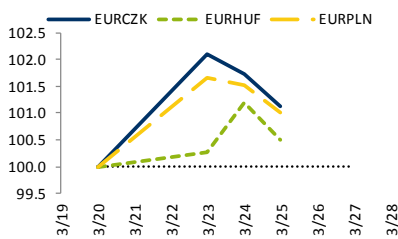




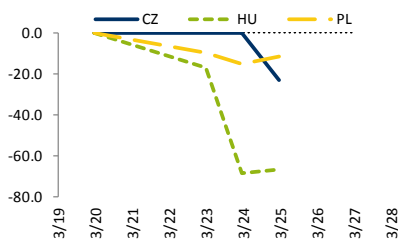
Wednesday, 25 March 2020

Forex markets (index)



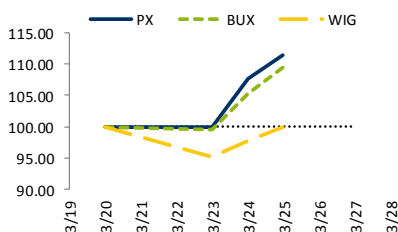
	LAST	PREVIOUS	CHANGE (%)
EURCZK	27.55	27.71	-0.60
EURHUF	352.2	354.6	-0.69
EURPLN	4.582	4.605	-0.51

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.371	1.604	-23.3
HUGB 10Y	2.24	2.23	0.7
PLGB 10Y	1.84	1.81	1.8

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	822.7	794.7	3.52
BUX	33906	32615	3.96
WIG	41175	40276	2.23

Our regional insights:

The NBH tries to anchor the yield curve up to 5Y

The National Bank of Hungary has introduced several new measures yesterday, while the reference rates were unchanged (O/N deposit rate at -0.05%, O/N lending rate at 0.9% and base rate at 0.9%) in line with the expectations. The minimum amount of liquidity to be crowded out in the second quarter was left at HUF300-500bn, but the minimum was emphasized, which suggest that more liquidity may be crowded out if it is necessary.

The NBH confirmed the moratorium of corporate and household loans till the end of the year. The government announced in a regulation that after the moratorium ends the monthly instalments has to be the same as it was before the moratorium was announced, so the duration of the loans has to be lengthen and he banks cannot use compound interest for the moratorium period.

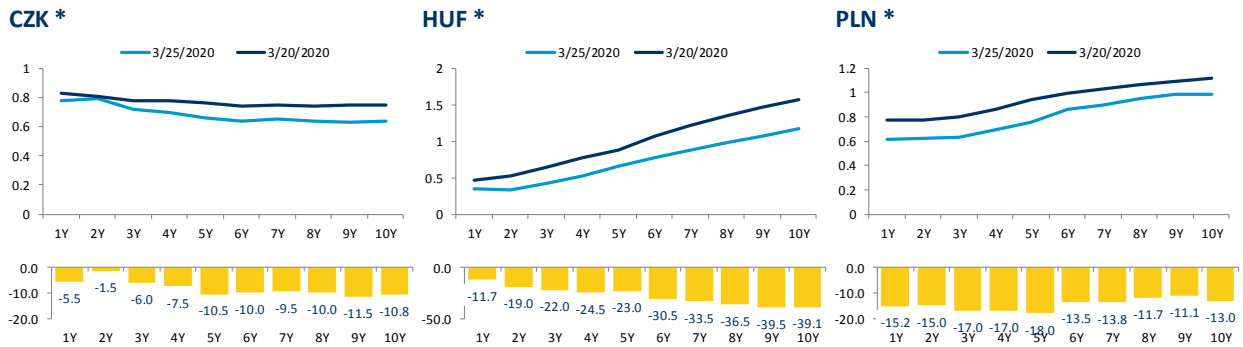
The NBH suspended the sanctions on required reserve deficiency, it means that the banks liquidity increases by over HUF250bn and banks will have free access to this amount, which helps to manage the liquidity in the interbank market.

Long-term lending facility will be introduced as well in five tenors: three, six and twelve months and three and five years. The long-term loans will have a fixed rate over the entire maturity. The interest rates for all tenors will be defined by the NBH on the tenders, but it may not be lower than the base rate. There is an unlimited total amount assigned to the program, but the NBH will make its decision depending on the market environment. These are collateralized loans: the NBH accepts eligible, uncommitted securities and loans to large corporates. The former amounts around HUF7000bn, while the latter around HUF2600bn, which are together roughly 20% of GDP. But it looks like that this amount can be increased quite easily as for example a bank buys new government bond on the market it can be given for the NBH as a collateral and the bank gets the loans. **It also means that for example if the bank buys 5-year bond on the market at 1.5% and gets a five-year loan from NBH at 1% fixed rate for the entire maturity, it provides 50bp profit for the banks. This measures may help to anchor the middle of the yield curve.**

The NBH emphasized that they have no exchange rate target, and the inflation may drop to 2.6-2.8% YoY in this year and moves back to 3.4-3.5% YoY in 2021, which fits to our forecast as well. The surprise factor came rather from NBH GDP growth outlook, as they are quite optimistic. The base line scenario for them is 2-3% YoY growth for 2020 and 4-4.8% YoY expansion for 2021 and they see only a mild recession (less than 1% YoY) even in their worst case scenario. Now the market is more critical about the negative effects of the Covid-19 virus, and although the uncertainty is extremely high, we think that the economy growth for this year may be well below the NBH's forecast and we give higher probability for a recession as well.

Although the government announced some measures as well in the lasts day, it is lagging behind the NBH, but we expect more to come in the coming days, as the Finance Ministry is working on a new budget for 2020 and 2021. It means that more support may come from fiscal policy, which can improve the rigidity of the economy and may boost the growth. It also means that the budget deficit will increase substantially, which requires financing as well. There is no big redemption of debt in April and May and the government has roughly 2% of GDP deposit on the NBH's account as well. Taking in account the new NBH programs, we think that there won't be any financing problems in the coming months. Additionally Hungary may receive EU funds money as well, which were spent from last years' budget, but hasn't get from EU so far, which can be also more than one percent of GDP.

Interest-rate Swap Curves



* upper plot in each panel shows interest swap curve (%), lower plot shows change in interest rates in basis points (against previous Friday).

Calendar

Country	Date	Time	Indicator	Period	Forecast		Actual		Consensus		Previous	
					m/m	y/y	m/m	y/y	m/m	y/y	m/m	y/y
CZ	03/25	12:00	CZ bond auction 2020-2025, 1.25%	CZK B 03/01/2020					4			
CZ	03/25	12:00	CZ bond auction 2014-2027, floating rate	CZK B 03/01/2020					4			
CZ	03/25	12:00	CZ bond auction 2020-2031, 1.20%	CZK B 03/01/2020					4			
CZ	03/26	13:00	CNB meeting	% 03/01/2020	1.3				1.3		1.8	
HU	03/27	9:00	Unemployment rate	% 02/01/2020					3.4		3.4	

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