

National Bank of Hungary Review: Keeping the gunpowder dry

The National Bank of Hungary repeated its “whatever it takes” stance at its last rate setting meeting in 2022. Moreover, it added a bit more hawkish flavour to its forward guidance, possibly due to the upgraded 2023 inflation outlook. The reinforced hawkishness might help EUR/HUF visit the sub-400 area in 2023



The National Bank of Hungary in Budapest

"Whatever it takes" stance remains with a hawkish twist

The National Bank of Hungary decided to maintain the monetary setup as it is when it gathered for the last time in 2022. This means no change in the regular overnight deposit rate at 12.50%, the base rate at 13% and the overnight repo rate at 25%. According to the Monetary Council's assessment, maintaining the current level of the base rate for a prolonged period is consistent with the achievement of the price stability objective over the monetary policy horizon.

Although the policy setup behind the central bank's “whatever it takes” hawkish approach did not change, the Monetary Council was able to add a little bit more hawkish flavour to its communication. The most important change in the forward guidance that “the Council is

constantly assessing incoming data and developments in the outlook for inflation and is ready to take appropriate actions if risks increase". Despite the central bank identified a balanced risk sentiment, it gives more probability to risks which might push inflation higher than expected.

Mainly this type of uncertainty led the central bank and its staff to present an unusually wide range for its inflation forecast in 2023. After a significant upward revision to its short-term inflation outlook, the NBH sees inflation somewhere between 15.0-19.5% year-on-year on average next year. If incoming price pressure data during next year will prove that the full-year reading might be closer to the upper band, we think the NBH will need to reinforce its hawkish stance with some measures mainly affecting (e.g., tighten further) the forint liquidity in the banking sector.

The Monetary Council remains hopeful that the Hungarian economy will be able to muddle through next year with a positive real economic activity thanks to the export sector. We are a bit less optimistic as we expect a 0.1% GDP growth vs the NBH's 0.5-1.5% forecast in 2023. Despite the improved export outlook and the expected narrowing of the current account deficit, the NBH decided to continue to meet foreign currency liquidity needs to reach a market balance related to the energy account, and protect HUF against volatility from this source.

The central bank also pointed out that recent developments in the current account balance or in the EU funds or global inflation are not nearly enough to think about changing tight monetary conditions. The Monetary Council wants to see a trend improvement in risk perceptions, thus it adopts a patient approach. This strengthens our view that temporary, targeted measures and the 18% marginal rate will remain with us through the first quarter of next year. By then, we might see the much-needed trend improvement in local and global risks, reducing risk aversion and improving market sentiment adequately to start approaching the 18% marginal rate to the 13% base rate with gradual steps.

FX and rates markets reaction

The market reaction after the end of the press conference suggested that the market took the NBH's commitment to keep rates high for longer seriously. The entire IRS curve went up with a steepening bias. However, the already high levels at the short end of the curve, in our view, will not allow a significant upward movement, while record inflation in the coming months will also not allow a significant normalisation. Higher inflation caused by the lifting of fuel caps should already be priced in. Thus, market focus should shift to NBH rate normalisation later in the first quarter of 2023 and we should see a significant move down in the short end of the IRS curve. Our steepening view thus remains unchanged after the December rate setting meeting.

The recent meeting strengthened the positive direction of the forint in our view. NBH managed to maintain or even strengthen the hawkish market sentiment, which should at least keep the current momentum of the forint. In addition, the NBH extended the programme of providing hard currency to energy importers for the next months, which is another positive news for the forint, delaying some of the selling pressure on the domestic currency. Beyond the NBH meeting, conditions are also positive for the forint at the global level. Gas prices, which have been driving CEE FX again in recent days, are heading lower and implied rates in Hungary, on the other hand, are again near record high levels providing a shield for potential selling pressures. Overall, we thus remain bullish on the forint and expect further appreciation towards 400 EUR/HUF by year-end and below this level next year.

Author

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@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 www.ing.com.