



[REDACTED]  
THE EXECUTIVE BOARD

14 October 2008  
**CONFIDENTIAL**

**POSSIBLE REPO AGREEMENT FOR FINANCIAL TRANSACTIONS BETWEEN THE  
ECB AND THE CENTRAL BANK OF HUNGARY**

Following a request made by the Magyar Nemzeti Bank (MNB), the possibility of establishing an agreement between the ECB and the MNB whereby the former would provide euros to the latter has been explored by the ECB's and the MNB's market operations and legal departments.

The aim of the agreement would be to provide the MNB with a facility to supply euro in order to support a foreign exchange swap facility whereby it will serve as a central counterparty in the foreign exchange swap market, intermediating between market participants through back-to-back foreign exchange swap tenders.

[REDACTED]

[REDACTED] On Friday 10 October, the Hungarian forint depreciated significantly, by around 7 percent against the euro, amid market rumours that a large Hungarian bank (OTP) was experiencing funding difficulties. Although the forint has appreciated against the euro since Monday 13 October, the situation in the Hungarian foreign exchange market remains fragile.

[REDACTED]

[REDACTED] The MNB has been informed about the ECB's preference for a repo facility over a swap facility. [REDACTED]

[REDACTED]

[REDACTED]  
[REDACTED]  
[REDACTED] The Executive Board favours a repo facility [REDACTED]  
[REDACTED]

The following remarks may be made as regards the possible follow up:

- a maximum amount of up to EUR 5 billion could be drawn by the MNB.
- the MNB has indicated that it would use the facility as a “first recourse” facility: the MNB would draw on the repo facility before using its reserves.
- if a decision was made to sign the agreement facility, it would be advisable, similar to what was decided for other swap agreements/repo facilities, to also decide to delegate responsibility for implementation decisions to the Executive Board member to whom the ECB’s Directorate General – Market Operations reports. This would include decisions to draw downs under the repo facility.
- the MNB has indicated that it would like to make public the existence of the agreement/ facility: it expects the positive signalling effect of this announcement to contribute to the credibility of the newly created MNB’s foreign exchange swap facility.
- in the case the agreement facility was activated and some euro amounts were drawn by the MNB, such amounts would be taken into account in the ECB’s liquidity management.
- in the case of the conclusion of an EMA **repo agreement** between the ECB and MNB, the ECB would outsource the settlement of the euro-denominated collateral delivered by MNB to [REDACTED]

[REDACTED]. [REDACTED]  
[REDACTED] The collateral to be delivered by MNB would take the form of German, French and Italian government securities.

**The Governing Council is invited to:**

- decide whether the ECB will agree to establish a repo agreement aiming at providing the Magyar Nemzeti Bank (MNB) with a facility to borrow euro in order to support a foreign exchange swap facility;**
- delegate to the Executive Board the responsibility for the finalisation, signature and implementation of a corresponding repo agreement, as well as [REDACTED], with the possibility that the Executive Board may further delegate this competence among its members;**
- approve that the MNB makes public the existence of an agreement with the ECB.**