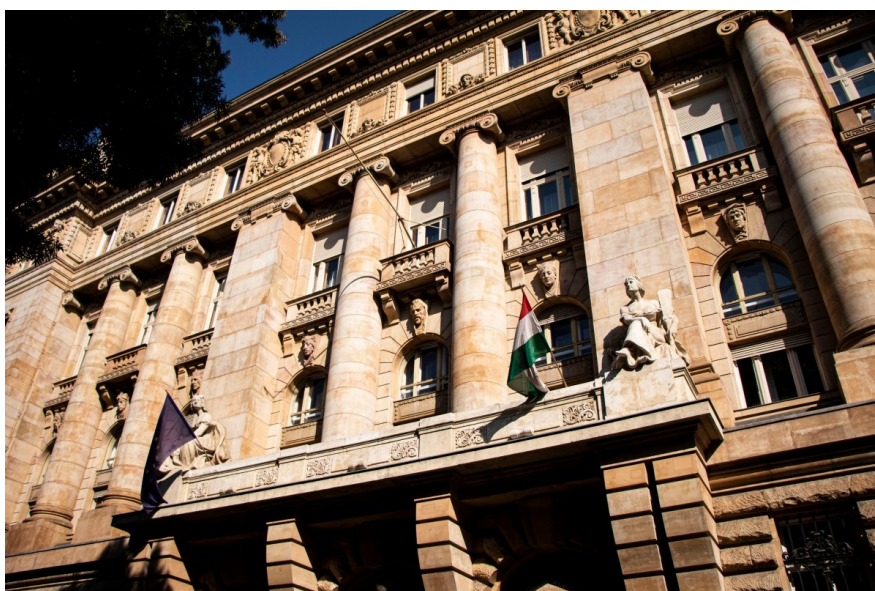


## National Bank of Hungary Preview: Sensitivity of forint leaves no choice

The recent turmoil in financial markets has proven that the forint remains extremely exposed to sell-offs. In such an environment, we see no realistic chance of the Hungarian central bank making any substantive changes to its policy set-up. We see an all-around status quo; thus, the patience game continues



The National Bank of Hungary in Budapest

# 13%

ING's call

No change in the base rate

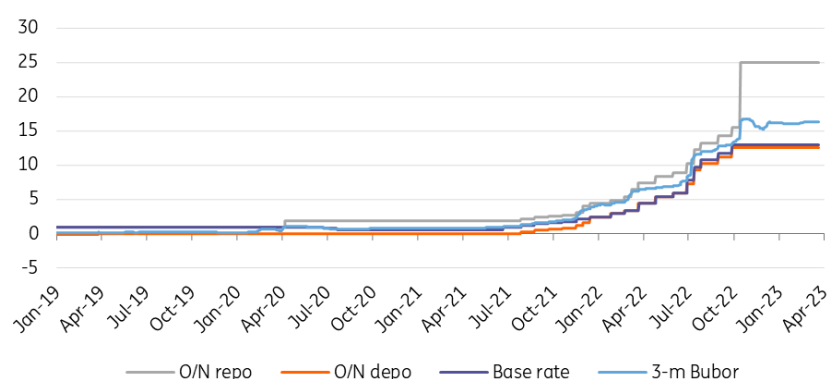
### The rationale behind our call

Up until the 13 March bank distress in financial markets, the situation had been quite encouraging. General risk sentiment improved, thus the forint reached multi-month strong levels. Inflation peaked, and the current account and trade account balances showed marked improvements. It was too good to be true. If the National Bank of Hungary had started to dream about any early

signalling of an upcoming pivot, the distress put an end to those hopes, in our view.

In general, the improvement in fundamentals is in one pan of the scale, whereas fragile market stability and still high uncertainty regarding the EU funds are in the other. According to our assessment of the situation, and considering the vulnerability of the forint, any talks about an upcoming rate cut will be quite premature and expose the local currency to yet another sell-off. Against this backdrop, we see an all-around status quo at the upcoming meeting on 28 March: no change in rates, only incremental revisions in the central bank's forecasts and unchanged (hawkish) tone of the forward guidance.

## The main interest rates (%)

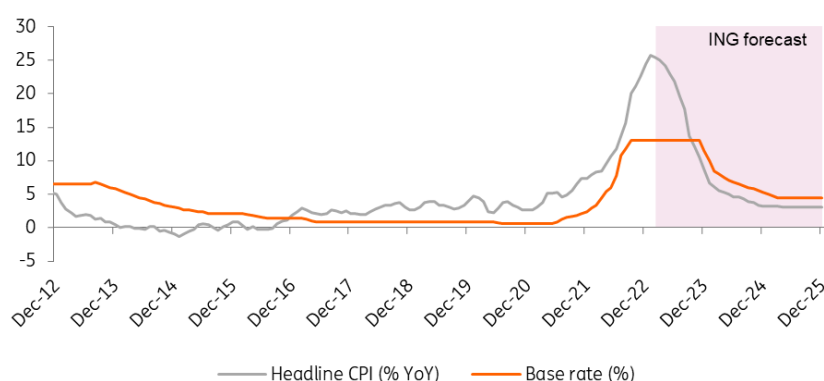


Source: NBH, ING

As the recent habit of the central bank is to present range-bound forecasts, we hardly see the upcoming update to the staff projections as a game changer. We are going to know the revised activity and inflation forecast right after the rate-setting meeting, while the complex and updated assessment of the economic outlook will be released on 30 March in the new Inflation Report.

The extreme wide forecast band in inflation bordering on incomprehensibility means there is no need for an update. We see the central bank sticking to the 15.0-19.5% forecast range in 2023, which is in the vicinity of a “no clue” or an “anything can happen” forecast. Due to this range, we would be quite surprised to see a change to the 2024-2025 forecasts either. The recent volatility and gloom might lead to a no change in the 0.5-1.5% GDP growth forecast in 2023 as well, or maybe a widening to the range from the lower end is possible. With respect to later years, we don't think that the NBH will change anything in its GDP forecasts.

## ING's inflation and base rate forecasts for Hungary



Source: NBH, ING

Maybe the most exciting circumstance is the looming personnel changes in the nine-member Monetary Council. The six-year term is coming to an end for two members (23 March and 6 April) and their replacements will be appointed by the government based on law. Some members of the Council are appointed by the Governor of the central bank, while others are by the Prime Minister. Those two expiring positions fall under the latter's decision-making power.

Both new candidates (Dr. Éva Búza and Zoltán Kovács) are familiar with the banking sector, thus their nomination cannot be professionally questioned. As their predecessors had ties to the government, it hardly comes as a surprise that the new members have ties as well. What makes the situation delicate is that nowadays there is a rift between the government and the leadership of the National Bank of Hungary.

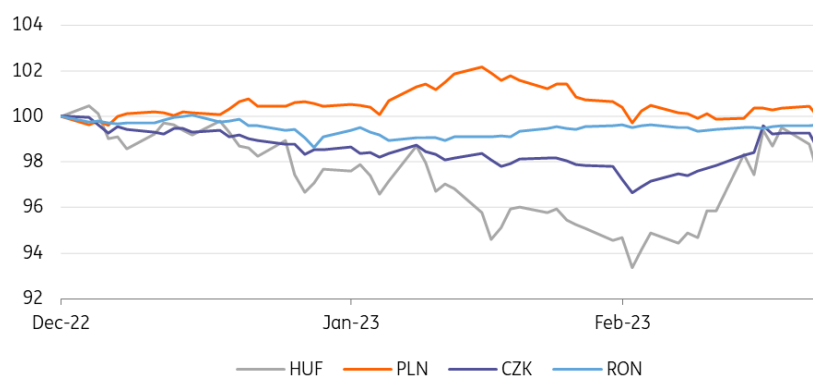
As a practical matter, only one member's mandate will expire before the March rate setting meeting and the window is quite tight to a hearing and appointment procedure. Thus, we see this ongoing replacement procedure as a non-event respective to the upcoming decision.

At the same time, the April rate-setting meeting will take place with a new composition. Whether it would mean any change to the past seven years' experience (unanimous decision making) remains to be seen. The hearing process will give us a nice preview to what we can expect, as new members will have an opportunity to publicly speak about their views on policy making. If we see the new members leaning towards the 'cut camp', even this might be not enough for a sudden change in the monetary policy set-up. But such pitches should be enough to generate yet more turmoil in the HUF market. So, buyers beware.

## Our FX and rates call

The Hungarian forint has maintained the highest beta against the global story, which, assuming favourable global conditions, creates room for a significant recovery. We believe the recent sell-off has cleared the very heavy long positioning that previously blocked further forint appreciation. The renewed rally is also supported by the energy story with the gas price testing new lows. Moreover, by far the highest carry within the Central and Eastern Europe (CEE) region will once again attract investors to the HUF market, in our view. Next week's NBH meeting may thus remind the market that the central bank is in no hurry to cut interest rates and kick-start new gains for the forint.

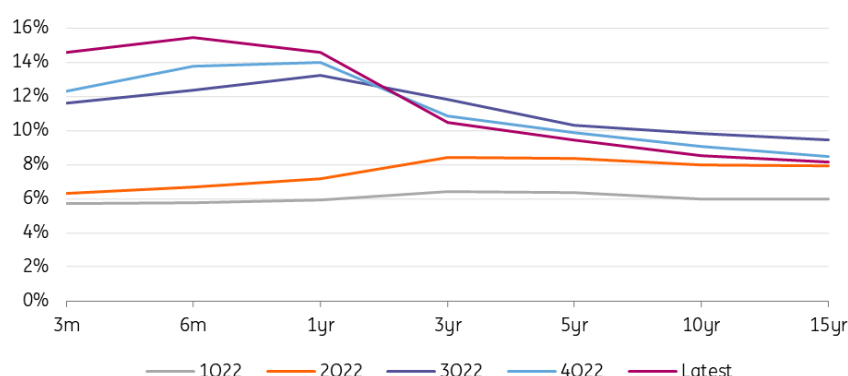
## CEE currencies vs EUR (end 2022 = 100%)



Source: NBH, ING

On the other hand, the situation is very fragile, and the forint is sensitive to any turbulence in the global markets. On top of that, also on the local side we could potentially see some negative headlines coming from the EU story in coming weeks. So overall, the forint together with the Czech koruna are our favourite currencies in the current market conditions, but we see that the koruna offers a better risk/reward ratio at the moment.

## Hungarian yield curve



Source: GDMA, ING

On the bond side, funding appears fully under control for the first quarter. The debt management agency (ÁKK) has covered about 23% of all planned Hungarian government bonds (HGBs) for this year since the beginning of the year, according to our calculations, lagging a bit behind CEE peers. On the other hand, FX (71%) and retail issuance (34%) remains a funding strength. On the fiscal side, February's state budget numbers show risks of a higher deficit but for now we believe the government will manage to keep the deficit under control. Thus, as with the forint, the main risk remains the government's dispute with the European Commission and above that weaker bond market liquidity compared to CEE peers. On the other hand, looking at the HGBs spread against CEE peers, we consider HGBs to be cheap with high potential for a rally if risks do not materialise.

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