Hungary: Sweet nothing

The NBH left interest rates unchanged again, for the 23rd time in a row. The key message remains the same: the NBH is still in a loosening mode

The April National Bank of Hungary (NBH) rate setting meeting came and passed without bringing any excitement. The base rate and the interest rate corridor were left unchanged, in line with expectations. The key interest rate is at 0.90%, meanwhile the O/N deposit is -0.05% and O/N collateralised loan is 0.90%.

In its press release, the NBH pointed out that “there has not yet been any significant upward pressure on inflation from wages” and according to its current projection “the consumer price index will remain in the lower half of the tolerance band in the coming months”. In line with this, the MPC emphasised, that “over the medium term buoyant domestic demand and the increase in wage costs will point to an increase in domestic core inflation”. The NBH still sees inflation reaching the target sustainably by the middle of 2019.

The NBH highlighted: “the Bank will continue mortgage bond purchases and the monetary policy interest rate swap facility as programmes, continuously and for a prolonged period”. Besides, the NBH considers “the Bank’s mortgage bond purchase programme to be successful.” Under the programme, the NBH purchased mortgage bonds with a nominal value of some HUF150bn up to the middle of April. As a result of the Bank’s mortgage bond purchase “the decline in financing costs encouraged issuance in the primary market, thereby facilitating the increase in fixed-rate lending".

The NBH also kept unchanged the emphasis that it is focusing "on the relative position of domestic long-term yields relative to international yields when evaluating the programme".

The forward guidance also remained unchanged, suggesting a prolonged dovish bias: "maintaining the base rate and the loose monetary conditions at both the short and long ends for an extended period is necessary to achieve the inflation target in a sustainable manner". The press release also left the last sentence totally unchanged as the Council "will ensure the persistence of loose monetary conditions over a prolonged period by using the extended set of monetary policy instruments".

Author

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com