

## National Bank of Hungary review: The easing continues

The National Bank of Hungary cut its base rate by another 75bp, repeating last month's decision. The Monetary Council did a balancing act, while making the closest thing to a pre-commitment. We therefore expect the central bank to maintain this pace of easing in the coming meetings



The National Bank of Hungary in Budapest

# 11.50%

Key interest rate

ING forecast 11.50% / Previous 12.25%

As expected

### No surprise in November

The National Bank of Hungary (NBH) reduced its base rate by 75bp to 11.50% at its November rate

setting meeting. At the same time, the entire interest rate corridor was lowered by 75bp, maintaining the symmetry of the +/- 100bp range.

Although this was again a unanimous decision, the menu seen in October was also present at this rate-setting meeting. That is, the Monetary Council decided between a 50, 75 or 100bp cut. The statement and press conference made it clear what the reasoning was for sticking with the proverbial golden mean.

## The pros and cons canceled each other out

A hawkish shift compared to the October meeting was dropped due to favourable incoming macroeconomic data. Hungarian inflation returned to [single-digit territory](#), with the underlying monthly repricing pattern showing similarities to 2019-2020 (pre-shock pattern). The improvement in the external balance continued on the back of rising export capacity, supported by shrinking domestic demand, which reduced import needs and the energy balance also improved. Last but not least, together with the ongoing disinflation, the Hungarian economy [exited the recession](#) and the incoming high-frequency data suggest that the year-on-year print could return to positive territory from the fourth quarter of 2023.

However, all these positive changes have been accompanied by significant external risks. Geopolitical tensions and sanctions are still with us, and we can't rule out another shock to energy and commodity markets as a result. The armed conflicts in Ukraine and Gaza keep the economic landscape highly unpredictable. On the macroeconomic side, there are ongoing labour market tensions and recessionary fears in the international environment. Against this background, the Monetary Council decided to maintain its cautious approach and closed the door on the dovish 100bp easing option.

## Steady as she goes

Even before today's official and explicit forward guidance, [we expected](#) the National Bank of Hungary to stick to the recent step size as the baseline pace of further rate cuts. During the background discussion, Deputy Governor Virág made it clear that – based on the latest information – the policy rate could fall below 11% by the end of the year and reach single digits in February 2024. We wouldn't go so far as to say that this is a pre-commitment, but it's certainly the closest thing to it. Such a rate path would imply a continuation of 75bp rate cuts up to (and including) the February rate-setting meeting.

In general, the statement and the press conference did not bring any changes either in the tone of monetary policy or in the main functions that influence monetary policy decisions. As a result, today's rate-setting meeting can be described as a well-managed non-event.

## Our market views

After the NBH meeting, everything seems to be in line with market expectations and rates have not moved much. This is good news for the HUF, which has re-established a relationship with rates over the last three days and has weakened to 380 EUR/HUF before the meeting. Still, the recent rally in rates points to weaker HUF levels, but this will probably not be the case for now. A stable NBH and higher EUR/USD could offset this, plus we could see some progress in negotiations with the EU in the near term. Overall, today's meeting thus seems to be positive for HUF, which will halt the weakening from recent days. In the short term we probably need to see some catalysts for

new gains, e.g. the EU story, but overall we remain positive on the HUF. If everything goes in a positive direction, then we believe EUR/HUF will move into the 370-375 range before the year ends. On the other hand, the current weakness probably hasn't changed the market's long positioning much and we should still keep that in mind if bad news comes.

Rates have rallied a lot in recent weeks and have closed the biggest gaps between market pricing and our forecast. But something is still missing to perfection and we still see the whole curve lower but rather flatter later. At the short end of the curve, we think the market needs to accommodate the set pace of 75bp rate cuts as the central bank confirmed today, while the long end remains significantly elevated also because of high core rates. Thus, as we mentioned earlier, the long end in our view has more potential to rally further and the curve has steepened too early and too quickly, closing the gap with the region.

## Author

### Peter Virovacz

Senior Economist, Hungary

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

### Frantisek Taborsky

EMEA FX & FI Strategist

[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@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 [www.ing.com](http://www.ing.com).