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MNB Dep Gov letter to ECB

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MAGYAR NEMZETI BANK

The central bank of Hungary

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██████████
Mr Francesco Papadia
Director General Market Operations
Chairman of the Market Operations Committee
European Central Bank

Budapest, 10 October, 2008.

Dear Mr Papadia,

In recent days Hungarian financial markets and Magyar Nemzeti Bank faced severe disruptions to key segments of Hungarian forint money markets including the most important HUF/EUR and HUF/USD FX swap markets. Market participants (both Hungarian and foreign) lowered or even eliminated bilateral limits towards each other and the market virtually have come to a halt. As a reaction MNB will announce a special two-sided back-to-back FX swap tenders to intermediate between market participants to ease tensions in this market segment which is key to the functioning of Hungarian money and capital markets and is needed for both foreign and Hungarian participants to manage their HUF or FX liquidity.

Please find attached a short background note on the events and on the facility MNB will announce today and introduce next week. The aim of this note is two-fold. First to inform the ECB about the Hungarian situation and the measures taken by MNB and second to ask the ECB to consider providing ██████████ to MNB in order to be able to quickly signal to the market the lack of fundamental roots to this turbulence and to ease tension.

We are looking forward to hear a quick feedback and the views of the ECB on any possible ways our central banks could cooperate on this. From our side, the MNB representatives at the Market Operations Committee, ██████████ could be the persons to contact in any further operational communication.

Best regards,

Ferenc Karvalits
deputy governor