditure provided to the higher education sector
12. Mental health package

*: those items are highlighted that were accomplished by the beginning of 2017 or have reached the stage of implementation

Source: author's own editing

tion (NTCA), and the introduction of the Electronic Trade and Transport Control System (ETTCS). In addition, the authors of the book published by the central bank made several recommendation with respect to the SME sector, and thought that the continued reduction of regulated energy prices was justified and progressive (utility cost reduction of corporations). *(See Table 3)*

4 A competitive state is subject to optimally-sized administration, effective and transparent institutional system, while the Hungarian state is still relatively oversized and cumbersome. The government has taken several measures intended to address this issue, the largest publicity was given to the elimination of certain governmental background institutions. Another important efficiency-related step was that economic development had been given a larger focus in terms of the utilisation of European Union funds and improvement of competitiveness that might ensure that the inflow of funds would be used to support sustainable growth. The public financial control system has been enhanced for the purpose of effective and efficient state functioning - perhaps, at first glance, few people would think that it was a step intended to improve competitiveness, however, it indirectly supported the above (Domokos, 2016).[17] In 2016 this made it possible for the State Audit Office of Hungary to give system level recommendations for entities exercising the owners' rights, supervisory boards and managements of publicly owned companies so as to support the renewal of state governance (Domokos et al, 2016).[18] The monograph published by the central bank found it particularly important to further accelerate public administration, the development of public utility services, and the continued extension and increased efficiency of the utilisation of EU funds. *(See Table 4)*

Table 3

RECOMMENDATIONS GIVEN BY THE MONOGRAPH ENTITLED COMPETITIVENESS AND GROWTH FOR IMPROVING CORPORATE COMPETITIVENESS*

Corporate Competitiveness
1. Mitigation of tax evasion
2. Simplification of corporate income tax
3. Approximation of corporate taxation to payment-based taxation for encouraging investments
4. Regular evaluation of existing tax exemptions
5. Enhancement of R&D funding
6. Increase in the number of researchers and developers
7. Increase in the innovation-related management capacities of the SME sector
8. Establishment of competing guarantee organisation for promoting lending to SMEs
9. Establishing a more intensive domestic industrial policy, adaptation of new technologies
10. Regional and local economic development
11. Reduction of regulated energy prices

*: those items are highlighted that were accomplished by the beginning of 2017 or have reached the stage of implementation

Source: author's own editing

Table 4

RECOMMENDATIONS GIVEN BY THE MONOGRAPH ENTITLED COMPETITIVENESS AND GROWTH FOR IMPROVING STATE COMPETITIVENESS*

State Competitiveness
1. Review of the number of employees and wage bill of public institutions
2. Review of the structure of public administration
3. Conducting regular satisfaction surveys on public services
4. Encouragement of law-abiding conduct
5. Acceleration of public administration by e-governance
6. Acceleration of the issue of building permits
7. Development of public utility services
8. Improve the effectiveness of bankruptcy proceedings
More Effective Use of EU Grants
1. Competitiveness- and growth-related considerations of the development policy, and their impacts
2. Competitiveness- and growth-related plans of the development policy in Hungary
3. Additional preparatory tasks of the development cycle for supporting competitiveness and growth
4. Increase in the use of direct access EU funds in Hungary

*: those items are highlighted that were accomplished by the beginning of 2017 or have reached the stage of implementation

Source: author's own editing

5 After 2013, the National Bank of Hungary took a number of measures for improving the competitiveness of the financial and banking systems, and for establishing a healthy and competing banking system[19]. It is appropriate to stress among such measures the elimination of retail foreign currency loans that significantly mitigated banking exposures and risks,[20] the Self-Financing Scheme promoting active banking system liquidity management based on liquid securities,[21] macroprudential regulations rendering the management of system level stability problems possible,[22] the Funding for Growth Scheme reviving lending to SMEs by the banks,[23] and the integration of the supervisory domain. It was viewed as significant progress in terms of the competitiveness of the financial system as a whole when the Budapest Stock Exchange (BSE) approved a new, five-year strategy for the period of 2016–2020 in the spring of 2016.[24] The fundamental objective of the new strategy is to develop and implement a comprehensive stock exchange development programme in Hungary, as a result of which the role of capital-related fundraising would increase in the financing of Hungarian companies by efficiently supplementing bank lending. Looking ahead, it is necessary to further enhance competition in the banking sector, with particular regard to the retail lending segment, and it is important to enhance innovation and effectiveness in the whole sector.

SUMMARY AND CONCLUSIONS

Hungary's potential growth has considerably improved since 2010. The fiscal and monetary turnover set the ground for macroeconomic stabilisation, and led to the situation that by the end of 2016 all credit rating agencies placed Hungary in the investment grade. However, stability is not merely an achievement for its own sake, but it is a privileged status that allows the implementation of a turnover relating to competitiveness and renders possible the escape form the middle income trap.

Table 5

RECOMMENDATIONS GIVEN BY THE MONOGRAPH ENTITLED COMPETITIVENESS AND GROWTH FOR IMPROVING THE COMPETITIVENESS OF THE FINANCIAL AND THE BANKING SECTORS*

Competitiveness of the Banking Sector
1. Encouragement of corporate lending supporting growth
2. Healthy bank financing of the household sector
3. Robust long term banking capital and liquidity situation
4. Long term profitable banking system
5. Decrease in non-performing household and corporate loan portfolios
6. Efficient and innovative banking system
7. Competing banking system
Special Financial Topics
1. Enhancement of stock exchange activity and capitalisation
2. Encouraging the enhancement of retail savings

*: those items are highlighted that were accomplished by the beginning of 2017 or have reached the stage of implementation

Source: author's own editing

Competitiveness is a complex notion, therefore, only those countries can be successful in this field that take successive and synergic measures for the enhancement of their competitiveness. The labour force, the corporate sector, the state and the financial system must be equally competitive, so that Hungary may step on a sustainable convergence path.

The monograph entitled Competitiveness and Growth edited by Dániel Palotai and Barnabás Virág provides essential facts for this turnaround in competitiveness, and was published in 2016 as the second piece in a series of books to be launched by the National Bank of Hungary. The study paper represents significant added value, as it does not only summarises theoretical models and international experience, but gives 50 concrete recommendations for improving Hungarian competitiveness. The societal utilisation of this analytical paper is clearly evidenced by the fact that almost half of the recommendations have been translated into concrete actions during the one-year period that has elapsed since its publication.

This book clearly indicates that although it is difficult to escape from the middle income trap, but permanent convergence might be achieved by comprehensive competitiveness boosting programmes and by balanced growth. In line with North's conclusion (1992), this task is made even more difficult by the fact that we can only receive one piece of advice from successfully converging countries: there is no common recipe, there is no "king's path", we cannot escape from searching and developing our specifically Hungarian method and from creative thinking. By paraphrasing the well-known line of *Attila József* (*a famous Hungarian poet*): "This is our work, and none too short its lease (*translated by Vernon Watkins*).

Notes

[1] About the problem of persistently slow growth, see: MNB (2015)

[2] See: Matolcsy (2015)

[3] Dániel Palotai – Barnabás Virág: Versenyképesség és növekedés (Competitiveness and Growth). Magyar Nemzeti Bank (National Bank of Hungary), 2016. ISBN 978–615–5318–04–7

[4] See: Cann (2016)

[5] For more details, see: https://ec.europa.eu/growth/industry/competitiveness_en

[6] To learn more on the extended approach to competitiveness, see World Economic Forum (2017)

[7] *"We simply don't know how to transform ailing economies into successful ones but some fundamental characteristics of institutions suggest some clues."* See: North (1992)

[8] *"It is adaptive rather than allocative efficiency which should be the guide to policy"* See: North (1992)

[9] About the most recent factors related to competitiveness, see the systematised findings of Lentner (2007a).

[10] However, a list like that is ultimately subjective from one aspect or another, but for the purposes of this essay, successfully converging countries are those ones that have been able to significantly increase their per capita gross national income compared to that of the United States of America during the time period between 1960 and 2014 (in particular Japan, South Korea, Taiwan, Singapore, Hong

Kong, and in Europe Finland, Austria and Ireland). See: Penn World Table 9.0; http://www.rug.nl/ggdc/productivity/pwt/

[11] Hungary did not have the possibility to apply conventional, countercyclical fiscal policy representing a rise in deficit, therefore, the country was forced to boost the economy and to decrease government deficit at the same time. The sectoral special taxes were imposed for the above purpose, which at the same time entailed a more equal sharing of public dues.

[12] See: Baksay – Palotai-Szalai (2016)

[13] MNB (2016a)

[14] These values represent the foreign currency ratio of the central subsystem of public finances, whereas the value relating to public finances as a whole is 2–3 percentage points higher.

[15] It has become one of the most significant competitive disadvantage of the Hungarian economy that the domestic value added in exports remained low even by Central-Eastern European standards: Hungary's little more than 50 per cent output was dwarfed by Slovakia's and the Czech Republic's results, while Poland's ratio came close to 70 per cent, whereas Romania's ratio even exceeded that figure.

[16] According to Schneider (2015), who studied the size and development of shadow economy in 31 European and 5 other developed (OECD) countries between 2003 and 2015.

[17] For the extended authorisations of the State Audit Office of Hungary and for the new public financial control system, see: Domokos (2016)

[18] Domokos et al (2016) put forward their criteria for the renewal of state governance by focusing on the management of state- and local government-owned companies

[19] Further details can be found on this topic: Nagy – Vonnák (2014), or Dancsik (2017)

[20] For more information on the framework and timing of the conversion of foreign currency loans to Forint denominated loans, see: Kolozsi – Banai – Vonnák (2015)

[21] MNB (2016a)

[22] MNB (2016b)

[23] MNB (2016c)

[24] BÉT (Budapest Stock Exchange) (2016)

Literature

Baksay G. – Palotai D. – Szalai Á. (2016): Fenntartható Magyarország csökkenő államadósság-pályája (Decreasing Government Debt Path of a Sustainable Hungary). MNB professional article. February 2016. https://www.mnb.hu/letoltes/baksay-gergely-palotai-daniel-szalai-akos-fenntarthato-magyarorszag-csokkeno-allama.pdf

Cann, O. (2016): What is competitiveness? World Economic Forum, September 2016 https://www.weforum.org/agenda/2016/09/what-is-competitiveness/

Dancsik B. (2017): Miért (és hogyan) versenyezzenek a bankok? (Why and (How) Banks Should Compete?) MNB professional article. February 2017. https://www.mnb.hu/letoltes/jodancsik-mnbhonlapra-szcikk-verseny-1-rev.pdf

Domokos L. (2016): Az Állami Számvevőszék jogosítványainak kiteljesedése az új közpénzügyi szabályozás keretében (Extension of the Authorisations Given to the State Audit Office of Hungary Within the Framework of the New Public Finances Regulations).

Pénzügyi Szemle (Public Finance Quarterly) 2016/3 (p. 299–319.)https://www.asz.hu/hu/penzugyi-szemle/az-asz-jogositvanyainak-kiteljesedese

Domokos L. – Várpalotai V. – Jakovác K. – Németh E. – M. – Horváth M. (2016): Szempontok az állammenedzsment megújításához - Fókuszban az állami és önkormányzati tulajdonú gazdasági társaságok irányítása (Aspects for the Renewal of State Governance - Focus on the Management of State- and Local Government-Owned Companies). *Pénzügyi Szemle (Public Finance Quarterly)* 2016/2 (p. 185–204.) https://www.asz.hu/storage/files/files/penzugyiszemle/2016/domokos_2016_2.pdf

Kolozsi P. P. – Banai Á. – Vonnák B. (2015): A lakossági deviza-jelzáloghitelek kivezetése: időzítés és keretrendszer (Elimination of the Retail Foreign Currency Mortgage Loans: Timing and Framework). *Hitelintézeti Szemle (Credit Institution Journal)*. Vol. 14. No. 3, 2015, (p. 60–87)

Lentner Cs. (2007): A magyar nemzetgazdaság versenyképességének új típusú tényezői (New Factors of the Competitiveness of Hungarian National Economy). In: Lentner Cs. (ed.): Pénzügypolitikai stratégiák a XXI. század elején (Early 21st Century Financial Policy Strategies): Prof. Dr. Ernő Huszti Dsc. University Professor: A pénzügyi intézményrendszer, a tudomány és a felsőoktatás szolgálatában (In Service of the Financial Institution System, Science and Higher Education): complementary volume on his 75th birthday. p. 585, Budapest, Akadémiai Kiadó, 2007, p. 271–297 (ISBN:978-963-05-8452-4)

Lentner Cs. (2007b): Az egészségügyi ellátórendszer, mint új típusú versenyképességi tényező a konvergencia program tükrében (The Health Service System, As a New Competitiveness Factor in the Light of the Convergence Programme). *ORVOSI HETILAP (Medical Weekly)*. 148:(2) p. 71–76

Matolcsy Gy. (2015): Egyensúly és növekedés – Konszolidáció és stabilizáció Magyarországon, 2010–2014. (Equilibrium and Growth – Consolidation and Stabilisation in Hungary 2010–2014). Kairosz Kiadó. ISBN 978-963-662-734-8

Matolcsy Gy. (2016): A versenyképesség növelésén alapuló gazdaságpolitikát kell folytatni (An Economic Policy Based on the Enhancement of Competitiveness Must be Followed). *Magyar Idők (Hungarian Times)*, 22 February 2016. http://magyaridok.hu/gazdasag/matolcsy-gyorgy-a-versenykepesseg-novelesen-alapulo-gazdasagpolitikat-kell-folytatni-403033/

Nagy Márton – Vonnák Balázs (2014): Egy jól működő magyar bankrendszer 10 ismérve (10 Criteria of Properly Functioning Hungarian Bnaking System). *MNB kiadvány (MNB Publication)*, 2014. https://www.mnb.hu/letoltes/egy-jol-mukodo-magyar-bankrendszer-10-ismerve.pdf

North, D. C. (1992): The New Institutional Economics and Development. Washington University, St. Louis http://www2.econ.iastate.edu/tesfatsi/NewInstE.North.pdf

Palotai D. – Virág B. (2016): Versenyképesség és növekedés (Competitiveness and Growth). *National Bank of Hungary.* ISBN 978–615–5318–04–7

Rodrik, D. – Subramarian, A. (2003): The Primacy of Institutions (and what this does and does not mean). IMF, 2003. https://www.imf.org/external/pubs/ft/fandd/2003/06/pdf/rodrik.pdf

Schneider, Fr. (2015): Size and Development of the Shadow Economy of 31 European and 5 other OECD Countries from 2003 to 2015: Different Developments http://www.econ.jku.at/members/Schneider/files/publications/2015/ShadEcEurope31.pdf

BÉT (Budapest Stock Exchange) (2016): A BÉT 2016–2020-as stratégiájának fő irányai (Key Directions of the BÉT 2016–2020 Strategy). *BÉT kiadvány (BÉT Publication)*. https://www.bet.hu/Rolunk/a-budapestiertektozsderol/A-BET-2016-2020-as-strategiajanak-fo-iranyai

MNB (2015): Növekedési jelentés (Growth Report), *MNB kiadvány (MNB Publication)*. 2015. https://www.mnb.hu/letoltes/hun-novekedesi-boritoval.pdf

MNB (2016a): Az Önfinanszírozási program első két éve (The First Two Years of the Self-Financing Programme). Edited by: Hoffmann Mihály and Kolozsi Pál Péter. *MNB kiadvány (MNB Publication),*

MNB (2016b): Stabilitás ma – Stabilitás holnap. A Magyar Nemzeti Bank makroprudenciális stratégiája (Stability Today – Stability Tomorrow. Macroprudential Strategy of the National Bank of Hungary). *MNB kiadvány (MNB Publication)*, 2016. https://www.mnb.hu/letoltes/az-mnb-makroprudencialis-strategiaja-2016.pdf

MNB (2016c): A Magyar Nemzeti Bank hitelösztönző eszközének tapasztalatai (Experiences of the Loan Support Device of the National Bank of Hungary) (2013–2015). *MNB kiadvány (MNB Publication)*, 2016. https://www.mnb.hu/letoltes/novekedesi-hitelprogram-a-magyar-nemzeti-bank-hitelosztonzo-eszkozenek-tapasztalatai.pdf

World Economic Forum (2017): The Inclusive Growth and Development Report 2017. http://www3.weforum.org/docs/WEF_Forum_IncGrwth_2017.pdf