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Hungarian Economic Policy Measures After the 2008 Financial Crisis

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The 1923 Global Economic Crisis (also called "The Great Depression") that had hit the whole world, caused the economists and politicians to see more clearly. As it has become obvious several times after World War II., deep changes were needed to be done concerning economic processes. In those times, many smaller crises had risen in different countries, affecting their micro-economic structures, however neither of them had such widespread effects as the Global Financial Crisis in 2008, that has struck several economic sectors, most of all, the finance industry. Numerous studies had been carried out, examining the causes and consequences of the 2008 Crisis. In this study the authors will give an organized overview on the circumstances that characterized the outbreak of the crisis, and focus on the impacts of the events, in particular, its effects on Hungary. To manage the crisis, each country used different economic approaches, took different measures, but the main concept, that economic processes needed strict regulations, was globally accepted, or at least, identified. Regulation of the financial sector, more specifically, of accounting standards was and is of paramount importance. At the outbreak of the crisis, Hungarian economy had been in a unique situation, and directly after 2008, Hungarian economic indicators showed a more favorable economic state compared to Western European countries. This has occurred because of the government's stabilization fiscal and economic policies in the years preceding the depression, when they had been trying to compensate the financial and economic decisions made during the previous years. But these indicators soon have changed and began to demonstrate a more realistic picture and showed the true economic state of the country. Besides the financial area, the Crisis had affected—on account of foreign currency lending—a wide range of the Hungarian society as well.

Keywords: economic and financial crisis, regulation, crisis management (G01)

Introduction

The economic and financial crisis that spread from the U.S. had deeply struck the whole world including the Central and Eastern European region. For a long time there was no adequate answer to solve the problems, only confusion. Not only the long term strategy, but also an agreement concerning urging, immediately necessary actions was missing. European governments have recognized the need of taking strong measures but it is a question whether they used the proper methods and were those sufficient and effective enough to treat the situation.

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To get through the crisis the consolidation of banking system, restoration of liquidity, and increase of bank lending were needed so an extensive reform of institutional structure of financial regulation and banking system was inevitable. It became clear that the recession can be managed only if besides the stabilization of banks, they reconsider the whole financial regulation.

At the same time, great debates have sprung up on the issue of the intensity of state interventions needed. There are economists, who claim that state interference in the economy is only acceptable if the self-correcting mechanisms of the market cannot act properly to close the recessionary gaps, and regulations must not change the usual economic methods elementally, but provide a legal framework for the market. The measures taken by governments and special elements of the actions are highly controversial, so there is no consensus about whether these reforms will remain appropriate and sufficient in the future even in case of another forthcoming crisis.

Material and Methods

The research aims are defined after overviewing the literature of the regulation of the economic crisis "2008". After processing the secondary sources the authors summarize not only the background and the consequence of the crisis "2008" but the authors try to denote that the regulation is more important than sometimes the governments mean. With missing or not prudent regulation we have to count with new economic and financial crises.

Background

The Global Financial Crisis that erupted in 2008 had shown its signs already in 2006 in the U.S. when the negative aspects of mortgage lending had stronger and stronger effect on economy and beyond that on society. The previous reasons beyond the globalization allowed the U.S. to suck up the savings of the rest of the world and consume more than it produced.

Experts researching the Crisis distinguished macroeconomic and microeconomic causes of the recession. The general approach to the topic is that the 2008 Crisis erupted as a result of infected assets and the unmanageable amount of bad, unpaid credits (Kosztopulosz, 2012). The Federal Reserve System (FED) kept the interest rate at very low level to strengthen and speed up the economy, generating excessive, irresponsible lending. Banks approved loans without proper credit evaluation, and predicting growth in market value of properties, they granted mortgage credits to individuals without limits. This method led to an increase in housing, thereby reviving the real economy. The persistently favorable macroeconomic environment made the investors and financial mediators more heedless. At the same time as a consequence of the competition between creditor banks, loans were granted more and more often to unreliable debtors and risky investments were funded.

Basically the system keeps working as long as it's able to maintain lending and suck up more money from credit market. FED raised funds rate (from 1% to 5.25% between June 2004 and June 2006, in 17 steps) to break down the overheated economy. As a result many secondary debtors became insolvent, because of the rising credit rates. Thereafter the market value of real estates reached a peak and this made borrowing impossible, there was no buyer for the new apartments. The balloon rapidly bursted, and market values of properties have sharply decreased. Consequently the related securities lost their value and this has meant the crash of investment banks quoted these stocks.

So economy had to deal with the following situation: Banks have practically lost their capital and even

their normal investments were financed by loans, solvent demand has disappeared from the market because customers have gotten into extreme debts and their properties' prices increased haven't covered further consumption. Distress spread from residential real estate to credit card debt, auto debt, and commercial real estate. The investors were hoping that the US Federal Reserve would do whatever it takes to avoid a recession. Nonetheless by July 2007 nearly 30 financial institutions were on the verge of bankruptcy because of mortgage debtors unable to make payments (Biedermann, 2011).

Deficiencies and turmoil of institutions, regulations, and monitoring came up at all levels of the economy (Palánkai & Nagy, 2009). What started with subprime mortgages spread to all collateralized debt obligations. Investment banks' commitments to leveraged buyouts became liabilities. The market-neutral hedge funds seemed to be not market-neutral. The special investment vehicles set up by banks to get mortgages off their balance sheets could no longer get outside financing (Soros, 2012).

The outbreak of the Financial Crisis fundamentally can be derived from the following actions:

(1) management of financial institutions has misled the shareholders, the clients, and even the authorities by hiding their wrong decisions in false financial reports;

(2) huge global banks became increasingly nontransparent owing to their sizes, the complexity of their scope of activities, and the complexity of their financial instruments;

(3) the appearance of structured finance products that were meant to share risks.

Financial market operators caused a fall in prices, loss of trust, and panic in the most advanced financial centers, through the channels of the shadow banking system. Stock exchanges have started plummeting, interbank markets have dried up and central banks have pumped enormous sums of money into the financial markets in order to ensure their survival and ease the panic. Half of the American toxic mortgage credits were sold abroad. Furthermore the weakening of dollar, caused by the receding economy, made the export of goods more difficult. Unpredictability grew stronger and uncertainty dominated whole the economy.

Over the past decades the US has weathered more financial crises, like the international lending crisis in the 1980s or the loan and S&L crisis of the beginning the 1990s. But the crisis "2008" is different from the past crises, also has different traits. It has spread from one segment of the market to those which trade structured and synthetic instruments (Soros, 2008). In order to restore public confidence, which is the base of market coordination, central banks, supervisory and regulatory authorities and governments were forced to use high-effect interventions.

Pre-crisis Regulation

Financial regulation is problematic both at national and international levels. Considering the fact that financial and credit sectors are of central importance in modern economic systems and their risks affect whole the economy, one of the main issues of regulation is risk management. The financial system has a real effect on macroeconomics, on the contrary, most of the regulatory measures are only used at microeconomic level (Muraközy, 2010).

Increasingly complex financial instruments, the broader transfer of risks (usually hidden in complicated contractual frameworks) onto customers and the growing pressure to gain profit, all generated excessive risk-taking in the financial sector. Due to the regulation and the special features of the market, a part of the loss of financial institutions however could be transferred to customers and investors. The Financial Crisis has

revealed elements justifying regulation in all of the functions performed by ratings.

Where structured products were concerned, information asymmetry was reduced far less than investors had anticipated. The gatekeeper role led to conflicts of interests and the use of ratings both to enforce legal rights and for prudential purposes increased procyclicality (Utzig, 2010). The overall loss of individual investors throughout the Financial Crisis was more than the profit gained before. External risk however does not originate from microeconomics, but arises along the macroeconomic occurrences caused by changes of the interest rate, exchange rate, and stock exchange prices.

As a result of the globalization of financial markets that highly increased the mobility of financial capital, taxation or regulation of financial operations became a very challenging task for each country. Credit-rating agencies were founded to supervise financial institutions and stock markets and help investors in measuring portfolio risks and provide them with information about the reliability of banks. Legislators later made the agencies unavoidable.

If market participants planned on selling shares or wanted to refinance some of the mortgage credits, they needed the classification inevitably then (Biedermann, 2011). Financial institutions, credit rating agencies, and regulatory authorities have by-passed the initial restorative and later self-destructive characteristics of the economic processes' patterns that consisted of economic booms and following downturns, and they established their risk assessments on deeply flawed bases (Soros, 2012). It's true that these credit-rating agencies were private companies but their judgments were almost statutory in pre-crisis decades.

It might have occurred so that according to the law, money market funds were not allowed to keep more than 5% of their estates in low ranked shares. The "Big Three"—Moody's, Fitch Group and Standard & Poor's—have held their favorable ratings of insolvent financial institutions, risky mortgage-related securities and subprime securities that contributed to the collapse of US market even as the underwriting deteriorated. As credit rating agencies make past performance-based rankings, and "loss given default" (LGD) ratio has improved, because of the increasing house prices, the ratings of Mortgage-Backed Securities (MBS) have boosted.

One of the theories that the financial markets tend towards equilibrium but under this crisis the signs of the reflexivity also appear. Synthetic financial instruments, risk calculation, and trading models were based on the assumption that markets tend towards balance and all the distortions are provisional and occasional. The behavior of financial markets cannot be determined by timelessly valid laws rather unpredictable process.

Soros (2008) means that the financial markets tend in the normal course of events to correct their own excesses but the fundamentals are influenced by the market prices in a crisis or in an abnormal process. Financial markets cannot predict economic downturns accurately, but they can cause them. The reflexive connection between the market prices and the fundamentals can cause decline and bubble in the financial market. Bubbles often lead to financial crises which lead to the regulation of the financial markets. In the absence of regulatory authorities, financial markets would be bound to break down.

To reduce the risk of the outbreak of the crisis and, if it has already occurred, to manage the crisis, the following actions are needed (Csáki, 2009):

(1) it is necessary to find a solution to prevent and to manage systemic risks at the right time;

(2) improvement in transparency and disclosure of the risks taken by various market operators are needed;

(3) interinstitutional and international features of regulation should be expanded, besides maintaining constructive diversity;

(4) more effective and coordinated mechanisms should be introduced.

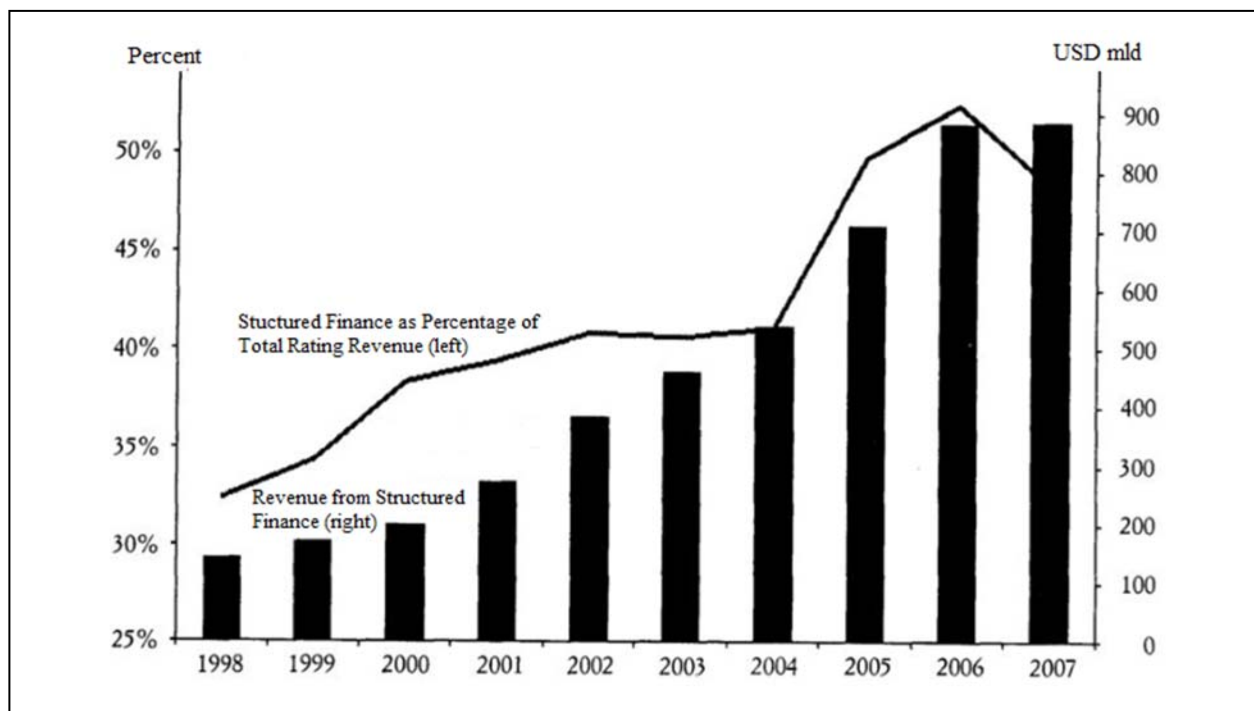

Figure 1. Moody's structured finance rating revenue (Soros, 2008).

The growing complexity of modern economies and the political activity of each interest groups are two of the obstacles to the proper regulation because they may lead to self-interested legislation. The complexity of the economy can create information disparity between several unequal economic and social actors. Macro-regulation and control have to focus on decreasing this information disparity and reducing the possibility of risk aggregation at micro level (Muraközy, 2010).

All publicly listed companies are obliged to use International Financial Reporting Standards (IFRS), however the weaknesses of the accounting regulations had a role in the outbreak of the crisis. Financial statements of the economic operators show their financial, income, and asset positions, which are the key points for investors in making their financial decisions. At the same time there are financial statements in addition to the compliance with primary information requirements; they reflect the deregulatory efforts of corporate management. One of the basic accounting principles—just to provide reliable information and protect investors—is the principle of prudence, which makes sure that assets and income are not overstated and liabilities and expenses are not understated. Uncertain factors must not be included in the statements as they might be used for misleading investors.

On the contrary the goal of the management, because of the growing hunger for profit, is to glorify market position of the firm by using those creative solutions that are not forbidden by financial regulations. Some of these are for example: to set up reserves or the indication of the risk of the assets. According to the current accounting regulations, institutions are still allowed not to record their losses (Botos, 2011).

Before the outbreak of the crisis the rule of Fair Value Accounting was a highly controversial issue. Fair Value Accounting or Mark-To-Market (MTM) accounting requires companies to adjust the value of marketable securities to their market value. Because the market of the mortgage-backed securities was distressed, it was

difficult to sell them, the typically lesser sale value has been used as market value rather than the cash flow value and many institutions and banks suffered significant losses as a result of marking-down mortgage-backed securities' asset prices to market value.

Considering the ongoing situation, banks should have followed strict credit and stable business policies. Despite the strict accounting requirements, banks have done their utmost to reduce regulatory burden. Most of the real estate mortgage loans have been reported on balance sheets of the banks as fixed assets and, thanks to the political lobby, they were not obligated to use Fair Accounting Value on all debtors in their reports. Moreover they had the right to reconsider the amount of bad debt allowances (Forgács, 2012).

As the role of state decreased in the financial system, transformation of the banking sector has occurred. This process led to the birth of giant global banks which gained monopoly power and this significantly restricted the competition. Deregulatory efforts have been legitimized in 1999. The ban on commercial banks' investment activities has been lifted and the law that restricted banks from owning another financial company has been revised (Biedermann, 2011). After the removal of restrictions, all banks took higher risks in their business policies. More hazardous but promising financial investments became preferable.

The largest financial institutions could combine the earlier separated activities: insurance, commercial banking, portfolio management, and underwrite issues of financial instruments on a firm commitment basis. This meant that banks invested the money of their customers in high leveraged instruments, derivatives. Most of these instruments have one common feature: the derivative issuer's profit is granted whereas all the risks (devaluation or even the hidden risk of doom) of the derivative contract are borne by the paper holder (Palánkai & Nagy, 2009).

In the U.S. giant banks acted believing that government would not let them collapse in any case because of their sizes and importance ("Too big to fail" theory). If their losses, caused by excessive risk taking, need to be reduced they become recipients of beneficial financial and economic policies from government or central banks (Biedermann, 2011).

Along with the growth of popularity of derivatives, firms became exposed to an increasing risk from exchange rate fluctuations. Issuers made these financial instruments too complicated and, in terms of their risk, more unclear. In a series of transactions primary derivatives "disappeared" and the successive futures contracts have increased risk and lack of transparency. There were more and more cases when even the expert, who originally assembled the collateralized debt obligation, could not clearly measure the risk of portfolio. Customers and investors chose these transactions to maximize profit, and synthetic collateralized debt obligations seemed to be promising (Forgács, 2012). Commissions on the management and personalization of derivative transactions generated more contracts for financial institutions thereby increasing their income.

Referring to the regulatory reform the followings should be taken into consideration (Csáki, 2009):

(1) pro-cyclicality of capital adequacy and macroeconomic policies must be reduced, because of system risks and cyclicality amplifier financial risk exposure;

(2) international accounting standards need to be reviewed;

(3) securitization framework must be synchronized with securitization drivers;

(4) liquidity management process should be improved;

(5) risk management models and systems must be reconsidered.

To recover the confidence of markets and consumers, a financial regulatory reform became inevitable. One of the main tasks of the new regulation was to eliminate structural errors that were partly responsible for the

Financial Crisis.

Responses to the Global Financial Crisis

After the outbreak of the Crisis all G-20 member countries were forced to take serious and immediate measures to stabilize financial market. The Obama Administration proposed in 2009 to reform the regulations of the financial market.

As stated by Soros (2012), regulations must be reconsidered following three different principles:

(1) national regulators must be responsible for limiting exuberance and inflationary pressures and therefore reducing the risk of the emergence of a bubble and its subsequent burst;

(2) to control the emergence of an asset bubble, the controlling of monetary assets is not sufficient, but the access to credits must be supervised as well by the authorities;

(3) market risk needs to be redefined.

According to estimates and 2013 annual reports' data, both U.S. and EU financial markets were funded with more than €6,500 billion on the condition that lending expands unhindered, but this has not been implemented. The main goal was to save insolvent banks from bankruptcy, instead of the reorganization of financial market (Veress, 2013). G-20 members renewed their commitment to market principles, open trade and open investment system and to effective and efficient financial market regulation as well. By the end of 2008 a declaration had been signed which contained the common principles for comprehensive reforms in the global financial market. In addition to immediate crisis management actions they also achieved general agreement on how to strengthen economic growth and on reforming regulatory frameworks to avoid similar crises in the future (Forgács, 2012).

The following principles and strategic objectives were laid down in the declaration:

- strengthening transparency and accountability: financial market transparency must be strengthened, including by enhancing required disclosure on complex financial products and ensuring complete and accurate disclosure by firms of their financial conditions. Incentives should be aligned to avoid excessive risk-taking.
- enhancing sound regulation: G-20 members pledged to strengthen their regulatory regimes, prudential oversight, and risk management, and ensure that all financial markets, products, and participants are regulated or subject to oversight, as appropriate to their circumstances. They also determined to make regulatory regimes more effective over the economic cycle, while ensuring that regulation is efficient, does not stifle innovation, and encouraged expanded trade in financial products and services.
- promoting integrity in financial markets: they were committed to protect the integrity of the world's financial markets by bolstering investor and consumer protection, avoiding conflicts of interest, preventing illegal market manipulation, fraudulent activities and abuse, and protecting against illicit finance risks arising from non-cooperative jurisdictions. They also promoted information sharing, including with respect to jurisdictions that have yet to commit to international standards with respect to bank secrecy and transparency.
- reinforcing international cooperation: G-20 members called upon national and regional regulators to formulate their regulations and other measures in a consistent manner. Regulators should enhance their coordination and cooperation across all segments of financial markets, including with respect to cross-border capital flows. Regulators and other relevant authorities as a matter of priority should strengthen cooperation on crisis prevention, management, and resolution.
- reforming international financial institutions: more adequate answers were needed to change economic

weights in the world economy. Emerging and developing economies, including the poorest countries, should have greater voice and representation. Major financial regulatory organizations should promptly review their membership.

The declaration set out the above strategic goals to strengthen financial markets and regulatory frameworks but G-20 Finance Ministers were tasked to work out a detailed, well reasoned action plan about the steps needed to achieve these objectives. It contained detailed information about immediate issues and medium term tasks in connection with each objective. Financial Crisis revealed the weaknesses of financial supervisory and the necessity of a global supervisory system even one that included every country in the world (Nagy, 2010). G-20 members made an arrangement on tightening the supervision of international financial system and on making concerted attack against tax havens.

After governments worldwide were compelled to recapitalize banks with public funds they had to face another serious issue. The biggest credit rating agencies, still standing, gave negative credit ratings and considered many countries risky for investment. This resulted in the rise of Credit Default Swap (CDS) (Veress, 2013). As developed countries recapitalized the banking system their financial resources have dried up, national debt has increased very fast causing the growth of unemployment.

To overcome the 2008 Crisis and in order to avoid the risk of a recurrence of financial crises in the future, sustainable and permanent solutions cannot be found neither at micro-economic nor at social economic levels, because of global interdependence and interactions. Globalization had made smaller countries, which are committed to strengthening the dimensions of globalization, even more vulnerable. This is especially true in those countries where the whole society accepts the concept of the globalizing world. Concerning these national economies, the only method possible is to accommodate to world economic processes and to soften the consequences of the crisis (Szentes, 2009).

Centralizing the regulatory process and increasing its transparency would mitigate the problems associated with asymmetric information. Adopting global standards of minimum prudential regulations and information disclosure enforced by the domestic regulator would mitigate the tendency to under-regulate in good times (Aizenman, 2009).

The new regulation focused on information obligation as well and decreed banks to provide customers comprehensive information on credit terms and conditions and to study draft contracts especially in case of individuals. It is important to emphasize that passive attitude is not enough to meet the requirements but it means fulfilling educational obligations. Creditors must explain the impacts of the loan on the financial situation of the consumer and the consequences of non-payment (Nagy, 2010).

By this way consumers can decide if credit conditions meet their needs and reconsider their budget. There is another requirement that needs to be satisfied: in accordance with the principle of “responsible lending” creditors are obliged to check whether the consumer is in position to meet new commitments.

What Can Government Do?—Crisis Management

The functioning of the markets, their ability to measure financial instruments, and the micro-economic effectiveness of exchanges, depend on the operation of national and international, above-market, communities, and the related legislation and regulation (Bod, 2015). Central banks are under hard pressure because of the effects of the Financial Crisis. Politicians and whole the society are expecting them to treat economic downturn. But central bank measures are inadequate to solve structural problems of the economy. During the era

following the Global Financial Crisis, the value of creativity, knowledge, the level of proficiency, mental and physical qualities of the labour force, its discipline, working culture, language skills, and the value of innovation capacities, have increased. Government, or more importantly, the society should recognize that to emerge from the crisis the whole nation and industry must join forces.

All industrial sectors need to adopt to the changed circumstances, that foster structural changes in the economy as well (Szentes, 2009). Central bank does not have the right to change government budget. The reforms to date, in light of the diagnosis of the crisis, provide some insights into what more might be needed. To identify, evaluate, and prioritize further specific reforms is challenging, however, as the "right" tools can be hard to identify and conceptual and practical issues raise many difficult tradeoffs (Claessens & Kodres, 2014). By the increasing national debts of developed countries and decreasing budget flexibility, political decision-makers were hard pressed to find monetary solutions for the Financial Crisis.

Economic decision-makers faced a twofold challenge: on one hand allowances, tax cuts, and other stimulating actions were needed to facilitate economic recovery but the costs were underestimated during budgeting. On the other hand, it has become imperative to ensure discipline in economic management.

Economic recovery measures have given various emphases in different countries but in many respects a common direction was being outlined. These main common actions were: the increase of infrastructure investment, the improvement of public employment programs, reduction of taxes and contributions, granting tax advantages to corporations and local governments, and preferential loans, guarantees, and various consumption—and employment—enhancing measures for households. Economic recovery measures have mainly been developed at domestic levels (Palánkai & Nagy, 2009). The revitalization of the economy was urgent using expansionary fiscal policy which meant tax cuts and the increase of money supply in the economy (monetary aggregates) to accelerate investment.

The concept of restriction-based crisis management rests on the restoration of consumer confidence. The reliance of investors can be restored mainly by disciplined and sustainable management that provides solvency and helps making payments on time. But restrictive policy can't make sufficient effect on the current status of households and firms on its own. They need credits but they are uncreditworthy at the same time and this causes serious difficulty in overcoming the crisis (Veress, 2013).

- Credit (or) externalities I.: high level of national debt → investors financed at higher interest rates only → interest expense cuts down budget revenues even more → no resource available for economic recovery → economic growth does not start → federal debt increases;
- Credit (or) externalities II.: at a specific level of indebtedness a negative spiral begins → the actions that have been taken to lower deficit and government debt could have negative effect on economic growth and this may cause the increase of federal debt, as GDP decreases.

Restrictive monetary policies are often accused of setting back economic growth. In fact restrictive policies eventuate in narrowing domestic markets, and they bring down the trade and profitability of manufacturing and service companies. This has a spill-over effect, so the state budget decreases, due to the weakening economic activities that cause lowering budget revenues. The interest expense-lowering and investment accelerator effect of restoration of investor confidence is counteracted by the income withdrawn from the economy through delayed investments and decreasing household consumption (Végh, 2013). The country shows a public sensitivity regarding to the restrictive policies, since economic policies aiming to reduce

budget expenditures and increase revenues, have disintegrating effects.

Disadvantaged social groups and those that are falling behind become more and more vulnerable, hard pressed by the parted economy that intensifies the impact of adverse international financial and economic factors, thus endangering social and economic cohesion. Disintegration holds back economic development. Proactive and effective development policies and thoughtfully planned and well targeted structural reforms can be the remedy for the decrease in consumption. After the Global Financial Crisis, it is usual that financial resources are limited, and yet by taking well-conceived measures and through the redeployment of existing resources, economic growth can be fostered.

Concerning the restructuring of the economy, competitive advantages can be gained through technological innovation, as nowdays there is a greatly increasing demand for eco-friendly and energy saving technologies, products and this supports the recovery of the market and the economy (Szentes, 2009).

The Effects of the Crisis in Hungary

In 2006 U.S. markets had already indicated a serious economic downturn, and the Global Financial and Economical Crisis struck the country's real estate market during the years 2007 and 2008, on the account of the emerging market asset bubbles that led the financial markets as well into a profound crisis. The events that had occurred in the summer of 2007 had little effect on the Hungarian market, as, because of the less developed financial markets, structured finance instruments or derivatives—that had "infected" all the well developed markets worldwide one by one, causing serious harms everywhere by the hidden risks—were uncommon here in Hungary.

However these events urged the Hungarian government to take economic and monetary actions immediately, in order to avoid a large economic catastrophe and lessen the latter effects of the international situation, on the country. Under these circumstances a need had arisen to reform financial policies and regulations.

Hungarian Banking Sector in a Pre-crisis and a Post-crisis State

Up until September 2008, Hungarian banking sector had not changed its lending practices, however in the next period, the Crisis struck the Hungarian banking system as well. Owing to the occurrences at U.S. markets, even the earlier well performing and favorably ranked financial institutions could not gain credits from global banks, because lenders were afraid of the possibility that the hazardous securities were hidden parts of the Hungarian banking and securities sectors. This wide-ranging crisis of confidence led to the drying up of the interbank credit market.

The pre-crisis Hungarian crediting methods were much like the American lending practices. To boost crediting, banks placed less and less emphasis on credit control, and the market of retail financial services, such as personal loans, mortgages, credit cards, had been improving greatly, while the share of household savings had been consistently falling. The low level of financial literacy in Hungarian society had a negative influence on financial behavior, and it also caused problems in the operation of the financial sector. Before the Crisis, households had not taken into consideration the limits of the family's financial capacity or solvency, and had spent beyond their means and run up credit, and for this reason, risk levels had risen. This increased level of risk had coupled with a high foreign currency exposure as well. However Hungarian banking sector had been measuring foreign exchange risk as a part of foreign currency credits' risk, but had failed to consider the

possibility of the latter more than 30% weakening of Hungarian forint exchange rate (Várhegyi, 2010).

The Global Financial Crisis had struck the Hungarian banking sector in October 2008. At first, it showed its signs through an interbank liquidity crunch, and this was followed by the sharp downturn in crediting, and finally by the strict regulations of lending. The crisis had reached firm credits and the whole financial market. The faltering crediting and strict lending conditions had worsened the financial positions of the debtors and had deepened the recession, causing a spillover effect on the finance sector and the operation of its members.

The banking system had responded to the outbreak of the Crisis by restricted lending and the increase of deposits, since it needed to adapt to the international occurrences. In order to lower credit risks, banks had created firm crediting regulations:

- lowered Loan-To-Value ratio;
- increased downpayment requirements;
- reintroduced the examination of income in creditworthiness assessment.

The international solutions for the Financial Crisis, the rescue schemes for credit institutions have compelled the Hungarian government to take immediate actions. In order to treat with the decrease of liquidity and to restore lending volumes, Hungarian Central Bank (MNB) have provided banks with instruments to obtain liquidity, thereby attempting to secure the renewability of foreign currency sources, in case of a decline in market liquidity, as well as to reduce the growing tensions on interbank markets.

Adopting the international practice, the Central Bank reduced reserve requirements (reserve ratio), reduced the costs of overnight credits through hedging interest rate margins, and progressively broadened the scope of eligible collaterals. Finally, MNB introduced short-term, two-weeks, and six-months, secured loans, with general, uniform terms and conditions for every financial institution. However, due to the structure and various operators of the Hungarian banking sector, neutral conditions for competition could not have been fully achieved. Of the instruments mentioned above, reducing Loan-To-Value ratio proved to be the most commonly used and most easily achievable for all the financial entities (Várhegyi, 2010).

In comparison with the crisis management methods used within the U.S. and the UK, in the Hungarian financial sector, there was little necessity for state interventions including acquisition, on account of the fact that the Hungarian banking system consists mainly of banks owned by foreign parent banks. Government provided direct aid only for OTP and FHB bank, in the form of fund injection. Furthermore, the state ensured that Hungarian credit institutions may grant credits directly, and can purchase bonds issued by the Central Bank and lend them for banks, in order to maintain their liquidity.

These measures, taken by the state, enabled banks to tackle with the recession, caused by the Financial Crisis, as soon as possible. In return for the state support, banks paid guarantee fees and loan interests for the government, and must provide credit for Hungarian corporate sector, to boost the economic performance of the country.

State interventions had promoted the recovery of interbank markets, and induced banks' willingness to increase corporate lending. On the other hand, the Crisis had launched a series of acquisitions and mergers in the banking sector. Foreign financial institutions had been revising their long-term strategies, and in many cases had decided to close several bank branches, to abandon business units and markets, and moreover, they had limited their banking services.

Anti-crisis Economic Policy Measures

The Crisis had affected the usual economic policy practices as well, by forcing the government to take

non-standard actions and in other times, to use the practices of a former period. Prior, orthodox, economics theories mostly included nationalization in spite of privatization, and used strict regulatory measures in cases where—according to old economics theories—self-regulatory processes of the market could be more effective. Concerning monetary policy, the government adopted a non-standard, unorthodox economic approach, when reducing interest rates permanently to zero and later even to negative levels.

Due to the Crisis, the signs of a possible state bankruptcy had surfaced, for example in Greek. To avoid state failure, the heavily indebted country could choose between two possible solutions:

(1) reducing state spending;

(2) improving state revenues, through the revision of the taxation system, where reforms must include tax hikes.

The reduction of state expenditures is difficult to implement as it usually meets political obstacles, consequently hindering a quick and effective response to the Crisis. As budget expenditures usually consist mostly of social benefits and social service costs, society is keenly affected by the cut of state expenses, causing increasing social discontent. To escape the threat of a state bankruptcy, government can also decide to increase taxes and to introduce new taxes, hereby responding rapidly to the economic and financial needs of the state, but also causing general social dissatisfaction. Socio-economic aspects of the necessary economic measures make the decision-making even more difficult.

The setback of Hungarian markets has assisted to the fall of state credit ratings, during the post-crisis years, putting the country in a position similar to the Greek, bankruptcy threatened situation. Hungarian economy needed international aid to avoid financial catastrophe, and has received a €20 billion cash injection from the IMF and the EU.

Hungarian government-debt has increased as a consequence of the crisis, but due to the economic strategies of former years, the country's economy has been in a stabilization phase and for this, Hungary could not run counter-cyclical fiscal policies (Muraközy, 2010). By 2011, debt-to-GDP ratio has increased from the 2007 65.9%, to 81%. Since 2011, nation debt has decreased steadily (by 2014 it has dropped to 76.9%), however, despite the measures taken, government cannot achieve significant debt deduction, on account of the fact that there is no financially strong household sector, well-capitalized companies, or financially well-equipped non-profit organizations, with adequate institutional capital, backing the heavily-indebted state (Bod, 2015). State budget stabilization is always a long-drawn-out and controversial process, especially if society suffers from heavy indebtedness and financial, social vulnerability.

After the outbreak of the Crisis, in 2009, the left-wing government declared a stabilization and development strategy, based on neoclassical economic traditions (orthodox economics), following the "Mainstream Economics" methodology. The main elements of this are (Veress, 2013):

- State counter-guarantee in the case of certain mortgage debtors;
- a public sector gross wage freeze;
- the abolition of 13th month pay;
- the raising of retirement ages and abolishing 13th month pensions;
- municipal budget-cutting;
- reducing sick pensions, childcare benefits, parental/maternity leave pays and limiting the available length of leave;
- raising corporate taxes;

- the introduction of wealth tax;
- VAT hike, increasing consumer energy prices, eliminating compensations, excise duty hike.

The above listed economic measures proved the foregoing representation of the Gyurcsány-Bajnai governments' economic policies, when they were trying to tackle the crisis through cutting budget expenditures and increasing tax revenues. These acts provoked social opposition, especially in the public sector and among pensioners.

Following the state elections in 2010, a right-wing government ruled the country, with Viktor Orbán as Prime Minister, obtaining a two thirds majority in parliament. The new government assessed the recent economic situation and recognized, that the Hungarian economy is not capable of reaching the 3.8% budget deficit limit, determined by the IMF loan agreement. In the best-case scenario, state budget deficit could still be over 7% (Lovas, 2015). For this reason, decision-makers employed new, unorthodox, economics policies. The key aspects of this strategy are (Veress, 2013):

- relief scheme for debtors caught in the trap of foreign currency mortgage loans (early repayment, exchange rate cap);
- introduction of crisis taxes, concerning several economic sectors;
- introduction of the 16% flat personal income tax and family tax allowances;
- in certain cases, decrease of corporate income tax;
- the repealing of ten "small taxes";
- nationalization of the cafeteria system (SZÉP card);
- initiation of "fat tax" on high-calory, unhealthy products;
- confirming a two million forint salary cap in the public sector, and 98% punitive tax on the high prior redundancy;
- at first freezing, and then lowering, consumer energy prices (public utility price cut);
- VAT and excise duty hike;
- nationalization of private pension funds;
- foreign currency debt redemptions, concerning 1,956 municipals, reaching a total of HUF 613 billion.

These two different stabilization policies, utilized by the Gyurcsány-Bajnai and the Orbán government, are fundamentally different. Orbán government met fierce international resistance on account of the taken unorthodox economic measures, and ran into opposition from the EU Institutions and global economic operators as well. Considering, that global operators, especially the banking sector, were deeply involved in the speculations causing the outbreak of the crisis, the non-standard economic measures, the special bank levy, seriously affected financial decisions.

After the 2004 EU accession, Hungary was placed under an Excessive Deficit Procedure (EDP) for nine years, because of exceeding the required 3% debt-to-GDP ratio. The governments in power have been trying to resolve this issue by their economic, financial, and regulatory measures, and in June 2013, the Council had finally closed EDP for Hungary, because between 2012 and 2013 budget deficit was permanently reduced below 3% of GDP.

Hungary is not a global player in the financial system of the world, but rather a mere spectator of world economic processes, but economic policy decisions made after the "2008 Crisis", the prior orthodox, and, from the year 2010, the subsequent unorthodox economic measures, helped the country to treat with the Crisis, and supported it toward the path of becoming a dominating power in the Central-Eastern European Region. This

position can only be obtained alongside a boost in Hungarian real economy and an increase in employment.

Summary

The Global Financial Crisis was intensified by the descending degree of transparency in the market of securitized assets. Investors have blindly followed the ratings of big agencies, but these ratings often proved to be false and lacking any objectivity because of relations, insider trading, and market manipulation. The Crisis revealed the necessity of coordination of regulatory and stabilization measures in the global financial market.

As a result of the Financial Crisis the role of the state has grown stronger than that in the past years. As against the earlier privatization, states returned to nationalization and budget support. Regulation became more important in forming economic policies. It's not enough to take action to keep economic recovery, but the restoration of common trust is needed because without these, there can be no improvement. Each of the states used two strategies to get through the crisis: they took balance- and economic discipline-protecting, restrictive measures and in the same time interventionist acts to increase economic growth. The Crisis has significantly weakened the external sovereignty of nation-states, including the world's leader economic power, the United States of America. On the whole it's obvious that the Global Financial and Economical Crisis caused serious problems in employment, real economy and in social life of the countries and consequently affected their political system and power relations. Economic policy measures, taken by governments, have an ever-increasing role in tackling the Crisis, whose effects are still perceptible, and compel decision-makers as well as economic operators, to act in a more cautious and wise manner.

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