Hungary: The NBH sits on its hands

Unsurprisingly, the NBH left interest rates unchanged, echoing the well-known messages from its playbook. The GDP forecast was revised upwards

The NBH is like an open book when it comes to rate setting meetings. The March MPC meeting passed with the base rate and the interest rate corridor unchanged, as expected. The base rate has been at 0.90% for 22 months, 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, 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 the inflation reaching the target sustainably by the middle of 2019. Against this backdrop, the central bank did not alter its CPI forecast for 2018-19, leaving it at 2.5% and 2.9%, respectively, however its GDP call revised upwards, projecting 4.2% and 3.3% economic activity in 2018-19, respectively.

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”. 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 Monetary Council set the maximum stock of monetary policy interest rate swaps in the first half of 2018 at HUF600billion".

The forward guidance remained unchanged, suggesting 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”.

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