

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



A potential dovish shift hasn't been entirely ruled out for the NBH moving forward, but much will depend on both upcoming data and the ways in which the risk environment evolves

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.

Author

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.