

MORE MACHINES OR INCREASED EFFICIENCY?

ECONOMIC GROWTH, CAPITAL AND PRODUCTIVITY IN HUNGARY, 1995–2013

István Kónya

The paper recalculates total factor productivity (TFP) in Hungary, and based on this presents an updated decomposition of GDP growth. It contributes to the literature on Hungary information on the quantification of human capital and includes the capacity utilization of production inputs. The latter is necessary for a more realistic picture of productivity fluctuations. Results show both increases in the capital stock and improvements in productivity contributing to Hungarian growth, while the role of human capital, and employment in particular, was important only at the end of the 1990s. The analysis seeks to identify possible connections between capital deepening and productivity. The neoclassical framework employed here allows exploration only of the possibility of TFP-induced capital investment, leaving the study of reverse causality for future research.

PRICING SWISS FRANC-DENOMINATED MORTGAGE LOANS: BEYOND THE NARRATIVES

Zoltán Schepp and Zoltán Szabó

Managing household foreign-currency indebtedness has been central to Hungarian economic policy for some years. Both government rhetoric and the usual public narrative identify a key problem apart from strong and persistent depreciation of the forint: banks' arbitrary changes in mortgage interest rates. There is public belief and a professional view that as the crisis hit and funding costs increased, banks took excessive advantage and rising interest rates may have made the debtors' positions decisively worse. The authors see this as partly true at best. Their empirical work builds up step by step a Vector Error Correction Model for a monthly sample between 1/2005 and 12/2013, showing a significant long-run equilibrium relation between cost factors and mortgage-loan interest rates. Banks do not seem to have overreacted to cost shocks. On the contrary, only a proportionate pricing effect was found in impairment costs, and other cost factors were passed on moderately (CDS): largely absorbed by the banks (LIBOR) or overly compensated for towards the debtors (fiscal burden). This finding contradicts a frequent assertion of "unfair interest rate increases" (repricing) and a hypothesis of "naïve" or "self-distressing" banks found in Hungarian economic literature. However, the model found significant, high constant terms strongly supportive of the view that banks may

have used excess market power from the outset. Whether and how this can be reconciled with the usual assumption of rational debtors remains open to further investigation.

CAN REFERENCE INTEREST-RATE MANIPULATION BE DECREASED?
POSSIBLE DIRECTIONS BASED ON A SIMPLIFIED MODEL

Vilmos Fliszár

Special attention was paid to interbank reference rates after the scandal over the manipulation of LIBOR. The paper focuses on incentives to manipulation made possible by the definition of LIBOR. A simple model is set up to highlight the key elements of manipulation, thereby helping regulators to devise means of reducing the probability of the reference rates being manipulated. The model is based on the analysis of decisions repeated over time.

THE ROLE OF GOVERNMENT IN THE CENTRAL AND EAST EUROPEAN VENTURE-CAPITAL MARKET

Judit Karsai

The paper examines how successful the CEE EU member-states, with their relatively less developed venture-capital industry, have been in using government equity schemes based on market cooperation between the state and market actors. Due to the short period since the launch of these schemes, the success of companies financed by such hybrid venture-capital funds cannot be assessed, and so the paper aims primarily to analyse whether the region was able to utilise the lessons learnt from government equity schemes in countries with a more developed venture-capital industry. Like the equity programs applied in the West, the government venture-capital programs in the region are hampered by a short time-frame, a mass of administrative requirements tying the hands of investors, the inefficiently small size of funds, and the limited participation of private institutional investors. Compared with developed countries, the region suffers from an unjustifiably high level of rewards to private fund managers, a lack of transparency in their selection, and the immaturity of the investment proposals. However, the biggest risk of public equity schemes – the crowding-out effect on private investors – is absent in the CEE region due to the shortage of them.

POLITICAL CHANGES IN THE LIGHT OF FISCAL ADJUSTMENTS

Viktor Asztalos

The study gives an overview of the fiscal consolidation process in 14 European countries between 1980 and 2014. After a short theoretical outline, the paper sets out to discover whether expenditure-side fiscal adjustments exert any negative effect on political continuity. Also analysed are the key attributes of consolidation processes. Attention is drawn to methodological difficulties and to their significance from the aspect of final outcome. The paper reaches the non-exhaustive conclusion that the success of fiscal prudence must not be compromised by political success.