Article | 11 December 2025 HUNGARY

National Bank of Hungary preview: The look-through campaign starts now

Price shield measures and base effects will temporarily lower Hungarian inflation, but we don t see any scope for a cut in the base rate in the near future. The tone will be as hawkish as possible and will be accompanied by an added look-through message to prevent the market from anticipating a premature dovish shift

The National Bank of Hungary, Budapest

Our call

Taking everything into account, we still can't see any clear-cut reasons for the National Bank of Hungary (NBH) to ease monetary policy in December. In line with this view, we expect the central bank to leave the interest rate complex unchanged at its next meeting on 16 December. The base rate will remain at 6.50%, with a +/- 100bp interest rate corridor – a high-conviction call.

Looking further ahead, we still do not anticipate any interest rate cuts in the first half of next year, given that the Monetary Council is focused on addressing high inflation expectations. We believe that the easing cycle will begin in the second half of next year. However, if the NBH intends to lower the base rate in the first half of 2026, it must lay the groundwork for this in the December forward guidance.

If we don't hear any indication that it sees lowering inflation as creating space for a cut, then there isn't much chance of a rate cut in the first half of the year. Such a shift would cause uncertainty in the market and probably lead to forint weakness. Skipping the chance of a tone shift in December would make it even harder to implement that change in March 2026, just ahead of the general election.

Conversely, we would expect the Monetary Council to emphasise the temporary nature of the upcoming drop in inflation. It could underscore that the central bank prefers stability in rates rather than reacting to recent inflation swings, which are likely to be as low as around 2% in the first quarter and as high as 4.5-5.0% at the end of 2026 and early 2027.

We therefore stand by our hawkish base case scenario. We expect the interest rate to remain at 6.50% throughout the first half of next year. Then, in the second half of 2026, a backloaded easing of a total of only 50bp will come into play. The risks are balanced. On one hand, a growing risk of a global dovish tilt among major and regional central banks would increase the relative room for an earlier (or stronger) easing. On the other hand, the pro-inflationary nature of the government measures is expected to begin unfolding in the next year.

The background

As expected, the NBH kept its key interest rate at 6.50% in November. The interest rate corridor remained in place, maintaining a range of +/-100bp around the base rate. In line with its stability-oriented approach, this decision was largely influenced by elevated inflation expectations and the presence of pro-inflationary risks.

Based on the inflation figures for November, the current inflationary environment remains uncomfortable, with underlying structural inflationary issues being obscured by base effects and the government's mandatory and voluntary price shield measures. Sticky price inflation has been inching higher since August 2025, rising from 4.8% year-on-year to 5.4% YoY in November. Regarding the price shields, the latest decree states that they will end at the end of February 2026. However, there is a strong chance of at least one additional three-month extension, meaning the measures would only be lifted after the general elections. Given the uncertainty surrounding this policy and the potential for overshooting inflation once the price shields are removed, we anticipate that the central bank will maintain high interest rates for an extended period.

In addition, the NBH noted in its latest flash analysis of inflation developments that "households' inflation expectations remain higher than during the period when the inflation target was achieved", so the central bank sees the inflation expectations being inconsistent with price stability, warranting cautiousness. The first indication that the NBH is becoming more comfortable with these expectations and may be preparing to adopt a slightly more dovish stance in its forward guidance would be an amendment to this statement.

In the last two weeks, two credit rating decisions were made regarding Hungary. The worst-case scenario was avoided, and the country was not downgraded. However, Fitch changed its outlook to negative. This can be interpreted as a warning to Hungarian decision-makers not to test the limits of creditors further, as this could result in the country being downgraded. In turn, we do not expect any economy-boosting decisions from either the fiscal or monetary side in the next two quarters.

The new staff projection

The central bank is also going to update its staff projections. The revisions to the GDP and inflation forecasts for 2025 will be minor, with only slight downward adjustments. More interesting is the impact of the extended and expanded price shield measures, as well as the increased fiscal targets, on the outlook for 2026 and beyond.

On top of that, a stronger forint and lower energy prices are changing the landscape, too. Overall, we anticipate a reduced 2026 inflation forecast and a potential upward revision to the 2027 inflation projection driven by base effects. On the GDP outlook, a minor reduction to the 2026 forecast is possible. The full September Inflation Report will be released on 18 December.

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