INFLATION REPORT

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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, Strategy 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 19 March 2026.

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

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

Moderate global growth is accompanied by the risk of further escalation of geopolitical tensions.

The European Union's GDP grew by 1.4 percent year-on-year in 2025 Q4. In the United States, GDP rose by 2.0 percent. The economic performance of Germany, Hungary's most important foreign trade partner, grew by 0.4 percent. Economic forecasts are subject to greater uncertainty due to the war in the Middle East and volatile international trade policy conditions.

The global economy was characterised by moderate disinflation at the start of 2026, but the surge in energy prices is significantly increasing uncertainty regarding the global inflation outlook.

Inflation in the euro area stood at 1.7 percent in January and 1.9 percent in February. Inflation rates across EU Member States varied in a wide range of 8 percentage points. In nearly two-thirds of OECD member countries that have already published data, inflation rates were close to or below the central bank's target. In the United States, consumer prices rose by 2.4 percent year-on-year. Among the countries in the region, the harmonised consumer price index fell in the Czech Republic (1.0 percent), Slovakia (4.0 percent) and Romania (8.3 percent), while it remained unchanged in Poland (2.5 percent) in February. The surge in energy prices, coupled with increased risk aversion, is significantly raising global inflation risks.

The European Central Bank (ECB) did not change its policy interest rate, and the Federal Reserve (Fed) also kept its target range for the policy rate unchanged over the past quarter.

In 2026 Q1, the ECB kept its policy deposit rate at 2.0 percent. According to the central bank, the war in the Middle East has significantly increased uncertainty regarding the outlook, creating upside risks to inflation and downside risks to growth. The ECB makes monetary policy decisions on a meeting-by-meeting basis, based on incoming data, and does not commit to a specific interest rate path.

In the first quarter, the Fed also left the target range for the policy rate unchanged at 3.50–3.75 percent. According to the central bank's communication, higher energy prices are pushing up inflation, but it is still too early to determine the extent and duration of the potential impact on the economy. Both central banks have revised their inflation forecasts for this year upwards.

In the region, the Polish central bank cut its policy rate by 25 basis points to 3.75 percent at its March monetary policy meeting. The Czech and Romanian central banks have not changed their policy rates of 3.5 and 6.5 percent, respectively, in recent months.

Following a calmer period, international investor sentiment has been clearly driven by geopolitical conflicts since the end of February.

Investor sentiment remained largely calm during the period, but the outbreak of the war in Iran led to significant volatility in asset prices. The dollar generally weakened until the end of January, but after that, its role as a safe-haven asset subsequently strengthened: it appreciated significantly, first due to rising geopolitical tensions and then following the outbreak of the conflict in Iran. Overall, the dollar strengthened against the euro during the period.

The world market price of oil rose significantly. The escalating risks surrounding the Iranian conflict caused oil prices to rise weeks before the outbreak of the war. In the first few days of March, the price of Brent crude oil temporarily approached USD 120 per barrel. In January, the colder-than-average weather led to a significant spike in European gas prices, and then supply disruptions caused by the war in Iran increased prices further. As a result, from the eruption of the war until the

completion of the Inflation Report, gas prices grew by more than 90 percent, to their highest level in the past year, before decreasing from 62 to 55 EUR/MWh. Gold and silver prices increased to historic highs at the end of January. At the time of the completion of the Inflation Report, gold and silver stood at USD 4650 and USD 73, respectively, following a 15 percent correction in gold and a 40 percent correction in silver prices. As a consequence of a further decrease after the data cut-off, the prices of the two precious metals are close to their mid-December level.

The forint weakened overall against the euro during the quarter, amid significant volatility, while domestic government bond yields rose.

Among regional currencies, the Polish zloty weakened by 1.5 percent, the Czech koruna by 0.4 percent and the Romanian leu by 0.1 percent during the period. The forint strengthened by around 3 percent against the euro until the outbreak of the war in Iran, a trend supported by domestic monetary policy, which was still viewed as tight. Following the outbreak of the war, however, the domestic currency depreciated to a greater extent than other regional currencies. The inter-year segment of the Hungarian government bond yield curve rose by an average of 30 basis points, while yields on the medium and longer-term segments increased by 30–60 basis points. Demand at government bond auctions was typically strong, and in the vast majority of cases, the GDMA accepted bids in excess of the announced volume. During the quarter, the GDMA issued foreign currency bonds worth EUR 3 billion and USD 1.2 billion.

Inflation fell to 1.4 percent in February as a result of favourable repricing at the start of the year. The pace of price increases will rise above the tolerance band from 2026 Q3 due to the impact of the Iranian conflict on energy prices, before returning to the Bank's target in a sustained manner in 2027 H2.

In February, inflation fell to 1.4 percent and core inflation to 2.1 percent. The fact that January and February repricings were at one of the lowest levels observed in past decades played a significant role in the decline of the pace of price increases, which was supported by the decrease in global food prices and the stronger forint's disinflationary effect. With the exception of industrial goods, all product groups in the consumer basket were characterised by modest repricing. Over the past six months, corporate price expectations have generally indicated moderate trends, while household inflation expectations have fallen.

Favourable repricings at the start of the year and energy prices surging as a result of the Iranian conflict, have an opposing effect on inflation. The extension of price margins restrictions until the end of May results in prices increasing at a slower rate this year, while increasing at a higher rate in 2027 compared to the December forecast. From March onwards, price dynamics will rise as a result of the pass-through of the higher energy prices. However, this will be temporarily mitigated by the impact of the price caps on fuels introduced in March. Based on stock market futures prices, oil and gas prices may normalise by mid-2027, causing domestic inflation to return to the central bank target in a sustained manner in 2027 H2. On average annually, inflation will be 3.8 percent in 2026 and 3.7 percent in 2027.

In 2025 Q4, the annual growth rate of the domestic economy accelerated moderately. The economy will continue to strengthen this year, although the geopolitical events of recent weeks are slowing the pick-up in growth.

In 2025 Q4, Hungary's GDP rose by 0.8 percent, while last year saw overall annual growth of 0.4 percent. Hungary's real economy is still characterised by duality. GDP growth is primarily supported by an expansion in household consumption, while investments and net exports hold it back. Tightness in the labour market has eased, but the unemployment rate has remained low in a historical comparison. The growth of gross average earnings moderated in 2025 compared to the previous year.

Similarly to the previous year, the main driver of growth is expected to be household consumption in 2026. Due to rising real wages and the government's income-increasing measures for households, consumption will expand over the entire forecast horizon. Surging energy prices slow down the growth of Hungary's export markets as well. However, the capacity-increasing investment projects of recent years help the expansion of industrial exports. Hungarian GDP may rise by 1.7 percent in 2026, 3.0 percent in 2027 and 2.9 percent in 2028.

Both household and corporate loan portfolios expanded significantly by the end of 2025.

The household loans outstanding of the total financial intermediary system grew by 13.3 percent in 2025. The value of new loans contracted by credit institutions during the fourth quarter rose by 81 percent compared to the same period of the

previous year, reaching a historic high. Within this, the disbursement of housing loans more than doubled as a result of the Home Start loan programme, which has been available since September 2025. According to the MNB's projections, the programme will cause the household loans outstanding of the total financial intermediary system to rise by 20 percent in 2026, after which the annual growth rate will gradually moderate in 2027 and 2028 but remain above 10 percent.

The total corporate loan portfolio grew by 7.5 percent in 2025, with one-off large-value transactions in the fourth quarter playing a significant role. The annual growth rate of the SME loan portfolio, which better reflects the underlying trends in the corporate sector, stood at 6.2 percent at the end of December, which also indicates an upturn. Banks have ample lending capacity, and no general supply constraints can be identified. Based on banks' responses to the MNB's Lending Survey, the upturn in corporate loan demand seen in 2025 Q4 is likely to continue in 2026 H1, primarily in the markets for forint-denominated and short-term loans. No turnaround is expected in demand for long-term investment loans. According to the MNB's forecast, the corporate loan portfolio of the total financial intermediary system will rise by 5 percent annually between 2026 and 2028.

The current account balance fell to 1.3 percent of GDP in 2025, and following a temporary decline this year, it will show a surplus again.

Based on preliminary monthly data, the current account surplus narrowed moderately to 1.3 percent of GDP in 2025, primarily due to subdued export growth. By contrast, the favourable change in the terms of trade had the opposite effect during the year. In 2026, rising energy prices and expanding imports driven by a revival in domestic demand will worsen the trade balance. At the same time, improving capacity utilisation from the second half of the year will lead to growth in exports. As a result of these two effects, the net lending position will deteriorate in 2026 and temporarily turn into a moderate deficit. At the end of the forecast horizon – largely due to the gradual improvement in the trade balance –, the current account surplus will stand at around 1 percent of GDP.

The budget balance for 2025 was better than the 5 percent of GDP target.

Based on preliminary financial accounts data, the accrual-based general government deficit amounted to 4.7 percent of GDP in 2025, which was on the low side of the 4.7–5.0 percent range projected in the December 2025 Inflation Report. According to the MNB forecast, the budget deficit may rise in 2026, mainly as a result of newly announced budgetary measures, before returning to a downward trajectory starting in 2027. Based on preliminary data, gross public debt rose to 74.7 percent of GDP at the end of 2025, which was 1.2 percentage points higher than the level a year earlier. According to the MNB forecast, gross public debt as a percentage of GDP may rise further temporarily in 2026, before falling to around 74 percent by the end of 2028.

Based on the Monetary Council's assessment, the baseline scenario of the March forecast is surrounded by mostly upside risks to inflation and downside risks to growth.

The Monetary Council highlighted three alternative risk scenarios in relation to the baseline forecast in the March Inflation Report. The first scenario assumes higher risk premiums and energy prices due to prolonged geopolitical tensions: this scenario is consistent with higher inflation and lower growth paths. The second scenario assumes faster growth in consumption due to a decline in the savings rate: it is consistent with higher growth and inflation paths. The third scenario anticipates weaker domestic export due to a slower-than-expected improvement in external economic activity: this scenario is consistent with lower growth and inflation paths. In addition to the three highlighted scenarios, the Monetary Council also discussed other scenarios featuring a slower decline in inflation expectations in an uncertain environment, easing labour market tightness and lower employment, and lower risk premium and energy prices as a result of the rapid unwinding of geopolitical tensions.

SUMMARY TABLE OF THE BASELINE SCENARIO

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

	2025 Actual	2026	2027 Forecast	2028
Inflation (annual average)				
Core inflation	4.6	3.9	3.9	3.1
Core inflation excluding indirect tax effects	4.5	3.9	3.9	3.1
Inflation	4.4	3.8	3.7	3.0
Economic growth				
Household final consumption expenditure	2.9	4.1	3.0	3.1
Government final consumption expenditure[1]	2.0	1.5	0.5	0.5
Gross fixed capital formation	-2.2	2.3	3.2	2.7
Domestic absorption	1.9	3.0	2.4	2.4
Exports	0.0	1.6	5.2	4.4
Imports	2.1	3.4	4.4	3.7
GDP	0.4	1.7	3.0	2.9
Labour productivity[2]	0.0	1.9	2.9	2.8
External balance[3]				
Current account balance	1.3	-0.7	0.5	0.9
Net lending	2.1	0.7	1.7	2.1
Government balance[3]				
ESA balance	-4.7	(-5.7) - (-5.2)	(-5.2) - (-4.7)	(-4.5) - (-4.0)
Labour market				
Whole-economy gross average earnings[4]	9.0	10.9	6.6	6.9
Whole-economy employment	-0.7	-0.8	0.2	0.1
Private sector gross average earnings[4]	8.8	8.7	8.3	7.1
Private sector employment	-1.4	-1.4	0.3	0.2
Unemployment rate	4.4	4.6	4.3	3.9
Private sector real unit labour cost	2.8	2.3	0.6	-0.3
Household real income[5]	-1.1	4.6	2.6	3.5

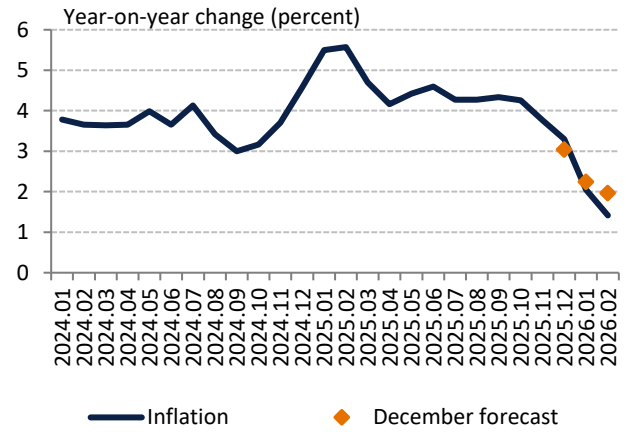
[1] Government final consumption expenditure includes final consumption expenditure of general government and nonprofit institutions.
[2] Whole economy, based on national accounts data.
[3] As a percentage of GDP.
[4] For full-time employees.
[5] MNB estimate.

1. Macroeconomic forecast

1.1. Inflation

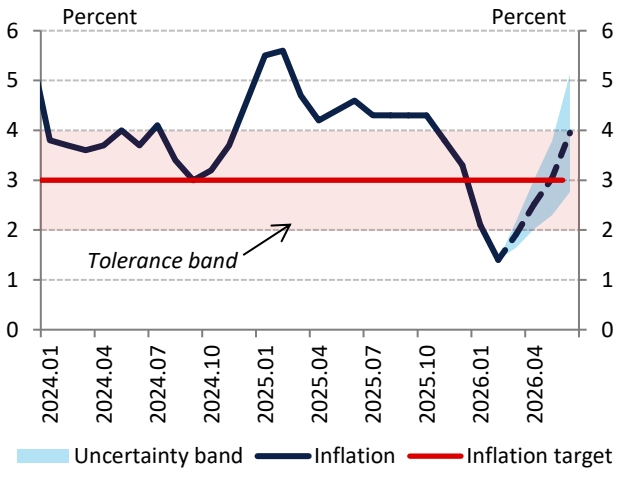
The rate of price increases decelerated to 1.4 percent in February, while core inflation fell to 2.1 percent, leaving inflation more moderate than we had previously expected. In 2026, the decline in the annual indices was accompanied by some of the smallest instances of repricing in January and February seen in recent decades. Favourable data early in the year and the sharp increases in energy prices resulting from the Iranian conflict are having contrasting effects on the future path of inflation. According to our baseline forecast, the rate of price increases will rise due to the impact of the Iranian conflict on energy prices and may exceed the tolerance band starting in 2026 Q3. This acceleration of inflation is temporarily mitigated by the impact of the price caps introduced for fuels. Based on futures prices, oil and gas prices may normalise by the middle of 2027, which might lower inflation next year. The rate of price increase may return to the MNB's 3-percent target on a sustained basis in 2027 H2. Inflation is projected to average 3.8 percent this year, 3.7 percent next year and 3.0 percent in 2028.

Chart 1-1: Inflation in Hungary



Source: HCSO, MNB

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



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

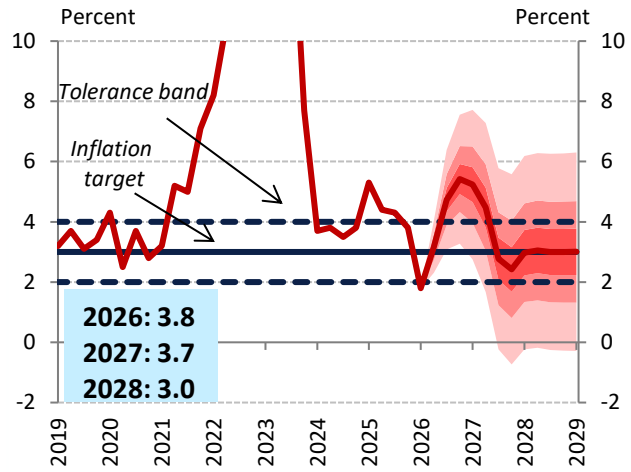
Source: HCSO, MNB

Inflation has dropped significantly since last November, falling by 2.4 percentage points, to reach 1.4 percent in February of this year. All major product groups contributed to this disinflation, with the price dynamics of food and fuel prices declining the most. Core inflation fell by a total of 2.0 percentage points, from 4.1 percent to 2.1 percent since November (Chart 1-1). Incoming February data for both the consumer price index and core inflation were more favourable than our previous expectations.

With the exception of the January price increase for industrial goods, all product groups in the consumer basket were characterised by modest repricing, supported by falling global food prices and the disinflationary effect of the stronger forint. Box 1-1 details the developments in repricing trends at the start of the year.

Inflation begins to rise in March due to the impact of the Iranian conflict on energy prices (Chart 1-2). Favourable repricing trends early in the year and the sharp increases in energy prices due to the Iranian conflict are having contrasting effects on the inflation path. The price caps introduced for fuels will temporarily mitigate the pass-through of higher oil prices into consumer prices. The timing of the phasing out of price control measures (fuel price caps, margin restrictions) and the extent of subsequent price adjustments result in uncertainty about the inflation path for this year. In accordance with the current legislation, we expect the measures to be phased out by mid-May in the case of the fuel price caps and by the end of May in the case of margin restrictions. The duration of the application of profit margin caps influences companies' pricing practices, as longer-lasting restrictions increase the pressure to adjust. We assume that a more moderate, gradual price increase can be expected after the measures are phased out compared to the technical price-

Chart 1-3: Fan chart of the inflation forecast



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

Table 1-1: Details of the inflation forecast

		2026	2027	2028
Core inflation excluding indirect tax effects		3.9	3.9	3.1
Core inflation		3.9	3.9	3.1
Non-core inflation	Unprocessed food	3.2	7.5	3.7
	Fuel and market energy	4.5	2.3	2.7
	Regulated prices	2.9	1.6	1.8
	Alcohol and tobacco	4.6	4.3	4.0
Inflation		**3.8**	**3.7**	**3.0**

Note: Percent.
Source: MNB

reducing effect measured at the time of the introduction of the margin restriction.

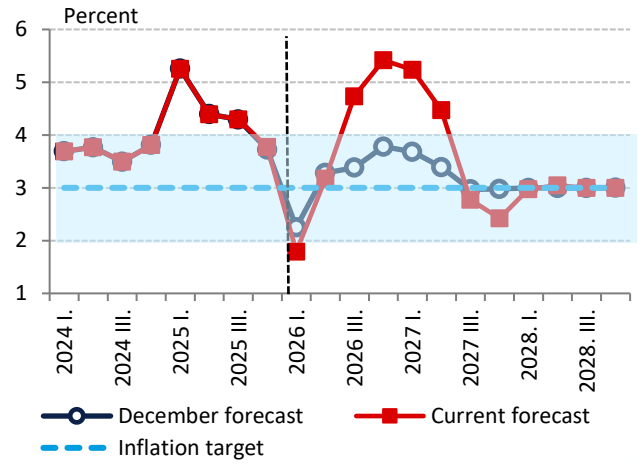
Inflation will rise above the tolerance band starting from 2026 Q3 and is expected to return to the MNB's 3-percent target on a sustainable basis in 2027 H2. Futures prices point to a gradual decline in oil prices starting in the summer, based on the assumption that the conflict eases within a few weeks. Based on futures prices, oil and gas prices may normalise by mid-2027, which, together with the base effect of this year's price increase, will support disinflation next year. **Inflation is projected to average 3.8 percent in 2026, 3.7 percent in 2027 and 3.0 percent in 2028** (Chart 1-3).

The inflation path may differ from the December projection (Chart 1-4). Due to more moderate repricing early in the year compared to previous expectations, inflation will be lower in the short term than in our December forecast. As the effects of the Iranian conflict gradually take hold, inflation will then rise to a level higher than our previous forecast starting from the middle of this year. Lower global food prices point toward more moderate inflation this year. The extension of margin restrictions will result in a lower rate of price increases this year, while in 2027, due to lower base effects, it will lead to a higher rate of price increases in comparison to our previous forecast. By contrast, the sharp rise in energy prices resulting from the conflict in Iran will raise the inflation trajectory this year, but may moderate next year's rate of price increases due to an assumed correction based on futures prices. The inflationary impact of higher energy prices this year is temporarily mitigated by the price caps introduced for fuels. **Compared to our December projection, our inflation forecast has risen by 0.6 percentage point for this year and by 0.4 percentage point for 2027, while our forecast for 2028 remains unchanged.**

Core inflation net of indirect taxes, which reflects the underlying processes, is expected to be 3.9 percent in 2026 and 2027, and 3.1 percent in 2028. The gradual spillover effects of rising energy prices, which will increase prices this year and then have a disinflationary effect next year, will also be reflected in core inflation. We have raised our forecast for tax-adjusted core inflation by 0.3 percentage point this year, 0.8 percentage point for 2027 and 0.1 percentage point for 2028 compared to the December forecast.

With regard to food products, the upward trend in global market prices reversed last September, but surging energy prices are also temporarily raising the pace of price increases in this product group. Looking ahead, the future

Chart 1-4: Inflation forecast



Source: MNB forecast

of the food price margin cap will be a decisive factor for price dynamics in this product group. For unprocessed food, we forecast inflation of 3.2 percent this year, 7.5 percent next year and 3.7 percent in 2028 (Table 1-1).

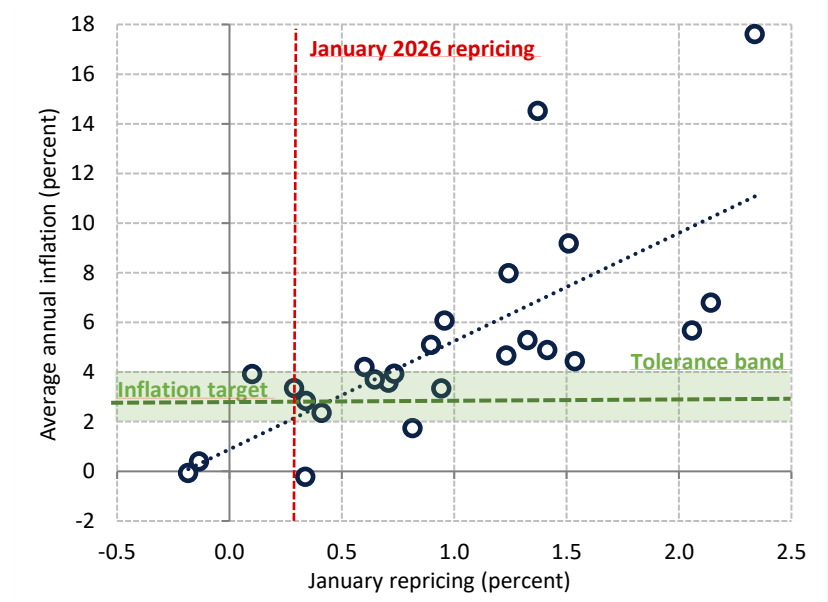
On an annual average, the price of vehicle fuel and market energy products may rise by 4.5 percent this year, 2.3 percent next year and 2.7 percent in 2028. Due to the war in Iran, our assumptions regarding global oil and gas exchange prices are higher than our December projections, and price levels are expected to normalise by mid-2027 based on futures prices. Due to the price caps imposed for fuels, the impact of rising oil prices will be reflected with a delay in this product group, starting in May. Rising prices on the energy exchanges may be reflected in corporate energy prices, which could spill over into consumer prices via higher corporate costs. Inflation for goods and services with regulated prices is forecast to average around 2.9 percent in 2026, largely determined by the development of average household piped gas rates. According to our forecast, the inflationary effect of higher household gas consumption due to the colder weather in January will be fully offset by the government's utility price cap measure (Box 1-2). In our forecast, we assume that measures regarding household energy prices will remain in effect unchanged over the entire forecast horizon.

Box 1-1: Repricing at the beginning of 2026 in historical comparison

Repricing data for the beginning of the year is typically a good predictor of inflation developments for the rest of the year, making them one of the most important monthly data points for the average inflation rate for the year concerned (Chart 1-5). The correlation between the 1-month price change in January of a given year and the average inflation for that year (0.73) is the strongest of the twelve months. In this Box, we examine the repricing trends in early 2026 from a broader historical perspective, covering the period since the introduction of the inflation targeting system in 2001, in order to obtain a more accurate picture of the inflation developments expected for the rest of the year.

Repricing trends in January 2026 were favourable, resulting in a significant drop in inflation to 2.1 percent. In most product groups, price changes were more moderate than in previous years, with only industrial goods experiencing more significant price increases. As a result of the overall moderate repricing trends, there was also significant disinflation in terms of underlying developments. **The favourable trend continued in February, with inflation declining to 1.4 percent as a result.**

Chart 1-5: Relationship between January repricing and average annual inflation

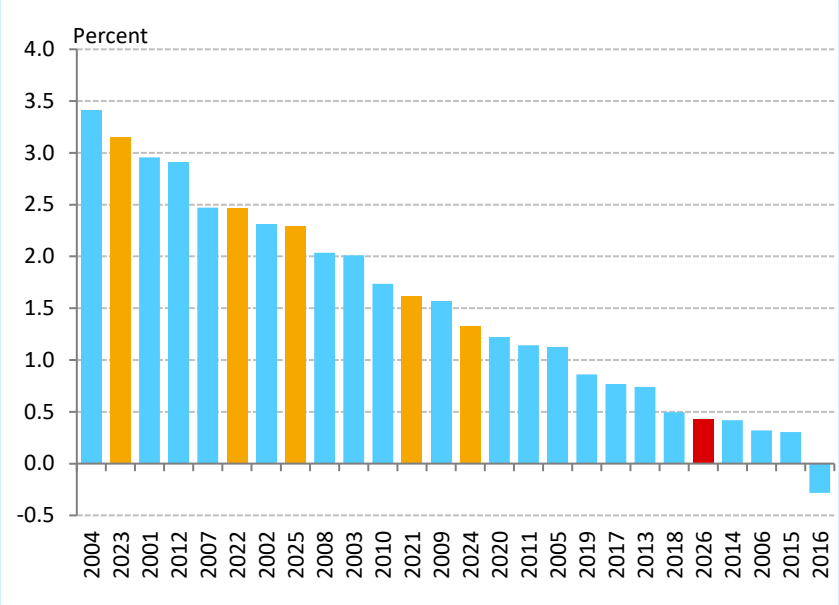


Source: HCSO, MNB

The cumulated monthly price change in January and February 2026 reflected one of the smallest repricing adjustments at the beginning of the year seen in recent decades. Compared to December 2025, the overall consumer basket rose by an average of 0.4 percent (Chart 1-6). Such a small or even smaller repricing at the start of the year has only occurred four times since 2001, most recently in 2016. This year's repricing is lower than the average January-February price increase between 2017 and 2019. In years with early-year repricing of an extent similar to this year (2006, 2018), the average annual inflation rate ranged between 2.8 and 3.9 percent.

The decline in fuel prices and the favourable development of the food price cycle played a key role in the modest price change. Fuel prices fell by 0.9 percent versus December. Food prices rose by a total of 0.3 percent in January and February, which is one-seventh of the average January-February price increase experienced between 2017 and 2019. The moderate price increase is supported by the decline in world market food prices, which, according to FAO data, fell by 1.0 percent on an annual basis in February, mainly due to the decline in dairy prices.

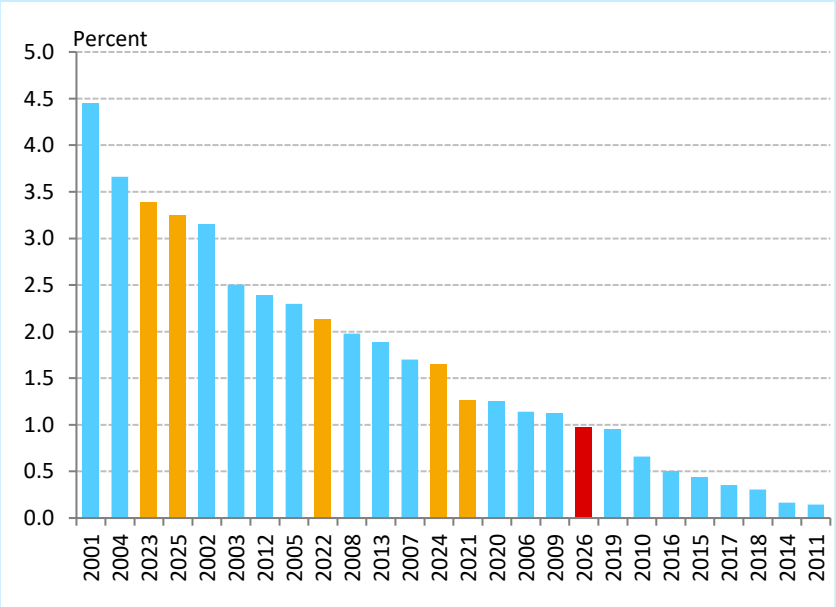
Chart 1-6: Cumulated monthly price changes in January and February for the total consumer basket since 2001



Source: HCSO, MNB

Market services also saw moderate price changes at the beginning of the year. The 1.0-percent price increase measured this January-February was the lowest bi-monthly inflation recorded at the start of the year since 2019, and this year's repricing is the ninth lowest since the introduction of inflation targeting in Hungary in 2001 (Chart 1-7). In years with January-February repricing similar to this year (2006, 2009, 2019, 2020), the average annual inflation rate for market services ranged between 4.4 and 4.8 percent. The annual inflation rate for market services fell to 5.2 percent in February 2026. The more moderate repricing trend generally seen in the second half of last year continued in January and February.

Chart 1-7: Cumulated monthly price changes in January and February for market services since 2001

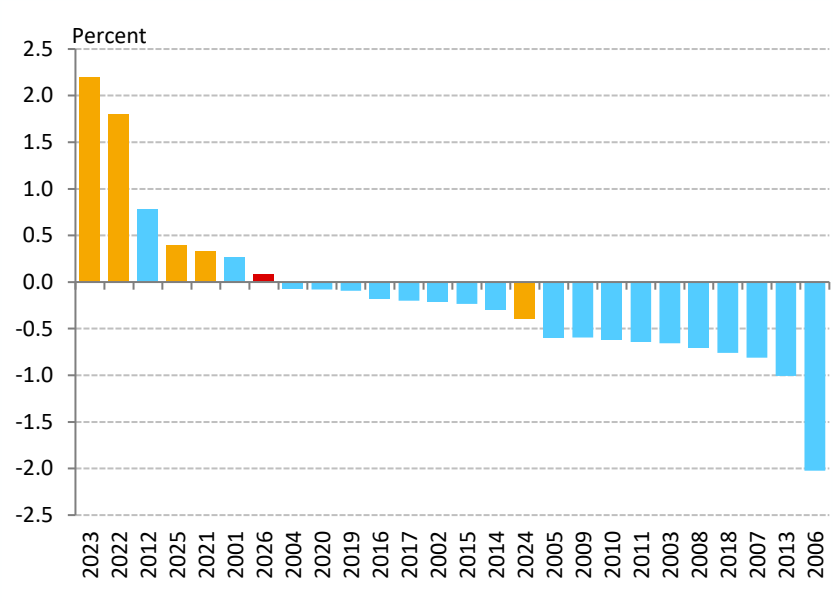


Source: HCSO, MNB

In terms of sub-classes, moderate repricing was observed for a number of services. Among the most significant services, catering services and rents also increased in price at a rate lower than or similar to the average observed during the period of price stability. However, there is a significant difference in the price changes of mobile phone and internet services, where the January price decreases typical of the last years of the previous decade did not occur this year. This difference accounts for about half of the difference between this year's price changes for market services and those in January-February 2017–2019.

In contrast to other product groups, the repricing of industrial goods this year was higher than average in historical comparison. Despite the exchange rate appreciation between the beginning of last and this year, industrial goods prices rose by 0.1 percent by February this year compared to December last year (Chart 1-8). This year's price increase is the seventh largest increase in January-February since 2001. The monthly price changes in January and February, however, show different pictures. Prices increased by 0.4 percent in January, which is the fourth largest January price increase since 2001. On the other hand, the 0.1-percent price decrease in February is in line with the average for 2017–2019.

Chart 1-8: Cumulated monthly price changes in January and February for industrial goods since 2001

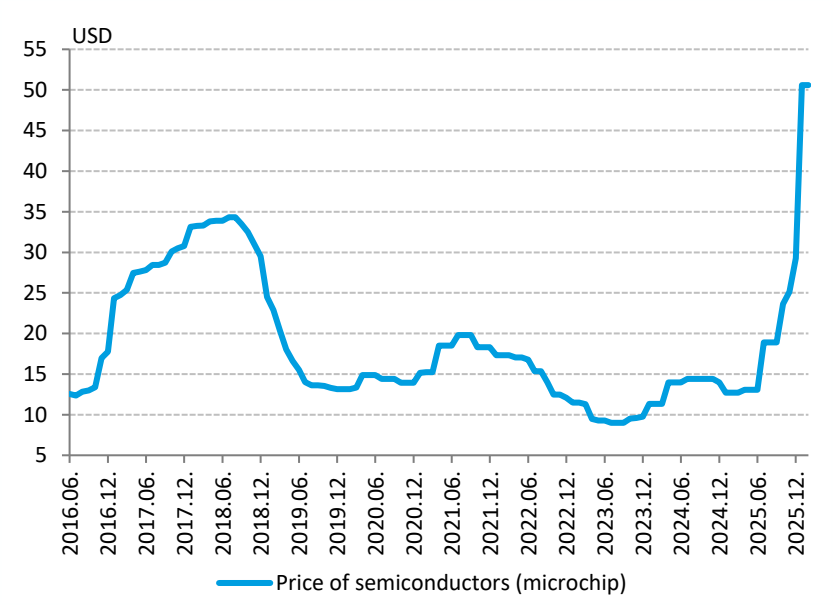


Source: HCSO, MNB

Among industrial products, electronic goods have seen the largest price increases. This may be due in part to the rise in chip prices, which is fuelled by the global wave of AI investments (Chart 1-9). Data centres built in connection with the AI boom are causing a global shortage for the most modern chips, as a result of which chip prices have more than doubled since the end of last summer.

At the same time, the high domestic price increase for industrial goods cannot be attributed solely to the rise in the price of electronic goods, as several other product groups (such as sports equipment and toys, furniture, used cars, detergents and cleaning products) also recorded price increases in January this year that were higher than those seen during the years of price stability and were above the regional average.

Chart 1-9: Price trends for semiconductors (chips)

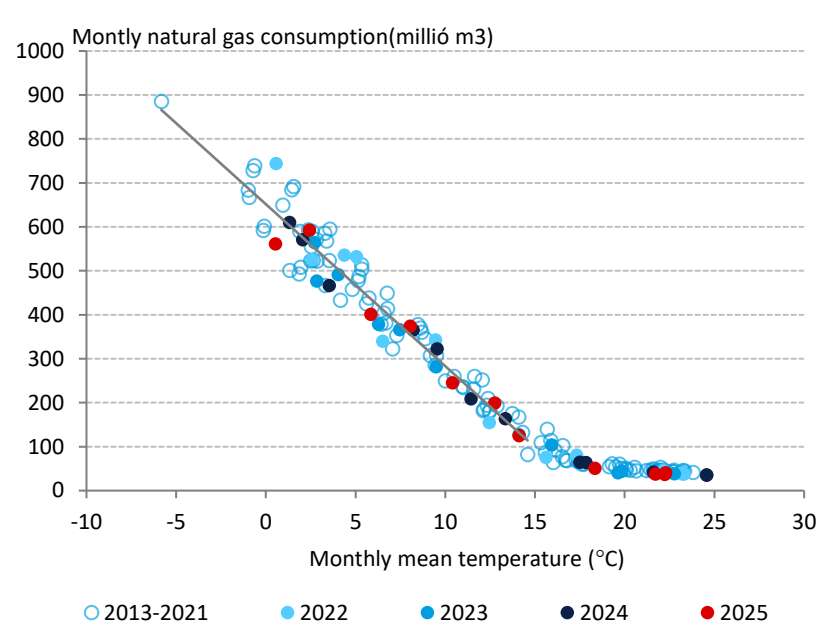


Note: The inSpectrum Tech PC DRAM index aggregates prices for semiconductors covering a wide range of chip types, used for example in laptops, household appliances, LED bulbs and medical devices.
Source: Bloomberg

Box 1-2: The impact of January weather conditions and the utility price cap on inflation

In January 2026, it was 2.8°C colder than the average temperature measured in the period of 2020–2025. This has an impact on inflation through higher gas consumption, unless countermeasures are taken. There is a strong correlation between temperatures and gas consumption. Based on past experience, a 1°C lower temperature leads to almost 40 million m^3 higher gas consumption (Chart 1-10). Higher household gas consumption due to colder weather increases the rate of consumption in the more expensive price range, where no utility price cap applies. This leads to a higher average price at the national level, which raises inflation. Since household gas consumption data are available only with a delay, the HCSO is only able to show the inflationary effect resulting from the increase in consumption with a 2-month delay; accordingly, the effect of the January colder weather on consumer prices is only reflected in the March data.

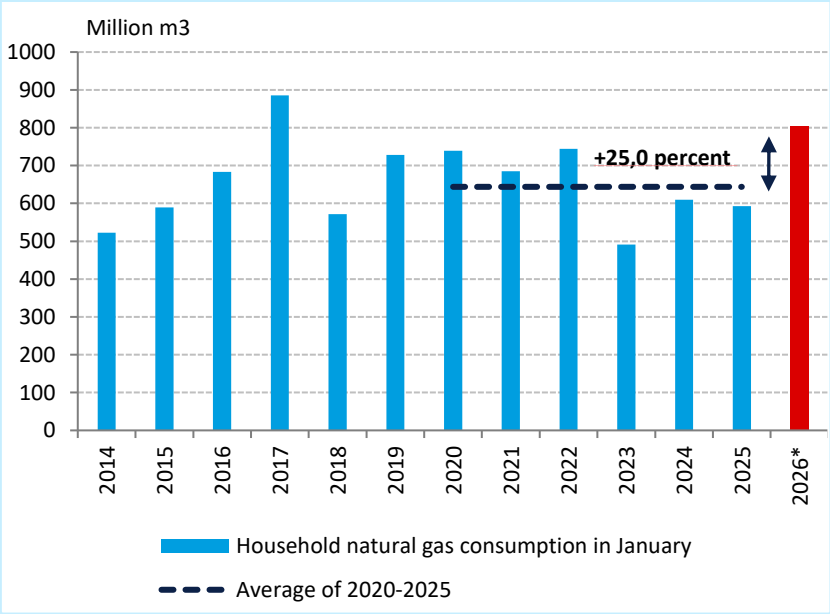
Chart 1-10: Correlation between household natural gas consumption and temperature



Note: The correlation graph of monthly household gas consumption and the mean temperature is applied to temperature recordings below 15°C. Determination coefficient of aligned regression (R-squared) 0.95.
Source: MEKH, MNB based on HungaroMet

According to our estimates, household gas consumption in January 2026 was 25.0 percent higher than average consumption for the period 2020–2025 (Chart 1-11). Due to the higher January consumption, without government intervention, the rate of consumption above the volume limit set for the price cap would increase from 8.8 percent to 11.6 percent (Chart 1-12). According to our estimates, without government intervention, the average household gas price would increase by 10.2 percent compared to the previous month, due to the colder weather. This would increase inflation by 0.2 percentage point from March, for a period of one year.

Chart 1-11: Household natural gas consumption in January

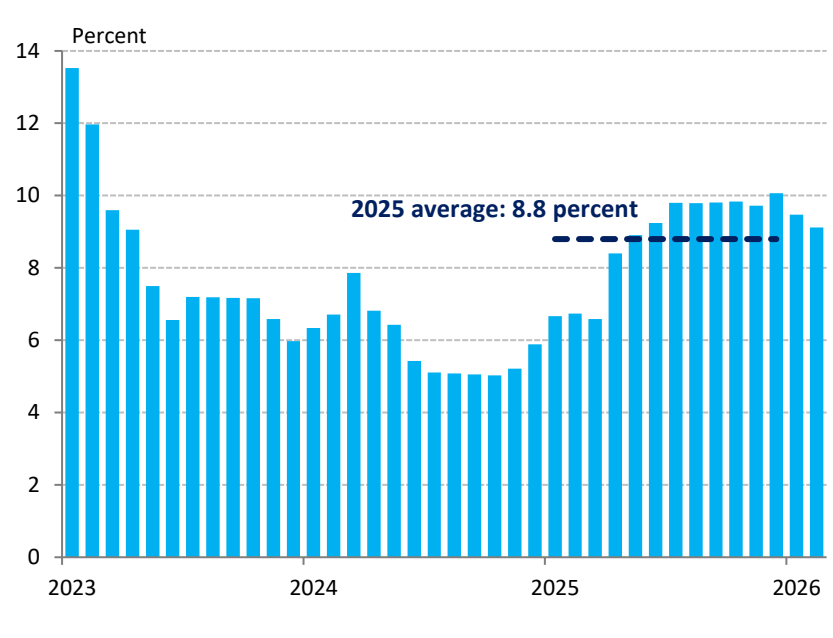


Note: The January 2026 consumption figure is an MNB estimate.
Source: MEKH, MNB calculation

To compensate for the impact of cold weather, the government introduced a utility price cap, which reduces household heating bills for January by granting a one-off volume based discount. A 30-percent discount applies to the actual or

estimated January 2026 consumption, depending on the billing method applied to the given household for gas consumption. For households with an annual accounting cycle, the basis for calculating the estimated consumption is the 2025 annual consumption plus 30 percent, applied to January based on the household-specific monthly consumption patterns. For households where the annual accounting cycle is only closed after 16 May, the discount will be granted together with the annual settlement invoice. The discount also applies to households using electric heating and district heating. For households with electric heating, the calculation is similar to that used for natural gas, and for households using district heating, a 30-percent 1-month discount is automatically applied.

Chart 1-12: Ratio of households paying market price for gas



Source: MNB estimate based on HCSO

According to the HCSO methodology, part of the inflationary effect of the measure is reflected in the March data, and the remaining part will be reflected in the CPI from May onwards, for a 1-year period. The longer settlement period of the price-reducing effect of the discount is due to households which are subject to an annual settlement cycle, as the discount will appear in their bills from May onwards. According to the Ministry of Energy, about two-thirds of the approximately 3.3 million natural gas consuming households have annual accounting cycles (of which about 1.8 million households are subject to flat rate billing, and 450,000 households are subject to partial billing based on temperature). For households which report utility meter readings monthly, the HCSO will account for the full impact of the measure in March, when the effect of the higher January consumption would appear in the price index.

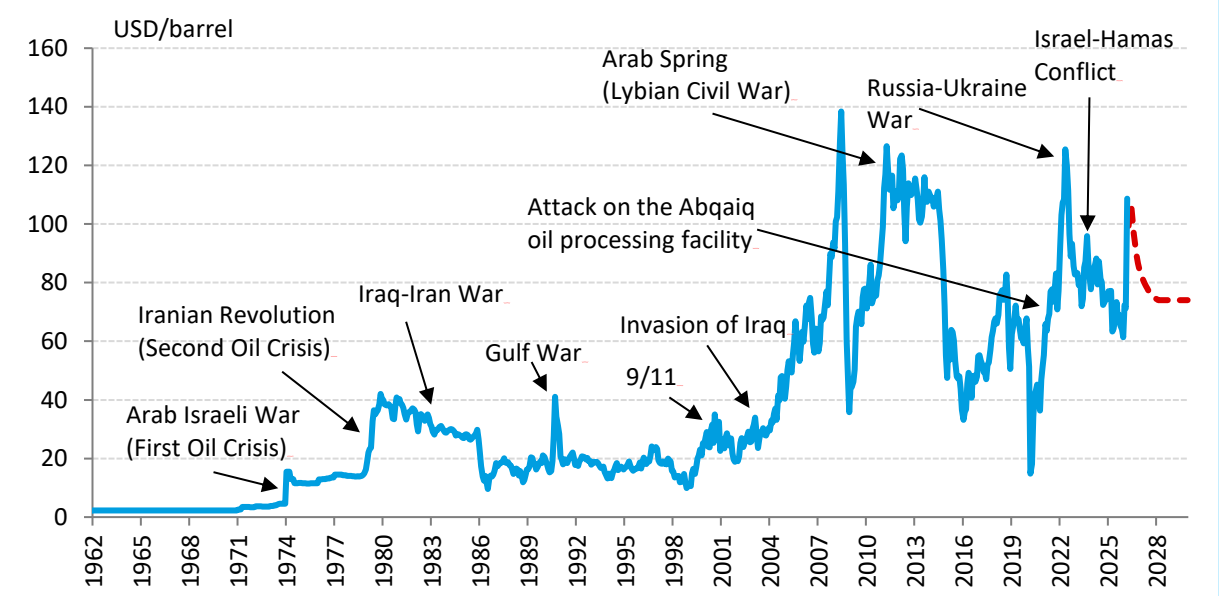
The price-increasing effect of January's cold weather is fully offset by the government's supportive measures. The discount rate granted is higher than the estimated 25-percent increase seen in gas consumption; therefore, the measure has an overall disinflationary effect. However, this effect is below 0.1 percentage point for the overall CPI. The discount also applies to households using electric heating, but due to the lower number of these types of households, the discount granted in this segment may have a negligible disinflationary effect. The discount granted to households with district heating only has a temporary disinflationary effect of 0.0–0.1 percentage point and only for one month.

Box 1-3: Geopolitical conflicts and oil price dynamics: historical evidence from the past six decades

Escalation of the Iranian conflict in early March once again drew attention to the geopolitical exposure of energy markets. Within a short period, the conflict added a significant risk premium to oil prices, mainly reflecting market concerns about a potential closure of the Strait of Hormuz. Historical developments in global oil prices show that the vast majority of major price spikes have been associated with geopolitical shocks. In the history of the modern energy market, the OPEC embargo linked to the 1973 Arab–Israeli War (the First Oil Crisis), the 1979 Iranian Revolution (the Second Oil Crisis), the Iran–Iraq War between 1980 and 1988, the 1990 Gulf War, and the Russia–Ukraine war that broke out in 2022 all triggered sharp and global increases in oil prices within a short period of time (Chart 1-13).

Assumptions regarding future energy price developments play an important role in inflation forecasting. In line with international best practice, the MNB's projections rely on energy futures prices. Following the escalation of the Iranian conflict, crude oil futures prices rose significantly. At the same time, the shape of the futures curve suggests that oil prices, which surge due to geopolitical tensions and supply concerns, tend to gradually return to a lower level over the medium term.

Chart 1-13: Brent oil price trends (1962–2026) and oil futures prices (2026–2029)



Note: Monthly closing prices; for March 2026: 18 March 2026.
Source: Global Financial Data, Bloomberg

Historical experience, however, indicates that the actual trajectory of oil prices often differs from the pattern implied by futures prices at the onset of shocks. Past episodes suggest that oil prices typically evolve in two main ways: either they spike briefly and then return relatively quickly to levels close to those prevailing before the shock, or – if supply disruptions prove persistent – they stabilise at elevated levels for a prolonged period. The gradual and smooth adjustment implied by futures curves is rarely observed in practice. Consequently, when assessing energy market shocks it is particularly important to review the lessons from historical episodes associated with geopolitical events. Such examples can help determine whether a given conflict is more likely to result in a temporary price fluctuation or in a persistently high energy price environment.

Historical experience suggests that the oil market's reaction to geopolitical shocks typically follows three broad patterns: (1) a short-lived price spike followed by a rapid correction; (2) the emergence of persistently high prices; and (3) periods in which prices return close to their previous levels, but the market remains characterised by elevated volatility due to elevated uncertainty (Table 1-2).

Price reactions tend to be strongest when geopolitical conflicts directly affect production regions that are critical for global supply or disrupt strategic transport routes. The Middle East plays a particularly important role in this respect, as a large share of global crude oil production and exports originate from this region. The region is also home to one of the most

important maritime energy transport routes in the world, the Strait of Hormuz, through which a significant share of global seaborne oil trade passes.

In addition to geopolitical shocks, sustained increases in oil prices may also be driven by demand-side developments. One such episode occurred between 2003 and 2008, when the price of Brent crude rose from around USD 30 per barrel to above USD 140. The increase was mainly driven by rapid global economic expansion, particularly the growing energy demand of China and India, insufficient investment in oil production capacity and the increasing role of financial investors in commodity markets. The multi-year price surge was ultimately reversed by the global financial crisis of 2008, which led to a sharp correction in oil prices within a few months due to the sudden collapse in global demand.

Table 1-2: Geopolitical conflicts triggering significant oil price hikes (1962–2026)

Event	Year	Oil price reaction	Dynamics	Affected global supply	Affected quantity (million barrels/day)
Arab Israeli War (First Oil Crisis)	1973	200-250%	Persistently high price level	~7–9%	~4–5
Iranian Revolution (Second Oil Crisis)	1979	100-150%	Persistently high price level	~6–7%	~4-6
Iraq-Iran War	1980	50–100%	High price, then correction	~4–5%	~3-4
Gulf War	1990	100-120%	Price spike and correction	~4–5%	~4-5
9/11 terrorist attacks	2001	quick spike	Price spike and fall	-	~0
Invasion of Iraq	2003	20–30%	Price spike and correction	~2–3%	~1-2
Arab Spring (Lybian Civil War)	2011	40-50%	Persistently high price level	~1.5–2%	~1.5
Attack on the Abqaiq oil processing facility	2019	15-20%	Price spike and rapid correction	~5%	~5-6
Russian-Ukrainian War	2022	40-50%	Price spike and high volatility	~7–8%	~7
Israel-Hamas conflict	2023	3-5% quick reaction	Minimal price impact	-	~0
Israel-Iran attacks	2025	5-10%	Price spike and correction	-	~20

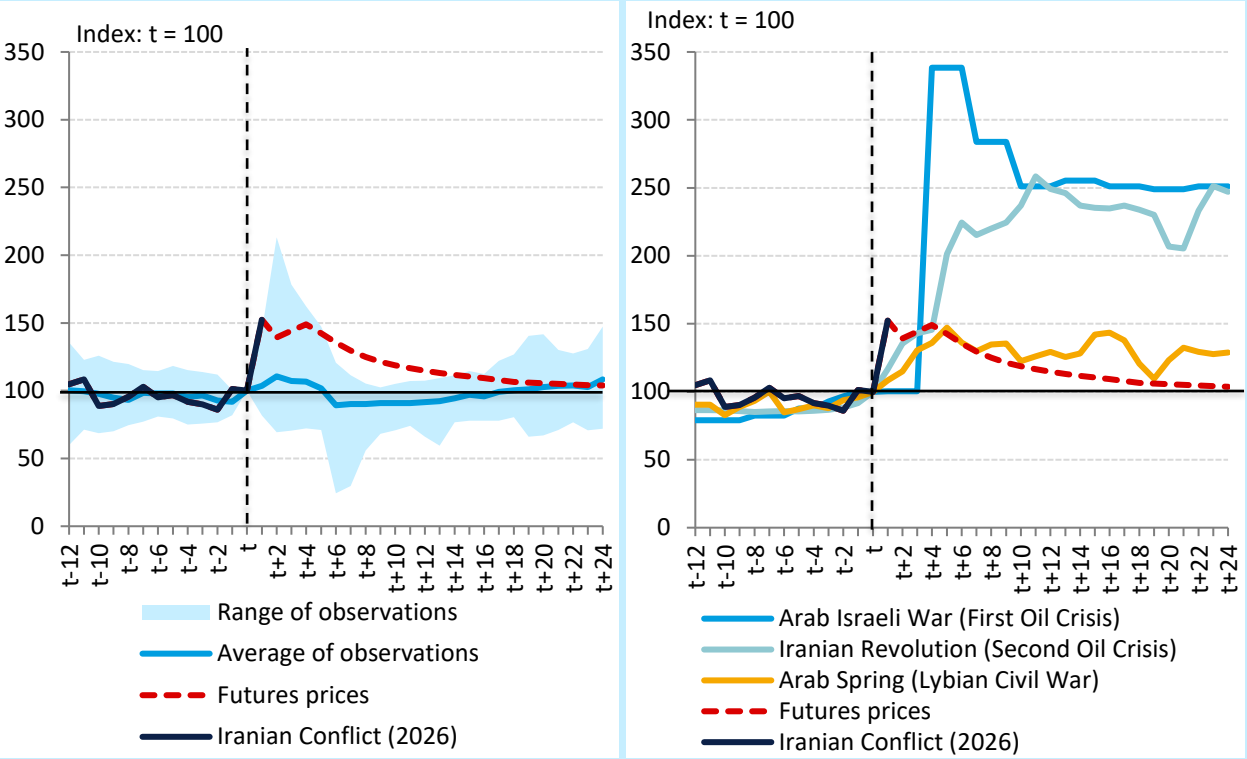
Source: MNB

The reaction of energy markets during geopolitical conflicts is typically driven by two main mechanisms: the supply channel and the risk premium channel. In the supply channel, the quantity of oil available on the market declines as a result of physical disruptions to production or transport. In the risk premium channel, market participants price in the risk of future supply disruptions and are therefore willing to pay higher prices for immediate delivery.

Historical episodes reveal another important pattern: oil market shocks often materialise not at the outbreak of a geopolitical conflict, but when an actual physical supply shortfall occurs. In many cases, a time lag can be observed between the onset of a conflict and a significant reaction in oil prices, as markets mainly price in production losses or disruptions to transport routes. During the Libyan civil war, for example, the major price reaction occurred not when protests began but when oil production largely ceased within a few weeks.

In many geopolitical episodes, the reaction of oil prices remains temporary and the initial price spike is followed by a relatively rapid correction (Chart 1-14, left). Examples include the terrorist attacks of 11 September 2001, the 2003 invasion of Iraq, the 2019 drone attack on the Abqaiq oil processing facilities in Saudi Arabia, and the Israeli–Iranian strikes in June 2025. These events generated significant geopolitical tensions; nevertheless, oil prices returned to levels close to their previous trend within weeks or months. The Gulf War temporarily resulted in a price increase of more than 200 percent, but the effect disappeared within roughly half a year. The impact of the Russia–Ukraine war that began in February 2022 was similarly temporary. One important lesson from these episodes is that markets often price in potential supply risks rather than actual supply losses. If conflicts de-escalate quickly or the functioning of critical transport routes remains unaffected, the risk premium embedded in oil prices tends to disappear rapidly.

Chart 1-14: Impact of geopolitical conflicts on oil prices: price spikes where a correction occurred within a year (left panel) and where a sustained oil price regime emerged (right panel)



Note: The reference months (t) of the given periods denote the last day of the month preceding the date of the shock. Cases examined during price spikes: Iraq–Iran War, Gulf War, 9/11 terrorist attacks, invasion of Iraq, attack on the Abqaiq oil processing facility, Russia–Ukraine war, Israel–Hamas conflict, Israel–Iran strikes.
Source: Own calculations based on the Global Financial Database

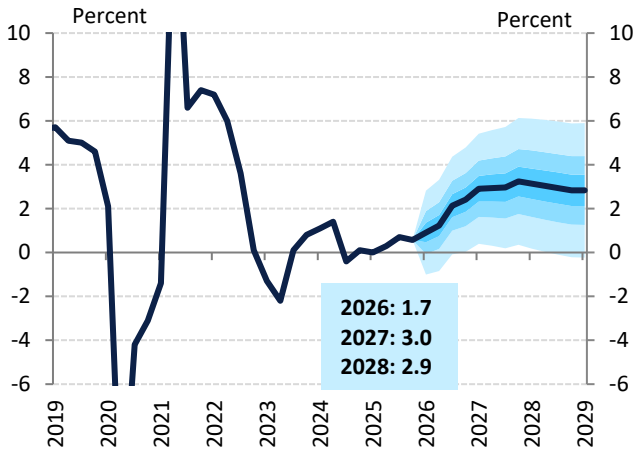
At the same time, three episodes can be identified in which oil prices not only spiked in the short term, but also remained elevated for several years (Chart 1-14, right). The first was the 1973 oil crisis, when Arab countries imposed an oil embargo on states supporting Israel and oil prices increased roughly threefold within a few months. The second prolonged shock was associated with the Iranian Revolution in 1979, which resulted in a major supply disruption in one of the world's largest oil-exporting countries. The third episode occurred during the period of the Arab Spring and the Libyan civil war that erupted in February 2011 (2010–2012), when oil prices remained elevated for several years due to the collapse of Libyan production and broader political instability in the Middle East. These cases suggest that persistently high oil prices typically emerge when geopolitical shocks directly and durably affect global oil supply.

Based on historical experience, it remains uncertain whether the current episode will lead to a sustained increase in oil prices. If the conflict does not result in a significant and prolonged physical disruption to supply, the reaction of oil prices may remain temporary, as has been the case in most previous geopolitical shocks. However, if oil production or key global energy transport routes are disrupted for an extended period, it could lead to persistently high price levels similar to those observed during previous oil crises.

1.2. Real economy

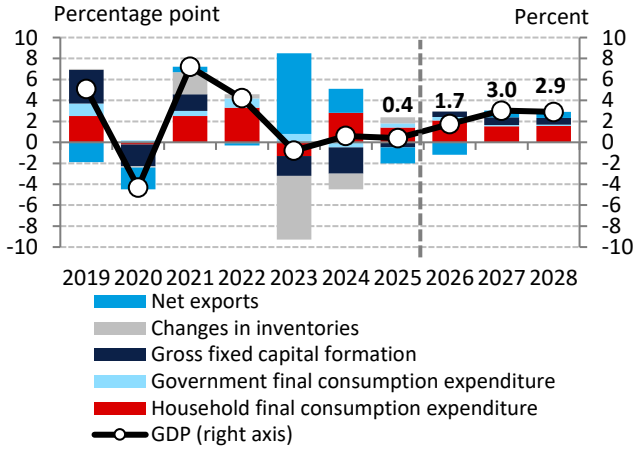
Hungarian GDP expanded at a rate of 0.4 percent in 2025, with year-on-year growth of 0.8 percent recorded in 2025 Q4. The Hungarian economy may grow by 1.7 percent this year. Based on data received so far, we expect growth of around 0.9 percent on an annual basis in the first quarter, and the economic upturn may continue to strengthen over the course of the year; however, geopolitical developments in the past few weeks may slow the pace of the recovery. According to our forecast, the divergence among sectors will persist for most of the year, while GDP growth will be supported by a broader range of sectors from the end of the year. GDP growth is expected to continue at a rate of 3.0 percent in 2027 and 2.9 percent in 2028. Strong consumption growth will remain an important growth factor over the entire horizon, supported by rising real wages, income-boosting fiscal measures and a decline in the savings rate from historically high levels. Following the decline seen in recent years, investment may expand again this year, driven mainly by a pickup in household investment. Due to the geopolitical tensions, growth in Hungary's export markets may be slower than expected, but new manufacturing capacities coming online in 2026 H2 may support exports, and Hungary's export market share may begin to grow again starting in 2027. According to our estimates, GDP remained below its potential level in 2025 Q4, meaning that real economic performance continues to exert a disinflationary effect. This is also supported by the fact that, although the capacity utilisation of manufacturing companies has improved, it still remains below its historical average.

Chart 1-15: Fan chart of the GDP forecast



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

Chart 1-16: Expenditure side decomposition and forecast of GDP



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

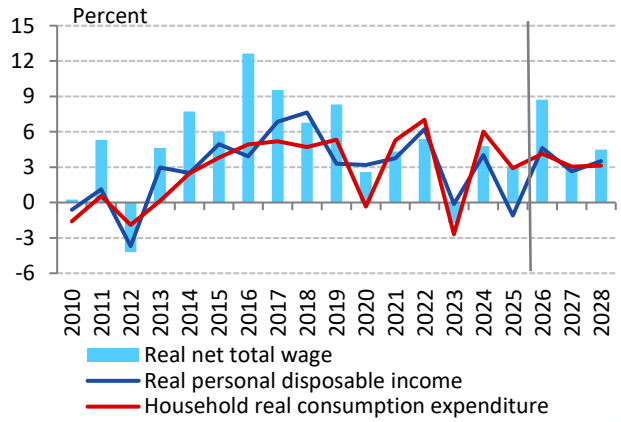
The volume of domestic GDP rose by 0.4 percent in 2025, while year-on-year growth of 0.8 percent was recorded in 2025 Q4. Incoming data turned out to be lower than our December forecast, primarily due to the weaker-than-expected performance of industry and services.

The Hungarian economy may grow by 1.7 percent this year, which is 0.7 percentage point lower than our December forecast. Based on data received so far, we expect growth of around 0.9 percent on an annual basis in the first quarter, which may gradually pick up over the course of the year (Chart 1-15).

According to our forecast, the dual trends in the economy will persist in the first half of the year, while GDP growth may be supported by a broader range of sectors from the end of the year. Expansion in the services sector will continue to be the main growth driver. Industrial output may remain subdued this year as well, as evidenced by the fact that the volume of the sector's export sales continued to fall in the fourth quarter of last year, while industrial sentiment indices have not improved significantly in recent months. However, the launch of new production capacities related to vehicle manufacturing could help the sector gain momentum by the end of 2026. Growth in the construction industry may continue this year. The sector's order books grew by nearly 50 percent during the fourth quarter, and the outlook for the construction industry is further improved by measures announced by the government to boost household incomes as well as by the increasing take-up of the Home Start Programme.

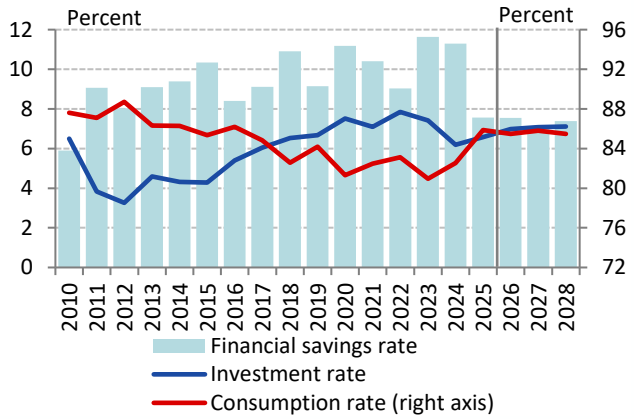
GDP growth is projected to reach 3.0 percent in 2027 and 2.9 percent in 2028. Strong household consumption dynamics will remain a key growth driver over the entire forecast horizon. Investments may support GDP growth

Chart 1-17: Annual changes in net total wage, personal disposable income and household consumption expenditure in real terms



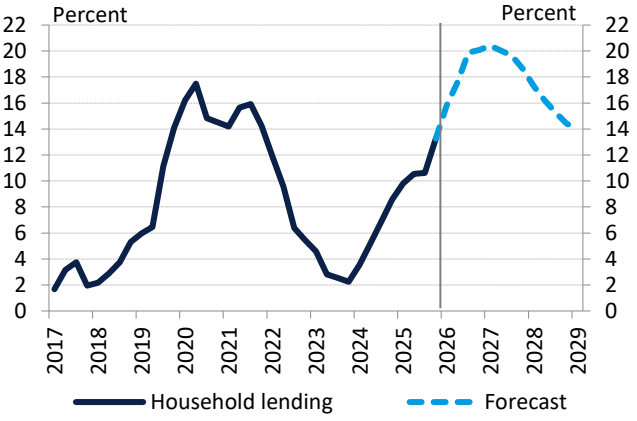
Source: HCSO, MNB

Chart 1-18: Evolution of households' consumption, investment and financial savings as a percentage of personal disposable income



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

Chart 1-19: Forecast for lending to households



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

from this year, with net exports contributing positively from 2027 (Chart 1-16).

This year, households' real disposable income may rise by 4.6 percent on an annual basis (Chart 1-17). In 2026, in addition to an 11-percent increase in the minimum wage, growth in net wages will also be supported by fiscal measures, e.g. the service benefit for military and law enforcement personnel, the public service housing programme and sector-specific wage increases. Looking ahead, the annual growth rate for disposable real income is projected to be 2.6 percent in 2027 and 3.5 percent in 2028.

GDP growth continues to be driven primarily by stronger consumption (Chart 1-16). In addition to rising real wages and income-boosting fiscal measures, the expansion of consumption is also supported by lower propensity to save relative to the historically high levels. According to our forecast, household consumption may expand by 4.1 percent in 2026, 3.0 percent in 2027 and 3.1 percent in 2028 (Chart 1-17). The savings rate, calculated as a percentage of disposable income, may stabilise at around 7–8 percent, while investments are expected to reach a rate of over 7 percent. The consumption rate may hover around 85 percent in the coming years (Chart 1-18).

Household loans outstanding will expand rapidly over the forecast horizon. The maximum contact size available under the Home Start Programme and the broad range of eligible applicants are creating significant demand for housing loans. In addition, the housing subsidy programme for public service employees is also having an additional demand-stimulating effect. Overall, the household loan portfolio of the financial intermediary system as a whole is projected to rise by 20 percent in 2026 as a result of the Home Start Programme. Although the annual growth rate will gradually moderate in 2027 and 2028, it will remain above 10 percent (Chart 1-19).

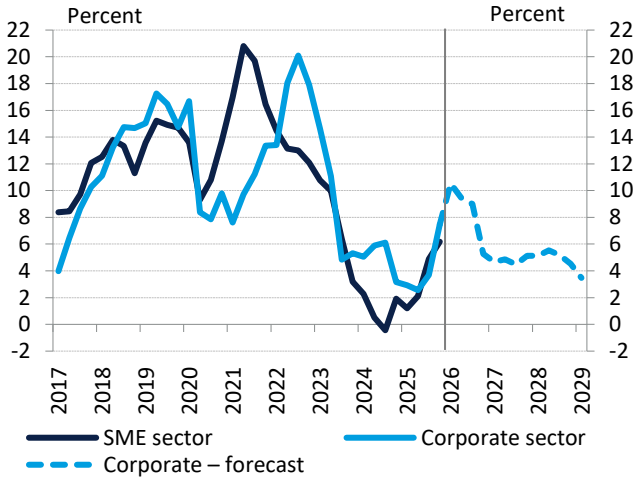
We expect investments to grow by 2.3 percent in 2026, 3.2 percent in 2027 and 2.7 percent in 2028 (Table 1-3). Investment growth this year will primarily be driven by an upturn in household investment, which is supported by the Home Start Programme in line with household lending. The recovery in corporate investment may be slower than expected: this factor may start supporting growth from 2027. Domestic companies have recently been characterised by subdued investment activity due to geopolitical and trade tensions, low capacity utilisation and weak demand. Mounting uncertainty in the wake of the armed conflict in Iran may cause companies to further postpone investments; therefore, we do not expect any major expansion in this sector this year. Following

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

	2025	2026	2027	2028
Gross fixed capital formation	-2.2	2.3	3.2	2.7
Government investment	2.7	0.4	-5.4	-3.3
Private investment	-3.3	2.8	5.2	3.9
Investment rate	22.1	23.0	23.3	23.8
Real investment rate	21.4	21.5	21.5	21.5

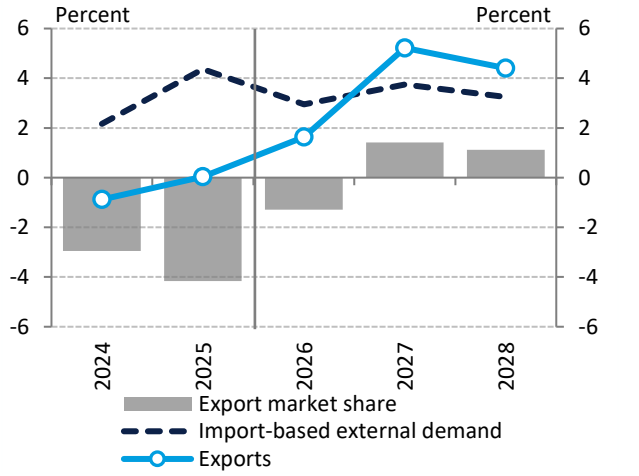
Note: Percent. Year on year growth for gross fixed capital formation and investment rate as proportion of GDP. Real investment rate calculated at 2021 prices. Source: HCSO, MNB

Chart 1-20: Annual change in lending to non-financial corporations and SMEs



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

Chart 1-21: Changes in export market share



Source: HCSO, MNB

moderate growth this year, public investments may decline in both 2027 and 2028.

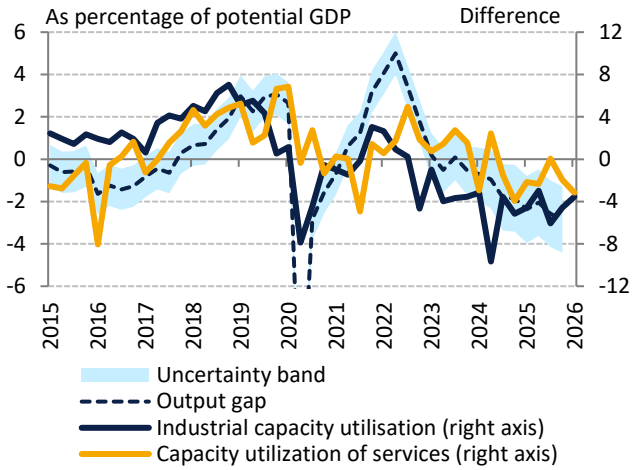
The corporate loan portfolio may expand at a more modest pace than household loans outstanding. In the short term, the interest rate cut on certain products of the Széchenyi Card Programme to a uniform level of 3 percent starting from October 2025 is expected to stimulate corporate lending. Banks have ample lending capacity, and no general supply constraints can be identified. Over the forecast horizon, bank financing linked to agricultural subsidies will result in loan transactions that are higher than the level justified by the macroeconomic environment (Chart 1-20). Overall, the corporate loan portfolio of the financial intermediary system as a whole will increase by 5 percent annually between 2026 and 2028 based on our forecast.

Exports may grow at a rate of 1.6 percent this year. The downward shift from our December forecast is primarily driven by fundamental industrial developments, which are less favourable than expected, and the likely negative demand effects of the Iranian conflict. Similarly to Hungary, most of the country's trading partners are net energy importers, and thus the surge in energy prices may also dampen growth in Hungary's export markets. This is supported by the fact that the European Central Bank lowered its euro area growth prediction for this year by 0.3 percentage point in its March forecast. However, from the second half of this year, new manufacturing capacities coming online may support exports, and Hungary's export market share may begin to expand again from 2027 (Chart 1-21). **In our forecast, exports grow by 5.2 percent in 2027 and 4.4 percent in 2028.**

Imports may rise by 3.4 percent in 2026. In 2026, a recovery in investment activity and dynamic expansion in household consumption will boost import growth. Net exports will dampen GDP growth by 1.2 percentage points this year, but starting next year, this factor will support GDP growth as exports gain momentum. **Imports may grow by 4.4 percent in 2027 and 3.7 percent in 2028.**

We estimate that the cyclical position of the economy has been negative since the end of 2023. The output gap excluding the performance of agriculture remains negative (Chart 1-22). The external output gap also remained in negative territory, affecting the cyclical position of the economy. According to surveys, manufacturing companies' capacity utilisation and production expectations were also below the historical average. Capacity utilisation improved moderately versus the previous quarter, but production expectations for the coming months showed no

Chart 1-22: Uncertainty band around the output gap and capacity utilisation of services and industry



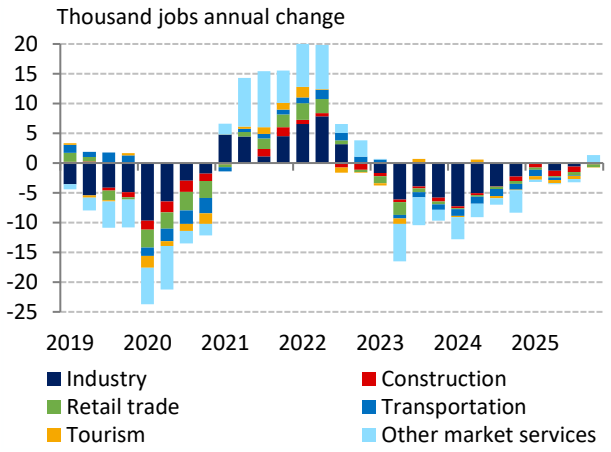
Note: The estimation uncertainty band covers one standard deviation. Output gap excluding agriculture performance. In the case of capacity utilisation, deviation from the historical average.
Source: ESI, HCSO, MNB estimate

improvement. The capacity utilisation of service companies deteriorated compared to the previous period and also remained below the historical average.

1.3. Labour market

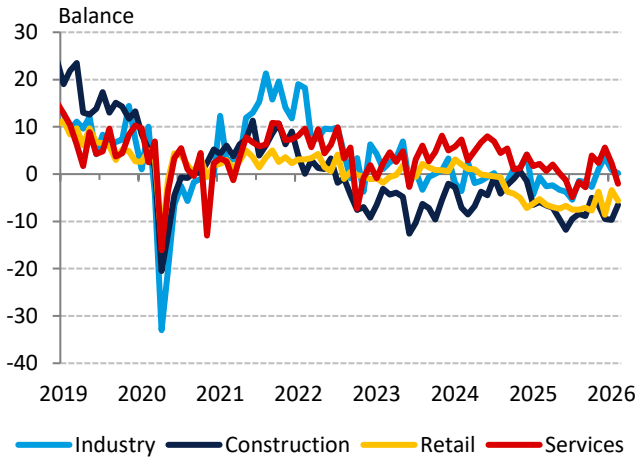
The subdued economic performance is also reflected in the decline in employment. According to our forecast, economic growth picking up from 2026 Q2 may first stabilise the number of those employed and then moderately increase it. Due to unused labour capacity resulting from labour hoarding, the increase in headcount may be modest during the first quarters of the economic recovery. Wage growth for this year and next year will be determined by loose labour market conditions, minimum wage increases, and the service benefit for military and law enforcement disbursed this year. Following the rapid wage outflows of previous years, companies are expected to implement more modest wage increases. In our forecast, due to the more moderate underlying wage trend and the spillover effects of a significantly higher minimum wage increase, gross average wages in the private sector will rise by 8.7 percent this year and by 8.3 percent in 2027.

Chart 1-23: Annual changes in job vacancies in the private sector



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

Chart 1-24: 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

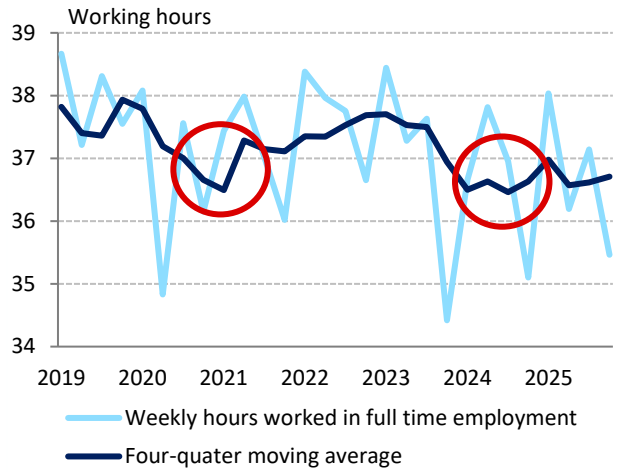
Companies initially responded to the slack economic conditions by reducing job vacancies, followed by a reduction in hours worked. Starting in early 2024, the labour market began to adjust on the extensive margin to the subdued economic growth and uncertainty in the real economy: the level of employment in the national economy began to decline. For the period November 2025 to January 2026, the number of persons employed aged 15–74 decreased by 68,000 on average compared to the same period of the previous year, representing a decline of 1.5 percent on an annual basis.

The trend in the number of job vacancies in the private sector points to stabilisation in labour demand. In 2025 Q4, the number of job vacancies in the private sector increased by 1.1 percent versus the same period in the previous year, while seasonally adjusted data showed a 2.2-percent increase over the previous quarter (Chart 1-23). The European Commission's Economic Sentiment Indicator also shows signs of labour market stabilisation, as its January and February surveys on corporate employment prospects indicate that the proportion of companies planning to reduce and increase their workforce has balanced out in industry and services. The data are nuanced by the fact that, at the same time companies planning to reduce their workforce remain in the majority in the construction and retail sectors (Chart 1 24). **In conjunction with the continued adjustment to the real economic cycle on the extensive margin, labour hoarding is still a factor.** The average number of weekly hours worked by full-time employees rose only moderately from the historically low levels seen during the Covid crisis (Chart 1-25).

According to our forecast, employment growth may resume in 2026 Q2, but the number of persons employed may still decline by 0.8 percent on an annual basis. **Given the existing capacities due to labour hoarding, the increase in headcount may remain modest even as the economy recovers. Employment may increase by 0.2 percent in 2027 and 0.1 percent in 2028**.

Based on data from November 2025 to January 2026, labour market activity continued to decline, with the number of

Chart 1-25: Average actual weekly hours worked in full time employment in the private sector



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

persons in the labour force falling by 1.2 percent compared to the same period of the previous year. The unemployment rate stood at 4.5 percent based on seasonally adjusted data. **In our forecast, labour force participation will continue to fall due to demographic factors. The unemployment rate will be 4.6 percent this year, before dropping to 4.3 percent in 2027 and 3.9 percent in 2028.**

As labour market tightness has eased, the annual growth rate of gross average earnings in the private sector has moderated in recent years. In December 2025, gross average earnings in the private sector rose by 8.7 percent compared to the same period last year, while regular gross average earnings (calculated without bonuses) rose by 9.7 percent on an annual basis. In 2025, gross average earnings in the private sector increased by 8.8 percent versus the previous year, and the real wage calculated on this basis rose by 4.1 percent compared to 2024. In 2025 Q4, labour market tightness – as measured by the ratio of job vacancies in the private sector to the unemployed – increased somewhat, but the labour market remains loose.

The minimum wage rose by 9 percent in 2025 (the guaranteed minimum wage by 7 percent) and by 11 percent in 2026 (the guaranteed minimum wage by 7 percent), to be followed by a 14-percent increase in 2027 according to current plans. The wage share has been rising since 2024, and the growth in labour costs may exceed the growth in nominal value added.

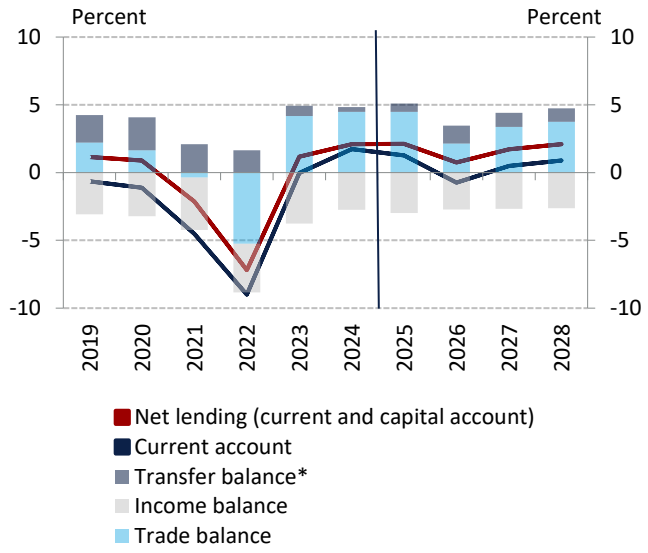
Following the moderate economic growth and rapid wage outflows seen in previous years, companies are expected to implement more modest wage increases. In our forecast, due to the more moderate underlying wage trend and the spillover effects of a significantly higher minimum wage increase, average gross earnings in the private sector will rise by 8.7 percent this year, 8.3 percent in 2027 and 7.1 percent in 2028, which translates to a real wage increase of 4.7 percent this year, 4.4 percent in 2027 and 4.0 percent in 2028. Companies' average labour costs will rise by 8.8 percent this year, 8.4 percent in 2027 and 7.2 percent in 2028.

In our forecast, this year's national wage dynamics are significantly influenced by the 6-month service benefit paid to military and law enforcement personnel in January–February, resulting in public sector wage growth that is substantially higher than that expected in the private sector this year, while in 2027, it will be much more moderate due to the base effect of the service benefit. According to our forecast, wage growth in the national economy will be 10.9 percent this year, 6.6 percent in 2027 and 6.9 percent in 2028.

1.4. External balance

The current account surplus narrowed moderately in 2025. The balance may deteriorate in 2026, temporarily turning into a slight deficit due to rising energy prices and stronger domestic demand. Starting in the second half of the year, improving capacity utilisation and the start of production at new factories will lead to a gradual improvement in the balance of goods, as a result of which the current account surplus will rise around to 1 percent of GDP by 2028. The income balance deficit will narrow moderately due to a slight decline in interest expenses. Based on trends in sectoral financing, the deterioration in the external balance in 2026 is primarily attributable to the growing fiscal deficit, while private sector financial savings remain at the previous year's level.

Chart 1-26: Evolution of net lending



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

Source: MNB

Table 1-4: Development of the trade balance as a percentage of GDP

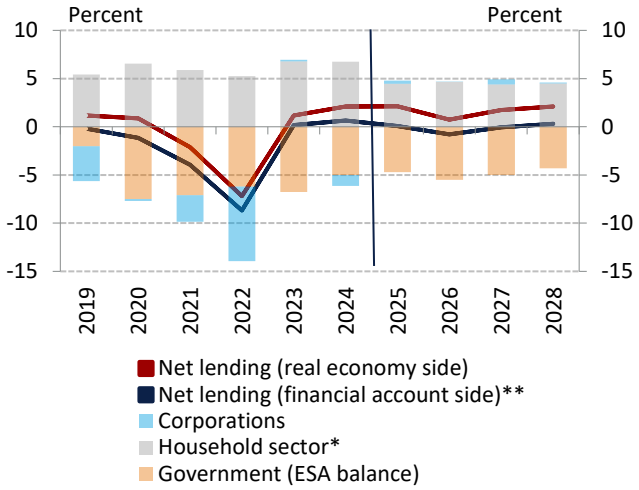
	2025	2026	2027	2028
Balance of goods	-0.5	-2.9	-1.8	-1.4
Balance of energy	-3.0	-4.3	-3.7	-3.2
Balance of other goods	2.5	1.4	1.9	1.7
Balance of services	5.0	5.0	5.1	5.1
Trade balance	**4.5**	**2.1**	**3.3**	**3.7**

Source: HCSO, MNB

The current account balance will decline temporarily this year due to a surge in energy prices and then improve as the trade surplus rises (Chart 1-26). Based on preliminary monthly data for the fourth quarter, the current account surplus narrowed to 1.3 percent of GDP. This year, rising energy prices will reduce the trade balance by more than 1 percent of GDP (Table 1-4), while the balance of other goods will also decline as consumption and investment strengthen. We expect export performance to improve in the second half of the year, driven by rising industrial production, improving capacity utilisation and new plants coming online. The surplus on the service balance, linked to the pickup in tourism, may gradually rise above 5 percent of GDP in the forecast period. As a result of all this, the trade surplus may decline in 2026, but it could return to a growth trajectory starting in 2027 – driven by stronger exports. The income balance deficit will narrow moderately in 2026, owing to declining interest expenses, while the profit balance remains stable at a low level. Overall, the current account balance will temporarily deteriorate, temporarily turning into a slight deficit and then gradually rising as the trade surplus expands, while external net lending is expected to stabilise at around 1–2 percent of GDP due to increased utilisation of EU transfers.

Based on sectoral financing trends, the budget deficit will decline following a temporary increase in 2026, while private sector net financial savings, i.e. of households and corporates, will remain at the previous year's level (Chart 1-27). In 2025, the budget deficit fell moderately to 4.7 percent of GDP, while the private sector's net lending declined to a greater extent. Looking ahead, based on the announced fiscal measures and the MNB's macroeconomic forecast, the deficit could rise to 5.2-5.7 percent of GDP in 2026, after which it may begin to decline starting next year. Household net financial savings will rise this year thanks to an increase in government income transfers, while growth in consumption and investment will have the opposite effect. Starting in 2027, the growth in household consumption and investment expenditures will be reflected in a moderate decline in net savings. With

Chart 1-27: 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

low investment activity and the increasing use of EU transfers, the corporate sector's net position is expected to be around the 2025 level over the forecast horizon.

1.5. Fiscal developments

Based on preliminary financial accounts data, the general government sector's accrual-based balance showed a deficit of 4.7 percent of GDP in 2025, down 0.3 percentage point compared to the previous year. According to our forecast, the budget deficit may rise to 5.2–5.7 percent of GDP in 2026 and then begin to decline again from 2027, ranging between 4.7–5.2 percent in 2027 and 4.0–4.5 percent in 2028. The higher deficit path compared to the figures published in the December 2025 Inflation Report is mainly attributable to the newly announced fiscal measures, as well as the less favourable macroeconomic parameters. Based on preliminary data, gross public debt rose to 74.7 percent of GDP at the end of 2025, which was 1.2 percentage points higher than the level from one year earlier. According to our forecast, the gross public debt-to-GDP ratio may continue to rise temporarily in 2026, before dropping to around 74 percent by the end of 2028.

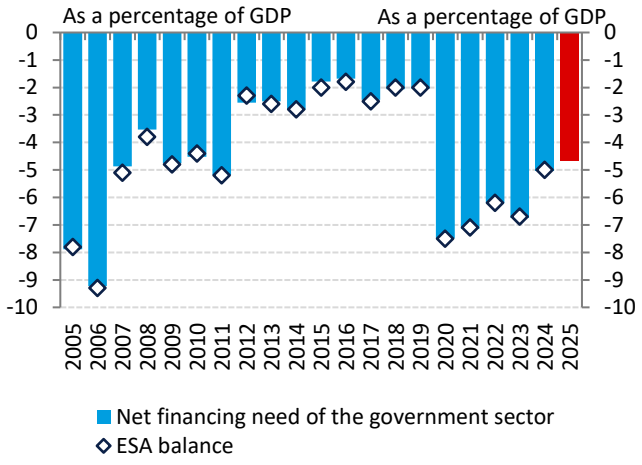
Table 1-5: General government balance indicators

	2025	2026	2027	2028
ESA balance	-4.7	(-5.7)-(-5.2)	(-5.2)-(-4.7)	(-4.5)-(-4.0)
Primary ESA balance (point estimate)	-0.7	-1.5	-1.2	-0.8
Gross interest expenditures	4.0	4.0	3.8	3.5

Note: As a percentage of GDP. The time series of the primary ESA balance after 2025 are point estimates, which are consistent with the midpoint of the ESA balance forecast bands.

Source: MNB

Chart 1-28: Accrual balance of the general government sector



Note: Based on the net lending capacity of general government as reported in the preliminary financial accounts published by the MNB.

Source: HCSO, MNB

1.5.1. Main balance indicators

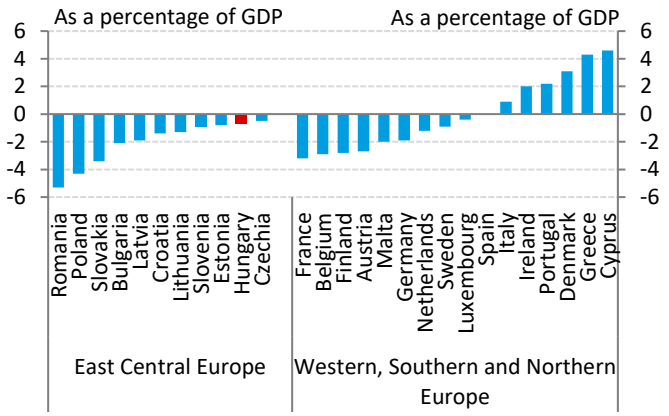
According to our forecast, the general government's accrual-based balance may show a deficit of 5.2–5.7 percent of GDP in 2026, 4.7–5.2 percent in 2027 and 4.0–4.5 percent in 2028 (Table 1-5). Based on preliminary financial accounts data, the general government sector's accrual-based balance reflected a deficit of 4.7 percent of GDP in 2025. Given the higher budget deficit targets and the measures announced since the publication of the December 2025 Inflation Report, as well as the less favourable macroeconomic parameters, the deficit is expected to rise in 2026. Some of the newly announced measures will only apply to 2026; consequently, the budget deficit may return to a downward trajectory starting in 2027.

Compared to the December 2025 forecast, the effects of the package of measures supporting the hospitality industry, the January utility price cap, the fuel price cap, the related excise duty reduction and the one-time allowances paid to government employees have been taken into account as new measures. In addition, decisions were also made to utilise the Economic Development Fund, established to take advantage of the fiscal space created by the escape clause. The impact of the utility price freeze may be largely offset by a one-time increase in the income tax on energy suppliers.

1.5.2. Budget balance for 2025

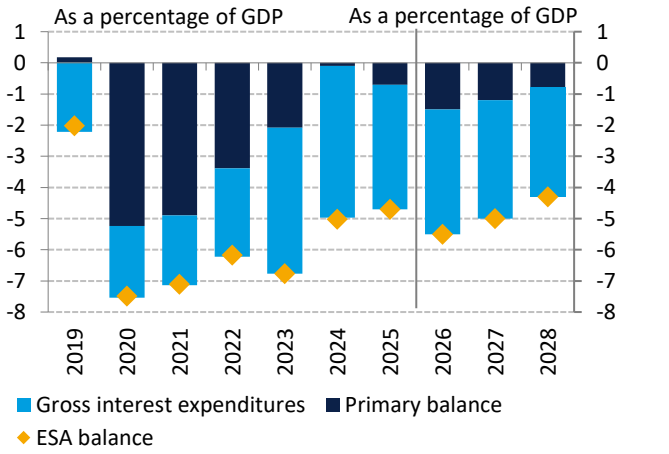
The accrual-based general government deficit amounted to 4.7 percent of GDP in 2025, falling within the 4.7–5.0-percent range projected in the December Inflation Report but remaining below the government's revised 5.0-percent target (Chart 1-28). Compared to the previous year's figure of 5.0 percent, the budget deficit decreased by 0.3 percentage point. The improvement in the general government balance in 2025 was primarily due to a significant reduction in accrual-based interest expenditures, which are projected to decline from 4.9 percent of GDP in 2024 to around 4 percent. The primary

Chart 1-29: Primary balance in EU comparison in 2025



Note: The figure shows the value calculated on the basis of the preliminary financial accounts data in the case of Hungary, while the European Commission's expectations are used for other countries.
Source: MNB, Ameco

Chart 1-30: Fiscal balance and government interest expenditures



Note: The time series of the ESA balance and the primary ESA balance after 2025 are point estimates, which are consistent with the midpoint of the ESA balance forecast bands.
Source: HCSO, MNB

balance, calculated excluding interest expenditures, showed a deficit of 0.7 percent of GDP, which may have been among the most favourable in the region (Chart 1-29).

1.5.3. Budget balance for 2026

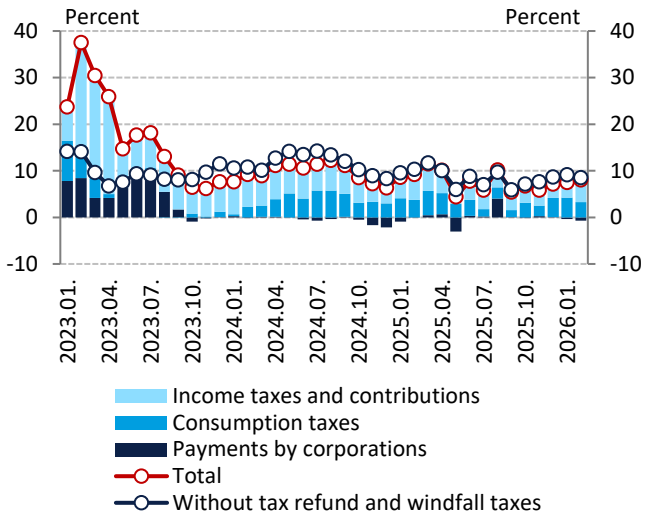
According to our forecast, the accrual-based deficit may rise to a range between 5.2–5.7 percent of GDP in 2026 (Chart 1-30). The budgetary impact of government measures supporting households and corporations this year could reach 2.4 percent of GDP. Measures supporting families will continue, including the extension of personal income tax exemptions for women having children, the increase of the family tax allowance, government wage increases and subsidised loan programmes, as well as the payment of a benefit equivalent to 6 months' salary for military and law enforcement personnel, the first instalment of the 14th-month pension and housing support for public servants. This year will see the launch of an 11-point package of measures to reduce the tax burden on businesses, which will be covered by a one-off increase in the 2026 windfall tax on credit institutions.

Since the previous Inflation Report, additional measures impacting the fiscal balance have been announced. Due to colder-than-usual weather, a utility price cap was introduced for January (see Box 1-2 for more details), partly financed by a one-off special tax imposed within the framework of the income tax of energy suppliers. The package of measures supporting the hospitality industry, in addition to tax reliefs, launches a new subsidised loan programme, with measures that may contribute to the formalisation of wages within the sector as well as to the reduction of administrative burdens. In response to rising global oil prices, the government introduced price caps on fuel prices, while simultaneously reducing the excise duty rate until 1 May. Teachers and civilian employees working in law enforcement and national defence will receive a one-off allowance. Some of the new measures (such as the January utility price freeze and the one-off allowances paid to teachers and civilian employees of law enforcement agencies) apply only to 2026; accordingly, the budgetary impact will be more moderate in subsequent years. In addition, decisions were made that will be funded from the HUF 860 billion Economic Development Fund, resulting in additional expenditures.

1.5.4. Budget balance for 2027 and 2028

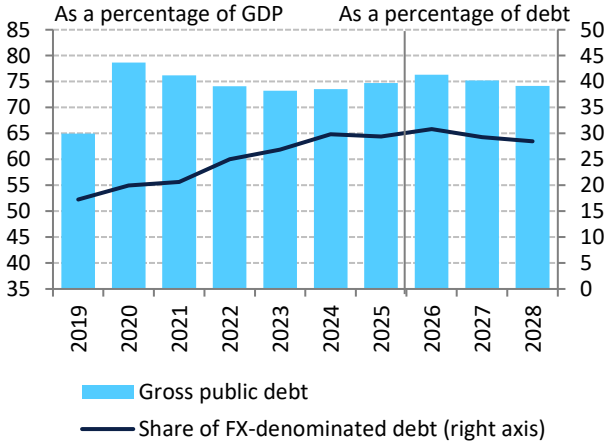
Based on our forecast, the deficit may be 4.7–5.2 percent in 2027 and 4.0–4.5 percent in 2028. With falling

Chart 1-31: Development of tax and contribution revenues of the central subsector (3-month moving average)



Source: Hungarian State Treasury, MNB

Chart 1-32: Gross public debt forecast



Source: MNB, ÁKK

interest expenditures and accelerating economic growth, the deficit may once again begin to decline. However, most of the measures announced starting in 2025 will have a lasting, gradually accumulating fiscal impact.

1.5.5. Risks surrounding the baseline scenario

The limited availability of EU funds poses a growing risk to fiscal processes. EU revenues are subject to risk due to the lack of agreement on the Recovery and Resilience Facility (RRF) and the potential loss of cohesion funds raised by the opinion of the Advocate General of the European Court of Justice. However, the currently frozen cohesion funds and a potential future agreement on the RRF funds could represent a positive risk.

Rising energy prices resulting from the military conflict in the Middle East – if energy prices stay elevated – pose a risk to the budget in the medium term.

1.5.6. Expected trends in public debt

Based on preliminary data, gross public debt amounted to 74.7 percent of GDP at the end of 2025, representing an increase of 1.2 percentage points compared to 73.5 percent at the end of 2024. At the same time, the EUR/HUF exchange rate was nearly 25 forints stronger at the end of 2025 compared to the level a year earlier, which reduced the debt-to-GDP ratio by 1.5 percentage points by itself, due to the revaluation of foreign currency debt.

According to our forecast, the gross public debt-to-GDP ratio may continue to rise temporarily in 2026, but could fall to around 74 percent by the end of 2028 (Chart 1-32). In addition to the high cash-based deficit, moderate economic growth and a deterioration in the terms of trade may also contribute to the rise in public debt.

Table 1-6: Changes in projections compared to the previous Inflation Report

	2025	2026		2027		2028	
	Actual	Forecast					
		Previous	Current	Previous	Current	Previous	Current
Inflation (annual average)							
Core inflation	4.6	3.6	3.9	3.1	3.9	3.0	3.1
Core inflation excluding indirect tax effects	4.5	3.6	3.9	3.1	3.9	3.0	3.1
Inflation	4.4	3.2	3.8	3.3	3.7	3.0	3.0
Economic growth							
Household final consumption expenditure	2.9	4.7	4.1	3.3	3.0	3.0	3.1
Final consumption of government[1]	2.0	0.4	1.5	0.5	0.5	0.5	0.5
Gross fixed capital formation	-2.2	1.3	2.3	4.0	3.2	3.8	2.7
Domestic absorption	1.9	2.8	3.0	2.8	2.4	2.6	2.4
Exports	0.0	3.9	1.6	5.2	5.2	4.0	4.4
Imports	2.1	4.5	3.4	4.9	4.4	4.0	3.7
GDP	0.4	2.4	1.7	3.1	3.0	2.7	2.9
Labour productivity[2]	0.0	3.0	1.9	2.9	2.9	2.5	2.8
External balance[3]							
Current account balance	1.3	1.9	-0.7	1.9	0.5	1.8	0.9
Net lending	2.1	3.4	0.7	3.2	1.7	3.0	2.1
Government balance[3]							
ESA balance	-4.7	(-5.2) - (-4.7)	(-5.7) - (-5.2)	(-4.9) - (-4.4)	(-5.2) - (-4.7)	(-4.2) - (-3.7)	(-4.5) - (-4.0)
Labour market							
Whole-economy gross average earnings[4]	9.0	10.6	10.9	7.0	6.6	6.5	6.9
Whole-economy employment	-0.7	-0.7	-0.8	0.2	0.2	0.1	0.1
Private sector gross average earnings[4]	8.8	9.0	8.7	9.4	8.3	7.1	7.1
Private sector employment	-1.4	-0.7	-1.4	0.3	0.3	0.2	0.2
Unemployment rate	4.4	4.8	4.6	4.5	4.3	4.1	3.9
Private sector real unit labour cost	2.8	1.6	2.3	0.6	0.6	-0.1	-0.3
Household real income[5]	-1.1	4.7	4.6	3.0	2.6	2.9	3.5

Note: In the case of the previous forecast, except for the general government balance, the midpoint values of the forecast range are indicated.
[1] Government final consumption expenditure includes final consumption expenditure of general government and nonprofit institutions.
[2] Whole economy, based on national accounts data.
[3] As a percentage of GDP.
[4] For full-time employees.
[5] MNB estimate.

Table 1-7: MNB baseline forecast compared to other forecasts

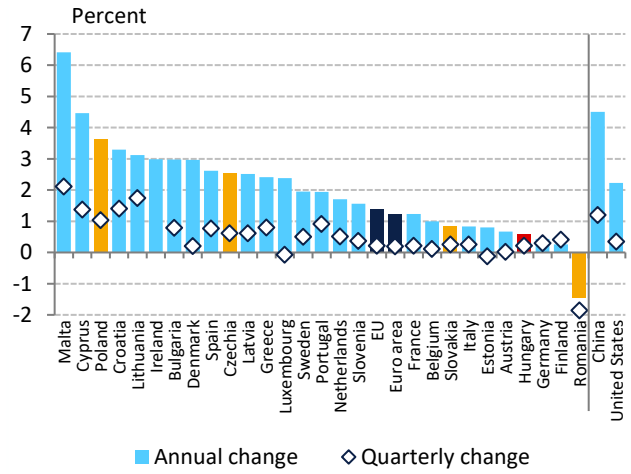
	2026	2027	2028
Consumer Price Index (annual average growth rate, %)			
MNB (March 2026)	3.8	3.7	3.0
Consensus Economics (March 2026)[1]	2.1 - 3.2 - 4.0	2.5 - 3.6 - 4.8	
European Commission (November 2025)	3.6	3.5	
IMF (October 2025)	3.5	3.0	3.0
OECD (December 2025)	3.8	3.4	
Reuters survey (March 2026)[1]	2.7 - 3.3 - 3.8	3.0 - 3.7 - 4.7	
GDP (annual growth rate, %)			
MNB (March 2026)	1.7	3.0	2.9
Consensus Economics (March 2026)[1]	1.5 - 2.0 - 2.6	1.7 - 2.6 - 3.2	
European Commission (November 2025)	2.3	2.1	
IMF (October 2025)	2.1	2.3	2.4
OECD (December 2025)	1.9	2.3	
Reuters survey (March 2026)[1]	1.1 - 1.9 - 2.4	1.6 - 2.5 - 3.1	
Current account balance[3]			
MNB (March 2026)	-0.7	0.5	0.9
European Commission (November 2025)	-0.3	-0.4	
IMF (October 2025)	0.9	1.2	1.4
OECD (December 2025)	1.0	0.2	
Budget balance (ESA 2010 method)[3]			
MNB (March 2026)	(-5.7) - (-5.2)	(-5.2) - (-4.7)	(-4.5) - (-4.0)
Consensus Economics (March 2026)[1]	(-5.6) - (-5.3) - (-4.6)	(-5.4) - (-4.5) - (-4.0)	
European Commission (November 2025)	-5.1	-5.1	
IMF (October 2025)	-4.6	-4.6	-4.5
OECD (December 2025)	-5.0	-4.5	
Reuters survey (March 2026)[1]	(-6.6) - (-5.5) - (-4.6)	(-5.8) - (-4.8) - (-4.0)	
Forecasts on the GDP growth rate of Hungary's trade partners (annual growth rate, %)			
MNB (March 2026)	1.4	2.2	1.8
ECB (March 2026)[4]	0.9	1.3	1.4
Consensus Economics (March 2026)[2]	1.4	1.7	
European Commission (November 2025)[2]	1.6	1.9	
IMF (January 2026)[2]	1.6	1.8	1.7
OECD (December 2025)[2]	1.6	1.9	

[1] For Reuters and Consensus Economics surveys, in addition to the average value of the analysed replies, we also indicate the lowest and the highest values to illustrate the distribution of the data.
[2] Values calculated by the MNB; the projections of the named institutions for the relevant countries are adjusted with the weighting system of the MNB, which is also used for the calculation of the bank's own external demand indices. Certain institutions do not prepare forecast for all partner countries.
[3] As a percentage of GDP.
Source: Consensus Economics, ECB, European Commission, IMF, OECD, Reuters poll, MNB

2. Key international factors influencing the forecast

Among the world's major economies, economic growth slowed in the European Union, the United States and China in 2025 Q4. The cautious improvement in global and European growth forecasts may have been disrupted by the escalation of the Iranian conflict, and therefore we currently expect more moderate growth in the economies of Hungary's export partners than in December. Inflation has moderated in both the euro area and the United States since November of last year. As a result of the Iranian conflict, global energy prices increased significantly. The price of Brent crude oil temporarily rose to close to USD 120/barrel, and European gas prices were up by more than 70 percent since the eruption of the war. By contrast, global food prices continued to ease further on an annual basis. The ECB left its policy deposit rate unchanged at 2.0 percent over the past quarter. The Federal Reserve also kept its target range for the policy rate at 3.5–3.75 percent. Market rate expectations have shifted upwards, with the markets now expecting two rate hikes by the ECB by the end of the year, while expectations for Fed rate cuts this year have been largely priced out.

Chart 2-1: Annual and quarterly GDP change in EU countries, the US and China in 2025 Q4



Note: Seasonally and calendar adjusted data.
Source: Eurostat

Evaluation of international macroeconomic developments

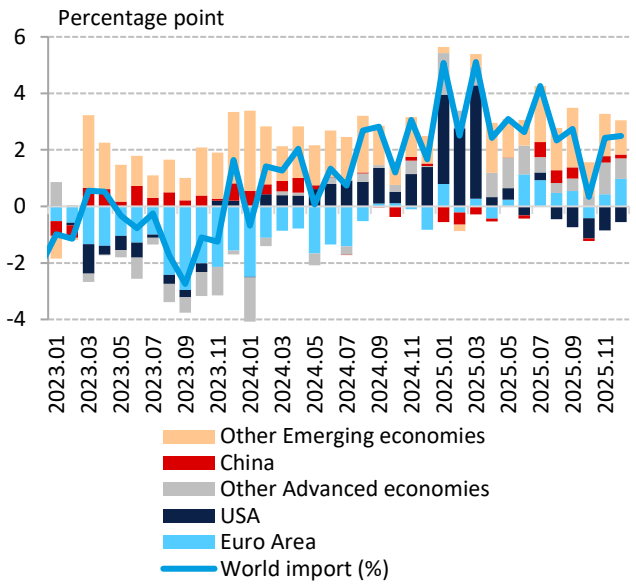
The EU economy grew by 1.4 percent and the euro area economy by 1.2 percent in 2025 Q4 (Chart 2-1). This continued the trend of slowing growth that had been observed for three quarters. Similarly to previous quarters, GDP growth in European economies was supported by household consumption as well as investment and government consumption, while net exports had a negative impact on growth. Compared to the third quarter, the economies of the EU and the euro area grew by 0.2 percent. **Hungary's most important trading partner, Germany, recorded annual growth of 0.4 percent in the last quarter of last year**, while among the countries in the region, the economies of Poland, Czechia and Slovakia grew by 3.6 percent, 2.6 percent and 0.9 percent, respectively. Romania's GDP declined by 1.5 percent (Chart 2-1).

Economic growth also slowed in the United States and China in 2025 Q4. GDP expanded by 2.0 percent in the US and by 4.5 percent in China compared to the same period of the previous year (Chart 2-1). Consumption was the main driver of growth in both the US and China. Compared to the previous quarter, the US economy grew by 0.2 percent and the Chinese economy by 1.2 percent.

In recent months, global trade and global industrial production have continued to expand. The expansion of global imports continues to be driven mostly by activity in emerging markets (Chart 2-2). The significant surge in US imports observed in early 2025, prior to the tariff announcements, reversed by the end of the year, with a decline in imports being recorded.

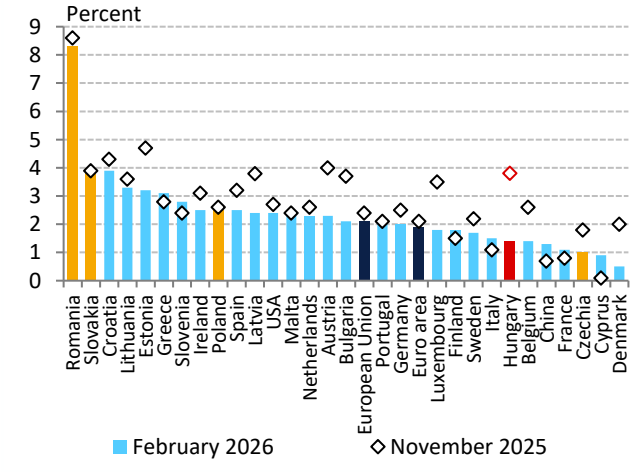
Inflation in the euro area has fallen by 0.2 percentage point since November last year and stood at 1.9 percent in February (Chart 2-3). Core inflation remained unchanged at

Chart 2-2: Annual change in world import



Note: Seasonally adjusted data.
Source: CPB

Chart 2-3: Developments in the international inflation environment



Note: National CPI data for Hungary, HICP data for other EU member states, CPI data for other countries.
Source: Eurostat, Trading Economics, national statistical offices

2.4 percent compared to November. In the case of items other than core inflation, two trends have been observed in recent months: while the annual change in energy prices slowed significantly, reaching -3.1 percent in February, inflation in unprocessed food products rose from 2.7 to 4.6 percent. Services continue to be characterised by gradual disinflation, and the annual price increase was 3.4 percent in February.

Inflation in the countries of the region continues to vary widely. From November to February, the rate of price increases declined in Czechia, Romania and Poland, while it slightly rose in Slovakia, according to Eurostat's harmonised data (Chart 2-3). The highest inflation was recorded in Romania (8.3 percent), followed by Slovakia (4.0 percent), Poland (2.5 percent) and Czechia (1.0 percent).

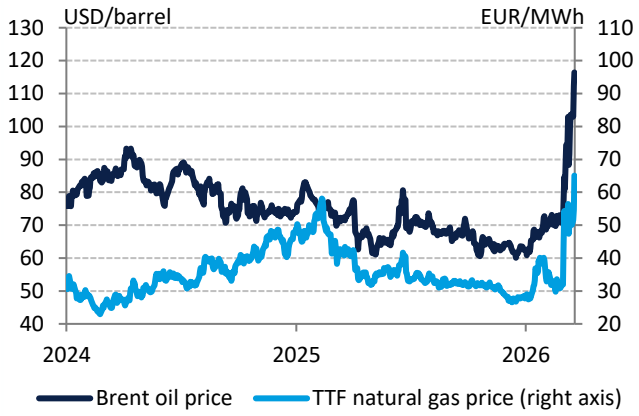
Inflation in the United States has slowed by 0.3 percentage point since November last year. In February this year, consumer prices rose by 2.4 percent on an annual basis. The slowdown in annual inflation was mainly due to lower fuel prices and disinflation in housing costs. Inflation in China has increased since the end of last year, with consumer prices rising by 1.3 percent year-on-year in February (Chart 2-3).

As a result of the Iranian conflict, global energy prices increased significantly. The price of Brent crude oil temporarily rose to close to USD 120/barrel**,** before settling around the USD 109 mark following a correction. This represents a significant increase compared to the USD 60–65 levels seen in mid-December, while the last time prices exceeded USD 100 was in August 2022 (Chart 2-4). The price increase was primarily caused by the escalating conflict in the Middle East, but other geopolitical tensions and the slowdown in oil production in Kazakhstan also contributed, intensifying fears of a tightening oil supply. The generally tense geopolitical situation – in particular, the 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.

European gas prices were up by more than 70 percent since the eruption of the war. In December of last year, the typical price level was around EUR 27. At the beginning of the year, the colder-than-usual January weather in Europe and the resulting faster-than-expected decline in natural gas storage levels caused gas prices to rise temporarily to around EUR 40/MWh. In February, thanks to milder weather, prices moderated somewhat and settled in between EUR 30–35. Subsequently, at the beginning of March, news of the outbreak of conflict in the Middle East caused gas prices to rise above EUR 60/MWh (Chart 2-4).

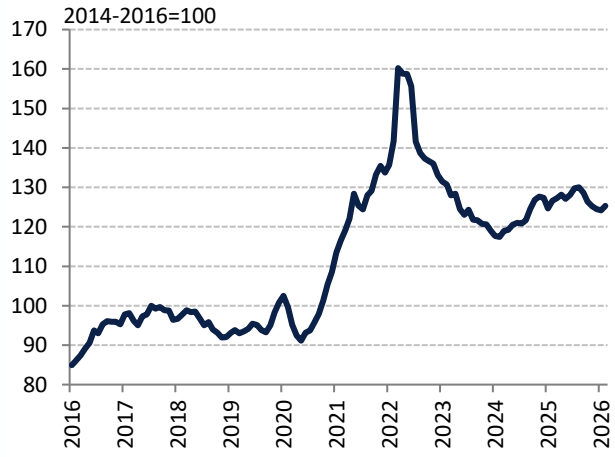
Global food prices continued to ease further on an annual

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



Source: Bloomberg

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



Source: FAO

basis (Chart 2-5)**.** In February, global food prices fell by an average of 1.0 percent versus February of last year, according to FAO data. Compared to the previous month, a 0.9-percent increase was recorded. Month-on-month inflation was driven by rising prices of grains, meat and oilseeds, which offset the continued decline in diary prices. The global food price cycle that began in 2024 ended in September of last year, and prices were falling steadily on a monthly basis until January. The decline in prices was mainly explained by dairy products.

At its February and March policy meetings, the ECB kept its policy deposit rate unchanged at 2.0 percent (Chart 2-6). At the March press conference, the ECB President confirmed that the central bank continues to follow a data-dependent, flexible approach.

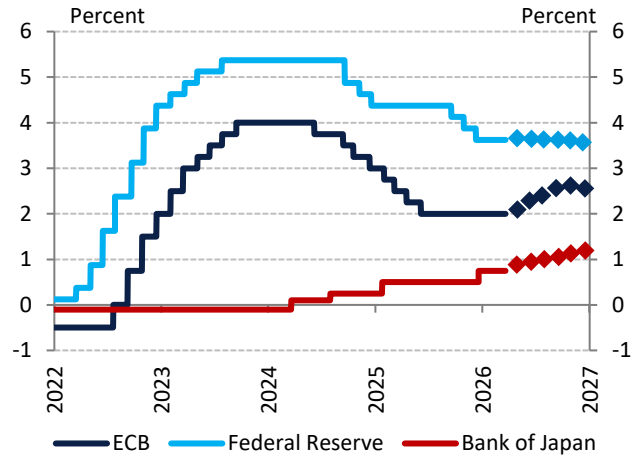
Among the regional central banks, the Czech and Romanian central banks did not change their interest rate conditions during the past quarter, while the Polish central bank cut its interest rate by 25 basis points in March (Chart 2-7). The Polish central bank kept its policy rate at 4.0 percent in January and February and then cut it by 25 basis points to 3.75 percent in March. The Czech central bank left its policy rate unchanged at 3.5 percent at its February and March policy meetings. The Romanian central bank did not change its interest rate conditions at its January and February policy meetings, with the base rate thus remaining at 6.5 percent.

Following three consecutive interest rate cuts, the Fed kept its target range for the policy rate at 3.5–3.75 percent at its January and March policy meetings (Chart 2-6). Policymakers consider the current monetary policy stance to be appropriate to promote progress toward both maximum employment and the 2-percent inflation target. At a press conference following the latest decision, the central bank governor noted that higher energy prices increase inflation, but it is still too early to assess the magnitude and persistence of their impact on economic activity. The Bank of Japan raised its base rate by 25 basis points to 0.75 percent in December and left the target range for the policy rate unchanged in January and March.

International macroeconomic outlook

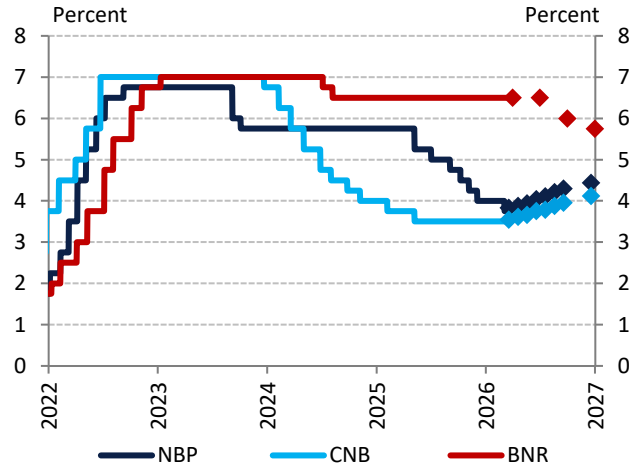
Geopolitical conflicts have intensified since the December Inflation Report. The possible prolongation of the Iranian conflict, which escalated at the end of February, is particularly important in terms of international energy prices and their spillover effects. The closure of the Strait of Hormuz is causing a significant reduction in global oil and gas supply, with surging energy prices expected to have a tangible macroeconomic impact worldwide. Consequently, a prolonged conflict would lead to substantially higher

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



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

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



Note: For the Polish and Czech central banks, the diamond denotes the interest rate path expected on the basis of current market pricing, whereas the median value for analysts' February expectations is shown for the Romanian central bank.
Source: Bloomberg

inflation and lower international growth than assumed in December. Export prospects are also dampened by rising tariffs and the unpredictability of US trade policy. Following the Supreme Court's decision on 22 February, the previous country-specific base tariffs were repealed, which the government replaced with a global 15-percent general tariff using another legal basis.

Our forecast for external demand this year is lower than the projection published in the December Inflation Report, due to the rise in energy prices, resulting from recent events in the Middle East, and a prolonged or potentially escalating conflict poses a significant further downside risk. As of the data cut-off date, 19 March 2026, the forecasts in Table 2-1 for the growth of Hungary's export partners remained largely unchanged relative to December, as most analysts have not yet published updated projections that take into account the effects of the Iranian conflict. **According to the forecast of the European Central Bank, euro area GDP growth may be 0.9 percent in 2026, which is 0.1 percentage point lower than the September forecast** (which was the current ECB forecast at the time of the previous Inflation Report), **whilst compared to December, it represents a 0.3-percentage point decrease.** Economic growth is likely to continue to be driven by domestic demand, with moderately negative net exports. According to the ECB, next year's growth may reach 1.3 percent in the euro area, while the median of market analysts' expectations is 1.5 percent for the euro area and 1.6 percent for the EU. In line with the generally deteriorating international growth outlook, we have revised our external demand forecast downward for this year and, to a lesser extent, for next year as well (Table 2-1). **The outlook for the German economy in 2026 has also deteriorated recently, according to the latest analyses.** Therefore, the expansion of the economy, which has been facing structural challenges for years may be significantly slower than what has been customary in the past decade. Before the events at the end of February, analysts expected a significant acceleration in growth, primarily due to the fiscal stimulus. In line with this, according to the Ifo Institute's February survey, the majority of manufacturing companies were already anticipating an increase in exports. Within this, the majority of automotive industry players were also increasingly optimistic about this year, which was a positive development for the Hungarian economy as well. German manufacturing industry orders reached the end-2022 level in December and continued on an upward trend. However, the improving sentiment has been disrupted by the escalation of the Iranian conflict and the sharp increase in energy prices. The Ifo Institute's latest 2026 forecast now

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

Partners	2026		2027	
	December	March	December	March
EU (74.6)	**1.4**	**1.5**	**1.7**	**1.7**
Germany (25.3)	1.0	1.0	1.5	1.5
Romania (5.6)	1.7	1.1	2.8	2.6
Poland (4.9)	3.4	3.7	3.1	3.1
Italy (4.9)	0.7	0.8	0.9	0.9
Slovakia (4.7)	1.5	1.3	2.3	2.1
Czechia (4.2)	2.3	2.5	2.6	2.6
United States (4.0)	1.9	2.5	2.0	2.0
France (3.9)	0.9	1.0	1.2	1.2
Austria (3.8)	0.9	0.9	1.5	1.5
United Kingdom (3.5)	1.1	1.0	1.4	1.4
China (1.1)	4.4	4.6	4.2	4.4
Growth of Hungarian export markets	***1.7***	***1.4***	***2.3***	***2.2***

Note: Country names are followed by their share in product exports in parentheses, based on 2025 data. Based on data available as of 19 March 2026.

Source: Bloomberg

projects growth of only 0.8 percent, down from the previous 1.0 percent, and, in the event of a deepening of the war, growth would be only 0.6 percent. Deutsche Bank also moderated its expectations for the current year, from 1.5 percent to 1.0 percent. Nonetheless, even the realisation of Ifo's worse-case scenario would still represent an acceleration in growth, compared to the difficulties of recent years and last year's 0.4-percent expansion.

Expectations for this year have risen in the US and China, with market analysts currently expecting GDP growth of 2.5 percent in the United States and 4.6 percent in China by 2026. However, these expectations do not yet reflect the assumed effects of the Middle East conflict (Table 2-2).

According to the European Central Bank's most recent, March expectations, inflation in the euro area may reach 2.6 percent this year, which is 0.9 percentage point higher than the September forecast from last year. The upward revision of the rate of price increases was justified by the surge in energy prices, resulting from the Middle East conflict. The institution moderately increased next year's expected inflation rate, by 0.1 percentage point, to 2.0 percent for 2027. In 2028, the rate of price increases may reach 2.1 percent.

Based on market pricing, the ECB is expected to raise interest rates twice by the end of the year (Chart 2-6). Market participants are also pricing in two 25-basis point rate hikes by year-end in the case of both the the Polish and Czech central banks. For the Romanian central bank, based on analysts' expectations from February prior to the escalation of the conflict in Iran, the first rate cut may take place in the third quarter of 2026 (Chart 2-7).

In the case of the Fed, markets have priced out further rate cuts for this year, while a 25-basis point rate cut is expected in 2027 (Chart 2-6). In the case of the Bank of Japan, a 50-basis-point interest rate hike is expected by the end of the year.

Table 2-2: Main external assumptions of our forecast

Technical assumptions	2026		2027		2028		Change		
	Previous	Current	Previous	Current	Previous	Current	2026	2027	2028
EUR/USD	1.165	1.155	1.165	1.150	1.165	1.150	-0.8%	-1.2%	-1.2%
Oil (USD/barrel)	62.2	89.7	62.4	77.2	62.8	74.0	44.3%	23.7%	17.9%
Gas (EUR/MWh)	27.0	57.6	25.5	44.4	25.1	34.3	113.4%	74.1%	36.8%
Euro area inflation (%)	1.7	2.6	1.9	2.0		2.1	0.9 pp.	0.1 pp.	
Euro area real GDP (%)	1.0	0.9	1.3	1.3		1.4	-0.1 pp.	0.0 pp.	
GDP growth of Hungary's main export partners* (%)	1.7	1.4	2.3	2.2	1.8	1.8	-0.3 pp.	-0.1 pp.	0.0 pp.

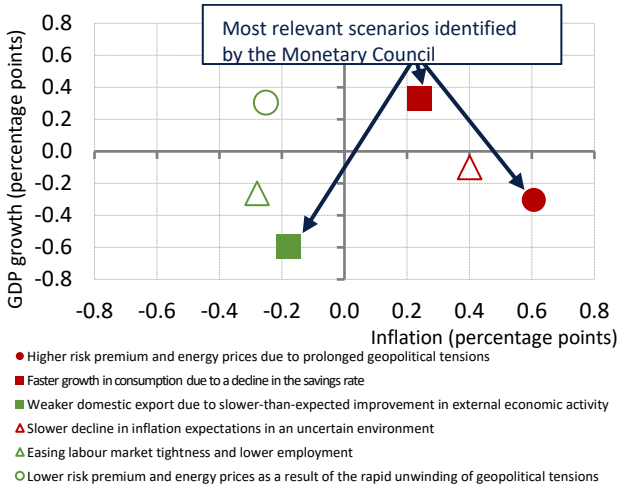
Note: Annual average in the case of oil prices. *Growth rate of Hungary's 21 most important export partners weighted by share in exports. The ECB's previous forecast is based on the September 2025 figures, as the ECB's December forecast was not yet available at the time of preparation of the December Inflation Report. The projections are based on information available for the period ending 19 March 2026.

Source: Bloomberg, Consensus Economics, MNB, ECB

3. Effects of alternative scenarios on our forecast

The Monetary Council highlighted three alternative risk scenarios in relation to the baseline forecast in the March Inflation Report. The first scenario assumes higher risk premiums and energy prices due to prolonged geopolitical tensions: this scenario is consistent with higher inflation and lower growth paths as well as tighter monetary conditions. The second scenario assumes faster growth in consumption due to a decline in the savings rate: it is consistent with higher growth and inflation paths as well as tighter monetary conditions. The third scenario anticipates weaker domestic export due to a slower-than-expected improvement in external economic activity: this scenario is consistent with lower growth and inflation paths and thus looser monetary conditions. In addition to the three highlighted scenarios, the Monetary Council also discussed other scenarios featuring a slower decline in inflation expectations in an uncertain environment, easing labour market tightness and lower employment, and lower risk premium and energy prices as a result of the rapid unwinding of geopolitical tensions.

Chart 3-1: Risk map: effects 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: Bloomberg

Higher risk premium and energy prices due to prolonged geopolitical tensions

Given the materialisation of geopolitical risks, upward pressure was seen on oil and energy prices, and higher risk aversion may lead to capital outflows for emerging markets. As a result of the outbreak of the Iranian conflict in early March, the price of Brent oil advanced to over USD 100/barrel from around USD 61/barrel at the end of December. European gas prices have also risen. The average level of the VIX index measuring capital market volatility was 15.6 percent in December 2025 and increased to 24.5 percent in the first half of March. Persistent energy price increases may undermine Hungary's external balance through the energy balance, thereby increasing risk premiums.

The alternative scenario assumes prolonged geopolitical tensions. In this scenario, energy prices and long-term yields in developed countries continue to rise significantly, suggesting a substantial increase in the vulnerability of the Central and Eastern European region. As the Hungarian economy is a net commodity importer, the country's external and internal balance is negatively impacted, thereby causing a rise in risk premium. Overall, this scenario is consistent with higher inflation, lower growth and tighter monetary conditions compared to the baseline scenario.

Faster growth in consumption due to a decline in the savings rate

Hungarian wage dynamics are strong in comparison to the CEE region, and consumer confidence has also improved. In December 2025, regular gross average earnings (excluding bonus payments) increased by 9.4 percent on an annual basis in the national economy. Following a

temporary stagnation in January, the GKI consumer confidence index continued to rise in February, reaching the highest level seen in many years. As caution wanes, households will be able to spend increasingly larger amounts on consumption, by gradually reducing their savings.

This alternative scenario assumes that households will spend more of their disposable income on consumption. If consumer confidence improves and the savings rate continues to decline, household consumption may grow faster than forecast in the baseline scenario. This scenario is consistent with higher growth and inflation paths as well as tighter monetary conditions.

Weaker domestic export due to slower-than-expected improvement in external economic activity

In 2025 Q4, GDP growth continued at a moderate pace in both the European Union and Germany. Looking ahead, growth is expected to remain sluggish.

Hungarian industrial export sales remain subdued. The volume of industrial exports has been on a downward trend since 2021. Manufacturing of vehicles and electrical equipment, which accounts for the highest weight within industrial production, has decreased in recent years, with production also remaining below the 2022 level in most other industrial production sub-sectors.

This alternative risk scenario anticipates that growth in the European Union and Germany will be weaker than in the baseline scenario. The decline in external demand undermines Hungary's export performance, thus leading to a slowdown in GDP growth. In addition, due to lower external inflation, Hungarian inflation will be lower than in the baseline scenario, which is consistent with looser monetary conditions.

Other risks

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

In a scenario assuming a slower decrease in inflation expectations, the decline and anchoring of expectations occurs more slowly in an uncertain environment than assumed in the baseline scenario. If this scenario plays out, it will lead to higher inflation, a decline in disposable income and slower economic growth through companies' pricing and wage-related decisions. This scenario is consistent with tighter monetary conditions.

In another scenario assuming **easing labour market tightness and lower employment**, companies decrease their demand for labour more than expected in the baseline

scenario, with a further slowdown in nominal wage dynamics. The wage share has increased in recent years, which worsened companies' profitability and may have reduced employment. As a result of slower wage growth and declining consumption, this scenario is consistent with lower inflation and growth paths as well as looser monetary conditions.

In a scenario assuming a rapid unwinding of geopolitical tensions, the risk perception of the CEE region improves, and energy prices decline. As a result of a decreasing risk premium, the forint strengthens, and with the declining energy prices, the external balance also improves. This scenario is consistent with lower inflation and higher growth paths as well as looser monetary conditions compared to the baseline scenario.

4. Special topics

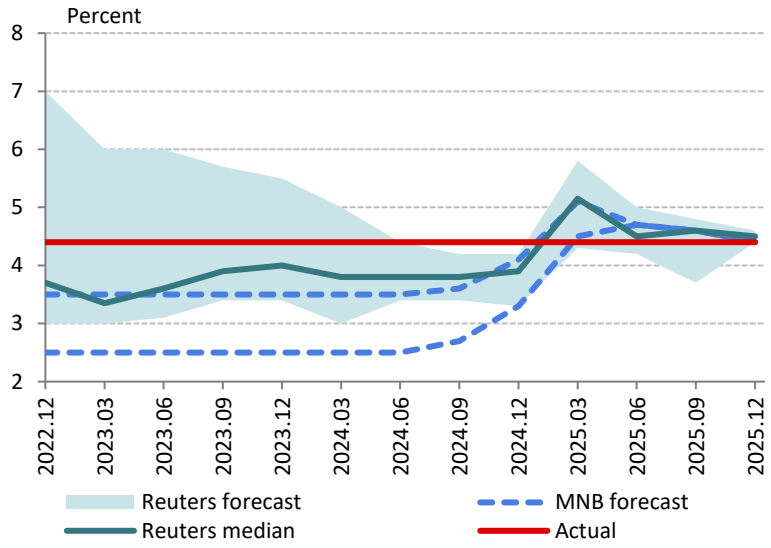
4.1. Assessment of the forecasts for 2025 given in the Inflation Reports

The aim of this section is to show how accurate the forecasts for 2025 given in the Inflation Reports have been over the past three years. We also examine how the forecasting performance of the Inflation Reports compares to market expectations. Overall, it can be said that actual inflation and economic growth in 2025 were somewhat lower than our forecasts last year, and employment in the private sector was lower, while wage dynamics in the private sector were in line with our forecasts last year.

4.1.1. Inflation

In 2025, inflation averaged 4.4 percent for the year. Domestic inflation rose at the beginning of 2025 and then began to decline after peaking in February (5.6 percent), partly due to restrictions on food price increases. Inflation continued to drop in 2025 H2, reaching the tolerance band in November and falling to 3.3 percent in December, close to the inflation target. Between December 2022 and September 2024, the MNB's forecast range for inflation in 2025 was around the central bank's 3-percent target. As a result of rising inflation, the forecast range rose to 4.5–5.1 percent between September 2024 and March 2025. Subsequently, the central bank switched to a point estimate, and in line with the moderation of inflation, the forecast also declined moderately. **The actual figure was 4.4 percent, in line with the December 2025 forecast. Our forecasts for 2025 as a whole were similar to the median of market analysts' expectations during the past year** (Chart 4-1).

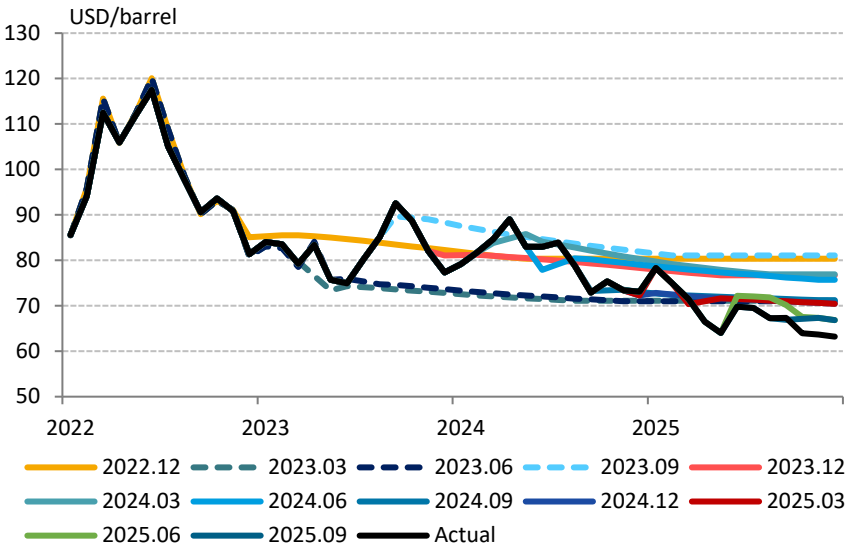
Chart 4-1: MNB and market forecasts for inflation in 2025



Source: HCSO, MNB, Reuters

Oil prices in 2025 were lower than the assumptions used in our forecasts (Chart 4-2). The price of Brent crude oil per barrel declined overall in 2024 and 2025, amid considerable volatility. In 2023, oil prices remained above USD 80 for most of the year, but fell to USD 63 by the end of 2025. Most of the price decline occurred in 2025 H1, driven largely by increased oil production in OPEC countries and the impact of heightened trade tensions on oil demand expectations.

Chart 4-2: Assumptions regarding oil prices

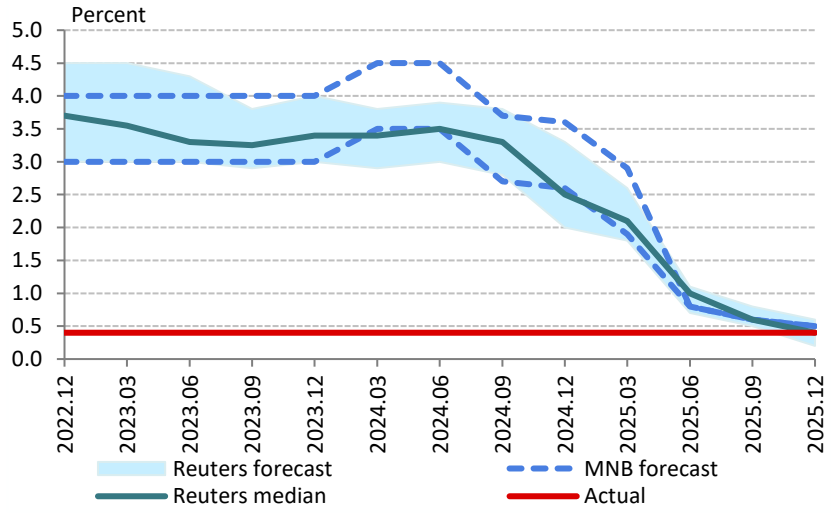


Source: Bloomberg, MNB

4.1.2. Economic growth

In 2025, Hungarian GDP expanded by 0.4 percent. The December 2022 Inflation Report projected growth of between 3.0 and 4.0 percent, a range that remained unchanged until December 2023. Over the following three quarters, the forecast for 2025 rose to 3.5–4.5 percent, before gradually dropping from 2024 Q3 in line with subdued economic performance. As a result of the tariff war that followed the announcement of US tariffs in April 2025, our GDP forecast fell to 0.8 percent by June 2025. **The actual figure was somewhat lower than the 2025 expectations, at 0.4 percent** (Chart 4-3).

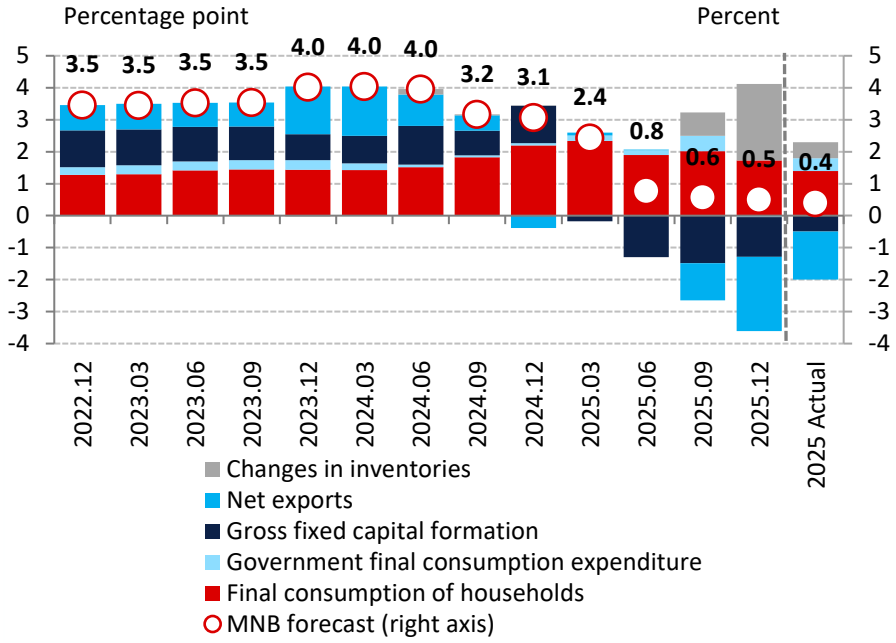
Chart 4-3: MNB and market forecasts for GDP growth in 2025



Source: HCSO, MNB, Reuters

Household consumption expenditure (+1.4 percentage points), inventory changes (+0.5 percentage point) and government final consumption expenditure (+0.4 percentage point) supported growth in 2025, while net exports (-1.5 percentage points) and gross fixed capital formation (-0.5 percentage point) held it back. In line with the deteriorating external economic situation, the forecast anticipated a negative growth contribution from net exports from 2025 H2. Expectations for gross fixed capital formation also turned negative last year. According to surveys, companies' developments were hampered most by a lack of demand, high price levels and uncertainty. In line with rising real wages, the forecast for household consumption remained positive throughout (Chart 4-4).

Chart 4-4: MNB forecasts for the decomposition of GDP on the expenditure side in 2025



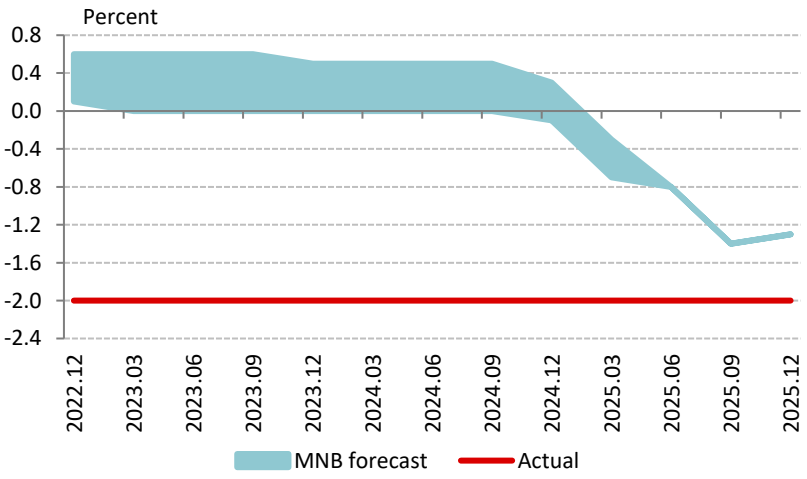
Note: The GDP values show the point estimate of the forecast, while the sub-items show the contribution to growth. Government final consumption expenditure includes the final consumption expenditure of general government and nonprofit institutions.

Source: HCSO, MNB

4.1.3. Labour market

The unemployment rate remains low in a historical comparison. In 2025, the number of persons employed in the private sector fell by 2 percent. Forecasts between December 2022 and December 2024 predicted stagnation or moderate growth in employment. In subsequent rounds, however, the forecast was gradually revised downward in light of the weak growth performance, declining labour demand and demographic trends. The March 2025 Inflation Report projected a decline in employment of 0.7 to 0.3 percent, which was further reduced to 1.3 percent by December 2025. The unemployment rate remained low, falling to 4.3 percent by the end of the year. **Last year's forecasts exceeded actual dynamics** (Chart 4-5).

Chart 4-5: MNB forecasts for the 2025 headcount index in the private sector

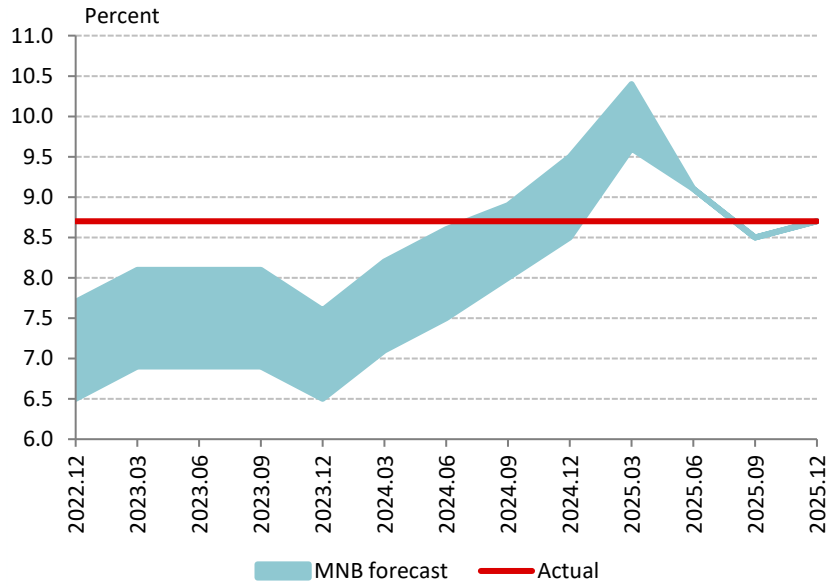


Source: HCSO, MNB

In 2025, wages in the private sector rose by 8.7 percent. Expectations for the wage index initially ranged between 6.5 and 8 percent between December 2022 and December 2023. Subsequently, our forecasts rose steadily until March 2025, when

our expectations ranged between 9.6 and 10.4 percent. Finally, moving on to point estimates, wage growth gradually moderated. Last year's wage growth forecasts were influenced by declining inflation expectations and a gradual easing of labour market tightness. Average wage growth was also boosted by the 9-percent and 7-percent increases in the minimum wage and guaranteed minimum wage at the beginning of 2025. **Overall, wage dynamics in the private sector in 2025 were in line with our forecast** (Chart 4-6).

Chart 4-6: MNB forecasts for the 2025 wage index in the private sector



Source: HCSO, MNB

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