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National Bank of Hungary Review: No need to panic, unless...

Following the first rate cut in 16 months, the easing cycle ended before it had even begun. The war in the Middle East has forced the National Bank of Hungary to revise its macro projections, pushing it towards a more hawkish stance. We think it is still too early to panic, and we still see a chance of a rate cut this year

As expected, the National Bank of Hungary left the base rate unchanged at 6.25% (pictured: Governor Varga)

6.25%

As expected

Key interest rate

no change

ING's view: Per our base case, there is still hope for a rate cut

In line with our expectations, the Monetary Council decided to keep the base rate at 6.25% on 24 March. Unsurprisingly, in light of the war in the Middle East and related market turmoil, the

National Bank of Hungary has reverted to a hawkish stance. We agree with the central bank's view that it is too early to press the panic button.

As headline inflation hit a ten-year low in February, Hungary will be hit by the external price shock in a favourable position. Using our base case for energy prices, we predict that, after a brief period of acceleration, inflation will stabilise at around 4% in the second half of the year. If our base case holds (40% chance) and the impact of energy prices fades as expected, inflation will remain within the National Bank of Hungary's tolerance band. This could pave the way for monetary policy easing in the second half of 2026, following a lengthy pause.

This energy price shock is hitting the country at a time when it is in a different position to that of 2022. Inflation is at its lowest, the labour market is weaker, and there has been three years of economic stagnation. However, economic policy reactions are better equipped to help weather this storm, which could lead to a better outcome than four years ago. In this respect, the impact on GDP growth may be stronger and the effect on inflation weaker than we currently anticipate.

If flows through the Strait of Hormuz return to normal by the summer, as we currently expect in our base case, our growth, inflation and foreign exchange trajectory suggests there will be room for a rate cut late in the third quarter. Therefore, we predict that the base rate will be 6.00% by the end of the year. However, if our 'long war' scenario plays out (30% chance), we believe that the forint would require additional support, and the NBH could follow the ECB's lead with the same number of rate hikes (most likely two) during the next couple of quarters.

The rate decision in March

The outcome of the rate setting meeting in March 2026 was in line with expectations. On 24 March, the National Bank of Hungary kept its key interest rate at 6.25%. The interest rate corridor (+/- 100bp) also remained unchanged. The Monetary Council seems ready to consider all options, as Governor Varga emphasised during the press conference.

Drivers behind the decision and the forward guidance

Starting with the positives, the central bank was pleased to see inflation hit such a low level in February. Lower inflation also helped push down inflation expectations, although the survey was conducted before the war in Iran began.

In line with our view, Governor Varga repeatedly emphasised that the economic fundamentals are totally different to those of 2022. He highlighted the lower external and domestic inflation environment, the already positive Hungarian real interest rate and the current account surplus. Furthermore, Hungary has almost doubled its FX reserves over the past four years, providing flexibility.

The importance of FX stability was emphasised several times at the press conference in March.

The central bank is implementing targeted measures to alleviate the impact of energy price shocks, providing foreign exchange reserves to energy importers to purchase the necessary hard currency. Governor Varga also emphasised that all options are on the table to preserve price and FX stability, including direct FX market interventions if the situation warrants it.

The forward guidance in the March press release shows a hawkish bias, stating that tight monetary conditions are warranted to maintain price stability. Furthermore, the final sentence of the forward guidance omits the 'meeting-to-meeting' remark regarding the decision-making process. We interpret this as a sign that the NBH has ruled out a possible rate cut in the short term.

Updated GDP and CPI forecasts of the NBH (% YoY)

	2026	2027	2028
Change in real GDP - March projection	**1.7**	**3.0**	**2.9**
Previous NBH projection	2.4	3.1	2.7
Change in consumer prices - March projection	**3.8**	**3.7**	**3.0**
Previous NBH projection	3.2	3.3	3.0

Source: NBH, ING

The updated GDP and CPI forecasts

The full macroeconomic assessment and outlook will be published alongside the March Inflation Report on 26 March. Based on the latest GDP and inflation forecasts, the NBH's outlook has become much gloomier. We believe that the central bank's assumptions regarding energy and foreign exchange market pricing align more closely with our 'long war' scenario than with our base case.

The geopolitical and market developments led to a downward revision of GDP growth in 2026–2027. The main assumption for this year is that consumption will remain the driving force, with new export capacities providing support later in the year. This fully aligns with our view. Regarding inflation, significant upward revisions have been made for 2026 and 2027. These take into account the impact of the energy price shock and the phase-out of price shield measures (including the new fuel price caps) from May, in line with current regulations. Finally, the central bank now expects the current account to move into deficit in 2026.

Regarding alternative scenarios, the Monetary Council highlighted six, three of which were labelled as the most relevant. From an economic activity point of view, the most important risks are more tilted to the downside, while on the inflation side, the risk scenarios are tilted to the upside. This represents a hawkish shift from the previously

balanced risk map.

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