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# National Bank of Hungary review: No change in sight

In November, the National Bank of Hungary maintained its hawkish stance by keeping its base rate unchanged at 6.50%. Even though inflation will temporarily dip into the target range, the central bank is not willing to become complacent, given the looming risks



# 6.50%

**Key interest rate**

Unchanged

## ING's view: The fight against inflation is far from over

In line with our expectations, the Monetary Council once again focused on issues of price stability. Nothing we have seen, heard or read has made us reconsider our short-term monetary policy forecast. The usual hawkish messaging and emphasis on inflation risk, coupled with still-elevated inflation expectations, suggest that a cautious, patient approach

will continue to anchor the Monetary Council's decision to deliver on its primary goal of price stability.

The central bank was surprisingly reticent about the Hungarian government's loosening of fiscal targets. While the recent strengthening of the forint was highlighted and welcomed, the central bank does not seem convinced. The early gains of a strong HUF could encourage the belief that this is the right way to reach price stability, but more needs to be done.

Against this backdrop, we assume that the policy rate will remain at 6.50% for much of 2026. Our base case assumes an easing cycle beginning in autumn 2026 and concluding the year with a base rate of 6.00%. This equates to a total of 50bp of rate cuts, followed by a pause before another easing cycle begins in 2027.

However, we cannot rule out the possibility of a deviation. If the Federal Reserve and the European Central Bank adopt a more dovish policy stance and other central banks in the region ease more quickly, and if the carry trade yields a stronger Hungarian forint, the National Bank of Hungary may start its cycle earlier and implement deeper cuts. In this case, it would need to be prepared to tighten if inflation were to pick up strongly in 2027. Nevertheless, we believe that the central bank would prioritise stability over volatility in rates.

### **November's rate decision**

The outcome of today's rate-setting meeting was in line with expectations, with the National Bank of Hungary keeping its key interest rate at 6.50%. This was the 14th consecutive decision in which both the policy rate and the interest rate corridor (+/- 100bp) remained unchanged.

### **The background of the decision**

Regarding the real economy, the central bank highlighted the dual nature of Hungary in terms of both GDP growth and the labour market. The Monetary Council emphasised that growth would pick up from the fourth quarter, with external balances remaining comfortably in surplus. However, volatility and uncertainty remain high due to trade and geopolitical developments. Additionally, the external environment was described as one containing upside risks to Hungary's inflation outlook.

On the inflation front, the central bank reminded everyone that headline inflation would be much higher without government measures, so price pressure remains high. Inflation expectations are not in line with price stability. However, the NBH recognises that the strength of the forint is helping to tame inflation, and is therefore placing continued emphasis on FX stability to lower price expectations and achieve price stability within the monetary policy horizon. Lastly, while headline inflation is expected to temporarily dip into the target range in the near future, the central bank warns against complacency, stating that the fight against inflation will not be over when this happens, as inflation needs to reach the target in a

sustainable manner.

The forward guidance in the press release was the same as the previous month. According to the NBH, a stability-oriented, cautious and patient monetary policy is needed. Tight monetary conditions – that is, sustained positive real interest rates – are necessary to achieve price and market stability over the monetary policy horizon.

Governor Mihály Varga was reserved even by his own standards during the press conference regarding the recent fiscal easing. However, upon reading the press release, we believe that the NBH made some important changes. The previous reference to reaching the inflation target by early 2027 has been dismissed, and the written communication pointed out that “on the forecast horizon, higher budgetary expenditures have a stimulating effect on domestic demand”. In our view, this suggests that the NBH anticipates higher inflation further down the line than set out in its September Inflation Report. We only have to wait until 18 December for the new staff projection, when an official revision will be made. We wouldn't be surprised if this provided further justification for a hawkish stance.

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