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Financial and Economic Review

December 2020

# How Would the Magyar Nemzeti Bank's Liquidity and Funding Requirements Have Influenced the Impact of the 2008 Crisis in Hungary?

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**Summary**

"Building on the experiences from the financial crisis, after 2012 the Magyar Nemzeti Bank (MNB, the Central Bank of Hungary) introduced various regulations managing liquidity and funding risks that affected the whole banking system, disincentivising the emergence of business practices jeopardising short- and long-term solvency. The instruments addressing currency mismatches, for example the Foreign Exchange Funding Adequacy Ratio, the Foreign Exchange Coverage Ratio, the Interbank Funding Ratio as well as the Liquidity Coverage Ratio introduced at the EU level reduce the probability of system-wide liquidity and funding shocks in Hungary and may keep the Hungarian banking system's short-term external vulnerability permanently low. By backtesting the impact of the above-mentioned regulations, this analysis confirms that these instruments would have been effective in curbing the emergence of the banking system vulnerabilities observed prior to the 2008 crisis. It can also be argued that, by internalising the costs of the riskier funding practices in the banking system, they would have been able to slow the pace of the build-up of the FX loans that later led to devastating effects in the national economy and society, and to mitigate the risks related to excessive lending." (Borkó, Herber, Székely, Szomorjai)

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## Recommended Citation

Borkó, Tamás, Evelyn Herbert, Barnabás Székely, and Péter Szomorjai. "How Would the Magyar Nemzeti Bank's Liquidity and Funding Requirements Have Influenced the Impact of the 2008 Crisis in Hungary?" Financial and Economic Review 19, no. 4 (December 2020): 27–59. https://doi.org/10.33893/fer.19.4.2759.