National Bank of Hungary Review: Plenty of reasons to sit tight

The National Bank of Hungary maintained the interest rate at 6.50% at its October meeting. The importance of FX market stability was given extra attention in the official communication this time. We are maintaining our forecast of unchanged rates until next autumn

The new Governor of the Hungarian National Bank, Mihaly Varga

6.50%

NBH key interest rate

Unchanged

ING's view: More emphasis on the importance of stability in the FX market

In line with our expectations, the National Bank of Hungary's Monetary Council found plenty of reasons to sit tight and keep interest rates elevated, but this time it has put FX market stability in the limelight. This is hardly surprising given the latest government communications suggesting that there may be scope for monetary easing.

Hearing the messages of the past two weeks, those FX remarks are not necessarily new. However, this is the first time that the press release has explicitly cited the need for currency stability in order to combat high inflation expectations and push price pressure back to target. This is a nuanced pushback against the government's communication.

The briefing's assertion (especially the first part of it) that '*by ensuring tight monetary conditions, the 3 percent inflation target can be achieved in a sustainable manner in early 2027'* is another subtle indication of a hawkish stance, emphasising the need for high interest rates.

Against this backdrop, we believe that the central bank is prepared to maintain interest rates at their current level for the foreseeable future. We assume that the policy rate will remain at 6.50% for the rest of the year and possibly for much of 2026 as well. Our base case assumes a backloaded easing cycle starting in autumn next year, totalling 100bp of rate cuts and setting the base rate at 5.50% by the end of 2026.

However, we cannot rule out the possibility of a deviation. If the Fed and ECB adopt a more dovish policy stance and other central banks in the region ease more quickly, the National Bank of Hungary may also start its cycle earlier.

The October rate decision

The outcome of the October rate-setting meeting was in line with expectations, with the NBH keeping its key interest rate at 6.50%. This was the thirteenth consecutive decision in which both the policy rate and the interest rate corridor (+/- 100bp) remained unchanged.

Regarding the economic outlook, the central bank flagged the duality of the Hungarian economy, with retail sales performing well but other sectors struggling. The Monetary Council emphasised the sensitivity of financial markets to trade and geopolitical developments, which makes emerging countries especially vulnerable. Additionally, the deceleration of global disinflation was also emphasised.

On the inflation front, the central bank reminded everyone that the 4.3% YoY headline inflation print would be 1.5ppt higher without government measures, so price pressure remains high. Inflation expectations are not in line with price stability. However, the central bank recognises in data that the strength of the forint is helping to tame inflation and is therefore placing continued emphasis on FX stability in order to lower price expectations and help achieve price stability within the monetary policy horizon.

The forward guidance in the press release remained unchanged from the previous month. According to the central bank, a stability-oriented, cautious and patient monetary policy is needed. 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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