National Bank of Hungary Review: Christmas gift for the doves

At its final rate-setting meeting of 2025, the National Bank of Hungary kept the base rate unchanged. It began to prepare the ground for a policy change by introducing new forward guidance backed by its updated staff projections. While it may be too early to draw a final conclusion, the risk of a rate cut in the first quarter has increased

Central Bank Governor Mihaly Varga

6.50%

Key interest rate

Unchanged

ING's view: Increased probability of easing in the first quarter

In line with our expectations, the Monetary Council decided to keep interest rates unchanged, emphasising the need for tight monetary policy. However, in an unexpected turn of events at the end of the year, the central bank put a little something under the Christmas tree for the doves.

The new staff projection shows a downward revision to the inflation outlook for 2025–2026 and only a minor upward change to the outlook for 2027. Furthermore, Governor Mihaly Varga emphasised the generally positive developments regarding the inflation outlook. However, he added that not everything is positive. It is also important to note that the baseline inflation projection in the December Inflation Report is surrounded by balanced risks, in contrast with the September assessment, which saw pro-inflationary risks.

The forward guidance was also extended to include a data-driven, meeting-by-meeting approach for the Monetary Council. Against this backdrop, we believe that, if data and sentiment permit, a rate cut is likely in the not-too-distant future. It is too early to draw final conclusions, but it seems that we may need to revert to our previous forecast of 100bp of easing in total in 2026 (25bp each quarter) instead of a backloaded 50bp cycle.

ING's market views

While the market had become increasingly dovish in recent days, it seems that the central bank still managed to surprise. The rates market is now pricing in more rate cuts, while the FX market appeared somewhat more confused after the press conference. The forint reversed all of its gains from earlier in the day and weakened slightly, although we still believe that EUR/HUF will go up in the coming days. The rate differential vs EUR is heading towards the narrowest levels since May, indicating upside for EUR/HUF in the range of 386-388.

The dovish shift comes amid favourable conditions for the central bank. The region is benefiting from growing optimism about a potential peace agreement between Ukraine and Russia. In our view, HUF stands to gain the most within the CEE region, while EUR/USD is currently testing new highs. If these trends persist, upside risk for EUR/HUF will be limited, and the central bank may interpret market conditions as supportive of a more dovish stance going forward.

The rates market has priced in an additional 10bp of rate cuts next year for a total of 60bp, and the terminal rate has fallen to 5.72% in 2027. Given the central bank's dovish tone today and our updated forecast, we see room for the market to price in more rate cuts, particularly if inflation numbers continue to surprise on the weaker side.

The long end has seen a similar rally, but the curve is maintaining its expected steepening bias, which we believe will persist going forward. The long end remains anchored higher following the announced increase in the public deficit for this, and next year, and the priced in term premium is likely to remain with us at least until the April general elections in Hungary.

The rate decision in December

The actual rate decision of the December meeting was in line with expectations. The NBH kept its key interest rate at 6.50%. This was the fifteenth consecutive decision in which both the policy rate and the interest rate corridor (+/- 100bp) remained unchanged.

Drivers behind the decision

In our assessment, the tone of both the press release and the press conference was more dovish than expected. The central bank highlighted improving global investor sentiment and the expected further moderation of the external interest rate environment. Locally, the central bank anticipates balanced growth next year, alongside an easing of labour market tightness.

On the inflation front, the central bank emphasised that the latest data was better than expected and that monthly repricing was generally lower. Furthermore, Governor Varga emphasised that the new underlying inflation path within the monetary policy horizon is more favourable than the September forecast. The only caveat remains households' inflation expectations, which have risen again. If this uptick continues, it may be enough to postpone a dovish shift in policy.

The central bank expects to achieve the 3% inflation target by the second half of 2027. We believe the main difference between the central bank's forecast, and our own, is the expected price adjustment once the price shield measures are lifted. We still anticipate overshooting, whereas the NBH is more relaxed about this, referring to their own survey results.

Forward guidance lays the groundwork for a cut in the foreseeable future

The forward guidance in the press release was supplemented with a dovish reference: the Monetary Council will take decisions on the level of the base rate in a cautious and data-driven manner from meeting to meeting. The timeframe for a rate cut is also somewhat clearer, as the central bank emphasised repricings at the start of the year as a crucial factor. The stability of the financial markets will, of course, remain key; a disorderly market reaction to an expected rate cut would, we think, close the door to an actual cut.

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

	2025	2026	2027	2028
Change in real GDP - December projection	**0.5**	**2.4**	**3.1**	**2.7**
Previous NBH projection	0.6	2.8	3.2	-
Change in consumer prices - December projection	**4.4**	**3.2**	**3.3**	**3.0**
Previous NBH projection	4.6	3.8	3.0	-

Source: NBH, ING

The updated GDP & CPI forecasts

The full macroeconomic assessment and outlook will be published alongside the December Inflation Report on 18 December. Based on the latest GDP and inflation forecasts, the NBH's outlook has become more dovish. This implies a downward revision of GDP growth between 2025 and 2027. Weaker economic activity, the government's latest measures to control inflation, a stronger HUF, and lower energy prices have all pushed the projected inflation path downwards in the short term. However, the outlook for 2027 has been revised upwards, although this is hardly a game changer.

Regarding alternative scenarios, the Monetary Council highlighted six, of which four were labelled as the most relevant. These scenarios painted a fully balanced risk map for both economic activity and inflation, which represents a dovish shift compared to September, when the majority of the risk scenarios were pro-inflationary, emphasising the need for a continued hawkish stance.

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