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

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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.

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

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