MACROECONOMIC AND

FINANCIAL MARKET DEVELOPMENTS

BACKGROUND MATERIAL

TO THE ABRIDGED MINUTES

OF THE MONETARY COUNCIL MEETING

OF 27 JANUARY 2026

JANUARY

2026

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The background material 'Macroeconomic and financial market developments' is based on information available until 21 January 2026.

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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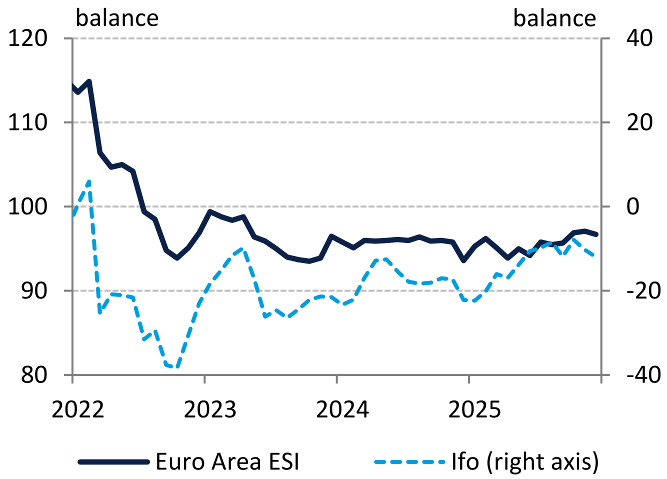
1. Macroeconomic developments

1.1. Global macroeconomic environment

Inflation in the euro area fell to 1.9 percent in December, while core inflation fell to 2.3 percent. Both figures were 0.1 percentage point below analysts' expectations. Inflation in the United States remained unchanged at 2.7 percent in December, in line with market expectations.

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



Source: European Commission, Ifo

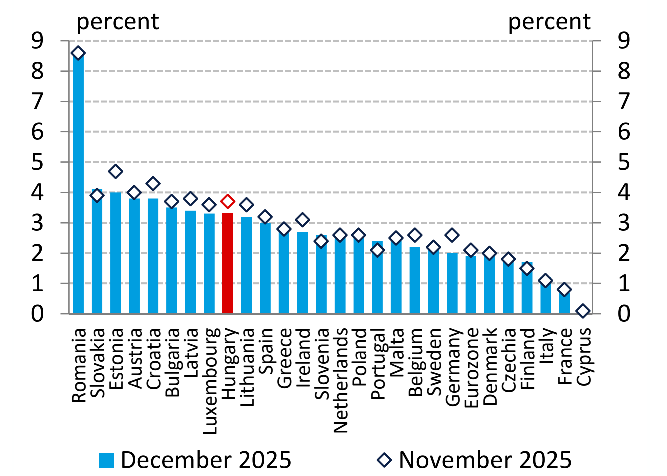
GDP increased by 1.6 percent in the European Union, 1.4 percent in the euro area and 2.3 percent in the United States in 2025 Q3. The GDP of Germany, Hungary's main trading partner, increased by 0.3 percent year-on-year. China recorded 4.5 percent growth in the fourth quarter.

Industrial production grew by 2.5 percent in the euro area in November, while in December it grew by 2.0 percent in the United States and by 5.2 percent in China, year-on-year. Retail sales rose by 2.3 percent in the euro area and 3.3 percent in the United States in November. China recorded a growth of 0.9 percent in December.

Manufacturing Purchasing Managers' Indices (PMI) have been mixed. The PMI declined in the euro area, settling at 48.8 points. The Economic Sentiment Indicator (ESI) for the euro area declined by 0.4 points in December (Chart 1). The PMI for the manufacturing industry in the United States declined but still continued to show expansion (51.8 points). In China, the index rose above the growth threshold (50 points) to 50.1 points.

In the United States, the unemployment rate fell from 4.5 percent in November to 4.4 percent in December. The unemployment rate in the euro area was 6.3 percent in November, 0.1 percentage point lower than in October.

Chart 2: Developments in the international inflation environment



Note: HICP inflation rates.

Source: Eurostat

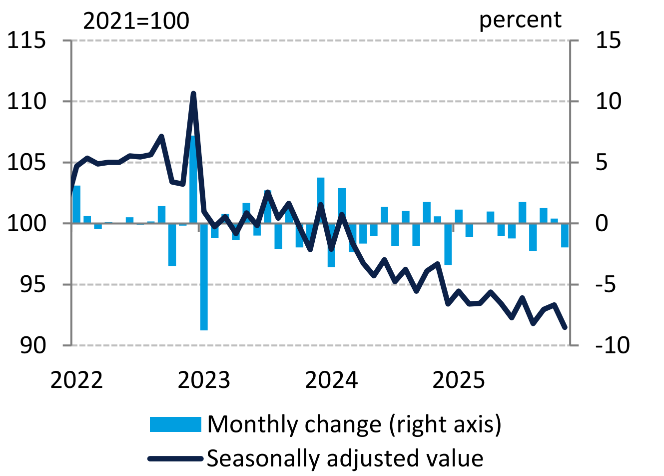
Inflation in the euro area moderated to 1.9 percent, while core inflation fell to 2.3 percent. Both indicators were 0.1 percentage point below analysts' expectations. Inflation in the United States remained unchanged at 2.7 percent in December, in line with market expectations. Consumer prices in China rose by 0.8 percent.

Among the countries in the region, HICP inflation moderated somewhat in Poland and stagnated in the Czech Republic and Romania in December. Annual inflation stood at 8.6 percent in Romania, 2.5 percent in Poland and 1.8 percent in the Czech Republic (Chart 2).

1.2. Real economic trends in Hungary

In November 2025, the volume of retail trade rose by 2.5 percent, while industrial output fell by 5.4 percent and construction output by 5.6 percent. On average between September and November, employment fell by 36,000 on an annual basis. The unemployment rate was 4.4 percent, which is low both historically and internationally. Labour market tightness is gradually easing.

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

1.2.1. Economic growth

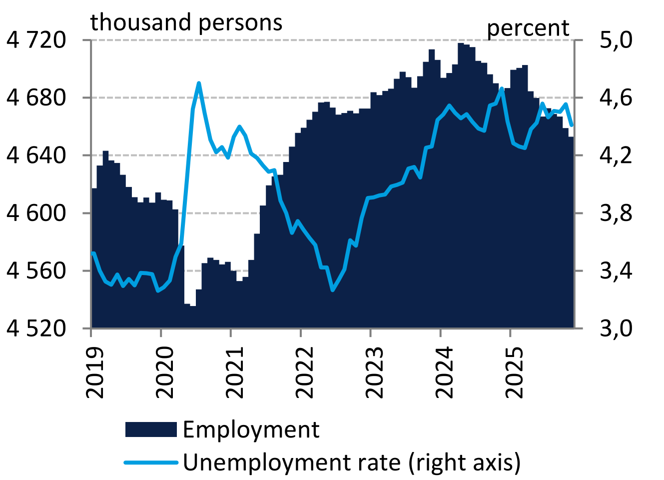
In November 2025, industrial production fell by 5.4 percent year-on-year. Industrial output decreased by 2.0 percent on a monthly basis, according to seasonally and working-day adjusted data (Chart 3). Most manufacturing sub-sectors experienced a decline.

The volume of construction output fell by 5.6 percent year-on-year in November 2025. The two main construction groups showed contrasting trends, with building construction output increasing by 7.7 percent, while that of other construction declined by 20.0 percent. On a monthly basis, construction output decreased by 7.3 percent according to seasonally and calendar-adjusted data.

In November 2025, the external trade balance in goods was EUR 35 million, while the 12-month rolling balance showed a surplus of EUR 8.3 billion. The balance of goods deteriorated by EUR 609 million compared to both the previous month and the same period of the previous year. Based on unadjusted data, the volume of goods exports in November this year was 7.1 percent lower, while goods imports were 4.6 percent higher than in the same period in the previous year.

The volume of retail trade rose by 2.5 percent year-on-year in November 2025, according to calendar-adjusted data. Retail trade excluding fuel sales increased by 2.8 percent. Compared to the previous month, trade increased by 0.1 percent according to seasonally and calendar-adjusted data.

Chart 4: Number of persons employed and the unemployment rate



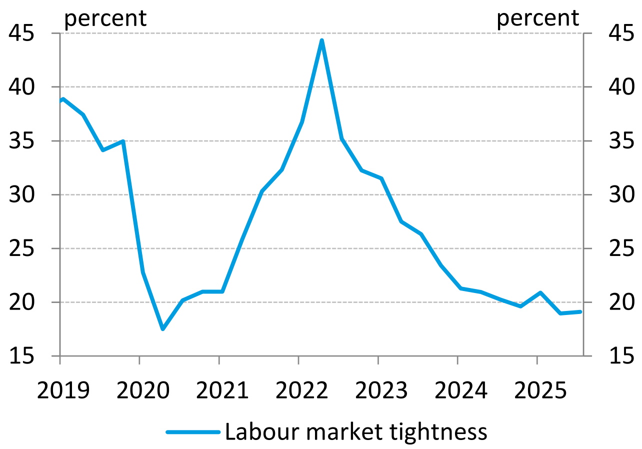
Note: Data based on the HCSO's 3-month moving average methodology. Seasonally and calendar adjusted data.
Source: HCSO

1.2.2. Employment

Based on data from the Labour Force Survey, **the average number of persons employed aged 15–74 in September–November 2025 decreased by 36,000 compared to the same period of the previous year, which was a 0.8-percent decline on an annual basis**. The seasonally and calendar-adjusted level of employment was 6,000 lower than in the August–October period. The number of persons employed in the domestic primary labour market decreased by 43,000, and the number of persons working at a site abroad decreased by 5,000, while the number of public workers increased by 12,000 compared to the same period of the previous year.

The average number of unemployed persons was 216,000, a decrease of 15,000 compared to the same period of the previous year. The seasonally and calendar-adjusted level of

Chart 5: Labour market tightness indicator



Note: The tightness indicator is the number of vacancies in the private sector as a percentage of the unemployed.
Source: HCSO, MNB calculation

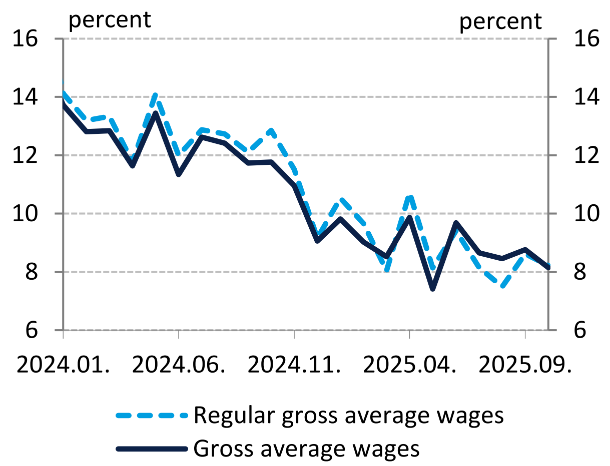
unemployment was 6,000 lower than in the August–October period. **The unemployment rate was 4.4 percent, which is low both historically and internationally** (Chart 4). According to data from the National Employment Service (NFSZ), the number of registered jobseekers was 216,000 in December, which represents a decrease of 5,000 on an annual basis.

Labour market tightness is gradually easing (Chart 5). In 2025 Q3, the number of job vacancies in the private sector fell by 7 percent compared to the same period in the previous year, while seasonally adjusted data already show stagnation this year. There were 43,400 vacancies in the private sector in the third quarter.

1.3. Inflation and wages

In December 2025, consumer prices rose by 3.3 percent year-on-year. Core inflation moderated by 0.3 percentage points compared to the previous month and stood at 3.8 percent. In October, gross average earnings rose by 8.7 percent in the national economy and by 8.1 percent in the private sector compared to the same period last year. Real earnings increased by 4.3 percent in the national economy and by 3.7 percent in the private sector on an annual basis.

Chart 6: Wage dynamics in the private sector



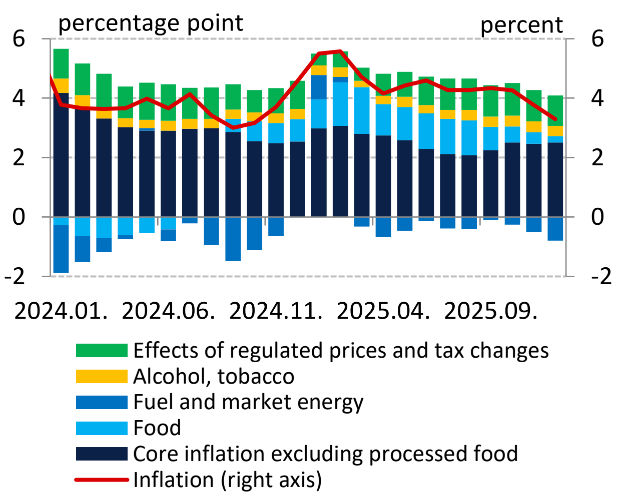
Source: MNB calculation based on HCSO data

1.3.1. Wages

In October 2025, gross average earnings in the national economy rose by 8.7 percent compared to the same period of the previous year, including an 8.1-percent increase in the private sector and a 10.8-percent **increase** in the public sector (Chart 6). The annual growth in gross average earnings in the private sector averaged 8.8 percent in the first ten months of the year, compared to last year's wage growth of 12 percent. In October, real earnings calculated on the basis of gross average earnings increased by 4.3 percent in the national economy and by 3.7 percent in the private sector on an annual basis.

Regular gross average earnings (excluding bonuses) increased by 9.0 percent in the national economy in annual terms. Within this, the increase was 8.2 percent in the private sector and 11.5 percent in the public sector. Regular gross average earnings in the private sector rose moderately more strongly than usual for October on a monthly basis. Bonus payments in October amounted to 4.2 percent of regular gross average earnings in the private sector, which is similar to the previous year.

Chart 7: Decomposition of inflation



Source: MNB calculation based on HCSO data

1.3.2. Inflation developments

In December 2025, consumer prices rose by 3.3 percent year-on-year (Chart 7). Compared to 3.8 percent in November, the annual rate of price increases slowed by 0.5 percentage points. Core inflation fell by 0.3 percentage points to 3.8 percent. Core inflation, excluding indirect taxes, fell to 3.6 percent. In monthly terms, the price of the total consumer basket increased by 0.1 percent, and the core inflation basket rose by 0.3 percent. In 2025, inflation stood at 4.4 percent and core inflation at 4.6 percent on annual average.

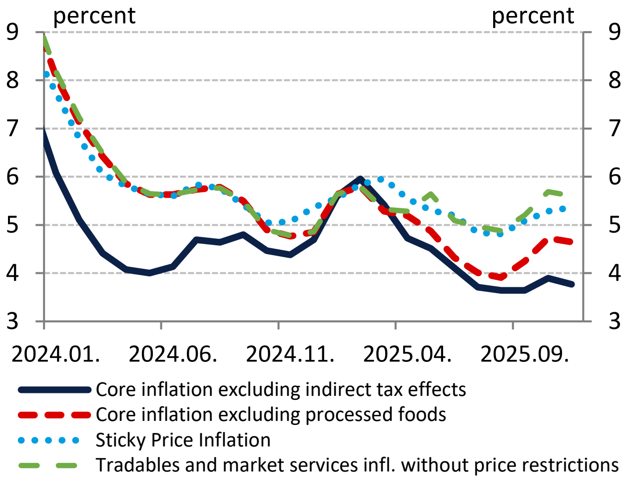
Overall, the rate of price changes in December was above the average for the years 2017 to 2020 for market services and industrial goods but below it for food. The annual price index for market services increased from 7.2 percent to 7.6 percent. Prices rose by 0.6 percent on a monthly basis, mainly due to increases in telecommunications and tourism-related services. Annual inflation for industrial goods slowed from 2.6 percent to 2.5 percent, while prices in this product group rose by 0.3 percent month-on-month. Food inflation, according to the MNB's classification, was -1.3 percent. Within this product group, unprocessed food prices fell by 1.2 percent, while processed food prices fell by 1.4 percent year-on-year. Compared to November, unprocessed food became 0.6 percent cheaper, while the price of processed food fell by 0.7 percent on a monthly basis.

Fuel prices fell by 8.6 percent year-on-year. On a monthly basis, fuel prices fell by 1.7 percent, which was explained by the decline in world market oil prices. The price of regulated products and services rose by 7.2 percent year-on-year, with the price of piped gas rising by 19.8 percent.

Household inflation expectations continue to remain at high levels. Corporate price expectations for retail sales and services both moderated and remained subdued in December.

Among the indicators capturing more persistent inflation trends calculated on an annual basis, inflation for sticky-price goods declined, while the other indicators rose. Inflation for sticky-price goods declined to 5.2 percent. By contrast, core inflation excluding processed foods rose to 4.7 percent, while inflation for industrial goods and market services combined, calculated without the price-reducing effect of the introduction of price restrictions, increased to 5.7 percent (Chart 8).

Chart 8: Measures of underlying inflation indicators

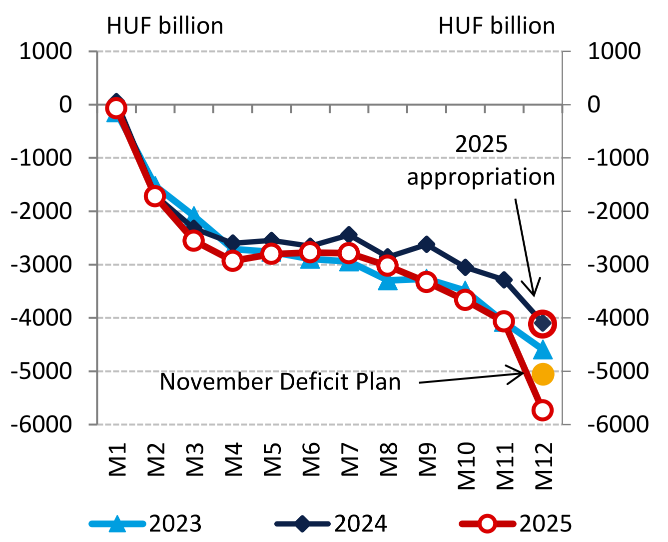


Source: MNB calculation based on HCSO data

1.4. Fiscal and external balance trends

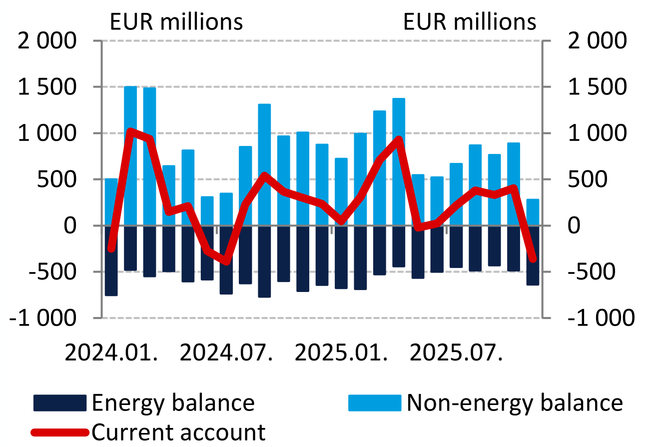
The cash flow deficit of the central budget sub-sector was HUF 1,668 billion in December, bringing the deficit for 2025 to HUF 5,739 billion. This represents 139 percent of the cash flow deficit target set in the Budget Act and 114 percent of the government's November deficit target. The monthly current account balance turned into a deficit of EUR 361 million in November 2025. However, the current account showed a surplus of approximately EUR 3 billion in the first eleven months of the year.

Chart 9: Cumulative cash balance of the central budget sub-sector from the beginning of the year



Source: 2025 Budget Act, Hungarian State Treasury, Government announcements

Chart 10: Developments in current account and energy balance



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

1.4.1. Fiscal trends

The cash flow deficit of the central budget sub-sector was HUF 1,668 billion in December, bringing the deficit for 2025 to HUF 5,739 billion. The December deficit was HUF 857 billion higher than at the end of 2024, and the total cash flow deficit for 2025 exceeded that of the previous year by HUF 1,643 billion. This represents 139 percent of the annual cash flow deficit target set in the Budget Act and 114 percent of the government's November deficit target (Chart 9).

Revenues of the central sub-sector increased by HUF 55 billion on an annual basis in December. Tax and contribution revenues rose by 8 percent (HUF 190 billion), while EU revenues fell by HUF 46 billion, and revenues related to public asset management fell by HUF 136 billion. Payments by economic organisations decreased by 14 percent, mainly due to a decline in revenues from windfall profit taxes. Consumption taxes increased by 17 percent (HUF 167 billion), while taxes and contributions on labour increased by approximately 6 percent (HUF 67 billion).

Budget expenditures in December were HUF 912 billion higher than in the last month of 2024. The significant increase was mainly due to expenditures related to public asset management, higher expenditures by central budgetary institutions and higher net interest expenditures than a year earlier.

1.4.2. External balance developments

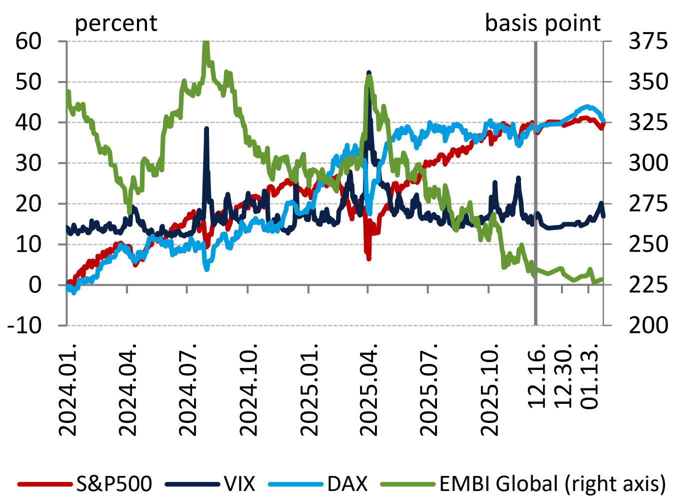
In the first eleven months of 2025, the current account registered a surplus of around EUR 3 billion. The November balance was EUR -361 million, which was significantly lower than the value of both the previous month and the previous year (Chart 10). The annual decline is mainly due to a EUR 796 million increase in the balance of goods deficit. In November, the services balance exceeded the previous year's value. The income balance deficit increased, while the transfer balance was more favourable compared to November of the previous year. Based on the financial account data, net external debt increased in November, parallel to a moderate increase in net foreign direct investment.

2. Financial markets

2.1. International financial markets

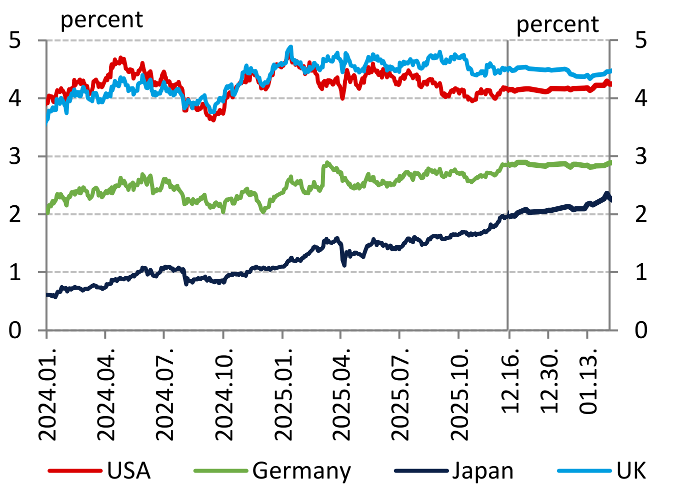
Since the previous interest rate decision, the expected development of the Federal Reserve's interest rate path, the Japanese government crisis, the peace process related to the Russian–Ukrainian war, the events in Venezuela and the geopolitical tensions surrounding Greenland have determined the sentiment in international money and capital markets. The VIX risk indicator increased towards the end of the period, followed by a correction. Stock market indices rose, while long-term yields in developed markets were mixed. Oil and gas prices rose.

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 2024.
Source: Bloomberg

Chart 12: Yields on developed market long-term bonds



Source: Bloomberg

In the period since the previous interest rate decision, in addition to international macroeconomic data, the expected development of the Federal Reserve's interest rate path, the Japanese government crisis, the peace process related to the Russian–Ukrainian war, the events in Venezuela and the geopolitical tensions surrounding Greenland have continued to determine the sentiment in international money and capital markets. The VIX risk indicator first rose at the end of the period and then corrected downward (Chart 11).

All of the major stock market indices rose during the period. Latin American stocks showed the largest increase (around 8 percent), but significant growth was also observed in other regions.

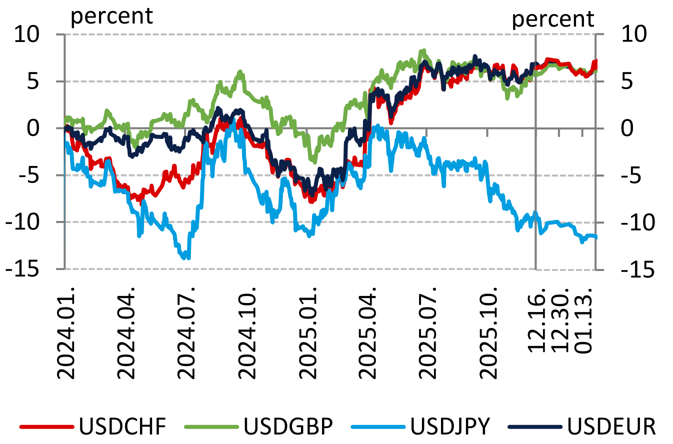
Developed market long yields have been mixed since the previous interest rate decision (Chart 12). Asian and US yields rose significantly, while bond yields in advanced European economies remained largely unchanged. At the same time, 10-year government bond yields in the region fell significantly.

The US dollar has been traded mixed against major currencies since the previous interest rate decision (Chart 13). The dollar has remained broadly unchanged against the euro, the pound sterling and the Swiss franc, while it has strengthened significantly against the Japanese yen.

The Bloomberg commodity price index, which covers the entire commodity market, rose during the period (Chart 14). The price of gold rose to a historic high during the period, mainly due to increased geopolitical and tariff war risks.

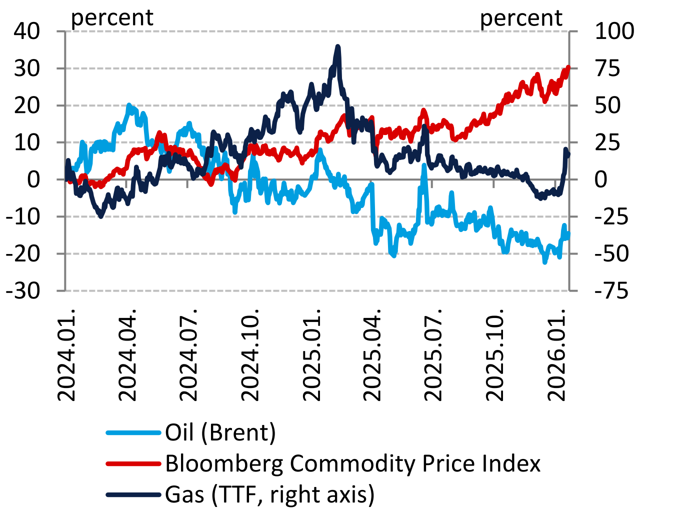
The price of North Sea **Brent oil** rose by around 10 percent to USD 65 per barrel since the previous interest rate decision. The price of the US benchmark WTI crude oil rose by 9 percent to USD 60 per barrel. The price of crude oil was driven primarily by supply-side risks arising from geopolitical conflicts.

Chart 13: Evolution of developed market foreign exchange rates compared to the first trading day of January 2024



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

Chart 14: Global oil and gas prices and the Bloomberg Commodity Price Index



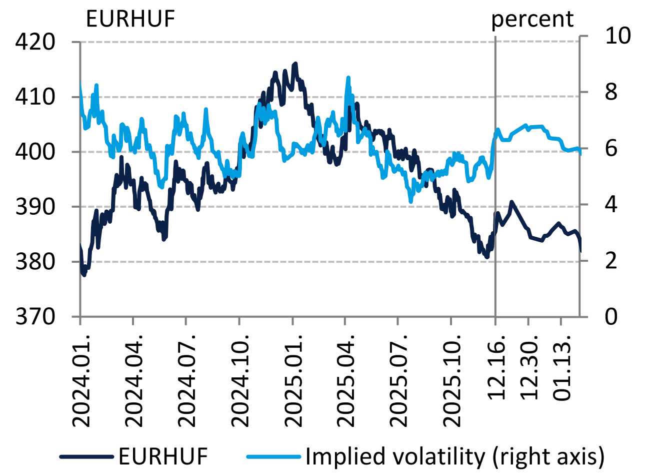
Note: The Bloomberg Composite Price Index includes energy, metals, agricultural products and live animals. The indicators are normalized to the beginning of January 2024.
Source: Bloomberg

European gas prices rose to a 1.5-year high. The Dutch TTF exchange price has risen by nearly 46 percent since the previous interest rate decision, to around EUR 39/MWh. In addition to geopolitical tensions threatening supply chains, colder-than-usual weather also contributed to the rise in prices.

2.2. Developments in domestic money market indicators

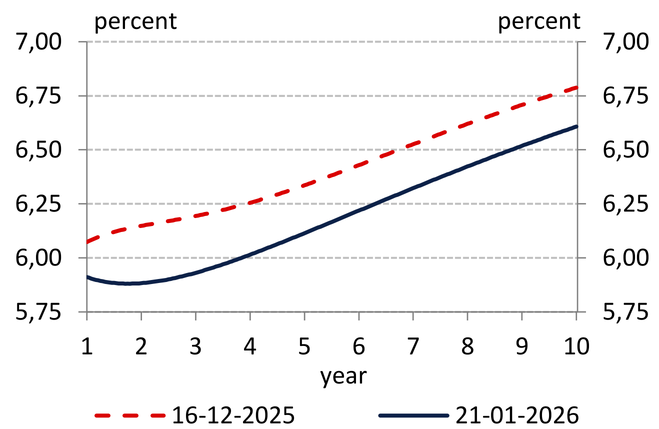
Since the previous interest rate decision, the forint has strengthened moderately against the euro overall. The government securities market's yield curve shifted downwards. GDMA discount treasury bill auctions and bond auctions were characterised by strong demand. The 3-month BUBOR fell by 10 basis points and currently stands at 6.4 percent.

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

Since the previous interest rate decision, the forint has strengthened moderately against the euro overall (Chart 15). In the week following the interest rate decision, the forint weakened by nearly 1.5 percent, then strengthened in the first week of January, offsetting this decline. In the second half of the period, the strengthening continued at a moderate pace, with the forint closing the period somewhat below the 384 level.

The 3-month BUBOR, which is relevant for monetary transmission, decreased by 10 basis points since the previous interest rate decision, **settling at 6.4 percent** at the end of the period.

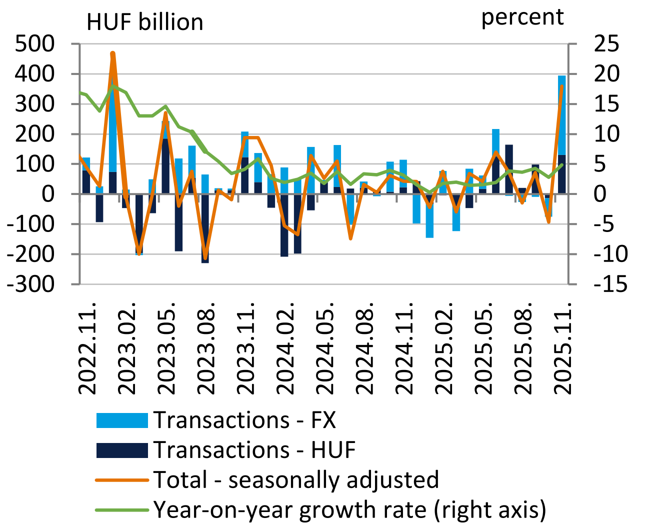
Yields on the government securities market moderated, with the entire yield curve shifting downward (Chart 16).

During the examined period, GDMA discount treasury bill auctions and bond auctions were characterised by strong demand. The volume of bids submitted for discount treasury bill auctions and government bond auctions typically exceeded the amount offered in advance. The GDMA typically accepted larger volumes than announced in advance. During the period, the GDMA also issued foreign currency bonds, raising a total of EUR 3 billion from the international market by issuing 7-year bonds and 12-year green bonds.

3. Trends in lending

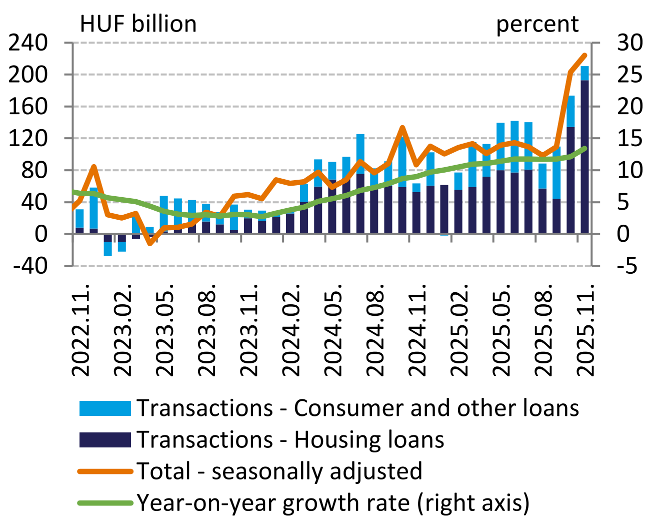
The annual growth rate of the corporate loan portfolio accelerated compared to October and was 4.9 percent. In the household segment, the annual growth of loans outstanding also accelerated compared to the previous month, reaching 13.4 percent.

Chart 17: Net borrowing by non-financial corporations



Source: MNB

Chart 18: Net borrowing by households



Source: MNB

The corporate loan portfolio grew significantly in November 2025, by HUF 394 billion. Within this, forint loans increased by HUF 130 billion and foreign currency loans by HUF 264 billion. **The annual growth rate of the corporate loan portfolio** accelerated compared to October and **stood at 4.9 percent** (Chart 17). Credit institutions concluded new non-overdraft loan contracts worth HUF 250 billion during the month, which is HUF 15 billion less than in the previous month.

Household loans outstanding increased by HUF 210 billion in November as a result of transactions. Within this, the portfolio of forint-denominated housing loans grew significantly, by HUF 193 billion. **Due to it, the annual growth rate of this portfolio** accelerated compared to October, **reaching 13.4 percent** (Chart 18). The volume of new household loan contracts amounted to HUF 424 billion, which was significantly higher, by 83 percent, than the figure recorded in the same period of the previous year. The substantial expansion of household loans outstanding was largely supported by the Home Start Programme launched in September, under which 5,706 contracts worth HUF 199 billion were concluded in November. Home Start loans accounted for 73 percent of new monthly housing loan disbursements.

The smoothed interest rate spread on corporate forint loans rose by 2 basis points compared to the previous month, reaching 1.81 percentage points in November. In the case of housing loans, the spread on fixed-interest-rate products with a maturity of over five years decreased, standing at 13 basis points at the end of the examined period.