

Flash Comment

October 16, 2008

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Hungary: ECB to the rescue. Will the ECB also help Croatia?

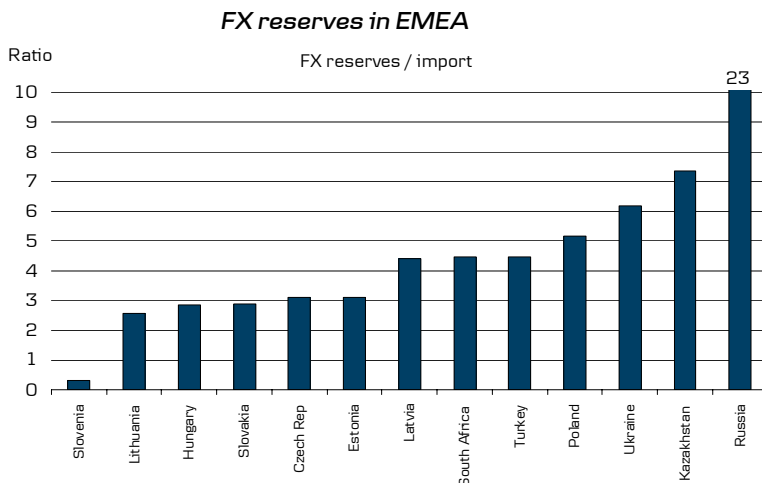
The ECB announced this morning that is to extend a helping to the suffering Hungarian markets, providing up to EUR 5bn of liquidity to the Hungarian central bank (MNB).

This move will surely help boost the MNB's defence of the forint. Hungary's FX reserve is at present EUR 17½ bn. This equals less than 3 months of imports, which is normally considered to be the critical level for FX reserves. Among the EU8+2 countries, Slovenia (euro member), Lithuania, Slovakia, the Czech Republic and Estonia have similar small FX reserves.

The Hungarian forint strengthened around 2% on the back of the news.

But will this be enough to curb the pressure on the forint? We are not certain, and there is still a clear risk that the market will test the ECB's willingness to continue providing liquidity to Hungary. The next natural question is then whether the ECB will help other EU countries in the CEE – Romania, Poland, the Czech Republic, Bulgaria? And what about the CEE countries outside the EU? Croatia, Serbia, Ukraine, Kazakhstan?

We fear that pressure on the CEE markets could escalate in the coming days. So both the IMF and the ECB will be busy in Central and Eastern Europe in the coming days, weeks and months.



Source: IMF

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