Hungarian central bank's slow-burning QE

The central bank has kept rates on hold but decided on a financial stability focused QE programme. The not so aggressive bond-buying and the still elevated front-end rates point to HUF stability, with EUR/HUF staying around 360

The Széchenyi Chain Bridge in Budapest (Pixabay)

Source: Pixabay

What the central bank said and did

The central bank decided to leave interest rates unchanged after unexpectedly hiking rates just three weeks ago. Interest on overnight and one-week collateralised loans are at 1.85%, while the O/N deposit facility stands at -0.05% with the base rate sitting in the middle of the interest rate corridor at 0.90%.

But there were some details about the government bond purchase programme. As expected, this isn't aggressive QE, but more of a financial stability focused programme. The central bank will continue bond-buying until the economy needs it but will have a technical review once it reaches HUF1tr in size. The planned weekly buying is around HUF100bn.

The central bank will buy both at a regular weekly tender and directly on the secondary market if needed, providing flexibility to maintain financial stability. In line with the European central bank's practices, the amount of any securities series to be purchased may not exceed 33% of stocks outstanding. The focus will be on longer-dated bonds.

The Bank will also restart its mortgage-bond purchase programme with broadly identical strategic parameters to those in 2018. The technical review milestone is set at HUF300bn.

In the economic assessment part of its statement, the Bank highlighted uncertainty levels and noted that incoming data has started to reflect the economic impact of the pandemic. On the other hand, MPC members highlighted that the latest projections by large international organisations include Hungary among the most resilient economies.

When it comes to the price changes, the central bank expects inflation to drop and stabilise around 3% in coming months.

The Bank reassured that it is continuously assessing incoming data and changes in outlook, and will use every instrument at its disposal to achieve price stability and support the Hungarian economic and financial system.

What we make of it all

The bond-buying programs isn't overly aggressive and in line with our view of financial stability focused QE.

HUF 1,300bn is just around 3% of GDP, vs the National Bank of Poland's QE of around 8% of GDP. On a relative basis, this is not overly aggressive and confirms that currency consideration is a crucial factor in setting the monetary policy stance (following the HUF sell-off this year). The central bank will perform a technical revision when stock increases reach HUF1,000bn in Hungarian government bonds and HUF300bn in mortgage bonds, but we expect cautious increases taking into account the HUF outlook.

This is relatively good news for the HUF as limited QE along with the elevated front-end rates (at least when compared to PLN and CZK) should keep the currency stable. The credible threat of rate hikes should also prevent HUF from weakening. We expect EUR/HUF to stay around/below the 360 in the coming months.

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