# Abstract of the articles

### IMPACT STUDY OF BASEL III REGULATIONS IN HUNGARY

Virág Somogyi–Tuan Linh Trinh

No sooner than the Basel II capital accord was implemented into the Hungarian regulation, the Basel Committee of Banking Supervision (BCBS) issued the first working papers on the reformation of the Basel framework. The composition of new guidelines is an obvious regulatory reaction to the financial crisis of the last years and these days. In line with this, the aim of the Basel III package is to improve the banking sector's ability to absorb shocks arising from stress situations, thus reducing the risk of spill over from the financial sector to the real economy. However, the question arises whether the requirements of the new legislation proposal will have affect on the real economy in medium term. In our paper we are examining the compliance of the Hungarian banking sector to the new Basel III framework and we are seeking answers for the following questions as well: How much additional capital and liquidity the Hungarian banks will need? What kind of strategies the banks will choose to fill the capital and liquidity gaps? What will the effect of the new regulation on the lending volumes be? What would the impact of the volume change on the real economy be, namely on the GDP and unemployment?

### CONVERSION OF FX DENOMINATED LOANS TO FORINTS

Tamás Balás–Márton Nagy

From 2004, the very strong expansion of foreign currency lending to households has acted to impair the efficiency of monetary policy. By now, the high share of foreign currency debt already accumulated has become a source of financial stability risks. Reducing the high and rapidly increasing level of foreign currency loans is likely to be a slow process, and, consequently, the economy will have to face the resulting risks for a long time. Over the past years, the Magyar Nemzeti Bank has on numerous occasions drawn attention to these problems, including in the various issues of its Report on Financial Stability. An obvious way to mitigate the risks arising from outstanding foreign currency loans would be to convert them to forint loans. In this case, there is a transfer of cost and exchange rate risk between economic agents. Cost transfer results from the fact that debtors will only be willing to convert their foreign currency to forint liabilities at the same or lower amount of monthly instalments. On conversion, however, there is also a transfer of exchange rate risk, which involves the 'purchase' of the open foreign currency position of households by another sector. That is why there is no conversion method which would ultimately result in a reduction in risks. Moreover, the assumption of households' open foreign currency position by the government or the central bank would contribute to vulnerability and increase the associated real economic costs. The risks stemming from households' outstanding foreign currency loans can only be mitigated by macroeconomic stability, i.e. by economic policy aimed at delivering low inflation and improving internal and external equilibrium.

## STRESS TEST AND ANTICYCLICAL CAPITAL REQUIREMENT

László Madar

Stress tests became part of everyday banking practice, thanks to the new capital requirement regulation. From methodological point of view, more and more regulations aim to pursure the banking sector to resist future shocks, and stress tests will be no exception from them. The current paper shows a summary of current industry practices of how a comprehensive stress testing framework may be developed. An analysis is made on how this framework may be applied to be anticyclical in nature by presenting the implementation practices of stress testing.

## THE IMPACT OF THE CRISIS ON CORPORATE LENDING IN HUNGARY AND OTHER CEE COUNTRIES

Gergely Fábián–András Hudecz–Gábor Szigel

In the autumn of 2008, together with the economic recession, corporate bank lending began to fell in almost all the countries in Central and Eastern Europe and in the Baltics. By comparing 9 CEE and Baltic countries we assess the role of credit supply and credit demand in this process. The available information suggests that in Hungary – similarly to the Baltics – restrained credit supply played a greater role, than in other countries of the region, which arises mainly from the dependence on external sources, and hence the vulnerability. However, the weaknesses of the analytical framework, the limited reliability of the data, and the heterogeneity of the CEE region call for prudence, therefore these results are to be handled very carefully.

## THE DISPERSION EFFECT OF ANALYSTS' TARGET PRICES ON THE EMERGING EUROPEAN EQUITY MARKETS

Ildikó Oszkó

In this article, steps are made towards providing evidence that equity markets do not work as efficiently as the Efficient Market Hypothesis states, due to market anomalies such as dispersion effect. According to the empirical research, in the Emerging European area, positive correlations were established between the dispersion of analysts' target price forecast and future stock returns, commonly known as the dispersion effect. The relationship can be explained by taking forecast's dispersion as a risk measure, consequently stocks with higher forecast's dispersion provide higher return for bearing greater risk.

Several patterns were documented, within the connection between the analysts' forecast's features and the examined companies' quantitative characteristics, also taking into consideration stock returns. These patterns provide an understanding of the information-intermediate role of the analysts' forecasts.