

National Bank of Hungary review: Sticking to the script

The National Bank of Hungary continued its normalisation cycle in July. The 100bp cut to the effective rate matches consensus. The emphasis remains on cautiousness and graduality, while the NBH underscored predictability too. The latter means that easing will continue at the previous pace if market stability prevails



The National Bank of Hungary in Budapest

The National Bank of Hungary did not change the pace of normalisation in July, and thus cut the overnight collateralised lending rate (top end of the rate corridor) by 100bp to 17.5%. More importantly, the central bank announced that from 26 July, the interest rate of the overnight quick deposit tender will be lowered to 15%. This means a 100bp effective rate cut. A similar sized change is coming to the interest rate of the overnight FX swap tender. In general, the changes in the rates were well-telegraphed in advance, making no waves in the summer lull, matching our [preview](#) as well.

Going through the press release and listening to Deputy Governor Barnabás Virág, we feel that the most important goal of the central bank was to convince market players that predictability stands

above everything. Predictability translated into practice means that the pace of interest rate cuts remains unchanged. Thus, a lower-than-expected inflation print won't change the central bank's mindset. In our view, monetary policy is now like an "on/off switch". If market stability prevails, then the NBH will cut the rate by 100bp. This can be seen as a clear hawkish message in a disinflationary environment. The importance of the message is clear as this is the only new element in the July forward guidance.

The National Bank of Hungary made it clear once again, that price stability and market stability are separated. The recent stage of monetary easing is focusing on and driven by market stability. Thus, the main policy tools in this stage are the overnight tools, mainly the quick deposit facility which plays the role of the effective rate. Any decision regarding the base rate will come only after the convergence of the effective rate and the base rate. In this regard, the NBH did not talk about the base during this meeting.

Based on the commitment just made by the central bank, this convergence is due at the September meeting at 13%, barring a major market turmoil. Along with the convergence, we can have answers to the single most important question in late September: what's next? As the central bank will step into a new phase of easing with the convergence, we could see a reshaped monetary policy set-up with a new (and probably longer-dated) effective instrument succeeding the overnight tools. But regardless of the identity of the main instrument, the effective rate and the base rate will move in parallel, according to our expectation.

The September rate setting meeting will be also key due to the new Inflation Report, containing the updated inflation outlook of the central bank. The new forecast will give the hinterland for the NBH to decide about and maybe reveal its master plan regarding the next phase of the easing. In the spirit of cautiousness, our base case scenario sees a verbal signalling in September about the upcoming new phase, continued with a symbolic step in October. With that the symmetry of the interest rate corridor will be reinstated, lowering the whole corridor by 100bp, but leaving the base rate unchanged. Then the first change to the base rate comes in November, starting the series of 100bp cuts, in our view.

Our market views

Today's meeting did not bring much new for our view, and it seems that today's NBH assurance that the cutting cycle will not be accelerated is not surprising news for the market either. Our market view thus remains unchanged. EUR/HUF remains flat or slightly higher after the press conference. However, we expect the next days should be positive for HUF given that NBH is making it clear to the market that it does not want to jeopardise the carry of HUF assets for the rest of the year. Moreover, we see some improvement in conditions at the global level. So overall, we remain positive on the HUF.

In the rates space, we found the IRS curve a bit steeper after the press conference. 2s10s spread widened a bit again. We can expect the global central bank story to step in during the coming days, but beyond that we expect the steepening trend to continue in the coming months.

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.