Building institutions to guard against excessive state debt
Ádám Török

After a decade of relative tranquillity on international financial markets, the problem of excessive government debt reappeared in 2007–8. Now the dangers of a lack of fiscal sustainability and transparency threaten not only in Greece, Ireland and Portugal, but in certain new EU member-countries, including Hungary, Romania and Latvia. The role of political cycles in sovereign debt crises now seems quite evident, but effective early-warning systems are not broadly available yet. The paper reviews certain indicators used as predictors, but the role of subjective perceptions of single countries’ risk factors by the international investor community is assessed as well. More widespread use of appropriate institutional tools to prevent sovereign debt crises is proposed.

Interlocking budget challenges in 21st century Europe
László Muraközy

The developed world really recovered from the crisis of the 1970s only two decades later, in the 1990s. Europe experienced a hitherto unknown degree of budgetary centralization whose alleviation became the prime task. So the first decade-and-a-half of the new millennium, an age of great alleviation, led to conditions favourable to economic growth, especially in the 1990s, and several countries successfully stabilized their economies. At the same time it became increasingly apparent that no really significant reduction in government expenditures could be expected. So the focus of economic theory and economic policy necessarily shifted from the size of the state to its quality and efficiency of governance. But beneath a peaceful surface and amid some partial successes, further budget challenges arose in Europe. An ageing population with an altering age structure presaged an increase in associated state spending, while the continent’s competitive position worsened due to a change in relative world economic power relations and to globalization. The study examines the budgetary effects of these three, interlocking challenges on Europe, through an international comparison covering the years around the turn of the millennium, and also the likely requirements after the crisis of 2007–9.

Methods of capital allocation and their characteristics in practice
Dóra Balog, Tamás László Bátyi, Péter Csôka and Miklós Pintér

Risk capital allocation in finance is important theoretically and also in practical applications. How can the risk of a portfolio be shared among its sub-portfolios? How
should the capital reserves be set to cover risks, and how should the reserves be assigned to the business units? The study uses an axiomatic approach to analyse risk capital allocation, by working with requiring basic properties. The starting point is a 2010 study by Csóka and Pintér (2010), who showed that the axioms of coherent measures of risk are not compatible with some fairness, incentive compatibility and stability requirements of risk allocation. This paper discusses these requirements using analytical and simulation tools. It analyses methods used in practical applications that have theoretically interesting properties. The main conclusion is that the problems identified in Csóka and Pintér (2010) remain relevant in practical applications, so that it is not just a theoretical issue, it is a common practical problem. A further contribution is made because analysis of risk allocation methods helps practitioners choose among the different methods available.

The role of corporate liquidity management under secured debt financing
Results of the bargaining approach

Dániel Havran

This paper investigates what the liquid asset ratio for firms should be. Financing constraints significantly influence motivations for liquidity hoarding. The article shows the determinants of secured debt services for three different information cases of a lender-borrower relationship. First, it examines the strategic debt service under full information, and then, assuming non-observable entrepreneurial efforts, it gives the ex ante and ex post equilibria of the strategic debt service. The third case supposes non-verifiable firm information; this provides the optimal corporate liquidity policy and explains the contrary propositions. It shows that under not fully secured collateral, 1. the debt contract is renegotiable; the lender cannot avoid the strategic debt service, 2. there is no ex post optimal Pareto efficient solution to liquidity policy, because the corporate liquidity ratio is determined by the bargaining power of the partners in the debt contract.

Why Hungary’s long-term contracts to buy electricity proved incompatible with Community goals

Éva Sztankó

A review of the long-term energy contracts in Hungary brought the European Commission to the conclusion that the contracts impede the creation of the single liberalized European energy market. The Commission therefore issued a ruling to liquidate these contracts. The article surveys the comments of power stations from the parties concerned by the contracts. The survey is based on primary and secondary legal material from the European Union and the court rulings on individual cases, and tries to shed light on the background to the rulings. In the two years that have past, the liquidation of the contracts has not advanced far enough to allow correct evaluation of the impacts of liquidation, but such an evaluation is further impeded by additional factors. For example, electricity consumption was curbed significantly by the crisis and there is oversupply on the free market, generating a considerable fall in prices, and important changes are expected in the regulatory environment (e. g. introduction of regulated prices). So it will only be possible to assess the outcome of the court rulings thoroughly after three to five years of market analysis.
The way to settle the state budget deficit arising from the pension reform
Rethinking some terms of the Stability and Growth Pact

József Banyár

Proposals for amending the Stability and Growth Pact come frequently from countries engaged in structural reform of their pension system. The author argues against proposals for changing the deficit ceiling in general and in favour of reviewing the ceiling on overall debt, by including in it not only the explicit debt of the state, but all obligations, i.e. the implicit state debt as well. The main source of the latter is the pension system. Countries that have undertaken a capitalization reform have in effect changed some implicit debt into explicit debt, while holding total debt steady or reducing it. So their real, underlying position is unchanged or improved compared with the non-reforming countries, but their standing in terms of the Stability and Growth Pact has clearly deteriorated, which is unfair. This deficit goal is correct because its main function is to prevent an increase in total state debt as a proportion of GDP, which it is effective in doing.

The value (degree) of fitness. The national economic costs of physical inactivity in Hungary

Pongrác Ács, Roland Hécz, Dávid Paár and Miklós Stocker

Interest in examining the quality of life has increased steadily in Hungary in recent years. Improving it was the main objective of the first National Development Plan, for the 2004–6 period, but it failed to do so, for Hungary’s indices for quality of life were at the bottom of the European list according to figures published by the WHO in May 2010. The results of the representative research Eurobarometer 2010 are saddening: 77 per cent of the population pursue a low-exercise, physically inactive lifestyle. The authors’ researches sought to fill a gap by measuring and quantifying the national economic costs of a low-exercise lifestyle and to estimate quantitatively the savings to be made by reducing such physical inactivity. The paper relies on the data of the National Health Insurance Fund and on an authors’ questionnaire (n = 1158). The potential savings on illness relating to physical activity are listed one by one, to arrive at the economic costs of such inactivity, based on which it is possible for decision-makers to prepare adequate action plans for reducing physical inactivity. This will improve the “morale” of the public and bring appreciable savings in the medium and long term.