Independence and accountability of central banks before and after the global financial crisis

Péter Bihari

Prior to the global financial crisis, the formal rules for operating central banks gave them a high degree of autonomy in attaining the objectives of monetary policy. However, their actual independence was already less, due to short-term political considerations applied during the appointment process of central-bank decision-makers. The global crisis has given new significance to macro-prudential policies, and created new tasks that central banks must perform in cooperation with their governments. The changed macroeconomic circumstances and extended role of central banks call for a review of the meaning of central-bank independence. There is no change in the need for central banks to be independent in their use of instruments to establish price stability. However, macro-prudential activity requires a shift beyond the old perception of independence and makes it harder to safeguard independence in classical monetary policy. De facto independence in interest-rate policy-making is expected to diminish further. The negative social consequences of this lower degree of independence will appear in the future, when a tightening of monetary policy will be needed for price stability, but central banks will not have the power to make decisions that depart from short-term political interests.

The role of liquidity policy and permanent price impact in portfolio valuation

Judit Hevér

According to the theory of Acerbi and Scandolo, liquidity policy (constraints imposed by an investor) is an input into the value function of an illiquid portfolio. This portfolio value is crucial to institutional investors as a tool for managing liquidity risk. Furthermore, when calculating optimal execution strategies, institutional investors must consider the impact of their own trading. The aim in this paper is to express more accurately this special problem of institutional investors, so as to modify portfolio valuation under liquidity constraints from the permanent price impact. Such portfolio valuation can be applied when calculating capital requirements, determining risk measures, and assessing portfolio-manager performance.

Spatial price competition for a web shop built on several markets

József Kelemen

The article concerns a modification of M. Lijesen's model that stresses its spatial properties to a far greater extent. The original model adds to the hotelling framework a web shop, which determines endogenously the reservation price and operates also in an external market. Instead of that external market, the modification presupposes n-1 separate markets, where the web shop can also sell its products. Compared with the original model, these assumptions lower the prices and widen the possible locations of regular, bricks-and-mortar shops. Furthermore, the model shows how enhancing competition and decreasing transportation costs in the markets investigated can benefit consumers, who can purchase the products more cheaply.

Challenges to the Chinese developmental state

András Székely-Doby

The paper addresses to two broad questions. 1. Is China a developmental state that fits the model typified by Japan, South Korea and Taiwan? Can the Chinese miracle be seen as another success for the developmental state, or is it just a coincidence that China shows similar features to those economies? 2. What factors can influence the sustainability of China's dynamic economic growth, and what prospects does the country have in solving the problems that emerged after forty years of reforms? The paper shows that despite some unique features, the Chinese development path in the past two decades fits well into the developmental-state concept. It is also argued that in the light of some current processes, the prospects for the Chinese developmental state do not seem bright, as future development is already being impeded by factors that emerged only in much later development phases in South Korea and Taiwan. Moreover China's present political and economic systems do not offer effective solutions to these.

The forgotten pension degression

András Simonovits

In Hungary up to 1998, the relative value of above-average pensions to net wages was reduced by a strong pension degression. This has been practically been phased out. Meanwhile the strong progressivity of personal income tax was also eliminated by 2013, so that newly set pensions become proportional to gross wages to an increasing extent. This dual process has an unwanted consequence: high pensions become ever higher compared with the average. If it is accepted that there will be no return to progressive personal income taxation in Hungary for a long time, then it is worth returning to the forgotten pension degression, which will prevent the gap between high and average pensions opening wider. These problems are analysed here by creating a family of very simple models and seeking to find quantitative answers.