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MONETARY POLICY COMMENTARY

HUNGARY

16 October 2018



Despite increasing international risk aversion, the MNB did not change its monetary policy stance, as it sees no risk to its inflation forecast

As it was expected, the MNB did not change the interest rate conditions and the main message of the Press Release remained the same.

Since the last meeting, international investor sentiment became more risk averse due to the increase in US long-term government bond yields, the intensifying trade war and the concerns about the Italian government’s fiscal loosening. These had only minor effect on the EUR/HUF rate, but domestic long-term government bonds increased by 20-40 bps.

Additionally inflation in September was 3.6% (higher than consensus estimate: 3.5%) due to the higher oil prices, unprocessed food and some volatile items. But the constant tax core-inflation rate remained around 2.5%, therefore the MNB’s view on inflation did not change as today’s Press Release has shown.

Concerning inflation, we see two risks in the future:

- the currently high oil prices may have second round effect, which can easily happen in this strong demand environment.
- As we wrote in our earlier report, we forecast the trend inflation will accelerate to 4% (currently: 2.6%, annualized QoQ rate: 3.2%). If it will realize, any price shock push easily the inflation above the target.

Moreover, so far inflation expectations remained stable. But in a strong-demand environment featured by capacity shortage, high wage growth and higher than expected energy prices, therefore it is a big question, if inflation expectations could remain stable in the future as well.

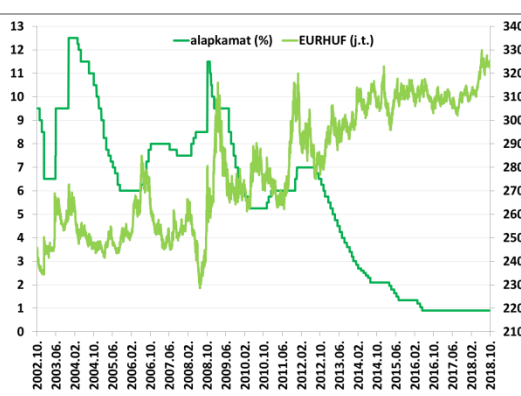
All in all we think that if the international financial conditions do not worsen significantly, the MNB could stall the start of the normalization even until mid-2019. After that, at the end of 2019, trend inflation could near 4%, which in our opinion could warrant a rate hike at the end of that year.

Chart 1: Government bond yields (%)



Sources: ÁKK, OTP Research

Chart 2: Base rate (%) and the EUR/HUF exchange rate



Sources: MNB, OTP Research

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Dates of the meetings	Dates of the minutes	Inflation report	Base rate decision	3M BUBOR
26 January 2016	10 February 2016, 14:00 CET		1,35	
23 February 2016	9 March 2016, 14:00 CET		1,35	
22 March 2016	13 April 2016, 14:00 CET	x	1,20	
26 April 2016	11 May 2016, 14:00 CET		1,05	
24 May 2016	8 June 2016, 14:00 CET		0,90	
21 June 2016	13 July 2016, 14:00 CET	x	0,90	1,00
26 July 2016	10 August 2016, 14:00 CET		0,90	0,94
23 August 2016	7 September 2016, 14:00 CET		0,90	0,86
20 September 2016	12 October 2016, 14:00 CET	x	0,90	0,88
25 October 2016	9 November 2016, 14:00 CET		0,90	0,85
22 November 2016	7 December 2016, 14:00 CET		0,90	0,66
20 December 2016	11 January 2017, 14:00 CET	x	0,90	0,60
24 January 2017	8 February 2017, 14:00 CET		0,90	0,30
28 February 2017	15 March 2017, 14:00 CET		0,90	0,23
28 March 2017	12 April 2017, 14:00 CET	x	0,90	0,21
25 April 2017	10 May 2017, 14:00 CET		0,90	0,16
23 May 2017	7 June 2017, 14:00 CET		0,90	0,15
20 June 2017	5 July 2017, 14:00 CET	x	0,90	0,15
18 July 2017	2 August 2017, 14:00 CET		0,90	0,15
22 August 2017	6 September 2017, 14:00 CET		0,90	0,15
19 September 2017	4 October 2017, 14:00 CET	x	0,90	0,12
24 October 2017	8 November 2017, 14:00 CET		0,90	0,03
21 November 2017	6 December 2017, 14:00 CET		0,90	0,03
19 December 2017	10 January 2018, 14:00 CET	x	0,90	0,03
30 January 2018	14 February 2018, 14:00 CET		0,90	0,02
27 February 2018	14 March 2018, 14:00 CET		0,90	0,02
27 March 2018	11 April 2018, 14:00 CET	x	0,90	0,03
24 April 2018	9 May 2018, 14:00 CET		0,90	0,03
22 May 2018	6 June 2018, 14:00 CET		0,90	0,11
19 June 2018	4 July 2018, 14:00 CET	x	0,90	0,18
24 July 2018	8 August 2018, 14:00 CET		0,90	0,24
21 August 2018	5 September 2018, 14:00 CET		0,90	0,19
18 September 2018	3 October 2018, 14:00 CET	x	0,90	0,21
16 October 2018	7 November 2018, 14:00 CET		0,90	0,17
20 November 2018	5 December 2018, 14:00 CET			
18 December 2018	tba	x		

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