

For the 70th birthday of Prof. Száz

Corvinus University, Budapest Stock Exchange, National Bank of Hungary, Training Center for Bankers, Sapientia University – fragments from the last 30 years

Ágnes Vidovics Dancs¹

János, in the last 47 years you were a lecturer at the Budapest University of Economics, but throughout these years you also held a number of other outstanding positions: first academic director of the Training Centre for Bankers (ITCB) in the late 80's, President of the Budapest Stock Exchange (BSE) in the 90's, member of the Monetary Council of the National Bank of Hungary in the late 90's, just to name a few positions.

How did a university professor become the President of the Stock Exchange?

In the 70's Hungary was a socialist country and as such, capital markets were basically nonexistent. At this time the Western World introduced flexible foreign exchange rates, which replaced from the Bretton Woods fixed exchange rates regime, which lasted for 30 years. The subject of my doctoral thesis in 1980 was the recent models of FX rate dynamics. In 1983 I attended a course in London organized by the LIFFE (the first modern futures market in Europe), I started to study futures (and later options) markets, focusing on the pricing of these products – just for the sake of learning, with no specific reason or purpose. Back then there was no internet or easily available courses, so I had to rely on books like *Powers-Vogel: Inside financial futures*, which surprisingly was available in the library of our university, that time called „Karl Marx University of Economics”. Eventually I started to teach these topics – first only to 6-7 students, but gradually financial futures became an integral part of the curriculum for all students specialized in finance. So teaching the subject of the modern organized exchanges started at our university with derivatives instead of the regular way, starting with shares .

¹ associate professor at Corvinus University Budapest (CUB), Program Director of the Msc in Economic and Financial Mathematical Analysis

I would like to mention that I never had any problem at the university teaching about securities or stock exchange transactions, not even before the collapse of the Berlin Wall. Although in the 70's there were still some ideological debates at the department of Political Economy, but not in the Department of Finance. It was to a great extent due to *István Hagelmayer*, who was the Head of the Finance Department at that time. He later became the Director of the *Financial Research Institute* (this was part of the Ministry of Finance), which was a very liberal place. After 1990, many of their researchers became ministers (*Kupa, Botos, Bokros, Csillag*), Presidents of the Central Bank of Hungary (*Surányi, Matolcsy*), or vice presidents of the Central Bank of Hungary (*Riecke, Szalkai*). Hagelmayer later became the first president of the State Audit Office of Hungary.

The reestablishment of the Budapest Stock Exchange (BSE) was initiated by the market participants themselves and not by a central decision, and I also participated in these enthusiastic voluntary work. First the *organized municipal bond market* was organized (in 1987), and later shares were added to the list of tradable instruments in June 1990. This marked the official opening of the BSE, which was the first stock exchange (reopened) in the post-Soviet states. Since studies on stock exchanges mostly concentrated in Budapest, we can say the many of the traders of this new exchange were students of mine at some point in time – either at the University or the newly established Training Center for Bankers (established in 1988). I was also a co-writer along with *Tamás Bánfi* and *Márta Sulyok Pap*, also lecturers at the Budapest University of Economics, of the text book titled „*The bond*” (1986), the first book on securities and securities markets from Hungarian authors after 40 years. This book was widely used that time.

This involvement in the establishment of the Budapest Stock Exchange and being well-known by the participants of the exchange resulted in me being elected to become a member of the Council of the Budapest Stock Exchange. All 9 members were responsible for a specific area – I was responsible for organizing the education and certification of stock brokers. Setting up the *Training Center for Brokers* was vehicle for that purpose.

What would you mention as a special achievement from the time you acted as the President of the Budapest Stock Exchange?

I became president in 1995. That year the BUX, the stock index of the BSE achieved the second highest growth in the world. To tell the truth, I had no role in it, neither the stock exchange itself. It was the result of the new, well-coordinated monetary and fiscal policy introduced by *Lajos Bokros*, the Minister of Finance, and *György Surányi*, President of the Central Bank of Hungary. Their policy focused on improving the balance of payments, and gained the trust of international investors. After 4 years, the Hungarian stock index BUX was 8 times higher than at the beginning of 1995.

I initiated the transformation of BSE from a stock market place to an *integrated market with stocks and bonds and derivatives* market. This required among others a new electronic trading platform (the *MMTS – multimarket trading system*, which was in use for 2 decades). That time this integrated approach was a major step ahead, even in international comparison. This was the period when BSE moved from the open outcry system to *electronic trading*, and also the rights and obligations of participants changed from the the original model here all BSE members paid the same amount of fee and had the same one vote. In managing these radical changes, it was a big advantage that I was an independent university professor and not someone representing one or more market players.

Just years later I have realized, that the well known saying of J. M. Keynes was true for my case as well: *“Practical men who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist.”*

Our strategy to integrate bond, stock and derivative markets was a simple reflection of the Black-Scholes-Merton (BSM) model. The model, that I had been teaching at the university for many years by that time. It contains a riskless, a risky, and a derivative financial instrument. That subconscious application of the BSM model is a good example, that there is nothing more practical, then a good theory.

You worked at the Central Bank of Hungary as well.

I worked there part-time from 1983 to 1989. István Szalkai, who played a major role in Hungary joining the IMF in 1982 invited me to join his team. *Szalkai* wrote a paper in the early 80's on how to harmonize monetary and fiscal policy in a Mundell-Fleming framework (this was not a standard way of thinking in the socialist countries, and even the Hungarian monetary policy was far from this framework that time). The same year *Werner Riecke* wrote a contemporary overview on *Balance of payments theories*, and I was ready with an overview of the current foreign exchange (FX) rate dynamics models. It was István *Hagelmayer*, who had the idea to publish these 3 different papers in one volume in the Financial Research Institute's Working Papers series. Later the three of us wrote a book together under the title *„FX rate theories and financial policy”*.

In the Central Bank of Hungary I was part of a very small team providing the monthly reports to the IMF. This was the so called *„Kopits telex”*. It was not really a telex, but a huge magnetic tape, which was delivered to Washington by plane as part of the diplomatic pouch, with very strict timing. Keeping these strict deadlines were not always easy, to say the least ... That time I did not know that *„Kopits”* is not just a name of a procedure collecting data, but of an actual person, a brilliant economist. George Kopits from the IMF later became the IMF representative in Hungary, and from 2008 the first President of the Hungarian Fiscal Council. I am proud to know him as a friend for many years.

It was 10 years later (the end of the 90's) in the *Monetary Council of the National Bank of Hungary* (NBH), when I could really use what I have learned during that half

year at the IMF course. *György Surányi* was the President of the NBH, and the board meetings were intellectually very exciting. I liked very much the argumentations of György Surányi, and I still enjoy a lot his writings and lectures. During the Board meetings I was sitting next to professor *Janos Kornai*, and I still remember some his silent side comments.

The next episode for me with the IMF followed another 10 years later. By the invitations of Werner Riecke I could give lectures on bond markets in *Azerbaijan, Kirgizstan, Tadjikistan* on IMF courses. Werner was the IMF advisor to this countries on developing capital markets. All of my IMF exposures originate back to that working paper that was published by Hagelmayer in the 80's at the Financial Research Institute.

Could you tell us a bit about the first years at the ITCB?

In 1987 I spent 6 months in Washington D.C. on an IMF course, focusing on a „Financial program” for Kenya.

Coming home from the USA my professional carrier had taken an unexpected big turn: instead of using what I had learned on monetary and fiscal policy, in 1998 I had the opportunity to be part of a different project of the Central Bank of Hungary: setting up a *Training Center for Bankers (ITCB)*. This private education centre was the first of its kind in the Soviet bloc (just to recall – the Russian troops were still stationed in Hungary at that time). This institute focused on the training of middle and top managers of the newly established *commercial banks*. I was the first academic director of this educational hub, holding this position from 1989 to 1992. We invited a lot of foreign bankers as lecturers. The Banker's Diploma program of ITCB got a high reputation, and after a while the ITCB started to organize the *CEFA (Certified European Financial Analyst)* program, as a member society of the *EFFAS (European Federation of Financial Analyst's Societies)*. Today, ITCB is a very active member of the *EBTN (European Banking Training Network)*.

Meeting new approaches and techniques at the ITCB also enriched my lectures at the University – it can well be that I was the first to use Excel and Power Point in my lectures at the University of Economics. This was also supported by a practical factor: ITCB had a portable projector. It weighted over 10 kilos, but it was portable. At the university we only overhead projectors at that time, not compatible with computers.

With the financial support of the Training Center for Brokers, we could also set up the first computer lab for finance students at the university, in the mid 90's. This helped a lot to make Finance courses more practical and more attractive at the university.

You were the Dean of the Faculty of Economics, and later the Head of the Investments Department at the Budapest University of Economics. You were also one of the 9 members of the Program Council designing the Hungarian faculty of economic studies at Sapiientia University in Transylvania and you are a Honorary professor of the Babes-Bolyai University in Cluj (Kolozsvár).

At the Budapest University of Economics I had the chance to initiate and to participate in the establishment of various MSc programs and special courses. One of these is the MSc in *Actuarial and Financial Mathematics*, which is the single double degree MSc with two Hungarian universities involved (ELTE TTK is the partner). Another programme I participated in is the *MSc in Economic and Financial Mathematical Analysis*, a degree combining undergraduate and postgraduate studies.

In the early 90's when the University joined the CEMS (*Community of European Management Schools*) the prerequisite was to offer a modern Corporate Finance course. I was responsible for finding the potential teachers, the appropriate textbook, etc. None of us has learned modern Corporate Finance before. We have translated the Brealy-Myers text book and started from scratch. Recently a former student of ours came back from China where he was a visiting professor, teaching Corporate Finance.

Hungary was the first post – socialist country to join the IMF, have a Stock Exchange, a Training Centre for Bankers, a Training centre for Brokers, a member of EFFAS and CEMS – you were somehow involved in all of these novelties.

I was really lucky, the University supported me in participating in these projects, and I also enjoyed an intellectual freedom from the very beginning. I trust that my involvement in all of these projects benefited also my students, and this way to the University itself.

I never had a vision of how my career shall be or what positions I would like to have. I was simply **curious**. How do the financial markets work, what is the mathematics behind? Once I have understood something I tried to summarize it in written form, and share with others. I have never written anything just to increase the number of quotations on my writings.

The primary goal was to make available certain informations here at home. This was before the internet era. That is the reason why we have translated so many books (Brealy-Myers, Bodie-Kane-Marcus, Hull, Modigliani, Friedman, etc.) to Hungarian mainly with Julia Király and Márta Sulyok Pap. It took more than a decade from our professional career. The value of all these efforts to translate a wide range of literature to our native language is absolutely worthless from the science metrics point

of view prevailing now. But it was necessary and very useful that time. For example most of the students could not afford to buy very expensive English language textbooks. And they did not have the opportunity in those years simply to download a lot of things from the internet.

All stages of my carrier started with learning, then writing and resulted in an interesting project where I could contribute to create something. I was lucky not to follow the new fashions, but several times to be prepared in advance for the new fashion to arrives. That is the biggest advantage of being a university lecturer.

You have been involved in various projects and activities – what are you really proud of ?

I am very proud of a lot of my former students – some of them could continue their phd studies at universities like Princeton, Berkeley, Oxford or gained important and great impact positions in their work, while others are taking over the baton of teaching the next generation of economist.

I am very proud of my two daughters. Both work in financial area. Agnes as a securities lawyer, and Vera was the Head of Funding at the MOL Group, now she is responsible for the insurance of OMW Group in Vienna.

While you could well enjoy your retirement I know that you remain active in your professional life as well – what is your current research topic ?

I am still interested in stochastic interest rate models. I also enjoy giving a thought to the optimal structuring of finance and mathematics subject in the university curriculum – what to teach and how teach in the area of Finance and Mathematics at the university. This interests me since I became a lecturer at the University five decades ago – in the first three decades I was concerned with *what* to teach, in the last two decades *how* to teach. I am of the view that education shall try to keep pace with the changing world and adapt to the needs of new generations and reflect to technological changes So this topic can never become boring. ■