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Report on the Lámfalussy Lectures Conference 2025*

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The 10th Lámfalussy Lectures, named after Alexandre Lamfalussy – 'father of the euro', prominent Hungarian-born economist and renowned expert on European finance – was held on 27 January 2025, organised by the Magyar Nemzeti Bank (the central bank of Hungary, MNB), with the title 'The Age of Geoeconomics: Evolution of Central Banking'. The event featured speeches and panel discussions with high-level decision-makers and global financial and economic experts. The conference ended with a celebratory roundtable discussion, at which former Lámfalussy Awardees discussed Lámfalussy's professional legacy and its relevance in the current economic environment. Two awards established by the MNB were also presented in connection with the conference: the Lámfalussy Award, named after the conference's eponym, was presented this year to ECB President Christine Lagarde, and the Popovics Award, named after the first Governor of the MNB, was presented to Csaba Kandrács, Deputy Governor of the MNB responsible for financial institutions supervision and consumer protection.

1. 100 years in the service of stability[1]

In his opening speech, MNB Governor *György Matolcsy* highlighted that the 10th edition of the Lámfalussy Lectures conference series was taking place 100 years after the establishment of the MNB. He praised the conference's eponym, Alexandre Lamfalussy, who – as a committed European and father of the euro – had done an exceptional job of stabilising the European economy and consolidating and integrating the continent. He noted that the creation of the European common currency served not only to promote economic stability, but also to build a peaceful and cooperative future. The euro could strengthen Western integration, guarantee peace and create opportunities for the single market. A single monetary policy could provide a more effective response to global economic crises. One of the leading topics of our time was geopolitics, and the birth of Europe was also the result of geopolitics. It determined our economy and our future. The question was how

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[1] The opening speeches can be viewed here: https://www.youtube.com/watch?v=t3s1D-2WNxM

the new waves of geopolitics would affect our economy and finances, and how the interaction between fiscal and monetary policy would develop. One of the key issues was the independence of central banks. Central banks must be independent of domestic and international financial markets, political parties, the media and the government, as the government also had an interest in ensuring that the central bank could work independently to combat inflation and maintain financial stability. We had to stand firm in preserving the independence of the central bank, because this was and could be the ultimate tool for fending off financial attacks from international financial markets.

2. Central Bank Independence in the 21st century

Christine Lagarde, President of the European Central Bank (ECB), delivered a pre-recorded speech as this year's Lámfalussy Award recipient. The central theme of her speech was the importance of preserving central bank independence in the current economic environment. Lagarde emphasised that central bank independence was crucial for maintaining stable and effective monetary policy, especially during periods of economic volatility. Independence ensured that central banks could focus on long-term objectives, such as price stability, without being exposed to short-term political pressure.

In her speech, she recalled that by the late 20th century central bank independence had become widespread around the world, partly due to the social consensus that emerged in response to the inflationary experiences of the 1970s. By the turn of the millennium, more than 80 per cent of the world's central banks enjoyed operational independence, and price stability had become the primary goal of monetary policy. Since then, the world had undergone significant transformations, and the factors underpinning central bank independence had come under increasing pressure. According to data cited by Lagarde, in the 2010s, 10 per cent of central banks faced political pressure every year, and between 2018 and 2020, central bank independence deteriorated significantly in countries covering 75 per cent of the world's GDP.

Political influence over independent central banks led to market volatility and increased the likelihood of various shocks and crises, while geopolitical tensions further amplified the frequency of such disruptions. However, Lagarde argued that the era of volatility was unlikely to undermine central bank independence. On the contrary, an unstable economic environment made independent central banks even more necessary. According to the President of the ECB, inflation expectations had remained stable even during recent inflationary shocks, demonstrating that the public continued to trust central banks' long-term commitment to price stability.

In her speech, Lagarde also paid tribute to Lámfalussy's work, highlighting his undisputed role in the formation of the Eurosystem and the ECB. His vision and foresight ensured that the Eurosystem was established with the proper structures and regulations, laying the foundation for the ECB's independence and effective functioning. Today, in an era of volatility, independent central banks were once again 'sailing in uncharted waters,' making it essential for them to safeguard their independence to effectively fulfil their price stability mandates.

3. The Decade of Geopolitics

Jeffrey D. Sachs, Professor of Economics at Columbia University, shared his thoughts on some key principles of the new global economy. He offered proposals for global adjustments to prevent further geopolitical crises. In his view, we were living in an apocalyptic era and were just 90 seconds away from a nuclear catastrophe.

Professor Sachs outlined the current challenges and his related proposals in several key points: the emergence of a multipolar world, the necessity of a new geopolitical approach and peace, the technological revolution, the environmental crisis and the so-called 'multicurrency' world. He emphasised that Europe needed a new, coherent geopolitical strategy and should reevaluate its relationships with China and Russia. He argued that instead of increasing military spending, diplomatic solutions should be prioritised. In his view, the ongoing technological revolution had two leading players, the USA and China, but for the sake of its international competitiveness, Europe should also strive to catch up in this field. He pointed out that Europe was still not unified and called for European cooperation, from space exploration to protecting the Arctic Circle. Sachs also addressed the risks posed by global warming. Citing climate scientist James Hansen, he warned that further increases in ocean temperatures could trigger a climate catastrophe, potentially pushing Europe back into an ice age. Regarding national currencies, he highlighted that the dominance of the US dollar was expected to decline within the next decade, and preparations should be made for the further internationalisation of the Chinese renminbi. In his closing remarks, Sachs praised Hungary for its contributions to global intellectual achievements, mentioning great minds such as John von Neumann, Leó Szilárd, the Polgár sisters, Ernő Rubik, Alexandre Lamfalussy, and Viktor Orbán.

4. The changing world economic order and the future of Hungary

Viktor Orbán, the Prime Minister of Hungary, thanked György Matolcsy for his work during his mandate as central banker. He praised Lámfalussy, who, as a Central European, played a key role in ensuring that the Central European countries' accession to the European Union would be as smooth as possible. Lámfalussy assisted Orbán's work as an advisor and said that the introduction of the euro would bring with it a common fiscal policy for the eurozone members, but he did not say when; 25 years had passed since then and there was still no common fiscal policy. Lámfalussy also expressed criticism: without important steps, a situation would not be created where all members of the eurozone could benefit from the euro. Since the introduction of the euro, the productivity and competitiveness of the United States had been improving at a much faster rate than in the eurozone. In its current form, the euro favoured already strong and competitive economies, but it did not help the economies that were catching up to strengthen. It was precisely in response to Lámfalussy's admonitions that Hungary was not a member of the eurozone. The Prime Minister said about Jeffrey Sachs that he was the most prominent Western economist who had come to our region to help in the economic transition. They always agreed that Hungarians needed to connect with the whole world as soon as possible and as deeply as possible. Professor Sachs had always insisted that the world could be made a better and more peaceful place through free trade and cooperation and interconnection in the interest of all. Orbán used the term 'Hungarian consensus' instead of the previous 'Washington consensus', which meant that every nation had the right to consider itself as the centre of the world and the most important point of reference. Every nation, including the Hungarians, must seek the answer to the question of how it could ensure its survival and prosperity in this new world. In his opinion, the liberal era was being replaced by a sovereigntist era. Stability and security were of paramount importance, and the latter were becoming more valuable. Interestingly, the focus of this today was not the Ukrainian-Russian war, but rather migration. Nowadays, the security and stability of Western, primarily European, countries were determined by migration and its predictable consequences. Those who did not deal with this would not be able to find their place in the new world. The other important topic was the effective state: one of the great contests of the period ahead would be – or perhaps already was – the contest between state organisation models. The third key topic was connectivity-based foreign policy. The role of a country that could connect with everyone would increase. As a fourth key insight, he said that a strong middle class would be the key issue in the next 15–20 years. In the West, the European middle classes were shrinking, while in the East Asian world, huge social strata in the hundreds of millions were being brought into the middle class from below, creating not only stability but also economic prosperity for themselves. The Hungarian government had been working to create a strong middle class since 2010, with one million more people working today than in 2010. Micro-enterprises had doubled their revenues in ten years. Hungary was interested in peace. The success of the US administration's peace efforts was not ideological, nor even geostrategic, but was in Hungary's vital, everyday economic interest. Hopefully, a grand US-Hungarian economic agreement would be concluded, which could give a boost to the Hungarian economy.

5. Panel discussion on the Geopolitical Tensions: The Decade of New Risks for Monetary Policy[2]

The first panel discussion that followed focused on new risks to monetary policy posed by vulnerabilities created by geopolitical tensions. The discussion was moderated by *Barnabás Virág*, Deputy Governor of the MNB. The participants were *Sylvester Eijffinger*, Professor of Financial Economics at Tilburg University and Visiting Professor of Economics at Harvard University; *Marcello Estevão*, Chief Economist at the Institute of International Finance; *Jacob A. Frenkel*, Chairman Emeritus of the G30, former Governor of the Bank of Israel; and *John Lipsky*, Senior Fellow at the Johns Hopkins School of Advanced International Studies, former Managing Director of the International Monetary Fund (IMF).

Barnabás Virág said that nowadays we were facing an extraordinary environment, with new types of crises and geopolitical tensions. We were living in an age of crises, which he called the age of transitions, as we could see transitions in many areas: the green transition, the digital transition and changes in demographic trends. In connection with all this, we faced great risks, but we also had many opportunities. His first question was *how the current environment was similar to the 1970s and early 1980s, and what were the most important differences and what were the most important conclusions for the world economy resulting from this extraordinary environment*. According to *Eijffinger*, financial markets had become more complex, digital currencies had appeared, and government debts had increased. As a solution, he mentioned adherence to the principles of central bank independence, which was the ability of central banks to enforce their objective function in policymaking, highlighting the importance of credibility. According to *Estevão*, we had learned from past experience that inflation expectations were important, the reputation of central banks mattered a lot, and transparency could be very useful, but fragmentation made the international coordination of monetary policy difficult. *Frenkel* asked not to throw away the old textbooks, because they would still be useful. We had learned in the past that supply shocks were extremely important and that they posed a great challenge to monetary policy, because it could not prevent or resolve them on its own. Many supply shocks were transmitted through the external sector, which was why geopolitics was of great importance. Budget deficits did not promote growth, but the debt problem was not only a problem of governments, as there was also private debt, and in many cases the differences were blurred because the public sector was trying to save the private sector. *Lipsky* highlighted that the collapse of the Bretton Woods system not only triggered greater independence, but also posed greater challenges for central banks and gave impetus to the broader development of the world trading system and international capital markets, greater

[2] It can be viewed here: https://www.youtube.com/watch?v=g7BMbVdWeSw

integration of the world economy in terms of trade, goods and services, and finance. In addition, technology had created an opportunity for financial integration that had not previously existed. For the first time since the 1970s, we thought that markets were closing in rather than opening up, and at the same time, technology indicated the opposite. This was a different challenge than before, but it was very real, full of opportunities and risks.

The next topic was *the future of globalisation*. The question was whether globalisation would continue to strengthen in the near future due to new technologies, digitalisation, or whether we needed to prepare again for a multipolar world, as we had experienced in trade before the 1990s. According to *Estevão*, people were much more focused on national problems these days, but international cooperation on issues such as climate policy, which was perhaps the greatest challenge of generations, was essential. It was much better to cooperate than to confront, but there would be less coordination in the future. *Frenkel* believed that the only thing a smaller country could do was to be flexible. To make sure that it was protected from shocks from the rest of the world. Although there was some movement towards fragmentation and deglobalisation, this did not mean that there was less interdependence. *Lipsky* noted that sanctions had resulted in a very inefficient, much more fragile and much more costly energy distribution, and there would be no winners in the end. *Eijffinger* raised the topic of the 3Ds: dis-savings, decarbonisation and deglobalisation. These processes, in his opinion, led to higher real interest rates, higher labour costs and inflation expectations, a greater degree of unpredictability and uncertainty, and thus a higher risk premium.

The next question was *what the future of the global monetary system could be in this geopolitical environment*. *Frenkel* considered the euro to be a success because it was able to survive its crisis 10 years ago, highlighting that supervision and regulation remained extremely important. *Lipsky* drew attention to the fact that the Draghi report showed a direct link between innovation, productivity growth, the financial system and the need to develop a deeper market. Europe needed to complete the banking and capital markets union. *Eijffinger* agreed with this, as this was a real key issue for the completion of the economic and monetary union. He highlighted that the most important message of the Draghi report was that it was necessary to discuss and decide how to finance innovation in the EU. *Estevão* underlined the importance of institutions.

Finally, *Barnabás Virág* asked the panellists for a short key message for today's central bankers. According to *Lipsky*, the trend in financial markets was moving away from traditional banking towards capital markets. In the past, central banks had had less understanding of the facts and figures that were happening in the non-bank financial sector, which was likely to be important in creating financial stability in the future. According to *Eijffinger*, communication was of paramount importance in gaining public support for the independence of the central bank and its appreciation of its position. *Estevão*'s message was that central banks should stick to fundamentals, pay attention to supply shocks, and be transparent and professional. In his closing message, *Frenkel* highlighted the importance and fragility of capital and financial markets and that we should not ignore models, because even if they sometimes led us astray, this only meant that the past was very different from the future.

6. Panel Discussion on the Interaction between Fiscal and Monetary Policy[3]

The second panel discussion examined the ever-relevant question of central banking activities: the interaction between fiscal and monetary policy. The participants collectively emphasised the necessity of close cooperation between fiscal and monetary policy to ensure economic stability and growth. There was a consensus that the boundaries between fiscal and monetary policy had always been blurred, representing two sides of the same coin. The discussion also highlighted that central banks must address the financial risks of climate change, although tackling climate change itself fell outside their objectives and should remain within the jurisdiction of fiscal authorities.

The moderator, *Dániel Palotai*, Alternate Executive Director of the IMF, firstly pointed out that central bank independence was closely linked to the interaction between fiscal and monetary policy. He noted that excessive independence without cooperation with the government could harm a country's economy. Agreeing with this, *Alan J. Auerbach*, Professor at the University of California (Berkeley), stated that the boundary between fiscal and monetary policy had further faded in recent decades due to responses to global crises and challenges. He pointed out that high public debt posed a challenge for monetary policy in many countries, as monetary tightening increased debt servicing burdens and slowed GDP growth.

Jean Boivin, Managing Director of the BlackRock Investment Institute, emphasised that fiscal and monetary policies must collaborate to ensure economic stability. He highlighted that fiscal policy could play a greater role in stimulating the economy, particularly when monetary policy had limited room for maneuver, such as in the case of near-zero interest rates. However, he also warned that fiscal expansion must be sustainable to avoid jeopardising long-term financial stability.

Harold James, Professor at Princeton University, provided a historical perspective on the interactions between fiscal and monetary policy. He pointed out that poor coordination between the two policies in the past had led to economic

[3] It can be viewed here: https://www.youtube.com/watch?v=4uwdl1EFRMw

instability. He emphasised the importance of communication and cooperation among policymakers to effectively address economic challenges. He also agreed with Professor Auerbach that while central banks and governments were more effective in stabilising the economy in the face of demand-side shocks, they were less effective in responding to supply-side shocks.

Representing the eurozone in the discussion, *Peter Kažimír*, Governor of the National Bank of Slovakia, stressed that in a monetary union such as the eurozone, coordination was crucial. He noted that national fiscal measures must align with common monetary objectives through compliance with shared rules, transparent communication and mechanisms such as the Stability and Growth Pact. He also emphasised the need to avoid fiscal dominance and pointed out that global economic challenges, such as rising energy prices, required further cooperation between fiscal and monetary authorities.

7. Roundtable discussion with the participation of previous Lámfalussy Awardees[4]

As part of the jubilee conference, a roundtable discussion was held in which previous recipients of the Lámfalussy Award discussed their personal connection to Lámfalussy and honoured the renowned economist's achievements. *Jacques de Larosière*, former Managing Director of the IMF and former Governor of the Banque de France, as a close friend of Lámfalussy, emphasised that Lámfalussy had recognised early on that a monetary union without a common fiscal policy could lead to instability, as differing economic policies could threaten the community in the long run. *Robert Holzmann*, Governor of the Oesterreichische Nationalbank, linked his own professional career to Lámfalussy's work, highlighting that as early as 1972, he was already engaged in simulations of European monetary integration. He applied his experiences both at the Austrian central bank and in addressing Hungarian fiscal and social security issues after the change of political regime of 1989. *Andréa M. Maechler*, Deputy General Manager of the Bank for International Settlements (BIS), stated that Lámfalussy's versatility – as a banker, professor and central banker – remained exemplary today, as a multi-perspective approach was essential for solving complex problems.

Ivo Maes, former Senior Advisor at the National Bank of Belgium and a researcher on Lámfalussy's life work, highlighted the foresight of the 'father of the euro', noting that as early as 2004, he had advocated for central banks' involvement in the prudential supervision of systemic financial institutions. He described Lámfalussy as an introverted, but strongly principled individual who firmly believed in European

[4] It can be viewed here: https://www.youtube.com/watch?v=IHZSpTPFNQ4

federalism and central bank independence. According to Maes, Lámfalussy's exceptional ability to assess situations and make sound economic policy judgments rendered him exemplary. *Ewald Nowotny*, former Governor of the Austrian central bank, recalled attending Lámfalussy's lectures as a young economist, finding him both a practicing banker and a brilliant mind. *Boris Vujčić*, Governor of the Croatian National Bank, recalled his 1998 meeting with Lámfalussy in Frankfurt, where Lámfalussy patiently and thoroughly explained the future functioning of the euro. He compared their operation, drawing parallels between the ECB and the former Yugoslav central bank, with the key difference being that the latter was not independent and operated within a confederal fiscal system.

Responding to a question posed by the moderator, Chief Advisor to the Governor, *György Szapáry*, participants expressed scepticism regarding the recent reform of the Stability and Growth Pact, which established fiscal rules. They emphasised that the credibility of fiscal rules was paramount: if major member states did not comply with the rules, smaller countries could not be expected to adhere to them either. *Vujčić* highlighted that the significant debt differences among eurozone members posed a challenge, necessitating fiscal tools that ensured long-term convergence. Regarding the prolonged creation of the European Capital Markets Union (CMU), several participants noted that while there was broad theoretical support, significant disagreements remained in practice, and due to harmonisation challenges, its near-term realisation was an illusion. On inflation prospects, *Maechler* stated that central banks had responded appropriately to high inflation and that a 'soft landing' remained realistic. However, she emphasised that technology – such as AI – was essential for understanding real-time exchange rate dynamics. *Nowotny* expressed concerns about potential deregulation in banking, warning that, as demonstrated by the 2008 crisis, this could have severe consequences. He also recalled Lámfalussy's strict regulatory approach, which was still worth following today.