Abstract of the articles

THE ROLE OF INDEBTEDNESS IN EXPLANATION OF COUNTRY RISK PREMIA

Tamás Fuszenecker

In recent years, the issue of public debt came into focus of arguments regarding economic policy worldwide. In this paper I examined the connections between particular measures of indebtedness and CDS spreads to find out, if there is any link between debt and country risk. My cross section examinations show, that external indicators dominated mostly in the models, in contrast with fiscal ones. Gross external debt was the one out of the examined measures, which had an effect on spreads in the vast majority of cases. If we involve not only stock, but also flow variables, like budget balance and current account, the picture becomes more detailed. As we created groups of countries by development, external debt was generally determinant among emerging countries, while in advanced economies current account was more significant. According to the results, government debt did not get any role in most cases, while budget balance was significant only in some models. It is also important to see that models for advanced countries performed remarkably better.

IDENTIFYING SUPPLY AND DEMAND IN THE HUNGARIAN CORPORATE LOAN MARKET

Sándor Sóvágó

During the recent crisis bank lending to the non-financial corporate sector declined substantially in Hungary and this slump proceeds in the aftermath of the recession as well. However it is not evident whether it is a result of the slow recovery of the real economy (the lack of credit demand), or it is caused by the balance sheet adjustment of financial intermediaries, that is tight credit supply is prevalent. In this paper we identify supply and demand in the corporate loan market in Hungary and decompose the developments of lending to supply and demand factors. Doing this a simultaneous econometric model is estimated on a panel dataset, which covers the major banks in the industry. The model takes into account the results of the Bank Lending Survey of MNB, which provides some information about lending standards and banks' willingness to lend. Our results suggest that tight supply conditions have played an important role in the decline of lending, especially after the outbreak of the crisis. At the same time, demand has been contracted as well during the recession, although it has started to recover in 2010. At the end of 2010 we may conclude that the decline in supply and demand accounted for the drop in corporate lending in a ratio of around 2/3-1/3, respectively.

MARKET STRUCTURE UNDER MICROSCOPE

Éva Réz

Due to the intensifying competition on the capital markets several innovative trading techniques and venues (dark pools, crossing networks, high-frequency trading) have appeared to exploit a market niche or in order to meet new customer needs. In addition, the implementation of MiFID definitely boosted these changes, which resulted in a shift from concentrated markets to a fragmented landscape. In this article we give an overview on how all these factors impact the market structure as a whole and break down the effects to different market participants. It can be stated that innovations brought many positive changes to Europe: spreads narrowed, liquidity of markets enhanced, trading became cheaper, different customer groups can more easily find trading solutions meeting their requirements. However, this transformation has happened very fast which created some concerns. We definitely argue that these innovations add value to the market even if we agree that further clarifications and transparency are needed.

THE LADDER LATENT VARIABLES CREDITRISK+

Attila Nagy

The Ladder CreditRisk+ model described in the article is a generalization of Giese's Compound Gamma model for portfolio credit risk. In the general model the kth factor is defined as a linear combination of k independent latent variables, which yields a flexible construction to model dependence structure, by which the typically heterogeneous empirical (or forecasted) covariance matrix of the factors can be approximated with small error. As a consequence of good fitness the estimation of risk measures become more accurate, and the inconsistency of risk allocations observed in case of the 1-Factor and the Compound Gamma models is also eliminated as it is shown by the numerical results.

IRREGULAR CONSEQUENCES OF A STRANGE FINANCIAL CRISIS

Iván Bélyácz– Éva Pintér

Wider theoretical implications of the financial crisis that is examined in the article are important for the reason that this context could repeatedly occur. Recurring transpiration is explained by the fast movement of a continuous stream of an enormous amount of funds that are able to move through borders without any difficulties. This bulk of funds also mean that domestic endeavors of regulation are foredoomed to failure because global regulation arbitrage will out maneuver every seclusion attempt. Attention is concentrated after the crisis to changing rules and regulation structures. This article researches how deep and unchangeable are the ingrained disturbances of the operations of the financial system. Authors examine the changing forms of lending, causes and effects of financial bubbles, the untoward consequences of overused leverage, and the consequences of underestimation of risk. Authors are of the opinion that asymmetric information existing in the financial system, and the consequential contra selection and ethical risk have decisive implications in creating financial crisis. Analysis of wider connections and theoretical implications is important because these types of crises in the financial system could be repeated any time.

WHERE DO YOU GO DOMESTIC BANK SYSTEM? (THE PROS AND CONS REGARDING THE LAST YEARS OF THE DOMESTIC CREDIT INSTITUTIONS)

Alíz Zsolnai

The domestic economy and the domestic financial system were realigned by the crisis. Because of the role of the credit institutions in the crisis the reliance on the financial sector was destroyed. At the same time all institutions (persons, companies, firms etc.) experience that they cannot work and develop without the transactions and services of the financial institutions. The aim of the author is the introduction of the realistic state of the Hungarian credit institutions and environment of them for recovery the reliance. The best way towards it to demonstrate the stability and the strength of the sector and the institutions.

CHANGES OF THE BASEL RECOMMENDATIONS AND OF THE CAPITAL ADEQUACY DIRECTIVE (CRD)

Zsuzsanna Tajti

In the past few years the more and more increasing market competition, the pressure of the owners' expectations and numerous other factors together led to the result that the financial institutes started increasingly risky activities, and took sight with their products and services at customers with higher risk level as well than earlier. These events include newer potential sources of losses, so it became essential to reform the regulation, that can play in addition the role of protection for the banks from the consequences of their own 'irresponsible behaviour'. It is no exaggeration to state that the global crisis determines directions of the regulation.

In the past period, there occured considerable changes in the bank regulation in five areas: (1) increasing the severity of prudential rules; (2) development of new European supervisory system and Single Rule Book; (3) making up procedures for handling the crisis and advancing highly responsible lending; (4) reforming the corporate governance and the remuneration system; (5) banktaxation and insurance of deposits.

Present study outlines the developments of the past period focusing on the first two points.