MNI NBH Preview: April 2025

Details:

Monetary policy decision: 1300BST, 1400CET, 0900ET, Tuesday 29th April 2025

MNI Point of View:

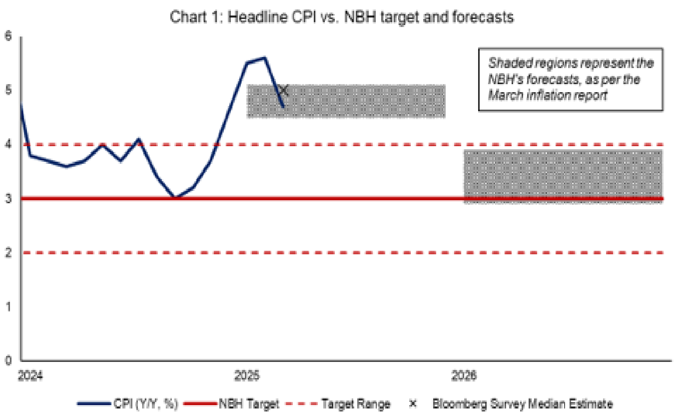
The National Bank of Hungary is expected to keep its base rate on hold at 6.50% again this month, despite the slowdown in headline inflation in March. Comments from both Governor Mihaly Varga and Deputy Governor Zoltan Kurali indicate that it is highly unlikely that any changes will be made to the Bank's hawkish guidance, with officials committed to achieving and maintaining price stability amid an uncertain geopolitical backdrop. Among sell-side, no analyst we have surveyed expect to see any change to rates this month, with many still expecting the base rate to remain on hold through the remainder of the year.

Last month's decision to keep the base rate unchanged at 6.50% was in line with expectations. The tone of the policy statement remained hawkish following the upside surprise to inflation in both January and February, while key guidance was also unchanged. In addition to leaving rates on hold, the NBH provided an updated set of economic forecasts which showed that inflation will return to target later than had been previously anticipated. The Bank noted that despite inflation likely peaking in February, strong price dynamics in market services points to higher inflation throughout the year, though it also noted that profit margin caps imposed by authorities is expected to moderate consumer prices in the coming months.

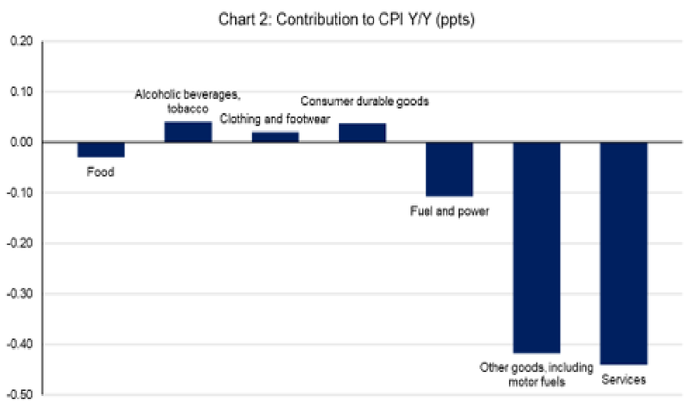
Softer services, fuel prices drive headline CPI lower

Since that decision, inflation data for March surprised to the downside, with the unchanged monthly CPI print dragging the headline year-over-year rate to 4.7% – the slowest reading of the year so far and a potential early signal that the price pressures built from end-2024 are starting to slow. A detailed breakdown of the data showed that slowing services inflation and falling fuel prices were the primary contributors to the below-expectations year-on-year print – which is now into the lower-end of the NBH's expectations band for this period (4.5-5.1%). A further soft print could therefore prompt a downward revision to the Bank's forecast as we progress towards H2.

In the months ahead, the profit-margin caps imposed on certain food products are likely to contribute more substantially to disinflation, while weaker commodity prices will also weigh on price growth. In addition, the government has ramped up pressure on service providers to offer lower prices, which may dampen core and services inflation from April onwards.



Source: MNI/HCSO



Source: MNI/HCSO

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MPC comments suggest no near-term change to hawkish comms

Despite the more favourable inflation print, Governor Mihaly Varga recently reiterated that Hungary's central bank is committed to achieving and maintaining price stability, indicating that there will be no change to hawkish guidance in the April policy statement. He said global recession and inflationary risks are rising due to: (1) the Russia-Ukraine war, (2) tariff tensions and, (3) weakness of German economy, but he also noted that Hungary's economy has "strong fundamentals". Meanwhile, Varga's newly appointed deputy, Zoltan Kurali, said, "In the current economic environment, we need an interest rate policy that can guarantee price stability in tandem with financial and market stability," mirroring the governor's hawkish rhetoric.

Forint sensitivity to global picture warrants caution

Forint stability remains a key tenet behind any future rate decision, and officials will therefore be wary of the currency's decline to a 3-month low earlier in the month. The move lower for the forint highlighted its susceptibility to swings in global risk sentiment amid a sharp drop in major global equity benchmarks, while Hungary's own sovereign credit grade outlook was lowered to 'negative' by S&P Global Ratings, pushing the nation to the edge of junk.

The tariff policy of the new US administration will continue to pose significant FX uncertainty in the periods ahead, particularly given Hungary's large exposure to the European automobile sector. Meanwhile, further signs of weakness in the German economy – evidenced recently by soft PMIs – are another cause for concern for the growth outlook. On the other hand, the forint may stand to outperform if a Ukraine-Russia ceasefire deal is reached given the currency's acute sensitivity to swings in natural gas prices.

NBH Data Watch

mni **Central Bank Watch - NBH**

April 28, 2025

MNI National Bank of Hungary Data Watch List

Inflation		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
CPI	% y/y	4.7	4.6	↑	3.0	↑					-0.52
Import Prices	% y/y	4.0	6.6	↓	3.5	↑					-0.61
PPI	% y/y	8.2	7.8	↑	3.1	↑					0.82
Demand Sensitive Inflation	% y/y	5.3	4.9	↑	5.5	↓					-0.06
Economic Activity		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
PMI Manufacturing	Index	51.2	50.6	↑	49.4	↑					0.19
GDP (Q)	% q/q	0.6	-0.6	↑	-0.2	↑					0.73
Industrial Production	% y/y	-8.0	-1.3	↓	-4.4	↓					-1.07
Economic Sentiment	Index	-15.7	-18.0	↑	-13.8	↓					0.22
Monetary Analysis		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
M0 Money Supply	% y/y	-3.19	1.00	↓	-10.81	↑					-0.68
M3 Money Supply	% y/y	9.50	8.69	↑	8.04	↑					1.14
Consumer Credit	HFBn	4923	4868	↑	4789	↑					1.29
Non-Fin Corp Credit	EURmn	32161	32134	↑	32259	↓					0.71
Consumer / Labour Market		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Retail Sales	% y/y	3.3	4.2	↓	4.2	↓					0.82
Consumer Confidence	Index	-28.1	-29.6	↑	-27.3	↓					0.52
Unemployment Rate	%	4.3	4.4	↓	4.6	↓					-0.94
Average Gross Wages	% y/y	9.2	11.9	↓	13.1	↓					-1.75
Markets		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Budapest Stock Index	Index	92908	79327	↑	73896	↑					1.78
Hungary 10-Year Yield	%	6.93	6.55	↑	6.13	↑					1.82
HUF Yield Curve (2s-10s)	bps	66.0	52.6	↑	58.9	↑					1.33

Note: For quarterly data the 3m ago column will display the previous data point and the 6m ago column will display the data point prior to that.

Source: MNI, Bloomberg

Sell-Side Views

All analysts surveyed below expect no change to the base rate this month, with some still expecting rates to remain on hold at 6.50% for the remainder of the year despite the more favourable inflation developments.

BNY: NBH Likely to Show a Stronger Easing Bias in Future Decisions

- BNY say the NBH is expected to keep its benchmark interest rate unchanged at 6.50%. Despite the progress in inflation, the NBH raised its 2025 inflation forecast to a range of 4.5%–5.1%, reflecting concerns over a weakening forint and the impact of new global tariffs. Core inflation pressures, wage growth, and geopolitical risks in Europe also heavily influence policymakers' considerations. Governor Matolcsy has emphasised that maintaining tight policy is essential to anchor expectations and prevent second-round inflation effects.
- Given the external environment and fragile recovery prospects, BNY say markets are confident the NBH will continue its cautious approach, but given the NBP is openly flagging a cut and headline inflation is set to fall further, the NBH will likely show a stronger easing bias in future decisions.

Goldman Sachs: NBH May Relax Hawkish Guidance Next Month

- Goldman Sachs expect the NBH it to keep its base rate on hold at 6.50%. They say it was noteworthy that the communication last month was broadly unchanged at the MPC from the hawkish guidance under Varga's predecessor.
- While inflation surprised meaningfully to the downside in March, and the combination of weaker commodity prices and the recently introduced profit-margin caps on certain food products are likely to contribute to further disinflation in the months ahead, this is set against the recent weakening of EUR/HUF, which the NBH has historically been sensitive to, Goldman Sachs say.
- In light of the NBH's guidance and the slight weakening in the forint, Goldman Sachs expect it to continue to deliver hawkish guidance. However, if inflation returns to the +3.0% +/- 1pp target next month – which they expect – and EUR/HUF recovers somewhat, Goldman Sachs believe the NBH might relax its hawkish guidance at the MPC next month.

ING: Continue to Expect No Change to Rates This Year

- The overall picture for the Hungarian economy has been moving in a dovish direction since the central bank's March meeting, ING say, with lower inflation, government measures and downside risks to an already weak economic outlook. However, they believe it is too early for any reversal in forward guidance.
- ING think the message is clear: rate cuts aren't on the table for the time being, and there won't be any change in forward guidance indicating otherwise. For now, at least, they believe that the possibility of a rate hike may disappear from the discussion, given that the situation on the domestic side and FX volatility have calmed recently.
- ING continue to see rates unchanged this year and have the first rate cut in their forecast for March next year. The inflation picture looks a bit better after the March number, but it is too early to change anything on the baseline scenario, ING say, although the likelihood of some rate cut late this year has increased slightly.

JP Morgan: NBH Could Cut from September if Inflation Allows

- Beyond the volatility, JP Morgan see inflation trending around 4-5%, which if combined with a weak currency does not allow the NBH to ease near term. Later in the year, assuming the forint stabilises at acceptable levels for the NBH and inflation momentum converges closer to 4% than 5%, they think the NBH could cut from September.

SocGen: Still Expect NBH to Remain on Hold Until 1Q26

- SocGen say in 1Q25, the (probably) biggest concern of the MPC was the surprising rise in inflation in January and February, driven by food prices and services. However, since then inflation developments have improved significantly. SocGen expect headline inflation to have slowed to 4.1% y/y in April. All in all, the Monetary Council should feel much more comfortable with current inflation developments. However, market uncertainty increased significantly at the beginning of the month due to the "liberation day" announcement and has not yet fully subsided.
- SocGen believe that the Monetary Council will opt for a very cautious statement, signalling that easing is not on the table any time soon, despite the positive developments on the inflation side. And they still expect the NBH to remain on hold until 1Q26, as the bank is likely to strongly prefer the stability of the forint to potential rate cuts.
- They expect the EUR/HUF at 410 in 2Q25. On the one hand, improving inflation and the NBH remaining on hold should support the forint. On the other hand, trade war uncertainty remains, Hungary is unlikely to unlock additional EU funds anytime soon and the currency remains vulnerable to sharp swings in market sentiment. On rates, the market is pricing in more than two 25bp cuts (around 65bp of easing) before the end of 2025. SocGen think this is overdone, as the NBH is likely to prioritise forint stability over lower policy rates.