# National Bank of Hungary Review: Keep calm and carry on

The National Bank of Hungary did not alter its playbook, sticking to its ol' reliable hawkish stance. Inflation risks remain tilted to the upside, while elevated market uncertainty keeps policymakers on the sidelines. We expect rates to remain unchanged in 2025

The National Bank of Hungary kept its rate unchanged at 6.50%

6.50%

Key interest rate

Unchanged

As expected

## ING's macro view: The risk-reward ratio favours holding rates for a longer period

While the constant deterioration of the economic outlook would normally call for some monetary easing, we disagree with the recent market pricing. Despite the price curb measures on some food products and the voluntary price caps on telecommunications and financial services, inflation has remained uncomfortably high. Moreover, inflation expectations remain too high and government measures have not had a strong impact here.

The sensitivity of the forint has not decreased significantly. Hungary remains one of the economies in the region that is most vulnerable to tariff threats. The fiscal outlook is becoming gloomier as the economy worsens, and we could soon reach a point where the market starts to question the stability of Hungarian sovereign credit ratings. Given all these risks, premature easing would come at a high cost.

But let’s consider the benefits of potential interest rate cuts, which, in our opinion, are negligible when it comes to the real economy. Government programmes and voluntary mortgage caps mean the base rate is non-binding for households. As for small and medium-sized enterprises, supported loan schemes operate at a much more favourable rate than the base rate. Therefore, this part of the economy is unaffected. But what about large corporations? Well, these heavyweights are more interested in euro rates than forint rates.

The bottom line is that the base rate only matters to international investors. Even three rate cuts might not help the real economy, but they would significantly reduce the risk premium. Hungarian real rates have increased relative to those of peers in the Czech Republic and Poland, yet EUR/HUF is trading within a range of 400 to 410. A reduced risk premium would open the door to a level shift upwards, a clear pro-inflationary risk.

Against this backdrop, we think it is safest to assume that the policy rate will remain at 6.50% for the rest of the year. However, we do not completely rule out the possibility of a deviation from this towards the end of the year, given the inflation risks and the sensitivity of the forint.

## ING's market view: Hawkish NBH to give temporary support for FX and rates

The forint found a favourable global environment during May with some reversion of US tariffs and positive sentiment in Europe. Local rates also helped with some upside despite falling EUR rates, leading to wider interest rate differentials. In this regard, today's hawkish NBH meeting further supports a stronger FX and global developments may add some boost to CEE FX in general.

EUR/HUF may retest local lows at 402. On the other hand, the medium-term outlook is more complicated. The economy keeps surprising to the downside, while fiscal slippage risk is rising and the market may see more chances for rate cuts later this year, undermining HUF strength. For the second half of the year, we expect EUR/HUF to go back to the 410-420 range.

The HUF rates market appears to have found its bottom in early May, when the market priced in roughly three rate cuts for this year and nearly 150bp overall. Since then, we've seen some repricing up with two cuts this year and a terminal rate of roughly 5.40% currently. Still, this is more than what our forecast is expecting and we can expect more repricing up, but at the same time we can't assume the market will put away all bets on rate cuts this year.

Looking further out, the belly and long end of the IRS curve has also been driven up by the movement of the core markets. This segment of the curve does not pricing in too much easing and the 5y5y level at 7.25% shows that the market still sees inflationary issues in the economy. The HUF market has been a popular received play in the CEE region in recent months and we believe a positioning reversal supported by a hawkish NBH and higher core rates can drive the entire IRS curve higher in the short term.

## The rate decision in May

The outcome of the May rate-setting meeting was as expected. On 27 May, the National Bank of Hungary left its key interest rate unchanged at 6.50%. This was the eighth consecutive decision in which both the policy rate and the interest rate corridor (+/- 100bp) remained unchanged.

## Drivers behind the decision

The central bank's main message remains virtually unchanged from previous months: the risks to the inflation outlook are still tilted upwards, and combatting inflation remains the NBH's primary objective.

This time, the Monetary Council emphasised the strong price dynamics in market services, indicating higher inflation throughout the year. On top of that, given all the market volatility and external uncertainty, mostly arising from tariff uncertainty, the central bank's task has not become any easier.

Governor Varga emphasised the need for a stability-orientated, cautious and patient monetary policy again. According to the Monetary Council, tight monetary conditions — i.e. sustained positive real interest rates — are necessary to achieve price stability over the monetary policy horizon. Price stability is essential for anchoring price expectations, and in the current environment, the central bank can promote growth by maintaining it.

## Forward guidance points to unchanged rates in the foreseeable future

The Monetary Council statement and Varga’s press conference are hawkish, but neither offers anything new or shocking. However, the emphasis on the strong capitalisation of Hungarian banks and their abundant liquidity despite expiring central bank programmes can be seen as a nuanced hawkish message added to the communication mix. The NBH may be trying to cut short speculation about unconventional monetary policy measures related to the ongoing reduction in interbank liquidity.

The governor reiterated what we have been hearing lately: that the central bank is prepared to keep interest rates at their current level for the foreseeable future. The forward guidance in the press release remained totally unchanged from the previous month.

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