

# Interview with Dr. Éva Palócz, CEO of Kopint-Tárki

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*“Companies are governed by fundamental economic rules such as productivity, efficiency, profitability, and competitiveness, which cannot be diverted by government will.”*

**As an introduction, I would like to ask you to briefly review your professional career. You have spent most of your career at Kopint.**

Yes, I graduated from the Karl Marx University of Economics in 1974 and joined Kopint (Konjunktúra- és Piackutató Intézet, Institute for Economic and Market Research) that same year. With the exception of nine years (1993–2002), I spent my entire professional career at Kopint, which has undergone numerous transformations in recent decades. In 1985, Kopint merged with a computer company called Datorg, creating Kopint-Datorg. The merger was also justified by the fact that Kopint traditionally dealt with foreign trade and global economic research topics (as a background institution of the Ministry of Foreign Trade), while Datorg processed Hungarian foreign trade data, so the merger of the two institutions created a kind of thematic symbiosis. Kopint-Datorg consisted of two parts, the research and IT departments. Kopint-Datorg became a widely recognized institution, so much so that even today many people still refer to us as Kopint-Datorg out of habit, even though this situation ceased to exist in 2007.

In 2007, a government decree outsourced the research directorate, i.e., Kopint, from Kopint-Datorg as a “profile foreigner.” The research directorate was supposed to merge into a state research institute that no longer exists. We were able to avoid this by establishing a new research institute, Kopint-Tárki, in collaboration with the Tárki Social Research Institute, to which a significant number of former Kopint researchers transferred. The establishment of the joint institute with Tárki was justified by shared professional values and a number of previous high-quality joint projects. The share capital of Kopint-Tárki Zrt. was provided by Tárki and the Kopint Economic Research Foundation, as well as by employees, numerous other economists, colleagues, friends, and acquaintances who purchased shares, which was an important and respectable expression of solidarity at the time. Today, former Kopint colleagues can be found in almost every area of Hungarian economic life: in banks, ministries, foreign and domestic universities, other research institutes, and international institutions all over the world. In 2002, after nine years, I returned to Kopint-Datorg, which still existed at the time, as head of the research department.

So I had to manage the 2007 expulsion and the founding of the new company, which was very painful, since we had essentially built Kopint-Datorg from scratch. At the same time, since we managed to rescue Kopint and its spirit, we were able to continue our research work within the new organizational framework.

In today's world, it may seem strange that someone would spend their entire career at one institution. My attachment to Kopint can be explained by the fact that, from the very beginning, I was captivated by the critical spirit and independent thinking that has always characterized Kopint. To this day, we strive to preserve this rigorous professionalism and independence from political influence.

**Many people are talking about the end of neoliberal economic policy, the rethinking of the role of the market, and the need for industrial policy. Do you agree that there is a paradigm shift in economics today and that a new theoretical framework is emerging? Or is the current wave of industrial policy actually just part of, or a modification of, a process that has been going on since the 1970s? What role does the state play in the 21st century in economic life, especially in the management of companies?**

There is undoubtedly a kind of shift in economic thinking at the moment, but such changes are common every few decades. We could also say that trends come and go and then return, although never in exactly the same form.

The 1960s and 1970s were dominated worldwide by industrial policy discourse, triggered by the rapid development of industry in the Asian Tigers of Southeast Asia, their growing role in the global economy, and the East Asian miracle. As the eight countries known as the Asian Tigers were characterized by strong state intervention and sectoral preferences, the question arose in Western countries at the time as to whether it would be possible to implement state-led industrial development in Western economies as had been seen in Southeast Asian countries. The answer was essentially that the possibility of such targeted intervention was very limited in the economies of developed countries without significantly distorting the market. Yet at that time, state support for companies and sectors was not considered as prohibited an activity in Europe as it is today.

In fact, there were several twists and turns. Suffice it to say that in the 1960s and 1970s, the British economy was characterized by both privatization and nationalization, depending on whether a Labour or Conservative government was in power. Then, in the 1980s and 1990s, the Conservative government embarked on a large-scale privatization program. In 1993, the British railways were privatized on the basis of the ideology that private companies could operate these transport services more efficiently than the state. The railway lines were awarded individually to different companies under a franchise system. The irony of the situation is that some sections were purchased by the French state railways, which is not exactly a typical privatization. Now, the news is that the Labour government has decided to renationalize the British railways because privatization has not worked.

As far as industrial policy is concerned, state intervention was relatively strong in other EU countries until the 1980s, but the South Asian type of “developmental state” was not typical.

Nevertheless, a new trend emerged in the 1980s, namely the recognition of the importance of services. The idea that, as economies develop, the share of industry (the secondary sector) naturally declines, while that of services (the tertiary sector) steadily increases, was by no means new. A precise description of this can be found in the works of numerous authors as early as the 1940s and 1950s.

However, the development of the service-led, tertiary economy and the better utilization of its potential had not previously been addressed at the economic policy level. The idea of a service-led economy was supported by the recognition that rapid technological development, primarily as a result of the IT breakthrough, was giving rise to new business-related services (BRS), whose productivity was increasing dramatically. The increase in productivity in service activities has broken the long-standing claim that services are not suitable for technological development and that an increase in their share is therefore associated with a slowdown in economic growth. In addition, producer service activities have become increasingly sophisticated, their supply has expanded rapidly, and their role in serving industrial activities has grown stronger: research and development, IT innovations, design, planning, marketing, etc. are all part of service activities.

The growing importance of services is reflected in the fact that the removal of barriers to trade in services was placed on the agenda of the General Agreement on Tariffs and Trade (GATT), the forum for international trade policy negotiations, in the early 1980s. In light of today's reindustrialization discourses, it is instructive to recall the arguments of those negotiations. The GATT negotiations, which began in 1982 at the initiative of the United States, aimed to persuade developing countries to open their sensitive service markets to foreign service providers. The argument was that by the 1980s, comparative cost advantages in services had shifted to developed countries rich in capital and skilled labor. A division of labor in which developed countries give preferential treatment to industrial exports from developing countries, while the latter open their service markets to developed countries, could therefore bring mutual benefits to all groups of countries.

In the 1980s, I had the opportunity to attend several GATT meetings, where I heard firsthand how American and some Western European delegates argued that developing countries enjoy comparative advantages in manufactured goods, while developed countries enjoy comparative advantages in services. It is worth recalling this when listening to the speeches of US President Trump, who claims that developing (and European) countries are exploiting and robbing America through industrial goods exports. He fails to take into account that the US does indeed dominate the services sector, as evidenced by the large multinational digital service providers.

This turn of events is particularly painful for me because I wrote my PhD thesis on international trade in services and defended it in 1992. In it, I dealt at length with comparative advantages in trade in services, supported by calculations.

The idea of service-led growth became prevalent in EU institutions in the 2000s. In 2004, the Directive on the Internal Market in Services was published, emphasizing the importance of business-related services in terms of economic growth and increased productivity. The Directive called for the creation of a single internal

market for services, similar to that for industrial products, by removing barriers to cross-border service provision, thereby improving the EU's competitiveness. Fortunately, unlike the later Industrialization Directive, this directive did not set a numerical target for increasing the share of services, but this was not necessary, as this process is natural in developed economies.

In contrast, the emergence of reindustrialization programs in the EU in the early 2010s represented a sharp paradigm shift. The 2012 EU Directive already stipulated that the declining weight of industry in the economy must be reversed and that the share of manufacturing must be increased from 16% at that time to 20% by 2020. In other words, the weight of industry had to be increased at the expense of services, which 15–20 years earlier had been considered a priority sector for development. Well, to put it mildly, this directive was not the intellectual pinnacle of the EU's economic apparatus. Of course, by 2020, the share of manufacturing in the EU's total GDP had not increased by a single percentage point but had merely stagnated. After COVID, in the New Industrialization Strategy published in 2021, the previously rather vague goal of reindustrialization became more nuanced and was replaced by the identification of particularly sensitive and strategically important areas in which it is crucial to reduce Europe's lag (raw materials, pharmaceuticals, battery manufacturing, hydrogen production, semiconductor (chip) manufacturing, cloud-based technologies). This already highlighted the need for industrial protection measures and European-level support for joint developments. However, no ambitious programs have been announced since then.

In January 2025, a few days after US President Trump took office, he announced the imposition of protective tariffs on partner countries (this would be "Liberation Day"), which is in fact the start of a trade war. With these measures, he hopes to bring industrial production capacity back to the United States. Due to the constant changes in the level of tariffs, it is not yet clear where this will lead, but it is fairly certain that there is no chance of turning back the clock by several decades. No single state, not even the US government, has the power to dismantle global production chains based on the worldwide optimization of factor costs.

Partly due to the shock caused by COVID and partly due to American and European efforts, it is conceivable that global production chains will be reduced (reshoring) and shortened to some extent. At the same time, global production chains result in significant cost savings that participating companies are unwilling to give up, despite any government pressure. Moreover, if they did so, it would result in significant cost and price increases.

Returning to your question, in my opinion, the state has little opportunity to directly influence the operations of companies in the 21st century. It can change central bank interest rates, tax rates, and even impose sector-specific taxes, so it does have indirect tools at its disposal, but their impact on corporate behavior is difficult to predict. In political and social life, it is possible to implement state-controlled and communication-supported changes (as we are currently seeing in the United States and even in Hungary), but in the economy, the possibilities for this are limited.

This is because companies are governed by fundamental economic rules such as productivity, efficiency, profitability, and competitiveness, which cannot be diverted by state will. Or rather, it is possible temporarily, but it causes enormous damage.

This also applies to current Hungarian economic policy, which is attempting to stimulate economic growth by increasing direct state intervention. Apparently with little success.

**You have been heavily involved in economic research. What methodological innovations did you apply in the field of economic research at Kopint-Tárki Zrt. or at previous institutions?**

**What were the most important lessons learned from studying the business cycles of the Hungarian economy in recent decades? How has the role and significance of corporate business surveys changed in economic policy decision-making? What challenges do researchers face in making short- and medium-term forecasts for the Hungarian economy? Which economic indicators do you consider to be the most reliable for assessing economic trends? How do you see the future of business cycle research in light of digitalization and the rise of big data?**

Business cycle research aims to identify long-term business cycles on the one hand, and to forecast short-term economic prospects on the other.

As far as economic cycles are concerned, we cannot talk about classic economic cycles in developed economies in recent decades. In the modern economy, economic policies use fiscal and monetary policy tools to smooth out economic cycles: when the economy starts to weaken, governments intervene immediately and stimulate economic activity through fiscal spending and/or monetary easing. In theory, the opposite should also work if fiscal policy is sufficiently disciplined, i.e., anticyclical, but this is generally less effective.

In addition, the global economy has been shaken by a number of shocks in recent decades, which have disrupted economic cycles. Today, we tend to remember the decades before the 2008–2010 global financial crisis as if they had been islands of peace. However, the global economy also experienced a number of shocks during those decades: two major oil crises in the 1970s and two minor debt and stock market crises in the 1980s preceded the global financial crisis of 2008–2010. In 2020, COVID, and then in 2022, the energy crisis caused by Russia's military attack on Ukraine, shook the economic cycle.

Kopint-Tárki uses partial models for short-term economic forecasts. We assemble the individual model blocks by estimating the relationships between GDP components and applying calculated coefficients. Essentially, we simulate what the Hungarian Central Statistical Office (KSH) calculates based on actual data, although they also use estimates when compiling national accounts.

One such model block is the household income–consumption–savings vertical. We estimate the expected development of wages mainly on the basis of the annual rate of minimum wage increases. Savings are influenced by interest rates, state housing subsidies, and other state measures. Consumption in this module is the difference between the two.

In addition to forecasting external demand trends, corporate business surveys help us estimate corporate investment (and production). Kopint has been conducting quarterly corporate business cycle surveys since the mid-1980s. This is our most reliable source of forecasts, as our experience shows that the results of our manufacturing industry surveys correlate very well with actual GDP data, both in terms of production and investment indicators. Based on the most recent surveys alone, our business cycle test clearly showed an economic downturn over the past two years, with corporate expectations steadily deteriorating. Our latest survey, conducted in April 2025, suggests that the decline has come to a halt, although the extent of the improvement is still uncertain. By the time this article is published, we will see whether the Hungarian economy has indeed reached rock bottom.

We align the development of public investment with the budget situation and the government's announcements regarding the postponement of investments. Our export estimates are also based on the results of the business cycle survey and the expected development of external demand. We estimate imports in line with domestic consumption. It should not be forgotten that stimulating domestic consumption also leads to an increase in imports, which offsets some of the growth impulses. When the Hungarian government hopes to boost economic growth through an increase in household consumption, it should take into account all consumer spending on foreign rather than domestic products has a neutral effect on GDP growth. The two components cancel each other out. Only consumer spending on products and services produced by domestic producers increases GDP.

We estimate inflation separately and make forecasts for each product and service group individually, taking into account the expected development of demand, announced tax changes, and the impact of expected exchange rate changes.

Kopint-Tárki is particularly successful in the field of forecasting. Over the past 15 years, we have almost always ranked in the top three among 18-20 institutions in the joint forecasting competition organized by Reuters and the MNB, and we have even come in first in two years. We have also won first place on several occasions in the forecasting competition organized by London-based Consensus Economics and Focus Economics, which also collects the expectations of 20-25 analysts on a monthly basis and, similar to the joint forecasting competition organized by Reuters and the MNB, evaluates at the end of the year whose forecasts were closest to the actual data.

In recent years, Hungarian forecasters have primarily faced uncertainties related to government measures. Election years are typically characterized by heavy government spending, which increases consumer demand. This can be more or less factored into expectations, although the extent of the increase is difficult to estimate. It is difficult to predict what tax increases the government will introduce, as some of them do not even appear in the budget law. Today, for example, we do not know how long the margin cap, which we consider to be particularly harmful, will remain in force. Another challenge in the past two to three years has been the uncertainty surrounding the receipt of European Union subsidies, which could have given a significant boost to Hungarian economic growth. For a while, we were still very

confident about the agreement with the European Union, as it was so obvious that the lack of such an agreement would definitely set back the growth of the Hungarian economy. Today, we have given up on this possibility.

**At one stage in your professional career, you were involved in the Hungarian chamber system. To what extent can civil organizations of this kind help businesses to develop? What should their role be, and how could their functioning be improved?**

Between 1998 and 2002, I headed the chamber's research institute, the MKIK-GVI, the Institute for Economic and Business Analysis. I spent four extremely instructive years there. The institute's task was to provide entrepreneurs with economic information and contribute to the economic basis of the chamber's positions. We worked closely with the chamber's county organizations and gained insight into the world of entrepreneurs. Fortunately, I have maintained many of those relationships ever since. Those four years had a significant impact on my economic thinking. I am still a macroeconomist, but I think I am much better able to think like an entrepreneur than those who do not have such experience and knowledge. Understanding entrepreneurial attitudes and behaviors is also a great help to me in preparing analyses and forecasts. It would be good if decision-makers were also better equipped with this knowledge, so that they would not make forecasts or decisions that ignore entrepreneurial attitudes and the possible reactions of company managers. The entrepreneurial community is like a living organism, with its own momentum, based on its own business calculations and considerations. If economic policymakers had a better understanding of the entrepreneurial mindset, they would not say, for example, that we are squeezing 3-6% growth out of the economy. Nothing can be squeezed out of the economy if companies decide that it is not the right time to invest or that there is not enough demand to increase production. It is important to understand the thinking of entrepreneurs, which often does not coincide with the will of the government. We can see the effects of this in this year's economic developments.

I am a great believer in chambers of commerce, i.e., companies joining forces and acting together to promote their common interests. In many countries, business chambers represent a powerful force that governments take into account, cooperate with, and seek their opinion, because cooperation between economic policymakers and companies is a fundamental prerequisite for a successful economy. The government is there for the companies, not the other way around. In recent years, however, I have noted with regret a change in the role of the MKIK, which has not acted on behalf of entrepreneurs in their interests, but has instead conveyed the will of the government to entrepreneurs. The worst example of this was its active participation in the abolition of KATA, which dealt a severe blow to the Hungarian economy, as it eliminated a number of valuable activities that contributed to GDP growth, without offering any appreciable benefits. I can only hope that the chamber's role will be restored and that it will be able to participate in decision-making with appropriate weight on behalf of companies. Without this, unfounded

and unworkable decisions will be made, because it is not possible to pursue effective economic policy against the interests of entrepreneurs.

**Finally, a personal question. According to international surveys, economics is one of the most masculine professions and sciences, and it is very difficult for women to succeed in it. Have you experienced this yourself? Is there really a glass ceiling? How can this be addressed in Hungary?**

I don't think that economics is more masculine than any other science. Between 1992 and 1993, I spent a year at the IFO Institute in Munich on a scholarship from the German Alexander von Humboldt Foundation (AvH). After I returned home, I was the secretary of the Humboldt Association in Hungary for a few years, so I had an insight into many disciplines. I also met many outstanding female researchers in the natural sciences, all of whom are experts in their field, which is why they were awarded this prestigious scholarship. Many of them have become department heads or even deans. However, to my knowledge, there has only been one female university rector in recent times.

There are also many female researchers in the Hungarian economics profession who have achieved commendable professional careers. However, the proportion of women is particularly low in both institutional leadership and academic positions.

There is undoubtedly a glass ceiling that characterizes every field of science. But this is not surprising; one need only look around at Hungarian public life. The proportion of female representatives in the Hungarian National Assembly is only 14.1%, while the European average is 38.1%. This puts us at the bottom of the EU rankings, but we are also at the bottom of the world rankings, between Zambia and Congo. There are no female ministers in the Hungarian government. The proportion of women in the ruling Fidesz-KDNP faction is even lower, at only 11.2% (15 women out of 135 parliamentary seats).

Progress in public life and academia cannot be separated: the low representation of women leaders in academia reflects general trends in public life. Therefore, the position of women in academia cannot be separated from public life and cannot be treated separately. There is undoubtedly a kind of Eastern mindset in Hungarian society regarding the role of women. However, this could be slowly resolved with appropriate and persistent public policy measures. I do not have a definite opinion on the female quota, because I see both its potential advantages and disadvantages. But in Hungary, this would not necessarily be necessary, because even minor changes could improve the extremely low political and academic representation of women if the government were to strive for this. However, this is not what we are seeing at present.

*Thank you for the interview!*