Hungary: The art of doing nothing by the NBH

The NBH left interest rates unchanged, echoing the same message focusing on the relative position of domestic long-term yields relative to international yields

On the rate setting decision

As expected, the February rate setting meeting of the NBH proved to be a non-event. The MPC left the base rate and the interest rate corridor unchanged. The base rate has been at 0.90% for 21 months, meanwhile the O/N deposit is -0.05% and the O/N collateralised loan is 0.90%.

The NBH on the inflation and its new toolkit

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 level off at the bottom edge of the tolerance band in the first months of 2018". In line with this, the MPC emphasised, that "over the medium term buoyant domestic demand, the increase in wage costs, as well as the second-round effects resulting from higher commodity prices will point to an increase in domestic core inflation." The NBH still sees inflation reaching the target sustainably by the middle of 2019.

Regarding the its new toolkit the NBH highlighted: "the Bank fine-tuned the details of the programme to achieve more effective monetary transmission, as a result of which tenders held in February were in line with the Bank's aims". The NBH also emphasised that it is focusing "on the relative position of domestic long-term yields relative to international yields when evaluating the programme".

The only interesting change in the press release, that the NBH dropped the sentence referring the role of its new toolkit in increasing the share of loans with long periods of interest rate fixation.

The forward guidance

As regards its forward guidance, it is still suggesting a prolonged dovish bias: "maintaining the base rate and the loose monetary conditions at both 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".

What's next

The focus now can shift to the MIRS tender on Thursday. The main question remains whether the NBH is ready to react to market turmoil or will it keep the fixed rate at the same level (0.46% for 5yr and 1.17% for 10yr) giving a higher discount than on 15 February. In our view, the NBH won't change the price, showing more willingness to anchor rates.

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