

National Bank of Hungary Review: A hawkish swan song

The National Bank of Hungary kept interest rates on hold in February for the fifth consecutive month. This comes as little surprise given the overriding pro-inflationary risk, which has been well-flagged by the monetary council. Forward guidance points to a stable policy rate ahead



Hungary's central bank governor Gyorgy Matolcsy

6.50%

Key interest rate

Unchanged

As expected

Interest rates remain on hold

The National Bank of Hungary (NBH) delivered a hawkish hold at Governor Gyorgy Matolcsy's last meeting on 25 February, as expected (see our [NBH Preview](#)). With this decision, the interest rate complex has remained unchanged for the fifth month in a row. Hungary's base rate stands at

6.50% with a corridor of +/- 100bp.

Inflation worries policymakers

The change in the inflation picture was behind the decision, so it was not surprising that Deputy Governor Barnabas Virag talked a lot about this at the press conference. The magnitude and structure of [January's](#) month-on-month inflation caught the attention of policymakers. While the full assessment of the situation will come with the March Inflation Report, the central bank has already indicated that it will make a meaningful upward revision to its inflation forecast.

On the positive side, Virag highlighted the recent improvement in market sentiment, especially regarding the Hungarian forint. But he warned against complacency as global risk appetite can change quickly. Hence, the stability-oriented, patient and cautious monetary policy is a must. Tight monetary conditions are needed to reach price stability in a sustainable manner.

Forward guidance suggests no room for cuts

The forward guidance was virtually unchanged from last month when the central bank closed the door on monetary easing in the foreseeable future. However, given that incoming inflation risks are tilted to the upside (further divergence of monetary policy between the Federal Reserve and European Central Bank and trade/tariff tensions) and the expected stickiness of inflation in market services, the need for further tightening can be debated.

Never say never

In this context, Governor Virag was asked about recent comments by council member Gyula Pleschinger, who telegraphed neither cuts nor hikes for this year. The answer was clear and, in our view, hawkish: "Never say never". Given all the risks, we think it was more about keeping the door open for a possible tightening rather than leaving room for easing. Nevertheless, the maturing collateralised loans on the NBH's balance sheet (around HUF 2,000bn) will also contribute to liquidity tightening this year.

We expect rates to remain on hold

Price expectations in the retail and services sectors point to further upside risks to inflation. The looming tariff war won't help either. We see the average inflation rate for this year in a range of 5.1-5.5%. In this environment, it is really hard to argue for monetary easing. Nevertheless, as Virag said, never say never. But at the moment, we think that the key rate will remain at 6.50% for the rest of the year.

Of course, the current situation does not mean that there will be no opportunity to resume the cycle of rate cuts in the future. And this will have nothing to do with the changes in the monetary council from March. In addition to the new governor, Mihaly Varga, there will be another change in the council. Pleschinger's mandate expires at the beginning of March and he will be replaced by ex-MC member Andrea Mager. She served on the monetary council between 2011 and 2016, when she stepped down to take up a role in the government.

The wild card for this year could be some balance sheet-related easing, which could take place if the NBH feels that the combination of a 6.50% policy rate and a continuous tightening of liquidity via maturing balance sheet items is too hawkish. In this case, we could easily imagine a rollover of some items (reinvestment of maturing government bond holdings and/or a new lending programme).

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