Article | 26 August 2026 HUNGARY

National Bank of Hungary review: All eyes on the next staff forecast

In line with the pre-announced mini cycle , the National Bank of Hungary continued to cut rates in August. While this chapter ends here, we think the Monetary Council is not done with easing. We expect three more rate cuts this year

We forecast three further rate cuts in Hungary this year

5.50%

As expected

Key interest rate

(-25bp)

ING's policy view: We see scope for further cuts in the autumn

The National Bank of Hungary cut the base rate to 5.50% on 25 August, as was signalled at the rate-setting meeting in June when Governor Varga announced a 'mini rate cut cycle' throughout the summer.

Looking ahead, we expect policymakers to stick to the euro adoption roadmap, particularly the planned medium-term fiscal path, with EU funds set to arrive in the fourth quarter as expected. We expect inflation to remain low and stay below the central bank's target for the rest of the year, although we anticipate some acceleration in the months ahead.

While external risks are mounting again, we forecast three further rate cuts this year if the risk premium for Hungarian assets remains broadly unchanged. This would put the base rate at 4.75% by the end of 2026, with a terminal rate of 4.00% by the end of 2028, in our view.

ING's 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 rates volatility, markets still maintain a dovish bias on Hungary relative to the rest of the region, leaving the overall backdrop unfavourable for the forint.

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 rangebound, with less scope for a rally than in fixed income. Still, levels above 364 look cheap if global sentiment improves.

Rates now price in around 50bp of easing, keeping Hungary an outlier within EMEA. Despite repeated downside inflation surprises, markets have stayed cautious amid geopolitical risks and reduced rate cut bets compared to early 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.

Our three takeaways from the press conference

- Overall, the macroeconomic outlook is broadly in line with the June inflation report: the industrial sector contributed positively, while the agricultural sector weighed on performance more than anticipated. Inflation was lower even under the central bank's most optimistic scenario, and although global energy prices rose slightly, inflation expectations declined across the board. Looking ahead, these data may provide a basis for an optimistic September inflation report.
- In our view, the general environment is favourable for a rate cut in the next decision. The September inflation report will be of decisive importance in determining the interest rate path for the coming months. Varga stated that the NBH has begun a review of the inflation-targeting framework, the results of which will be published in the autumn. We believe the review will be released before the government publishes its medium-term budget plan. In our view, there is a possibility that it will be published in conjunction with the September inflation report.

- Varga once again emphasised the importance of foreign exchange market stability in reducing and anchoring inflation expectations, as these expectations have shown improvement recently. We believe that the central bank's primary objective is to maintain the EUR/HUF exchange rate within its most recent range of 355–365.

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

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