MACROECONOMIC AND FINANCIAL MARKET DEVELOPMENTS

BACKGROUND MATERIAL

TO THE ABRIDGED MINUTES

OF THE MONETARY COUNCIL MEETING

OF 29 APRIL 2025

APRIL

2025

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The background material 'Macroeconomic and financial market developments' is based on information available until 24 April 2025.

Article 3 (1) of the MNB Act (Act CXXXIX of 2013 on the Magyar Nemzeti Bank) defines achieving and maintaining price stability as the primary objective of the Magyar Nemzeti Bank. The MNB's supreme decision-making body is the Monetary Council. The Council convenes as required by circumstances, but at least twice a month, according to a pre-announced schedule. At the second scheduled meeting each month, members consider issues relevant to decisions on central bank interest rates. Abridged minutes of the Council's rate-setting meetings are released regularly, before the next policy meeting takes place. As a summary of the analyses prepared by staff for the Monetary Council, the background material presents economic and financial market developments, as well as new information which has become available since the previous meeting.

The abridged minutes and the background materials to the minutes are available on the MNB's website at:
https://www.mnb.hu/en/monetary-policy/the-monetary-council/minutes

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1. Macroeconomic developments

1.1. Global macroeconomic environment

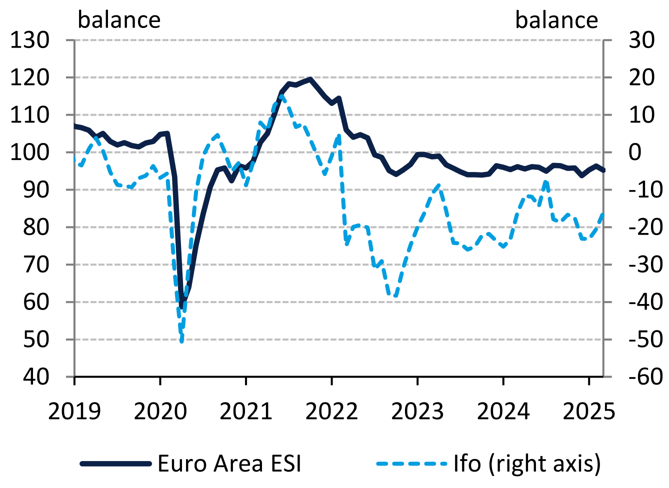
In 2024 Q4, GDP grew at a year-on-year rate of 1.4 percent in the European Union and 2.5 percent in the United States, while China recorded growth of 5.4 percent in 2025 Q1. Industrial production and retail sales rose in China, the United States and the eurozone.

In 2024 Q4, GDP grew at a year-on-year rate of 1.4 percent in the European Union and 2.5 percent in the United States, while growth of 5.4 percent was recorded in China for 2025 Q1. In the euro area, GDP expanded by 1.2 percent in 2024 Q4 on an annual basis. Among the EU Member States, Ireland saw the strongest growth (+9.2 percent) compared to the same period last year. Three Member States reported a decline on an annual basis, with gross domestic product contracting by 0.2 percent in Germany, 0.4 percent in Latvia and 0.9 percent in Austria. Among the countries in the region, Poland's economy grew at the fastest pace (+3.7 percent).

In March, industrial production rose 7.7 percent in China and 1.3 percent in the United States on an annual basis, and an increase of 1.2 percent was measured in the euro area in February. Retail sales expanded 2.3 percent in the euro area in February. Growth of 5.9 percent was recorded in China in March, while the United States saw growth of 4.6 percent.

In March 2025, the Manufacturing Purchasing Managers' Index fell in the United States, but rose in the euro area and China. The index surpassed the 50-point threshold indicating expansion in China and the United States, but fell short of it in the euro area. The Economic Sentiment Indicator (ESI) for the euro area declined by 1.1 points in March 2025 (Chart 1).

Chart 1 Business climate indices in Hungary's export markets

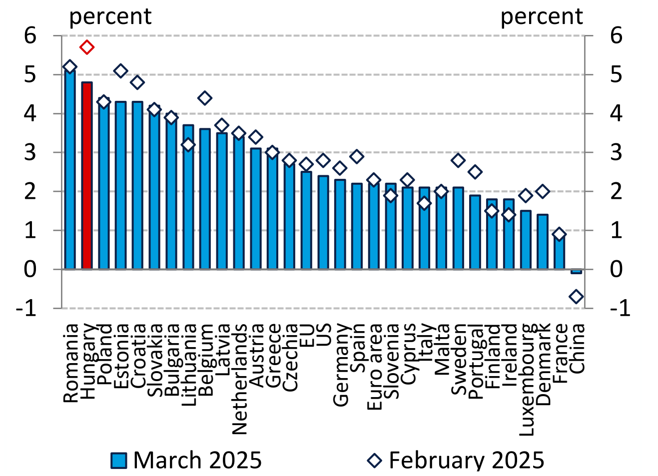


Source: European Commission, Ifo

Unemployment remains low in the US. The unemployment rate in the United States was 4.2 percent in March and has been hovering between 4.0 and 4.2 percent since May of last year. Non-agricultural jobs increased by 228,000 in March, significantly exceeding analysts' expectations of around 135,000. In the euro area, the unemployment rate amounted to 6.1 percent in February, marking a slight decrease from 6.2 percent in January.

Annualised inflation in the US was 2.4 percent in March, down 0.4 percentage point from the previous month. **Consumer prices in China fell 0.1 percent on an annual basis. Inflation in the euro area stood at 2.2 percent year-on-year, while core inflation fell to 2.4 percent.** The inflation data were in line with analysts' expectations.

Chart 2 Developments in the international inflation environment



Note: HICP inflation rates for members of the European Union.
Source: Eurostat, Trading Economics, Bureau of Labor Statistics

In March, inflation fell in the Czech Republic and Romania, while it rose in Poland and Slovakia. In March, HICP inflation stood at 5.1 percent in Romania, 4.4 percent in Poland, 4.2 percent in Slovakia and 2.7 percent in the Czech Republic (Chart 2).

1.2. Real economic trends in Hungary

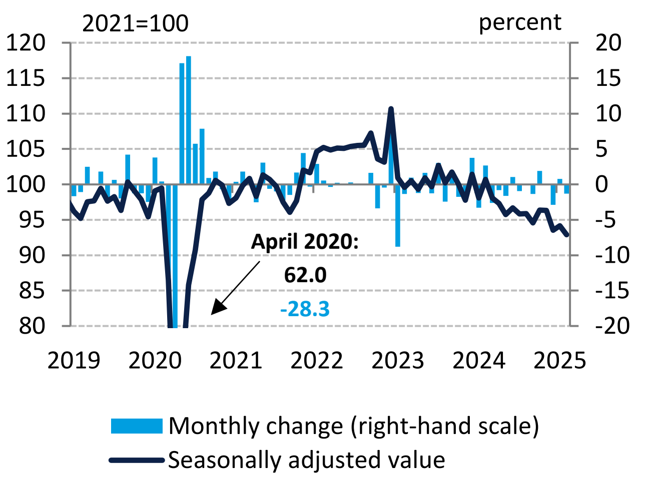
Domestic GDP rose 0.4 percent in a year-on-year comparison in 2024 Q4. In February 2025, retail sales increased 3.3 percent, while industrial production fell 8.7 percent and construction output dropped 4.5 percent, according to the Hungarian Central Statistical Office (HCSO). In February 2025, the balance of external trade in goods showed a surplus of EUR 1.2 billion. The number of employed persons aged 15-74 averaged 4,689,000 between December 2024 and February 2025, which is 6,000 higher than the previous period in seasonally adjusted terms. The unemployment rate was 4.4 percent between December 2024 and February 2025.

1.2.1. Economic growth

According to detailed data released by the HCSO, domestic GDP expanded at a year-on-year rate of 0.4 percent in 2024 Q4. Based on the balanced data adjusted for seasonal and calendar effects used for international comparison, the Hungarian economy expanded by 0.2 percent year-on-year, representing an increase of 0.6 percent versus the previous quarter. In 2024, domestic GDP grew by 0.5 percent overall.

The volume of industrial production contracted 8.7 percent in February compared to the same period last year. Industrial output declined 1.3 percent compared to January, according to seasonally and working-day adjusted data (Chart 3). Production declined in almost all manufacturing sub-sectors, with only the energy sector showing growth. The output of the vehicle manufacturing sector, which has the heaviest weighting, fell 10.4 percent year-on-year. The manufacture of electrical equipment showed the largest decline, dropping 24.0 percent from the previous year's level. The volume of overall new orders in the manufacturing sectors surveyed fell 25.6 percent in year-on-year terms. New domestic orders declined 9.8 percent, while new export orders decreased 27.7 percent. At the end of February, total orders were 9.6 percent lower than one year earlier. The volume of industrial exports dropped 5.5 percent and domestic industrial sales fell 2.0 percent versus the same month of the previous year.

Chart 3 Developments in industrial production



Note: From January 2024, the seasonally adjusted value is based on the monthly averages of 2021.
Source: MNB calculation based on HCSO data

In February 2025, the volume of construction output decreased by 4.5 percent. Among the main construction groups, the output of construction of buildings decreased 11.0 percent, while that of other construction increased 15.3 percent. On a monthly basis, construction output has been growing in recent months, but growth stalled in February, as output fell 1.3 percent compared to the previous month. The volume of new contracts concluded was 15.5 percent lower than one year earlier. Within this, the volume of contracts for the construction of buildings rose 12.0 percent, while the volume of contracts for other construction work fell 32.9 percent. The volume of construction companies' contracts at the end of February increased 1.8 percent compared to a year earlier. Within this, the volume of contracts for the construction of buildings was 6.9 percent lower, while the volume of contracts for other construction work was 8.9 percent higher than in February 2024.

Retail sales volume rose 3.3 percent year-on-year in February 2025, according to data adjusted for calendar effects. Retail sales excluding fuel sales rose 3.8 percent. Annual turnover at filling stations increased 0.4 percent in February. Retail sales fell 0.6 percent on a monthly basis according to data adjusted for seasonal and calendar effects. Sales in food and food-related retail trade grew 3.5 percent year-on-year. Sales of pharmaceutical and medical goods, cosmetic and toiletries (+10.3 percent), furniture, appliances and hardware (+2.8 percent), online (+1.5 percent) and miscellaneous manufactured articles (+0.6 percent) increased, while sales of books, computers (-2.8 percent) and textiles, clothing and footwear (-4.7 percent) saw a decline.

In February 2025, the balance of external trade in goods showed a surplus of EUR 1.2 billion. Compared to the previous month, the balance improved by EUR 319 million, while it deteriorated by EUR 501 million versus the same period of the previous year. The balance adjusted for VAT residents showed a surplus of EUR 554 million, which was EUR 520 million lower than a year earlier. In February, based on raw data, the volume of goods exports decreased 4.6 percent, while goods imports increased 0.8 percent compared to the same period last year.

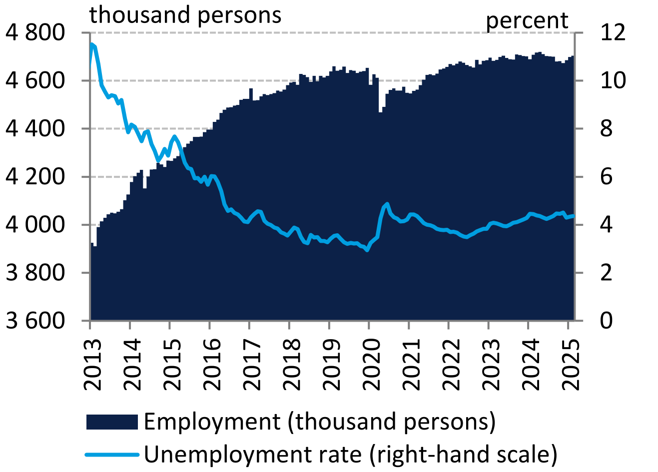
According to data adjusted for calendar effect, the inflation-adjusted turnover of NTCA online cash registers increased 2.4 percent in February compared to the same period last year. In March, freight traffic increased (+11.4 percent), while road passenger traffic decreased (-0.7 percent). Electricity consumption increased 7.7 percent. Cinema attendance rose 19.1 percent, while hospitality turnover increased 6.0 percent. The number of Google searches for the term 'unemployment benefits' rose in March 2025 on a monthly basis.

1.2.2. Employment

According to the Labour Force Survey, the average number of employed persons aged 15-74 was 4,689,000 in the period from December 2024 to February 2025, which is 6,000 higher than the previous period in seasonally adjusted terms. The level of employment rose by 3,000 compared to the same period last year. On average, between December and February, the number of people working in the primary labour market increased by 6,000, while the number of people working abroad and in public employment decreased by 2,000 each.

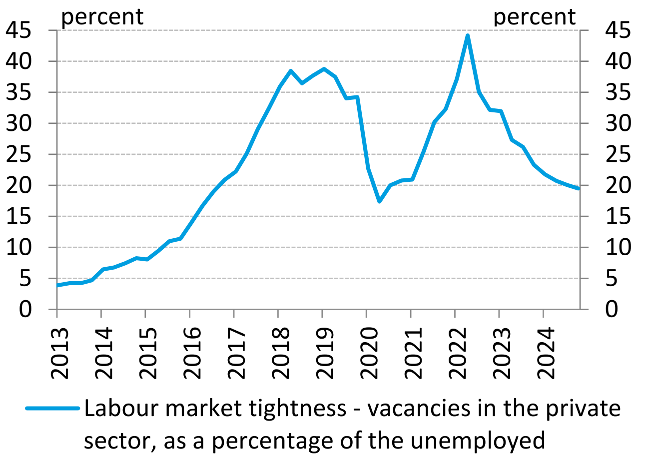
The number of unemployed persons was 214,000 between December 2024 and February 2025, representing a decrease

Chart 4 Number of persons employed and the unemployment rate



Note: Employment based on seasonally adjusted data.
Source: HCSO

Chart 5 Labour market tightness indicator



Note: Seasonally adjusted quarterly data.
Source: HCSO, MNB calculation

of 16,000 versus the same period of the previous year. Overall, the unemployment rate stood at 4.4 percent (Chart 4). Based on seasonally adjusted data, the number of unemployed persons decreased by 2,000 in the December–February period compared to the previous month. According to raw data from the National Employment Service (NFSZ), there were 232,000 registered job seekers in Hungary in February and 233,000 in March 2025. This represents a decrease of 3,000 and 4,000 people compared to the same period last year. Based on seasonally adjusted data, the number of registered job seekers decreased by 1,000 in March 2025 compared to February.

Labour market tightness has eased (Chart 5). In 2024 Q4, there were 40,700 unfilled vacancies in the private sector, which is 16.9 percent less than in the same prior-year period and, in seasonally adjusted terms, represents a 5.7-percent decrease compared to the previous quarter. Labour demand declined in both manufacturing and market services compared with the previous quarter. There were 12,000 job vacancies in the manufacturing industry and 25,000 in the market services sector in 2024 Q4. Among the branches in the public sector, the number of job vacancies increased in public administration and healthcare, while it decreased in education compared to the previous quarter, resulting in an overall increase compared to the third quarter.

1.3. Inflation and wages

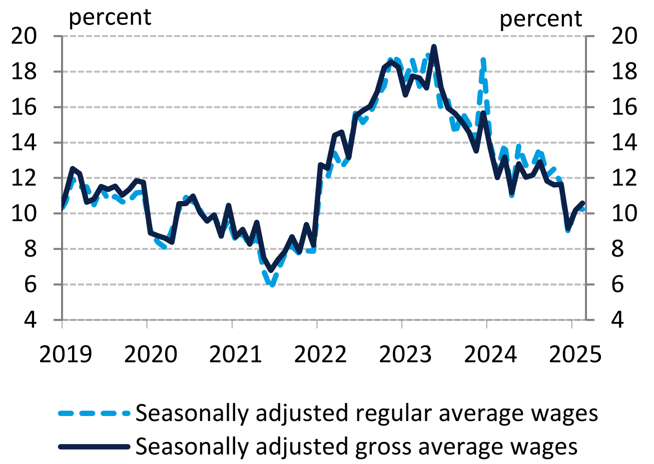
In March 2025, consumer prices rose 4.7 percent year-on-year. Core inflation fell 0.5 percentage point to 5.7 percent. Core inflation excluding indirect taxes fell to 5.4 percent. The incoming data were in line with the forecast range in the March Inflation Report and lower than the consensus of analysts' expectations. In February 2025, average earnings (excluding bonuses) rose 9.4 percent year-on-year in the national economy and 9.3 percent in the private sector.

1.3.1. Wages

In February 2025, gross average earnings rose 9.3 percent in the national economy and 9.0 percent in the private sector compared to the same period last year. Average earnings (excluding bonuses) advanced 9.4 percent in the national economy and 9.3 percent in the private sector in annual terms. Regular earnings fell 0.7 percent on a monthly basis. Bonus payments amounted to 5.8 percent of regular earnings, which is lower than in previous years.

Based on seasonally adjusted data, the annual growth rate of gross average earnings in the private sector accelerated, while regular average earnings remained unchanged (Chart 6). In the private sector, wage growth in market services exceeded manufacturing wage growth on the basis of raw data. In February, wages in the manufacturing industry were up 8.1 percent on the same period of last year. With regard to market services, the HCSO registered an increase of 9.3 percent. Among the sectors of the national economy, wages increased 9.9 percent in construction, 9.6 percent in trade and 8.6 percent in accommodation and catering versus the same period of the previous year.

Chart 6 Dynamics of average earnings in the private sector

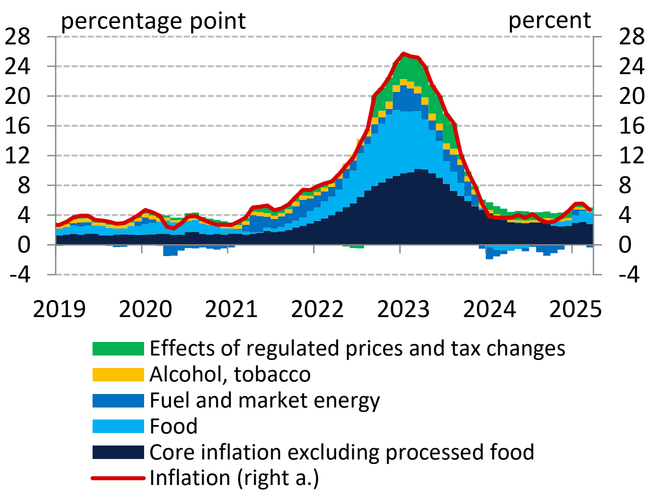


Source: MNB calculation based on HCSO data

1.3.2. Inflation developments

In March 2025, consumer prices rose 4.7 percent year-on-year (Chart 7). Core inflation fell 0.5 percentage point to 5.7 percent. Core inflation, excluding indirect taxes, dropped to 5.4 percent. On a monthly basis, the average price of the total consumer basket remained unchanged, while the core inflation basket rose 0.3 percent. Compared to February, the annual rate of price increases slowed by 0.9 percentage points.

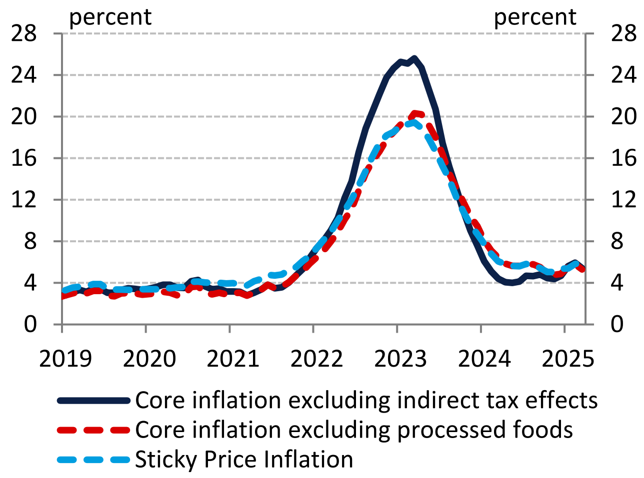
Chart 7 Decomposition of inflation



Source: MNB calculation based on HCSO data

Most product groups contributed to the decline in the annual consumer price index, which was partially offset by accelerating price increases for industrial goods, alcohol and tobacco products. Annual inflation for industrial goods rose to 2.6 percent, while the annual price index for market services declined to 8.6 percent. Unprocessed food prices and processed food prices increased 6.8 percent and 6.0 percent, respectively, in year-on-year terms. Fuel prices fell 4.1 percent month on month, in line with the decline in global crude oil prices and the strengthening of the forint in March. Fuel prices fell 2.5 percent on an annual basis. Prices of regulated-

Chart 8 Measures of underlying inflation indicators



Source: MNB calculation based on HCSO data

price goods and services rose 0.1 percent compared to February. The rate of price changes in March was above the historical average for industrial goods and market services, but below it for food.

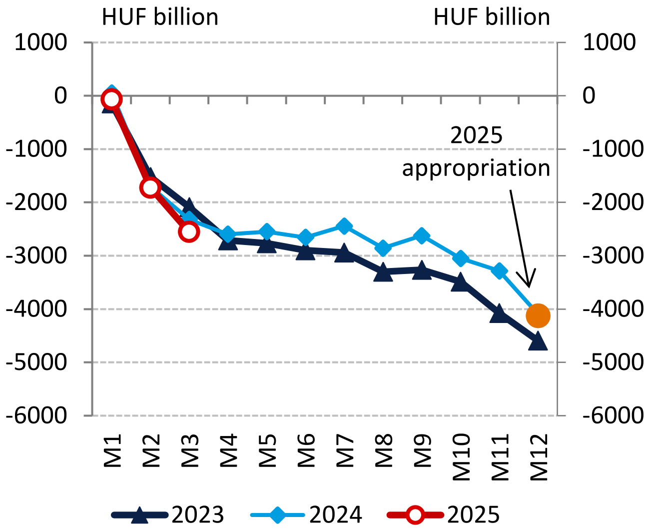
The incoming data were in line with the forecast range in the March Inflation Report and lower than the consensus of analysts' expectations. The median was 5.0 percent, with expectations ranging from 4.6 to 5.3 percent.

Among our indicators capturing more persistent inflation trends calculated on an annual basis, inflation for products with relatively stable prices rose slightly to 5.9 percent, while core inflation excluding processed food fell to 5.3 percent (Chart 8).

1.4. Fiscal and external balance trends

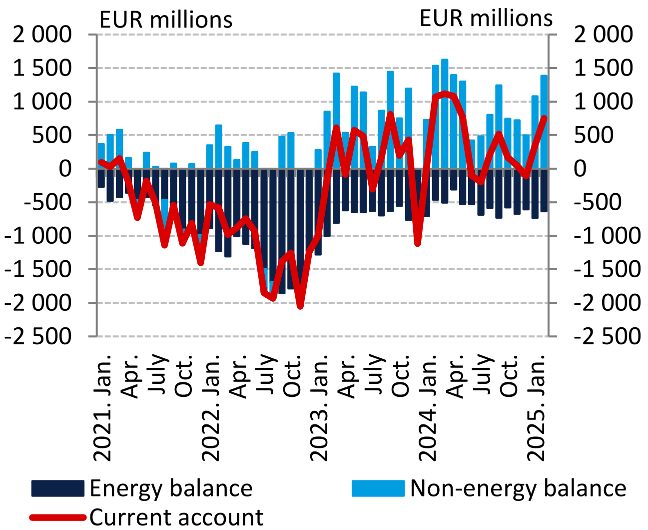
The deficit of the general government central sub-sector in March was HUF 831 billion, bringing the cumulative deficit to HUF 2,554 billion, equivalent to 62 percent of the annual appropriation of HUF 4,123 billion. The March deficit was mainly attributable to the high interest expenditure and the annual increase in net expenditures of budgetary organisations and chapters. In February 2025, the surplus of the current account increased further.

Chart 9 The cumulative cash balance of the central government budget from the beginning of the year



Source: 2025 Budget Act, Hungarian State Treasury

Chart 10 Developments in current account and energy balance



Note: The last monthly value of the energy balance is an estimate.
Source: MNB, HCSO

1.4.1. Fiscal trends

The deficit of the **general government central sub-sector** amounted to HUF 831 billion in March, which was HUF 214 billion higher than in March 2024. The cash deficit of the first quarter rose to 62 percent of the HUF 4,123 billion annual appropriation, i.e. to HUF 2,554 billion. The March deficit was mainly attributable to the high interest expenditure and the annual increase in net expenditures of budgetary organisations and chapters (Chart 9).

The **tax and contribution revenues of the central government budget** increased HUF 151 billion in March. Consumption taxes rose 7 percent (HUF 54 billion), taxes and contributions on labour increased by 10 percent (HUF 102 billion), while payments by business organisations fell by 2 percent (HUF 4 billion) on an annual basis. Gross VAT revenue increased by 2 percent, while net VAT revenue rose by 8 percent (HUF 47 billion).

Budget expenditures in March were HUF 189 billion higher than in March 2024. The increase is primarily attributable to a HUF 147 billion rise in net expenditures of budgetary organisations and chapters, as well as higher interest expenditures on inflation-linked government securities this year, which was partially offset by a decrease of HUF 210 billion in expenditure on EU programmes.

1.4.2. External balance developments

In February 2025, the current account balance showed a surplus of EUR 750 million, while net lending amounted to EUR 940 million. The current account surplus in February exceeded the previous month's balance by EUR 404 million, but fell short of the record level of a year earlier by EUR 321 million (Chart 10). The annual change was mainly due to a decline in the trade balance, which was linked to developments in trade in goods. The year-on-year decline of 3 percent in the value of goods exports was accompanied by a nearly 9-percent drop in industrial production, while goods imports rose 1 percent, driven by growth in retail sales. The income balance deficit increased slightly, while the transfer balance surplus rose year-on-year.

Based on the financial account data, net foreign direct investment (FDI) declined slightly in February, while net

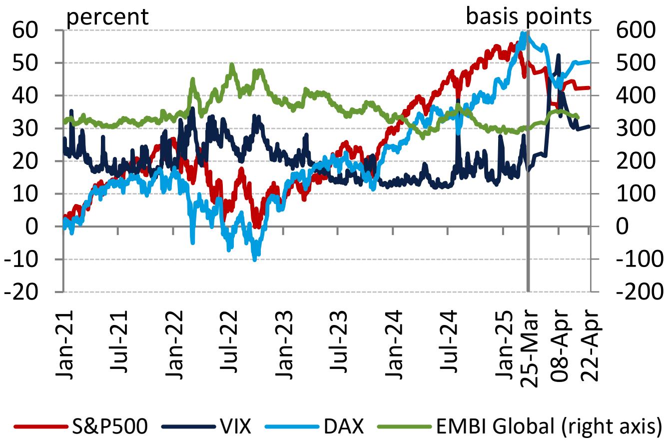
external debt increased. The net outflow of direct investment of around EUR 0.2 billion was mainly due to a decrease in inter-company loans received by Hungary. In addition, there was a significant net outflow on portfolio equity and investment fund shares during the month. The increase of approximately EUR 1 billion in net external debt resulting from transactions was primarily related to the consolidated general government, while the indicator of the banking system also rose slightly.

2. Financial markets

2.1. International financial markets

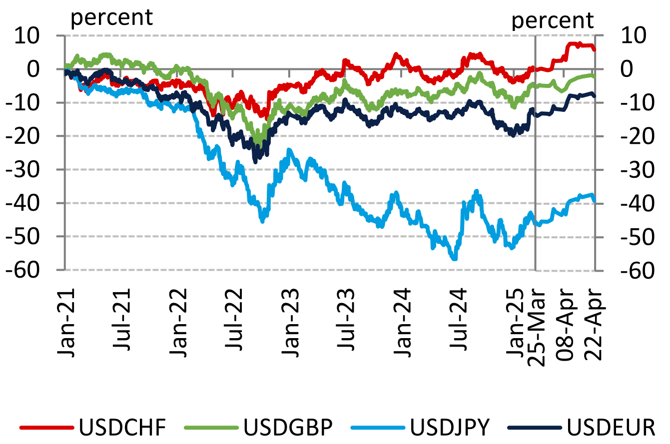
Since the previous interest rate decision, international investor sentiment has been dominated by developments in US trade policy. Risk indicators rose, the dollar weakened and long-term bond yields generally declined, while stock indices fell significantly.

Chart 11 Developed market equity indices, the VIX index and the EMBI Global Index



Note: Stock indices (S&P500 and DAX) normalised to the beginning of 2021.
Source: Bloomberg

Chart 12 Evolution of developed market foreign exchange rates compared to the first trading day of January 2021



Note: Positive values indicate the strengthening of the variable (second) currency.
Source: Bloomberg

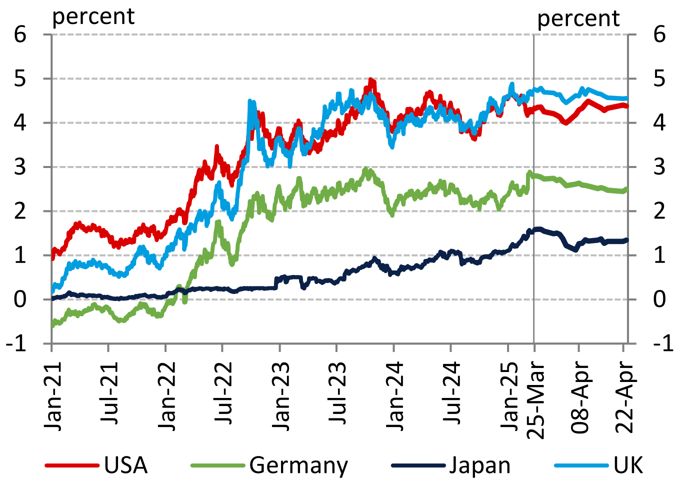
Since the previous interest rate decision, international investor sentiment has been dominated by developments in US trade policy. Trade policy announcements have caused turmoil on global financial markets over the past month. In early April, announcements relating to tariffs caused significant turbulence in money and capital markets: stock market indices fell sharply and the dollar weakened against major currencies, while long-term yields typically declined as risk aversion intensified. Following the 90-day suspension of certain tariffs, corrections were observed in all sub-markets, but the rest of the month continued to be marked by uncertainty and negative market sentiment.

Risk indicators have risen over the past month. The VIX index, which measures volatility on the US stock market, rose to a multi-year high following the tariff announcements and remained high even after the correction at the end of the period. The EMBI Global index, which tracks emerging market bond spreads, rose to 330 basis points, while the MOVE index, which measures volatility in developed bond markets, rose to 118 basis points since the previous interest rate decision (Chart 11).

Stock market indices fell significantly following announcements regarding tariffs. As a result of the increased uncertainty, leading US stock indices fell 6-8 percent. The leading European stock indices also closed with significant losses in early April, but during the rest of the period they outperformed the US stock indices and closed the period since the previous interest rate decision with losses of only 2-6 percent. Asian indices also declined overall, with the Japanese index falling 7.5 percent and the Chinese index down 2.0 percent. The MSCI index, which reflects developments on emerging market stock exchanges, declined 5.1 percent, but stock market indices in the Central and Eastern European region performed better and closed the past month largely unchanged.

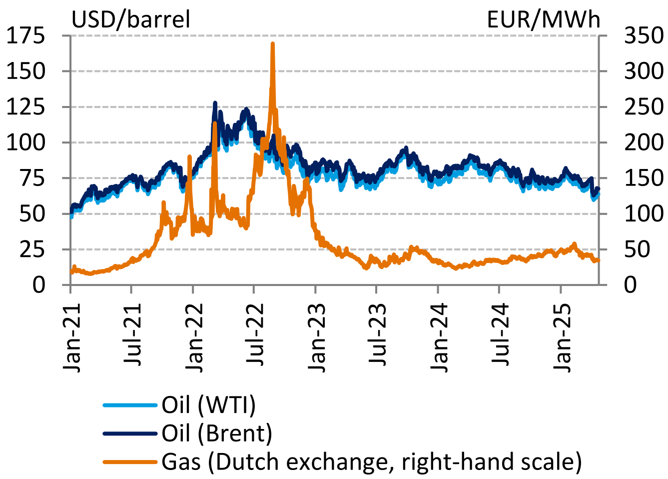
The US dollar has weakened against major currencies since the previous interest rate decision (Chart 12). As a result of uncertainty surrounding tariffs and a general loss of confidence in the US dollar, the dollar weakened by 5.4

Chart 13 Yields on developed market long-term bonds



Source: Bloomberg

Chart 14 Developments in oil and gas prices



Source: Bloomberg

percent against the euro, ending the period under review at around 1.14. USD weakened by 2.9 percent against the British pound, 6.9 percent against the Swiss franc, which is considered a safe-haven currency, and 5.9 percent against the Japanese yen.

Long-term yields in advanced and emerging markets have typically declined since the previous interest rate decision (Chart 13). The German 10-year yield fell 30 basis points, returning to levels close to those seen before the fiscal stimulus package announced in early March. The French 10-year yield fell 22 basis points, while the Italian yield declined 25 basis points, partly due to favourable credit rating decisions. The US 10-year yield has remained essentially unchanged since the previous interest rate decision, but rose temporarily above 4.5 percent during the period, reflecting capital outflows from USD assets and forced liquidations resulting from significant market declines. Japanese long-term yields fell 21 basis points, while Chinese yields fell 16 basis points. 10-year government bond yields in the region also declined, falling by 4 basis points in Romania, 21 basis points in Hungary, 23 basis points in the Czech Republic and 63 basis points in Poland. The significant decline in Polish yields is partly due to the shift in monetary policy communication.

Commodities sub-indices showed mixed developments. Sub-indices for the agricultural sector rose, while sub-indices for industrial metals, energy and other commodities declined. The Bloomberg commodity price index, which covers the entire commodities market, fell 1.3 percent overall during the period.

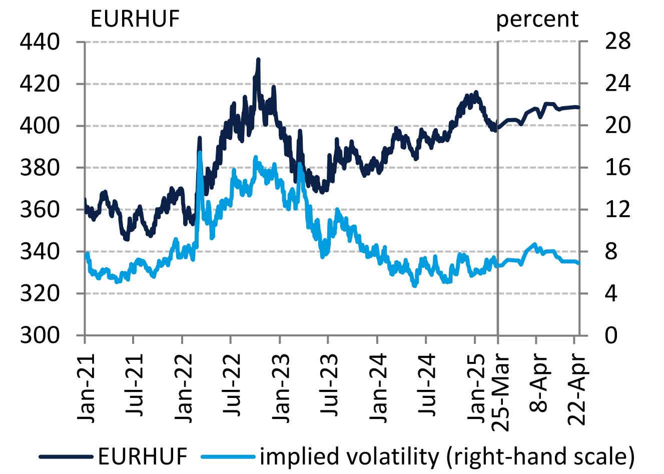
The price of **a barrel of Brent oil fell nearly 8 percent** from USD 73 at the time of the previous interest rate decision **to USD 67.4**. The price of a barrel of the US benchmark, **WTI**, **fell** from USD 69.0 **to USD 63.7, also by nearly 8 percent** (Chart 14). The main factor behind the decline in oil prices is global growth concerns related to the trade war, but progress in negotiations between the United States and Iran and OPEC+'s plan to increase production in May also played a role. New sanctions against Iran and a decline in US crude oil reserves have pushed up global oil prices.

European gas prices have fallen 18 percent since the previous interest rate decision. The Dutch TTF exchange price fell from EUR 41.6/MWh at the time of the previous interest rate decision to EUR 34.2/MWh. The decline in gas prices was mainly facilitated by preparations to make European gas storage filling requirements more flexible.

2.2. Developments in domestic money market indicators

The forint has weakened by more than 2 percent against the euro since the March interest rate decision. Yields in the government securities market declined, and demand was adequate at government security auctions. The 3-month BUBOR stood at 6.5 percent.

Chart 15 EUR/HUF exchange rate and the implied volatility of exchange rate expectations



Source: Bloomberg

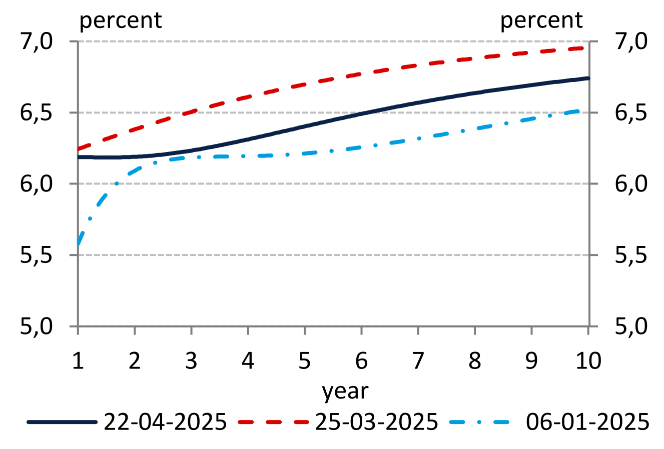
The exchange rate of the forint against the euro has weakened 2.4 percent since the March interest rate decision (Chart 15). Following the interest rate decision in March, the forint gradually weakened against the euro. The weakening was also influenced by deteriorating global investor sentiment, S&P's outlook downgrade and weak domestic macro data. Regional currencies also weakened against the euro during the period under review: the Polish zloty depreciated 2.9 percent and the Czech koruna 0.7 percent over the past month.

The 3-month BUBOR, which is relevant for monetary transmission, decreased by 1 basis point since the previous interest rate decision, settling at 6.5 percent.

The government securities market yield curve shifted downward (Chart 16). The short end of the yield curve remained largely unchanged, while the middle section declined 5-30 basis points and 15-25 basis points on the long end.

During the period under review, demand for ÁKK auctions was adequate. Demand was strong at discount treasury bill auctions, while several bond auctions were weaker than expected. However, overall, the amount accepted for bonds was higher than the amounts announced. The average yield on discount treasury bills remained stable at around 6.35 percent during the period, while the average yield on government bonds with medium maturities was also stable, with yields on longer maturities falling by around 10 basis points.

Chart 16 Shifts in the spot government yield curve

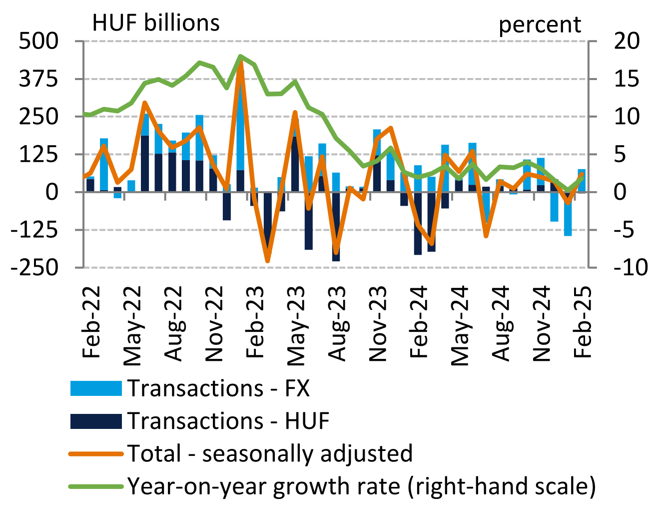


Source: Bloomberg

3. Trends in lending

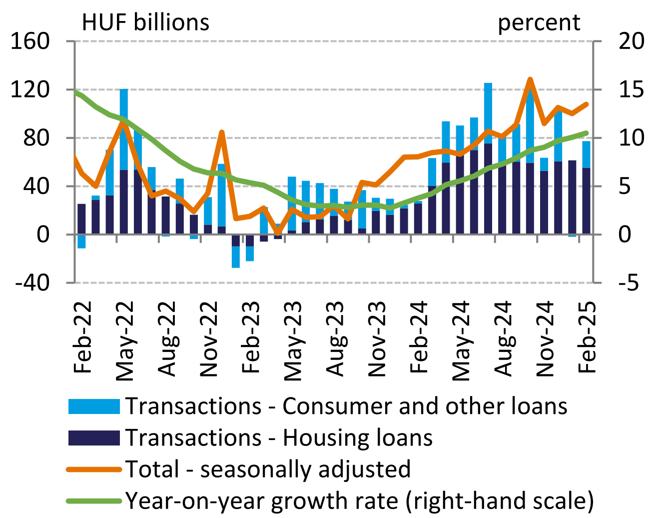
In February 2025, the corporate loan portfolio increased by HUF 72 billion. The annual growth rate of the loan portfolio thus accelerated from 0.3 percent in January to 1.8 percent. In February, household loans outstanding expanded by HUF 77 billion, bringing the annual growth rate to 10.5 percent, up 0.5 percentage point from January.

Chart 17 Net borrowing by non-financial corporations



Source: MNB

Chart 18 Net borrowing by households



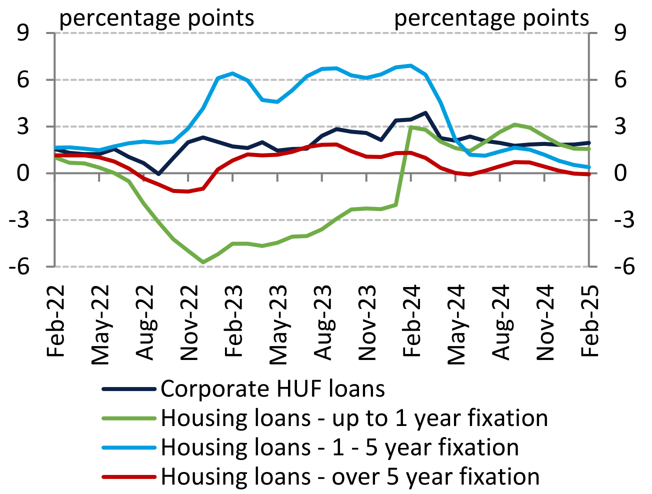
Source: MNB

The corporate loan portfolio increased by HUF 72 billion in February 2025 as a result of a HUF 4 billion decline in forint loans and a HUF 76 billion increase in foreign currency loans. **The annual growth rate of the loans outstanding** accelerated from 0.3 percent in January to **1.8 percent** (Chart 17). Credit institutions concluded new non-overdraft loan agreements worth HUF 210 billion during the month, which represents an 18-percent decline in volume compared to the same period last year.

In February, household loans outstanding expanded by HUF 77 billion as a result of transactions, bringing the annual growth rate to 10.5 percent, up 0.5 percentage point from January (Chart 18). The volume of new household loan agreements amounted to HUF 262 billion, exceeding the figure recorded in the same period of the previous year by 41 percent, with the volume of newly disbursed housing loans also rising 41 percent year-on-year. Under the HPS Plus programme, which became available in January 2024, 844 contracts were signed in February worth HUF 22 billion, accounting for 19 percent of monthly new housing lending. Under the Subsidised Loans for Workers programme launched in January, applicants signed more than 7,400 contracts in February, worth a total of HUF 28.6 billion.

The smoothed interest rate spread on corporate forint loans rose by 11 basis points compared to the previous month, reaching 1.95 percentage points in February 2025 (Chart 19). In the case of housing loans, the spread on fixed-interest rate products with a maturity of over 5 years decreased by 4 basis points, amounting to -0.07 percentage point at the end of the period under review. In the case of corporate forint loans and variable-interest rate housing loans, we examine the 3-month BUBOR, while for housing loans with interest rate fixed for more than one year, we examine the spread above the corresponding IRS.

Chart 19 Developments in corporate and household credit spreads



Note: APR-based smoothed spreads on household loans, calculated using the average reference rate for the month in which the loan was issued.
Source: MNB