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%

As expected

Key interest rate number

ING forecast 6.75% / Previous 6.75%

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.

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