

Economy protection measures

**Recent MNB measures to offset the
effects of the Covid-19 epidemic**

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To offset the economic downturn caused by Covid-19, the Hungarian Government announced a second package of actions on 7th April 2020. The detailed rules of this economic protection action plan will be included in the forthcoming Government Decree.



At the same time, the National Bank of Hungary (MNB) announced a number of comprehensive measures on 7th April 2020 to help protect and restart the economy. With these measures, MNB supports economic operators with cheap and stable source of funding.



In this newsletter, we summarize the MNB's comprehensive measures, and later we will present the five main areas of the second economic protection action plan, as well as the relevant changes in tax rules.



With regard to these topics, we will also make more detailed analyzes, which will be available on our usual platforms.

Decisions of the Monetary Council

3000 billion in total for economic protection

The Monetary Council based on its decision made on 7th April 2020 has adjusted its policy instruments and modified its operational framework. These changes will allow the MNB to provide liquidity to the major sub-markets and to influence monetary conditions in a targeted manner.

In 5 actions, the Central Bank will provide HUF 3,000 billion in new funds to protect and restart the economy, which amount corresponds to 6% of GDP:

- ✓ Raises the allocation amount by **HUF 1,000 billion** for the Funding for Growth Scheme Go!;
- ✓ Restructures the Bond Funding for Growth Scheme to provide an alternative way of raising funds more effectively for Hungarian large corporate segment;
- ✓ Pays a dividend of **HUF 250 billion** to the government budget;
- ✓ Leaves **HUF 250 billion** liquidity in the banking system after granting an exemption from the 1% reserve ratio (MC decision on 24th March);
- ✓ Launches a **HUF 1,500 billion** government bond and mortgage bond purchase program.

In addition to low-interest personal loans, the MNB will also introduce the Certified Consumer-Friendly Personal Loans similar to the previously introduced Consumer-Friendly Housing Loans.

Symmetrical interest rate corridor

The MNB decided to make the interest rate corridor symmetrical. The base rate and the overnight deposit rate remained unchanged at 0.9 percent and -0.05 percent, while the overnight and one-week collateralised lending rates are raised to 1.85 percent.

The interest rate on one-week deposit remains unchanged at 0.9%, however, it is allowed to deviate from the base rate upward or downward within the interest rate corridor. The acceptable amount of rate on the one-week deposit instrument is determined by the central bank each week at the time of the actual tender's announcement.

Central Bank instrument	Interest Rate	Previous Rate	Change	New Rate
Central Bank Base Rate		0.90%	No change	0.90%
Overnight Central Bank Deposit	Central Bank Base Rate minus 0.95 percentage points	-0.05%	No change	-0.05%
Overnight collateralised loan	Central Bank Base Rate plus 0.95 percentage points	0.90%	+95 bsp	1.85%
One-week collateralised loan	Central Bank Base Rate plus 0.95 percentage points	0.90%	+95 bsp	1.85%



MNB launches a government security purchase program in the secondary market to restore the stable liquidity position of the government securities market, and to relaunch its mortgage bond purchase program to improve the long-term supply of funding to the banking sector. The MNB plans to spend HUF 1,500 billion for this purpose, but the details of the programmes will be published later.



From Q2 2020 the Council will not set a target amount of banking sector liquidity to be crowded out of the instruments bearing interest at the base rate, which means a total of HUF 250 billion in liquidity, so the MNB has increased its room for monetary policy manoeuvre.

Small and medium-sized enterprises

The FGS Go! program will provide resources for SMEs for a wide variety of purposes. The central bank will increase the budget of the program starting on 20th April by **HUF 1,000 billion**, and including HUF 500 billion undrawn under the FGS fix, the MNB will make available up to HUF 1,500 billion of cheap and stable source of lending to the SME sector under the FGS Go!.

In terms of key parameters the new Scheme will be identical to the earlier phase of FSG. The MNB will continue to provide refinancing loans to credit institutions at a zero interest rate, and interest to be paid by SMEs will continue to be maximum 2.5 percent. The maximum amount of loan available for an SME will be **HUF 20 billion**, it can be used for the followings:

- Refinancing loans with maximum maturity of 20 years;
- Working Capital loans with a maximum maturity of 3 years;
- Pre-financing the financial support of European Union;
- Redeem earlier loans, in order to reduce their debt service burden;
- Acquisitions.

The time for banks to make **credit decisions** will be limited to **two weeks**, and if banks are unable to make a decision or reject the application, the MNB will ask another market participant to assess the loan, in order to ensure that funding is made available for companies as soon as possible.

Large Corporates

The Bond Funding for Growth Scheme will provide fund as an alternative to bank loans for potentially 200 **large domestic companies**.

The allocated amount will remain unchanged at HUF 450 billion, and over HUF 200 billion is still available, but some parameters of the program will change:

- MNB raises the Bank's maximum amount of exposure to a given group of corporations from HUF 20 billion to **HUF 50 billion**;
- MNB increases the maturities of securities eligible for purchase under the Scheme from 10 years to 20 years.



The Bank will sterilise the additional money created under the FGS Go! and BGS using the preferential deposit facility. As a result, the schemes are expected to have a neutral effect in terms of monetary policy.



The preferential deposit facility will bear tiered interest for a transitional period beginning from 4 May 2020 until the end of June 2021 and MNB will pay an interest rate of 4 percent, higher than the base rate, for additions to the stocks of loans and bonds made after 7 April 2020 under the FGS Go! and the BGS to encourage credit institutions to maintain their lending activity.

A KPMG Magyarország számára legfontosabb a kollégái és ügyfelei egészsége



1400 kollégánk otthonról dolgozik



Üzletfolytonosságunk, elérhetőségünk változatlan



Kiemelten támogatjuk ügyfeleinket – Covid-19 hírlevél és webináriumok

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