

The Public Defense
of the Doctoral Thesis in Economics
by

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on

Essays on Foreign Currency Borrowing of Households

will be held on

Thursday, October 18, 2018 at 10am

in the

Quantum 101 room

Central European University

Nádor street 15, Budapest

Thesis Committee:

László Mátyás (Chair)

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The doctoral thesis is available for inspection

at the CEU Economics Department

Abstract

This thesis consists of one single-authored and two co-authored chapters. The chapters investigate the causes and consequences of foreign currency borrowing of households. As households are less likely to have income in foreign currencies, borrowing in foreign currencies makes them directly exposed to fluctuations in exchange rates. I focus on the Hungarian experience throughout the thesis but foreign currency borrowing of households was prevalent in other developing and advanced countries as well.

The first chapter is co-authored with Steven Ongena and Ibolya Schindele. In this chapter we study the bank-lending-to-households channel of monetary policy. We start by showing that monetary conditions affect the supply of mortgage credit in volume. We then study the impact of monetary conditions on the composition of mortgage credit along its currency denomination and borrower risk.

The second and third chapters examine the consequences of the household debt shock following the crisis. During the crisis foreign currency borrowing of households along with the large and unexpected depreciation of the local currency provide a natural experiment. The exchange rate shock significantly increased the debt burden of households borrowing in foreign currencies but not of households borrowing in the local currency. I exploit this differential effect of the crisis on the financial distress of households using zip code level data.

The second chapter is co-authored with Emil Verner. This chapter analyzes how financial distress affected political preferences, and contributed to the rise of populist far right in Hungary using zip code level aggregate data. It also examines the mechanisms, and show that the creditor-debtor channel, a disagreement between creditors and debtors on how to resolve the crisis was an important channel in the rise of the far right.

In the third chapter I examine the effect of households' financial distress on standardized student achievement. I show that the development of students living in more exposed zip codes significantly decreased after the outbreak of the crisis.

Chapter 1: The Impact of Monetary Conditions on Bank Lending to Households joint with Steven Ongena and Ibolya Schindele

We study the impact of monetary conditions on the supply of mortgage credit by banks to households. Using a comprehensive supervisory dataset from Hungary, we first establish a „bank-lending-to-households” channel by showing that monetary conditions affect the supply

of mortgage credit in volume. We then study the impact of monetary conditions on the composition of mortgage credit along its currency denomination and borrower risk. We find that expansionary domestic monetary conditions increase the supply of mortgage credit to all households in the domestic currency and to risky households in the foreign currency. Because most households are unhedged, bank lending in multiple currencies may involve additional risk taking. Changes in foreign monetary conditions affect lending in the foreign currency more than in the domestic currency, but do not trigger compositional changes in the risk exposures of the banks.

Chapter 2: Financial Crisis, Creditor-Debtor Conflict, and Political Extremism joint with Emil Verner

This chapter studies the effect of the 2008 financial crisis on the vote share of the populist far right. We use the foreign currency borrowing of households in Hungary as a natural experiment. During the crisis the unexpected and large depreciation of the domestic currency increased the debt burden of households borrowing in foreign currencies but not of households borrowing in the local currency. We use zip code level variation in the prevalence of foreign currency borrowing of households, and show that the exposure to the depreciation significantly affected political preferences. A 10 percent unanticipated rise in indebtedness increased the vote share of the far right by 2.2 percentage points. This effect explains one third of the increase of their popularity by the 2010 election. Foreign currency debtors' naïveté, persistent extremist attitudes, local labor market shocks, and immigration do not account for this increase. We present evidence that the conflict between creditors and debtors about the resolution of the crisis is an important mechanism in the electoral success of the far right. The far right sided with debtors against creditors by advocating policies to help households with foreign currency loans.

Chapter 3: Financial Distress and Student Achievement

This chapter studies how households' financial distress affected the student development. I focus on the 2008 financial crisis, and I use household foreign currency credit expansion as a natural experiment in Hungary. Following the crisis the exchange rate shock increased the debt burden of households borrowing in foreign currencies but not of households borrowing in

the local currency. I measure exposure to the depreciation at the zip code level by using credit registry data. I use administrative student level standardized test scores to measure student performance. My identification strategy compares the development of students attending the same class but living in different zip codes. I find that a 10 percent unexpected debt shock decreases the math and reading skills by .045 standard deviation. Increased unemployment in more exposed zip codes does not explain the worse results of students.

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Current Position

2018- Kiel Institute for the World Economy, post-doc researcher

Past Positions

2013-2018 Research Department, Central Bank of Hungary, junior researcher

2011-2012 Monetary Strategy and Economic Analysis Department, Central Bank of Hungary, junior analyst

Education

PhD in Economics, Central European University, 2012-

MA in Economics, Central European University, 2011

Diploma in Economics, Corvinus University of Budapest, 2010

Research Experience

Julis-Rabinowitz Center for Public Policy and Finance, Princeton University, April 2017

Summer visiting researcher, National Bank of Hungary, June-August 2013

Working Papers

Financial Crisis, Creditor-Debtor Conflict, and Political Extremism (with Emil Verner) 2018

Household Debt Revaluation and the Real Economy: Evidence from a Foreign Currency Debt Crisis (with Emil Verner) 2018

The Impact of Monetary Conditions on Bank Lending to Households (with Steven Ongena and Ibolya Schindele) 2018

Shocks and labour market adjustment in Hungary: Evidence from WDN data (with Katalin Bodnár) 2015

Currency mismatch and the sub-prime crisis: firm-level stylised facts from Hungary (with Mariann Endrész and Péter Harasztosi) 2012

Teaching Experience

TA, Econometrics, PADS Foundation, 2016, 2017

TA, Econometrics II, CEU, 2014, 2015

TA, Econometrics I, CEU, 2014

TA, Microeconomics I, CEU, 2013

TA, Introduction to Practical Macroeconomic Analysis, Corvinus University, 2005, 2006

Honors, Awards, Fellowships

2018 CEU Award for Advanced Doctoral Students

2016 CEU Doctoral Research Support Grant

Presentations

2018: IfW Kiel, National Bank of Hungary, Luxembourg Workshop on Household Finance and Consumption, IWH-FIN-FIRE Workshop Halle, EEA Cologne, VfS Freiburg

2017: Corvinus University, Institute of Economics (Hungarian Academy of Sciences), SAeE Barcelona

2015: RGS Doctoral Conference Essen, PhD Workshop University of Minho, Large-scale Crises: 1929 vs 2008 Conference Ancona

2014: Hungarian Economic Association

Languages

English (fluent), Hungarian (native)