

## Abstract of the articles

### **CHANGES IN RISK MANAGEMENT PRACTICES AFTER THE CRISIS – THE HUNGARIAN PERSPECTIVE**

PETRA KALFMANN

The objective of this study is to assess how the executives responsible for risk management of dominant participants of the Hungarian bank sector evaluate the impact of the crisis on risk management practices. The study focuses on the conclusions drawn from the lessons of the crisis as a result of the questionnaire survey conducted with risk management executives of banks. The executives responsible for risk management of 6 large banks and a mortgage bank who amounted to nearly 60% of the aggregate bank balance sheet total in 2009 participated in the questionnaire survey. We supplemented the questionnaire with personal interviews in case of 4 banks. The survey focused on several fields: evaluation of the role of the risk management organisation and of the change of operative risk management practice, the role and risk awareness of the management and the assessment of the integration of calculated risk parameters into strategic risk management and the loan origination process. At the same time the survey also requested self-evaluation from the respondents: we assessed what the most critical deficiencies of the risk management field were in the past years in their opinion and which fields they still considered to be in need of development.

### **SUPERVISORY REVIEW PROCESS AT THE HUNGARIAN BANKING GROUPS**

VILMOS FLISZÁR–BÉLA KREKÓ–BÁLINT MENYHÉRT–MÁRK SZENES

The European Capital Requirements Directive (CRD) decrees that credit institutions carry out an internal capital calculation that is supervised by the competent authorities. This process took place in Hungary for the first time last year. The paper gives a summary of the general picture and analyses, on an anonymous basis, the capital adequacy assessment of the Hungarian banking groups. Most institution uses advanced methods that differ greatly from the standard regulatory exercise, necessitating a customized treatment on the supervisor's part. Significant heterogeneity is found to exist across banks in terms of their applied methodological soundness and degree of conservatism. The reduction of these differences in the near future by consistent supervisory practice as well as better orientation of the banks is an important regulatory objective.

### **THE USAGE OF DEMAND GUARANTEES HAS BEEN REVITALIZED**

KATALIN GULYÁSNÉ CSEKŐ

The International Chamber of Commerce has set into force the new „soft law” of one of the most frequently used personal securities: for the (bank)guarantees.

The new Uniform Rules for Demand Guarantees (URDG No. 758) have preserved the „principle of independence” as the quintessence of this financial instrument. Besides this the „Rules” have standardized, and in part introduced terms and definitions in order to create the „common language” and to promote the „common practice” of guarantees. This paper is aiming to present the precise content of new or uniformed terms and to point out to contradictions originating from them. Unfortunately the „Rules” were unable to separate the different legal relationship (contract of the guarantee and the related contract of agency) within guarantee-dealings, and because of adopting some definitions and conditions of UCP 600 have become quite similar to the documentary credit. These problems are very likely leading to misunderstanding in terms of the legal nature of the two financial vehicles.

## **GROWTH OF RETAIL LENDING BEFORE THE CRISIS**

ZOLTÁN BÁNFI

The strong impact of the crisis beginning in 2007 in the USA reached Hungary in October 2008. The Budapest Stock Exchange collapsed instantly, the state securities and credit markets got dry in the blink of an eye. Banks responded to the liquidity with restricting their loan activity, first drastic reduction of the amount of big loans, especially with obligation over a year. During the restriction period banks can stop granting of loans only to individual and retail customers, corporate special deals are not possible, prepayments are not too likely. Therefore, in this customer segment banks put emphasis onto the restriction of new granting by using stricter parameters in scoring functions applied when assessing and qualifying transactions. For the last two years loans including consumer loans have been falling deeply globally.

Banks also need to get over the loan crisis. Recently they have offered financing means again and again and even conditions (premiums) are not as alarming as in 2009.

It is international experience that all actors of economy work hard towards regaining the trends before the crisis. Of course a more moderate model respecting the whole of the society as well as our natural environment rather than a model of overconsumption is difficult to envisage.

## **THE PRECEDING SUCCESS AND THE FUTURE HAZARDS OF THE MONETARY STERILIZATION IN CHINA**

TAMÁS GÁBOR

With the easing of the Great Depression, the „renminbi matter” has become a global political and economical topic again. The paper discusses China’s role in the issue of the global financial imbalances and its policy of monetary sterilization. Through the latter, we point out that despite of its success in the present decade, the sterilization leads to several significant market distortions that might be highly costly to correct in the long run. In the case of the unchangingness of the present monetary policy, it might cause a serious crisis in China’s economy. The article states that until now the People’s Bank of China has purchased the stability of the financial system at the cost of the real economic distortions. Because of the seemingly stable prices and the undervalued Yuan, the export sector has become extremely overinvested, that made the development of the markets more imbalanced through the ineffective allocation of the sources. Finally, the last chapter deals with stance of the Yuan exchange rate in the light of the current political events.

## **INFLUENTIAL FACTORS IN THE FUNDING OF WASTE WATER TREATMENT PROJECTS**

ÁRON BOROS

The aim of this paper was to analyze the infrastructural investments with a focus on waste water treatment projects amid scarce EU budgetary resources and strained public-private financial possibilities. I dealt with the feasibility studies of the investments and drew my conclusions mainly from the Cost-Benefit Analysis. My investigation concentrated on the methodology and the procedures. In addition, I introduced the current waste water policy and the Hungarian background. The study was based on three main information groups:

- the extensive professional literature,
- my own project experiences and
- a specific model applied to observe the impacts of waste water projects.

My recommendations include improving efficiency in the preparation period and broadening the angle of the analysis with the aspects of the banking sector. This new aspect has considerable importance as the bottleneck in the realization of the projects is the financial background. Subsequent to the financial aspect the most critical issue is the long-term financial and social sustainability.