



What Clients Asked This Week | Dec 12, 2018

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ARMENIA

External financing needs in 2019

Armenia | Nov 29, 07:40

Question:

I was wondering whether you have a breakdown of Armenia's external financing needs for 2019 as well as planned financing sources.

Answer:

Armenia's budget for next year foresees AMD 151bn (around USD 310mn) deficit. About 35% (AMD 54bn) of this should be covered by domestic borrowing, which leaves AMD 97bn (about USD 200mn), to come from external sources. We expect these to be mainly loans. In addition, the public debt (principal) to be repaid in 2019 is USD 245mn.

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AZERBAIJAN

External financing needs in 2019

Azerbaijan | Nov 29, 07:41

Question:

I was wondering whether you have a breakdown of Azeri external financing needs for 2019 as well as planned financing sources.

Answer:

Azerbaijan's 2019 state budget sets AZN 2bn (USD 1.2bn) deficit. To cover that amount, the government has set a limit for domestic borrowing at AZN 500mn and for external borrowing at AZN 1bn. Also, debt

serving costs next year are expected to equal AZN 1.58bn (USD 928mn). This brings the total figure up to about USD 2bn. The government has also put an upper limit on state-guaranteed debt for 2019, which is AZN 4bn, which usually is a just-in-case figure.

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CROATIA

Conflict of interest of FinMin Maric

Croatia | Dec 07, 14:07

The question originally referred to this article: [Maric found to have violated principle of holding public office in Agrokor case](#)

Question:

Please could you kindly direct me to the official source stating 'Maric was found to have violated the Conflict of Interest Prevention Act'?

Answer:

Unfortunately, the [Conflict of Interest Commission](#), has not published this decision. The sources for the story were different media -- <https://www.total-croatia-news.com/business/32813-agrokor>, <http://hr.n1info.com/English/NEWS/a352841/Commission-Dalic-and-Maric-violated-principle-of-holding-public-office.html>.

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CZECH REPUBLIC

Comment of CNB's Holub on CZK's overvaluation

Czech Republic | Nov 30, 14:49

The question originally referred to this article: [CNB to move to another 25bp hike in December on weak CZK, tight labour market](#)

Question:

Could you please clarify the comment by Holub on the overvaluation of the CZK. How does this reconcile with the CNB projection for the exchange rate?

Answer:

What Holub meant was that the CZK should have appreciated notably more than it currently has as a result of the CNB's monetary tightening. However, as market sentiment remains negative, it has delayed

the appreciation that should have happened. Holub suggested that appreciation should come later in 2019 when asked specifically about this in November.

Regarding the second part of your question, the short answer is that it doesn't. We saw a similar question being asked at the two latest meetings with analysts (in August and November) and both times Holub didn't offer a satisfactory answer. The only comment we've seen thus far is that the weaker CZK remains a temporary phenomenon, not triggered by fundamental factors, so it should eventually converge to the CNB forecast. Holub did say that the CNB's exchange rate model was currently being reassessed, but he was vague on when we can expect results - possibly not before the spring of 2019.

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Czech banks involved in money laundering

Czech Republic | Nov 23, 07:57

Question:

I'd like to find out which Czech banks may have been implicated. Are you aware of any publication by the CNB that would show the market share of Czech banks in cross border activities or their activities with Estonia or Estonian counterparts?

Answer:

We are afraid the CNB doesn't provide a geographical breakdown on financial transactions. The only data with a geographical breakdown is current account and direct investment series. However, the ECB provides data on payment statistics within the EU, unfortunately with a fairly limited scope - only annual and for the 2015-2017 period. Here is a table with the data we extracted, there is a link to the public database below. We used the broadest scope possible (all transaction types, etc.), just to be on the safe side.

We are aware this is not quite what you want, but we are afraid this is the only information that is publicly available that we can provide. If you want to get access to individual bank transactions, however, we don't believe you will get it with anything less than a court order, as these usually fall under bank secret rules. The CNB certainly has that data, but it is not obliged to provide it to the public.

We have also perused the local press, it has reported the Bloomberg story, but there are no speculations yet which Czech banks might be involved.

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GEORGIA

External financing needs 2019

Georgia | Nov 30, 08:31

Question:

Do you have a breakdown of Georgia's external financing needs for 2019 as well as planned financing sources?

Answer:

The 2019 draft budget foresees GEL 1.1bn (USD 425mn) total deficit (operating balance-change in non-financial assets). There aren't many details available yet regarding the financing of the budget deficit, but we know that the government plans to issue GEL 500mn domestically next year. As far as debt repayment is concerned, Georgia must pay back USD 37mn to the IMF in 2019. The draft budget also sets GEL 1.2bn aside for foreign debt serving next year and about GEL 300mn for domestic debt, though it isn't clear how much of that would cover the principal. The government could also opt to cover the USD 500mn 10-year Eurobond from 2011 early.

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HUNGARY

Financing needs and plans of Hungary for 2019

Hungary | Nov 30, 11:47

The question originally referred to this article: [Budget deficit reaches 123.3% of full-year target in Jan-Oct](#)

Question:

Can you please send me Hungarian financing needs as well as the financing plan for 2019?

Answer:

The budget financing plans for next year are not announced yet. We expect the official financing strategy to be unveiled around mid-December. As a guideline, however, the cash budget deficit next year is planned at 1.8% of GDP and the State Debt Management Agency (AKK) data shows estimated central government debt expiries of 14.0% of GDP.

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Outlook on regulated energy prices in Hungary

Hungary | Nov 30, 11:46

The question originally referred to this article: [Underlying inflation moves decisively up in October](#)

Question:

Are there going to be any changes in administered prices in Hungary at the start of 2019? Regulated prices of electricity/gas (or distribution prices at least)? Should I expect inflation to edge higher on those "technical" factors in January 2019? There is a hike in prices expected in PL and CZ.

Answer:

There are no plans for hikes in the regulated energy prices in Hungary. The regulated energy price cuts were a cornerstone of the ruling Fidesz policy early in its previous mandate and we think the party is keen not to backtrack on its family-friendly policy image. It should be noted that Fidesz came under pressure in the past couple of years when oil prices fell significantly - opposition parties argued that energy price were not reduced further and the now state-owned utility sector reaped large profits. In this background, it is highly unlikely that Fidesz would allow an increase in energy prices now that global oil prices have recovered somewhat. This issue does not stay on the government's agenda in any way, we have not heard any mention of possible price changes in either direction from government and Fidesz representatives in the local media.

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ROMANIA

Debt issuance in Romania in December

Romania | Dec 03, 13:33

Question:

Can you provide an update on the debt issuance schedule with an updated link?

Answer:

Below is a table with the finance ministry's issuance plan in December:

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Debt issuance in Romania in December

Romania | Nov 30, 11:09

Question:

Can you provide an update on the debt issuance schedule with an updated link?

Answer:

We are afraid the finance ministry hasn't published the issuing schedule yet. We checked that legislative database we use and the latest publication is the one for issuance in November. Today is a public holiday

in Romania, which is probably why they haven't done it yet. We expect that the finance ministry will most probably publish the issuing schedule on Monday.

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RUSSIA

Overview of fiscal rule

Russia | Dec 03, 12:39

The question originally referred to this article: [Parliament approves budget 2019 in second reading](#)

Question: Could you please give me a quick overview of how the Russian fiscal rule works and what is the formula that sets how much the Treasury buys from the CBR for reserves as a function of oil prices?

Answer: The fiscal rule limits non-interest federal budget expenditure to the sum of non-oil revenues + oil revenues at the benchmark oil price + 0.5% of GDP (for 2019). This means that the budget should post a primary deficit of 0.5% if the oil price were equal to the benchmark price. The benchmark price is USD 40 for 2017, indexed with US inflation after that. This is pretty conservative, so the rule limits spending and the budget is running a surplus at current oil prices. Additional oil revenues (compared to revenues if the actual oil price were equal to the reference price) are used to buy forex from the CBR. Each month the FinMin gives an estimate of the additional oil revenues in the next period and corrects this with the error from the previous period. The effect of oil prices is pretty easy to estimate, because budget revenues at month t depend on oil prices at month $t-1$. The error comes primarily from the exchange rate forecast and to a lesser extent variations in the volume of oil&gas production.

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SERBIA

Financing needs in 2019

Serbia | Nov 26, 07:58

The question originally referred to this article: [Draft budget sets 2019 financing needs at RSD 635.6bn](#)

Question:

Are the 2018 numbers referred to what was planned for 2018 or what was executed in 2018?

Answer:

The 2018 numbers are from the 2018 budget law, not actual execution. Actual borrowing needs will be much lower in 2018 due to fiscal over-performance. Thus far into 2018 (as of the end of last week), the

government has borrowed RSD 292.9bn in dinar and EUR-denominated notes, according to our calculations based on finance ministry data. Serbia has not issued any Eurobond this year.

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TURKEY

Banks' money swap purchases and net open FX position

Turkey | Dec 07, 15:39

The question originally referred to this article: [CBT reduces swap auction amount by USD 250mn to USD 750mn](#)

Question:

Do you know where i can find banks's net money swap purchases in FX? Do you know where i can find banks' net open FX position?

Answer:

Please find attached the latest available data (2018/10) you requested. The attached tables are by Turkey's banking watchdog BDDK. Note that the BDDK provides data on FX position of the banking sector and its liquidity position (including derivative transactions in detail) only in TRY terms. Accordingly, the sector's net general FX position was in surplus worth TRY 15.1bn at end-October.

You can access further data on the Turkish banking sector via [the BDDK's Interactive Monthly Bulletin](#).

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Estimate of FX pass-through for inflation in Turkey

Turkey | Dec 05, 16:09

The question originally referred to this article: [Underlying inflation trend slows in November net of effect of tax cuts – CBT](#)

Question:

What is your estimate of the FX pass-through for the inflation in Turkey?

Answer:

Below are the key finding of an [Aug 2017 analysis by the CBT economists](#) on this issue, encompassing the post-2005 period. Please find the Jul 2018 expanded version of the respective study [here](#).

"A 10% depreciation of the lira against the exchange rate basket (USD 0.5* + EUR 0.5*) causes a 1.6pps increase in inflation at the end of the first year and a 1.7pps rise at the end of the second year. Around 40% of the pass-through is completed in the first quarter and 80% - in the third quarter."

We should, however, note that in its recent evaluations in the wake of the currency crisis, the CBT observed a stronger and speedier exchange rate pass-through on inflation than historical trends without specifying an exact rate. CBT governor Murat Cetinkaya interpreted the development as signalling a front-loaded deterioration in pricing behaviour in a late-October speech.

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UKRAINE

Metal, grain exports through Sea of Azov ports

Ukraine | Nov 27, 13:12

Question:

Can you tell me how much of grain exports, how much of steel (and related) exports and how much of total exports go through ports on the Sea of Azov?

Answer:

There are two Ukrainian ports there, Mariupol in Donetsk province and Berdyansk in Zaporozhye province. The following info is from the journal Ports of Ukraine for 2017:

Mariupol: total loads down 14.3% y/y to 6.5mn t (incl. 5.5mn t of exports), share in total Ukrainian ports shrank to 4.9% from 5.7% in 2016. Ferrous metals: 4.5mn t; grain: 0.5mn t

Berdyansk: total loads down 36.9% y/y to 2.4mn t (incl. 2.2mn t of exports), share in total down to 1.8% from 2.9%. Ferrous metals: 335,000 t ; grain and related 1.1mn t (incl. 640,000 t of grain).

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EGYPT

CBE regulation on banks' net FX position limits

Egypt | Nov 30, 13:31

Question: Do you know what is the CBE regulation in respect banks' net FX position limits?

Answer: In a circular dated Nov 28, 2017, the central bank mandated that a bank's long position in any single currency must not exceed 10% of its capital base, while total long positions in all currencies must not exceed 20% of the capital base. Similarly, a bank's short position in any single currency must not exceed 10% of its capital base, while total short positions in all currencies must not exceed 20% of the capital base. The new rules came into effect on Dec 1, 2017.

Here is the [link to the circular](#) (Arabic only).

Separately, we have found regulations on liquidity coverage ratio and the banks' liquidity requirements:

Banks are required to comply with a liquidity ratio of not less than 20% on the local portion of deposits and 25% in respect of the foreign portion. In order to prepare for the implementation of certain elements of Basel III, in July 2016, a new regulation on liquidity risk was issued, which requires banks to comply with two new ratios: a liquidity coverage ratio ("LCR") and a net stable funding ratio ("NSFR") of 100% in local and foreign currencies. According to the timetable set by the Basel Committee, the NSFR shall become effective immediately, while the minimum LCR requirement was 70% in 2016, increasing to 80% in 2017, 90% in 2018 and 100% in 2019. As of June 2018, the banks' LCR in foreign currencies was 235% and the NSFR for foreign currencies was 165%.

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