



INFLATION REPORT



2026
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Act CXXXIX of 2013 on the Magyar Nemzeti Bank designates achieving and maintaining price stability as the primary objective of the Magyar Nemzeti Bank (MNB), the central bank of Hungary. Over the long term, low inflation ensures higher economic growth and a more predictable economic environment, while moderating the cyclical fluctuations that impact both households and companies. Without prejudice to its primary objective, the MNB supports the maintenance of the stability of the financial intermediary system and the enhancement of its resilience and its sustainable contribution to economic growth, as well as the economic and environmental sustainability policy of the government using the instruments at its disposal.

In the inflation targeting system in use since August 2005, the central bank has sought to attain price stability by ensuring an inflation rate near the 3-percent medium-term target. The Monetary Council, the supreme decision-making body of the Magyar Nemzeti Bank, performs a comprehensive review of expected developments in inflation every three months, in order to establish the monetary conditions consistent with achieving the inflation target. The Monetary Council takes its decisions on the basis of and in accordance with the objectives set out in the Act on the Magyar Nemzeti Bank. Accordingly, in its decisions, it takes into account, among other things, prospective economic developments, the inflation outlook, financial and capital market trends and risks to stability.

In order to provide the public with a clear insight into how the central bank's monetary policy works and to enhance transparency, the Bank publishes the information available at the time of making its monetary policy decisions. The Inflation Report presents the inflation forecasts prepared by the Directorate Economic Forecast and Analysis, the Directorate Monetary Policy and Financial Market Analysis, the Directorate Fiscal Analysis and the Directorate Financial Stability and Monetary Policy Instruments, as well as the macroeconomic developments underlying these forecasts. The forecast is based on the assumption of endogenous monetary policy. In respect of economic variables exogenous to monetary policy, the forecasting rules used in previous issues of the Report are applied.

The projections are based on information available for the period ending 18 June 2026.

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The Monetary Council's key findings related to the Inflation Report

The primary objective of the Magyar Nemzeti Bank (MNB) is to achieve and maintain price stability. Without prejudice to its primary objective, the MNB preserves financial stability and supports the Government's economic as well as environmental sustainability policies.

Moderate global growth and the volatile international geopolitical environment restrain domestic economic performance.

The European Union's GDP grew by 0.7 percent year on year in the first quarter of 2026. In the United States, GDP rose by 2.6 percent. The economic performance of Germany, Hungary's most important foreign trade partner, grew by 0.3 percent. Economic forecasts are subject to greater uncertainty due to developments in the Middle East and volatile international trade policy conditions.

Inflation accelerated globally as a result of the surge in energy prices in spring 2026 caused by the Iran conflict.

Euro area inflation stood at 3.2 percent in May, an increase of 1.3 percentage points compared to February. Inflation rates across member states varied in a range of 4.2 percentage points. In more than two-thirds of the OECD member countries having already published data, inflation rates above central bank targets were recorded. In the United States, consumer prices rose by 4.2 percent year on year. Among the countries in the region, the annual rate of the Harmonised Index of Consumer Prices stood at 9.7 percent in Romania, 4.0 percent in Slovakia, 3.3 percent in Poland and 1.8 percent in the Czech Republic.

Over the past quarter, the European Central Bank (ECB) tightened monetary conditions, while the Federal Reserve (Fed) kept the target range for the policy rate unchanged.

At its June monetary policy meeting, the ECB raised its key deposit rate by 25 basis points to 2.25 percent. The ECB decided to raise interest rates in response to increasing inflationary risks. To prevent elevated inflation becoming persistent, the central bank considered it appropriate to tighten monetary policy in the current environment.

The Fed did not change the target range for its policy rate, which therefore remained unchanged at 3.50–3.75 percent. Economic activity is expanding at a solid pace despite elevated uncertainty, while inflation continues to exceed the Fed's 2-percent target. Policymakers revised their projected policy rate path upward in June, indicating that an interest rate hike may be delivered before the end of the year.

In the region, at its June monetary policy meeting, the Czech central bank raised its policy rate by 25 basis points to 3.75 percent. Over the past quarter, the Polish and Romanian central banks left monetary conditions unchanged, with their policy rates remaining at 3.75 percent and 6.5 percent, respectively.

International market sentiment continues to be shaped by the conflict involving Iran and the situation of the blockade of the Strait of Hormuz as well as by the resulting reactions of commodity markets. With the easing of geopolitical tensions, the global risk environment has become more favourable since the previous Inflation Report.

Indicators measuring market volatility, despite exhibiting considerable fluctuations, declined significantly on news of the Iran–US agreement compared to their levels at end-March. Commodity prices have also been volatile. Brent crude oil is currently trading below USD 80 per barrel, while WTI stands at USD 76 per barrel. The price of natural gas in Europe, as traded on the Dutch exchange, currently stands at EUR 40/MWh, below the levels observed at end-March.

Over the quarter, the forint appreciated significantly against the euro, domestic government bond yields declined markedly, and the risk premium on Hungarian assets decreased.

Among regional currencies, the Polish zloty and the Czech koruna appreciated by 1.1 percent and 1.7 percent, respectively, against the euro during the period, while the Romanian leu depreciated by nearly 2.7 percent. Following the parliamentary

elections, the forint was a clear outperformer in the region, while the improvement in risk sentiment was also reflected in government bond yields. Yields on the inter-year segment of the Hungarian government bond yield curve declined by an average of 130 basis points, while those on the medium- and longer-term segments fell by nearly 200 basis points. Demand at government bond auctions was generally strong, and the GDMA accepted bids in excess of the announced amounts. At the same time, Hungary's government bond yield spreads relative to regional peers and Germany also declined markedly.

Inflation stood at 1.8 percent in May. As a result of the appreciation of the exchange rate since March and the decline in energy prices, inflation is expected to remain below the Bank's target for the remainder of this year and throughout next year. The achievement of the 3-percent Bank target is consistent with an easing of monetary conditions.

In May, inflation fell to 1.8 percent, while core inflation declined to 2.0 percent. The deceleration in inflation relative to April reflected slower price dynamics in food and industrial goods, supported by the disinflationary impact of the stronger forint. The major product groups of the consumer basket were characterised by modest repricing. Households' inflation expectations declined, while firms' price expectations increased in May due to the prolonged conflict involving Iran.

The impact of the forint appreciation seen in recent months will influence consumer price trends this year and next year. As a result of the easing of the Iran conflict, fuel market prices are falling below the level of the fuel price caps; therefore, the phasing-out of the statutory price caps is not expected to have an impact on inflation. Based on current underlying trends, we expect moderate repricing over the forecast horizon, which is also supported by the stronger forint reducing import costs. Inflation will average 1.8 percent this year and 2.3 percent in 2027.

The annual growth of the domestic economy accelerated in 2026 Q1, and economic activity may strengthen further in the second half of the year. However, a further escalation of global geopolitical tensions may slow the recovery.

Hungarian GDP increased by 1.7 percent year on year in 2026 Q1, supported by domestic demand components – primarily the expansion in household consumption – while net exports weighed on growth. Labour market tightness has eased in recent periods; however, the unemployment rate remains low by historical standards. Wage dynamics in the private sector are slower than in previous years, while real wage growth remains robust.

As in the previous year, household consumption is expected to be the main driver of growth in 2026. As a result of rising real wages, and government measures boosting household income, consumption will expand over the entire forecast horizon. The spring increase in energy prices and geopolitical uncertainty are dampening growth in Hungary's export markets; however, the capacity-increasing investment projects implemented in recent years are supporting the expansion of industrial exports. EU funds made available may give a boost to investment, with their positive impact on growth expected to materialise gradually. Hungarian GDP may grow by 2.0 percent in 2026, 3.0 percent in 2027 and 2.9 percent in 2028.

Both corporate and household lending picked up in 2026 Q1.

Corporate loans outstanding increased by 9 percent in the year to March 2026; however, according to banks, no turnaround has yet occurred in demand for investment loans. According to our forecast, the corporate loan portfolio of the total financial intermediary system will increase by 7 percent in 2026 and by 6 percent in 2027. The household sector's loans outstanding expanded by 16 percent on an annual basis, and the disbursement of new loans also rose to a historic high over the past year. The Home Start Programme also contributes to the dynamics in lending. According to our forecast, the household loans outstanding of the total financial intermediary system is expected to increase by 19 percent in 2026 and by 18 percent in 2027. Although the annual growth rate will decline in 2028, it will remain above 10 percent.

The current account balance stood at 1.6 percent of GDP in 2025, at a level similar to that observed in 2024, and, following a temporary deterioration this year, it may return to equilibrium over the coming years.

According to preliminary monthly data, the current account surplus declined to 1.2 percent of GDP in 2026 Q1, primarily due to subdued export growth. In 2026, higher energy prices and import growth driven by stronger domestic demand, partly related to the government transfers made in the first quarter, are expected to reduce the trade balance. At the same time, we expect export growth to accelerate from the second half of the year, driven by rising industrial production, improving capacity utilisation and the start-up of new factories. As a result of these two effects, the current account balance

is expected to temporarily turn into a small deficit in 2026, and, over the following years, it may stabilise around its equilibrium level, mainly owing to the gradual improvement in the trade balance.

The budget deficit may increase in 2026 compared to its 2025 level.

According to the Bank's forecast, the budget deficit may increase to 6.5 percent in 2026, mainly due to the ruling of the European Court of Justice concerning the carbon allowance tax, the provision of budgetary funds related to the government decisions taken in the first quarter, and the fiscal measures associated with the fuel price caps. Subsequently, partly owing to lower government interest expenses, the deficit may decline to 5.4 percent in 2027 and to 4.7 percent in 2028. According to the Bank's forecast, gross public debt as a percentage of GDP may stagnate in 2026 and then decrease to a small degree in 2027 and 2028.

According to the Monetary Council's assessment, the baseline projection of the June forecast is surrounded by balanced inflation risks and upside risks to growth.

The Monetary Council highlighted four alternative risk scenarios around the baseline projection in the June Inflation Report. Alternative scenarios that assume a narrowing risk premium due to improving domestic fundamentals, as well as persistently lower inflation expectations and more subdued services inflation, are consistent with a lower inflation and higher growth path than the baseline scenario, as well as looser monetary conditions. The scenario that anticipates capital withdrawals from emerging economies and a resulting rise in the risk premium is consistent with a higher inflation and lower growth path as well as tighter monetary conditions. The scenario that anticipates higher wage growth and service inflation is consistent with a higher inflation and growth path as well as tighter monetary policy conditions. In addition to the main scenarios, the Monetary Council discussed further alternative scenarios, including one anticipating weaker domestic exports due to a slower-than-expected recovery in the global economy and another assuming that persistently higher energy prices will be passed on to domestic prices.

SUMMARY TABLE OF THE BASELINE SCENARIO

(Data show annual changes and the forecast is based on endogenous monetary policy.)

	2025 Actual	2026	2027 Forecast	2028
Inflation (annual average)				
Inflation	4.4	1.8	2.3	3.0
Core inflation excluding indirect tax effects	4.6	2.2	2.6	3.1
Core inflation	4.5	2.2	2.6	3.1
Economic growth				
GDP	0.5	2.0	3.0	2.9
Household final consumption expenditure	3.1	5.0	3.6	3.1
Government final consumption expenditure ¹	2.5	1.6	0.0	0.5
Gross fixed capital formation	-2.8	3.0	4.8	3.7
Domestic absorption	1.9	4.3	3.0	2.6
Exports	-1.1	1.1	4.4	4.4
Imports	1.2	4.2	4.5	3.9
Labour productivity ²	0.1	1.5	2.7	2.8
External balance³				
Current account balance	1.6	-0.7	-0.2	0.2
Net lending	2.1	0.9	1.7	2.1
Government balance³				
ESA balance	-4.7	-6.5	-5.4	-4.7
Labour market				
Whole-economy gross average earnings ⁴	9.0	9.7	6.0	6.7
Whole-economy employment	-0.7	-0.7	0.3	0.1
Private sector gross average earnings ⁴	8.8	8.0	7.3	6.8
Private sector employment ⁶	-1.0	-0.9	0.4	0.2
Unemployment rate	4.4	4.5	4.2	4.1
Private sector real unit labour cost	2.7	5.0	0.4	-0.2
Household real income ⁵	-1.6	6.3	3.4	3.2

¹ Government final consumption expenditure includes final consumption expenditure of general government and nonprofit institutions.

² Whole economy, based on national accounts data.

³ As a percentage of GDP.

⁴ For full-time employees.

⁵ MNB estimate.

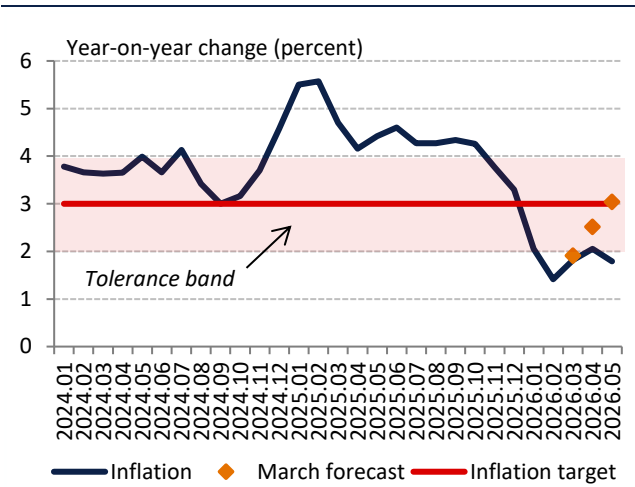
⁶ Due to methodological revision, actual data for 2025 has also changed retroactively, see Box for more details.

1. Macroeconomic forecast

1.1. Inflation

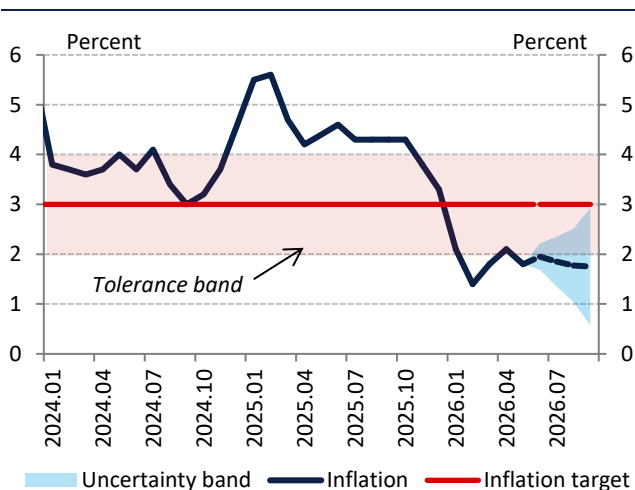
Inflation amounted to 1.8 percent in May, with core inflation at 2.0 percent. Annual indices have been rising since February, driven not only by higher fuel prices in March but also by the base effect of the margin cap on food prices that took effect in March of last year. The pace of price increases was more moderate than expected, and both inflation and core inflation currently remain well below the inflation target. Appreciation of the domestic currency, lower food price dynamics and the decline in energy prices have significantly lowered our forecast for this year. The impact of the forint appreciation seen in recent months may continue to influence consumer price trends this year and next year. As the Iran conflict eases, fuel market prices are falling below the level of the fuel price caps. In the baseline scenario, inflation remains below the inflation target until 2028 Q2, and the easing of monetary conditions is consistent with achieving the 3-percent inflation target in a sustainable manner. Inflation is projected to average 1.8 percent this year, 2.3 percent next year and 3.0 percent in 2028.

Chart 1-1: Inflation in Hungary



Source: HCSO, MNB

Chart 1-2: Monthly evolution of the near-term inflation forecast



Note: Annual change. The uncertainty band shows the uncertainty around the forecast range with regards to the root mean squared error of previous years' near-term forecasts.

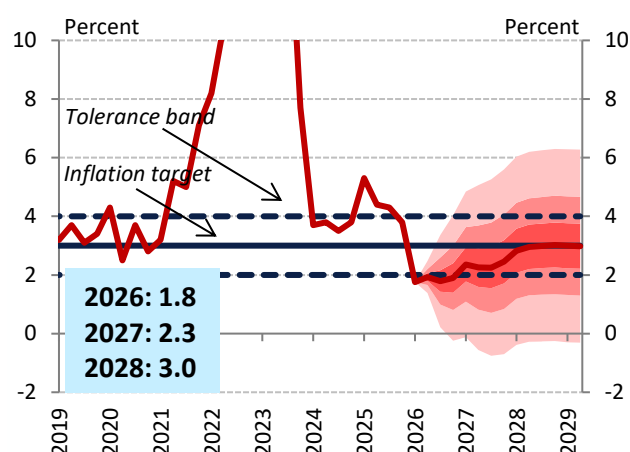
Source: HCSO, MNB

From February, inflation rose by 0.4 percentage point to reach 1.8 percent in May of this year. The small increase in the annual indices between February and May was caused not only by the rise in fuel prices in March but also by the base effect of the price margin cap on food prices that took effect in March of last year (Chart 1-1). The incoming May data was lower than the forecast in the March Inflation Report and fell significantly short of the 3-percent target level.

In recent months, price increases for industrial goods and market services were modest overall, remaining at levels typical of the period of price stability in 2017–2019, while food prices fell short of that level. In addition to the earlier trends in global food prices, the disinflationary effect of the stronger forint also contributed to the decline in food prices versus February (Box 1-1 discusses the factors shaping global food prices in detail). The appreciation of the forint also plays an important role in the moderate development of underlying inflation trends.

Due to falling energy prices and the forint appreciation compared to March, as well as the adaptation of market participants, the impact on inflation of the currently effective price control measures has diminished. With the easing of tensions in the conflict with Iran, due to lower oil prices, the market price is falling below the level of the fuel price caps. Based on public announcements, the government initiated the amendment of the legislation related to fuel price caps and the elimination of the measure as a result of the events. In accordance with the announcements, we assume that the current excise tax level, which is lower than in February, will remain in place indefinitely. The lower level of excise tax and the lack of valorisation will reduce inflation this year and the next year by 0.3 percent and 0.1 percent in 2028 compared to the March baseline scenario. In the case of margin restrictions,

Chart 1-3: Fan chart of the inflation forecast



Note: Based on seasonally unadjusted data.

Source: HCSO, MNB

Table 1-1: Details of the inflation forecast

	2026	2027	2028	
Core inflation excluding indirect tax effects	2.2	2.6	3.1	
Core inflation	2.2	2.6	3.1	
Non-core inflation	Unprocessed food	-1.7	5.1	5.3
	Fuel and market energy	-1.5	-3.3	-0.3
	Regulated prices	2.2	1.7	1.7
	Alcohol and tobacco	4.0	3.9	4.0
Inflation	1.8	2.3	3.0	

Note: Percent.

Source: MNB

companies may have already undergone a significant adaptation process. As a result, the elimination of these measures may have a more moderate inflationary impact than previously assumed, as retail chains adapted to margin restrictions without undermining their profitability. In the baseline scenario, we assume that the current legislation will remain in force, which does not provide for the temporal scope of the measures in the case of margin restrictions. Box 1-2 illustrates the impact of a possible phase-out on inflation.

Inflation will be near the lower edge of the central bank's tolerance band for the rest of this year (Chart 1-2). The impact of the strengthening of the forint exchange rate seen in recent months will affect consumer prices this year and next year. In the baseline projection, inflation remains below the inflation target until 2028 Q2, and the easing of monetary conditions is consistent with achieving the 3-percent inflation target in a sustainable manner. **Average annual inflation is projected to be 1.8 percent in 2026, 2.3 percent in 2027 and 3.0 percent in 2028** (Chart 1-3).

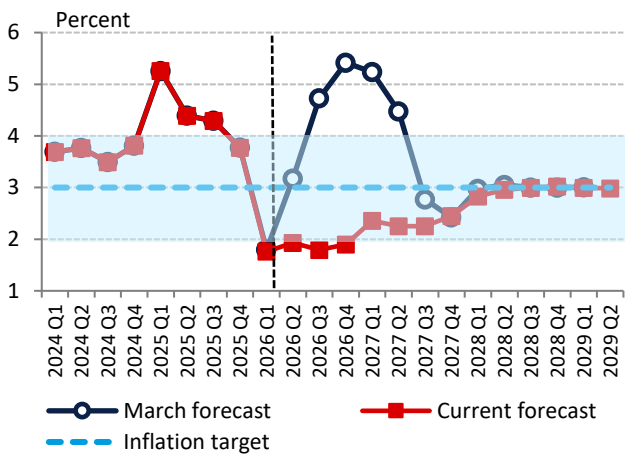
Compared to the March forecast, our inflation expectations have dropped by 2.0 percentage points for this year and by 1.4 percentage points for 2027, while the inflation forecast for 2028 has remained unchanged (Chart 1-4). The lower-than-expected inflation trajectory is primarily due to the decline in energy prices, appreciation of the forint exchange rate since March and the more moderate rise in food prices observed in recent months.

Core inflation net of indirect taxes, which reflects the underlying processes, is expected to amount to 2.2 percent in 2026, 2.6 percent in 2027 and 3.1 percent in 2028. Based on current underlying trends, we expect moderate repricing over the forecast horizon, which is also supported by the stronger forint reducing import costs. The forecast for tax-adjusted core inflation was revised down by 1.7 percentage points for this year and by 1.3 percentage point for 2027.

Global market price dynamics remain moderate in relation to food. Due to incoming data and the stronger exchange rate, domestic consumer prices for this product group are coming in lower than our March expectations. For unprocessed food, prices may decline by 1.7 percent this year, while price increases could reach 5.1 percent next year and 5.3 percent in 2028 (Table 1-1).

Prices of fuel and market energy may fall by an annual average of 1.5 percent this year, 3.3 percent next year and 0.3 percent in 2028. Our assumptions for world oil prices are lower compared to the March forecast, as a result of

Chart 1-4: Inflation forecast



Source: MNB forecast

easing tensions in the conflict with Iran. With regard to refinery prices and commercial margins, which influence consumer fuel prices, we expect a gradual decline to pre-conflict levels by 2027, as the Iran conflict unwinds. Inflation for goods and services with regulated prices is expected to rise by an average of 2.2 percent in 2026, with this trend largely determined by the development of weather-dependent average household piped gas rates. In our forecast, we assumed that measures regarding household energy prices would remain in effect unchanged over the entire forecast horizon.

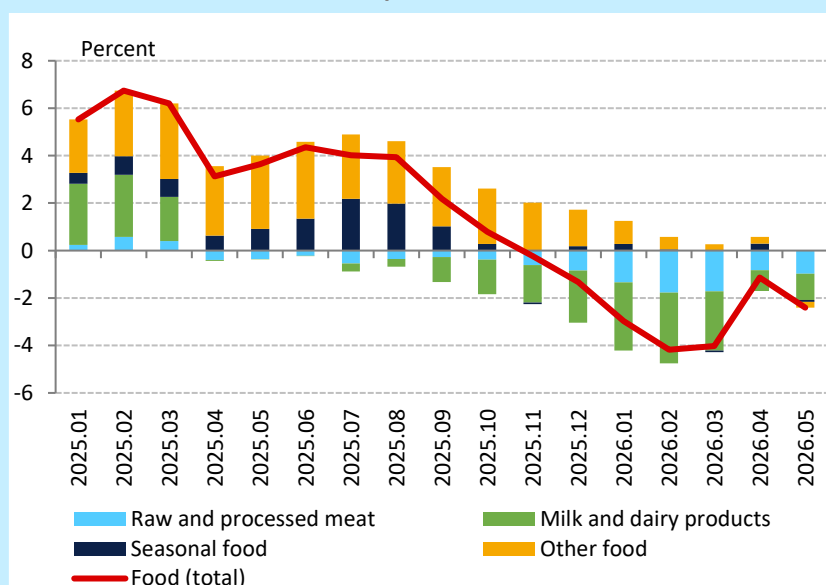
Box 1-1: Factors determining developments in the food price cycle

Since last September, the monthly repricing of domestic consumer food prices has remained below the historical average (2000–2025). As a result, food inflation dropped sharply, falling from the range of 5–7 percent seen in the first months of last year to -2.4 percent by May 2026. In addition to international trends, domestic food inflation was also influenced by the impact of the profit margin cap on food products.

Since the start of the favourable global food price cycle last September, food disinflation has primarily been driven by price trends in animal products (milk and dairy products as well as meats) (Chart 1-5). Based on data from May 2026, Hungarian consumer prices are down 11.1 percent for butter, 10.1 percent for pork and 6.3 percent for milk compared to one year earlier. Agricultural producer prices dropped more strongly than consumer prices: the price of lean hog fell by 22.5 percent and that of milk by 32.8 percent on an annual basis in April 2026. The decline in prices is mainly attributable to the oversupply of milk and pork seen in the European Union market. Moderate inflation was also observed for other product groups in terms of producer prices, with prices of wheat and sunflower seeds dropping 20.2 percent and 8.9 percent, respectively, versus April of last year. The average producer price for all agricultural products decreased by 10.2 percent on an annual basis.

Oversupply in the EU market can be traced back to lower food imports by China, a major player in the global market, and this may continue to dampen European food prices. China is consciously striving for a higher degree of self-sufficiency in the food industry, thereby improving its efficiency, while anti-dumping tariffs also serve the purpose of reducing the country's dependence on European imports. According to analyses, pork imports by China – the largest consumer – may fall by 8.2 percent in 2026. Imports of dairy products could decline by 4.1 percent, and due to a very good cereal harvest, the country's cereal imports may also decrease, with a 6.1-percent drop expected for soybeans. Due to the decline in demand, European meat producers have been left with significant stocks, exerting downward pressure on prices in the short term.

Chart 1-5: Decomposition of food inflation

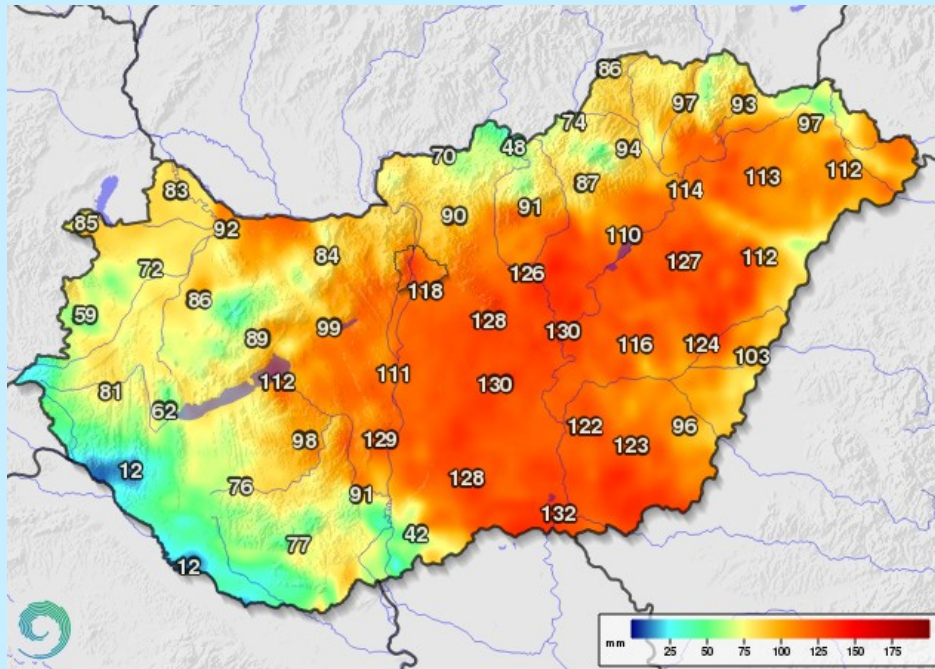


Source: HCSO, MNB

The drought in Hungary has only a limited impact on domestic food prices due to the highly integrated European food market. Weather conditions in Hungary in April 2026 were extremely dry, with precipitation falling 90 percent below the long-term average (1991–2020). Although rainfall in May improved the situation and narrowed soil moisture deficits in the western and northeastern parts of the country, soil moisture conditions in the Great Plain remain unfavourable (Chart 1-6). That said, significant soil moisture deficits are currently most prevalent in Central and Eastern European and Baltic countries, making the situation more localised on a European scale (Chart 1-7). During the most recent drought in 2022, which led to significant price increases across Europe, the dry conditions affected the entire continent, including Ukraine,

as one of the world’s largest cereal exporters, in addition to Mediterranean countries with significant agricultural production (such as Spain, France and Italy). Overall, the impact of the drought in the region on the supply of European agricultural products is likely to be moderate, which also limits the development of domestic crop prices, as they generally track European commodity exchange prices.

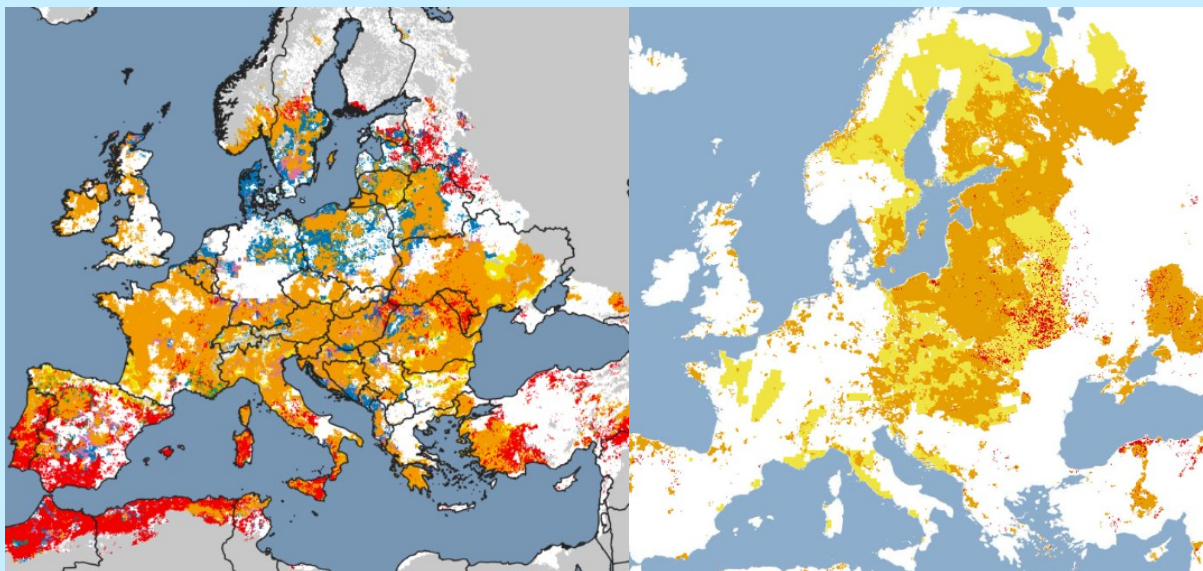
Chart 1-6: Drought in the 0–100-cm soil layer (mm)



Note: Based on data from 18 June 2026.

Source: MET

Chart 1-7: Evolution of the European drought situation in April 2022 (left) and April 2026 (right)



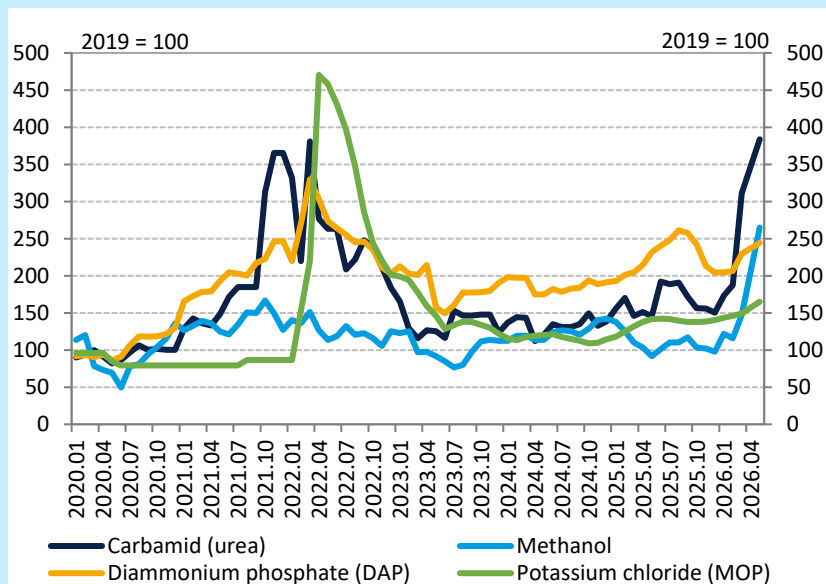
Note: Yellow indicates mild drought, while redder shades indicate more severe drought.

Source: Copernicus

Food price trends are also influenced by developments in the Iran conflict. Fertilisers that boost crop yields have become substantially more expensive since the outbreak of the conflict. The price of urea, one of the most widely used nitrogen-based fertilisers, was 105 percent higher in May than in February. Methanol, a key raw material in fertiliser production, rose in price by 128 percent (Chart 1-8). The availability of these two products is strongly affected by the closure of the Strait of Hormuz, as 46 percent of global maritime trade in urea and one-third of methanol pass through this strait. If fertiliser prices remain persistently high or decline slowly despite the de-escalation of the Iran conflict or because of the

slow recovery of demand and supply relations, this may be primarily manifested in higher crop and food prices starting next year, albeit with a significant lag. This is because farmers typically purchase the fertiliser needed for the following year’s planting at the end of the previous year; thus, pre-conflict fertiliser prices may still have been the benchmark for costs related to the spring 2026 planting. Higher crop prices may gradually feed into consumer prices for all food products, as rising feed costs could also affect the prices of animal-based food products. The experience of the fertiliser price increase in 2022, however, showed that the market can recovery rapidly, which indicates lower price level than in May until the start of the next fertiliser procurement cycle.

Chart 1-8: Monthly price trends for selected fertilisers and fertiliser raw materials

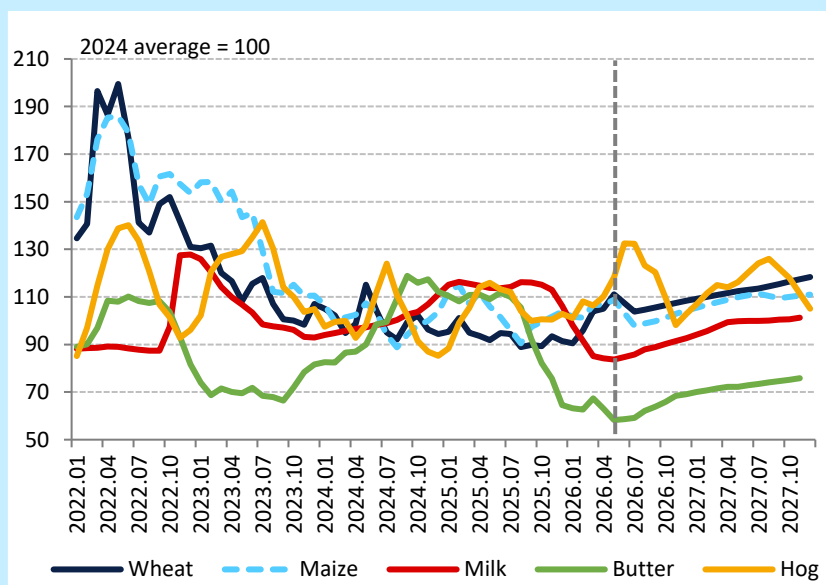


Note: Price on the last day of the given month.

Source: Bloomberg

Exchange futures prices do not indicate a significant price increase for most food products. For the major crops (wheat, maize), the market is pricing in an increase of 5–10 percent by the end of next year (Chart 1-9). This implies a lower price level for 2027, compared to the 2021 average both for wheat and maize. Even with the rise expected based on futures prices, exchange prices for milk and butter may remain below the levels seen between 2023 and 2025.

Chart 1-9: Trends in exchange prices for staple foods



Note: Forecast based on futures prices for delivery in the given period.

Source: Bloomberg

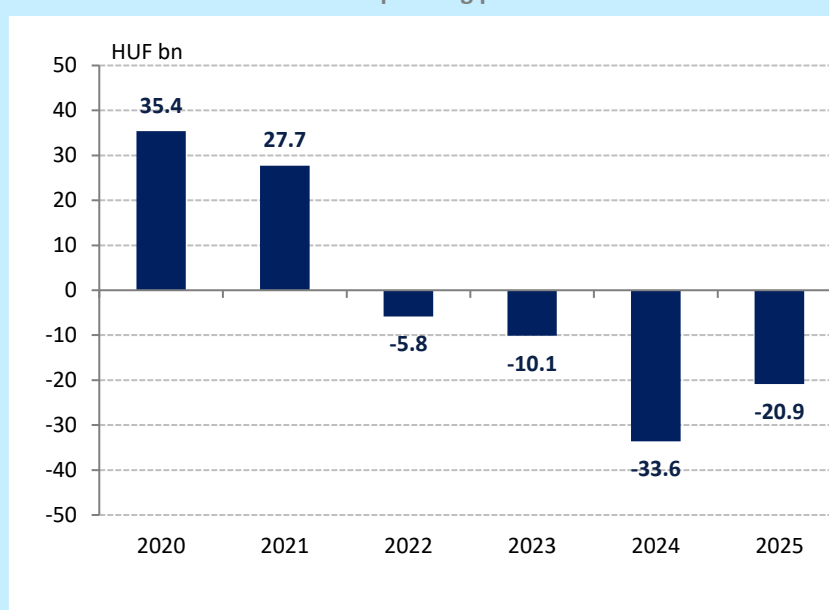
Box 1-2: Potential impact on inflation of phasing out margin caps

The impact of margin caps on retail chains can already be partially assessed based on corporate reports for fiscal 2025.

Of the six largest international food retail chains in Hungary, the 2025 financial statements of four companies (Aldi, Auchan, Penny Market and Spar) are already available. The fiscal year for the remaining two companies (Lidl and Tesco) runs from March to February; therefore, publication of their annual reports covering the entire profit margin cap period is not expected until the end of July 2026.

Overall, the food retail chains examined were unprofitable in fiscal 2025, although the extent of the loss decreased compared to the previous year (Chart 1-10). The four companies collectively incurred an operating loss of HUF 20.9 billion in 2025, with more than 80 percent of this concentrated in a single company. Of the chains examined, two achieved a positive result, although one of them saw a significant deterioration in performance compared to last year. The remaining two companies reported negative results, but their losses decreased compared to the previous year.

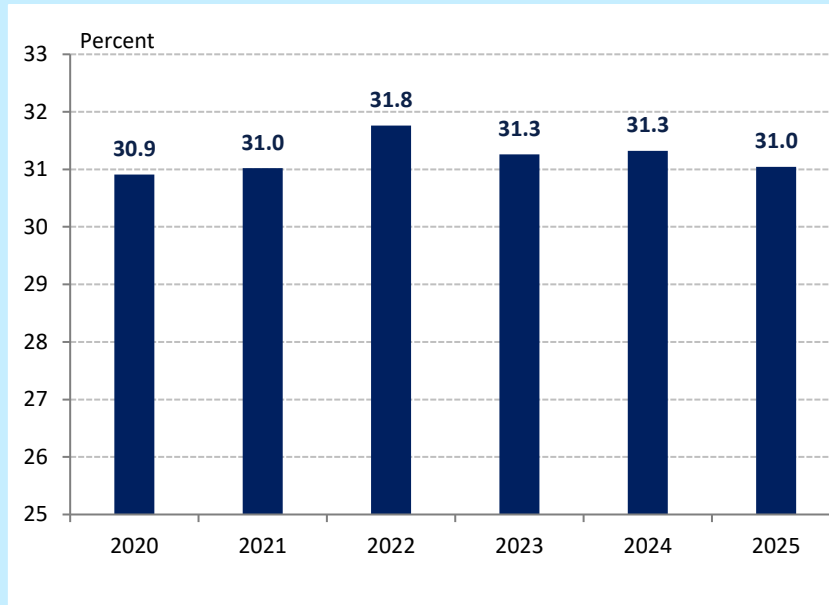
Chart 1-10: Trends in operating profits of retail chains



Source: Corporate reports

Looking at the corporate-level profit margins estimated using the financial statements, a significant adjustment may already have taken place in response to the margin caps. Based on the available data, the margin cap on food products did not substantially alter the aggregate margin level of the retail chains examined. Based on data from the four chains examined, the aggregate margin ranged between 30.9 percent and 31.8 percent between 2020 and 2024. In fiscal 2025, the aggregate margin was 31.0 percent, which is within the range observed over the previous five years (Chart 1-11). At the corporate level, however, different trends can be observed: the margin increased for two players, while it decreased for the other two.

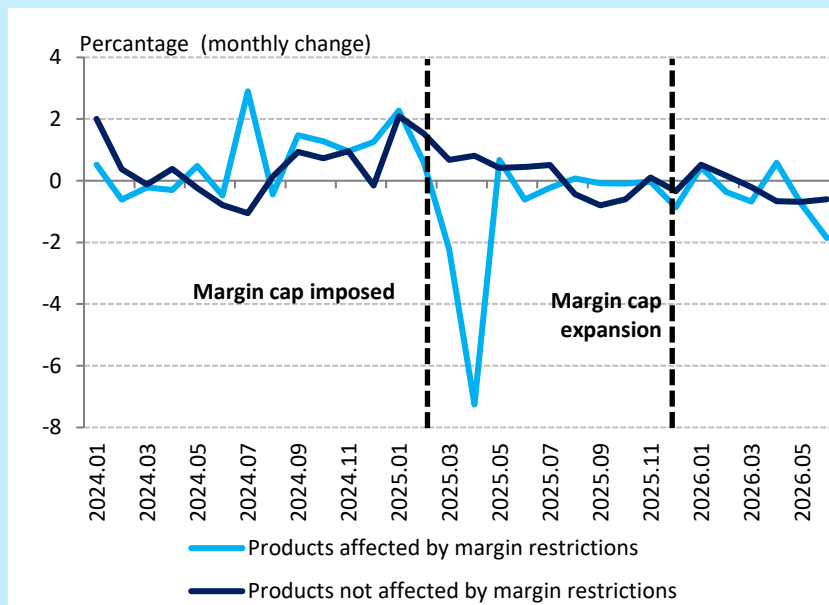
Chart 1-11: Trends in the aggregate margin of retail chains



Note: The aggregate margin is the difference between net sales revenue and the cost of goods sold (COGS) relative to net sales revenue.
 Source: MNB calculation based on corporate reports

Companies are likely to have maintained profit margin levels similar to previous years not through direct cross-pricing reflected in consumer prices, but primarily by renegotiating purchase prices for products not affected by the measure, reducing other costs and improving efficiency, thereby mitigating price pressures. Since the introduction of margin caps – excluding the price decline at the time of introduction – changes in the consumer prices of products affected by the measure have not differed greatly from price changes in unaffected products (Chart 1-12). This suggests that corporate adaptation has largely occurred through adjustments to purchase prices and efficiency-enhancing measures.

Chart 1-12: Monthly price changes of products affected and not affected by food profit margin restrictions



Note: The values for June are based on the MNB's online food price survey.
 Source: HCSO, Price Monitor

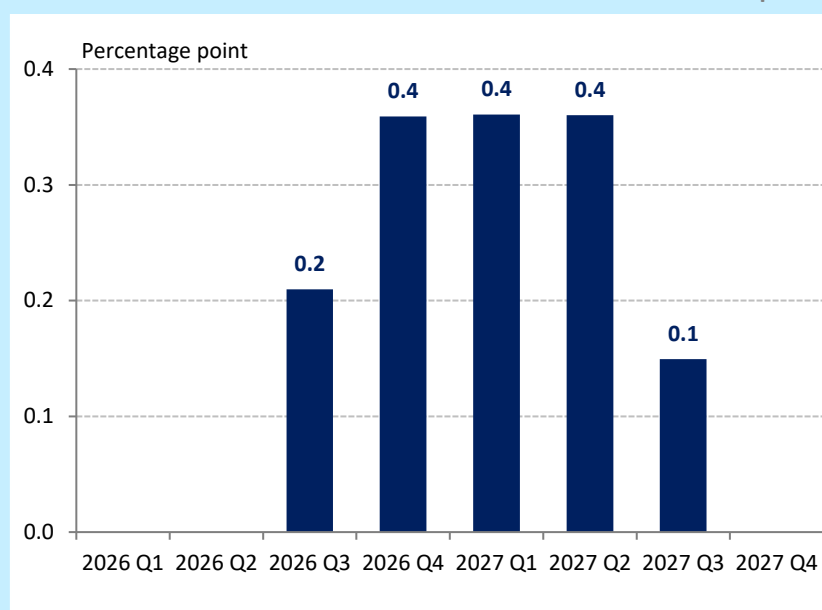
Data from the 2025 profit and loss statements suggest that, in terms of profitability and average corporate margins, there is no significant pressure on retailers to raise prices in the event of the restrictions being lifted. Although retailers' adjustment via purchase prices shifts the costs of margin caps to other players in the supply chain, namely wholesalers and

manufacturers, in their case, **the cost reductions resulting from the strengthening of the forint and the decline in global food prices may have offset this to a large extent.** Therefore, maintaining the measure indefinitely or any price increases following its eventual termination are expected to have a much smaller impact on inflation than the price-reducing effect observed at the time of its introduction, regardless of when the measure is phased out.

The potential impact of repealing the measures is examined with the assumption of phasing out at the end of June 2026.

Given that the adjustment has already largely occurred, we assume a moderate price increase, which may be gradually reflected in consumer prices between July and September 2026. Based on our estimations, about one-quarter of initial technical price-reducing effect of 1.4 percentage points would feed back into prices (Chart 1-13). Although the phasing out of the measure may prompt some market participants to raise prices to increase profitability, this could be limited by price competition between the retail chains. On the other hand, the oligopolistic market structure of the retail sector may pose an upward risk to prices: if the participants which determine the sector-level prices raise their prices, then other companies may be motivated to increase their prices as well.

Chart 1-13: Difference between our baseline forecast and scenario of revoked price margin caps



Note: With the assumption of phasing out of the price margin caps at end-June.

Source: MNB

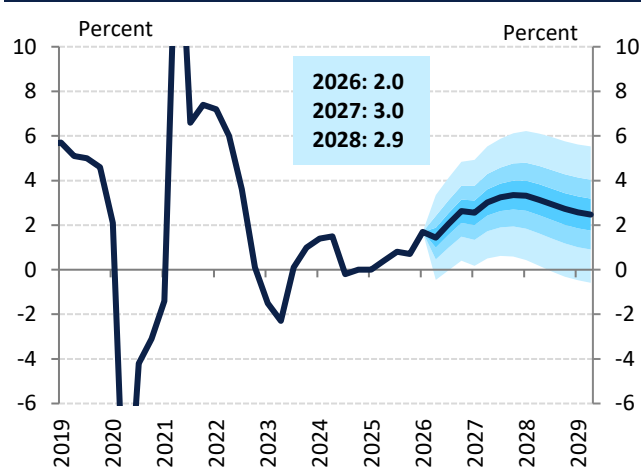
Based on our estimation, the inflation would remain below the 3-percent monetary policy target even in the case of an immediate phasing out of price margin caps. Therefore, the revocation of such would not pose a risk to price stability.

Consequently, in line with our baseline forecast, easing monetary conditions remains consistent with achieving the 3-percent inflation target. If the price margin caps are revoked this June, average annual inflation would be 2.0 percent, 2.5 percent and 3.0 percent in 2026, 2027 and 2028, respectively.

1.2. Real economy

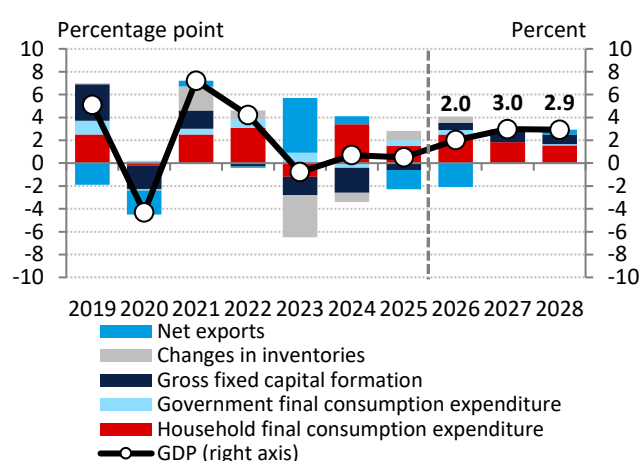
Hungarian GDP expanded at a year-on-year rate of 1.7 percent in 2026 Q1. In the second quarter, we expect growth of around 1.4 percent on an annual basis, while the Hungarian economy’s output may rise by 2.0 percent overall this year. GDP growth this year is supported by a broader range of sectors, but the rapidly changing geopolitical environment continues to pose risks. GDP is expected to continue growing at a rate of 3.0 percent in 2027 and 2.9 percent in 2028. Strong consumer dynamics will remain a key growth driver over the entire forecast horizon, supported by rising real wages and income-boosting fiscal measures. Following the decline in recent years, investment may expand again this year, driven by all three sectors. Geopolitical tensions may hamper growth in Hungary’s export markets, but new manufacturing capacities coming online could help domestic exports, and Hungary’s export market share may begin to grow again starting in 2027. According to our estimates, GDP remained below its potential level in 2026 Q1, meaning that real economic performance continues to have a disinflationary effect. This is supported by the fact that, although capacity utilisation at manufacturing companies has improved, it still remains below the historical average.

Chart 1-14: Fan chart of the GDP forecast



Note: The quarterly profile is based on seasonally and calendar adjusted data. Source: HCSO, MNB

Chart 1-15: Expenditure-side decomposition and forecast of GDP



Note: Government final consumption expenditure includes final consumption expenditure of general government and nonprofit institutions. Source: HCSO, MNB

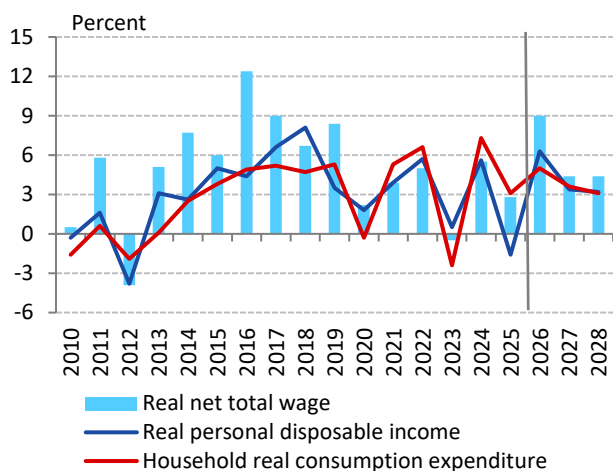
Hungarian GDP expanded at a year-on-year rate of 1.7 percent in 2026 Q1. Looking at the main economic sectors, services contributed the most to GDP growth on an annual basis. One-off effects may also have supported growth, with the professional, scientific and technical activities sector contributing 0.5 percentage point to the expansion. The incoming data exceeded the March expectations, primarily due to stronger-than-expected performance in industry and services.

The Hungarian economy may grow by 2.0 percent this year, which is 0.3 percentage point higher than the March projection. We expect growth of around 1.4 percent on an annual basis in the second quarter, which may be followed by further acceleration in the latter half of the year (Chart 1-14).

GDP growth this year is supported by a wide range of sectors. Expansion in the services sector will continue to be the main growth driver. In 2026 Q1, industrial output exceeded that of the same period last year due first and foremost to the impact of a few key players; this trend is expected to continue for the rest of the year, primarily thanks to new capacities coming online (Box 1-3). Industrial export sales already rose in the first quarter, but the industrial sentiment index only shows a small increase. The construction industry may continue to grow this year, with the rollout of the Home Start Programme supporting the outlook in this sector. Agricultural performance is strongly influenced by weather conditions: the precipitation levels and soil moisture data observed so far this year point to moderately lower-than-average crop yields (Box 1-1).

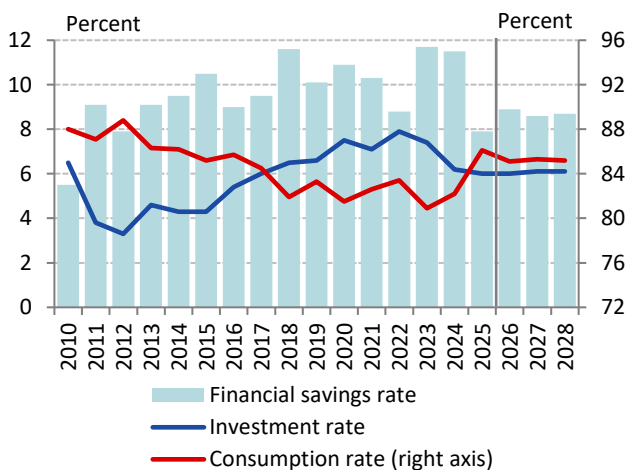
GDP growth is projected to continue at a rate of 3.0 percent in 2027 and 2.9 percent in 2028. Strong household consumption will remain a key growth driver over the forecast horizon. Investments may support GDP growth starting this year, while net exports may contribute starting in 2027 (Chart 1-15).

Chart 1-16: Annual changes in net total wages, personal disposable income and household consumption expenditure in real terms



Source: HCSO, MNB

Chart 1-17: Evolution of households' consumption, investment and financial savings as a percentage of personal disposable income



Note: Based on nominal data. Source: HCSO, MNB

Table 1-2: Economic growth of Hungary's most important export partners according to market expectations in 2026 and 2027

	2025	2026	2027	2028
Gross fixed capital formation	-2.8	3.0	4.8	3.7
Government investment	-12.3	5.8	5.2	3.0
Private investment	-0.6	2.4	4.7	3.9
Investment rate	21.9	22.3	23.1	23.7
Real investment rate	21.4	21.5	21.5	21.5

Note: In percent. Year-on-year growth for gross fixed capital formation and investment rate as proportion of GDP. Real investment rate calculated at 2021 prices. Source: HCSO, MNB

This year, households' disposable real income may rise at an annual rate of 6.3 percent (Chart 1-16). In 2026, in addition to lower inflation and an 11-percent increase in the minimum wage, growth in net wages will be supported by fiscal measures (such as the service benefit for military and law enforcement personnel, the public service housing support programme and sector-specific wage increases). Looking ahead, the annual growth rate of disposable real income is projected to be 3.4 percent in 2027 and 3.2 percent in 2028.

GDP growth continues to be driven primarily by accelerating consumption. Consumption growth is being driven by real wages rising more dynamically due to lower inflation as well as income-boosting fiscal measures. According to the forecast, household consumption may grow by 5.0 percent in 2026, 3.6 percent in 2027 and 3.1 percent in 2028 (Chart 1-16). The savings rate, calculated as a percentage of personal disposable income, may stabilise at around 9 percent, while investments are expected to reach a rate of over 6 percent. The consumption rate may range between 85 and 86 percent in the coming years (Chart 1-17).

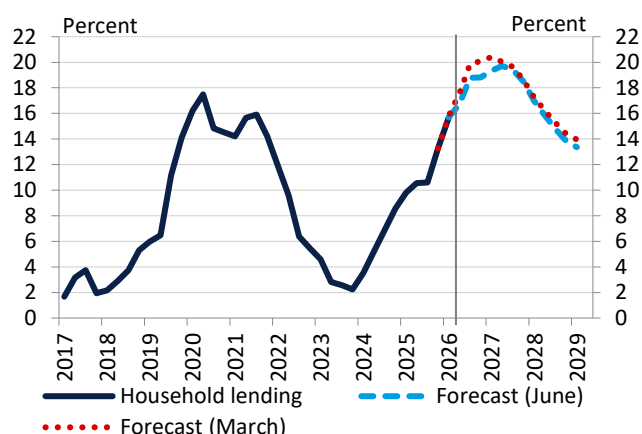
We expect investments to expand by 3.0 percent in 2026, 4.8 percent in 2027 and 3.7 percent in 2028 (Table 1-2). Investment growth this year is being driven by recovering activity in all three sectors.

Compared to March, the largest shift was seen in public investment. Thanks to an agreement between the European Commission and the government, approximately EUR 16.4 billion in EU funds have once again become available to Hungary, which may significantly boost public investment activity (the macroeconomic impact of EU funds is addressed in Box 1-6). Public investment is expected to rise over the entire forecast horizon.

Household loans outstanding are projected to grow by nearly one-fifth annually over the forecast horizon. The household sector's loans outstanding expanded by 16 percent on an annual basis through the end of March 2026, and the disbursement of new loans advanced to a historic high in the past 12 month as well, thanks in large part to the Home Start Programme. According to our forecast, the household loans outstanding of the financial intermediary system as a whole will rise by 19 percent in 2026 and by 18 percent in 2027 (Chart 1-18).

A tangible increase in corporate investment is expected, on the heels of improving business sentiment and rising capacity utilisation. The uncertain international environment fraught with conflicts and the persistently

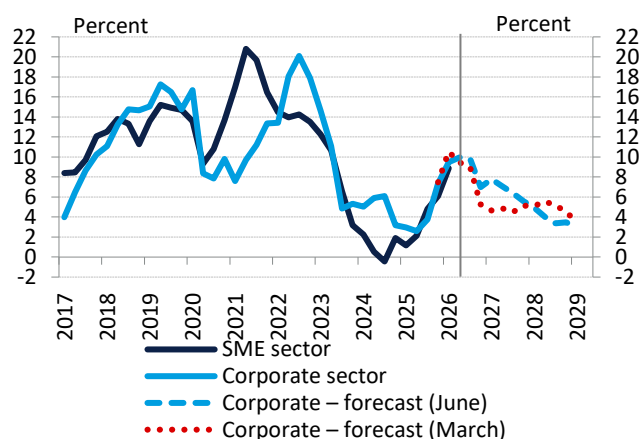
Chart 1-18: Forecast for lending to households



Note: Transaction-based annual growth rate, based on the household loan portfolio of the financial intermediary system.

Source: MNB

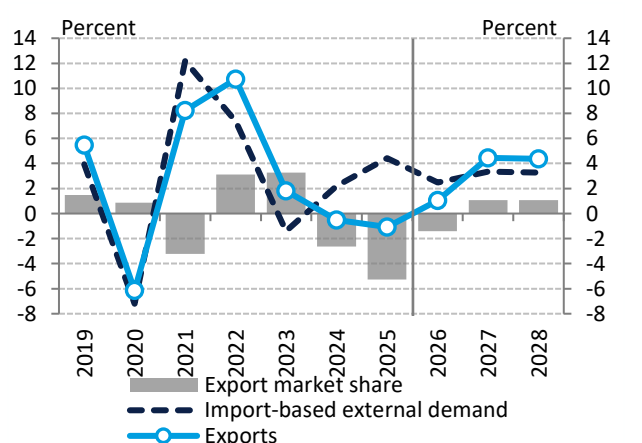
Chart 1-19: Annual change in lending to non-financial corporations and SMEs



Note: Transaction-based, year-on-year data. The SME sector does not include the self-employed. The growth rate of the overall corporate sector is based on the total amount of outstanding credit to the financial intermediary system as a whole.

Source: MNB

Chart 1-20: Changes in export market share



Source: HCSO, MNB

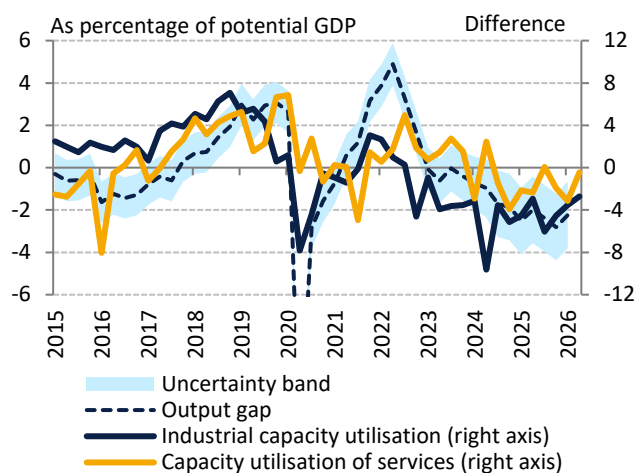
slack external demand are factors that may encourage companies to take a wait-and-see approach; accordingly, investment growth in this sector may remain subdued again this year. Moreover, the corporate loan portfolio may expand at a modest pace. Overall, we forecast that the corporate loan portfolio of the financial intermediary system as a whole will increase by 7 percent in 2026 and 6 percent in 2027, with the nominal increase remaining moderate in 2028, in line with the low inflation (Chart 1-19).

After two years of declines, domestic exports may grow at a modest pace of 1.1 percent this year. Compared to our March projection, the outlook for goods exports may be somewhat more favourable overall, despite the subdued external demand, while the incoming data on services exports have been weaker than expected. Like Hungary, most of the country’s trading partners are energy importers; therefore, the spring increase in energy prices may also dampen growth in Hungary’s export markets. However, the weakness of the underlying trends is offset by new manufacturing capacities coming online at the end of last year and throughout this year, which, according to industry reports, are benefiting from strong demand. Due to the upturn in exports from 2027, Hungary’s export market share is also expected to grow (Chart 1-20). **According to our forecast, exports may grow by 4.4 percent both in 2027 and 2028.**

Imports may increase by 4.2 percent in 2026. In 2026, accelerating investment activity and expanding household consumption will boost import growth. Net exports will dampen GDP growth by 2.1 percentage points this year, but as exports gain momentum, this item will have a neutral effect on GDP growth next year, before turning slightly positive in 2028. **Imports may expand at a rate of 4.5 percent in 2027 and 3.9 percent in 2028.**

We estimate that the cyclical position of the economy has been negative since end-2023. The output gap excluding agricultural performance remains negative (Chart 1-21). The external output gap has also remained in negative territory, which affects the domestic cyclical position. According to questionnaire surveys, capacity utilisation and production expectations of manufacturing companies were also below the historical average. Capacity utilisation improved in both manufacturing and services compared to the previous quarter, and manufacturing production expectations for the coming months indicated a moderate expansion in April–May.

Chart 1-21: Uncertainty band around the output gap and capacity utilisation of services and industry



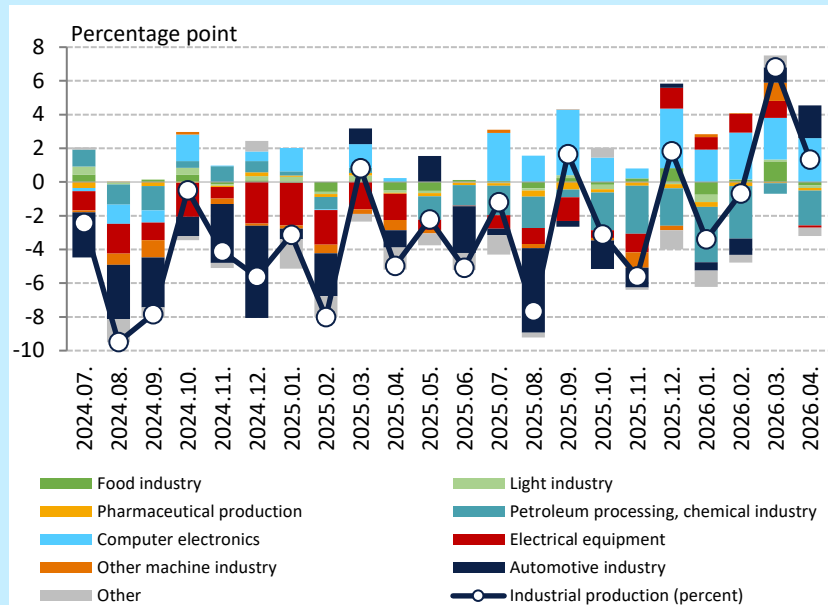
Note: The estimation uncertainty band covers one standard deviation. Output gap excluding agriculture performance. In the case of capacity utilisation, deviation from the historical average.

Source: ESI, HCSO, MNB estimate

Box 1-3: Factors influencing industrial output

For the first time since 2022, industrial output made a positive contribution to GDP growth in 2026 Q1, which may already reflect the impact of new production capacities coming online. Following a 3.5-percent decline in January and a 0.9-percent decline in February, domestic industrial production expanded at a year-on-year rate of 6.7 percent in March, although this may also be explained by technical effects (more working days compared to the previous year). In April, industrial production rose by 0.9 percent on an annual basis. **Industrial production is mainly driven by the manufacture of computer electronics and electrical equipment.** Among the subsectors, the growth contribution of computer electronics has been consistently positive since last July. The manufacture of electrical equipment has been expanding since last December. In March and April of this year, the automotive industry, which accounts for the greatest weight (the situation of the Hungarian automotive industry was discussed a Box text in the December 2025 Inflation Report), also contributed positively to industrial production growth (Chart 1-22).

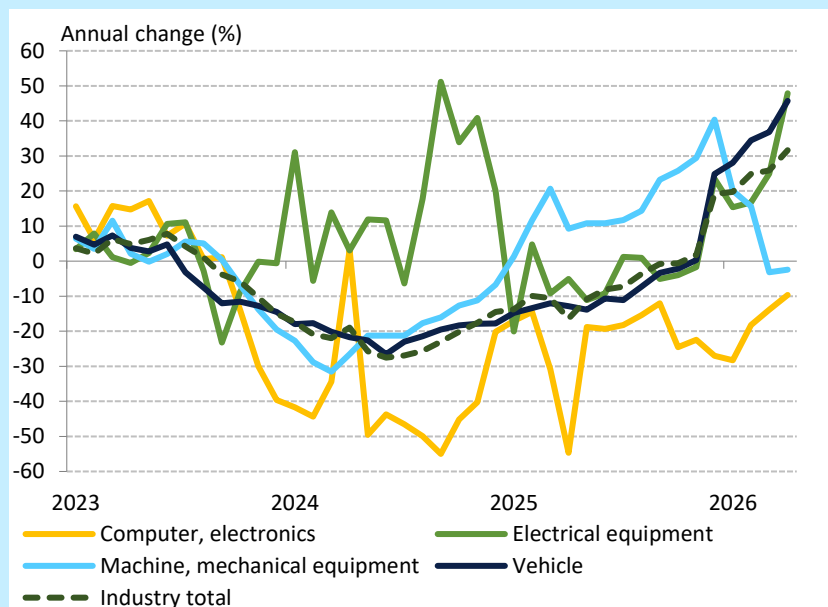
Chart 1-22: Decomposition of the annual change in industrial production by subsectors



Note: Without water supply branch. Source: HCSO, MNB

Domestic industrial orders began to rise starting in late 2025 and by March of this year they had already exceeded the same prior-year period by 31.6 percent. Growth in domestic manufacturing orders was particularly notable in the electrical equipment and vehicle sectors (Chart 1-23). In April of this year, orders for the production of electrical equipment were up 47.9 percent, while orders for the manufacture of transport equipment were up 45.7 percent on an annual basis. In January-April 2026, 33.8 percent more new electric vehicles were registered in the European Union compared to the same period of the previous year. Among all new vehicle sales, one of the the largest increase (+152.9 percent) was recorded for BYD in January-April 2026 in the European Union, while Audi saw an increase of 8.6 percent, BMW of 2.6 percent and Mercedes-Benz of 3.8 percent. Strong demand for electric vehicles may also contribute to a further surge in new production capacities being established in Hungary.

Chart 1-23: Annual change in orders in key industrial subsectors

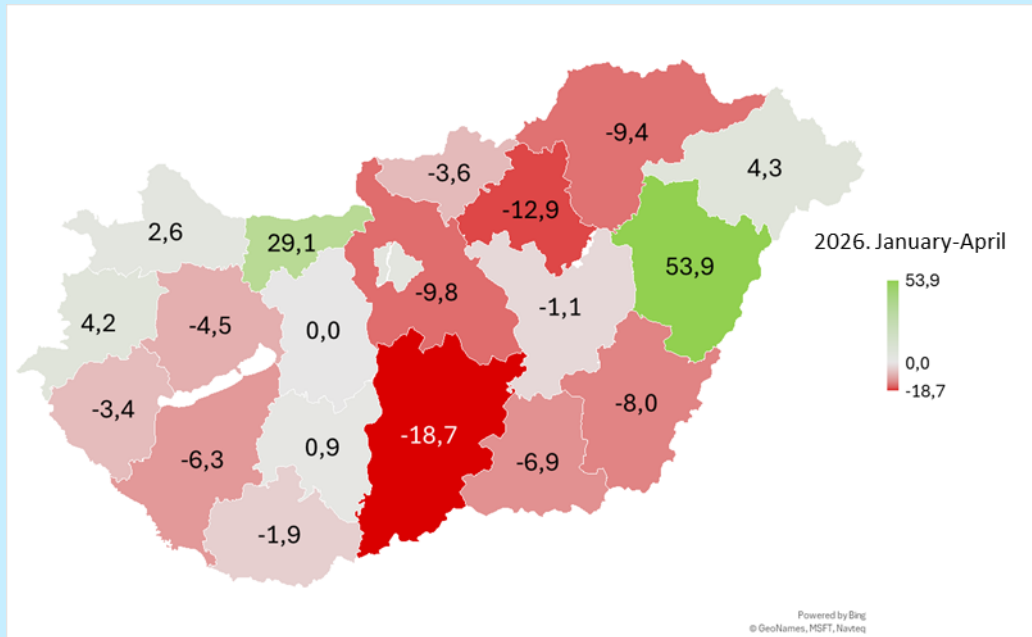


Note: At constant prices. Source: HCSO, MNB

Industrial production growth at the start of the year was spectacular in Hajdú-Bihar and Komárom-Esztergom counties, in which large manufacturing industry capacities may also have played a role. The strongest growth (+53.9 percent) was recorded in Hajdú-Bihar County as an average for January-April 2026, with the ramp-up of BMW’s manufacture of transport

equipment and CATL's battery production as possible contributing factors in this regard (Chart 1-24). Industrial production in Komárom-Esztergom County also grew significantly (+29.1 percent), with growth in the computer and electronics subsector playing a major role. Industrial production in Bács-Kiskun county declined the most, falling by 18.7 percent in the first four months of this year. In Bács-Kiskun county in 2025, production in the significant manufacture of transport equipment subsector declined by 25.9 percent. Comprehensive technological upgrades are underway at the Mercedes-Benz plant in Kecskemét to facilitate the production of new models; consequently, the plant is temporarily operating at reduced capacity based on press reports.

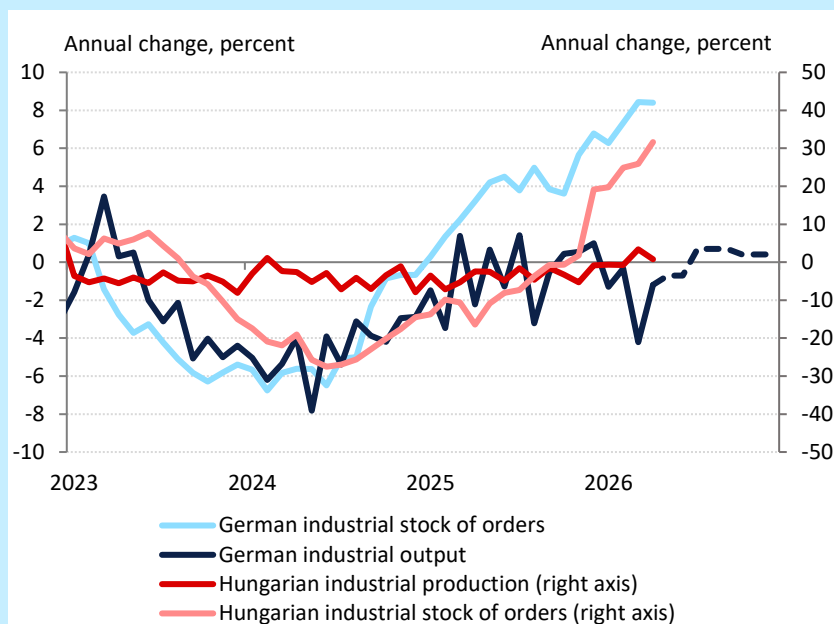
Chart 1-24: Volume index of industrial production by county in January-April 2026



Source: HCSO, MNB

Hungary's export market share may expand from 2027 due to the new export capacities being established, and the country's foreign markets may also pick up starting in the middle of this year. Domestic industrial production is expected to improve as a result of the new factories, and starting in mid-2026, we anticipate higher utilisation rates even for existing Hungarian capacities as external conditions improve. In Germany, which is Hungary's largest export market, manufacturing orders have been expanding on an annual basis since early 2025: in April 2026, they were 8.4 percent higher than in the same prior-year period. Analysts expect German industrial production to expand moderately from mid-2026, and the anticipated increase in German defence spending may also lend additional momentum to the sector (Chart 1-25).

Chart 1-25: Evolution of selected indicators for domestic and German industrial processes



Note: Volume indices. German industrial production and volume of contracts, as well as Hungarian industrial production, based on seasonally and calendar-adjusted data. The dashed line shows the median of Bloomberg analysts' expectations for German industrial production for the remaining quarters of this year.

Source: HCSO, Destatis, Bloomberg

Box 1-4: Macroeconomic impact of consumer and business confidence

As they aggregate the expectations and individual information of economic agents, confidence indices can provide an indication of the future performance of the economy. Confidence influences the decision-making of economic agents, thus affecting a country's economic performance. It is difficult to quantify the level of confidence directly; so-called confidence indices, compiled based on questionnaire surveys, serve as a starting point in this regard. Confidence indices quantify consumers' and businesses' assessments of the current situation, as well as their future expectations (typically looking twelve months ahead), and both can be strongly influenced by the uncertainty perceived by respondents. According to the literature, confidence indices convey two types of information.¹ First, they reflect the sentiment and perceptions of economic agents; therefore, changes in these that are not tied to economic fundamentals may amplify business cycles. Second, confidence indices are able to aggregate information individually available to respondents: respondents do not need to possess comprehensive macroeconomic knowledge or opinions, but their perception of current developments at their own workplace, for example, can provide useful information that may not appear in other statistics.

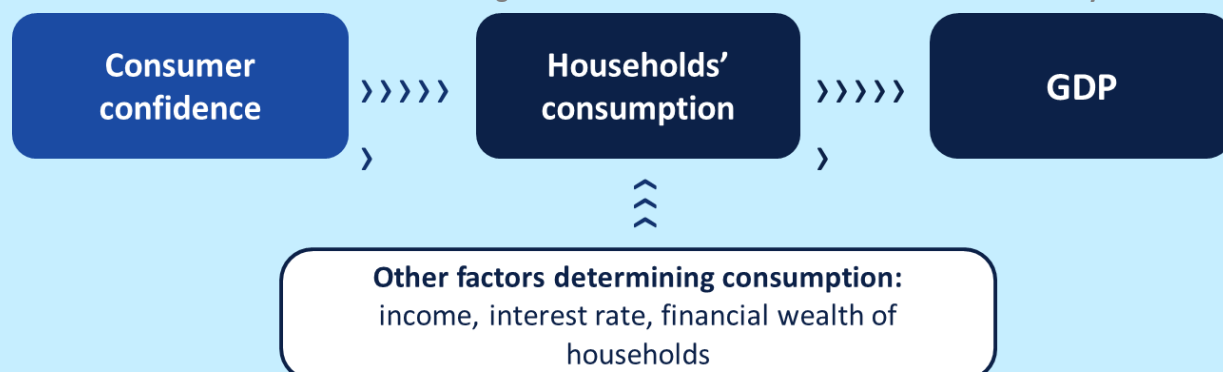
A stable economic environment and improving consumer confidence can contribute significantly to the expansion of household consumption. When households perceive the economic environment as more stable and view their own financial situation and future income prospects as more favourable, they become more willing to make larger expenditures and reduce their precautionary savings. According to the analysis by Varga and Soós (2025),² consumer confidence provides meaningful additional information for understanding trends in Hungarian household consumption (Chart 1-26). Domestic consumer confidence is influenced by the stability of the macroeconomic environment, which the authors capture through the volatility of certain variables, such as the exchange rate of the forint against the euro, inflation or the growth rate of

¹ Barsky, R.B. – Sims, E. (2012): Information, Animal Spirits, and the Meaning of Innovations in Consumer Confidence. *American Economic Review* 102 (4) 1343–77. DOI: 10.1257/aer.102.4.1343.

² Varga János Zoltán – Soós Gábor Dániel (2025): A magyar fogyasztói és üzleti bizalom makrogazdasági vonatkozásai [Macroeconomic implications of Hungarian consumer and business confidence], *Közgazdasági Szemle*, Vol 72(12), 1179–1206. DOI:10.18414/KSZ.2025.12.1179

the wage bill. The study also points out that the impact of consumer confidence on consumption is primarily felt through durable and semi-durable goods. According to their estimates, a sustained 10-point improvement in the consumer confidence index – on a scale ranging from minus 100 to plus 100 – raises household consumption by roughly 0.4 percent over the course of a year.

Chart 1-26: Flowchart illustrating the role of consumer confidence in the real economy



Source: MNB

Business confidence affects the economy through a similar mechanism, primarily via investment and employment decisions. When confidence levels are high, corporations anticipate more favourable demand and financing prospects, making them more willing to launch new investments or expand their capacity. Conversely, rising uncertainty – such as increased volatility in inflation, exchange rates or the interest rate environment – dampens business confidence and thus also corporate activity. Empirical results indicate that lower volatility in macroeconomic variables significantly boosts both consumer and business confidence, which ultimately stimulates investment and economic growth. Based on the study referenced above, a sustained 10-point increase in the business confidence index raises corporate investment by approximately 3 percent over the course of one year.

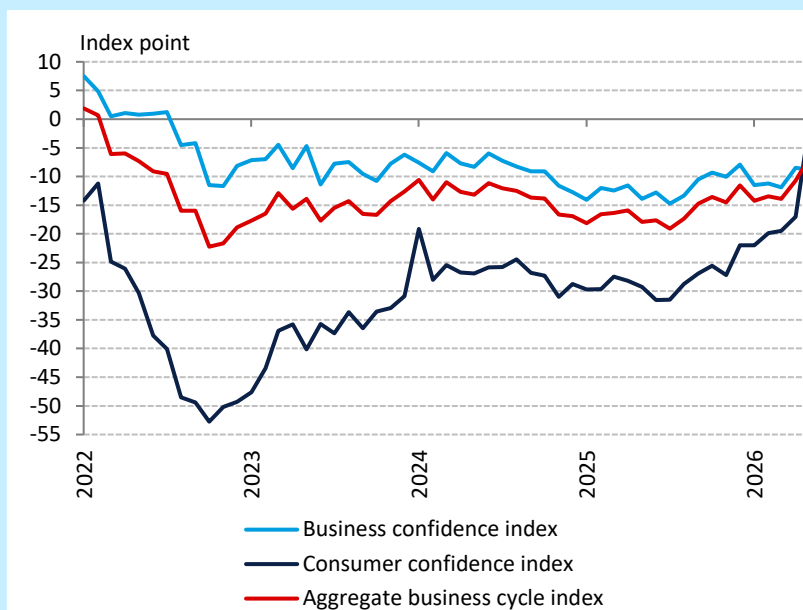
The impact of consumer confidence on inflation expectations is also significant and it intensified during the period of higher inflation in the 2020s. Confidence primarily affects households' inflation expectations through the assessment of economic prospects. When households perceive a deteriorating economic environment, a more uncertain future income situation or weakening macroeconomic stability, they are psychologically more inclined to perceive current inflation as higher and to expect higher future inflation as well going forward. According to an empirical study by Várnai and Szakály (2025),³ Hungarian households' inflation fears were also reinforced by a decline in confidence in the economy in the period 2020–2025, in conjunction with rapid changes in food prices and fluctuations in the euro/forint exchange rate. Consumer confidence influences households' inflation expectations both directly and, through the perception of inflation, indirectly. Overall, the impact of confidence on inflation expectations intensified during the period of high inflation in the 2020s compared to the relationship observed during the period of low inflation from 2015 to 2019. Based on their estimates, in the 2020–2024 period, a 10-point loss of confidence directly raised the average of inflation expectations by 1.0 percentage point on average or – by factoring in the indirect impacts through perceived inflation as well – by a total of 1.4 percentage points, independently of other factors. This effect also holds across household groups differentiated by gender, age and economic activity, despite the fact that higher inflation expectations are traditionally observed among older individuals, those with lower levels of education and women. Thus, a loss of confidence alone is capable of increasing household inflation expectations, while an improvement in confidence may reduce them.

Hungarian empirical evidence confirms that the trend-like improvement in consumer and business confidence observed in the recent period (Chart 1-27) may support real economic activity via consumption and investment decisions and also contribute to lower inflation expectations. The results of Hungarian empirical research show that maintaining economic

³ Várnai Tímea – Szakály Áron (2025): Inflation and Perception: Drivers of Hungarian Households' Expectations, *Financial and Economic Review*, Vol 24(4), 65–95.

stability is important not only because of the fundamentals but also because a stable environment is in itself capable of strengthening economic agents' confidence and, through this, supporting sustainable growth.

Chart 1-27: GKI's economic growth index for Hungary and its components



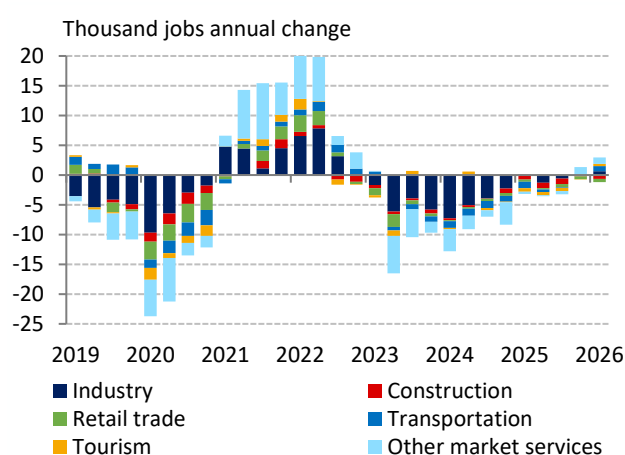
Note: Seasonally adjusted data.

Source: GKI Gazdaságkutató Zrt.

1.3. Labour market

Labour market trends typically lag behind the real economic cycle; thus, despite the higher-than-expected GDP growth, labour demand remained subdued. According to our forecast, as a result of strengthening economic growth, the number of employed persons will also begin to rise from 2026 H2. However, employment growth is increasingly running up against demographic constraints. Wage growth this year and next year will be shaped by looser labour market conditions, minimum wage increases and inflation expectations. Following the rapid wage outflows of previous years, it is expected that companies will implement more modest wage increases. In our forecast, due to a more moderate underlying wage trend and inflation expectations, gross average wages in the private sector will rise by 8.0 percent this year, by 7.3 percent in 2027 and by 6.8 percent in 2028.

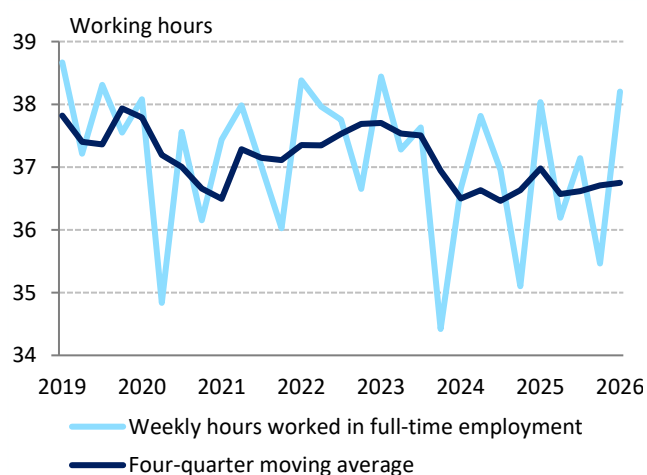
Chart 1-28: Annual changes in job vacancies in the private sector



Note: For companies with at least five employees.

Source: HCSO

Chart 1-29: Average actual weekly hours worked in full-time employment in the private sector



Note: Excluding employees at foreign production units and those permanently absent due to parental leave.

Source: HCSO

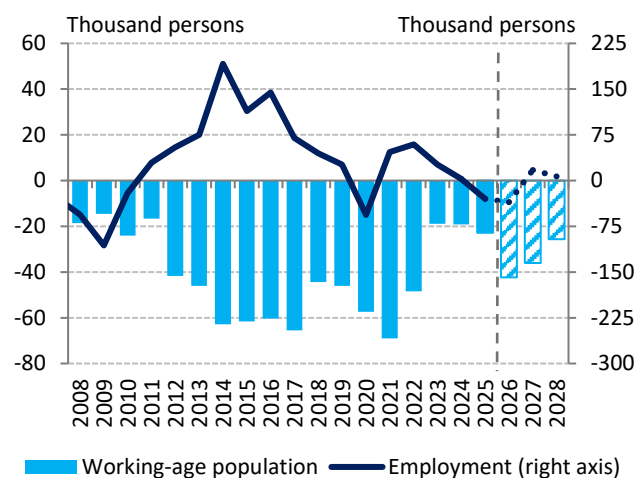
The decline in employment continued, similar to previous quarters. The number of persons employed in the national economy has been falling since mid-2024 as a result of extensive-side adjustments to the weak economy. On average, between February and April 2026, the number of persons employed aged 15–74 decreased by 55,000 compared to the same period of the previous year, representing a 1.2-percent decline on an annual basis.

The trend in the number of job vacancies in the private sector points to stabilisation in labour demand. In 2026 Q1, the number of job vacancies in the private sector increased by 3.3 percent versus the same period of the previous year, while seasonally adjusted data showed a 4.0-percent increase over the previous quarter (Chart 1-28). The European Commission's index also points to a stabilising labour market: based on the survey results of companies' employment prospects for May, the number of enterprises planning staff reductions and staff increases was balanced in the fields of industry and services.

In addition to the ongoing extensive adjustment to the real economic cycle, labour hoarding remains present. The average number of weekly hours worked by full-time employees rose only moderately from the historically low level (Chart 1-29).

According to our forecast, employment growth may resume in 2026 H2, but the number of persons employed may decline by 0.7 percent on an annual basis (Chart 1-30). Given the existing capacities due to labour hoarding, the increase in headcount may remain modest even as the economy recovers. **Employment growth is increasingly running up against demographic constraints.** Based on data for February–April 2026, labour market activity continued to decline, with the number of economically active individuals falling by 1.1 percent compared to the same period of the previous year. In our forecast, the number of economically active persons will continue to decrease due to demographic factors. **Employment may rise by 0.3 percent in 2027 and 0.1 percent in 2028.**

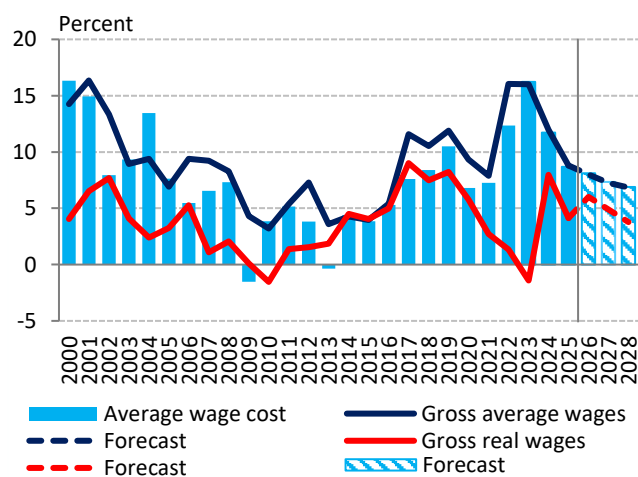
Chart 1-30: Annual change in working-age population and number of persons employed in the private sector



Note: The number of persons employed refers to those aged 15-74, but the projection for the working-age population refers to those aged 15-64.

Source: Eurostat, HCSO, MNB

Chart 1-31: Annual changes in gross average wages and average labour cost in the private sector



Source: HCSO, MNB

The unemployment rate is declining in parallel with the expansion of employment. Based on seasonally adjusted data, the rate averaged 4.5 percent in February–April 2026. This figure remains low by international standards. **According to our forecast, the unemployment rate will be 4.5 percent this year, before declining to 4.2 percent in 2027 and 4.1 percent in 2028.**

As labour market tightness has eased, a trend-like slowdown in the annual growth rate of gross average earnings has been observed in the private sector in recent years. In April 2026, gross average earnings in the private sector rose by 8.7 percent compared to the same prior-year period, while regular gross average earnings (calculated without bonuses) rose by 8.0 percent on an annual basis. Real earnings were 6.5 percent higher in March versus the same month of the previous year. In 2026 Q1, labour market tightness – as measured by the ratio of job vacancies to the unemployed in the private sector – remained essentially unchanged, and the labour market has loosened significantly in recent years.

The minimum wage rose by 9 percent in 2025 (guaranteed minimum wage: +7 percent) and by 11 percent in 2026 (guaranteed minimum wage: +7 percent). The 3-year minimum wage agreement, which was concluded on 25 November 2024, envisaged a 14-percent minimum wage increase by 2027 based on the macroeconomic parameters projected at the time of its signing. Given that the envisaged minimum wage increase is subject to renegotiation under the agreement depending on actual economic developments, we have factored in a lower minimum wage increase based on underlying trends. The wage share has been rising since 2024, and the growth in labour costs may continue to exceed the growth in nominal value added in the near future.

Following the moderate economic growth and the rapid wage outflows of previous years, companies are expected to implement more modest wage increases. According to our estimates, due to the more moderate underlying wage trends and low inflation expectations, average gross earnings in the private sector will increase by 8.0 percent this year, 7.3 percent in 2027 and 6.8 percent in 2028, which translates to a real wage increase of 6.0 percent this year, 4.9 percent in 2027 and 3.8 percent in 2028 (Chart 1-31). Companies’ average labour costs may rise by 8.1 percent this year, 7.3 percent in 2027 and 6.9 percent in 2028.

In our forecast, this year’s national wage growth is significantly influenced by the 6-month service benefit for military and law enforcement personnel in January,

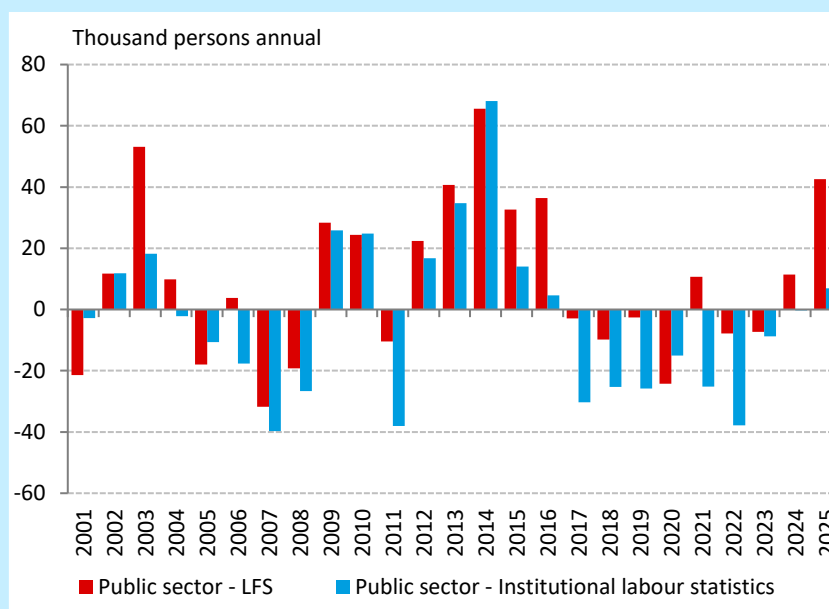
resulting in public sector wage growth that is substantially higher than that observed in the private sector this year, while in 2027, it will be much more moderate due to the base effect. We expect wage growth in the national economy to come in at 9.7 percent this year, 6.0 percent in 2027 and 6.7 percent in 2028.

Box 1-5: A new approach to determining the number of people employed in the public and private sectors for analytical purposes

When analysing the relationship between labour market developments and economic cycles, it is advisable to base the assessment on employment trends in the private sector, separating them from public sector employment, which is driven by different factors. Previously, this distinction was based exclusively on data from labour force surveys; however, going forward, estimates of public sector employment will use the figures of institutional labour statistics, and the number of employees in the private sector will be determined as a residual. This latter indicator moves more closely in line with real economic trends, while the development of public sector employment becomes fully consistent with our fiscal forecasts. The applied breakdown does not substantially change the income of households.

Regarding labour market developments, we use the number of employed persons derived from the labour force survey. Within this statistic, we have so far used a sectoral approach to distinguish between public and private sector employment. However, changes in the headcount of the public sector defined on the basis of national economy sectors (Public administration and defence; Compulsory social security, Education, Human health and social work activities) have increasingly diverged in recent periods from the data of institutional labour statistics, which fully cover budgetary institutions and are therefore more reliable in terms of public sector employment (Chart 1-32). The discrepancy is due to the different purposes and accounting characteristics of the two statistical sources.

Chart 1-32: Development of public sector employment in the labour force survey and institutional labour statistics

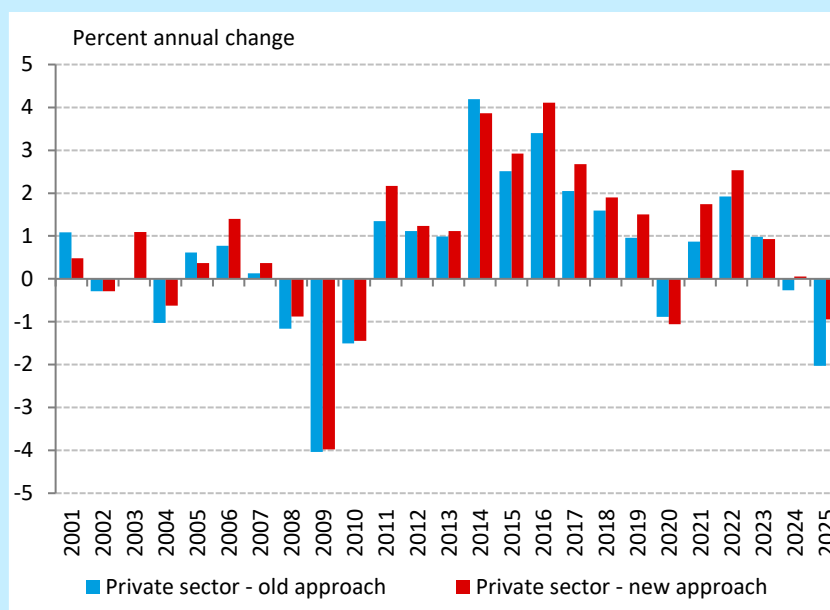


Source: HCSO

In our analyses, the number of employees in the public and private sectors is determined using a new approach. Since institutional labor statistics provide comprehensive coverage of budgetary institutions, we identify the number of employees in the public sector using this indicator. The number of employees in the private sector is determined as a residual, calculated as the difference between the total number of employed persons according to the labor force survey and the number of employees working in the public sector as defined above. Compared to the previous approach, this implies a lower number of public sector employees and a higher number of private sector employees, retrospectively as

well, which slightly alters the annual growth dynamics of private sector employment (Chart 1-33). Based on our calculations, the private sector time series produced using the new approach also shows closer co-movement with the economic cycle (Table 1-3), as well as with other labour market indicators.

Chart 1-33: Development of private sector employment according to the old and new approaches



Source: MNB calculation based on HCSO data

Table 1-3: Development of private sector employment according to the old and new approaches

	Private sector employees (year/year) - old approach	Private sector employees (year/year) - new approach
GDP (year/year)	0.61	0.67
Private sector GDP (year/year)	0.61	0.68
Tightness indicator* GDP (year/year)	0.75	0.78
Private sector vacancies (year/year)	0.59	0.64

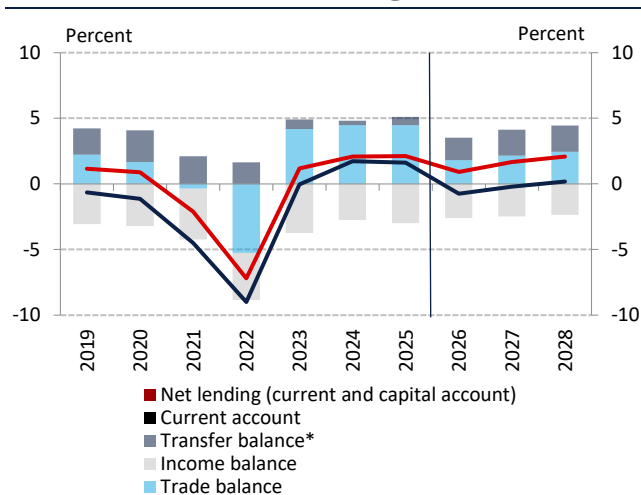
Note: Seasonally adjusted data between Q1 2006 and Q1 2026. * The tightness indicator is the ratio of private sector vacancies to the number of unemployed.

Source: MNB calculation based on HCSO data

1.4. External balance

Based on preliminary monthly data, Hungary's trade balance deteriorated in 2026 Q1 due to a substantial increase in imports, causing the current account surplus to narrow to 1.2 percent of GDP. This year, the current account may temporarily shift to a small deficit, linked to rising energy prices and stronger domestic demand, which, from a sectoral perspective, is primarily attributable to the surging budget deficit. We expect export growth to accelerate from the second half of the year, which – along with improving capacity utilisation and the start-up of new factories – will result in a gradual improvement in the balance of goods. The income balance deficit will narrow somewhat due to lower interest expenses and a modest improvement in the profit balance. As a result, the current account will rise in the coming years and may fluctuate around an equilibrium level. The release and subsequent inflow of EU funds will also support net lending, which is projected to be around 1–2 percent of GDP over the forecast horizon.

Chart 1-34: Evolution of net lending



Note: As a percentage of GDP. *The sum of the balance of the current transfers and the capital account balance.

Source: MNB

Table 1-4: Economic growth of Hungary's most important export partners according to market expectations in 2026 and 2027

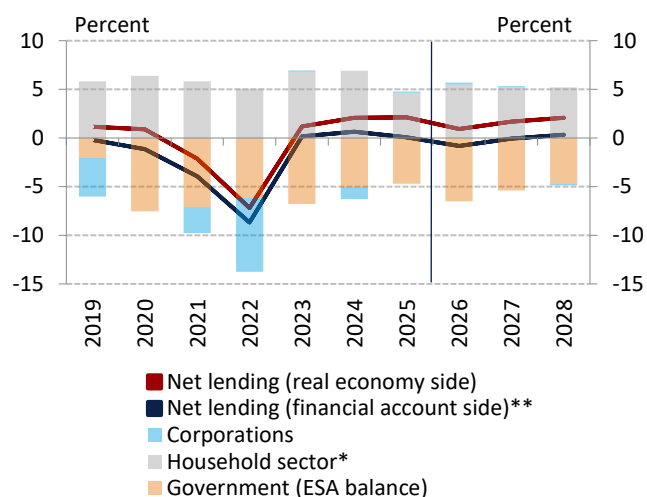
	2025	2026	2027	2028
Balance of goods	-0.9	-3.6	-3.3	-3.1
Balance of energy	-3.0	-3.7	-3.6	-3.4
Balance of other goods	2.1	0.1	0.2	0.3
Balance of services	5.3	5.4	5.5	5.5
Trade balance	4.5	1.8	2.2	2.4

Source: HCSO, MNB

Due to the surge in energy prices and accelerating domestic demand, the current account will temporarily decline this year, but with the gradual strengthening of exports, it may return stabilise around the equilibrium level in the coming years (Chart 1-34). In 2026, imports were mainly boosted by rising consumption linked to government transfers in the first quarter. At the same time, rising energy prices – due to the geopolitical environment – are also reducing the trade balance (Table 1-4). We expect export growth to accelerate in the latter half of the year, driven by rising industrial production, improving capacity utilisation and the start-up of new factories. With the favourable development of tourism, the surplus in the balance of services may rise to 5.5 percent of GDP over the forecast horizon. Overall, the trade surplus will decrease significantly this year and then return to a slower growth path from 2027. The income balance deficit will narrow moderately in 2026 due to declining interest expenses and a more favourable profit balance. Thus, the current account will show a temporary small deficit in 2026 and then gradually improve over the forecast horizon as the trade surplus expands. In addition, the release, drawdown and subsequent inflow of previously withheld EU funds will also support net lending, which is expected to remain at around 1–2 percent of GDP.

Based on sectoral financing trends, the budget deficit is expected to narrow after a temporary increase in 2026, while the household sector's net financial savings will remain at a high level (Chart 1-35). Based on fiscal measures and recently released information, the deficit may rise above 6 percent of GDP in 2026 and then begin to decline starting in 2027. Household net financial savings will rise this year thanks in part to an increase in government income transfers, while growth in consumption and investment will have an opposite effect. Starting in 2027, the growth in households' consumption and investment expenditures will be reflected in a decline in net financial savings. With the increasing use of EU

Chart 1-35: Changes in the savings of sectors



transfers due to the inflow of EU funds, the corporate sector's net position remains close to equilibrium.

Note: As a percentage of GDP. * Net financial saving of households does not contain the pension savings of those who return to the public pension system. The net savings in the financial accounts differ from the data in the chart. ** We expect that 'Net errors and omissions' (NEO) will return to the historical average.

Source: MNB

1.5. Fiscal developments

According to our forecast, the budget deficit may rise to 6.5 percent of GDP in 2026, after which – according to our rule-based projection – it may return to a downward path starting in 2027, to reach 5.4 percent in 2027 and 4.7 percent in 2028. The higher deficit path than that published in the March 2026 Inflation Report is primarily due to the European Court of Justice’s ruling on the carbon dioxide quota tax, the provision of budgetary funds in connection with decisions taken in the first quarter and the deficit-increasing effect of budgetary measures related to the capped fuel price, while the interest expenditures expected for this year have decreased by 0.2 percent of GDP. According to our forecast, gross public debt as a percentage of GDP may stagnate in 2026 and then decrease to a small degree in 2027 and 2028.

Table 1-5: General government balance indicators

	2025	2026	2027	2028
ESA balance	-4.7	-6.5	-5.4	-4.7
Primary ESA balance	-0.9	-2.7	-2.1	-1.8
Gross interest expenditures	3.8	3.8	3.3	2.9

Note: As a percentage of GDP.

Source: HCSO, MNB

1.5.1. Main balance indicators

According to our forecast, the accrual (ESA) balance of the general government sector may show a deficit of 6.5 percent of GDP in 2026, 5.4 percent in 2027 and 4.7 percent in 2028 (Table 1-5). Compared to the budget deficit of 4.7 percent in 2025, the expected increase in the deficit this year is primarily due to government wage raises, payment of the first instalment of the 14th-month pension, a one-time allowance (service benefit) for military and law enforcement personnel, housing support for public service employees, an increase in family tax relief and the introduction of personal income tax exemption for mothers under 40 raising two children. In its ruling, the European Court of Justice found the domestic carbon dioxide quota tax to be contrary to EU law; consequently, the repayment of earlier revenues related to this and the resulting loss of revenue will further increase the deficit.

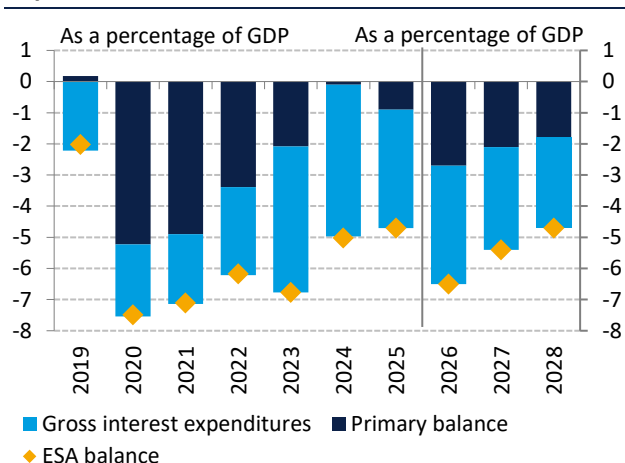
The introduction of measures to maintain capped fuel prices also contributed to the higher budget deficit projected for 2026. Due to higher market purchase prices resulting from geopolitical tensions, the government decided to release strategic reserves at a discounted, administrative price. On the revenue side, the reduction in excise taxes also supported the maintenance of capped fuel prices.

Government interest expenditure may decrease to a larger extent, as there has been a significant drop in yields and forward yield expectations declined as well on the government securities market in comparison with our March forecast. The new factors that have been incorporated into our forecast are primarily one-off effects affecting the 2026 balance; therefore, starting in 2027, the budget deficit may embark on a downward path due to the absence of one-off deficit-increasing items and moderating interest expenditures.

1.5.2. Budget balance for 2026

According to our forecast, the accrual deficit may rise to 6.5 percent of GDP in 2026 (Chart 1-36). The cumulative

Chart 1-36: Fiscal balance and government interest expenditures



Source: HCSO, MNB

cash flow deficit of the budget through end-May amounted to HUF 3,806 billion, equalling nearly 90 percent of the annual appropriation and 70 percent of the HUF 5,445 billion cash deficit target set out in the April EDP notification. Government wage increases, one-off wage supplements, pension payments, the service benefit for military and law enforcement personnel and housing support for public-sector employees all contributed to the annual deficit trend exhibiting even stronger seasonality than usual.

Compared to the forecast in the March Inflation Report, our deficit projection is higher by 1.0 percent of GDP for 2026 and higher by 0.4 percent of GDP for both 2027 and 2028 (Table 1-6).

The system of capped fuel prices affects the deficit through the results of the Hungarian Hydrocarbon Stockpiling Association (HUSA). HUSA is an organisation classified as part of the government sector; therefore, revenues and expenditures related to changes in inventories must be taken into account in the ESA balance. With the measures currently in effect, the reserves released to maintain capped fuel prices will be available until the end of June and the measure on capped prices will be phased out based on government announcements, accordingly, the impact on the deficit is estimated at 0.1 percent of GDP. In parallel with the introduction of capped fuel prices, the excise duty on the products affected by the measure was reduced, which will have an additional deficit-increasing effect of 0.1 percentage point this year due to the loss of revenues. In our forecast, we expect the elimination of capped fuel prices by the end of June, while the reduction in excise duty may still be maintained based on the current legislation, resulting in a revenue loss of 0.2 percent of GDP in the following years.

Following publication of the March Inflation Report, the European Court of Justice ruled that the imposition of the domestic carbon dioxide quota tax is contrary to EU law (similar to the January ruling on the supplementary mining royalty). Thus, the deficit-increasing effect of the repayment of earlier revenues related to this, as well as the shortfall in expected revenues for this year, will amount to approximately 0.3 percent of GDP in 2026.

The nearly EUR 13 billion in non-repayable transfers included in the political agreement announced at the end of May regarding EUR 16.4 billion in EU funds may increase the room for economic policy manoeuvre. The approximately EUR 6.5 billion in RRF funding that can be released may be drawn down by the end of this year, whereas the EUR 6.4 billion that can be released from

Table 1-6: Deviations compared to the March forecast

	Deviations as a percentage of GDP		
	2026	2027	2028
March 2026 forecast (mid-range)	-5.5	-5.0	-4.3
Protected fuel price measures	-0.2	-0.2	-0.2
Release of HUSA strategic inventories (until 30 June)	-0.1	0	0
Excise duty reduction	-0.1	-0.2	-0.2
Macroeconomic and other impacts	-0.8	-0.2	-0.2
EU Court of Justice ruling (carbon dioxide quota tax)	-0.3	-0.1	-0.1
Already secured surplus resources of budget chapters, base impact	-0.4	-0.3	-0.4
Interest expenditures	0.2	0.5	0.6
Other (e.g. RRF loan impact)	-0.3	-0.3	-0.3
Total balance impact	-1.0	-0.4	-0.4
June 2026 forecast	-6.5	-5.4	-4.7

Note: Positive values indicate a deficit-reducing effect, while negative values indicate a deficit-increasing effect.

Source: MNB calculation

cohesion funds may be received more evenly over the coming years. We estimate that the drawdown of these newly available support and loan funds alone may reduce public debt by approximately 1.1 percent of GDP in 2026. At the same time, the additional final use of EU funds and the impact of the ESA deficit may be moderate this year. The impact of the agreement's implementation on economic growth may amount to 0.1–0.2 percentage point this year and next year. The forecast takes into account all EU funds under the political agreement and their associated deficit and debt effects.

Since publication of the previous report, a large decline in yields – exceeding 100 basis points for certain maturities – has resulted in a substantial reduction of interest expenditures, which may gradually manifest itself after the repricing of public debt. As a result of lower yield paths, for the general government sector, interest expenditure as a percentage of GDP is expected to come in at 3.8 percent in 2026, down 0.2 percentage point lower than versus our March forecast.

1.5.3. Budget balance for 2027 and 2028

Based on our forecast, the deficit may amount to 5.4 percent in 2027 and 4.7 percent in 2028. With the decline in interest expenditures and the acceleration of economic growth, the deficit may once again begin to decline. In line with past practice, as a rule we only incorporate into our forecast decisions that are already codified in legislation or government resolutions, while the budgetary impact of more specific measures without a deadline and unspecified commitments are not taken account.

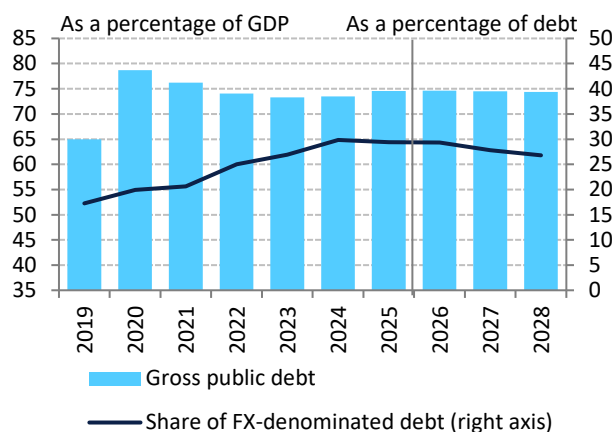
1.5.4. Risks surrounding the baseline scenario

To draw down the nearly EUR 10 billion in RRF funds included in the political agreement on the release of EU funds, Hungary must meet complex regulatory and utilisation requirements, report on the completion of milestones by the end of August and submit payment applications by the end of September at the latest. More than one-third of the remaining EUR 6.4 billion in RRF funding still available for drawdown consists of ex-post revenues linked to previously implemented programmes; thus, these funds may increase budget liquidity and the scope for debt management. However, full drawdown of the remaining amount is exposed to risks due to tight deadlines.

1.5.5. Projected trends in public debt

According to preliminary data, gross public debt as a percentage of GDP was amounted to 77.9 percent at the

Chart 1-37: Gross public debt forecast



Source: MNB, GDMA

end of 2026 Q1. Accordingly, the debt ratio was 3.3 percentage points higher than the 74.6-percent value recorded at end-2025 and 2.6 percentage points higher than the 75.3-percent value recorded in 2025 Q1. The Q1 rise in the public debt ratio was driven primarily by high net issuance, which reached approximately 70 percent of the amount planned to be issued for the year as a whole.

In our forecast, the gross public debt-to-GDP ratio may stagnate at 74.6 percent by the end of 2026, which is identical to the level at the end of 2025, followed by a decline in 2027 and 2028 (Chart 1-37). With regard to the public debt ratio at the end of 2026, the drawdown of EU funds, the significant strengthening of the forint against the euro and higher-than-expected economic growth in March all contribute to reducing debt, while the rise in our budget deficit forecast – calculated excluding EU funds – has a debt-increasing effect. Changes in the EUR/HUF exchange rate affect the debt ratio via the revaluation of foreign currency debt; accordingly, a change of HUF 10 in the EUR/HUF exchange rate alters the public debt-to-GDP ratio by around 0.65 percentage point. We project that the debt ratio may decrease moderately in 2027 and 2028.

Box 1-6: Releasing blocked EU funds

At the end of May, the government reached a political agreement with the European Commission on the release of EUR 16.4 billion in frozen funds (Table 1-7). The approximately EUR 7.4 billion of cohesion funds consists of previously frozen resources that can be drawn down until 2030, while the agreement reached at the end of May announced the release of EUR 6.4 billion in cohesion funding. In addition, further negotiations are required for the release of the remaining EUR 1 billion not covered by the current agreement, primarily in relation to the child protection law.

Out of the total EUR 10.4 billion RRF allocation (combining grants and loans), approximately EUR 10 billion may become available under the agreement. Given that Hungary has already received approximately EUR 920 million in REPowerEU pre-financing, the additional recovery funds available for drawdown amount to EUR 9.1 billion, of which EUR 6.4 billion comprises grants and EUR 2.7 billion consists of loans with preferential interest rates. Release of the RRF funds can be achieved by meeting the 27 super-milestones. In accordance with the legislation governing the RRF, the milestones of the revised recovery plan must be met by the end of August 2026, and payment requests must be submitted by the end of September. Under the current regulations, the provision of funds by the European Union is possible until 31 December 2026.

Table 1-7: EU funds affected by the agreement

EUR bn		Total frozen funds	Part of the budget released based on political agreement		
			Already absorbed	Still available	Total
Cohesion funds	Conditionality procedure	4.2	0	4.2	4.2
	Enabling conditions	3.2	0	2.2	2.2
RRF grants		6.5	0.1	6.4	6.5
Total grants		13.9	0.1	12.8	12.9
RRF loans		3.9	0.8	2.7	3.5
Total grants and loans		17.8	0.9	15.5	16.4

Source: European Commission

The growth-boosting and public debt-reducing effects of the additional EU support funds released compared to our March projections will be determined by the structure and actual timing of fund utilisation between 2026 and 2030.

Based on the information available so far, it appears that a significant portion of the RRF grants that may be drawn down is linked to projects and programmes that have already been implemented or are currently underway. In other words, this can be considered a subsequent revenue; therefore, this portion may primarily reduce public debt, while its impact on growth is moderate. Furthermore, some of the aforementioned spending plans (e.g. electricity grid development) do not involve actual use of funds in the short term, but the funds will still be received in the current year. Thus, initially, they may reduce public debt and their growth impact will only materialise in the medium term, during the actual use of funds.

Regarding the drawdown of RRF loans with preferential interest rates, it should be emphasised that if they result in new expenditures above and beyond previously planned investments, they will have a deficit- and debt-increasing effect, in addition to their impact on the real economy. It is also important to note that expenditures involving significant imports (e.g. the purchase of new railway cars from abroad) have a low impact on growth.

The release of nearly EUR 13 billion in non-repayable grants significantly boosts the room for economic policy manoeuvre. The RRF funds to be released may be received in 2026, as the deadline for their disbursement is 31 December 2026. By contrast, cohesion funds may arrive more evenly over the coming years. In our forecast, we take into account all EU funds under the political agreement and their associated deficit and debt impact. According to our estimates, the drawdown of these frozen grants and loans may reduce the debt ratio by approximately 1.1 percentage point this year. At the same time, however, the accrual-based (ESA) budget deficit may increase to the extent of the RRF loans and the domestic share related to cohesion projects, by approximately 0.2 percentage points, according to our estimate. This direct negative impact on the deficit may be offset and could even turn positive, if the launch of EU-funded projects leads to a reduction in purely domestically financed projects.

As a result of the additional use of funds, compared to our previous forecast, GDP growth in 2026 and 2027 may be approximately 0.1–0.2 percentage point higher. However, we do not anticipate any significant short-term impact on inflation, given that the drawdown of funds will not substantially affect demand for consumer goods. In addition to supporting the reduction of public debt and stimulating economic growth, EU funds improve the balance of payments and increase central bank foreign exchange reserves. Furthermore, the resolution of outstanding disputes with the European Commission and a more favourable market perception of Hungary may contribute to the reduction of interest expenditures and the improvement of the budget balance by reducing country risk spreads and yields.

Table 1-8: Changes in projections compared to the previous Inflation Report

	2025	2026		2027		2028	
	Actual	Forecast					
		Previous	Current	Previous	Current	Previous	Current
Inflation (annual average)							
Inflation	4.4	3.8	1.8	3.7	2.3	3.0	3.0
Core inflation	4.6	3.9	2.2	3.9	2.6	3.1	3.1
Core inflation excluding indirect tax effects	4.5	3.9	2.2	3.9	2.6	3.1	3.1
Economic growth							
GDP	0.5	1.7	2.0	3.0	3.0	2.9	2.9
Household final consumption expenditure	3.1	4.1	5.0	3.0	3.6	3.1	3.1
Final consumption of government ¹	2.5	1.5	1.6	0.5	0.0	0.5	0.5
Gross fixed capital formation	-2.8	2.3	3.0	3.2	4.8	2.7	3.7
Domestic absorption	1.9	3.0	4.3	2.4	3.0	2.4	2.6
Exports	-1.1	1.6	1.1	5.2	4.4	4.4	4.4
Imports	1.2	3.4	4.2	4.4	4.5	3.7	3.9
Labour productivity ²	0.1	1.9	1.5	2.9	2.7	2.8	2.8
External balance³							
Current account balance	1.6	-0.7	-0.7	0.5	-0.2	0.9	0.2
Net lending	2.1	0.7	0.9	1.7	1.7	2.1	2.1
Government balance³							
ESA balance	-4.7	(-5.7) - (-5.2)	-6.5	(-5.2) - (-4.7)	-5.4	(-4.5) - (-4.0)	-4.7
Labour market							
Whole-economy gross average earnings ⁴	9.0	10.9	9.7	6.6	6.0	6.9	6.7
Whole-economy employment	-0.7	-0.8	-0.7	0.2	0.3	0.1	0.1
Private sector gross average earnings ⁴	8.8	8.7	8.0	8.3	7.3	7.1	6.8
Private sector employment	-1.0	-1.1	-0.9	0.2	0.4	0.2	0.2
Unemployment rate	4.4	4.6	4.5	4.3	4.2	3.9	4.1
Private sector real unit labour cost	2.7	2.3	5.0	0.6	0.4	-0.3	-0.2
Household real income ⁵	-1.6	4.6	6.3	2.6	3.4	3.5	3.2

Note: In the case of the previous forecast, except for the general government balance, the midpoint values of the forecast range are indicated.

¹ Government final consumption expenditure includes final consumption expenditure of general government and nonprofit institutions.

² Whole economy, based on national accounts data.

³ As a percentage of GDP.

⁴ For full-time employees.

⁵ MNB estimate.

⁶ Due to a methodological revision, actual data in 2025 and the March 2026 forecast have changed retroactively; see Box for more details.

Table 1-9: MNB baseline forecast compared to other forecasts

	2026	2027	2028
Consumer Price Index (annual average growth rate, %)			
MNB (June 2026)	1.8	2.3	3.0
Consensus Economics (June 2026) ¹	1.5 - 2.8 - 3.8	2.2 - 3.6 - 4.5	
European Commission (May 2026)	3.2	3.1	
IMF (April 2026)	3.8	3.5	3.1
OECD (June 2026)	3.8	3.7	
Reuters survey (June 2026) ¹	1.9 - 2.7 - 3.5	2.8 - 3.7 - 4.3	2.7 - 3.0 - 3.3
GDP (annual growth rate, %)			
MNB (June 2026)	2.0	3.0	2.9
Consensus Economics (June 2026) ¹	0.7 - 1.7 - 2.4	1.1 - 2.5 - 3.4	
European Commission (May 2026)	1.8	2.1	
IMF (April 2026)	1.7	2.0	2.3
OECD (June 2026)	1.6	2.0	
Reuters survey (June 2026) ¹	1.3 - 1.7 - 2.0	2.2 - 2.6 - 3.1	2.5 - 2.9 - 3.0
Current account balance³			
MNB (June 2026)	-0.7	-0.2	0.2
European Commission (May 2026)	-0.2	0.5	
IMF (April 2026)	-0.4	0.4	0.7
OECD (June 2026)	-0.3	0.5	
Budget balance (ESA 2010 method)³			
MNB (June 2026)	-6.5	-5.4	-4.7
Consensus Economics (June 2026) ¹	(-7.6) - (-6.3) - (-5.0)	(-6.5) - (-5.0) - (-4.5)	
European Commission (May 2026)	-6.2	-5.8	
IMF (April 2026)	-5.5	-5.7	-5.8
OECD (June 2026)	-6.1	-5.4	
Reuters survey (June 2026) ¹	(-7.0) - (-6.5) - (-5.6)	(-5.5) - (-5.0) - (-4.8)	(-4.8) - (-4.3) - (-3.9)
Forecasts of the GDP growth rate of Hungary's trade partners (annual growth rate, %)			
MNB (June 2026)	1.2	1.9	1.9
ECB (June 2026) ⁴	0.9	1.2	1.5
Consensus Economics (June 2026) ¹	1.1	1.5	
European Commission (May 2026) ²	1.2	1.6	
IMF (April 2026) ²	1.2	1.5	1.6
OECD (June 2026) ²	1.3	1.7	

¹ For Reuters and Consensus Economics surveys, in addition to the average value of the analysed replies, we also indicate the lowest and the highest values to illustrate the distribution of the data.

² Values calculated by the MNB; the projections of the named institutions for the relevant countries are adjusted with the MNB's weighting system, which is also used for the calculation of the MNB's own external demand indices. Certain institutions do not prepare forecasts for all partner countries.

³ As a percentage of GDP.

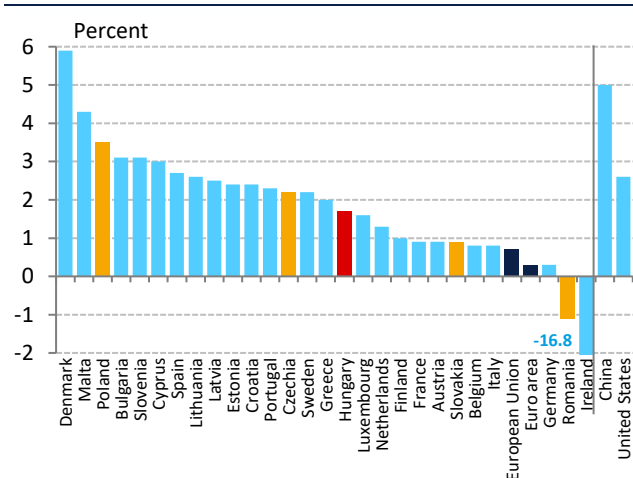
⁴ The values show the expected growth in the eurozone based on the latest ECB forecast.

Source: Consensus Economics, ECB, European Commission, IMF, OECD, Reuters poll, MNB

2. International assumptions applied in our forecast

Looking at the world's major economies, economic growth slowed in the European Union, while it accelerated in the United States and China in 2026 Q1. The impact of the Iran conflict gradually took hold in growth forecasts, and thus we currently expect to see more moderate expansion in the economies of Hungary's export partners than in March. Inflation has risen in both the euro area and the United States since February, a trend explained by the immediate impact of significantly rising global energy prices resulting from the conflict in Iran. The price of Brent crude oil briefly approached USD 120 per barrel and then fell below USD 80 following news of an agreement. European gas prices rose by an average of more than 60 percent in March compared to February price levels, and in recent weeks, prices have been 30–40 percent higher than pre-war levels. Global food prices have risen again since February, but the year-on-year price dynamics remain subdued. The ECB tightened its monetary policy and raised its key deposit rate by 25 basis points to 2.25 percent in June. The Federal Reserve kept its target range for the federal funds rate unchanged at 3.5–3.75 percent. Based on current market pricing, the ECB may further tighten monetary conditions this year, while a 25-basis point interest rate hike is also expected from the Fed by the end of this year.

Chart 2-1: Annual and quarterly GDP change in EU countries, the US and China in 2026 Q1



Note: Seasonally and calendar adjusted data.

Source: Eurostat, Bloomberg

Evaluation of international macroeconomic developments

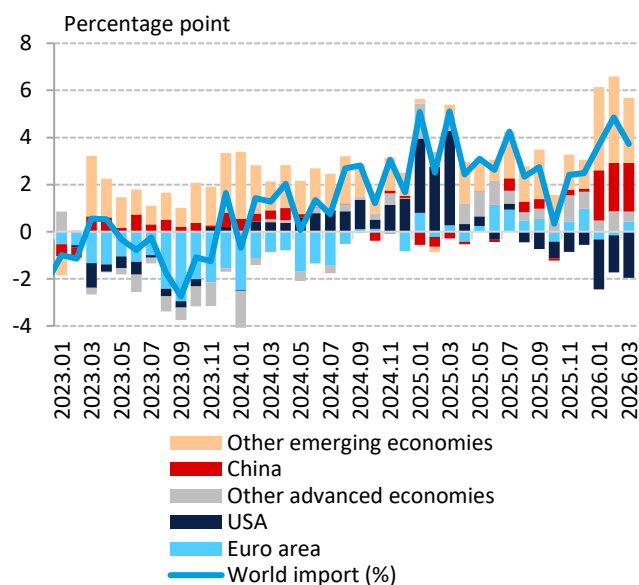
The European Union economy grew by 0.7 percent and the euro area economy by 0.3 percent in 2026 Q1 (Chart 2-1), thus extending the trend of weakening growth. In most European economies, as in previous quarters, in addition to household consumption, investment and government consumption also supported the increase in GDP, while net exports had a negative impact on growth. Compared to 2025 Q4, the EU economy contracted by 0.1 percent and the euro area economy by 0.2 percent.

Hungary's most important trading partner, Germany, registered annual growth of 0.3 percent in the first quarter of this year, while among the countries in the region, the economy of Poland grew by 3.5 percent, the Czech Republic by 2.2 percent and Slovakia by 0.9 percent. In Romania, annual GDP contracted by 1.1 percent (Chart 2-1).

Both the United States and China saw economic growth accelerate in 2026 Q1, with GDP in the United States rising by 2.6 percent and China registering +5.0 percent year-on-year (Chart 2-1). Consumption remained the main driver of growth in both the United States and China. Compared to the previous quarter, the US economy grew by 1.6 percent and China by 1.3 percent.

Global trade and industrial production have continued to expand in recent months. Growth in global imports continues to be driven by the activity of emerging countries, with Chinese imports also contributing significantly to global imports in 2026 Q1 (Chart 2-2).

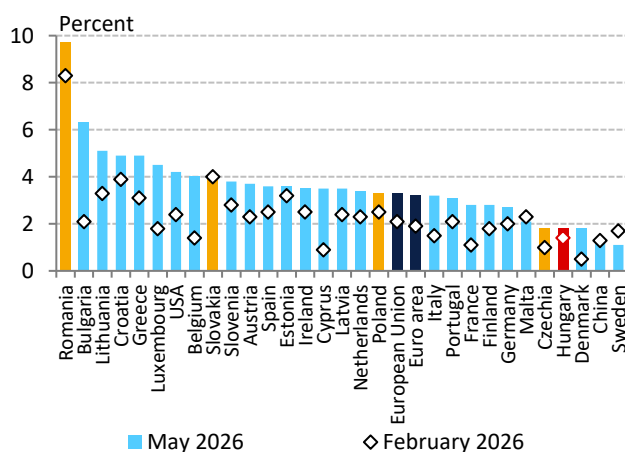
Chart 2-2: Annual change in global goods imports



Note: Seasonally adjusted data.

Source: CPB

Chart 2-3: Developments in the international inflation environment



Note: National CPI data for Hungary, HICP data for other EU member states, CPI data for other countries.

Source: Eurostat, Trading Economics, national statistical offices

However, the decline in US imports continues to weigh on the indicator, which is also exacerbated by the high base at the beginning of last year.

Following February, inflation in the euro area rose by 1.3 percentage points to reach 3.2 percent in May (Chart 2-3).

The acceleration in inflation was driven by rising fuel prices resulting from the conflict in Iran: fuel inflation rose from -3.3 percent in February to 22.7 percent in May. Core inflation also rose, advancing to 2.6 percent in May, after 2.4 percent in February, supported by faster inflation in industrial goods and services. Food prices were characterised by gradual disinflation: in May, the annual pace of price increase was 1.6 percent.

Inflation in the countries of the region continues to vary widely.

From February to May, inflation rose in all countries in the region except Slovakia, due to rising fuel prices, according to Eurostat's harmonised data (Chart 2-3). The highest inflation was recorded in Romania (9.7 percent), followed by Slovakia (4.0 percent), Poland (3.3 percent) and the Czech Republic (1.8 percent).

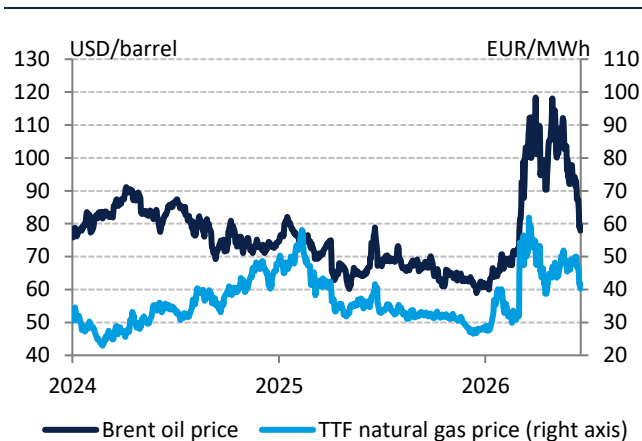
Following February, inflation in the United States rose by 1.8 percentage points. In May, consumer prices rose by 4.2 percent on an annual basis.

The rise in the annual inflation rate was largely due to higher fuel prices. In addition, core inflation also rose in the United States, with the annual rate advancing from 2.5 percent in February to 2.9 percent in May. In China, no significant change in inflation was observed after February; in May, consumer prices rose by 1.2 percent year on year (Chart 2-3).

The increase in global energy prices due to the Iran conflict has eased significantly as a result of the agreement aimed at ending the war.

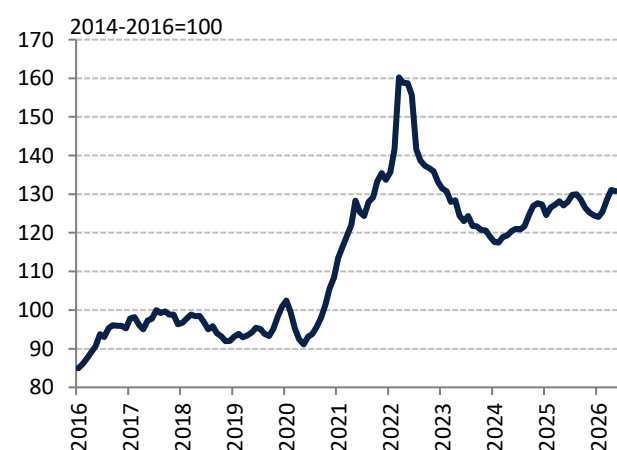
Brent crude oil has fluctuated in a wide range in recent months. Compared to the level of USD 110 at the end of March, the price of oil decreased to between USD 90 and USD 100 per barrel by April, with significant volatility due to the temporary ceasefire between the United States and Iran and the ongoing negotiations, after which a price level over USD 100 per barrel was seen again in early May (Chart 2-4). Brent crude oil reacted to the news of the agreement by falling, dropping below USD 80 per barrel to a level not seen since March. Although the supply-demand relationship in the physical oil market has not yet been restored and full opening of the Strait of Hormuz and restoration of the oil production infrastructure of the Gulf countries will take time, the geopolitical risks that strongly affect prices have eased. According to forecasts by the International Energy

Chart 2-4: Development of global oil and natural gas prices



Source: Bloomberg

Chart 2-5: Development of world market prices of food



Source: FAO

Agency (IEA), if the Strait of Hormuz is opened, oil supply could exceed demand again from 2027.

European gas prices were lower than our March assumptions. Average gas prices in March, which were more than 60 percent higher than pre-war levels, have eased. In March, following news of the outbreak of the Middle East conflict, European gas prices rose above 60 EUR/MWh. Since April, price levels of approximately 40–50 EUR/MWh were observed. In mid-June, following the news of the ceasefire, the gas price fell to 40 EUR/MWh (Chart 2-4).

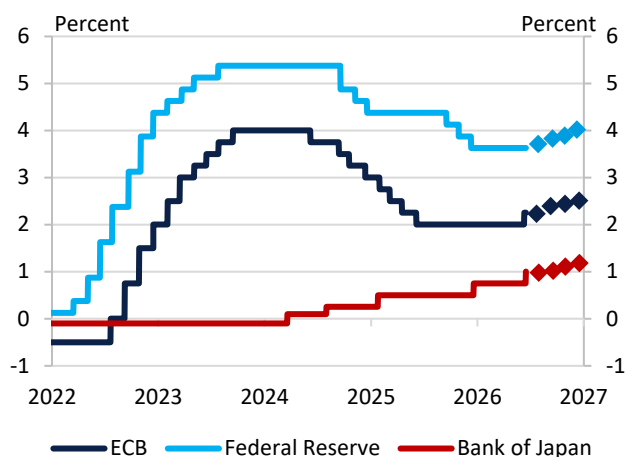
Global food prices continued to rise on an annual basis (Chart 2-5). In May, global food prices advanced by an average of 2.9 percent versus May of last year. Compared to the previous month, a mild decrease of 0.2 percent was recorded. The monthly price decrease was driven by vegetable oils and dairy products, which was partly offset by price increases for cereals and sugar. Overall, following the downward price trend that began last September, international food commodity prices have been rising again since February, in conjunction with higher global energy prices. The sharpest price increases in recent months were observed for vegetable oils, which are also used as biofuels.

At its March and April rate-setting meetings, the ECB left its key deposit rate unchanged, before raising it by 25 basis points to 2.25 percent in June (Chart 2-6). The ECB decided to raise interest rates in response to increasing inflationary risks. In order to prevent inflation from becoming persistent, the central bank considered it appropriate to tighten monetary policy in the current environment.

Among the regional central banks, the Polish and Romanian central banks did not change their interest rate conditions during the past quarter, while the Czech central bank raised its interest rate by 25 basis points in June (Chart 2-7). The Polish central bank kept its policy rate at 3.75 percent at its April, May and June rate-setting meetings, following a 25-basis-point cut in March. The Czech central bank left its policy rate unchanged at its March and May rate-setting meetings, before raising the rate by 25 basis points to 3.75 percent in June. The Romanian central bank did not change its interest rate conditions at its April and May rate-setting meetings, with the base rate thus remaining at 6.5 percent.

At its rate-setting meetings in March, April and June, the Fed maintained the target range for the federal funds rate at 3.5–3.75 percent (Chart 2-6). The basis for economic activity remained solid, despite elevated uncertainty.

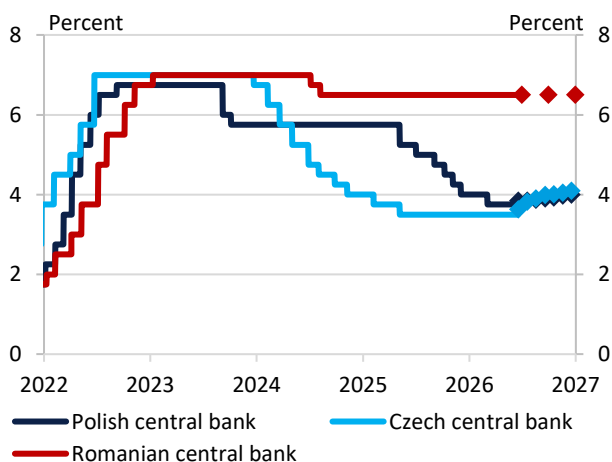
Chart 2-6: Key interest rates of globally important central banks



Note: In the case of the ECB: overnight deposit rate, in the case of the Fed: midpoint of the federal funds target range. The diamond denotes the interest rate path implied by current market pricing for each central bank.

Source: Bloomberg

Chart 2-7: Key interest rates of regional central banks



Note: In the case of the Polish and Czech central banks, we have indicated the expected interest rate path based on current market pricing with a diamond; for the Romanian central bank, the diamond marks the median value for analysts' May expectations.

Source: Bloomberg

Inflation is still above the Fed's 2-percent target, partly reflecting supply shocks that have led to price increases in certain sectors. Policymakers revised their projected policy rate path upward in June, indicating that a rate hike may be delivered before the end of the year. The Bank of Japan did not change its policy rate in March or April, before raising it by 25 basis points to 1.0 percent in June.

International macroeconomic outlook

In the case of the Iran conflict, which escalated at the end of February, the news of an agreement was a positive development, but risks remain. The Iran conflict entered a new phase at the end of June, with the US and Iran agreeing on a memorandum of understanding aimed at ending the nearly four-month war. A ceasefire agreement was outlined between the parties, but security risks in the region remain. According to the announcement on 15 June, the US president authorised the opening of the Strait of Hormuz without a fee for shipping and ordered the lifting of the US naval blockade, and both sides committed to an immediate cessation of all military operations. The developments eased market concerns about energy supplies.

As a result of the decline in futures prices, our assumptions for future oil and gas prices have been lowered significantly. Our assumption for the price of Brent crude oil in dollars has decreased by 7.9 percent for this year and 3.8 percent for 2027. Our assumption for the price of TTF-type natural gas has decreased by 27.6 percent for 2026 and 22.5 percent for next year.

Export prospects are also affected by tariff levels. The US Supreme Court's decision of 22 February invalidated the previous country-specific basic tariffs, which the US government then replaced with a global 15-percent general tariff using a different legal basis.

Our forecast for external demand this year is lower than in March, and the time-consuming recovery following the end of the Iran conflict poses additional downside risks. In Table 2-1, the growth projections for Hungary's export partners were falling up until the cut-off date of 18 June 2026, as most analysts have likely not yet factored in the effects of the Iran war in their March forecasts or expected it to end sooner.

The European Central Bank expects euro area GDP growth to amount to 0.8 percent in 2026, down 0.1 percentage point compared to March. The economy will continue to be driven by domestic demand, with slightly negative net exports. The ECB expects growth in the euro area to be 1.2 percent next year, with the contribution of net exports also

Table 2-1: Economic growth in Hungary's key export partners according to market expectations in 2026 and 2027

Partners	2026		2027	
	March	June	March	June
EU (74.6)	1.5	1.2	1.7	1.5
Germany (25.3)	1.0	0.6	1.5	1.2
Romania (5.6)	1.1	0.2	2.6	2.4
Poland (4.9)	3.7	3.4	3.1	3.0
Italy (4.9)	0.8	0.6	0.9	0.7
Slovakia (4.7)	1.3	1.1	2.1	1.9
Czechia (4.2)	2.5	2.2	2.6	2.4
United States (4.0)	2.5	2.1	2.0	2.0
France (3.9)	1.0	0.7	1.2	0.9
Austria (3.8)	0.9	0.6	1.5	1.2
United Kingdom (3.5)	1.0	1.0	1.4	1.1
China (1.1)	4.6	4.6	4.4	4.4
Growth of Hungarian export markets	1.4	1.2	2.2	1.9

Note: Partner names are followed by their percentage share in product exports in brackets, based on 2025 data. Expectations are based on data available as of the data cut-off date of 18 June 2026.

Source: Bloomberg

turning positive. The median of market analysts is 1.3 percent for the euro area and 1.5 percent for the EU. In line with the generally deteriorating international growth picture, our external demand forecast has been revised downwards for both this year and next year (Table 2-1).

The outlook for the German economy in 2026 has also deteriorated, according to the latest analyses. Industrial capacity utilisation continues to show no significant improvement, while analysts expect a turnaround in German industry and exports in the second half of the year. In a May survey by the Ifo Institute, half of the manufacturing companies (including car manufacturers) had negative export prospects. It is a positive sign that the order book of the German manufacturing industry has been continuously expanding in recent months. In line with the effects of the Middle East war, the German central bank forecasts stagnation for the second quarter in its June report.

Market analysts' growth expectations for this year have moderated in the USA, while they have remained unchanged in China. Market analysts expect a GDP growth rate of 2.1 percent in the USA and 4.6 percent in China for 2026. Next year, they project growth of 2.0 percent in the USA and 4.4 percent in China (Table 2-1).

According to the European Central Bank's latest forecast in June, euro area inflation may come in at 3.0 percent this year and 2.3 percent next year. Thus, the ECB expects inflation to be 0.4 percentage point higher this year and 0.3 percentage point higher next year compared to the March forecast. All components contributed to the upward revision of the inflation rate, which will result in higher inflation in 2026 H2 and 2027 H1. In 2028, inflation may reach 2.0 percent.

Based on market pricing, the ECB may continue to raise interest rates by the end of this year (Chart 2-6). In the case of the Polish central bank, the policy rate is expected to remain unchanged, while market participants are pricing in one or two interest rate hikes of 25 basis points by the Czech central bank by year-end. Based on analysts' expectations in May, the Romanian central bank may leave its policy rate unchanged this year (Chart 2-7).

In the case of the Fed, an interest rate hike of 25 basis points is expected by the end of this year (Chart 2-6). For the Bank of Japan, the market is pricing in a 25-basis point interest rate hike for this year.

Table 2-2: Main external assumptions of our forecast

Technical assumptions	2026		2027		2028		Change		
	Previous	Current	Previous	Current	Previous	Current	2026	2027	2028
EUR/USD	1.155	1.171	1.150	1.173	1.150	1.173	1.3%	2.0%	2.0%
Oil (USD/barrel)	89.7	82.7	77.2	74.3	74.0	72.6	-7.9%	-3.8%	-1.9%
Gas (EUR/MWh)	57.6	41.7	44.4	34.4	34.3	28.3	-27.6%	-22.5%	-17.6%
Euro area inflation (%)	2.6	3.0	2.0	2.3	2.1	2.0	+0.4 pp.	+0.3pp.	-0.1 pp.
Euro area real GDP (%)	0.9	0.8	1.3	1.2	1.4	1.5	-0.1 pp.	-0.1 pp.	+0.1 pp.
GDP growth of Hungary's main export partners* (%)	1.4	1.2	2.2	1.9	1.8	1.9	-0.2 pp.	-0.3 pp.	+0.1 pp.

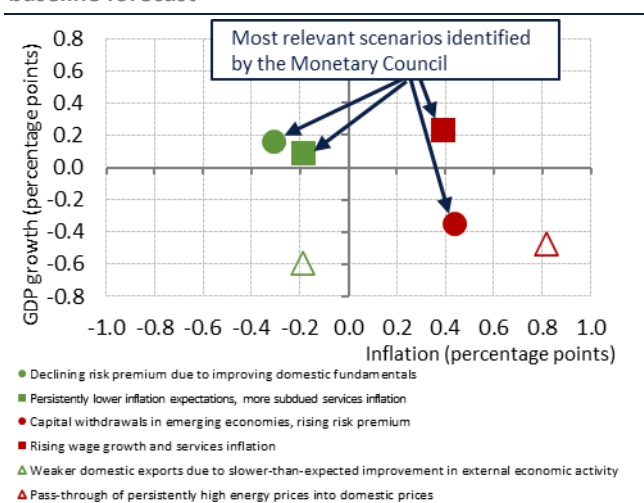
Note: Annual average in the case of oil prices. * Growth rate of Hungary's 21 most important export partners weighted by share in exports. The projections are based on information available for the period ending 18 June 2026.

Source: Bloomberg, Consensus Economics, MNB, ECB

3. Effects of alternative scenarios on our forecast

The Monetary Council has highlighted four alternative risk scenarios around the baseline projection in the June Inflation Report. The alternative scenarios which assume a narrowing risk premium due to improving domestic fundamentals, as well as persistently lower inflation expectations and more subdued services inflation, are consistent with a lower inflation and higher growth path than the baseline scenario, as well as looser monetary conditions. The scenario that anticipates capital withdrawals from emerging economies and a resulting rise in the risk premium is consistent with a higher inflation path and lower growth path as well as tighter monetary conditions. The scenario that anticipates higher wage growth and services inflation is consistent with a higher inflation path and growth path as well as tighter monetary policy conditions. In addition to the main scenarios, the Monetary Council discussed other alternative scenarios, including one featuring weaker domestic exports due to a slower-than-expected recovery in the global economy and another assuming that persistently higher energy prices will be passed on to domestic prices.

Chart 3-1: Risk map: effect of alternative scenarios on the baseline forecast



Note: The risk map presents the average difference between the inflation path and growth path of the alternative scenarios and the baseline forecast over the next eight quarters. The red markers represent tighter and the green markers represent looser monetary policy than in the baseline forecast.

Source: MNB

Declining risk premium due to improving domestic fundamentals

Most developed market stock indices have risen in recent months, while overall risk appetite toward emerging markets has improved.

Looking at domestic factors, risk premia have narrowed considerably since the March Inflation forecast and the forint has strengthened significantly. Government bond yields have declined: the yield on 10-year Hungarian government bonds has fallen by more than 200 basis points since publication of the March Inflation Report, bringing it below the yield on 10-year Polish government bonds.

In our alternative scenario, we expect the domestic risk premium to continue declining. The favourable effects associated with the inflow of EU funds, the credible medium-term fiscal path and expectations related to euro area accession further reduce the risks associated with Hungary. Based on the above, the realisation of this scenario is consistent with lower inflation, higher growth and looser monetary conditions compared to the baseline scenario.

Persistently lower inflation expectations, more subdued services inflation

Household inflation expectations have moderated significantly in recent months. Both the MNB's Q2 survey and GKI's May survey of household inflation expectations showed a significant decline compared to previous surveys, while at the same time, the consumer confidence index rose sharply in May to a 5.5-year high. However, the sustainability of this shift remains uncertain for now.

Looking at the main factors influencing households' perceived inflation, food prices continued to fall and the forint continued to strengthen. Lower food inflation and a persistently strong forint may lead to a further decline in household inflation expectations. Household confidence is also boosted by the decline in the volatility of key macroeconomic and financial variables, including the forint's appreciation trend over the past year. The impact of persistently low expectations may be reflected in a moderation of services inflation.

In our alternative scenario, rising consumer confidence keeps inflation expectations lower than assumed in the baseline scenario. As a result of these lower expectations, market-based services inflation rises at a more moderate pace. This scenario is consistent with a lower inflation path and a moderately higher growth path than in the baseline scenario and is in line with looser monetary conditions.

Capital withdrawals in emerging economies, rising risk premium

In recent months, investor sentiment in international markets has been shaped by developments related to the protracted nature and prolongation of the war in Iran. News of peace was followed by a strong rally on the markets. Stock market indices in developed markets have generally risen, although the gains are primarily concentrated in the semiconductor and technology sectors.

The long end of developed market yield curves rose since publication of the March Inflation Report.

The steepening of yield curves points to a persistently high interest rate environment. Looking ahead, the higher yield environment and supply chain issues stemming from the conflict in the Middle East pose risks to the growth potential and valuations of technology companies, which – given the high degree of market concentration – may result in widespread effects in capital markets and a decline in risk appetite.

In our alternative scenario, we anticipate a rise in the domestic risk premium. As risk aversion intensifies in global financial markets, investors withdraw capital from emerging economies. Rising yields in developed markets, coupled with increasing global uncertainties, intensify risk aversion toward emerging markets, which could lead to a repricing of regional assets and a rise in countries' risk premiums. A weakening of the exchange rate due to a deteriorating external environment may lead to inflationary pressures. Based on all of this, the realisation of this scenario is consistent with a higher inflation path, a lower

growth path and tighter monetary conditions compared to the baseline scenario.

Rising wage growth and services inflation

Domestic wage growth is the highest among countries in the region. In April 2026, real earnings – calculated based on gross average earnings – rose by 6.8 percent year on year in the national economy and by 6.5 percent in the private sector, indicating that wage growth remains robust.

Inflation in market services has slowed overall in recent quarters. In May 2026, the annual price index for market services fell to 4.9 percent from 5.7 percent at the beginning of the year. Beyond voluntary price caps, disinflation has taken hold across a wide range of market services. The majority of component items are characterised by repricing consistent with or below price stability.

Persistently high wage growth may increase inflation in labour-intensive services. Since 2022, real wages have risen by 14.8 percent, while GDP has increased by only 1.7 percent in Hungary. The divergence between wage growth and economic growth is also characteristic of other countries in the region, but the divergence is most significant in Hungary. According to the MNB's Business Sentiment Survey, economic operators primarily cite inflation and the increase in the minimum wage as the reasons for wage increases, although maintaining competitive wages also plays an important role. According to the survey, companies typically try to offset wage increases by raising prices.

In our alternative scenario, wages rise faster than assumed in the baseline scenario, which is also reflected in higher prices for market services. This scenario is consistent with higher inflation and growth paths as well as tighter monetary conditions.

Other risks

In addition to the highlighted scenarios, the Monetary Council considered two other alternative paths.

In the risk scenario featuring a slower-than-expected recovery in the external economy, growth in the European Union and also Germany will be weaker than in the baseline scenario. Subdued performance in Hungary's external markets hampers domestic export performance via a decline in external demand, thus contributing to a slowdown in GDP growth. In addition, due to lower external inflation, Hungarian inflation will be lower than in the baseline scenario, which is consistent with less tight monetary conditions.

In the alternative scenario **assuming persistently higher energy prices**, the prolonged geopolitical tensions lead to supply problems regarding energy sources. Together, these factors exert upward pressure on global inflation. In this alternative scenario, the external inflation environment will be higher than expected, passing through into domestic prices. The scenario is consistent with a higher inflation path and lower growth path, which may justify tighter monetary conditions compared to the baseline scenario.

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