National Bank of Hungary holds rates steady for ninth straight month

For the ninth month in a row, the National Bank of Hungary has left the base rate unchanged. Another trend continued, too: the central bank downgraded the economic outlook once more. However, the hawkish rhetoric has remained in place, so we are keeping our year-end base rate forecast of 6.50% unchanged

The National Bank of Hungary, Budapest

6.50% Key interest rate

Unchanged

ING's view: Too much uncertainty means that no policy change is the safest option

The central bank's updated staff projection is getting closer to our own forecasts, particularly with regard to GDP growth. Although weak economic activity provides some relief on the demand side of structural price pressures, the upside surprise in the May inflation figures and the elevated and loosely-anchored inflation expectations remain a cause for concern among policymakers.

Furthermore, the war in the Middle East is creating an additional pro-inflationary risk, on top of the approaching deadline for delayed US tariffs. Besides the already looming tariff threats, Hungary remains one of the most vulnerable economies in the region to energy price shocks. This was highlighted by the sensitivity of the forint in recent days, although EUR/HUF has been moving in a narrow range. Given all these risks, it is difficult to argue for monetary easing, as premature easing would come at a high cost.

Against this backdrop, we believe it is safest to assume that the policy rate will remain at 6.50% for the rest of the year. While we do not completely rule out the possibility of a deviation from this towards the end of the year, it is unlikely given the inflation risks. Furthermore, another geopolitical sell-off could cause major central banks to postpone their easing agenda, which would further restrict the scope for monetary easing in Hungary.

ING's market view

The central bank has once again sent a signal that cutting rates is not on the table for quite some time. The hawkish message comes just as the CEE FX market is feeling the relief of a Middle East ceasefire, further fuelling the rally in the forint today. In the last two days, we have gone from levels around 404 to within reach of 401 at the end of the press conference. Of course, future developments are highly dependent on the geopolitical landscape, but if we assume no major shifts in the narrative, the conditions for stronger CEE FX in the summer should be supportive of the forint. With EUR/USD hovering around 1.160 and the regional risk premium being priced out, EUR/HUF could once again approach the 400 mark. This is a key threshold but it's uncertain whether current tailwinds will be strong enough to drive it lower. Given the deteriorating outlook for the Hungarian economy, confirmed today in the new NBH forecast, the market will push for more rate cuts later on, either this year or next. This should push EUR/HUF up again, with 415 in our year-end forecast.

The market corrected expectations recently and, since the beginning of May, has erased about 50bp of easing. Still, the market is pricing in roughly 100bp of cuts in total, with one cut this year and the rest next. On the one hand, the NBH has shown a significantly worse GDP outlook, coming in below our forecast, and on the other, it has raised the inflation profile by 0.3pp next year on average.

Overall, 100bp still seems like too much in the current context, but at the same time, global and local conditions are changing very quickly, so it's hard to challenge this view from current levels. We still prefer the pay side of the market at the front-end and the belly of the curve. The long-end has fallen off a bit in recent days, following core markets, with the 5y5y going from 7.45% to 7.25%, where the market may see a chance to pay again. At the same time, we don't see the current inflation problem in Hungary as too hot for the market due to the weak GDP outlook, and the long-end thus seems too high despite the recent decline from the peak.

Drivers behind the decision

The central bank's message remains loud and clear, and is virtually unchanged from last month: the inflation outlook has worsened compared with previous expectations. The Monetary Council is committed to fighting inflation, which remains high despite the government's price shield measures. Overall, the NBH estimates that these measures reduced the May headline figure by 1.3ppt. While the May inflation data was broadly in line with expectations, decision makers highlight accelerating inflation in durable goods and persistently high market services inflation.

On top of the hard data, the central bank is still concerned about inflation expectations, which have fallen slightly in recent months but remain too high for price stability to be reached. The labour market is also under scrutiny, as despite the recent loosening of labour market conditions, strong wage growth continues to exert upward pressure on prices. Consequently, the NBH now anticipates that inflation will only reach the 3% target in 2027, rather than by the end of 2026 as previously forecast.

Forward guidance points to unchanged rates in the foreseeable future

The forward guidance in the press release was unchanged from the previous month. The Monetary Council statement and Varga's press conference were considered hawkish, particularly given the updated staff projections regarding inflation.

A stability-oriented, cautious and patient monetary policy is needed, according to the central bank. Tight monetary conditions, i.e. sustained positive real interest rates, are necessary to achieve price stability over the monetary policy horizon, as well as market stability. The central bank is prepared to keep interest rates at their current level for the foreseeable future.

The updated GDP & CPI forecasts

The full macroeconomic assessment and outlook will be published alongside the June Inflation Report on 26 June. Based on the latest GDP and inflation forecasts, the NBH's outlook has become more pessimistic in general. This implies a worsening outlook for GDP growth between 2025 and 2027. Despite weaker economic activity and the government's latest measures to control inflation, the projected inflation path has moved higher over the monetary policy horizon compared to the March forecast.

Governor Varga did not provide much insight into the factors behind the updated outlook. The weaker economic outlook probably reflects weaker-than-expected investment activity and a worsening global growth outlook. Regarding inflation, we believe sticky price expectations, repricing of market services and tradables are among the factors that have moved the forecast path somewhat higher over the full horizon.

Regarding alternative scenarios, the Monetary Council highlighted three main ones: escalating geopolitical tensions; a slower decline in inflation expectations; and faster easing of labour market tightness. While all three scenarios pose further downside risks to GDP growth, the majority are also pro-inflationary, underscoring the need for maintaining a hawkish stance.

Updated GDP and CPI forecasts of the NBH (% YoY)

	2025	2026	2027
Change in real GDP - June projection	**0.8**	**2.8**	**3.2**
Previous NBH projection	1.9 – 2.9	3.7 – 4.7	2.8 – 3.8
Change in consumer prices - June projection	**4.7**	**3.7**	**3.0**
Previous NBH projection	4.5 – 5.1	2.9 – 3.9	2.5 – 3.5

Source: NBH, ING

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