National Bank of Hungary preview: And just like that...

Governor Varga's statement that "this is not a rate cut cycle" has aged pretty well – perhaps too well. We see the NBH turning into a hawkish currency defender, closing the door on easing for now but citing maximum flexibility to keep inflation on track and calm investors. We now anticipate a hold next Tuesday and just one more rate cut in 2026

Governor of the National Bank of Hungary, Mihaly Varga. We're expecting just one more rate cut from the central bank this year

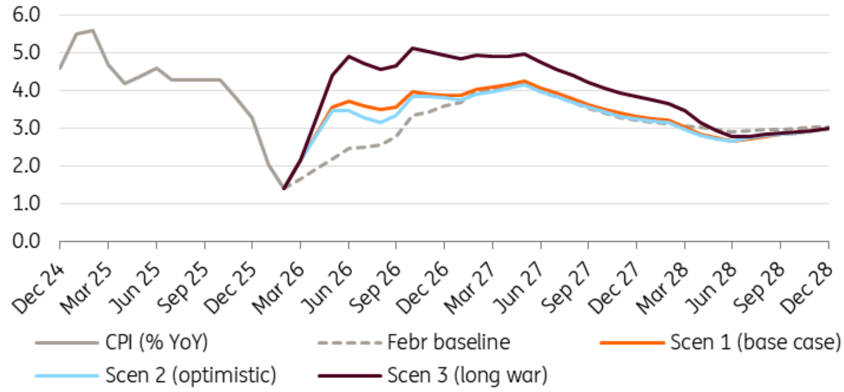
Our call

A month ago, the idea that the National Bank of Hungary's February rate cut would become an actual one-and-done move looked unthinkable in the light of the expected dip in inflation figures. And just like that, Governor Mihaly Varga's words from the press conference that "this is not a rate cut cycle" aged well. It seems the comment could have aged too well, however, in the wake of the war in the Middle East.

We are living through turbulent times, and it is increasingly likely that the energy shock caused by the war will not fade quickly. Alongside our new base-case scenario for energy prices and markets, we have updated our expected interest rate path for Hungary.

As a starter, a rate cut is definitely out of the question for the March meeting next Tuesday and this is a high-conviction call. We expect the central bank to adopt the most hawkish tone possible in an attempt to influence FX market stability, keeping EUR/HUF at around 385-390. We expect the NBH to demonstrate maximum flexibility in order to convince market players and project an image of strength, calmness, patience and caution.

The forecasted path of Hungarian inflation in our different scenarios (% YoY)

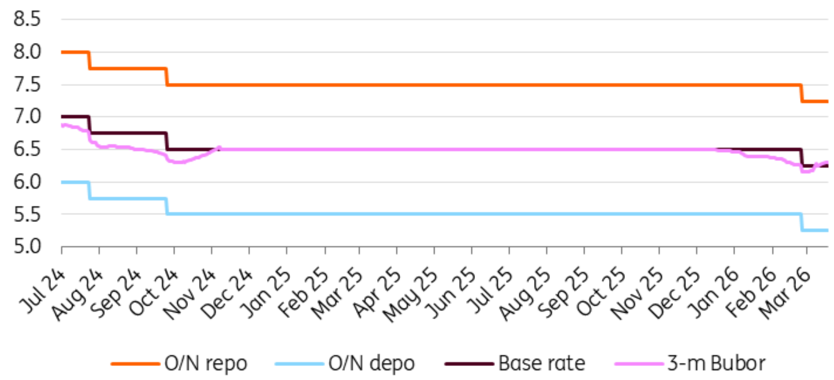


Source: HCSO, ING

Looking further ahead, based on our updated (and gloomier) base case regarding energy markets and major central banks, we predict that Hungarian inflation will reach 3.5% year-on-year by the middle of the year, plateauing at around 4% year-on-year in the fourth quarter. In this case, inflation would remain within the tolerance band, giving the Monetary Council some leeway to cut the base rate to 6.00% in autumn while maintaining a sizeable positive real interest rate.

However, if our 'long war' scenario materialises, with Hungarian inflation reaching 5% during the second half of 2026, the possibility of a rate cut before the end of the year would be eliminated. Therefore, we see upside risks surrounding our base case interest rate path.

The main interest rates (%)



Source: NBH, ING

The new staff projection

The central bank is also going to update its staff projections. These revisions should reflect the market impact of the war in the Middle East. Therefore, we expect a substantial shift in the GDP outlook compared to the December baseline. We anticipate the central bank reducing the outlook for economic activity in 2026, though likely improving it somewhat thereafter. The growth outlook for this year could be lowered to below 2%, as the impact of the war and the weaker-than-projected fourth quarter will be taken into account in the new baseline forecast.

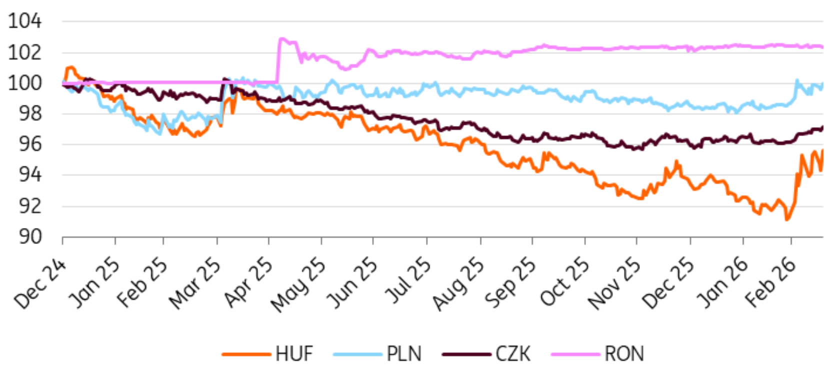
Regarding the inflation outlook, the February extension of the price shield measures and lower-than-projected inflation could have lowered the 2026 forecast. However, the energy price shock and weaker forint have reversed this effect. While the new temporary fuel price cap may limit the initial effects of the energy price shock, due to the shock's indirect impact, we expect the central bank to maintain its December projection of 3.2% for 2026 and increase the inflation figure for 2027 from the previous 3.3% figure. The full March Inflation Report will be released on 26 March.

Our market views

The CEE region is one of the most affected parts of the EM space in the wake of the US-Iran conflict; Hungary, in line with previous patterns in similar situations, took the biggest hit in both FX and rates markets. While EUR/HUF almost reached 400 last week and somehow stabilised lower around 390 later, the rates market quickly outpriced all NBH easing around 125bp of rate cuts and switched to rate hikes. After pricing in around three rate hikes last week, pricing has stabilised at around one and a half rate hikes at this point.

While the NBH will want to push against rate hike pricing, it can be expected that the market will not get too carried away and will leave some probability of rate hikes for now.

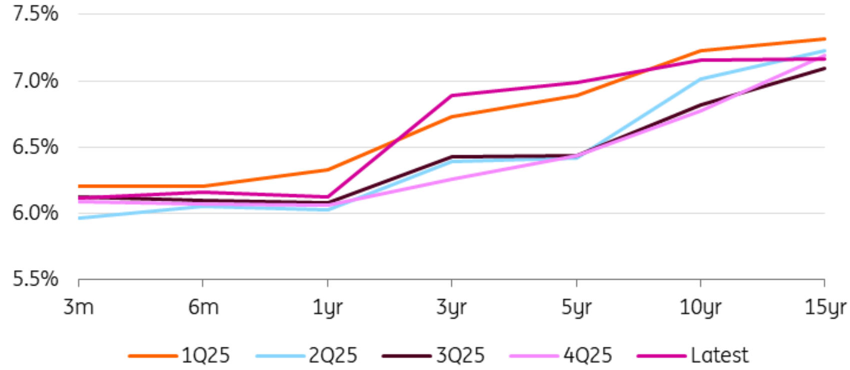
CEE FX performance vs EUR (end-2024 = 100%)



Source: NBH, ING

The geopolitical situation shows only limited signs of de-escalation and FX may still show further upward spikes in EUR/HUF. At the same time, until hard inflation data is available, the market will retain a hiking bias in our view. The new NBH forecast, or alternative scenarios, may be more important than the central bank's communication itself, given that the market is currently in the dark without hard data. In turn, we do not see much movement at the front of the curve unless the global situation visibly defuses.

Hungarian yield curve



Source: GDMA, ING

On the other hand, we should see a further flattening of the curve, with the long end pushed down by the already weak performance of the economy before the conflict and higher energy prices further exacerbating the economy's inability to rebound. Meanwhile, EUR/HUF remains a function of risk-on and risk-off global markets and the NBH probably does not have much to do here, although we will certainly see a lot of effort to keep FX stable.

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