

THE BOOMERANG EFFECT OF REPRICING HOUSEHOLD FOREIGN-CURRENCY  
MORTGAGE LOANS

Márton Radnai

Hungarian banks, in the first phase of the economic crisis, faced an increase in their financing costs for foreign-currency mortgage loans with the emergence of the country-risk premium. For some years they were able to offset this extra cost by increasing their margins and so retain their levels of profitability in the short run. The paper shows that this step contributed to a dramatic increase in default rates and evaporation of the banks' profits in the long run. According to the model, the behaviour that would have maximized profits would paradoxically have been to decrease their margins as their financing costs increased or when the foreign currency of the loan appreciated.

THE IMPACT OF STATE SUBSIDY ON PROJECT FINANCING UNDER MORAL  
HAZARD AND POSITIVE EXTERNALITIES

Edina Berlinger, Péter Juhász and Anita Lovas

It is disputed in the literature how state subsidy influences entrepreneurs' behavior, and so the economy's growth prospects. Most authors see state intervention in financing eroding entrepreneurial incentives, but there is no consensus on its overall effect if positive externalities of projects are also considered. Several seek an optimal subsidy form (forms) among various alternatives (refundable/non-refundable, prior/posterior, conditional/unconditional). The paper shows with a three-player model (entrepreneur–bank–state) how under moral hazard and positive externalities, state subsidy creates value. Indeed a well-designed subsidy scheme betters incentives and boosts private financing, not crowding it out. Here the specific form of subsidy is irrelevant: all have the same welfare effect except prior subsidy refundable in case of success or failure, where it is neither positive nor negative.

THE BIRTH, FLOWERING AND DECLINE OF THE JAPANESE DEVELOPMENTAL  
STATE. FROM RATIONAL SAMURAI TO "ABENOMICS"

László Muraközy

One of the key factors in the Japanese miracle after World War II was the model of the developmental state. This was formed over a long historical process and its

influence then spread to many Asian countries. Towards the end of the 19th century, the Meiji Restoration was managed by the “funding bureaucrats”. After World War I, the “reform bureaucrats” began to build a developmental state in Manchuria in a very innovative way. This institutional structure, the “1940 system”, was very effective during the war as well. In the hopeless situation after 1945, however, Japan had only one secret weapon left: the model of the developmental state and its professional staff. In spite of the changing goals, the model was still ready to work. It became a very important element not only in the Japanese miracle, but in the rapid growth of the Asian region. However, Japan in the 1990s met constraints on this government-led path, and despite many attempts, no escape from this dead end has yet been found. The unique role and influence of the state lie behind both the Japanese miracle and the suffering of recent decades.

#### BEYOND GROWTH – THE CONTRIBUTION OF A NEW DIRECTION TO THE DEBATE ON SUSTAINABILITY

Judit Dombi and György Málovics

The dilemma of the sustainability of economic growth has been debated in economics for decades, above all in environmental economics and ecological economics. The study introduces an approach that is critical towards the long-term sustainability of economic growth. According to the de-growth approach, continuous economic growth is (1) impossible for environmental reasons, and (2) not even necessarily desirable for social reasons. So the solution to environmental, social and economic problems of the age is not more, accelerated economic growth, but a new socio-economic order that is ecologically sustainable, socially equitable, and not based on continuous economic growth. After introducing the antecedents of de-growth in economics, the authors place it among the current streams of sustainability thinking. The conclusion is that the messages of de-growth are encompassed by many uncertainties and unanswered questions. Present-day de-growth thinking, rather than being a mature paradigm, can be seen as a novel approach potentially able to highlight debatable sustainability-related questions that cannot be resolved by mainstream sustainable-development thinking.