

HUNGARY: MACRO OUTLOOK

Inflationary challenges to impede support of growth

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Spot Rates as of: March 10, 2025

Note: Information on past performance is not a reliable indicator for future performance.
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Main message

The economy emerged from a technical recession at the end of last year. A continued slow recovery is expected, although export-related uncertainties burden the overall outlook. Household consumption will be the main growth driver, similar to 2024. We project annual GDP growth at 2 percent in 2025.

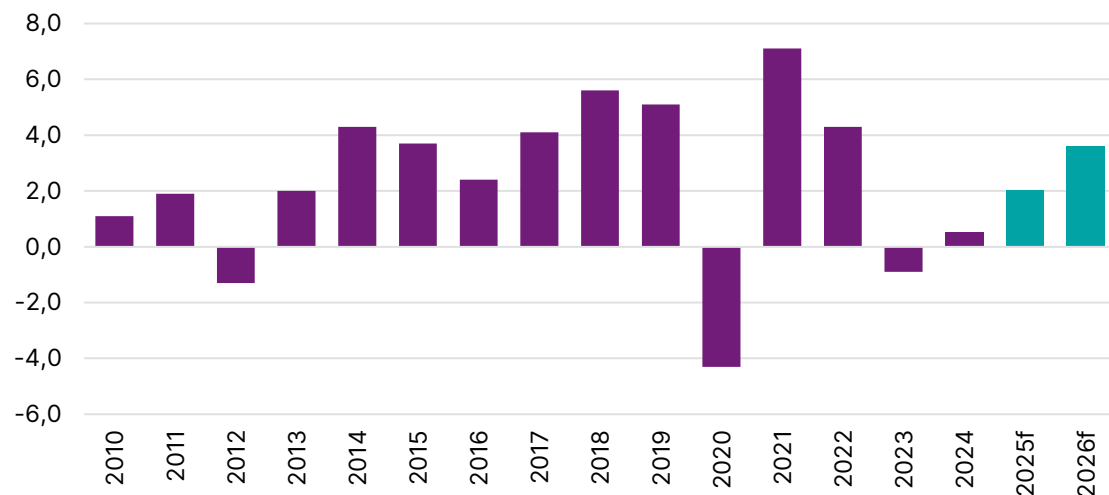
At the turn of the years 2024-25, inflation started to show another revival. Without a doubt, the rapid depreciation of the forint seen in 4Q24 played a crucial role, as the pass-through effect of the weaker currency on prices considerably strengthened during the 2021-2022 inflation shock. Repricing in the field of market services was also surprisingly strong in January, partly due to improving consumption. Inflation is set to remain well above the 2-4 percent tolerance range of the MNB throughout the year and is expected to slowly moderate in 2026.

The policy rate has been standing at 6.50 percent since the end of 3Q 2024. The MNB responded to the deterioration in global risk perception, the weakening of the forint, and increased inflation risks by pausing rate cuts. The timing of restarting the monetary easing process remains uncertain. We think that later in the year, cautious rate reductions cannot be excluded, but only if risk assessment factors and the inflationary outlook improve. At the beginning of March, former Finance Minister Mihály Varga took over the leadership of the MNB, as the mandate of György Matolcsy had expired. A change in leadership at the MNB is unlikely to bring a significant change in the current stance of monetary policy, given the increased upside risks to inflation.

Since the beginning of the year, the forint has appreciated against the euro, after significant weakening seen in 4Q24. The overall sensitivity to both positive and negative external factors has remained a key feature, leading to huge volatility in the exchange rate. In the current uncertain environment, this sensitivity makes the EURHUF exchange rate rather difficult to predict. The remaining positive interest rate differential and continued surplus on the external balance may be the most important fundamental support for the forint.

GDP to grow by 2 percent annually in 2025

Annual GDP growth, percent



Quarterly GDP growth, y/y percent

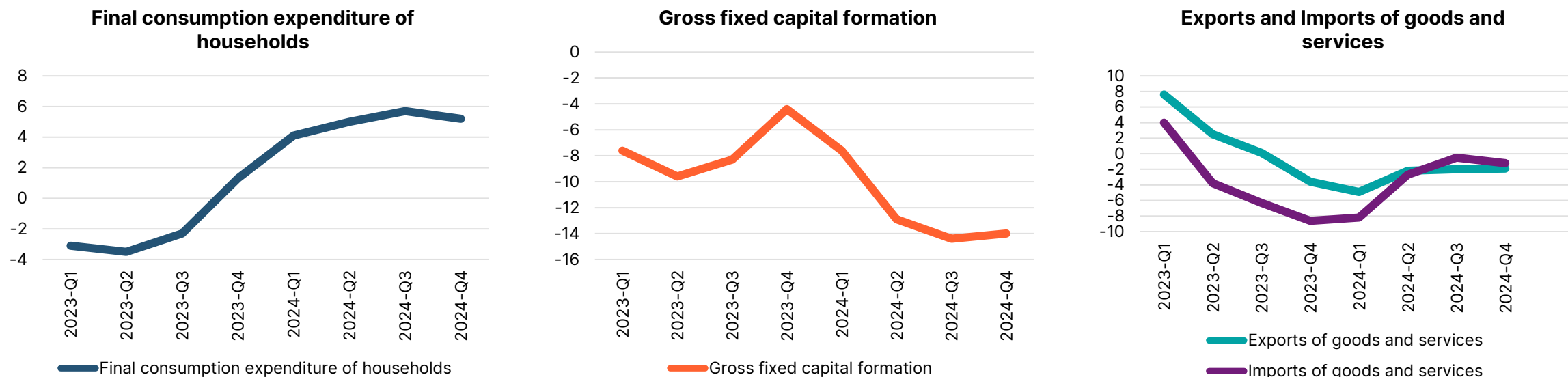


The economy managed to emerge from a technical recession at the end of last year, with GDP rising by 0.5 percent q/q and 0.4 percent y/y in 4Q24. In FY 2024, the economy grew by a moderate 0.5 percent annually.

Regarding this year's growth prospects, a gradual and slow rebound is expected to continue in the coming quarters. However, uncertainties remain high, as the outlook is still clouded by global trade risks, primarily due to the planned US tariffs and ongoing geopolitical tensions. These factors may further delay a revival of industrial exports. A positive change in external demand is needed to exploit the automotive (BMW, BYD) and battery investments (CATL) that are planned to enter production in 2025. Meanwhile, a positive risk to the external prospects has emerged recently: a possible easing of strict fiscal rules in the EU, especially in Germany.

We project annual GDP growth at 2 percent in 2025. Apart from external risks, household consumption should remain the main growth driver. This, coupled with a small pick-up in investment and an improvement in agricultural performance, is to support a slow recovery.

Investments further dropped at the year-end



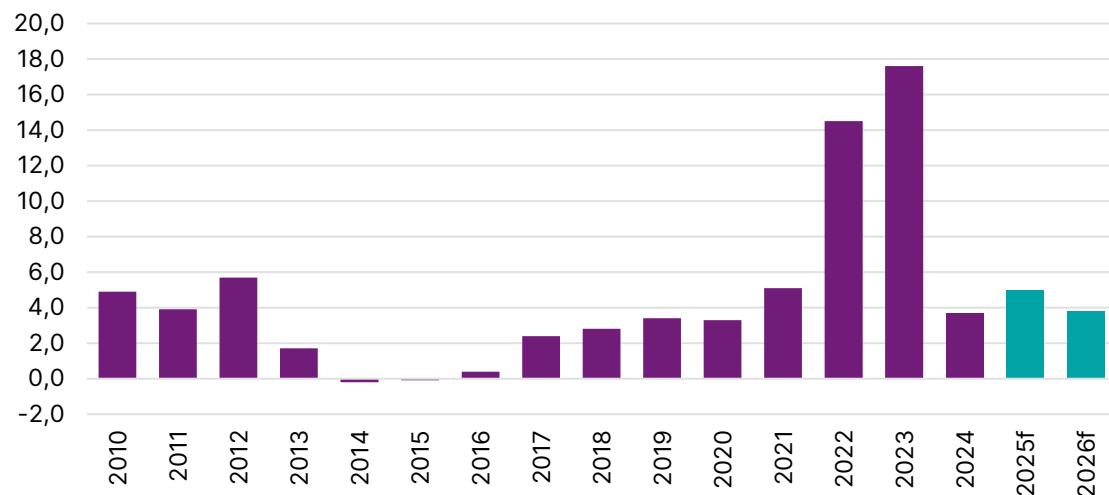
Regarding the structure of GDP growth, the 4Q24 data aligned with expectations. Household consumption remained a solid growth driver, contributing 2.5 percentage points to GDP in FY 2024. Last year, households seemed to have recovered from the energy and inflation shocks of previous years. In 2025, consumption is set to be the main growth driver, similar to 2024. However, higher inflation, an uncertain growth outlook, and lower wage rises may increase cautiousness again.

On the other hand, investment activity remained a significant drag on growth, continuing to plummet by double digits. Weak external markets, low levels of EU fund inflows, and low business confidence indicators restrained private investments, while many state-related investments have been postponed to curb the fiscal deficit.

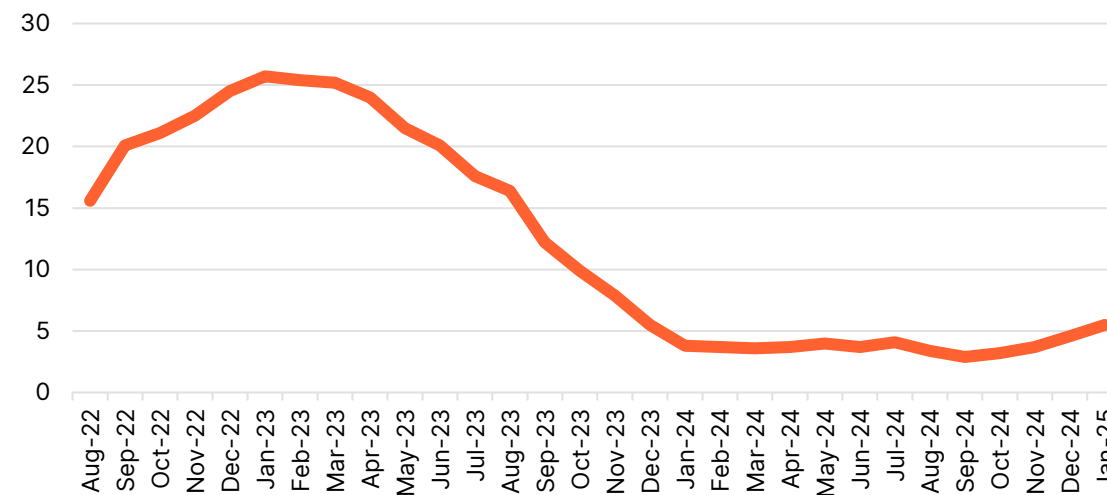
The performance of both exports and imports was rather subdued. The contribution of net exports to GDP was slightly positive in 2024 but is to turn negative this year, on the back of rising imports.

Inflation increased above the target range

Annual inflation, percent



Monthly inflation development, y/y percent

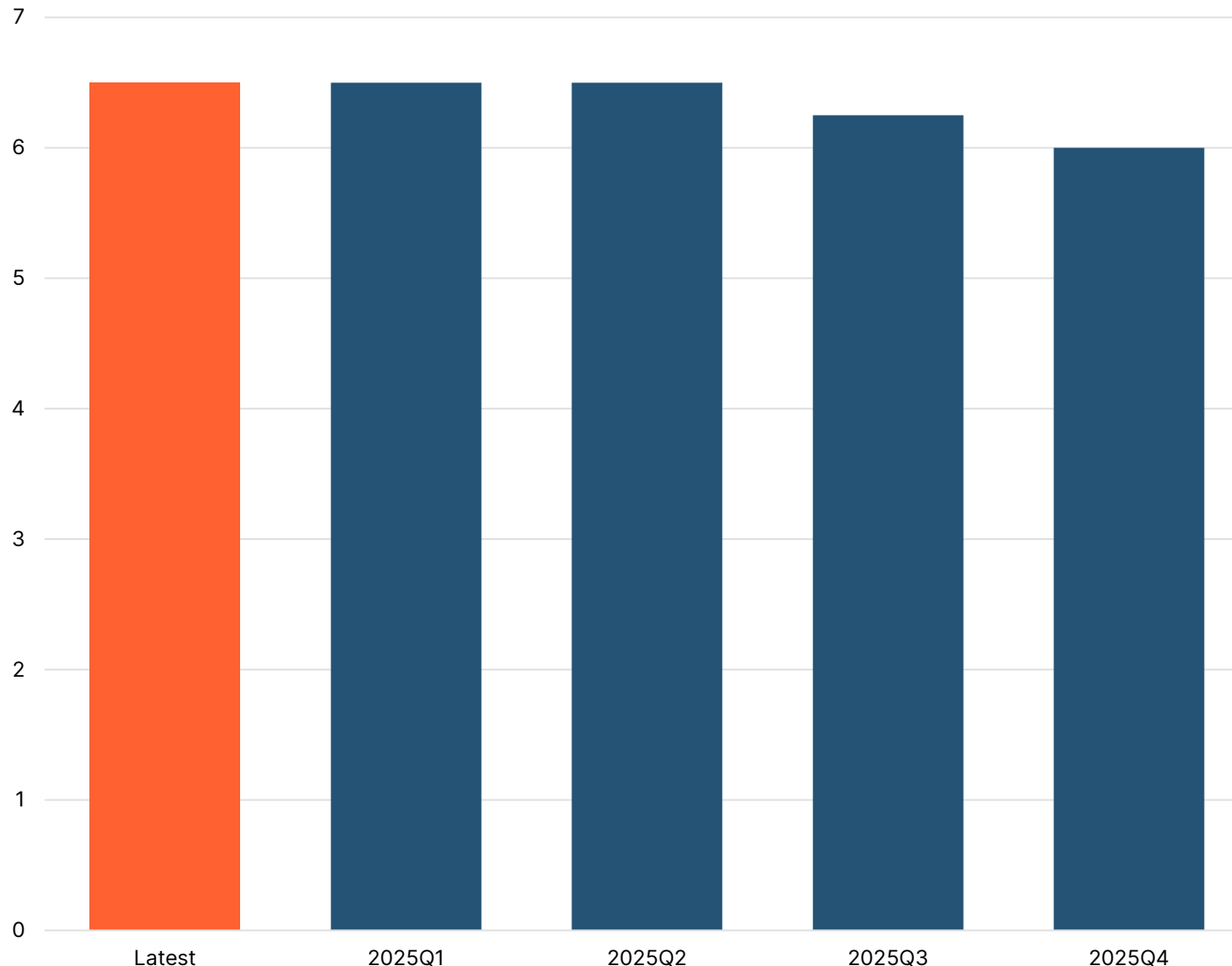


In 2024, the annual inflation rate remained within the central bank's 2-4 percent target range for most of the year. Favorable inflation figures were due to moderate food inflation and continuous disinflation in industrial products and market services.

However, this January, headline and core inflation rates accelerated significantly, reaching 5.5 and 5.8 percent, respectively. Several factors contributed to these unfavorable trends: one-off price adjustments, a strong pass-through effect of a weaker forint exchange rate, higher global energy and commodity prices, as well as tax and wage increases. Additionally, according to surveys, inflationary expectations of economic players are not anchored, leading to strong repricing at the start of the year. This behavior might also be driven by the expected further rebound in consumer consumption. Rising food prices were also a significant contributor, prompting the government to make efforts to curb food inflation by extending its price monitoring system.

This year, the annual inflation rate is set to remain well above the central bank's target range. We have raised our forecast for the annual average CPI rate to 5 percent, with risks pointing to the upside.

Key Interest Rate, percent



Policy rate to remain stable for a while

The policy rate has been standing at 6.50 percent since the end of 3Q 2024. The MNB responded to the deterioration in global risk perception, the upward shift in the US Fed interest rate path, and the weakening of the forint by pausing the monetary easing process.

This year, in response to unpleasant inflation surprises and rising inflation risks, the forward guidance changed to a more hawkish direction: instead of a “further pause in cutting interest rates,” the statement emphasized “the maintenance of tight monetary conditions.”

A disciplined anti-inflationary stance remains necessary, according to the MNB, which does not suggest a start of rate cuts in 1H 2025.

Yields to move in a wide range

Shifts in global economic sentiment remain one of the most decisive factors. Primarily, changes in the Fed rate path and US 10-year yield development mostly affected long-term forint bond yields. In the last period, the 10-year spread above German Bunds has been moving between 400-450 basis points, without showing an explicit trend.

Fundamentally, the domestic bond market seems fairly valued. However, possibly higher German Bund yields, inflation risks, and fiscal consolidation challenges pose some upward risks to yield developments.

Given that financial institutions provide stable demand for government bonds due to extra-profit tax refund rules, and PMÁP-related risks have not materialized yet, as retail investors remain stable buyers of other types of retail bonds, we still project a slow and gradual decline in long-term yields in the medium-term.

10Y yield development and forecast



FX market development and forecast



Forint to slowly weaken again

Hopes for a ceasefire and peace in Ukraine have improved sentiment on the markets and correction of the US dollar to the weaker side has supported emerging market currencies. Consequently, since the beginning of the year, the forint has appreciated against the euro, with the EURHUF rate reaching 400.

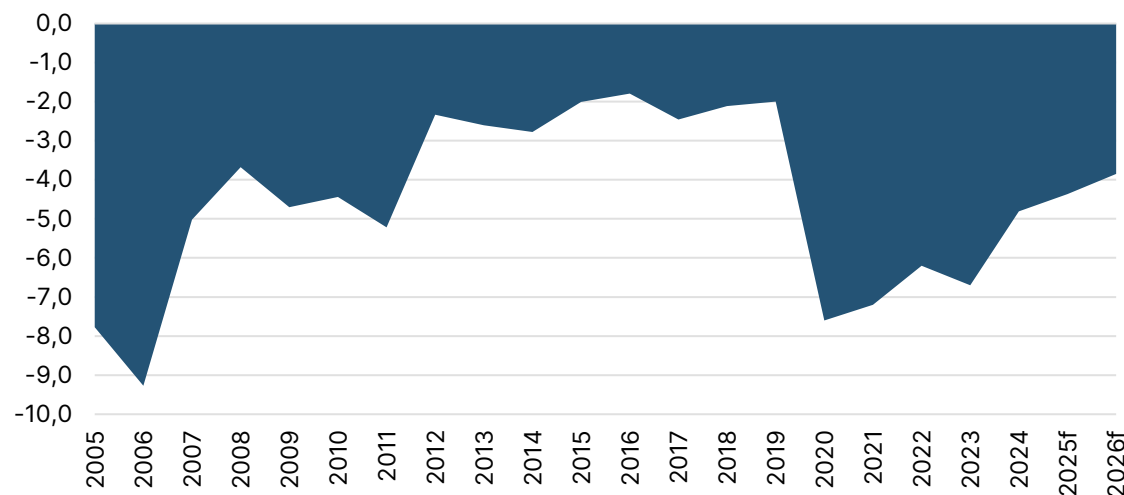
Domestically, hawkish monetary policy communication and reduced expectations for continued rate cuts have primarily contributed to the forint's stabilization.

Uncertainties, however, about the possible peace deal have hardly eased. In addition, looming US tariffs, an uncertain growth outlook, and fiscal consolidation risks may weigh on the forint.

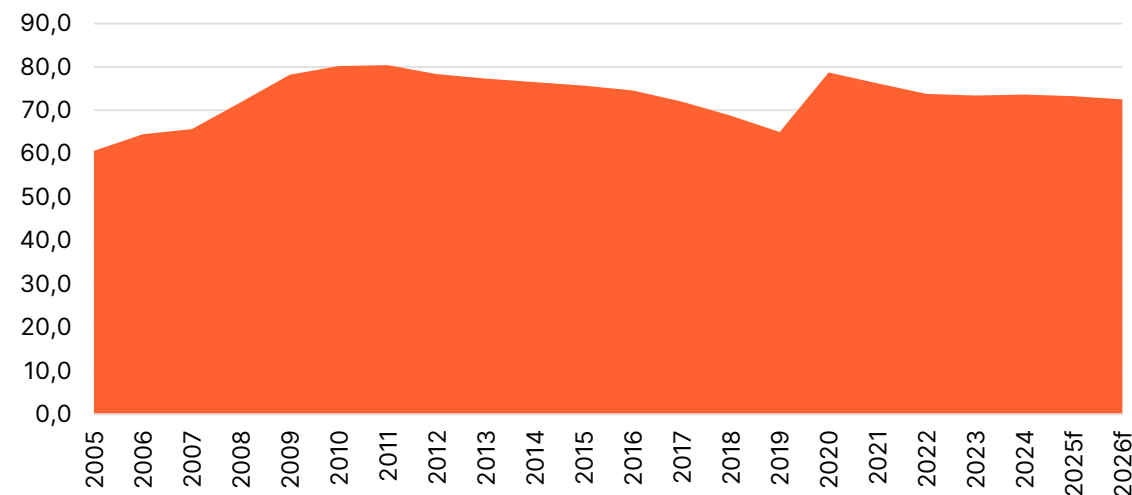
In the current rather volatile environment, the remaining positive interest rate differential and continued surplus on the external balance may remain the most important fundamental support for the forint.

Pre-election measures to affect mid-term budget prospects

Budget balance, percent of GDP



Public debt, percent of GDP



The cash flow-based deficit amounted to HUF 4,096 billion in 2024, which was ultimately in line with the deficit target revised many times during the year. The ESA-based deficit dropped to 4.8 percent of GDP from 6.7 percent of GDP in 2023.

The government announced several fiscal adjustment packages last year, and consequently, the primary balance improved by about 2 percent of GDP compared to 2023. The public debt-to-GDP ratio increased slightly to 73.6 percent.

The 2025 ESA-based deficit target of 3.7 percent of GDP seems rather ambitious, mainly given the possibility of much lower GDP growth than predicted by the Budget Act. Apart from macroeconomic risks, keeping the primary fiscal balance in surplus will be challenging in the run-up to the general elections in spring 2026.

Some election-related measures were already announced in February that will have a significant impact on the fiscal balance not only in the short term but also in the medium term. Meanwhile, the government raised the 2026 deficit target from 2.9 to 3.5 percent of GDP.

Political landscape

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.

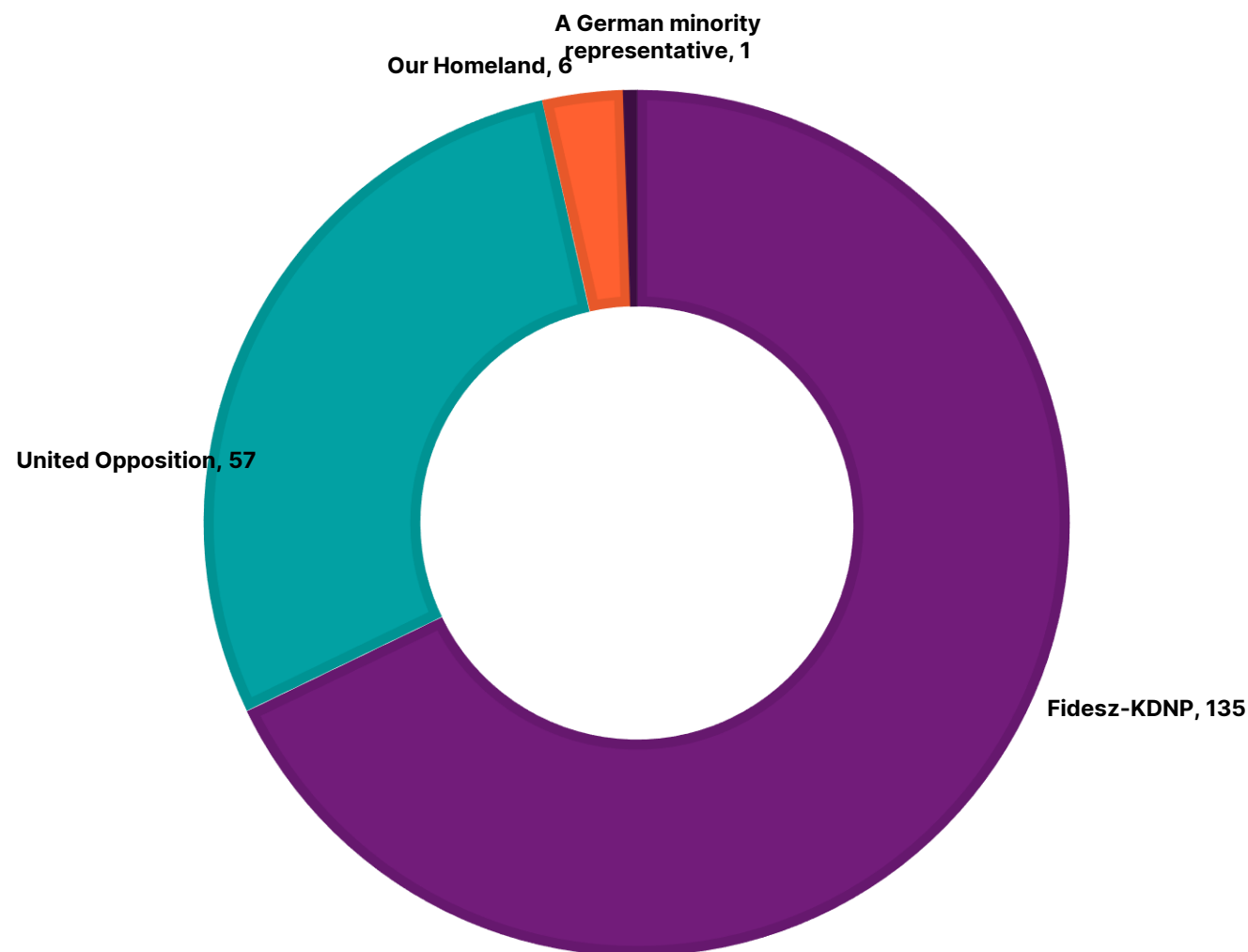
The EP and municipal elections last summer saw the rise of Peter Magyar, a former ally of Fidesz, as a prominent politician. Magyar plans to challenge Orban's hold on power in the next national election, scheduled for 2026.

In February, the government unveiled additional measures for the coming years in preparation for the upcoming elections, further increasing the risk of abandoning mid-term fiscal consolidation plans.

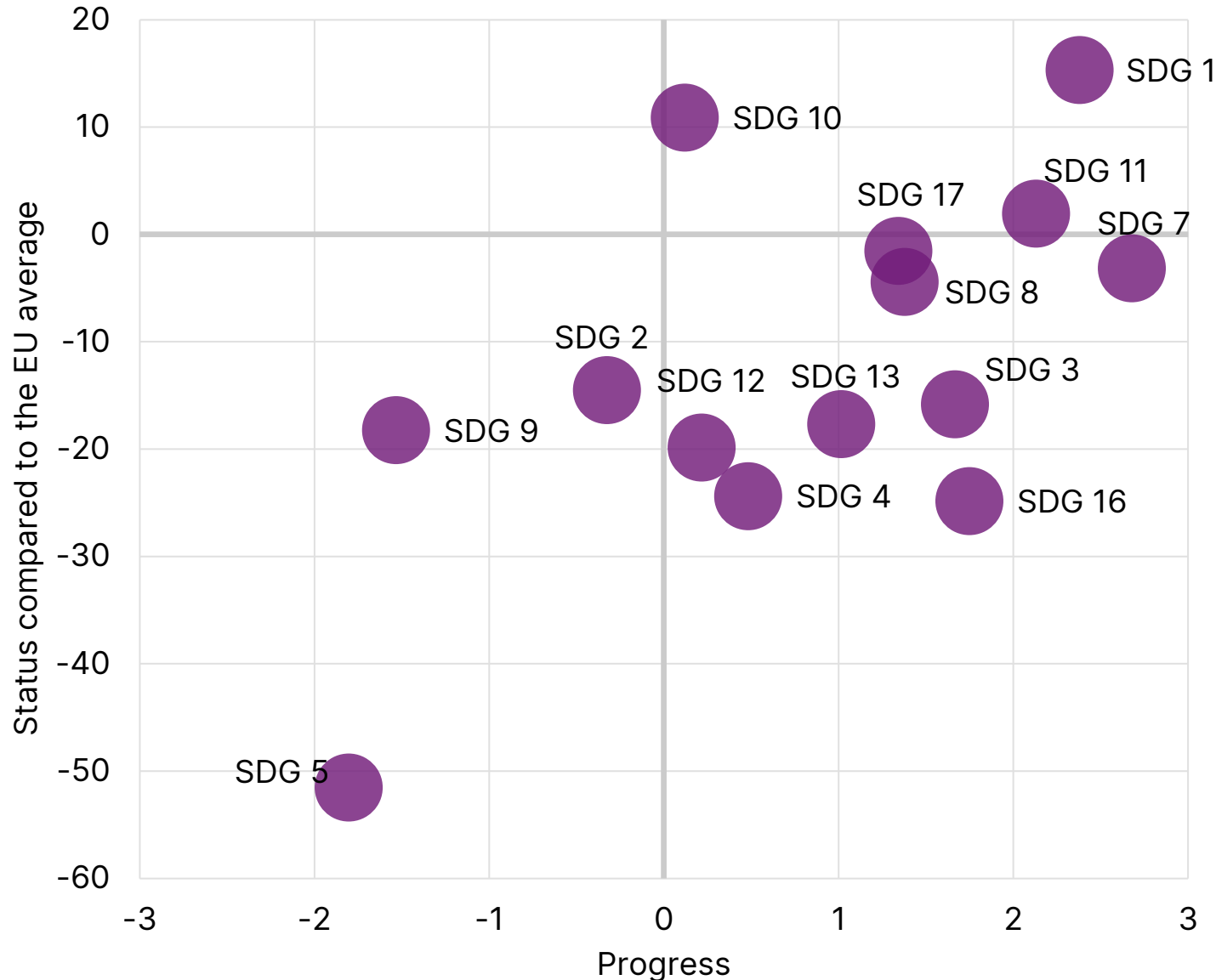
Regarding pre-election promises, the planned gradual extension (until 2030) of PIT exemptions for mothers with two or more children will have the most significant impact on the revenue side of the budget.

These measures will lead to further dependence on indirect taxes in the budget.

Parliamentary seats



Social Development Goals



In the majority of SDG segments, Hungary is below the EU average, except for 'No Poverty', 'Reduced Inequalities' and 'Sustainable Cities and Communities'.

However, the progress has been positive in many fields recently. The most relevant progress has been achieved in the fields of 'Affordable and Clean Energy', 'No Poverty' and 'Sustainable Cities and Communities'.

It is unfavorable that in the fields of 'Responsible Consumption and Production', 'Industry, Innovation and Infrastructure' and 'Gender Equality' the Hungarian status is below the average and is moving away from the SDG.

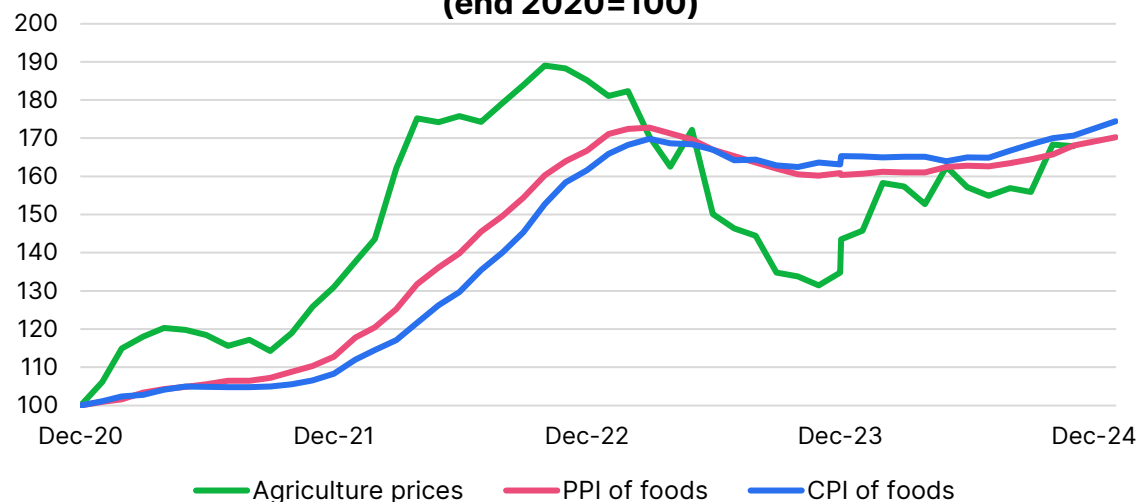
Special topic

Domestic food inflation was the highest in Europe during the inflation crisis following the pandemic. The reasons behind this trend should be closely monitored, as food prices have started to rise again after a pause last year. Since this is a category that households immediately feel, it may lead to even higher inflationary expectations.



Low productivity of food manufacturing is an important reason for outstanding food inflation

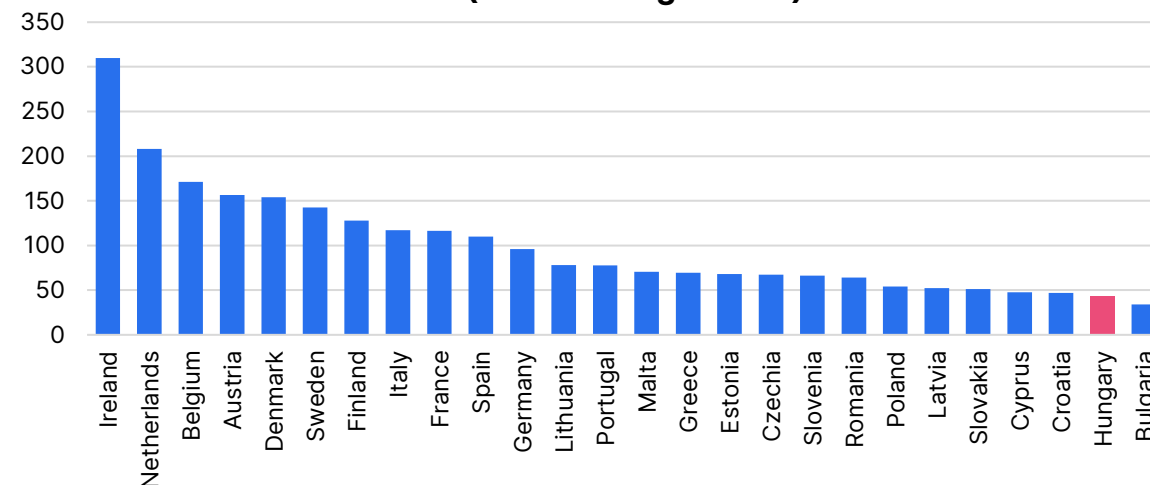
Evolution of prices in the value chain of foods
(end 2020=100)



Since end-2020, development of consumer food prices has closely tracked the price changes in domestic food manufacturing sales.

Additionally, there is only a small difference between the developments of industrial producer prices in food manufacturing and consumer food prices at shops, indicating that most of the price pressure appeared at the producer price level in the value chain.

GVA per employee in food manufacturing industry,
2022 (EU27 average = 100)



An important reason for the great sensitivity to costs (raw materials, energy) is the low productivity of the domestic food industry. Inflationary tendency in the sector has persisted, as the structural issues (low productivity, energy intensity) hardly changed. Recent moderation of energy prices is promising from this perspective, however.

Meanwhile, various price control measures (such as former price caps and the still existing extended price-monitoring systems) primarily affect retail food branches.

Hungary: Forecasts

	2018	2019	2020	2021	2022	2023	2024	2025f	2026f
Percent				Annual average					
Real GDP growth	5,6	5,1	-4,3	7,1	4,3	-0,9	0,5	2,0	3,6
Private consumption growth	4,1	4,7	-1,5	4,1	6,4	-0,7	4,3	3,7	3,8
Fixed capital formation growth	16,4	12,7	-7,3	5,7	0,9	-7,8	-11,3	2,8	4,8
Inflation	2,8	3,4	3,3	5,1	14,5	17,6	3,7	5,0	3,8
Unemployment rate	3,6	3,3	4,1	4,1	3,6	4,1	4,4	4,3	3,9
Percent of GDP									
Budget balance	-2,1	-2,0	-7,6	-7,2	-6,2	-6,7	-4,8	-4,4	-3,8
Public debt	68,8	65,0	78,7	76,2	73,8	73,4	73,6	73,3	72,6
Current account balance	0,2	-0,6	-0,9	-4,1	-8,5	0,7	3,0	2,0	1,9
				End of year					
EURLCY	321,51	330,52	365,13	369,00	400,25	382,78	410,09	415,00	420,00
Central bank policy rate	0,90	0,90	0,60	2,40	13,00	10,75	6,50	6,00	5,00
3M interbank offer rate	0,13	0,16	0,75	4,21	16,18	9,96	6,50	6,10	5,10
3Y Yield	1,21	0,28	0,70	4,19	10,71	6,12	6,38	6,29	5,46
5Y Yield	2,46	1,17	1,36	4,35	9,73	5,78	6,07	6,18	5,61
10Y Yield	3,01	2,01	2,08	4,51	8,98	5,86	6,55	6,45	6,03

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:

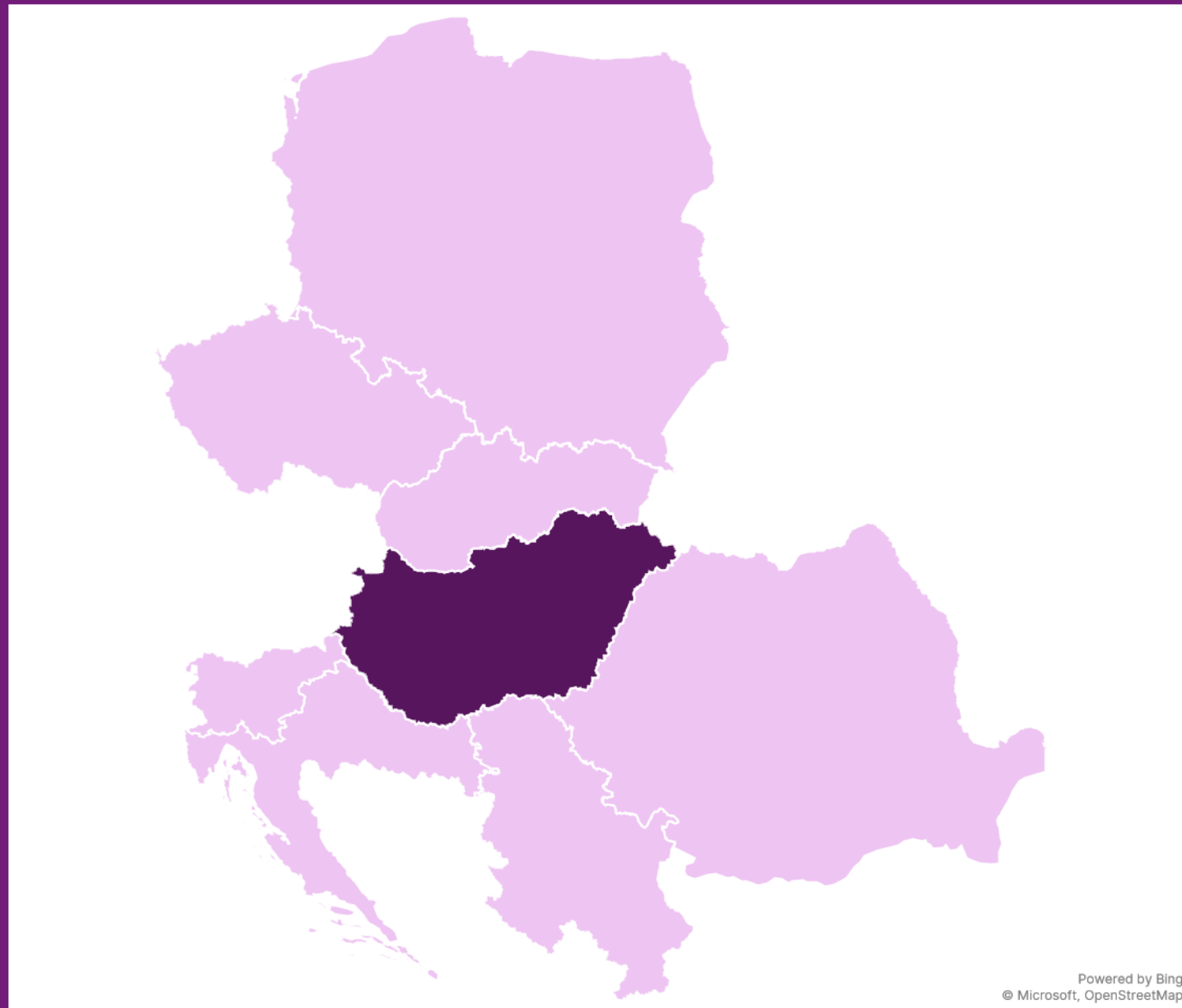
Moody's: Baa2, outlook negative

S&P: BBB-, outlook stable

Fitch: BBB, outlook stable

EU member state: since 1 May 2004

Schengen: member since 21 December 2007



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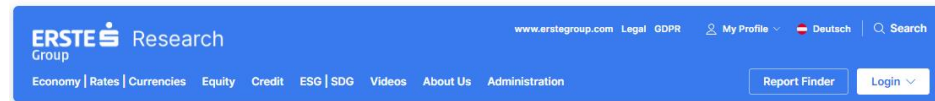


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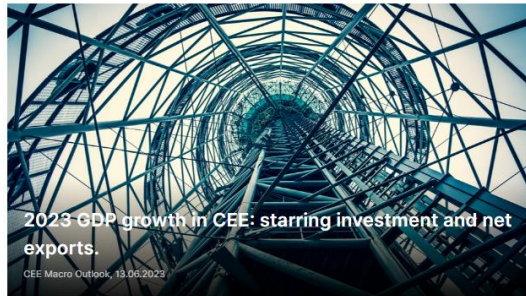


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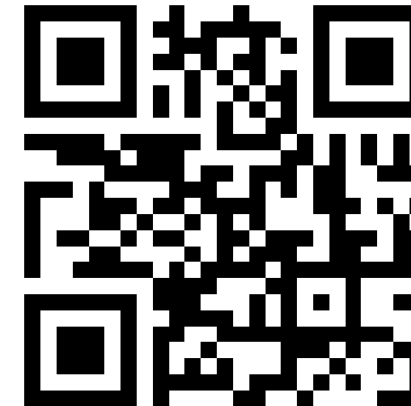
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