

Abstract of the articles

INFLATION TARGETING UNDER STRESS

GYÖRGY KOPITS

As the financial turmoil unfolds, policymakers are striving to secure adequate liquidity for their economies and to mitigate the looming recession, through aggressive monetary and fiscal expansion. However, until the end of the summer of 2008, in order to contain inflationary pressures unleashed by surging commodity prices, most central banks (in 25 countries, in the context of an explicit inflation-targeting regime) tightened their monetary stance which, in turn, led to exchange rate appreciation. But as recessionary fears intensified, many central banks shifted to monetary ease. By contrast, faced with deteriorating liquidity conditions and rising risk premia, central banks in the emerging markets felt compelled to maintain relatively high interest rates to prevent capital outflows. Two pending questions remain to be addressed in the future. Will the inflation-targeting framework be adhered to in the future? Will major central banks be capable to end the current accommodative stance as soon as the recession bottoms out?

THE EXCHANGE RATE OF CHINA AND THE GLOBAL IMBALANCES

TAMÁS GÁBOR

This paper evaluates China's exchange rate policy and current account surplus in the context of its rapid development. As the undervalued exchange rate of the yuan is one of the central explanation of the global imbalances, it is dealing with its harmful effect to the global financial and trading system. This misalignment artificially assist China's output growth and limits its household consumption, meanwhile the rate of saving constantly grow further more. Due to the undervalued yuan, China's trading partners, especially the United States and European Union, simultaneously experience larger bilateral account deficits with China, lower output, lower saving and higher investment than otherwise. A further appreciation of the yuan would reduce China's huge trade surplus and the bilateral deficits of its trading partner.

PROJECT FINANCING

JUDIT KÓNYA

The article can be considered as a pioneer attempt for highlighting the main legal aspects of this special field of the asset-based banking financing.

This type of financing is characteristic for those investments which represent at least one billion HUF amount of financial needs in different industrial segments such as building of hotels, offices, supermarkets, highways, underground, telecommunicational projects, etc.

One of the main features of this financing can be summarised that the source of repayment concentrates mainly to the cash flow of the projects. The collaterals which are used by the

banks also have special nature as the assignment of the revenues, pledge on the project assets, sponsor's undertaking are almost exclusively used in this type of financing.

The article puts its focus on the analysis of the special financial clauses and the legal structure of this way of financing laying emphasis on the different provisions of the legal documentation.

MODELLING OPERATIONAL RISK USING LOSS DISTRIBUTION APPROACH (LDA)

GÁBOR NAGY–KATALIN POVILAITIS

In our recent study we summarise the theoretical background of the Loss Distribution Approach (LDA) for modelling operational risk. Furthermore we review the possibilities of determining the annual aggregate loss distribution. We go into more details about the approximation method and the Panjer recursive method. Besides introducing the different methods, we lay emphasis on their advantages and disadvantages, which contribute to the successful application of the appropriate method.