National Bank of Hungary review: The last stop before the easing begins

The National Bank of Hungary left the base rate unchanged at its first rate-setting meeting of 2026. This was widely expected following the rather unfavourable inflation figures in December, as highlighted by the Monetary Council. We believe that the real deal will be the February meeting, when easing will likely begin

The National Bank of Hungary, Budapest

6.50%

Key interest rate

Unchanged

ING's view: The next meeting will deliver the long-awaited rate cut

In line with our expectations, the Monetary Council decided to keep interest rates unchanged, but kept the door wide open for a rate cut. With some exaggeration, we should see the inflation surprise of the century in January's inflation data release (due on 12 February) to dissuade the NBH from cutting interest rates.

The forward guidance remained unchanged, and when combined with our inflation forecasts, it leads us to predict a 25bp rate cut in February 2026 – the first such move since September 2024. With inflation likely to fall to around 2% year-on-year in the first quarter, the rate cut in February won't be a one-off, and we expect the Monetary Council to follow this with another 25bp cut in March.

The tricky part comes with the general election and the related possibility of FX volatility, which could be too great for continued easing. In its January press release, the central bank also highlighted the importance of FX stability. In our view, if there is a significant market reaction to the election and the forint weakens, the central bank may decide to pause, resuming easing later in the year once the political and economic policy uncertainty has diminished. Overall, we forecast 75–100bp of easing in 2026, with the base rate standing at 5.50–5.75% by the end of the year.

ING's market views

Despite the NBH choosing not to say much ahead of the key January inflation figure and the February meeting, the market seems to be signalling a green light to the central bank. EUR/HUF is testing 380 following the close of the NBH press conference, and rates are moving down all along the curve.

Although the chance of a rate cut in February is increasing according to market pricing, a rate cut is far from fully priced in, and the central bank has ample room to pause in February. At the same time, the stronger forint, also supported by a weaker US dollar and hopes for a Ukraine peace deal, clearly shows that rate cuts will not be such a problem for the currency.

However, we will only see the real test in February. We still believe that the current long positioning will come under pressure once the central bank moves to actual rate cuts. But current trading suggests that the pressure may not be as strong as we feared previously, which puts the central bank in a much more comfortable position.

Given that we see conflicting factors pushing the forint, it is difficult to have a strong conviction about where this might go. What is clearer to us is the direction of the markets. After today's meeting, it seems that the bar for a rate cut is not too high and, unless inflation surprises significantly higher in January, the central bank has the ability to start with rate cuts.

Market pricing is moving in this direction, but we see it far from stretched levels. Therefore, the front-end of the curve in particular may see further pricing cuts in the coming weeks, moving the priced terminal rate from its current 5.45% lower and leading to further bullish steepening.

The rate decision in January

The outcome of the January 2026 rate-setting meeting was in line with expectations. On 27 January, the National Bank of Hungary kept its key interest rate at 6.50%. This was the 16th consecutive decision in which both the policy rate and the interest rate corridor (+/- 100bp) remained unchanged.

Drivers behind the decision and the forward guidance

The central bank highlighted the markets' sensitivity to geopolitical risks and rising commodity prices (oil and gas) since the previous rate-setting meeting. Regarding local factors, the higher-than-expected inflation in December was also emphasised, with the upside surprise coming from services, industrial goods, and unprocessed food. It remains to be seen whether this strong repricing will continue, but this is why the monthly repricing in January is a key factor for the Monetary Council. The January monetary policy decision is a perfect example of a data-driven approach.

The importance of FX stability was emphasised several times from both real economic and inflationary perspectives. Governor Varga highlighted the positive impact of the strengthening of the forint over the past year. However, households' inflation expectations remain too high, so tight monetary conditions (e.g., a positive real interest rate) and FX stability are essential. The central bank expects to achieve the 3% inflation target in the second half of 2027.

The forward guidance in the January press release is consistent with that in the December release, as we expected. The Monetary Council will take decisions on the level of the base rate in a cautious and data-driven manner from meeting to meeting. This leaves open the possibility of a February rate cut if FX stability is maintained and the start-of-year repricing does not cause too much concern.

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