



**Closing Remarks by Dr. László Windisch**  
**Deputy Governor of the Central Bank of Hungary (MNB)**  
**Thursday 10 May 2018, Budapest**

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**Dear Mr. Chairman of the Board,**  
**Dear Mr. Secretary-General,**  
**Dear Chairmen of the IOSCO committees,**  
**Dear distinguished Guests,**  
**Dear Ladies and Gentlemen,**

On behalf of the Central Bank of Hungary, I would like to warmly welcome you at the public part of the 2018 IOSCO Annual Conference, here in Budapest, in one of the most beautiful cities in Europe.

I am glad to see that there are so many participants and that IOSCO Members are really committed to actively participate in the work of the Organization. IOSCO reaches out beyond the international supervisory community and it is my pleasure to also welcome high-level representatives of leading financial market participants.

It is an honour for the Central Bank of Hungary to host the IOSCO Annual Conference, which brings together capital market supervisors and securities experts from all over the world. I hope that participants have a great time here and can experience the well-known Hungarian hospitality.

Today and tomorrow we will have the opportunity to listen to panel discussions on actual capital market related issues. I hope that you will find these panels interesting and you can use the information and knowledge gained in the future.

Now I would like to give you a brief overview about the role and recent activities of the Central Bank of Hungary, which has one the widest scope of powers: monetary policy, macro- and micro-prudential supervision of the full financial sector and also being an appointed resolution authority. The MNB has important consumer protection and financial literacy related tasks as well.

The MNB follows a pro-active approach and continuously looks for supporting price stability, the stability of the financial system and economic growth even by reformed, innovative tools.

**The economic and financial crisis that unfolded in 2007–2008 caused grave and profound problems in the functioning of the global economy.** The financial crisis exposed the structural deficiencies of economic growth that had previously been concealed.

**Considering the complex economic challenges posed by the global economic crisis,** it quickly became obvious that the **crisis could only be managed through new, complex economic and monetary policy measures.**

Central banks played a crucial role in addressing the problems. Their position has been strengthened almost everywhere, their engagement has become broader and they have intervened in the functioning of economies with an ever-growing set of instruments.

**Hungarian monetary policy responded to the situation actively, by applying a series of measures including several innovative, creative elements.** In the absence of adequate internal savings, a large proportion of the country's financing came from foreign sources, and therefore mounting debts were coupled with substantial external indebtedness.

**From 2010, the first step towards recovery was fiscal stabilisation.** The fiscal turnaround and the structural reforms in the labour market helped restore investor confidence in the

Hungarian economy. The improving risk perception of the economy and the stabilisation of the inflation outlook **enabled cuts in the base rate. The launch of the rate-cutting cycle was followed by a set of comprehensive monetary policy measures.**

The MNB intervened in the functioning of the economy with a combination of traditional and unconventional instruments aiming to support financial stability and also the economic policy of the Government.

**Employing traditional instruments, the Monetary Council reduced the base rate to a historic low level.** Low interest rates facilitated the expansion of investment, consumption and employment on the one hand, and reduced the debt burden on all borrowers indebted in forint on the other hand.

**Taking into account the initial position and features of the Hungarian economy as well as international experience with regard to unconventional instruments, the MNB clearly opted for well-targeted solutions.** The MNB eased monetary conditions and thus stimulated the economy in the context of a contracting central bank balance sheet.

**The MNB's measures focused on the enhancement of the broken monetary policy transmission.** The Hungarian corporate credit crunch in 2013 mostly hit SMEs, which threatened the longer-term growth capacity of the economy. The first and most important step in this regard was the Funding for Growth Scheme (FGS) aimed at **Hungarian small and medium-sized enterprises.** This helped corporate lending to return to a healthy growth path. The MNB also considers it important to **diversify the funding of the economy** and to **reduce over-dependence on bank loans** for risk diversification and resilience of the financial system.

In addition to the restoration of SME lending, the other most acute problem was posed by **large-scale foreign currency lending.** Due to the substantial social, economic and legal impact, the phase-out required a complex approach. **The comprehensive resolution of the issue was achieved with the involvement of the central bank in 2014–2015.** This step supported economic growth, reduced the economy's vulnerability and enhanced monetary policy transmission.

**The MNB's instruments were gradually transformed with the launch of the Self-Financing Program, which made it more beneficial for banks to buy government securities instead of using MNB deposits.** As a result of this program, the **level of external debt and thus the vulnerability of the economy were reduced**, while the financing structure of general government improved, thereby greatly contributing to the subsequent upgrade of the credit rating of Hungary.

**One of the key elements in the efficiency of monetary policy transmission is the appropriate development and modernization of financial infrastructures.** In this field, the most significant step was the development of the rules and the infrastructure for instant payments.

**The active and proactive use of macroprudential policy was a new, independent element in the central bank's decision-making.** The objective of macroprudential policy is to mitigate excessive systemic financial risks. The MNB has decided to implement a broad array of measures to this end. As a result of the measures, the recovery in lending will provide an opportunity for lending with a much healthier structure than earlier.

**In addition to monetary policy, the MNB overhauled the functioning of the Hungarian financial system as well through several measures.** After the crisis, several countries reviewed and strengthened their supervisory framework.

In line with international developments, the Hungarian Parliament adopted the new MNB law in 2013, thereby integrating the financial supervision function into the central bank.

The continuous development of the **supervisory methodology**, the **use of advanced technology in inspections and supervision**, and the assertive supervisory action focusing more on the **identification and management of future risks** produced remarkable success in a short time.

In recent years, several changes and **technological advancements** could be observed on financial markets. Market participants increasingly use **algorithmic trading** and its special form: **high-frequency trading (HFT)**. I should also mention **automated advice**, the **use of Artificial Intelligence**, or **DLT Technologies**.

Technology also affects investment service provider's business models, marketing strategies and their core operations. Supervisory authorities shall make every effort to keep up with these developments. They should also be able to understand these new products and technologies and to manage all related risks by ensuring an adequate level of protecting consumers.

We should follow closely the experience with **Innovation Hubs** and **Regulatory Sandboxes**. One of the panels of today's Conference will focus on **FinTech and Digitalization**, but I believe that the issue of technology will be touched upon in all four panels, as this is a topic that we cannot and should not avoid.

Due to **technological development**, the range of on-line services is growing. Financial services become more and more **cross-border based**. **International co-operation** among supervisory authorities will become even more important and intensive. The IOSCO has a key role in ensuring supervisory co-operation through its **MMoU** and the new **Enhanced MMoU**. IOSCO should continue to support the further developing of this framework.

The MNB is an **active participant in legislation** both at the EU and national level. It also plays a crucial role in the **domestic implementation and communication of European Union legislation**. The MNB's experience shows that further supervisory instruments are necessary that help supervised institutions and provide guidance for properly implementation the regulatory framework.

On the global level **IOSCO** has a key role in **developing international standards** and in ensuring their proper implementation. I believe that IOSCO's efforts in this regard will be more and more successful.

**To summarise, the MNB has been subject to a major overhaul since 2013.** Important results have been achieved in all areas. However, this renewal does not only concern Hungarian monetary policy, as global monetary policy is also currently undergoing change. We can learn from each other by sharing our best practices and the challenges we are facing. The MNB will also keep an open eye for the experiences and innovations of other countries.

I hope that today's panel discussions will also add to this process.

**I wish you a successful Conference and a nice stay in Budapest!**

**Thank you for your attention!**