Hungary: The last stop before policy normalisation

The central bank has left monetary policy unchanged, but reiterated its hawkish stance. Underlying inflation will clearly overshoot the target by the next rate-setting meeting, so the National Bank of Hungary needs to start normalisation

26 March

The next NBH rate-setting meeting

The expected start date of policy normalisation

Mr Matolcsy, the recent (and also the next) governor of the central bank ended his first tenure without any fireworks, as the National Bank of Hungary (NBH) left the base rate and the interest rate corridor unchanged in its February meeting, as expected. Despite the no policy change, the statement gave us the same, clear signals that policy normalisation is around the corner. We believe that the above-3% core inflation excluding taxes (core CPI ex-tax) combined with the new Inflation Report (including the latest staff projections), as well as the opportunity to change the amount of crowded-out liquidity for 2Q19 will provide more than enough incentives for the central bank to start the policy normalisation in its March rate-setting meeting.

In its press release, the NBH yet again pointed out that now it “pays even more attention than usual to developments in the measures of underlying inflation capturing persistent trends”. As we noted previously, the key measure here is the core CPI ex-tax, which “is likely to rise above 3 percent in the coming months, and then stays close to 3 percent over the monetary policy horizon”.

The Monetary Council has not missed the opportunity to highlight again “the downside risk to the external inflationary environment”, which “continues to suggest a more cautious approach”. However, as the statement pointed out in the totally unchanged forward guidance, the “probability of core CPI ex-tax rising above 3% has increased”, so we believe that despite the external risk, the NBH is ready to start the tightening cycle or as the press release reiterated yet again: “the Monetary Council is prepared for the gradual and cautious normalisation of monetary policy”.

> Against this backdrop, barring any significant downside surprise in the underlying inflation indicators in the coming one month, we see the NBH starting policy normalisation at its next meeting on 26 March. The Monetary Council will be headed by the old-new governor who will start his second term with a really interesting rate-setting meeting.

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