

International Conference “Financial Markets in 2013” Mezinárodní konference „Finanční trhy v roce 2013“

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On 29 – 30 May 2013, Vysoká škola finanční a správní, o.p.s. (University of Finance and Administration) organized 6th Annual International Conference entitled **“FINANCIAL MARKETS IN 2013 AND KEY PROBLEMS OF THEIR FURTHER DEVELOPMENT”**. Individual topics discussed during the conference may be classified into approximately three categories: topics relating to current development of financial markets in the short and medium run; topics dealing with economic-political issues associated with the financial market developments; and finally, issues related to insurance and commodity markets and the regulation thereof. It is possible to only point out some of the presented pieces in this brief overview.

The keynote was presented by **Miroslav Singer**, Governor of the Czech National Bank (CNB); the theme of the presentation was *“Crisis of the euro area, banking union, and current development of the banking sector in the Czech Republic”*. In the first part of his presentation, the CNB Governor evaluated the situation within the euro area; Singer stated, among others, that the growth in the EU was very uneven in the 1st quarter of 2013. While the unemployment is low in the euro area core countries, it is very high on the periphery. Very high risks continue to persist within the euro area. Following the decline of the euro area in 2013, mild recovery should take place in 2014. The second part of the presentation was related to the banking union. The CNB Governor explained why the CNB currently does not see any reasons for the participation of the Czech Republic in the banking union. In the third part of the presentation, which addressed the banking sector developments, the CNB Governor stated, among others, that the growth rates of loans remain stable and low; the availability of loans has not changed recently. Negative growth rates still prevail in the category of consumer loans. The development of newly granted loans to nonfinancial companies reflects the declining economic activity and weak demand after investments. The share of defaulted loans to total loans has slightly decreased; however, the period of decreasing share of defaulted loans has probably ended. Consumer loans represent a risky loan component: the share of such loans in the defaulted loans exceeds their share in total loans. Adjustments created by banks in respect of defaulted loans amount to CZK 82 billion (3.6% of total loans), covering less than a half of defaulted loans. The share of highly liquid assets has increased over 30%. At the end of February 2013, capital adequacy amounted to 16.5% in total. The profit margins for new loans to business have significantly declined in the past months; this implies pressure on the reduction of operating profits in the upcoming years.

In the first section of his piece entitled *“Globalization – regulation processes of the global economy market segment”*, **Tadeusz Sporek** deals with the multi-dimensional definition

of the global economy globalization process. He examines the characteristic signs of globalization, such as its complexity, international dependency, as well as the emergence of a global financial market, dominant position of transnational corporation, and others. In the second part of the presentation, the author discusses global markets, global competition, education, environment, changes to culture and social identity as the key determinants of globalization.

In the piece entitled *"Macroeconomic relations between the financial sector and the real economy – application within the Slovak Republic/Czech Republic"*, **Jana Kotlebová** investigates the connection between the macro accounts and GDP of the Slovak Republic/Czech Republic since 2005. For example, the finding that commercial banks in both the Czech Republic and the Slovak Republic show excess liquidity, which is reflected in the dominance of sterilization transactions with regard to central banks. Based on the outcome of this interesting analysis, the author comes to a conclusion that, as a result of a weak transfer channel of impulses between the financial sector and real economy, there is no economic growth recovery. Therefore, it is advisable to support the growth of domestic demand, with a view to increase the consumption of population.

In the piece entitled *"Iceland banking crisis of 2008 – methodological problems relating to future estimates"*, **Jaroslav Brada** shows how fundamental analysis applied in the area of economic decision-making on investments is inherently inconsistent, in terms of methodology, as a result of problems arising from the definition of causality. The Iceland crisis of 2008 documents that the application of standard fundamental analysis processes results in a problem consisting in the need to interpret large amount of information. The author points out that identical information may be interpreted and applied in a different manner by individual economic entities.

In the piece entitled *"Foreign exchange loans of the International Monetary Fund today"*, **Anežka Jankovská and Martina Konečná** analyze the extensive area of activity of the IMF, particularly the development and structure of the foreign exchange loans granted by the IMF. They characterize the reform of foreign exchange reserves, which is part of the overall reform of the IMF. As a result of the reform, objectives of the foreign exchange loans, their use, and terms and conditions for the provision thereof were all reevaluated. Consequently, the loan structure changed, whereas the loans became more accessible, flexible, readily available, and higher volumes may be granted recipients.

In the piece entitled *"Euro adoption as the first step to emergence of the current problems of Cyprus"*, **Petr Wawrosz and Herbert Heissler** discuss the development of the economy of Cyprus following the country's accession to the European Union and adoption of the euro. They confront the development with the current economic situation of Cyprus, mainly giving attention to the structure and scope of the banking sector. The current problems mainly arise from the fact that Cyprus failed to comply with the terms and conditions set down for the euro adoption. The authors point out that, when contemplating the euro adoption for countries with similar economy to the one of Cyprus, it is necessary to pay special attention to analyzing the economic structure of such countries.

In his piece *"Impact of the current European regulation on the provision of payment services in the Czech Republic"*, **Otakar Schlossberger** first sums up the development of the cross-border payment system in the past, and specifically the origin of the SEPA project. He states that the project objective is to promote European integration by creating a single market of payment system services for small payments. The existence of a single market for all payments in EUR will promote competition and innovations, thus offering better services for customers. Changes in the domestic payment system application, which may be expected by 31 October 2016 at the latest, are revolutionary.

In the piece *"Risk on the European government bond market"*, **Božena Chovancová** analyzes the changing approach to assessing risk associated with government bonds. The term "risk free" only makes sense for a very narrow range of government bonds. The increasing risk margins give rise to increasing issuers' costs, adversely affecting government budgets. From the perspective of investors, this increase may contribute to higher returns; however, only at the expense of higher risk. The author also assesses the importance of the bond issue of a new European institution – Euroval (European Stability Mechanism) – which currently represents an absolutely new phenomenon, both in terms of risks and yield of such bonds.

In his piece *"Current forms of trading at stock exchanges around the world"*, **Vladislav Pavlát** briefly summarizes key changes on the financial markets, issues associated with algorithmic and high-frequency trading and with the market fragmentation, together with the problem of the so-called dark liquidity. The existing contradicting research results of the issues do not enable straightforward regulatory solutions. Should stock exchanges serve investors or speculators? It will be necessary to find an answer to the aforementioned burning question in the form of an adequate level of regulation – not only of stock exchanges, but of financial markets as a whole.

In the piece *"Crisis management of bank within the context of the financial crisis"*, **Mária Klimíková** referred to the absence of rules for the crisis management of banks, which resulted in the need to invest public funds in order to prevent panic and domino effect of bank failures, with an adverse effect on the real economy. It will be necessary to create a system of effective instruments for the purpose of timely and effective intervention that would allow operation of banks at risk. Moreover, it will be necessary to ensure the bank management focuses on the creation of an internal system that would make it possible to resolve critical situation at the level of the bank itself.

In his piece entitled *"Czech pension policy: The worse, the better"*, **Jaroslav Vostatek** pointed out that, when considering the fiscal costs of the reform, it is only beneficial for approximately 10% of the wealthiest employees. In this situation, hypotheses and claims were made and developed with regard to significant reduction of public pensions by 40-50% in the future as well as about the alleged burden for the young people, which is to consist in the fact that they would pay 2 or 3 times more in the form of insurance premium compared to what they get in the form of old-age pensions. However, this is not supported by an intergenerational contract or population aging.

To summarize, more than 100 participants from the Czech Republic and 10 international guests from Poland and Slovakia attended the conference.

First day of the conference included a panel discussion of financial analysts on the prospects of financial markets, with **Aleš Michl** (*Raiffeisenbank*), **Michala Moravcová** (*BOSSA*), **František Bostl** (*Cyrrus*); and **Petr Zahradník** (*Conseq*) taking part in the discussion as guests. The discussion was moderated by **Petr Budinský**, Vice-Rector of the University of Finance and Administration, who added his own evaluation of the situation on financial markets at the end of the panel. The discussion demonstrated that it is currently still very difficult to arrive at a more reliable opinion regarding the expected immediate developments of financial markets. Although the tone of the discussion was mostly optimistic, many different opinions were expressed during the evaluation of situation on different financial market segments.

Second day of the conference also comprised a discussion in two separate sections – in the section of graduate students and in the section of pre-graduate students, where 20 high-quality pieces were presented.

The International Conference of the University of Finance and Administration on financial markets has been positively received and brought a number of new impulses for further research in the area.

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