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What are the Differences Between the Currencies of Foreign Exchange Loans?

SUMMARY: Bank solvency is influenced by foreign currency lending – through fluctuations in the exchange rate of the currency on which the loans are based. The current paper analyses the extremity of these fluctuations and the time-variance of the currency correlations in the case of the Hungarian forint and Czech koruna (as a control variable) against the main FCL currencies like euro, Swiss franc and Japanese yen. We compared anomalies in the pricing of the currencies with the period before the crisis by dividing the five years of the crisis into three distinct periods on the basis of the main measures taken by the leading central banks, which impacted the currency markets. As a result of our analysis, we can conclude that following the development and prevalence of currency swap agreements, originally planned as a temporary measure, throughout the five year period, there was a reduction in the fluctuation of these floating currencies, combined with a decline in the historically close comovement of the European currencies. From an institutional development point of view, this serves to emphasise the significance of the crisis management model based on central banks' cooperation and assumes the supervisory and regulatory mandates of the monetary policy.¹

Keywords: divergence, Central and Eastern Europe, currency market, extreme movement

JEL-codes: G15, G01, C32, E44, E58

The primary goal of monetary policy is to react to changes in the economic environment, as was the case during the period of pragmatic monetarism between 1979 and 1982, aimed at curbing the previous decades' inflation, or the prevailing price stability of the 1990s. Obviously, the latter may be accompanied by secondary goals (such as the growth and employment goals of Taylor's rule) or may even be reversed, as in the case of Japan's quantitative and qualitative easing, aimed at replacing deflation by price stability. Following the collapse of the Bretton Woods system and the emerging markets' crises of the nineties, the exchange rate as a goal has

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been struck off the global agenda and price stability appears as a valid demand also in member states contemplating to introduce the euro (as ESCB members). Financial stability, as a less than primary goal, continuously appears in legal regulations, while *Bernati et al.* (2011) remark that although it is clearly necessary, it is difficult to put into practice. Today, there are two approaches regarding the operationalisation of this problem: one is the institutional approach – to transfer supervisory competencies to the central bank (MNB, 2013; Borio, 2014) or delegate them to community level (Szegedi, 2012) – and the other is to expand the tool-set, resulting in the extensive management of the yield curve – and not only in home currency.