National Bank of Hungary Review: A quiet end to an eventful year

As expected, the National Bank of Hungary left its key interest rate unchanged in December. This brought an eventful year to a calm conclusion. The Monetary Council emphasised its willingness to keep rates on hold for an extended period. We expect rates to remain on hold until the second quarter of next year

The National Bank of Hungary

6.50% Key interest rate

Unchanged

As expected

Interest rates remain unchanged after the December meeting

In our NBH preview, we argued that the macro outlook could support an easing policy, but the Hungarian forint is simply not ready for such a move. Despite the recent strengthening of the HUF, the National Bank of Hungary decided to play it safe, citing volatile global investor sentiment and ongoing geopolitical tensions, which increase upside risks to inflation.

Therefore, the outcome of the December meeting came as no surprise: the National Bank of Hungary kept its key interest rate on hold at 6.50% on 17 December, the last meeting of 2024. Thus, the easing cycle in 2024 included a total of 425bp of easing in the key rate. Policymakers also left the interest rate corridor unchanged, with a range of +/- 100bp around the key rate.

Too much uncertainty to risk a rate cut

As usual, Deputy Governor Virág assessed the macroeconomic situation at the press conference. Regarding the general economic situation, the National Bank of Hungary is somewhat optimistic about the future. Credit activity, consumption, the level of orders in the construction sector and new manufacturers will boost economic activity in 2025. Regarding the latter, the central bank's staff calculated a +0.6ppt impact on GDP growth from the production of new investments in the manufacturing sector (BMW, BYD, CATL).

From a longer-term perspective, the National Bank of Hungary highlighted the country's improving fundamentals, such as the surpluses in the external balances, the near-zero primary budget deficit, the still favourable debt trajectory relative to peers and the expected rebound in economic growth. The only caveat is the inflation outlook on the macro side.

The main macro-related message, in our view, is that the expected inflation path for 2025 has shifted upwards by around 0.5 percentage points in the December forecast. Thus, while the central bank expects inflation to remain mostly within the tolerance band of the inflation target, reaching 3% in a sustainable manner is delayed until 2026. This change in itself supports the Monetary Council's narrative of an extended pause in interest rates.

Updated GDP and CPI forecasts

The full macroeconomic assessment and outlook will be published with the December Inflation Report on 19 December. The NBH has significantly narrowed the forecast ranges for 2024 as we approach the end of the year. This means a worsening outlook for GDP growth, but a slight improvement in the inflation forecast.

The forecasts for 2025 are much more interesting. Based on the economic factors mentioned above, the new staff forecast for GDP growth is virtually unchanged from September (just 0.1ppt lower). This is higher than the current market consensus (2.5%) and much more optimistic than our forecast of 2%.

With the growth outlook unchanged, the roughly 0.5ppt upward revision to the 2025 inflation range is due to the impact of upcoming tax changes (windfall taxes, excise duty changes, etc.) and the depreciation of the Hungarian forint. In practice, this means that the central bank still believes in the lack of demand-driven pricing power of companies next year. We expect inflation to average around 4.2% in 2025.

Updated GDP and CPI forecasts of the NBH

	2024	2025	2026
Change in real GDP - December projection	**0.3 – 0.7**	**2.6 – 3.6**	**3.5 – 4.5**
Previous NBH projection	1.0 - 1.8	2.7 - 3.7	3.5 - 4.5
Change in consumer prices - December projection	**3.6 – 3.7**	**3.3 – 4.1**	**2.5 – 3.5**
Previous NBH projection	3.5 - 3.9	2.7 - 3.6	2.5 - 3.5

Source: NBH, ING

Forward guidance makes a continued pause the most likely near-term path

The Monetary Council's statement and press conference have circled around the same messages for several months now, with one exception this time. A stability-orientated approach is a must to support growth and achieve the inflation target. The central bank wants a disciplined, restrictive (driven by positive real interest rates) and patient monetary policy. The missing reference is the data-driven approach, although Deputy Governor Virág's explanation was quite clear: the meaning of this is now empty and a much more transparent guidance is needed. And this guidance is all about the pause.

The Monetary Council is of the opinion that the key interest rate of 6.50% is appropriate from the point of view of price stability, financial market stability and growth. This with the emphasis that a further pause in interest rate cuts supports the NBH's stability-orientated approach, and the last part of the forward guidance itself, which mentions geopolitical tensions, volatile financial market developments and risks to the inflation outlook, justifies a further pause in interest rate cuts.

During the Q&A session of the press conference, the issue of the vote was raised again and Mr Virág confirmed that the Council had again voted by a large majority to keep rates on hold. The only dissenting vote was for a cut. In November, Deputy Governor Patai, whose term ends in April 2025, voted for a cut.

We see rates on hold until the second quarter of 2025

All in all, in the current situation we agree with the central bank and see no room for it to ease monetary policy in the short term. In our view, the National Bank of Hungary will leave the interest rate complex unchanged under the current leadership.

Of course, the current situation does not mean that there will be no opportunity to resume the cycle of interest rate cuts in the future. If the European Central Bank accelerates its rate-cutting cycle (probably in the first half of 2025) and the regional central banks also start easing in the second half of the year, the new Monetary Council could take action as early as 2Q25 (probably in June) without endangering the forint as a whole. We think a total of 75bp of rate cuts next year is realistic, which would be roughly in line with the average size of expected easing cycles (between 75bp and 100bp) in the region.

Our market views

The NBH found a rather muted market reaction to today's meeting. In line with CEE peers, the EUR/HUF moved up very little after the press conference. The HUF market, like its CEE peers, seems to have already switched into Christmas mode, and with little news coming out of today's NBH meeting, it is hard to expect a big market view. EUR/HUF seems to have stabilised around 408-410 for now. At the same time, we see that the entire CEE rates market has switched to paid mode in low year-end liquidity, probably driven purely by CTA flows. While rising rates are positive for CEE peers, in the case of HUF, a sell-off in assets mostly means a weaker HUF. Thus, EUR/HUF may still see some unexpected movement by year-end due to low liquidity, but overall it should stabilise at lower levels after the forint saw some relief in recent days and fell from highs from 415 EUR/HUF.

However, we remain negative on HUF in the medium term. Trump's inauguration in January should bring the global story and CEE's link to the global environment back into focus, which is negative for the region. At the same time, the discussion on NBH rate cuts and economic weakness should be back on the table. As a result, we expect the upward pressure on EUR/HUF to return in the new year, taking the pair closer to the 415–420 range in the first quarter of 2025.

The rates market, like the FX market, has already gone into Christmas mode and especially in the last few days we have seen rather random moves amidst very low liquidity. However, similar to CEE peers, the market is pushing the IRS curve back up. Thus, very short FRAs after the NBH meeting are pricing in two rate cuts of less than 25bp next year and the rest of the curve remains very flat. Although the current Monetary Council seems unwilling to change its hawkish rhetoric, the still looming NBH change and the rather weaker inflation and economy should lead to some repricing down in January and the curve should normalise with some re-steepening.

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