

The Hungarian foreign exchange crisis in the early 2000s

A case study about the rampant debt crisis and its connection to disinformation.

Essay

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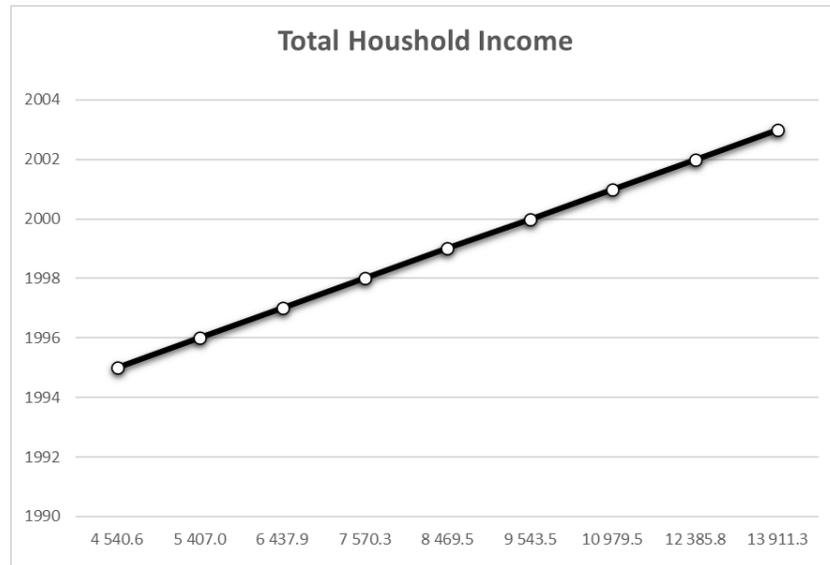
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Introduction

The Hungarian debt crisis occurred in the early 2000s which was a period of economic instability for the country. It was characterized by a significant increase in public debt, a decline in the national currency, named “forint” in Hungarian (HUF), and a decrease in economic growth. The leading cause of the crisis was high inflation, a large budget deficit, a widening trade deficit, and increased borrowing costs for the government. The government fitted austerity measures to address this crisis and borrowed secure loans from international organizations, such as the International Monetary Fund (IMF). They also implemented cuts to public spending and an increased tax. Despite these efforts, the crisis continued, leading to a period of hardship for the country as well as for its citizens. Hungary eventually recovered from the crisis, but its impact has been felt ever since. This crisis was also surrounded by a vast flux of disinformation, which I will explain later in my paper. Therefore, the main argument of my work is that the real debt crisis was interwoven with disinformation from the side of the government and the Hungarian banking system together which was later revealed by the central bank of Hungary.

The history of the crisis

To understand the root of the crisis we need to go back to the mid-1990s. The country’s economy showed significant growth thus resulting in increased investments from foreign countries as well as an increase in household income which is presented by data from the Hungarian Central Statistical Office, Központi Statisztikai Hivatal, KSH in Hungarian (Table 1.)



Source: Hungarian Central Statistical Office "Distribution and use of gross household income" Data accessed: 20 February 2023. https://www.ksh.hu/docs/eng/xstadat/xstadat_annual/i_qpt005a.html

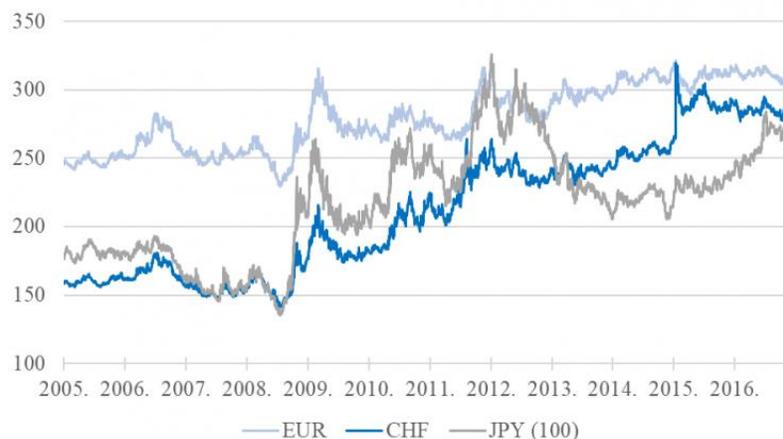
The state's role in the economy decreased and privatization continued, creating further opportunities for foreign investors. The country's political and economic standpoint pointed towards stability and growth. Politically, the country experienced a regime change not too long ago, which increased citizens' rights and freedoms. Furthermore, the country strived towards a political and economic system like Western European countries. In 2004, Hungary joined the European Union which gave the country further much-needed support towards restoring its economy as well as improving its appearance in international reputation and economic cooperation with its region. A great example of this support is the countless influx of EU funds which helped modernize the country's infrastructure. Using these funds, the county could improve its less developed regions while also creating hundreds of new job opportunities for its citizens. The country is one of the beneficiaries of the EU. According to Euronews, the country has received more than 55,2 billion euros of investment from the EU since 2004 (2019). Though most statistics indicate growth in the country's economy, the country was experiencing a period

of hardship that the middle-class citizens of Hungary felt the most. This period was largely due to the country's shift from a pre-planned to a market economy. As a result of these changes, many people faced unemployment, a decline in living standards, and inflation. In addition, the transaction was accompanied by a rise in income inequality and poverty. As new debt construction emerged in the market for the Hungarians, more and more people started to register for a mortgage or even for a personal loan. This new construction means that the debt's interest rate and reimbursement were connected to the currency of Switzerland, the franc, CHF. This was one of the reasons that led to the crisis in Hungary.

Disinformation and its role in the crisis

What is disinformation and what is the connection with disinformation in this study? According to the Oxford learner's Dictionary, disinformation is "false information that is given deliberately" ("Disinformation"). The word 'deliberately' is a keyword here, which is why it should not be confused with misinformation which means "the act of giving wrong information about something" ("Misinformation"). There was a great amount of disinformation between multiple parties involved in this crisis. One example is when the Central Bank of Hungary sent out multiple warnings regarding the dangers of this type of debt. At this time the Central Bank of Hungary had no power to dictate regulations to stop the popularity of this debt in the country. The institute which had jurisdiction did not act at all despite receiving multiple warnings on behalf of the Central Bank of Hungary. The banks in Hungary had no other choice if they wanted to stay in competition but to start giving out loans in which reimbursement was linked to the CHF. The franc-based debt was the most popular debt in the country at that time, and it had a good reason for it. The banks offered lower interest rates on franc-based debts and for the

average Hungarian citizen, it was seen as a good opportunity to obtain money, a kind of “easy money”. However, banks made a terrible decision regarding giving debt to people they knew would never be able to pay their loans back. In addition to the financial institutions, the country's population also made mistakes. Everyone wanted to live better than the reality in Hungary. Most citizens bought houses and other liabilities from these loans. To understand the true brutality of the crisis let's say that an individual gets a franc-based 10-year term loan for the value of 10 million forints (HUF) with a 7% interest rate on 2006 January 1 when the Swiss franc's (CHF) exchange rate was the equivalent of 161 forints (Table 2.) 10 years later when the exchange rate sit at roughly 291 forints which makes the loan's total end payment about 19 million forints. The exponential rise in payments led to more than 13,000 people being evicted by the police for failing to pay back the loans. To this day this was the period with the most evictions ever in the country. All in all, 1.2 million Hungarians were trapped in debt, with a total of 5,000 billion (HUF) in foreign currency-based loans, which determined their future for many decades.



Source:(n.d.). *Devizaárfolyamok alakulása*. Oeconomus Gazdaságkutató Alapítvány.

http://www.oeconomus.hu/irasok/a-magyar-devizahitel-valsag-tortenete/#_edn2

Conclusion

Disinformation played a key role in the crisis, on behalf of the banks and the government in the country who recommend the foreign currency loans and did not point out the risks that were involved in them. They calmed their customers about the exchange rate fluctuation and further recommended their product. In conclusion, the Hungarian debt crisis was a painful reminder of the true costs of borrowing foreign currency debts with an economy that is over-reliant. The crisis demonstrated the risks associated with high levels of public debt, what a lack of competitiveness in the economy leads to as well as the importance of implementing sound economic policies to promote sustainable growth and stability. Other than the massive debts that people got themselves into the crisis had severe consequences such as wage cuts, job losses, and reduced public services and it harmed the overall country's credit rating. The painful lessons learned from the crisis have led to reforms aiming to improve the country's financial competitiveness and sustainability, including efforts to reduce public debt. These changes have helped to restore the confidence of investors and stabilize the economy.

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