Abstract of the articles

INCOME CONTINGENT REPAYMENT OF THE HUNGARIAN CURRENCY BASED MORTGAGE LOANS – MODELLING AND SIMULATION

EDINA BERLINGER–GYÖRGY WALTER

This paper is strongly linked to our former article of proposing income contingent loan scheme to handle the current severe risk of currency based mortgage loans in the Hungarian banking system. Here we analyze the three elements of our proposal in detail: (1) income contingent repayment; (2) partial forint conversion, and (3) differentiated, risk-based interest rate margins. We also model repayment paths of debtors with different income potential. Finally, a simulation is presented where repayment, revenue, profit and loss characteristics of the total „bad" currency based portfolio is simulated after introducing our proposal. This proves that under the presented parameters the proposal is not only the most flexible and patient solution among all currently known proposals and programmes, but it also significantly reduces credit risk and systemic risk in the long run, and creates a serious value added for the whole bank system relative to the alternative of closing up the portfolio under current market conditions.

THE ROLE OF FINANCIALIZATION IN THE FORMATION OF GLOBAL FINANCIAL CRISIS

IVÁN BÉLYÁCZ

The article deals with a new model of market economy created in the past three decades, arising because of financial liberalization and deregulation and meant as the control of economic processes based on financial basis. Financialization represents a substantial move from direct investments to production capacities towards open financial markets. Critics of this process see as a main problem that financial economy becomes independent from production financialization creates an artificial financial economy. After financial liberalization and deregulation finance and speculation became more closely intertwined that ever. Leveraged financial speculation becomes very risky and limitless because financial leverage of institutions and the debt of financial investors increased out of proportion. As a result of all these factors financial institutions become extremely fragile. Analysing cause and effect the author discusses the role of weak regulation, the political economy implications of financia-

lization and its role in the rise of financial crisis. Final conclusions are not optimistic. According to the author's opinion the leading role of financialization in the financial system became one of the most important influencing factors of the financial crisis and as such there is a pronounced possibility of the initiation of similar crises, as the superficial treatment of the crisis did not eliminate its fundamental causes.

SHORT-SELLING CONSTRAINTS ON MARKET PRICES

Gergely Oláh

I use a statistical analysis to investigate whether a pilot suspension of short-selling constraints on randomly selected groups of US shares have an impact on market prices. I find that short-sale constraints are reflected in share prices and give optimistic minority investors the chance to drive prices extremely high. First of all, I find that short sale constraints drive prices above their fundamental value and short-selling is an economically and financially important prediction of future share prices. Secondly, I claim that short sale constraints keep pessimistic traders on the sidelines and decrease market liquidity through fewer transactions. When the prohibition on short-selling is lifted and shares are permitted to be sold short, prices and trading volume start to increase. Finally, my empirical evidence shows that short-sale prohibition decreases market efficiency.

FOREIGN EXCHANGE POSITION MANAGEMENT – ON A DIFFERENT WAY

Péter Roób–Pál Berendy

Market risk management of foreign exchange (FX) position in Hungarian banks is not a difficult procedure. Based on the open position, VAR calculation and capital requirement calculation are very simple tasks for the risk managers. The theoretical question is whether the open position – as the key figure of position management – is a realistic figure or not. Looking at the Hungarian practice the response is: not. The determination of the open position is based on the nominal value instead of the market values of volumes. (The market value can express much better the realistic position.) However the application, as a new method is not enough for the position management because new consideration of figures is needed. „Explained" part means the philosophical difference between the new position and the general ledger position, while the „unexplained" part shows the impact of imperfect operation of FX position management.

THE END OF COMMON MOVEMENT – COMMON MOVEMENT OF THE SWISS FRANC AND CEE CURRENCIES

Gábor Dávid Kiss–Tamás Schuszter

The current implementation of macro prudence into the monetary policy is the result of the increasing need for financial stability. The significance of foreign currency borrowing in Central-East Europe established a strong bond among currency markets and bank solvency. This paper analyzed the fluctuations and common movement of the Czech, Polish and Hungarian currencies against the Swiss franc, comparing the pre-crisis era of 2005-2007 with the subprime and Eurozone-crisis. Market shocks were indicated by the monetary reactions of the European Central Bank (ECB). Occurrence of extreme exchange rate fluctuations, volatility clustering and developments of dynamic conditional correlations were studied to identify contagions and divergence in the ECB defined environment. Fluctuation of selected currencies against the Swiss franc increased sharply under crisis era, while the former strong correlation fell apart under the Eurozone-crisis.