HUNGARY: MACRO OUTLOOK

Recovery on the horizon, yet uncertainty remains

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Economy Hungary - Analyses and Forecasts | Erste Group Bank AG
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Spot Rates as of: December 11, 2025
Note: Information on past performance is not a reliable indicator for future performance.
Forecasts are not a reliable indicator for future performance.

Recovery on the horizon, yet uncertainty remains

Following another stagnant year, we expect Hungary's economy to grow by 2% in 2026, supported by improving external demand on the back of the EU–US trade agreement and Germany's anticipated recovery. These factors may boost exports and investment; however, lingering uncertainties and weak carry-over effects temper the outlook. Household consumption is expected to remain a positive contributor, driven by rising real wages and pre-election fiscal easing.

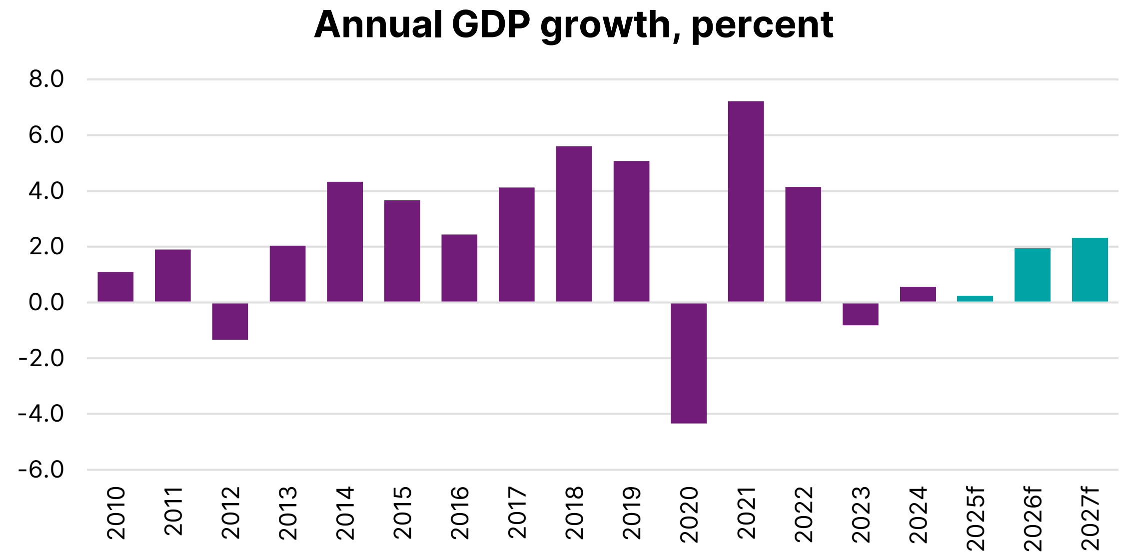
Inflation dynamics have improved somewhat, supported by declining producer prices and a stronger forint, while price cap measures have exerted a notable disinflationary impact. Nevertheless, underlying inflationary pressures remain elevated, as reflected in persistent market services inflation and high inflation expectations.

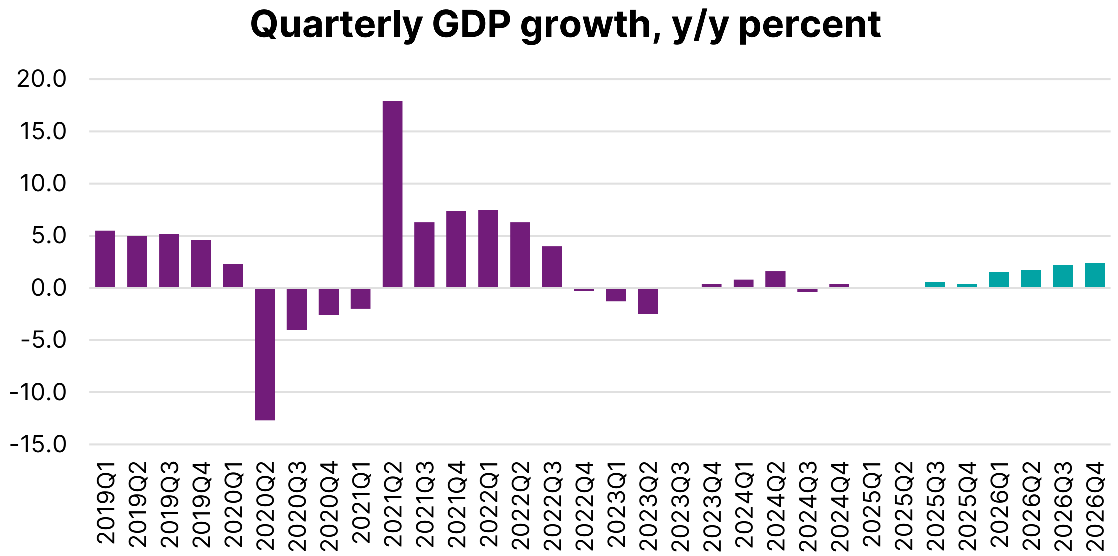
Despite policy easing by major central banks, the MNB has maintained a stability-oriented stance, with rate cuts likely only in late 2026 to ensure sustainable disinflation through positive real rates and a stable, strong forint. Currency stability has become a key priority, given the strengthened pass-through of exchange rate movements to consumer prices.

Positive carry dynamics continue to support the forint, which appreciated significantly in 2025 and is expected to remain firm throughout 2026.

As parliamentary elections approach, short-term fiscal risks have increased, reflected in rising yields and widening spreads. Long-term yields are likely to remain elevated amid higher major bond yields and uncertainties surrounding fiscal consolidation.

Economy to slowly recover in 2026



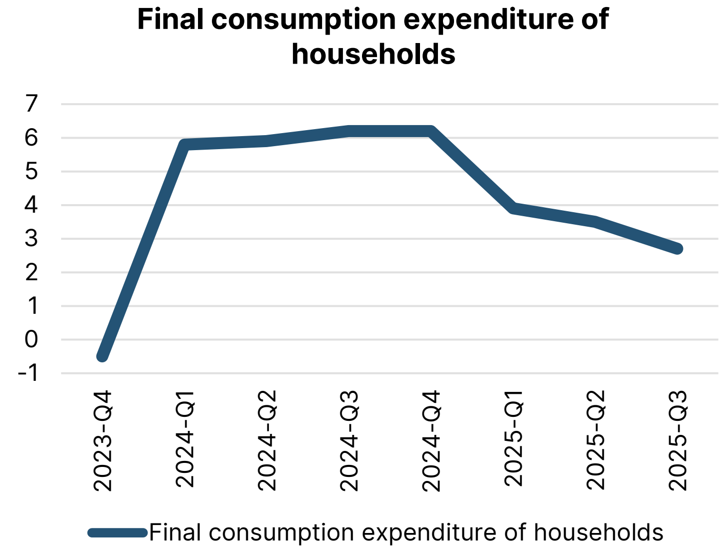


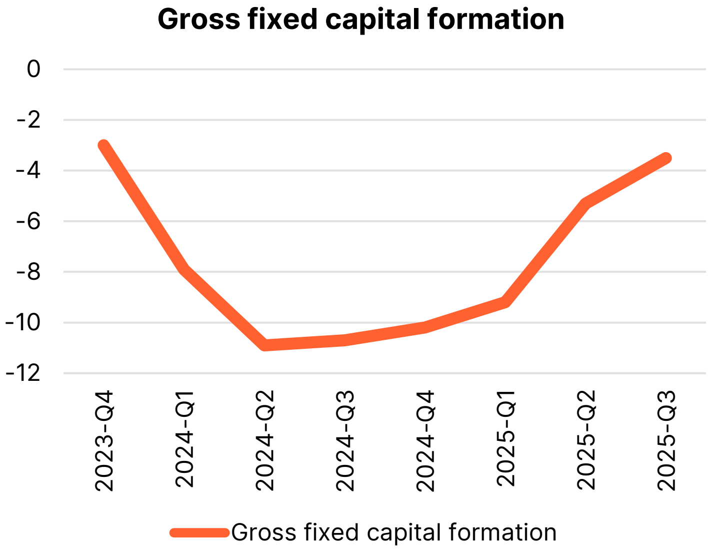
In light of Hungary's third-quarter economic performance—stagnation on a quarterly basis and 0.6% growth y/y—we have slightly revised down our 2025 growth forecast. Instead of the previously expected 0.5%, we now anticipate only 0.2% GDP growth for this year. Industrial prospects are improving only gradually, while the materialization of earlier large-scale investments has been delayed.

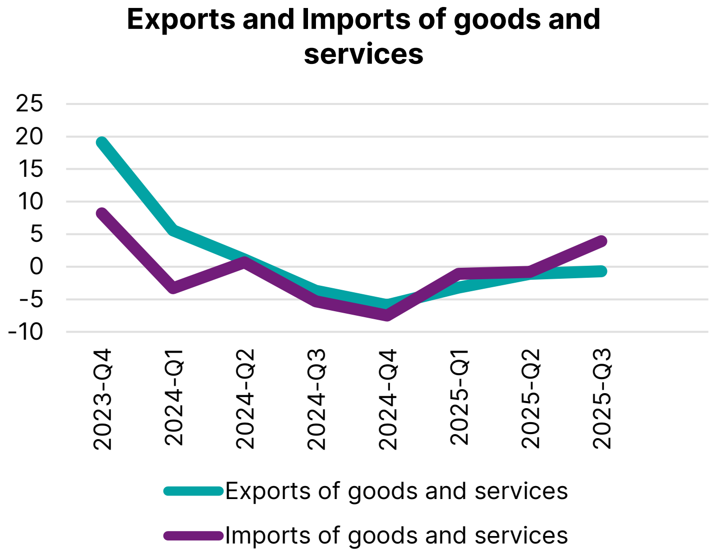
The easing of trade conflicts toward the end of summer may render the external environment somewhat more predictable. We continue to rely on a recovery and the effects of fiscal stimulus in Germany. The improving performance of Hungary's largest trading partner remains a key factor for domestic economic activity and business sentiment; if it disappoints, the domestic recovery would again be delayed.

Beyond the anticipated improvement in external demand, household consumption remains a positive growth contributor, primarily supported by further wage increases. Additionally, in the coming months, pre-election welfare measures are expected to further boost disposable income of households. GDP growth is projected to reach 2% in 2026.

Decline of investments moderated, while consumption slowed in 3Q25







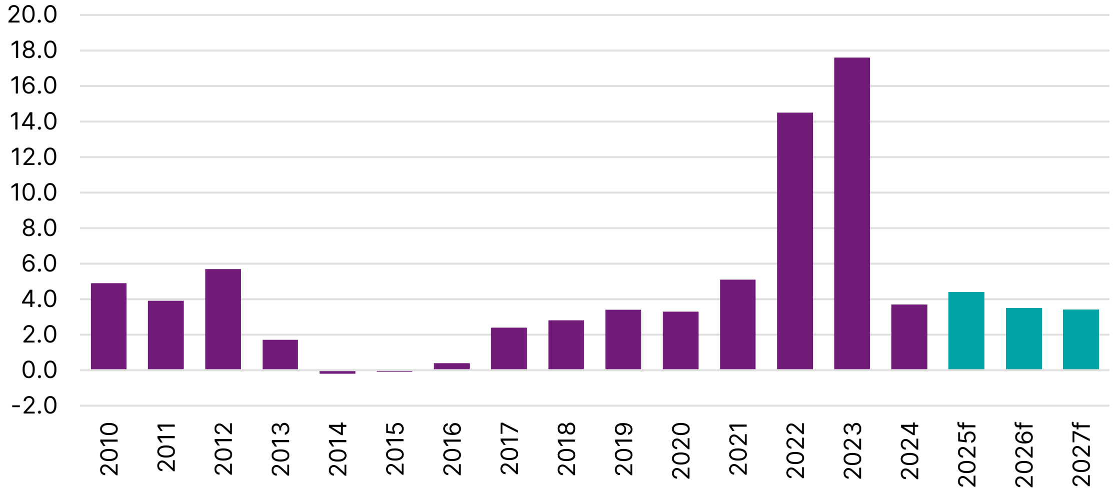
The structure of economic growth in 3Q25 came as a slight surprise. While household consumption remained a positive growth driver, actual final consumption slowed. However, this moderation occurred from a high base, as the statistical office significantly revised upward the 2024 consumption figures.

Regarding investment activity, gross fixed capital formation practically stagnated on a quarterly basis, while the annual decline eased to 3% y/y. The investment cycle has likely reached its trough this autumn, which could signal the beginning of a gradual recovery in capital spending — a rather desirable development given that the sharp fall in investment has been one of the key factors behind prolonged economic weakness in Hungary. Surprisingly, change in inventories were the most relevant positive contributor to growth (4.3 percentage points).

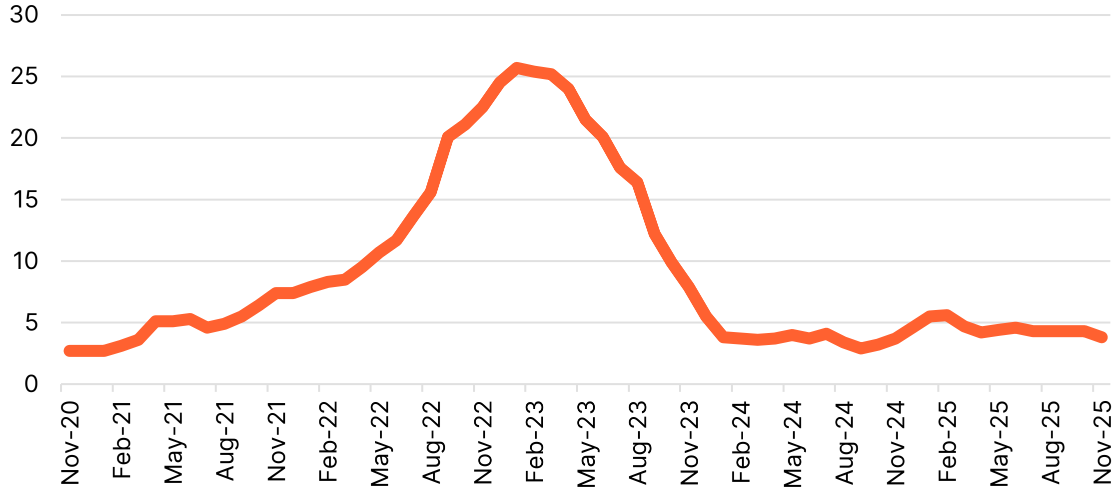
In the external sector, exports declined by 0.6% y/y, while imports rose by 3.9%. Consequently, the trade balance dragged down overall economic performance by 3.3 percentage points.

Administrative price controls conceal the actual level of inflation

Annual inflation, percent



Monthly inflation development, y/y percent



Inflation stood at 3.8 y/y, while core inflation was 4.1 y/y in November. Many administrative price controlling measures—particularly in the food sector—along with a strong forint has helped moderate price growth; however, inflation remains elevated in the context of a stagnating economy.

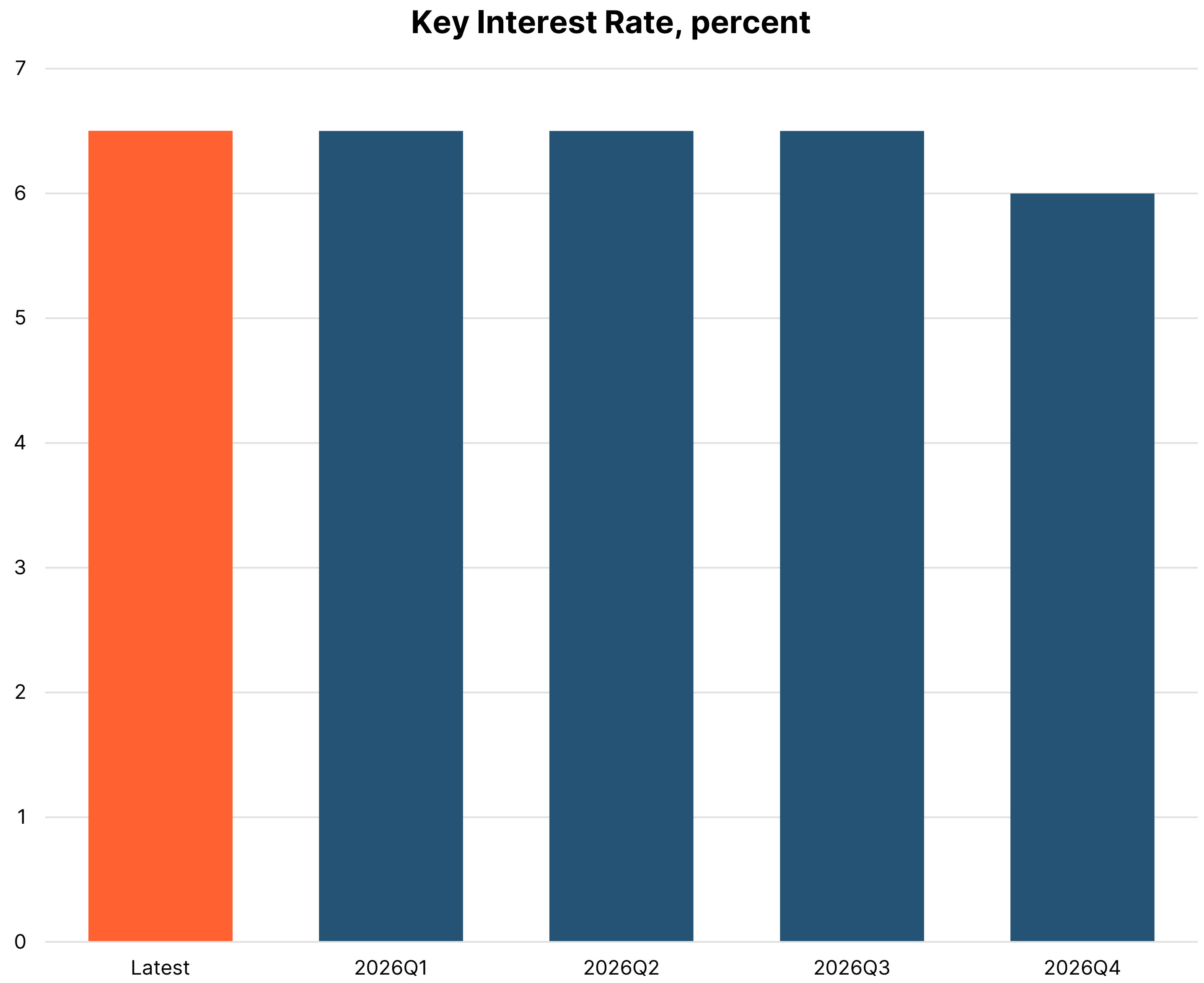
Favorable base effects could push headline inflation well below 4% by year-end and under 3% in early 2026. Inflation risks appear more balanced, supported by lower import costs and slowing producer price increases aiding disinflation.

On the other hand, persistently high nominal wage growth and pre-election welfare measures pose a risk that inflation in market services could remain stubbornly high. Moreover, inflation expectations have stayed elevated.

Since the timing of the removal of margin caps remains uncertain, this represents a significant forecasting risk. In any case, due to the one-off effect of a potential phase-out in 2026, annual inflation is unlikely to remain persistently within the target range next year. We consider 2027 as the most probable timeframe for achieving this.

Source: Eurostat, Refinitiv, Erste Group Research

Hawkishness remains



The policy rate has been stable at 6.50%, and despite rate cuts by major central banks and some regional peers, MNB will maintain a stability-oriented approach.

Although inflation will enter the target range by the year-end, the MNB is visibly concerned about the potential re-emergence of inflation suppressed by administrative measures, as well as elevated inflation expectations.

According to the central bank, achieving sustainable disinflation requires maintaining tight monetary conditions and ensuring positive real interest rates. In addition, currency stability remains crucial, as the pass-through of exchange rate movements to consumer prices has strengthened.

We expect the strict monetary policy stance to be maintained for an extended period, with the first easing steps likely only in the second half of 2026, potentially toward year-end.

Source: MNB, Refinitiv, Erste Group Research

LT bond yields to remain elevated

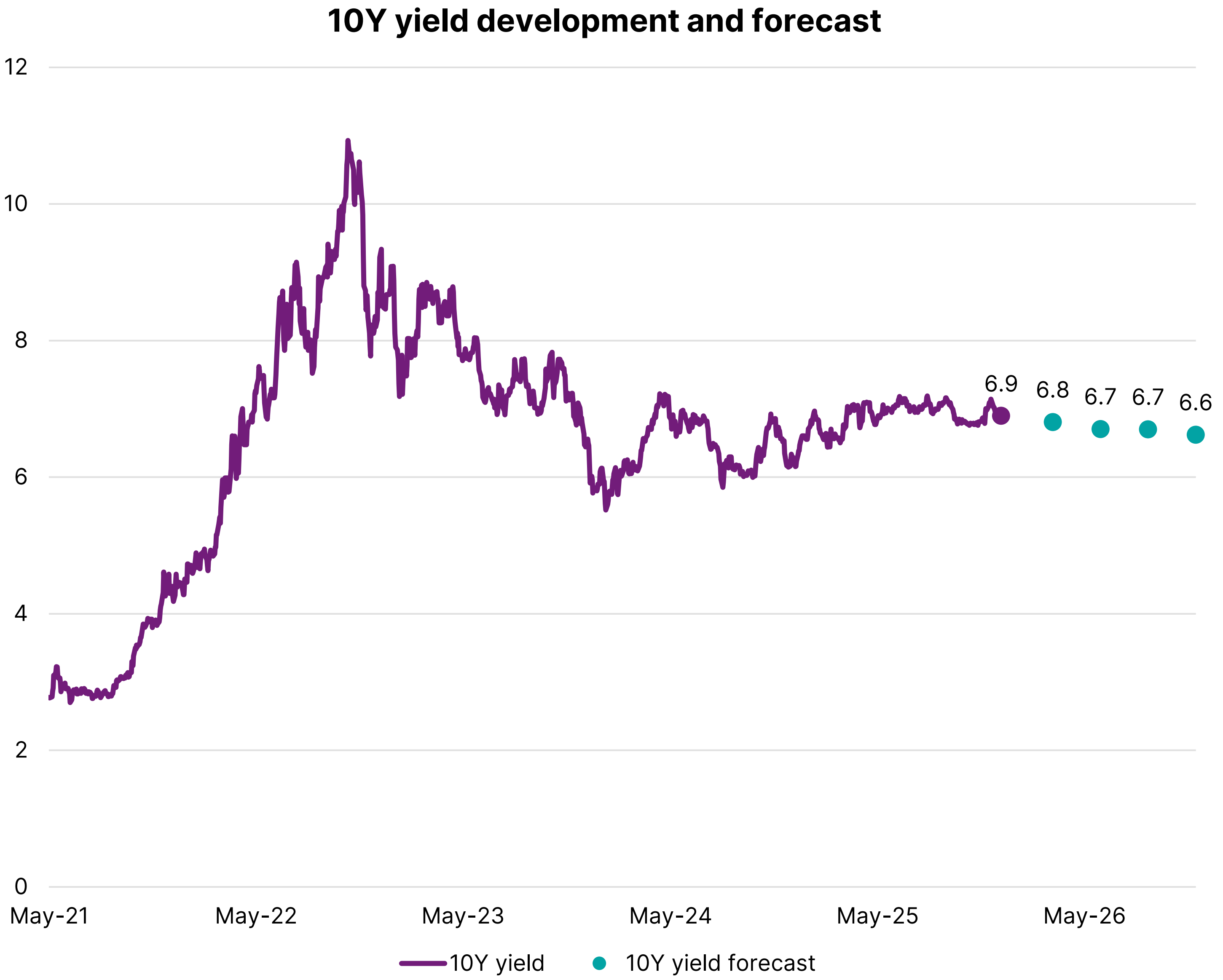
By end-September, the 10Y government bond yield fell below 7 percent, and the spread against the German 10-year Bund narrowed to the lower end of the usual 400–450 basis point range.

The MNB's strict communication, which pushed market expectations for easing further into the future, limited the scope for decline in yields.

Following the government's upward revision of deficit targets, both the 10-year yield and the spread widened in November.

Looking ahead, a key short-term driver for government bond yields will be how the ÁKK finances next year's cash-flow deficit—now projected to be HUF 1,230 billion higher than initially expected—and the extent to which the domestic banking sector can absorb the additional supply.

Meanwhile, the potential upward trajectory of major bond yields poses further upside risks amid heightened uncertainties surrounding fiscal developments.



Source: Refinitiv, Erste Group Research

Forint to remain permanently strong

FX market development and forecast

The forint has shown notable strength against the euro this year, largely driven by its attractive carry and a hawkish shift in monetary policy.

The MNB continues to emphasize the importance of maintaining stability in the FX market, viewing it as a critical element for achieving the inflation target on a sustainable basis.

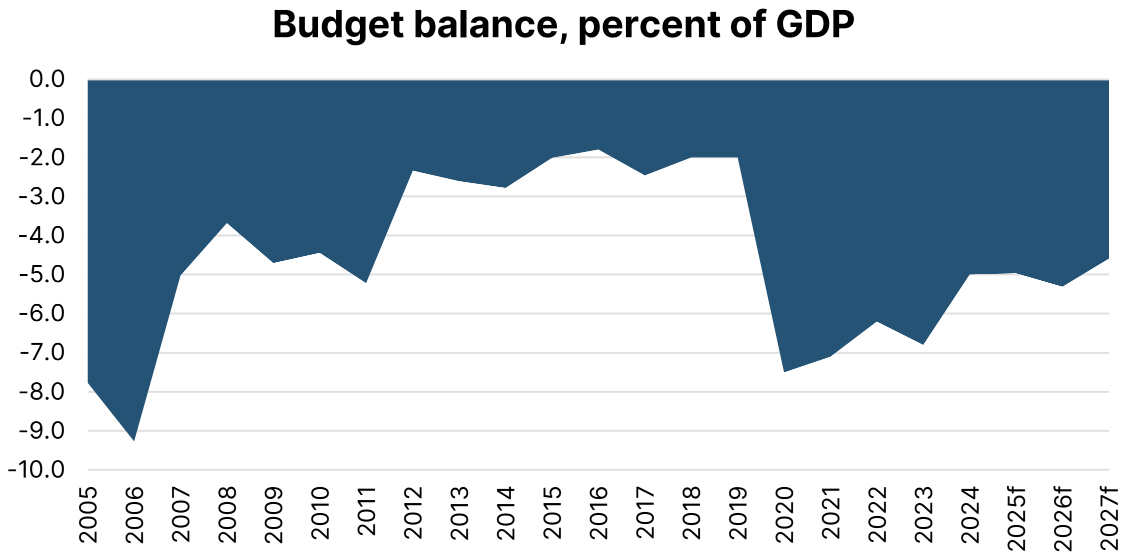
Hungary's external position has also remained solid, which should provide additional support for the forint in the medium term.

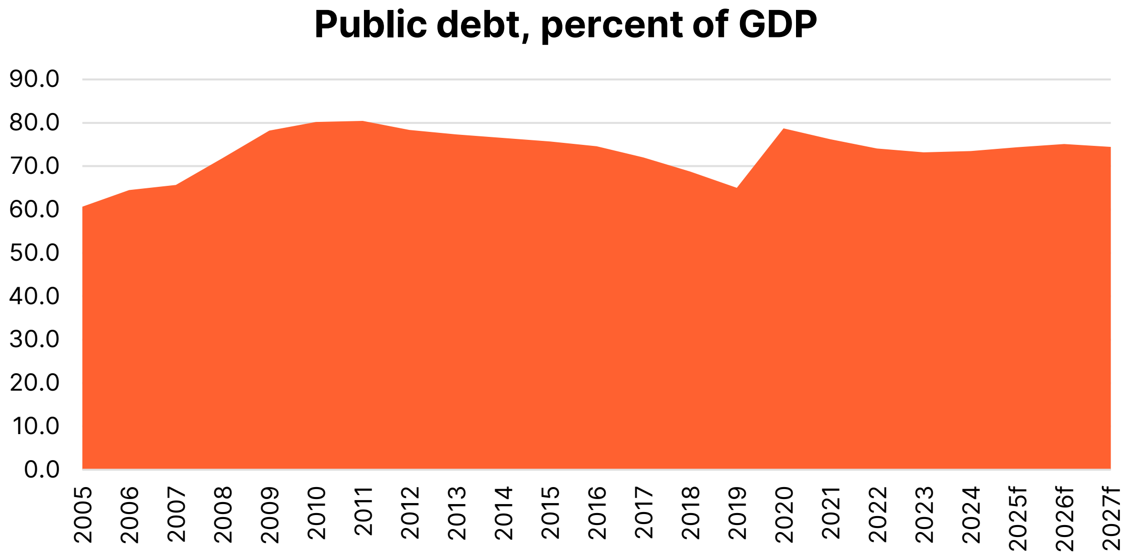
As the prolonged high-carry environment continues to underpin the currency—offsetting potential headwinds from weak growth, the absence of EU funds, and political uncertainty ahead of the elections—we have revised our EURHUF forecasts accordingly.

We expect the forint to trade broadly sideways around current levels in 2026, while under favorable conditions, a stronger currency could contribute to disinflation through the expectations channel.

Source: Refinitiv, Erste Group Research

Primary balance to continue to worsen ahead of general elections





The YTD cash flow-based deficit reached HUF 4,070 billion in November, amounting to 80.5% of the full-year (increased to HUF 5,055 billion) cash flow-based target. Throughout the year, the government gradually introduced a series of targeted pre-election measures.

As a result of additional spending, the official ESA deficit targets were revised upward to 5% of GDP for both 2025 and 2026 in November. Notably, the 2026 Budget Law, approved in the summer, originally set the deficit target at 3.7%, which was already raised to 4% of GDP in September.

The continuous upward adjustments of deficit targets reflect deteriorating fiscal discipline ahead of the elections scheduled for April 2026. Despite the government's earlier commitment to maintain a zero primary balance, it worsened this year and is projected to increase to around 1.5% of GDP in 2026. The worsening primary balance is expected to keep the public debt-to-GDP ratio on a slow upward trajectory in 2025 and 2026 before likely declining again in 2027.

Among credit rating agencies, Fitch has signaled concern by revising the outlook on Hungary's current BBB rating from Stable to Negative in December, citing risks related to the widening fiscal gap.

Source: Eurostat, Refinitiv, Erste Group Research

General election approaching

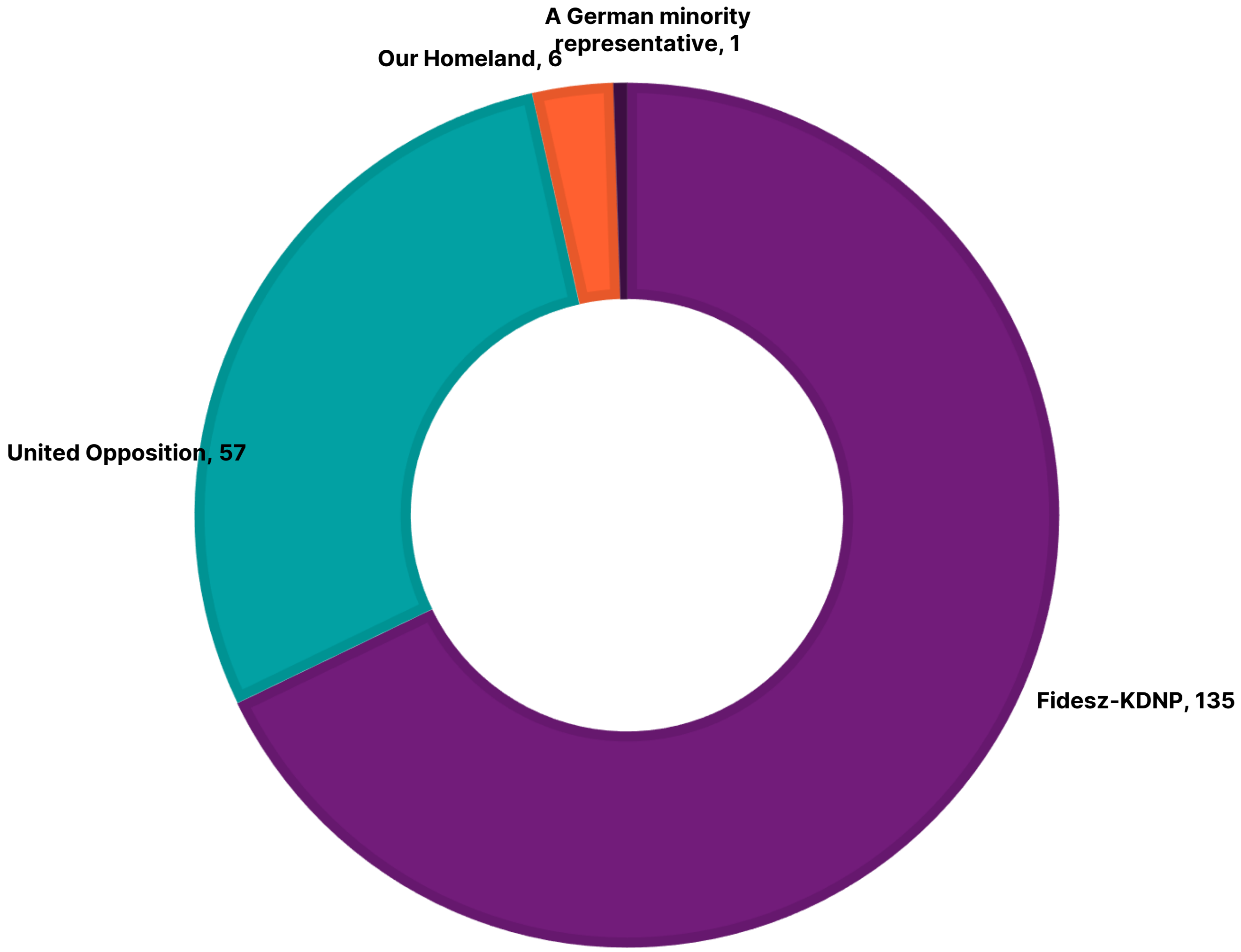
The ruling Fidesz party won 135 of the 199 seats in the April 2022 elections, ensuring a two-thirds majority while opposition parties remained fragmented. The next parliamentary election is scheduled for spring 2026.

The EP and municipal elections last summer saw the rise of Peter Magyar, a former ally of Fidesz, as a prominent politician. Over the past year, Magyar and his newly established Tisza party have succeeded in winning over the supporters and voters of most opposition parties.

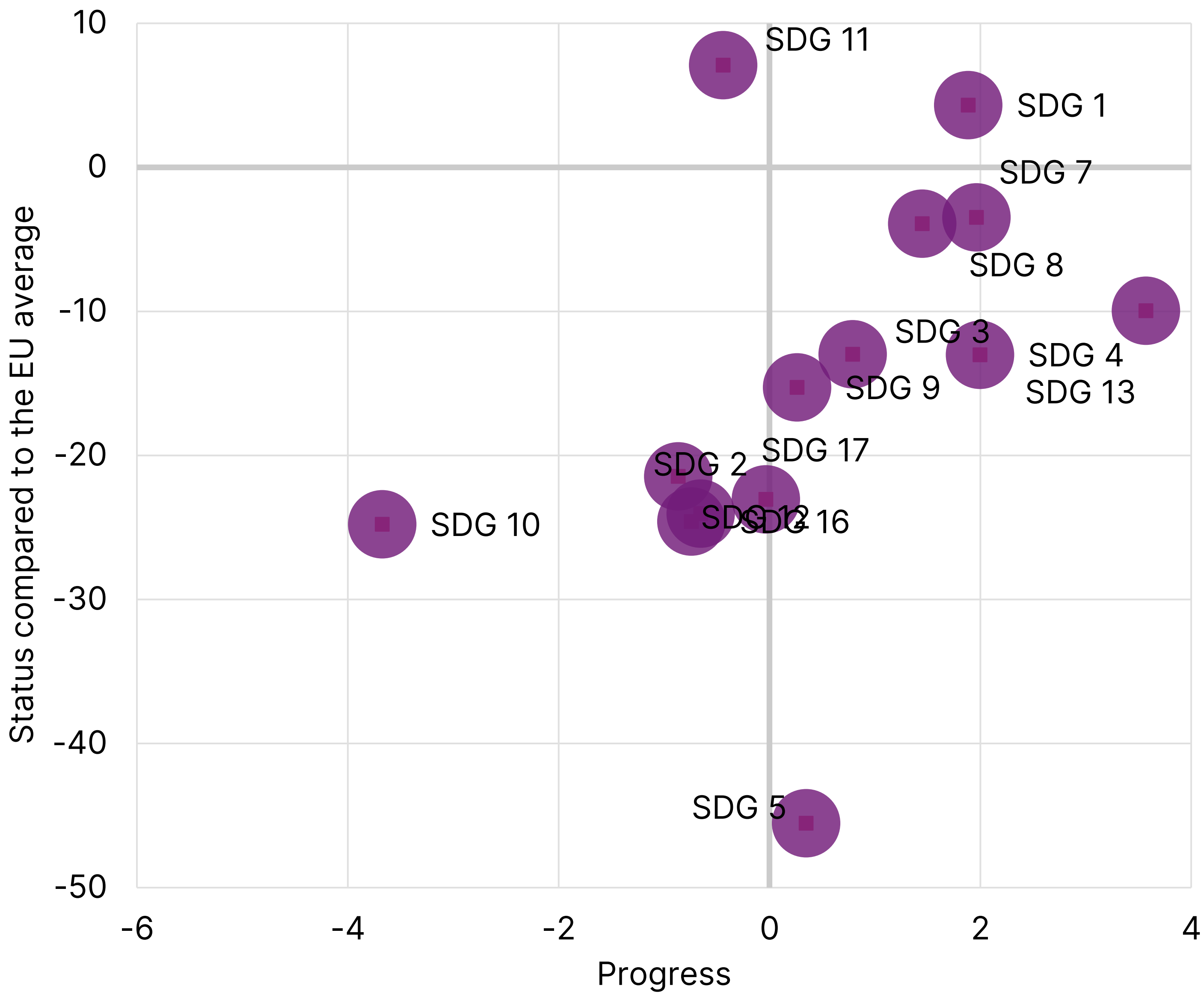
According to Politico.eu's Poll of Polls, in the current trend for the parliamentary elections, Tisza is leading with 48%, followed by the ruling Fidesz–KDNP alliance at 38% as of end-November.

Both major political blocs have seen an increase in popularity during the autumn. However, as Fitch's rating commentary also highlights, polling figures do not directly translate into parliamentary seats due to the specific characteristics of Hungary's electoral system.

Parliamentary seats



Source: Hungarian Parliament, Erste Group Research



Social Development Goals

According to the latest 2025 EC Country Report on Hungary, despite making small progress in some areas, the majority of SDGs have not yet been reached in Hungary.

Hungary experienced setbacks in SDG 2 (Zero Hunger), SDG 12 (Responsible Consumption and Production), and SDG 15 (Life on Land). In these areas, major or significant challenges remain, according to the latest assessment.

Additionally, major challenges persist in the area of SDG 5 (Gender Equality), where the score has stagnated.

Overall, the country still needs to catch up with the EU average on the majority of SDGs. The scores in many lagging areas are only moderately improving, which, according to the report, may be insufficient to achieve the goals.

Source: Eurostat, Refinitiv, Erste Group Research

Special topic

Main elements of pre-election fiscal spending

Additional spending measures could amount to roughly 2% of GDP in 2026

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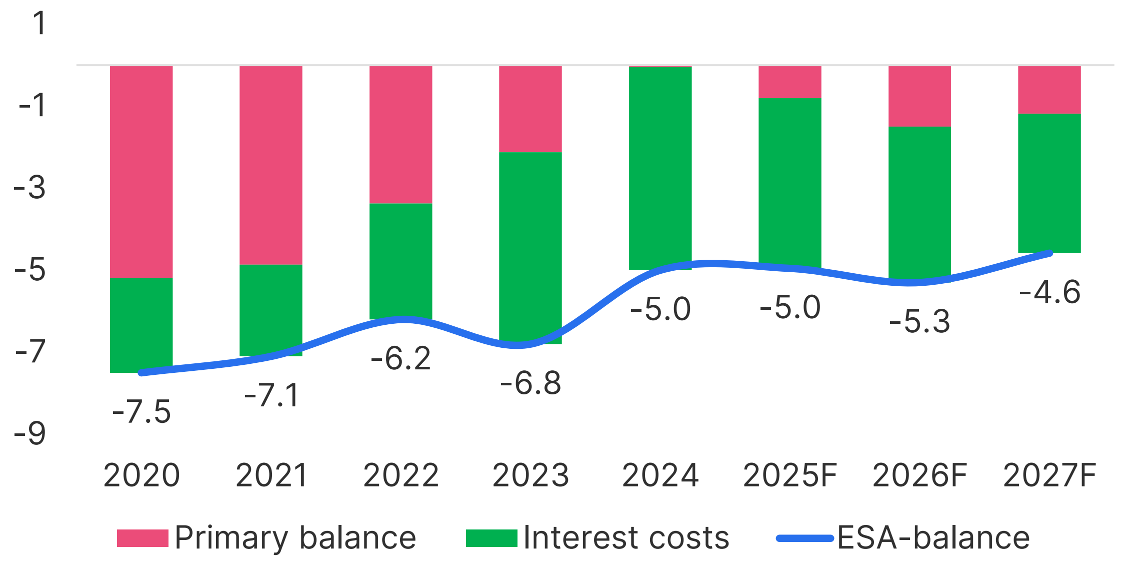
Additional spending measures burden the 2026 budget outlook

Estimated impact of spending measures (in GDP percent)

Main spending measures:	in percent of GDP
Special bonus for armed forces	0.48%
Salary increase for judicial employees	0.06%
Salary increase for municipal employees	0.03%
Housing support for civil servants	0.11%
PIT exemption for mothers with three children	0.22%
PIT tax exemption for mothers under 40 with two children	0.13%
PIT expemption for mothers under 30 with one child	0.04%
Doubling of family tax allowance	0.31%
Tax exemption for parental benefits (GYED and CSED)	0.02%
Home Start program	0.09%
3 percent loan for businesses	0.06%
Tax reduction package for small businesses	0.08%
One week's worth of 14th-month pension	0.18%
Total	**1.8%**

Evolution of fiscal balances (in GDP percent)



As the magnitude of additional fiscal measures could reach roughly 2% of GDP, the primary deficit is projected to widen to around 1.5% of GDP in 2026, before gradually narrowing in 2027.
Notably, generous fiscal spending would be partly offset by fully freezing the HUF 192 billion general reserve and doubling the windfall tax on banks and financial institutions.
Rating agencies continue to closely monitor fiscal risks and expect credible consolidation measures following the general elections.

Source: NGM, press reports, Erste Group Research

Hungary: Forecasts

	2019	2020	2021	2022	2023	2024	2025f	2026f	2027f
Percent									
Real GDP growth	5.1	-4.3	7.2	4.2	-0.8	0.6	0.2	2.0	2.3
Private consumption growth	4.7	-0.8	4.8	7.0	-1.5	4.9	2.5	3.5	3.4
Fixed capital formation growth	12.7	-7.6	5.9	-0.4	-6.7	-9.9	-5.1	1.0	1.2
Inflation	3.4	3.3	5.1	14.5	17.6	3.7	4.4	3.5	3.0
Unemployment rate	3.3	4.1	4.1	3.6	4.1	4.4	4.4	4.1	4.0
Percent of GDP									
Budget balance	-2.0	-7.5	-7.1	-6.2	-6.8	-5.0	-5.0	-5.3	-4.6
Public debt	65.0	78.7	76.2	74.1	73.2	73.5	74.4	75.1	74.4
Current account balance	-0.6	-1.1	-4.5	-9.1	-0.1	1.5	1.1	1.0	1.2
EURLCY	330.52	365.13	369.00	400.25	382.78	410.09	385.00	385.00	395.00
Central bank policy rate	0.90	0.60	2.40	13.00	10.75	6.50	6.50	6.00	4.50
3M interbank offer rate	0.16	0.75	4.21	16.18	9.96	6.50	6.50	5.95	4.60
3Y Yield	0.28	0.70	4.19	10.71	6.12	6.38	6.36	6.23	5.38
5Y Yield	1.17	1.36	4.35	9.73	5.78	6.07	6.49	6.38	5.73
10Y Yield	2.01	2.08	4.51	8.98	5.86	6.55	6.78	6.62	6.23

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Source: Eurostat, Refinitiv, Erste Group Research

Hungary: Country overview

Official EU language: Hungarian

Capital: Budapest

Geographical size: 93 012 km2

Population: 9 584 627

GDP per capita: EUR 28 700, below the EU average

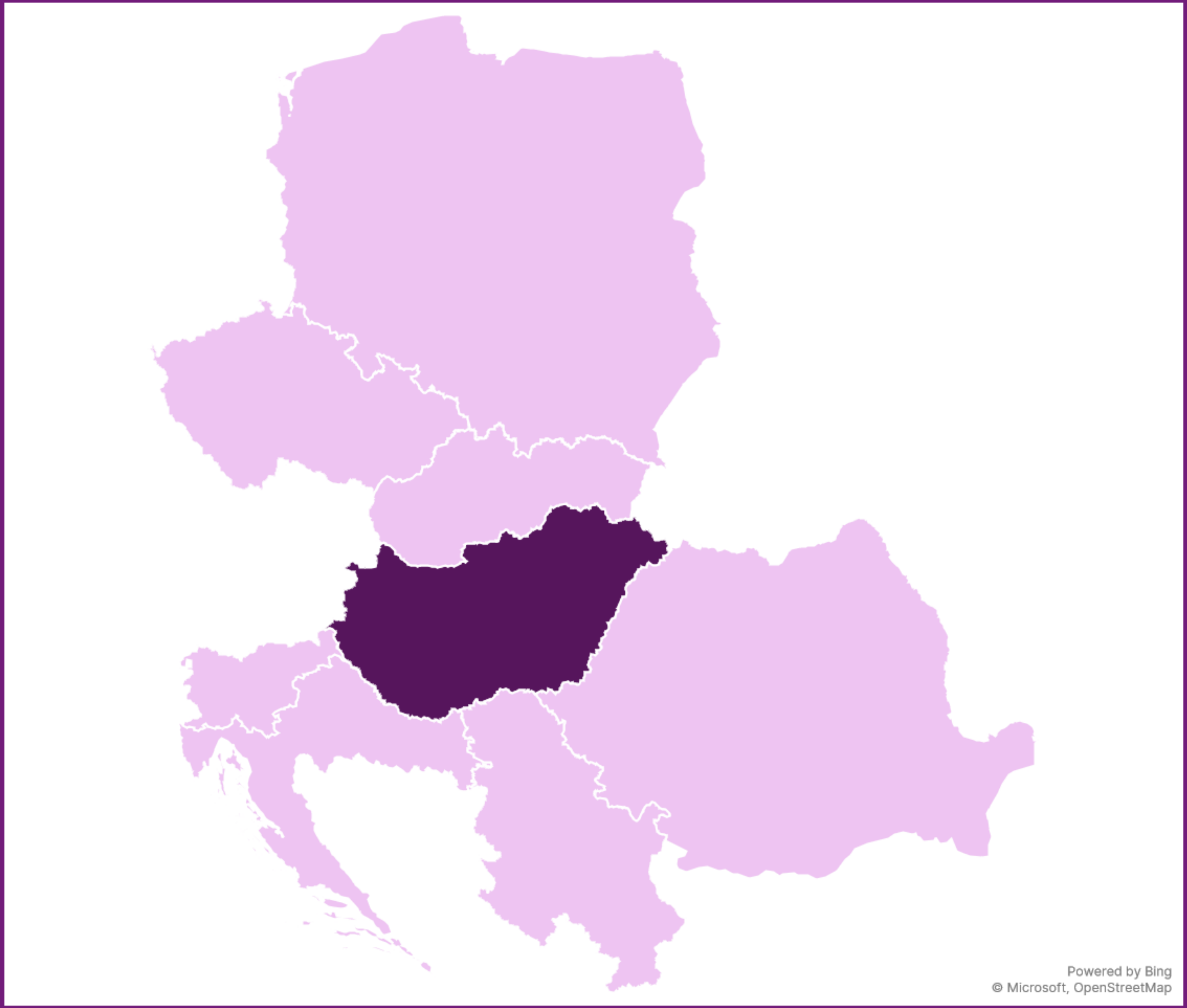
Currency: Hungarian Forint HUF

Credit Ratings:

- **Moody's: Baa2, outlook negative**
- **S&P: BBB-, outlook negative**
- **Fitch: BBB, outlook negative**

EU member state: since 1 May 2004

Schengen: member since 21 December 2007



Source: Eurostat, Refinitiv, Erste Group Research

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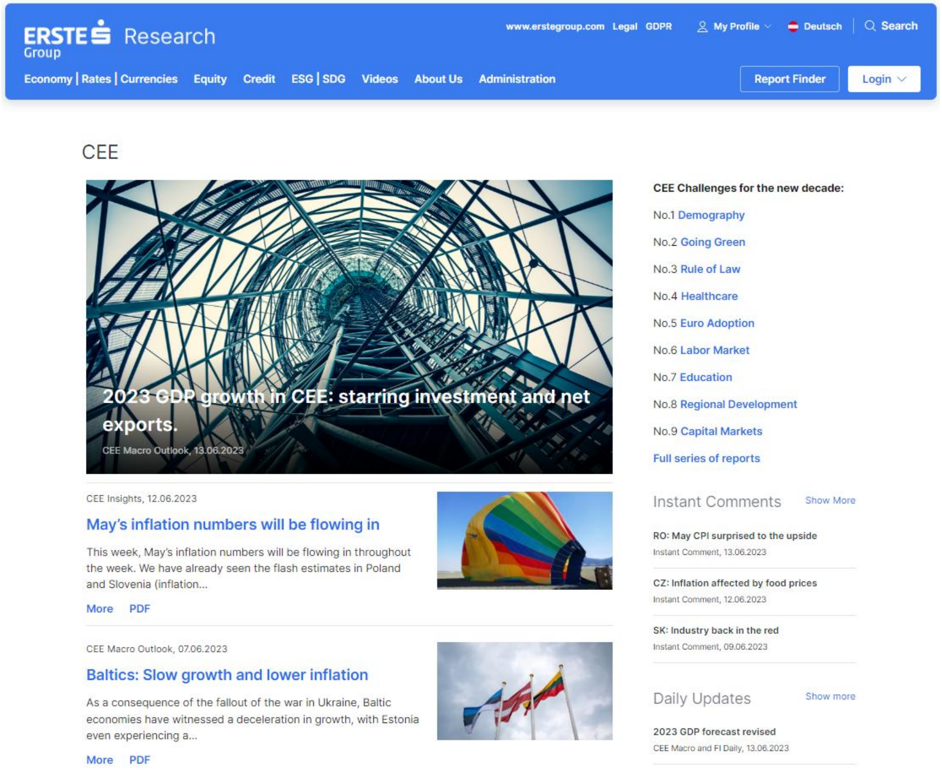

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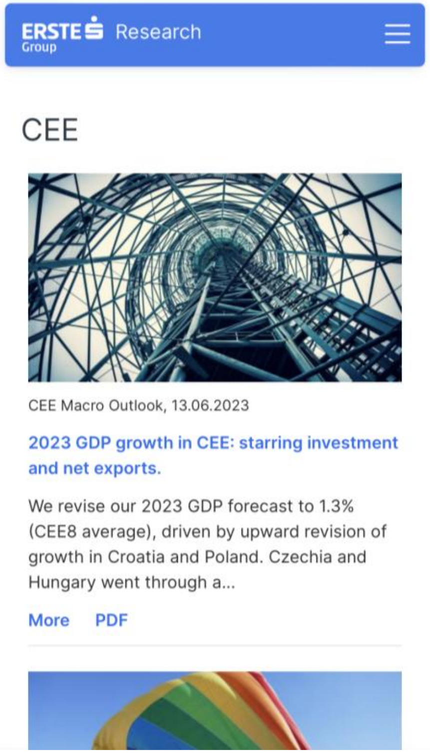

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