Hungarian financial crisis simulation exercises - central banking perspective

(MNB assessment)

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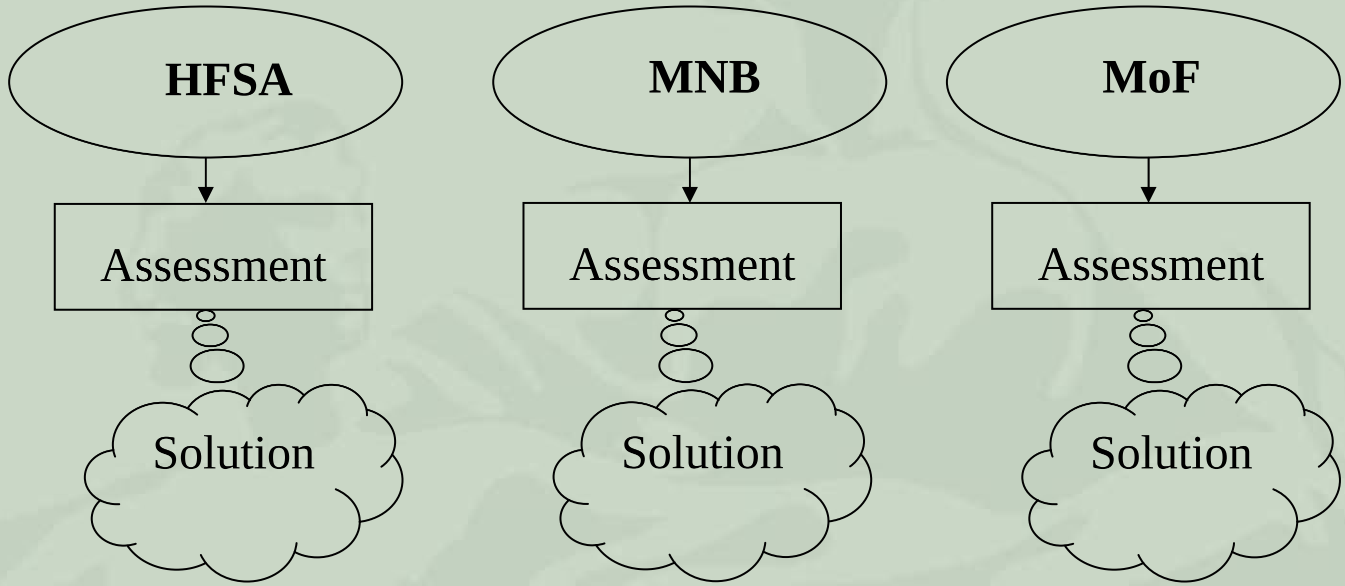
High level conference on “Simulating financial instability”
12-13 July 2007, Frankfurt

In case of a local crisis …



BUT there is only **ONE crisis** to be solved!

For an optimal solution

cooperation is not a need, it is a must!

Hungarian crisis simulation exercises

1st Hungarian exercise: October 2005

- Between MNB and HFSA; MoF as an observer
- With the aim to test cooperation and coordination procedures:
  i. smooth information-sharing
  ii. exchanging views on systemic assessment
  iii. coordinating policy responses (including public communication)

2nd Hungarian exercise: February 2007 – a step forward

- Testing cooperation with the active participation of the MoF
- In addition, to test:
  i. state intervention in fast-moving crisis
  ii. market sector solutions– bank consortium
  iii. the main enhancements ascribed to the 1st exercise (MoU for crisis management between MNB and HFSA, communication strategy)

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Design of scenarios

High shock-absorbing capacity of Hungarian banks (stress tests)

Substantial/unrealistic modification of real banking data both in terms of liquidity and capital position

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Most negative reactions of stakeholders

Should a scenario be realistic?

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Detected pressure points (1) Information-sharing

- Need for the harmonisation of extraordinary data requirements between HFSA and MNB – the banks’ ability to provide them

- No defined roles of authorities regarding external communication with parent companies and other market participants

- Uncertainty about the availability of documents and commitments from the owners at short notice

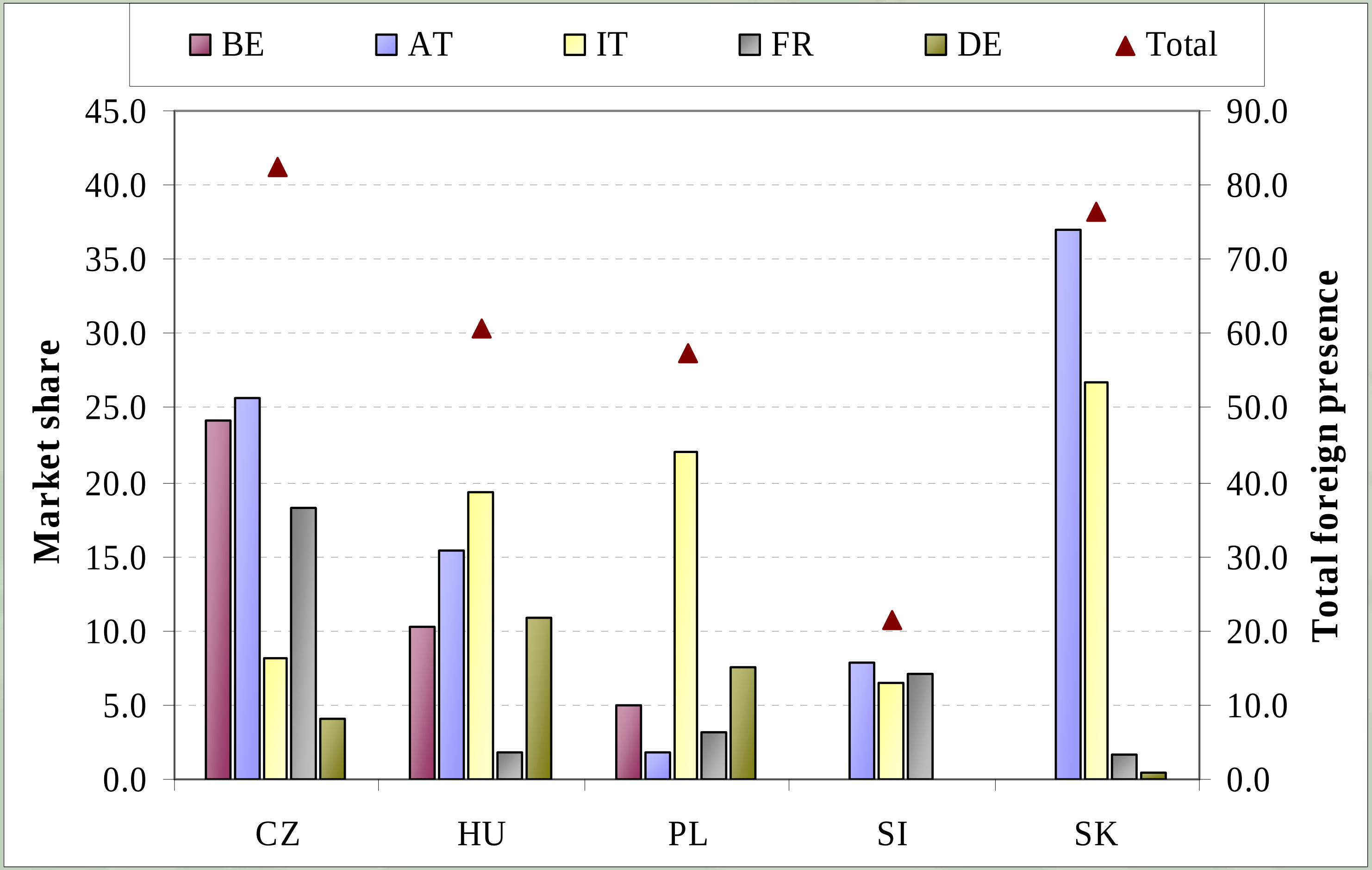
Detected pressure points (2) Systemic assessment

- Lack of common analytical methodology
  - No efficient/structured discussions on underling factors
  - Authorities tend to act presuming each others’ feasible reactions and steps
- No coordinating authority: the central bank’s potential role
  - Overall picture of the potential impacts on the financial system
  - Systemic assessment is fundamental for its decisions on intervention
- Timing of MoF involvement: information at earlier stages to help timely decision-making

Detected pressure points (3) Coordination of policy responses

- Flexibility should be ensured with regard to the policy tools
  - Main principles – discretionary power
  - Different policy responses may be required as the crisis develops - systemic assessment can change quickly
- Communication strategy should be developed
  - Predefined panels
  - Cautious communication
  - Potential conflicts between the communication and the financial stability area
- MoU on crisis management among authorities
  - Clear definition of tasks and responsibilities
  - Information-sharing and coordination processes

Outlook: CEC5 countries



Data source: BSC

Main cross-border banking groups in the region

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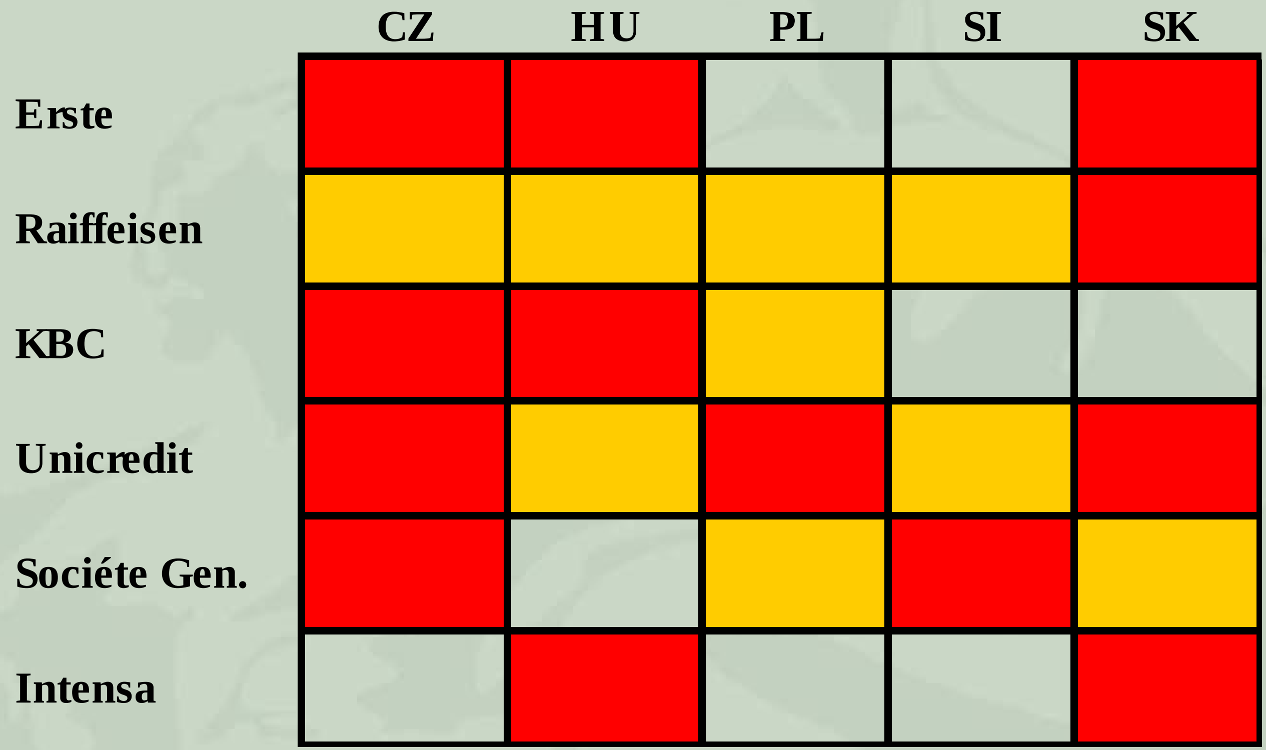

Red: Market share is at least 7,5% of banking system total assets
Yellow: Market share is below 7,5%
White: No presence

Data source: BSC

The need for regional cooperation

- A potentially emerged crisis situation in the CEC5 region would probably have cross-border implications

- For timely/efficient crisis management, **regional arrangements are not a need, they are a must**!

- Potential regional arrangements to enhance cross border communication:
    i. Organisation of regional exercises
    ii. Set-up of networks for crisis management
    iii. Organisation of workshops