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Monetary Policy Commentary Hungary

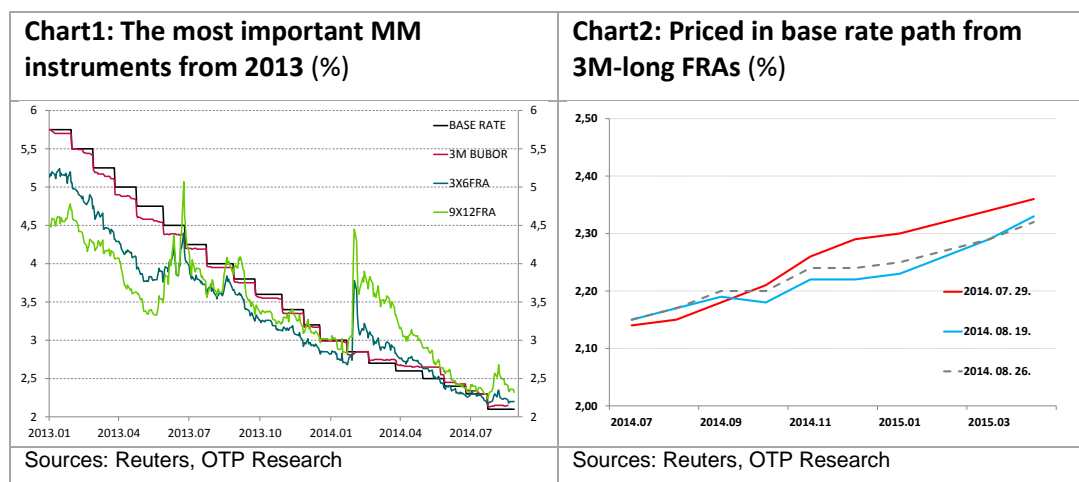
26 August 2014



No surprise, base rate remained at record low

On Tuesday 26 August, **the National Bank of Hungary kept the base rate at a record low of 2.10%**. The decision was in line with wide expectations as a month earlier NBH governor Mr Matolcsy indicated the end of the easing cycle and the maintaining of accommodative monetary policy for a long time. Details about the discussed proposals and the votes will be available after the publication of the Minutes on 10 September.

Neither the HUF nor money market rates have reacted to the decision. Although EUR/HUF climbed into the 310-315 range late July/early August, it spent the second half of August in a narrow range around 313 while FRAs have not made any move. The market still prices in one 25 bps rate hike for the end of the first quarter of 2015, but it is likely to be a more technical feature than a sound fundamental expectation.



The press release suggests that the MC is satisfied with the current economic developments as it states: *'based on data available since the previous interest rate decision, economic growth continued, in line with the June projection'*. Furthermore, *'the Bank's measures of underlying inflation capturing the medium-term outlook still indicate moderate inflationary pressures in the economy, reflecting low inflation in external markets, the degree of unused capacity in the economy, subdued wage dynamics, the fall in inflation expectations and the reductions in administered prices, implemented in a series of steps. Domestic real economic and labour market factors continue to have a disinflationary impact and low inflation is likely to persist for a sustained period. However, domestic demand-side disinflationary pressures are weakening gradually as activity gathers pace, and inflation is likely to reach levels around 3 per cent consistent with price stability by the end of the forecast horizon'*.

As a result, the MC does not see any need for altering the current monetary conditions. The press release says that *'if the assumptions underlying the Bank's projection hold, achieving the medium-term inflation target points in the direction of maintaining current loose monetary conditions for an extended period'*.

Although the MC faced deterioration of international investment sentiment earlier this month, policy-makers find that *'Hungarian risk premia remained broadly unchanged in the period'*. They say cautious policy approach is still warranted relating to global developments, but the press release does not suggest any meaningful risk for future monetary policy.

So, **unsurprisingly, the current press release contains neither easing nor tightening bias**. We maintain our projection for flat base rate path at least until the end of next year, although we expect mounting pressure on the NBH to hike the benchmark rate after the Fed launches its tightening cycle, probably at the end of next spring. On the other hand, if the ECB embarks on a broad-based asset purchasing programme, that could ease the pressure. Furthermore, as we see risk tilted to the downside about the NBH's 2015 CPI forecast (i.e. 2.5%, yearly average), we think consumer prices' evolution will support the NBH's loose policy stance.

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Dates of the meetings	Dates of the minutes	Inflation report	OTP forecast	Decision
24 January 2012	15 February 2012, 14:00 CET		7.50	7.00
28 February 2012	14 March 2012, 14:00 CET		7.00	7.00
27 March 2012	11 April 2012, 14:00 CET	x	7.00	7.00
24 April 2012	9 May 2012, 14:00 CET		7.00	7.00
29 May 2012	13 June 2012, 14:00 CET		7.00	7.00
26 June 2012	11 July 2012, 14:00 CET	x	7.00	7.00
24 July 2012	8 August 2012, 14:00 CET		7.00	7.00
28 August 2012	12 September 2012, 14:00 CET		7.00	6.75
25 September 2012	10 October 2012, 14:00 CET	x	6.75	6.50
30 October 2012	14 November 2012, 14:00 CET		6.25	6.25
27 November 2012	5 December 2012, 14:00 CET		6.00	6.00
18 December 2012	16 January 2013, 14:00 CET	x	5.75	5.75
29 January 2013	13 February 2013, 14:00 CET		5.50	5.50
26 February 2013	13 March 2013, 14:00 CET		5.25	5.25
26 March 2013	10 April 2013, 14:00 CET	x	5.00	5.00
23 April 2013	15 May 2013, 14:00 CET		4.75	4.75
28 May 2013	12 June 2013, 14:00 CET		4.50	4.50
25 June 2013	10 July 2013, 14:00 CET	x	4.25	4.25
23 July 2013	7 August 2013, 14:00 CET		4.00	4.00
27 August 2013	12 September 2013, 14:00 CET		3.90	3.80
24 September 2013	9 October 2013, 14:00 CET	x	3.60	3.60
29 October 2013	13 November 2013, 14:00 CET		3.40	3.40
26 November 2013	4 December 2013, 14:00 CET		3.20	3.20
17 December 2013	8 January 2014, 14:00 CET	x	3.00	3.00
21 January 2014	5 February 2014, 14:00 CET		2.90	2.85
18 February 2014	5 March 2014, 14:00 CET		2.70	2.70
25 March 2014	9 April 2014, 14:00 CET	x	2.60	2.60
29 April 2014	14 May 2014, 14:00 CET		2.50	2.50
27 May 2014	11 June 2014, 14:00 CET		2.40	2.40
24 June 2014	9 July 2014, 14:00 CET	x	2.30	2.30
22 July 2014	6 August 2014, 14:00 CET		2.20	2.10
26 August 2014	10 September 2014, 14:00 CET		2.10	2.10
23 September 2014	8 October 2014, 14:00 CET	x	2.10	
28 October 2014	12 November 2014, 14:00 CET		2.10	
25 November 2014	10 December 2014, 14:00 CET		2.10	
16 December 2014	To be published later	x	2.10	

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