National Bank of Hungary Review: The rate cut has arrived, but what's next?

Sixteen months later, the National Bank of Hungary decided that the time was right for a change. The 25bp rate cut in February matched the almost unanimous market expectations. Based on the still open-ended forward guidance, our base case remains a double-dip in easing, with another rate cut expected in March

The National Bank of Hungary cut the base rate by 25bp to 6.25% and we expect more to follow. Pictured: NBH governor Varga

6.25%

Key interest rate

(-25bp)

As expected

ING's view: This is not an end but a beginning

In line with our expectations, the Monetary Council decided to cut the interest rate by 25bp to 6.25% after it had remained unchanged for 16 months. Although Governor Varga avoided any kind of pre-commitment, we believe that this is just the beginning. While we cannot say for certain, based on the current situation, we anticipate another 25bp rate cut in March.

Our belief in continued easing is based on unchanged signalling of the forward guidance, which keeps the Monetary Council data-driven and, in our view, open to a follow-up rate cut. Based on our inflation forecasts following the release of the January figures, which predict a further downtick in February's headline inflation to 1.5% year-on-year (due on 10 March), only a few events could derail the 'double-dip'. One of these would be an unordered move by the forint due to a geopolitical and/or energy price-related shock.

The trickier part comes with the general election (12 April) and the related possibility of FX volatility, which could be too great for continued easing. In its February press release, the central bank highlighted the importance of FX stability yet again. In our view, if there is a significant market reaction to the election and the HUF 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 a further 50–75bp of easing in 2026, with the base rate standing at 5.50–5.75% by the end of the year.

ING’s market views

Given the widely expected rate cut from the NBH and the neutral tone, the February press conference did not bring much reason for a move in FX. In the background, the forint is probably experiencing a transfer from carry long positioning to pre-election long positioning and, despite the start of the cutting cycle, we have not seen much action in EUR/HUF and if anything, the market is pushing lower. Market players are clearly not deterred by the eroding carry and may take a chance for new forint longs.

On the other hand, it may be more difficult to find new lows for EUR/HUF before the elections with the NBH cutting in the background. Therefore, we expect a rather stable gradual grind lower, but slower than we have seen so far.

Rates continue to slide lower with some flattening bias. This suggests that the rates rally is not only driven by the central bank but also by reduced market concerns about fiscal expansion before the elections. A rate cut in March and further cuts remain priced at the front of the curve with the terminal rate somewhere around 5.25%.

If we look at previous rate cuts in 2024, it is clear that the market may be pricing in more easing than at present and the February inflation print may be an opportunity for more repricing. Despite the expected incoming rate cuts, the curve flattened with 2s10s below 40bp, the lowest in the region, and here we would expect some re-steepening given the cycle if the central bank's intention to continue rate cuts is confirmed.

The rate decision in February

The outcome of the February 2026 rate-setting meeting was in line with expectations. On 24 February, the National Bank of Hungary cut its key interest rate by 25bp to 6.25%, the first change in sixteen months. In line with the reduction in the base rate, the interest rate corridor also shifted lower, with the overnight repo rate moving to 7.25% and the overnight deposit rate to 5.25%. The decision was unanimous, and the Monetary Council did not discuss any other options.

Drivers behind the decision and the forward guidance

The central bank identified the subdued monthly repricing at the start of the year as the main driver of the dovish move. As a reminder, both headline and core inflation dropped below 3% for the first time since January 2019. Governor Varga also emphasised the improvement in inflation structure, with lowering price pressure in market services as well. The impact of the government's decision to extend the price shield measure for another three months will be shown in the March Inflation Report, but it clearly improves the short-term inflation outlook in our view.

On the side of cautiousness, Varga repeatedly emphasised that the market remains sensitive to risks and avoided making any pre-commitments. This included explicitly distancing today's decision from the beginning of a rate-cut cycle.

Similarly to January, the importance of FX stability was emphasised several times at the February press conference, given that the volatility of the forint is crucial from both real economic and inflationary perspectives. Last but not least, regarding households' inflation expectations, Varga was slightly more optimistic than before, citing the potential positive impact of low inflation in January. However, he also highlighted that tight monetary conditions (e.g. a positive real interest rate) and FX stability will be essential in order to reach the 3% inflation target in a sustainable manner.

The forward guidance in the February press release is consistent with the messaging in the January release. The Monetary Council will take decisions on the level of the base rate in a cautious and data-driven manner from meeting to meeting. Overall, this suggests that, provided everything remains in place, the Monetary Council will be open to another rate cut, in our view. However, the central bank did not want to pre-commit.

Author

Peter Virovacz
Chief Economist, Hungary
peter.virovacz@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Zoltán Homolya
Economic research trainee
zoltan.homolya@ing.com