INFLATION REPORT

2025

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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 September2025.

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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 Magyar Nemzeti Bank preserves financial stability and supports the Government's economic policy, as well as its policy on environmental sustainability.

The trade agreements concluded in the past months somewhat improved the global growth outlook, however, the economic growth of Germany, Hungary's most important foreign trade partner, remained subdued.

In 2025 Q2, a growth of 2.1 percent was recorded in the United States and 5.2 percent in China compared to the same period last year. The European Union's GDP rose by 1.6 percent year-on-year. The economy of Germany, Hungary's most important foreign trade partner, grew by 0.2 percent. The agreements concluded in recent months mitigate the uncertainty surrounding the real economic impact of US tariff measures. At the same time, the ongoing Russia-Ukraine war and the generally tense geopolitical situation remain key risk factors.

Global inflation trends show a mixed picture.

More than half of the OECD member countries that have already published their data recorded inflation rates exceeding central bank targets in August. Inflation rose to 2.9 percent in the United States, while consumer prices in China fell by 0.4 percent year-on-year. Inflation in the euro area stood at 2.0 percent in August, while inflation rates in member states varied within a range of around 6 percentage points. Among the countries in the region, the consumer price index rose significantly in Romania, to 9.9 percent, while in Poland (2.9 percent) and Czechia (2.5 percent) it was slightly above central bank targets.

The European Central Bank (ECB) has not changed its policy interest rate in recent months, while the Federal Reserve (Fed) cut interest rates by 25 basis points in September.

At its rate-setting meetings in July and September, the ECB kept its benchmark deposit rate at 2.0 percent. Inflation in the euro area has recently been in line with the central bank's 2 percent inflation target, while core inflation has been slightly above it. Based on the central bank's communication, decision-makers are currently taking a wait-and-see approach. Future monetary policy decisions will be made based on incoming data, on a meeting-by-meeting basis, and decision-makers will not be committed to a specific interest rate path in advance.

The Fed kept its target range for the federal funds rate unchanged at 4.25–4.50 percent at its July rate-setting meeting, then cut rates by 25 basis points in September. At the press conference following the September rate decision, the chair of the Federal Reserve emphasised that the focus had shifted to the labour market side of the Fed's dual mandate. Based on the median of decision-makers' September forecasts, further interest rate cuts may occur this year.

Market pricing for interest rate paths diverged in the United States and the euro area. Amidst unfavourable US labour market data, the Fed's expected interest rate path has shifted downwards. As a result of certain statements by decision-makers and speculation about the stance of the next Fed chair, interest rate expectations were characterised by above-average volatility. Meanwhile, in the case of the ECB, with the economic outlook improving, the interest rate path expected by the market has shifted upwards, and pricings do not indicate further interest rate cuts for this year.

In the region, the Polish central bank cut interest rates by 25 basis points at both its July and September rate-setting meetings, bringing the base rate down to 4.75 percent. The Czech central bank left its base rate unchanged at 3.5 percent, while the Romanian central bank's policy rate has also remained unchanged at 6.5 percent in recent months.

International investor sentiment improved overall in the last quarter.

At the same time, international financial markets continue to react sensitively to trade and geopolitical developments. The trade agreement concluded between the European Union and the United States at the end of July has reduced uncertainty in global financial markets. However, the deadline for negotiations between China and the United States has been extended again by 90 days from mid-August, which continues to cause uncertainty in the international environment. During this period, negotiations took place regarding the conclusion of the Russia-Ukraine war, which market participants viewed as a favourable development, but the outlook remains subject to considerable uncertainty.

Following a significant rise in June, the global market price of oil has moderated and has typically remained below USD 70 per barrel in recent months. The decline in oil prices was supported by the decision of OPEC+ countries to increase extraction effective from September. Meanwhile, gas prices have also fallen significantly compared to mid-June levels. At the same time, in the generally tense geopolitical situation, possible tariff announcements on energy imports continue to pose a risk.

The forint strengthened by approximately 3 percent against the euro during the period, while domestic government bond yields showed mixed developments over the past quarter.

Among regional currencies, the Czech koruna appreciated by nearly 2 percent, while the Polish zloty and the Romanian leu remained largely unchanged against the euro during the period. The strengthening of the forint was supported by a renewed appetite for risk as a result of international developments and hawkish messages of domestic monetary policy. Yields on the Hungarian government bond market declined at the short and long ends of the curve, while yields rose slightly in the middle section.

Inflation has moderated in recent months compared to levels at the beginning of the year but is expected to remain above the tolerance band for the rest of the year.

In August, inflation was 4.3 percent, similar to the previous month, and core inflation fell to 3.9 percent. Mandatory and voluntary price restriction measures had a significant diminishing effect on inflation, however, strong corporate repricings can still be observed outside their scope. Excluding the impact of price restrictions, price increases were also strong for industrial goods and market services. Food inflation is determined by the moderating effect of the introduction of profit margin caps and the spillover effect of global market trends. Overall, price changes compared to the previous month were slightly above the historical average for the inflation basket and in line with it for core inflation in August. Household inflation expectations decreased slightly, but remain at a high level. In addition to all this, the forint has been strengthening overall since the beginning of the year, and its favourable effects are increasingly seen in manufacturing producer prices and import prices.

For the rest of the year, inflation is expected to stay above the central bank tolerance band. The rate of price increases may decline persistently to the tolerance band in early 2026 and reach the 3 percent inflation target in early 2027. Compared to the June forecast, on an annual average, the consumer price index may be slightly lower at 4.6 percent this year and slightly higher at 3.8 percent in 2026. Inflation is expected to be 3.0 percent in 2027.

Domestic economic growth remained subdued in 2025 Q2. The gradual economic recovery may continue from the third quarter onwards, but it may be slowed down by the decline in agricultural output due to drought.

In 2025 Q2, the Hungarian economy grew by 0.1 percent year-on-year and by 0.4 percent compared to the previous quarter. Domestic real economic developments continued to be characterised by duality in the second quarter: the growth of the GDP was primarily driven by the robust growth of household consumption, while the decline in investments continued. Besides the prolonged moderate economic growth, labour market tightness eased. At the same time, the unemployment rate remains historically low. The slowdown in wage dynamics continued in 2025 H1.

High-frequency data for the third quarter point to a slight acceleration in annual growth. The duality characterising the sectors may persist in the third quarter: retail sales continued to grow in July, while industrial production declined slightly year-on-year. The uncertain global market environment is limiting exports of industrial products. However, for the rest of the year, a slow economic recovery is expected, which could be supported by both the strong increase in consumption and the gradually normalising external economy. Agricultural performance declines this year due to drought. As a result, overall, domestic GDP may grow by 0.6 percent in 2025, slower than the June forecast.

From the next year onwards, both internal and external factors will support the pick-up in growth. Strong consumption dynamics will remain an important factor of growth over the entire forecast horizon, supported both by rising real wages and government measures. The capacity-increasing investment projects of recent years are gradually starting production.

With the improving performance of the European economy and the rising output of new capacities, a faster expansion of exports and an increase in Hungary's share of the export market are expected over the forecast horizon. The GDP of Hungary may increase by 2.8 percent in 2026 and by 3.2 percent in 2027, at the same pace as in the June forecast.

Domestic lending is still characterised by duality: household lending continued to rise, while no significant turnaround has occurred in the corporate segment.

The household loans outstanding of the total financial intermediary system grew by 10.5 percent year-on-year by the end of the second quarter. The value of housing loans contracted by credit institutions in 2025 Q2 increased by 13 percent compared to the same period of the previous year, which was a high base, while personal loan issuance was 34 percent higher. Based on the responses to the Lending Survey, banks expect demand for housing loans to strengthen further thanks to the launch of the Home Start programme, and they also anticipate a pick-up in demand for secured consumer loans. As a result of the Home Start programme, household loans outstanding may increase significantly, albeit with considerable uncertainty, and the annual growth could be 17–20 percent at the end of 2025 and 18–22 percent in 2026.

The total corporate loan portfolio grew by 3.0 percent year-on-year at the end of 2025 Q2. Loans to micro, small and medium-sized enterprises grew by 2.4 percent year-on-year. Banks have ample lending capacity, no general supply constraints can be identified, and the current restraint in corporate lending stems primarily from moderate credit demand due to uncertain economic outlook. Based on responses to the Lending Survey, banks continued to see a slowdown in demand in the second quarter, which is not expected to pick up in 2025 H2. Banks expect a further decline in demand for long-term investment loans. According to the MNB's forecast, corporate loans outstanding may rise by 2.0 percent in 2025 and 2026 as well.

The current account surplus will undergo a slight temporary decline in 2025 as a whole, then gradually increase in the following years.

The current account surplus will undergo a slight temporary decline in 2025 as a whole, as a result of rising imports in parallel with an upswing in domestic demand. However, from early 2026 onwards, exports will expand due to increasing external demand and the rising output of new investments, resulting in an increase in the foreign trade surplus and thereby a gradual improvement in the external balance position. As a result, the current account surplus is expected to be around 1.3 percent of GDP in 2025, 1.4 percent in 2026 and 1.6 percent in 2027, slightly lower than the June forecast.

A reduction in the budget deficit is expected.

According to the Bank's forecast, the fiscal deficit may decrease further in 2025 compared to the 4.9 percent of the GDP in 2024, in parallel with the gradual decrease in interest expenditures of the Government. The governmental measures announced during the summer are expected to have a moderate impact on the budget in 2025. From 2026 onwards, however, their deficit-increasing impact may grow. The primary balance may be close to balanced budget levels over the entire forecast horizon, with the deficit gradually declining in line with gross government interest expenditures. Public debt reduction in 2025 is impeded by the cash deficit expected to be higher than the appropriation and subdued economic growth. However, with the expected gradual decrease of the deficit, the debt-to-GDP ratio may moderate again by the end of the forecast horizon.

According to the Monetary Council's risk assessment, the baseline scenario in the September projection is surrounded by mostly upside risks to inflation and downside risks to growth.

The Monetary Council highlighted three alternative risk scenarios around the baseline projection in the September Inflation Report. The alternative scenario featuring stronger consumption growth assumes a higher growth and inflation trajectory than the baseline scenario. The scenario assuming an escalation in geopolitical tensions is consistent with more subdued economic growth and higher inflation than in the baseline scenario. The scenario featuring a prolonged period of weak growth in Europe is consistent with lower growth and inflation than in the baseline scenario. In addition to the highlighted scenarios, the Monetary Council discussed alternative scenarios involving a renewed rise in trade policy tensions, an easing of geopolitical risks, a slower decline in inflation expectations, a faster decline in inflation expectations and a faster easing of labour market tightness.

SUMMARY TABLE OF THE BASELINE SCENARIO

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

	2024	2025	2026	2027
	Actual		Forecast	
Inflation (annual average)				
Core inflation	4.6	4.7	3.9	2.9
Core inflation excluding indirect tax effects	4.6	4.4	3.9	2.9
Inflation	3.7	4.6	3.8	3.0
Economic growth				
Household final consumption expenditure	5.1	4.2	4.4	3.3
Government final consumption expenditure[1]	-3.7	2.2	0.6	0.4
Gross fixed capital formation	-11.1	-6.4	2.0	4.0
Domestic absorption	-0.1	1.8	2.9	2.8
Exports	-3.0	0.2	4.3	6.2
Imports	-4.0	1.9	4.6	5.9
GDP	0.5	0.6	2.8	3.2
Labour productivity[2]	0.4	0.5	3.2	3.0
External balance[3, 6]				
Current account balance	2.2	1.3	1.4	1.6
Net lending	2.6	2.3	2.7	2.9
Government balance[3]				
ESA balance	-4.9	(-4.5) - (-4.1)	(-4.2) - (-3.8)	(-3.7) - (-3.2)
Whole-economy gross average earnings[4]	13.2	8.7	10.5	6.8
Whole-economy employment	0.0	-0.8	-0.5	0.2
Private sector gross average earnings[4]	12.0	8.5	9.3	9.4
Private sector employment	-0.3	-1.4	-0.4	0.3
Unemployment rate	4.5	4.6	4.8	4.5
Private sector real unit labour cost	5.0	1.2	1.2	0.3
Household real income[5]	4.0	2.0	4.5	3.2

[1] Government final consumption expenditure includes the 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.

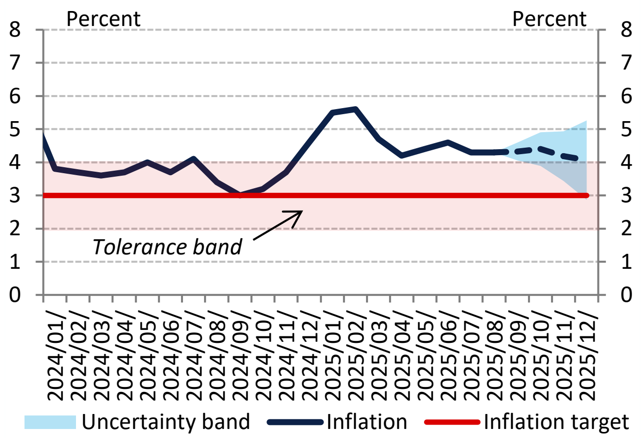
[6] For 2024, external trade data from GDP was taken into account.

1 Inflation and real economy outlook

1.1 Inflation forecast

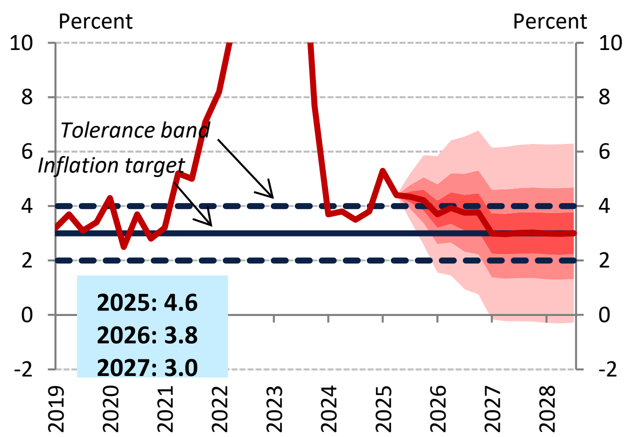
In August 2025, inflation amounted to 4.3 percent, in line with our previous expectations, while core inflation dropped to 3.9 percent. Price restriction measures are having a significant disinflationary effect in the short term. Inflation is projected to remain above the tolerance band for the rest of the year, and we thus anticipate average consumer price inflation of 4.6 percent in 2025. Mandatory and voluntary price restrictions may reduce inflation by 1.1 percentage points this year, which could be partly offset by the cross-pricing of other products. In 2026, strong demand may broaden companies' leeway in terms of pricing, and the inflationary effect of phasing out price restriction measures may also be felt next year. The inflationary effects of these factors may be offset by the predictable, low-volatility forint exchange rate and strict monetary policy over the forecast horizon. The rate of price increases may fall into the tolerance band in early 2026 and may reach the 3-percent inflation target at the beginning of 2027. The average annual inflation rate may decline to 3.8 percent next year and 3.0 percent in 2027.

Chart 1-1: 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

Chart 1-2: Fan chart of the inflation forecast



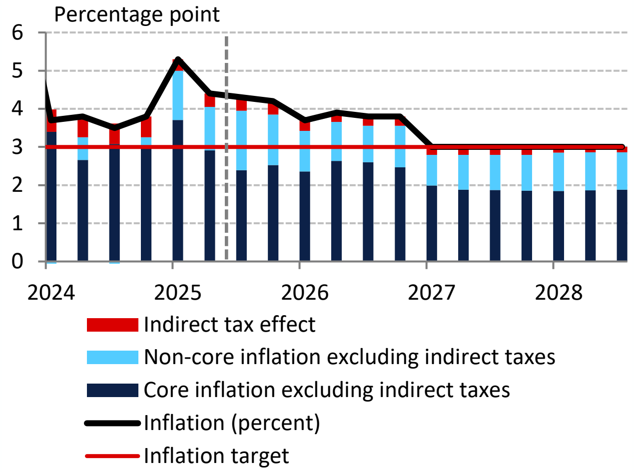
Note: Based on seasonally unadjusted data.
Source: HCSO, MNB

Consumer price index data for recent months have been in line with our previous expectations. Inflation is expected to remain above the tolerance band for the rest of the year (Chart 1-1). Mandatory and voluntary price restriction measures have had a significant disinflationary impact in recent months. After the phase-out of the extended measures at the end of November, price margins may gradually recover, according to our assumptions. Overall, these measures may reduce inflation by 1.5 percentage points in certain months and average inflation by 1.1 percentage points this year on average, which may be partially offset by the cross-pricing of other products in the retail sector.

Inflation will fall into the Bank's tolerance band at the beginning of 2026 and may reach the 3-percent target at the beginning of 2027. In 2026, strong consumption demand may broaden companies' leeway in terms of pricing, and the inflationary effect of phasing out the price restriction measures may also appear next year. The inflationary effects of these factors can be offset by the predictable, low-volatility forint exchange rate and strict monetary policy over the forecast horizon. The disinflationary effect of the stronger exchange rate in recent months has already appeared in the prices of imported products and industrial producer prices, and may gradually spill over into consumer prices. Corporate inflation expectations are also declining.

Compared to our June forecast, the inflation forecast for this year has fallen by 0.1 percentage point, while the forecast for next year has risen by the same amount. The extension of margin restrictions may reduce average inflation this year, while raising it next year. Via its gradual impact on consumer prices, the stronger exchange rate in recent months suggests lower inflation this year and next year, compared to our June forecast. At the same time, due

Chart 1-3: Decomposition of the inflation forecast



Source: HCSO, MNB

Table 1-1: Details of the inflation forecast

		2025	2026	2027
		4.4	3.9	2.9
Core inflation excluding indirect tax effects		4.7	3.9	2.9
Non-core inflation	Unprocessed food	5.3	5.9	4.7
	Fuel and market energy	-1.2	2.3	3.6
	Regulated prices	5.7	2.4	1.7
	Alcohol and tobacco	6.6	5.5	4.0
Inflation		**4.6**	**3.8**	**3.0**

Note: In percent.

Source: MNB

to the colder spring weather, gas consumption rose, leading to an increase in the proportion of household consumption in excess of the official price limit, which pushed up the average consumer price of piped gas. A significant slowdown in piped gas inflation is expected from the end of autumn at the earliest, if the weather allows for lower gas consumption than last year. **Inflation is expected to average 4.6 percent in 2025, 3.8 percent in 2026 and 3.0 percent in 2027** (Chart 1-2).

Core inflation excluding indirect taxes, which reflects the underlying trends, is expected to be 4.4 percent in 2025, 3.9 percent in 2026 and 2.9 percent in 2027. We revised our forecast for core inflation excluding taxes for this year down by 0.3 percentage point compared to our June forecast, reflecting the extension of price restriction measures and slightly more moderate summer core inflation data than in our June forecast. **Core inflation may be around 4.0 percent for the remainder of this year** (Chart 1-3).

In the case of food, we expect rising global market prices to continue having a spillover effect, temporarily restrained by restrictions on food profit margins. Weaker harvests caused by colder spring weather and the continued rise in global food prices foreshadow higher price dynamics for unprocessed foods (see Box 3-3). At the same time, this is offset by the extension of margin restrictions. However, the impact of these measures is only temporary; accordingly, price increases for this product group may be higher next year than in our June forecast. With regard to unprocessed food, we forecast inflation of around 5.3 percent this year, 5.9 percent next year and 4.7 percent in 2027.

The price of vehicle fuel and market energy products may fall by an average of 1.2 percent this year, and then rise by 2.3 percent next year and 3.6 percent in 2027 (Table 1-1). Global oil market prices expressed in US dollars have dropped since June as a result of the easing of the Iranian–Israeli conflict and the increase in production by OPEC+ countries. In addition, the strengthening of the domestic currency versus USD has continued in recent months, and thus the oil price expressed in forints is below our June assumption. According to our forecast, prices of regulated products and services will rise by an average of 5.7 percent in 2025, mainly driven by the increase in the average household price of piped gas due to the cold spring weather. Our analysis is based on the technical assumption that the measures affecting household energy prices remain unchanged over the entire forecast horizon.

Box 1-1: Assumptions applied in our forecast

As Hungary is a small open economy, our forecasts for the most important macroeconomic variables are fundamentally influenced by developments in external factors. A brief presentation of changes in external assumptions helps make the forecast more transparent (Table 1-2).

Table 1-2: Main external assumptions of our forecast

Technical assumptions	2025		2026		2027		Change		
	Previous	Current	Previous	Current	Previous	Current	2024	2025	2026
EURUSD	1.12	1.13	1.15	1.17	1.15	1.17	0.9%	1.9%	1.9%
Oil (USD/barrel)	70.2	69.2	66.8	66.1	66.3	66.1	-1.5%	-1.1%	-0.3%
Oil (EUR/barrel)	62.8	61.4	58.1	56.4	57.7	56.4	-2.2%	-2.9%	-2.2%
Gas (EUR/MWh)	40.4	37.2	36.2	31.9	31.0	29.0	-8.1%	-12.0%	-6.6%
Euro area inflation (%)	2.0	2.1	1.6	1,7	2.0	1.9	0.1 pp.	0.1 pp.	-0.1 pp.
Euro area real GDP (%)	0.9	1.2	1.1	1.0	1.3	1.3	0.3 pp.	-0.1 pp.	0.0 pp.
GDP growth of Hungary's main export partners* (%)	1.2	1.6	1.6	1.6	2.2	2.2	0.4 pp.	0.0 pp.	0.0 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.

Source: Bloomberg, Consensus Economics, MNB, ECB

Our assumptions regarding external demand have improved slightly for this year. In 2025 Q2, the EU economy grew slightly above expectations at a rate of 1.6 percent, while the euro area economy grew by 1.5 percent compared to the same period of last year, based on seasonally and calendar-adjusted data. The US economy expanded at a year-on-year rate of 2.1 percent, but grew by 0.8 percent on a quarterly basis. In 2025 Q2, China registered growth of 5.2 percent and 1.1 percent on an annual and quarterly basis, respectively. In 2025 Q2, global trade in goods continued to rise year on year, but at a slightly slower pace than before the tariff increases. Global growth expectations are strongly influenced by trade policy measures as well as developments in the Russian-Ukrainian war and the Middle East conflicts. Global and European growth expectations for 2025 have improved somewhat versus the June forecasts, mainly due to bilateral agreements concluded between the USA and its trading partners. Towards the end of the forecast horizon, the economic recovery in Europe may be strongly supported by the announced EU and German stimulus programmes, but there are risks in relation to their implementation, due to both the increased level of public debt and political uncertainty. Based on economic growth indices, consumer and business confidence in EU economies has essentially stagnated in recent months, while purchasing manager indices have risen slightly above the 50-point growth threshold.

The European Central Bank expects euro area GDP growth to reach 1.2 percent in 2025, up 0.3 percentage point compared to its previous forecast. The upward revision to the growth rate was explained by the more favourable economic developments. The ECB lowered next year's expected growth rate moderately, by 0.1 percentage point, to 1.0 percent for 2026. According to the ECB's September forecast, inflation in the euro area may be around 2.1 percent this year, 1.7 percent in 2026 and 1.9 percent in 2027. The ECB's inflation projection is 0.1 percentage point higher for this year and for next year, while the forecast for 2027 is 0.1 percentage point lower relative to the June projection.

The price of Brent crude oil was below USD 70 at the beginning of September, and accordingly our oil price assumption for this year was reduced slightly compared to the June forecast. The price of Brent crude oil briefly approached USD 80 per barrel in June due to tensions in the Middle East, but the easing of the Iran-Israel conflict and increased production by OPEC+ countries put downward pressure on crude oil prices. China continues to accumulate crude oil, which could partially offset the price-reduction effects. Prices have been fluctuating in a narrow range of USD 65–70 since early August. The Hungarian currency continued to appreciate against the dollar in recent months, and thus oil prices expressed in forints are below our June expectation. The generally tense geopolitical situation – in particular, possible announcements of tariffs on energy imports and escalation of the conflict in the Middle East – may continue to pose substantial risks to global oil price trends. In its September forecast, the EIA (US Energy Information Administration) predicts a decline in the price per barrel, confirming market participants' expectations of lower prices.

In line with the favourable market environment, global gas prices fell to around EUR 32/MWh in September. Trends in domestic and European natural gas purchase prices follow the Dutch TTF gas price, which reached its historic peak at over EUR 300 in August 2022. The global market price of gas rose to a 2-year high in mid-February and then averaged EUR 36.6 in

June. Gas prices continued to fall, supported by favourable weather conditions (moderate cooling demand) and high fill rates at European gas storage facilities. The 7-day moving average of the German Phelix electricity price fell to around EUR 77/MWh in August, following a level of around EUR 120 observed at the beginning of the year.

The budget deficit-to-GDP ratio is forecasted to be 4.1–4.5 percent in 2025, 3.8–4.2 percent in 2026 and 3.2–3.7 percent in 2027. The reduction in the deficit is mainly supported by declining interest expenditures and declining public investments. Efforts to lower the government debt-to-GDP ratio in 2025 are substantially impeded by both the high cash flow deficit and subdued economic performance. A gradual reduction in the deficit may bring the ratio down to below 72 percent by the end of the forecast horizon.

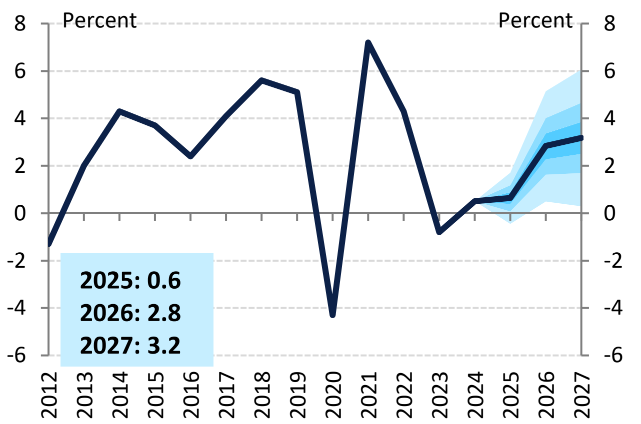
The limited availability of EU funds continues to be a factor of uncertainty for budgetary developments. Hungary has access to a total of EUR 12.2 billion in the 2021–2027 cohesion budget, which is being drawn down continuously. Hungary's absorption rate was 13 percent in early September, while the EU average was 12 percent. Hungary still cannot access the EUR 6.4 billion non-repayable envelope of the Recovery and Resilience Facility (RRF), where payment requests can only be submitted for milestones achieved by mid-2026, according to the current regulations.

Our forecast includes the effects of the announced government measures. In 2025 and 2026, several budgetary measures will increase family incomes in the form of tax cuts, wage and transfer increases. The most significant of these are the increasing of the family tax allowance, the tax exemption for mothers to be introduced in several steps, home creation and renovation subsidies, and the benefit payment to armed forces and law enforcement. Since the previous Inflation Report, housing support for civil servants, the Home Start Programme and wage increases for employees in local public administration have been announced. The budgetary impact of the measures is expected to increase household net income by about 1.5 percent of GDP in 2026 compared to 2025, which is equivalent to 3.0 percent of household consumption, but at the same time, government interest expenditures to households will decrease significantly. The additional incomes are expected to lead to an increase in consumption.

1.2 Real economy forecast

The Hungarian economy may grow at a rate of 0.6 percent this year. Incoming high-frequency data support an expected, moderate acceleration in annual GDP growth. The real economy is characterised by dual trends, as strong growth in household consumption is accompanied by a prolonged decline in investment. We expect a gradual upturn for the rest of this year, resulting in an average annual growth rate of 0.6 percent. We have lowered our growth forecast for this year compared to our June expectations, mainly due to the decline in agricultural production caused by the drought, which was partially offset by more favourable industrial and construction output in the second quarter. From next year onwards, both internal and external factors will contribute to further acceleration in economic growth, with GDP forecast to expand by 2.8 percent in 2026 and 3.2 percent in 2027. Strong consumption dynamics will remain an important growth factor, supported by rising real wages and government programmes. With the economic upturn and the easing of uncertainties in the economic environment, investments will start to grow again from 2026. The large capacity expansion investment projects in recent years will gradually begin production from the end of the year. With the recovery in the European economy and the ramping-up of new production capacities, we expect faster export growth and an increase in Hungary's export market share over the forecast horizon.

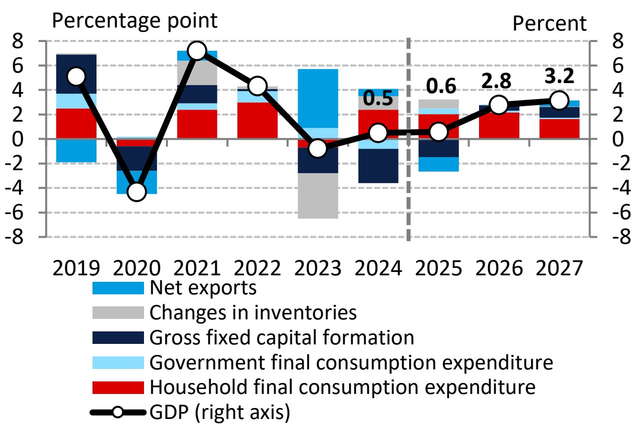
Chart 1-4: Fan chart of the GDP forecast



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

According to our forecast, the Hungarian economy may grow at a rate of 0.6 percent this year, which is 0.2 percentage point lower than our June expectation. We have lowered our growth forecast for this year, mainly due to the decline in agricultural production caused by the drought. This year's agricultural performance is analysed in detail in Box 1-2. However, stronger-than-expected industrial and construction output in the second quarter compared to our June forecast partially offsets the negative impact of agriculture. The incoming high-frequency data support the expected, moderate acceleration in annual GDP growth and a gradual upturn is expected for the rest of the year, supported by consistently strong consumption growth and the gradual normalisation of external economic conditions.

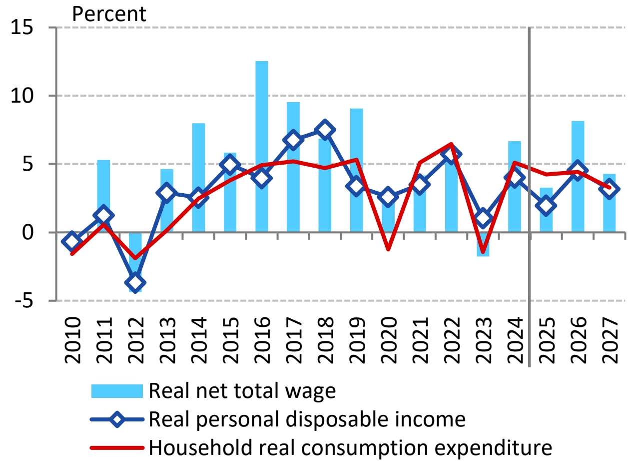
Chart 1-5: Expenditure side decomposition and forecast of GDP



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

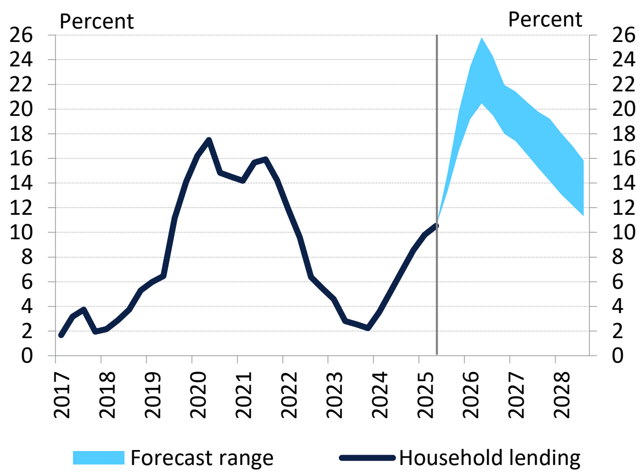
On the production side, this year's GDP growth is mainly supported by the performance of services. Consumption-related services (primarily retail) continue to show growth, which is likely to continue for the rest of the year. The expansion of business services may be aided by the easing of uncertainty and recovery in the producing sectors. The industrial sentiment index has not improved significantly in recent months and remains in negative territory. Analysts expect Germany, the largest destination for industrial exports, to see an upturn in its industry by the end of this year, which could also have a positive impact on domestic developments. Following strong growth in the second quarter, output in the construction industry is likely to continue expanding for the rest of the year, meaning that the sector's growth contribution may be positive overall for the year. The outlook for the construction industry is clouded by the fact that, based on sentiment indicators, industry players' expectations remain unfavourable. However, construction companies' order books at the end of July were slightly higher than one year earlier, and housing permits increased significantly in 2025 Q2.

Chart 1-6: Annual changes in net total wage, personal disposable income and household consumption expenditure in real terms



Source: HCSO, MNB

Chart 1-7: Forecast for household lending



Note: Transaction-based annual growth rate, based on the household loan portfolio of the financial intermediary system. The upper end of the range assumes high borrowing willingness and eligibility.

Source: MNB

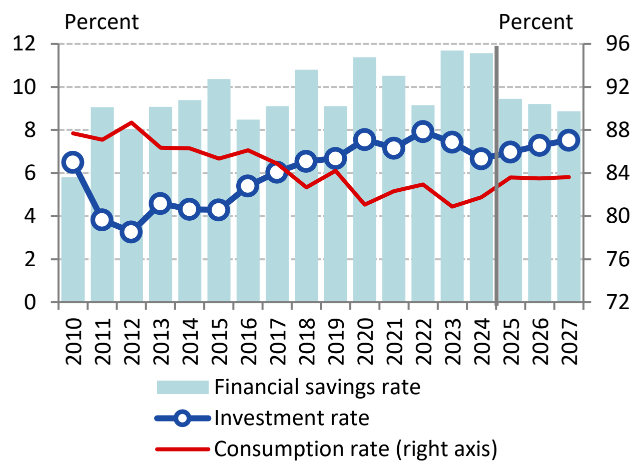
GDP growth is expected to continue at a rate of 2.8 percent in 2026 and 3.2 percent in 2027, which is in line with our June forecast (Charts 1-4 and 1-5). Next year, both internal and external factors will contribute to further acceleration in economic growth. After 2025, household consumption, which has been supported by favourable income trends in recent years, may continue to pick up in 2026, mainly due to announced tax allowances and government measures. Investments from 2026 and net exports from 2027 may support growth, meaning that the structure of growth could be balanced again from 2027 onwards.

Throughout 2025, consumption growth will be the main driver of GDP growth (Chart 1-6). Consumption will continue to expand during the year, supported by rising real wages, dynamic household credit growth and fiscal incentives, as well as a decline in the savings rate from its historically high levels, according to our expectations. In 2026, government measures will temporarily stimulate further growth in consumption. Households' real disposable income may grow by 2.0 percent in 2025 and 4.5 percent next year due to subdued wage dynamics and lower financial transfers. With stimulus effects wearing off, consumption and annual growth in disposable real income may moderate in 2027. According to our forecast, household consumption may grow by 4.2 percent in 2025, 4.4 percent in 2026 and 3.3 percent in 2027.

In 2025 Q2, the annual growth rate of household loans was 10.5 percent, slightly exceeding our previous forecast. The value of housing loans contracted by credit institutions increased by 13 percent in 2025 Q2 compared to the same period of the previous year, which was a high base, while personal loan issuance was 34 percent higher. Based on the responses to the Lending Survey, banks expect the upturn in demand for housing loans seen in 2025 Q2 to strengthen further, thanks to the launch of the Home Start programme, and they also anticipate an upturn in demand for secured consumer loans. As a result of the Home Start programme, household loans may grow significantly, albeit amid considerable uncertainty, with the annual loan growth rate reaching 17–20 percent at the end of 2025 and 18-22 percent in 2026 (Chart 1-7).

In 2025, household savings as a percentage of income may decline versus the previous year. In 2023–2024, the uncertain economic environment and high inflation resulted in an increase in the household savings rate. This year, due to declining government security interest rates and expanding consumption, the savings rate may remain low, while the consumption rate may increase from its

Chart 1-8: Evolution of households' consumption, investment and financial savings as a percentage of personal disposable income



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

Table 1-3: Evolution of gross fixed capital formation and investment rate

	2024	2025	2026	2027
Gross fixed capital formation	-11.1	-6.4	2.0	4.0
Government investments	-21.0	-3.0	-5.2	-6.9
Private investments	-8.6	-7.1	3.6	6.3
Investment rate	23.4	21.7	21.9	22.6
Real investment rate	21.7	20.2	20.0	20.2

Note: In percent. Annual change for gross fixed capital formation; GDP-proportionate value for investment rate. Real investment rate calculated using 2021 prices.
Source: MNB

current level. We also expect the investment rate of households to rise slightly in the future. From 2026 onwards, the investment rate of households will be around 7–7.5 percent and the savings rate around 9.0 percent, while the consumption rate will stabilise at around 83.0 percent (Chart 1-8).

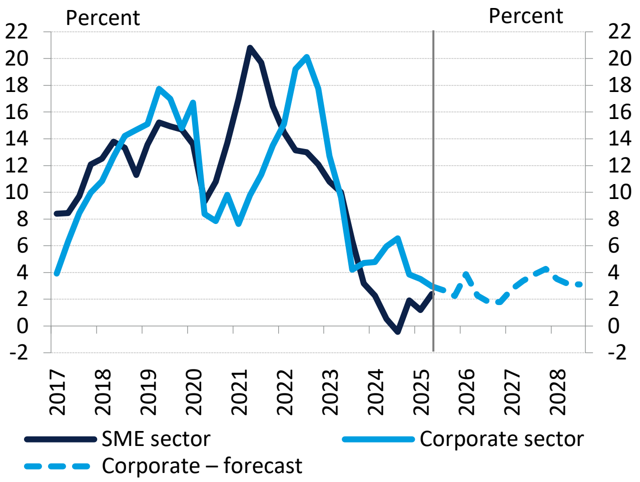
We expect investment volume to contract by 6.4 percent in 2025, followed by expansion of 2.0 percent in 2026 and 4.0 percent in 2027 (Table 1-3). The nominal investment rate is expected to be around 21–23 percent, while the fixed-price investment rate for 2021 is projected at around 20–21 percent over the forecast horizon.

The volume of corporate investment may decline this year but then gradually expand again. This year, corporate investment activity is declining due to uncertainty caused by the tariff war, low capacity utilisation and weak demand. At the same time, starting in 2026, better external economic conditions and a revival in domestic demand, as well as improving confidence, will result in an increase in corporate developments.

There is still no sign of a turnaround in demand for investment loans. In 2025 Q2, the loans outstanding of non-financial corporations vis-à-vis credit institutions and financial enterprises grew at a year-on-year rate of 3.0 percent, exceeding our expectations, while the SME loan portfolio of credit institutions expanded by 2.4 percent (Chart 1-9). The value of new bank loan contracts signed in the second quarter was 36 percent higher than a year earlier, supported by large individual transactions and the conclusion of contracts under the Demján Sándor Programme. Within new corporate loan contracts, subsidised loans accounted for 19 percent, exceeding the 15-percent ratio of the previous year. Based on responses to the Lending Survey, banks continued to see a decline in demand in 2025 Q2, which is not expected to turn into growth in 2025 H2, and they expect a further decline in demand for long-term investment loans. We estimate that the corporate loan portfolio may grow by 2 percent in both 2025 and 2026.

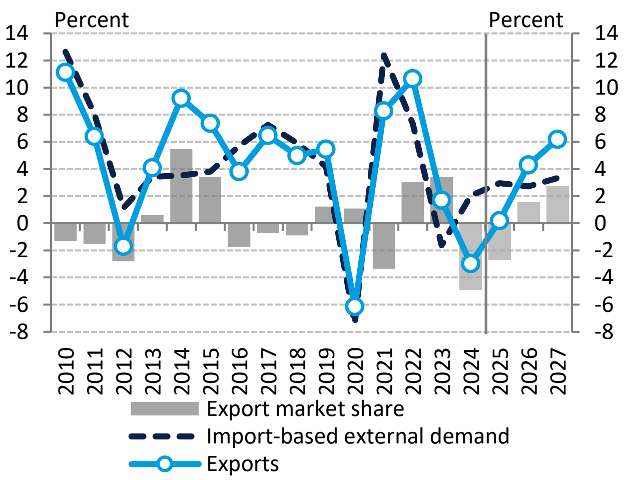
We expect an increase in household investment over the forecast horizon. The Home Start programme, which was launched in September 2025, contributes to the expansion of household lending and investments. With regard to investments which meet the criteria of the programme, we only expect the Home Start programme to directly lead to marginally more new homes being built (due to the status as a preferred investment), but we do expect that the purchases of new and pre-owned homes will result in spending on furnishings and renovations. Household

Chart 1-9: Annual changes 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 entire financial intermediary system.
Source: MNB

Chart 1-10: Changes in export market share



Source: HCSO, MNB

investments may expand by 3.3 percent in 2025, 5.1 percent in 2026 and 3.0 percent in 2027. **The volume of public investment will decline over the forecast horizon, in line with government announcements.**

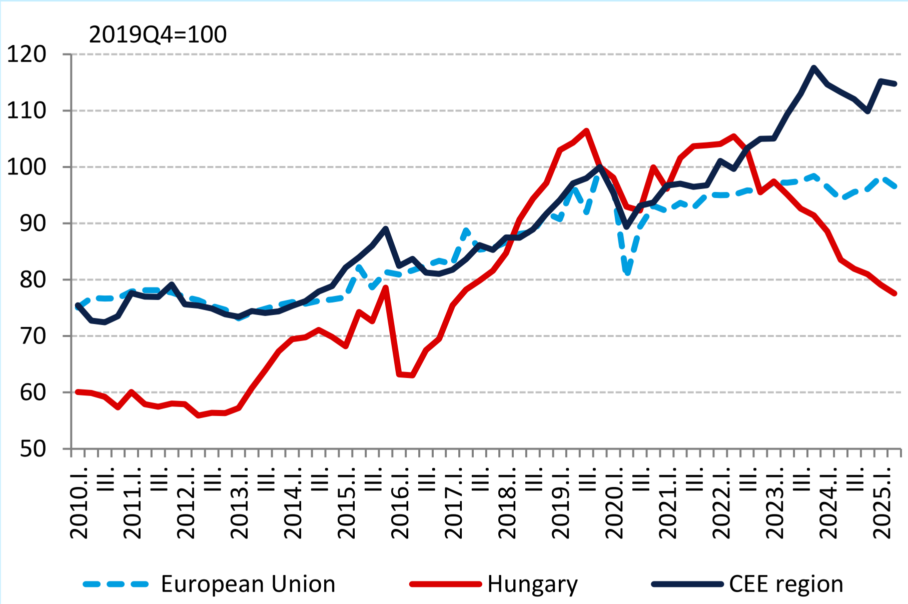
Domestic exports may grow slightly by 0.2 percent this year, following a 3.0-percent decline last year. In addition to the Q2 data falling slightly short of our expectations, continued subdued industrial fundamentals and a further decline in new foreign industrial orders also negatively affected the estimate for this year's export performance. Although European growth prospects have improved somewhat, based on the product structure of Hungarian industry and the state of progress with ongoing investments, activity is only likely to strengthen significantly at the end of this year and the beginning of next year. Capacity utilisation remains low in export-oriented industrial sectors, and Hungary's share of export markets may decline again this year (Chart 1-10). In addition to the new domestic manufacturing capacities coming into production from next year, the European economic recovery could accelerate due to the European military and fiscal stimulus programmes, if the programmes proceed as planned. The transition of investments related to the automotive industry and battery production into active production could contribute 0.5–0.7 percentage points to GDP growth in 2026 and 2027. The recovery in external demand may also have a positive impact on domestic industrial exports. Overall, exports may expand by 4.3 percent in 2026, and Hungary's export market share may also increase again.

After last year's decline, imports may expand again in 2025. In our forecast, import growth in 2025 will be slowed by declining investments and boosted by dynamically expanding household consumption, and may reach 1.9 percent. According to the HCSO's specialised statistics, the expansion in imports was driven by rising imports of energy as well as machinery and transport equipment in the first two quarters, based on product structure. The former is partially justified by higher energy consumption during the colder winter and spring months than last year, which resulted in gas storage facilities being significantly less full than in 2024, meaning that more imports are needed to fill them. Furthermore, energy re-exports have also increased in recent quarters, which may also mean an increase in import data. Thus, the contribution of net exports to growth may be negative this year. From 2026 onwards, imports driven by accelerating exports and domestic demand may grow by 4.6 percent, while in 2027, they may expand by 5.9 percent.

Box 1-2: Impact of low domestic investment activity on domestic capital formation

Domestic investment activity has slowed significantly in recent years, with a decline in investment observed across a wide range of sectors. In 2025 Q2, the level of investment in Hungary was 22.4 percent lower than in 2019 Q4. This means that Hungary's investment dynamics lag significantly behind the average for countries in the region and the European Union (Chart 1-11). According to the latest data, the decline continued in the second quarter on an annual basis, at a rate of 7.0 percent.

Chart 1-11: Investment trends in the European Union, the CEE region and Hungary



Note: Based on gross fixed capital formation in the national accounts. Seasonally and calendar-adjusted data. CEE region: Average for Poland, Czechia, Slovakia, Romania and Croatia.
Source: Eurostat

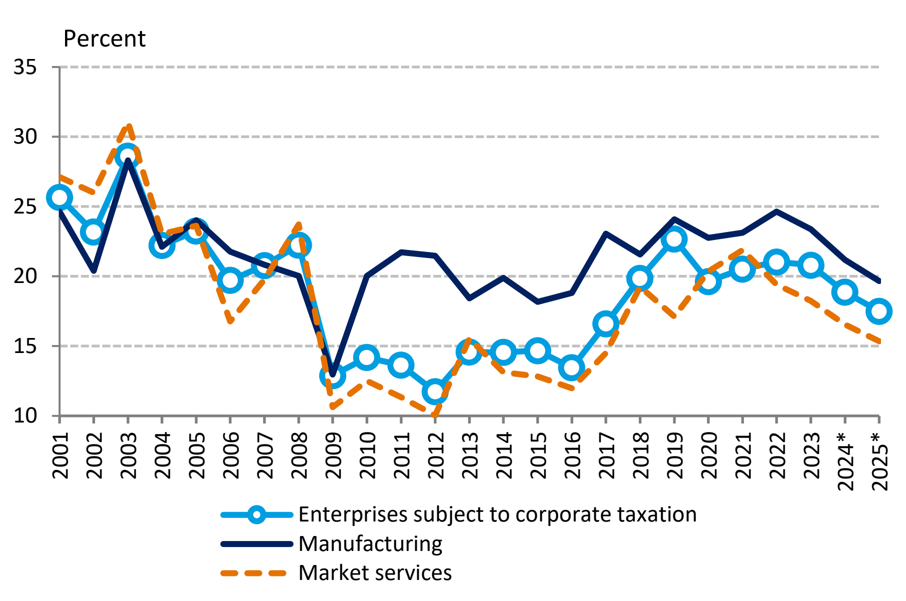
The significant downturn in domestic investment activity also affects the development of capital stock. The contribution of capital to growth was last similarly low in the period following the 2008–2009 financial crisis. The slowdown in capital stock growth results in upward inflation risks compared to previous periods, which may materialise in the medium to long term, making the development of this indicator particularly important for monetary policy.

Measuring capital stock is a complex statistical task, as the stock indicator is not an observable variable but can be derived from macrostatistics and company data. The MNB uses both data sources to examine the impact of low investment on capital stock. In international practice, capital stock is determined using the perpetual inventory method (PIM), a procedure in which capital assets of different types, lifespan and values are valued simultaneously.

Capital stock can also be approximated directly using corporate financial statement information. The use of company-level data further expands the scope of analysis, as analysis can be conducted on other dimensions, such as company size, ownership structure or regional characteristics. However, capital stock calculated from company data may differ significantly from that calculated from macrostatistics, depending on how much of the corporate sector is covered by the taxpayers included in corporate tax returns. The book values reported in corporate tax returns reflect accounting practices, which often feature higher depreciation on capital assets than would be justified by the life and condition of the asset.

The ratio of net investment to capital stock shows that underlying investment trends are pointing towards an expansion of capital stock or that due to their low level, they are only partially able to cover depreciation (Chart 1-12). After peaking in 2019, this indicator gradually fell and it may continue to decline in the wake of subdued investment performance in 2024 and 2025; consequently, it may approach the levels recorded in the post-financial crisis period. Although this was sufficient for a modest further expansion of capital stock in terms of the economy as a whole, according to our calculations, investment is no longer sufficient to maintain capital stock levels at an ever-increasing share of companies.

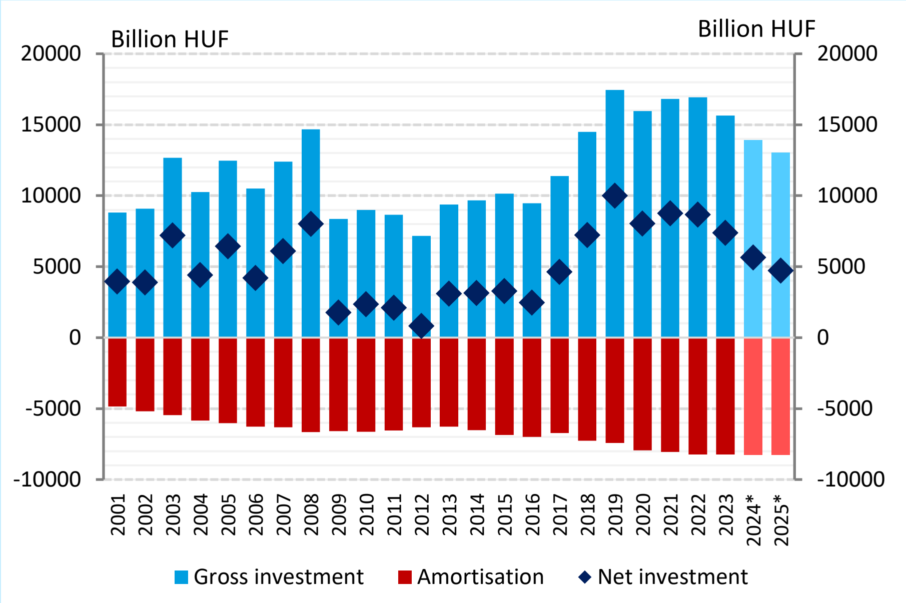
Chart 1-12: Net investment as a percentage of capital stock



Note: Calculated from the annual financial statements of companies subject to corporate income tax between 2001 and 2023. *MNB estimates for 2024 and 2025 based on data from National Accounts and the MNB's September 2025 Inflation Report.
Source: MNB based on HCSO, NTCA, Organisation Register, OPTEN

Company data show that the balance of investment activity and depreciation had deteriorated significantly by 2023, but still contributed approximately HUF 4,700 billion to capital stock growth (Chart 1-13). However, the decline of approximately 11 percent in investment registered in 2024 and the continued decline expected in 2025 may further worsen this balance indicator, causing the rate of capital stock growth to fall back to the level seen during the global financial crisis of 2008/2009. Due to the diversity of the corporate sector, there may be a significant increase in the number of companies that do not cover the depreciation of their capital stock with investments. Although this does not lead to a decline in productive capital in the short term, if this trend persists, it could have a negative impact on potential domestic growth through the devaluation of production assets.

Chart 1-13: Gross and net investment and depreciation as a percentage of GDP in Hungary



Note: Measured at unchanged 2023 prices. Calculated from the annual financial statements of companies subject to corporate income tax between 2001 and 2023. *MNB estimates for 2024 and 2025 based on data from the National Accounts and the MNB's September 2025 Inflation Report.
Source: MNB based on HCSO, NTCA, Organisation Register, OPTEN

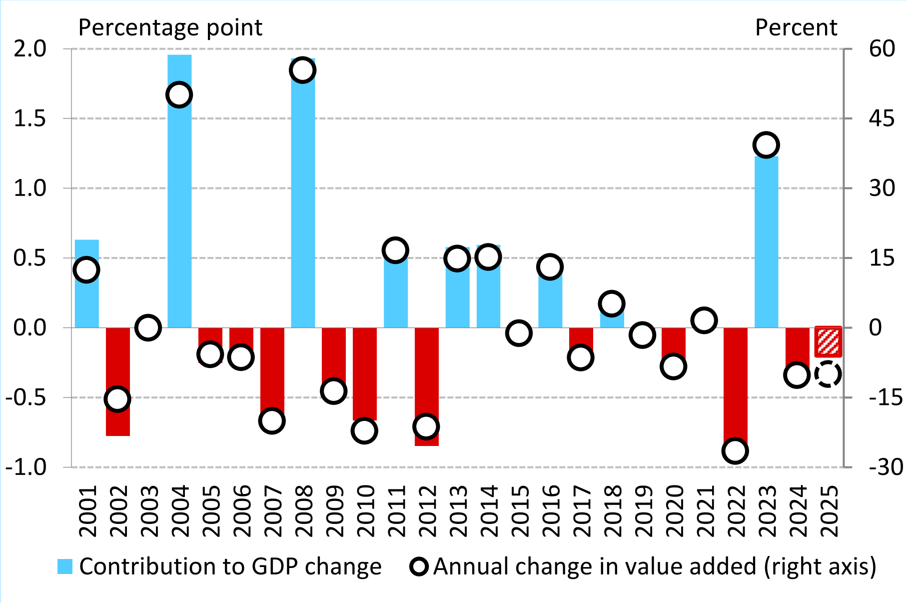
Box 1-3: Expected performance of agriculture

The weight of agriculture in Hungary's GDP is high by European standards, but is also highly volatile due to weather variations. In 2024, agriculture accounted for 2.4 percent of the domestic economy. However, despite its low weight, its value added is highly volatile due to its sensitivity to weather conditions, which can have a significant impact on GDP. During the historic drought of 2022, the value added of agriculture fell by 26.5 percent, reducing GDP growth by 0.9 percentage point that year.

Exposure to the weather mainly affects crop production, the most important component of domestic agricultural production. This year, extremely hot, dry weather in June and lower-than-usual rainfall in April and May may lead to a drop in maize yields, while wheat yields could be slightly higher than last year. According to information provided by the Ministry of Agriculture at the end of August, 5.4 million tonnes of wheat were harvested at an average yield of 5.6 tonnes per hectare, an increase of 2.3 percent over last year. In the case of maize, the unfavourable weather conditions could result in a total harvest of around 4.1 tonnes, according to the Agricultural Economics Institute (AKI). This would represent a drop of almost 24 percent compared to last year's maize harvest. However, the still critical drought situation continues to present substantial downside risks to this year's crop yield.

Based on estimates for this year's cereal harvest, our projections suggest that agricultural value added could fall by about 9 percent in 2025, reducing GDP growth by 0.2 percentage point overall (Chart 1-14). Estimates of expected yields are subject to a high degree of uncertainty due to the autumn harvest, and thus there are significant downside risks to our forecast, given the low rainfall in the summer.

Chart 1-14: Annual change in agricultural value added



Source: HCSO, MNB

In contrast to Hungary, a slight increase in harvests is expected in Europe and globally, which is an important factor in the development of consumer prices for cereal-based foods. The domestic producer price of cereals was 3.5 percent higher in July 2025 compared to the same period a year earlier. EU cereal prices rose by 1.6 percent, according to the latest data from 2025 Q2. At the EU level, the European Commission's forecast foresees favourable yields, which implies weaker producer price growth and dampens the impact of the domestic drought on consumer prices.

With global warming, extreme weather conditions like this year's are expected to become more frequent in Hungary's climate. According to the OECD's most recent comprehensive drought analysis, the area of the world affected by drought doubled between 1900 and 2020. While in the early 1900s the proportion of land area affected was typically below 10 percent of the total land area, in the 2010s it was repeatedly above 30 percent. The analysis shows Hungary as one of the most affected countries in terms of drought impacts.

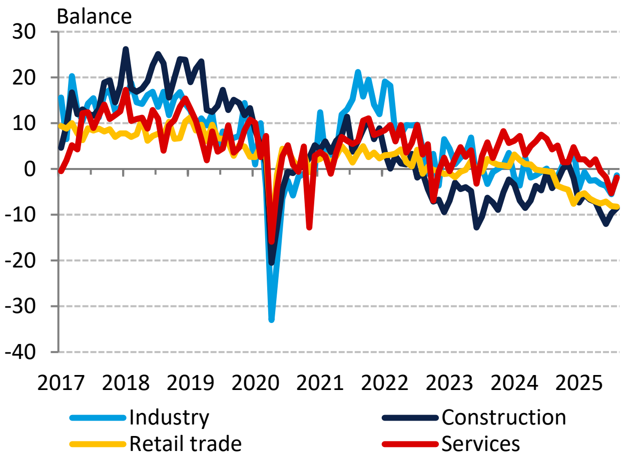
Agriculture also responds to changing climatic conditions by shifting the ratios of different crops, while over the longer term, increasing the proportion of irrigated land can reduce the economic damage caused by drought. Compared to the 2010 average, by 2024 the harvesting area of wheat had fallen by 10.8 percent and that of maize by 20.1 percent; nevertheless, maize and wheat still accounted for more than one-third of the value of agricultural production last year. This year's harvest areas for each crop are not yet known, but the adaptation of Hungarian agriculture to changing weather conditions is demonstrated by the fact that while the area sown with maize has decreased by about 30 percent compared to the average of the 2010s, that of sunflower, which is more tolerant of dry weather, has increased by nearly 20 percent. This means that by 2025, sunflower will occupy 18 percent of the arable land, which is close to the 19-percent share of maize. The exposure of crop production is increased by the low share of irrigated land, which amounted to just 2.6 percent in 2023. Maize is particularly sensitive to water supply and due to its high water demand it can suffer significant damage in drought years.

1.3 Labour market forecast

Companies initially responded to the prolonged unfavourable economic situation by reducing the number of hours worked and cutting labour demand, and by 2025 the number of employees had also started to decrease. According to our current forecast, this trend will continue until mid-2026, after which employment will begin to expand again due to the recovery in economic growth. Wage growth in the years ahead will basically be driven by the minimum wage agreement. In the private sector, we expect average wages to increase by 8.5 percent this year, 9.3 percent in 2026 and 9.4 percent in 2027.

The decline in employment that began in the middle of last year in the main segments of the private sector led to a year-on-year drop in the number of employees in the national economy as a whole in the second quarter of this year. In the recent period, employment has declined both in the manufacturing and services sector. In the Economic Sentiment Indicator (ESI) survey on corporate employment prospects, companies planning to reduce their workforce are in the majority in all sectors surveyed. The highest proportion of companies planning to reduce their workforce are in the construction and retail sectors (Chart 1-15).

Chart 1-15: Employment expectations in the ESI business survey

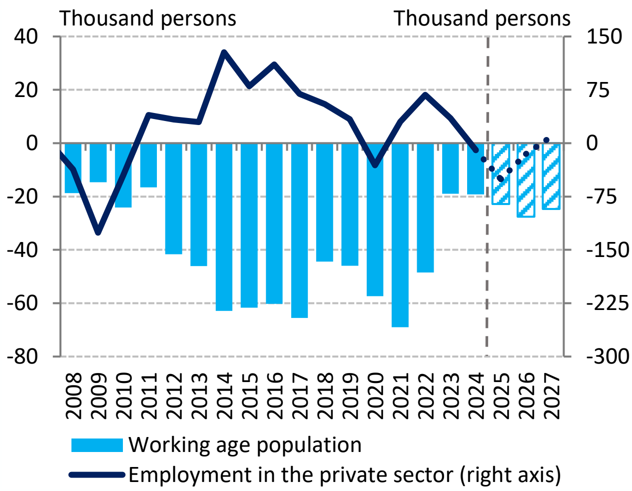


Note: The balance is positive (negative), if the majority of companies plans to hire (lay off). Seasonally adjusted data.
Source: European Commission

Starting from the middle of next year, we expect a slow increase in employment in the private sector, in line with the economic upturn, but we still project a decrease in the annual average next year (Chart 1-16). According to our forecast, employment in the private sector will decline by 1.4 percent in 2025 and 0.4 percent in 2026, before rising by 0.3 percent in 2027.

As labour market activity has decreased in line with the decline in employment, the unemployment rate will only rise slightly in 2025 and 2026 (to 4.6 percent and then 4.8 percent), before falling to 4.5 percent in 2027.

Chart 1-16: Annual change in working age population and number of persons employed in the private sector

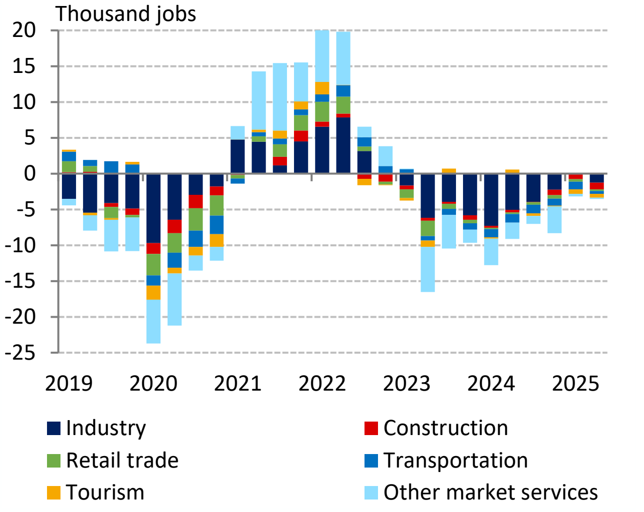


Note: The number of persons employed refers to those aged 15–74, while the projection for working age population refers to those aged 15–64. The number of employed persons is based on the midpoint of the forecast range.
Source: Eurostat, HCSO, MNB

Labour market tightness has eased significantly compared to its peak in mid-2022. On an annual basis, the number of job vacancies declined in all private sector branches (Chart 1-17). Based on seasonally adjusted Q2 data, the number of job vacancies fell in both the manufacturing and the market services sector relative to the previous quarter.

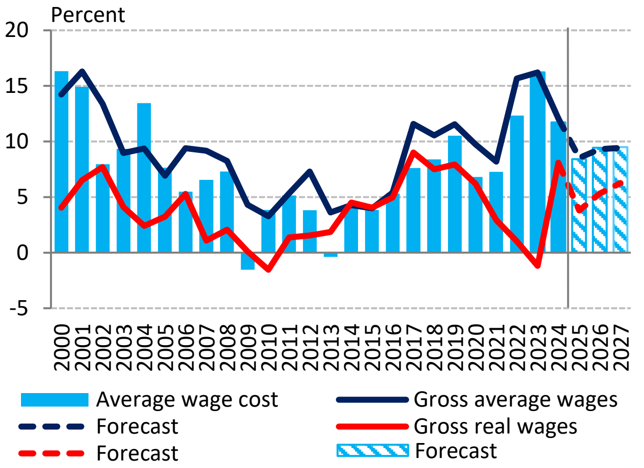
Wages in the private sector may advance at a slower pace this year compared to last year. The increase in the minimum wage – based on the 3-year agreement concluded in November 2024 – will result in tangible wage growth in 2026 and 2027, but global economic uncertainty and foreign trade tensions may lead to stronger cost adjustments by companies. According to the agreement, the mandatory minimum wage will increase by 13 percent in 2026 and 14 percent in 2027, provided that the macroeconomic expectations set as conditions for the implementation of the planned path are met. Next year's wage growth in the national economy will also be significantly influenced by the 6-month service benefit for

Chart 1-17: Annual changes in job vacancies in the private sector



Note: For companies with at least five employees.
Source: HCSO

Chart 1-18: Annual changes in gross average wages and average labour cost in the private sector

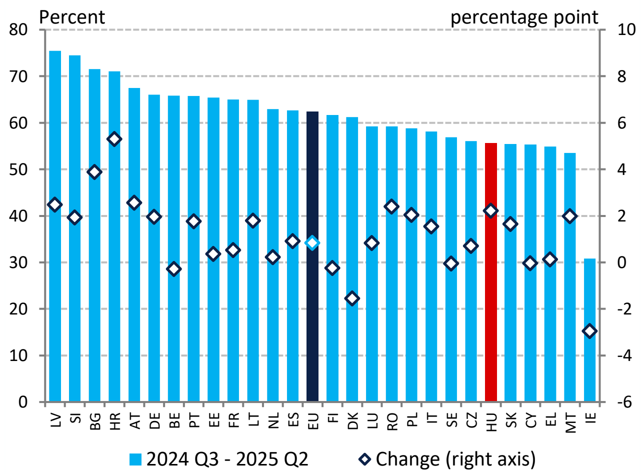


Note: Based on the midpoint of the forecast range.
Source: HCSO, MNB

military and law enforcement personnel, which may result in higher wage growth in the public sector than in the private sector. Wages in the private sector may rise by 8.5 percent this year, followed by nominal wage growth of 9.3 percent in 2026 and 9.4 percent in 2027. Looking at the national economy as a whole, wage growth may amount to 8.7 percent in 2025, 10.5 percent in 2026 and 6.8 percent in 2027. Real wages may rise by 3.8 percent in 2025, 5.3 percent in 2026 and 6.2 percent in 2027 in the private sector (Chart 1-18).

Labour costs may increase by 8.4 percent this year, 9.4 percent next year and 9.5 percent in 2027. The minimum wage increase next year is expected to significantly boost labour costs, especially in labour-intensive sectors. This will generate cost pressure for companies in the short term, but the 1-percentage point social contribution tax reduction envisaged by the government may reduce the additional burden, thus cushioning the inflationary impact of the increase in labour costs. The wage share is an indicator used in the income-side approach to GDP, which compares total labour income to the value of total GDP (at factor cost). In a European Union comparison, this indicator is the sixth lowest in Hungary, 6.8 percentage points below the EU average (Chart 1-19). Examining the wage share alone, it can be seen that there is more room for convergence, but companies' other expenses (energy, rent, etc.) have also increased significantly in the past period, thus narrowing their room for manoeuvre.

Chart 1-19: Adjusted wage share in the EU countries (2025 Q2)



Note: Four-quarter moving averages. Change over the same period last year. 2025 Q1 data for the Netherlands.
Source: Eurostat, HCSO, MNB

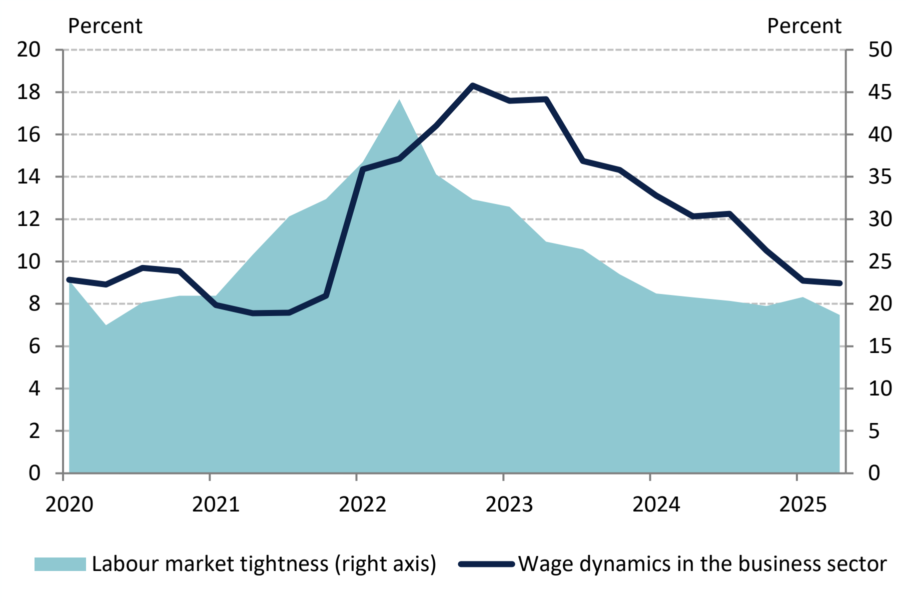
Box 1-4: Labour market adjustment and wage developments

Labour market adjustment to the prolonged period of more subdued economic activity can already be observed at the level of employment in the national economy as well. At present, one key labour market issue is how employment levels will respond to the cyclically weak performance of the real economy. Signs of adjustments on the intensive margin can already be seen since the end of 2023, when the number of hours worked fell and labour capacity utilisation slackened, due to the decline in output. Due to low capacity utilisation, companies are not recruiting new staff, they advertise less job vacancies, often do not fill the positions of employees leaving for retirement or other reasons, and there were already layoffs at some companies. As a result, labour market tightness has eased.

In addition to manufacturing, the decline in employment now also being seen in the market services sector. Until recently, adjustment on the extensive margin, in the form of a reduction in employment, was seen only in certain sectors (primarily in manufacturing), but in the second quarter of this year domestic employment fell by 49,000 on an annual basis, driven by developments in a broader range of sectors. The manufacturing sector saw an annual decline in employment in 2024, as this sector was impacted the most by slack international economic activity and uncertainty about global trade. In the second quarter, signs of declining labour demand were seen in the market services sector as well. According to the latest data, the number of employed did not continue to fall in July, but the figure remains 30,000 lower versus the same period of last year.

In parallel with the easing of labour market tightness, wage growth continued to decelerate in the private sector (Chart 1-20). Private sector wage growth has been slowing since May 2025, with an increase of 9.0 percent registered for the first seven months of this year, compared to annual average growth of 12.0 percent in 2024. In manufacturing, wages have increased less on average this year than in market services, meaning that companies' adjustment can be seen in wage increases.

Chart 1-20: Wage growth in the private sector and labour market tightness



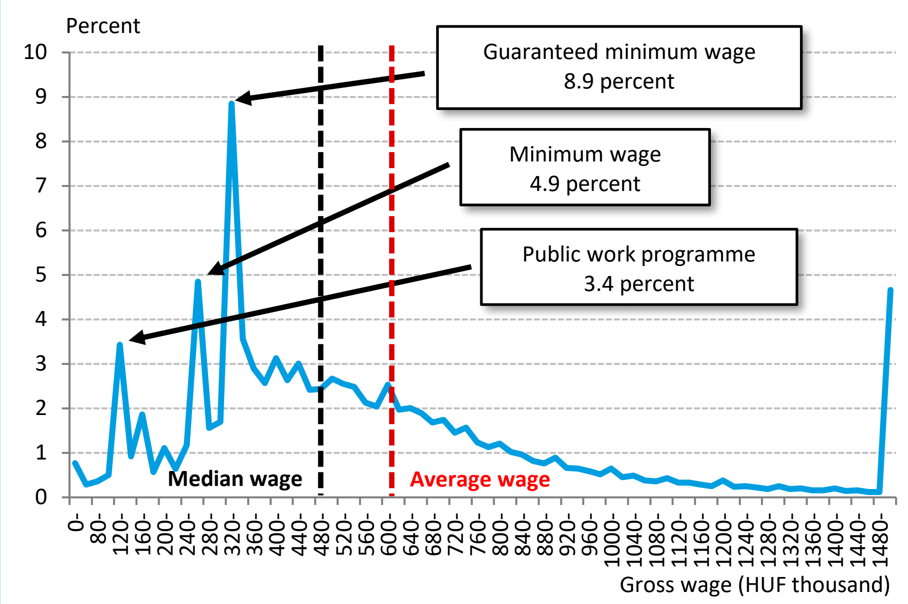
Note: Right axis: vacancies in the private sector as a percentage of the unemployed, seasonally adjusted data.
Source: HCSO, MNB

It is important that next year's increase in the guaranteed minimum wage be in line with developments in the real economy. In addition to developments in labour market tightness, the evolution of wages is influenced by specific measures, such as increases in the minimum wage and the guaranteed minimum wage. According to the agreement reached between labour and employer representatives and the government in November 2024, the minimum wage will increase by 13.0 percent to HUF 328,600 in 2026. Strong wage growth in recent years, weak economic performance, and sharp rises in energy costs and rents are all factors that have narrowed the scope for companies to manage higher labour costs. An increase in the guaranteed minimum wage which is significantly higher than the underlying wage processes may lead to higher inflation and trigger further labour market adjustment.

The increase in regulated wages directly affects around 17 percent of employees, but may have an impact up to the average wage, in order to avoid wage compression. Around 5 percent of employees earn the minimum wage and 9 percent earn the guaranteed minimum wage; including those with earnings in between, the share of employees directly affected by the increase in the mandatory minimum wages amounts to 17 percent (Chart 1-21). However, the increase in regulated wages may also affect higher earning groups, due to efforts to avoid wage tensions arising as a result of wage compression;[1] according to our estimate, this may influence of the development of wages up to the average wage. The exact level of the increase in the guaranteed minimum wage in 2026 and 2027, affecting a larger group of employees, was not agreed last November, but according to the text of the agreement it will be determined based on developments in productivity and inflation.

[1] When the wage of lower-paid, less experienced, less skilled, and less productive workers catches up with the earnings of previously higher-paid employees.

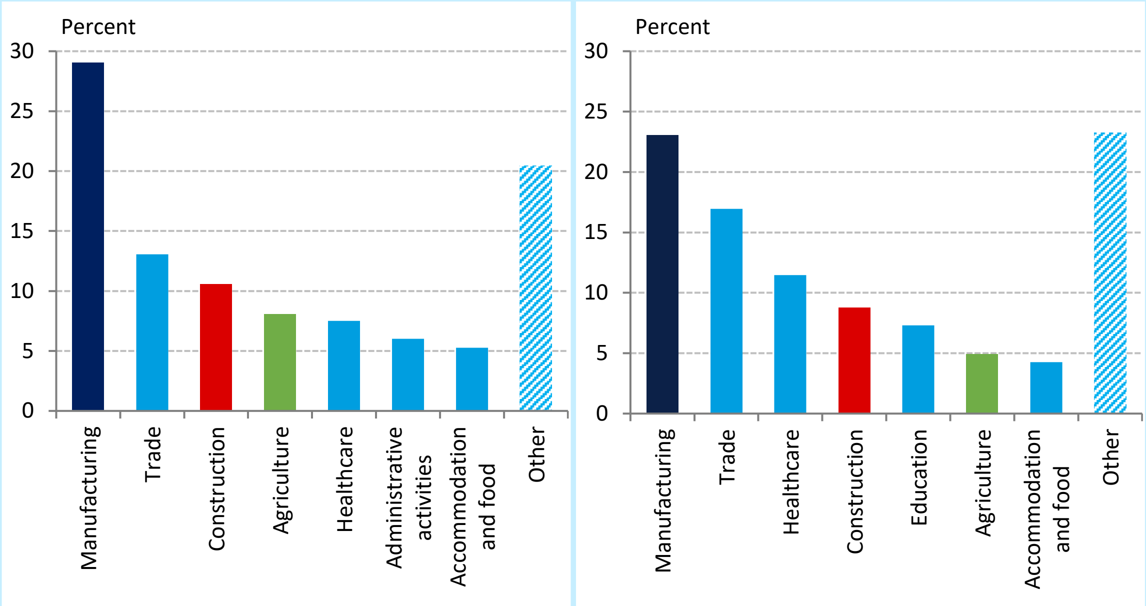
Chart 1-21: Distribution of earnings in Hungary (2024)



Note: Ratio of the number of earners in a given category to the number of earners in the contribution database of the NTCA. May 2024 data.
Source: NTCA

The increase in regulated wages may primarily place a greater burden on the SME sector and manufacturing. Large corporates are less exposed to minimum wage increases because of their higher average wage levels. The number of people earning the minimum wage and guaranteed minimum wage is highest in manufacturing (Chart 1-22). Thus, raising regulated wages may be a major challenge for manufacturing, which is the most affected by external trade uncertainties and the weak performance of the European economy. The number of minimum wage earners is also high in trade, construction and agriculture, while the number of people earning the guaranteed minimum wage is significant in trade, healthcare and construction. Raising minimum statutory wages in excess of the economic fundamentals may also cause difficulties in branches of the market services sector where the number of minimum statutory wage earners is high and where there is already adjustment along the extensive margin to the real economic cycle (e.g. accommodation and food services; administrative and support service activities). An increase in labour costs outpacing productivity may pose a risk to companies' financial management also in light of the labour hoarding phenomenon observed in several sectors.

Chart 1-22: Distribution of minimum wage (left panel) and guaranteed minimum wage (right panel) earners across sectors of the national economy



Note: 2025 Q1 data.

Source: HCSO (Labour Force Survey)

Table 1-4: Changes in projections compared to the previous Inflation Report

	2024	2025		2026		2027	
	Actual	Previous	Current	Previous	Current	Previous	Current
Inflation (annual average)							
Core inflation	4.6	4.9	4.7	4.0	3.9	3.0	2.9
Core inflation excluding indirect tax effects	4.6	4.7	4.4	4.0	3.9	3.0	2.9
Inflation	3.7	4.7	4.6	3.7	3.8	3.0	3.0
Economic growth							
Household final consumption expenditure	5.1	3.9	4.2	4.2	4.4	3.3	3.3
Final consumption of government[1]	-3.7	0.7	2.2	0.6	0.6	0.4	0.4
Gross fixed capital formation	-11.1	-5.5	-6.4	1.6	2.0	4.0	4.0
Domestic absorption	-0.1	0.8	1.8	2.8	2.9	2.8	2.8
Exports	-3.0	0.5	0.2	4.5	4.3	6.2	6.2
Imports	-4.0	0.6	1.9	4.7	4.6	5.9	5.9
GDP	0.5	0.8	0.6	2.8	2.8	3.2	3.2
Labour productivity[2]	0.4	0.9	0.5	3.2	3.2	3.0	3.0
External balance [3,6]							
Current account balance	2.2	2.0	1.3	2.2	1.4	2.5	1.6
Net lending	2.6	3.1	2.3	3.6	2.7	3.7	2.9
Government balance [3]							
ESA balance	-4.9	(-4.4) - (-4.1)	(-4.5) - (-4.1)	(-4.0) - (-3.7)	(-4.2) - (-3.8)	(-3.5) - (-2.9)	(-3.7) - (-3.2)
Labour market							
Whole-economy gross average earnings[4]	13.2	9.2	8.7	10.5	10.5	7.0	6.8
Whole-economy employment	0.0	-0.4	-0.8	-0.4	-0.5	0.2	0.2
Private sector gross average earnings[4]	12.0	9.1	8.5	9.3	9.3	9.4	9.4
Private sector employment	-0.3	-0.8	-1.4	-0.3	-0.4	0.2	0.3
Unemployment rate	4.5	4.5	4.6	4.8	4.8	4.5	4.5
Private sector real unit labour cost	5.0	0.8	1.2	1.1	1.2	0.2	0.3
Household real income[5]	4.0	2.5	2.0	4.4	4.5	3.1	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 the 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] For 2024, external trade data from GDP was taken into account.

Table 1-5: MNB baseline forecast compared to other forecasts

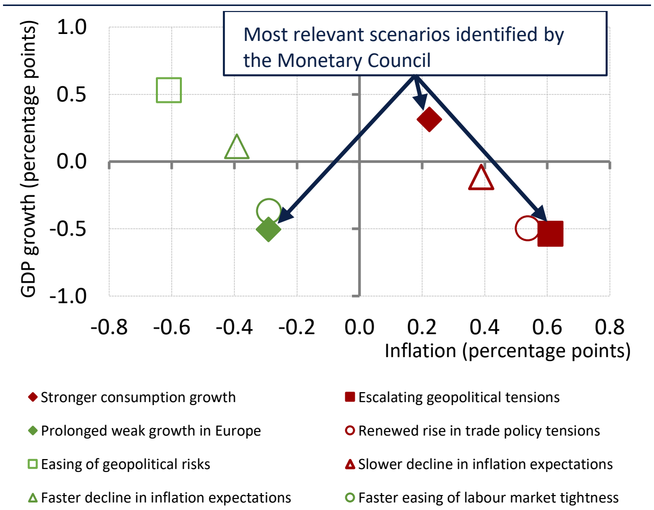
	2025	2026	2027
MNB (September 2025)	4.6	3.8	3.0
Consensus Economics (August 2025)[1]	4.5 - 4.6 - 4.8	3.3 - 3.9 - 4.6	
European Commission (May 2025)[2]	4.1	3.3	
IMF (April 2025)	4.9	3.6	3.1
OECD (June 2025)	4.9	3.6	
Reuters survey (August 2025)[1]	3.7 - 4.5 - 4.8	3.2 - 3.9 - 4.6	3.0 - 3.6 - 4.6
MNB (September 2025)	0.6	2.8	3.2
Consensus Economics (August 2025)[1]	0.3 - 0.7 - 1.2	1.7 - 2.6 - 3.2	
European Commission (May 2025)[2]	0.8	2.5	
IMF (April 2025)	1.4	2.6	2.8
OECD (June 2025)	0.9	2.4	
Reuters survey (August 2025)[1]	0.5 - 0.6 - 0.8	1.7 - 2.5 - 2.9	2.3 - 2.9 - 3.5
MNB (September 2025)	1.3	1.4	1.6
European Commission (May 2025)[2]	2.0	1.5	
IMF (April 2025)	1.0	1.1	1.2
OECD (June 2025)	1.6	0.5	
MNB (September 2025)	(-4.5) - (-4.1)	(-4.2) - (-3.8)	(-3.7) - (-3.2)
Consensus Economics (August 2025)[1]	(-5.5) - (-4.7) - (-4.1)	(-6.6) - (-4.5) - (-3.5)	
European Commission (May 2025)[2]	-4.6	-4.7	
IMF (April 2025)	-4.6	-4.2	-4.2
OECD (June 2025)	-4.2	-4.0	
Reuters survey (August 2025)[1]	(-5.0) - (-4.7) - (-4.4)	(-5.0) - (-4.6) - (-4.4)	(-4.3) - (-3.9) - (-3.5)
MNB (September 2025)	1.6	1.6	2.2
ECB (June 2025)[4]	1.2	1.0	1.3
Consensus Economics (June 2025)[2]	1.1	1.5	
European Commission (May 2025)[2]	1.1	1.6	
IMF (July 2025)[2]	1.1	1.6	1.9
OECD (June 2025)[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 weighting system of the MNB, which is also used for the calculation of the Bank's own external demand indices. Certain institutions do not prepare forecast 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 Effects of alternative scenarios on our forecast

The Monetary Council highlighted three alternative risk scenarios around the baseline projection in the September Inflation Report. The alternative scenario featuring stronger consumption growth assumes a higher growth and inflation trajectory than the baseline scenario, which is consistent with tighter monetary policy conditions. The scenario assuming an escalation in geopolitical tensions is consistent with more subdued economic growth and higher inflation than in the baseline scenario, which also means tighter monetary conditions. The scenario featuring a prolonged period of weak growth in Europe is consistent with lower growth and inflation than in the baseline scenario, which may be accompanied by looser monetary conditions. In addition to the highlighted scenarios, the Monetary Council discussed alternative scenarios involving a renewed rise in trade policy tensions, an easing of geopolitical risks, a slower decline in inflation expectations, a faster decline in inflation expectations and a faster easing of labour market tightness.

Chart 2-1: Risk map: effect of alternative scenarios on the baseline forecast



Note: The risk map presents the average difference between the inflation 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

Stronger growth in consumption

The annual growth rate of regular wages slowed in July, both in the national economy as a whole and in the private sector. Although there was an acceleration in the public sector, overall wage growth continued to decelerate in line with the trend. In July 2025, average earnings (calculated without bonuses) rose by 8.5 percent in the national economy, 8.1 percent in the private sector and 10.1 percent in the public sector compared to the previous year.

Consumer confidence began to rise in August but remains at a low level. The consumer confidence index published by the economic research institute GKI was nearly 3 points higher in August than in the previous month, thus advancing to a 4-month high. Households assessed their financial situation over the past twelve months as noticeably improving, while their financial outlook for the next twelve months was deemed as slightly improving. In addition, the country's economic situation over the next twelve months was also expected to be more favourable.

Next year's increase in the minimum wage and guaranteed minimum wage may have a larger impact on wage developments in the private sector than in the past, and the proportion of transfers received spent on consumption may also increase. As part of the government's 3-year minimum wage increase programme, the minimum wage will rise by 13 percent from 1 January 2026. In addition, the guaranteed minimum wage may also increase significantly starting next year. Furthermore, government income-raising measures may also contribute to boosting disposable income.

If the alternative scenario materialises, the additional income resulting from the increase in the minimum wage and the guaranteed minimum wage, as well as the income-increasing steps implemented in the budget, will lead to faster growth in consumption, accompanied by an increase in consumer confidence. This scenario is consistent with a higher growth and inflation path than in the baseline and requires tighter monetary policy conditions.

Escalating geopolitical tensions

As geopolitical tensions escalate, the performance of economies exposed to armed conflict becomes more subdued and the risk perception of their immediate environment deteriorates, while volatility in energy markets may increase. The deadlock in negotiations aimed at resolving ongoing armed conflicts may lead to the prolongation or even escalation of these conflicts, thereby increasing risk aversion towards the Central and Eastern European region. As a result of the escalation, capital outflows may occur from domestic financial markets and risk premiums may rise. If peace negotiations stall, attacks on gas and oil pipeline infrastructure may continue, thus elevating risks to security of supply. These events cause commodity prices to rise, which means a worsening external balance position and higher external inflationary pressure for the Hungarian economy, which is a commodity importer. At the same time, external demand is declining.

As conflicts escalate, domestic actors become more cautious and the general economic outlook deteriorates. The decline in household and business confidence negatively affects the pace of growth in domestic demand.

In our alternative scenario, we anticipate an escalation of geopolitical tensions. Further escalation of armed conflicts could result in volatile energy market developments and higher energy prices, which would weaken Hungary's external balance position. The deterioration in the region's risk perception and external balance jointly increases the domestic risk premium. Based on the above, the scenario is consistent with a path of higher inflation and lower growth compared to the baseline scenario, as well as tighter monetary conditions.

Prolonged weak growth in Europe

In 2025 Q2, the European Union and Germany both recorded slower year-on-year GDP growth. GDP expanded at a year-on-year rate of 1.6 percent in the European Union and 1.5 percent in the euro area in 2025 Q2. The economic performance of Hungary's main trading partner, Germany, grew by 0.2 percent during this period, while its industrial production fell by 3.6 percent in June 2025 versus the same prior-year period.

Based on forward-looking indicators, the manufacturing Purchasing Managers' Index (PMI) rose in August in both the euro area and Germany. The German manufacturing PMI rose to 49.8 points remaining slightly below the threshold value. According to a survey by the Ifo Institute, the outlook for the German manufacturing industry, especially vehicle manufacturing, remains unfavourable. The Economic Sentiment Indicator (ESI) for the manufacturing industry in the euro area improved by 0.9 points in August to 50.7, exceeding the neutral level (balance indicator of 50).

Market analysts continue to forecast modest growth in the euro area for 2025 and 2026. Based on the median of Bloomberg analysts' expectations, the euro area economy may grow by 1.1 percent in both 2025 and 2026, while Germany's economy may grow by 0.3 percent and 1.0 percent, respectively. At the same time, the global economy is expected to grow by 2.9 percent in both years.

In Hungary, industrial export sales remained at a low level. In July, the volume of vehicle manufacture increased slightly, rising by 0.1 percent, compared to the same month last year, while electrical equipment production fell by 8.3 percent compared to a year earlier.

If the risk scenario of prolonged weak growth in Europe materialises, growth in the European Union, particularly in Germany, and consequently in Hungary, will be more moderate than in the baseline scenario. The slowdown in the European Union economy is further dampening growth prospects for the German export sector. The assumed scale of fiscal stimulus measures announced in the European Union and Germany may be lower than the baseline scenario, and their implementation may be delayed. The improving economic growth indices in recent months are primarily due to the inventory cycle in the USA. 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, a lower domestic inflation path compared to the baseline is achieved, due to lower external inflation, which is consistent with looser monetary conditions.

Other risks

In addition to the highlighted scenarios, the Monetary Council considered five further alternative paths.

In a risk scenario featuring a renewed rise in trade policy tensions, we anticipate protracted disputes and the imposition of higher tariffs than currently expected. All of this increases import costs, and the international environment, which becomes more uncertain as a result of the imposition of additional tariffs, is expected to lead to an increase in long-term yields in developed countries, thereby significantly raising the vulnerability of the Central and Eastern European region. As a result, this scenario may lead to higher risk premiums for regional economies. Stronger trade barriers also have a negative impact on external demand. Compared to the baseline scenario, this scenario is consistent with a higher inflation and lower growth path and tighter monetary policy conditions overall.

The scenario assuming an easing of geopolitical risks anticipates a reduction in the armed conflicts currently ongoing around the world, leading to less risk aversion towards the region and lower energy prices. As a result, Hungary's external balance position improves and the risk premium falls. As the conflict eases, caution eases and the overall economic outlook improves. Domestic demand picks up as household and business confidence rises. This scenario is consistent with stronger economic growth, lower inflation and looser monetary conditions than in the baseline.

In a scenario assuming a slower decline in inflation expectations, households' inflation expectations moderate more slowly. As a result, consumer confidence declines, leading to more subdued household consumption compared to the baseline scenario. This scenario is consistent with higher inflation, somewhat lower growth and tighter monetary policy conditions.

In a scenario assuming a faster decline in inflation expectations, committed measures by the central bank and the government, a stronger exchange rate and rising consumer confidence moderate inflation expectations faster than assumed in the baseline scenario, enabling more rapid disinflation. This scenario is consistent with lower inflation and slightly higher growth than in the baseline scenario, thus necessitating looser monetary conditions.

In a scenario assuming a faster easing of labour market tightness, companies adapt to the prolonged weak domestic economy and persistently subdued external demand more strongly than expected in the baseline scenario, reducing their labour demand to a greater extent in conjunction with further deceleration in nominal wage growth. With consumption moderating and wage growth slowing, this scenario is consistent with a lower inflation and growth path, which warrants looser monetary conditions.

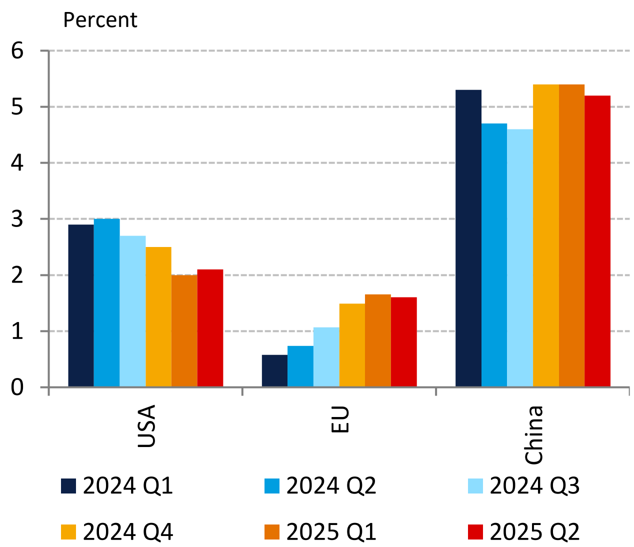
3 Macroeconomic overview

3.1 Evaluation of international macroeconomic developments

In the past quarter, the USA concluded a number of trade agreements, leading to a slight reduction in tariff policy uncertainty, while the global growth outlook improved moderately. The Chinese economy continues to expand at a brisk pace, while in the USA economic growth returned on a quarterly basis. GDP grew by 1.6 percent in the EU and 1.5 percent in the euro area in 2025 Q2 compared to the same period a year earlier, slightly above expectations. In the USA, inflation has risen again in recent months, following a temporary decline, while risks in the labour market have increased. At its July rate-setting meeting, the Federal Reserve kept the target range for the policy rate unchanged at 4.25–4.50 percent and then lowered the target range for the federal funds rate by 25 basis points in September. At the press conference following the September decision, Jerome Powell stated that the emphasis of the Fed's dual mandate had shifted toward the labour market, which justified the move towards a more neutral monetary policy stance. The ECB left its interest rate conditions unchanged at its rate-setting meetings in July and September, keeping its benchmark deposit rate at 2.0 percent. In the region, the Czech and Romanian central banks left their policy rates unchanged, while the Polish central bank cut interest rates by 25 basis points in July and again in September.

The US economy expanded by 2.1 percent year on year and by 0.8 percent on a quarterly basis in 2025 Q2 (Chart 3-1). GDP growth on a quarterly basis was mainly driven by a more dynamic increase in consumption compared to the previous quarter. In the first quarter, imports surged to avoid tariff increases, which was reflected in higher inventories, but this trend then reversed in the second quarter. Imports fell significantly, the positive impact of which was offset by the development of inventories.

Chart 3-1: GDP growth in the world's leading economies

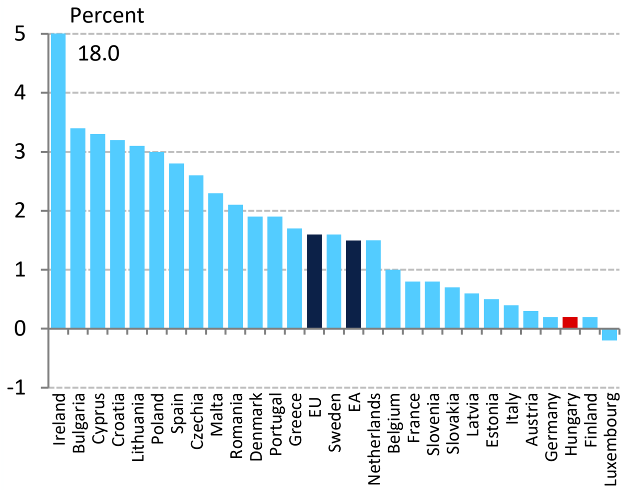


Note: Annual growth. In the case of the EU, the calculation is based on seasonally and working day adjusted data.
Source: Trading Economics, FRED, Eurostat

In 2025 Q2, China recorded annual growth of 5.2 percent and quarterly growth of 1.1 percent (Chart 3-1). Growth was supported by both services and industrial production. On the consumption side, the main driver of growth was household consumption. The latest data, which are for August, shows a slowdown in exports. Value of exports expanded by 4.4 percent year-on-year, the slowest pace of growth since February, reflecting an easing of stockpiling prior to tariff increases. The higher tariffs are causing a rebalancing of Chinese exports: exports to the US fell by 33.1 percent, while exports to ASEAN countries (+22.5 percent) and the EU (+10.4 percent) increased. Chinese exporters may continue to try selling to the US through countries that are subject to lower tariffs, while some of the goods are being diverted to new markets. The value of imports rose at a modest pace, by 1.3 percent in August.

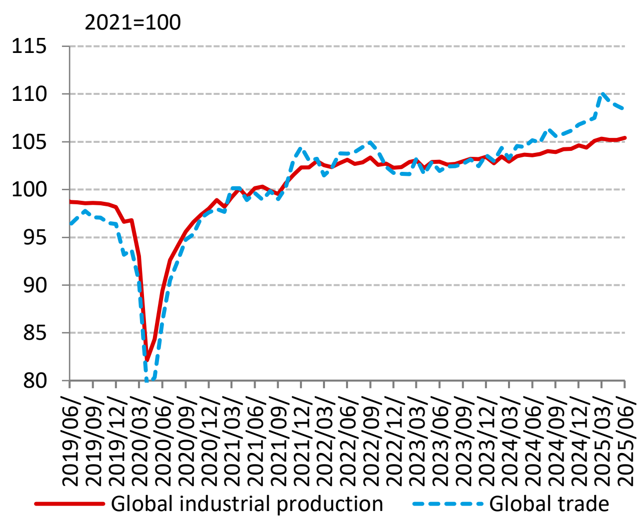
In 2025 Q2, the EU and euro area economies expanded at year-on-year rates of 1.6 percent and 1.5 percent, respectively, on a seasonally and calendar-adjusted basis (Chart 3-1). Overall, the performance of the economies in Europe was slightly better than the expectations. Value

Chart 3-2: Annual GDP change in EU countries in 2025 Q2



Note: Seasonally and calendar adjusted data.
Source: Eurostat

Chart 3-3: Development of global industrial production and global trade



Note: Based on seasonally adjusted data.
Source: CPB

added in Hungary's main trading partner, Germany, increased by 0.2 percent on an annual basis in 2025 Q2 (Chart 3-2). In the countries in the region, GDP also increased in Poland (+3.0 percent), Czechia (+2.6 percent), Romania (+2.1 percent) and Slovakia (+0.7 percent) versus the same prior-year period. The EU economies as a whole grew by 0.2 percent compared to the previous quarter, with three countries publishing GDP declines on a quarterly basis so far: Italy (-0.1 percent), Germany (-0.3 percent) and Finland (-0.4 percent). Industrial production in the EU as a whole expanded (+1.1 percent) in year-on-year terms in 2025 Q2, but Germany's industrial production fell by 1.8 percent.

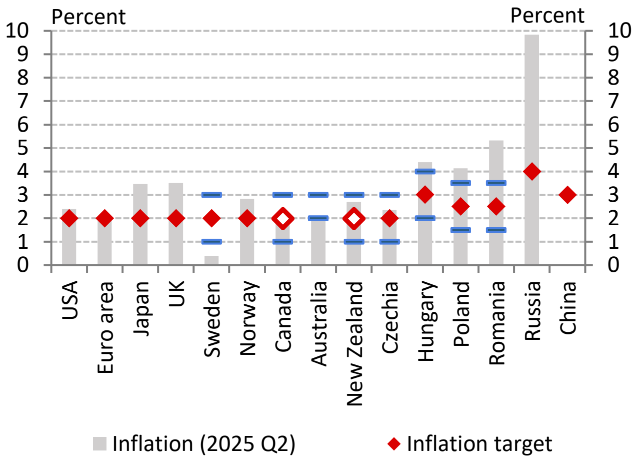
Trade agreements have reduced uncertainty, but international economic activity remains fragile. Unemployment levels in advanced economies typically remain low by historical standards. Based on sentiment indicators, consumer and business confidence in the EU economies has practically stagnated in recent months, while the PMIs have risen slightly above the 50-point growth threshold. Some of the US tariff increases and bilateral negotiations have been agreed, with a general tariff of 15 percent on imports of goods from the EU coming into force in August. The result of the agreement is more favourable than the previously suspended tariff levels, but still represents a substantially higher tariff burden than last year.

Global goods trade (+3.9 percent) and industrial production (+1.6 percent) continued to rise year on year in 2025 Q2 (Chart 3-3). Global imports, however, declined from the elevated level seen in the first quarter due to stockpiling to pre-empt tariff increases, mainly owing to a sharp drop in US imports (-18.1 percent).

Inflation in the USA has risen again in recent months, following a temporary decline. Annual CPI inflation advanced from 2.4 percent in May to 2.7 percent in June and remained unchanged in July. In August, the indicator rose to 2.9 percent. Annual PCE inflation rose from 2.4 percent in May to 2.6 percent in June, with the rate remaining static at 2.6 percent in July. Producer prices in the USA rose by 3.1 percent in July from a rate of 2.4 percent in June and the indicator stood at 2.6 percent in August. The core producer price index, which reflects underlying trends, also rose sharply to 3.4 percent in July, then dropped to 2.8 percent in August.

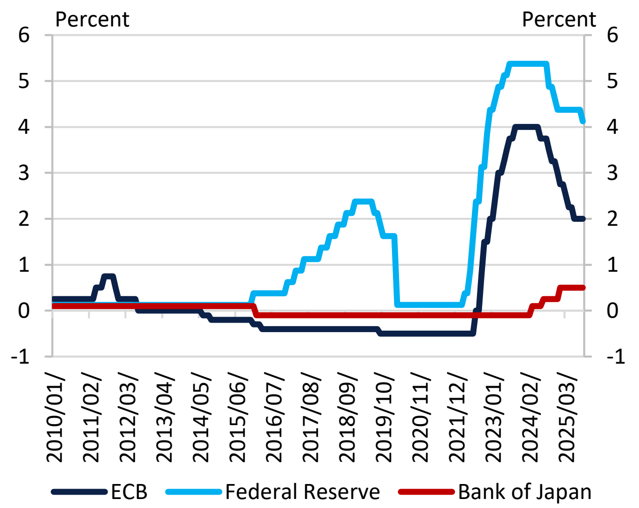
According to the revision by the US Bureau of Labor Statistics (BLS), employment growth has been substantially weaker than previously reported. Due to the revision, between April 2024 and March 2025, the number

Chart 3-4: Inflation targets of central banks and actual inflation



Note: The blue lines represent the inflation control range in Australia, Canada and New Zealand, while in other countries they mark a permissible fluctuation band. In Canada and New Zealand the mid-point of the target band is accentual, which is marked by empty diamond.
Source: OECD, FRED, National Institute of Statistics Romania, Statistics Sweden, Federal State Statistics Service

Chart 3-5: Key interest rates of globally important central banks



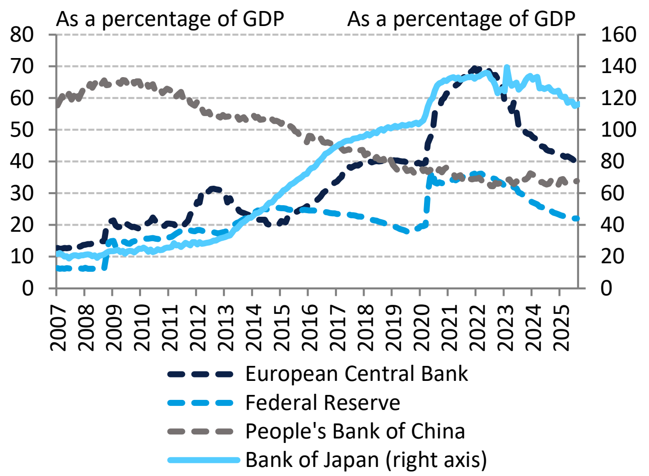
Note: Overnight deposit rate (ECB), midpoint of the federal funds target range (Federal Reserve).
Source: Bloomberg

of non-farm payroll employees increased by 911,000 less than initially reported. In addition, according to the most recent data, 22,000 new non-farm jobs were created in August, a figure that fell sharply from the value observed in the first quarter. Trade and migration policies affect both the demand and the supply side of the labour market. As a result, the unemployment rate has not changed significantly, but the activity rate has fallen in recent months and risks in the labour market have increased.

At its July rate-setting meeting, the Fed left the target range for the federal funds unchanged at 4.25-4.50 percent and then subsequently lowered the target range for the federal funds rate by 25 basis points in September (Chart 3-5). The September decision was not unanimous, as one decision-maker voted for a 50-basis point rate cut. Economic activity growth moderated in the first half of the year, while inflation remained slightly above the central bank's target of 2 percent. According to the central bank's press release in September, the unemployment rate had increased slightly, but remained low. The Fed's Open Market Committee confirmed that it was prepared to adjust monetary conditions if emerging risks prevent achievement of the Committee's objectives. After the rate-setting meeting in July, in relation to the tariffs, Jerome Powell said that more time was need to observe the effect of such on the economy. At the September press conference, Powell stated the emphasis of the Fed's dual mandate had shifted toward the labour market. The central bank governor described the 25-basis point rate cut as a risk management measure, adding that in his view it does not in itself represent a material shift. However, he noted that the interest rate path was capable of supporting the labour market. Based on the decision-makers' September forecast, more interest rate cuts may occur this year. In recent months, the central bank has not changed the pace of its quantitative tightening. The Fed's balance sheet total at the beginning of September 2025 stood at USD 6,652 billion, equivalent to 21.9 percent of GDP (Chart 3-6).

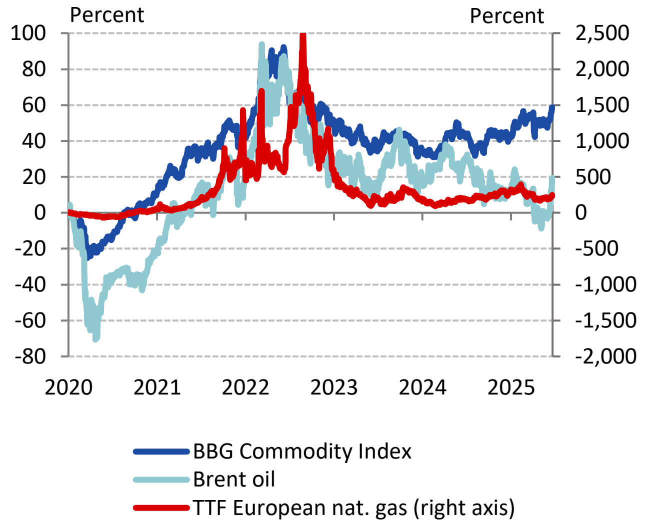
At its July and September rate-setting meetings, the Bank of Japan held its policy rate steady at 0.5 percent (Chart 3-5). The annual rate of inflation eased from 3.5 percent in May to 3.3 percent in June and 3.1 percent in July, before falling to 2.7 percent in August. In its July inflation forecast, the central bank raised its inflation expectations for this year, mainly due to rising food prices. According to the new forecast, the inflation rate will be 2.7 percent in 2025, instead of 2.2 percent as previously estimated. According to Kazuo Ueda, Governor of the Bank of Japan, it is not too late to raise interest rates and he does

Chart 3-6: Balance sheet totals of globally important central banks



Source: Databases of central banks, Eurostat, FRED

Chart 3-7: Commodity prices



Note: The figure shows the change compared to January 2020.
Source: Bloomberg

not forsee this becoming a risk in the period ahead. The balance sheet total of the Bank of Japan stood at 116.2 percent of GDP in September (Chart 3-6).

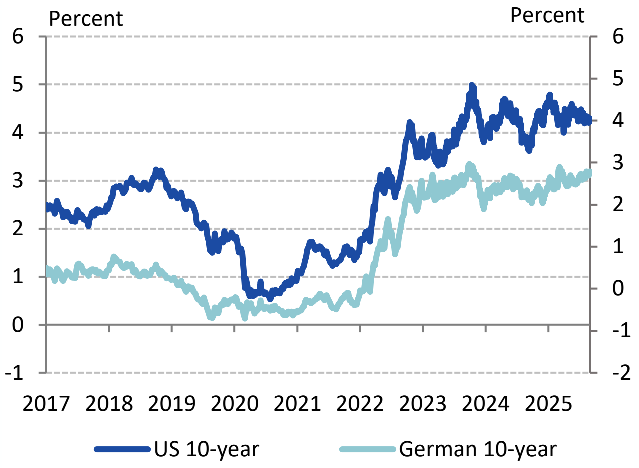
The Chinese central bank kept the LPR (loan prime rate), which is the benchmark for bank lending, unchanged in July and August, with the one-year LPR at 3 percent and the five-year LPR at 3.5 percent. In addition, the central bank indicated in its quarterly report that it will implement a moderately loose monetary policy stance in the coming period, while supporting the economy with targeted measures. The central bank reports that the fundamentals of the economy are sound and its resilience is strong. In China, inflation fell from 0.1 percent in June to 0.0 percent in July and -0.4 percent in August. The central bank's balance sheet total stood at 33.9 percent of GDP in August.

Overall, international investor sentiment improved during the past quarter. During the period, several countries, as well as the EU, reached agreements with the USA on trade tariffs. The period under review also saw a meeting between Donald Trump and Vladimir Putin aimed at ending the Russia-Ukraine war, which was well received by market participants. During the period, weaker-than-expected US labour market data, as well as speculation about the next Fed Chair and the Fed Chair's Jackson Hole speech, caused more turbulence than usual in US interest rate expectations, which was further fuelled by decision-makers' comments.

In August, oil prices eased below the level of USD 70, and gas prices also fell substantially (Chart 3-7). Developed stock indices have advanced by 8 percent in the USA and by 5 to 6 percent in Europe since the end of June. The MSCI index of emerging economies is up 7.5 percent. The US dollar has typically weakened against developed currencies, depreciating by nearly 2 percent against the euro, 1.8 percent against the Swiss franc and 0.4 percent against the British pound, while it strengthened by 1.2 percent against the Japanese yen during the past three months. Developed market long bond yields rose, with the exception of US yields. The US 10-year yield fell by 10 basis points to 4.27 percent, while the German 10-year yield rose by 19 basis points to 2.71 percent (Chart 3-8) compared to the end of June. The Japanese 10-year yield rose by 20 basis points to 1.61 percent from the previous quarter, while emerging market bond yields were mixed.

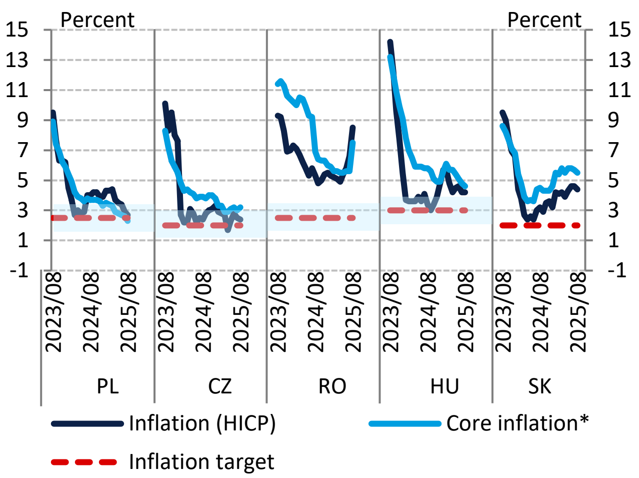
Market pricing suggests the Fed will cut rates by 25 basis points in October, while the ECB is not expected to cut rates this year. The Fed cut rates by 25 basis points in September, as expected. The ECB did not change its interest rate in September after July, which was in line with previous

Chart 3-8: US and German 10y-government bond yields



Source: Bloomberg

Chart 3-9: Inflation and core inflation in the region



Note: Annual change, in percent. *In the case of core inflation, we use the Eurostat definition (inflation excluding energy, food, alcohol and tobacco). The blue area indicates the tolerance band around the inflation targets.
Source: Eurostat

expectations. The market is pricing in two 25 basis point interest rate cuts by the Fed this year, while the ECB is not expected to cut rates based on pricing.

Inflation in the euro area has recently been in line with the central bank's inflation target of 2 percent. Annual HICP inflation rose from 1.9 percent in May to 2.0 percent in June and stabilised at that level. Core inflation fell to 2.3 percent in May and then stabilised at that level.

In year-on-year terms, GDP in the European Union expanded by 1.6 percent in 2025 Q2, while GDP in the euro area expanded by 1.5 percent (Chart 3-2). Among the Member States, the most dynamic growth was recorded in Ireland (+16.2 percent) compared to the same period of the previous year. On a quarterly basis, the EU economy grew by 0.2 percent and the euro area by 0.1 percent. GDP grew fastest in Denmark (+1.3 percent) compared to the previous quarter.

The ECB continued its cycle of rate cuts at its June rate-setting meeting, lowering its key deposit rate by 25 basis points to 2.0 percent, and then left interest rates unchanged in July and September. Partly reflecting the previous rate cuts by the Governing Council, the euro area economy is proving resilient in a challenging international environment. However, the outlook is highly uncertain. At the September press conference, the central bank governor said they continue to be in a good place to manage inflationary risks, which are gradually becoming more balanced. The central bank follows a data-dependent, meeting-by-meeting approach in determining the appropriate monetary policy stance. The tightening of the central bank balance sheet continued during the past quarter, standing at EUR 6,082 billion at the beginning of September, or 39.7 percent of GDP (Chart 3-6).

The National Bank of Poland cut its policy rate by 25 basis points at its July and September rate-setting meetings. In July, the central bank revised down its inflation expectations over the entire forecast horizon, which is why the Council considered it appropriate to lower the interest rate further. At the press conference following the September decision, Adam Glapiński, Governor of the Polish central bank, emphasised that a cautious approach is required in monetary policy, as the central bank seeks to avoid excessive rate cuts. Inflation stood at 4.0 percent in May, rising to 4.1 percent in June and then easing to 3.1 percent in July and 2.9 percent in August. The harmonised consumer price index was 2.9 percent in July, before slowing to 2.7 percent in August (Chart 3-9).

At its August rate-setting meeting, the Czech central bank kept its policy rate at 3.5 percent. According to the statement, overall, the risks and uncertainties surrounding inflation were slightly on the upside. A relatively tight monetary policy was still needed to achieve the inflation target in the long run. Aleš Michl, governor of the Czech central bank, said that inflationary pressures in the Czech economy do not currently allow for further interest rate cuts. He stressed that the communication should be perceived as “hawkish”. Inflation rose from 2.4 percent in May to 2.9 percent in June, before slowing to 2.7 percent in July and 2.5 percent in August. The harmonised consumer price index fell from 2.5 percent in July to 2.4 percent in August (Chart 3-9).

The Romanian central bank decided to keep the policy rate at 6.50 percent at its July and August rate-setting meetings. There are considerable uncertainties surrounding the outlook for economic growth and inflation over the medium term. The central bank’s inflation forecast for August suggests that inflation may be on a substantially higher path than previously expected, due to the end of the electricity price freeze and the temporary impact of increases in VAT and excise duties. The annual inflation rate was 5.5 percent in May, rising to 5.7 percent in June, 7.8 percent in July and 9.9 percent in August. The annual rate of inflation based on the Harmonised Index of Consumer Prices (HICP) rose to 8.5 percent in August from 6.6 percent in July (Chart 3-9).

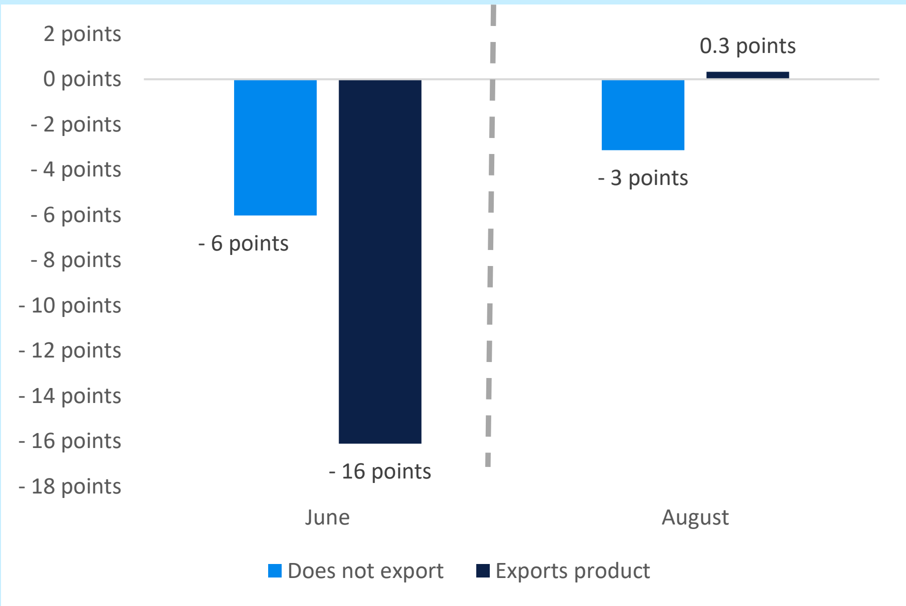
Box 3-1: Impact of the US-EU trade deal on the economic sentiment of companies operating in Hungary

In the spring, higher expected tariffs for US-EU international trade were announced compared to the previous period. As a result of the negotiations, on 27 July Donald Trump and Ursula von der Leyen announced a new trade deal between the European Union and the United States, under which the USA will impose a general, 15-percent import duty on goods from the EU, covering the vast majority of products. The deal does not include steel and aluminium products, for which the previously announced tariff of 50 percent remains in force (although a quota system has been agreed to replace the current tariff rate).

The expected effects of the planned trade policy measures announced in the spring, mainly by the USA, have been examined since May 2025 in the MNB’s monthly corporate business sentiment survey. In the central bank’s survey questionnaire, the MNB tracked the proportion of respondents operating in Hungary with direct or indirect US customers until August, allowing us to compare business sentiment among respondents exporting to the USA and non-exporting respondents.

The expectations of respondents exporting products to the USA were still considerably more pessimistic in June than for those not exporting to the USA, but the trend reversed by August (Chart 3-10). The average evaluation of the surveyed factors of expectations was -6 points for respondents with no US customers and -16 points for respondents which export products directly or indirectly to the USA in June, meaning that the latter group was significantly more pessimistic about future prospects. In August, however, pessimism declined in both groups: It fell less among non-exporters to the USA (-6 points to -3) and more among product exporters to the USA (-16 points to 0). Compared to June, the trend between the two groups has reversed: in August, the average perception of expectations factors was more favourable among exporters of products to the USA compared to non-exporters. **The improvement in business sentiment may have been facilitated by the fact that while there was considerable uncertainty in June about the future level of tariffs on US-EU trade, by August an agreement on the level of tariffs had been reached.**

Chart 3-10: Average assessments of the factors of expectations among respondents operating in Hungary which export products to the USA and those which do not export to the USA in June and August

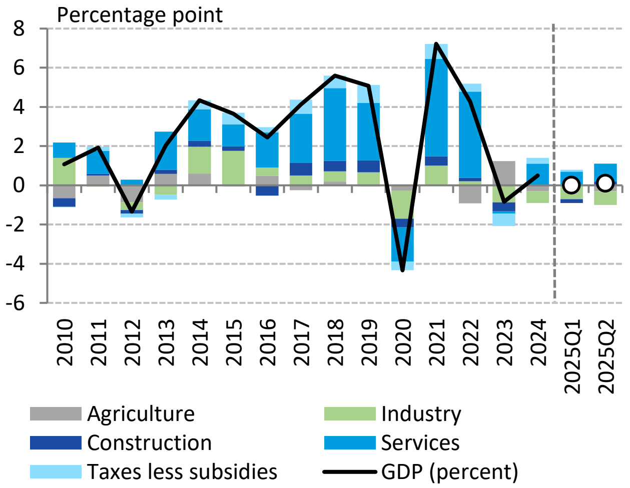


Note: The values in the chart are balance indicators, which are the differences between the proportions of positive and negative responses to the survey questions. The balance indicators can take values between –100 and +100, where values above zero indicate improvement in economic sentiment while values below zero indicate deterioration.
Source: MNB Corporate Business Sentiment Survey

3.2 Analysis of the production and expenditure side of GDP

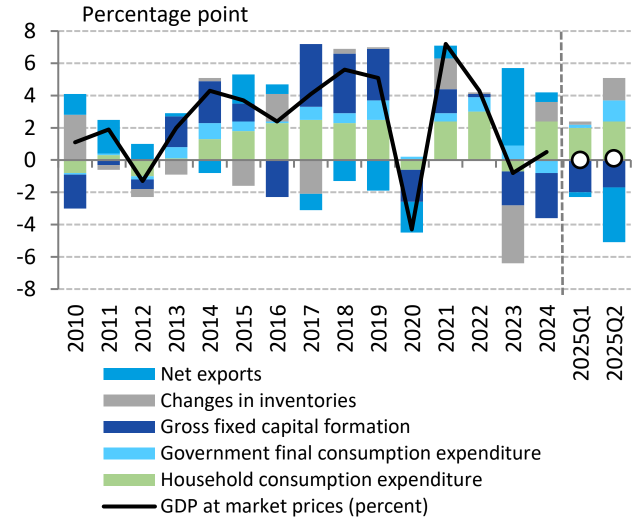
Gross domestic product grew by 0.1 percent in 2025 Q2, according to raw data. Based on seasonally and calendar adjusted and balanced data, the economy expanded by 0.2 percent on an annual basis and 0.4 percent compared to the previous quarter. Looking at the main economic sectors, services and construction boosted GDP on an annual basis, while industry and agriculture had a contractionary effect. From the expenditure side, household consumption supported annual growth, while net exports and investment restrained GDP.

Chart 3-11: Annual change in the decomposition of production-side GDP



Source: HCSO

Chart 3-12: Annual change in the decomposition of expenditure-side GDP



Note: Government final consumption expenditure includes the final consumption expenditure of general government and nonprofit institutions. Changes in inventories includes acquisitions less disposals of valuables.
Source: HCSO, MNB

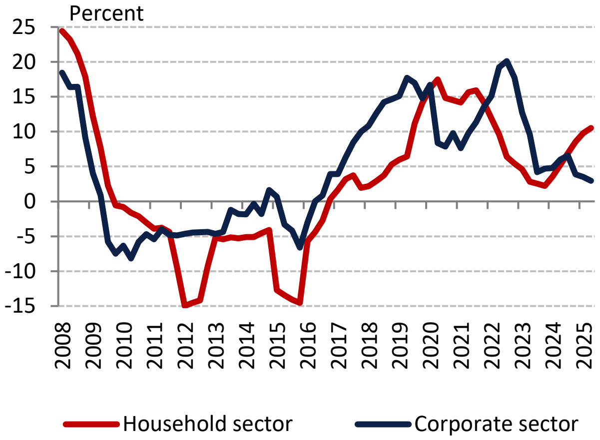
Based on the raw data, Hungary's GDP expanded at an annual rate of 0.1 percent in 2025 Q2 (Chart 3-11). Based on the seasonally and calendar adjusted and balanced data used for international comparisons, the economy expanded by 0.2 percent on an annual basis and by 0.4 percent relative to the previous quarter.

Household consumption expenditure grew by 5.0 percent on an annual basis in the second quarter, up from 4.1 percent in the first quarter. As this item accounts for 48.1 percent of GDP, it contributed 2.4 percentage points to growth in 2025 Q2. The volume of domestic consumption expenditure increased in all groups, with durable goods rising by 6.2 percent, semi-durable goods by 3.9 percent, non-durable goods by 5.6 percent and services by 4.6 percent. Government final consumption expenditure grew by 6.0 percent on an annual basis.

The decline in gross fixed capital formation was more moderate than in the first quarters, with this indicator dropping by 7.0 percent, which slowed down the economy by 1.7 percentage points. According to the detailed, specialised HCSO statistics, the year-on-year decline continued in both the sectors producing for the domestic market (-8.1 percent) and for the export market (-7.6 percent). In the second quarter, public spending on investment fell by 26.6 percent, while investment in indirectly related quasi-fiscal sectors rose by 16.8 percent compared to the same period last year. Investment in the real estate sector contracted by 24.2 percent. Construction investment fell by 7.4 percent, with machinery and equipment investment dropping by 8.7 percent year on year in the second quarter. The four-quarter rolling average for the investment rate was 22.3 percent, while in 2021 prices, the real investment rate was 20.9 percent. Investments are discussed in greater detail in Box 1–2.

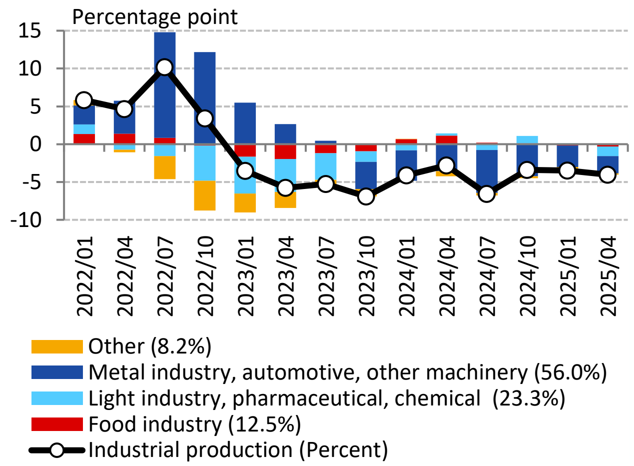
There is still no sign of a turnaround in the corporate loan market, while the household loan market expanded slightly more than expected. Relative to the previous quarter, the annual growth rate of household loans outstanding in the total financial intermediary system accelerated by 0.7 percentage point to 10.5 percent, while the growth rate of the corporate loan portfolio slowed from 3.5 percent to 3.0 percent in 2025 Q2 (Chart 3-13). In the

Chart 3-13: Annual change in total lending to non-financial corporates and households



Note: Data for both corporate and household segments are based on transactions with the total financial intermediary system.
Source: MNB

Chart 3-14: Sectoral breakdown of annual change in domestic industrial production



Note: The 2024 weight of the sectors in industrial production is shown in brackets. Excluding the water and waste management industry. Total industrial production does not include the performance of enterprises with less than five employees.
Source: HCSO, MNB

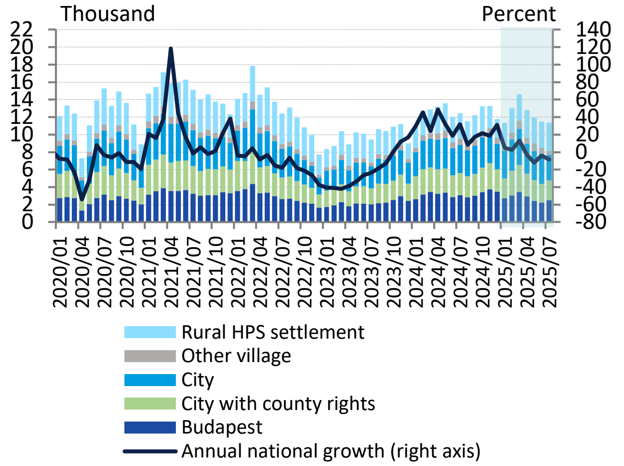
corporate sector, the annual growth rate of SME loans outstanding – an indicator which better captures the underlying trends – was 2.4 percent at the end of June. At the same time, the value of new bank loan contracts signed in the second quarter was 36 percent higher than a year earlier, supported by large individual transactions and the conclusion of contracts under the Demján Sándor Programme. In the household segment, the value of housing loans concluded in the second quarter was 13 percent higher than in the same period of the previous year, which was a high base, while personal loan issuance was 34 percent higher. Based on the responses to the MNB's Lending Survey, banks perceived stronger demand in the household segment in the second quarter and expect further strengthening with the launch of the Home Start programme. By contrast, overall demand for corporate loans is reported to be declining and is not expected to turn into growth in 2025 H2, while banks expect a further decline in demand for long-term investment loans.

The contribution of the change in inventories was positive, adding 1.4 percentage points to year-on-year growth in the second quarter.

Net exports restrained GDP growth by 3.4 percentage points in year-on-year terms in 2025 Q2. The volume of imports increased by 4.0 percent, while export performance fell by 0.9 percent on an annual basis. Within this, exports of goods fell by 1.3 percent, while exports of services rose by 0.7 percent. In July 2025, the external trade balance showed a surplus of EUR 578 million. The 12-month rolling surplus in trade in goods increased slightly to EUR 10.9 billion in July. In July, the volume of goods exports increased by 3.5 percent and the volume of goods imports by 1.0 percent versus the same period of the previous year, based on raw data. The terms of trade improved by 2.6 percent on an annual basis.

In 2025 Q2, industrial output fell by 3.3 percent, including a decrease of 4.4 percent in the manufacturing industry, relative to the same period of the previous year. In both cases, the rate of decline was lower compared to the first quarter. Among the manufacturing sectors, metal product manufacturing contributed most to the decline, while other vehicle manufacturing counteracted the decline in industry the most. Overall, the decline in industrial output reduced domestic GDP by 0.7 percentage point in the second quarter (Chart 3-11). Industrial production has fallen on an annual basis in 14 of the last 15 months. The decline in industrial output reflects both weaker external demand, and competitiveness and product structure problems affecting individual firms.

Chart 3-15: Number of housing market transactions by settlement type



Note: Only taking into account 50-percent and 100-percent private acquisitions. From October 2023 to December 2024, the data of the NTCA fee database are adjusted based on the estimation of the level of processing by type of settlement. Based on transactions and estimated market share of real estate agents in the highlighted months.

Source: Housing market intermediary database, MNB, NTCA

The combined gross value added of services rose by 1.3 percent. The largest increases were observed in arts, recreation and other services (+6.5 percent) and information and communication (+6.3 percent). The value added of accommodation and food services grew by 3.2 percent, that of education by 2.9 percent and that of financial intermediation and insurance by 2.2 percent. The output of the trade sector rose by 1.8 percent, that of professional, scientific, technical and administrative activities by 0.8 percent, and that of transport and storage by 0.2 percent. Value added fell slightly in human health and social work activities (-0.1 percent), public administration (-0.5 percent) and real estate activities (-0.7 percent).

Construction value added expanded by 4.3 percent versus the same prior-year period, contributing 0.2 percentage point to annual GDP growth. Value added in construction fell by 5.1 percent in the first quarter, representing a significant acceleration for this sector, but output in construction is quite volatile. In July 2025, the volume of construction output rose by 4.9 percent, while compared to the previous month the HCSO registered a 0.8-percent increase. The volume of new contracts concluded fell by 48.9 percent, while the volume of contracts at the end of July was 1.9 percent higher than one year earlier.

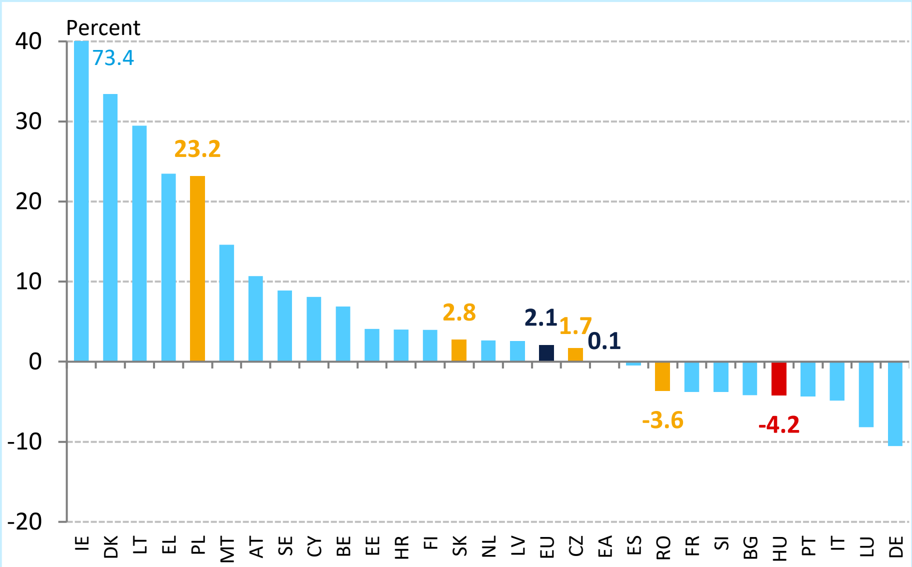
The value added of agriculture in the second quarter was 11.4 percent lower than in the same period of the previous year. Consequently, agriculture reduced GDP by 0.3 percent.

In 2025 Q2, turnover on the housing market started to decline in larger cities, but house price appreciation continued to accelerate. The number of private transactions in the housing market nationally was 36,300 in 2025 Q2, down 6.5 percent from the same period a year earlier (Chart 3-15). In the second quarter, the number of sales declined by 20 percent in Budapest and by 11 percent in the cities with county rights, while the housing market remained stable in the other cities and villages. According to the MNB's house price index, compared to the same period last year, nominal house prices rose by 15.3 percent in 2025 Q1 nationally, with Budapest seeing an increase of 22.3 percent, cities 13.9 percent on average and villages 10.0 percent. According to preliminary data, annual house price dynamics accelerated further in 2025 Q2, reaching 15.9 percent on average in Hungary and 24.3 percent in Budapest.

Box 3-2: Performance of domestic industry compared to regional competitors

Hungary's industrial output has been in the bottom third of the EU ranking in recent years (Chart 3-16). In 2025 Q2, Hungarian industrial production was 4.2 percent below its pre-coronavirus crisis level. Within the region, Poland is performing particularly well, but Slovak and Czech industry is also outperforming the benchmark period.

Chart 3-16: Change in industrial production in 2025 Q2 compared to 2019 Q4

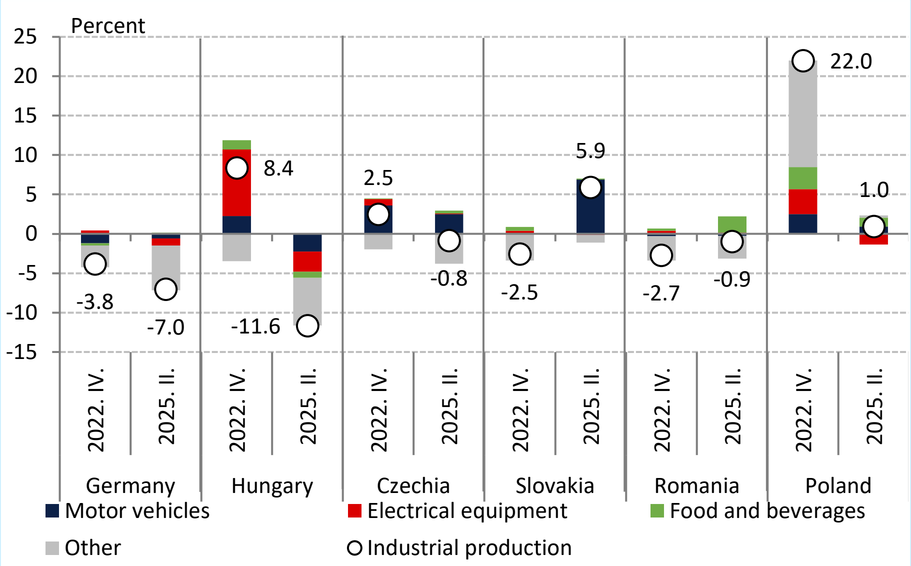


Note: Seasonally and calendar adjusted data.
Source: Eurostat

Hungarian industry, which performed well during the recovery from the coronavirus crisis, has diverged from the regional patterns since 2023 and exhibits a larger decline in production compared to the competitors (Chart 3–17). During the post-coronavirus crisis recovery, Hungary's industrial production grew dynamically, outpacing most of its competitors, and by the end of 2022 output was 8.4 percent higher than in 2019 Q4. The performance of domestic industry was driven mainly by new capacities being constructed and brought into production in battery manufacturing, which has put it among the regional leaders. In addition, the machinery and vehicle manufacturing sectors have also expanded in Hungary. Within the region, the Czech automotive industry also grew in the period to the end of 2022, while the recovery of the automotive industry in Slovakia has been protracted. In Poland, most sub-sectors expanded and industrial production grew in a balanced structure, reaching the fourth best rate in the EU (+22.0 percent).

Existing problems in German industry have been exacerbated by a period of crisis, with production continuing to fall. In addition, as in other parts of Europe, energy prices for German non-household consumers have risen significantly in recent years and were still among the highest in the EU in 2024. Competitiveness challenges for German industry are reflected in the advance of Chinese competitors in new industries, notably in the automotive sector. Chinese car brands nearly doubled their market share in the EU/United Kingdom region in 2025 H1 compared to the same prior-year period.

Chart 3-17: Change in industrial production in 2022 Q4 compared to 2019 Q4 and 2025 Q2 compared to 2022 Q4



Note: Seasonally and calendar adjusted data.
Source: MNB, based on Eurostat

At the end of 2022 and 2023 H1, the Hungarian economy and industry experienced a trend reversal, with output falling in most industrial sub-sectors. The steep rise in producer prices and weakening demand as inflation soared reduced the output of sectors producing for the domestic market, causing a steady decline from mid-2022 onwards. Coupled with the slowdown in the European economy, this has led to a larger decline in Hungarian industrial sectors compared to regional competitors and Germany (Chart 3-17). Output in 2025 Q2 was 11.6 percent below the level in 2022 Q4, while Czechia and Germany recorded declines of just 0.8 percent and 7.0 percent, respectively, while industrial output increased in Slovakia and Poland. One of the reasons for the unfavourable trend reversal in the Hungarian industry was the end of growth of domestic battery production. Compared to its peak in December 2022, the output of electrical equipment manufacturing, which includes battery production, was 31.3 percent lower in July 2025. According to industry reports, the sector's performance and prospects are tempered by the fact that the market for certain manufacturers with production capacities in Hungary has narrowed due to structural changes in demand and rapid technological developments. The declining performance of the battery industry has significantly dampened industrial activity and economic growth.

The largest gaps between Hungarian and regional production are seen in the automotive sector. While domestic vehicle production has been on a downward trend recently, overall production in Czechia has continued to grow (dampening the decline in other sub-sectors) and the Slovakian vehicle industry has also picked up.

There are also differences in the products manufactured. Cars from three brands are made in Czechia: a wide range of Skoda models, Hyundai and some Toyota models. Several Volkswagen Group brands produce in Slovakia, including Skoda, Volkswagen, Audi and Porsche, while the Stellantis Group, Kia and Land Rover also have production capacities. In Hungary, Suzuki, Audi and Mercedes currently produce cars for sale, but Audi's main profile is the construction of drivetrains. Product ranges are also being continuously transformed, and new generations of electric cars will be produced in Hungary to replace their conventional internal combustion counterparts (primarily with the expansion of the Mercedes factory and the start of production at the BMW factory in Debrecen). Currently, this trend is less prevalent in Slovakia and Czechia. This transition could also lead to a temporary drop in production in Hungary, at the same time as demand for products from competitors, especially Czechia, proves to be durable (all but one Skoda model produced in Czechia recorded double-digit sales growth in 2024).

The outlook for the European vehicle industry has been further worsened by the increase in US import tariffs since April. The new EU-US trade agreement reduces uncertainty, but it still represents a significant increase in tariffs compared to last year. The Czech car industry may lose less from the tariff increase, as the vast majority of its products are sold on the European market. Of the Hungarian models, Suzuki's exposure in the USA is minimal, but Audi engines and some Mercedes models are not only aimed at the European market.

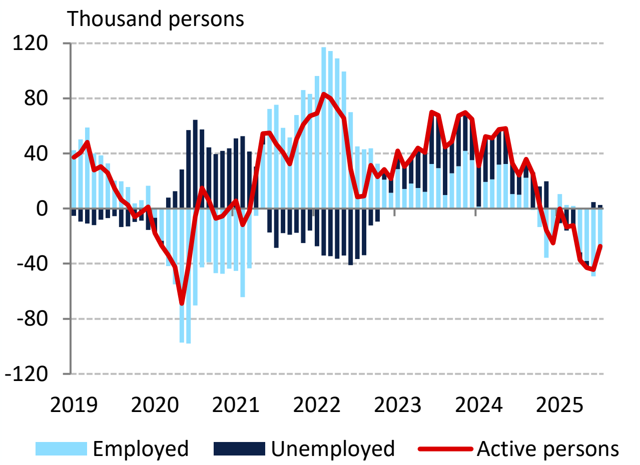
3.3 Labour market

In 2025 Q2, labour demand in the national economy declined, mainly in relation to manufacturing and certain market services sectors. Nevertheless, the unemployment rate remained low by international standards at 4.3 percent in May–July 2025. Due to a simultaneous fall in activity and employment, in line with demographic trends, the number of unemployed has not risen significantly, despite the fall in employment. The number of vacancies in the private sector continued to decrease in the second quarter. Wages are also adjusting to the looser labour market conditions, with average wages rising by 9.0 percent in the private sector in the first half of the year.

3.3.1. Employment and unemployment

Employment in the national economy fell in the second quarter. In 2025 Q2, the number of employed persons aged 15–74 was 4.661 million, down by 49,000, or 1.0 percent, on the same period of the previous year. According to the latest data, the three-month decline in employment levels did not continue on average in May–July 2025, but the number of persons employed is still 30,000 lower than in the same period of the previous year (Chart 3-18).

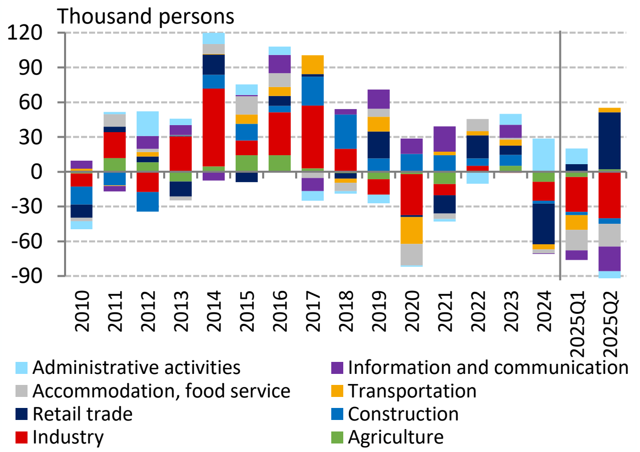
Chart 3-18: Decomposition of annual changes in labour force participation



Note: Data based on the HCSO's three-month moving average methodology.
Source: HCSO

In 2025 Q2, the number of employees in manufacturing declined the most. Based on data available at quarterly frequency, in 2025 Q2 employment in the main branches of the private sector decreased by 68,000 compared to the same period of the previous year. Of this, in manufacturing, 40,000 fewer people were employed than a year earlier. Employment declined in construction and increased in agriculture (Chart 3-19). While manufacturing has shown a decline in labour demand since 2024, the first significant drop in employment in the market services sector was observed in 2025 Q2. In this sector, there was a decline in the number of people employed in administrative and support service activities, information and communication, and accommodation and food services, while employment increased in trade, financial and insurance activities, and transportation and storage. The number of job vacancies in the private sector continued to decline on a year-on-year basis in the second quarter of this year.

Chart 3-19: Decomposition of annual changes in private sector employment

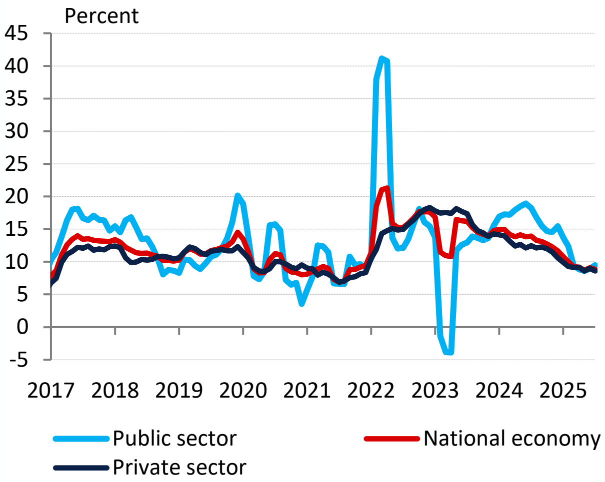


Source: HCSO

The unemployment rate averaged 4.3 percent in May–July 2025, based on unadjusted data. The number of unemployed rose by 3,000 on an annual basis to 212,000. The unemployment rate in Hungary remains low by international standards and is 1.4 percentage points below the EU average based on seasonally adjusted data.

Labour force participation has decreased. The number of people in the labour force decreased by 27,000 on an annual basis on average for the period May–July 2025 (Chart 3-20), while seasonally adjusted data show a stagnation compared to the previous month. The decline in the number of active persons measured on a year-on-year basis was caused by a decrease in employment. However, given the simultaneous decline in the working-age

Chart 3-20: Annual change in gross average wages in the national economy



Note: Three-month moving averages.
Source: HCSO

population, in May–July 2025 the activity rate was at its highest level since such data have been published.

3.3.2. Wages

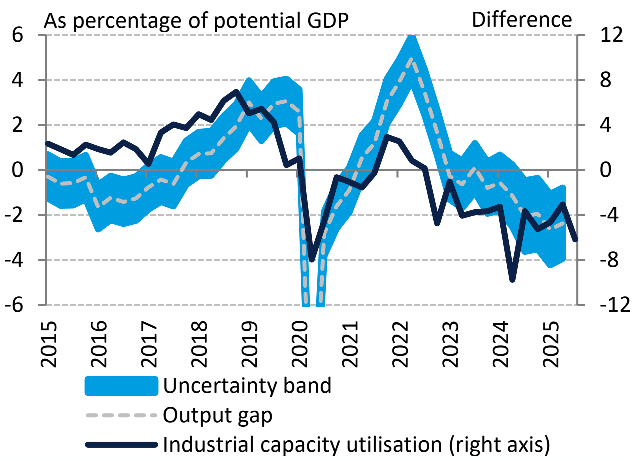
Wage growth continued to decelerate in 2025. During the first seven months of this year, wages in the private sector increased by an average of 9.0 percent in year-on-year terms. In July 2025, gross average wages in the private sector rose by 8.7 percent on a year-on-year basis, while regular earnings rose by 8.1 percent. In the public sector, wage growth slowed significantly compared to last year and amounted to 10.0 percent in July. In the national economy, average gross earnings rose by 9.0 percent in July, while the real gross average wages were 4.5 percent higher than in the same period of the previous year (Chart 3-20).

Wage growth in Hungary remains strong in a regional comparison. On an annual basis, nominal earnings grew by 9.0 percent in Hungary, 7.6 percent in Poland and 7.2 percent in Romania in July 2025. Based on June data, wage growth reached 8.0 percent in Slovakia. For Czechia, wage data are only available at quarterly frequency, with average wages rising by 7.8 percent in the second quarter. In a regional comparison, real wages rose the most in Hungary and Poland (4.5 percent) in July, while the increase in real earnings was 0.6 percent in Romania.

3.4 Cyclical position of the economy

According to our estimates, GDP was below potential in 2025 Q2. Capacity utilisation in manufacturing companies continued to deteriorate, falling below its historical average, as did production expectations for the coming months. Furthermore, labour market tightness eased to levels seen at the end of 2016. The disinflationary impact of the business cycle is influenced by the cyclical structure of the real economy, as domestic inflation is more strongly influenced by the cyclical position of domestic, household consumer demand. This is captured by the household consumption gap, which we estimate to be in positive territory from 2023 H2 onwards, reflecting buoyant consumption growth.

Chart 3-21: Uncertainty band of the output gap and the industrial capacity utilisation



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

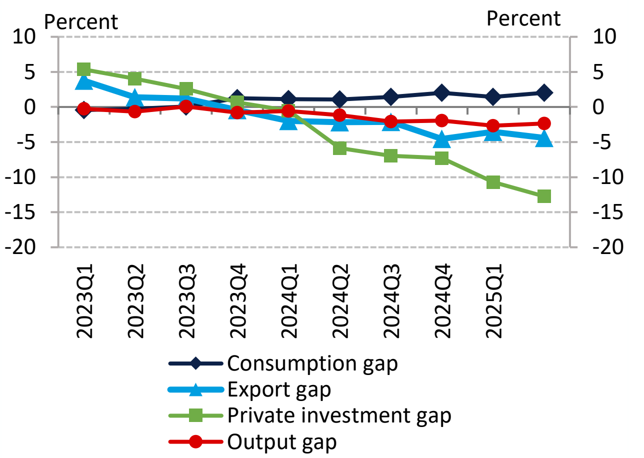
Source: ESI, HCSO, MNB estimation

We estimate that the cyclical position of the economy has been negative since early 2023. According to seasonally, calendar adjusted and balanced data, the Hungarian economy grew by 0.2 percent in 2025 Q2 compared to the same period of the previous year and by 0.4 percent compared to the previous quarter. The output gap excluding agricultural performance has remained negative (Chart 3-21). Uncertainty about the external outlook stems from the prolonged weakness of the European economy and the renewed escalation of trade conflicts. The external output gap – which has an effect on the Hungarian cyclical state – remained in negative territory as well.

The disinflationary impact of the business cycle is influenced by the cyclical structure of the real economy, as domestic inflation is more strongly influenced by the cyclical position of domestic, household consumer demand. This is captured by the household consumption gap, which we estimate to be in positive territory from 2023 H2 onwards, reflecting buoyant consumption growth (Chart 3-22).

According to questionnaire surveys, the capacity utilisation and production expectations of manufacturing companies were also below the historical average. Capacity utilisation and production expectations for the coming months have deteriorated slightly compared to the previous quarter, and both indicators are below their historical averages.

Chart 3-22: Output gap and its main expenditure-side contributors



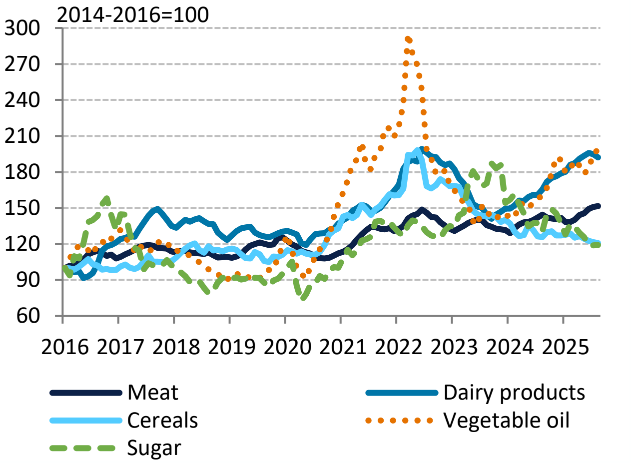
Note: Output gap excluding agriculture performance.

Source: HCSO, MNB estimation

3.5 Costs and inflation

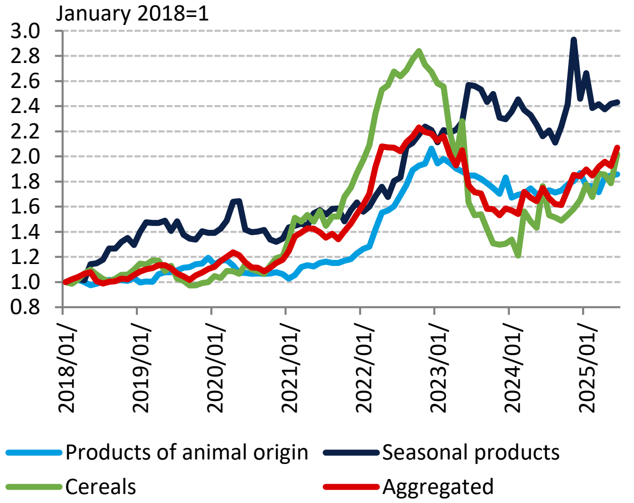
In August 2025, consumer prices were up by 4.3 percent year on year. Core inflation fell to 3.9 percent, while core inflation excluding indirect taxes dropped to 3.6 percent. The annual inflation rate remained unchanged compared to the previous month. The price and margin restriction measures had a significant moderating effect, with the MNB estimating that they reduced inflation by 1.5 percentage points in August. Within the Bank's measures of underlying inflation developments capturing persistent inflationary trends, calculated on a year-on-year basis, core inflation excluding processed food decreased, while the inflation of sticky-price products remained unchanged. On a monthly basis, the price of the total consumer basket remained unchanged while the price of core inflation basket rose by 0.1 percent. The rate of price change compared to the previous month was slightly above the historical average for inflation, while it was in line with historical average for core inflation.

Chart 3-23: Development of world market prices of food



Source: FAO

Chart 3-24: Development of agricultural prices



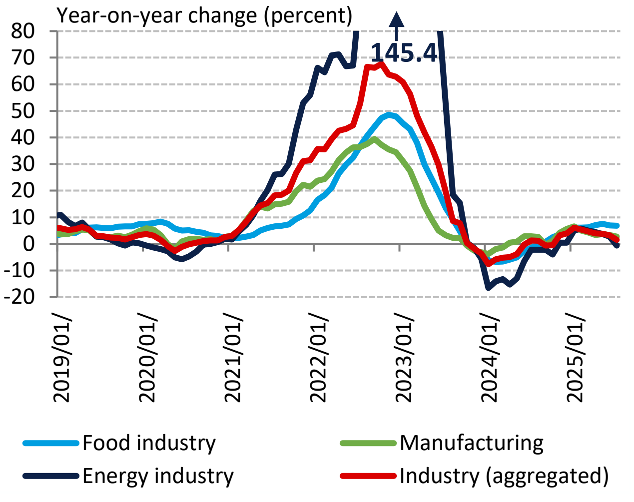
Note: Based on seasonally unadjusted data
Source: HCSO

3.5.1. Producer prices

Global food prices rose by 6.9 percent in August compared to the same period last year. On a monthly basis, prices rose by 0.1 percent. The year-on-year increase is mainly explained by higher prices for vegetable oils, and dairy and meat products. The prices of vegetable oils rose by 24.3 percent on an annual basis and by 1.4 percent on a monthly basis. The price increase in this product group is mainly supply-side: sunflower and rapeseed production has been lower in the last season, while an increasingly large share of palm oil production is used for biofuel production. Compared to the same period last year, dairy prices increased by 16.2 percent and decreased by 1.3 percent compared to July. Within dairy products, butter and cheese have been the most expensive recently, driven by declining livestock numbers and rising demand in Asia. Meat prices were 4.9 percent higher than in August last year and 0.6 percent higher than in July. Among meat products, global cattle prices have reached a new high this year, supported by stronger import demand from China and the USA. Cereal prices fell by 4.1 percent year on year and 0.8 percent on a monthly basis. The world market price of sugar declined by 9.0 percent year on year and increased by 0.2 percent on a month-on-month basis (Chart 3-23).

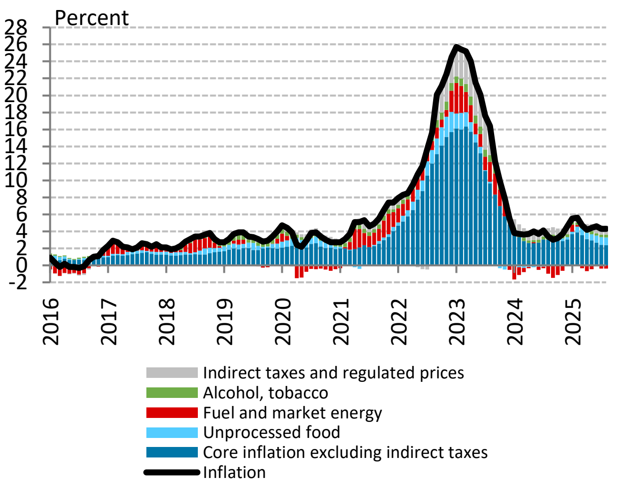
In July, Hungarian agricultural producer prices rose by 14.2 percent year on year. Prices decreased by 8.0 percent compared to the previous month. All components contributed to the increase in prices on an annual basis. The producer price of cereals rose by 3.5 percent, the price of animal products by 10.6 percent and the producer price of seasonal products by 18.3 percent over a year (Chart 3-24). Within the latter group, producer prices for fruit rose by 113.7 percent on an annual basis, the highest in 14 years. The price increase was mainly caused by peaches becoming significantly more expensive due to frost damage in April.

Chart 3-25: Producer prices of manufactured goods for domestic sale



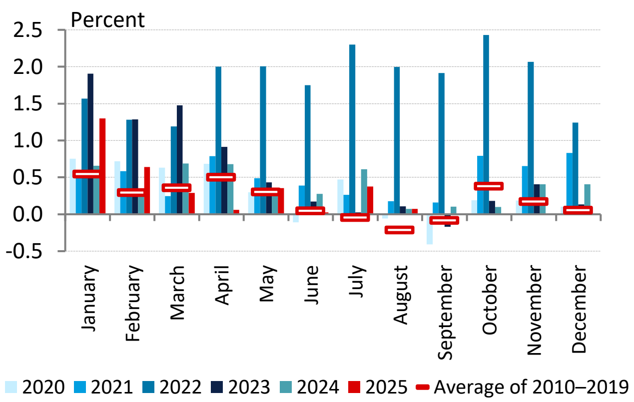
Source: HCSO

Chart 3-26: Decomposition of inflation



Source: MNB calculation

Chart 3-27: Monthly price changes of consumer prices excluding fuel and regulated prices



Note: Tax-adjusted, seasonally unadjusted monthly change.
Source: MNB calculation based on HCSO data

Producer prices for manufactured goods for domestic sale rose by 1.6 percent on an annual basis in July 2025 (Chart 3-25). Annual price dynamics have declined by 4.5 percentage points since January 2025. Domestic sales prices in the manufacturing industry rose by 2.8 percent year on year in July, while prices in the energy sector fell by 0.6 percent. By contrast, higher price dynamics were registered in the food industry, with producer prices 6.8 percent higher than in the same period of the previous year. The latter is explained by the ripple effect of the global food price cycle, which is discussed in detail in Box 3-3.

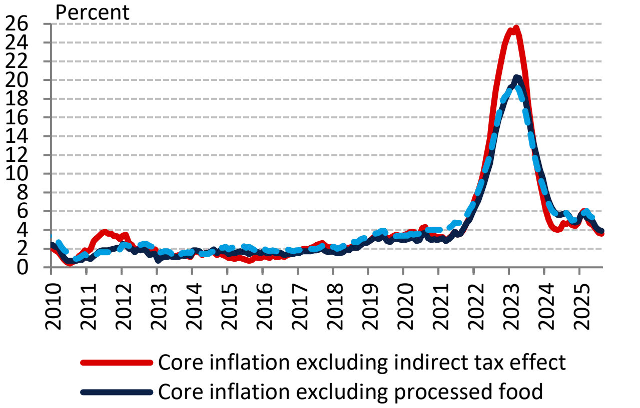
3.5.2. Consumer prices

In a year-on-year comparison, consumer prices rose by 4.3 percent in August. The consumer price index remained unchanged compared to the previous month (Chart 3-26). The price and margin restriction measures had a substantial moderating effect, with the MNB estimating that they reduced inflation by 1.5 percentage points in August. On a monthly basis, the prices of the total consumer basket remained unchanged, while the basket excluding fuels and regulated prices increased by 0.1 percent (Chart 3-27). Month-on-month core inflation excluding processed food prices, which better reflects underlying trends, was also 0.1 percent.

Core inflation dropped to 3.9 percent in August, while core inflation excluding indirect taxes fell to 3.6 percent. The decline in core inflation, which was 0.1 percentage point lower than in July, was driven by disinflation in market services. In addition to headline inflation, price and margin restriction measures also substantially reduced core inflation. Within the Bank's measures of underlying inflation developments capturing persistent inflationary trends, calculated on a year-on-year basis, the inflation of sticky-price products remained unchanged at 4.8 percent. Core inflation excluding processed food fell by 0.1 percent to 3.9 percent (Chart 3-28). In a shorter-term (annualised 3-month-on-3-month) comparison, inflation and core inflation both rose. The rate of price change compared to the previous month was slightly above the historical average for inflation, while it was in line with historical average for core inflation.

Similarly to the previous month, annual inflation of tradables remained at 2.1 percent. Without price restrictions, prices would have risen by 3.1 percent on an annual basis. On a month-on-month basis, the price of the product group decreased by 0.1 percent (Chart 3-29). Non-durables prices fell by 0.4 percent. The price change can primarily be tied to the seasonal change in clothing prices.

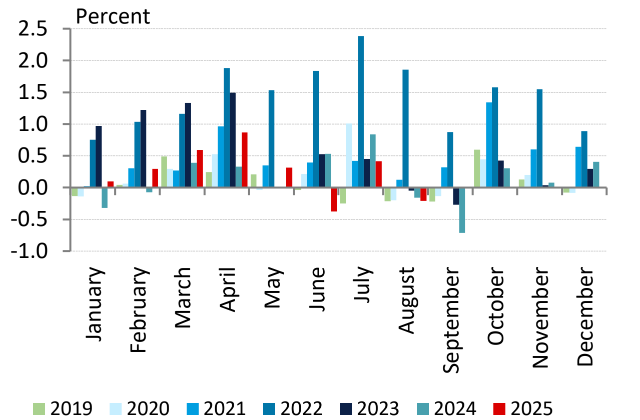
Chart 3-28: Underlying inflation indicators



Note: Core inflation excluding processed food with unchanged content is equivalent with the earlier demand sensitive inflation. The new name is justified by the fact that the previous name might be ambiguous in a period of significant cost shocks with general effects.

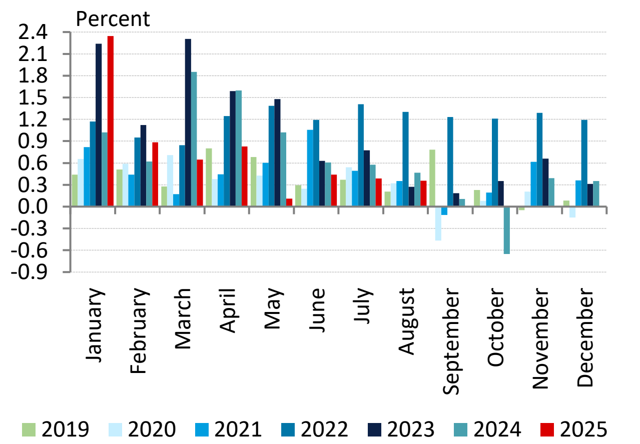
Source: MNB calculation based on HCSO data

Chart 3-29: Monthly price changes of traded goods



Source: HCSO, MNB

Chart 3-30: Monthly price change of market services



Durables prices rose by 0.4 percent compared to July, mainly due the increase in furniture prices.

The annual price index of market services decreased to 6.3 percent. Without price restrictions, the indicator would have been 7.2 percent. On a monthly basis, prices increased by 0.4 percent. The increase in the price of the product group is mostly due to hospitality services and rent (Chart 3-30).

Food inflation as classified by the MNB slowed to 3.9 percent in August. Within the product range, unprocessed food prices and processed food prices increased at year-on-year rates of 6.9 percent and 2.4 percent, respectively. According to data released by the HCSO, food prices rose by 5.9 percent, including, among other things, a 7.8-percent increase in restaurant prices. Year-on-year food inflation is being dampened by the price margin restriction introduced in mid-March. The inflationary impact of the measure can be mitigated if traders try to compensate for losses on products subject to the restriction by raising margins on other products. However, cross-pricing has not yet appeared in the actual data. Food prices decreased by 0.2 percent in a month-on-month comparison. Compared to July, unprocessed food was 0.9 percent less expensive, driven by seasonal food price developments. The price of processed food increased by 0.2 percent on a monthly basis.

In August, fuel prices fell by 0.8 percent in a month-on-month comparison, due to the decline in global oil prices. The price of this product group decreased by 4.3 percent on a year-on-year basis.

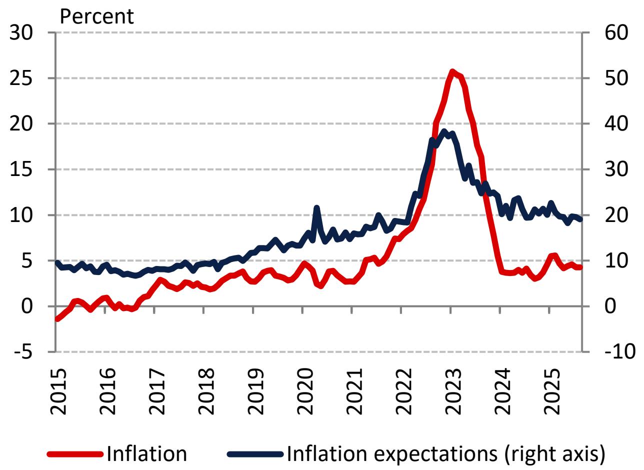
Goods and services at regulated prices rose by 7.6 percent on an annual basis. The increase was mainly due to higher prices for piped gas. The higher average household gas price was caused by the increase in household gas consumption due to the colder spring weather, which increased the share of consumption above the volume limit of the official price. On an annual basis, the average price of piped gas rose by 23.1 percent, contributing 0.4 percentage point to overall inflation.

3.5.3. Inflation expectations

Household inflation expectations remain at high levels (Chart 3-31). Among the groups that are most closely followed from a monetary policy perspective, the inflation expectations of active earners have essentially stagnated, while those of entrepreneurs decreased in August.

Source: HCSO, MNB

Chart 3-31: Household inflation expectations



Source: HCSO, European Commission, GKI, MNB calculation

Box 3-3: Global and domestic food price cycle

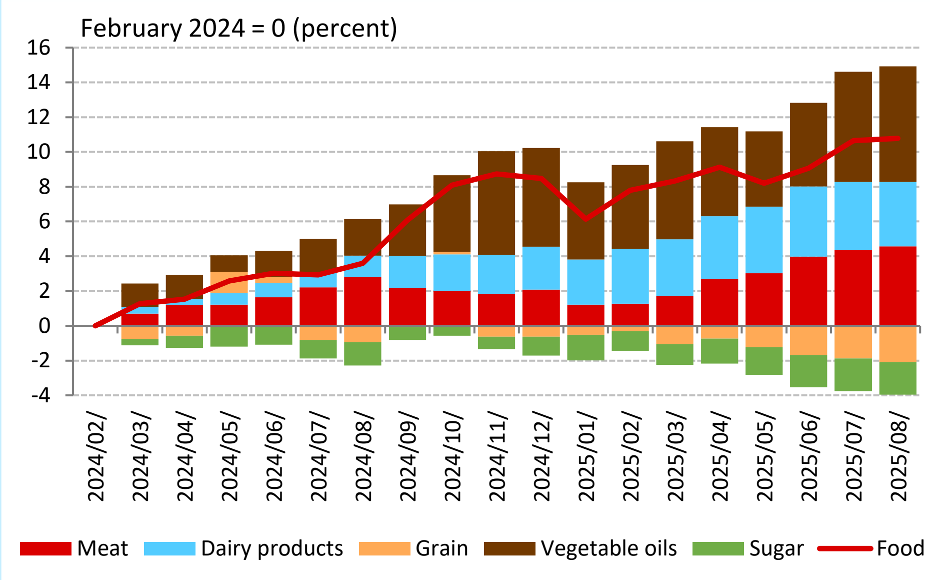
International food prices continue to rise. The upward trend in global food prices that started in March 2024 has continued in recent months. The current global food price cycle has been underway for 18 months, which is the average length of the global food price cycle since the beginning of the millennium, while the rate of price increases is below the long-term average (Table 3-1). The price increases are mainly observed in the case of vegetable oils, and dairy and meat products (Chart 3–32). Within dairy products, butter and cheese have seen the largest price increases, driven by declining livestock numbers and rising demand in Asia. The increase in vegetable oil prices is mainly supply-side: sunflower and rapeseed production was more moderate in the last season, while palm oil production is increasingly used for biofuel production. Among meat products, global cattle prices have reached a new high this year, supported by stronger import demand from China and the USA.

Table 3-1: Length of global food price cycles and rate of price increases

Period	Length of price increase (month)	Extent of price increase (percent)
March 2000 - July 2001	17	7.1
June 2002 - April 2004	23	31.1
November 2004 - April 2008	42	98.9
July 2010 - March 2011	9	34.3
February 2016 - January 2017	12	13.6
October 2019 - January 2020	4	7.8
June 2020 - March 2022	22	72.0
March 2024 -	17	9.4
Average	**18**	**34.3**

Note: We identified a period as a food price increase cycle if the seasonally adjusted food price level increased in at least 3 out of the 5 months surrounding it.
Source: FAO, MNB

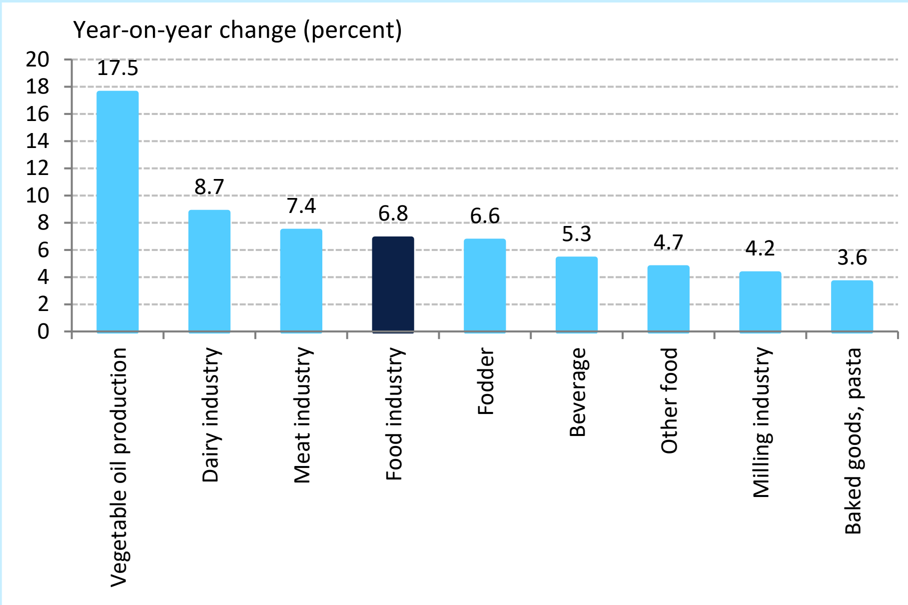
Chart 3-32: Breakdown of the FAO food commodity price index



Note: Based on seasonally adjusted data.
Source: FAO

The increase in global prices has been felt throughout the domestic supply chain, with food producer prices also rising substantially. In July, producer prices for domestic sales in the food industry rose by 6.8 percent on an annual basis, significantly above the overall industrial average (1.6 percent). The highest price increases were recorded for those product groups for which global prices have also risen most sharply. Producer prices rose by 17.5 percent in vegetable oil production, 8.7 percent in milk processing and 7.4 percent in meat processing (Chart 3-33).

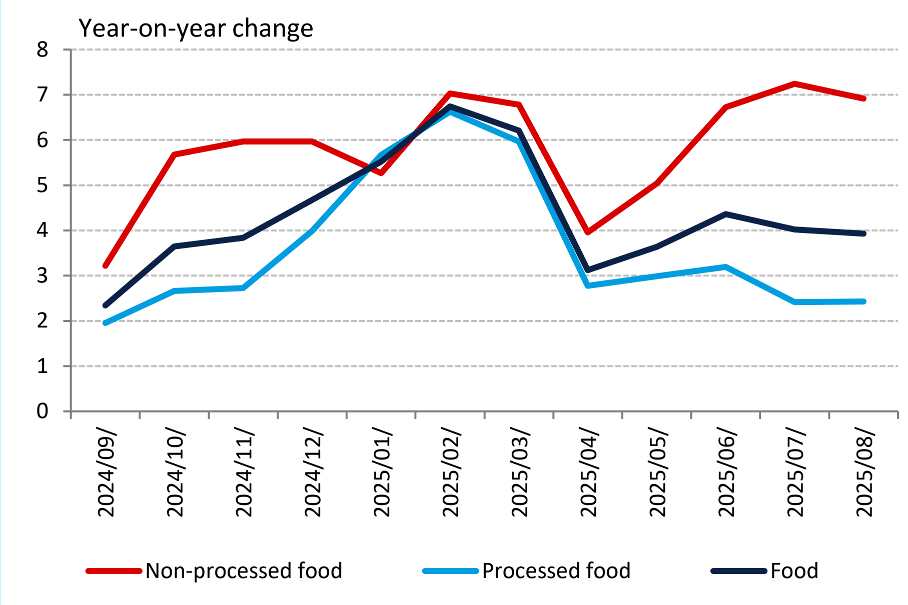
Chart 3-33: Development of domestic food producer prices in July 2025



Note: Data on domestic sales.
Source: HCSO

Following the downward effect of the introduction of the price margin restriction, food inflation started to rise again as a result of domestic weather and the pass-through of global market developments. Between February and April, food inflation according to the MNB's classification eased from 6.7 percent to 3.1 percent, before rising back around 4 percent in the summer. The acceleration in annual price changes was mainly explained by non-processed food (Chart 3-34).

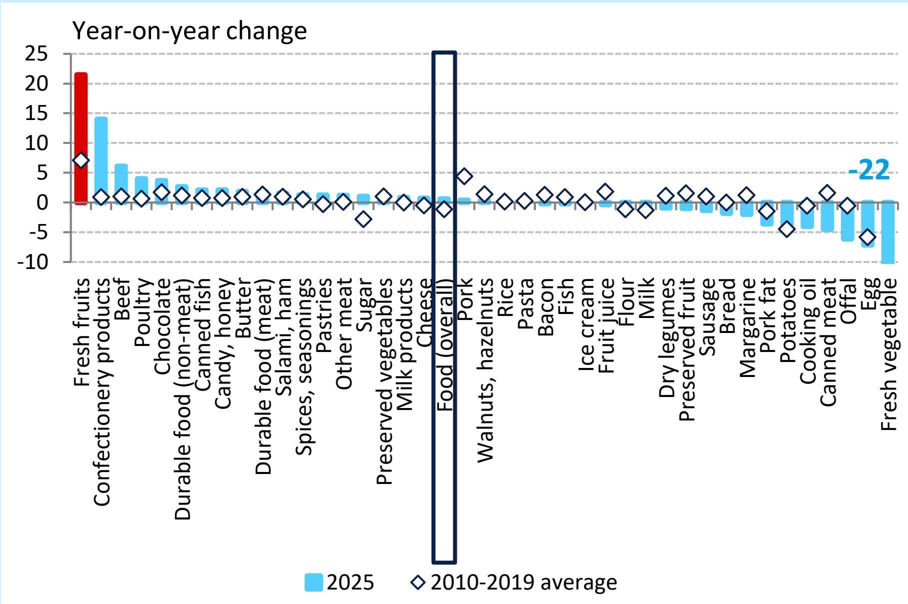
Chart 3-34: Development of food inflation



Note: Based on MNB classification.
Source: HCSO, MNB calculation

The most significant price increases in the last four months were recorded for seasonal fruit. Food prices rose by an average of 0.6 percent between April and August, but within the main group, fresh fruit prices rose by 21.5 percent, well above the historical average (7.1 percent) (Chart 3-35). Peaches accounted for a significant part of the increase in fruit prices, the producer price of which more than doubled compared to the previous year. The significant price increase was explained by a drop in average yields by almost one-third after the frost damage in April.

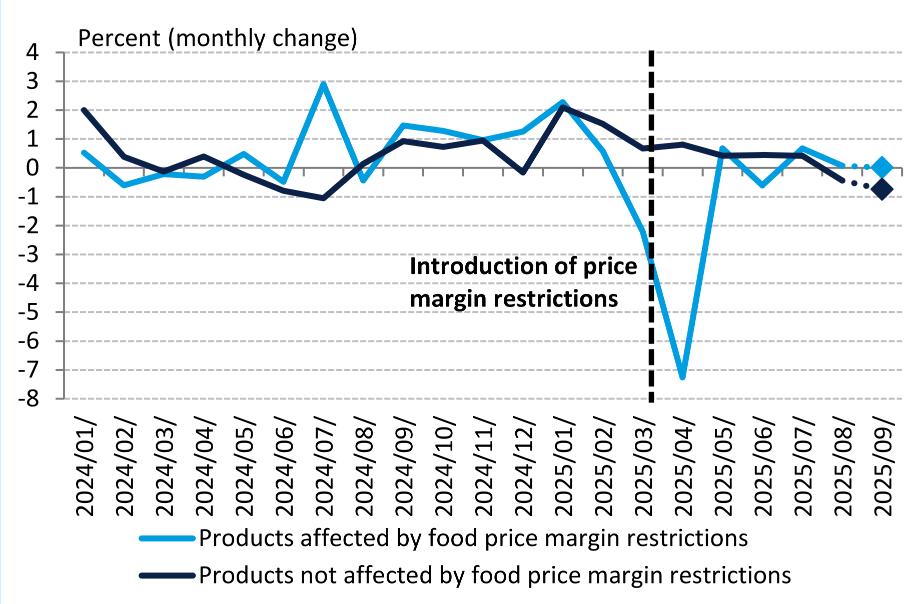
Chart 3-35: Price changes of food products between April and August 2025



Note: Based on MNB classification.
Source: HCSO, MNB

The phenomenon of cross-pricing has not yet appeared in the official statistics in connection with food price margin restrictions. The disinflationary effect of the measures may be dampened if traders try to compensate for losses on products subject to the restriction by raising margins on other products. However, there are no signs of this in the actual data so far. Monthly price increases for products outside the scope of the restriction observed by the HCSO were in the range of the months before the measure was introduced (Chart 3-36).

Chart 3-36: Monthly price changes of products affected and not affected by food price margin restrictions



Note: September values based on the MNB's online food price monitor.

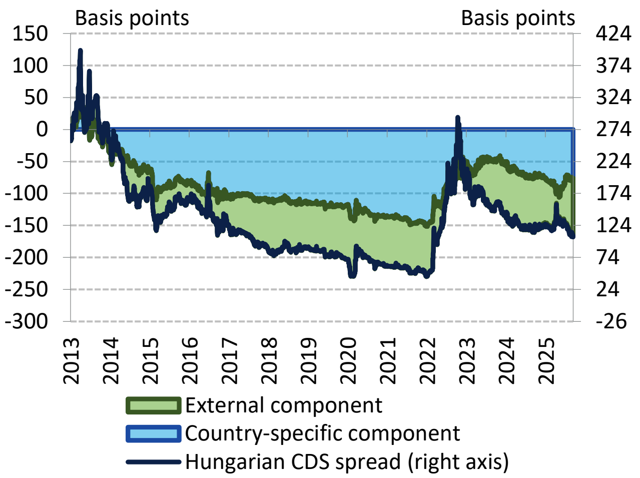
Source: HCSO, GVH Price Monitor, MNB calculation

4 Financial markets and interest rates

4.1 Domestic financial market developments

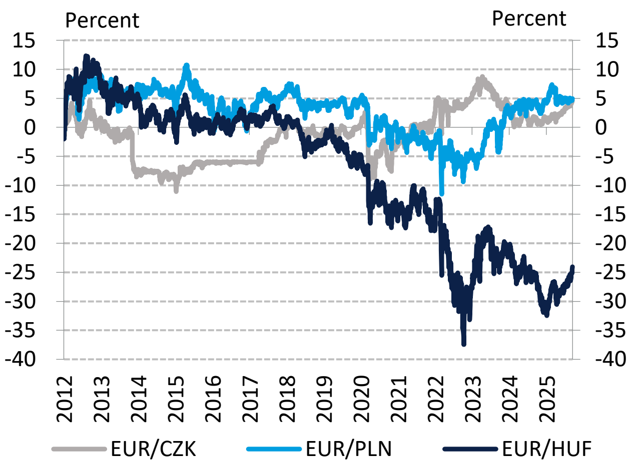
Sentiment in the financial and capital markets improved in the past quarter. During the past period, several countries, including the EU, reached agreements with the USA on trade tariffs. The period under review also saw a meeting between Donald Trump and Vladimir Putin aimed at ending the Russia–Ukraine war, which was well received by market participants. Asset price developments have typically been influenced by expectations of central banks in developed markets and by the statements of central bank decision-makers. Favourable global investor sentiment reduced the country's risk premium. The forint appreciated during the period, gaining 3 percent against the euro and 5 percent against the US dollar.

Chart 4-1: Components of 5-year Hungarian CDS spread



Note: The decomposition method used can be found in the MNB Bulletin: Variance decomposition of sovereign CDS spreads, Kocsis–Nagy (2011).
Source: Bloomberg, MNB

Chart 4-2: Exchange rates in the region



Note: Changes compared to beginning of 2012. Positive values mean an appreciation of the currency.
Source: Bloomberg

4.1.1. Hungary's risk perception

Hungary's credit risk premium decreased during the period. Mainly due to international factors, the premium fell to 108 basis points (Chart 4-1).

4.1.2. Currency market trends

Overall, the forint strengthened by 3 percent against the euro during the period. In the region, the Czech crown strengthened by 1.9 percent, the Polish zloty by 0.4 percent, and the Romanian leu depreciated by 0.7 percent against the euro (Chart 4-2). International developments and the resulting risk appetite, as well as incoming macroeconomic data, are behind the developments in regional currencies. The forint strengthened by 5 percent against the US dollar, while the Czech crown gained 3.9 percent, the Polish zloty 2.5 percent and the Romanian leu 1.8 percent.

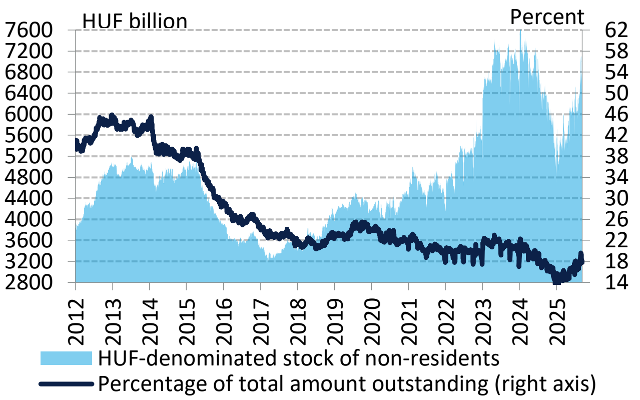
4.1.3. Government securities market and yields

Foreign investors' holdings of government securities rose during the past quarter (Chart 4-3). Non-residents' holdings of forint government securities grew by HUF 425 billion to HUF 6,574 billion in the period under review. The share in forint government securities increased slightly during the past quarter, rising to the current level of about 18.1 percent.

During the past period, the ÁKK accepted bids at government bond auctions in slightly higher volumes than announced, as demand increased moderately compared to the previous quarter and was almost three times the volume offered at auctions. In the last quarter, average DTB and bond auction yields were mixed, depending on maturity. Average yields fell 10 basis points in the case of the 3-month DTB auctions and rose 1 basis point in the case of the 10-year bond auctions.

Yields on the short and long end of the government bond market yield curve declined, while yields rose slightly in the middle (Chart 4-4). Overall, the 5-year yield increased

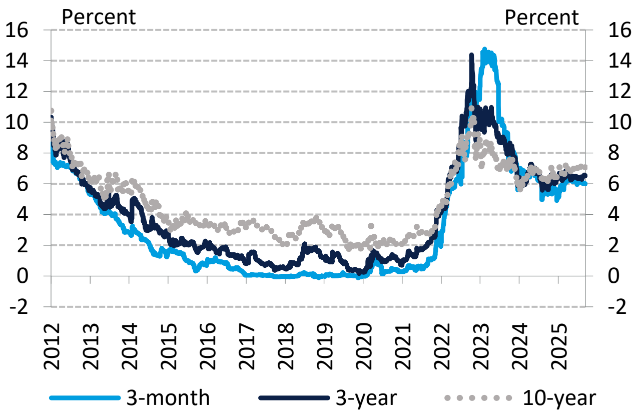
Chart 4-3: HUF-denominated government securities held by non-residents



Note: The chart shows the stock of T-bills and T-bonds.

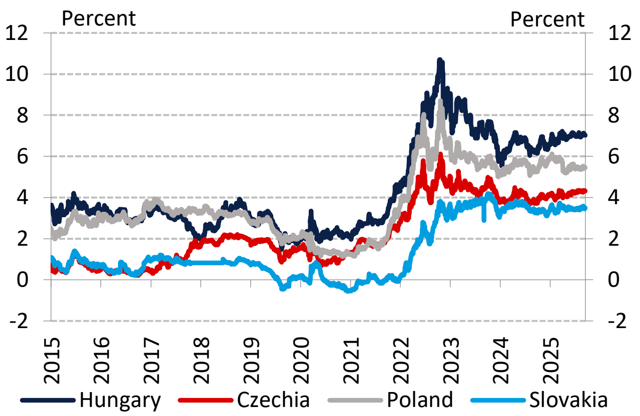
Source: MNB

Chart 4-4: Yields of benchmark government securities



Source: Government Debt Management Agency (ÁKK)

Chart 4-5: 10-year government benchmark yields in CEE countries



Source: Bloomberg

by 23 basis points, while the 10-year yield decreased by 7 basis point. Among interbank yields, the 3-month BUBOR remains unchanged at 6.5 percent.

Changes in long-term reference yields in the CEE region showed a varied picture during the past quarter (Chart 4-5). The 10-year Polish yield fell by 14 basis points, while the Czech yield rose by 5 basis points, the Slovak by 7 basis points and the Romanian by 7 basis points.

Box 4-1: Yields on forint investments, which are outstanding even by international standards, contribute to the consistently high savings rate

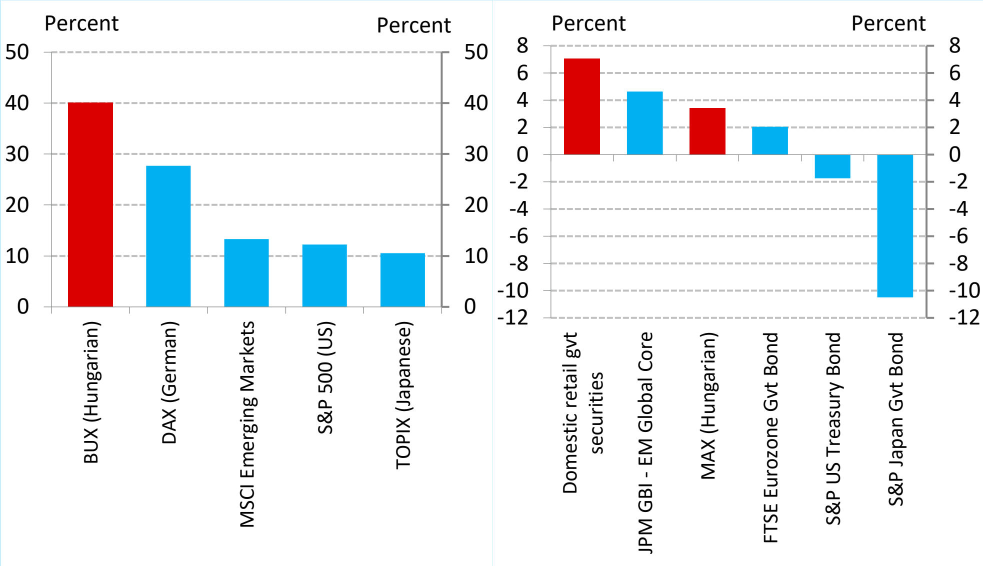
The outstanding yields on forint investments support the decline in inflation through a steadily high savings rate. Households' choice between consumption and saving also affects inflation through the level of domestic demand. Higher yields on forint-denominated financial instruments than those available on foreign currency-denominated instruments contribute to maintaining high savings rates and keeping household savings within the country. In the following, we show that the yields on forint-denominated instruments exceeded those on foreign currency-denominated instruments in two different instrument classes, shares and government securities, over the past year, even after taking into account the impact of exchange rates.

The domestic stock market has achieved outstanding results over the past year, exceeding the growth of the world's leading stock market indices. The BUX index, which tracks the performance of the Hungarian stock market, rose by more than 40 percent between the end of August 2024 and the end of August 2025. The German DAX index rose by 26 percent during this period, which translates into a 28-percent increase when converted into forints due to the modest depreciation of the forint against the euro over the course of the year. The US S&P 500 and Japanese TOPIX stock market indices each rose by 17 percent in their own currencies, but yields calculated in forints fell short of this due to the strengthening of the forint against the dollar and the Japanese yen. The rise in the Hungarian stock index exceeded even that of the MSCI Emerging Markets global stock market index (an increase of 18 percent in USD and 13 percent in HUF).

It was possible to achieve higher yields with the Hungarian retail government securities than with foreign government securities. The forint-denominated retail government securities available for purchase in August 2024 offered annual interest rates of between 6 percent and 8 percent, depending on the type of government security, with a sales-weighted average of 7 percent. We compare the interest rates on retail government securities with changes in government securities market indices which, similar to stock indices, measure the performance of the largest and most widely traded government securities denominated in the local currency in a given region or country. The average interest rate of 7 percent on forint-denominated retail government securities is several times higher than the annual yield available on euro area government bonds, as measured by the FTSE Eurozone Government Bond Index, even taking into account the loss on net price due to early redemption. The index value calculated in euros rose by only 1 percent in one year until the end of August 2025; when calculated in forints, the yield is 2 percent. The S&P US Treasury Bond Index, which contains US government securities, rose by 2.5 percent in USD terms, but this investment would have been loss-making in Hungarian forints over a one-year period. S&P's Japanese government bond market index fell by 5 percent during the period under review, which translates into an even larger decline when converted into Hungarian forints. The JPMorgan Government Bond Index - Emerging Markets Global Core, which includes government securities from emerging countries, rose by 9 percent in US dollars over the course of a year, but after conversion to Hungarian forints, it yielded less than 5 percent. It should be noted that the indices are determined by the market value of institutional government securities and changes therein, which are also affected by shifts in the interest rate environment. Calculated on a similar basis, the MAX index, which tracks the yield on Hungarian institutional securities, rose by 3.4 percent, exceeding the euro area index but lagging behind the emerging market index. At the same time, in the case of household savings, comparison with retail government securities is more relevant, whose interest rates exceeded the change in each of the government securities indices examined, calculated in forints.

The long-term yields of individual savings and investment products and the risks associated with individual financial instruments are presented in detail in MNB's report focusing on household savings, to be published at a later date.

Chart 4-6: Annual retrospective yield of shares and government securities in Hungarian forints



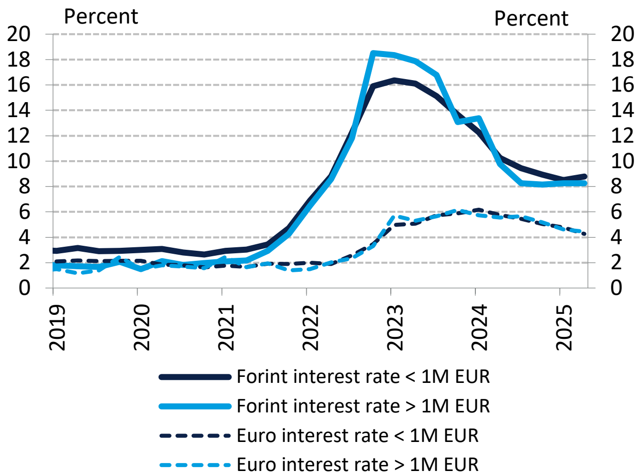
Note: Indices: change in total return index between 29 August 2024 and 29 August 2025. Domestic retail government securities: The weighted average of the annual interest rate at the time of purchase of dematerialised forint retail government securities sold in August 2024, weighted by issue volume.

Source: MNB, ÁKK, Bloomberg, S&P Global

4.2 Credit conditions of the financial intermediary system

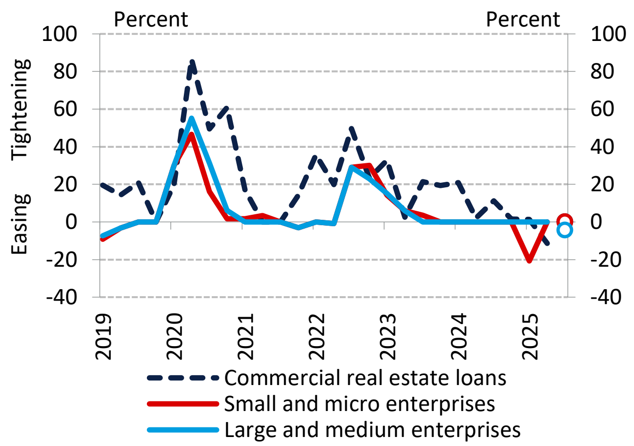
In 2025 Q2, interest rates on EUR-denominated corporate loans continued to fall, while interest rates on HUF loans remained unchanged. Based on the MNB's Lending Survey, banks have not changed corporate lending conditions and do not intend to modify such in 2025 H2. Around one-third of banks experienced a drop in demand for corporate loans during the second quarter, and looking ahead they expect a continued decline in demand for long-term loans. In view of banks' liquidity and capital position, the banking sector's lending capacity remains at a high level. The average credit cost for housing loans rose slightly, while that of personal loans did not change significantly during the quarter. In the second quarter, banks tightened standards for both housing and consumer loans. In the case of housing loans, banks expect the upturn in demand seen in the second quarter to strengthen further thanks to the Home Start programme, and they also anticipate an upturn in demand for secured consumer loans.

Chart 4-7: Interest rates on new corporate loans



Note: Loans with variable interest rate or with up to 1-year initial rate fixation. From 2015, based on data net of money market loans exceeding EUR 1 million.
Source: MNB

Chart 4-8: Changes in credit conditions in corporate sub-segments



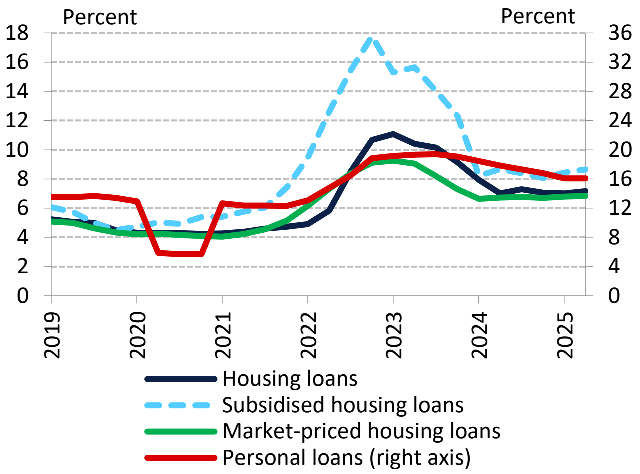
Note: Net percentage balance of respondents tightening/easing credit conditions weighted by market share. Forecast for 2025 Q2-Q3.
Source: MNB, based on banks' responses

4.2.1. Corporate credit conditions

In 2025 Q2, the average interest rate on EUR-denominated corporate loans continued to fall, while interest rates on HUF loans remained unchanged. Compared to the previous quarter, net of money market transactions, the interest rate on newly contracted, predominantly market-based corporate HUF loans with an interest rate period of up to one year, increased by 0.3 percentage point in the case of low-amount loans and remained unchanged in the case of large-amount loans. The average interest rate on corporate HUF loans contracted in 2025 Q2 remained unchanged at 8.3 percent (Chart 4-7). The level of interest rates on low-amount and large-amount EUR loans dropped by 0.5 percentage point and 0.2 percentage point, respectively, during the quarter. Consequently, in the second quarter, the average financing cost of corporate EUR loans fell by 0.2 percentage point to 4.4 percent compared to 2025 Q1.

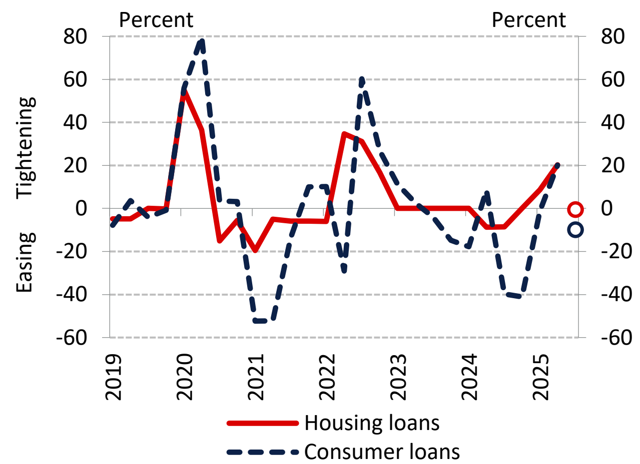
In 2025 Q2, banks experienced weaker demand for corporate loans, while credit conditions remained unchanged. During the quarter, banks did not change their standards in any of the company size categories, and they also do not plan to change their credit conditions in 2025 H2. In view of banks' liquidity and capital position, the lending capacity of the banking sector remains at a high level. A net 11 percent of banks eased their conditions for commercial real estate loans in the second quarter due to increasing competition among banks, which affected all segments except office buildings. In 2025 H2, 10 percent of respondents may tighten credit conditions in the case of office buildings due to challenges affecting the industry (Chart 4-8). A net 30 percent of the banks surveyed reported a decline in demand for corporate loans in 2025 Q2. The decline primarily affected HUF loans and long-term loans, and was mainly felt among large and medium-sized enterprises. Banks attribute this to the subdued investment intentions of businesses. Looking ahead to the next six months, banks do not expect any upturn in demand for

Chart 4-9: Annual percentage rate of charge on new household loans



Note: Quarterly volume-weighted average of lending rates on newly disbursed loans. For housing loans, the interest rate in the figure also includes the subsidy paid by the state.
Source: MNB

Chart 4-10: Changes in credit conditions in the household sector



Note: Net percentage balance of respondents tightening/easing credit conditions, weighted by market share. Forecast for 2025 Q2-Q3.
Source: MNB, based on banks' responses

corporate loans and anticipate a further decline in demand for long-term loans (at the time of completing the survey, not all details of the Certified Corporate Loan rating were known; therefore, respondents were unable to take it fully into account in their answers).

4.2.2. Household credit conditions

The average cost of housing loans rose slightly during the quarter. The average APR for housing loan contracts concluded in 2025 Q2 was 7.2 percent, representing a 0.1-percentage point increase relative to the previous quarter. Within this, the average APR on market-based housing loans was 6.8 percent, while that on subsidised loans (the sum of the client interest rate and the state interest subsidy) was 8.5 percent, which is 0.1 percentage point and 0.3 percentage point higher than in the first quarter, respectively (Chart 4-9). The average APR on personal loans remained unchanged at 16.1 percent in the quarter under review compared to the first quarter.

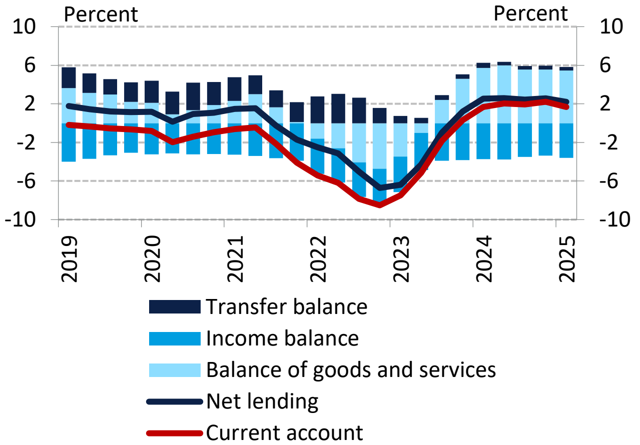
Banks tightened their conditions on household loans in 2025 Q2. In the case of housing and consumer loans, one-fifth of the responding banks reported a tightening of credit conditions (Chart 4-10). Over the next six months, responding institutions will leave credit standards unchanged due to the anticipated developments in the housing market and in order to increase market share, while 10 percent may ease standards for consumer loans by extending maturities. In the second quarter, one-third of banks experienced growing demand for loans in the housing loan market, but looking ahead, two-thirds expect further growth as a result of the Home Start programme. In the consumer segment, one-quarter of banks, including 87 percent of those involved in vehicle financing, reported an upturn in demand for loans. Looking ahead to 2025 H2, however, demand for unsecured consumer loans may remain unchanged, while banks widely expect demand for vehicle financing to weaken.

5 Balance position of the economy

5.1 External balance and financing

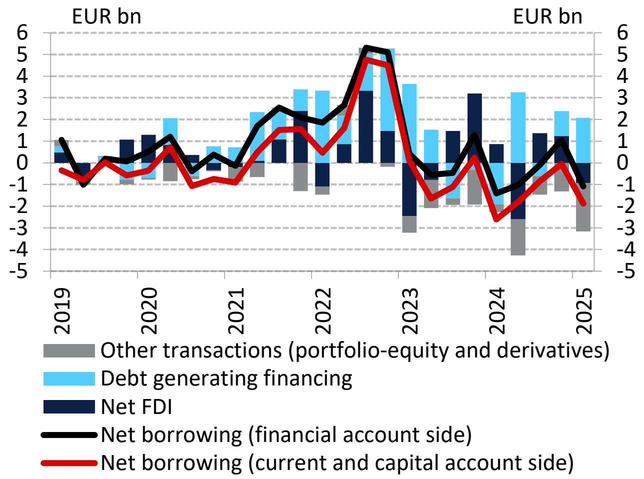
In 2025 Q1, the current account balance continued to show a surplus, following a modest decline. The positive net lending position is still mainly linked to the external trade balance, while the transfer balance remains persistently low due to subdued EU funds inflows. On the financing side, debt inflows increased in line with net FDI outflows. In 2025 Q1, gross external debt amounted to 63 percent of GDP, while the net ratio was around 10 percent. Based on preliminary monthly data, the slight narrowing of the current account surplus continued in the second quarter.

Chart 5-1: Changes in net lending and its components



Note: Cumulated four-quarter values, as a percentage of GDP. Trade data from the GDP statistics are used for 2024.
Source: MNB

Chart 5-2: Structure of net lending



Note: The net lending from the financial account side corresponds to the sum of current account, capital account and the BOP balance of statistical errors and omissions. The technical effect of the switch between unallocated gold accounts and gold bullion is excluded.
Source: MNB

5.1.1. Development of Hungary's net lending position

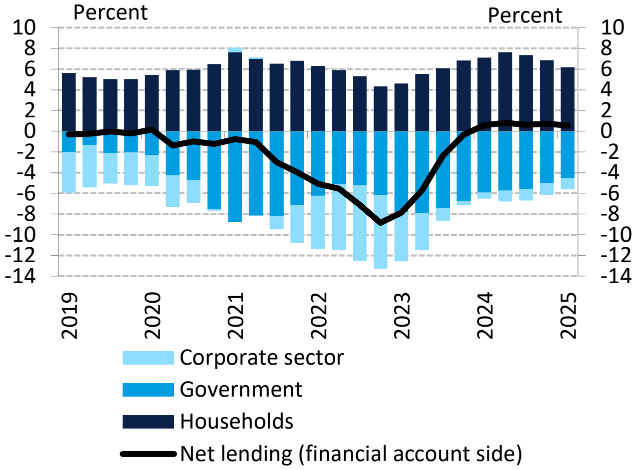
At the beginning of 2025, the current account balance declined slightly, but remained in surplus (Chart 5-1). The four-quarter current account balance as a percentage of GDP narrowed to 1.7 percent in 2025 Q1, from 2.2 percent at the end of 2024. The slightly less favourable external balance figures were mainly driven by an increase in the income balance deficit, partly due to a methodological change, but also to a lesser extent by a decline in the external balance surplus. The transfer balance remained at a very low level, explained by subdued EU inflows. Preliminary monthly data suggest that the external position continued to weaken in the second quarter, with subdued export activity and rising imports in the context of strong domestic demand contributing to a narrowing of the balance surplus, partly reflecting specific factors. The level of the transfer balance increased slightly relative to the first quarter, but remains low.

5.1.2. Financing developments

In 2025 Q1, Hungary's external financing capacity evolved with a significant outflow of non-debt funds and an increase in debt-type funds (Chart 5-2). The decline in net foreign direct investment (FDI) was mainly driven by a significant outflow of funds by the domestic sector, while purchases of foreign shares and investment fund units by resident investors boosted other outflows. The main net external debt inflows were related to the banking sector. In 2025 Q2, preliminary monthly data show a continuation of the above trends, with net FDI outflows moderating, mainly due to seasonally expected dividend payments, while debt-type fund inflows also declined and were mostly linked to companies.

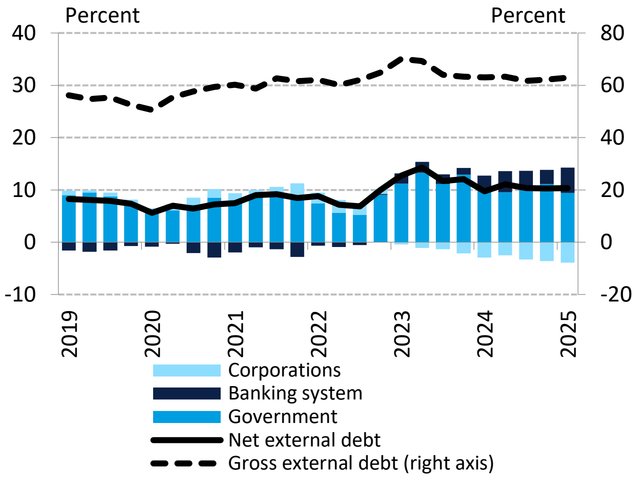
The declining external position was accompanied by lower net financial savings in the private sector in 2025 Q1, which was only partly offset by the smaller general government deficit (Chart 5-3). Government financing requirements declined in the context of rising consumption-related tax revenues and lower interest

Chart 5-3: Decomposition of net lending by sectors



Note: Four-quarter cumulation, as a percentage of GDP.
Source: MNB

Chart 5-4: Debt ratios as a proportion of GDP



Note: The effect of the switch between gold bullion and unallocated gold accounts, as well as intercompany loans are excluded.
Source: MNB

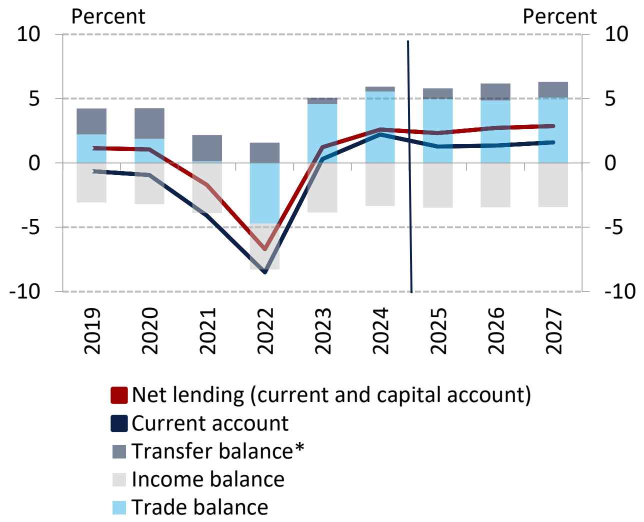
expenditures. At the same time, however, the net financial savings of households also declined as consumption picked up and real earnings growth has slowed. Private sector net financial savings continued to decline in 2025 Q2, while the general government deficit continued to fall.

In 2025 Q1, the economy's net external debt remained around 10 percent of GDP (Chart 5-4). At the beginning of 2025, net external debt remained at the same level as in the previous quarter, as the result of offsetting effects. While the external debt of the general government consolidated with the MNB decreased, the debt-type funds of the banking sector increased. However, the increase from transactions was reduced by the impact of revaluation and nominal GDP, and thus overall the indicator did not change significantly. Hungary's gross external debt amounted to 63 percent of GDP at the beginning of 2025.

5.2 Forecast for Hungary's net lending position

The current account surplus is expected to remain at a stable, high level over the forecast horizon. In 2025, the surplus on the goods and services balance will temporarily be reduced by expanding consumption. From 2026 onwards, the trade balance will gradually increase thanks to a slow recovery in exports and an increase in the services balance. Based on the financing position of the sectors, the decline in the general government deficit will be reflected by an improvement in the external balance, and at the same time, the financial savings of the private sector will decrease.

Chart 5-5: Evolution of net lending



Note: As a percentage of GDP. For 2024, we take into account the trade balance data based on GDP statistics. *The sum of the balance of the current transfers and the capital account balance.
Source: MNB

Table 5-1: Development of trade balance as a percentage of GDP

	2023	2024	2025	2026	2027
Balance of goods	-0.2	0.8	0.1	-0.1	0.0
Balance of energy	-4.7	-3.3	-3.2	-3.1	-3.1
Balance of other goods	4.5	4.1	3.3	3.0	3.1
Balance of services	4.8	4.8	4.9	5.0	5.1
Trade balance	**4.6**	**5.6**	**5.0**	**4.9**	**5.1**

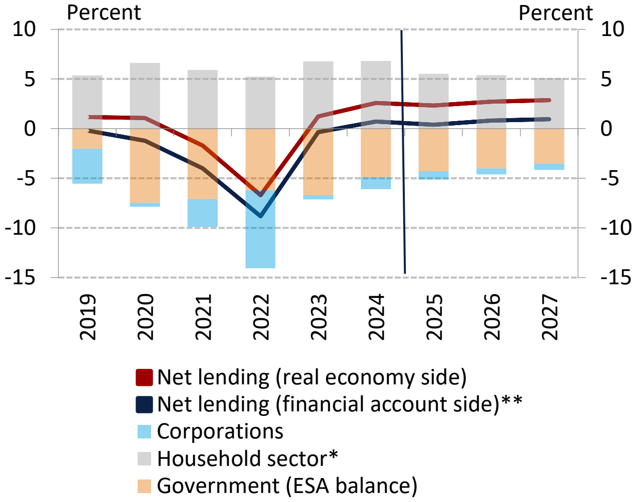
Source: HCSO, MNB

After a temporary decline this year, the current account surplus will increase slightly from 2026 onwards (Chart 5-5). After 2025, following a temporary decline, the current account balance will increase slightly, supported by a rising external trade balance until the end of the projection horizon, as exports recover and the services balance continues to expand. The impact on the income balance of improving corporate operating income on the back of recovering exports is offset by a decline in interest expenditures, and thus over the forecast horizon the income deficit contracts slightly in 2026 and remains at that level thereafter. The current account surplus rises to 1.6 percent of GDP by the end of the forecast horizon, which – together with expanding EU transfer absorption – will also lead to an increase in net lending.

The substantial foreign trade balance surplus will narrow in 2025–2026 and then rise slightly from 2027 onwards. The energy deficit will gradually decrease until 2026 and then stabilise at that level. This year and next year, the surplus on the other goods balance will fall due to subdued exports, before rising slightly from 2027 onwards in line with expansion in exports. The surplus on the services balance may gradually rise above 5 percent of GDP over the forecast period, linked to the recovery in tourism (Table 5-1).

Based on the sectors' financing position, the private sector's net financial savings will decrease along with a decline in the budget deficit (Chart 5-6). The 2025 decline in the budget deficit is mainly driven by lower interest expenditures. In the coming years, stabilisation in energy prices and a reduction in investment, in addition to falling interest expenditures, will contribute to a decline in the general government deficit. Household consumption is projected to weaken slightly from 2025 onwards, while wage growth and consumption remain robust. This year, as investment declines, the financing needs of companies will fall and remain at a similar level over the second half of the forecast horizon.

Chart 5-6: Changes in the savings of sectors



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

5.3 Fiscal developments

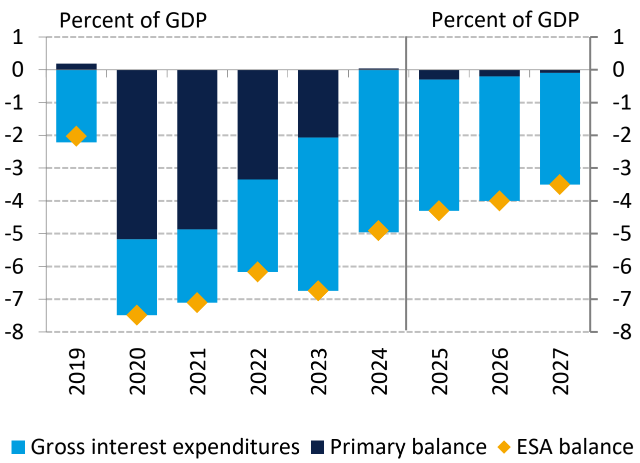
The budget deficit-to-GDP ratio is forecasted to be 4.1–4.5 percent in 2025, 3.8–4.2 percent in 2026 and 3.2–3.7 percent in 2027, depending on macroeconomic developments and the degree of fiscal control. The government first raised the 3.7 percent deficit target adopted in the 2025 budget law to 4.1 percent, and then in September 2025, the government's deficit forecast increased to 4.0–4.5 percent. The budget deficit forecast for next year was also revised upwards, from 3.7 percent to 4.0 percent in September. The reduction in the budget deficit in 2025 compared to 4.9 percent in 2024 is mainly supported by lower interest expenditures and falling public investment. The 2025 efforts to cut government debt are substantially impeded by the high cash flow deficit and subdued economic growth. A gradual reduction of the deficit may bring the debt-to-GDP ratio down to below 72 percent by the end of the forecast horizon.

Table 5-2: General government balance indicators

	2024	2025	2026	2027
ESA balance	-4.9	(-4.5) - (-4.1)	(-4.2) - (-3.8)	(-3.7) - (-3.2)
Primary ESA balance (point estimate)	0.0	-0.3	-0.2	-0.1
Gross interest expenditures	5.0	4.0	3.8	3.4

Note: As a percentage of GDP. The time series of the primary ESA balance after 2024 are point estimates, which are consistent with the midpoint of the ESA balance forecast bands.
Source: MNB

Chart 5-7: Changes in the fiscal balance and government interest expenditures



Note: The time series of the ESA balance and the primary ESA balance after 2024 are point estimates, which are consistent with the midpoint of the ESA balance forecast bands.
Source: HCSO, MNB

5.3.1. Main balance indicators

Our forecast shows a gradual decline in the accruals-based deficit. According to our forecast, the government sector's accrual deficit-to-GDP ratio may amount to 4.1-4.5 percent in 2025 (Table 5-2), **and is expected to be 3.8–4.2 percent of GDP in 2026 and 3.2–3.7 percent in 2027.** In addition to lower interest expenditures, declining public investment will support the expected reduction in the budget deficit from 4.9 percent in 2024. According to our forecast, the deficit will gradually decline in line with gross interest expenditures, and accordingly the primary balance may be close to a balanced level over the forecast horizon (Chart 5-7). Compared to our forecast in June, the most significant newly announced government measures are the Home Start Programme, housing support for civil servants and wage increases for employees in local public administration.

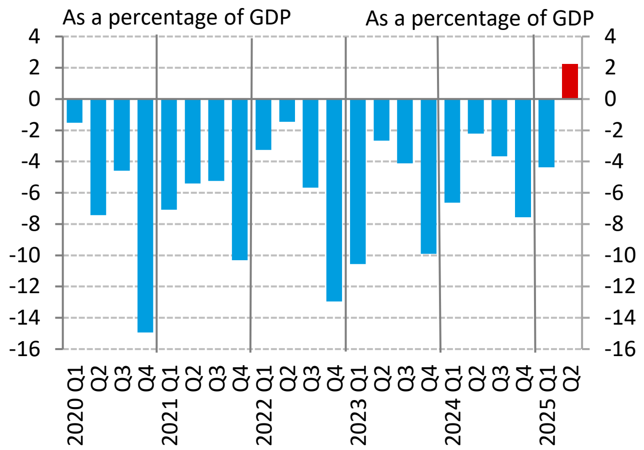
5.3.2. Budget balance for 2025

We forecast the budget deficit at 4.1–4.5 percent of GDP in 2025. The government first raised the 3.7 percent deficit target adopted in the 2025 budget law to 4.1 percent, after which the government's deficit forecast increased to 4.0-4.5 percent in September 2025.

Based on the preliminary fiscal account data of the government sector released by the MNB, the first half-year accruals-based budget deficit amounted to 0.8 percent of half-year GDP (Chart 5-8). The budget cash flow deficit at end-August amounted to HUF 3,026 billion, which represents 73 percent of the HUF 4,123 billion cash flow target set out in the statutory appropriation, and 63 percent of the government cash flow deficit forecast of HUF 4,774 billion published in June financing plan. The concentration in the beginning of the year of cash flow interest payments on household inflation-linked securities contributed to the deficit.

The year-on-year decrease in the annual accruals-based budget deficit stems primarily from a decline in public investment and the nearly 1 percentage-point year-on-year drop in interest expenditures, in line with the downward inflation trend. In our forecast, we took into account the impact of previous measures to support families, pensioners and businesses, such as the 50-percent increase in the family tax allowance, the personal income tax exemption for infant care and childcare allowances and for mothers with three children, the food voucher for pensioners, the extension of the prenatal baby support loan, the Worker's Loan, the Rural Home Renovation Programme, the interest rate reduction in the Széchenyi Card Programme, the Sándor Demján Programme and within it, the increase in the budget of SME 1+1 Investment Stimulus Grant Programme, Home Start Programme and wage increases for employees in local public administration, as well as other measures.

Chart 5-8: Accrual balance of the general government sector



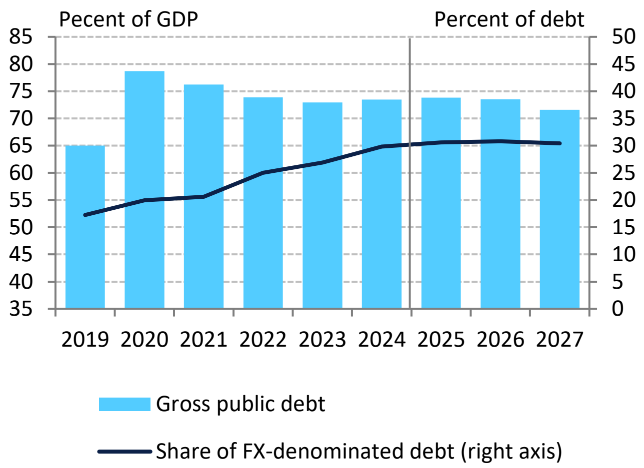
Note: The data show the net lending capacity of general government as reported in the preliminary financial accounts published by the MNB.
Source: MNB

5.3.3. Budget balance for 2026 and 2027

According to our forecast, the accrual deficit-to-GDP ratio may be 3.8–4.2 percent in 2026 and 3.2–3.7 percent in 2027, which – accompanied by a gradual reduction in interest expenditures – should ensure that the primary balance remains close to balanced budget. In addition to measures to support families, the budget deficit may fall gradually over the forecast horizon. The reduction in the deficit is supported by the decline in interest expenditures to 3.8 percent in 2026 and then to 3.4 percent of GDP by the end of the forecast horizon. In addition to the reduction in interest expenditures, the declining deficit path is supported by energy prices stabilising at lower level, the continuation of extra profit taxes and reduced public investments. The government's deficit target for next year was initially changed from the previous 2.9 percent to 3.7 percent, and the government deficit expectation increased to 4.0 percent in September 2025.

A number of measures introduced in this year will continue in 2026, mothers with three children, and infant care and childcare allowances, will be exempt from personal income tax for the full year. The family tax and contribution allowance for children will be doubled in January 2026, after the first step in July 2025. From 1 January 2026, the first stage of the tax exemption for mothers with two children will be introduced for mothers under 40 years of age, as well as the personal income tax exemption for mothers under 30 years of age with one child. The benefit payment to armed forces and law enforcement will also be implemented in 2026. After 2025, we are also calculating the impact of the Home Start Programme, wage increases for employees in local public administration in 2026 and housing support for civil servants will also start from 2026.

Chart 5-9: Gross public debt forecast



Note: Calculated based on an unchanged exchange rate at the end of 2024..
Source: MNB, ÁKK

In 2027, the personal income tax exemption for mothers with two children will be expanded.

5.3.4. Risks surrounding the baseline scenario

The limited availability of EU funds continues to be a factor of uncertainty for budgetary developments. Hungary has access to a total of EUR 12.2 billion in the 2021-2027 cohesion budget, which is being drawn down continuously. Hungary's absorption rate was 13 percent in early September, while the EU average was 12 percent. Hungary still cannot access the EUR 6.4 billion non-repayable envelope of the Recovery and Resilience Facility (RRF), where payment requests can only be submitted for milestones achieved by mid-2026, according to the current regulations.

The development of tax revenues and expenditures over the horizon is also influenced by the macroeconomic environment and government measures. Our forecast does not include the impact of the government's planned action plan to protect industry and jobs, as the exact details of the measures, including possible additional tax relief measures, are not yet known.

Hungary's request for the activation of the national escape clause of the Stability and Growth Pact has been approved. This has allowed Hungary to deviate from the net expenditure path set out in the medium-term budgetary and structural plan by increasing defence expenditure as a percentage of GDP compared to 2021. In Hungary's case, this allows for a deviation of 0.9 percent of GDP with defence spending at 2 percent of GDP, but with further increases in defence expenditure, the permitted deviation could be increased to a maximum of 1.5 percent. According to the budget law, an increase in the open-ended budget appropriation called the Economic Development Framework, which was created in the 2026 Budget Act to potentially use this additional room for manoeuvre, is possible if the use of such does not endanger the reduction of public debt and compliance with the EU net expenditure rule.

5.3.5. Expected trends in public debt

According to preliminary financial accounts data, the gross public debt-to-GDP ratio was 76 percent at the end of 2025 Q2. Accordingly, the debt ratio was 2.5 percentage points higher than the ratio recorded at the end of 2024, and 0.5 percentage point higher in year-on-year terms. The increase in the public debt ratio at the end of 2025 Q2 was mainly due to high net issuance, as a large part of the annual net issuance plan occurred in the first half of the year.

The efforts to reduce government debt in 2025 are substantially impeded by the high cash flow deficit and subdued economic growth. A gradual reduction of the deficit may bring the debt-to-GDP ratio down to below 72 percent by the end of the forecast horizon (Chart 5-9). Lower-than-expected GDP growth, a higher-than-expected budget deficit and an increase in debt issuance outside the central government pose risks to the development of the public debt ratio. Based on our forecast, the debt-to-GDP ratio may fall below 72 percent of GDP by the end of 2027.

Due to significant foreign currency bond issuance, the foreign currency debt ratio of the central government will rise to 30.6 percent by end-2025 from the figure of 29.8 percent recorded at end-2024 and may remain around 30 percent in later years as well. Changes in the EUR/HUF exchange rate affect the debt ratio through the revaluation of foreign currency debt and accordingly, a change of HUF 10 in the EUR/HUF exchange rate alters the public debt-to-GDP ratio by around 0.6 percentage point.

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