MACROECONOMIC AND FINANCIAL MARKET DEVELOPMENTS

BACKGROUND MATERIAL

TO THE ABRIDGED MINUTES

OF THE MONETARY COUNCIL MEETING

OF 18 NOVEMBER 2025

NOVEMBER

2025

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The background material 'Macroeconomic and financial market developments' is based on information available until 12 November 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 background material 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

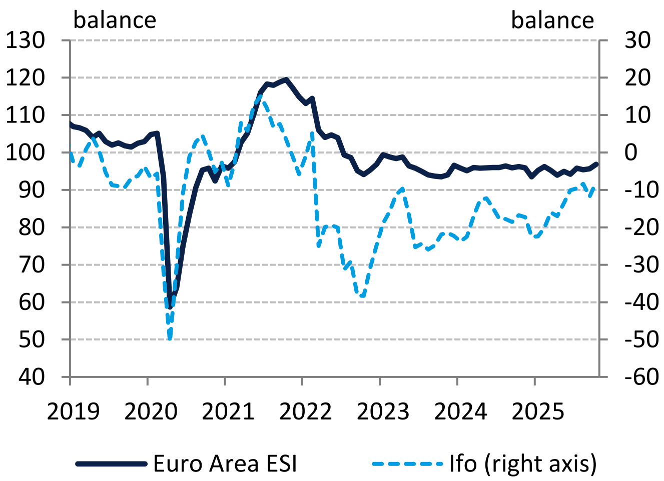
1.1. Global macroeconomic environment

The US economy grew by 2.1 percent in the second quarter year-on-year. In the third quarter, GDP growth in China was 4.8 percent and in the European Union 1.6 percent on an annual basis. Industrial production and retail trade rose in the euro area, China and the US. Inflation stood at 3.0 percent in the United States in September, somewhat lower than market expectations. Consumer prices in China rose by 0.2 percent in October on an annual basis. Inflation in the euro area fell to 2.1 percent year-on-year in October, while core inflation remained unchanged at 2.4 percent, according to preliminary data. Inflation was in line with analysts' expectations, while core inflation was 0.1 percentage point above expectations.

The US economy grew by 2.1 percent in the second quarter year-on-year. Data for the third quarter have not yet been released, as the prolonged government shutdown halted the publication of a number of economic indicators. **GDP increased by 4.8 percent in China, 1.6 percent in the European Union and 1.4 percent in the euro area in the third quarter.** The GDP of Germany, Hungary's main trading partner, increased by 0.3 percent year-on-year. In the region, Romania's economy grew by 1.4 percent, the Czech Republic's economy by 2.7 percent and Poland's by 3.7 percent in 2025 Q3.

Industrial production in the United States grew by 0.9 percent in August. In September, industrial output grew by 7.3 percent in China and by 1.3 percent in the euro area on an annual basis. In September, retail sales grew by 3,0 percent in China and by 1.0 percent in the euro area, both showing their weakest performance in the past twelve months. In the United States, retail trade rose by 5.0 percent year-on-year in August.

Chart 1: Business climate indices in Hungary's export markets

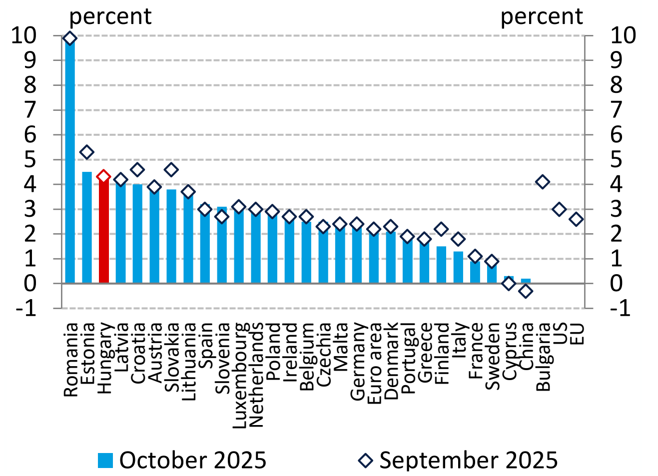


Source: European Commission, Ifo

Business sentiment indices improved moderately overall. The Purchasing Managers' Index for the manufacturing industry in the United States continues to show expansion, rising to 52.5 points in October 2025. In China, after a modest decline, the index remained in the moderate growth range (50.6 points). The Purchasing Managers' Index also rose in the euro area, returning to the growth-neutral level of 50 points after a decline in September. The Economic Sentiment Indicator (ESI) for the euro area increased by 1.2 points in October 2025, the highest value in the last two years (Chart 1).

No official recent labour market data has been available for the United States due to the government shutdown, as the Bureau of Labor Statistics (BLS) suspended all activities, including data collection and the compilation of economic statistics. The Chicago Fed report estimated an unemployment rate of 4.3 percent in September, unchanged from August. The unemployment rate in the

Chart 2: Developments in the international inflation environment



Note: HICP inflation rates for euro area members, national CPI inflation rates for other countries. Preliminary data for Poland. October data not yet available for Bulgaria, the United States and the European Union.

Source: Eurostat, Trading Economics, national statistical offices

euro area was 6.3 percent in August, 0.1 percentage point higher than in July.

Inflation stood at 3.0 percent in the United States in September, somewhat lower than market expectations. Inflation in the euro area fell to 2.1 percent year-on-year in October, while core inflation remained unchanged at 2.4 percent, according to preliminary data. Inflation was in line with analysts' expectations, while core inflation was 0.1 percentage point above expectations. Consumer prices in China rose by 0.2 percent in October on an annual basis.

Among the countries in the region, inflation rose in the Czech Republic in October, while it fell moderately in Romania and Poland and more significantly in Slovakia. According to the data of national statistical offices, annual inflation stood at 9.8 percent in Romania, at 2.8 percent in Poland and at 2.5 percent in the Czech Republic. In Slovakia, inflation was 3.8 percent according to preliminary HICP data (Chart 2).

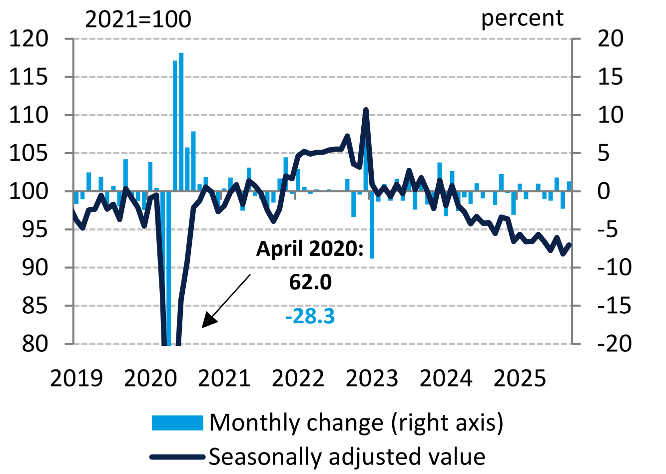
1.2. Real economic trends in Hungary

In 2025 Q3, Hungarian GDP increased by 0.6 percent on an annual basis according to unadjusted data. Among the monthly indicators, retail trade grew by 3.0 percent in September. The external trade balance in goods showed a surplus of EUR 589 million in September. The number of employed persons aged 15–74 was 4,679,000 between July and September, representing a 0.6-percent decline year-on-year. The unemployment rate stood at 4.5 percent in the third quarter. Overall, labour market tightness continued to ease.

1.2.1. Economic growth

In 2025 Q3, Hungary's gross domestic product increased by 0.6 percent year-on-year based on unadjusted data from the HCSO's preliminary disclosure. Based on balanced data adjusted for seasonal and calendar effects used for international comparison, the economy grew by 0.6 percent year-on-year and stagnated compared to the previous quarter. The HCSO reported that the growth of the Hungarian GDP was primarily due to the performance of the services sector, in particular the information and communication industries. Economic performance was hampered by industry and agriculture.

Chart 3: Developments in industrial production



Source: MNB calculation based on HCSO data

In September 2025, industrial production volume increased by 1.3 percent compared to the same period last year, based on unadjusted data. However, when calculated using seasonally and working-day-adjusted data, production decreased by 1.6 percent. The difference was caused by the fact that there was one more working day this year than in September last year. Industrial output rose by 1.3 percent on a monthly basis (Chart 3). According to the HCSO, production volume declined in most manufacturing sub-sectors compared to the same month of the previous year. Among the most significant sub-sectors, the manufacture of computers, electronic and optical products, as well as the manufacture of food products, beverages and tobacco products expanded, while there was a decline in the manufacture of transport equipment and the production of electrical equipment.

In September 2025, the volume of construction output was 17.6 percent higher according to unadjusted data and 15.2 percent higher based on working-day-adjusted data compared to the low base a year earlier. Among the main construction groups, the output of construction of buildings increased by 18.3 percent and that of other construction by 17.1 percent. Among the construction sectors, the construction of buildings increased by 38.5 percent and that of other structures by 27.3 percent compared to the low base of the previous year. Production in the most significant sector, production of specialised construction, was 2.7 percent higher than a year earlier. The volume of new contracts concluded was 4.8 percent lower than a year earlier, with contracts for the construction of buildings down 4.1 percent and those for other structures down 5.3 percent.

The external trade balance in goods showed a surplus of EUR 589 million in September 2025. The balance deteriorated by EUR 46 million compared to the previous month and by EUR 297 million compared to the equivalent period of the previous year. The balance adjusted for VAT residents showed a surplus of EUR 20 million, which represents a decrease of EUR 135 million compared to a year earlier.

In September 2025, the volume of retail trade increased by 3.0 percent year-on-year. Retail trade excluding fuel sales increased by 3.3 percent. Retail trade stagnated compared to the previous month, according to seasonally and calendar-adjusted data. Sales in food and food-related retail trade grew by 3.1 percent year-on-year. Sales for online stores (+9.5 percent), pharmaceutical and medical goods, cosmetic and toilet articles (+5.8 percent), mixed industrial goods (+3.3 percent), furniture, appliances and hardware (+1.5 percent) increased, while sales for books, computers (–1.1 percent) and textiles, clothing and footwear (–4.4 percent) saw a decline.

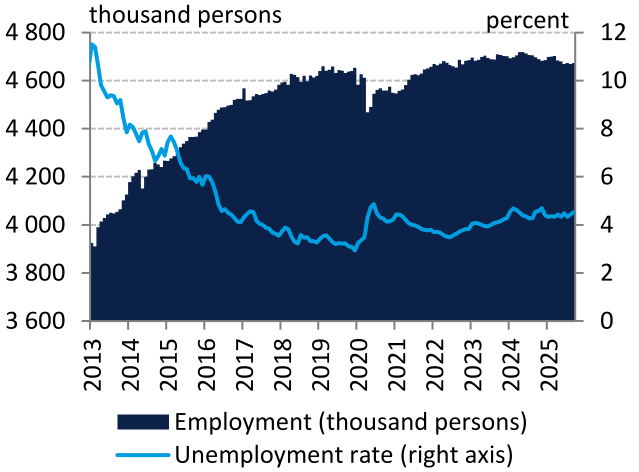
According to data adjusted for calendar effect, the inflation-adjusted turnover of NTCA online cash registers increased by 1.9 percent in September compared to the same period last year. In October, road passenger traffic increased (+45 percent), while freight traffic moderately decreased (–1.25 percent). Electricity consumption increased by 3.6 percent in October. Cinema attendance fell by 17.0 percent, while turnover in hospitality rose by 10.3 percent. The number of Google searches for the term “unemployment benefits” increased in October compared to September.

1.2.2. Employment

According to data from the Labour Force Survey, the number of employees rose moderately in the July–September 2025 period, adjusted for seasonal and calendar effects. The average number of employed persons aged 15–74 was 4,679,000, representing a 0.6-percent decline year-on-year. The number of persons employed in the domestic primary labour market was 40,000 lower, the number of persons working abroad was 5,000 lower, while the number of public workers was 16,000 higher than in the same period of the previous year.

In the July–September period of 2025, unemployment did not change significantly based on seasonally and calendar-adjusted data. The average number of unemployed persons was 221,000, and the unemployment rate was 4.5 percent (Chart 4). According to data from the National Employment

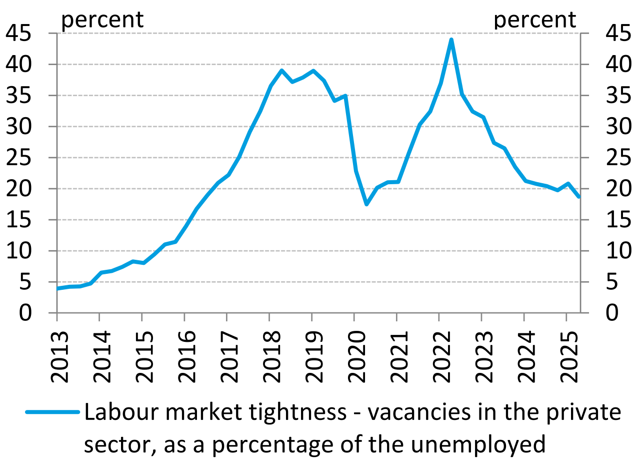
Chart 4: Number of persons employed and the unemployment rate



Note: Data based on the HCSO's 3-month moving average methodology. Number of employed persons based on seasonally adjusted data.

Source: HCSO

Chart 5: Labour market tightness indicator



Note: Seasonally adjusted quarterly data.

Source: HCSO, MNB calculation

Service (NFSZ), the number of registered jobseekers fell to 220,000 in September, representing a 3.6-percent decrease on an annual basis.

Labour market tightness eased significantly from the high levels measured in 2022 (Chart 5). In 2025 Q2, there were 43,000 unfilled vacancies in the private sector, which is 7.9 percent less than in the same period of the previous year. Based on seasonally adjusted data, labour demand declined significantly in the manufacturing industry and moderately in market services compared to the previous quarter. There were 12,000 job vacancies in the manufacturing sector and 27,000 in the market services sector in the second quarter.

1.3. Inflation and wages

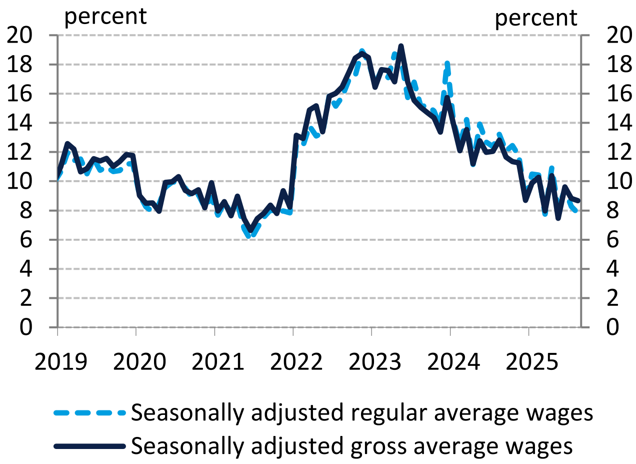
In October 2025, consumer prices rose by 4.3 percent year-on-year. The pace of price increases has remained unchanged since July. Core inflation rose by 0.3 percentage point compared to September and stood at 4.2 percent. The incoming figure was essentially in line with the forecast of the September Inflation Report. Wage growth continued to slow during the year, with wages in the private sector rising by an average of 8.9 percent in the first eight months.

1.3.1. Wages

Wages continued to adjust to the easing labour market environment. In August 2025, gross average earnings rose by 8.7 percent in the national economy and by 8.5 percent in the private sector compared to the same period of the previous year. The annual index of regular average earnings (excluding bonuses) was 8.1 percent in the national economy and 7.5 percent in the private sector.

According to seasonally adjusted data, in the private sector, the annual growth rate of both gross average earnings and regular average earnings slowed down compared to the previous month (Chart 6). The monthly dynamics of regular average earnings were more moderate than the usual August seasonality and did not change significantly in monthly comparison. The average amount of bonus payments in August was 5.4 percent of regular average earnings, which is higher than in previous years. Within the private sector, wage growth was 8.7 percent in the market service sector and 7.8 percent in the manufacturing industry compared to the same period last year. Looking at the average for the first eight months, wage growth in the market services sector exceeded that in the manufacturing industry: gross average earnings grew by 8.9 percent in the former case and 8.4 percent in the latter case on an annual basis.

Chart 6: Dynamics of average earnings in the private sector



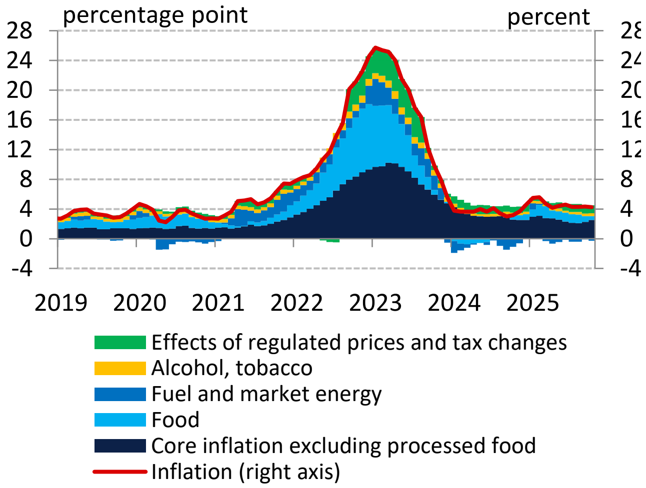
Source: MNB calculation based on HCSO data

1.3.2. Inflation developments

In October 2025, consumer prices rose by 4.3 percent year-on-year (Chart 7). The pace of price increases has remained unchanged since July. Core inflation rose by 0.3 percentage point compared to September and stood at 4.2 percent. Core inflation, excluding indirect taxes, increased to 3.9 percent. On a monthly basis, the price of the total consumer basket remained unchanged, while the core inflation basket rose by 0.2 percent. The impact of the extension and expansion of margin restrictions may first appear in the December data.

Annual inflation for industrial goods remained unchanged at 2.7 percent. On a monthly basis, prices of industrial goods rose by 0.2 percent. Durables prices rose by 0.3 percent, driven by seasonal price increases for clothing. The price of durable industrial goods remained unchanged compared to September.

Chart 7: Decomposition of inflation



Source: MNB calculation based on HCSO data

The annual price index of market services increased to 7.4 percent. The increase was mainly due to the temporary low base of telecommunications services in October last year, which lasted until January and contributed 0.9 percentage point to the rise in market services inflation. Prices rose by 0.3 percent month-on-month, mainly due to higher prices for catering services.

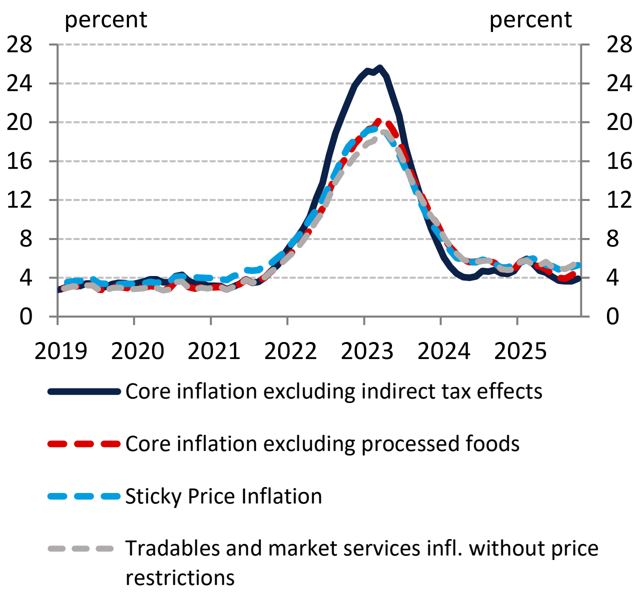
Unprocessed food prices and processed food prices increased by 1.5 and 0.4 percent, respectively, year-on-year. Compared to September, unprocessed food prices fell by 0.8 percent, mainly due to seasonal food price trends. The price of processed food decreased by 0.2 percent on a monthly basis. Overall, the rate repricing in October was below the 2017–2020 average for food and industrial goods, while it was above such average for market services. Fuel prices fell by 2.2 percent year-on-year. On a monthly basis, fuel prices fell by 1.1 percent, which was explained by the decline in world market oil prices. The price of regulated products and services rose by 7.9 percent year-on-year, with the price of piped gas rising by 23.7 percent.

Household inflation expectations continue to remain at high levels. The latest data from the MNB survey is 7.6 percent. Corporate price expectations for retail trade prices rose moderately, while price expectations for services moderated. Both indicators still remained at subdued levels in October.

The incoming figure was essentially in line with the forecast of the September Inflation Report. The median of analysts' expectations was 4.4 percent, with expectations ranging from 4.2 to 4.7 percent.

Indicators capturing more persistent inflation trends, calculated on an annual basis, increased. Inflation for products with relatively stable prices rose to 5.3 percent, while core inflation excluding processed food rose to 4.7 percent. Inflation for industrial goods and market services combined, calculated without price restrictions, rose to 5.7 percent (Chart 8). Monthly repricing patterns did not change significantly, but annual indices rose due to the base effect of the temporary decline in telecommunications services prices in October last year.

Chart 8: Measures of underlying inflation indicators

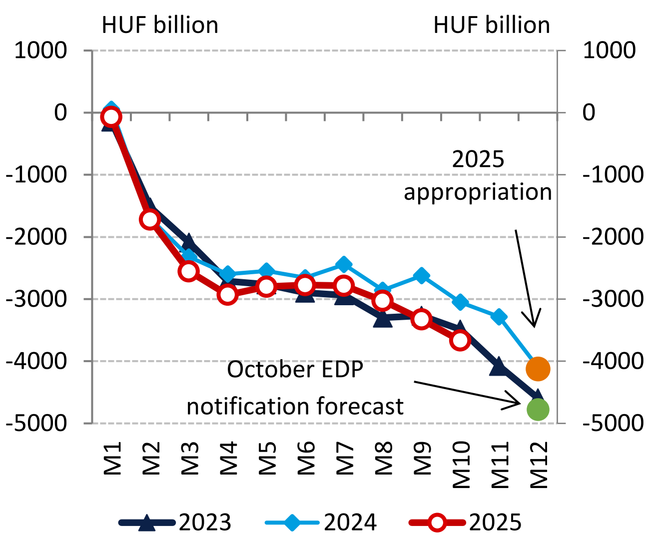


Source: MNB calculation based on HCSO data

1.4. Fiscal and external balance trends

The central sub-sector budget deficit was HUF 339 billion in October, bringing the cumulated deficit since the beginning of the year to HUF 3,668 billion, amounting to 89 percent of the annual cash deficit target. In September 2025, the monthly current account surplus decreased to EUR 304 million.

Chart 9: Cumulative cash balance of the central government budget from the beginning of the year



Source: 2025 Budget Act, Hungarian State Treasury

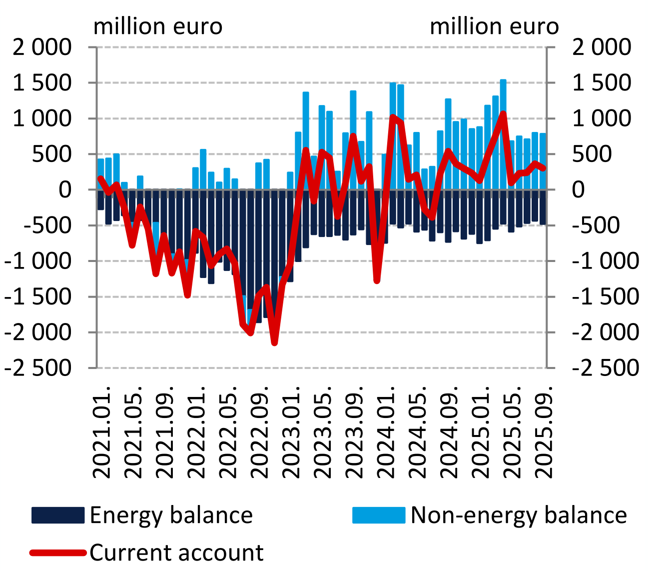
1.4.1. Fiscal trends

The central sub-sector of general government closed October with a deficit of HUF 339 billion, which represents an HUF 88 billion improvement compared to the monthly deficit a year earlier. This brought the cumulative deficit since the beginning of the year to HUF 3,668 billion by the end of October, which is HUF 617 billion higher than last year's figure. This is 89 percent of the cash deficit target of HUF 4,123 billion set in the budget act for the year, and it is 77 percent of the cash flow deficit included in the October EDP notification (Chart 9). According to an announcement by the Ministry for National Economy, the cash flow deficit target for 2025 increased to HUF 5,055 billion. In addition, based on the notification, the budget deficit target for 2025 and 2026 rose to 5 percent of GDP.

Revenues of the central sub-sector increased by HUF 157 billion on an annual basis in October. Within revenues, tax and contribution revenues increased by 7 percent (HUF 171 billion), while EU revenues were almost identical to the same period last year. Consumption taxes rose by 7 percent (HUF 66 billion), while taxes and contributions on labour rose by 8.5 percent (HUF 91 billion). Payments by business organisations increased by 4 percent (HUF 14 billion) compared to October last year.

Budgetary expenditures in October were HUF 69 billion higher than in the same period of the previous year. The increase was mainly due to an HUF 82 billion rise in net interest expenditure, which was partially offset by a decrease in expenditures related to public investments.

Chart 10: Developments in current account and energy balance



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

1.4.2. External balance developments

In September 2025, the current account surplus amounted to EUR 304 million, and net lending amounted to EUR 339 million. In September, the current account balance decreased by EUR 235 million year-on-year, mainly due to changes in the balance of goods (Chart 10). The year-on-year growth of around 5 percent in goods exports and 8 percent in goods imports was accompanied by a decline in industrial export volumes and an upturn in retail trade. The surplus on the services balance exceeded the previous year's figure, while the deficit on the income balance and the transfer balance increased moderately.

Based on the financial account data, net external debt increased in September, parallel to a moderate decrease

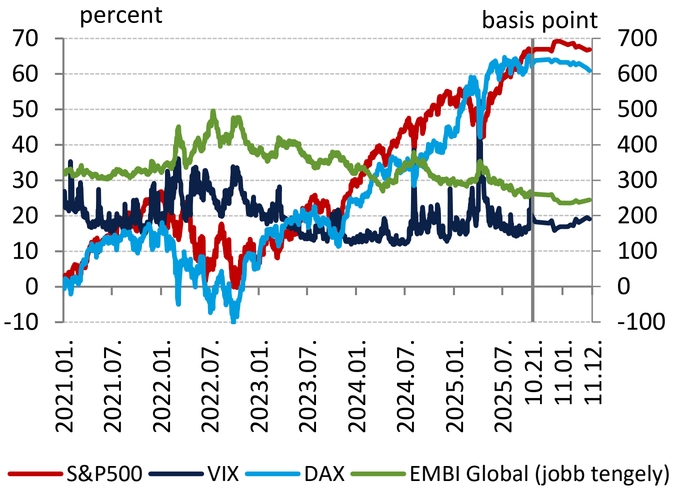
in net foreign direct investment. The net outflow of foreign direct investment of around EUR 0.3 billion was mainly due to a decrease in intercompany loans received by Hungary. Net external debt increased by EUR 0.4 billion in September as a result of transactions, primarily related to consolidated general government and, to a lesser extent, to corporations.

2. Financial markets

2.1. International financial markets

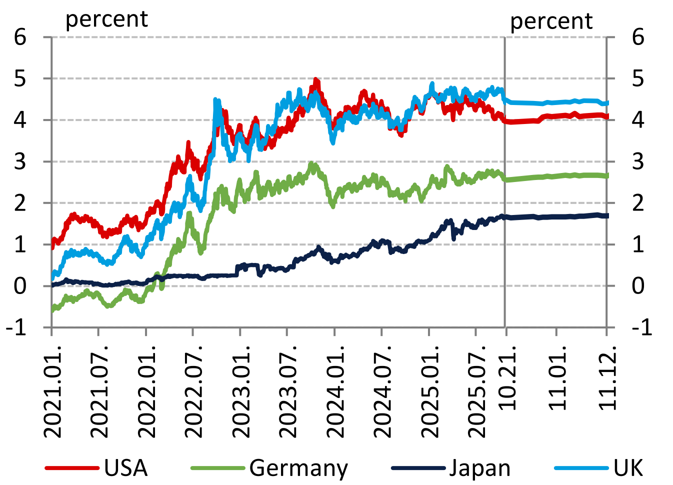
Since the previous interest rate decision, international market sentiment continued to be dominated by trade policy developments, by the US government shutdown, and by expectations regarding the Federal Reserve's monetary policy. Risk indicators have varied with the US dollar generally strengthening against major currencies. The price of gold fell, oil prices rose, while European gas prices remained unchanged.

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: Yields on developed market long-term bonds



Source: Bloomberg

In the period since the previous interest rate decision, international money and capital markets continued to be dominated by developments in US trade policy, by the expected path of Federal Reserve (Fed) interest rates and by the possible effects of the US government shutdown. Risk indicators have varied overall over the past month. The risk indicators moderated somewhat in the first half of the period, and then they rose. The VIX index, the measure US stock market volatility, declined by 0.6 percentage point to 17.3 percent, while the European Vstoxx index rose by 1.1 percentage points to 18 percent. The EMBI Global index, which captures emerging market bond spreads, rose by 2 basis points, while the MOVE index, which measures developed bond market volatility, decreased by 18 basis points (Chart 11).

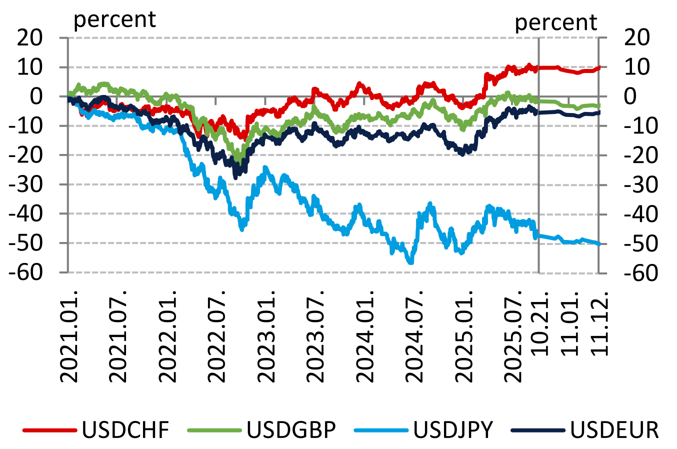
Most major stock market indices typically rose during the period. The stock market composite index for developed markets rose by 1.5 percent, while that for emerging markets increased by 1.4 percent. US indices typically rose by 0.7–2.4 percent, with several of them reaching new historic highs. European stock market indices – with the exception of German and French indices – as well as Far Eastern indices, also typically rose.

Long-term yields in advanced and emerging markets have mostly increased since the previous interest rate decision (Chart 12). The 10-year yield rose by 11 basis points in Germany, by 8 basis point in France, and the US long-term yield grew by 15 basis points. 10-year government bond yields in the region were mixed: yields rose by 12 basis points in Hungary and by 22 basis points in the Czech Republic, while yields fell by 4 basis points in Poland and by 15 basis points in Romania.

The US dollar has generally strengthened against major currencies since the previous interest rate decision (Chart 13). The dollar appreciated by 0.2 percent against the euro. The British pound, Japanese yen and Swiss franc weakened by 1.7 percent, 1.5 percent and 0.5 percent, respectively, against the US currency.

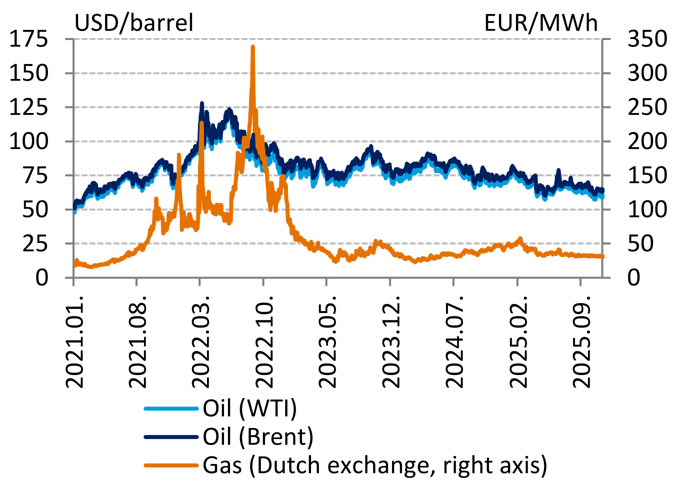
The Bloomberg commodity price index, which covers the entire commodity market, rose by 3.2 percent during the

Chart 13: 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

Chart 14: Developments in oil and gas prices



Source: Bloomberg

period. In addition, raw material sub-indices typically rose during the period. Among the sub-indices representing the agricultural sector, the grain sub-index rose by 5.9 percent and the sub-index covering the entire sector rose by 3.8 percent, while the livestock sub-index fell by 5 percent. The sub-index for industrial metals rose by nearly 2.5 percent, while the sub-index for other raw materials fell by around 1.8 percent. The energy sub-index fell by 5.9 percent compared to its level at the time of the previous interest rate decision.

The price of North Sea Brent crude oil rose by 4.2 percent from USD 61.3 per barrel at the time of the previous interest rate decision to USD 63.9 at the end of the period. The price of a barrel of the US benchmark, WTI, increased from USD 57.8 to USD 59.9, by 3.6 percent (Chart 14). Based on an announcement made at the end of October, the United States will impose further sanctions on the Russian companies Rosneft and Lukoil. As part of this, it froze their assets and prohibited US companies from doing business with them. As a result, oil prices rose, which was partially offset by Saudi Arabia and Iraq undertaking to export larger quantities of oil to India, which could replace the lost Russian imports.

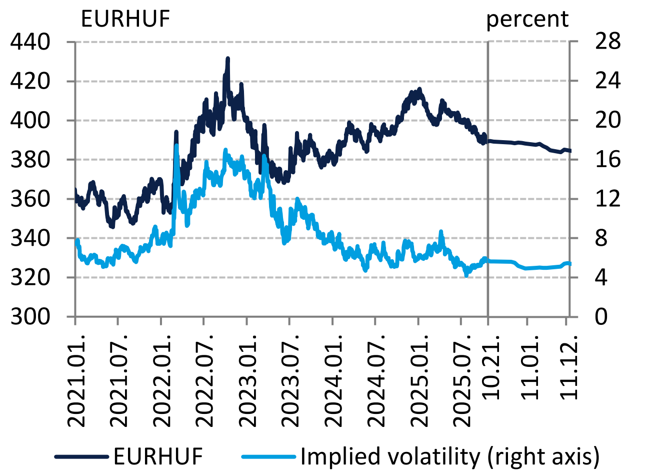
European gas prices were close to the level seen at the time of the previous interest rate decision. In the recent period, the Dutch TTF exchange price fluctuated within a narrow range of EUR 31–32/MWh, standing at around EUR 31/MWh in mid-November.

The price of gold fell from its peak prior to the October interest rate decision. The price of gold fell from USD 4,340/ounce around the time of the October interest rate decision to USD 4,140/ounce in mid-November. The price of precious metals moderated as a result of easing trade tensions following news of an emerging agreement between the US and China.

2.2. Developments in domestic money market indicators

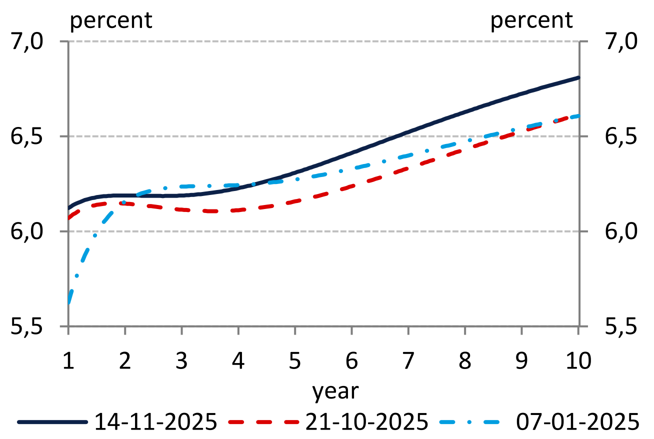
The forint has strengthened significantly against the euro since the previous interest rate decision. Government bond yields rose moderately. GDMA discount treasury bill auctions were moderate, while bond auctions were characterised by strong demand. The 3-month BUBOR stood unchanged at 6.5 percent at the end of the period.

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



Source: Bloomberg

Chart 16: Shifts in the spot government yield curve



Source: Bloomberg

The forint has strengthened significantly against the euro since the previous interest rate decision (Chart 15). From a level of around 390 at the time of the interest rate decision, the domestic currency strengthened in November following a moderate depreciation in the days that followed. By the second week of November, the forint's exchange rate against the euro reached around 383, its highest level in more than a year and a half. However, following the upward revision of the Government's fiscal forecast, the forint weakened by more than 0.5 percent intraday. Overall, the domestic currency appreciated by nearly 1.1 percent against the euro since the previous interest rate decision.

The 3-month BUBOR, which is relevant for monetary transmission, had not changed since the previous interest rate decision and stood at 6.5 percent.

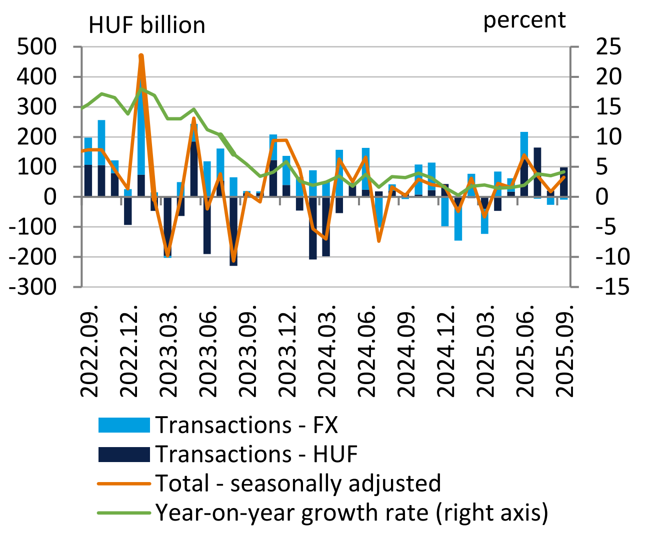
The yield curve on the government securities market shifted somewhat upward: there was an increase of 5–6 basis points in the 1–3-year segment, and longer maturities saw an increase of around 6–10 basis points (Chart 16).

During the examined period, GDMA discount treasury bill auctions were moderate, while bond auctions were characterised by strong demand. Overall, the volume of bids submitted for government bond auctions exceeded the amount offered in advance. In the case of discount treasury bill auctions, the Debt Management Agency accepted less than the quantity announced in advance, while in the case of bond auctions, it accepted significantly more than the quantity announced. Compared to the quantities offered, bond auctions were characterised by an average demand of nearly four times the quantity offered.

3. Trends in lending

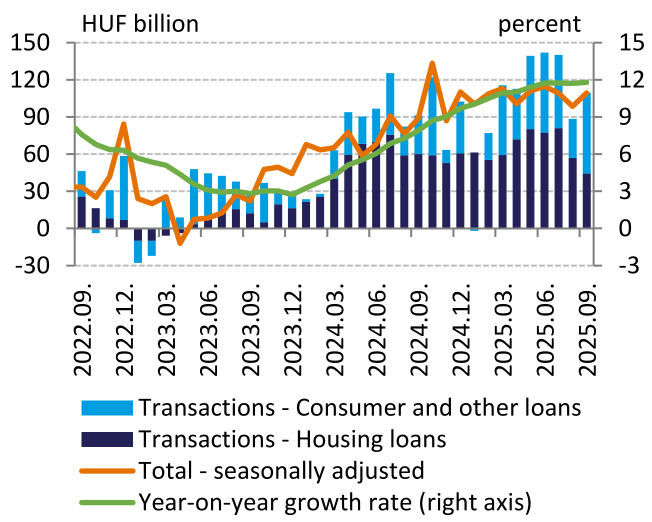
In September 2025, the annual dynamics of the stock of corporate loans rose by 0.6 percentage point compared to the previous month, reaching 4.1 percent. In the household segment, the annual growth of loans outstanding increased by 0.1 percentage point compared to the previous month, reaching 11.8 percent.

Chart 17: Net borrowing by non-financial corporations



Source: MNB

Chart 18: Net borrowing by households



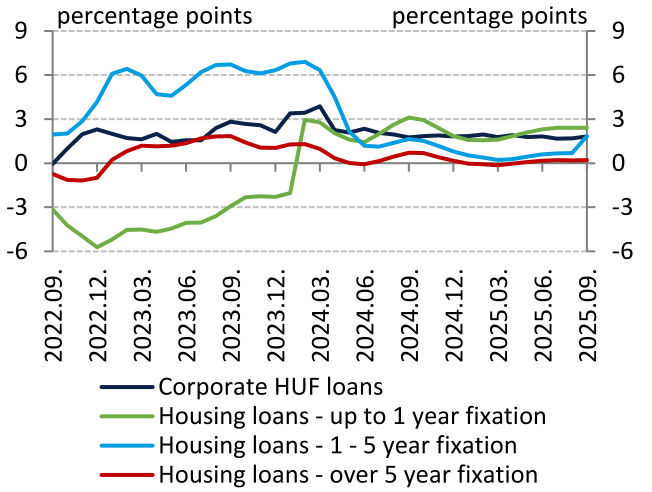
Source: MNB

The corporate loan portfolio increased by HUF 89 billion in September 2025 as a result of a HUF 98 billion increase in forint loans and a HUF 9 billion decrease in foreign currency loans. The annual growth rate loans outstanding accelerated compared to August and stood at 4.1 percent (Chart 17). Credit institutions concluded new non-overdraft loan contracts worth HUF 272 billion during the month, which was HUF 51 billion more than in the previous month.

Household loans outstanding increased by HUF 110 billion in September as a result of transactions. This means that the annual growth rate of this portfolio accelerated moderately compared to August, reaching 11.8 percent (Chart 18). The volume of new household loan contracts amounted to HUF 275 billion, which was 4 percent higher than the figure recorded in the same period of the previous year. The Home Start Programme was launched in September, with 651 contracts worth HUF 22 billion signed in the first month.

The smoothed interest rate spread on corporate forint loans rose by 14 basis points compared to the previous month, reaching 1.83 percentage points in September (Chart 19). In the case of housing loans, the spread on fixed-interest-rate products with a maturity of over five years did not change significantly, standing at 22 basis points at the end of the examined period. For variable-rate corporate forint loans, we examine the 3-month BUBOR, while for housing loans with a fixed interest rate 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