MNI NBH Preview: July 2025

Details:

Monetary policy decision: 1300BST, 1400CET, 0800ET, Tuesday 22nd July 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, sticking to its ‘cautious and patient’ approach to monetary policy. Officials are likely to strike a hawkish tone and reiterate their commitment to achieving and maintaining price stability. However, some sell-side analysts expect an easing cycle to commence later in the year, dependent on both the forint and underlying inflation maintaining a more benign path.

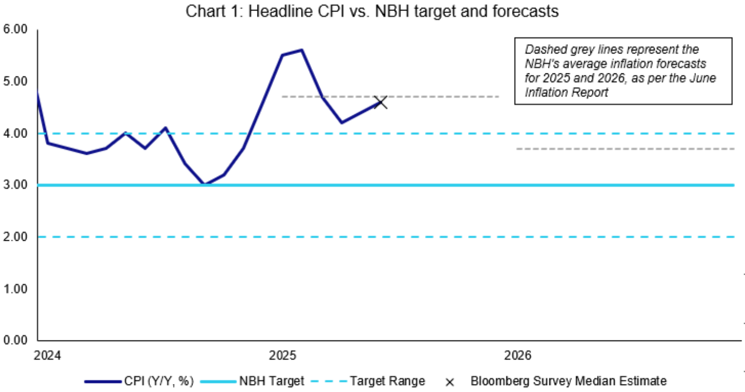
Last month’s decision to keep the base rate unchanged at 6.50% was in line with expectations. The policy statement retained a cautious tone, reiterating that a “careful and patient” approach to monetary policy remains necessary, and was for the most part unchanged from May. Inflation is still expected to remain “above” the upper bound of the central bank’s tolerance band in the coming months, while the central bank acknowledged the downward effect of profit caps on consumer price growth.

Headline CPI inflation edges higher again in June, but core pressures ease

Consumer prices in Hungary rose +4.6% Y/Y in June compared to +4.4% Y/Y in May, matching analysts' expectations and therefore limiting the scope for any significant changes to this month’s policy statement. Among the CPI subcategories, the ‘fuel and power’ subcomponent contributed around 0.15ppts to the rise in the headline figure, while ‘food’ added 0.09ppts. Meanwhile, the ‘alcoholic beverages and tobacco’ and ‘services’ subcomponents weighed around 0.08ppts and 0.13ppts, respectively, on the change in the year-on-year figure.

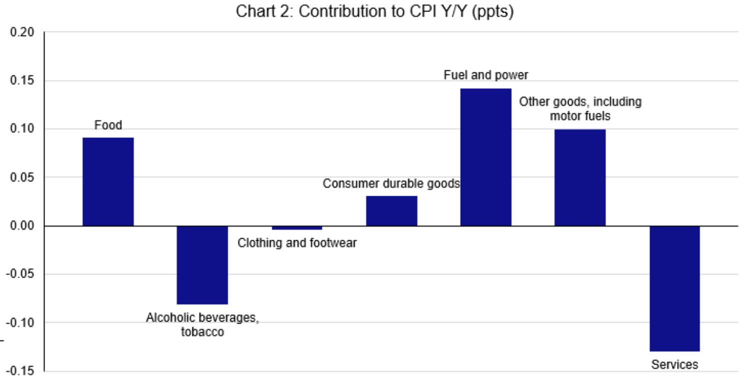
Food prices rose 6.2% Y/Y in June, with staples such as eggs and flour rising more than 20% on an annual basis, despite the government’s profit curbs on such products. Household energy costs increased 8.6%, while services prices were up 5.4%. However, the momentum of core inflation pressures remained low – core CPI fell from +4.8% Y/Y to +4.4%, its lowest level since November 2024, aided by both the 'voluntary agreement' to reduce prices in the banking sector and the withdrawal of planned increases in telecoms fees.

Chart 1: Headline CPI vs. NBH target and forecasts



Source: MNI/HCSO

Chart 2: Contribution to CPI Y/Y (ppts)



Source: MNI/HCSO

Gross wage data, positive HUF developments may open door to late-2025 rate cut

Gross wages data out last week showed a slower pace of wage rises than expected: the month of May saw average gross wages rise by 7.7% vs. an expected 8.6%. This marked a sharp slowdown from the prior of 9.8% and marks the slowest rate of increase in pay since COVID. Analysts note that particular weakness stemming from the private sector has raised the risk of an earlier rate cut, meaning the September meeting may be a live meeting for policymakers to discuss the first rate cut in a year.

The forint's strength since May and increase in long positioning amid expectations of high carry and lower volatility during the summer months may also open the door to a rate cut later this year given that HUF stability is implicitly a pre-requisite for easing. But given the currency's acute sensitivity to swings in risk sentiment, global stories – i.e., US tariff policy, Middle East tensions – will continue to be key moving forward.

Sensitivity around tariffs are two-fold for Budapest – not only would the still awaited EU-US tariff deal apply to Hungary goods exports to the US (the car industry is particularly sensitive here, accounting for ~40% of all exports to the US) as well as the potential use of Brussels-based retaliatory action, but Trump's threat of secondary tariffs of upwards of 100% against Russia also applies given Hungary remains a notable energy importer from Russia. Meanwhile, current government interventions to rein in inflation will stay in place until August, but are likely to be extended, adding another layer of uncertainty to policymaking.

NBH Data Watch

mni **Central Bank Watch - NBH**

July 21, 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	4.6	4.7	↓	4.6	→					-0.34
Import Prices	% y/y	3.2	4.0	↓	6.6	↓					-0.84
PPI	% y/y	6.9	8.1	↓	7.8	↓					-0.20
Demand Sensitive Inflation	% y/y	4.3	5.3	↓	4.9	↓					-1.67
Economic Activity		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
PMI Manufacturing	Index	48.9	51.4	↓	50.6	↓					-0.56
GDP (Q)	% q/q	-0.2	0.6	↓	-0.7	↑					-0.51
Industrial Production	% y/y	-2.6	-8.0	↑	-1.3	↓					0.71
Economic Sentiment	Index	-17.6	-16.8	↓	-17.3	↓					-0.71
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	-2.37	-3.19	↑	1.00	↓					-0.47
M3 Money Supply	% y/y	6.69	9.48	↓	8.51	↓					-1.57
Consumer Credit	HFBn	5063	4923	↑	4868	↑					1.72
Non-Fin Corp Credit	EURmn	31832	32160	↓	32134	↓					-0.23
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	2.1	3.3	↓	4.2	↓					0.42
Consumer Confidence	Index	-31.6	-29.5	↓	-28.7	↓					-1.69
Unemployment Rate	%	4.3	4.4	↓	4.7	↓					-0.84
Average Gross Wages	% y/y	7.7	9.2	↓	11.6	↓					-1.42
Markets		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Budapest Stock Index	Index	100929	88686	↑	79327	↑					1.89
Hungary 10-Year Yield	%	7.02	7.21	↓	6.55	↑					0.95
HUF Yield Curve (2s-10s)	bps	80.2	70.2	↑	52.6	↑					1.87

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 Analyst Views (Alphabetical)

All analysts surveyed below see no change to either the base rate or hawkish guidance this month, however, some expect the central bank to commence a cautious cutting cycle after the summer months.

Goldman Sachs: Continue to Believe NBH Will Open Door to Rate Cut Before Year-End

- Goldman Sachs expect the NBH to keep its base rate on hold at 6.50%. While the forint has recently re-appreciated to ~400 against the euro and exhibited lower volatility during the past month, they expect the NBH to continue to reiterate that "maintaining tight monetary policy conditions is warranted" and not relax its guidance, particularly following inflation rising in June, which surprised the NBH’s forecast slightly to the upside.
- That said, in light of the somewhat stronger HUF, the weakness of Q1 GDP data and signs of a slowdown in wage growth, Goldman Sachs continue to believe that the NBH will open the door to a rate cut before year-end.

ING: Still Expect No Rate Cuts This Year

- ING still see no scope for the NBH to ease monetary policy in the short term. In line with this view, the central bank is expected to leave interest rates unchanged in July - a high-conviction call.
- Looking further ahead, ING still expect no rate cuts this year, as the Monetary Council prioritises addressing elevated inflation expectations. Regarding 2026, ING predict a total easing of 100bps. However, in all fairness, predicting next year's interest rate path in such a volatile environment is more akin to playing roulette than applying economic principles.
- Although they do not expect rate cuts this year, July should show weaker inflation numbers and economic surprises to the downside, which may lead to more dovish market pricing and again undermine HUF strength.

JP Morgan: Expect NBH to Reiterate Hawkish Tone

- JP Morgan expect an uneventful meeting, with rates unchanged at 6.50% and the hawkish tone reiterated.

SocGen: Expect Two Cautious Cuts at the September and October Meetings

- SocGen note that since the last meeting, macro data has continued to suggest a deterioration in economic performance, with industrial production and the manufacturing PMI falling well short of consensus expectations. Meanwhile, annual headline inflation increased in June, mainly due to low base effects in food inflation.
- Despite the positive inflationary trends observed in recent months, SocGen do not anticipate any adjustments to the policy rate at next week's meeting. They believe the central bank will prefer to wait for these signals to solidify and for inflation expectations to decrease from their current elevated levels. However, they expect services inflation to moderate over the coming months.
- Provided that positive developments in the foreign exchange market continue (i.e. the HUF remains stable), the NBH is likely to deliver rate cuts after the summer. Specifically, SocGen expect the central bank to deliver two cautious rate cuts of 25bp in the second half of this year, at the September and October meetings. The August meeting would be an opportunity for the Monetary Council to prepare for potential rate cuts in subsequent months, in their view.

UniCredit: NBH May See Room for One 25bp Cut in Late-2025

- UniCredit say the NBH is likely to stick to its cautious stance, citing trade-related and geopolitical uncertainties, and leave its key policy rate on hold at 6.50% without providing firm guidance for the future rate path.
- While headline inflation ticked higher in June, the underlying core-price momentum has decelerated, in line with still-sluggish growth. This confirms UniCredit’s view that, barring any fiscal or external-related widening in Hungary’s risk premium, the NBH may see room for one 25bp cut in late-2025, while the retirement of the recently extended regulative price controls may eliminate the room for rate cuts in 2026.

MNI Policy Team Insights

MNI EM INTERVIEW: Gov Schemes Put NBH Focus on FX - Ex-DG Kiraly

By Luke Heighton, Jul 16, 2025

MNI (LONDON) Government caps on prices and profit margins mean National Bank of Hungary monetary policy is increasingly detached from inflation targeting, and it is likely to keep rates on hold for some time barring an event such as a forint selloff, former deputy governor Julia Kiraly told MNI.

“The central bank is targeting the exchange rate, rather than the inflation rate - not least because the interest rate channel is more and more noisy due to government intervention, such as, for example, the 3% benchmark for mortgages, all kinds of subsidies for small entrepreneurial loans, etcetera. The interest rate channel simply doesn't work,” Kiraly said in an interview.

The NBH left key rates unchanged in June after inflation rose to 4.6% from 4.4% in May. With the Bank anticipating headline inflation to end the year between 4.5–5.1%, base rate is expected to remain at 6.5% this month, having last changed in September 2024, when it was eased by 25 basis points.

Near-zero GDP growth means Hungary is very close to stagflation, even though inflation is not too far from target, according to Kiraly.

“If nothing big happens then I think we’re in for a long period of wait-and-see - at least until the 2026 elections,” she said.

“If there is an emergency situation - a sharp deterioration of the exchange rate, let’s say - the central bank should increase the interest rate, and I have no doubt that they will. Otherwise, I see no need for them to do so. The fundamentals are really stable; the exchange rate is relatively solid. Yes, there are threats, and you can never know what will happen tomorrow, but I do not think the MNB would hesitate to act if it had to.”

FISCAL STRAINS

Core inflation - 4.3% in June - is unlikely to fall quickly, Kiraly said, with households’ and firms’ inflation expectations anchored to the exchange rate.

“This is particularly the case in the services sector, where it’s effectively the only benchmark they follow,” she said.

The government’s announcement last week of cheap loans for first time-home buyers will push the budget deficit to 4.5% of GDP this year, versus the target of 4.1%, and to around 8% in 2026, Kiraly said.

Rising property prices will not add to overall inflation, as neither house prices or rents are included in HICP, but “some kind of financial instability will be built into the system once again,” Kiraly said.

The former official also pointed to the country's increasing reliance on foreign borrowing, with the share of FX debt relative to total debt seen breaching the 30% this year.

"Don't forget that some 15 years ago the new government stated that the share of foreign exchange debt should be below 15%. Then the limit was increased to 20%, then to 30% - and that can also be surpassed," Kiraly said.

CREDIT RATING

"That's not a problem until there is an emergency situation in the global financial market. As long as markets are quiet Hungary is a small country that can refinance itself. But if anything happens - and we've seen this before - it immediately has a negative effect."

In April, S&P Global Ratings revised its outlook on Hungary to negative from stable for its BBB- rating, the lowest rung of investment grade, warning of spending pressures ahead of next year's elections, and Kiraly said a downgrade could prompt sales by international funds similar to those seen in 2012, when the Templeton Global Bond Fund emerged as a significant buyer.

"The worry is that if the same thing were to happen again there would not be a Templeton to save Hungary this time," Kiraly said.