

## National Bank of Hungary Review: The first pause in this easing cycle

For the first time in the new phase, the National Bank of Hungary decided in August to leave its key interest rate unchanged at 6.75%. This was in line with most expectations. With the mindset of the Monetary Council unchanged, we see two more rate cuts for the rest of the year



We expect the National Bank of Hungary to keep rates on hold at its 13 November meeting

# 6.75%

Key interest rate number

ING forecast 6.75% / Previous 6.75%

As expected

### A pause not seen for a long time

The National Bank of Hungary had entered into a new phase of monetary easing in the third quarter of 2024 with an "every meeting is a live meeting" mentality. In practice, this means a decision between no change and a small (25bp) cut.

The outcome of the August rate-setting meeting was no change, with the policy rate held at 6.75% on 27 August. The central bank also did not touch the interest rate corridor, keeping it symmetrical. Given that three-quarters of analysts (based on a Bloomberg survey) were expecting exactly this outcome, we can hardly call this a surprise.

## Incoming data, market developments support pause

In its communication, the National Bank of Hungary highlighted both local and global developments that supported the August decision. On the local side, the main story is the recent increase in both headline and core inflation. However, in the central bank's assessment, the acceleration is mainly due to one-off factors and has not changed the overall inflation outlook. Moreover, inflation expectations remain elevated and companies are ready to raise prices if the opportunity arises, a clear red flag from a monetary policy perspective.

With a marked deterioration in investor sentiment in early August and an unfinished correction in the emerging market risk environment, recent global developments also urged the central bank to adopt a cautious and patient wait-and-see stance.

## A new buzzword emerges: stability-orientated approach

The Monetary Council has added a new element to its communication toolkit. The central bank sees consumer and business confidence as a crucial factor, and its role here is to achieve price stability and maintain market stability. As a result, monetary policy is now stability-orientated in addition to the cautious and patient approach.

We see this as a nuanced communication tool, although we find it difficult to derive a specific direct monetary policy sensitivity compared to the previous trigger points (inflation outlook, financial market stability and Hungary's risk perception). As the central bank emphasises, achieving price stability and maintaining financial market stability can make the most effective contribution to improving consumer and business confidence and thus to boosting economic activity.

## There may be scope for further cautious rate cuts

While the National Bank of Hungary was keen to emphasise its cautious, patient and stability-orientated approach, policymakers are open to easing monetary conditions further in the coming months. The "every meeting is a live meeting" mindset remains valid for the upcoming decisions, with a data-driven approach.

In this regard, the briefing highlighted four factors to focus on as we approach the September rate decision. August inflation data (both headline and core), Fed and European Central Bank decisions, Hungarian risk perceptions and consumer and business confidence trends.

In our assessment, the expected temporary decline in inflation in August and September along with the expected rate cuts by the Fed and the ECB will leave the door wide open for a 25bp cut if financial market stability (HUF stability) prevails. Thus, our base case for the NBH's September decision is a 25bp easing.

The additional and new sentence in the forward guidance also supports this idea. "In the Monetary Council's assessment, there may be scope for further cautious interest rate cuts in the coming

period, depending on the expected interest rate policies of the world's leading central banks, as well as developments in the domestic inflation outlook and changes in Hungary's risk perception". In our view, the central bank's message was to ensure that the markets were prepared for the possibility of a rate cut in September after the recent pause.

Looking further ahead, Deputy Governor Virág made it clear in response to a question that the year-end interest rate target remains unchanged (for now) at 6.25-6.50%. This leaves room for one or two more rate cuts later in the year. While we see the year-end rate at 6.25%, we wouldn't rule out an update of this target (both from our side and from the central bank's communication perspective) at the September rate-setting meeting if all the pieces of the puzzle fit perfectly.

## Author

### Peter Virovacz

Senior Economist, Hungary

[peter.virovacz@ing.com](mailto:peter.virovacz@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.