

## Hungary: NBH base rate announcement

### CB cut the base rate by 50bp to 8%

After the bigger than expected, 100bp reduction in the base carried out in July, at its today's rate setting meeting, the monetary council cut the base rate by 50bp, to 8%. The decision did not come as a surprise, being in line with both our expectation and the market consensus. The statement of the monetary council contained not much news. According to the council, the economic growth is expected to resume in 2010. The inflation is likely to rise above the mid-term target temporarily, due to the indirect tax changes, but is expected to move substantially below it in the second half of 2010. The significant improvement in the country's economic balance situation (in line with the faster than expected adjustment of domestic demand) has again been mentioned. Considering the recent developments in the economy and inflation and in assessments of risks, the council decided to cut rates again. They added that monetary policy might be eased further, if it did not pose a threat to the inflation outlook and if assessments of risks allowed it.

At the press conference, Governor Simor said that the council discussed 75bp and 50bp reductions in the base rate. The final decision (50bp cut) had an overwhelming majority.

The most recent economic forecasts of the central bank's staff have also been published today. Compared to May, the GDP forecasts for 2009, 2010 and 2011 have remained unchanged (-6.7% y/y, -0.9% y/y and +3.4% y/y, respectively). The inflation prediction for 2009 remained at 4.5% y/y, while it was revised slightly downwards (to 4.1% y/y from 4.3% y/y) for 2010 and slightly upwards (from 1.9% y/y to 2.1% y/y) for 2011. The full report will be published on Wednesday morning.

**Assessment:** Although the fact that the council did not surprised the market today and carried out a decision which was in line with expectations, uncertainties around the future's rate path have not really decreased. Furthermore, as the latest economic predictions of the central bank have showed hardly any changes compared to May, they are unlikely to have critical role in the coming rate decisions. The base situation has not changed: the real economy needs lower rates, while the current inflation outlook seems to allow more cuts. Thus, the key factor will remain the assessments of risks, reflected in the development of the forint exchange rate, CDS spreads and the state of the bond market. We maintain our 7.50% prediction for the year-end base rate, with risks rather on the downside.

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