

## Hungary Watch

# Slower NBH cuts on fragile HUF and less govt pressure

## NBH to turn hawkish, government to tone down

We see a slower pace of rate cuts (75-50bp) from the NBH in coming months and revise up our YE2024 policy rate forecast to 6.0% from 5.50% previously. The recent bouts of self-inflicted HUF weakness have likely earned the Matolcsy-led NBH the right to carry out hawkish monetary policy without overt/strong government pressures for faster cuts. The HUF will thus likely stabilise in the near term, but policy uncertainty has probably made it more vulnerable to global risk appetite. We continue to see a depreciation trend in the longer term given Fidesz's pro-growth policy bias for 2026 elections.

## 2025 rates outlook more uncertain

We think further 100bp easing of the base rate to 5.0% in 2025 is possible considering our expectation of inflation around 4%. But this call is subject to much higher uncertainty. It is a pre-election year so there will be a stronger appetite for growth. Next March we will also get a new NBH Governor, likely suggesting an NBH more closely aligned to the government. However, we think policy will need to be generally cautious, as Fidesz will want to avoid significant HUF volatility hurting domestic confidence.

## More realistic govt priority = less dovish pressure on NBH

We think the government has adjusted its priorities somewhat in view of recent macro/market developments, which in turn implies less dovish pressure on the NBH for now. First, there seems to be more focus on HUF stability. The government's decision to delay its plan to change the central bank law likely implies the recent HUF depreciation is an important concern. The authorities are keen to revive consumption among households, who have elevated savings but low confidence. Sharp FX depreciation would be counterproductive to their wish to kick-start spending.

## Growth not living up to Fidesz's hopes

Second, the growth objective has likely shifted further out to 2025. EconMin Nagy recently admitted that 4% GDP growth for 2024 is unrealistic, blaming a slowdown in exports. The focus on growth is thus firmly for 2025, ahead of the spring 2026 general election. EconMin may also start to accept that the tense relationship with the Matolcsy-led NBH for the next 12 months will make it any cooperation difficult. As for the growth disappointment, we would not rule out more sectoral taxes if the government runs out of options to contain the budget deficit. The government will also likely seek to extend its agreement with banks to keep loan rate spreads over Bubor at zero for a while longer.

## Inflation concern lingers

Other than FX, the administration may be growing more cautious about the inflation outlook, reducing the government's push for any major credit-easing programmes to compensate for the lack of base rate cuts. Market services inflation has stuck at around 8% saar for several months, displaying no material downtrend. Industrial goods inflation has passed the trough, and may be prone to further upside, in part due to a weak HUF.

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### Abbreviations

NBH: National Bank of Hungary

saar: seasonally adjusted annualized rate

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