HUNGARY: MACRO OUTLOOK

Different headwinds imply more prolonged economic weakness

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Economy Hungary - Analyses and Forecasts | Erste Group Bank AG

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Spot Rates as of: June 17, 2025
Note: Information on past performance is not a reliable indicator for future performance.
Forecasts are not a reliable indicator for future performance.

Recovery further delayed amid inflation challenges

Following the weak 1Q 2025 GDP figures, we reduced our 2025 forecast for annual GDP growth to 0.8%. Investments will continue to decline amid increased uncertainties, partly stemming from tariff risks. In the absence of improvement in external demand, export activity is set to remain sluggish. However, household consumption may remain the main growth driver.

In 2026, new production capacities will boost growth, while we expect a gradual recovery in investments and exports.

Inflation stood at 4.4% y/y in May, while core inflation was at 4.8% y/y. Although these figures are lower than at the beginning of the year, they remain above the tolerance range despite administrative price-curbing measures and a sluggish economy. The short-term outlook is rather mixed: some factors point to disinflation, but the unsupportive base effect is likely to keep the headline rate above 4% approximately until the end of the year. The 12-month rate may reach the target range in the first half of 2026.

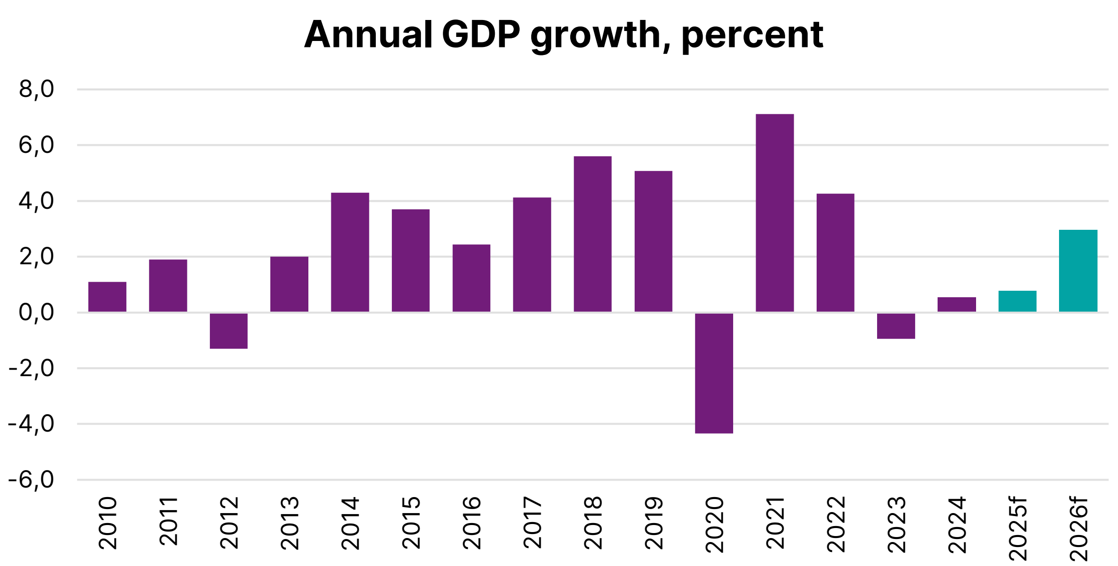
Recovery further delayed amid inflation challenges

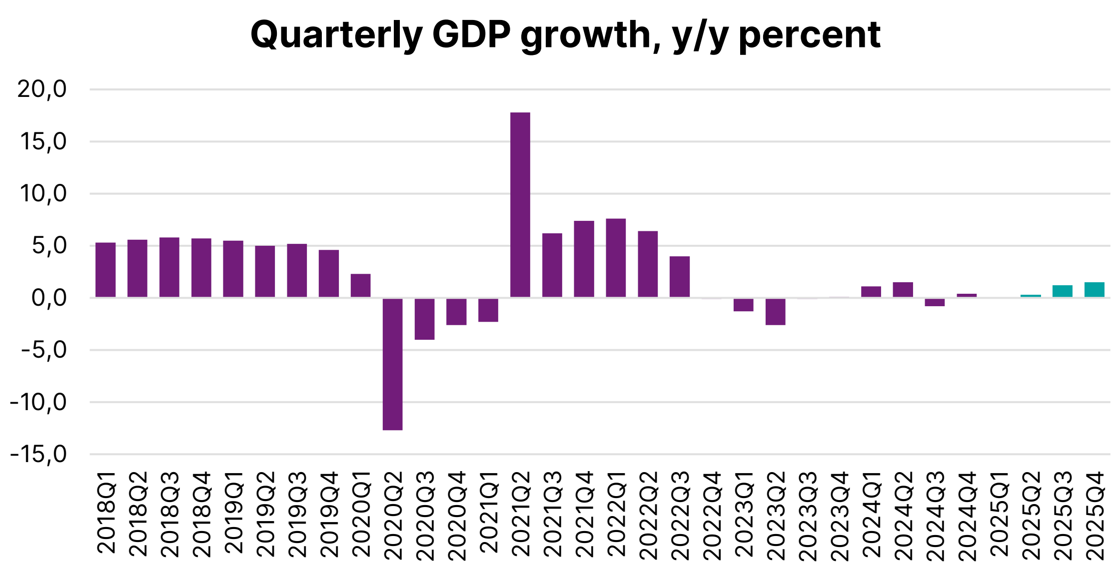
Reaching the ambitious fiscal targets requires maintaining the primary balance. This could be challenging, however, as the general elections approach in 2026, thus some deterioration is anticipated. High nominal GDP growth is supportive, but pre-election measures would constrain efforts to keep public debt on a declining trajectory in 2025 and 2026.

The policy rate has stood at 6.50% since 3Q 2024. A disciplined anti-inflationary stance and stability-oriented approach by the MNB do not suggest the start of rate cuts for the time being. However, we see potential for one or two cautious interest rate cuts towards the end of the year, provided that inflation prospects and the country's risk perception do not deteriorate, and if the US Fed restarts its easing cycle in the autumn.

With some easing of tensions over the tariff war, the forint corrected to the stronger side, stabilizing between 400-405 against the euro. However, the inflation differential and persistent productivity challenges point towards a slow weakening, which keeps the Hungarian currency on a continuous devaluation path against the euro in the medium term.

Growth outlook for 2025 worsened





The 1Q25 GDP data came as a negative surprise, with GDP declining by 0.2% q/q and stagnating on a yearly basis. The reason for this disappointment is the economy's inability to sustain an improving growth trajectory, indicating weak underlying processes and structural problems. The overall outlook remains burdened by uncertainties caused by US trade tariff issues and ongoing geopolitical tensions.

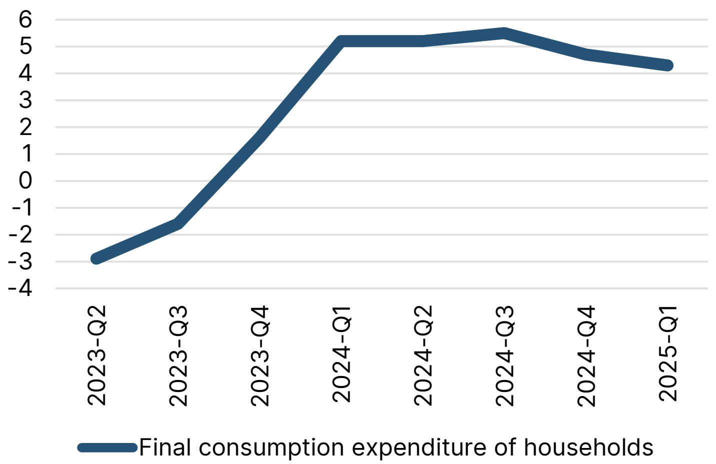
Weak external demand, coupled with low business sentiment and lack of more substantial amount of EU funds, suggests subdued private investment activity this year, as well. Meanwhile, fiscal constraints do not imply any relevant improvement in state investments. A low propensity of the private sector to invest poses risks to future growth developments.

A positive factor, however, is that the labor market has remained relatively stable, while real wages remain in positive territory, though are slowing. Thus, household consumption may be the main growth driver in 2025.

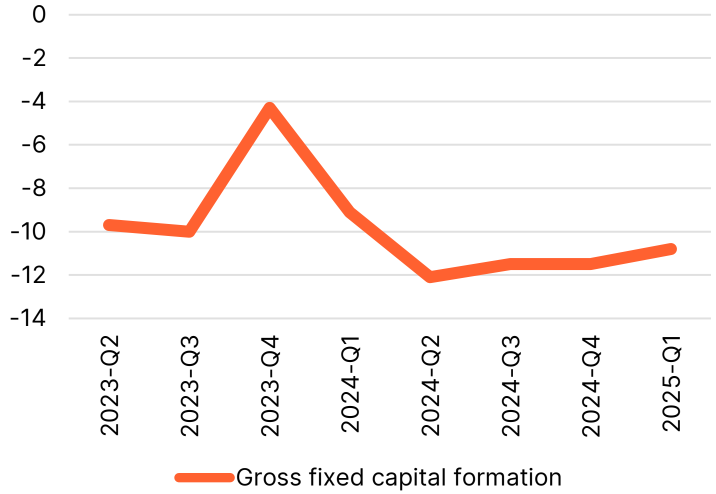
In 2026, the expected recovery in the European economy and pre-election fiscal easing could support the economy.

Investments remained a drag on growth, while consumption slowed

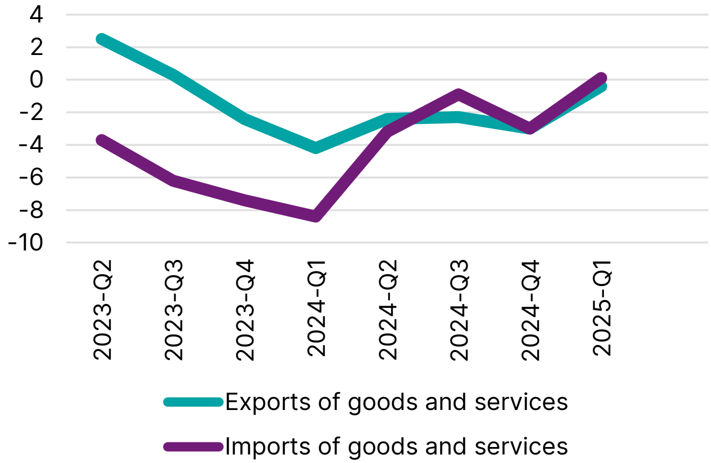
Final consumption expenditure of households



Gross fixed capital formation



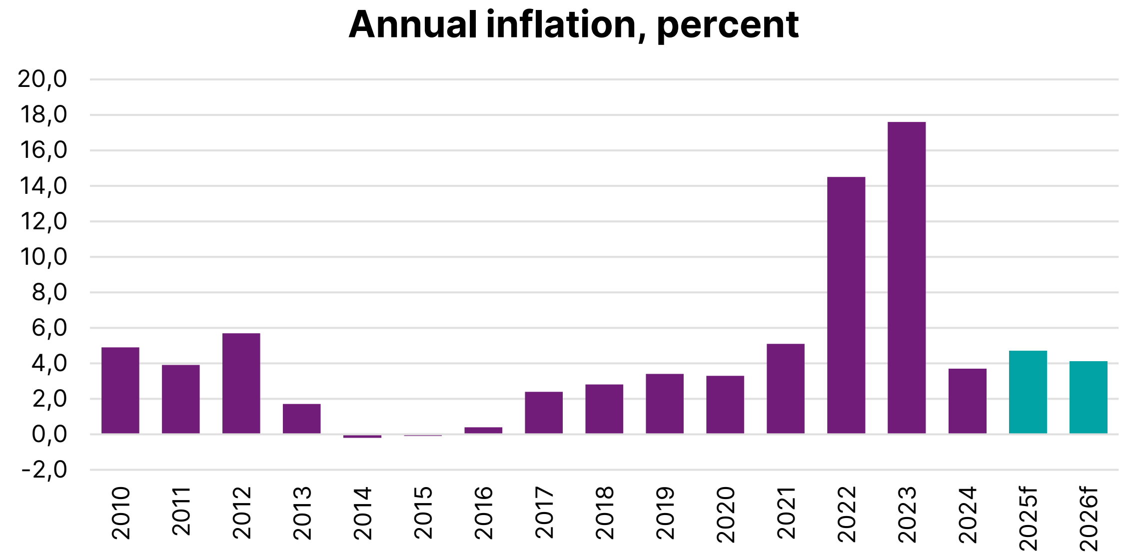
Exports and Imports of goods and services

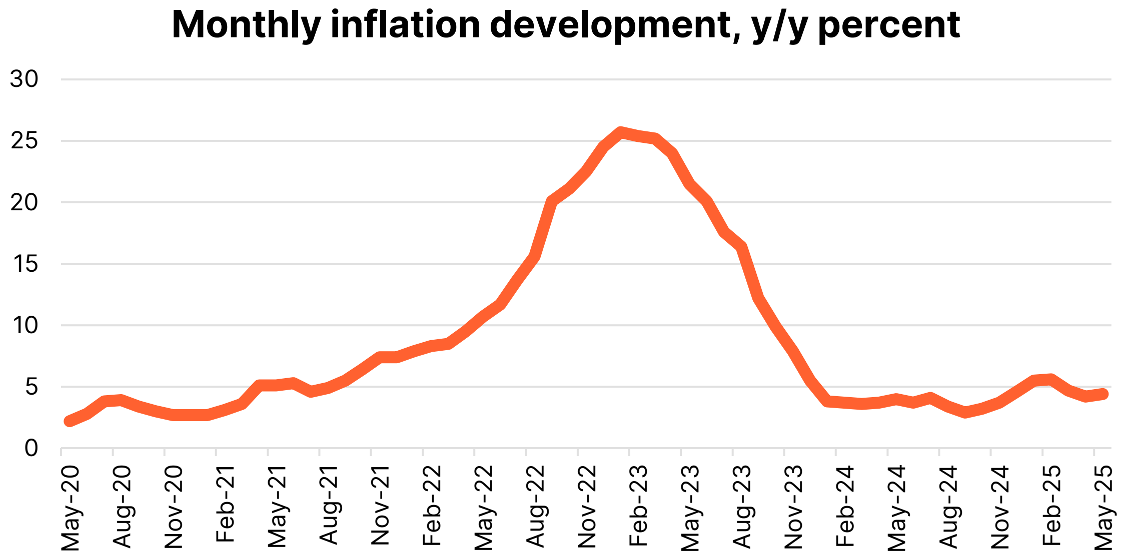


Regarding the structure of the GDP figures, household consumption remained the main growth driver, though it also slowed somewhat in 1Q25. On the other hand, investment activity continued to sharply decline, by more than 10% y/y. The persistently low economic sentiment is mainly behind the freefall of investments. Business confidence indicators are still below their pre-war levels in almost all economic sectors. Companies face increased uncertainties—partly due to rapidly evolving tariff-related developments—and the still weak state of overall demand. This has led to a postponement of starting or increasing production in many factories, particularly those operating in car and battery manufacturing. The contribution of net exports to GDP was slightly negative, at -0.3 percentage points.

This year, consumption is set to be the main growth driver, similar to 2024. However, inflation risks, lower wage rises, and the easing of the tight domestic labor market justify some caution in this field as well. On the other hand, targeted fiscal measures in the run-up to the 2026 parliamentary elections could support domestic consumption, partly offsetting the possible negative impacts.

Inflation problems have not resolved with margin caps





The year 2025 started with rather unpleasant inflation surprises. Some one-off factors, coupled with high inflationary expectations, drove the 12-month headline rate well above 5% in January-February. The government reacted with various price-reducing measures, among which the cap on margins of certain food products was the most relevant.

Inflation stood at 4.4% y/y in May, while core inflation was at 4.8% y/y. Although these figures are lower than at the beginning of the year, they remain above the tolerance range despite administrative price-curbing measures and a sluggish economy.

The short-term outlook is rather mixed: slower wage outflow, a relatively stable forint exchange rate, and slowly mitigating inflationary expectations principally point to disinflation. However, the unsupportive base effect is likely to keep the headline rate above 4% approximately until the end of the year. The 12-month rate may reach the target range in the first half of 2026.

However, the timing of adjustments to administrative impacts will be a crucial factor in inflation developments. The likelihood that these measures will remain in place at least until next year's parliamentary elections has increased.

Source: Eurostat, Refinitiv, Erste Group Research

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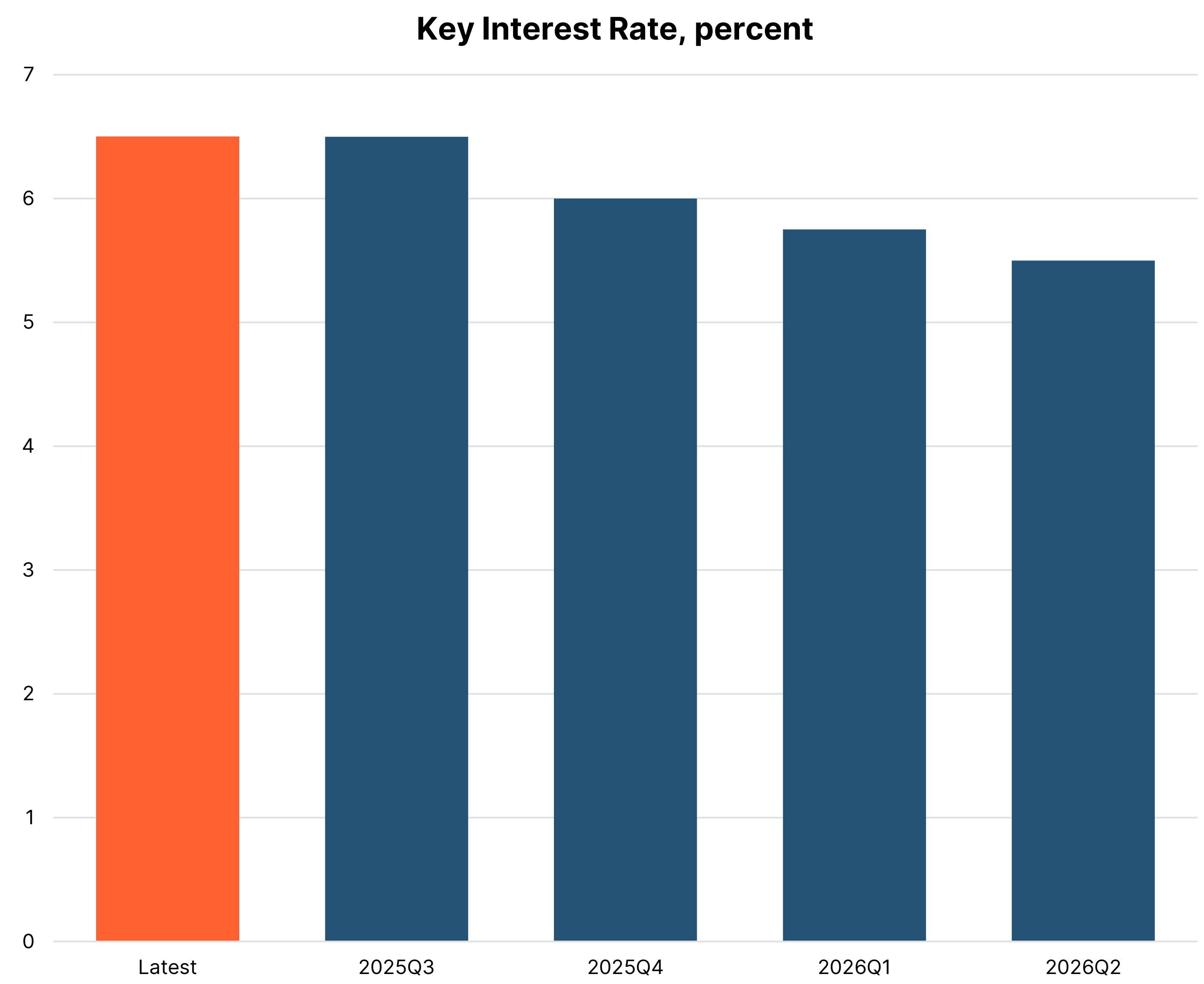
Policy rate to remain stable for months



The policy rate has stood at 6.50% since 3Q24. This year, in response to unpleasant inflation surprises and rising inflation risks, the forward guidance shifted to a more hawkish direction. The statement keeps emphasizing “the maintenance of tight monetary conditions.”

A disciplined anti-inflationary stance and stability-oriented approach of the MNB do not suggest the start of rate cuts for the time being.

However, we see potential for one or two cautious interest rate cuts towards the end of the year, provided that inflation prospects and the country's risk perception do not deteriorate, and if the US Fed restarts its easing cycle in the autumn.

Uncertainties are high however, as vulnerability of the forint and inflation risks may limit the space of the monetary policy.

Source: MNB, Refinitiv, Erste Group Research

A gradual yield decline to come

Shifts in major bond yield movements have been a relevant factor leading to volatility and a gradual increase in domestic long-term bond yields. Meanwhile, in the case of the 10-year HUF bond, spreads above the 10-year German Bund yield increased slightly above 450 basis points by mid-June.

The possible easing of uncertainties surrounding inflation and short-term interest rate prospects suggests a moderate decline in LT bond yields in the medium term.

However, the slow downward trajectory may not be smooth, as the greater volatility of major bond yields and recent challenges related to keeping the budget deficit on track may also make the domestic bond market more fragile.

The recent announcement by the ÁKK regarding increased FX debt issuances suggests they do not want to overburden the institutional forint bond market. This may be an important argument for some mitigation of the yield path.

10Y yield development and forecast

Source: Refinitiv, Erste Group Research

June 17, 2025

Forint to weaken in the mid-term

FX market development and forecast

Following the major weakening in early April and then with some easing of tensions over the tariff war—the forint corrected to the stronger side, stabilizing between 400-405 against the euro.

The potential further easing of trade conflicts may be helpful. However, a risk remains as there are still no quick solutions in sight for the conclusion of the Russian-Ukrainian war, while geopolitical tensions strengthened again, after Israel had attacked Iran.

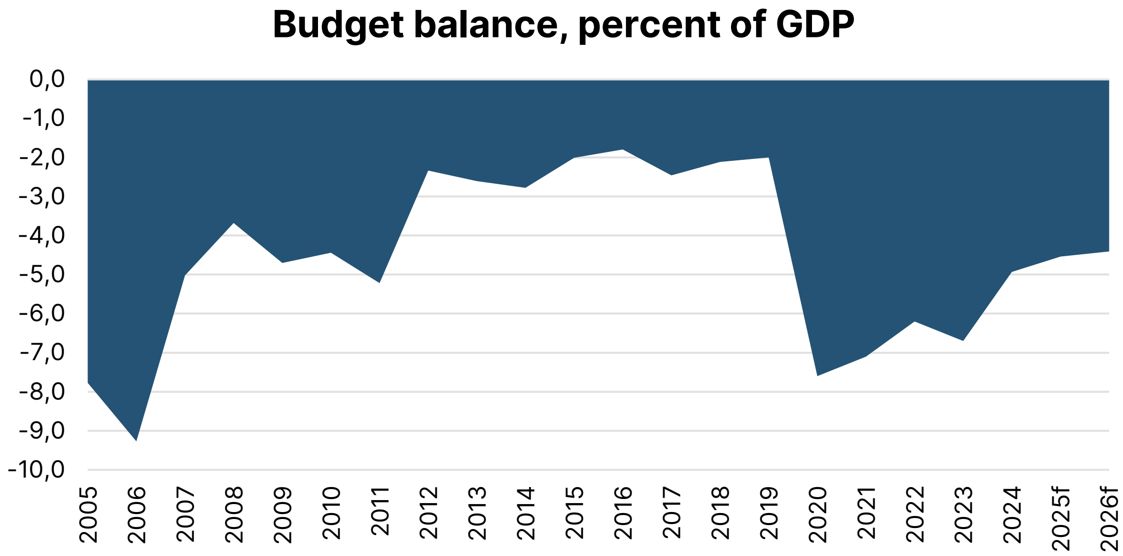
From a fundamental perspective, the remaining surplus of the current account balance may support the Hungarian currency the most.

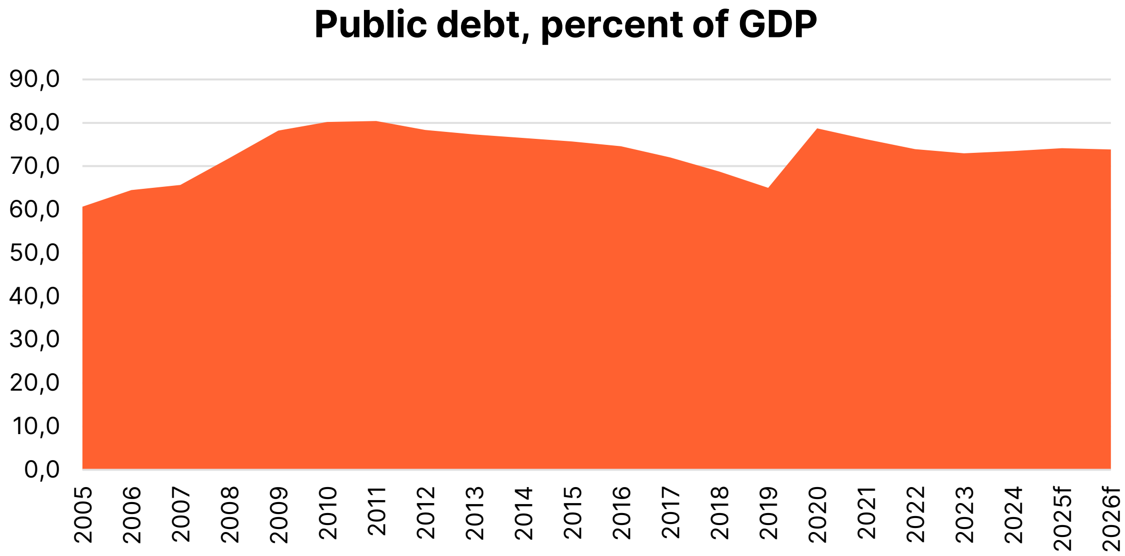
However, the inflation differential and permanent productivity challenges point towards a slow weakening, which keeps the Hungarian currency on a continuous devaluation path against the euro in the medium term.

Overall, we expect the forint to weaken slowly in parallel with the expected gradual central bank interest rate cuts.

Source: Refinitiv, Erste Group Research

Approaching general elections challenge fiscal discipline





The year-to-date cash flow-based deficit amounted to HUF 2,800.9 billion in May. In mid-June, the government increased its FY cash flow-based deficit target by HUF 652 billion to HUF 4,774 billion and adjusted the financing plan accordingly. The reasons for the increase were the lack of EU funds, weaker-than-expected GDP numbers, and the already announced PIT tax cuts for mothers.

Regarding the 2025 ESA-based deficit target, it had been raised earlier from 3.7% to 4.1% of GDP, given ongoing weak economic performance. This still seems optimistic, however, given the possible worsening of the primary fiscal balance, which had improved by 2% of GDP last year.

As for next year, the 2026 Budget Act includes a deficit target of 3.7% of GDP. Reaching this ambitious target requires maintaining the primary balance. This could be challenging, however, as the general elections approach in 2026, thus some deterioration is anticipated instead.

High nominal GDP growth is supportive, but pre-election measures would constrain efforts to keep public debt on a declining trajectory in 2025 and 2026.

Source: Eurostat, Refinitiv, Erste Group Research

A new challenger appeared

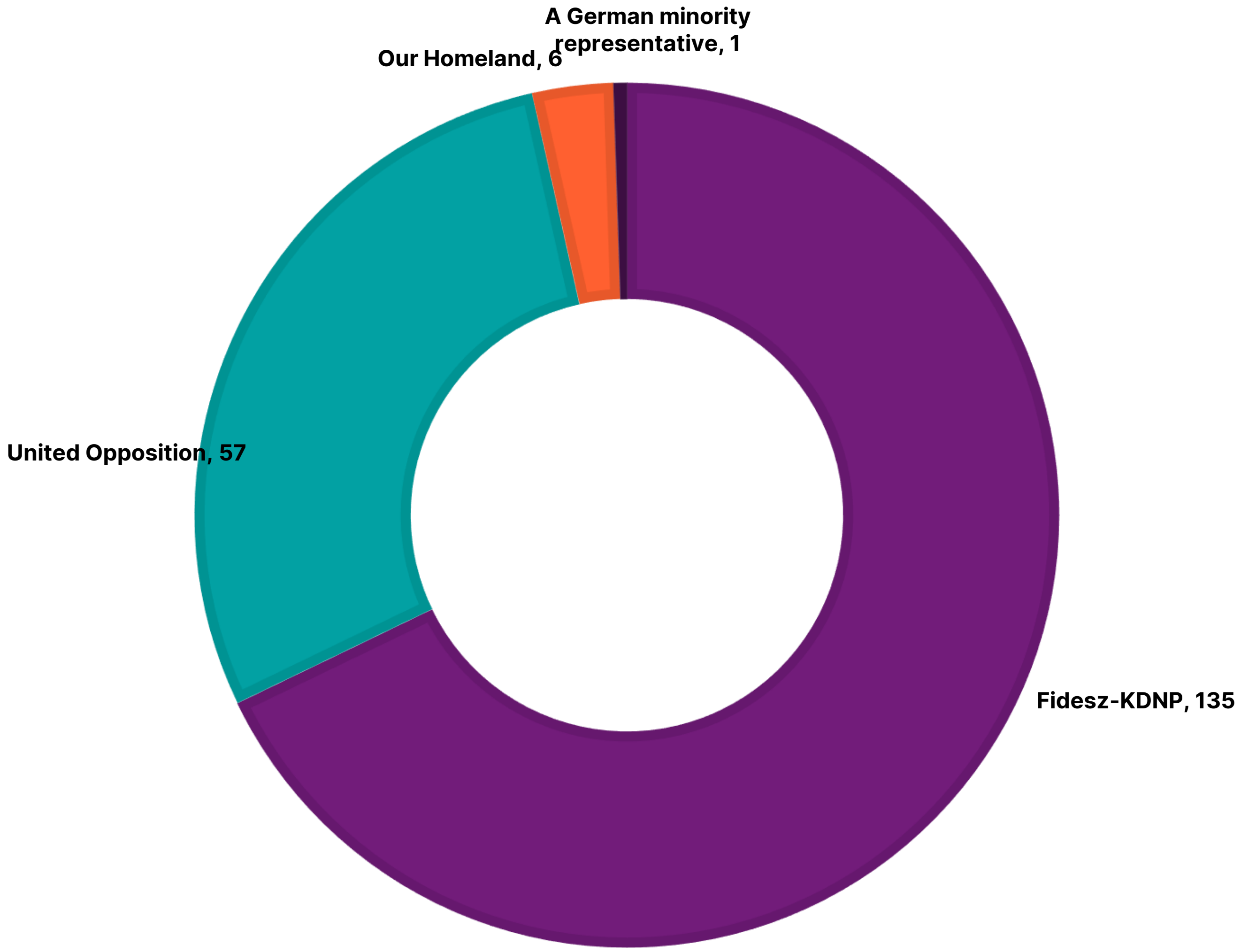
The ruling Fidesz party won 135 of the 199 seats in the April 2022 elections, ensuring a two-thirds majority while opposition parties remained fragmented. The next parliamentary election is scheduled for spring 2026.

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.

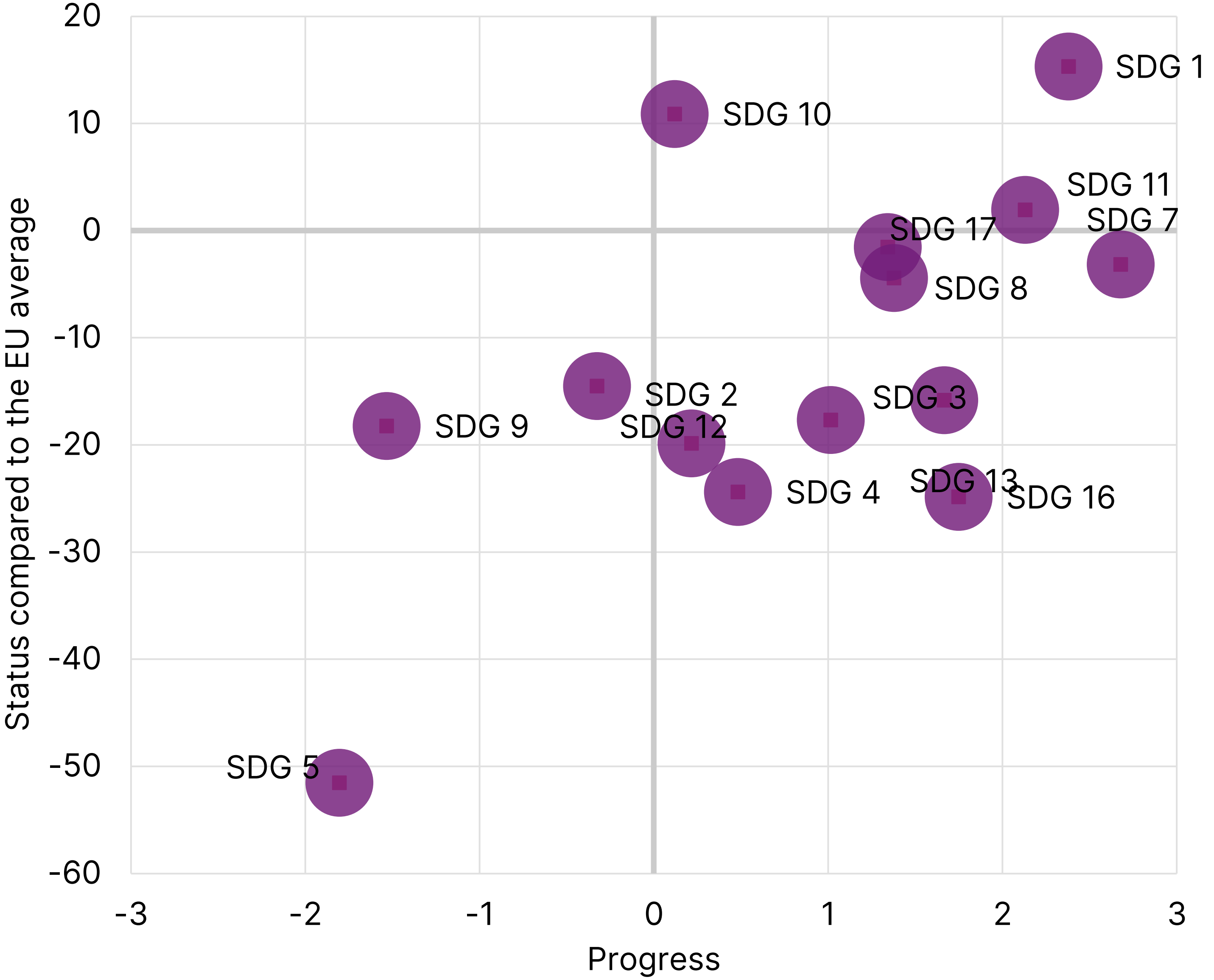
Over the past year, Magyar and his newly established Tisza party have succeeded in winning over the supporters and voters of most opposition parties. Meanwhile, support for the current governing party, Fidesz, has been declining, according to many polls.

The government has already unveiled various pre-election measures—primarily tax cuts—in preparation for the elections. These measures suggest a worsening primary fiscal balance amid the recent challenging economic situation.

Parliamentary seats



Source: Hungarian Parliament, Erste Group Research



Social Development Goals

According to the latest EC's Country Report on Hungary, despite making progress on most of the SDGs, including all SDGs related to competitiveness (SDGs 4, 8 and 9), Hungary remains below the EU average on all SDGs apart from SDGs 1 (No poverty), 11 (Sustainable cities and communities) and 15 (Life on land).

Moreover, Hungary is moving away from several SDGs on sustainability (2, 11, and 12).

Hungary is improving on most SDGs related to fairness (SDGs 1, 3, 4, 5, 7 and 8), but is moving away from SDG 10 (Reduced inequalities).

The country still needs to catch up with the EU average on all SDGs related to macroeconomic stability (SDGs 8, 16, 17).

Source: Eurostat, Refinitiv, Erste Group Research

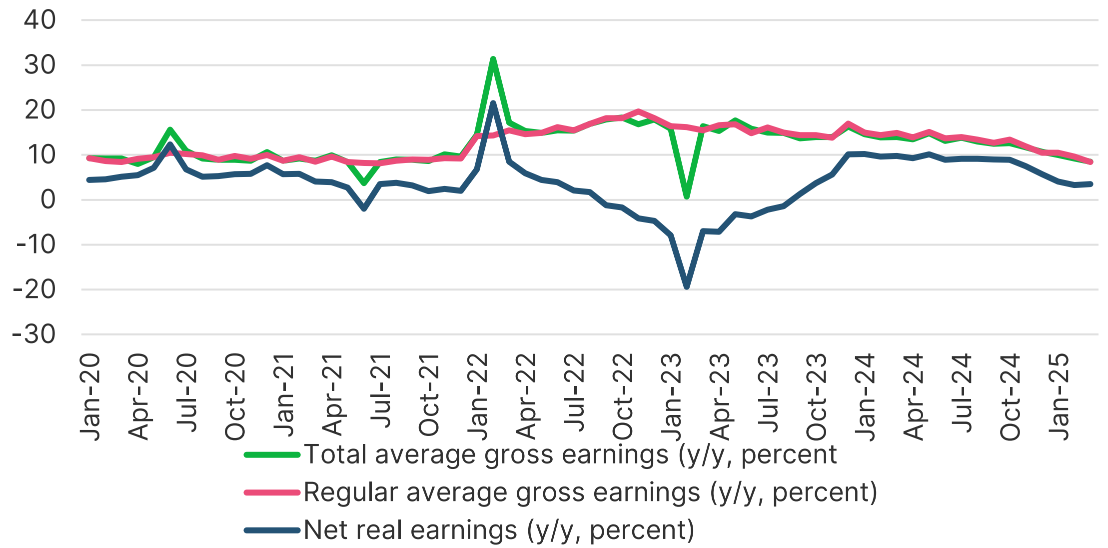
Special topic

Unemployment rate remains relatively stable despite economic weakness, but tightness of the labor market has eased over the past few months. Meanwhile, real wage growth is expected to significantly slow this year.

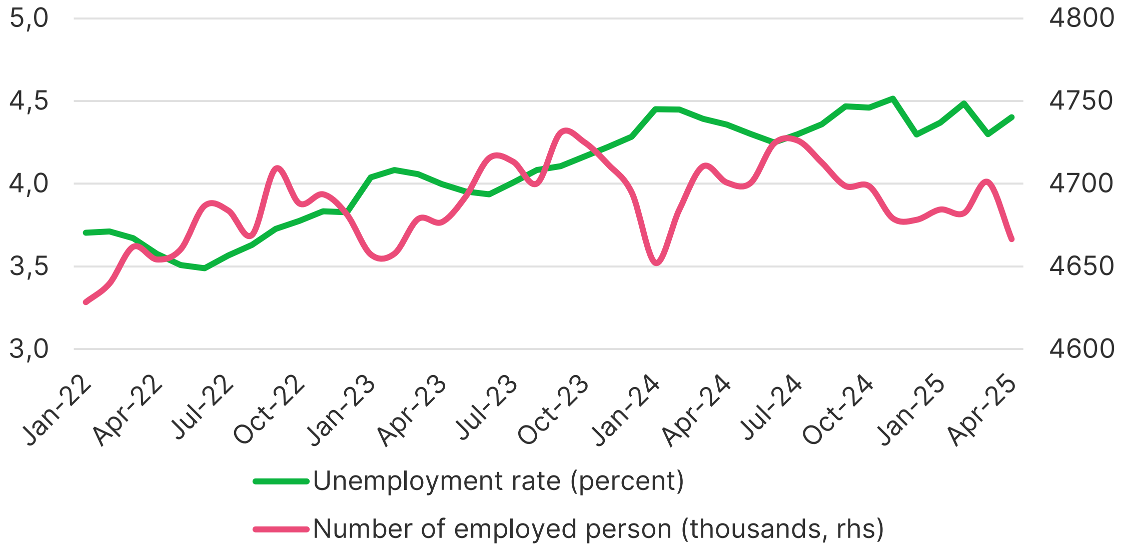
It is crucial to closely monitor labor market developments, as further weakening could increase household caution, potentially jeopardizing the recovery, particularly from the perspective of private consumption.

Tightness of labor market gradually easing, while wage outflow slowing

Real wage increase to slow this year



Number of employed person declined in April



Skyrocketing inflation in 2021-22 led to deeply negative real wages. Nominal wages caught up with inflation only in September 2023, and then real wages increased by around 9 percent annually in 2024.

This year, however, nominal wage growth is expected to slow down as companies are more reluctant to increase salaries amid ongoing growth challenges.

In addition, inflation is higher than previously anticipated, leading to a significant slowdown in real wage growth in 2025.

Prolonged economic weakness has led to an easing of overall labor market tightness. This has not been significantly reflected in rising unemployment; however, the number of people employed has started to decline, and job vacancies are falling.

Meanwhile, the phenomenon of labor hoarding in companies is also mitigating. Further weakening could increase household caution, potentially jeopardizing the recovery, particularly from the perspective of private consumption.

Source: Eurostat,,CSO, Erste Group Research

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	0,8	3,0
Private consumption growth	4,1	4,7	-1,5	4,1	6,4	-0,7	4,3	3,7	4,1
Fixed capital formation growth	16,4	12,7	-7,3	5,7	0,9	-7,8	-11,3	-5,5	2,5
Inflation	2,8	3,4	3,3	5,1	14,5	17,6	3,7	4,7	4,1
Unemployment rate	3,6	3,3	4,1	4,1	3,6	4,1	4,4	4,2	4,0
Percent of GDP									
Budget balance	-2,1	-2,0	-7,6	-7,1	-6,2	-6,7	-4,9	-4,5	-4,4
Public debt	68,8	65,0	78,7	76,2	73,9	73,0	73,5	74,2	73,8
Current account balance	0,2	-0,6	-0,9	-4,1	-8,5	0,3	2,2	2,2	1,7
					End of year				
EURLCY	321,51	330,52	365,13	369,00	400,25	382,78	410,09	408,00	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	6,32	5,66
5Y Yield	2,46	1,17	1,36	4,35	9,73	5,78	6,07	6,22	5,77
10Y Yield	3,01	2,01	2,08	4,51	8,98	5,86	6,55	6,57	6,17

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:

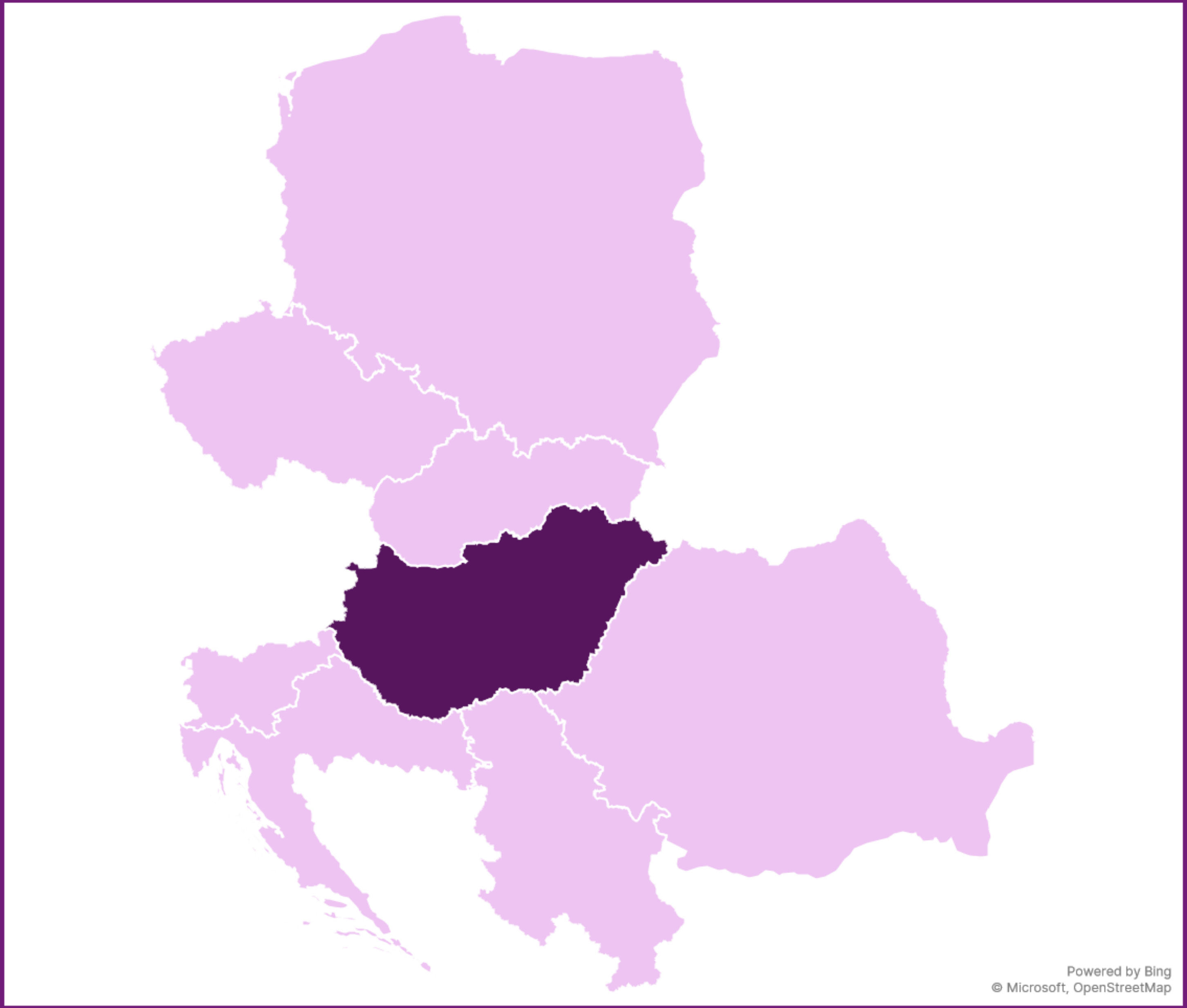
Moody's: Baa2, outlook negative

S&P: BBB-, outlook negative

Fitch: BBB, outlook stable

EU member state: since 1 May 2004

Schengen: member since 21 December 2007



Source: Eurostat, Refinitiv, Erste Group Research

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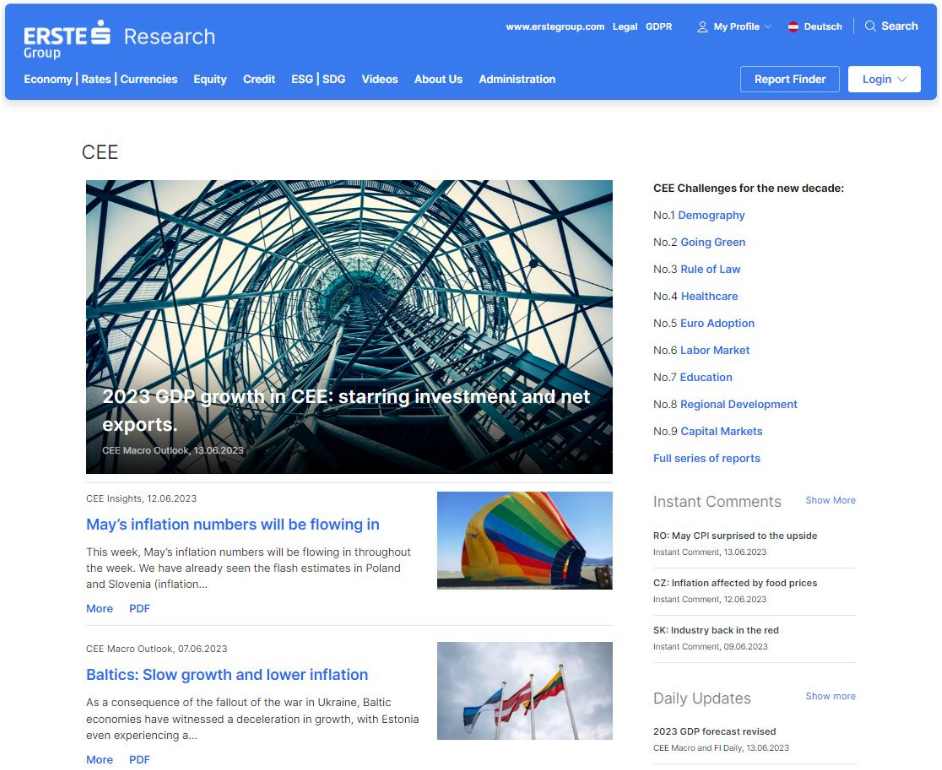

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