Can Our Financial System Be Made Cheaper and Less Risky? Report on the 8th Budapest Public Finance Seminar

Pál Péter Kolozsi[1]

DOI: https://doi.org/10.35551/PFQ_2026_2_9

On May 13, 2026, in partnership with the Konrad Adenauer Stiftung, the National University of Public Service (NKE) together with the Hungarian Economic Association (MKT) organized the 8th Budapest Public Finance Seminar. In addition to other recent developments in monetary theory, the conference's main theme was sovereign money. The topic's relevance stems from the fact that the past decade has redefined the economic policy possibilities offered by central bank money from both technological and monetary theory perspectives, especially with regard to the potential inherent in a central bank digital currency (CBDC). At the same time, we have repeatedly experienced financial crises based on credit money, raising the question of how we might move toward operating a monetary system with lower risk and lower interest costs. The English-language international conference, chaired by Gábor Kutasi (Research Institute of Competitiveness and Economics), explored these issues with the help of invited speakers from the United States, Germany, the United Kingdom, the Czech Republic, and Hungary. The issues were examined from the perspectives of fintech, Modern Monetary Theory (MMT), and banking and economic policy.

The conference, opened by Gábor Kemény, Vice Rector (NKE), and Balázs Bartóki-Gönczy, Vice Dean (NKE), featured a keynote address by Michael Kumhof (CEPR; NIESR) titled "The Chicago Plan Revisited: Debt-free Money, Growth, and Stability." In his introduction, the researcher—who has gained decades of professional experience at the International Monetary Fund (IMF) and the Bank of England—explained that the Chicago Plan was conceived in the 1930s and sought to answer the question of how to make the financial system

1 In his presentation titled "Digitalization and Government Bonds," Pál Péter Kolozsi (NKE Research Institute for Economics and Competitiveness, Chairman of the Section of Finance at MKT).

safer in the wake of the Great Depression. Renowned economists such as Irving Fisher, Henry Simons, Frank Knight, and later Milton Friedman supported the plan. Representatives of the economic school of thought known as the Chicago School believed that control over finance was a prerequisite for the laissez-faire operation of industry. According to their concept, the foundations of a healthy financial system are as follows: (1) the separation of banking's monetary and credit functions is necessary, (2) deposits in money banks must be 100 percent backed by public money, (3) the role of credit banks is to finance loans, not through the creation of private money "ex nihilo," but solely through the on-lending of public money (state-created money).

Kumhof emphasized that his proposal concerns economic reform at the national level, not the restructuring of the international financial system. The relevance of the Chicago Plan, formulated nearly a century ago, was highlighted by the 2007–2008 global financial crisis, which caused serious damage to both the financial system and the real economy. Citing Fisher, Kumhof emphasized that, due to the nature of the financial system, periodic and even very severe financial crises can arise from time to time—a phenomenon largely attributable to the fact that banks can create money when they lend. Specifically, through an accounting operation, they essentially create money out of thin air (ex nihilo), which on the one hand allows them to ramp up lending, but at the same time involves debt creation, which is a far less positive development. "The current system serves the interests of creditors, as banks derive significant profits from money creation," explained Kumhof, pointing out that a major factor in this is that banks worldwide charge high interest rates on loans and pay very low or zero interest on deposits. Fisher sought an answer to the question of whether money can be created without debt, and the Chicago Plan is the answer itself. The essence of the proposal outlined in the Chicago Plan is the separation of money creation from lending activities. In this case, the profits from money creation would remain with the state, which could use them for the public good. Demand deposits would be managed by money banks, which would back the deposits with central bank money. Lending banks would operate as investment firms, meaning their activity would remain limited to lending, with financing primarily coming from savers' deposits derived from public funds and—if necessary—from central bank credit. According to Kumhof, the new system would not cause inflation, as it would not change the quantity of money, but only its nature. The positive benefits of the sovereign monetary system would be as follows: (1) a significant reduction in private debt, (2) a significant reduction in net public debt, (3) the elimination of the possibility of bank runs, (4) greater control over credit cycles, (5) the generation of substantial real economic surplus, lower interest rates, and lower taxes. "What are the reform opportunities that did not yet exist in the 1930s?" Kumhof asked at the conclusion of his presentation, and in his answer, he pointed out that emerging new digital technologies make sovereign money much more feasible than before, with particular regard to a central bank digital currency (CBDC).

Josh Ryan-Collins (University College London) gave a presentation titled "The Fiscal Dominance Taboo." By way of introduction, he noted that by "monetary dominance" he means that fiscal policy must adapt to the measures taken by an independent monetary authority to achieve low inflation, and that the central bank cannot support fiscal policy objectives; and by fiscal dominance, he means that the central bank must, where necessary, adjust monetary policy so that the government can achieve its spending targets, particularly with regard to keeping the cost of public debt low. In recent years, voices perceiving fiscal dominance have grown louder, largely due to the fact that public debt has risen significantly over the past decade and a half, and the stock and proportion of government securities held on central bank balance sheets in leading economies have also increased significantly. According to the mainstream view, inflation is typically driven by a surge in monetary financing, which, on the whole, is incapable of stimulating the economy, as economic growth is determined by the supply side (technology and human resources). The New Keynesian synthesis clarified this by distinguishing between short- and long-term effects, pointing out that monetary policy can sometimes be more effective in managing market frictions and restoring stability. Ryan-Collins highlighted three myths of fiscal dominance. The first myth posits a link between central bank independence and low inflation, while the speaker argued that numerous criticisms can be leveled against the empirical studies on this topic (selection bias, confounding of causation and correlation, lack of evidence regarding anchored inflation expectations, etc.). "Historical experience, on the other hand, shows that fiscal dominance/monetary financing may be capable of supporting long-term growth and a decline in the debt-to-GDP ratio—that is, it is not inherently and inevitably inflationary," —explained the professor, who believes that Canada's economic history between 1935 and 1970 illustrates this well. The second myth is the "crowding-out effect," which posits that financing the budget deficit crowds out private investment. This is based on the theory of "loanable funds," which, however, is inconsistent with how the banking system actually operates—namely, by extending loans through its own money creation. "Financing the deficit creates new assets in the private sector, which contradicts the theory of the crowding-out effect," —the researcher pointed out. According to Ryan-Collins, the third myth is the doctrine of Ricardian equivalence, which rests on three assumptions: (1) people care about future generations, (2) there are no borrowing constraints, (3) taxes have no distorting effects. However, this theory is not supported by empirical evidence, so the fiscal multiplier may be higher than 1—meaning that fiscal policy may be effective in stimulating growth. According to the speaker, fiscal dominance was characteristic of the period between 1940 and 1970, while monetary dominance prevailed from the 1980s through 2020—although the last decade of this period was marked by a form of "shadow monetary financing," during which coordination between monetary and fiscal policy was strong due to macro-financial reasons." The economic policy response to the Covid pandemic brought about significant

changes: large-scale interest rate cuts, central bank asset purchase programs, and substantial increases in deficits and debt, raising the question of whether fiscal dominance is making a comeback. According to Ryan-Collins' summary, the arguments against fiscal dominance are based on flawed theory and lack empirical support. "Given the global polycrisis, there are strong arguments in favor of monetary and fiscal coordination to support government objectives, including keeping interest rates below the rate of economic growth, which requires an active credit policy. Inflationary shocks originating on the supply side should be addressed by fiscal policy rather than through interest rate hikes," the researcher concluded.

Richard Werner (University of Southampton, Corvinus University of Budapest) began his presentation titled "How Money Is Created: Competing Theories on the Role of Banks" by introducing the most important models of money creation: the financial intermediation theory, the fractional reserve theory, and the credit money theory (credit creation theory). "The difference between these is where the money that banks lend comes from," —pointed out the researcher, who believes that in academic and central banking circles, misleading narratives regarding money creation often persist. According to Werner, the stance of central banks is particularly relevant when they are preparing to deploy a tool that is difficult to control: central bank digital currency (CBDC).

According to Werner, there are three possible outcomes in the credit money system: (1) lending fuels asset price bubbles, leading to banking crises; (2) loans spent on consumption spiral out of control, causing inflation; and (3) if loans finance productive green investments, this can result in high growth and job creation. The goal of economic policy must, of course, be to promote and support this latter option. "It is a common misconception that growth has physical limits. On the one hand, there is no growth in physical space; economic growth is a statistical fiction, and there is no correlation between sustainability and growth, contrary to what many believe. This is well illustrated by the fact that even with zero growth, the economy can still destroy the environment—as Germany has demonstrated in recent years—and that there are high growth rates that are environmentally sustainable. The only limit to economic growth is not physical reality, but human ingenuity," the professor explained.

From a financial perspective, the question is how to use credit creation to ensure that economic growth is dynamic, sustainable, just, and equitable, since lending can also be mobilized for the common good. According to Werner, one component of this from a financial perspective is a decentralized financial system; in other words, the professor spoke out against the trend of reducing the number of banks while increasing their size, as well as the idea that money creation should be centralized. "Fewer banks mean less growth and prosperity, especially for the middle class, as smaller companies are typically financed by smaller banks," he stated, pointing out that this is precisely one of the key factors behind the German economy's continued success.

According to Werner, the real novelty of digital central bank money is not its digital nature—since most payments are already digital—but the fact that the central bank stands behind it. "Through CBDC, the financial world is shifting from decentralization toward centralization. The question arises: why hasn't digital central bank money been introduced yet? There are three reasons for this: technical obstacles, the fact that the added value of CBDC is not self-evident, and, since it is a government project, the existence of trust is questionable," he stated. According to Werner, CBDC significantly increases the power concentrated in the hands of "central planners," and it is not yet clear why we should believe they will not abuse this power. The speaker described the emergence of CBDC as a kind of central bank concordat with banks, explaining that a future financial crisis could provide an opportunity to introduce digital central bank money, which neobanks could then distribute among users. "CBDC is a powerful tool of authority, so it is worth considering Lord Acton's warning: power corrupts, and absolute power corrupts absolutely," concluded the professor in his presentation.

Gergely Szabó, author of the book "National Money", delivered a presentation titled "Defining Sovereign Money — Distinguishing It from Other Financial Systems and Schools of Thought." The speaker summarized the benefits of monetary reform, explaining that, according to his estimates, the introduction of sovereign money could yield economic gains equivalent to as much as 4–6 percent of GDP, which would also make the financial system more secure. "However, in order to implement monetary reform and defend the proposal in various debates, several fundamental issues need to be clarified," the speaker stated. On the one hand, it is necessary to clearly distinguish the new financial system from other financial systems. According to Szabó, the simplest way to do this is to classify financial systems based on two criteria: who creates the money (the state or the private sector), and whether money creation is linked to lending (yes or no). A distinctive feature of the sovereign monetary system is that money creation becomes a state function, and money creation and lending are decoupled.

This classification also highlights that Ricardo's former proposal—namely, that the Bank of England's two activities, money creation and lending, should be separated, and that money creation should be nationalized—the Chicago Plan, sovereign money, and the national money proposal all belong to the same category. Although they differ in their motivations and in their formal implementation—which affects changes in bank balance sheets—they lead to a monetary system with identical content when properly calibrated. The various proposals also differ in certain details and in the manner of transition. Harmonizing these could be useful so that they can be presented as a unified proposal. According to Szabó, precise definition is also important because numerous misconceptions arise regarding monetary reform, for example in connection with a single-tier banking system, commodity money, or even Modern Monetary Theory (MMT). According to the speaker, these can be clarified by systematizing the similarities and differences.

Vivien Czeczeli's (NKE) presentation, titled "Money Creation in Hungary: Trends and Implications for Monetary Reform," was closely linked to Gergely Szabó's theory. The presenter outlined the primary channels of money creation in Hungary over the past three decades. Preliminary results confirm that—contrary to popular belief—commercial bank lending cannot be considered the primary channel of money creation in recent decades. A much more significant role was played by public debt, specifically the interest burden of public debt, rather than direct government overspending. This balance sheet perspective also highlights some structural problems in the current monetary system. One example is the 6–7% interest rate spread observed in recent years, through which commercial banks have earned nearly 1.5 trillion forints in annuity-like profits. "In light of all this, the question arises: what would happen if money creation became a public good, and these sums were available to the state and society?" Czeczeli asked.

The second part of the presentation featured a balance sheet-based overview of sovereign monetary reform. Under this concept, commercial bank money is gradually replaced by central bank digital currency (CBDC), and banks lose their ability to create money out of thin air. To make this happen, in the first phase of the process, the central bank provides liquidity to commercial banks. This is primarily done through the central bank's purchase of government bonds held by banks, but it may also be necessary to provide targeted loans. The conversion of previous demand deposits into digital central bank money takes place during the transitional phase. Customers can choose to leave their money in risk-free accounts held directly with the central bank, or to place it as time deposits—that is, to invest it with commercial banks—in the hope of higher returns. As a result of this process, commercial banks' balance sheets will shrink, and in the new monetary system that emerges, the government will no longer incur new public debt in the traditional sense. The stock of government securities remaining in circulation can then be gradually and continuously converted into central bank money in the coming years, which ensures the excess liquidity necessary for economic growth.

In his presentation titled "Chartalism and Money Theory: State Money and Beyond," Eric Tymoigne (Lewis & Clark College) explained that, contrary to popular belief, chartalism is not a theory that focuses solely on financial instruments issued by the state, but rather an analytical framework for financial systems as a whole. It establishes specific criteria for identifying financial systems, raises questions regarding the analysis of financial systems—whether past or present—and offers tools for understanding how financial systems operate. "According to the functional-commodity money approach, the most essential characteristic of money is that it is used as money. In its basic form, money is a commodity. The perfect embodiment of this is gold, which is a pure medium; all other forms of money are derivatives of gold. According to chartalism, however, monetary instruments are claims or tokens. In this approach, the "true" essence of a financial instrument is not its material

composition, but the "financial bond" it creates between its issuer and its current and potential holders," the speaker stated. Tymoigne pointed out that chartalism had already permeated Roman thought and then came back into focus in the 11th–14th centuries, when the role of precious metals became to serve as collateral against insolvency, prevent counterfeiting, and facilitate international trade. The speaker used numerous quotations to demonstrate that as early as the Middle Ages, people had reached the conclusion that money is a promise to repay, and thus its value does not derive from its material composition, and that money is nothing more than a "token of abstract credit." According to chartalism, money is any token recognized by law as a monetary instrument—or, as Minsky put it: anyone can create money; the difficulty lies in getting it accepted.

Monetary instruments are financial instruments, meaning their valuation follows financial logic, not the logic of production (goods): (1) they involve credit risk, which must be managed, since the issuer makes a promise and may fail to fulfill it; (2) issuance and redemption must be consistent with the issuer's promise; (3) the valuation of financial instruments is forward-looking (based on the expectations of the holders regarding the fulfillment of the issuer's promise), not backward-looking (i.e., not based on production costs). Accordingly, Tymoigne argues that the analysis of financial systems should, in principle, address the following: identifying the issuer, identifying the promises made by the issuer, assessing the issuer's creditworthiness, assessing marketability, and assessing the creation and redemption of money, with particular regard to maintaining circulation at face value (official value). "All of this involves analyzing the economic and political power of issuers: for financial relationships are relationships of power, not merely transactions," concluded the professor in his lecture.

Svatopluk Kapounek (Mendel University) gave a presentation titled "Foreign Bank Ownership and Lending Dynamics in Post-Transition Economies." His research was motivated by the fact that the post-socialist transition brought about large-scale banking sector reforms in Central and Eastern Europe; state-owned banks were replaced by privatized banks in the 1990s, and foreign strategic investors entered local markets, stabilizing the banking sectors and aligning them with EU standards. The dominance of foreign banking groups transformed credit markets. The rise of foreign ownership initially had numerous positive effects: (1) more efficient management and risk management, (2) better capital adequacy and loan portfolios, (3) more efficient financial intermediation and macro-financial credibility, (4) improved credit discipline and reduced political influence, (5) diversified financial products for the SME sector, (6) stronger profitability and stability. The 2008 financial crisis, however, also highlighted other impacts, particularly regarding exposure to external shocks. Kapounek noted that parent banks "stepped back" during the crisis, that domestic capital markets amplified the spread of global shocks, and that "home bias" led to local credit contractions. Meanwhile, regional currencies

depreciated, causing an economic shock in many countries—including Hungary. A link can be identified between ownership structure and lending activity, as foreign banks remained more stable lenders even after the crisis, while domestic banks engaged in cyclical lending and exhibited political bias. "Meanwhile, economic nationalism gained ground in several countries: policy responses emerged favoring domestic control, nationalization intensified in Hungary, while accession to the eurozone stalled, and the outflow of dividends to parent banks sparked a backlash," the researcher explained.

The study presented by Kapounek analyzed data from 461 commercial banks for the period between 1994 and 2022. The results showed that foreign-owned banks had a higher cost-to-income ratio and applied higher interest margins. The impact of foreign bank ownership on lending activity increased after the financial crisis. The weaker cost efficiency observed at foreign banks was offset by their better revenue-generating capacity, while lending interest rates remained at similar levels across different banks due to strong competition. Foreign banks were able to access funding more cheaply through their parent banks, and another relevant factor was that foreign banks may appear more stable and reliable (reputation effect), so households were willing to deposit their savings with foreign banks even at lower deposit interest rates. "Our research highlights that the characteristics of the financial sector are important for the optimal design of economic policy. International mergers and acquisitions, meanwhile, increase the need for international harmonization of banking regulations," concluded the researcher in his presentation.

In his presentation titled "Digitalization and Government Bonds," Pál Péter Kolozsi (Government Debt Management Agency and NKE Institute for Economics and Competitiveness) demonstrated how digitalization—which is revolutionizing the financial world—is impacting the government bond market. He pointed out that the financial system is increasingly shifting toward a fully digital environment, where both money and assets exist in digital form. On the one hand, digital money is emerging, such as cryptocurrencies and central banks' digital currencies. On the other hand, financial and real assets are also being digitized through tokenization, including stocks, real assets, and bonds. The most prominent applications of tokenization are digital bonds. After tokenization, bonds can be traded "wallet-to-wallet" without the need for financial intermediaries. In contrast, when issuing a traditional bond, issuers and investors must go through brokers and intermediaries.

"It is becoming increasingly important for these digital forms of money and assets to become interoperable and tradable with one another in global markets," —the speaker pointed out, adding that this opens up new potential use cases for sovereign debt management as well, where governments can benefit from more efficient issuance processes and broader investor access through digital infrastructure. This could include, for example, scenarios such as purchasing government bonds with crypto-based capital through conversion mechanisms, or issuing tokenized government bonds that can be traded within

digital ecosystems. Countries such as Slovenia and Hong Kong have already issued digital bonds, where the settlement time was just one business day, and the settlement of tokenized bonds was conducted using tokenized central bank money.

Among the benefits of tokenization, Kolozsi highlighted (1) increased issuance efficiency and reduced issuance costs, (2) lower yields, which may result from greater transparency, faster settlement cycles, round-the-clock trading without intermediaries, and fractional bond ownership, and (3) improved market liquidity. Among the challenges, the most significant are (1) high energy consumption and negative environmental impact, (2) the significant investments required by DLT and tokenization, (3) legal and regulatory risks, (4) data protection concerns, and (5) business risks (trust and adoption). At the end of his presentation, Kolozsi illustrated the transformation of the bond market through Hitachi's 2024 digital green bond.