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Towards a More Accurate Measurement of Financial Stress: Revamping the Hungarian System-Wide Financial Stress Index (SWFSI)

Topic 3 – More rapid statistics and indicators on new phenomena

Keywords: Financial stress index, statistics, systemic risk

Introduction

Tracking and monitoring stress within the financial system is a key component for financial stability and macro prudential policy purposes in particular following the financial crisis. Financial stress measures are important as forward looking indicators to signal potential vulnerabilities in the market, enabling policy makers to take corrective measures in time hence minimizing the impact on the real economy. The presentation focuses on the Hungarian National Banks' attempts at creating a precise measure of the stress within the Hungarian financial system. The aim was to capture factors that correctly compress the information available in the data thus a factor approach is taken. These factors are then used to create a single index that is driven by the underlying movements caused by systemic risk.