6,18 lz
6,81 low.

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Hungary: a change of heart?

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Monday is a sad day in many Magyar eyes – 4 June is the anniversary of the Treaty of Trianon, the post World War I agreement to settle central European borders that left rump Hungary short of two thirds of its former territories and large ethnic Hungarian-speaking minorities in most of the surrounding successor states.

Monday's good news, 92 years on, is that the forint recovered somewhat from eurozone jitters that sent it momentarily it beyond Ft307 to the common currency on Friday. By Monday afternoon it had recovered to about Ft302.

A weekend decision to make further changes to a law on the central bank to meet criticism from the European Union and European Central Bank was "partly" responsible for helping the forint recover, according to Ádam Keszeg, an analyst at Raiffeisen Bank in Budapest.

"The zloty and [Czech] koruna are all appreciating some, but not as much as the forint," he said, adding that the pressures on the Hungarian currency on Friday had apparently jolted the government into action to meet the concerns of Brussels and Frankfurt.

The EU, ECB and IMF have raised concerns that a central bank law passed at the end of last year threatens the bank's independence. The government has been reluctant to respond but the EU has made talks on a precautionary standby loan, requested by Hungary last November, contingent on certain changes, notably in defence of the governor's powers to influence monetary policy.

Peter Attard Montalto, of Nomura in London, wrote in a note that the weekend decision was "an important move".

> *We raised the prospect last week that last minute amendments could be added to satisfy the IMF, but didn't think the government's back was against the wall to get 'resolution' in this way so quickly. Clearly taking that step was too much and hence a delay and more talks instead!*

It also revealed that "jitters are rising in the government" regarding the eurozone crisis, he noted.

However, both Montalto and Keszeg said there was no hard evidence on when any changes would be pushed through parliament. Montalto warned:

> *It is hard to see what progress can be made with the IMF, as 5-party talks have been going on for some time already with no progress.*

Both analysts cited hard-line statements last week by Viktor Orbán, the Hungarian prime minister, on the government line regarding the EU and ECB demands.

"It was quite surprising last week, to me, that Mr Orbán was so honest. He said that the tactics of their politics is to do as little as possible from the wish-list of the EU and IMF," Keszeg said.

For Montalto, the government needs "a change of heart" on the contentious parts of the central bank law – but the Orbán government is not famous for such changes.

> *Our baseline is unchanged, that the MNB act changes occur at some point when forced to do so by the market. We are not at that stage yet, but nearing it. More talks however signal some delay and potentially another hand in the Turkey card came being played.*

However, the Greek, Spanish and other negative developments in the eurozone are likely to "get bad enough, fast enough," to force Hungary into talks, with a deal ready by the end of September, Montalto argues.

"Today's news is therefore an important step towards that," he concludes.

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