

12. Surányi György as “the” Manager of the Hungarian Monetary Policy between 1989 and 2001

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Decision makers, analysts and economists seek to learn from the best experts of monetary policy and central banking, in order that they can do better next time, or in order to avoid financial crisis. One man's decisions are always a matter of controversy, only time can decide whether he was right or wrong. In my study I focus on the carrier of Surányi György, who is a professor of Economics in Corvinus Budapest University, he used to be the governor of the Hungarian National Bank. According to several experts Surányi György had a successful experience in policymaking during 1990-1991 and 1995-2001. Surányi was elected to the best central banker of the CEE region several times.

In my case study I try to show one debate with George Soros and a management challenge from his carrier. The famous austerity and adjustment program started a stabilization in 1995 was an extremely painful process, which was followed by a heterodox economic policy. This was not based exclusively on budgetary corrections, and even if such corrections were made, they were implemented in a kind of structure that exercised a positive influence on the business sector, the economy and on investments. This is why he succeeded in saving jobs. But the real wages fell by 11 percent in the first year, which put extraordinary burdens on many people, but this was still more tolerable than seeing tens of thousands of workers lose their jobs and join the ranks of the unemployed. This program was not supported by the International Monetary Fund, but was supported by the international financial markets and the business community. After only one year the introduction of the stabilization program the Monetary Fund admitted that the program was working – and fully in line with the previous hopes of the Governor's.

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1. Introduction

Two very interesting books have been published recently (Lengyel – Surányi 2013, Sebestény 2014) which are very useful in examining the Hungarian economic policy history of the last 25 years in the context of a central banker carrier. A central banker rarely teaches in universities, or a university professor almost never becomes a decision maker of the monetary policy. The two professions require different combination of knowledge. But examples occur as Olivier Blanchard, who is at the same time the chief economist of the IMF and an academic economist.

Monetary policymakers have certain objectives —such as low inflation, output stability, and perhaps external balance—and certain instruments to be deployed in meeting their responsibilities, such as bank reserves or short-term interest rates. “Unless it has only a single

goal, the central bank is forced to strike a balance among competing objectives, that is, to face up to various trade-offs” (Blinder 1999, p. 4) “Here art would be well advised to imitate life a bit more” (Blinder 1999, p. 29).

Being the governor of the Hungarian National Bank (HNB) is a very important (if not the most important) position of the nation’s economy management, therefore I think this might be an issue in a management work shop.

2. Management rank

Surányi played a key role in transforming the National Bank of Hungary into a truly independent central bank, in the transition to a modern market-oriented economy. “*This process began with small steps, such as his decision to abstain from participating in the government’s weekly cabinet meetings, and culminated with his refusal to bend and resign from his post under government pressure. Also, he was unflagging in his efforts to develop the bank’s analytical capacity by transforming it into an internationally recognized center of applied macroeconomic research. These efforts were accompanied by initiatives toward a collegial decision-making structure, in the form of a consultative board comprised of distinguished economists*” (Kopits 2014, p. 104). Surányi was well aware about being in a higher position more important to work with critical minded colleagues who might control him instead of being circled with “yes, boss!”-type employees. Surányi György prestige inside and outside Hungary, received several prizes due to his modest communication, his concrete macroeconomic achievements (Kornai 2014.) In Europe (Figure 1.). “*Luis Ángel Rojo, the former governor of the Bank of Spain, tops the ranking, with five A grades. Hanna Gronkiewicz-Waltz, chairman of the National Bank of Poland between 1992 and 2000, Svein Gjedrem, Norway’s central bank governor for two terms between 1999 and 2010 and György Surányi, president of the Hungarian National Bank twice between 1991 and 2001, all vie for second place with four A grades each*” (Tully 2012, p. 1).

In the performance evaluation of central bank heads published each year by the financial magazine Global Finance before the autumn general meeting of the IMF and the World Bank, this year the National Bank of Hungary president received an "A" rating. The magazine said that the central bank, under Surányi's management, has shown determination in reducing inflation and has worked on the problem of the current account deficit. "Surányi is the type of banker who is willing to sacrifice growth to keep the current account deficit under control," Global Finance says.

Figure 1 Central bankers rank

THE AMERICAS	COUNTRY	Number Of "A" Grades
Alan Greenspan	US	5
Gordon Thiessen	Canada	3
Vittorio Corbo	Chile	2
Miguel Mancera Aguayo	Mexico	1
Gustavo Franco	Brazil	1
Arminio Fraga Neto	Brazil	1
Guillermo Ortiz Martínez	Mexico	1
Carlos Massad	Chile	1
EUROPE	COUNTRY	Number Of "A" Grades
Luis Ángel Rojo	Spain	5
Svein Gjedrem	Norway	4
Hanna Gronkiewicz-Waltz	Poland	4
György Surányi	Hungary	4
Jean-Claude Trichet	France	3
Urban Bäckström	Sweden	3
Edward George	UK	3
Lars Heikensten	Sweden	2
Antonio Fazio	Italy	2
Gazi Erçel	Turkey	2
Leszek Balcerowicz	Poland	1
Stefan Ingves *	Sweden	1
Zdeněk Tůma	Czech Republic	1
Durmus Yilmaz	Turkey	1
Tatiana Paramonova	Russia	1
Willem Frederik Duisenberg	Netherlands	1
Viktor Yushchenko	Ukraine	1
Bodil Nyboe Andersen	Denmark	1
ASIA-PACIFIC	COUNTRY	Number Of "A" Grades
Zeti Akhtar Aziz *	Malaysia	9
Perng Fai-Nan *	Taiwan	8
Ian Macfarlane	Australia	7
Amando Tetangco Jr *	Philippines	3
Glenn Stevens *	Australia	3
Rafael Buenaventura	Philippines	2
Burhanuddin Abdullah	Indonesia	2
Bimal Jalan	India	1
Park Seung	South Korea	1
Pridiyathorn Devakula	Thailand	1
Yaga Venugopal Reddy	India	1
Heng Swee Keat	Singapore	1
Lee Seongtae	South Korea	1
Yasushi Mieno	Japan	1
Donald Brash	New Zealand	1
Lee Hsien Loong	Singapore	1
MIDDLE EAST/AFRICA	COUNTRY	Number Of "A" Grades
Tito Mboweni	South Africa	5
Stanley Fischer *	Israel	4
Riad Salameh *	Lebanon	1
Jacob Frenkel	Israel	1

* Current governor

Source: Tully (2012, p. 2-3)

The evaluation points out that during Surányi's tenure as bank president, inflation has fallen in Hungary from 28.3% in 1995 to under 10% this year (Figure 2.). The former World Bank official and economist has very effectively applied interest rates as a means of controlling exchange rates, the magazine says. In addition, Surányi's "A" rating is justified by the fact that the Hungarian forint is linked to other currencies in a clearly transparent fashion, and that the NBH is determined to modernize, while it is one of the top promoters of banking supervision in Eastern Europe. Global Finance stressed that Surányi was clearly not appointed for political reasons. In summary according to Global Finance Hungary has been successful in

keeping the current account deficit under control and that the capital market and bank sector are perhaps the best in the region.

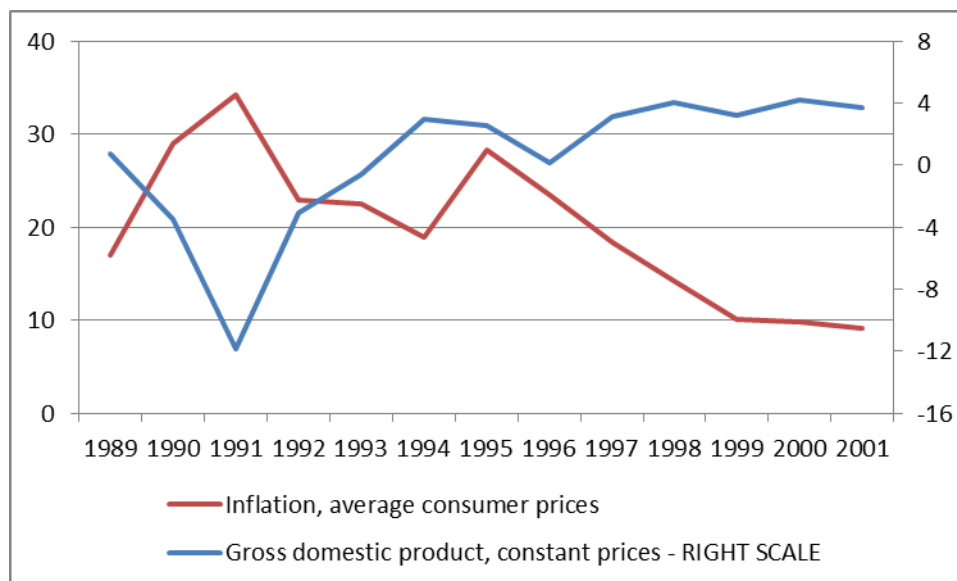
3. How did Surányi manage to convince Soros in 1989?

In the regime change the debt was a huge burden of the Hungarian state. The NBH represented that argument when a country asks for a loan it needs to repay it. Although Surányi joined to the NBH only in 1991 he shared and supported this attitude. According to Surányi theoretically a market economy is coordinated by the money. A new market economy as Hungary cannot start its history by insolvency, and stating that it won't pay back its debts. Surányi also had practical backgrounds for his refusal of not paying the inherited debts: in 1989 the Hungarian there was a 1-1.5 million USD deficit in current account balance which was the 8-9 % of the GDP, compared internationally a high level. If a country loses its solvency, and has such a big deficit it means that after reporting its insolvency it can pay only in cash for any kind of goods or services. This leads a prompt shock up to the GDP's 8-9%, which in 2-3 years horizon will govern a 15-20 contraction of the economy. According to Surányi this was a gamble with the fire, the stake were jobs of 100-1000 thousands people and their ordinary lives. And the political stake was high also in the time of a regime change. Surányi had a strong debate with many economists; including George Soros thought that Hungary would not endure the maintenance of the inherited debt. George Soros organized a debate about this question in his apartment in London. In this event Soros after his argumentation also mentioned that the momentum of a regime change is a good reason for asking for release the debt. He referred for the Polish example as a precedent, so the debate between Soros and Surányi started with that point: it was a rational decision to throw the towel and let's see the flood.

According to Surányi although it seemed to be parallel, in the reality the two cases were completely different for many reasons: in Poland there was announced a state of emergency already in 1981, and stopped paying the debts, the creditors were governments in the Polish case, and negotiating with the governments' Parisian Club is much more easier, thirdly the Western world has a bad conscience regarding their role in the history of Poland up to 1939 and 1945, they reminded that they let Poland to the German hands. Then Surányi said that that interest rates would be higher if Hungary asked for the changing the timing of the redemption of its debts. The release of the debts requires a long period of negotiations, and during that period Hungary supposed to maintain its current account balance, which could happen only

by the misery of the people. By the end of the debate Surányi managed to convince Soros and his experts, and Hungary stayed to be a responsible debtor, which was paying back its debts. Antall who became the prime minister in 1990 also stood for the repayment of the debts. When Surányi became the president of the NBH in 1990 the foreign exchange reserve was 500 million USD, which was equal the import of one month, so the reserve was inefficient, the country was in the edge of the cliff. By the end of 1991 the reserves increased to 2500 million USD (Lengyel – Surányi, 2013.).

Figure 2 The inflation and the GDP % change in Hungary between 1989 and 2001



Source: IMF (2015)

4. Avoid payment and debt crisis by the “Bokros-package” in 1995

The package of stabilization measures were announced twenty years ago on March 12, 1995, which consisted of the following three major elements (Kornai 1995):

1. An immediate, radical devaluation of the Hungarian forint, also a further course of steady devaluation was announced. In addition, a significant import surcharge (supplementary customs duty) was introduced.
2. A substantial fall in budgetary spending was prescribed. This extended to numerous estimates, including several item of welfare spending. The alteration would cut the budget deficit to a substantial extent in 1995, and still more in the following year.
3. The government curbed the rise in nominal wages and earnings. Strict limits were accordingly set for personal incomes paid by the budget-financed sector and for wage

risers in enterprises in majority state ownership. The program assumes that those conducts by the state sector would curb the rise in wages in the private sector as well.

“The various novelties, which appeared between 1995-2001 in the field of the Hungarian monetary policy were implemented by Surányi, so he in the Schumpeterian term might call an innovator. Only with a reasonable argument occasionally the innovative thinking comes together with unexpected measures of the NBH, but the thumb rule is the accountability, the policy of the NBH in words and in acts should be trustworthy, which was represented the 1995-2001 periods” (Kornai 2014, p. 114).

“Domestic and foreign experts debated strongly the advantages and disadvantages if various “exchange-rate regimes”. The regime which was implemented by Surányi as the governor of the HNB was the “pre-announced crawling peg”. This regime had certain advantages, above all that it made the intentions of the policy makers plain and clear. It made a prior commitment to keep the actual exchange rate within a designated band. This tended to take the edge off speculation and forestall the extra imports engendered by devaluation expectations. To this extent, if successfully applied, it would contribute to improving the trade and current-account balances. But such an exchange-rate regime tied the hands of the monetary authorities, reducing their room for manoeuver” (Kornai 1995, p. 637).

What does Surányi say about the purpose of the elements of the stabilization package? “It remains for me a forever living dilemma, whether the ’95 stabilization economic policy mix was good or bad. Regarding the numbers and the ratios of the program our expectations were rational. The public opinion forgave by the beginning of ’97, according to different survey polls the people started to believe that the country was getting out from the transformation crisis. The political parties’ popularity did not reflect the undoubtedly painful effect of the ’95 economic stabilization. The people and the leaders of the governing parties started to realize that the living standards might be improved; the growth might be supported by a way which is not the increase of the state’s redistribution ratio, or consuming the following generation’s goods. The people started to trust in their own strength on coming out from their poor circumstances. But some parts of the ’95 program were erased by the Constitutional Court, and some measures of the program could have been implemented later. If the program was successful without these measures the question arises: were these measures necessary at all? Or by neglecting them some social conflicts could have been saved? Those measures one by one in quantitative sense were very small, so its stress, tension and irritation were inevitable? We can see that the rejection of the Constitutional Court and

the delayed introduction did not jeopardize the operability of the program. Today I would say that less could have been more. By a more profound prepared program with a better communication the achieved results could have been much better. The public could have probably better understood the core purpose of the program: trying to help those, who were really in difficult situation - due not to his own fault -, in spite of all other free riders to whom the program wanted to drive back. A better prepared, and a better communicated package obviously could have been much more effective, nevertheless there is still something because I can not to say that. For me, the dilemma still exists: if the change management program had not been so shocking, concentrated, multi element, logically strict and closed, it would have provoked such a huge effect? Whether almost everyone in the country could have understood that we were at the edge of a cliff, but we could jump through together? By the fact that we could not or delayed implementing all the elements of the program the population's and the actors of the economy attitude changed. While the real wages shrunk by 10%, while the real earnings decreased by 7% the financial saving rate doubled. The people pulled the brakes, changed their way of lives, their costs of living so the saved more from less income than they used to save before from more income. So from one way the reduction of the consumption and from the other way the increase of the savings affected the saving-investment equilibrium in a fruitful way, which contributed to finance the investment with internal resources. The savings of the household were kept in Hungary in spite of changing it to foreign currency which could have been absolutely legal due to the full convertibility of the forint, which was implemented in 1996. This act was an implicit way of their extremely strong trust towards what was happening. This was an informal trust election about the economic policy, and it showed that despite of the much pain, misery, trial, the families believed that the results would come. I do not know without those small measures the social shock effect could have been reached?" (Lengyel – Surányi 2013)

“Naturally, the process of creating a modern central bank is made up of many components. For example, the organization underwent transformation, while staff numbers were cut by a half, and operating costs by more than 40% in real terms. Practically all activities unrelated to central banking were separated from the NBH, including those related to commercial banking. The central bank played a key role in the creation of the Treasury and the Government Debt Management Agency, as well as in the successful conduct of debt conversion. The fiscal and monetary functions became clearly distinct. The central bank's forint and currency market organizations were standardized, and its risk management and analysis system took on a modern and strictly controlled form. Up-to-date instruments and

analytical systems were developed for monetary policy. Because of its responsibility for financial stability, the Bank is increasingly examining the whole of the financial system with particular regard to any risks. The settlement and internal information systems have been enhanced to state-of-the-art standards. Thus the NBH has managed to make up for several decades of lost ground. The Bank has become transparent, since its internal and external monitoring systems have undergone radical renewal. New publications, which have been widely accessible on the National Bank's home page via the internet for some time now, provide both specialists and the general public with insight into the National Bank's economic, research and statistical activities, the development of which has been highly praised by independent experts. Even though the decision had been made much earlier, the replacement of coins and banknotes took place partly during this period, and emissions policy has been reviewed. One result of these changes is that the NBH has made essential preparations for Hungary's accession to the EU” (NBH 2000, p. 3).

5. Summary

In the paper I showed different periods of his tenures, when his management skills were needed in order to avoid the economic meltdown in 1990 and in 1995. Surányi was the former governor of the Hungarian National Bank between 1990–1991 and again in 1995–2001. He played a key role in transforming the National Bank of Hungary into a truly independent central bank, in the transition to a modern market-oriented economy.

In his second tenure he managed to restore the balance to the Hungarian economy and getting inflation under control. His efforts merited several international prizes. He was elected as one of the best central bankers. Surányi not only has a reputation between the central bankers community, he also has been following an academic career, as full professor, he can share his knowledge and experience between the central bankers of tomorrow.

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