MNI NBH Preview: May 2025

Details:

Monetary policy decision: 1300BST, 1400CEST, 0800ET, Tuesday 27th May 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 a further slowdown in headline inflation in April. Comments from central bank officials continue to indicate that it is highly unlikely that any changes will be made to the Bank's hawkish guidance either, with officials committed to anchoring inflation expectations. Among sell-side, no analyst we have surveyed expect to see any change to rates this month, with some still expecting the base rate to remain unchanged for the remainder of the year given the unstable risk backdrop.

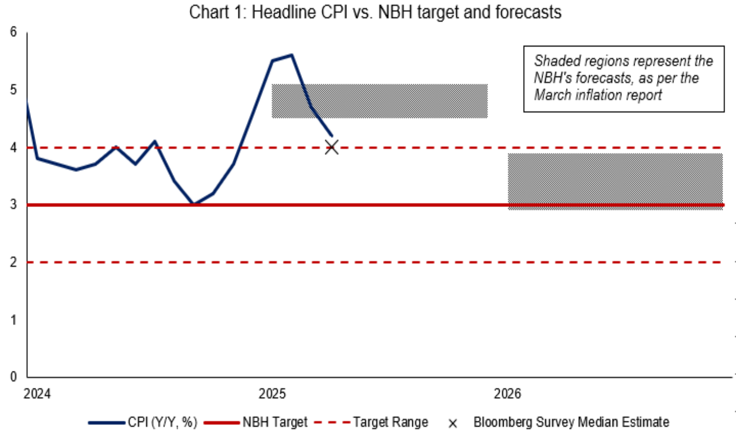
Last month's decision to keep the base rate unchanged at 6.50% was well anticipated. The policy statement retained a cautious tone, reiterating that a careful and patient approach to monetary policy remains necessary, while Governor Varga said the Bank may keep its key rate at current level for "sustained" period. Notably, last month's statement removed reference to "overall upside risks to inflation". Instead, risks are now perceived as being two-sided, with lower commodity prices potentially supporting lower inflation on the one hand, while tariff hikes and rising uncertainty across financial markets poses upside risks on the other.

Softer food prices push headline CPI closer to target

Since the previous decision, annual consumer price growth slowed from +4.7% Y/Y in March to +4.2% in April, a touch above expectations of a more substantial decline to +4.0% – which would have placed the rate at the top end of the NBH's target range. The central bank had noted that inflation was expected to fall further in April and then remain near the upper bound of the central bank tolerance band in the coming months.

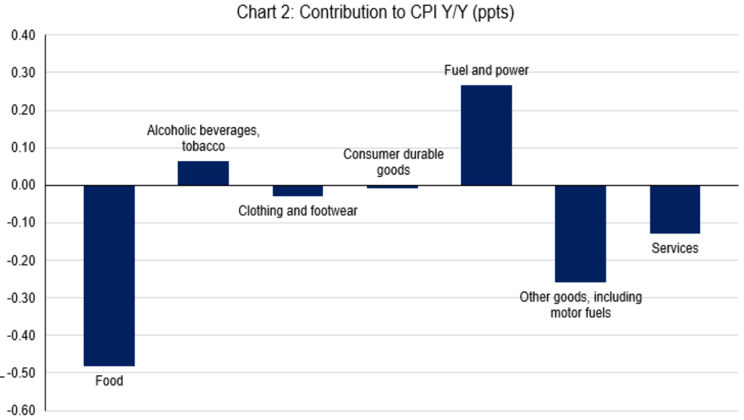
There was a positive contribution from the "fuel and power" subcategory on inflation, while "food" was the primary contributor to the lower headline rate, accounting for nearly 0.5ppts of the decline in the year-on-year reading given the more pronounced impact of profit caps on some basic food items. The "other goods including motor fuels" subcomponent shaved 0.25ppts off, as had been anticipated given the lower course of oil prices through April. Core inflation, which excludes volatile fuel and food prices, remained high at +5.0% Y/Y.

Chart 1: Headline CPI vs. NBH target and forecasts



Source: MNI/HCSO/BBG

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



Source: MNI/HCSO

Government measures to tame food prices may yet be extended from the current August expiry, offering further – albeit temporary – relief for inflation. But the removal of these controls later in the year could complicate the inflation outlook, justifying the NBH's wait-and-see approach.

NBH to focus attention on bringing down inflation expectations

Despite ongoing disinflation, Governor Mihaly Varga recently reiterated that Hungary continues to need a patient and careful monetary policy, with latest comments honing in on inflation expectations. Varga told the German Chamber at an event in Budapest that the central bank's focus is on cooling CPI expectations, where he also flagged global tariff uncertainty which is likely to shave 0.6ppts off this year's economic growth projection (the central bank currently forecasts 1.9-2.9% GDP growth for 2025). In its assessment of inflation in April, the NBH noted that "Households' inflation expectations remain at a high level, following an increase seen in the second half of last year." However, it also stated that "the percentage of respondents expecting prices to increase at a faster rate, looking ahead, fell in April relative to the previous month."

Varga stamps authority with behind-the-scenes management tweaks

While Varga's appointment as Governor has had little bearing on NBH strategy, he looks set to make some notable changes to central bank operations behind the scenes. Zoltan Kurali, who had worked for Varga as the head of the Debt Management Agency, was elevated to deputy governor last month and was given the most important portfolios, including monetary policy and foreign-currency reserve management. Deputy Governor Barnabas Virag, who previously held those roles, will take over as deputy governor for analysis, cash flow and central bank programmes. Meanwhile, a bill negotiated between the central bank and the government – which will likely pass with ease given the majority of the ruling party – looks set to increase the number of deputy governors and rate-setters on the MPC from its current 9 to 11. Varga said he has asked for a fourth deputy governor to deal with issues relating to developments regarding tariffs and international trade.

NBH Data Watch

mni **Central Bank Watch - NBH**

May 26, 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	4.2	5.5	↓	3.2	↑					-0.54
Import Prices	% y/y	2.7	8.2	↓	3.1	↓					-0.97
PPI	% y/y	7.3	8.9	↓	0.9	↑					0.40
Demand Sensitive Inflation	% y/y	5.2	5.6	↓	4.9	↑					-0.14
Economic Activity		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
PMI Manufacturing	Index	50.2	50.0	↑	47.9	↑					0.06
GDP (Q)	% q/q	-0.2	0.6	↓	-0.6	↑					-0.55
Industrial Production	% y/y	-5.4	-7.9	↑	-7.2	↑					-0.07
Economic Sentiment	Index	-17.8	-16.6	↓	-16.7	↓					-0.90
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	-5.50	-0.09	↓	-6.49	↑					-0.67
M3 Money Supply	% y/y	7.58	8.87	↓	6.76	↑					-0.94
Consumer Credit	HFBn	4973	4892	↑	4814	↑					1.62
Non-Fin Corp Credit	EURmn	31639	31924	↓	32103	↓					-1.61
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	0.4	0.0	↑	1.7	↓					0.28
Consumer Confidence	Index	-29.3	-29.6	↑	-31.0	↑					-0.15
Unemployment Rate	%	4.4	4.3	↑	4.6	↓					-0.42
Average Gross Wages	% y/y	8.4	11.0	↓	12.5	↓					-1.55
Markets		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Budapest Stock Index	Index	96150	85493	↑	73866	↑					1.88
Hungary 10-Year Yield	%	7.00	6.60	↑	6.89	↑					0.44
HUF Yield Curve (2s-10s)	bps	62.5	56.4	↑	71.3	↓					-0.05

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 expect to see 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.

BNY: Expect Central Bank to Keep Policy Tight Despite Subdued Growth

- BNY say the NBH is expected to maintain its base rate at 6.50%, marking the eighth consecutive hold. Despite subdued economic growth – projected at below 2% this year – the central bank is likely to keep policy tight, with markets anticipating only a minor rate reduction to 6.25% by year-end.
- CEE is not at the forefront of duration or carry flows due to the state of the policy cycle, but improvement in yield demand (where fiscal policy is credible) can support HUF holdings, BNY say.

Goldman Sachs: NBH May Choose to Soften Guidance

- Goldman Sachs expect the NBH to keep its base rate on hold at +6.50%. After last month's MPC, Governor Mihaly Varga reiterated that the NBH may "keep the key rate at the current level for a sustained period". Since then, the HUF has re-appreciated against the Euro somewhat in recent weeks, Q1 GDP data was weak, and there has been some signs of a slowdown in wage growth. Set against this, the April CPI print surprised consensus expectations.
- Taken together, Goldman Sachs expect the NBH to emphasise the need for rate stability for now and emphasise the external uncertainties emanating from recent changes to US trade policy. However, given the strength of the HUF and the ongoing weakness in the Hungarian economy, the NBH may choose to soften its guidance relative to previous meetings (when the HUF was weaker and inflation higher). Goldman Sachs have recently shifted their expectations for the rate path and now expect 50bps of cuts this year (vs 75bps before).

ING: Baseline Case Remains That There Will Be No Rate Cuts This Year

- ING think Hungarian interest rates will remain on hold for an extended period. High inflation expectations and global uncertainties are clouding the picture, and they're the two key discussion points right now for the National Bank of Hungary.
- ING's baseline remains that there will be no rate cuts this year, as the Monetary Council now pays primary attention to elevated inflation expectations. They do not rule out the possibility that the situation in the last quarter of the year could allow for some easing, but we see little chance of this for the time being. However, if economic activity were to weaken significantly, there could be scope for unconventional easing measures, particularly through balance sheet interventions.
- Moreover, ING say the introduction of an increasing number of price control measures will result in a temporary reduction in the inflation rate, but will lead to longer-term inflation issues as price changes will only be delayed, not eliminated.

JP Morgan: Expect Central Bank Will Continue to Send Same Hawkish Message

- JP Morgan expect the NBH to leave interest rates on hold at 6.50%. Inflation fell to more reasonable levels, but core CPI remains too elevated and the signs are that most of the improvements are due to government interventions to repress prices.
- In this context, there is no space for the NBH to change stance, and JPM expect the central bank will continue to send the same hawkish message of rates on hold for the foreseeable future.

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SocGen: NBH to Prioritise HUF Stability by Providing Stable Carry

- SocGen believe that the NBH will prioritise the stability of the forint over cuts to its policy rates by providing stable carry in the coming months. However, they still consider the HUF to be vulnerable to periods of weakness due to escalating domestic politics ahead of the general election in April 2025, the unlikely prospect of additional EU funds being released for Hungary and the economy's exposure to the European automotive industry and its problems.
- Regarding rates, SocGen's NBH forecast indicates higher front-end HUF rates. They anticipate a favourable opportunity to open a front-end payer following the NBH meeting on Tuesday.