



# INFLATION REPORT



2025  
DECEMBER





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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 11 December 2025.*



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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.*

## **Along moderate global growth, prolonged trade and geopolitical tensions continue to pose a risk.**

In the United States, GDP grew by 2.1 percent year-on-year in the second quarter, while in China, GDP grew by 4.8 percent in 2025 Q3 compared to the same period last year. The European Union's GDP rose by 1.6 percent year-on-year. The economic performance of Germany, Hungary's most important foreign trade partner, grew by 0.3 percent. Trade agreements concluded in recent months have succeeded in averting an escalation of the tariff war, but the ongoing Russian–Ukrainian war and the generally tense geopolitical situation remain key risk factors.

## **Inflation developments continue to present a mixed picture internationally.**

More than half of the OECD member countries that have already published their data recorded inflation rates exceeding central bank targets in October. According to the latest available data, inflation in the United States rose to 3.0 percent in September. In China, consumer prices rose by 0.7 percent year-on-year in November. Inflation in the euro area was 2.1 percent in October, while inflation rates across the EU Member States were spread over a range of more than 8 percentage points. Among the countries in the region, the consumer price index rose in the Czech Republic (2.3 percent), remained unchanged in Poland (2.9 percent), and declined in Slovakia (3.9 percent) and Romania (8.4 percent).

## **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 at each of its last three policy meetings.**

At its rate-setting meetings in September and October, the ECB kept its key deposit rate unchanged at 2.0 percent. Inflation in the euro area has recently been around the central bank's 2-percent inflation target, while core inflation has been slightly above it. Future monetary policy decisions will be made on the basis of incoming data, meeting by meeting, and the Council will not be committed to a specific interest rate path in advance.

At its September, October and December rate-setting meetings, the Fed cut interest rates by 25 basis points each time, lowering the target range for the federal funds rate to 3.50–3.75 percent. At the press conference following the December interest rate decision, the Chair of the Federal Reserve pointed out that inflation and labour market risks were currently pointing in opposite directions, and it is unclear which risk will become more pronounced.

Market pricing for interest rate paths in the United States has been volatile since September, with the market pricing in further interest rate cuts overall. In the euro area, market interest rate expectations have risen moderately, suggesting that the ECB may have reached the bottom of its interest rate path.

In the region, the Polish central bank cut interest rates by 25 basis points three times in the fourth quarter, bringing the base rate down to 4.0 percent. The Czech and Romanian central banks have not changed their policy rates of 3.5 and 6.5 percent, respectively, in recent months.

## **Since the end of September, international investor sentiment has been determined by the uncertain global economic environment.**

At the beginning of the period, international financial market sentiment was negatively affected by the escalation of the China–US trade conflict but then stabilised by the agreement on rare earth metal exports. The prolonged US government shutdown dampened investor sentiment. Inflation above the central bank's target, data pointing to a slowdown in the US labour market and the absence of data releases have led to uncertainty related to the expectations about the Fed's next steps.

Following the rise at the end of September, the global market price of oil moderated overall, falling to around USD 62, while European gas prices fell to a 1.5-year low. The tightening of restrictions on Russian crude oil and OPEC+'s announcement of a postponement in production increases pushed oil prices higher, while negotiations aimed at ending the Russian–Ukrainian war – along the uncertainty surrounding them – and expectations of increased US production contributed to a decline in oil prices.

**Overall, the forint strengthened by around 1.5 percent against the euro during the quarter, while domestic government bond yields have been mixed.**

Among regional currencies, the Czech koruna remained unchanged, the Polish zloty appreciated by 0.6 percent, while the Romanian leu depreciated by 0.3 percent during the period. The strengthening of the forint was also supported by tight domestic monetary policy. Yields on the Hungarian government bond market rose at the short and long ends of the yield curve, while yields in the middle section declined moderately. In the fourth quarter, three credit rating reviews took place, during which S&P, Moody's and Fitch Ratings all confirmed Hungary's debt rating, while Fitch Ratings revised the outlook to negative.

**Inflation returned to the central bank's tolerance band in November, and it falls temporarily below the inflation target at the beginning of next year. The rate of price increases may reach the 3-percent inflation target on a sustained basis in 2027 H2.**

In November, inflation and core inflation fell to 3.8 percent and 4.1 percent, respectively. The decrease in global commodity and food prices and the pass-through of a stronger forint into purchase prices support disinflation. In recent months, both the representative consumer basket and the core inflation product range have been characterised by more moderate monthly repricings than in the first half of the year. Companies' short-term price expectations showed subdued dynamics in November as well. However, households' inflation expectations remain stagnant.

Corporate repricings at the start of the year, as well as the timing of the withdrawal of price margin restrictions and the effects thereof carry uncertainty regarding the inflation outlook. According to the MNB's projection, the rate of price increases will briefly decline below the 3 percent inflation target before temporarily rising close to the tolerance band's upper bound. While the consumer price index remains volatile, underlying inflation is projected to evolve more favourably over the coming year relative to the September forecast due to a stronger forint and an improved external cost environment. On an annual basis, inflation is expected to rise by 4.4 percent this year, 3.2 percent in 2026, and 3.3 percent in 2027 on average. The 3 percent inflation target may be achieved in a sustainable manner in 2027 H2.

**In 2025 Q3, the annual growth of the domestic economy accelerated moderately, and the gradual recovery of the economy may be expected from the end of the year.**

The Hungarian economy grew by 0.6 percent year-on-year in 2025 Q3, while it stagnated compared to the previous quarter. Domestic real economic developments continued to be characterised by duality in the third quarter: GDP growth was primarily supported by an expansion in household consumption, while investments and net exports held it back. Due to the prolonged economic downturn, labour market tightness has eased in recent quarters. In a historical comparison, the unemployment rate remains low. The growth of gross average earnings moderated in 2025 compared to the previous year, but the pace of moderation slowed within the year. The duality characterising the sectors may be expected to remain in the fourth quarter. Domestic GDP is expected to grow by 0.5 percent in 2025.

From next year onwards, both internal and external factors will support the upturn in growth. Due to rising real wages and government measures to increase household income, consumption will support growth throughout the forecast horizon. In addition to the gradual recovery of Hungary's export markets, the capacity-expanding investment projects of recent years also support the expansion of industrial exports. Hungarian GDP may grow by 2.4 percent in 2026 and 3.1 percent in 2027.

**The duality of the household and corporate credit markets persisted in 2025 Q3.**

The household loans outstanding of the total financial intermediary system grew by 10.5 percent year-on-year by the end of 2025 Q3. The value of new household loans contracted by credit institutions during the quarter increased by 11 percent compared to the same period of the previous year. Within this, personal loan disbursements were up by a third, while housing loans' disbursement remained unchanged, which can be explained by deferred demand and a "wait-and-see"

attitude due to the Home Start programme announced in early July and available from September. According to the MNB's Lending Survey, banks expect demand for housing loans to increase in the next six months as a result of the Home Start loan programme. Based on our forecast, the programme launched in September may increase the household loans outstanding of the total financial intermediary system by 15 percent in 2025 and 19 percent in 2026. Over the forecast horizon, the housing subsidy programme for public service employees may further stimulate household lending, although to a lesser extent than the Home Start programme.

The total corporate loan portfolio grew by 3.4 percent year-on-year at the end of 2025 Q3. The annual growth rate of the SME loan portfolio, which better reflects the underlying trends in the corporate sector, was 5.0 percent at the end of September. 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 low investment activity and the nominally high level of corporate liquid assets. According to the banks' responses to the Lending Survey, the decline in corporate credit demand in the third quarter is expected to turn into growth in 2025 Q4 and 2026 Q1, but this will affect short-term loans only, with no turnaround expected in demand for long-term loans for investment purposes. According to the MNB's forecast, the corporate loan portfolio of the total financial intermediary system will increase by 3–4 percent in both 2025 and 2026.

**The current account surplus may increase moderately in 2025 and then stabilise at a high level from 2026 onwards.**

The current account surplus may increase moderately to 1.7 percent of GDP in 2025, accompanied by a favourable change in the terms of trade concerning the trade balance. In 2026, the upturn in consumption and investment will increase imports, while exports will resume growth amid improving capacity utilisation. The external position will continue to improve moderately overall next year. In the remaining years of the forecast horizon, the net lending position will remain high, with the current account surplus staying at around 2 percent of GDP.

**The budget deficit is expected to exceed our previous expectations this year and the next.**

According to the central bank's forecast, the budget deficit may be around 5 percent in 2025 and 2026, before declining from 2027 onwards. The increase in the deficit forecast is justified by fiscal measures and lower-than-expected economic growth. The higher expected deficit path will make it more difficult to reduce public debt, however, the expected acceleration in economic growth from next year and later the decrease in deficit will also support a reduction in the debt ratio after 2026.

**Based on the assessment of the Monetary Council, the baseline scenario of the December forecast is surrounded by balanced inflation and growth risks.**

The Monetary Council highlighted four alternative risk scenarios around the baseline projection in the December Inflation Report. The alternative scenario that assumes a slower-than-expected improvement in the European economy features lower growth and inflation than the baseline scenario, which is consistent with looser monetary conditions. The scenario that anticipates an easing of geopolitical tensions is consistent with higher economic growth and lower inflation than in the baseline scenario, which may also be associated with looser monetary conditions. The scenario that assumes faster consumption growth is consistent with higher growth and inflation than in the baseline scenario, which implies tighter monetary conditions. The alternative scenario that anticipates a slow moderation in inflation expectations may be associated with lower economic growth and higher inflation than in the baseline scenario, which is consistent with tighter monetary conditions. In addition to the highlighted scenarios, the Monetary Council discussed alternative scenarios assuming stronger-than-expected labour market adjustments and an increasingly uncertain international environment.

## SUMMARY TABLE OF THE BASELINE SCENARIO

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

	2024	2025	2026	2027	2028
	Actual	Forecast			
Inflation (annual average)					
Core inflation	4.6	4.6	3.6	3.1	3.0
Core inflation excluding indirect tax effects	4.6	4.4	3.6	3.1	3.0
Inflation	3.7	4.4	3.2	3.3	3.0
Economic growth					
Household final consumption expenditure	6.0	3.5	4.7	3.3	3.0
Government final consumption expenditure <sup>1</sup>	-1.8	-0.2	0.4	0.5	0.5
Gross fixed capital formation	-9.9	-5.4	1.3	4.0	3.8
Domestic absorption	-1.8	3.0	2.8	2.8	2.6
Exports	-0.9	-1.1	3.9	5.2	4.0
Imports	-3.9	2.1	4.5	4.9	4.0
GDP	0.6	0.5	2.4	3.1	2.7
Labour productivity <sup>2</sup>	0.6	0.3	3.0	2.9	2.5
External balance <sup>3</sup>					
Current account balance	1.5	1.7	1.9	1.9	1.8
Net lending	1.8	2.5	3.4	3.2	3.0
Government balance <sup>3</sup>					
ESA balance	-5.0	(-5.0) - (-4.7)	(-5.2) - (-4.7)	(-4.9) - (-4.4)	(-4.2) - (-3.7)
Labour market					
Whole-economy gross average earnings <sup>4</sup>	13.2	8.9	10.6	7.0	6.5
Whole-economy employment	0.0	-0.6	-0.7	0.2	0.1
Private sector gross average earnings <sup>4</sup>	12.0	8.7	9.0	9.4	7.1
Private sector employment	-0.1	-1.3	-0.7	0.3	0.2
Unemployment rate	4.5	4.5	4.8	4.5	4.1
Private sector real unit labour cost	4.9	2.4	1.6	0.6	-0.1
Household real income <sup>5</sup>	3.9	0.6	4.7	3.0	2.9

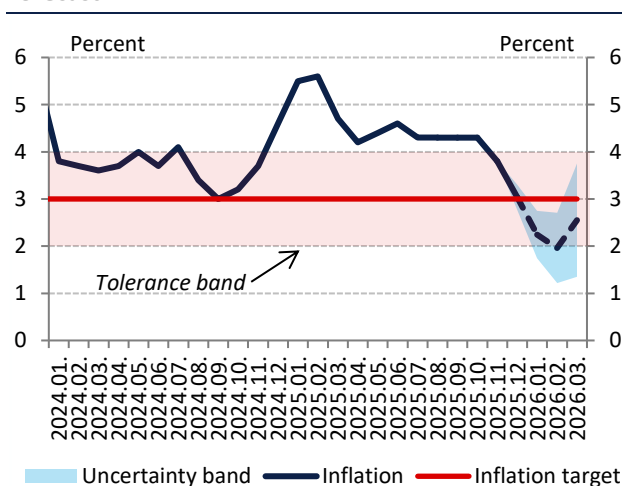
<sup>1</sup> Government final consumption expenditure includes final consumption expenditure of general government and non-profit institutions.<sup>2</sup> Whole economy, based on national accounts data.<sup>3</sup> As a percentage of GDP.<sup>4</sup> For full-time employees.<sup>5</sup> MNB estimate.

# 1. Inflation and real economy outlook

## 1.1. Inflation forecast

In November 2025, inflation was lower than we had expected, at 3.8 percent, while core inflation was 4.1 percent, in line with our previous forecast. Our inflation forecasts for this year and next year were reduced compared to the September forecast, mainly due to the subdued repricing seen in recent months, the stronger forint, the favourable development of cost factors and the expansion and extension of margin restrictions. The development of corporate repricing at the beginning of the year, as well as the timing and impact of the elimination of margin restrictions, introduce uncertainty into our forecast for inflation. The rate of price increases will briefly decline below the inflation target in the early months of 2026, before temporarily rising again to near the upper limit of the tolerance band. In addition to the volatility of the consumer price index, underlying inflation trends will develop more favourably over the course of next year compared to the September forecast, due to the stronger forint exchange rate and the more favourable external cost environment. The duration of the margin restrictions affects companies' pricing practices, as more durable restrictions put more pressure on companies to adapt. Price increases following the removal of the measures may be mitigated by the fact that the losses incurred by the companies concerned as a result of the measures are partly offset by the more favourable external cost environment, the stronger exchange rate and the reduction of taxes on retail companies. Households' disposable income and consumption will expand substantially over the entire forecast horizon, increasing companies' room for pricing on the demand side, but this will only partially offset the favourable effect of disinflationary factors. Postponement of the increase in excise duties on fuels will temporarily lower the rate of inflation in the first half of next year. The low base resulting from the extension of margin restrictions and postponement of the excise duty increase will then subsequently raise inflation in 2027. The rate of price increases may reach the 3-percent inflation target in a sustained manner in 2027 H2. The annual average inflation rate is expected to be 4.4 percent this year, 3.2 percent next year and 3.3 percent in 2027.

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



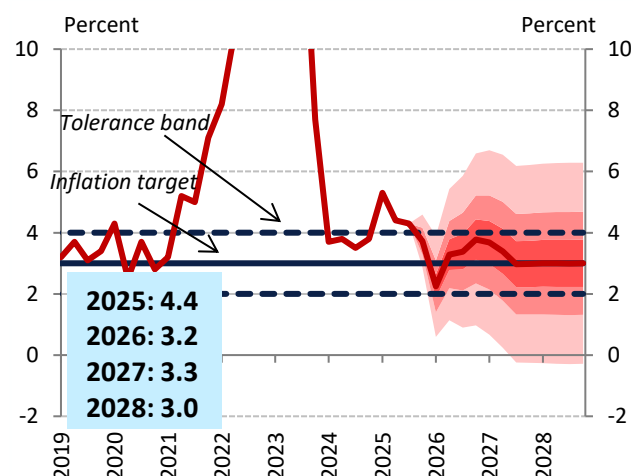
Note: Annual change. The uncertainty band shows the uncertainty around the forecast range with regards to the root mean squared error of previous years' near-term forecasts.

Source: HCSO, MNB

**Underlying inflation trends corresponded to our previous expectations in recent months.** With the exception of the lower figure for November, the data for the autumn months were essentially in line with our September forecast in terms of headline inflation. Inflation may decline further in the near term, as a result of the appreciation of the forint, the more favourable cost environment, the reduction of taxes on the retail sector and the extension and expansion of margin restriction measures (Chart 1-1).

**The rate of price increases will briefly decline below the inflation target in the early months of 2026, before temporarily rising again to near the upper limit of the tolerance band.** The development of corporate repricing at the start of the year, the timing of the phasing out of margin restrictions and the extent of subsequent price adjustments generate uncertainty about the inflation path for next year. In our forecast, we took into account the phasing out of margin restrictions based on the current legislation. The length of the application of the margin restrictions affects companies' adjustment and pricing practices, as more durable restrictions put more pressure on companies to adapt. The stronger exchange rate, the decline in global food prices and the modification of the special retail tax create a more favourable cost environment for retail chains, which may partially offset the losses resulting from margin restrictions. Therefore, we assume that a more

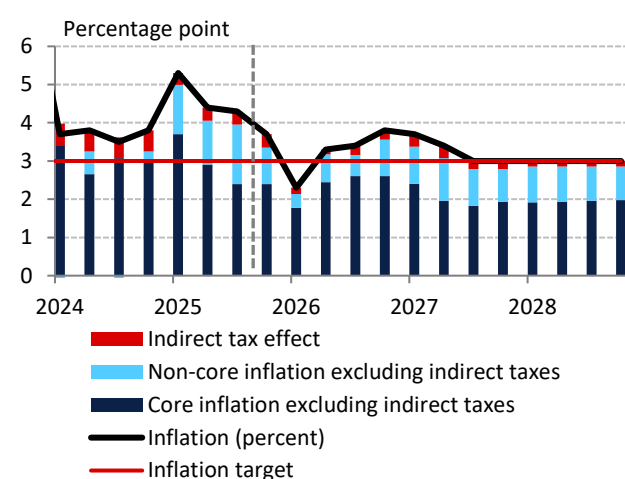
Chart 1-2: Fan chart of the inflation forecast



Note: Based on seasonally unadjusted data.

Source: HCSO, MNB

Chart 1-3: Decomposition of our inflation forecast



Source: HCSO, MNB

moderate and gradual price increase may be expected after the measures are phased out than the technical price-reducing effect measured at the time of the introduction of the margin restriction.

**Inflation is expected to average 4.4 percent in 2025, 3.2 percent in 2026 and 3.3 percent in 2027. The rate of price increases may reach the 3-percent inflation target in a sustained manner in 2027 H2 (Chart 1-2).** Government price and margin restriction measures and the postponement of the excise tax increase on fuels will reduce inflation in the near term, but the low base resulting from the measures will temporarily raise the rate of inflation in early 2027.

**Core inflation excluding indirect taxes, which reflects underlying trends, is expected to be 4.4 percent in 2025, 3.6 percent in 2026 and 3.1 percent in 2027.** In addition to uncertainty about the impact of price-restricting measures and the volatility of the consumer price index, we expect a continuous, sustained decline in underlying inflation trends next year, supported by the gradual pass-through of the stronger exchange rate and the more favourable external cost environment (Chart 1-3). Households' disposable income and consumption will expand substantially over the entire forecast horizon, which will increase companies' room for pricing on the demand side, but this will only partially offset the favourable impact of disinflationary factors. We have lowered our tax-adjusted core inflation forecast for next year by 0.3 percentage point, while raising our forecast for 2027 by 0.2 percentage point compared to the September forecast, due to the lower base.

**The inflation path may differ from our September forecast.** The stronger exchange rate in recent months and the decline in global commodity and food prices point to more moderate inflationary developments. The extension of margin restrictions and the postponement of the excise tax increase will result in lower inflation this year and next year, but in 2027 the lower bases will lead to a higher rate of inflation compared to our previous forecast. In addition to the volatility of the consumer price index, underlying inflation trends will develop more favourably over the course of next year compared to the September forecast, due to the stronger forint exchange rate and the more favourable external cost environment. New government measures, such as income-boosting measures (the 14<sup>th</sup> month pension, wage increases for employees in the cultural and social sectors) on the demand side, as well as the increase in the bank levy, also modify our forecast to a minor extent. The expansion of income-boosting budgetary measures may increase companies' room for repricing, the

**Table 1-1: Details of the inflation forecast**

		2025	2026	2027	2028
Core inflation excluding indirect tax effects		4.4	3.6	3.1	3.0
Core inflation		4.6	3.6	3.1	3.0
Non-core inflation	Unprocessed food	4.2	4.5	5.6	4.4
	Fuel and market energy	-1.8	-2.2	4.6	3.1
	Regulated prices	5.9	2.3	1.6	1.8
	Alcohol and tobacco	6.5	5.5	4.2	3.9
<b>Inflation</b>		<b>4.4</b>	<b>3.2</b>	<b>3.3</b>	<b>3.0</b>

Note: In percent.

Source: MNB

effects of which are likely to be felt primarily in the latter half of next year. The cost-increasing effects of the bank levy increase may be offset in various ways by the actors concerned, not all of which affect consumer prices, and thus we assume that the costs of the bank levy increase will only be partially reflected in inflation. **Compared to our September forecast, our inflation expectations for this year have fallen by 0.2 percentage point and by 0.6 percentage point for 2026, while inflation may be 0.3 percentage point higher in 2027.**

**For food products, the world market prices decline since September, the cycle of price increase ended after one and a half year,** looking ahead, the future development of food price margin restrictions and companies' related adjustments result in uncertainty with regard to price dynamics in this product group. The favourable cost environment and stronger exchange rate may dampen the increase in inflation in this product group after margin restrictions are phased out. For unprocessed food, we forecast price increases of 4.2 percent this year, 4.5 percent next year and 5.6 percent in 2027 (Table 1-1).

**Prices of vehicle fuel and market energy products may fall by an annual average of 1.8 percent this year, 2.2 percent next year and then rise by 4.6 percent in 2027.** Inflation in this product group is influenced by the postponement of the excise tax increase, which will result in lower average fuel inflation next year and higher average fuel inflation in 2027. Due to the decline in global oil prices in USD and the appreciation of the domestic currency versus USD, our assumption for oil prices expressed in HUF is lower than our September assumption. Our assumption for benchmark gas prices, which are decisive for the costs of businesses, has also been revised downwards based on the incoming data. Inflation for goods and services with regulated prices is forecast to average around 5.9 percent in 2025, which is mainly determined by the increase in the average household price of piped gas due to the cold spring weather. Our forecast 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		2028	Change		
	Previous	Current	Previous	Current	Previous	Current	Current	2025	2026	2027
EURUSD	1.13	1.13	1.17	1.16	1.17	1.16	1.16	-0.2%	-0.7%	-0.7%
Oil (USD/barrel)	69.2	68.4	66.1	62.2	66.1	62.4	62.8	-1.1%	-5.8%	-5.6%
Oil (EUR/barrel)	61.4	60.8	56.4	53.4	56.4	53.6	53.9	-1.0%	-5.3%	-5.0%
Gas (EUR/MWh)	37.2	36.4	31.9	27.0	29.0	25.5	25.1	-2.0%	-15.3%	-12.0%
Euro area inflation (%)		2.1		1.7		1.9				
Euro area real GDP (%)		1.2		1.0		1.3				
GDP growth of Hungary's main export partners* (%)	1.6	1.7	1.6	1.7	2.2	2.3	1.8	0.1 pp.	0.1 pp.	0.1 pp.

Note: Annual average for oil prices. \*Growth rate of Hungary's 21 most important export partners weighted by share in exports. For the ECB's current forecast, the value for September 2025 is shown, as the December forecast is not available.

Source: Bloomberg, Consensus Economics, MNB, ECB

**Our assumptions regarding external demand have improved slightly for this year and going forward.** In 2025 Q3, the EU economy expanded by 1.6 percent and the euro area economy grew by 1.4 percent year-on-year, on a seasonally and calendar-adjusted basis. The US economy expanded at a year-on-year rate of 2.1 percent in the second quarter. In 2025 Q3, China registered growth of 4.8 percent on an annual basis. On average for the first nine months of 2025, the volume of global goods trade increased by 4.8 percent year-on-year. Due to the uncertain global economic environment, geopolitical tensions and trade disputes, there are numerous downside risks to growth. As a result of the agreements concluded by the United States with the European Union and China, the tariff war scenario was avoided, but the higher tariff levels compared to previous periods may reshape the structure of global trade. Based on economic growth indices, consumer and business confidence in the EU economies has essentially stagnated in recent months.

**The European Central Bank projects euro area GDP growth of 1.2 percent in 2025.** According to the ECB, next year's growth may amount to 1.0 percent. The ECB's September forecast foresees inflation in the euro area at around 2.1 percent this year, 1.7 percent in 2026 and 1.9 percent in 2027.

**In early December, the price of Brent crude oil was between USD 60 and 65.** From the levels of around USD 70 at the end of September, oil prices declined, and by mid-October the price of Brent had fallen close to USD 60, its lowest level in the past six months. The domestic currency has continued to strengthen against USD in recent months, and thus oil prices expressed in HUF are below our September 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. The International Energy Agency predicted a larger-than-expected increase in global supply of 3 million barrels per day this year and 2.4 million barrels per day next year, mainly due to OPEC+ production increases and strong oil production on the American continent, which reinforces market participants' expectations of lower prices.

**In line with the favourable market environment, global gas prices fell below EUR 30/MWh by the end of November.** 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. By the end of November, the TTF gas price had fallen below EUR 30/MWh, reaching a 1.5-year low, driven primarily by the expansion of LNG supply from the United States. The 7-day moving average of the German Phelix electricity price rose to around EUR 100 in November, following a level of around EUR 77 observed in August.

**The budget deficit-to-GDP ratio may be in the range of 4.7–5.0 percent in 2025 and 4.7–5.2 percent in 2026, depending on macroeconomic developments and the degree of fiscal discipline.** The government first raised the 3.7-percent deficit target adopted in the 2025 budget law to 4.1 percent, and then to 4.3 percent. Subsequently, in November 2025 the government's deficit forecast was increased to 5.0 percent and the 2026 target was also raised to 5.0 percent of GDP. In addition to the announced measures and the increased deficit target, lower-than-expected economic growth is also



contributing to a deficit path at a higher level than previously. From 2027 onwards, public debt may embark on a downward path and fall to around 72 percent of GDP by the end of the horizon.

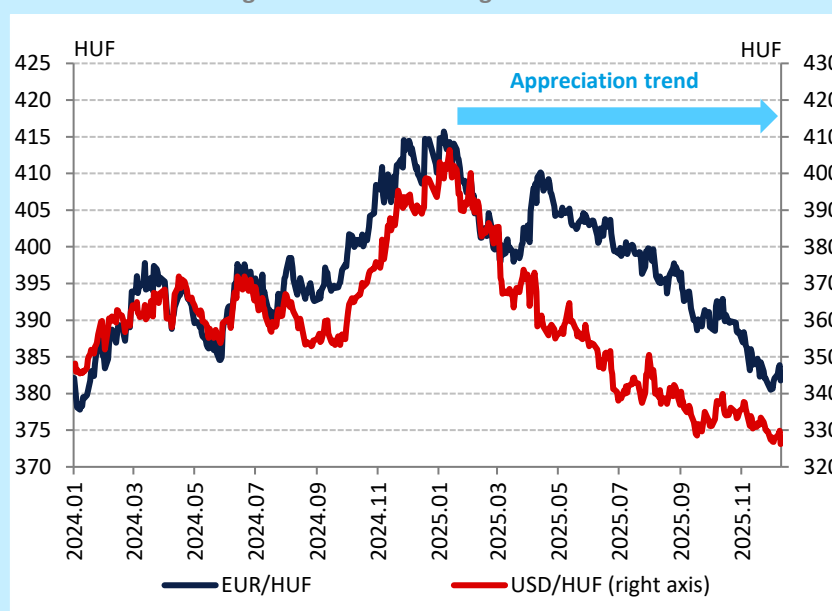
**The restriction of Hungary's access to EU funds poses a growing risk from the aspect of fiscal developments.** Hungary still cannot access the envelope of the Recovery and Resilience Facility (RRF), where payment requests can only be submitted for milestones achieved by the end of August 2026, according to the current regulations.

#### Box 1-2: Impact of exchange rate appreciation on inflation

Since the beginning of this year, the forint has been on a continuous strengthening trend, with the exception of a brief interruption in April. Exchange rate movements have a significant impact on companies' production costs and, through this, on inflation. In this Box, we review the extent to which exchange rate appreciation has been reflected in prices and how it may affect future inflation trends.

The Hungarian currency has strengthened by nearly 7 percent against the euro and by more than 17 percent against the US dollar since the end of 2024 (Chart 1-4). As a result of this appreciation, the current exchange rate of the forint against the euro has fallen to the level last seen at end-2023. At the same time, in terms of annual averages, the average exchange rate for this year was still 0.8 percent weaker than last year's average up to the time of the closing of data.

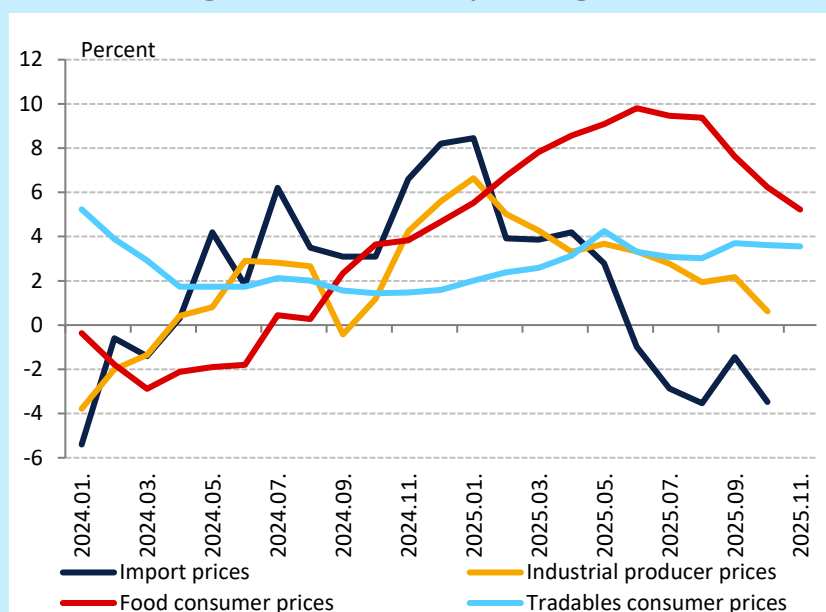
Chart 1-4: Exchange rate of the forint against the euro and the dollar



Source: MNB

The appreciation of the forint has already had an impact on purchase prices, but the expected disinflationary effect of the stronger exchange rate has not yet been felt in the consumer prices of industrial goods and food. In the case of import and industrial producer prices, inflation has slowed significantly since January, with the annual import price index showing a decline since June (Chart 1-5). By contrast, there has been no significant slowdown in the price dynamics of consumer goods, and food inflation is higher than might be expected, considering the rapid pass-through of the exchange rate appreciation.

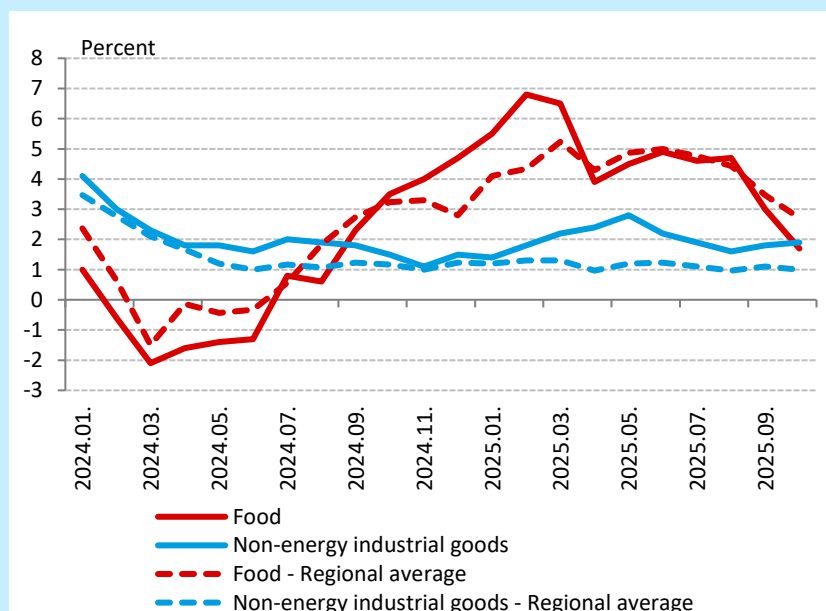
**Chart 1-5: Annual change in import prices, industrial producer prices and consumer prices of food and industrial goods, excluding the technical effect of price margin restrictions**



Note: In the case of industrial producer prices, prices for domestic sales. Consumer prices for food are based on the classification according to the methodology of the MNB. Source: HCSO, MNB

**Despite price margin restrictions and the stronger forint versus regional currencies, inflation in industrial goods is at or above the regional average.** The rate of price increase for this product group was on average 0.9 percentage point higher this year than in the other three Visegrad countries. The rate of increase in food prices was above the average for the other Visegrad countries until March, in line with it between April and August, and then fell below the regional average from September (Chart 1-6).

**Chart 1-6: Inflation in food and industrial goods in a regional comparison**



Note: Based on HICP data and product classification. The regional average includes Czechia, Poland and Slovakia.

Source: Eurostat

**During this year's appreciation, price developments in several product groups deviated from the pattern typically seen in the 2020s.** Current price levels for unprocessed food and durable industrial goods are higher than would be justified by the external cost environment and the forint exchange rate.

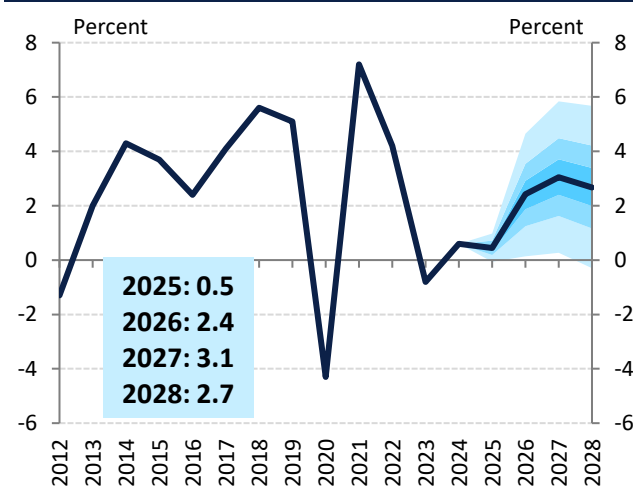
**Several factors may explain the current, more moderate pass-through compared to previous years.** The more moderate-than-usual disinflationary effect may be due to companies waiting to see how geopolitical uncertainty or the expected future development of the forint exchange rate will play out, leading to more persistent and rigid expectations. In the case of products that are repriced less frequently, the lack of pass-through so far may also be explained by the fact that companies set their prices for the whole year based on the forint exchange rate at the end of last year or the beginning of this year. In this case, the disinflationary effect of the stronger exchange rate may appear when these products are repriced next time, based on the new exchange rate. Pass-through may also be slowed if companies base their pricing decisions not on the current exchange rate, but rather on this year's average exchange rate, which is higher than the average exchange rate for 2024. Price margin restrictions may also play a role in the development of pass-through, as companies may use the greater leeway provided by the stronger exchange rate to offset their losses resulting from the measures. In this case, the stronger exchange rate reduces the pressure on companies directly or indirectly affected by price restrictions to raise prices and may curb the rate of inflation after the measures are phased out.

**The above factors suggest that the speed of exchange rate pass-through may be temporarily slower than in the past.** Overall, we do not believe that the impact of exchange rate movements on prices has weakened, but in the current economic environment, several factors (such as the future of price margin restrictions) are also influencing pricing decisions, and the time horizon for pass-through has become more uncertain.

## 1.2. Real economy forecast

The Hungarian economy may grow by 0.5 percent this year. Incoming high-frequency data support the expected moderate acceleration in annual GDP growth. The real economy is characterised by dual trends, as robust growth in household consumption is accompanied by a prolonged decline in investment. The moderate downward revision of our growth forecast for this year is explained by the slower-than-expected expansion of services and the protracted recovery in industry. From next year onwards, both internal and external factors will contribute to further economic growth, with GDP expanding by 2.4 percent in 2026, 3.1 percent in 2027 and 2.7 percent in 2028. Strong consumption dynamics will remain an important growth factor over the entire horizon, supported by rising real wages, government programmes and the savings rate declining from historically high levels. The large capacity expansion projects undertaken in recent years are gradually starting production. Despite recovery in the external economy, the expected turnaround in corporate investments will only support growth significantly from 2027 onwards.

Chart 1-7: Fan chart of the GDP forecast



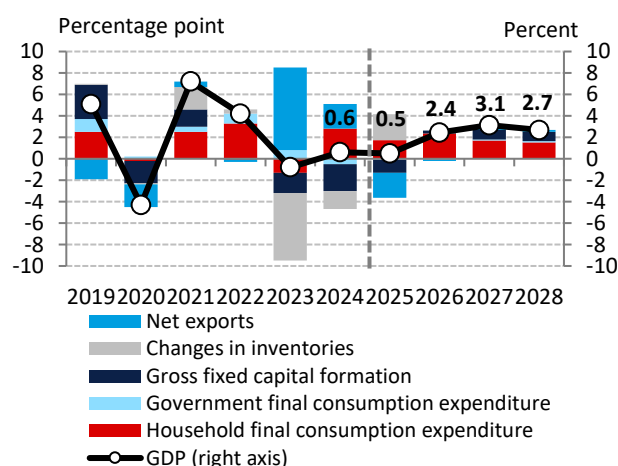
Note: Based on unadjusted data.

Source: HCSO, MNB

According to our forecast, the Hungarian economy may grow by 0.5 percent this year, which is 0.1 percentage point lower than our September expectation. Our growth forecast for this year is explained by the slower-than-expected expansion of services and the protracted recovery in industry. Based on the incoming high-frequency data, annual GDP may accelerate further, and thus we expect growth of around 1.0-percent on an annual basis in the fourth quarter. From the end of the year, a gradual upturn is anticipated, supported not only by steadily strong consumption growth, but also by externally driven economic conditions, which are expected to normalise going forward.

The dual trends characterising the sectors may continue in the fourth quarter, with this year's moderate GDP growth mainly supported by the performance of services and construction, while industry is a restraining factor. Consumption-related services (primarily retail trade) continued to expand in the third quarter, and we expect this growth to continue in the fourth quarter. In the case of business services, substantial growth is expected next year, in parallel with the easing of uncertainty and the revival of the production sectors. The unfavourable business sentiment about industrial production and forward-looking indicators continue to suggest that industrial performance may remain subdued in the short term. Industrial export sales fell in the third quarter, and new export orders also declined. Nevertheless, industrial sentiment indices have improved somewhat in recent months. 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. However, there are some companies and certain effects which led to a sharp deterioration in Hungary's industrial output data; this is discussed in greater detail in Box 3-1. All in all, the annual decline in industrial production may continue in the fourth quarter, but with improving external demand and the launch of new

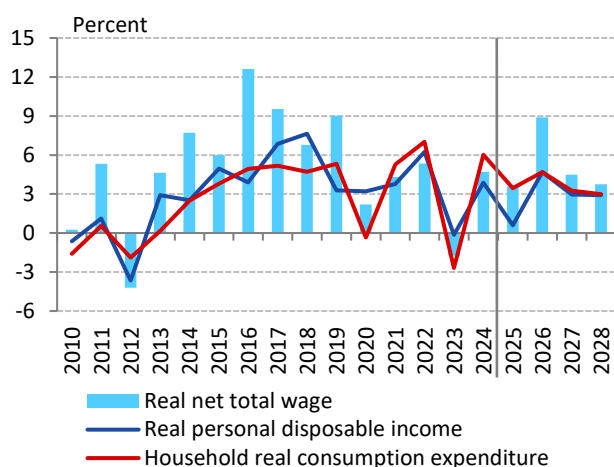
Chart 1-8: Expenditure side decomposition and forecast of GDP



Note: Government final consumption expenditure includes final consumption expenditure of general government and non-profit institutions.

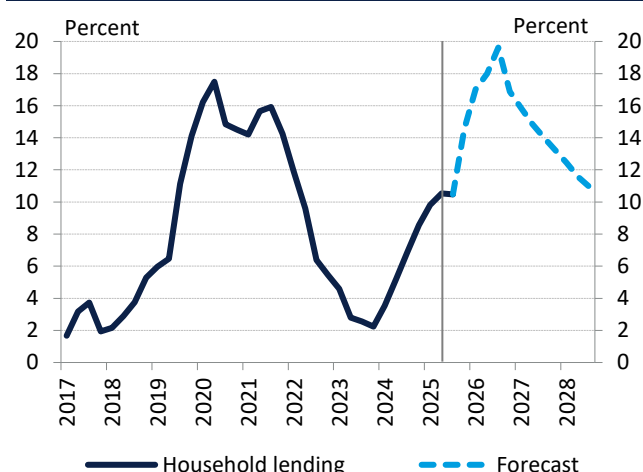
Source: HCSO, MNB

**Chart 1-9: Annual changes in net total wage, personal disposable income and household consumption expenditure in real terms**



Source: HCSO, MNB

**Chart 1-10: Forecast for lending to households**



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

Source: MNB

automotive production capacities, the sector's value added may increase in 2026.

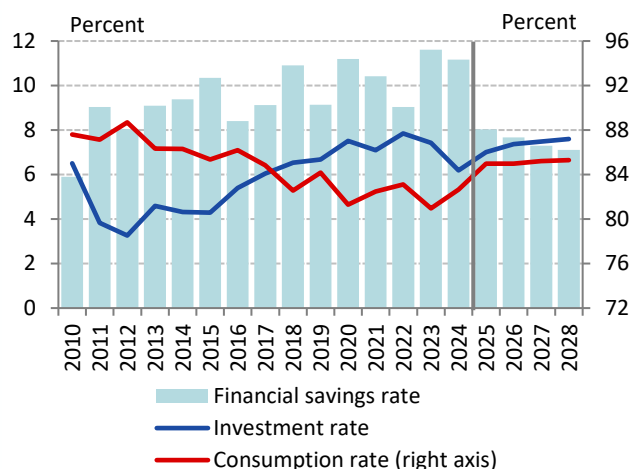
**In the construction industry, annual growth continued in the third quarter.** The volume of construction contracts increased by 38.0 percent in 2025 Q3, and the outlook for this industry is further improved by the government's announced measures to raise family income and the launch of the Home Start programme. Growth in the sector is likely to continue in the fourth quarter, and in 2026, the expansion of value added of the construction industry may be similar to this year's overall growth.

**We expect GDP to grow at a rate of 2.4 percent overall in 2026.** This is 0.4 percentage point lower than the figure in our September forecast and is explained by the carry-over effect of a more subdued fourth quarter this year and weaker-than-expected underlying industrial trends. Over the entire forecast horizon, the main growth driver is the increase in household consumption expenditure. Investment and net exports may strongly support GDP growth from 2027 onwards, thus restoring balance to the structure of growth from 2027. Stronger external demand and reduced uncertainty will improve export prospects and investment sentiment. Dynamic export growth next year will be supported by the gradual start of production at new vehicle and battery manufacturing facilities. **GDP growth is expected to continue at a rate of 3.1 percent in 2027 and 2.7 percent in 2028** (Chart 1-7 and 1-8).

**Households' real disposable income may grow at a rate of 0.6 percent in 2025 and 4.7 percent next year on an annual basis.** Real profit income in the national economy fell by 2.7 percent in 2025 Q1–Q3, in line with which we have lowered our forecast for other income in our projection. Annual wage growth will slow in 2025, but in 2026 the 11-percent increase in the minimum wage will accelerate wage growth again, boosting household income. In addition, fiscal incentives will also support net wage growth in 2026. The consumption and fiscal effects of government measures affecting households are described in detail in the Box on this topic (Box 1-3: Government measures affecting households). With the stimulus effects wearing off, the annual growth rate of disposable real income may moderate from 2027 onwards.

**Consumption growth will continue to be the main driver of GDP growth in 2026** (Chart 1-9). Consumption will continue to expand during the year, supported by rising real wages, fiscal incentives as well as a decline in the savings rate from historically high levels, according to our expectations. In 2026, government measures will temporarily boost consumption growth. **According to our**

**Chart 1-11: 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**

	2025	2026	2027	2028
Gross fixed capital formation	-5.4	1.3	4.0	3.8
Government investments	-2.7	-3.7	-5.1	-5.6
Private investments	-6.0	2.5	6.0	5.7
Investment rate	21.8	21.9	22.7	23.5
Real investment rate	20.7	20.4	20.6	20.8

Note: The values represent the middle of the forecast range. Year-on-year growth for gross fixed capital formation and investment rate as a percentage of GDP. Real investment rate calculated at 2021 prices. Source: MNB

forecast, household consumption may grow by 3.5 percent in 2025, 4.7 percent in 2026, 3.3 percent in 2027 and 3.0 percent in 2028.

**Household loans outstanding expand rapidly over the forecast horizon.** Due to the large contract sizes available under the Home Start programme and the wide range of eligible borrowers, the programme is expected to generate significant loan demand after its launch in September 2025, albeit with a high degree of uncertainty. The additional housing loan volume generated by Home Start, estimated based on the MNB's agent-based model, will further increase household loans outstanding, which is otherwise expanding at a slowing pace. The public service housing support programme will have a smaller but additional stimulating effect over the forecast horizon. Overall, the household loans outstanding of the total financial intermediary system may increase by 15 percent this year and 17 percent in 2026, with the annual growth rate reaching double digits over the entire forecast horizon (Chart 1-10).

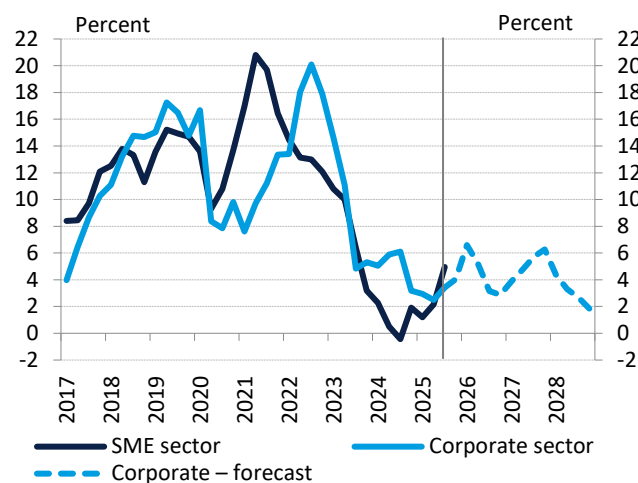
**Looking ahead, households may be able to reverse the decline in their share of income going to savings, stabilising it at around 7–8 percent.** Investment may account for over 7 percent of income, while the consumption rate may be around 85 percent. Based on financial account data available for the period until the third quarter, the household savings rate will drop significantly this year compared to 2024 (Chart 1-11).

**We expect investments to contract by 5.4 percent in 2025, while increases of 1.3 percent, 4.0 percent and 3.8 percent are expected in 2026, 2027 and 2028, respectively** (Table 1-3). The nominal investment rate is expected to be around 22–23 percent, while the fixed 2021 prices investment rate is expected to be around 20–21 percent over the forecast horizon.

**Despite the rebound in external economy, the recovery in corporate investment may be slower, mainly supporting growth from 2027 onwards.** This year, corporate investment activity will continue to fall due to uncertainty caused by the tariff war, low capacity utilisation and weak demand.

**The corporate loan portfolio may continue to expand at a moderate pace in the coming years.** The corporate sector has achieved relatively high profits in recent years, and their nominal level is expected to rise in the next three years, which in nominal terms suggests a further increase in the already high level of liquid assets. This, combined with subdued investment activity due to the uncertain economic

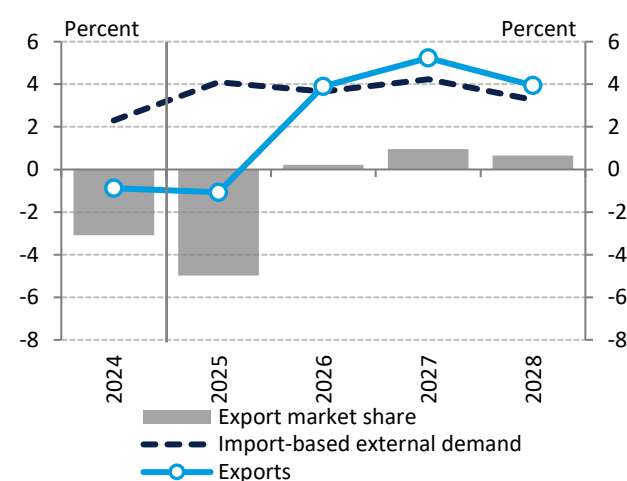
**Chart 1-12: Annual changes in lending to non-financial corporations and SMEs**



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 1-13: Changes in export market share**



Source: HCSO, MNB

environment, is likely to keep corporate credit dynamics at a moderate level in the medium term (Chart 1-12). In the short term, interest rate cuts on certain products of the Széchenyi Card Programme will contribute to a revival in corporate lending. Over the forecast horizon, banking financing needs related to the European Union's Common Agricultural Policy subsidy programmes will result in higher loan transactions than would be justified by the macroeconomic environment. Overall, we forecast that the corporate loan portfolio of the total financial intermediary system will grow by 3–4 percent in both 2025 and 2026.

**We expect a significant increase in the volume of household investments from 2026 onwards.** The Home Start programme, launched in September 2025, will contribute to the increase in household investments primarily through the possibility of priority investment status and its renovation effect. Home Start loan disbursements amounted to HUF 22 billion in September and HUF 182 billion in October, the latter representing 72 percent of total monthly housing loan disbursements. Household investments may grow by 8.0 percent in 2026, 3.0 percent in 2027 and 3.0 percent in 2028.

**The volume of public investments will decline over the forecast horizon, in line with government plans.** Based on the available information, according to our forecast, the volume of government investment will fall 2.7 percent in 2025, 3.7 percent in 2026, 5.1 percent in 2027 and 5.6 percent in 2028.

**Domestic exports may decrease by 1.1 percent this year, following a 0.9-percent decline in 2024.** The moderate downward shift from our September forecast is primarily due to the base shift caused by the October data revision. Underlying industrial trends are expected to remain subdued this year and next year. Although the European growth prospects have improved somewhat, based on the product structure of domestic industry, the order backlog and the readiness of certain ongoing investments, no significant increase in activity is expected this year (Chart 1-13). Starting next year, strong demand for new manufacturing industry capacities starting production will help boost domestic exports. **According to our forecast, exports may grow by 3.9 percent overall in 2026, before accelerating further to 5.2 percent in 2027 and 4.0 percent in 2028.**

**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 exports, but boosted by dynamically expanding household consumption (and inventory changes), which may total 2.1 percent. Net



exports may slow GDP growth by 2.3 percentage points this year. From 2026 onwards, imports driven by rising exports and strengthening domestic demand may grow by 4.5 percent, and they may increase by 4.9 percent in 2027 and 4.0 percent in 2028.

### Box 1-3: Government measures affecting households

**The income-boosting government measures announced recently may have a budgetary impact equivalent to around 2 percent of GDP in 2026.** The most significant of these are the expansion of family tax allowances, the introduction of tax exemptions for mothers in several stages, housing and renovation subsidies, service benefits for military and law enforcement personnel, housing support for public service workers and the Home Start Programme. In addition to these, since the September Inflation Report, wage increases for cultural and social workers and a 14<sup>th</sup> month pension have been announced (Table 1-4).

**The budgetary impact of the measures and the net impact on households may vary for certain items.** This is because, in the case of wage-type benefits, the budget uses the impact on gross wage costs, which include the personal income tax and social security contributions payable by employees as well as the social contribution tax payable by employers. The measures will have a gross static budgetary impact of 2.2 percent of GDP next year, of which 1.9 percent of GDP may reach households. We estimate that in 2026, households will be able to spend around 60 percent of this on consumption, while one-third of the amount could increase their savings.

**Table 1-4: Static impact of government measures affecting households**

Measure	Fiscal impact for a given year (percentage of GDP)	
	2025	2026
Expansion of the family tax allowance for 2025-2026	-0.1	-0.3
Personal income tax exemption for mothers with three children	-0.1	-0.2
Personal income tax exemption for mothers with two children		-0.1
Expanding tax exemption for mothers under 30		-0.03
Personal income tax exemption for infant care and childcare allowances	-0.01	-0.02
The impact of extending extension of the prenatal baby support loan	-0.04	-0.02
Worker's Loan	-0.01	-0.02
Rural Home Renovation Programme	-0.1	-0.2
Food voucher for pensioners	-0.1	0.0
Benefit payment to armed forces and law enforcement		-0.5
Housing support for civil servants		-0.2
Home Start Programme	0.00	-0.1
Wage increases for employees in local public administration	-0.01	-0.1
Wage increase for workers in the cultural and social sectors		-0.1
14th month pension		-0.2
<b>Total (gross, percentage of GDP)</b>	<b>-0.4</b>	<b>-2.2</b>
<b>Total (net, percentage of GDP)</b>	<b>-0.4</b>	<b>-1.9</b>
As a proportion of household consumption expenditure (%)	0.7	3.7
As a proportion of household disposable income (%)	0.6	3.2

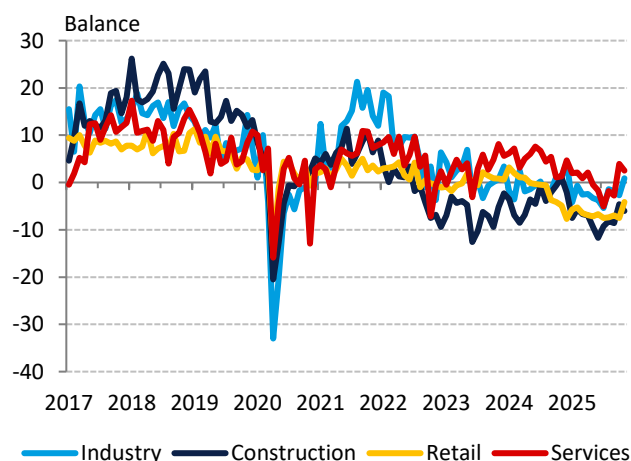
Note: The measures highlighted in yellow were announced following the September Inflation Report. Data in nominal terms. Source: MNB



### 1.3. Labour market forecast

Adjustment on the extensive margin in response to the prolonged economic downturn can be observed not only in manufacturing, but also across a wide range of market services, resulting in a decline in employment in the national economy as a whole. According to our forecast, this trend will continue until mid-2026, after which employment is expected to expand again due to recovery in economic growth. Wage growth in the coming years will be largely determined by minimum wage increases, while earnings in the national economy will also be influenced by the service benefit to be paid to members of the armed forces and law enforcement agencies next year. In the private sector, we expect average wages to increase by 8.7 percent this year and 9.0 percent in 2026.

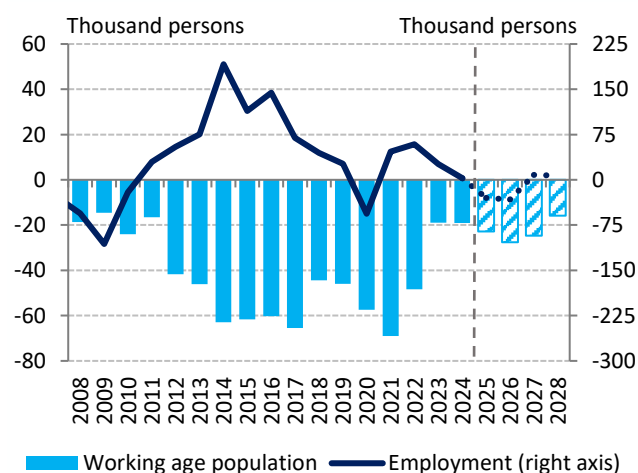
**Chart 1-14: Employment expectations in the ESI business survey**



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

Source: European Commission

**Chart 1-15: Annual change in working age population and number of persons employed in the private sector**



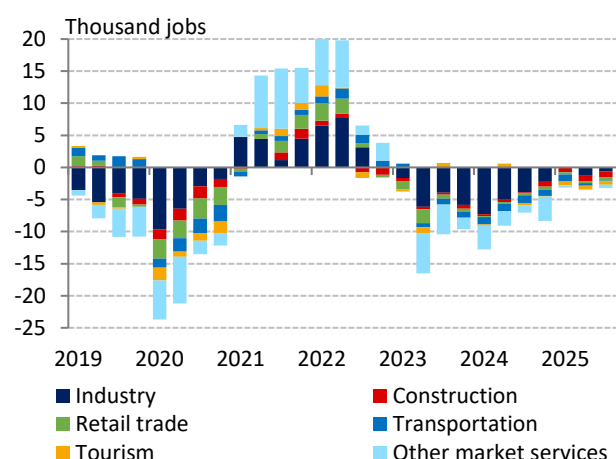
Note: The number of persons employed refers to those aged 15–74, but the projection for the working age population refers to those aged 15–64.

Source: Eurostat, HCSO, MNB

After stagnating in the first quarter, the number of persons employed in the national economy declined on an annual basis in the last two quarters. This points to labour market adjustments on the extensive margin in response to the persistently weak economic conditions and the uncertainties in the real economy, signs of which have been evident in manufacturing since mid-2024. The emergence of this trend in the market services sector led to a decline in the level of employment in the national economy in the second and third quarters of 2025 compared to the same period last year. In the ESI survey (the Economic Sentiment Indicator, a survey conducted by the European Commission) on corporate employment prospects, companies planning to reduce their workforce are in the majority in construction and retail, while in industry, the proportion of those planning to reduce and expand their workforce is balanced, and in services, those planning expansion are in a slight majority. The indicator has been negative since mid-2024 in retail and, with a short interruption, since mid-2022 in construction, and for a large portion of this year, companies expecting to reduce their workforce were in the majority in all four sectors surveyed (Chart 1-14).

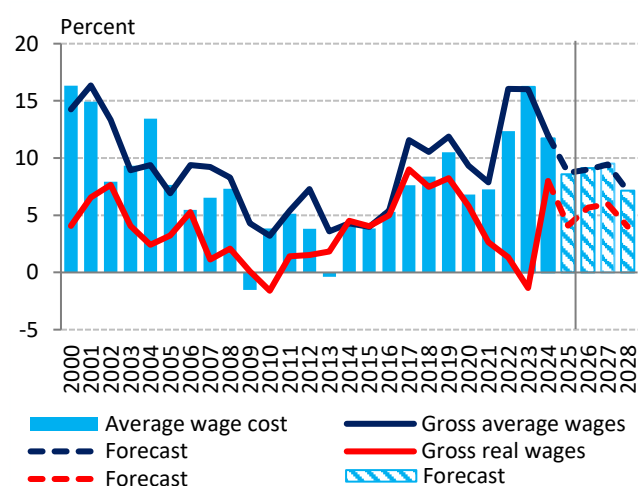
**Employment in the national economy may decline this year and next year as well.** According to our forecast, the number of persons employed in 2025 may be 0.6 percent lower than last year. Employment growth may resume in the second half of next year, but on an annual basis, the number of persons employed may still decline by 0.7 percent. For the rest of the forecast period, even with an economic upturn, the increase in headcount may be modest, given the surplus labour capacities resulting from labour hoarding, and demographic constraints. Employment may increase by 0.2 percent in 2027 and 0.1 percent in 2028 (Chart 1-15).

**As labour market participation has declined in conjunction with the slowdown in employment, we expect the unemployment rate to rise only moderately.** According to our forecast, the unemployment rate will be around 4.5

**Chart 1-16: Annual changes in job vacancies in the private sector**

Note: For companies with at least five employees.

Source: HCSO

**Chart 1-17: Annual changes in gross average wages and average labour cost in the private sector**

Source: HCSO, MNB

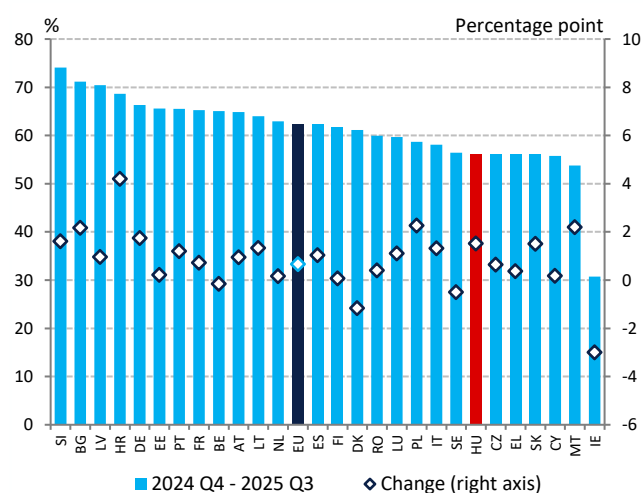
percent in 2025 and 4.8 percent in 2026, before falling to 4.5 percent in 2027 and 4.1 percent in 2028.

**Labour market tightness has eased significantly compared to its peak in mid-2022.** In the third quarter of this year, the number of job vacancies in the main branches of the private sector decreased on an annual basis (Chart 1-16). Based on seasonally adjusted data, in the third quarter, the number of job vacancies stagnated in the private sector, with an increase in manufacturing and a decrease in market services versus the previous quarter.

**Wages in the private sector may rise at a slower pace this year than last year.** The minimum wage increase next year will be lower than the planned 13 percent, but the 11-percent hike and the planned increase in regulated wages by 2027 may still contribute to an acceleration of wage growth. Wage dynamics in the national economy next year will also be significantly influenced by the 6-month service benefit to be paid to military and law enforcement personnel in February, which may result in higher wage growth in the public sector than in the private sector next year. In 2027, the base effect of the service benefit will have a moderating influence on the annual growth rate of earnings in the national economy. Wages in the private sector may rise by 8.7 percent this year and 9.0 percent next year, followed by nominal wage growth of 9.4 percent in 2027 and 7.1 percent in 2028. Looking at the national economy as a whole, wage growth may be 8.9 percent in 2025, 10.6 percent in 2026, 7.0 percent in 2027 and 6.5 percent in 2028. Real wages may rise 4.1 percent this year, 5.7 percent in 2026, 6.0 percent in 2027 and 4.0 percent in 2028 in the private sector (Chart 1-17).

**Companies' labour costs may rise 8.6 percent this year, 9.1 percent next year, 9.5 percent in 2027 and 7.2 percent in 2028.** Labour costs are expected to increase significantly due to next year's minimum wage hike, especially in labour-intensive sectors. This will put cost pressure on companies, which may be particularly challenging to manage in manufacturing, which has been struggling with declining output, decreasing investment activity and orders for some time. Wage share in Hungary, an indicator comparing total labour cost to total GDP (at factor cost), is the seventh lowest in the European Union, 6.2 percentage points below the EU average (Chart 1-18). Although an examination of the wage share alone shows that there is further room for wage convergence, other corporate expenses (energy, rent, etc.) have risen significantly in recent years, reducing companies' room for manoeuvre.

**Chart 1-18: Adjusted wage share in the EU countries (2025 Q3)**



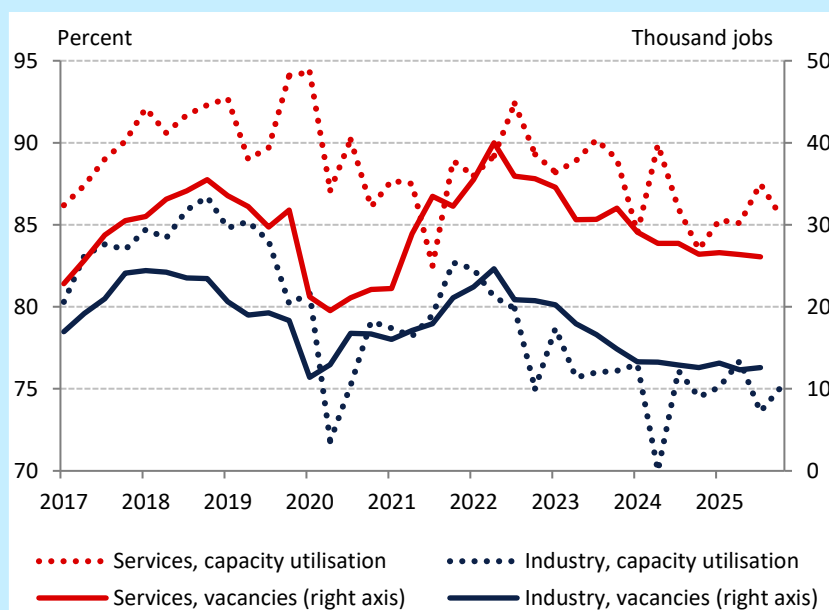
Note: Four-quarter moving averages. Change over the same period last year. 2025 Q2 data for the Netherlands.

Source: Eurostat, HCSO, MNB

#### Box 1-4: Demand and demographic effects on the labour market

**Subdued labour demand, the low number of hours worked and moderate capacity utilisation point to loose labour market conditions.** The number of job vacancies in the private sector, an indicator quantifying additional labour demand, has been declining since its peak in 2022 Q2. Over the course of three years, it has fallen by one-half in manufacturing and by one-third in market services. Amidst a persistently weak economic climate, companies' capacity utilisation is decreasing, which is more pronounced in manufacturing than in market services (Chart 1-19).

**Chart 1-19: Capacity utilisation and the number of job vacancies in industry and services**

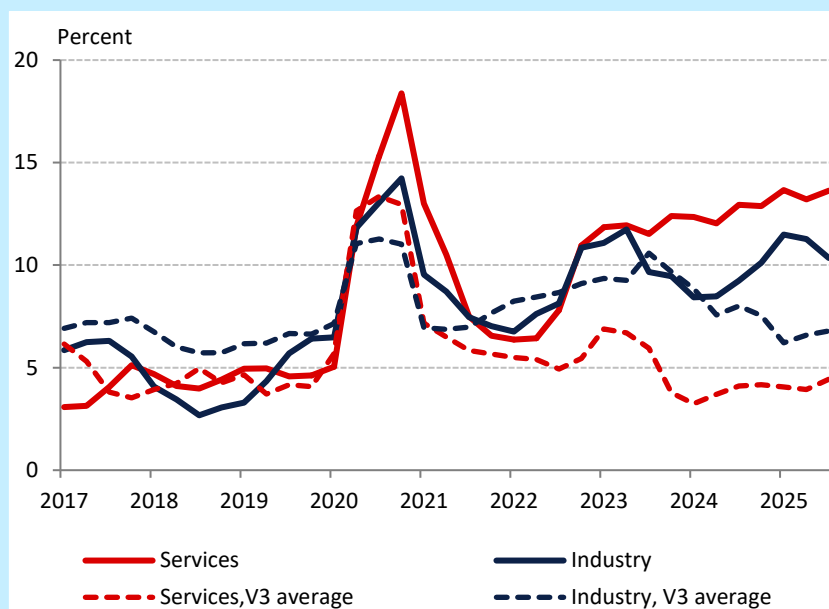


Note: Seasonally adjusted data. Capacity utilisation according to the ESI survey.

Source: European Commission, HCSO, MNB

**The low labour utilisation in these sectors is a consequence of labour hoarding.** Despite weak demand, companies are not laying off employees, as they anticipate relatively high costs for redundancies and (in the event of an economic upturn) the recruitment and training of new staff. According to the European Commission's ESI survey, the Labour Hoarding Indicator is historically high in both industry and services (Chart 1-20). The phenomenon of labour hoarding is also indicated by the fact that, over the past two years, the number of weekly hours worked in the private sector has stagnated at a similarly low level as in the Covid period.

Chart 1-20: Labour Hoarding Indicator in industry and services



Note: Seasonally adjusted data. The index represents the weighted percentage of firms which expect their output to decrease, but their employment to increase or remain unchanged at the same time. Three-quarter moving averages.

Source: European Commission

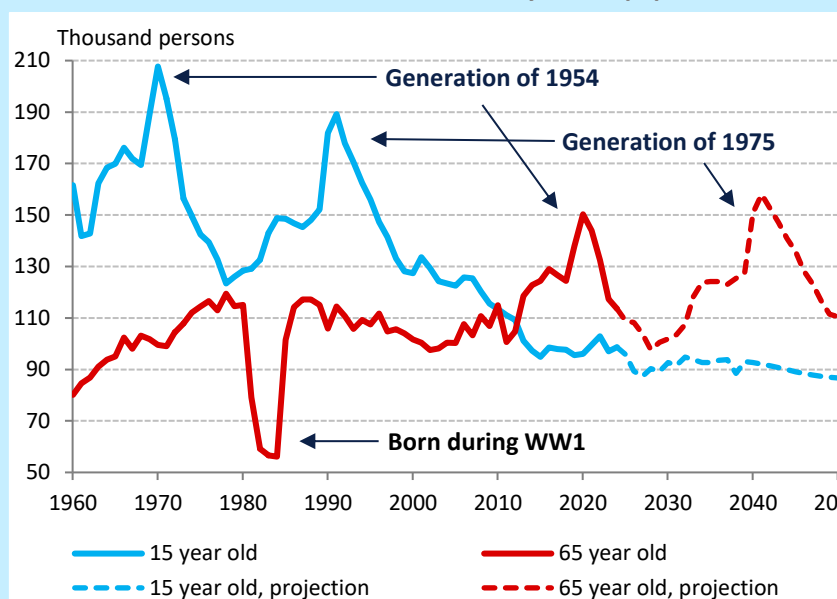
**However, in 2025, companies' adaptation to low economic growth is reflected not only in a decline in labour demand and the low utilisation of existing labour, but in a reduction in headcount as well.** The number of persons employed fell by 49,000 in the second quarter of this year and by 29,000 in the third quarter on an annual basis. The decline in headcount was mainly due to manufacturing and certain market services sectors (e.g. accommodation and food service activities; administrative and support service activities; arts, entertainment and recreation). While a significant decline has been evident in employment in manufacturing since mid-2024, the negative trend in market services has only been observed in the last two quarters.

**Given the currently low utilisation of labour capacity reserved by companies, output levels could improve rapidly if demand picks up.** Despite the decline in the number of persons employed, companies are primarily adapting to the unfavourable economic developments on the intensive margin of human resources, rather than through layoffs. If demand picks up as the economic environment improves, output could rise rapidly through the more intensive utilisation of labour capacities, closing the current negative output gap. As a result of cyclical effects, the domestic economy may be capable of faster growth in the short term, while its longer-term growth potential is limited by unfavourable demographic trends.

**Demographic trends in themselves reduce the labour supply.** In Hungary, the population aged 15–64 began to decline in the second half of the 1990s, resulting in a steady decrease in labour supply. In particular, the retirement of the so-called Ratkó generation born in the first half of the 1950s significantly reduced the working-age population (Chart 1-21). Over the past decade and a half, demographic trends have been offset by tax and labour market reforms and growing labour demand, which was made possible by the fact that activity and employment rates were structurally low at the beginning of the process, meaning that there was a large labour reserve. A significant part of this reserve has been successfully incorporated into the workforce over the past decade and a half, and the employment rate has exceeded the European Union average.

The exploitation of the labour reserve, as well as skill and geographical mismatches, have resulted in a decline in labour supply, with demographic trends exerting a stronger impact on the domestic labour market.

Chart 1-21: Number of the 15- and 65-year-old population

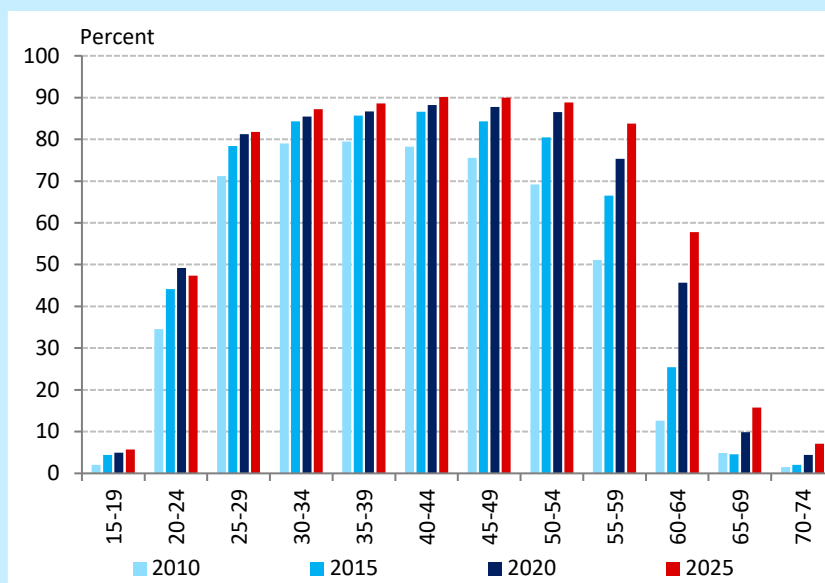


Note: Number of persons aged 15 and 65 on 1 January.

Source: Eurostat, HCSO, MNB

**The level of employment could be maintained despite the decline in the working-age population by an increase in the employment rates.** The employment rate has been rising gradually since its low point in early 2010. The rate has increased in all age groups over the past decade and a half (Chart 1-22). The largest increase occurred in the employment rates of persons aged 55–59 and 60–64. The employment rate for 20–24-year-olds declined somewhat between 2020 and 2025, which may be due to cyclical reasons, as the weak economy and decline in labour demand make it difficult for this age group, which lacks work experience, to enter the labour market. In the case of older people, the increase in the employment rate was mainly due to the gradual raising of the retirement age between 2014 and 2022. In addition to income considerations, the employment of persons above the retirement age may have been facilitated by the abolition of the social security tax and employers' social security contribution on the employment of pensioners from 2019 as well as by long-term trends such as the improving health prospects and educational attainment of the older age group.

Chart 1-22: Employment rates of age groups

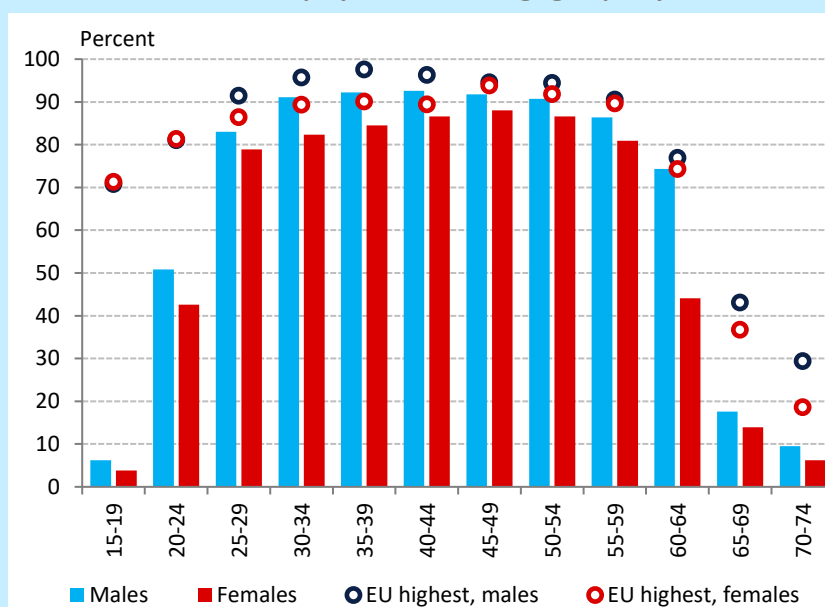


Note: 2025 data based on Q1-Q3.

Source: HCSO, MNB

**The constraints on the supply side of the labour market are increased by the fact that the most populous generations with the highest employment rates are approaching retirement age.** The employment rate in Hungary among 25–54-year-olds is high even by European Union standards; within this group, the employment rate of the 40–49 age cohort is currently the highest, exceeding 90 percent in 2025 Q3. There is potential room for manoeuvre regarding the increase of the employment rate in the case of young persons (aged 15–24) and pensioners (aged 65–74) as well as women aged 60–65 (Chart 1-23). The 45–54 age group is particularly large due to the children of the Ratkó generation born in the mid-1970s, and their employment rate is also high. As this group ages, its employment rate is expected to gradually decline in the coming years, which may reinforce unfavourable demographic trends in the medium term.

Chart 1-23: Employment rates of age groups, by sex



Note: 2025 Q2 data. For the EU, we have indicated the highest Member State value in the given category.

Source: Eurostat, HCSO

Table 1-5: Changes in projections compared to the previous Inflation Report

	2024	2025		2026		2027		2028
	Actual	Previous	Current	Previous	Current	Previous	Current	Current
Inflation (annual average)								
Core inflation	4.6	4.7	4.6	3.9	3.6	2.9	3.1	3.0
Core inflation excluding indirect tax effects	4.6	4.4	4.4	3.9	3.6	2.9	3.1	3.0
Inflation	3.7	4.6	4.4	3.8	3.2	3.0	3.3	3.0
Economic growth								
Household final consumption expenditure	6.0	4.2	3.5	4.4	4.7	3.3	3.3	3.0
Final consumption of government <sup>1</sup>	-1.8	2.2	-0.2	0.6	0.4	0.4	0.5	0.5
Gross fixed capital formation	-9.9	-6.4	-5.4	2.0	1.3	4.0	4.0	3.8
Domestic absorption	-1.8	1.8	3.0	2.9	2.8	2.8	2.8	2.6
Exports	-0.9	0.2	-1.1	4.3	3.9	6.2	5.2	4.0
Imports	-3.9	1.9	2.1	4.6	4.5	5.9	4.9	4.0
GDP	0.6	0.6	0.5	2.8	2.4	3.2	3.1	2.7
Labour productivity <sup>2</sup>	0.6	0.5	0.3	3.2	3.0	3.0	2.9	2.5
External balance <sup>3</sup>								
Current account balance	1.5	1.3	1.7	1.4	1.9	1.6	1.9	1.8
Net lending	1.8	2.3	2.5	2.7	3.4	2.9	3.2	3.0
Government balance <sup>3</sup>								
ESA balance	-5.0	(-4.5) - (-4.1)	(-5.0) - (-4.7)	(-4.2) - (-3.8)	(-5.2) - (-4.7)	(-3.7) - (-3.2)	(-4.9) - (-4.4)	(-4.2) - (-3.7)
Labour market								
Whole-economy gross average earnings <sup>4</sup>	13.2	8.7	8.9	10.5	10.6	6.8	7.0	6.5
Whole-economy employment	0.0	-0.8	-0.6	-0.5	-0.7	0.2	0.2	0.1
Private sector gross average earnings <sup>4</sup>	12.0	8.5	8.7	9.3	9.0	9.4	9.4	7.1
Private sector employment	-0.1	-1.4	-1.3	-0.4	-0.7	0.3	0.3	0.2
Unemployment rate	4.5	4.6	4.5	4.8	4.8	4.5	4.5	4.1
Private sector real unit labour cost	4.9	1.2	2.4	1.2	1.6	0.3	0.6	-0.1
Household real income <sup>5</sup>	3.9	2.0	0.6	4.5	4.7	3.2	3.0	2.9

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

<sup>1</sup> Government final consumption expenditure includes final consumption expenditure of general government and nonprofit institutions.

<sup>2</sup> Whole economy, based on national accounts data.

<sup>3</sup> As a percentage of GDP.

<sup>4</sup> For full-time employees.

<sup>5</sup> MNB estimate.

Table 1-6: MNB baseline forecast compared to other forecasts

	2025	2026	2027	2028
<b>Consumer Price Index (annual average growth rate, %)</b>				
MNB (December 2025)	4.4	3.2	3.3	3.0
Consensus Economics (November 2025) <sup>1</sup>	4.0 - 4.5 - 4.8	3.1 - 3.8 - 4.8		
European Commission (November 2025)	4.5	3.6	3.5	
IMF (October 2025)	4.5	3.5	3.0	3.0
OECD (December 2025)	4.6	3.8	3.4	
Reuters survey (December 2025) <sup>1</sup>	4.4 - 4.5 - 4.6	3.3 - 3.7 - 4.5	3.4 - 3.9 - 4.7	
<b>GDP (annual growth rate, %)</b>				
MNB (December 2025)	0.5	2.4	3.1	2.7
Consensus Economics (November 2025) <sup>1</sup>	0.2 - 0.5 - 0.7	1.8 - 2.4 - 3.0		
European Commission (November 2025)	0.4	2.3	2.1	
IMF (October 2025)	0.6	2.1	2.3	2.4
OECD (December 2025)	0.3	1.9	2.3	
Reuters survey (December 2025) <sup>1</sup>	0.2 - 0.4 - 0.6	2.0 - 2.3 - 2.8	2.3 - 2.7 - 3.2	
<b>Current account balance<sup>3</sup></b>				
MNB (December 2025)	1.7	1.9	1.9	1.8
European Commission (November 2025)	0.1	-0.3	-0.4	
IMF (October 2025)	1.2	0.9	1.2	1.4
OECD (December 2025)	1.5	1.0	0.2	
<b>Budget balance (ESA 2010 method)<sup>3</sup></b>				
MNB (December 2025)	(-5.0) - (-4.7)	(-5.2) - (-4.7)	(-4.9) - (-4.4)	(-4.2) - (-3.7)
Consensus Economics (November 2025) <sup>1</sup>	(-5.9) - (-4.9) - (-4.1)	(-5.6) - (-4.9) - (-4.2)		
European Commission (November 2025)	-5.0	-5.0	-4.5	
IMF (October 2025)	-4.7	-4.6	-4.6	-4.5
OECD (December 2025)	-4.2	-4.0		
Reuters survey (December 2025) <sup>1</sup>	(-5.2) - (-5.0) - (-4.8)	(-5.6) - (-5.2) - (-4.6)	(-4.7) - (-4.5) - (-4.0)	
<b>Forecasts on the GDP growth rate of Hungary's trade partners (annual growth rate, %)</b>				
MNB (December 2025)	1.7	1.7	2.3	1.8
ECB (September 2025) <sup>4</sup>	1.2	1.0	1.3	
Consensus Economics (November 2025) <sup>2</sup>	1.1	1.5		
European Commission (November 2025) <sup>2</sup>	1.2	1.6	1.9	
IMF (October 2025) <sup>2</sup>	1.1	1.5	1.8	1.7
OECD (December 2025) <sup>2</sup>	1.4	1.6	1.9	

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> As a percentage of GDP.

<sup>4</sup> The values show the expected growth in the eurozone based on the latest ECB forecast.

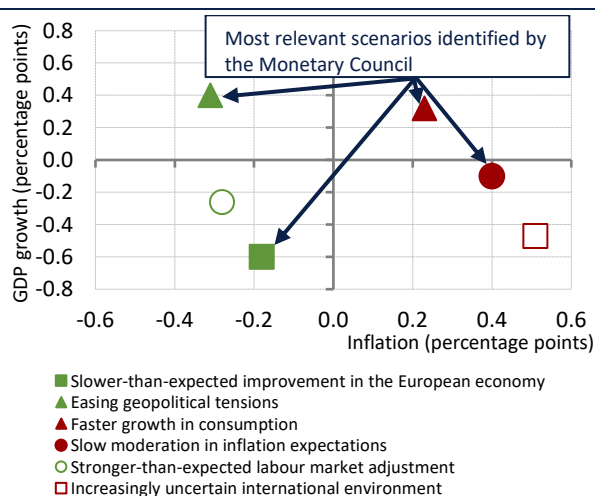
Source: Consensus Economics, ECB, European Commission, IMF, OECD, Reuters poll, MNB



## 2. Effects of alternative scenarios on our forecast

The Monetary Council highlighted four alternative risk scenarios around the baseline projection in the December Inflation Report. The alternative scenario that assumes a slower-than-expected improvement in the European economy features lower growth and inflation than the baseline scenario, which is consistent with looser monetary conditions. The scenario that anticipates an easing of geopolitical tensions is consistent with higher economic growth and lower inflation than in the baseline scenario, which may also be associated with looser monetary conditions. The scenario that assumes faster consumption growth is consistent with higher growth and inflation than in the baseline scenario, which implies tighter monetary conditions. The alternative scenario that anticipates a slow moderation in inflation expectations may be associated with lower economic growth and higher inflation than in the baseline scenario, which is consistent with tighter monetary conditions. In addition to the highlighted scenarios, the Monetary Council discussed alternative scenarios assuming stronger-than-expected labour market adjustments and an increasingly uncertain international environment.

**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 8 quarters. The red markers represent tighter and the green markers represent looser monetary policy than in the baseline forecast.

Source: MNB

Slower-than-expected improvement in the European economy

**In 2025 Q3, GDP growth continued at a modest pace in both the European Union and Germany.** In the European Union, economic output grew by 1.6 percent, while that of Hungary's main trading partner, Germany, expanded by 0.3 percent during this period. GDP in the euro area grew by 1.4 percent on an annual basis. Retail sales rose by 1.0 percent in September, marking a 1-year low.

**Market analysts anticipate subdued growth in both the European Union and Germany in the coming years.** Based on the median of Bloomberg analysts' expectations, the EU economy may expand by 1.5 percent in 2025, 1.4 percent in 2026 and 1.7 percent in 2027. Growth in Germany may be even more modest, at 0.3 percent, 1.0 percent and 1.1 percent, respectively. At the same time, the global economy is expected to grow at a rate of around 3 percent in all three years.

**Business sentiment indices declined slightly overall.** The Purchasing Managers' Index fell in the euro area, dropping below the growth-neutral 50-point value again after a rise in October. The level of the Economic Sentiment Indicator (ESI) for the manufacturing industry in the euro area improved by 0.2 point in November 2025, reaching the highest value in the last two years. The German business sentiment (Ifo) balance indicator declined by 0.7 point in November. The business expectations index decreased by 2.0 point, while the assessment of the current business situation rose by 0.6 point. The manufacturing industry's PMI showed a slight decline and remained below the threshold value.

**In Hungary, industrial export sales remained at a low level.**

The weakness of the domestic industry was mainly due to the decline in the two most important sectors, vehicle manufacturing and electrical equipment production. Hungarian industrial production was 12.2 percent lower in 2025 Q3 than its highest value in 2022 Q4, reflecting a continuous downward trend. The two sectors accounted for more than 5 percentage points of this decline.

**The alternative risk scenario anticipates that growth in the European Union and Germany will be more subdued than in the baseline scenario, partly due to the weaker-than-expected impact of the German fiscal stimulus package.**

In line with this, Hungary's growth will be slower than assumed in the baseline scenario. The slowdown in the European Union economy further dampens growth prospects for the German export sector. 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.

**Easing geopolitical tensions**

**As geopolitical tensions ease, the risk assessment of economies exposed to conflict may improve and volatility on the energy markets may decline.** The successful continuation of negotiations aimed at resolving ongoing armed conflicts could lead to an easing of tensions, thereby supporting an improvement in investor confidence towards the Central and Eastern European region. Trade policy tensions have eased in recent months. The outcome of the tariff negotiations between the United States and China has had a positive impact on financial market participants' risk appetite.

**Developed market stock indices have responded to positive news about the real economy and developments pointing to an easing of international tensions with an upturn in recent months.** Among the major central banks, the European Central Bank has reached the bottom of its interest rate path, based on statements by its policymakers, while further interest rate cuts are expected from the Federal Reserve, although there is uncertainty surrounding their implementation and timing.

In terms of domestic factors, the forint has appreciated more than the regional average since the beginning of the year. The persistently stronger domestic currency boosts public confidence in forint investments and reduces euroisation risks. All three major credit rating agencies have

confirmed Hungary's credit rating with a negative outlook. At the same time, the easing of foreign trade uncertainty is leading to a recovery in domestic investment activity, which contributes to stable economic growth.

**In our alternative scenario, we expect geopolitical tensions to ease.** An easing of armed conflicts and positive developments in tariff negotiations could lead to a positive shift in the region's risk assessment and declining energy market volatility. In parallel with an improvement in the external balance and a stronger forint, the domestic risk premium improved. Based on the above, the realisation of this scenario is consistent with lower inflation, higher growth and looser monetary conditions compared to the baseline scenario.

Faster growth in consumption

**Wage growth slowed down overall in the last quarter, but remains outstanding in a regional comparison.** In September 2025, average earnings (calculated without bonuses) rose 9.5 percent in the national economy, 8.8 percent in the private sector and 12.2 percent in the public sector compared to the previous year. Among the more important determinants of household consumption, real average earnings in the national economy rose 5.0 percent year-on-year in September 2025.

**Next year's increase in the minimum wage and guaranteed minimum wage may have a larger impact on wage trends in the private sector than previously experienced, and the proportion of transfers received spent on consumption may also increase.** Government measures to increase income also contribute to an increase in disposable income. The improving income situation of households will ensure higher demand in 2026. While demand expands, losses caused by margin restrictions are putting pressure on companies, which is further exacerbated by the extension of margin restrictions. The strategy of the companies concerned to offset their losses may increase repricing. Furthermore, as demand increases, retail sector may raise prices on product groups not affected by margin restrictions.

**The alternative scenario assumes that households will spend a more significant portion of their increased income on consumption.** The rise in disposable income, improved consumer confidence and a further increase in the consumption rate could lead to faster-than-expected growth in household consumption. The improving income situation of households may provide companies with more room for manoeuvre in terms of repricing. As a result, the

scenario is consistent with higher growth and inflation paths and tighter monetary conditions.

Slow moderation in inflation expectations

**In November 2025, inflation fell to 3.8 percent and core inflation to 4.1 percent.** The decline in global commodity and food prices and the stronger forint reflected in purchasing prices are supporting disinflation. In recent months, the core inflation product range and the entire consumer basket have been characterised by more moderate monthly price increases.

**Inflation expectations among households remain at higher levels than during the period when the inflation target was achieved.** It is crucial for price stability that the decline in expectations continues. Households' inflation expectations are strongly influenced by the perceived rate of inflation. In terms of perceived inflation, the price dynamics of food, market services and fuel, which account for a large share of the consumer basket, play a decisive role. In the baseline scenario, we expect inflation expectations to continuously moderate, supported by the incorporation of disinflation in perceived inflation.

**In our alternative scenario, the moderation and anchoring of inflation expectations is slower than assumed in the baseline scenario in the current uncertain environment.** This scenario would result in higher inflation, a decline in disposable income and more subdued economic growth through companies' pricing and wage decisions. This scenario is consistent with tighter monetary conditions.

Other risks

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

**In the risk scenario that assumes stronger-than-expected labour market adjustment,** companies adapt more strongly than expected in the baseline scenario to the prolonged weak domestic economy and persistently subdued external demand, reducing their labour demand to a greater extent, accompanied by a further slowdown in nominal wage growth. Alongside weakening consumption and slower wage growth, this scenario is consistent with a lower inflation and growth path and looser monetary conditions.

**The scenario that anticipates an increasingly uncertain international environment** assumes protracted trade negotiations. This is expected to lead to a deterioration in risk perception and a significant increase in long-term yields in developed countries, thereby substantially boosting the vulnerability of the Central and Eastern European region. As a result, this scenario will lead to rising risk premiums for

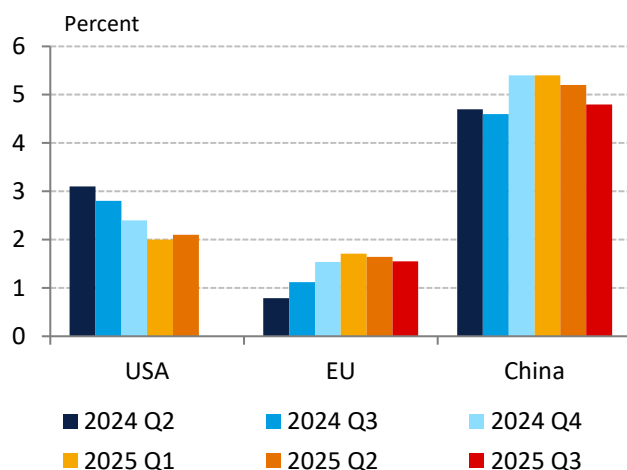
regional economies. The strengthening of trade barriers also has a negative impact on external demand. Overall, the scenario is consistent with higher inflation, lower growth and tighter monetary conditions than in the baseline scenario.

## 3. Macroeconomic overview

### 3.1. Evaluation of the international macroeconomic developments

The protracted trade and geopolitical tensions continue to cause uncertainty in the global economic environment, but trade agreements have succeeded in averting an escalation of the tariff war. Q2 data are now available for the United States, showing that GDP grew by 2.1 percent year-on-year. GDP expanded at a rate of 1.6 percent in the EU and 1.4 percent in the euro area in 2025 Q3 compared to the same period a year earlier. At its rate-setting meeting in September, in October and then in December, the Federal Reserve cut its target range for the federal funds rate by 25 basis points each time. At the press conference following the December decision, the Fed Chair noted that further rate cuts would be determined by the incoming data. He added that inflation and labour market risks are currently pointing in opposite directions, and thus the question was which of these risks would be more dominant. The ECB left its interest rate conditions unchanged at its rate-setting meeting in September and October, 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 implemented further rate cuts over the past quarter.

Chart 3-1: GDP growth in major global economies



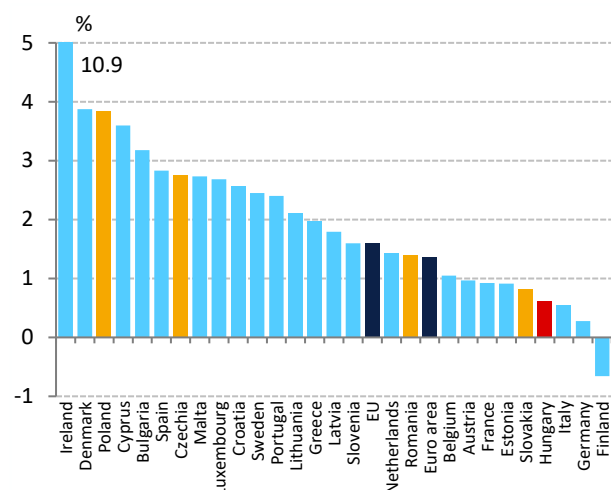
Note: Annual growth. For the EU, the calculation is based on seasonally and working day adjusted data.

Source: Trading Economics, FRED, Eurostat

**The US economy expanded at a year-on-year rate of 2.1 percent and 0.9 percent on a quarterly basis in 2025 Q2** (Chart 3-1). Quarterly GDP growth was primarily driven by the increasingly dynamic expansion of consumption. In the first quarter, imports surged to avoid tariff increases, which was reflected in higher inventories, but this trend was reversed in the second quarter. Imports fell significantly, the positive impact of which was offset by the development of inventories. Due to the government shutdown, the US Bureau of Economic Analysis (BEA) was unable to publish the United States' 2025 Q3 GDP data in time, and accordingly the data are not yet available.

**In 2025 Q3, China registered growth of 4.8 percent on an annual basis and 1.1 percent on a quarterly basis** (Chart 3-1). Growth was supported by both services and industrial production. On the consumption side, despite historically low consumer confidence for years, final consumption expenditure was the main driver of growth. The latest October data show a slowdown in foreign trade. Exports fell by 1.1 percent on an annual basis, while the tariff increases imposed by the United States are leading to a restructuring of Chinese exports. China's exports to the US fell by 17.8 percent year-on-year in the first ten months of the year. By contrast, growth was registered for exports to ASEAN countries (+14.3 percent) and the EU (+7.5 percent). Chinese exporters are likely to continue trying to sell to the US via countries with lower tariffs, while redirecting some of their products to new markets. The value of imports rose at a modest pace of 1.0 percent in October. The National Bureau of Statistics of China previously indicated that external uncertainties, historically weak domestic demand and operational difficulties affecting companies posed challenges to economic stability. In addition, the real estate market, the lending situation, demographic constraints and

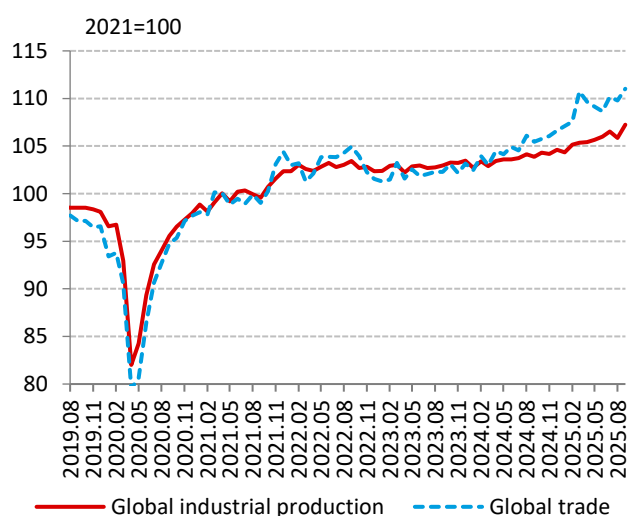
Chart 3-2: Annual GDP change in EU countries in 2025 Q3



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

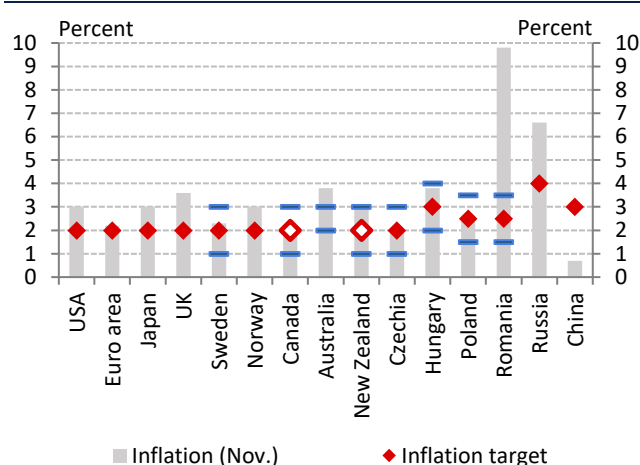
the lack of economic restructuring are also slowing down Chinese growth.

**In 2025 Q3, the EU economy expanded by 1.6 percent and the euro area economy by 1.4 percent year-on-year, on a seasonally and calendar-adjusted basis** (Chart 3-2). Overall, the performance of European economies exceeded expectations somewhat. The value added of Hungary's main trading partner, Germany, grew by 0.3 percent on an annual basis in 2025 Q3 (Chart 3-2). Among the countries in the region, GDP also rose in Poland (+3.8 percent), Czechia (+2.8 percent), Romania (+1.4 percent) and Slovakia (+0.8 percent) compared to the same period of the previous year. The economies of the European Union recorded overall growth of 0.3 percent versus the previous quarter, with GDP declining on a quarterly basis in three cases: Finland (-0.3 percent), Ireland (-0.3 percent) and Romania (-0.2 percent). In 2025 Q3, industrial production rose in year-on-year terms across the EU (+1.6 percent), but industrial production in Germany fell by 1.0 percent.

**Trade agreements succeeded in averting an escalation of the tariff war, thus reducing uncertainty, but the protracted trade and geopolitical tensions continue to generate uncertainty in the global economic environment.**

Unemployment levels in advanced economies typically remain low by historical standards. At the same time, labour market tightness has eased somewhat in the US, and the unemployment rate in Germany remains at a 5-year high. Based on confidence indices, consumer confidence in the European economies improved slightly in recent months, but there are fewer signs of recovery in business confidence. Purchasing manager indices in Western countries remain close to the 50-point threshold, which is neutral in terms of growth. The 15-percent tariff imposed on imports from the EU in August has reduced uncertainty, but the large tariff increase compared to previous years is having a significant impact on European industry, which is already struggling with competitiveness challenges. Global merchandise trade (+4.7 percent) and industrial production (+2.5 percent) continued to rise in year-on-year terms in 2025 Q3 (Chart 3-3).

**Inflation has continued to rise in the US recently.** However, due to the government shutdown, new macroeconomic and inflation data are only available to a limited extent. Annual CPI inflation increased from 2.7 percent in July to 2.9 percent in August and then to 3.0 percent in September in the US. The PCE inflation index remained unchanged at 2.6 percent in June and July, then rose to 2.7 percent in August and further to 2.8 percent in September. The producer price index advanced to 3.2 percent in July from 2.4 percent in

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

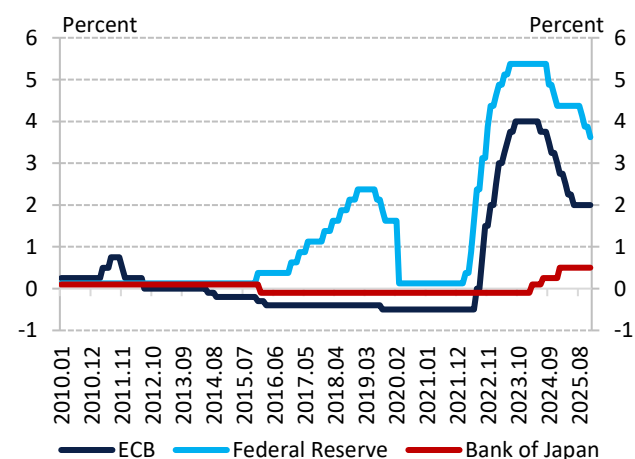
Note: For the United States, the chart shows the September inflation data, for the United Kingdom, Japan and Australia it presents the October inflation data, while for New Zealand it presents the Q3 inflation data. The blue lines represent the inflation control range in Australia, Canada and New Zealand, 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

June and then stood at 2.7 percent in August and in September. The core producer price index, which reflects underlying trends, also increased sharply to 3.5 percent in July, before falling to 2.9 percent in August and 2.6 percent in September.

**In the United States, growth in non-farm payrolls slowed sharply in recent months, before picking up somewhat in September, when an increase of 119,000 jobs was recorded.** The unemployment rate showed a gradual rise, reaching 4.4 percent in September. Overall, downside risks in labour market developments have increased compared to the previous, near-equilibrium state.

**At its September, October and December rate-setting meetings, the Fed cut the interest rate by 25 basis points, lowering the target range for the federal funds rate to 3.50–3.75 percent** (Chart 3-5). The December decision was not unanimous, as one decision-maker voted for a 50-basis point cut, while two decision-makers voted to keep the interest rate unchanged. According to the incoming data, the unemployment rate rose, while job creation slowed, and at the same time inflation remained slightly above the central bank's target of 2 percent (Chart 3-4). The Fed's Open Market Committee confirmed that it was prepared to adjust monetary conditions if emerging risks prevented achievement of the Committee's objectives. At the press conference following the December meeting, the central bank governor noted that further rate cuts would be determined by the incoming data. He added that inflation and labour market risks were currently pointing in opposite directions, and thus the question was which of these risks would be more dominant. Additionally, in October the Open Market Committee decided to halt the reduction of its stock of securities starting from 1 December 2025; in its December press release the central bank then indicated that, if necessary, it would initiate purchases of short-term government securities in order to ensure ample reserve levels. The Fed's balance sheet total at the beginning of December 2025 stood at USD 6,586 billion, or 21.6 percent of GDP (Chart 3-6). Based on market pricing, the Fed may continue to cut interest rates next year.

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

Note: For the ECB the overnight deposit rate, for the Fed the midpoint of the federal funds target range.

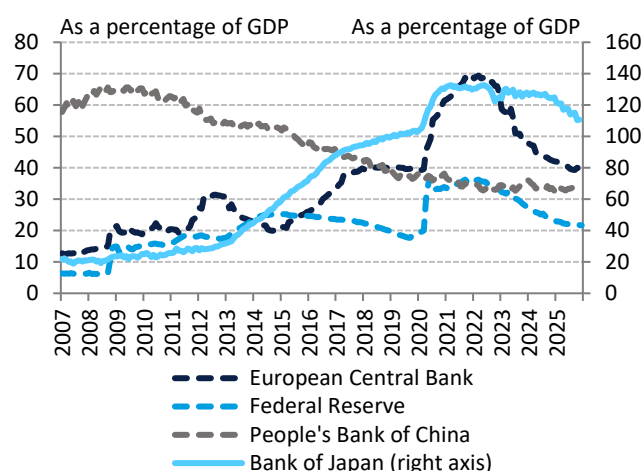
Source: Bloomberg

**Inflation in the euro area recently hovered around the central bank's inflation target of 2 percent.** Annual HICP inflation rose from 2.0 percent in August to 2.2 percent in September, before falling to 2.1 percent in October and then rising again to 2.2 percent in November. Core inflation advanced to 2.4 percent in September and then stabilised at that level.

**At its rate-setting meetings in September and October, the ECB kept its key deposit rate unchanged at 2.0 percent.**



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



Source: Databases of central banks, Eurostat, FRED

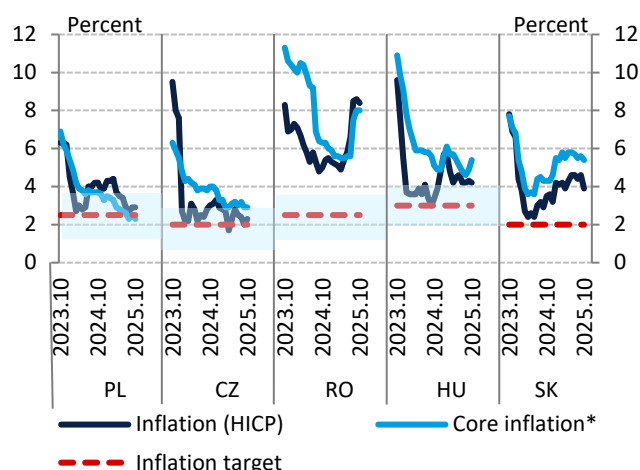
According to the central bank's press release, the robust labour market, the stable balance sheet position of the household sector and the Governing Council's previous interest rate cuts were important sources of the euro area's strong resilience. The central bank continued to pursue a data-dependent, meeting-by-meeting approach in determining the appropriate monetary policy stance. At the beginning of December, the ECB's balance sheet total stood at EUR 6,131 billion, or 39.6 percent of GDP (Chart 3-6). Based on market pricing, the ECB is likely to keep interest rates unchanged next year.

**At its October rate-setting meeting, the Bank of Japan kept its policy rate at 0.5 percent** (Chart 3-5). According to the central bank's press release, the decision was divided, as two decision-makers voted for a 25-basis point interest rate hike. The annual rate of inflation eased from 3.1 percent in July to 2.7 percent in August, before rising to 2.9 percent in September and 3.0 percent in October. The central bank's October inflation forecast remained essentially unchanged from its previous July forecast, which projected inflation of 2.7 percent in 2025, 1.8 percent in 2026 and 2.0 percent in 2027. The Japanese central bank's balance sheet total stood at 111.0 percent of GDP at the end of November (Chart 3-6).

**The Chinese central bank left the loan prime rate (LPR), which is the benchmark for bank lending, unchanged in October and November, with the 1-year LPR at 3 percent and the 5-year LPR, which is decisive for mortgage lending, at 3.5 percent.** In addition, the central bank implemented liquidity-expanding measures in November to maintain liquidity levels, support government bond issuance and encourage financial institutions to lend. In China, inflation rose from -0.4 percent in August to -0.3 percent in September and then advanced to 0.2 percent in October and 0.7 percent in November. The central bank's balance sheet total stood at 34.2 percent of GDP in October.

**The National Bank of Poland cut its policy rate 25 basis points on three occasions in the fourth quarter, as a result of which the policy rate fell to 4.00 percent.** The central bank slightly modified its inflation forecast: based on the November inflation forecast, there is a 50-percent probability that inflation will be 3.6–3.7 percent in 2025, 1.9–4.0 percent in 2026 and 1.1–4.1 percent in 2027. Taking into account inflation developments and its outlook for the subsequent quarters, the Monetary Council considered it appropriate to lower the interest rate further. Looking ahead, the central bank will decide on further steps based on incoming inflation and economic activity data. After the December decision, the Polish central bank governor stated

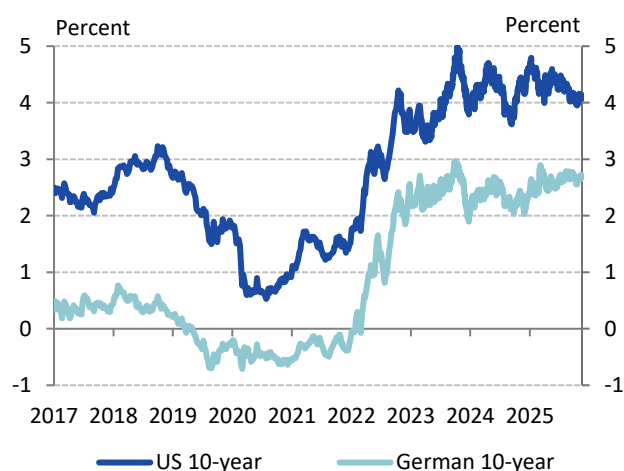
Chart 3-7: Inflation and core inflation in the region



Note: Annual change, 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

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



Source: Bloomberg

that no significant rate cuts were expected in the future. He believed that a “wait-and-see” approach was currently the most suitable strategy prior to any decision on further rate cuts by the Council. Inflation stood at 2.9 percent in September, before falling to 2.8 percent in October and then to 2.4 percent in November. The harmonised consumer price index stood at 2.9 percent in September and remained unchanged in October (Chart 3-7).

**At its September and November rate-setting meetings, the Czech central bank left its policy rate at 3.5 percent.**

According to the statement, persistent inflationary pressures did not currently allow for further interest rate cuts. Future monetary policy measures would depend on incoming data and their impact on the inflation outlook. The Czech central bank governor said that maintaining relatively tight monetary conditions was still justified. He emphasised that all options remained open for further interest rate decisions. Inflation fell from 2.5 percent in August to 2.3 percent in September and then rose again to 2.5 percent in October, before falling to 2.1 percent in November. The harmonised consumer price index rose from 2.0 percent in September to 2.3 percent in October (Chart 3-7).

**The Romanian central bank decided to hold the policy rate at 6.50 percent at its October and November rate-setting meetings.**

There are considerable uncertainties surrounding the outlook for economic growth and inflation over the medium term. Based on the November inflation report, the annual inflation rate is expected to be higher than previously forecast over the next three quarters, in conjunction with the temporary, direct effects of the termination of the electricity price cap on 1 July and the higher-than-expected increases in VAT rates and excise duties from 1 August. The annual inflation rate was 9.9 percent in both August and September, before falling to 9.8 percent in October. The annual rate of inflation based on the Harmonised Index of Consumer Prices (HICP) fell to 8.4 percent in October from 8.6 percent in September (Chart 3-7).

**International investor sentiment was volatile in the past quarter.** The Sino-US trade war escalated again in October, but by the end of the month the situation had stabilised thanks to a preliminary agreement on rare-earth metal exports. The US government was only partially operational for 43 days as Congress failed to pass the budget for the 2026 financial year by the end of September deadline. The government shutdown also affected data reporting within

the government's remit, which is not expected to be fully restored until next spring.

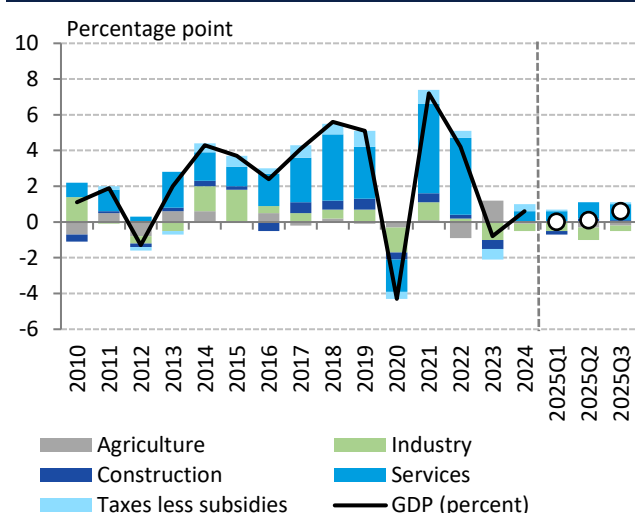
**Long-term bond yields in developed markets moderated.**

The US 10-year yield fell by 6 basis points to 4.08 percent, while the German yield fell by 3 basis points to 2.72 percent (Chart 3-8) compared to the end of September. The Japanese 10-year yield rose by 17 basis points to 1.82 percent from the previous quarter, while emerging market bond yields were mixed. Developed stock indices rose 8 percent in the US and fell 5 to 6 percent in Europe since the end of September. The MSCI index for emerging economies rose by 2.1 percent. The US dollar generally strengthened against developed currencies, appreciating by nearly 2 percent against the euro, 1.7 percent against the Swiss franc and 3.4 percent against the British pound, while strengthening by 6.6 percent against the Japanese yen over the past period.

### 3.2. Analysis of the production and expenditure side of Hungarian GDP

Gross domestic product expanded at a year-on-year rate of 0.6 percent in 2025 Q3, while seasonally and calendar-adjusted and balanced data showed that economic output stagnated versus the previous quarter. In 2025 Q3, among the main sectors of the national economy, services and construction boosted GDP on an annual basis, while industry and agriculture had a negative impact. Among consumption items, household consumption and change in inventories supported annual growth, while net exports, investments and final consumption of government restrained GDP growth.

**Chart 3-9: Annual change in decomposition of production-side GDP**

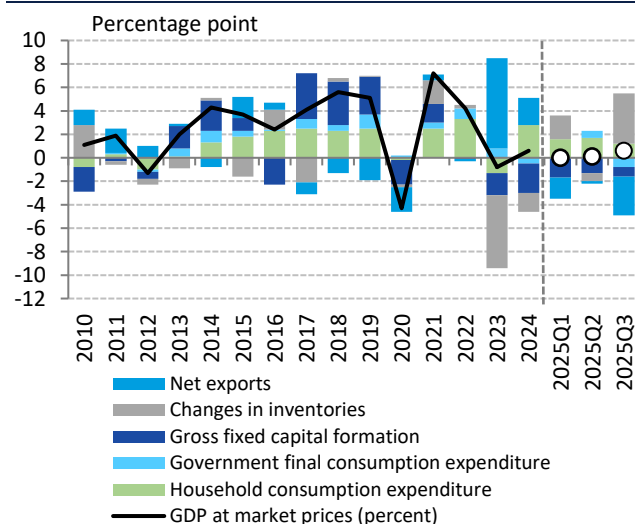


Source: HCSO

**Based on unadjusted data, Hungarian GDP expanded by 0.6 percent on an annual basis in 2025 Q3** (Chart 3-9). On the basis of the balanced data adjusted for seasonal and calendar effects that are used for international comparison, GDP also grew by 0.6 percent on an annual basis, while economic output remained unchanged versus the previous quarter.

**Household consumption expenditure rose by 2.6 percent on an annual basis in the third quarter** (Chart 3-10). This item accounts for 49.6 percent of GDP, contributing 1.2 percentage points to growth in 2025 Q3. The volume of household final consumption expenditure rose in all categories, gaining 8.2 percent for durable goods, 4.1 percent for semi-durable goods, 2.3 percent for non-durable goods and 2.6 percent for services. Final government consumption fell by 3.5 percent on an annual basis.

**Chart 3-10: Annual change in decomposition of expenditure-side GDP**

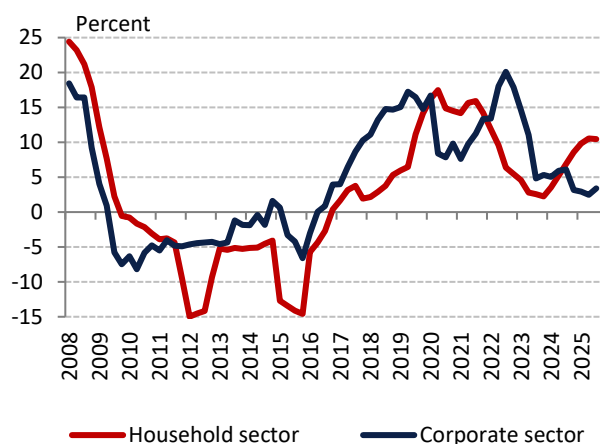


Note: Government final consumption expenditure includes final consumption expenditure of general government and non-profit institutions. Changes in inventories includes acquisitions less disposals of valuables.

Source: HCSO, MNB

**Gross fixed capital formation declined by 3.0 percent in the third quarter, which was less severe than in the previous six quarters and slowed the economy by 0.8 percentage point.** According to detailed statistics from the Hungarian Central Statistical Office (HCSO), investments in sectors producing for the domestic market expanded by 24.4 percent compared to a year earlier. By contrast, companies producing for the export market continued to see a decline on an annual basis (-3.6 percent). In the third quarter, investments by budgetary institutions fell by 20.9 percent and investments by sectors indirectly linked to the public sector fell by 13.7 percent compared to the same period last year. Investment in the property sector fell by 5.0 percent. Construction investment projects fell by 7.3 percent, while investments in machinery and equipment increased by 1.5 percent in the third quarter compared to the same prior-year period. The four-quarter rolling average for the investment rate was 22.1 percent, while at 2021 prices, the real investment rate was 21.0 percent.

**Chart 3-11: Annual change in corporate and household loans outstanding**

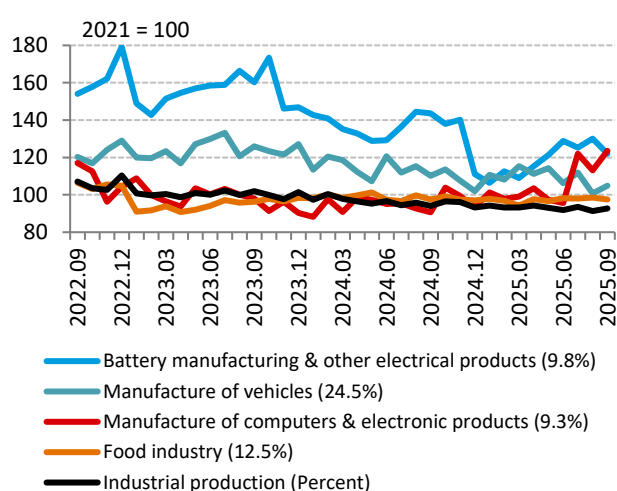


Note: Data for both corporate and household segments are based on transactions (showing the impact of disbursements and repayments) with the total financial intermediary system.

Source: MNB

**The dual trends on the household and corporate credit markets persisted in 2025 Q3.** According to preliminary data, in 2025 Q3, the household loans outstanding of the total financial intermediary system grew by 10.5 percent in a year-on-year comparison, while the corporate loan portfolio increased by just 3.4 percent (Chart 3-11). The annual growth rate of the SME loan portfolio, which better reflects the underlying trends in the corporate sector, was 5.0 percent at the end of September. The value of new bank loan agreements concluded in the third quarter exceeded the level from one year earlier by only 5 percent in the corporate segment and 11 percent in the household segment. Within the latter, personal loan issuance increased by one-third, while the value of housing loans remained unchanged. Based on the MNB's Lending Survey, banks expect the upturn in demand for housing loans seen during the quarter to continue in the next six months as a result of the Home Start loan programme. According to the banks' responses, the decline in corporate credit demand in the third quarter is expected to turn into growth in 2025 Q4 and 2026 Q1, but this will only affect short-term loans, with no turnaround expected for long-term investment loans.

**Chart 3-12: Trends in production levels across the main industrial sectors**



Note: The 2024 weight of the sectors in industrial production is given in brackets.

Source: HCSO

**The contribution of the change in inventories was significant, raising growth by 4.3 percentage points compared to the same period last year.**

**Net exports restrained GDP growth by 3.3 percentage points in 2025 Q3 in year-on-year terms.**

The volume of imports rose by 3.9 percent, while export volume fell by 0.6 percent on an annual basis. Goods exports and services exports both declined by 0.8 percent. In October 2025, the external trade balance in goods showed a surplus of EUR 736 million. The 12-month rolling balance of external trade balance in goods decreased somewhat and amounted to EUR 9.6 billion in October. Based on the raw data, the volume of goods exports declined by 4.2 percent, while goods imports increased by 2.5 percent compared to October 2024. The terms of trade improved by 5.7 percent on an annual basis.

**Industrial output contracted by 1.7 percent in 2025 Q3, with manufacturing output falling by 0.8 percent compared to the same period of last year** (Chart 3-

12). In both cases, the rate of decline slowed compared to the second quarter. Of the manufacturing sectors, manufacture of transport equipment (-5.9 percent) and battery manufacturing and other electrical product manufacturing (-11.0 percent) contributed most to the decline, while the food industry stagnated in 2025 Q3. The manufacture of computers and electronic products (+28.6 per cent) increased compared to the same prior-year period. According to the raw data, the volume of industrial production decreased by 2.7 percent in October 2025 compared to October 2024. Overall, industrial production has been on a downward trend since July 2023. **The decline in industrial output reflects weaker external demand as well as competitiveness and product structure problems affecting individual firms.** This is presented in more detail in Box 3.1.

**The combined gross value added of services rose by 1.5 percent in 2025 Q3.** The largest increases were seen in financial and insurance activities (+3.8 percent) and accommodation and catering (+3.0 percent). The value added of professional, scientific, technical and administrative activities grew by 2.9 percent, while trade and repair of motor vehicles grew by 2.6 percent. The information and communication sector grew by 1.7 percent, public administration by 1.2 percent, and transport and storage by 0.4 percent. There was a moderate decrease in the value added of arts, entertainment and recreation (-0.1 percent) and real estate transactions (-0.3 percent). In October 2025, the volume of retail trade expanded by 3.1 percent compared to the same period of the previous year.

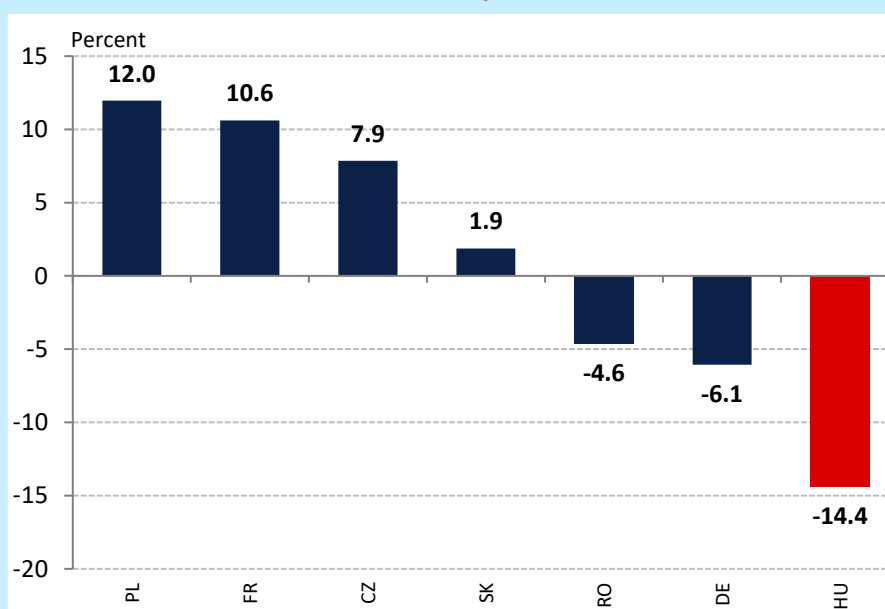
**The value added of construction grew by 2.6 percent in 2025 Q3 relative to the same period of the previous year, contributing 0.1 percentage point to GDP growth.** The volume of new contracts concluded rose by 5.1 percent compared to one year earlier, while the volume of contracts at the end of September rose by 40.9 percent on an annual basis.

**The value added of agriculture was 6.2 percent lower in the third quarter than in the same period of the previous year.** This means that agriculture held back GDP by 0.2 percent.

### Box 3-1: Situation of the Hungarian automotive industry

The Hungarian automotive industry is deeply embedded in European value chains, but its performance has fallen significantly short of the EU and regional average in recent years. The most significant domestic manufacturing sub-sector has shown a larger decline compared to regional countries with similar industrial structures (Czechia, Slovakia) and Germany, which is positioned at the end of the supply chain (Chart 3-13). While output in Hungary fell by 14.4 percent compared to the end of 2022, Poland (+12.0 percent) and Czechia (+7.9 percent) saw dynamic expansion, and Slovakia experienced moderate growth (+1.9 percent). Consequently, the global challenges affecting the industry are not being experienced to the same extent in the countries of the region. This Box presents the product structure and technical effects that have amplified the spill-over effects of the already weak European automotive industry on Hungary. These effects can be offset by the adaptation of market participants, and thus they do not pose an obstacle to the renewed growth of the domestic automotive industry in the medium term.

Chart 3-13: Development of road vehicle manufacturing in regional countries and Germany in 2025 Q3 compared to 2022 Q4



Note: Seasonally and calendar-adjusted data; in the case of Slovakia, based on calendar-adjusted data only.

Source: Eurostat, Slovak Statistical Office

According to European Automobile Manufacturers' Association (ACEA) data, the number of new passenger car registrations in the European Union increased by 0.9 percent in the first nine months of this year, indicating that demand is rising, albeit at a moderate pace. One positive trend is that the figures for the third quarter in particular were good, with a steady increase since July. According to analysts, the growth in the third quarter may be explained primarily by the surge in sales of cheaper European and Chinese electric or hybrid cars in recent months (e.g. Skoda Elroq, Renault R5, Citroen C3).

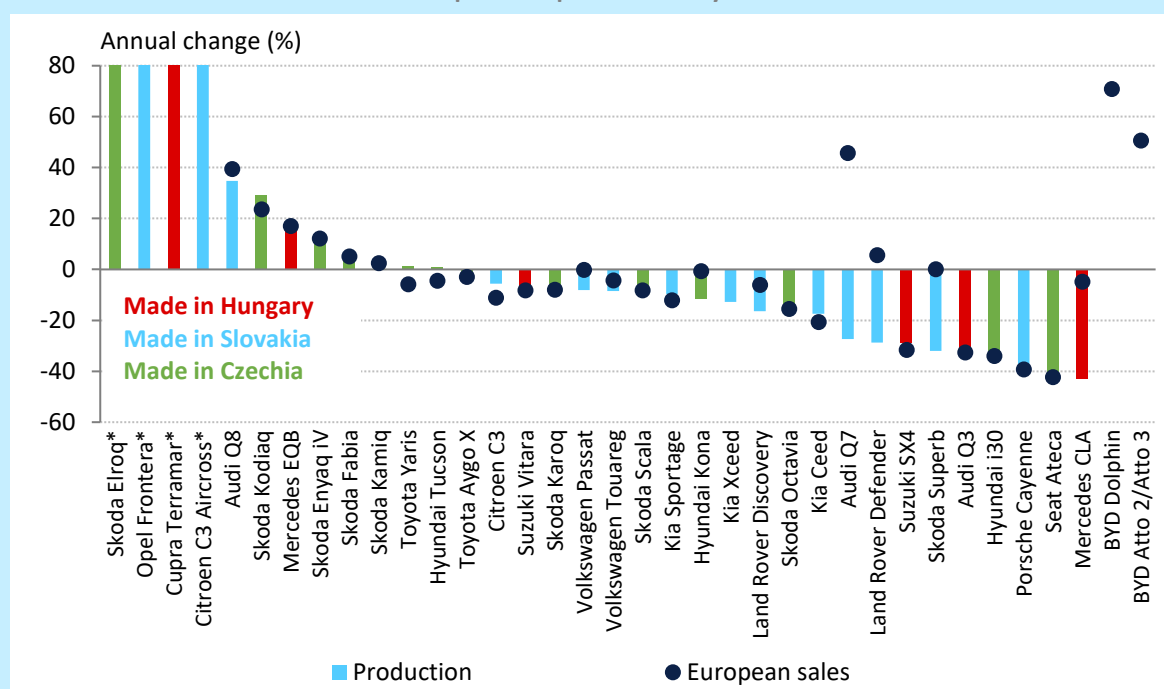
Based on sales, the European brands that were able to achieve significant growth are precisely those that do not have a plant in Hungary. The current product structure therefore plays a significant role in the decline of the domestic automotive industry. European demand for Skoda, Renault and Volkswagen models has picked up, while among manufacturers with domestic capacity, Mercedes' European sales only grew moderately (+2.2 percent), and sales by Audi (-2.2 percent) and Suzuki (-14.2 percent) declined in the first three quarters of the year. The favourable sales figures for Volkswagen and Skoda may have contributed to the annual change in Czech and Slovak automotive production exceeding that of Hungary.



**Hungarian passenger car manufacturing typically closely follows the European sales of the models produced** (Chart 3-14). Among the models manufactured in Hungary, demand for the Mercedes EQB has shown stable growth, with European sales rising by 17.0 percent so far this year. At the same time, domestic production increased by 19.1 percent. Production of the Cupra Terramar took off this year after its launch in August last year. In the recent period, the production of several models manufactured in Hungary has fared worse than their Czech and Slovak competitors. One such example is the Mercedes CLA, for which demand has only declined moderately, while production at the Kecskemét plant has fallen by 43 percent. This may also be due to planned changes to the production lines at the plant. With the introduction of the new CLA model, production of its electric and hybrid power trains will move to Germany, while two new model families based on a new platform are planned for production in Kecskemét. Production of the Audi Q7, Land Rover Defender and Skoda Superb (all manufactured in Slovakia) also fell significantly short of sales figures.

**Demand for new vehicle models which will soon go into production and batteries may even trigger a turnaround in the Hungarian industry in the medium term.** The BYD production line being built in Szeged will first begin assembling the BYD Dolphin and Atto 3, of which European sales have risen significantly this year (+70.9 and +50.6 percent). According to press reports, there is also strong demand for BMW's all-new iX3 model, which will be manufactured in Debrecen. Production at the plant, which opened this year, is expected to ramp up gradually. The rising demand for hybrids and electric vehicles is also supported by ACEA's September data, which showed a rising market share for hybrid and electric powertrain cars. If this trend continues, domestic road vehicle manufacturing could also gain momentum, and battery manufacturing could also benefit significantly from this trend. Mass production may begin at CATL's Debrecen plant in 2026 Q2 (assembly work has been underway at another location for months), and according to the company, orders already fully cover production capacity. In our forecast, these favourable prospects will also contribute to the industry's growth in 2026.

**Chart 3-14: Passenger cars manufactured in Hungary, Czechia and Slovakia, and their European sales in the January–September period of this year**



Note: \*The outstanding annual indices of the models marked with an asterisk are due to the fact that their production started in 2024 or 2025.

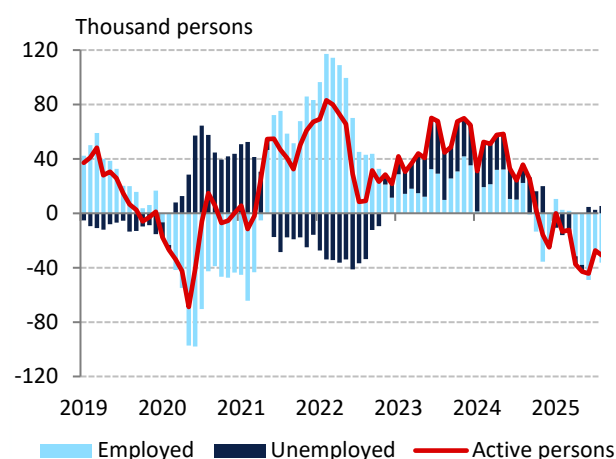
Source: MNB, based on MarkLines



### 3.3. Labour market

On average, the number of persons in employment fell by 0.7 percent year-on-year for the period of August–October 2025. The unemployment rate stood at 4.6 percent, which remains moderate both historically and by international standards. Due to lower labour demand, the number of job vacancies in the private sector stagnated in this year. The easing of labour market tightness will result in more moderate wage growth than in recent years, with gross average earnings in the private sector increasing by an average of 8.9 percent year-on-year in the first nine months of the year.

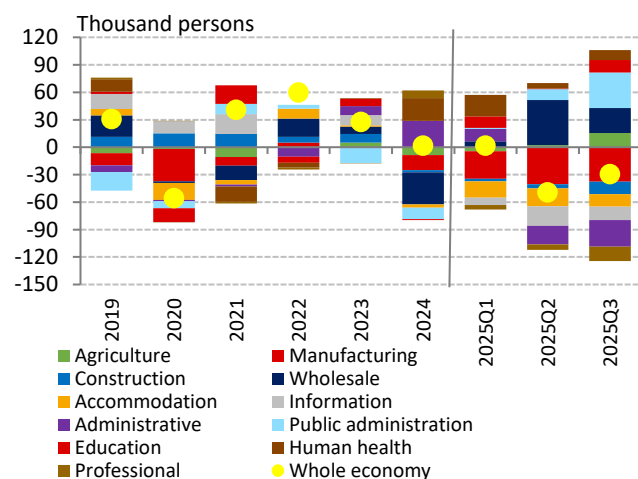
**Chart 3-15: Decomposition of annual changes in labour force participation**



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

Source: HCSO

**Chart 3-16: Decomposition of annual changes in employment**



Source: HCSO

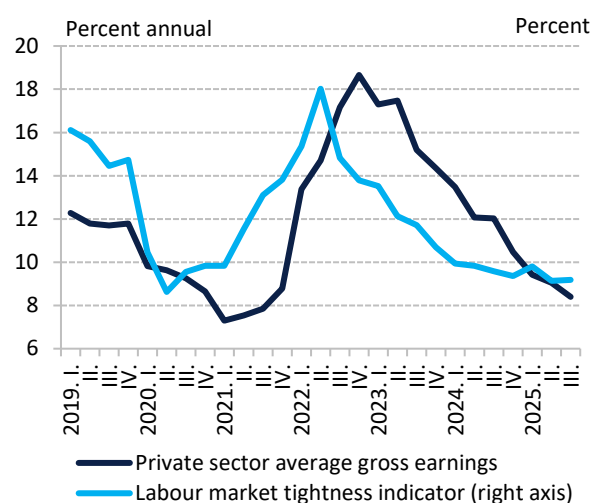
#### 3.3.1. Employment and unemployment

**The prolonged economic downturn is also reflected in the decline in employment.** On average, in the period of August and October, the number of persons employed in the national economy fell by 31,000 compared to the same period of the previous year, representing a 0.7-percent decline on an annual basis (Chart 3-15).

**Employment in the manufacturing industry fell significantly in the last year, in line with the weak European automotive economy and the decline in domestic industrial output.** In the third quarter, the number of persons employed in manufacturing dropped by 38,000 compared to 2024 Q3, showing a 3.9-percent decline on an annual basis. Among the service sectors, employment contracted more significantly in administrative and support service activities; arts, entertainment and recreation; information and communication; and accommodation and food services, while it expanded in trade and motor vehicle repair, as well as in public administration and defence; education; and human healthcare and social care activities, which are predominantly linked to public services. Compared to the same period of last year, the number of persons employed in construction fell by 14,000, while in agriculture it rose by 16,000 (Chart 3-16).

**Lower labour demand is also reflected in the number of job vacancies in the private sector.** In the third quarter, the number of job vacancies in the private sector fell by 7 percent versus the same period of the previous year, while based on the seasonally adjusted data, stagnation has been seen this year. There were 43,400 job vacancies in the private sector in the third quarter, including 12,800 in manufacturing and 27,100 in the market services sector. Labour market tightness, as measured by the ratio of job vacancies in the private sector to unemployed persons, remains low (Chart 3-17).

**In addition to the ongoing extensive adjustment to the real economic cycle, labour hoarding, which affects the intensity of labour capacity utilisation, continues to be present in the labour market.** The average number of hours

**Chart 3-17: Private sector wage dynamics and labour market tightness**

Note: Labour market tightness indicator is private sector vacancies as a percentage of the unemployed.

Source: HCSO, MNB calculation

worked by full-time employees is at a historically low level experienced during the Covid crisis.

**Labour market activity has declined on an annual basis.** On average, in the period of August and October, the number of persons in the labour force fell by 34,000 compared to the same period of last year, representing a 0.7-percent decline on an annual basis. However, due to the simultaneous decline in the working-age population, the activity rate remains stable, close to its historical peak.

**The unemployment rate remains moderate both historically and internationally.** On average, in the period of August and October, the number of unemployed persons decreased by 3,000 compared to the same period of the previous year, with an average number of unemployed persons of 223,000 and an unemployment rate of 4.6 percent. Based on September data, the domestic unemployment rate is the eighth lowest in the EU. In a regional comparison, the unemployment rate is lower in Czechia and Poland, while it is higher in Romania and Slovakia than in Hungary.

### 3.3.2. Wages

**With the easing of labour market tightness, the annual growth rate of gross average earnings is declining in both the private sector and the national economy (Chart 3-17).**

In September, gross average earnings in the private sector rose by 8.8 percent compared to the same prior-year period, while regular gross average earnings (without bonuses) rose by 8.6 percent on an annual basis. The annual growth in gross average earnings in the private sector averaged 8.9 percent for the first nine months of the year, compared to last year's wage growth of 12 percent. Real earnings calculated on the basis of gross average earnings in the private sector rose by 4.2 percent versus the same period of last year in the private sector, while rose by an average of 4.1 percent in the first nine months of the year. Gross average earnings rose by 8.6 percent in the market services sector and 8.7 percent in the manufacturing industry relative to the same period of last year. Looking at the average for the first nine months, annual wage growth in the market services sector exceeded that in the manufacturing industry: gross average earnings grew by 8.9 percent on average in the former case and 8.4 percent in the latter case on an annual basis.

**Hungarian wage growth is strong in a regional comparison.**

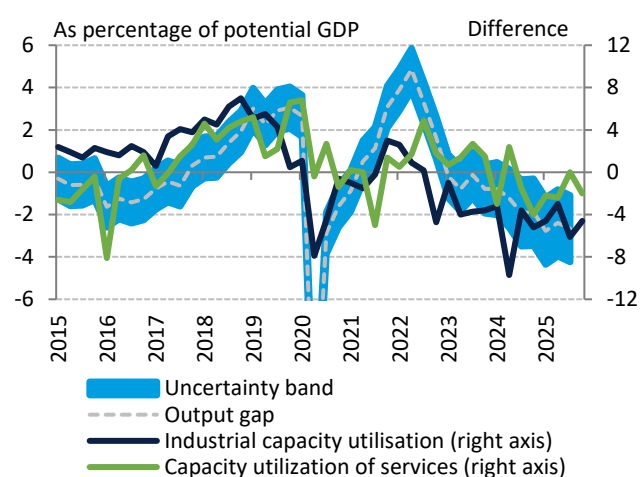
Domestic nominal wage growth is the highest in the region, with gross average earnings rising by 9.5 percent in Hungary, 7.5 percent in Poland, 7.1 percent in Czechia, 6.2 percent in Slovakia and 6.1 percent in Romania in

September. The increase in real wages in Hungary is among the highest in the region. Gross average earnings in real terms rose by 5 percent in Czechia similar to Hungary, 4.5 percent in Poland and 1.5 percent in Slovakia, while in Romania they fell by 2.3 percent in September.

### 3.4. Cyclical position of the economy

According to our estimates, GDP was below its potential level in 2025 Q3. Capacity utilisation at manufacturing companies improved, but remains below the historical average, as do production expectations for the coming months. Capacity utilisation at service companies deteriorated compared to the previous period and also remained below the historical average. The cyclical structure of the real economy influences the disinflationary effect of the economy. Hungarian inflation is more strongly impacted by the cyclical position of domestic demand, i.e. 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 3-18: Uncertainty band around the output gap and capacity utilisation in services and industry**



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

Source: ESI, HCSO, MNB estimate

**We estimate that the cyclical position of the economy has been negative since early 2023.** According to seasonally and calendar-adjusted and balanced data, the Hungarian economy grew by 0.6 percent in 2025 Q3 compared to the same period of the previous year, while it stagnated versus the previous quarter. The output gap excluding agricultural performance has remained negative (Chart 3-18). The easing of labour market tightness also supports the negative cyclical situation of the economy. Uncertainty about the external outlook stems from the prolonged weakness of the European economy. The external output gap – which has an effect on the Hungarian cyclical state – remained in negative territory as well.

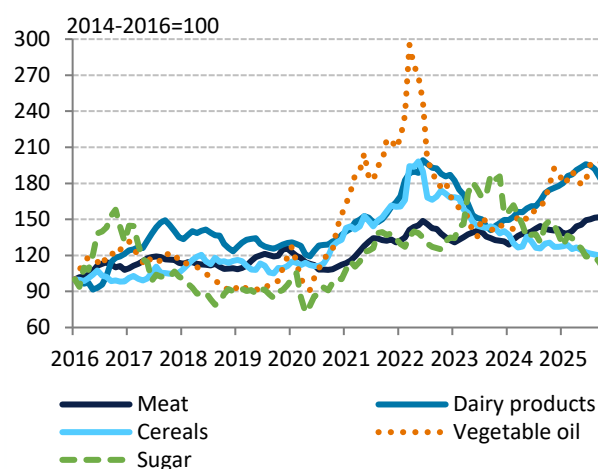
**The cyclical structure of the real economy influences the disinflationary effect of the economy. Domestic inflation is more strongly impacted by the cyclical position of domestic demand, i.e. household consumer demand.** This is captured by the household consumption gap, which we estimate to be in positive territory from 2023 H2 onwards, reflecting buoyant consumption growth.

**According to questionnaire surveys, the capacity utilisation and production expectations of manufacturing companies were also below the historical average.** The capacity utilisation and production expectations of manufacturing companies have improved slightly compared to the previous quarter, with both indicators remaining below their historical averages. The capacity utilisation of service companies deteriorated compared to the previous period and also remained below the historical average.

### 3.5. Costs and inflation

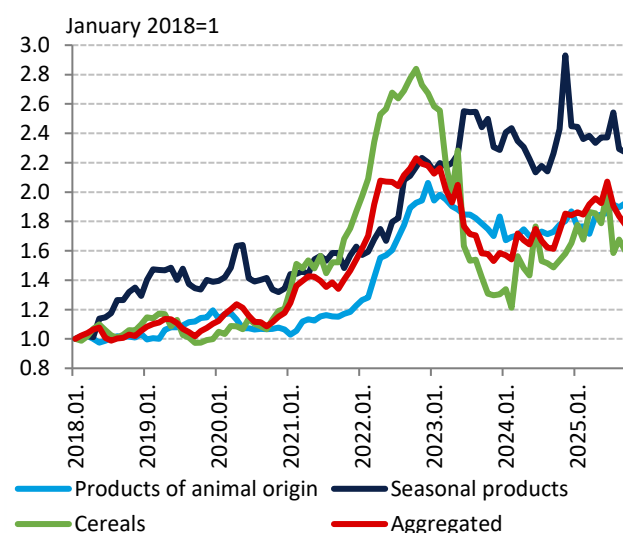
In November 2025, consumer prices rose at a year-on-year rate of 3.8 percent; consequently, after one year, the indicator returned to the central bank's tolerance band again. The annual inflation rate fell by 0.5 percentage point compared to the previous month, primarily driven by a decrease in the inflation of fuel and unprocessed food. At 4.1 percent, core inflation was down 0.1 percentage point compared to October. Core inflation excluding indirect tax effects fell to 3.8 percent. Our annual indicators, which capture more persistent inflation trends, remained broadly unchanged. On a monthly basis, the price of the overall consumer basket and the core inflation basket both increased by 0.1 percent. The rate of price change compared to the previous month was below the historical average for both inflation and core inflation in autumn. The food price cycle that began in 2024 has come to an end, with global food prices declining in the autumn months. Since the beginning of the year, the industrial producer price index has dropped by 5.2 percentage points on an annual basis, with the appreciation of the forint since the beginning of the year playing a significant role in this regard.

Chart 3-19: Development of world market prices of food



Source: FAO

Chart 3-20: Development of agricultural prices



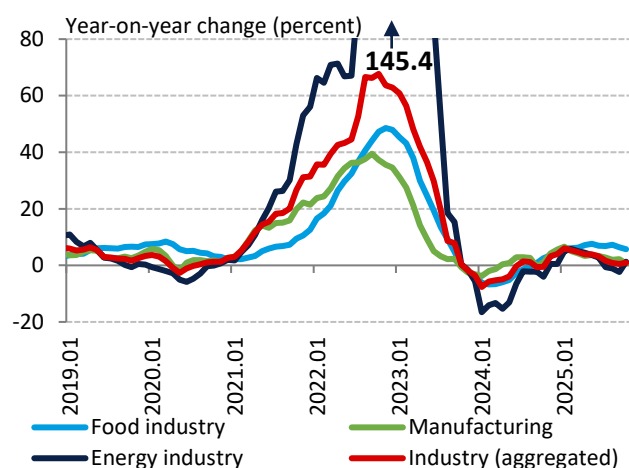
Note: Based on seasonally unadjusted data.

Source: HCSO

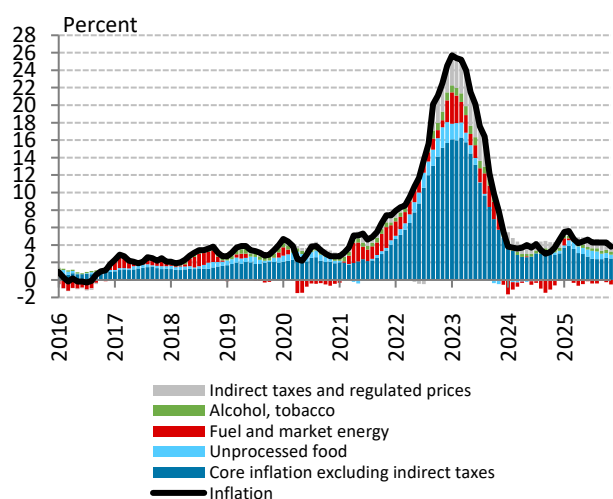
#### 3.5.1. Producer prices

**In November, world market food prices fell by 2.1 percent compared to the same period last year.**

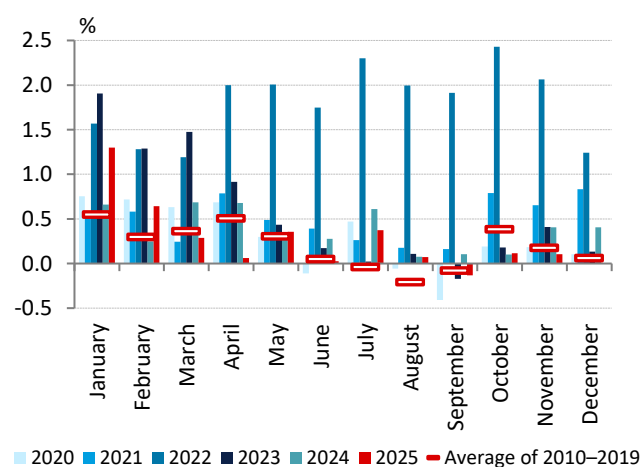
The global food price cycle that began in 2024 has come to an end, with prices falling constantly on a monthly basis in the autumn months. Prices decreased by 1.2 percent in November compared to the previous month. With the exception of cereals, price declines were registered for all product groups on a monthly basis. The world market price of sugar fell by 29.9 percent year-on-year and by 5.9 percent on a monthly basis, with the price of sugar reaching its lowest level since December 2020, thanks to rising global supply expectations. Dairy prices fell by 1.7 percent versus the same period last year and by 3.1 percent compared to October. One important driver in the food price cycle over the past year and a half was the rise in dairy prices, which came to a halt in June, followed by a decline of 11.6 percent in global market prices for this product group by November. Within dairy products, declines were recorded for all of the sub-indices, as the drop in prices was supported by abundant European supply and moderate import demand from Asia and the Middle East. The prices of oilseeds rose by 0.6 percent on an annual basis and decreased by 2.6 percent on a monthly basis. The monthly decline was explained by a more favourable supply outlook for palm, rapeseed and sunflower oil production. However, the price decline was partially offset by a slight increase in soybean oil prices, driven by strong demand from biofuel production. Meat prices rose 4.9 percent compared to November last year, but fell 0.8 percent compared to October. The upward trend in meat prices reversed in October, with the decline in prices mainly due to falling demand following the introduction of Chinese pork import duties in September. Cereal prices fell by 5.3 percent year-on-year and increased by 1.8 percent month-on-month (Chart 3-19).

**Chart 3-21: Producer prices of manufactured goods for domestic sale**

Source: HCSO

**Chart 3-22: Decomposition of inflation**

Source: MNB calculation

**Chart 3-23: 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

**In September, agricultural producer prices rose by 10.3 percent year-on-year.** In recent months, however, domestic producer prices have been decreasing on a monthly basis, similar to global food prices. In September, prices fell by 3.1 percent compared to the previous month, mainly explained by changes in cereal prices. Producer prices for cereals rose by 7.6 percent, prices for animal products by 11.3 percent, and producer prices for seasonal products by 0.4 percent over the course of one year (Chart 3-20).

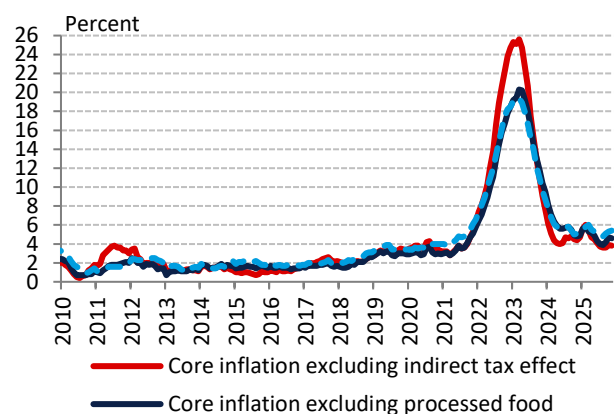
**Producer prices for manufactured goods for domestic sale rose by 0.9 percent on an annual basis in October 2025** (Chart 3-21). Since January 2025, annual price growth has fallen by 5.2 percentage points, with the appreciation of the forint since the start of the year playing a significant role in this regard. Domestic sales prices in the manufacturing industry rose by 0.6 percent compared to October of the previous year, while prices in the energy industry increased by 1.3 percent. Producer prices in the food industry were 5.7 percent higher than in the same period of the previous year.

### 3.5.2. Consumer prices

**In annual terms, consumer prices rose by 3.8 percent in November; consequently, after one year, the indicator returned to the central bank's tolerance band again.** The consumer price index fell by 0.5 percentage point versus the previous month, primarily driven by lower inflation in fuel and unprocessed food (Chart 3-22). Price and margin restriction measures continued to have a significant inflation-reducing effect. On a monthly basis, the price of the overall consumer basket and the basket calculated excluding fuels and regulated prices both rose by 0.1 percent (Chart 3-23). The price of the core inflation basket excluding processed foods, which better reflects underlying trends, rose by 0.2 percent in a month-on-month comparison.

**In November, core inflation decreased to 4.1 percent, while core inflation excluding indirect tax effects fell to 3.8 percent.** Within core inflation, which was 0.1 percentage point lower than in October, annual price dynamics decreased in all main groups. Price and margin restriction measures have reduced core inflation substantially, along with headline inflation. Our indicators capturing more persistent inflation trends, calculated on an annual basis, remained broadly unchanged. The inflation of sticky-price products and core inflation excluding processed food was 5.4 percent and 4.6 percent, respectively (Chart 3-24). Our underlying inflation indicator, calculated on an annual basis and filtered from the technical effect of price restriction

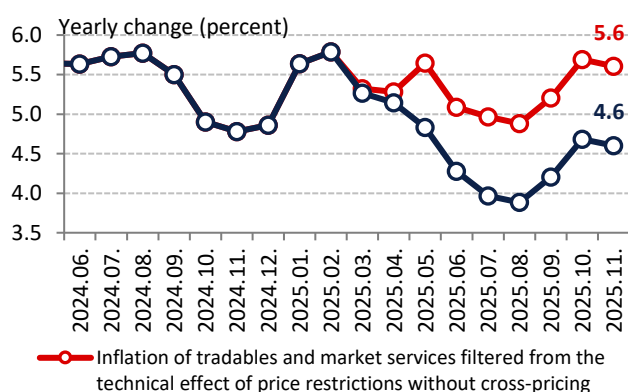
Chart 3-24: Underlying inflation indicators



Note: Core inflation excluding processed foods 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

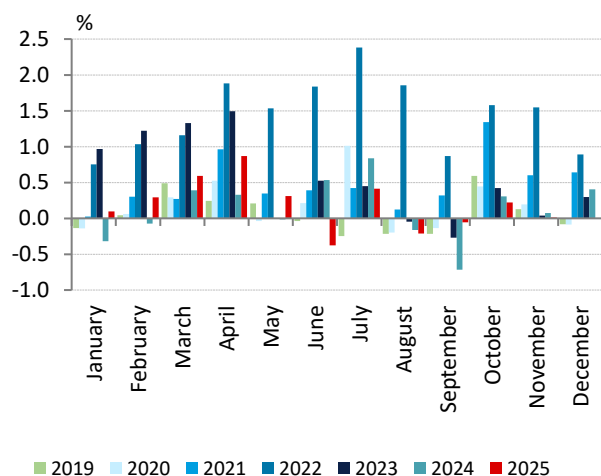
Chart 3-25: Tradables and market services inflation based on actual data and filtered from the technical effect of price restrictions without cross-pricing



Note: Based on tax-adjusted data.

Source: MNB

Chart 3-26: Monthly price changes of traded goods



Source: HCSO, MNB

measures, reached 5.6 percent in November (Chart 3-25). Our shorter-term indicators (annualised 3-month-on-3-month) declined in the case of inflation and rose in the case of core inflation. The rate of price change compared to the previous month was below the historical average for both inflation and core inflation in the autumn months.

**The annual inflation rate for industrial goods fell from 2.7 percent to 2.6 percent between October and November.**

On a month-on-month basis, the price of the product group remained unchanged (Chart 3-26). Non-durables prices were down by 0.1 percent compared to October. Durables prices increased by 0.2 percent, caused by higher furniture prices.

**The annual price index of market services fell from 7.4 percent to 7.2 percent.** On a monthly basis, prices rose by 0.3 percent, which was primarily explained by the increase in catering services prices (Chart 3-27).

**Food inflation according to the MNB's classification amounted to -0.2 percent.** Within this product group, unprocessed food prices fell by 0.8 percent and processed food prices increased by 0.1 percent year-on-year. According to HCSO data, food prices rose by 3.2 percent, which includes an 8.2-percent increase in restaurant meal prices. Annual food inflation is restrained by the price margin restrictions introduced in mid-March. Food prices fell by 0.1 percent in a month-on-month comparison. Compared to October, unprocessed food prices fell by 0.2 percent, driven primarily by seasonal food price developments. However, a considerable price decrease was seen in pork prices as well. Processed food prices remained broadly unchanged month-on-month.

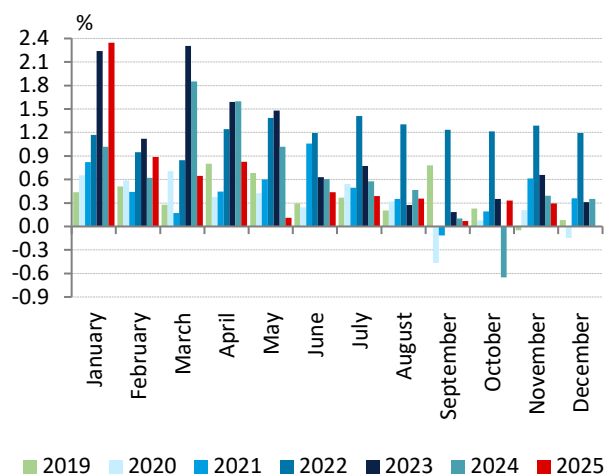
**Fuel prices declined by 5.0 percent year-on-year.** On a monthly basis, fuel prices dropped by 0.6 percent, due to the decline in global market oil prices.

**The price of regulated products and services rose by 7.5 percent year-on-year, with the price of piped gas advancing by 22.0 percent.** The 0.4-percentage point increase in the price of piped gas over the past 12 months contributed to inflation in November. The higher average household gas price was caused by the increase in household gas consumption due to colder weather than last year, which increased the share of consumption above the volume limit of the official price. Regulated prices remained unchanged compared to the previous month, while the consumer price of piped gas fell by 0.4 percent.

3.5.3. Inflation expectations



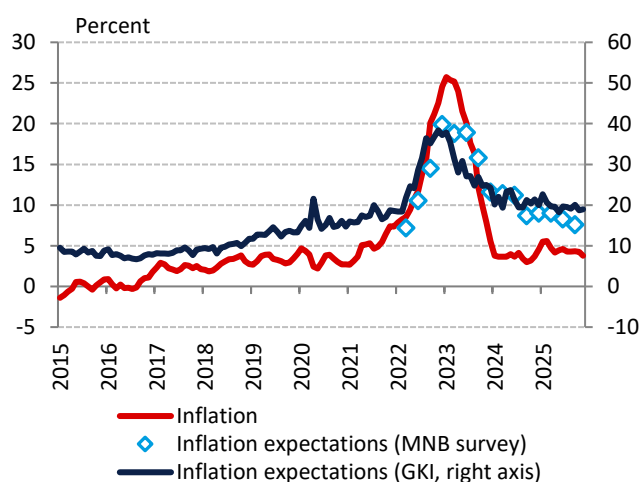
Chart 3-27: Monthly price change of market services



Source: HCSO, MNB

Household inflation expectations remain at a higher level than during the period when the inflation target was achieved (Chart 3-28). The inflation expectations of groups closely monitored from a monetary policy perspective, namely active earners and entrepreneurs, increased between October and November. With regard to short-term corporate price expectations, expectations for retail trade prices rose slightly, while expectations for services prices moderated. Both indicators remained at subdued levels in November.

Chart 3-28: Household inflation expectations



Source: HCSO, European Commission, GKI, MNB calculation

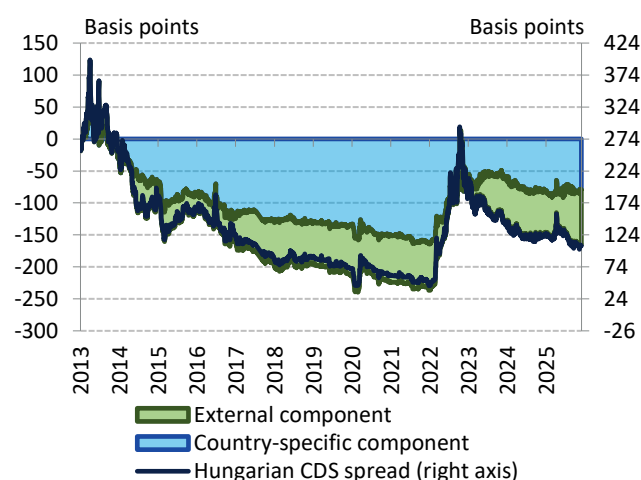


## 4. Financial markets and interest rates

### 4.1. Domestic financial market developments

Overall, sentiment on the financial and capital markets deteriorated moderately in the past quarter. The Sino–US trade war escalated again but then stabilised thanks to an agreement on rare-earth metal exports. The prolonged US government shutdown and expectations of US interest rate cuts had a negative impact on investor sentiment. Asset price developments were typically driven by expectations of central banks in developed markets and by central bank decision-makers' statements. The forint appreciated over the period, gaining 1.5 percent against the euro and 0.8 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

#### 4.1.1. Risk assessment of Hungary

**Hungary's credit risk spread increased over the period.** Mainly due to domestic factors, the spread rose to 107 basis points (Chart 4-1).

#### 4.1.2. Currency market trends

**Overall, the forint appreciated by 1.5 percent against the euro during the period.** In the region, the Czech crown remained unchanged, the Polish zloty strengthened by 0.6 percent, and the Romanian leu depreciated by 0.3 percent against the euro (Chart 4-2). The development in regional currencies is driven by international developments, macroeconomic data and stable investor confidence. The forint appreciated by 0.8 percent against the US dollar, while the Polish zloty depreciated by 0.3 percent and the Czech crown by 0.9 percent, and the Romanian leu weakened by 1.1 percent.

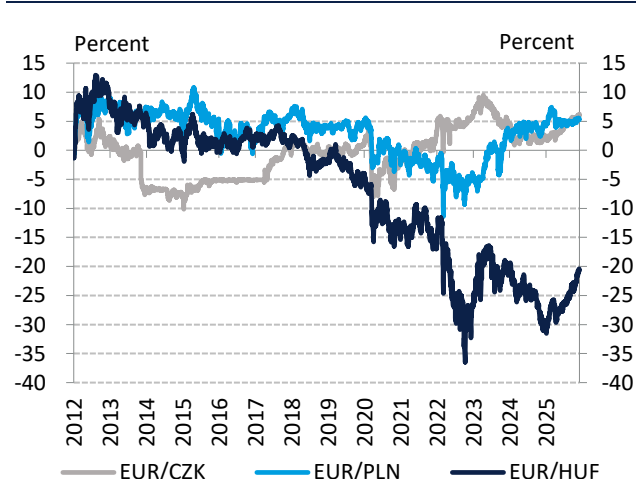
#### 4.1.3. Government securities market and yields

**Non-residents' holdings of government securities increased during the past quarter** (Chart 4-3). Non-residents' holdings of forint government securities grew by HUF 761 billion to HUF 7,414 billion during the examined period. Their share in forint government securities increased moderately during the past quarter, rising to about 20.4 percent.

**During the past period, the Government Debt Management Agency (GDMA) accepted bids in larger quantities than announced at government bond auctions, as demand rose compared to the previous quarter and was approximately four times the quantity offered.** In the past quarter, Discount Treasury Bill and bond auctions yields typically rose. In the case of the 3-month Discount Treasury Bill auction, average yields rose by 9 basis points, while in the case of the 10-year bond auction, they rose by 8 basis points.

**Yields on the short end of the government bond market yield curve rose, while yields fell in the middle and rose**

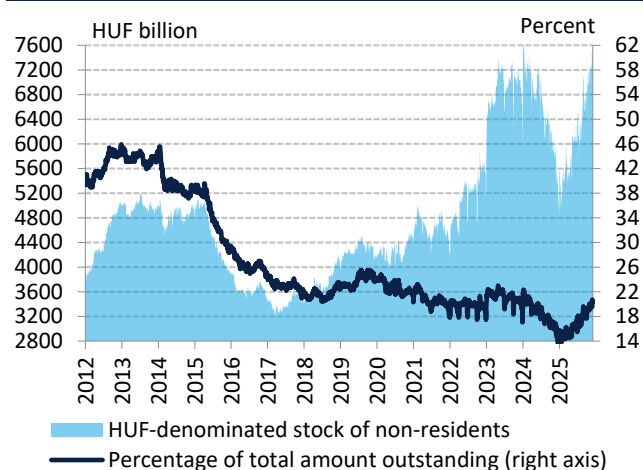
Chart 4-2: Exchange rates in the region



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

Source: Bloomberg

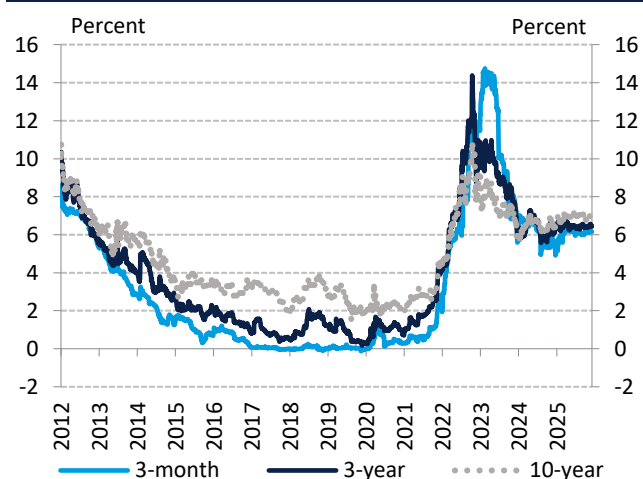
**Chart 4-3: HUF-denominated government securities held by non-residents**



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

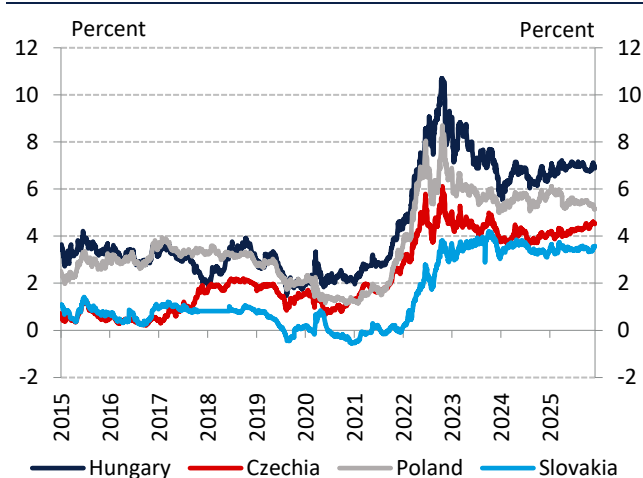
Source: MNB

**Chart 4-4: Yields of benchmark government securities**



Source: Government Debt Management Agency (GDMA)

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



Source: Bloomberg

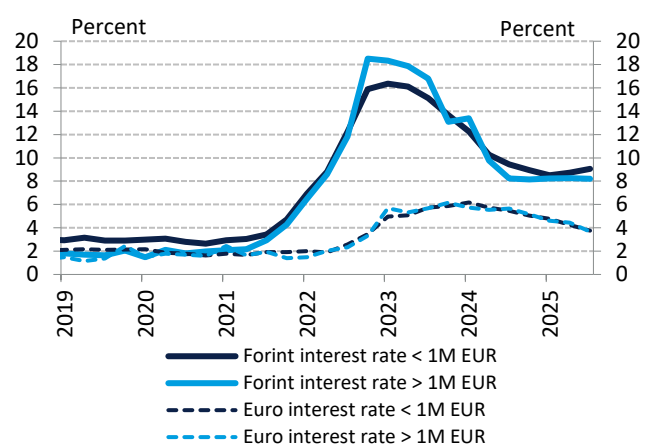
minimally in the long end (Chart 4-4). Overall, the 5-year yield fell by 17 basis points, while the 10-year yield rose by 1 basis point. Among interbank yields, the 3-month BUBOR remains unchanged at 6.5 percent.

**Changes in long-term reference yields in the CEE region showed a varied picture during the past quarter (Chart 4-5).** 10-year Polish yields fell by 36 basis points and Romanian yields by 39 basis points, while Czech yields rose by 11 basis points and Slovak yields by 8 basis points.

## 4.2. Credit conditions of the financial intermediary system

In view of banks' liquidity and capital position, the lending capacity of the banking sector remains at a high level. The MNB's Lending Survey found that banks had essentially not changed corporate lending conditions and did not intend to modify such in 2025 Q4 and 2026 Q1. In the third quarter, about one-third of banks experienced weaker demand for corporate loans, but looking ahead, more than one-tenth of banks expect demand to pick up due to rising financing needs for inventories and receivables, and the reduction in interest rates under the Széchenyi Card Programme at the beginning of October. In 2025 Q3, interest rates on corporate euro loans continued to fall, while interest rates on forint loans remained unchanged. In the third quarter, banks left their lending conditions unchanged for housing loans, while one-fifth of them eased their lending conditions for consumer loans. In the case of housing loans, banks expect the upturn in demand seen in the third quarter to strengthen further thanks to the Home Start programme, and they also anticipate a continued upturn in demand for consumer loans. The average total credit cost of housing loans, including state subsidies, rose slightly, while the average initial interest rate payable by clients fell due to the launch of the Home Start programme. In the case of personal loans, the average credit cost decreased during the quarter.

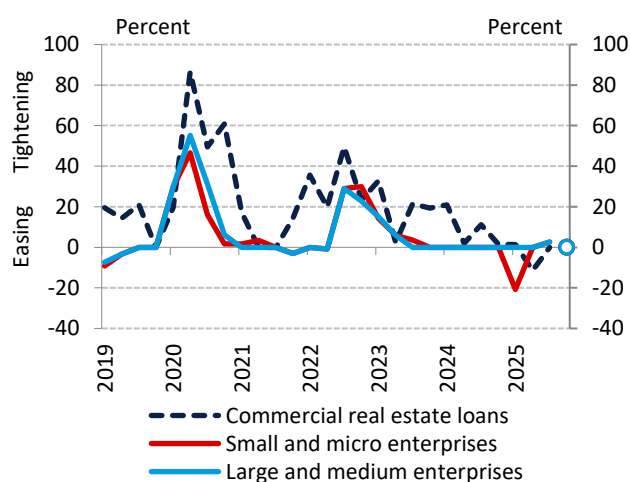
Chart 4-6: Interest rates on new corporate loans



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 4-7: 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.

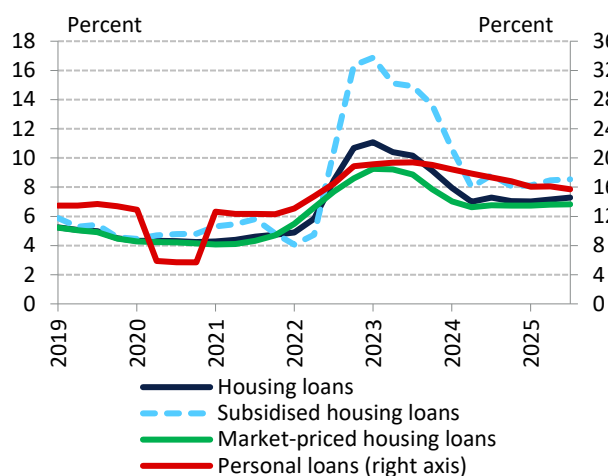
Source: MNB, based on banks' responses

### 4.2.1. Corporate credit conditions

**In 2025 Q3, the average interest rate on corporate euro loans continued to fall, while interest rates on forint loans remained unchanged.** Compared to the previous quarter, net of money market transactions, the average interest rate on newly contracted, predominantly market-based corporate forint 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 decreased by 0.1 percentage point in the case of large-amount loans. The average interest rate on corporate forint loans contracted during the entire third quarter remained unchanged at 8.3 percent (Chart 4-6). The level of interest rates on low-amount and large-amount euro loans decreased by 0.5 percentage point and 0.8 percentage point, respectively, during the quarter. Consequently, in the third quarter, the average financing cost of corporate euro loans fell by 0.8 percentage point to 3.7 percent compared to 2025 Q2.

**In 2025 Q3, banks experienced a decline in demand for corporate loans while credit conditions remained essentially unchanged.** During the quarter, most banks did not change their terms and conditions in any of the company size categories, and looking ahead to 2025 Q4 and 2026 Q1, none of the banks plans to change their lending terms and conditions. In view of banks' liquidity and capital position, the lending capacity of the banking system continues to be at a high level. Banks did not change the terms and conditions of commercial real estate loans overall in the third quarter, but 11 percent of respondents tightened their standards for office buildings. In 2025 Q4 and 2026 Q1, 27 percent of respondents would tighten credit conditions for office buildings alone due to challenges affecting the industry (Chart 4-7). A net 31 percent of the banks surveyed reported a decline in demand for corporate loans in 2025 Q3. The decline was

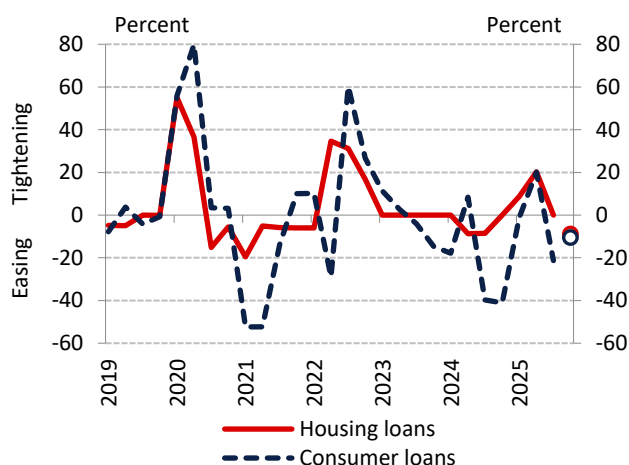
**Chart 4-8: Annual percentage rate of charge on new household loans**



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 4-9: 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

general in a breakdown by currencies, as well as in terms of maturity and company size, which the banks explained by the restrained investment intentions of businesses. Looking ahead to the next six months, 12 percent of banks expect corporate credit demand to pick up overall due to rising financing needs for inventories and receivables and the reduction in interest rates under the Széchenyi Card Programme at the beginning of October.

#### 4.2.2. Household credit conditions

**The average cost of housing loans rose slightly during the quarter.** The average APR of housing loan contracts concluded in 2025 Q3 was 7.3 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, representing stagnation in the former case and a 0.1-percentage point increase in the latter compared to the second quarter (Chart 4-8). By contrast, the average initial interest rate payable by clients decreased in the third quarter due to the launch of the Home Start programme. The average APR for personal loans fell by 0.4 percentage point compared to the second quarter, reaching 15.7 percent in the quarter under review.

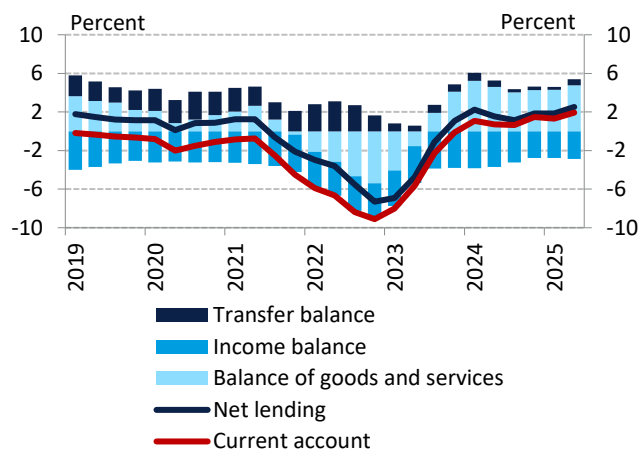
**In 2025 Q3, banks did not change the terms and conditions of household housing loans, but reported rising credit demand.** Lending standards for housing loans remained unchanged, while one-fifth of respondent banks reported an easing of credit conditions for consumer loans during the quarter (Chart 4-9). In the next six months, 9 percent of banks are expected to ease their standards for housing loans in order to respond to developments in the housing market and the economic outlook, as well as due to intensifying market competition and to increase market share related to the launch of the Home Start programme. In the case of consumer loans, 11 percent may ease lending conditions by further reducing spreads and relaxing creditworthiness standards in the next six months. In the third quarter of the year, 60 percent of banks observed an increase in demand for housing loans and, looking forward, a net 66 percent of them expect continued growth in demand as a result of the Home Start loan programme. In the consumer segment, a net 38 percent of the institutions surveyed reported a further upturn in demand, with a net 88 percent reporting a pick-up in vehicle financing. Looking ahead to 2025 Q4 and 2026 Q1, 19 percent of banks expect demand for consumer loans to continue to grow.

## 5. Balance position of the economy

### 5.1. External balance and financing

The current account surplus continued to rise in 2025 Q2. The improvement in the net lending position was mainly due to the trade balance, while the transfer balance contributed only to a lesser extent, owing to subdued EU fund inflows. On the financing side, net external debt rose in line with the seasonally typical outflows of net foreign direct investment (FDI). In 2025 Q2, gross external debt accounted for 64 percent of GDP, while the net ratio stood at around 11 percent. Based on preliminary monthly data, the current account surplus rose moderately further in the third quarter, accompanied by significant net FDI inflows.

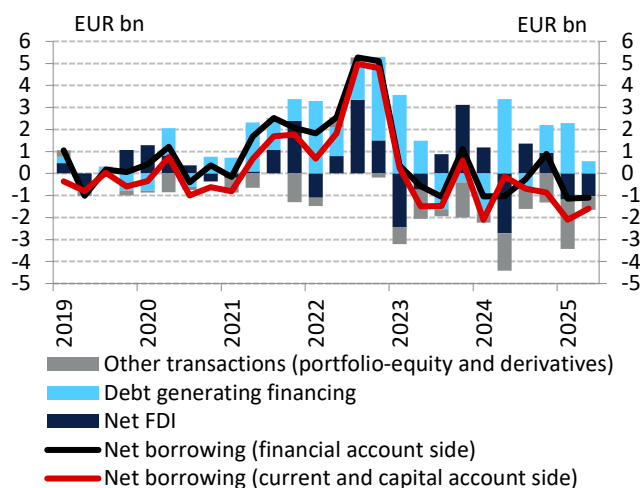
Chart 5-1: Changes in net lending and its components



Note: Cumulated four-quarter values, as a percentage of GDP.

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

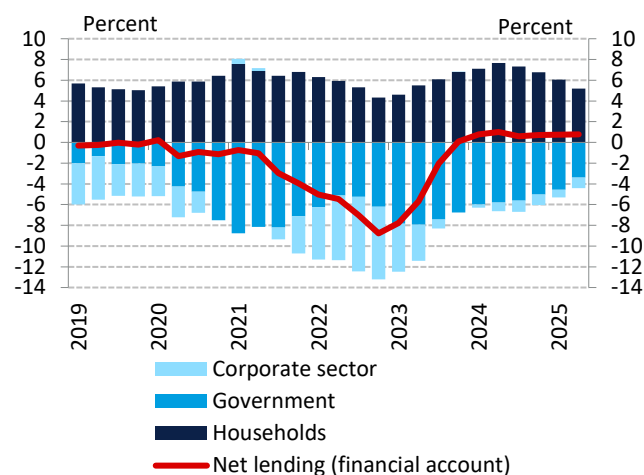
**In 2025 Q2, the current account balance increased** (Chart 5-1). The four-quarter current account balance as a percentage of GDP increased to 1.9 percent, in line with the moderate growth in domestic absorption. The positive change was mainly due to the increase in the trade balance, and within that, to the other goods balance and the services balance. Export and import volumes showed a similarly moderate decline on an annual basis, but the terms of trade improved during the quarter as a result of higher export prices. The transfer balance increased in connection with the rise in EU funds absorption, but the latter remained at a low level. In the second quarter, the income balance deficit as a percentage of GDP rose moderately. Based on preliminary monthly data, the external position continued to improve in the third quarter, mainly due to a further improvement in the trade balance, particularly the energy balance.

#### 5.1.2. Financing developments

**An outflow of non-debt-type funds and an increase in debt-type funds resulted in a net lending position in 2025 Q2** (Chart 5-2). The seasonally typical decline in net FDI is mainly explained by the approved dividends of FDI present in Hungary. Within portfolio investments, purchases abroad by resident investors of shares and investment fund shares were partly offset by purchases in Hungary by non-residents. The net inflow of external debt liabilities was linked to companies. In 2025 Q3, preliminary monthly data show a significant net inflow of FDI, while there was an outflow of debt liabilities and portfolio investments.

**In 2025 Q2, the impact of declining private sector net financial savings was offset by a reduction in the general government deficit** (Chart 5-3). The government's net borrowing declined due to higher tax revenues as a percentage of GDP and lower expenditures. Household consumption continued to grow, which had a positive impact on government tax revenues, but further reduced

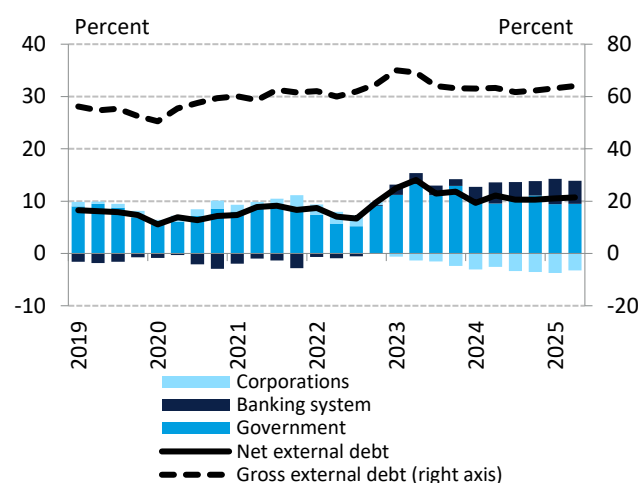
Chart 5-3: Decomposition of net lending by sectors



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

Source: MNB

Chart 5-4: Debt ratios in proportion to GDP



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

Source: MNB

the net financial savings of households, in conjunction with slower real income growth than before. The net borrowing of the corporate sector increased moderately, explained primarily by a further decline in operating profits amidst subdued exports, while investment continued to fall. According to preliminary data, the net financial savings of households continued to decline in 2025 Q3, while the government's net borrowing increased.

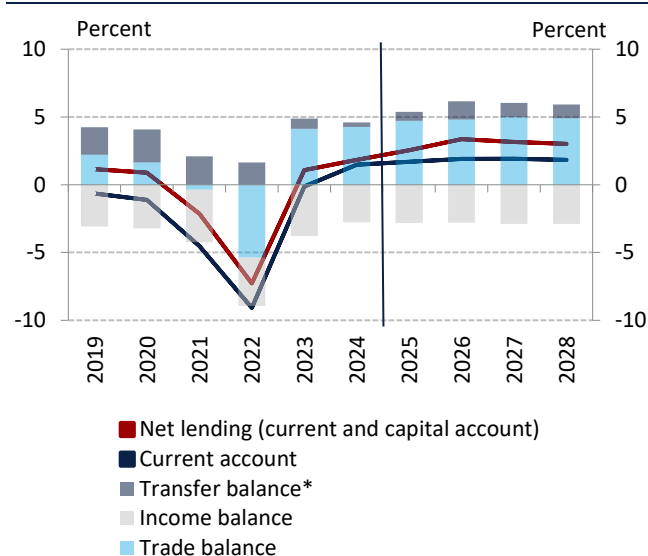
**In 2025 Q2, the economy's net external debt stood at around 11 percent of GDP (Chart 5-4).** During the quarter, net external debt rose moderately, mainly due to a decline in the corporate sector's positive net receivable position. The external debt of the general government consolidated with the MNB also rose moderately, while net external debt of the banking sector declined. In the second quarter, the impact of transactions increasing net external debt was partially offset by the effect of nominal GDP growth. Meanwhile, the country's gross external debt increased to 64 percent of GDP in connection with the government's significant foreign currency bond issue in June.



## 5.2. Forecast for Hungary's net lending position

The current account surplus will continue to rise moderately in 2025 and remain at a stable, high level over the forecast horizon. In 2025, the foreign trade surplus will increase as a result of favourable terms of trade changes, and then from 2026 onwards, it will continue to expand moderately as the energy balance improves and export growth gradually returns, while the income balance deficit will also rise moderately as corporate profits increase. Based on the financing positions of the sectors, the favourable external net lending position continues to be ensured by high financial savings in the private sector, while the general government deficit will remain persistently high.

Chart 5-5: Evolution of net lending



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

Source: MNB

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

	2024	2025	2026	2027	2028
Balance of goods	-0.6	-0.3	-0.2	-0.1	-0.2
Balance of energy	-3.5	-3.1	-2.8	-2.7	-2.7
Balance of other good	2.9	2.8	2.6	2.6	2.5
Balance of services	4.9	5.0	5.0	5.1	5.1
<b>Trade balance</b>	<b>4.3</b>	<b>4.7</b>	<b>4.8</b>	<b>5.0</b>	<b>4.9</b>

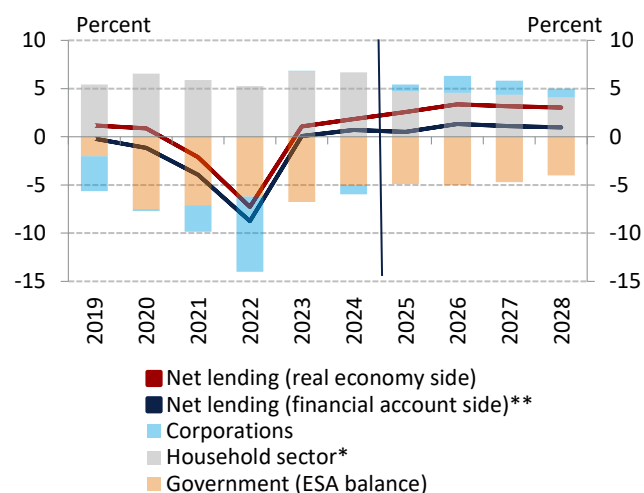
Source: HCSO, MNB

Following an increase this year, the current account surplus will remain stable and high from 2026 onwards (Chart 5-5). The current account balance will continue to rise in 2025 and then remain at a stable, high level over the forecast horizon. After rising in 2025 due to favourable terms of trade changes, the foreign trade surplus will continue to increase moderately in the coming years. The negative impact of improving corporate operating profit on the income balance, alongside recovering exports, will be offset only partially by a decline in interest expenditures, meaning that the income balance deficit will increase slightly over the forecast horizon. The current account surplus is projected at around 2 percent of GDP over the entire forecast horizon, which – combined with higher EU funds absorption than in 2024–2025 – will result in a significant net lending position.

**The foreign trade surplus will expand significantly in 2025 and then rise moderately from 2026 onwards.** The energy balance deficit will decrease substantially this year and next, supported by energy price developments, and will then stabilise at a low level. In 2025, the balance of other goods remains stable amid lower investments and sluggish exports. In 2026, the upturn in consumption and investment will raise imports, while an improving external environment and capacity utilisation will be accompanied by increasing export growth. Exports and imports will expand at a similar pace from 2027 onwards, leaving the level of the other goods balance broadly unchanged. The surplus on the services balance may gradually rise to above 5 percent of GDP over the forecast period, linked to the recovery in tourism (Table 5-1).

**Based on the sectors' financing positions, the slow reduction in the budget deficit of around 5 percent will be accompanied by high net financial savings of the private sector** (Chart 5-7). According to our forecast, based on the announced budgetary measures, the new deficit targets and the MNB's macroeconomic path, the budget deficit may essentially stagnate in both 2025 and 2026, and the previously expected deficit reduction may only begin in 2027. Households' net financial savings will decline this year, in conjunction with consumption growth, slower real wage growth than in previous years and lower employment

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

and will then moderate somewhat further from 2026 as consumption expands. With low investment, rising corporate income and higher EU funds absorption, the corporate sector's net lending position will increase moderately until 2026 and then decrease in the second half of the forecast horizon.



### 5.3. Fiscal developments

The budget deficit-to-GDP ratio may be in the range of 4.7–5.0 percent in 2025 and 4.7–5.2 percent in 2026, 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, then to 4.3 percent, and then in November 2025, the government's deficit target increased to 5.0 percent, and the 2026 target also rose to 5.0 percent of GDP. In addition to the announced measures and the increased deficit target, lower-than-expected economic growth is also contributing to a deficit path at a higher level than before. From 2027 onwards, public debt may embark on a downward path and fall to around 72 percent of GDP by the end of the horizon.

**Table 5-2: General government balance indicators**

	2024	2025	2026	2027	2028
ESA balance	-5.0	(-5.0) – (-4.7)	(-5.2) – (-4.7)	(-4.9) – (-4.4)	(-4.2) – (-3.7)
Primary ESA balance (point estimate)	-0.1	-0.8	-1.1	-1.2	-0.8
Gross interest expenditures	4.9	4.1	3.9	3.5	3.2

Note: As a percent of GDP. The time series of the primary ESA balance (point estimate) are consistent with the midpoint of the ESA balance forecast bands.

Source: HCSO, MNB

#### 5.3.1. Main balance indicators

**Based on the measures announced by the government in November 2025 and the related deficit targets, the deficit may stagnate this year and next year. According to our forecast, the accrual deficit-to-GDP ratio of the general government may be 4.7–5.0 percent in 2025 and 4.7–5.2 percent in 2026, while the deficit may amount to 4.4–4.9 percent in 2027 and 3.7–4.2 percent in 2028 (Table 5-2).**

The decline in interest expenditures will be offset by the measures announced in November 2025 and the budgetary impacts of macroeconomic developments, meaning that the previously expected reduction in the deficit may be postponed until the second half of the forecast horizon. According to our forecast, the deficit may stagnate until 2026, despite the decline in gross government interest expenditures; therefore, the primary balance may hover around -1 percent over the forecast horizon (Chart 5-7).

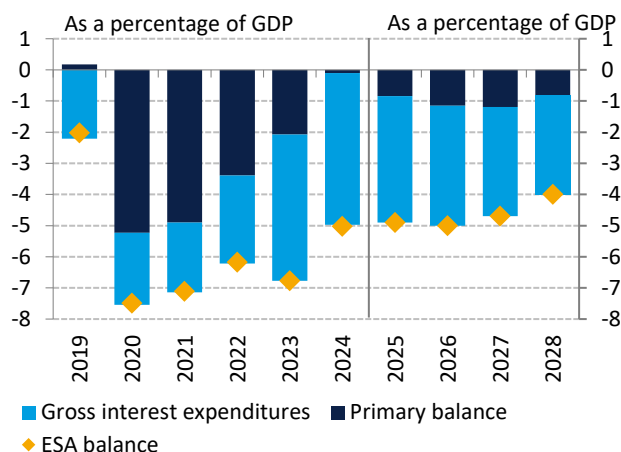
Compared to our September forecast, the most significant of the newly announced government measures are wage increases in the cultural and social sectors, the one weekly payment of the 14<sup>th</sup> month pension, the 11-point action plan for SMEs, the increase in the extra profit tax on banks, the introduction of an advertising tax and the freezing of general reserves.

#### 5.3.2. Budget balance for 2025

**According to our forecast, the budget deficit may be between 4.7 and 5.0 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, then to 4.3 percent, and then in November 2025, the government's deficit forecast increased to 5.0 percent.

**Based on the general government data from the preliminary financial accounts released by the MNB, the Q3 accrual-based budget deficit amounted to 4.5 percent of quarterly GDP (Chart 5-8).** The budget cash flow deficit at the end of November stood at HUF 4,070 billion, which is 99 percent of the HUF 4,123 billion cash flow target set out in the statutory appropriation, while it corresponds to 81

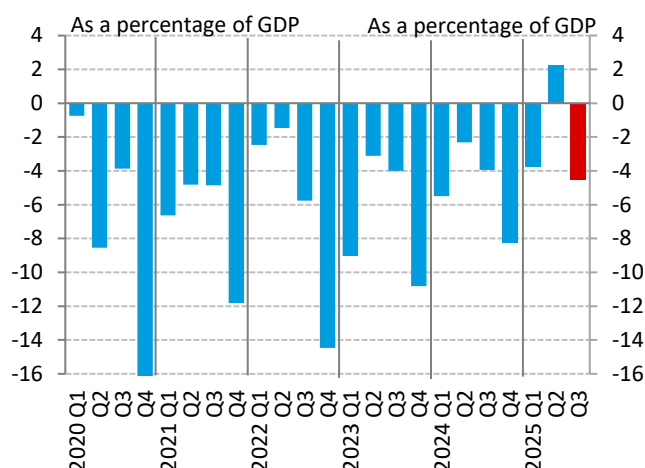
**Chart 5-7: Changes in the fiscal balance and government interest expenditures**



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

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



Note: The 2025 Q3 data shows the net lending capacity of general government as reported in the preliminary financial accounts published by the MNB.

Source: HCSO, MNB

**Chart 5-9: Primary balance in an EU comparison in 2025**

percent of the HUF 5,055 billion government cash flow deficit forecast included in the government's expectations.

**Several budgetary measures were launched in the fall of 2025.** Pensioners and other recipients of pension-type benefits received a one-time food voucher worth HUF 30,000. Salaries for local public administration employees rose by 15 percent on 1 September 2025. On 1 September 2025, the Home Start Programme was introduced, under which a loan of HUF 50 million can be taken out at a fixed interest rate of 3 percent. From October 2025, mothers raising three children became exempt from personal income tax on their earned income for life.

Hungary's primary deficit may be below the regional and EU averages and may be one of the most favourable in the region in 2025. In Hungary, the primary deficit as a percentage of GDP is expected to be around 1 percent in 2025 and 2026, which is approximately 1 percentage point better than the regional average of 2.1 percent (Chart 5-9).

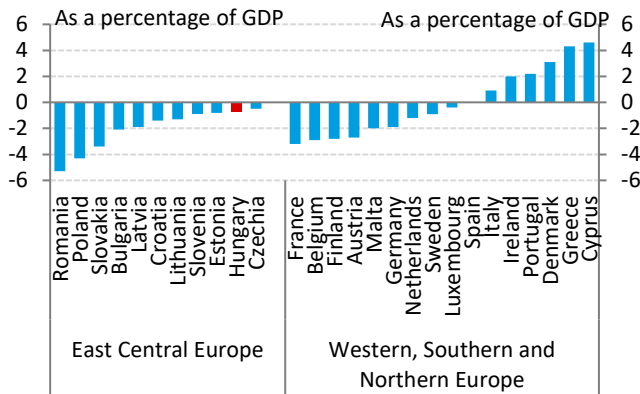
### 5.3.3. Budget balance for 2026

**According to our forecast, the accrual deficit may remain between 4.7 and 5.2 percent of GDP in 2026.** In November, the Ministry for National Economy announced new budgetary measures for 2026, which resulted in an increase in both the deficit target and our forecast. The government's deficit target for next year was revised from 2.9 percent to 3.7 percent, then to 4.0 percent, and finally rose to 5.0 percent of GDP in November 2025.

**Among the measures announced, the most significant on the expenditure side are the introduction of the 14<sup>th</sup> month pension, wage increases in the cultural and social sectors, and an 11-point action plan to support SMEs.** According to our estimates, the total budgetary impact of these measures will amount to 0.4 percent of GDP in 2026. The higher expenditures are partially offset by an increase in the banks' extra profit tax and the freezing of general reserves.

**Following the payment of food vouchers to pensioners in 2025, the 14<sup>th</sup> month pension will be introduced gradually starting in 2026.** In 2026, a one weekly amount the 14<sup>th</sup> month pension will be paid to a wide range of pensioners. Based on the announcements made in November, the benefit amount must reach the total amount for one month by 2030. The government's inflation forecast is 3.6 percent for 2026, which means that pensions will increase by this amount in January.

**In November, the government announced measures aimed at reducing corporate tax and administrative**



Note: In the case of Hungary, the middle of the MNB forecast range is used, while for the other countries, the European Commission's expectations are used.

Source: MNB, Ameco

**burdens, which could increase the budget deficit by 0.1 percent of GDP.** The package of measures contains eleven rule changes, four of which are tax reductions specifically for the SME sector, and four of which are general tax changes that affect the SME sector, in addition to having a broader impact. The remaining three measures are aimed at reducing administrative costs for small and medium-sized enterprises.

**The government has set the fiscal space provided by the Economic Development Framework at HUF 860 billion in 2026.** The Defence Reserve included in the 2026 budget reserves was renamed the Economic Development Framework in July. The framework creates an opportunity for the additional resources available due to the enforcement of the national exemption clause to be spent on purposes not included in the budget law. The use of the Economic Development Framework must not jeopardise the reduction of public debt and compliance with the EU net expenditure rule.

#### 5.3.4. Budget balance for 2027 and 2028

**Our technical forecast projects a deficit of 4.4–4.9 percent for 2027 and 3.7–4.2 percent for 2028.** By the end of the horizon, the deficit may return to a downward trajectory as interest expenditures gradually declines and economic growth accelerates.

#### 5.3.5. Risks surrounding the baseline scenario

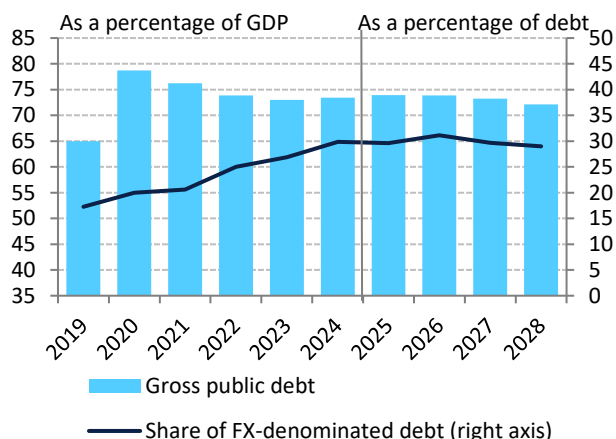
**The restriction of Hungary's access to EU funds poses a growing risk from the aspect of fiscal developments.** Hungary still cannot access the envelope of the Recovery and Resilience Facility (RRF), where payment requests can only be submitted for milestones achieved by the end of August 2026, according to the current regulations.

#### 5.3.6. Expected trends in public debt

**According to preliminary data, gross public debt as a percentage of GDP amounted to 75.1 percent at the end of 2025 Q3.** The debt ratio rose by 1.6 percentage points from its level at the end of 2024, while it fell by 1.1 percentage points from its level at the end of 2025 Q2. Compared to the Q3 figure, the decline in the debt ratio is supported by the revaluation of foreign currency debt and the fact that net issuance may be low in the fourth quarter of this year.

**The efforts to reduce government debt in 2025 and 2026 are substantially impeded by the high cash flow deficit and subdued economic growth, while financial market stability will support debt reduction.** The change in the EUR/HUF exchange rate affects the debt ratio through the

Chart 5-10: Gross public debt forecast



Source: MNB, GDMA

revaluation of foreign currency debt, and accordingly a change of 10 forints in the EUR/HUF exchange rate modifies the public debt-to-GDP ratio by approximately 0.6 percentage point. Our forecast assumes the average exchange rate between December 1 and December 11 approaching the end of the year. From 2027 onwards, the gradual reduction of the deficit and the acceleration of economic growth may bring the debt-to-GDP ratio down to around 72 percent by the end of the forecast horizon (Chart 5-10).

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## **INFLATION REPORT**

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