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National Bank of Hungary preview: More clues for more cuts

Hungary's 'mini rate cut cycle' is coming to an end, but further easing remains likely, particularly because of the recent improvement in inflation. The central bank will probably wait for the September forecast update before committing. We see a below-5% base rate by year-end

Mihaly Varga, Governor of the National Bank of Hungary

Our call

In line with the central bank's commitment to a summer 'mini rate-cut cycle', another rate cut in August will come as little surprise. Since the July meeting, the macro and market backdrop has done nothing but strengthen the case for an expansion of the rate cut cycle. However, one step at a time: we anticipate a 25bp reduction in the base rate, taking it down to 5.50% on 25 August.

Looking ahead, Governor Varga said that the next key moment for monetary policy would be the September Inflation report and its updated staff projections. We do not doubt that, when the time comes, the central bank will express even greater optimism about the inflation trajectory. July's headline inflation print of 1.2% YoY was even lower than the central bank's latest forecasted uncertainty band for the data. This suggests that the inflation path will need to be revised downwards further over the monetary policy horizon, with energy prices and the

EUR/HUF exchange rate remaining more or less unchanged (even though volatility has remained elevated).

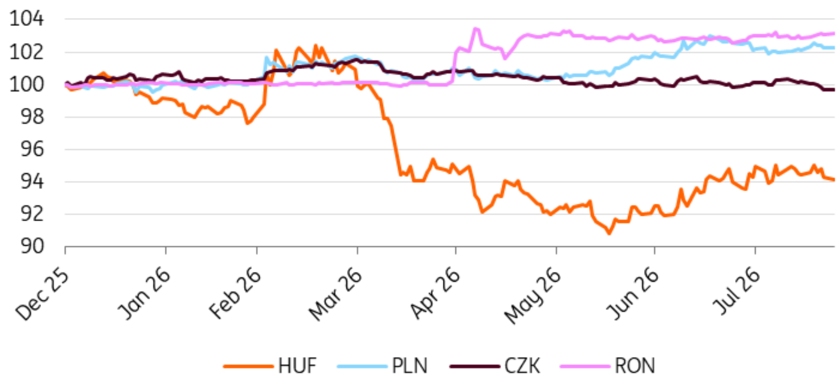
> **We forecast a terminal rate of 4.75% for this year.**

Against this backdrop and assuming there are no black swan events in the form of another geopolitical or energy crisis, we forecast a 'mid-sized' rate cut cycle involving three further cuts following the move in August. At a local level, we believe that Hungary could receive further structural market support if the right steps are taken to secure as much RRF funding as possible, and if this year's budgetary revision is both honest and credible. Therefore, we forecast a terminal rate of 4.75% for this year, which would still provide a sufficient risk premium and positive real interest rate to preserve market stability.

Our market views

The Hungarian forint repeatedly tested the 366 EUR/HUF level in August, its weakest level since the April elections. A mix of global geopolitical uncertainty, local energy supply concerns and crowded long positioning pushed EUR/HUF higher. Despite higher rate volatility, markets still keep a dovish bias on Hungary relative to the rest of the region, leaving the overall backdrop unfavourable for the forint.

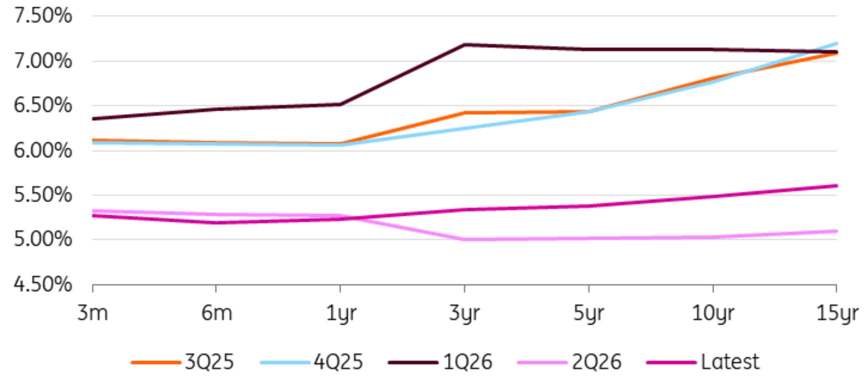
CEE FX performance vs EUR (end-2025 = 100%)



Source: NBH, ING

That said, most of these headwinds should prove temporary, and we expect market sentiment to turn more supportive again. In our view, EUR/HUF remains range-bound, with less scope for a rally than in fixed income. Still, levels above 364 look cheap if global sentiment improves.

Hungarian yield curve



Source: GDMA, ING

Rates now price in around 70bp of easing, including the August meeting, keeping Hungary an outlier within EMEA. Despite repeated downside inflation surprises, markets have stayed cautious amid geopolitical risks and reduced rate cut bets in July and August. We see scope for more easing to be priced in and for the curve to steepen, although – as with FX – this depends on some improvement in global sentiment.

Some background

Inflation edged lower again in July despite the global energy price shock sparked by geopolitical tensions. The forint's strength continues to exert a powerful stabilising influence on prices, prompting us to revise our inflation outlook lower once more. We now forecast average inflation of just 1.7% in 2026, reinforcing our conviction that substantial monetary easing remains on the cards for the rest of the year. Meanwhile, second-quarter GDP data offered little evidence of an overheating economy or any imminent build-up of demand-driven inflation pressures.

Recent forint volatility is a reminder that the central bank cannot afford to be complacent. But even after EUR/HUF neared 367, it has recovered on the back of global sentiment. It is now hovering around the levels seen at the previous rate-setting meeting, around 362. The same can be said about Hungarian government bond yields, which have been fluctuating in a tight range over the last month.

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