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THE DEDICATED SECRETARY GENERAL

Miklós Pulai's activities in the Hungarian Banking Association

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Untiring Miklós Pulai, who died last year at the age of 94, will be remembered among the great minds of Hungarian economic and banking history for his outstanding professional achievements. He played a decisive role in the establishment of the two-tier banking system operating under market conditions. Part of his work as a banker was linked to the Hungarian Banking Association as its secretary general right from its foundation in 1989 till 2000, while he helped its activities almost until his death. This paper is to honour Miklós Pulai's contribution to the activities of the Hungarian Banking Association. To understand it, the importance of his achievements we must give a brief overview of the economic and social context and the processes he was an active formative participant in.

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1 THE EARLY YEARS – HIS OF LIFE UNTIL THE 1968 ECONOMIC REFORM

His father was a shoemaker in District 6 of Budapest. Miklós Pulai grew up there and passed his school-leaving 'maturity' exams in 1944. After that he worked in a commercial bank for a short time, but the war caused a break in his fledgeling adult career. In spring 1945 both he and his father were rounded up and transported to the Soviet Union for 'malenki robot', a euphemism for forced labour. After years of hardship in the Soviet Union, he returned home in 1948 and following a brief period of temporary jobs as an interpreter his next stop was the Ministry of Finance. He worked there from 1949 to 1957, first at the secretariat of the minister, then as head of the banking, later of the budgeting department and as deputy minister from early 1956. During those years he attended and graduated from the

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University of Economics obtaining the necessary academic background. But the knowledge received at the university was overshadowed by the experience of perceiving in his executive position at the Ministry the everyday consequences of the 1950s', a distorted and unreal economic politics which caused much suffering for the Hungarian society. This played a major role in shaping his views on economy. Beginning from 1953, he came close to and supported the initial reform ideas of the so termed 'New Chapter' launched by *Imre Nagy.* Reform politics originating in real life and aiming at social progress had a lifelong influence on him.

The afterlife of the 1956 revolution caused a temporary break in his professional career. As one of the most popular executives of the Ministry of Finance, he had been elected chairman of the Revolutionary Committee of the Ministry during the revolution. In this capacity he played an important part in preventing the breakdown of financial processes during the revolution itself and the following winter of 1956-57. For instance, the payment of wages and salaries at companies and institutions was practically free of major disturbances in those months. After the fall of the revolution, he was excluded from the Hungarian Socialist Workers' Party (MSzMP) at the beginning of 1957 and removed from the Ministry. *László Andor* the then CEO of the National Savings Bank (OTP) who later became the respected Governor of the Hungarian National Bank (MNB) rescued him by offering him a position at OTP where he became head of a newly established unit dealing with housing loans. László Andor was appointed Governor of the Hungarian National Bank (MNB) in 1963 and took Miklós Pulai with him. Soon he was appointed the head of the Credit Policy Department preparing monetary policy for the Central Bank and First Deputy Governor from 1968.

His appointment as First Deputy Governor and the year 1968 was a milestone. Miklós Pulai took the position at the time when a comprehensive reform termed 'a new economic mechanism' was being prepared, so he had a good view of and participated in shaping those processes. MNB, and he as one its heads, played an outstanding part in formulating the financial processes of the economic reform. A central objective of the reform was to switch from the earlier planned, centralised economy focusing on the satisfaction of natural needs to an economy recognising and acknowledging market processes in which finance had an active role. It required more independence for economists. The extreme attitude of the 1950s, when "politics had a primary role over economics" had to be altered.

2 DECADES OF THE ECONOMIC REFORM, THE REFORM ECONOMIST

Miklós Pulai achieved lasting reputation in the period 1960 to 1970 during the economic reform efforts of Hungary. Although the reform had its temporary halts and setbacks, he consistently represented reform ideas and presented the real economic and financial situation of the country to the political and government leaders. The reform measures did not have an impact on the banking sector for a long time because the implementation of a banking reform, although being part of the reform ideas, triggered political debates. There was, however, an early effort to establish the independence of the National Bank of Hungary. Miklós Pulai remembered the 1968 reforms as follows:

"A new law on the central bank had been born by 1968. We had a governor and a deputy governor, so the bank was restructured. There had been no deputy governor earlier, instead, managing directors had been the deputies of the CEO. Then in the new structure László Andor became Governor, I became First Deputy and János Fekete became Deputy. The functions were divided roughly so that Fekete was (in charge of) hard currency, and I was (in charge of) the Forint. I was, so to say, the organisation. Seven thousand people worked for the bank all over the country. For me, the reform mechanism was an important developmental phase. Partly because it shaped my way of thinking and because it made it clear who I was on the same side with and who I had clashes with. It was like that in 1970s. When the mechanism came to a halt in 1972-73, I was among those who felt a loser." (*Kövér*, 2000:151).

The process of the economic reform launched in 1968 had an upward stage initially which slowed down by 1972 for political reasons. Those years brought about an important personnel side: it had become clearly identifiable in the relevant professional circles who the reformers were, who were overly cautious and who were opposing the reforms. Miklós Pulai was among the economists who believed the reforms were necessary and supported them. He remembered the middle and second half of the 1970s as follows:

"Events took a really fast turn in 1976 and particularly in 1977. We had a current account deficit of a billion dollars, which was record-breaking at the time. Just compare it to the total of our convertible export at about three and half billion dollars. In that context one billion was huge. We had a strong sense of it at the National Bank; we could still draw loans – loans were available – but they were more and more expensive, and it seemed more and more hopeless how to repay them" (Kövér, 2000:151).

Miklós Pulai became deputy chairman of the National Planning Office in 1980 in charge of supervising the re-launch of reform processes. One of its early results was designing and implementing a programme to promote small and medium size enterprises including the decentralisation of huge monster service provider companies, as well as creating new forms of businesses, such as enterprise work teams (gmk) that can be regarded to be the forerunners of Ltds. A well-known *bon mot* by Miklós Pulai expressing the atmosphere of the era comes from that time, *'we love scones, but we don't like people baking them'*. Financial pressures made it possible for Hungary to join international financial organisations. In 1982 Mr Pulai became the first governor of the World Bank in Hungary, i.e., he oversaw contacts on the part of the government and in that capacity, he played a part in the implementation of the banking reform launched in 1986. Beginning from 1988, he was vice-chairman of the economic reform committee beside the *Németh* government.

3 BANKING REFORM – LAUNCH OF THE HUNGARIAN BANKING ASSOCIATION

The 1987 banking reform laid down the foundations for building a modern two-tier banking system. A several-year-long process commenced, and if we consider the initial problems, setbacks, and the teething problems of a new system being born, we can say we reached an operational two-tier banking system by 1994-95.

Although the idea of a banking reform had arisen years earlier, the economic factors forcing its establishment had not been present.

- First the powers-to-be had to recognise that a centralised banking system could no longer satisfy the needs of a more and more liberal, market-oriented economic environment.
- At the beginning of the 1980s the foreign debt of the country grew dynamically, and imbalance increased.
- By the middle of the decade, financial issues had become critical, the performance of the economy significantly declined while the measures aimed at financial stability failed to reach the desired goal.
- Despite the above compelling circumstances and their recognition, the implementation of the banking reform was delayed. That had political reasons too, since if the reform was to be implemented, other economic players should also have been granted more freedom, which violated the interests of the state, which had been accustomed to monolithic control.
- Even the leaders of MNB were delaying the reform because they were afraid their power would be limited if it is implemented. They argued there was a need for a comprehensive budgetary reform prior to the banking reform.

Following the preparations linked to the banking reform as well as political and government decisions, the National Bank of Hungary regained its role as the Central Bank of the country responsible for monetary control as commercial banks and other financial institutions came into being.

The prerequisite of the establishment of the Hungarian Banking Association was that the two-tier banking system should start operating with the split up of the MNB. Suddenly several financial institutions appeared on the market and the need to set up an association to protect mutual interests clearly arose. (see also: *Ursprung*, 1996:7). It was thanks to the banking reform giving rise to the restructuring of the banking system that the interest representation of the banking sector, the Hungarian Banking Association was reborn in 1989 after forty years of a forced hiatus to replace TÉBE (the Association of Savings Banks and Banks) terminated in 1948. Delegates by 22 financial institutions and SZÖVOSZ (the National Association of Cooperatives) took part at the inaugural session of the Hungarian Banking Association. The Association had 24 members at the time of its court registration. *"The inaugural session elected the presidium of the Association in unanimous vote including chairman Géza Lenk, chairman-CEO of the National Commercial and Credit Bank Rt, vice-chairman Erzsébet Birmann, CEO of Innofinance Rt, secretary general Dr János Radnótzi of the Banking Association. Members of the presidium included Zsigmond Gábor Erdély, chairman-CEO of the National Foreign Trade Bank Rt, and Dr Gyula Pázmándi, CEO of the Industrial Cooperative Bank Rt"* (*Müller* et al., 2014:57). The first secretary general Dr János Radnótzi headed the organisation for a short time, then Miklós Pulai took the position on 19 December 1989. The Hungarian banking system matured and became truly European during the ten years of his leadership. The Hungarian Banking Association continued to develop to be the acknowledged promoter of the interests of the banking sector.

Here are some milestones of banking history of that decade:

1. Establishment of the legal and regulatory framework of banking operations
    - Regulations of banking operations: banking supervisory provisions (BAF); capital adequacy, liquidity
    - Foreign Exchange Law – HUF convertibility
    - Accounting Law
    - Bankruptcy Law
2. Settlement of the radical market restructuring impact of the above laws: debtor consolidation, loan consolidation, bank consolidation
3. Establishment of banking institutions
    - Set up of GIRO Rt.
    - Establishment of Credit Guarantee Rt

- Set up of a debtor ledger.
- Establishment of the legal environment for missing financial institutions: mortgage bank, home savings bank.

4. Introduction and promotion of modern retail current account products (mandatory transfer of public service employees' salaries to bank accounts, spread of bank cards)
5. Preparations for EU accession: building connections with the EU Banking Association, the European Banking Federation.

Secretary General Miklós Pulai was highly respected both by the counterpart state authorities and bank leaders because of his outstanding professional knowledge, flexible negotiating technique and his past as a reform economist. He did make effective use of that reputation during professional negotiations. As a result, not only the weight of the banking sector but also the professional and personal prestige of the secretary general contributed to the following achievements.

We can quote Miklós Pulai to gain an insight into the first period of the Banking Association. This is how he described the first period after establishment:

"It was a gift of life and my lucky moment in 1989, when I was already 64 years old, those boys contacted me (Demján, Lenk and Zsiga Erdély). The Association had been established six months earlier and the person who had been secretary general left to become deputy-CEO of a bank, so they said I should take the position" (Kövér, 2000:299).[2]

The early period of the operation of the new banking system was characterised by hope, but the illusions soon disappeared, and banks had to face severe challenges.

"Bank consolidation was unavoidable. In a period when the GDP declines by 25% in four years instead of increasing by 15% – the difference is 40% –, businesses are sure to go bust and the banks that granted loans to the businesses go bust too.

I was lucky because we could work in collaboration with the Ministry of Finance and the supervisory authority National Bank. We did not manage the actual bank consolidation, naturally, we did not take part in that, but we oversaw setting out the rules of the game, control, and implementation.

When we started in autumn 1992 the first step was the so termed loan consolidation. In other words, buying bad loans from banks in a package of approximately HUF billion. There was a huge debate at the time on how it should be done. We said bank

2 Sándor Demján was CEO of the Hungarian Credit Bank, Géza Lenk was CEO of the Hungarian Commercial and Credit Bank and Zsigmond G. Erdély was CEO of the Hungarian Foreign Trade Bank at the time.

consolidation cannot take place on one side only, so that assets are removed from the asset side, the liabilities' side must be handled as well. […]

In the end it was decided in 1993 who would play what part in the consolidation. The criterion was that entities failing to reach 8% capital adequacy would be included. But we all know if your indicator is between 6% and 10%, you can manipulate the 6 to go up to beyond 8 and 10 to fall back to below 8. […]

It was not an easy game. First, in the Antall era, we did not allow 40% to be specified in law – because there had been a proposal that 40% of the banking sector could be privatised, that is, 40% of the assets could go to foreign shareholders. […]

It was never clarified whether the 40% ratio referred to the whole or to single banks. We had strong lobbying power and Antall accepted our arguments. We were at about six to seven percent then. I said, why should we have this now, we will still have time to think about a law when we reach 25 percent. But it was there in our minds we should be careful about foreign shareholding (Kövér, 2000:299–300).

23 financial institutions indicated in July 1993 they wanted to be included in bank consolidation. Another 16 banks did so at the end of August. […]. In the end, banks in a relatively stable position were not covered, only financial institutions with negative capital adequacy ratios. Finally, 8 financial institutions were included in the first phase of bank consolidation in December 1993" (Kövér, 2000:301).

Personal memories also support that the development of the sector at the time Miklós Pulai was secretary general could be divided into clearly marked phases.

Former minister of finance, *István Hetényi*, an ardent supporter of the banking reform, summarised it as follows in a talk delivered at the 1997 jubilee of the bank reform:

"Accepting the just accusation of inaccuracy, we can say the main issue in 1988–89 was to turn banks into operational entities. 1990–91 was the age of hopes in terms of profitability, which proved false, and the ability of privatisation. It was the time when the Supervisory Authority and the Banking Association started work. 1992–94 was the period of towering problems, the severe reduction of economic performance, the loss of markets, tens of thousands of businesses going bust and its impact on the banks, the consolidations, the end of the illusion that 'small is beautiful'. 1995–97 was the actual period of privatisation, as banking operations got modernised, services expanded significantly and a lasting law on the Central Bank and a European-standard law on credit institutions were born" (Talk by István Hetényi *History will tell* on 7 February 1997).

The loan portfolios of banks were facing increasing challenges already in 1992. Since the banks were almost exclusively state owned at the time – between 1991 and 1993 – the political leaders and the government first launched the process termed loan consolidation and then bank consolidation.

The year 1993 was marked by the new rules relating to the disbursement of the so termed 'existence loan' (E-loan). The government amended its decree on the E-loan and the discount of its repayments in February 1993. As a result, the group of state-held assets you could draw E-loans to purchase was expanded, at the same time the group of asset management entities that could sell state-held assets they managed was also increased. The amendment and privatisation schemes appearing at the same time necessitated the modernisation of procedures and the clear identification of processes linked to privatisation. All stakeholders including the Banking Association were involved. Miklós Pulai remembered it as follows:

"*Another big thing was privatisation in 1991. The idea came up to compile a scheme of existence loans. Why? Well, state-held assets were auctioned. If you wanted to take part, you needed money or a credit promise. So, it was a fairly complex process. And what we had there, we had the Hungarian Asset Management Agency (ÁVÜ), us - the Banking Association - and the Ministry of Finance. Éva Hegedűs happened to be the deputy minister of finance then.*

But there was no law, nothing… so we did a kind of cooperation agreement, us, the ÁVÜ and another six or seven entities and we had the ministers sign it. I signed on behalf of the Banking Association. And then, that was the Bible… so, for instance, they assign a rubber plant, and we want to sell it. Question, how it will appear at the auction, how the buyer can get the loan, what kind of certificate we issue, if the buyer has won the auction, who will grant the loan or what kind of guarantee there will be" (Müller, 2014:170, 171).

Important events of 1993 worth mentioning also included the amendment of the law on financial institutions, preparations for a system of interbank debtor registry, the amendment of the bankruptcy law and the law on the central bank as well as preparing the new foreign exchange code. A point of interest from the aspect of banking history is that preparing a draft law on preventing and deterring money laundering was already on the agenda in 1993.

In 1993, the GIRO system acting as the clearing house for credit institutions started operating.

Here we arrive at a point of time in the operation of the Banking Association *Tamás Erdei* chairman-CEO of the Foreign Trade Bank discussed in a wider context:

"*As I remember, professional work started after the heroic age. Early signs of competition within the banking system were there, but there was a relatively peaceful relationship with politics; we negotiated with financial policy actors about trade issues basically. Competition really started in the corporate sector, there was not much activity in the retail sector before the late 1990s.*

At the beginning, the Banking Association tried to represent the interests of the sector vis a vis the regulators and played an important part in setting out a regulatory *system, on the other hand, it tried to coordinate the different actors of the sector (large and small banks). At that time, the relationship with politics, particularly with government agencies in charge of financial policy, was harmonious. We were learning the two-tier banking system in serious professional debates, but we could find consensual solutions.*

The first major threats appeared in the period of bank consolidation followed by the problems of Agrobank and Postabank.

Those issues made it quite clear the supervisory system was not strong enough; the processes were not sufficiently transparent. At the end, the banking system and the state had to shoulder the losses incurred. At the end of the process a deposit guarantee system was set up while the privatisation of banks accelerated. A much stronger professionally competent supervisory system was established with the active involvement of the Banking Association.

Following the privatisation of the banks, the current structure of the banking system came into being. Banks in foreign ownership became stronger both in terms of capital and professional management. Competition was fierce but fair.

The Banking Association had daily contact with financial government agents and their working relationship was satisfactory" (Müller, 2014:277).

Recollections about the first years of the operation of the Banking Association all agree that the Banking Association had uninterrupted connections with the government and political leaders of the time, it was an important professional partner. The Banking Association played an active part in legislative processes, for instance, it advised that a foreign exchange code was missing from the 1993 laws and proposed to bring forward the amendment of the laws on financial institutions and the activities of financial institutions as well as that on accounting.

1994 was special because it was the year of the first parliamentary elections after the political transition. The presidium of the Banking Association felt the possibility the elections might have a major impact on the operating environment of the banking sector. At their board meeting in March 1994, the agenda for the given year included the discussion of potential changes of economic policy at a time when the banks were undergoing major changes and adaptation, a significant part of debtor consolidation was still ahead while the first initial steps of bank privatisation were in progress. The presidium and the board meeting took the stance that the Association could only fulfil its obligations if it continued to represent the interests of the banks strictly as a non-political trade organisation.

In 1994 the Banking Association actively participated in the amendment and compilation of the financial institutions law, the Civil Code, the bankruptcy law, and the accounting law. It prepared the implementation of the law on money laundering.

A study by the Political History Institute is an excellent summary of the position of the banking sector in the mid-1990s; here is a quote to wind up the development processes of the first part of the 1990s:

"1994–1995 were characterised by stabilisation, cleansing of banks' balance sheets with the help of sources received during the consolidation process, selling, or writing off bad unrecoverable loans. Most banks not in need of consolidation gained significant market share in the period while they could still maintain profitability.

The most important feature of the system of financial institutions was that the signs of improvement were noticeable in 1995. The improvement, however, was not full and complete. Earlier years were characterised by comprehensive state-controlled crisis management actions, but in 1995 tailor-made individual supplementary steps proved to be sufficient.

As opposed to earlier trends, the number of market players had significantly declined by late 1995 and early 1996 as the banking market started to consolidate, although the process was the result of state-owned decisions rather than driven by business factors. The state gradually retired from its role as owner; two large banks were privatised in 1995 reducing the ratio of direct state ownership in the total registered capital of the banking sector to below 40%. Fierce competition arose on the corporate market to finance and provide services to a few hundred large companies of high creditworthiness by the end of 1995. The profits and profitability of the banking sector and certain banks had multiplied" (MTA PTI, 1994).

As you can see above, 1994-1995 was an important milestone in the life of the Banking Association.

4 SECOND HALF OF THE 1990'S

By the middle and in the second half of the 1990s the banking system and the Banking Association, which could be rated and assessed by European standards, were in operation.-

The preparation of the law on financial services and the identification of the position and competence of the Banking Supervision was another phase defining the daily operations of the banking sector. The Banking Association came up with important proposals on both issues. Regarding banking supervision, the opinion of the presidium was that it should not belong directly under the government; instead, the Central Bank should be responsible for controlling banking supervision. On 18 June, Minister of Finance *Tibor Draskovits* chaired the meeting discussing a possible uniform supervision at the Ministry. The result of the meeting was that drafting a law on securities and credit institutions was a prerequisite for establishing a uniform institution including both banking and securities supervision, which would allow the banks to participate fully in securities trading beginning from 1 January 1997, so the banking and securities supervision should be merged by then. The Banking Association succeeded in getting its professional proposals accepted on that issue.

Miklós Pulai wrote in his memorandum of the meeting as follows:

"In my assessment of the situation, I would say we have already kicked the ball into the net, but the referee has not accepted the goal yet. I do not think the government would reject the proposal of the minister of finance, but the opposition to a universal banking system would exercise pressure on him to change his stance" (archives of HBA).

The National Bank of Hungary contacted the Banking Association in 1999 proposing it should arrange a Money Market Consultative Forum for credit institutions active on the inter-bank market. The Forum coordinated by the Banking Association and headed by Miklós Pulai analysed the institutional, legal, structural, organisational, and regulatory elements of the money and capital markets – and their changes – that could have an impact on the efficiency of the market, the costs of the services provided and – through that - the effectiveness of the interest transmission mechanism (Pulai et al., 1999 – talk by *Szalkai István*).

Zsigmond Gábor Erdély, chairman of the Banking Association characterised the position of the banking sector as follows:

"Summing up, you can say the position of domestic commercial banks has become solid over ten years; the institutional system of the capital market has started to develop over the past years and privatisation accelerated in that field […] side by side with that, foreign financial institutions have been expanding in Hungary. In

1995 36% of the registered capital of banks was foreign-held, and the assumption was realistic that 60% or 2/3 of the banking market would be controlled by banks in majority foreign holding by the end of 1997, considering the planned sales. The change is basically advantageous for the development of the Hungarian banking system, for strengthening its capital, modernising its technologies, and spreading financial innovation. […]

Many have justly questioned bank consolidation. However, its valuable role is that a healthy banking system could arise in Hungary, which can develop and grow in a changing and improving macro-economic environment. It is understandable that bank privatisation could only be possible after consolidation" (*A new challenge: international integration* talk by Zsigmond Gábor Erdély on 7 February 1997).

Following the banking reform, the development of the two-tier banking system and the political background changing at the same time allowed to reach a new milestone: bank privatisation. The privatisation process was decisive in the second half of the 1990s. It was also definitive in the life of the Banking Association, as the appearance of foreign shareholders, foreign professional investors influenced the development of banking culture including the decision-making procedure and the Code of Conduct of the Banking Association.

Here is an indicative list of the banks' reasons justifying privatisation: the quality of their portfolios, under-capitalisation, the high costs of financial mediation, the less than complete success of loan consolidation (it helped banks, but it was not sufficient), the temporary positive effects of the discontinued asset swap and recapitalization.

After the law on financial institutions was passed in 1992 the government set out its guidelines regarding the privatisation of banks. A bank privatisation committee was set up in constant professional liaison with the Banking Association and its secretary general.

"*The interests of the major players in the process of bank privatisation including the [state] asset management agency as owner of the banks, the Ministry of Finance with a vested interest in both dividends and income from privatisation, and bank executives dependent on the current ownership structure were often conflicting. The government faced a dilemma: can they sell the gems only or must they strive for selling the whole package? It increased uncertainty. Is it all right to let go of the banking system in its not-quite-solid state? Does it mean the possibility of an independent monetary policy to be lost (together with its occasional opportunity to influence)?*" (Kövér, 2000:302).

Tamás Erdei, the new president of the Banking Association assessed the situation at the end of 1998 and in the following period as follows: "*The number of banks further increased in Hungary in the years following the establishment of the Bank-*

ing Association. It reached 40 by the mid-1990s and 43 banks operated in 1997 as some of the banks ceased operation and new ones entered the scene. At present the number of banks in Hungary is 40 and all banks holding operating licences in this country joined the Hungarian Banking Association.

The banking sector in Hungary is fairly varied in terms of ownership composition. According to figures at the end of 1998, foreign shareholding in banks operating in Hungary exceeds 60%. As far as I know, this is uncommon in Europe or in the world. The ratio is even higher if you consider that over 30 out of 40 operating credit institutions are fully or majority foreign owned, or if you consider that the umbrella bank integrating about 250 savings cooperatives is also under foreign control. […].

The high ratio of foreign ownership greatly contributed to the modernisation of the banking sector in Hungary and its participation in the world of international banking.

This ratio had been the result of bank privatisation.

The privatisation of Hungarian banks was extremely fast in international comparison. The banking sector was mainly under direct or indirect state control exercised through state-controlled companies at the beginning of the 1990s, while the total ratio of state-owned and quasi-state-owned (Social Security and municipalities) assets was reduced to one-fifth in less than ten years" (Pulai et al., 1999:50–58).

The last years of Miklós Pulai's activity as secretary general were also characterised by various challenges. A draft law on the non-internal property rights of agricultural cooperatives was on the agenda in 2000. The Banking Association strongly argued against it, then, following failed debates, it submitted the draft to the Constitutional Court requesting it to establish the unconstitutionality of the provisions of Act CXLIV of 2000. We mention the case not only because of its weight, but also because it was the first occasion in the history of the Banking Association when its petition to the Constitutional Court was successful.

Year 2000 is memorable in the history of banking in Hungary for other reasons too. We can mention, for instance, the scandals around Postabank and Agrobank. Even more important professionally was the problem of (housing) mortgage loans denominated in foreign exchange, which were first launched in May 2000 becoming a central topic of political and social public discourse after the 2008 crisis and causing many problems to the banking community.

5 MIKLÓS PULAI IN HIS ROLE AS ADVISOR TO THE BANKING ASSOCIATION

Having been thanked by the banking community, Miklós Pulai stepped aside and *Rezső Nyers* was elected secretary general in 2000. But it was important to retain the smooth, continuous operation of the Banking Association and to make use of Mr Pulai's reputation and network. Therefore, the presidium asked him to remain attached to the Association as its advisor. In the next decade he continued to help the work of the Banking Association with professional commitment and youthful drive. It would be unfair to assess his activity in terms of his job description because his opinion and advice were asked for about every issue of importance. In addition, he was the 'owner' of some important professional tasks. Let us have a brief look at them:

- *Financing small and medium-size enterprises.* As the economy and the market relations developed, the banking sector had to establish a procedure of financing the SME sector. An SME financing working group led by Mr Pulai was set up within the Banking Association, and they successfully defined financing conditions jointly with the member-banks and the relevant government agencies.
- *Agricultural Financing Committee.* To develop agriculture and promote agricultural financing, the Ministry of Agriculture and Food Industry set up an inter-ministerial committee, in which Miklós Pulai represented the Banking Association.
- Mr Pulai also represented the Banking Association in the *Fund for Enterprise Development.*
- *Ethics Committee and Code of Conduct:* The Banking Association already had its Ethics Committee in 1996 organised with the agreement and support of bank leaders and Miklós Pulai was its elected chairman for many years. In 1999 the Code of Conduct of the Banking Association was compiled where he played a key part. The development of the Hungarian and European banking sector necessitated the modernisation of the Code of Conduct to make it compliant with the new standards. This took place in 2007 and Mr Pulai as a consultant played an active part in the work, in the preparation of the relevant discussions. The new Code of Conduct was adopted by the general meeting of the Banking Association in the same year, 2007. (Kovács, 2012).

6 THE SECRETARY GENERAL IN THE MEMORY OF HIS CONTEMPORARIES

In preparation for the 25-year anniversary of the Banking Association, János Müller made interviews with several leaders of the finance and banking sector. They reviewed the economic and financial environment of the given period but also looked back to speak about the circumstances of the establishment of the Association. The personality of Miklós Pulai was mentioned several times as you can read now in the following collection:

Zsigmond Gábor Erdély

Those were the good old times. You know, the banks were trying to provide useful contribution to the activity of the Banking Association thanks to Miklós Pulai, who made it systematic almost forcing them and they understood it was in their best interest. Well, this did not happen from one day to the next, it was the result of a long process. There was also another issue, that is, the OTP as the largest bank had some interests that could not be compared to those of the other banks. It was not simple to coordinate and think together representing banking interests in a consensus, but it was successful in most cases. The success was largely due to his activity (Müller, 2014:148).

Mihály Kupa

I always had good relationship with Miklós. It was something special how he could manage a debate, when everybody went quite mad, and nothing was good. Well, he would say, this is a good idea, and you must consider that as well, and then he came up with a summary so that everybody felt they were right. So, we could go on, because we saw at the end what the next step should be. He was a master of this. On the other hand, he never went in for big theoretical slogans, he would say, gentlemen, let us have a look if we can solve this and if we cannot, let us just go on. In one word, he was fantastic. He did not take very seriously either himself or the debate at hand, he would say, let us just go on professionally (Müller, 2014:166).

Éva Hegedüs

In the early 1990s the financial institutions law was amended, the bank and debtor consolidation were prepared and carried out and setting out some loan schemes was also on the agenda. The staff and leaders of the Banking Association played an active part in their finalisation and compiling the relevant regulations. Miklós Pulai was the secretary general of the Association then. He was a skilled professional *with a structural mind and a deep knowledge of macroeconomic processes and the banking sector. When he spoke on behalf of the Banking Association, I never had the feeling he was representing the interests of one party only. He rather focused on issues affecting the whole sector. I have a pleasant memory of the discussions linked to the implementing regulations of some special schemes such as the existence loan (E-loan) or the employee stock ownership plan (ESOP). When we were working on the details and procedure of those loan schemes, I think Miklós Pulai was the most prepared of all of us. He did not only try to interpret the task academically, but he focused on how this financial scheme could be best implemented so that all participants should have a view of the whole and understand their own task exactly. And when I thought, well, we had thought of and regulated all issues, Miklós Pulai could still raise two or three practical questions that needed to be clarified. I have learnt a lot from him, banking, problem solving, reconciliation. He knew it was not enough to set proper goals, but you should carefully plan their implementation, you should reconcile with other stakeholders and monitor progress. Miklós Pulai was a passionate man when he represented the interests of the sector, never promoting individual interests but relying on professional aspects, values, and arguments.*

We at the Ministry of Finance highly respected Miklós Pulai's professional knowledge and preparedness. He was one of those who read everything, who always arrived well prepared for a meeting. There were no taboos, all issues could be discussed. You could say, Miklós, you are wrong there, or I cannot accept that; he never took offence. Naturally, he too said things like that and then we tried to convince each other with arguments. Many people know that he had long years of leadership experience and deep macroeconomic knowledge. I think there are not many people with the abilities of Miklós. Because, while he was a logically thinking person with huge capacity to work, he was also a pleasant man. He could raise his voice and push his glasses to his forehead and ask inconvenient questions, but his debates were always driven by professionalism and not personal emotions. (Müller, 2014:172).

7. CONCLUSION

Miklós Pulai's memory is inseparable from the start and the history of the Hungarian Banking Association. We wish to commemorate him in this article; we regard him an outstanding personality of Hungarian economy and banking history. His life was determined by many difficult periods of Hungarian history, war, dictatorship, critical economic periods, and search for a way out through reforms hoping for a better economic model.

In those turbulent times and in a politically restrictive economic and decision-making environment he was characterised by humanity, integrity and commitment to the reforms serving the interests of the country. As a person, he was a much liked and respected colleague with his good temper, sense of humour and simplicity.

The Hungarian Banking Association was lucky to have Miklós Pulai for its secretary general six months after its establishment because of his professional expertise and acceptance by a large group of people. Looking back, we can say, it was a godsend for the operation of the Banking Association to have him as its secretary general.

Miklós Pulai designed the organisational and operational conditions. The initial difficulties of the start of the two-tier banking system could not have been solved, its legislative environment could not have been established, the bank and loan consolidation, the bank privatisation could not have been carried out satisfactorily and professionally without the active contribution of the Banking Association. Such periods are usually termed 'heroic'. He was active in this heroic period establishing and helping a well operating Banking Association representing the banking community even in our days.

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