

National Bank of Hungary Review: Nothing changes if nothing changes

The National Bank of Hungary left the base rate unchanged for the tenth consecutive time in July. The general stance remained hawkish, with an emphasis placed on pro-inflationary risks and the global risk environment. We strongly believe that we won't see a rate cut this year



Central Bank Governor
Mihaly Varga

6.50% Key interest rate
Unchanged

ING's view: Inflation expectations and risk sentiment call for tight conditions

Our long-standing view is that underlying inflation in Hungary is too high. While the mandatory and voluntary price shield measures are helping in the short term, underlying price dynamics

remain an issue from a monetary policy point of view. During the July press conference, Governor Varga emphasised several times that households' inflation expectations are not in line with price stability, and that the fight against inflation is far from over.

The ceasefire in the Middle East has created a less volatile environment for energy prices over the past month. However, many risks remain, primarily related to tariffs and geopolitics. In this environment, only one thing seems certain: uncertainty. Against this backdrop, the Monetary Council emphasised the need for a cautious and patient monetary policy that prioritises stability.

The most telling moment, however, came during the Q&A session when Varga reminded everyone that the NBH's latest inflation forecast for this year is 4.7% on average. This should be convincing enough to show what the National Bank of Hungary intends to do for the rest of the year. In our view, this suggests no policy change until the end of the year. The central bank is prepared to keep interest rates at their current level for the foreseeable future.

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

ING's market views

As expected, today's NBH meeting did not bring much new for the markets. EUR/HUF does not seem to be too interesting and we see more volatility elsewhere in the CEE region today despite today's NBH meeting. As we discussed in the NBH preview, we are neutral on HUF since early July despite the bullish stance of the market. Although carry with lower volatility may look attractive here, we believe EUR/HUF does not have much momentum to test lower levels and the 399-400 range should work in the days ahead.

Today's meeting shows that the market is used to a hawkish tone and we cannot see any support for FX here. At the same time, the market has some bias to see today's decision to cut required reserves from 10% to 8% as dovish, which would rather suggest some pressure for a weaker forint later, if anything. Still, today's meeting seems like a non-event in the FX space and we may see more action in August when there will be more clarity on the global outlook and the impact of US tariffs.

In the rates space we saw some interest in paying rates in the morning which was muted after the NBH announcement to cut required reserves. The IRS curve remained 1-2bp higher, underperforming CEE peers, reversing yesterday's move higher. However, the market remains in a summer mood and has not received too much activity. July inflation could bring more interest as we see a chance of it coming in slightly below the NBH forecast, which coupled with weak economic data could bring some dovish pricing once again. This may be more interesting at the belly and long end of the curve where levels are not far off this year's highs.

At the same time, the supply of Hungarian government bonds has dropped a bit in recent weeks, and the debt agency has restarted buybacks, indicating a comfortable situation despite some market worries. However, given that we don't expect any rate cuts this year and inflation should bounce around but ending up around 5% by the end of the year, we expect the front-end of the curve to be anchored higher for longer.

The rate decision in July

The outcome of the July rate-setting meeting was as expected. On 22 July, the National Bank of Hungary left its key interest rate unchanged at 6.50%. This was the tenth consecutive decision in which both the policy rate and the interest rate corridor (+/- 100bp) remained unchanged.

The central bank changes the required reserve ratio

The only real excitement at the July meeting came in the form of a change to the required reserve ratio (RRR). In line with the gradual decline in the banking system's excess liquidity, the Monetary Council decided to cut the RRR from 10% to 8% with effect from 1 August. This technical adjustment will not impact the stance of monetary policy, as the required reserves as a proportion of the banking system's liquidity will fall back to around 30%, in line with the ratio seen at the start of the year.

Drivers behind the decision

The central bank's message remains loud and clear and virtually unchanged from last month. Price shield measures reduced the June inflation print by 1.5ppt, yet underlying repricing, where interventions are ineffective, remains too strong. Household inflation expectations were cited multiple times, and remain too high for price stability. Hence, the Monetary Council is committed to fighting inflation.

Market stability should also remain in the spotlight, as price stability would be unachievable without it. Geopolitics and tariff decisions will continue to drive risk sentiment, and the Monetary Council still sees the entire emerging market as vulnerable to these kinds of shocks. Therefore, there is no room for complacency.

Regarding the economic activity, the central bank anticipates subdued performance in the second quarter, based on the latest high-frequency data. Varga specifically mentioned the possibility of stagnation again. The labour market situation remains under scrutiny as, despite the recent loosening of labour market conditions, strong salary growth continues to put upward pressure on prices due to positive real wage growth.

Forward guidance points to unchanged rates in the foreseeable future

The forward guidance in the press release remained unchanged from the previous month. The Monetary Council statement and Varga's press conference were considered hawkish, particularly in light of the reminder of the central bank's average inflation forecast of 4.7% for 2025, which, according to Varga, should serve as a guide for market players.

A stability-oriented, cautious and patient monetary policy is needed, according to the central bank. Tight monetary conditions — i.e. sustained positive real interest rates — are necessary to achieve price and market stability over the monetary policy horizon.

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