INFLATION REPORT

2025

MARCH

'... wise is the man who can put purpose to his desires.'

Miklós Zrínyi: The Life of Matthias Corvinus

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

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

In order to provide the public with a clear insight into how the central bank's monetary policy works and to enhance transparency, the Bank publishes the information available at the time of making its monetary policy decisions. The Inflation Report presents the inflation forecasts prepared by the Directorate Economic Forecast and Analysis, the Directorate Monetary Policy and Financial Market Analysis, the Directorate Fiscal Analysis and the Directorate Financial System Analysis, 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 analyses in this Report were prepared under the general direction of the Executive Director of Economic and Fiscal Analysis and Statistics. The Report was prepared by staff at the MNB's Directorate Economic Forecast and Analysis, Directorate Monetary Policy and Financial Market Analysis, Directorate Fiscal Analysis, Directorate Financial System Analysis and Directorate for International Monetary Policy Analysis and Training of Economic Sciences. The Report was approved for publication by Barnabás Virág, Deputy Governor responsible for Monetary Policy, Financial Stability and International Relations.

The Report incorporates valuable input from other areas of the MNB and the Monetary Council's comments.

The projections are based on information available for the period ending 20 March 2025.

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THE MONETARY COUNCIL'S KEY FINDINGS RELATED TO THE INFLATION REPORT

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

Due to prolonged geopolitical conflicts and intensifying trade policy tensions, the global economic environment continues to be uncertain. In the EU, the announced programmes for expenditure hikes may boost economic growth which has been subdued for years.

In the European Union, GDP grew by 1.4 percent year-on-year in 2024 Q4, an acceleration compared to the previous quarter. The United States and China recorded growth of 2.5 and 5.4 percent, respectively. Within the European Union, the economic performance of Germany, Hungary's main trading partner, contracted by 0.2 percent in 2024 Q4 compared to 2023 Q4. In the countries of the region, GDP grew at a rate of between 0.7 and 3.7 percent compared to the same period of the previous year. At the beginning of March, Germany and several other EU member states announced a substantial expansion of their fiscal spending, which may support a recovery in European growth. In the US, the risk of a slowdown in economic activity has emerged.

The decline in global inflation came to a halt in the autumn of 2024. The consumer price index rose again in several economies.

In nearly half of those OECD countries which have disclosed data already – 16 out of 34 – inflation either remained unchanged or rose in February compared to January. In addition to rising global food prices, services inflation which stuck at high level also contributed to the global halt in the decline of inflation. In February, inflation eased to 2.8 percent in the United States, while in China, primarily due to base effects, consumer prices fell by 0.7 percent on an annual basis. Inflation in the euro area and in regional countries has been above the central bank target in recent months. In February, prices rose by 5.0 percent in Romania, by 4.9 percent in Poland and by 2.7 percent in Czechia.

The European Central Bank (ECB) continued its easing cycle, while following a cut in December, the Federal Reserve (Fed) maintained its federal funds target range in January and March.

At its January and March rate-setting meetings, the ECB lowered its key deposit rate by 25 basis points each to 2.5 percent, in line with the pace of previous rate decisions. The central bank expects inflation to stay close to the inflation target for a sustained period this year, reaching it by early 2026. At the same time, the ECB is not committed to a particular interest rate path in consideration of the two-way inflation risks fuelled by rising geopolitical tensions.

In the United States, the Fed lowered the federal funds target range by 25 basis points to 4.25–4.50 percent at its December rate-setting meeting and then left the target range unchanged in January and March. The Fed continues to reduce its balance sheet; however, from the beginning of April, it will decrease the previous pace of USD 25 billion for Treasury securities to USD 5 billion, while maintaining the pace of USD 35 billion for mortgage-backed securities. According to its communication, uncertainty surrounding the economic outlook has intensified.

In the region, the Czech central bank kept its policy rate unchanged in December and decided to lower the rate by 25 basis points to 3.75 percent at its February rate-setting meeting. The Polish and the Romanian central banks did not change their interest rate conditions. The Polish policy rate is 5.75 percent, while the Romanian rate is 6.50 percent.

Global investor sentiment is volatile.

Announcements related to trade policies and their negative impact on real economic outlook significantly increased uncertainty in international financial markets. However, in case of the Russia-Ukraine war, the start of negotiations on a ceasefire had a favourable effect on risk appetite. As a net result, in most countries, except the US and Japan, stock market indices rose with high volatility.

Market expectations for interest rate paths diverged in the US and the euro area. Amid rising uncertainty and deteriorating US growth outlook, the interest rate path expected from the Fed has been shifted downward, overall, while in the case of the ECB, rate cut expectations have moderated as significant investment plans emerged in Europe. The US 10-year yield dropped to 4.2 percent, while plans for fiscal stimulus increased the European long-term yields. The dollar has weakened considerably over the past quarter which improved the assessment of emerging market assets.

European gas prices rose significantly from late January to mid-February, primarily reflecting intensifying risks to the security of supply, driven by geopolitical conflicts. However, from mid-February, gas prices gradually declined to the levels seen in December. Since the second half of January, the prices of oil per barrel have fallen below December level.

In the past quarter, the forint appreciated significantly, while government bond and interbank yields were on the rise.

Based on investor analyses, the assessment of Hungary's fundamentals has improved. The forint has appreciated by nearly 4 percent since the beginning of the year, in parallel with the strengthening of global investor sentiment and expectations related to the Russia-Ukraine peace agreement. The short section of the government bond yield curve shifted upwards by 80–90 basis points, while the long section rose by 45–50 basis points. Short-term interbank rates barely changed, while the yield on long-term interest rate swaps slightly rose.

In recent months, inflation in Hungary has increased further, and upside risks have intensified.

In February 2025, inflation rose to 5.6 percent and core inflation to 6.2 percent. Most product categories contributed to the increase in the annualised consumer price index and core inflation, which, in the case of the CPI, was partly offset by the disinflation of fuels. The extent of repricings at the beginning of the year was above the historical average in case of tradables, market services and food. Both household and corporate price expectations increased.

The consumer price index will decline after its peak in February. Inflation is expected to be above the central bank tolerance band for the rest of the year. Core inflation is expected to fall to a range of 5.0–5.2 percent in the second quarter and thereafter to remain at a similar level for most of the year. In case of food, product group affected by profit margin caps by the authorities is expected to moderate consumer prices in the coming months. The strong price dynamics in market services points to higher inflation throughout the year. The rate of price increases is likely to return to the central bank tolerance band at the beginning of 2026, approaching the 3 percent inflation target at the end of the year. In the MNB’s projection, annual inflation is expected to be 4.5–5.1 percent in 2025, while the consumer price index is expected to be 2.9–3.9 percent in 2026 and 2.5–3.5 percent in 2027.

The Hungarian economy returned to growth in 2024 Q4.

The Hungarian economy expanded by 0.4 percent year-on-year in 2024 Q4. Economic growth was supported by a rise in the value added of services, whereas the subdued performance of industry, construction and agriculture restrained it. Consumption continued to increase in line with rising real wages. The contraction in investment and net exports held back growth in the fourth quarter by 2.8 and 0.5 percentage points, respectively. Incoming data suggest that the recovery in Hungarian economy has continued in early 2025. The tightness of the labour market has eased in recent quarters. The fall in number of employees seen in the autumn months came to a halt according to December-January data; consequently, employment has continued to be at a high level. The unemployment rate has remained low.

The further expansion in consumption in 2025 is expected to be the driver of growth looking ahead. This will reflect rising real wages and tax cuts by the Government. The large capacity-enhancing industrial investment projects, implemented in recent years, may start production at the end of 2025 and during 2026. External demand is likely to remain subdued over the short-term; however, the strengthening of the European economic activity is expected to stimulate domestic exports in the medium term. The Hungarian economy is expected to grow by 1.9–2.9 percent in 2025, expanding further by 3.7-4.7 percent in 2026, and by 2.8–3.8 percent in 2027.

Trends in domestic lending continue to have a dual nature: the household credit market picked up further, while corporate credit demand remained low.

The annual growth rate of loans to households in the total financial intermediary system accelerated by 1.8 percentage points compared to the previous quarter, reaching 8.7 percent in 2024 Q4. The value of housing loans originated by credit institutions in the fourth quarter increased by 92 percent compared to the low base of the same period of the previous year, while personal loan issuance was 66 percent higher. Based on the responses to the Lending Survey, banks expect demand for consumer loans and housing loans to pick up in 2025 H1.

The annual growth rate of corporate credit in the total financial intermediary system slowed to 2.8 percent at the end of 2024 Q4. Loans to micro, small and medium-sized enterprises increased by 1.9 percent year-on-year. Based on the responses to the Lending Survey, regarding 2025 H1, a quarter of banks expect loan demand to pick up, partly due to the Demján Sándor Loan Scheme available from January 2025.

Based on data for January, the dual nature in credit market remained at the beginning of the year, with banks' lending to households increasing by HUF 60 billion and lending to non-financial corporations decreasing by HUF 149 billion during the month. The annual growth rate of households' loans outstanding may amount to 13 percent at the end of 2025 on the back of supportive real economic fundamentals as well as the Subsidised Loans for Workers, and 9–10 percent from the beginning of 2027. In line with the economic recovery and the easing of uncertainty, the annual growth rate of corporate loans may gradually increase to 6 percent by the end of 2025 and stabilise at around 9–10 percent from mid-2026.

The current account surplus remains persistently large.

The improvement in Hungary's external position continued in 2024. The current account balance remained high, primarily in relation to a more favourable trade balance, while the income balance deficit also narrowed. With an upswing in domestic demand, the current account surplus is expected to temporarily decline slightly in 2025. However, normalising external demand and the rising output of new investments are expected to result in a persistently significant surplus in the external position from 2026 onwards. The current account surplus is projected to range between 1.2– 2.6 percent of GDP in 2025, 1.8–3.4 percent in 2026 and 2.0–3.8 percent in 2027.

The budget deficit and the debt ratio are expected to decline.

The accrual-based balance of the general government sector showed a deficit of 4.8 percent of GDP in 2024. In the MNB's projection, the fiscal deficit may decrease further in 2025, supported mainly by declining interest expenditures and rising tax revenues as economic growth picks up. The primary balance excluding interest expenditures is likely to be at near-equilibrium levels over the entire forecast horizon. According to preliminary data, gross public debt amounted to 73.8 percent of GDP at the end of 2024. The debt ratio is expected to fall steadily in the coming years, even with the revised deficit target for 2026. The debt-to-GDP ratio is projected to decrease to 73.2 percent by the end of 2025 and to decline below 69 percent at the end of the forecast horizon.

In the Monetary Council's risk assessment, there are overall upside risks to inflation in the baseline scenario in the March projection.

The Monetary Council highlighted four alternative risk scenarios around the baseline projection in the March Inflation Report. The risk scenarios featuring rising trade tensions and a deterioration in emerging market sentiment are consistent with a higher inflation and lower growth path. The scenario that assumes the easing of geopolitical tensions is consistent with stronger economic growth and lower inflation compared to the baseline. In the scenario that envisions fiscal stimulus in Europe, both the growth path and the inflation path may be higher. In addition to the highlighted scenarios, the Monetary Council discussed other alternative scenarios with persistently high inflation expectations, faster investment growth and a faster improvement in productivity.

SUMMARY TABLE OF THE BASELINE SCENARIO

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

	2024	2025	2026	2027
	Actual		Forecast	
Inflation (annual average)				
Core inflation	4.6	5.0 - 5.5	3.2 - 3.9	2.6 - 3.2
Core inflation excluding indirect tax effects	4.6	4.8 - 5.3	3.2 - 3.9	2.6 - 3.2
Inflation	3.7	4.5 - 5.1	2.9 - 3.9	2.5 - 3.5
Economic growth				
Household final consumption expenditure	5.0	4.5 - 5.3	3.8 - 4.8	2.9 - 3.9
Government final consumption expenditure[1]	-2.3	0.2 - 1.2	0.0 - 1.0	0.0 - 1.0
Gross fixed capital formation	-11.3	(-2.2) - 0.8	3.0 - 5.8	2.5 - 5.5
Domestic absorption	0.3	1.5 - 3.5	2.6 - 4.2	2.3 - 3.5
Exports	-2.8	0.6 - 2.6	7.1 - 8.9	5.3 - 7.1
Imports	-3.3	0.5 - 2.5	6.0 - 8.0	4.9 - 6.9
GDP	0.5	1.9 - 2.9	3.7 - 4.7	2.8 - 3.8
Labour productivity[2]	0.2	1.9 - 2.7	3.1 - 4.4	2.4 - 3.8
External balance[3,6]				
Current account balance	2.2	1.2 - 2.6	1.8 - 3.4	2.0 - 3.8
Net lending	2.5	2.8 - 4.2	3.6 - 5.2	3.4 - 5.2
Government balance[3]				
ESA balance	-4.8	(-4.3) - (-3.5)	(-4.2) - (-3.2)	(-3.9) - (-2.9)
Labour market				
Whole-economy gross average earnings[4]	13.2	9.5 - 10.3	10.1 - 11.4	6.4 - 7.7
Whole-economy employment	0.0	(-0.4) - 0.0	0.2 - 0.9	(-0.2) - 0.6
Private sector gross average earnings[4]	12.1	9.6 - 10.4	8.8 - 9.9	8.8 - 10.0
Private sector employment	-0.2	(-0.7) - (-0.3)	0.4 - 0.9	0.0 - 0.5
Unemployment rate	4.5	4.2 - 4.3	3.6 - 4.1	3.3 - 4.0
Private sector real unit labour cost	7.9	0.6 - 1.9	0.4 - 2.0	(-0.8) - 1.0
Household real income[5]	3.4	2.9 - 3.7	4.5 - 5.5	2.8 - 3.8

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

[2] Whole economy, based on national accounts data.

[3] As a percentage of GDP.

[4] For full-time employees.

[5] MNB estimate.

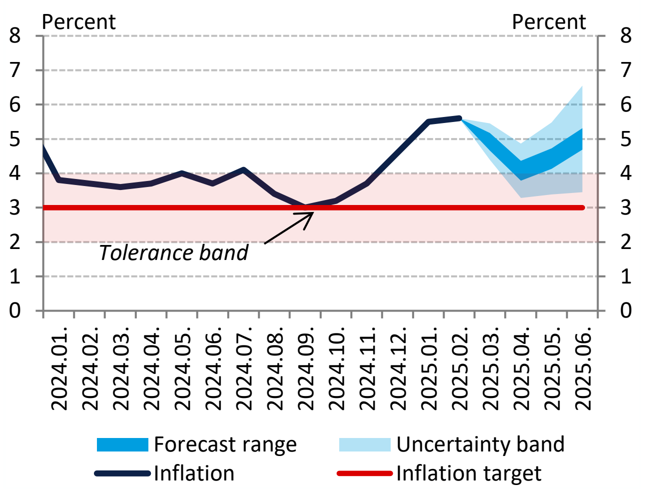
[6] For 2024, external trade data from GDP was taken into account.

1 Inflation and real economy outlook

1.1 Inflation forecast

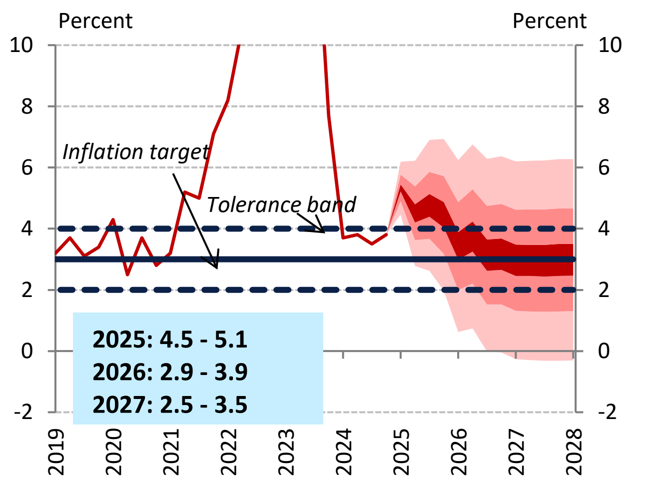
In both January and February, the consumer price index was higher than projected in the December Inflation Report. Stronger repricing at the beginning of the year suggests that the inflation path may be higher than expected this year. After its peak in February, the consumer price index will decline. It will remain above the central bank tolerance band for the rest of the year. Inflation in 2025 may average between 4.5 and 5.1 percent. The pace of price increases will decelerate and remain persistently within the central bank's tolerance band in early 2026, before approaching the 3-percent inflation target by year-end. Annual average inflation may fall to 2.9–3.9 percent next year and 2.5–3.5 percent in 2027. Core inflation, which captures underlying inflationary trends, will drop to around 5.0 percent by April and remain at a similar level until the end of the year.

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



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

Chart 1-2: Fan chart of the inflation forecast



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

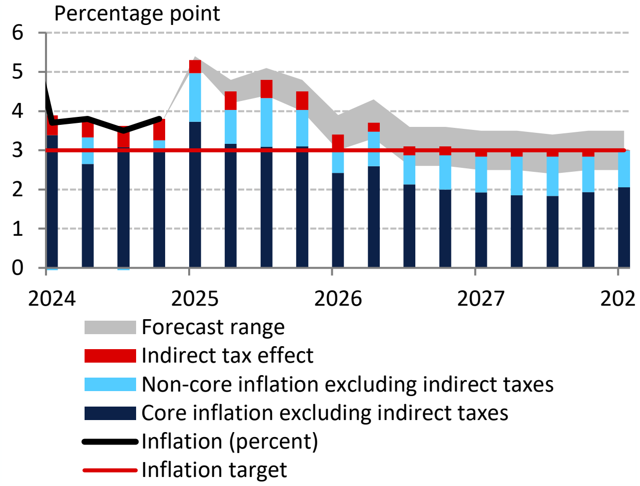
At the beginning of 2025, inflation exceeded our December projection, while stronger-than-expected repricing early in the year points to a higher inflation path for this year. After its peak in February, the consumer price index will decline due to restrictions on food price margins. It will remain above the central bank tolerance band for the rest of the year. Sustained disinflation may resume in the last quarter of this year (Chart 1-1).

The rate of inflation will decelerate and remain within the central bank's tolerance band in early 2026, before approaching the 3-percent inflation target by the end of the year. The recent strengthening of the forint supports the deceleration in price increases, while the high repricing typically seen in market services hampers disinflation.

Compared to our December forecast, the midpoint of our inflation forecast range for 2025 has risen by 1.1 percentage points. The higher forecast for 2025 is mainly driven by stronger-than-expected price increases for market services, industrial goods and food. Higher core inflation excluding indirect tax effects contributes significantly to the increase in the inflation forecast for this year and next year. **Inflation may average between 4.5 and 5.1 percent in 2025, 2.9 and 3.9 percent in 2026, and 2.5 and 3.5 percent in 2027** (Chart 1-2).

Core inflation excluding indirect tax effects, which captures underlying inflation processes, is projected to range between 4.8 and 5.3 percent in 2025, 3.2 and 3.9 percent in 2026, and 2.6 and 3.2 percent in 2027. Regarding this year's core inflation excluding indirect tax effects, we raised the midpoint of the forecast range by 1.6 percentage points relative to our December forecast. Core inflation will fall to around 5 percent by April and may remain at a similar level for most of the year. Underlying trends may decelerate substantially again from the

Chart 1-3: Decomposition of the inflation forecast



Note: The decomposition is based on the midpoint for the forecast range.
Source: HCSO, MNB

Table 1-1 Details of the inflation forecast

		2025	2026	2027
Core inflation excluding indirect tax effects		4.8 - 5.3	3.2 - 3.9	2.6 - 3.2
Core inflation		5.0 - 5.5	3.2 - 3.9	2.6 - 3.2
Non-core inflation	Unprocessed food	5.8	4.8	4.7
	Fuel and market energy	1.1	1.9	3.2
	Regulated prices	3.4	1.9	1.9
	Alcohol and tobacco	5.9	5.0	3.9
Inflation		**4.5 - 5.1**	**2.9 - 3.9**	**2.5 - 3.5**

Note: In percent. The table is based on the midpoint of the forecast range.
Source: MNB

beginning of 2026, supporting the achievement of the inflation target (Chart 1-3).

With regard to food, we expect to see a continued pass-through of rising global food prices, which will be temporarily restrained by the restrictions on food price margins. According to our calculations, the measure will cut inflation by 0.8 percentage point in April and May, temporarily pushing the rate of food price increases to below 4 percent. The impact of the measure may already be reflected in the March data. The MNB's indicator for food inflation will rise after the measure is phased out, but will remain below 7 percent. After the end of the measure, we expect a gradual recovery of margins and a realignment between product categories. Unprocessed food prices are expected to rise by around 5.8 percent this year, while we project a price increase of 4.8 percent next year and 4.7 percent in 2027.

The average annual price of vehicle fuel and market energy may rise by 1.1 percent this year, 1.9 percent next year and 3.2 percent in 2027 (Table 1-1). Our assumption for global oil prices in USD terms increased slightly for this year and decreased somewhat for 2026 and 2027 versus the December estimates. However, the rise in domestic petrol prices this year has been offset by changes in the HUF exchange rate since January. The global price of Brent crude oil exhibited significant fluctuations. Until mid-February this year, the price hovered around USD 75–82/barrel before falling to around USD 70 by mid-March. Global gas prices were around EUR 40/MWh in mid-March, declining from a nearly two-year high of EUR 58 in mid-February. Prices of goods and services with regulated prices are forecast to rise by around 3.4 percent in 2025 on average. Our forecast is based on the technical assumption that the measures affecting retail energy prices remain unchanged over the entire forecast horizon.

Box 1-1: Assumptions applied in our forecast

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

Table 1-2: Main external assumptions of our forecast

Technical assumptions	2025		2026		2027		Change		
	Previous	Current	Previous	Current	Previous	Current	2024	2025	2026
EURUSD	1.05	1.06	1.05	1.07	1.05	1.07	1.2%	1.6%	1.6%
Oil (USD/barrel)	71.4	71.9	69.8	69.7	69.7	69.3	0.7%	-0.2%	-0.5%
Oil (EUR/barrel)	67.9	67.6	66.4	65.2	66.2	64.8	-0.4%	-1.8%	-2.1%
Gas (EUR/MWh)	45.2	44.8	35.8	35.8	34.1	34.0	-0.9%	-0.1%	-0.2%
Euro area inflation (%)	2.1	2.3	1.9	1.9	2.1	2.0	0.2 pp.	0.0 pp.	-0.1 pp.
Euro area real GDP (%)	1.1	0.9	1.4	1.2	1.3	1.3	-0.2 pp.	-0.2 pp.	0.0 pp.
GDP growth of Hungary's main export partners* (%)	1.5 - 2.2	1.2 - 2.1	1.3 - 2.2	1.3 - 2.2	1.4 - 2.3	1.4 - 2.3	-0.2 pp.	0.0 pp.	0.0 pp.

Note: Annual average in the case of oil prices. *Growth rate of Hungary's 21 most important export partners weighted by share in exports.
Source: Bloomberg. Consensus Economics. MNB. EKB

Our assumptions for external demand have been reduced somewhat for the current year. In the fourth quarter, the European Union economy expanded by 1.4 percent on an annual basis, with modest growth of 0.4 percent versus the third quarter. In the US, GDP growth slowed slightly, but remained strong, expanding by 2.5 percent on an annual basis and 0.6 percent on a quarterly basis. In China, growth accelerated to 5.4 percent in 2024 Q4, while GDP expanded by 1.6 percent on a quarterly basis. From the aspect of external economic activity, escalating trade tensions, the generally tense geopolitical situation and the unfavourable outlook for industrial production in Europe represent risk factors. In 2024 Q4, global trade in goods and industrial production rose somewhat. The labour market in advanced economies remains tight. Global growth expectations are strongly influenced by trade policy measures and the outlook for a possible end to the war between Russia and Ukraine. Business confidence indicators reveal that consumer confidence in EU economies has weakened slightly, while business sentiment in services has stagnated, and confidence indices in industry remain low. European growth expectations for 2025 have deteriorated somewhat versus the December forecast and in line with this our assumptions for external demand were also lowered moderately. So far, US tariff measures have directly affected steel and aluminium products from the EU, which accounted for only 2.8 percent of EU exports of goods to the US in 2024. The potential impact of subsequent actions is discussed in the risk scenarios included in our forecast.

For this year, the European Central Bank expects growth to be more moderate and inflation to be 0.2 percentage point higher than its December projection. The ECB anticipates euro area GDP growth to reach 0.9 percent in 2025, down 0.2 percentage point versus the previous forecast. In relation to the tariff measures announced by the US administration, the ECB considered in its forecast the tariffs already in force at the time of publication, i.e. the additional tariff on China totalling 20 percent. This has a low impact on growth in the euro area, accounting for one-half of the 0.2-percentage point decline compared to the December forecast for 2025. The ECB also lowered next year's growth by 0.2 percentage point, expecting it to be 1.2 percent in 2026. According to the ECB's March forecast, inflation in the euro area may reach 2.3 percent this year, 1.9 percent in 2026 and 2.0 percent in 2027. The institution's inflation projection for this year is 0.2 percentage point higher than in December and unchanged for next year.

The price of Brent crude oil exhibited increased volatility in the first months of the year, falling around USD 70. Brent crude prices gradually declined from above USD 80 per barrel in January to a three-year low of around USD 70 by early March. Falling oil prices were due to the decision of OPEC+ on crude oil production and a larger-than-expected rise in US crude oil stocks. OPEC+ decided to increase production for the first time since 2022. Starting from April, the organisation will boost production by 138,000 barrels per day, the first step in a gradual reversal of the production cut that amounted to nearly 6 million barrels per day. In addition, the generally tense geopolitical situation – in particular, potential tariffs on energy imports – could continue to pose significant risks in relation to global oil prices. The difference between the price of Brent and Russian Ural crude persisted during the past period.

Domestic petrol and diesel prices have fallen significantly since the beginning of the year. Russian Ural crude oil continues to reach Hungary via pipeline. However, Brent is the benchmark for petrol and diesel prices, which implies that its price in

USD and the USD/HUF exchange rate have a significant impact on fuel prices. Falling global oil prices and international trends in the first months of the year were also reflected in domestic fuel prices.

Global gas and electricity prices remain below the levels from the months before the Russia-Ukraine war. Market prices of natural gas in Hungary and in Europe track the Dutch TTF gas price, which reached its historical peak at over EUR 300 in August 2022. Global gas prices were around EUR 40/MWh in mid-March, after a decline from a near two-year high of EUR 58 in mid-February. In 2025 Q1, gas prices in Europe have been more volatile than last year, driven by the cold winter weather, uncertainties surrounding supply chains, declining European gas storage reserves and the generally tense geopolitical situation. Changes in gas prices also affect electricity prices through gas-fired power plants. Electricity prices have surged since October, and there has been no sustained correction in prices since then. The 7-day moving average for the German Phelix electricity price has been above EUR 100 since the beginning of the year, which corresponds to the averages recorded at the beginning of 2023.

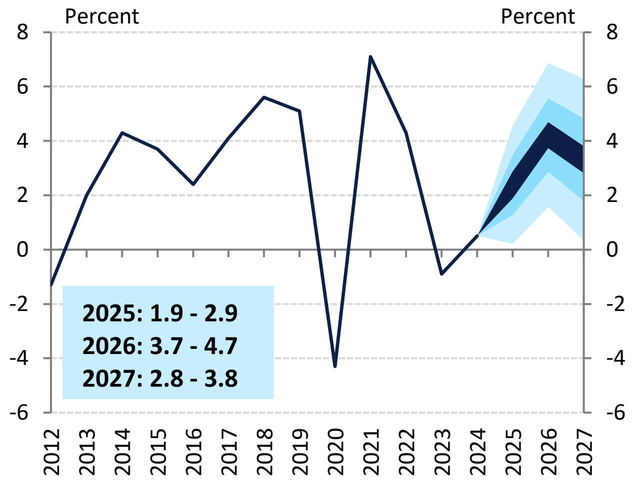
Based on preliminary fiscal accounts data, the accrual balance of the general government sector showed a deficit of 4.8 percent of GDP in 2024. According to our forecast, it may be in the range of 3.5–4.3 percent in 2025, 3.2–4.2 percent in 2026 and 2.9–3.9 percent in 2027. The decline in the fiscal deficit expected for this year is supported by lower interest expenditures, energy prices stabilising at lower levels and higher tax revenues due to improving economic growth relative to the previous year. The recently announced tax allowances will have a significant fiscal impact; consequently, the government revised its deficit target upwards, from 2.9 percent to 3.5 percent, for next year. According to preliminary data, gross public debt amounted to 73.8 percent of GDP at the end of 2024. Based on our forecast, gross public debt will decrease to 73.2 percent of GDP by the end of 2025, and then decline to below 69 percent of GDP over the forecast horizon.

There is still no agreement on the full availability of EU funds for Hungary. Hungary may have access to a total of EUR 12.2 billion in the 2021–2027 cohesion cycle, which is being acquired at a rate above the EU average; however, no agreement has yet been reached with the European Commission regarding the resources of the Recovery and Resilience Facility (RRF).

1.2 Real economy forecast

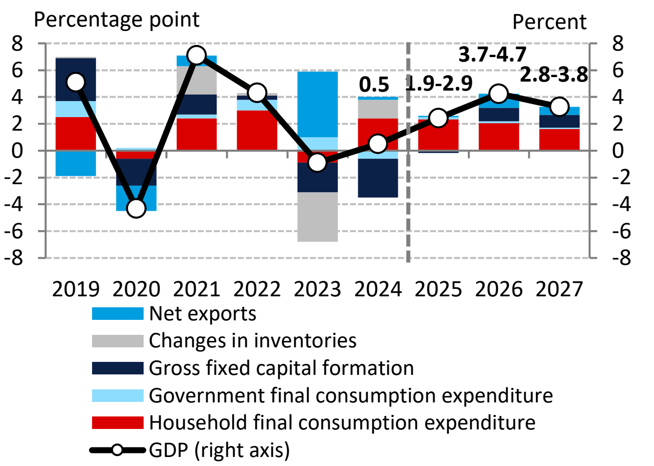
This year, the Hungarian economy may expand by 1.9–2.9 percent, with growth mainly supported by value added in market services. On the consumption side, we expect household consumption to continue to be the main contributor to GDP growth this year, while investment and net exports, which are close to stagnation, will have a neutral impact. Rising real wages, favourable income developments, the measures announced by the government and buoyant retail lending are all factors that support consumption growth. Starting from the end of 2025 and from 2026, as new manufacturing capacity comes on stream and external demand picks up, domestic exports could expand at a faster pace, which – together with rising investment – could lead to more balanced growth. Hungary's external market share is expected to decline this year and then start growing again in 2026. We forecast GDP growth to continue at rates of 3.7–4.7 percent in 2026 and 2.8-3.8 percent in 2027.

Chart 1-4: Fan chart of the GDP forecast



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

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

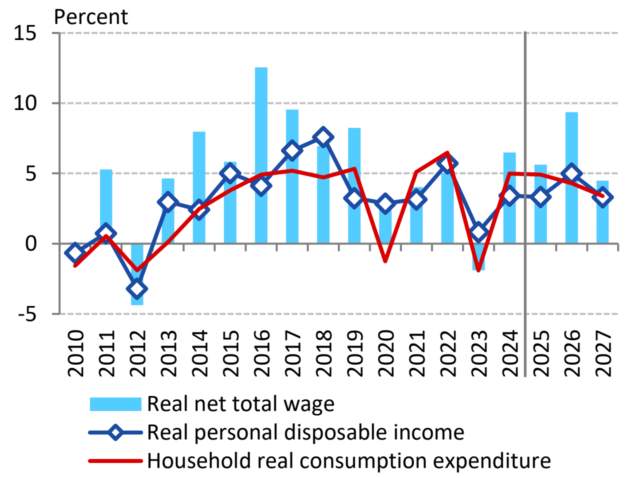


Note: Government final consumption expenditure includes final consumption expenditure of general government and nonprofit institutions.
Source: HCSO, MNB

GDP growth is expected to continue this year, with the Hungarian economy potentially expanding by 1.9-2.9 percent. In 2024 Q4, domestic GDP grew by 0.4 percent in year-on-year terms and 0.5 percent versus the third quarter. Positive real wage growth and favourable household income trends will support continued expansion in demand for services. Risks to the outlook for industrial production and forward-looking indicators both suggest that industrial output may remain subdued in the short term, with a noticeable turnaround at the end of this year. The economic performance of Hungary's main trading partner, Germany, is expected to improve next year, which will also stimulate domestic industrial activity on the demand side. The turnaround in domestic industrial activity is also supported by specific factors, such as the completion of major investments by domestic automotive and battery companies, allowing production to start in late 2025 and early 2026. In the short term, the outlook for the construction industry is subdued; however, measures to support the sector may start to have an impact in the latter half of the year. In 2025 H2, economic recovery programmes and targeted measures (Rural Home Renovation Programme, dormitory building programme, Subsidised Loans for Workers, making pension savings available for housing purposes) could provide a boost to the construction sector. **GDP growth may reach 1.9–2.9 percent in 2025, 3.7-4.7 percent in 2026 and 2.8–3.8 percent in 2027** (Charts 1-4 and 1-5).

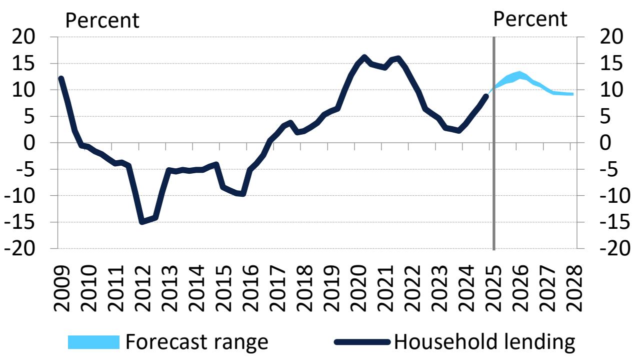
In 2025, we expect household consumption to continue rising, driven by favourable wage and income trends (Chart 1-6). According to our forecast, real disposable income should increase by 2.9–3.7 percent this year, with consumption growing by 4.5–5.3 percent. Due to the government measures announced since the end of December last year, we have raised our forecast for household consumption over the entire horizon. The extension of the VAT exemption for mothers and the introduction of a VAT refund for pensioners will mainly boost GDP in 2026 and 2027, by stimulating consumption. In

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



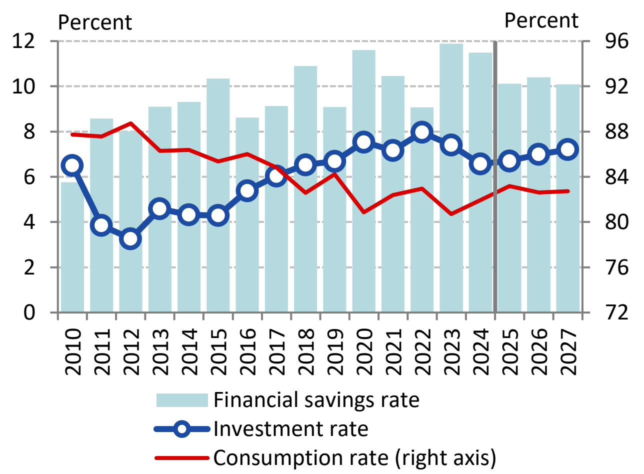
Source: HCSO, MNB

Chart 1-7: Forecast for lending to households



Note: Transaction-based, year-on-year data. 2019 Q3 data adjusted for transactions of lombard loans. Source: MNB

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



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

addition to government programmes (see Box 1-2.), lower government bond yields than in the previous period and income outflows related to maturing securities may also contribute to stronger consumption. Household demand is additionally supported by the anticipated growth in household loans, which is projected to reach around 13 percent at the end of 2025, due to positive real economic fundamentals and the launch of the Subsidised Loans for Workers, after which it should stabilise at around 9-10 percent in the first part of 2027 (Chart 1-7). Consumption growth is forecast at 3.8-4.8 percent in 2026 and 2.9–3.9 percent in 2027.

In 2025, household savings as a share of income may fall year on year. In 2023 and 2024, the uncertain economic environment and high inflation resulted in an increase in household savings. This year, the rate of savings may be lower as a result of falling government bond rates and expanding consumption. In parallel, consumption rate may rise from the current lower level this year, while the investment rate stagnates. Looking ahead to 2026, we forecast a household investment rate of around 7–8 percent and a savings rate of around 9–11 percent, with the consumption rate stabilising at roughly 82–83 percent (Chart 1-8).

Gross fixed capital formation is expected to remain close to stagnation this year (Table 1-3). In 2024, the volume of gross fixed capital formation fell by 11.3 percent overall. This year, household and business investment are expected to stagnate, while public investment is expected to fall. In 2026, investment growth may be between 3.0 and 5.8 percent, with a more balanced structure. In 2027, the volume of gross fixed capital formation is expected to continue growing at a rate of 2.5–5.5 percent. The nominal investment rate may reach 23–25 percent, while the fixed 2021 price investment rate is expected to be around 21–22 percent over the forecast horizon.

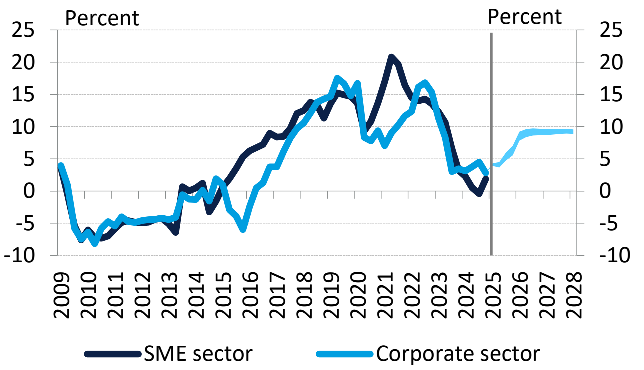
The decline in business investment should come to an end this year, with more significant growth emerging from next year. In 2024 Q4, a decrease was registered in investment by companies producing for the domestic market and by those producing for exports. In addition, corporate loan demand is subdued. According to the Lending Survey, banks perceived a decline in demand in the fourth quarter (with the value of new contracts down 3 percent from a year earlier). However, looking ahead to 2025 H1, they expect demand to increase as economic activity gradually picks up and the Demján Sándor Loan Scheme ramps up. We estimate that corporate credit may expand by 6 percent in 2025, with the annual growth rate stabilising at 9–10 percent from mid-2026 until

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

	2024	2025	2026	2027
Gross fixed capital formation	-11.3	-0.7	4.4	4.0
Government investments	-21.0	-5.5	0.6	-8.5
Private investments	-9.0	0.3	5.1	6.4
Investment rate	23.7	23.4	23.8	24.6
Real investment rate	21.7	21.0	21.0	21.2

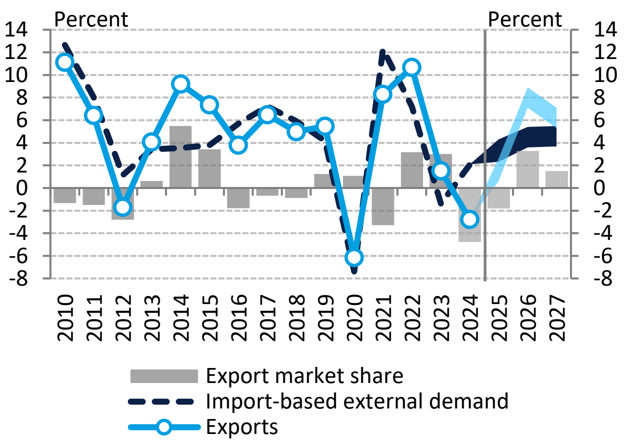
Note: The values represent the middle of the forecast range. Year on year growth for gross fixed capital formation and investment rate as proportion of GDP. Real investment rate calculated at fixed 2021 prices. Source: MNB

Chart 1-9: Annual changes in lending to non-financial corporations and SMEs



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

Chart 1-10: Changes in export market share



Note: Export market share based on the average of the forecast range. Source: HCSO, MNB

the end of the forecast horizon (Chart 1-9). The moderate level of confidence indicators, low capacity utilisation and a subdued external environment may lead to stagnation in corporate investment this year. From 2026 onwards, however, we expect to see an expansion due to subsidised programmes and stronger demand.

Household investment this year is expected to be at around the same level as last year. The value of housing loans contracted by credit institutions in 2024 Q4 rose by 92 percent compared to the low base from the same period of the previous year, but the majority of housing loans are being used to purchase pre-owned homes. HPS Plus, prenatal baby support loans, the Home Renovation Support and the ability to use voluntary pension funds for housing will also have a positive impact on household investment. Household investment is expected to grow by 5.0 percent in 2026 and 5.5 percent in 2027. From 2026, a slightly increasing share of household income will be spent on investment. Public investment is expected to decline this year, in line with government plans.

With the recovery of the European economy and significant industrial investment starting production, Hungarian exports are expected to expand substantially from the end of this year. Overall, exports fell by 2.8 percent last year. The decrease in industrial production and industrial new orders from abroad point to a further decline in exports in the first half of this year. From the end of the year, we then expect an expansion in goods exports as investment in electric car and battery production turns productive and Hungary's external demand gains momentum. Overall, exports are expected to grow by 0.6–2.6 percent this year. In 2026, we forecast growth of 7.1–8.9 percent, followed by a rate of 5.3–7.1 percent in 2027. Hungary's external market share will continue to fall this year, before returning to an upward trend from 2026 as exports increase (Chart 1-10).

Imports may expand again in 2025, fuelled by a steady increase in consumption and a gradual recovery in exports. In 2024, imports dropped by 3.3 percent. Last year's fall in imports was mainly due to exports and investment, while household consumption offset the decline to a small extent. This year, imports are expected to grow by 0.5–2.5 percent, followed by 6.0–8.0 percent in 2026 and 4.9–6.9 percent in 2027.

Box 1-2: Impact of the new tax measures benefiting families and pensioners

The latest government announcements include tax measures to support families and pensioners. Mothers with three children will be exempt from personal income tax for lifetime from October 2025; the exemption for mothers with two children will be phased in from 2026 gradually based on age of the persons, while mothers under 30 with one child will be exempted from personal income tax from 2026. In addition, a personal income tax exemption will be introduced for the infant care allowance (CSED) and childcare fee (GYED) from July 2025. From 1 October 2025, VAT will be refunded to pensioners on purchases of vegetables, fruits and selected dairy products with a VAT rate higher 5 percent, up to a certain amount of money.

According to our estimates, the recently announced measures may leave families and pensioners with additional income amounting to 0.1 percent of GDP in 2025, 0.5 percent of GDP in 2026 and 0.7 percent of GDP in 2027. The total fiscal impact may be perceived by 2029, with the gradual extension of the exemption for mothers with two children. By 2029, nearly 1 million mothers and around 2.4 million pensioners will benefit from the tax cuts. The details of the measures (such as the maximum amount of the VAT refund) are currently unknown, thus, the final fiscal impact and the number of beneficiaries may change.

Due to the measures, the tax burden on families with children in Hungary may be among the lowest in the EU. Compared to 2023, the family tax wedge, including transfers for children (e.g. family allowance), may fall by 7.7 percentage points to 28.5 percent of average wages in 2026 for households with two children, which may be one of the lowest among EU Member States. The reduction is also contributed by the fact that, in addition to the personal income tax exemption for mothers with two and three children, the family tax and contribution allowance for children will double from January 2026.

Table 1-4: Fiscal impact of the measures

Measure	Date of introduction	Number of beneficiaries	Fiscal impact (as a percentage of GDP)				
			2025	**2026**	**2027**	**2028**	**2029**
PIT exemption for mothers with 3 children	October 2025	250 thousand mothers	0.1	0.2	0.2	0.2	0.2
PIT exemption for mothers with 2 children	Step-by-step - From 2026, women under 40 - From 2027, women under 50 - From 2028, women under 60 - From 2029, all women	Step-by-step - 120 thousand mothers - 350 thousand mothers - 580 thousand mothers - 700 thousand mothers	-	0.1	0.3	0.5	0.6
PIT exemption for mothers under 30, with 1 child	January 2026	60 thousand mothers	-	0.03	0.03	0.03	0.03
PIT exemption of infant care allowance, child care fee	July 2025	30-40 thousand mothers	0.01	0.02	0.02	0.02	0.02
VAT refund*	October 2025	2.4 million people	0.02	0.1	0.1	0.1	0.1
Total			**0.1**	**0.5**	**0.7**	**0.9**	**0.9**

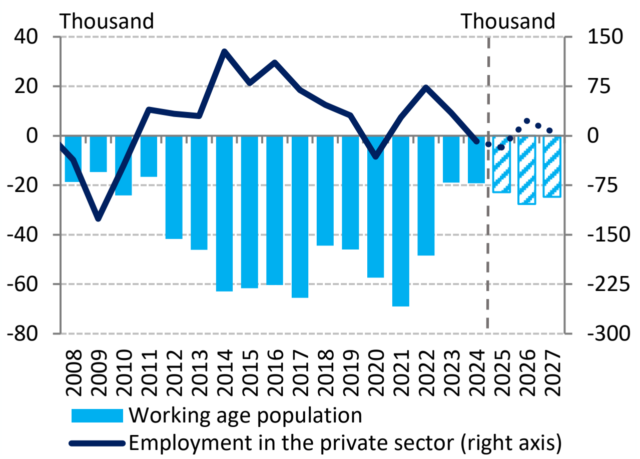
Note: *Based on current consumption. In the case of full application, the budgetary impact of the refund may be higher.
Source: MNB calculation based on HCSO and NTCA data

The introduction of the new government measures may result in a higher GDP level as it stimulates consumption. The impact of the announcements increases gradually over the forecast horizon. The newly announced measures will raise household disposable income via wages in the case of the family tax allowance and via the falling consumer price index in the case of pensioners' VAT refunds. The measure affecting pensioners covers 4.6 percent of the consumer basket, and according to our estimate, prices for the product categories concerned may fall by 3.2–5.5 percent. The fiscal and real economic impact of the refund depends on its ceiling and on consumer behaviour. Based on expenditure data for 2023, we estimate the VAT content paid on the given product category at HUF 4,000–5,000, assuming average retirement income.

1.3 Labour market forecast

Employment in the national economy remains at a high level. In the first half of this year, we expect employment to remain close to the level from 2024 Q4, and with the economy gradually picking up, to increase in the latter half of the year. In 2026, employment is expected to expand further in line with GDP growth. This year's wage dynamics will be driven mainly by the minimum wage increase at the beginning of the year, easing labour market tightness and households' rising inflation expectations. Underlying wage trends remain strong. In the private sector, average wages are expected to increase by 9.6-10.4 percent in 2025 and by 8.8–9.9 percent in 2026. Earnings continue to rise in real terms.

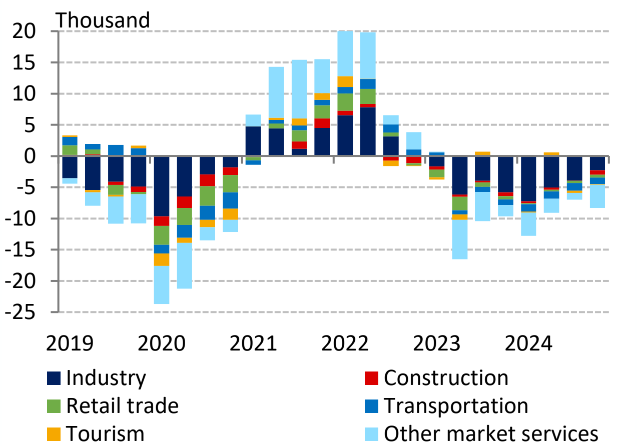
Chart 1-11: Annual changes in working age population and number of persons employed in the private sector



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

Source: Eurostat, HCSO, MNB

Chart 1-12: Annual changes in job vacancies in the private sector



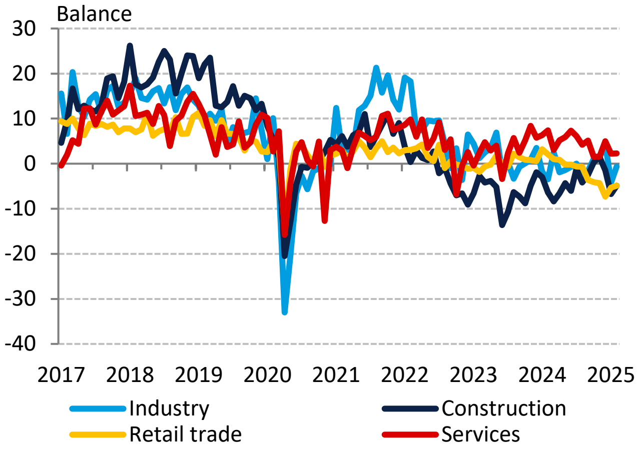
Note: For companies with at least 5 employees.

Source: HCSO

Employment in the private sector may begin to grow in the second half of this year and continue in 2026. The level of employment in the private sector may remain close to the level from late 2024, reflecting more subdued labour demand and companies' existing labour reserves. With economic activity gaining momentum, labour demand may rise. In the short term, capacities to cover this labour demand are available to companies, as they previously reacted to the economic slowdown with labour hoarding and lower utilisation of existing labour capacities. From the second half on, the number of employed persons may start to increase, but on an annual basis employment in the private sector may decrease in 2025. As a result of the expected expansion of the economy next year, employment in the private sector may continue increasing. Even with the economic recovery, we foresee only a slow increase in employment in view of the demographic constraints on employment growth (Chart 1-11). According to our forecast, the number of persons employed in the private sector is expected to fall by 0.3–0.7 percent in 2025 and then rise by 0.4–0.9 percent in 2026 and by 0.0–0.5 percent in 2027. The unemployment rate may range between 4.2 and 4.3 percent this year, 3.6 and 4.1 percent in 2026, and 3.3 and 4.0 percent in 2027.

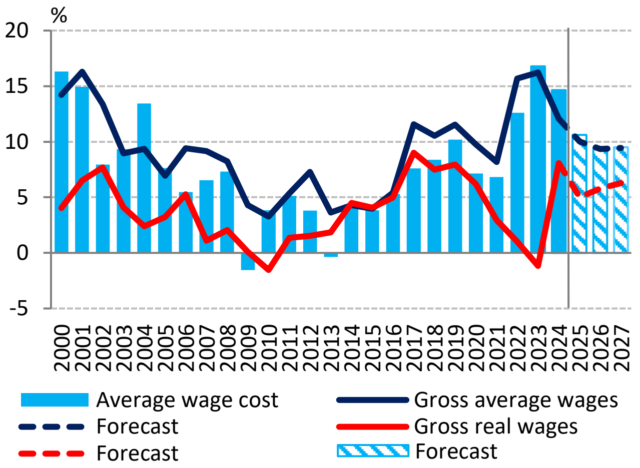
Labour market tightness is easing, while labour demand is declining. Labour market tightness has been easing since mid-2022. In the fourth quarter of last year, the year-on-year decline in job vacancies continued across a wide range of fields in the private sector (Chart 1-12). Compared to the same period of the previous year, in the fourth quarter the number of job vacancies decreased the most in the administrative and service support activities sector (latter includes temporary employment agencies), in addition to industry. The number of job vacancies in construction has fallen by almost one-third in the span of a year. According to the latest ESI survey, employment prospects for construction, industry and trade have improved, but the overall outlook for companies remains negative. In services, expectations have stagnated, with the majority of companies expecting the number of employees to increase over the next three months (Chart 1-13).

Chart 1-13: Employment expectations in the ESI business survey



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

Chart 1-14: Annual changes in gross average wages and average labour cost in the private sector



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

Given the easing of labour market tightness and a minimum wage increase in line with the underlying wage trends, nominal wage growth in the private sector may be more moderate in 2025 than last year. According to the minimum wage agreement concluded in November 2024, the minimum wage increased by 9 percent and the guaranteed minimum wage by 7 percent this year, while the minimum wage will increase by 13 percent in 2026 and by 14 percent in 2027. The tightness of the labour market has eased recently, but at the same time households' inflation expectations are higher than the actual data. Underlying wage developments remained strong in this context. Wages in the private sector are expected to rise by 9.6-10.4 percent this year, followed by nominal wage growth of between 8.8–9.9 percent in 2026 and 8.8-10.0 percent in 2027. In the private sector, real wages may increase between 4.6 and 5.4 percent in 2025, between 5.2 and 6.3 percent in 2026 and between 5.6 and 6.8 percent in 2027 (Chart 1-14).

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

	2024	2025		2026		2027	
	Actual	Previous	Current	Previous	Current	Previous	Current
Inflation (annual average)							
Core inflation	4.6	3.2 - 3.8	5.0 - 5.5	2.6 - 3.2	3.2 - 3.9	2.6 - 3.2	2.6 - 3.2
Core inflation excluding indirect tax effects	4.6	3.0 - 3.6	4.8 - 5.3	2.6 - 3.2	3.2 - 3.9	2.6 - 3.2	2.6 - 3.2
Inflation	3.7	3.3 - 4.1	4.5 - 5.1	2.5 - 3.5	2.9 - 3.9	2.5 - 3.5	2.5 - 3.5
Economic growth							
Household final consumption expenditure	5.0	4.3 - 5.1	4.5 - 5.3	3.5 - 4.5	3.8 - 4.8	2.7 - 3.7	2.9 - 3.9
Final consumption of government[1]	-2.3	(-0.1) - 0.7	0.2 - 1.2	0.0 - 1.0	0.0 - 1.0	(-0.1) - 0.9	0.0 - 1.0
Gross fixed capital formation	-11.3	3.5 - 6.5	(-2.2) - 0.8	2.6 - 5.4	3.0 - 5.8	1.5 - 4.5	2.5 - 5.5
Domestic absorption	0.3	2.8 - 4.6	1.5 - 3.5	2.0 - 3.6	2.6 - 4.2	1.7 - 2.9	2.3 - 3.5
Exports	-2.8	3.6 - 5.6	0.6 - 2.6	6.1 - 7.9	7.1 - 8.9	5.1 - 6.9	5.3 - 7.1
Imports	-3.3	4.4 - 6.6	0.5 - 2.5	4.9 - 6.9	6.0 - 8.0	4.4 - 6.4	4.9 - 6.9
GDP	0.5	2.6 - 3.6	1.9 - 2.9	3.5 - 4.5	3.7 - 4.7	2.5 - 3.5	2.8 - 3.8
Labour productivity[2]	0.2	2.7 - 3.7	1.9 - 2.7	2.9 - 4.3	3.1 - 4.4	2.1 - 3.5	2.4 - 3.8
External balance[3, 6]							
Current account balance	2.2	1.0 - 2.4	1.2 - 2.6	1.5 - 3.1	1.8 - 3.4	1.8 - 3.6	2.0 - 3.8
Net lending	2.5	2.6 - 4.0	2.8 - 4.2	3.3 - 4.9	3.6 - 5.2	3.0 - 4.8	3.4 - 5.2
Government balance[3]							
ESA balance	-4.8	(-4.2) - (-3.4)	(-4.3) - (-3.5)	(-3.8) - (-2.8)	(-4.2) - (-3.2)	(-3.2) - (-2.2)	(-3.9) - (-2.9)
Labour market							
Whole-economy gross average earnings[4]	13.2	8.6 - 9.6	9.5 - 10.3	10.0 - 11.2	10.1 - 11.4	6.7 - 8.0	6.4 - 7.7
Whole-economy employment	0.0	(-0.3) - 0.1	(-0.4) - 0.0	0.1 - 0.8	0.2 - 0.9	(-0.2) - 0.6	(-0.2) - 0.6
Private sector gross average earnings[4]	12.1	8.5 - 9.5	9.6 - 10.4	8.5 - 9.7	8.8 - 9.9	8.8 - 10.0	8.8 - 10.0
Private sector employment	-0.2	(-0.1) - 0.3	(-0.7) - (-0.3)	0.3 - 0.8	0.4 - 0.9	0.0 - 0.5	0.0 - 0.5
Unemployment rate	4.5	4.1 - 4.3	4.2 - 4.3	3.2 - 3.8	3.6 - 4.1	2.9 - 3.9	3.3 - 4.0
Private sector real unit labour cost	7.9	(-0.6) - 0.8	0.6 - 1.9	1.2 - 3.0	0.4 - 2.0	1.3 - 3.0	(-0.8) - 1.0
Household real income[5]	3.4	3.7 - 4.4	2.9 - 3.7	4.1 - 5.1	4.5 - 5.5	2.6 - 3.6	2.8 - 3.8

[1] Government final consumption expenditure includes final consumption expenditure of general government and nonprofit institutions.
[2] Whole economy, based on national accounts data.
[3] As a percentage of GDP.
[4] For full-time employees.
[5] MNB estimate.
[6] For 2024, external trade data from GDP was taken into account.

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

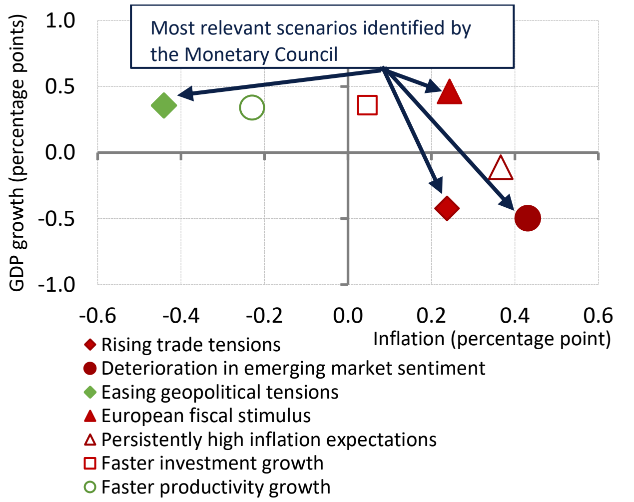
	2025	2026	2027
Consumer Price Index (annual average growth rate, %)			
MNB (March 2025)	4.5 - 5.1	2.9 - 3.9	2.5 - 3.5
Consensus Economics (March 2025)[1]	3.9 - 4.8 - 5.5	3.1 - 3.6 - 4.5	
European Commission (November 2024)[2]	3.6	3.2	
IMF (October 2024)	3.5	3.1	3.0
OECD (December 2024)	3.3	2.9	
Reuters survey (March 2025)[1]	4.3 - 5.1 - 5.8	3.3 - 3.8 - 4.6	3.0 - 3.4 - 3.9
GDP (annual growth rate, %)			
MNB (March 2025)	1.9 - 2.9	3.7 - 4.7	2.8 - 3.8
Consensus Economics (March 2025)[1]	1.3 - 2.0 - 2.6	2.2 - 3.3 - 4.3	
European Commission (November 2024)[2]	1.8	3.1	
IMF (October 2024)	2.9	3.0	3.0
OECD (December 2024)	2.1	2.9	
Reuters survey (March 2025)[1]	1.8 - 2.2 - 2.6	2.9 - 3.5 - 4.3	2.5 - 3.2 - 3.5
Current account balance[3]			
MNB (March 2025)	1.2 - 2.6	1.8 - 3.4	2.0 - 3.8
European Commission (November 2024)[2]	1.2	1.0	
IMF (October 2024)	0.6	0.5	0.7
OECD (December 2024)	2.5	2.4	
Budget balance (ESA 2010 method)[3]			
MNB (March 2025)	(-4.3) - (-3.5)	(-4.2) - (-3.2)	(-3.9) - (-2.9)
Consensus Economics (March 2025)[1]	(-5.0) - (-4.5) - (-4.0)	(-5.0) - (-4.1) - (-3.0)	
European Commission (November 2024)[2]	-4.6	-4.1	
IMF (October 2024)	-4.6	-3.5	-3.0
OECD (December 2024)	-4.3	-3.8	
Reuters survey (March 2025)[1]	(-4.5) - (-4.4) - (-3.9)	(-4.8) - (-4.0) - (-2.9)	(-3.7) - (-3.4) - (-2.8)
Forecasts on the GDP growth rate of Hungary's trade partners (annual growth rate, %)			
MNB (March 2025)	1.2 - 2.1	1.3 - 2.2	1.4 - 2.3
ECB (March 2025)	0.9	1.2	1.3
Consensus Economics (March 2025)[1]	1.3	1.7	
European Commission (November 2024)[2]	1.7	1.9	
IMF (January 2025)[2]	1.5	1.8	1.8
OECD (March 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 Effects of alternative scenarios on our forecast

The Monetary Council highlighted four alternative risk scenarios around the baseline projection in the March Inflation Report. The risk scenarios featuring rising trade tensions and a deterioration in emerging market sentiment are consistent with a higher inflation and lower growth path. The scenario that assumes the easing of geopolitical tensions is consistent with stronger economic growth and lower inflation compared to the baseline. In the scenario that envisions fiscal stimulus in Europe, both the growth path and the inflation path may be higher. In addition to the highlighted scenarios, the Monetary Council discussed other alternative scenarios with persistently high inflation expectations, faster investment growth and a faster improvement in productivity.

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



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

Rising trade tensions

Following its inauguration in January, the new US administration announced a series of protectionist measures. The import tariffs imposed or envisaged by the United States are aimed at boosting domestic industrial production and reducing the current account deficit with its main trading partners. Thus, in addition to Canada, Mexico and China, the measures negatively impact the prospects of the European Union's export sector.

According to analysts, escalation of the trade conflict would hamper global economic growth. In response to US tariff increases, some trading partners, including China and the EU, may impose tariffs on US products. With rising trade tensions, trade in goods between major economies may deteriorate. In parallel, some cross-border supply chains may be impaired, exacerbating the vulnerability of small open economies, which are deeply embedded in international trade. Although in the longer term, the pace of global economic expansion may recover as value chains adjust and trade relations realign, tariff increases restrain global growth over the forecast horizon. With nearly 20 percent of the EU's export of goods going directly to the United States, the contraction of the US export market may hamper the persistently weak European economy even more and also dampen growth in the Hungarian economy, which is integrated into European value chains.

In our alternative scenario, we expect trade barriers to strengthen. As a result of the protectionist economic policies of the US administration and the likely response of the main trading partners, the expansion of world trade may be more moderate than assumed in the baseline scenario. Consequently, weaker external demand may also dampen domestic export performance. In addition, tariff increases put direct upward pressure on inflation in Hungary, while the external inflation environment also develops more strongly than expected, which may spill over to domestic prices. The scenario is consistent with a higher inflation and lower growth path than the baseline.

Deterioration in emerging market sentiment

Global investor sentiment remains highly volatile and the external environment is characterised by uncertainty amid trade tensions. The USD initially appreciated in recent months before gradually returning to levels close to those seen in the previous quarter. During the period, emerging market currencies were particularly sensitive to news of tariff increases. Since the last quarter of 2024, global disinflation has come to a halt. In around two-thirds of the OECD countries, the pace of price increases accelerated, which may lead to a rise in developed market long yields. In addition to the outlook for inflation, the tax cuts envisioned by the new administration in the US and the expected increase in defence spending in the European Union may also push bond markets towards higher yields through an increase in the budget deficit. At the same time, the expected interest rate paths of major central banks are characterised by considerable uncertainty.

Global inflation trends, fiscal policies in developed economies and uncertainty fuelled by trade tensions may result in increased risk aversion towards emerging markets. If global inflation remains persistently above central bank targets, long yields in developed markets may begin to rise. The implementation of expansive fiscal plans by the US and European governments may further boost developed market bond yields, leading to substantial capital outflows from emerging economies. Intensifying trade tensions may increase volatility in financial markets. The volatility of expectations regarding the interest rate policy of the Federal Reserve and the European Central Bank contributes to the overall uncertainty in the market environment.

In our alternative scenario, we expect a deterioration in investor sentiment in emerging markets. A more uncertain international environment driven by rising developed market yields and tariff hikes foreshadows an increase in risk premia in the Central and Eastern European region, including Hungary. Although the fundamentals relevant to the risk perception of the Hungarian economy (current account, primary fiscal balance) have improved by regional standards, risk aversion towards emerging markets may be significantly amplified in an uncertain external environment. As a result, substantial capital outflows may emerge, which would imply upward pressure on inflation and warrant tighter monetary conditions. The scenario is consistent with higher inflation and a lower growth path.

Easing geopolitical tensions

In recent months, risks associated with the conflict in Ukraine have started to ease. In February, talks were launched to prepare ceasefire negotiations in Ukraine. The foreign policy of the new US administration has made putting an end to the Russia–Ukraine war a priority. Actions in this regard have reduced risk aversion towards the CEE region in financial markets, which contributed to the strengthening of the region's currencies. In addition, after reaching a two-year high in mid-February, European gas prices exhibited a rapid correction in the second half of the month, partly driven by expectations of a deal in Ukraine.

Easing geopolitical tensions may improve the risk perception of economies exposed to the conflict and reduce volatility in energy markets. Capital flows to Hungarian financial markets may increase as risk aversion towards the CEE region eases. A ceasefire in Ukraine may put a permanent end to attacks on gas and oil pipeline infrastructure and other risks to the security of supply. Energy prices may decline as gas and oil transfers through Ukraine normalise. For the commodity-importing Hungarian economy, this suggests an improved external position and lower external inflationary pressure.

In our alternative scenario, we expect geopolitical tensions to ease. The ceasefire talks in Ukraine may result in the further easing of risk aversion towards the region. The overall easing of geopolitical tensions may lead to less volatile energy market developments and lower energy prices, which would strengthen Hungary's external balance position. A positive shift in the region's risk perception combined with an improvement in Hungary's external position points to a decline in Hungary's risk premium. Accordingly, this scenario is consistent with a lower inflation path and a higher growth path compared to the baseline scenario.

European fiscal stimulus

Germany and several other EU Member States announced plans to substantially increase their fiscal expenditures. In coalition talks following the German elections, members of the incoming government agreed on a three-point economic policy package. Under the programme, the future coalition government will set up a EUR 500 billion infrastructure development fund, exempt defence spending above 1 percent of GDP from the constitutional debt brake rule, and allow federal states to access a limited amount of borrowing. The announced measures will substantially increase the budget deficit with a view to restarting economic growth and enhancing defence capabilities. In parallel with the German reforms, other EU Member States have also expressed their willingness to intensify the development of their armed forces, which would be partly financed by higher budget deficits. Accordingly, the European Commission proposed a temporary suspension of the EU’s fiscal constraints in the case of military spending, which would increase the fiscal space of Member States by EUR 650 billion in total.

The envisaged fiscal stimulus may turn the protracted weakness of the European economy around. In Germany, the announced fiscal reform may not only enhance the country’s armed forces, but also boost the construction and energy sectors, as well as digital infrastructure. Investments implemented under the programme combined with increasing demand due to the spill-over effects of the fiscal expansion may generate a significant growth surplus which, according to analysts, may raise Germany’s GDP growth to around 2 percent in the coming years. Rebounding growth in Hungary’s main trading partner, together with generally strengthening business confidence in Europe due to its improving outlook may also contribute to an upswing in the Hungarian economy through a faster pick-up in external demand.

Our alternative scenario assumes a recovery in the European economy driven by rising fiscal spending. Fiscal reforms and infrastructure and military development programmes in Germany and other EU Member States boost European growth and external demand, fostering an improvement in Hungary’s export performance. This scenario is consistent with a higher growth path.

Other risks

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

The scenario envisaging persistently high inflation expectations assumes that expectations may be stuck at higher levels owing to the rising inflation perception of households. As a consequence, consumer confidence weakens, resulting in more subdued household consumption relative to the baseline. This scenario is consistent with a higher inflation path and a slightly lower growth path.

In the alternative scenario that assumes faster investment growth, business confidence recovers more quickly, driven by the easing of geopolitical uncertainties, the improvement in moderate external demand and domestic programmes stimulating demand, leading to a more favourable upswing in investment compared to the baseline scenario. The faster recovery of investment is consistent with a higher growth path.

In the alternative scenario that assumes faster productivity growth, the improvement in productivity stimulates the Hungarian economy primarily on the supply side. This is consistent with a lower inflation path and higher economic output.

3 Macroeconomic overview

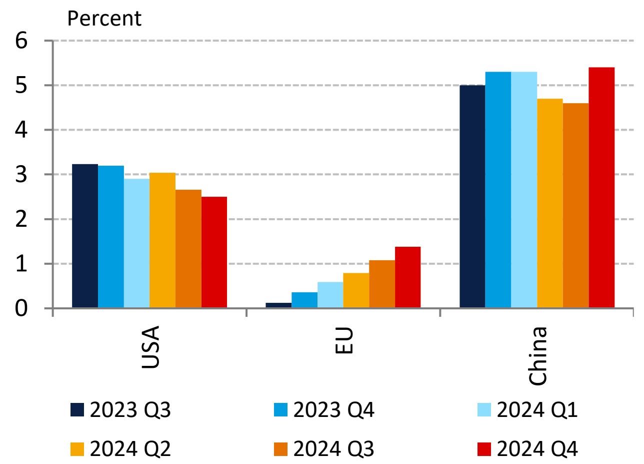
3.1 Evaluation of the international macroeconomic developments

The EU economy expanded by 1.4 percent year on year in 2024 Q4. Economic growth in the US and China remains buoyant, although the US data reflected a minor deceleration at the end of last year. At its December rate-setting meeting, the Federal Reserve lowered the target range for the federal funds rate by 25 basis points to 4.25–4.50 percent and then left the range unchanged in January and March. The ECB continued its interest rate reduction cycle at a pace of 25 basis points at the rate-setting meetings in January and March, lowering its benchmark deposit rate to 2.50 percent. In the region, the Czech central bank first maintained its base rate in December and then cut it by 25 basis points in February, while the Polish and Romanian central banks left their policy rates unchanged in the past quarter.

3.1.1 International economic trends

On a seasonally and calendar-adjusted basis, in 2024 Q4 the economy in the EU and the euro area expanded by 1.4 percent and 1.2 percent, respectively, in year-on-year terms (Chart 3-1). Overall, the performance of European economies was in line with expectations. Value added in Hungary's main trading partner, Germany, fell by 0.2 percent year on year in 2024 Q4. Among the countries in the region, GDP increased in Czechia (+1.8 percent), Slovakia (+1.7 percent) and Poland (+3.7 percent) in year-on-year terms. GDP contracted in four of the 27 countries in the European Union on a quarterly basis. In 2024, the EU as a whole recorded growth of 1.0 percent, and based on current market expectations GDP may expand by 1.3 percent in 2025.

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



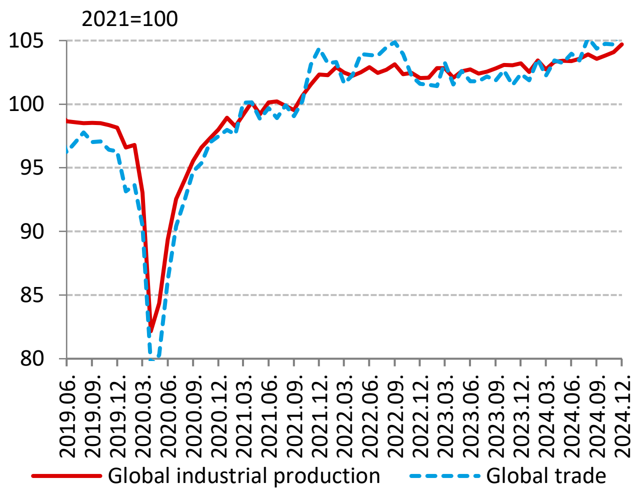
Note: Annual growth. In case of the EU, the calculation is based on seasonally and working day adjusted data.
Source: Trading Economics, FRED, Eurostat

The US economy grew by 2.5 percent on an annual basis, expanding at a quarterly rate of 0.6 percent. Growth continued to be supported by dynamic growth in household consumption in the fourth quarter. Last year as a whole, GDP grew by 2.8 percent, while analysts expect GDP to expand by 2.2 percent for this year.

China's growth accelerated in 2024 Q3, rising to 5.4 percent year on year and 1.6 percent on a quarterly basis. Growth was mainly supported by net exports. Consumer confidence remains low, with the contribution of household consumption to growth remaining subdued in the final quarter of last year. Growth for the full year 2024 was 5 percent, while in 2025, based on market expectations, GDP may expand by 4.5 percent, a figure that could be significantly affected by international trade policy measures.

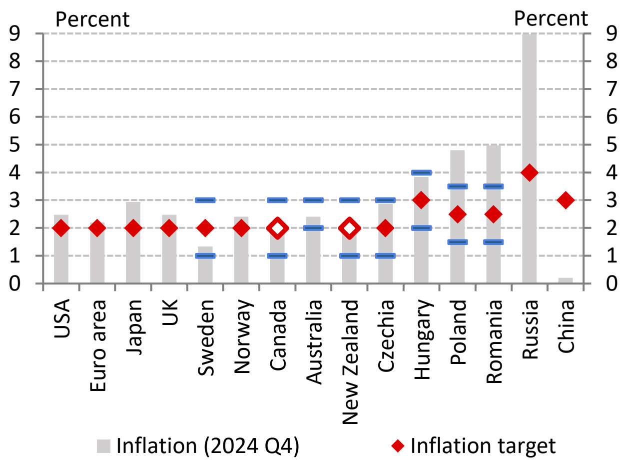
In 2024 Q4, global trade in goods and industrial production increased moderately (Chart 3-2). In advanced economies, economic activity continues to result in tight labour markets. Global growth expectations are strongly influenced by trade policy measures and the outlook for a

Chart 3-2: Development of global industrial production and global trade



Note: Based on seasonally adjusted data.
Source: CPB

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



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

possible end to the war between Russia and Ukraine. European growth expectations for 2025 have deteriorated by a small degree versus the December forecast. Business confidence indicators reveal that consumer confidence in EU economies weakened slightly, while business sentiment in services stagnated and confidence indices in industry remain low.

3.1.2 International monetary policy, inflation and financial market trends

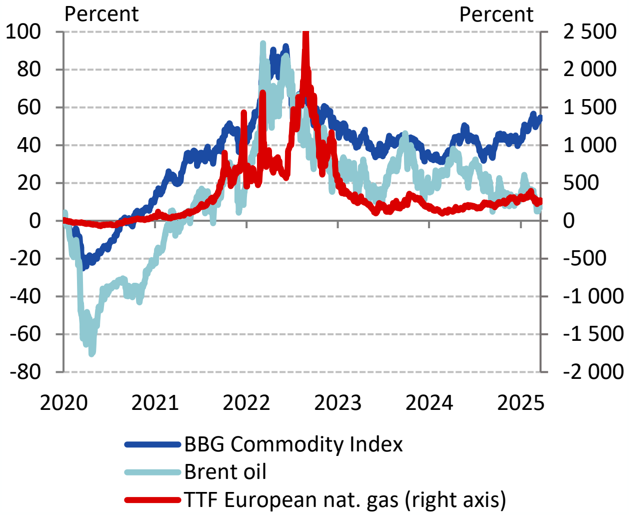
Inflation in several major global economies rose slightly compared to the previous quarter (Chart 3-3). Since the beginning of the year, the world market price of crude oil has been around USD 70–80. The price of natural gas has fallen slightly since mid-February but is still above the levels registered in the months before the Russian-Ukrainian war (Chart 3-4).

In the United States, inflation has fallen again after rising in recent monthsas. Annual CPI inflation in the US advanced from 2.9 percent in December to 3.0 percent in January and then decreased to 2.8 percent in February. PCE inflation fell from 2.6 percent in December to 2.5 percent in January. In terms of the structure of inflation, services continue to make the highest contribution.

At its December rate-setting meeting, the Fed lowered the target range for the federal funds rate by 25 basis points to 4.25–4.50 percent and then left the range unchanged in January and March. In recent months, the unemployment rate has stabilised at a low level, while inflation has remained somewhat elevated. The Fed's Open Market Committee is ready to adjust monetary conditions if emerging risks prevent the achievement of its objectives. At the press conference following the March decision, Jerome Powell said that the current environment required greater flexibility from the Fed. According to Powell, uncertainty in the economy had increased significantly, which affected the inflation and growth outlook, as well as the future path of interest rates. The central bank continues to reduce its balance sheet, however, from the beginning of April, it will decrease the previous pace of USD 25 billion for Treasury securities to USD 5 billion, while maintaining the pace of USD 35 billion for mortgage-backed securities. The Fed's balance sheet stood at USD 6,807 billion at the beginning of March 2025, or 22.9 percent of GDP (Chart 3-5).

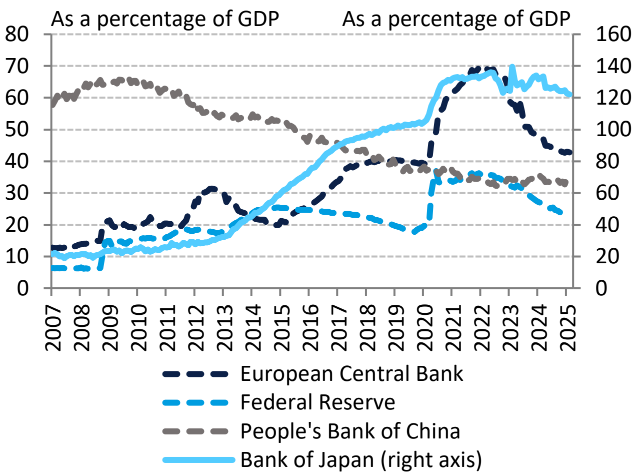
At its January rate-setting meeting, the Bank of Japan raised the policy rate by 25 basis points to 0.5 percent and left it unchanged in March. The annual inflation rate rose to 4.0 percent in January from 3.6 percent in December and then decreased to 3.7 percent in February. Inflation is

Chart 3-4: Commodity prices



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

Chart 3-5: Balance sheet totals of globally important central banks



Source: Databases of central banks, Eurostat, FRED

expected to return to the central bank's inflation target of 2 percent by 2026. According to Kazuo Ueda, Governor of the Bank of Japan, if the economic and inflation outlook are in line with their expectations, another rate hike may be considered.

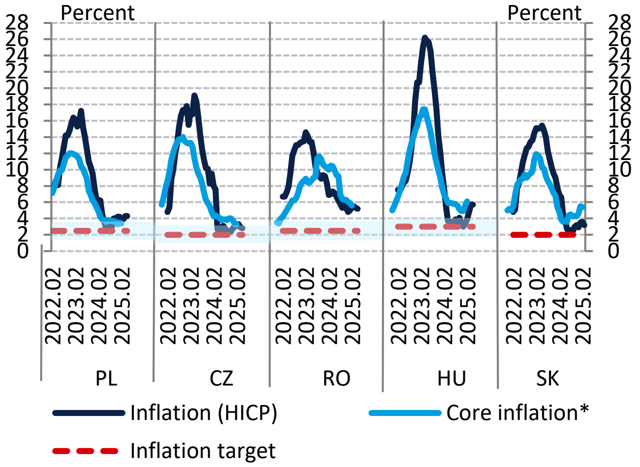
The Chinese central bank did not change the interest rates on its one-week and two-week reverse repo instruments last quarter, which are now at 1.5 percent and 1.85 percent, respectively. The interest rate on the medium-term lending facility (MLF), which is becoming increasingly less prominent in the central bank's toolkit, has remained at 2 percent since September 2024, not having changed since last autumn. In addition, the loan prime rate (LPR), which is the benchmark for bank lending, remained unchanged at 3.1 percent for a 1-year term and 3.6 percent for a 5-year term. In January, the 10-year government bond yield fell to an all-time low, while the yuan weakened to a 1-year low against the US dollar, prompting the central bank to suspend its government bond purchase programme and tighten liquidity to further support the exchange rate. Policymakers confirmed that they plan to further reduce the policy rate this year and expressed their intention to increase the role of traditional interest rate instruments, while sidelining 'quantitative targets' for credit growth. In China, inflation rose from 0.1 percent in December to 0.5 percent in January 2025, before falling to -0.7 percent in February. In February 2025, the central bank's balance sheet total stood at 34.9 percent of GDP (Chart 3-5).

3.1.3 Developments in the euro area

In the previous quarter, inflation in the euro area was above the central bank's inflation target of 2 percent. The Harmonised Consumer Price Index rose from 2.4 percent in December to 2.5 percent in January and then fell to 2.3 percent in February. Core inflation decreased from 2.7 percent in January to 2.6 percent in February.

At its January and March rate-setting meetings, the ECB cut its key deposit rate by 25 basis points each to 2.5 percent, in line with previous rate decisions. According to the central bank's statement issued in March, the disinflation process is on the right track, ensuring that inflation will stay close to the target this year and reach it by early 2026. At the press conference following the March rate decision, Christine Lagarde confirmed that the central bank would not commit to any particular interest rate path because of the two-way inflation risks fuelled by rising geopolitical tensions. The ECB's balance sheet total stood at EUR 6,287 billion at the beginning of March 2025, or 42.2 percent of GDP (Chart 3-5).

Chart 3-6: Inflation and core inflation in the region



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

3.1.4 Developments in the Central and Eastern European region

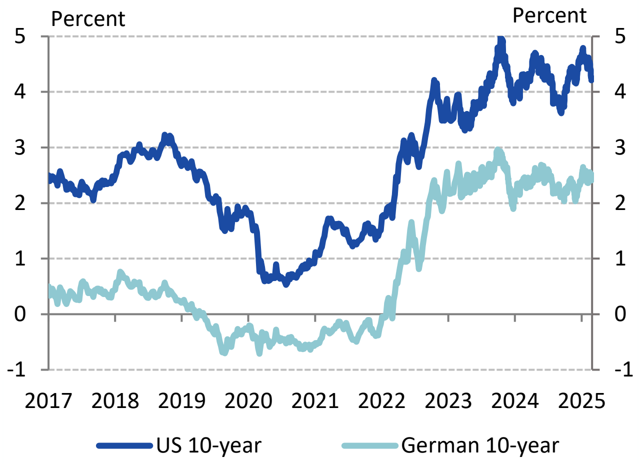
The Bank of Poland left the policy rate unchanged at 5.75 percent throughout the past quarter. Inflation, as measured by the Polish Statistical Office, was 4.7 percent in December, then rose to 4.9 percent in January and remained unchanged in February. The Harmonised Consumer Price Index was 4.3 percent in both January and February (Chart 3-6). The central bank expects inflation to remain well above its inflation target in the coming months, mainly due to higher energy prices and other regulatory measures.

After leaving it unchanged in December, the Czech central bank decided to cut the key rate again at its February policy meeting, which brought the base rate down to 3.75 percent. Policymakers reaffirmed their commitment to pursuing tight monetary policy to keep inflation close to the central bank's target of 2 percent in the long term. To this end, maintaining a relatively high policy rate was still required, given the risks and uncertainties – moderately upward on the whole – surrounding the achievement of the inflation target. Aleš Michl, President of the Czech central bank, said that a restrictive monetary policy was needed in the long term, along with a very cautious approach to further monetary easing. Inflation was 3.0 percent in December, then moderated to 2.8 percent in January and 2.7 percent in February. Harmonised Consumer Price Index was 2.8 percent in February (Chart 3-6).

At its January and February policy meetings, the Romanian central bank decided to maintain its policy rate at 6.50 percent. There are considerable uncertainties surrounding the inflation outlook, primarily stemming from the current and future stance of fiscal policy, labour market tightness, wage dynamics and future energy price developments. The annual inflation rate fell from 5.1 percent in December to 5.0 percent in January, and then remained unchanged in February. Inflation based on the Harmonised Index of Consumer Prices (HICP) dropped to 5.2 percent in February from 5.3 percent in January 2025 (Chart 3-6).

Investor sentiment was volatile in the past quarter and deteriorated overall as the end of the period, reflecting developments in global trade disputes, geopolitical risks and interest rate expectations for advanced central banks. Investor sentiment, volatile in the first part of the period, improved in the first half of February on the back of the seemingly lighter-than-expected trade restrictions and the start of Russian-Ukrainian peace talks, before turning

Chart 3-7: US and German 10-year government bond yields



Source: Bloomberg

negative towards the end of the period on the back of earlier-than-expected US tariffs and the stalled peace talks.

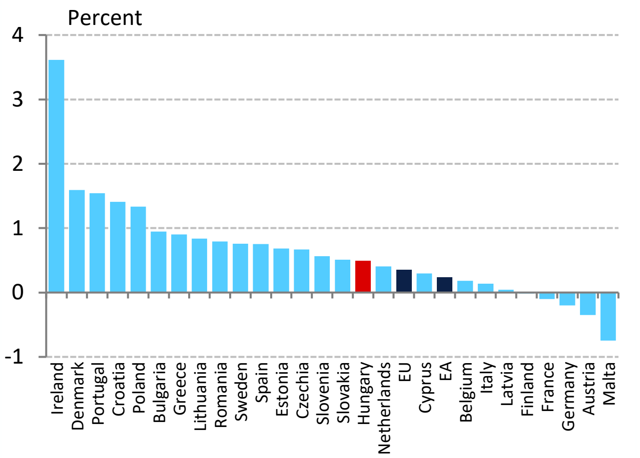
US long bond yields decreased and the US dollar weakened, especially towards the end of the period. The US 10-year yield was down 24 basis points to 4.28 percent, while the German 10-year yield increased 53 basis points to 2.81 percent (Chart 3-7). The Japanese 10-year yield rose 44 basis points from the previous quarter to 1.51 percent. Emerging bond market yields showed mixed performance, as the Romanian 10-year yield fell 5 basis points, while the Czech yield rose 10 basis points, the Polish yield rose 6 basis points and the Hungarian 10-year yield rose 54 basis points. The MSCI index of developed economy shares decreased 1.4 percent, while the emerging market index rose by 6.8 percent. During the last quarter, the US dollar weakened against the euro and the pound sterling by 4.9 percent and 3.3 percent, respectively, while also depreciating against the Swiss franc by 1.8 percent and against the Japanese yen by 4.5 percent.

Based on market pricing, the Fed may cut its key policy rates further this year. The Fed and the ECB cut policy rates at their rate-setting meetings last quarter in line with expectations, and pricing suggests that the market expects the Fed to maintain rates and the ECB to introduce a 25-basis-point cut at the next meeting. Based on pricing for the rest of the year, the market expects a cut of 75 basis points for the Fed and a cut of 50 basis points for the ECB.

3.2 Analysis of the production and expenditure side of GDP

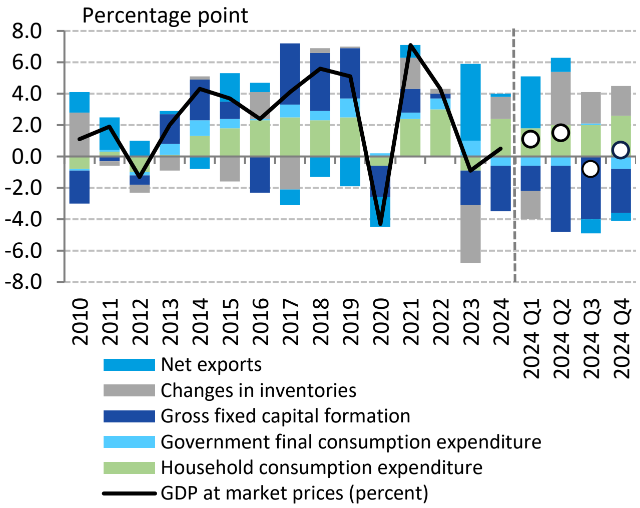
In 2024 Q4, Hungary's gross domestic product expanded at an annual rate of 0.4 percent based on raw data, thus indicating that economic growth has restarted. Based on balanced data adjusted for seasonal and calendar effects, GDP rose by 0.1 percent on an annual basis, representing an increase of 0.5 percent versus the previous quarter. The national economy's performance in the fourth quarter was mainly supported by services, while industry, construction and agriculture had a negative effect. In terms of expenditure, along with household consumption, year-on-year economic growth was supported by changes in inventories, while investment and net exports restrained growth. Based on raw data, GDP expanded by 0.5 percent overall in 2024, while a growth rate of 0.6 percent was registered on the basis of data adjusted for seasonal and calendar effects.

Chart 3-8: Quarterly GDP change in EU countries in 2024 Q4



Note: Seasonally and calendar adjusted data. Data for 2024 Q4 are not available for Luxembourg.
Source: Eurostat

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



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

Based on raw data, Hungary's gross domestic product increased by 0.4 percent on an annual basis in 2024 Q4. The incoming data slightly exceeded both our expectations in the December Inflation Report and the expectations of the market. Based on balanced data adjusted for seasonal and calendar effects used for international comparison, the Hungarian economy expanded by 0.1 percent on an annual basis, while that of the European Union economy expanded by 1.4 percent and that of the eurozone by 1.2 percent. Compared to the previous quarter, domestic GDP increased by 0.5 percent, while the European Union economy grew by 0.4 percent and the eurozone by 0.2 percent (Chart 3-8).

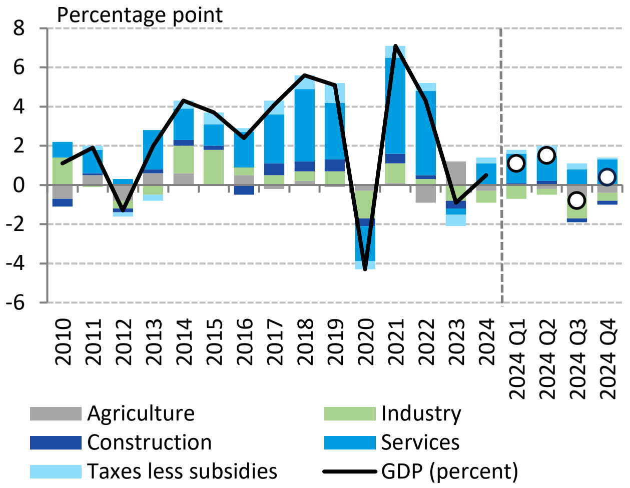
Based on data adjusted for seasonal and calendar effects, domestic GDP expanded by 0.6 percent, overall, in 2024. In 2024, GDP grew by 1.0 percent in the EU and 0.9 percent in the euro area.

In 2024 Q4, household consumption expenditure rose by 5.4 percent in a year-on-year comparison, contributing 2.6 percentage points to economic growth (Chart 3-9). The domestic consumption expenditure of households advanced 4.8 percent. Domestic consumption expenditure increased in all categories: the volume of durable goods rose by 12.0 percent, while that of semi-durable goods by 1.8 percent, non-durable goods by 4.4 percent and services by 4.6 percent. Collective consumption fell by 6.2 percent in the fourth quarter.

The volume of retail sales grew 4.7 percent in January 2025. Based on data adjusted for seasonal effects, the inflation-adjusted turnover of online cash registers was 3.0 percent higher in January in year-on-year terms. Online cash register sales differ from retail sales in that they include, for example, sales from certain services, such as food, taxi services or a part of accommodation services.

The volume of gross fixed capital formation in 2024 Q4 was 10.8 percent lower than a year earlier, slowing annual economic growth by 2.8 percentage points. Construction projects contracted by 19.9 percent, while investment in machinery and equipment fell by 4.8 percent. Investment directly linked to households fell by 16.8 percent. Both the

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



Source: HCSO

domestic sector (-16.2 percent) and the export sector (-8.5 percent) continued to show year-on-year declines. Public investment fell by 3.9 percent, while investment in quasi-fiscal sectors indirectly linked to it fell by 24.3 percent year-on-year in the fourth quarter.

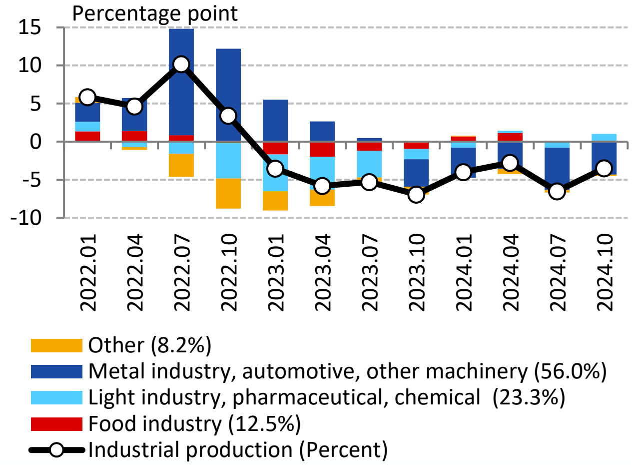
Similar to the previous quarters, the contribution of the change in inventories was positive, adding 1.9 percentage points to the year-on-year increase.

In 2024 Q4, the contribution of net exports remained negative, reducing GDP growth by 0.5 percentage point. This was the result of a 1.3 percent fall in import volumes and a 2.0 percent fall in exports. Exports of goods decreased by 3.3 percent, while exports of services increased by 2.3 percent compared to the same period of the previous year. Imports of goods fell by 2.3 percent, while imports of services rose by 3.3 percent year on year. The 12-month rolling balance of external trade in goods rose slightly to a surplus of EUR 12.0 billion in January. The terms of trade deteriorated by 1.3 percent on an annual basis. In January 2024, a surplus of EUR 903 million was registered on external trade in goods. The balance improved by EUR 445 million compared to the previous month and by EUR 343 million compared to the same period of the previous year. The balance adjusted for VAT residents showed a surplus of EUR 237 million. In January, the volume of goods exports increased by 3.8 percent and goods imports grew by 0.8 percent compared to the same period of the previous year.

Overall, the value added of services rose by 2.1 percent in 2024 Q4. The largest increase (+6.4 percent) was registered in accommodation and food service activities. The trade sector, a major contributor, grew by 2.8 percent, while arts, recreation and other services grew by 4.4 percent, and financial and professional activities by 2.9 percent. The value added of information and communication increased by 2.5 percent, while the same indicator stood at 1.4 percent in the case of transport and storage. Among government-related services, education grew by 1.2 percent, public administration by 1.1 percent and real estate services by 0.1 percent.

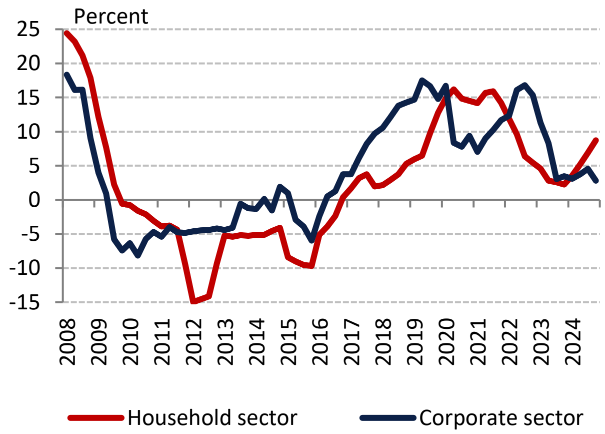
The national economy's performance in the fourth quarter was mainly supported by services, while industry, construction and agriculture had a negative effect (Chart 3-10). Industrial output fell by 1.6 percent compared to the same period of the previous year, including a 3.5 percent contraction in manufacturing. Of the manufacturing sectors, the largest decline was registered in

Chart 3-11: Sectoral breakdown of annual change in domestic industrial production



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

Chart 3-12: Annual change in lending to non-financial corporates and households



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

the production of road vehicles and the manufacture of electrical equipment (Chart 3-11).

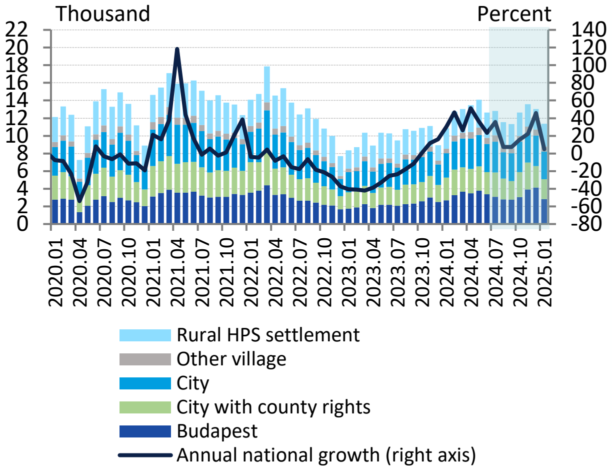
Value added in construction fell by 3.1 percent on an annual basis in the fourth quarter, restraining GDP growth by 0.2 percentage point. Construction of buildings fell by 4.4 percent, while that of other construction rose by 0.7 percent in the fourth quarter, year on year. At the end of January, the volume of construction contracts was 0.2 percent lower than in the same period of the previous year, while the volume of new contracts decreased by 15.8 percent.

In the fourth quarter, the value added of agriculture was 13.5 percent lower than in the same period of the previous year.

In 2024 Q4, demand in the market of loans to households remained buoyant, while banks perceived a 'wait-and-see' attitude for corporate loans. The annual growth rate of household loans in the total financial intermediary system accelerated by 1.8 percentage points in quarter-on-quarter terms, amounting to 8.7 percent in December, while the rate for corporate loans slowed down by 1.7 percentage points to 2.8 percent at the end of 2024 (Chart 3-12). In the corporate sector, the annual growth rate of SME loans, which are more in line with underlying trends, accelerated by 2.3 percentage points to 1.9 percentage points in December. New contracts in the household sector in the fourth quarter were up 51 percent on the same quarter a year earlier, while the number of contracts signed in the corporate sector fell by 3 percent year on year. Based on the responses to the lending survey, banks perceived a pick-up in demand for both housing and consumer loans in the fourth quarter, while a smaller group of banks reported a decline in demand in the corporate loan market. Looking ahead to 2025 H1, one quarter of the banks expect loan demand to pick up in the corporate lending market, partly as a result of the Demján Sándor Loan Programme available from January 2025, and demand in household lending to see continued expansion.

Both the number of housing sales and house prices rose dynamically in 2024 Q4. During the quarter, the number of private housing transactions amounted to 39,300 nationwide, up 27 percent from the number of transactions recorded in the same period last year (Chart 3-13). In the fourth quarter, the number of housing market sales increased by 37 percent in Budapest, by 27 percent in towns with county rights, by 30 percent in other towns, and by 10 percent in villages eligible for the rural Home Purchase Subsidy Scheme for Families. According to the MNB's house price index, compared with

Chart 3-13: Number of housing market transactions by settlement type



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

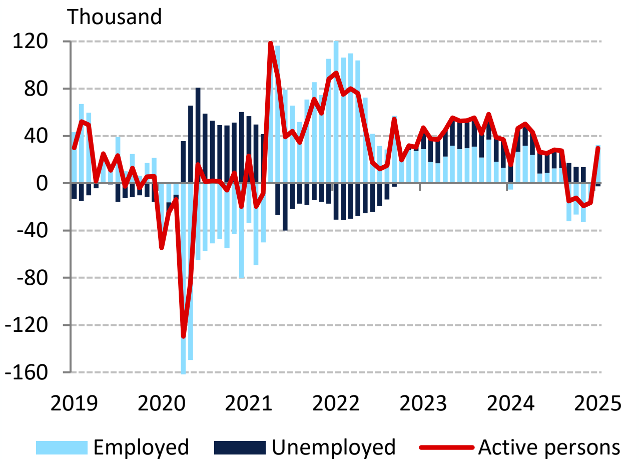
Source: Housing market intermediary database, MNB, NTCA

the same period of last year, nominal house prices rose by 14.5 percent nationally in 2024 Q3, with Budapest seeing an increase of 14.0 percent, towns 12.3 percent on average and villages 19.7 percent. Preliminary data suggest that the annual growth rate of house prices may have accelerated to 16.3 percent nationally and to 15.2 percent in Budapest in 2024 Q4.

3.3 Labour market

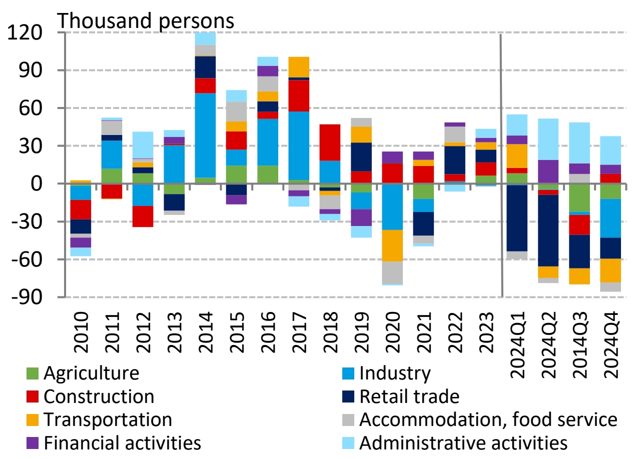
Although demand for labour fell in the second half of 2024, employment remains at a historically high level. Labour market participation and employment rose in January, following a decline at the end of last year. The unemployment rate was 4.4 percent in January, which is low by international standards. The number of vacancies in the private sector decreased further in 2024 Q4. Average gross earnings in the private sector rose by 9.5 percent in December versus the same prior-year quarter.

Chart 3-14: Decomposition of annual changes in the labour force participation



Source: HCSO

Chart 3-15: Decomposition of annual changes in private sector employment



Source: HCSO

3.3.1 Employment and unemployment

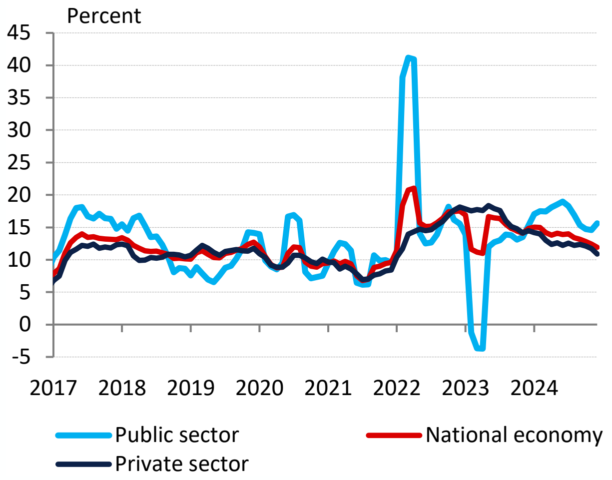
In January 2025, the number of employed persons aged 15–74 was 4.684 million, meaning that the level of employment increased in year-on-year terms for the first time in four months, exceeding the same period of the previous year by 32,000 (Chart 3-14). Based on seasonally adjusted data, the number of persons employed increased by 34,000 in January compared to the previous month.

Employment is developing differently in individual sectors. Based on detailed sectoral data available at quarterly frequency, a moderate decrease in employment was observed in market services compared to the overall weight of the sector, while employment in construction increased and employment in manufacturing and agriculture decreased in 2024 Q4 compared to the same period of the previous year (Chart 3-15). Within market services diverging sectoral trends were observed: While employment declined in trade, transportation and storage, as well as accommodation and food services, it rose in administrative and support service activities, as well as financial and insurance activities. In the public sector, employment increased slightly in public administration and significantly in health services, but decreased in education on an annual basis. The number of job vacancies continued to fall in the fourth quarter, based on seasonally adjusted data. Compared to the same period of the previous year, the number of full-time equivalent (FTE) employees rose by 1.0 percent in Q4 2024.

The unemployment rate amounted to 4.4 percent in January 2025, based on unadjusted data. Calculated with the HCSO methodology using a three-month moving average, the unemployment rate averaged 4.3 percent between November 2024 and January 2025. Based on seasonally adjusted data, the number of unemployed people decreased both in December and January. Unemployment in Hungary remains low by international standards, at 1.5 percentage points below the EU average based on seasonally adjusted data.

Labour force participation increased in January. On the basis of seasonally adjusted data, the number of persons in the labour force started to decline in April last year and then rose again after October. Labour force participation

Chart 3-16: Annual change in gross average wages in the national economy



Note: Quarterly moving averages.
Source: HCSO

increased by 30,000 on an annual basis and by 16,000 in month-on-month terms in January of this year, according to seasonally adjusted data.

3.3.2 Wages

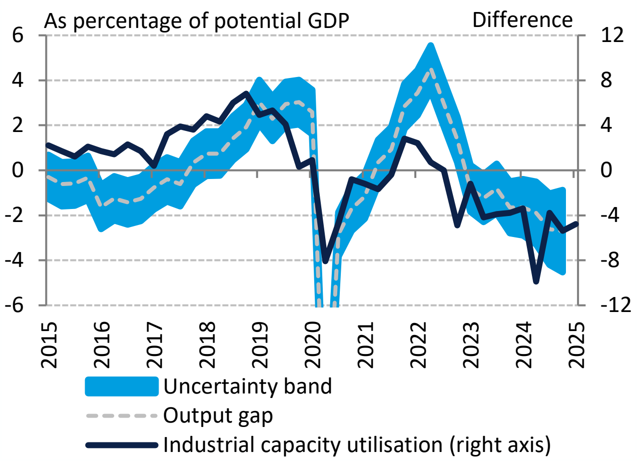
In December 2024, average gross earnings in the private sector increased by 9.5 percent, while regular earnings grew by 9.4 percent on an annual basis, and bonus payments exceeded the level from 2023. The year-end moderation in wage growth was also driven by the base effect of last year's minimum wage increase, which was introduced in December 2023. In the public sector, annual wage growth accelerated to 17.2 percent in December, mainly due to higher bonuses in the education sector. For the national economy as a whole, gross average earnings increased by 11.0 percent, while real wages were 6.1 percent higher than in the same period of the previous year (Chart 3-16).

In terms of the countries in the region, nominal wage growth was among the highest, while real wage growth was the highest in December 2024. Nominal earnings grew by 11.4 percent in Romania, 9.8 percent in Poland and 4.9 percent in Slovakia on an annual basis. In Czechia, wage data are only available at quarterly frequency, with average wages rising by 7.2 percent in 2024 Q4. By regional standards, real wages rose the fastest in Hungary in the last month of the year. For 2024 as a whole, Hungary – alongside Romania –saw the highest growth in real earnings (9.2 percent).

3.4 Cyclical position of the economy

We estimate that GDP was below its potential level in 2024. Among other things, this is supported by the fact that the capacity utilisation of manufacturing companies and production expectations for the coming months remain below the historical average.

Chart 3-17: Uncertainty band of the output gap and industrial capacity utilisation



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

The cyclical position of the economy is estimated to have been negative since the beginning of 2023. The output of the Hungarian economy grew by 0.4 percent in 2024 Q4 compared to the same quarter of the previous year, and by 0.5 percent relative to the previous quarter. In 2024, economic output was 0.5 percent higher than in the previous year based on raw data and 0.6 percent higher based on seasonally and calendar-adjusted data. The output gap, less the output of agriculture, remains in the negative range (Chart 3-17). The subdued growth outlook in Europe, ambiguities about tariffs and the tense general geopolitical situation lead to uncertainty in the external outlook. The external output gap – which has an effect on the Hungarian cyclical state – remains in moderately negative territory as well.

According to questionnaire surveys, the capacity utilisation and production expectations of manufacturing companies remain below the historical average. Capacity utilisation has improved somewhat in quarter-on-quarter terms, but production expectations for the coming months have turned to negative, and both indicators are below the historical average.

3.5 Costs and inflation

Consumer prices rose at a year-on-year rate of 5.6 percent in February 2025. Core inflation was 6.2 percent, while core inflation excluding indirect tax effects stood at 6.0 percent. Most product categories contributed to the rise in annual inflation rate, which was partially offset by disinflation in fuel prices. Indicators capturing more persistent inflation trends increased on an annual basis. The inflation of sticky-price goods and core inflation excluding processed food stood at 5.8 percent. On a monthly basis, the price of the overall consumer basket and the price of the core inflation basket rose by 0.8 percent and 0.6 percent, respectively. The rates of price changes relative to the previous month were above the historical averages both for inflation and core inflation.

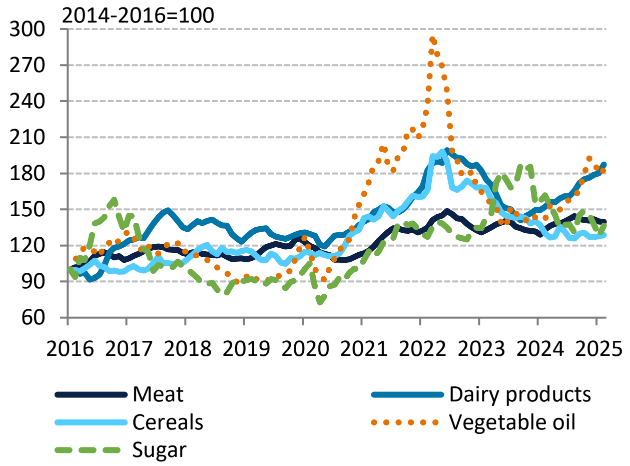
3.5.1 Producer prices

Global food prices rose by 8.2 percent in February versus the same period of the previous year. The year-on-year price increase primarily reflected higher prices of vegetable oil and dairy products. Vegetable oil prices rose by 29.1 percent on an annual basis. Prices of dairy products increased by 23.2 percent on an annual basis, and by 4.0 percent compared to January. Cereal prices fell by 1.1 percent on an annual basis. Meat prices were 4.8 percent higher and global sugar prices 15.8 percent lower than in February last year (Chart 3-18).

In January, domestic agricultural producer prices were up 20.8 percent in year-on-year terms. Compared to the previous month, prices rose by 2.9 percent. The prices of all component items increased on an annual basis. The producer price of cereals was up 32.8 percent, while the price level of animal products rose by 5.7 percent and the producer prices of seasonal products increased by 13.1 percent over one year (Chart 3-19).

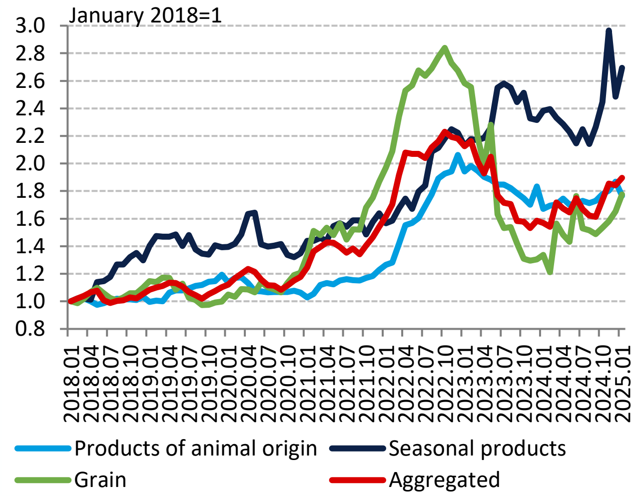
Producer prices for manufactured goods for domestic sale increased at an annual rate of 6.1 percent in January 2025. Domestic sales prices in the manufacturing sector increased by 6.6 percent compared to January of the previous year. Producer prices were 5.0 percent higher in the energy sector, while producer prices in the food sector were up 6.1 percent versus the same prior-year period.

Chart 3-18: Development of world market prices of food



Source: FAO

Chart 3-19: Development of agricultural prices



Note: Based on seasonally adjusted data.

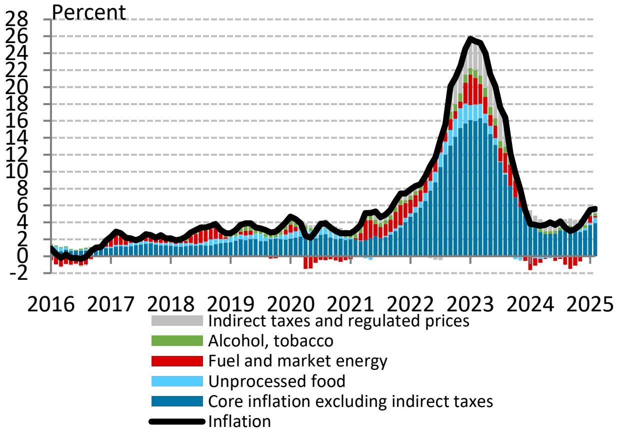
Source: HCSO

3.5.2 Consumer prices

Consumer prices rose at a year-on-year rate of 5.6 percent in February. The consumer price index rose by 0.1 percentage point compared to the previous month. Most product categories contributed to the increase, which was partially offset by disinflation in fuel prices (Chart 3-20). On a monthly basis, the price of the overall consumer basket and the price of the basket calculated without fuels and regulated prices rose by 0.8 percent and 0.7 percent, respectively (Chart 3-21).

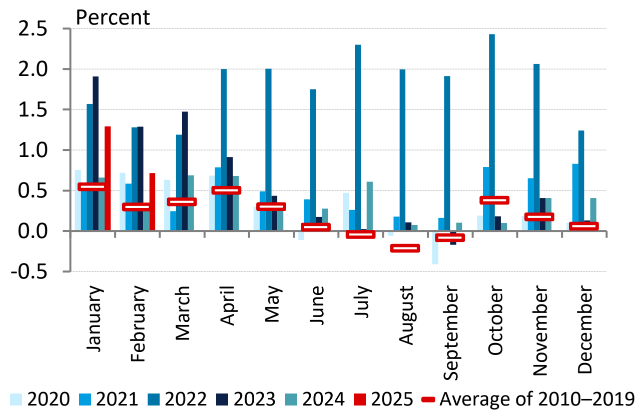
Core inflation and core inflation excluding indirect tax effects increased to 6.2 percent and 6.0 percent, respectively. Indicators capturing more persistent inflation

Chart 3-20: Decomposition of inflation



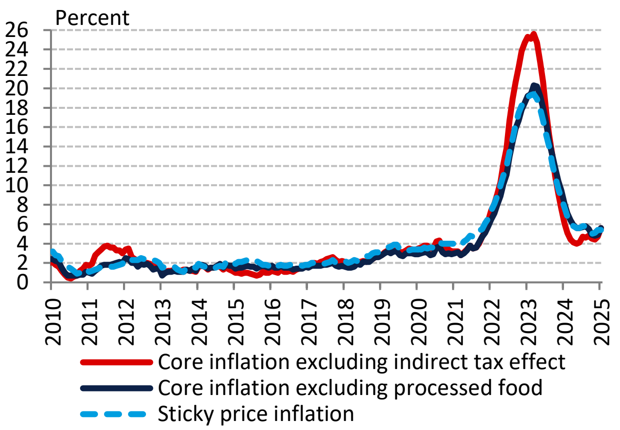
Source: MNB calculation

Chart 3-21: Monthly price changes of consumer prices excluding fuel and regulated prices



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

Chart 3-22: Underlying inflation indicators



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

trends rose on an annual basis. The inflation of sticky-price goods and core inflation excluding processed food stood at 5.8 percent (Chart 3-22). Our indicators also pointed to accelerating inflation on a shorter basis (annualised 3-month-on-3-month). Rates of price change relative to the previous month were also above the historical averages both for inflation and core inflation.

The annual inflation of tradables increased to 2.4 percent in February. On a monthly basis, the price of this product category advanced by 0.3 percent (Chart 3-23). Non-durable and durable prices both rose by 0.3 percent compared to January.

The annual price index of market services rose to 9.9 percent. On a monthly basis, prices increased by 0.9 percent (Chart 3-24). The significant monthly price increase can mainly be attributed to higher prices for restaurant and health services, as well as increases in rents.

Inflation for alcohol and tobacco products amounted to 5.0 percent. Compared to January, the price of this product category rose by 1.1 percent.

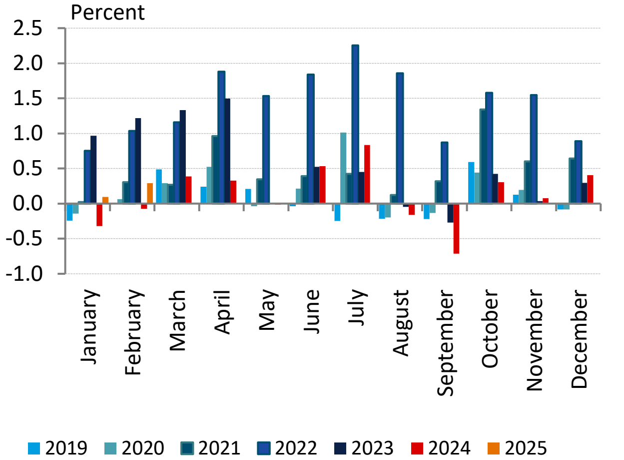
Food inflation according to the MNB's classification rose to 6.7 percent in February. Within this product category, unprocessed food prices and processed food prices were up 7.0 percent and 6.6 percent, respectively, in a year-on-year comparison. According to data released by the HCSO, food prices increased by 7.1 percent, which includes the 8.3-percent rise in restaurant meal prices. Compared to January, prices of unprocessed food rose by 1.7 percent, primarily due to price increases for fresh vegetables. Processed food prices rose by 0.8 percent monthly.

Fuel prices fell by 0.9 percent in month-on-month terms, consistent with the decline in global oil prices and the stronger forint exchange rate. The annualised rate of price increase for the product category dropped to 3.8 percent, as the impact of the previous year's excise tax increase faded.

3.5.3 Inflation expectations

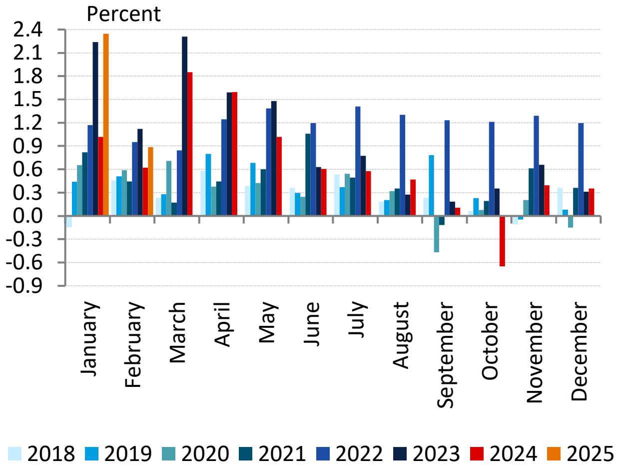
Household inflation expectations rose in the second half of the previous year. When forming inflation expectations, households typically over-represent the frequently purchased products and services in their consumer basket. Food price increases have accelerated in recent times, which may be an important factor in the rise in inflation expectations. Box 3-1 provides more information on this process.

Chart 3-23: Monthly price changes of traded goods



Source: HCSO, MNB

Chart 3-24: Monthly price change of market services



Source: HCSO, MNB

Box 3-1: Developments in inflation expectations

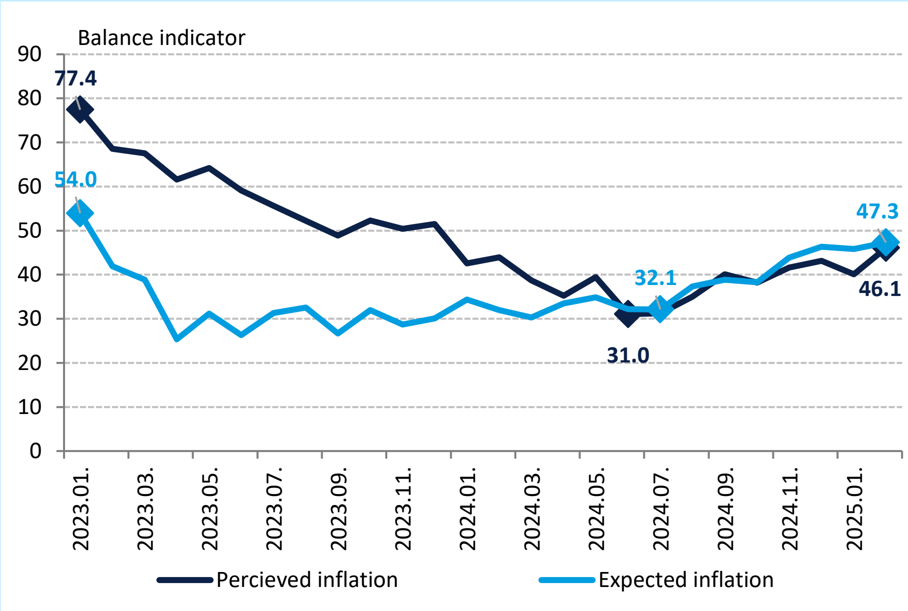
In addition to actual inflation developments, perceptions of inflation at the individual level and expectations of future inflation developments also have a significant impact on economic developments. The perceptions and expectations of economic agents may differ from the actual measured indicators. At the same time, decisions are made on the basis of these subjective factors, which can have an impact on the development of the economy. This is particularly the case with regards to inflation, where, on the one hand, individual perceptions and expectations typically differ from the national average, based on differences in consumer baskets and consumer habits. On the other hand, inflation expectations, based on individual perceptions, influence a particularly large number of economic variables, including business sentiment, consumption decisions and expected wages.

Anchoring inflation expectations is an important condition for achieving and maintaining price stability. If inflation expectations are around the central bank's target, then they are said to be anchored, which is a major driver of an effective monetary policy. With anchored expectations, temporary, external effects only have a transitory impact on the pace of price increases, meaning that price stability can be achieved more quickly and at lower real economic costs. Therefore, it is necessary to continuously examine not only actual inflation data, but also their perceived level and the related expectations. In the following, we analyse the perception and expectations of inflation among households.

Measuring households' inflation expectations poses methodological challenges. One common method involves a questionnaire asking about expected, quantitative inflation, while the other asks qualitative questions about the change in inflation or the rate of price increases. The inflation expectations regularly published by the European Commission follow the latter methodology, thus publishing inflation expectations in the form of a balance indicator. It is true for both methods that the quantified indicator carries significant uncertainty regarding the level of inflation expectations, so it is typically appropriate to focus on changes in inflation expectations when analyzing them.

Following the trough recorded in the middle of last year, the trend of households' inflation expectations has reversed (Chart 3-25). The survey quantifying households' inflation expectations shows that the share of those expecting a slower rate of price increases has fallen by almost one-half since the summer of 2024. In parallel, proportion of those anticipating further acceleration in inflation increased. As a result, the balance indicator for inflation expectations has bounced back to around the level recorded at the beginning of 2023. The rise in inflation perceptions and expectations is shaped by the fact that people tend to assign more importance to frequently purchased goods; consequently, a faster-than-average rise in food prices has a stronger impact on price perceptions. On the other hand, inflation expectations may also have been boosted by the weakening of the exchange rate in the second half of last year.

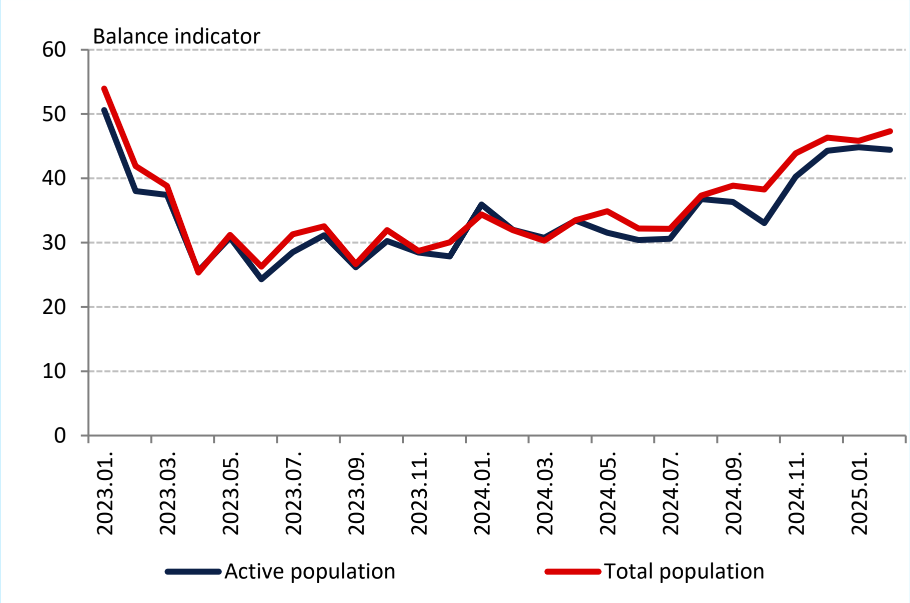
Chart 3-25: Inflation perception and expectation of households



Note: Balance indicators based on the European Commission methodology.
Source: GKI, MNB calculation

The inflation expectations of the working-age population are of particular importance for monetary policy. This is due to their active participation in wage formation and the price-setting role of the entrepreneurial class in the economy. The price expectations of the economically active segment have been similar to those of the total population, with the exception that, in their case, expectations stopped rising in December (Chart 3-26). Among the economically active population, employees influence pricing decisions through their expectations of wage increases, while entrepreneurs and the self-employed have a direct influence on pricing. In addition, this social group is more flexible in their decisions about consumption and savings, which can influence the pricing behaviour of companies through demand. As a result, the price-setting role of the economically active segment is more significant than that of other social groups.

Chart 3-26:Inflation expectations of the economically active population



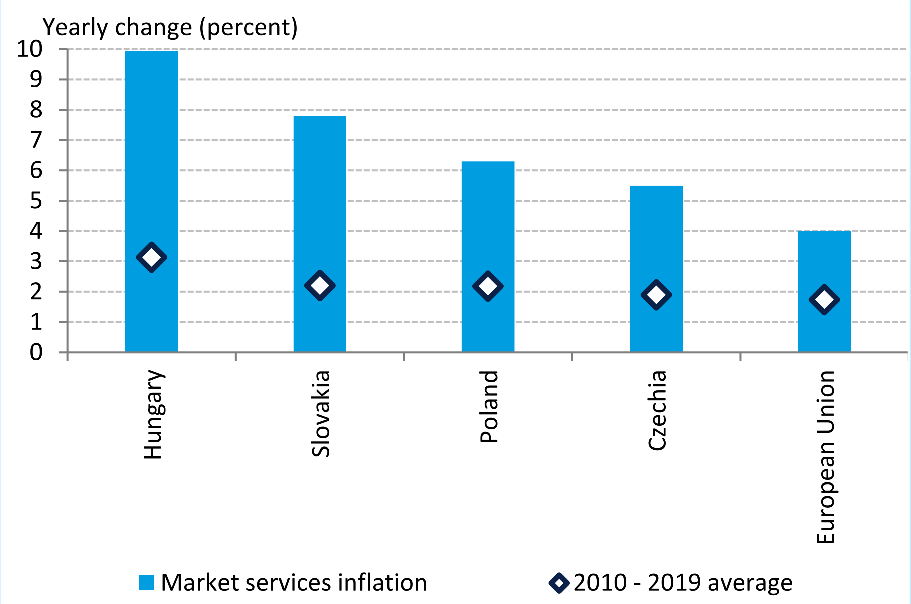
Note: Balance indicators based on the European Commission methodology.
Source: GKI, MNB calculation

Box 3-2: Higher repricing in market services

Higher prices of market services accounted for approximately one-half of the inflation measured in February. Market services have a weight of 27 percent in the consumer basket, and their average price rose by 9.9 percent on a yearly basis, contributing 2.7 percentage points overall to the 5.6-percent inflation rate. In this Box, we analyse the factors behind the high inflation in this product category.

In most EU Member States, the inflation of market services remains well above the average of the 2010s. The current rate of inflation in market services in Hungary is more than three times the historical average (3.1 percent) observed in the period 2010–2019 (Chart 3-27). International trends are similar. In the neighbouring Visegrád countries, the February inflation rate for market services was 2.9–3.5 times higher than the historical average, while for the European Union as a whole it was 2.3 times the average.

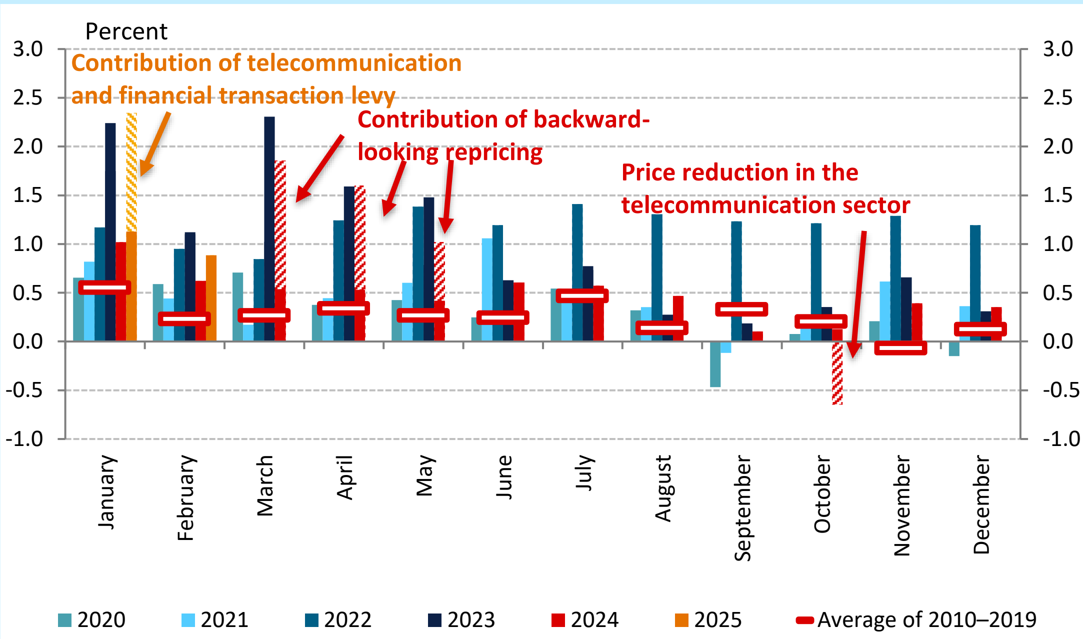
Chart 3-27: Inflation of market services in February and average annual price increases in past decade



Note: Hungarian data: the MNB's classification of market services based on the HCSO; HICP data for other countries. Source: HCSO, MNB, Eurostat

The current annual inflation of market services is influenced by the large, retrospective price increases implemented last year, which are expected to be significantly lower this year (Chart 3-28). In recent years, it has become common practice among telecommunications and banking service providers to raise their prices by the previous year's inflation rate, with retrospective repricing at the beginning of the year. The exercise of this practice in March-May 2024 is still reflected in the annual inflation rate today. However, this effect is expected to pass out of the inflation base in the coming months, and the price increases replacing it are expected to be significantly lower. With 2024 inflation well below that observed in 2023, the retrospective repricing rate may also be more subdued, supporting a decline in the annual price index of market services during the spring months. According to industry announcements, the three major companies in the telecommunications sector may raise their prices by 3.5–3.7 percent between March and May. At the same time, the broad-based repricing of market services observed in the first months of the year suggests that the price index for this product category may moderate more slowly than previously expected.

Chart 3-28: Monthly price increase in market services

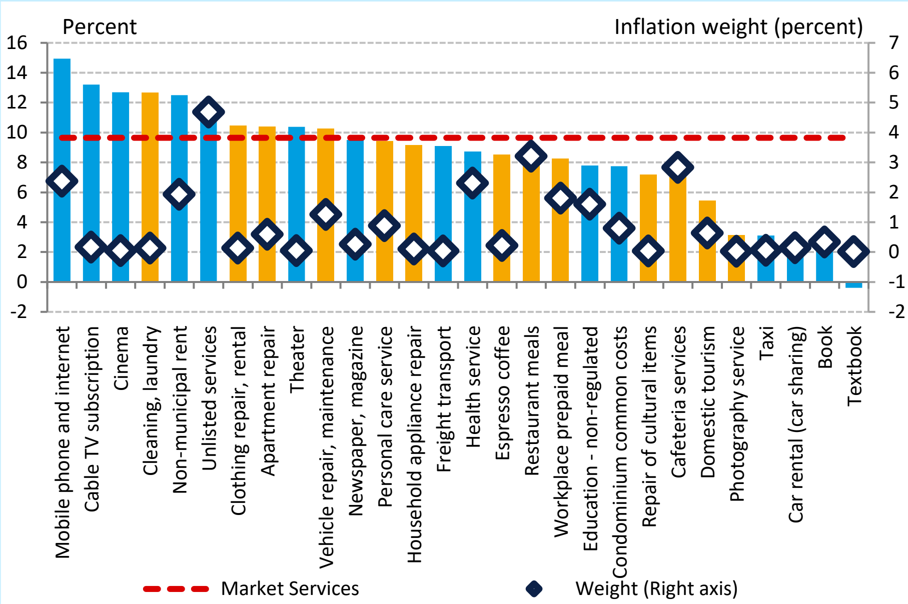


Source: HCSO, MNB

Specific factors related to telecoms and banking services accounted for more than one-half of the repricing seen in January (Chart 3-28). The average price of mobile phone and internet subscriptions decreased last October, but then rose in January 2025 at a rate similar to the previous decline. Banks reported that the increase in bank account management fees largely reflected incorporation of the increase in the financial transaction levy in 2024. Excluding one-off factors in January, the January change in prices of market services was 1.0 percent. The monthly price increase was 0.9 percent in February, primarily driven by higher prices for restaurants and health services, as well as rents.

Excluding one-off effects, the repricing of market services in January and February was similar to that observed at the beginning of 2022. For about one-third of the various market services, the annual rate of price increases exceeds 10 percent. Inflation for mobile phone and internet subscriptions, which have a significant weight in the consumer basket, was 14.9 percent in February as a result of retrospective repricing last spring. In addition, among the more significant items, rents (+12.5 percent) and prices of unlisted services, including banking services (+11.9 percent) increased substantially on an annual basis (Chart 3-29).

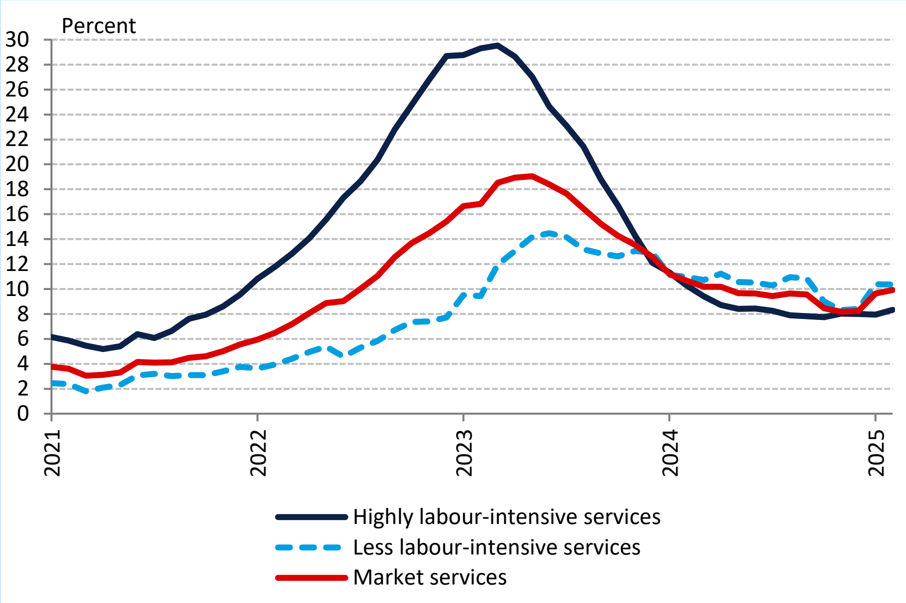
Chart 3-29: Annual price change for the sub-categories of market services (February 2025)



Note: 'Unlisted services' include, inter alia, banking services and insurance premiums.
Labour-intensive services are marked in orange, and less labour-intensive services in blue.
Source: HCSO, MNB

Most service categories with the highest inflation can be classified as less labour-intensive services. As opposed to industrial goods and food, the price of services is strongly affected by wages; therefore, it is particularly important to monitor the co-movement of prices and wages. Excluding trade, in market services personnel costs account for 28.9 percent of total costs, while the corresponding value in manufacturing is 12.6 percent, based on NTCA data for 2023. During the inflation cycle starting in 2021, labour-intensive services increased the most, while less labour-intensive services have exhibited the largest increase since the beginning of 2024. The inflation of labour-intensive market services accelerated from 8.0 percent in November to 8.3 percent in February. The inflation of less labour-intensive services rose by 2.1 percentage points in the same period (Chart 3-30).

Chart 3-30: Inflation of labour-intensive and less labour-intensive services

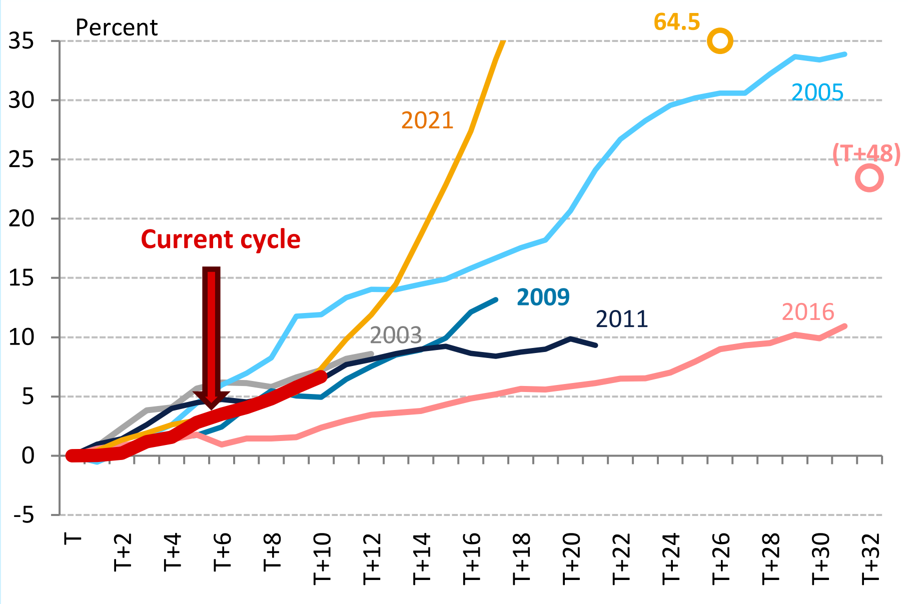


Note: Highly labour-intensive services include: domestic tourism, restaurant and workplace meals, cafeteria services, clothing repair and rental, home repair and maintenance, household appliance repair, cleaning and laundry, personal care services, repair and maintenance of motor vehicles, repair of cultural goods, photography. Annual change not adjusted for seasonality, excluding the effect of taxes.
Source: HCSO, MNB

Box 3-3: Main factors affecting food prices

In February 2025, HCSO data showed that food inflation advanced to 7.1 percent, while while it rose to 6.7 percent according to the product classification used by the MNB (which classifies products in a different manner, such as including restaurant meals in services rather than food). The price increases affected a wide range of food products, both processed and unprocessed. Since the turn of the millennium, global food prices have undergone several major waves of increases, with different durations and changes in price. The current wave of food price increases has been under way for about ten months and, while its pattern is so far similar to earlier cycles, there is high degree of uncertainty regarding its future evolution (Chart 3-31).

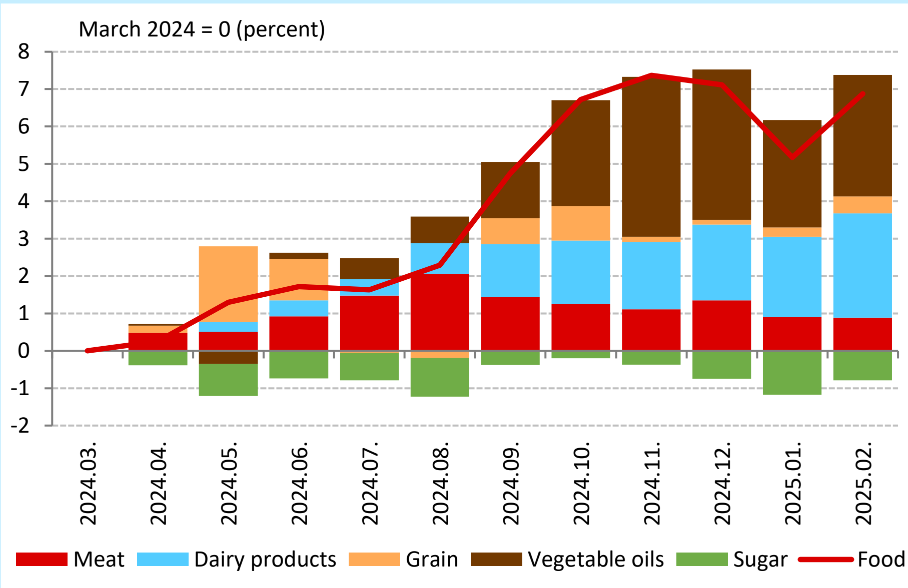
Chart 3-31: Length of food price cycles and rate of price increases



Note: A period is identified as a food price increase cycle if the seasonally adjusted food price level has increased in at least 3 out of the surrounding 5 months. Definition of food based on the MNB classification.
Source: HCSO, MNB

The primary source of the current domestic food price increase is the increase in global food prices, which is most pronounced for vegetable oils and dairy products (Chart 3-32). The FAO food price index rose by more than 6.9 percent between March 2024 and February 2025, with the bulk of the increase coming from vegetable oils (+3.3 percentage points) and dairy products (+2.8 percentage points). The increase in world prices of these two product groups has been reflected in domestic consumer prices as well, with the consumer price of milk increasing by 23.3 percent, dairy products by 12.0 percent and edible oil by 27.4 percent since March 2024. These three product groups are responsible for more than one-third of the total increase in food prices in Hungary.

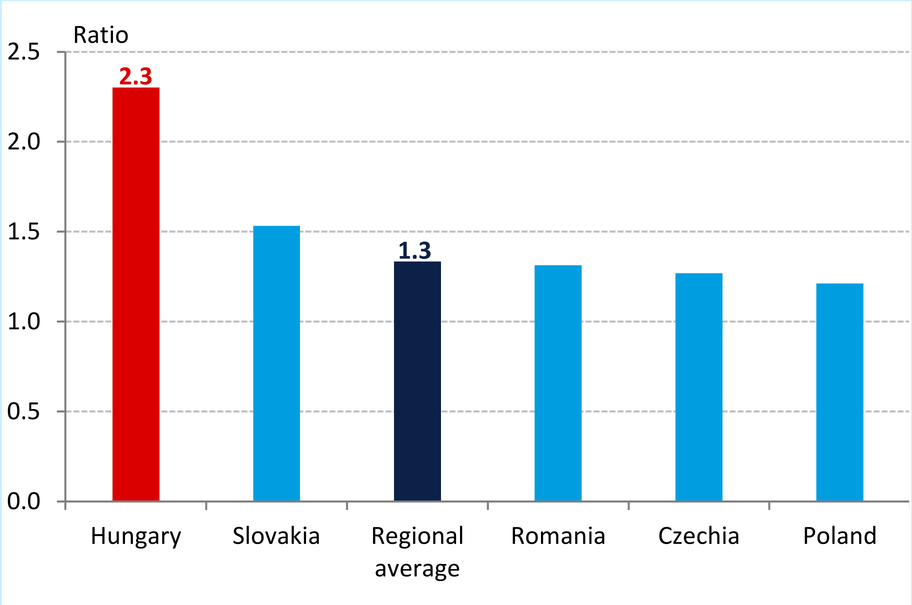
Chart 3-32: Breakdown of the FAO food commodity price index



Source: FAO, MNB

Long–term experience suggests that domestic food inflation is more sensitive to international influences than the price index in other countries in the region. Based on data recorded since the turn of the millennium, domestic food prices have accelerated by 2.3 percentage points for 1 percentage point of inflation in average food prices in the EU. This is the highest rate in the region, as the corresponding figures are 1.5 in Slovakia, 1.3 in the Czech Republic and Romania, and 1.2 in Poland (Chart 3-33). High energy intensity and the low productivity of the food industry may be among the main reasons for the high volatility of domestic food prices. The Hungarian food industry is the most energy intensive in the European Union. In 2022, 263 kilotons of oil equivalent (ktoe) of energy were used to produce 1,000 euros of added value, which is more than twice the European average. In addition, the productivity of the domestic food industry is low by European standards, ranking second to last in the EU.

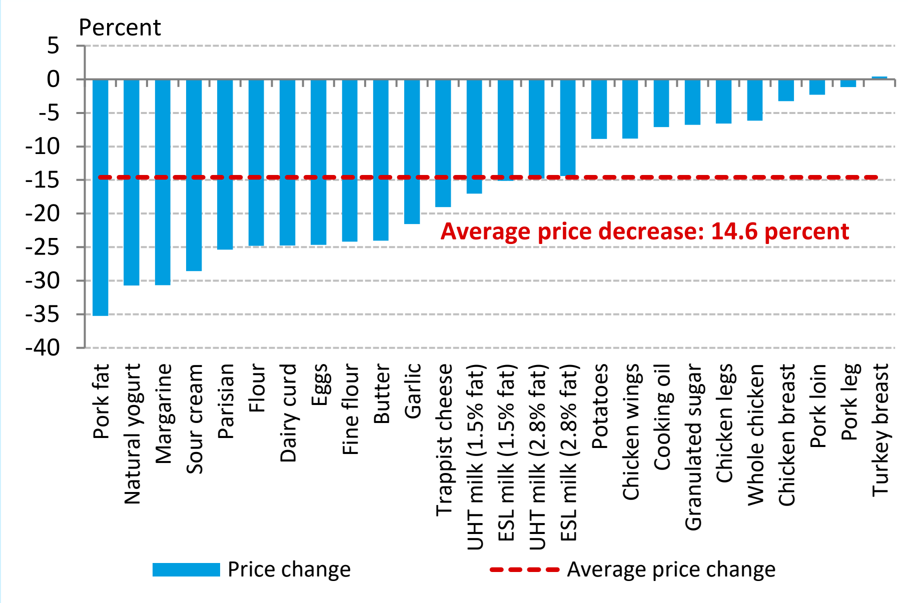
Chart 3-33: Food inflation sensitivity to international factors in the countries of the region



Note: This ratio represents the typical percentage point change in a country's food inflation at the same time as the average food inflation in the European Union rises by one percentage point. Based on HICP data from January 2000 and January 2025.
Source: Eurostat, MNB calculation

Restrictions on profit margins on food may reduce food inflation in the coming months. From 17 March 2025, 30 food groups have been subject to a margin restriction, which will remain in place until the end of May, according to the announcements. The margin, i.e. the difference between the retail purchase price and the sales price, may not exceed 10 percent for the product groups covered by the measure. Currently, the observed margin on the food products concerned ranges from 1.5 to 128.9 percent. The measure does not result in price reductions for all product groups concerned, but where it does, the price monitoring system shows that prices have fallen by between 1.1 and 35.3 percent compared to the previous week (Chart 3-34). Across the entire product range concerned, the average price decrease was around 15 percent. We estimate that the measure will reduce inflation by 0.8 percentage point in April and May. The effects of the measure may partially show up in March inflation data. After the measure is withdrawn, we expect a gradual recovery of margins and a rebalancing between product groups.

Chart 3-34: Changes in prices of food items covered by margin restrictions



Note: Change in average prices valid between 17 and 18 March, as well as 10 and 16 March. Among the products covered by the measure, chicken backs, pork side, pork shoulder and fruit yoghurt are not included in the database of the price monitoring system.
Source: GVH Price Monitor, MNB calculation

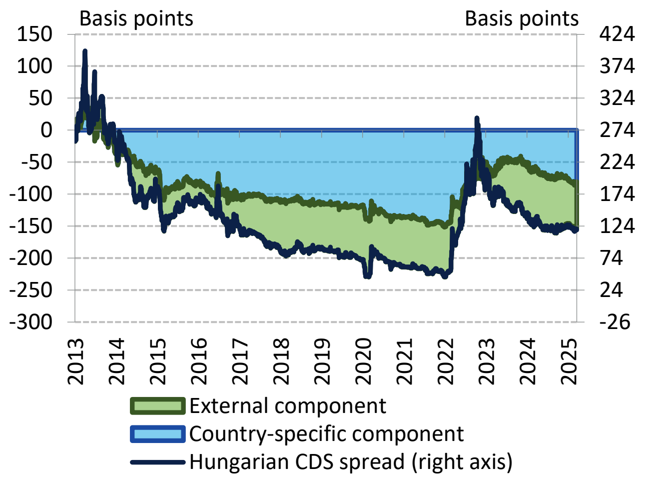
Looking ahead, we expect to see the continued pass-through of rising global food prices, which will be temporarily restrained by the restriction on food price margins. Food inflation is forecast to temporarily ease to below 4 percent in April. Following the withdrawal of the measure and the gradual recovery and rebalancing of margins, food inflation will continue rising, but will remain below 7 percent for the basket of products considered by the MNB. Sustained disinflation in this product group may start from the end of the summer, after global market effects fade out.

4 Financial markets and interest rates

4.1 Domestic financial market developments

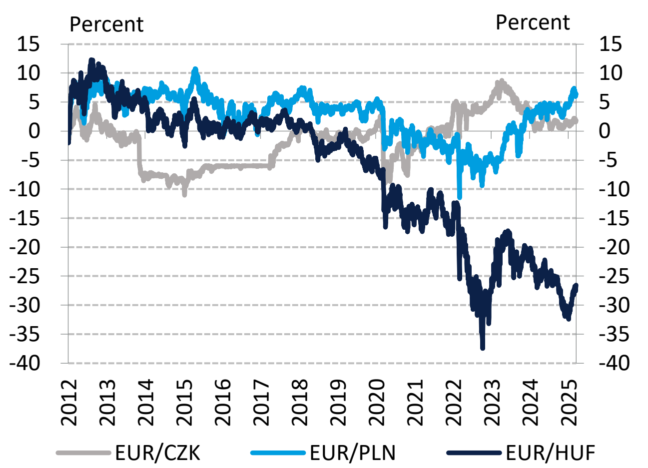
Investor sentiment was volatile in the past quarter, primarily in the context of the US administration's trade policy measures and expectations of an end to the Russia-Ukraine war. Market interest rate paths in the US and Europe diverged. Positive macroeconomic data from the US shifted the Fed's expected interest rate path downwards in the second half of the period, while the expected interest rate path increased in the case of the ECB. During the past quarter, the strong appreciation of the forint surpassed all other regional currencies.

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



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

Chart 4-2: Exchange rates in the region



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

4.1.1 Risk assessment of Hungary

Hungary's credit spread declined during the period. Exhibiting minor shifts, the spread was volatile in the past quarter, decreasing by 6 basis points overall to 119 basis points, which reflected a more significant contribution by country-specific factors (Chart 4-1). Investors analyses also confirm that the perception of Hungary's fundamentals has improved.

4.1.2 Foreign exchange market trends

On the whole, the forint strengthened against the euro by 4 percent during the period, driven primarily by the significant depreciation of the US dollar, along with the contribution of country-specific factors. With minor interruptions, the forint appreciated gradually during the period, strengthening more than the other regional currencies overall (Chart 4-2). In the region, the Polish zloty appreciated by 1.9 percent and the Czech koruna by 0.4 percent. The exchange rate of the Romanian leu remained unchanged. Compared to the US dollar, the forint appreciated 8.5 percent, while the Czech koruna strengthened 5 percent, the Polish zloty 6.5 percent and the Romanian leu 4.7 percent.

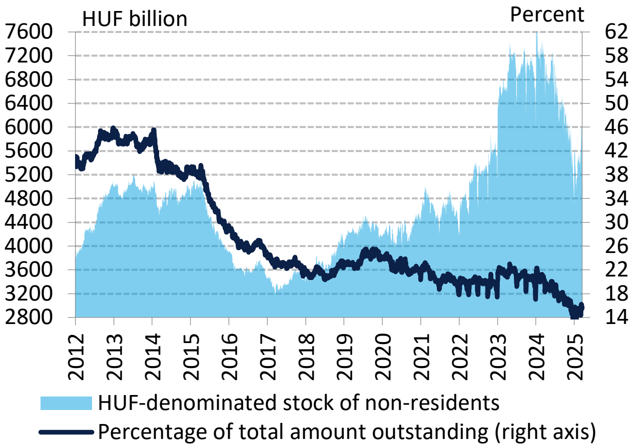
4.1.3 Government securities market and changes in yields

Non-residents' holdings of government securities increased during the past quarter. Non-residents' holdings of HUF government securities rose by HUF 478 billion to HUF 5,704 billion in the period. The share of the forint in government bonds also increased in the last quarter to around 15.5 percent (Chart 4-3).

Demand at discount Treasury bill auctions was mostly subdued in the last quarter. Average discount Treasury bill and bond auction yields also rose in the last quarter. Average yields at the 3-month discount Treasury bill auction increased by 129 basis points, while yields at the 10-year bond auction rose by 54 basis points.

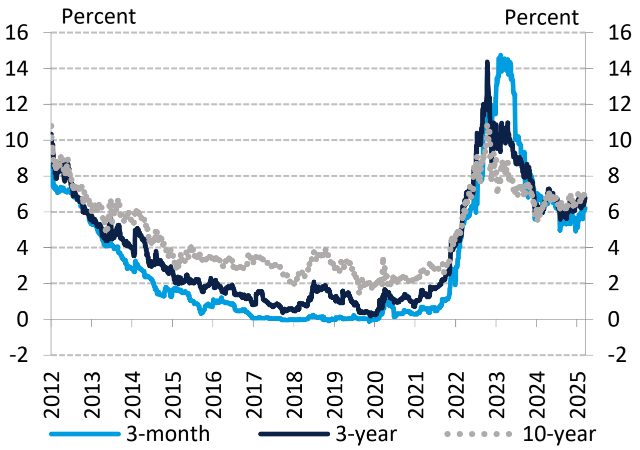
The government bond market yield curve as a whole shifted upwards in the period (Chart 4-4). Overall, the

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



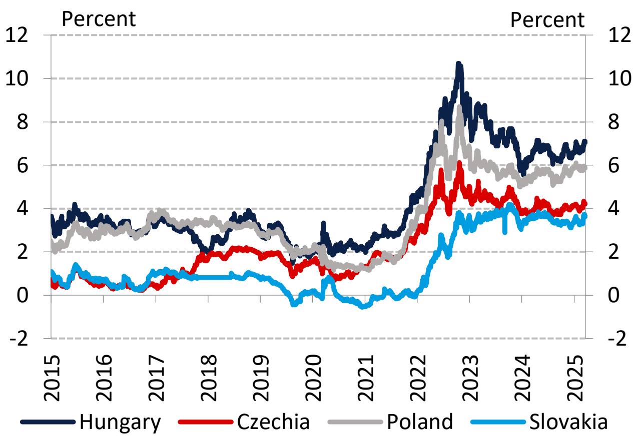
Note: The chart shows the stock of T-bills and T-bonds.
Source: MNB

Chart 4-4: Yields of benchmark government securities



Source: Government Debt Management Agency (ÁKK)

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



Source: Bloomberg

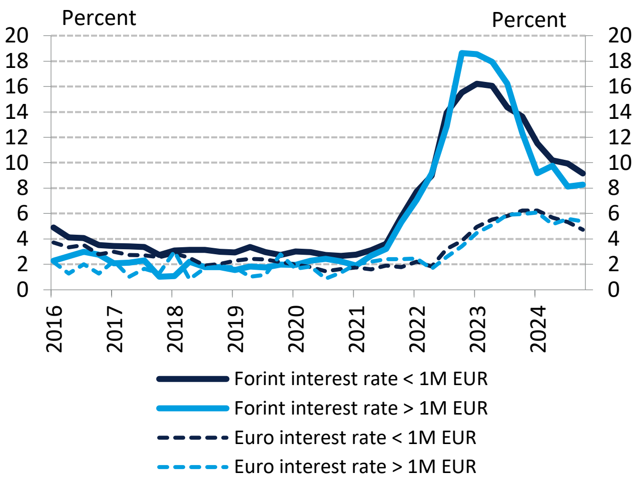
3-year yield increased by 40 basis points, the 5-year yield by 77 basis points and the 10-year yield by 54 basis points during the past quarter. Regarding interbank yields, the 3-month BUBOR rose by 1 basis point to 6.51 percent.

Long-term benchmark yields in the region typically increased in the past quarter. Ten-year yields rose by 34 basis points in Slovakia, 10 basis points in Czechia and 6 basis points in Poland, while they declined by 5 basis points in Romania (Chart 4-5).

4.2 Credit conditions of the financial intermediary system

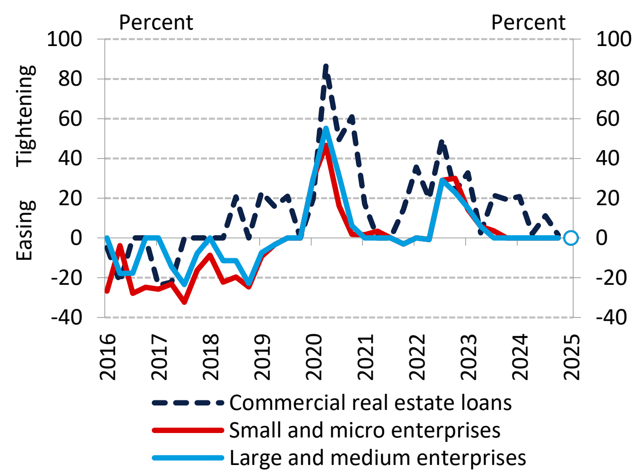
According to the Lending Survey, in 2024 Q4 banks left credit conditions for corporate loans broadly unchanged and do not intend to change such in 2025 H1. On the whole, banks did not perceive a considerable change in demand for corporate loans in the fourth quarter; however, following the declining or stagnating demand observed in recent quarters, they expect demand for HUF loans to pick up in 2025 H1, partly in response to the Sándor Demján Programme. The sector's lending capacity remains high. Banks have not changed their standards for housing loans, while 41 percent of them eased conditions on consumer loans. Two-thirds of the lenders may increase the spread on housing loans in 2025 H1, but do not plan to apply any changes to consumer credit standards. In both retail segments, the rebound in demand seen in the last quarter is expected to continue in 2025 H1.

Chart 4-6: Interest rates on new corporate loans



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

Chart 4-7: Changes in credit conditions in corporate sub-segments



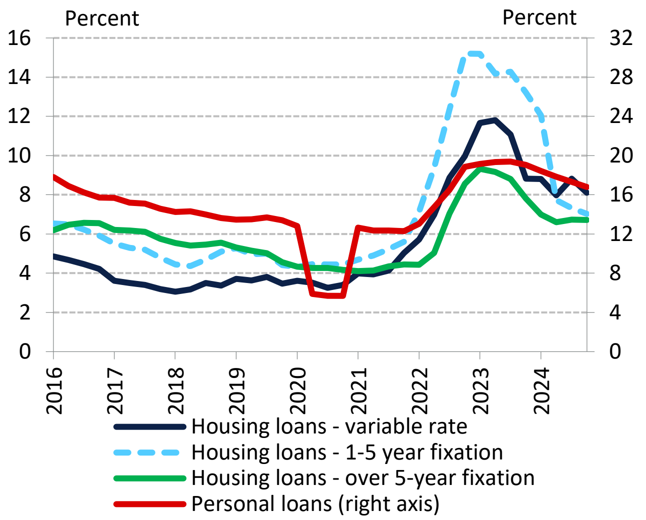
Note: Net percentage balance of respondents tightening/easing credit conditions weighted by market share. Forecast for 2025 H1.
Source: MNB, based on banks' responses

4.2.1 Corporate credit conditions

HUF lending rates continued to decline in 2024 Q4. Net of money market transactions, the average interest rate on newly contracted, predominantly market-based corporate HUF loans with an interest rate period of up to one year, decreased by 0.8 percentage point for low-amount loans and increased by 0.2 percentage point for large-amount loans relative to the previous quarter. The average interest rate on contracted corporate HUF loans continued to decline overall, amounting to 8.4 percent at the end of December (Chart 4-6). The interest rate on low-amount EUR loans fell by 62 basis points and that on large-amount EUR loans by 20 basis points in the fourth quarter. The average financing cost of EUR-denominated corporate loans was 5.3 percent at end-December.

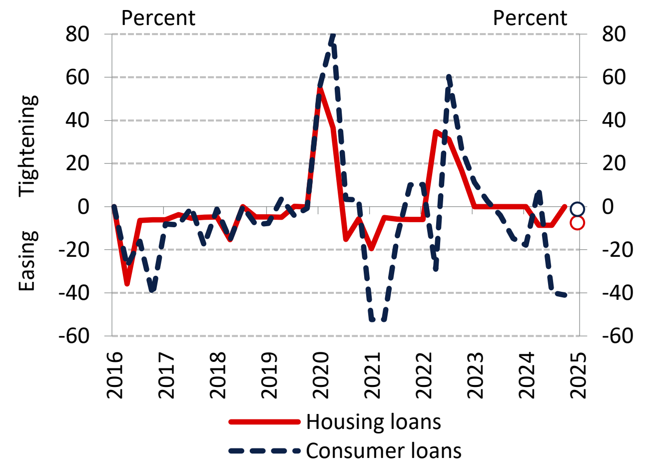
In 2024 Q4, banks left credit conditions for corporate loans broadly unchanged and they do not intend to change such conditions in the next six months. Overall, banks did not change credit conditions for corporate loans in the fourth quarter, but within commercial real estate loans 19 and 16 percent of banks tightened their standards on loans for office buildings and logistics centres, respectively, due to challenges facing the industry. Banks' lending capacity remains high. Banks do not intend to change corporate credit conditions in the next six months on account of market share objectives and increasing competition. No change in the conditions of credit accessibility is envisaged in the area of commercial real estate finance (Chart 4-7). In terms of credit demand, banks reported unchanged demand for corporate loans, and only a net 4 percent perceived a decline in demand. A net 10 percent of banks experienced a decline in credit demand from small and micro enterprises; however, 17 percent reported an increase in demand from large and medium-sized companies. Looking ahead to the next six months, one-quarter of banks expect credit demand to pick up, partly as a result of the Sándor Demján Programme launched in January 2025, which is expected to be reflected in all

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



Note: Quarterly average of lending rates on newly disbursed loans. State-subsidised loans fall into the 1–5 year fixation category before January 2024, and into the variable rate category from January 2024. For these loans, the interest rate in the figure also includes the subsidy paid by the state.
Source: MNB

Chart 4-9: Changes in credit conditions in the household sector



Note: Net percentage balance of respondents tightening/easing credit conditions weighted by market share. Forecast for 2025 H1.
Source: MNB, based on banks' responses

company size categories, with increased demand for HUF loans in particular.

4.2.2 Household credit conditions

The average interest rate on long-term fixed-rate housing loans remained unchanged during the quarter. The average APR of housing loan contracts signed in 2024 Q4 for loans with fixed interest rates for a term of over 5 years – which cover the majority of market-based loans – stagnated at 6.7 percent in December 2024 (Chart 4-8). In 2024 Q4, the share of loans with a fixed-term interest-rate period of at least 10 years was 98 percent.[1] The average smoothed APR for personal loans decreased by 53 basis points to 16.8 percent at the end of the period under review.

Banks have not changed their standards for housing loans, while 41 percent of banks eased their conditions for consumer loans. Based on responses to the Lending Survey, in 2024 Q4 banks left the lending conditions of housing loans unchanged overall; however, a net 28 percent reduced the spread on housing loans. A net 41 percent of banks eased standards on consumer loans, a decision driven by market share objectives (Chart 4-9). A net 8 percent of responding institutions envisaged easing for the next six months in terms of debt cap rules for housing loans, while a net 67 percent of the institutions surveyed may tighten price terms. Responding banks do not plan to significantly change standards on consumer loans. In 2024 Q4, 43 percent of banks perceived an upturn in demand for housing loans and looking ahead, an increasing share – a net 52 percent – expects demand to pick up further. A net 37 percent of the institutions surveyed observed an increase in demand for consumer loans, and a net 13 percent expects a continued rise in demand looking ahead to 2025 H1.

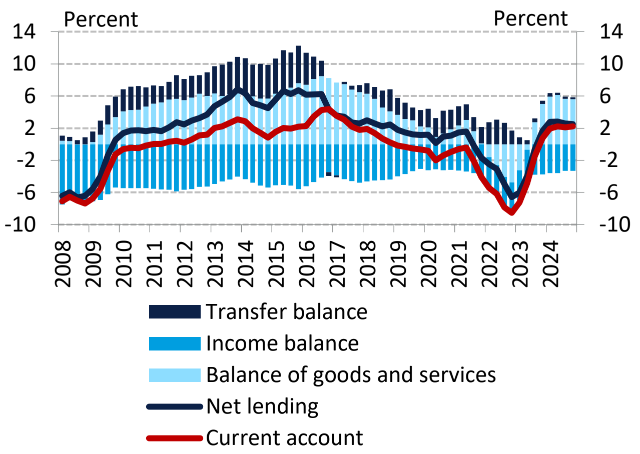
[1] The calculation also takes into account HPS Plus loans, which, in terms of methodology, are considered variable-rate loans according to the legal requirements, whereas in terms of their client interest rate they should be considered fixed-rate loans, as they cannot exceed 3 percent.

5 Balance position of the economy

5.1 External balance and financing

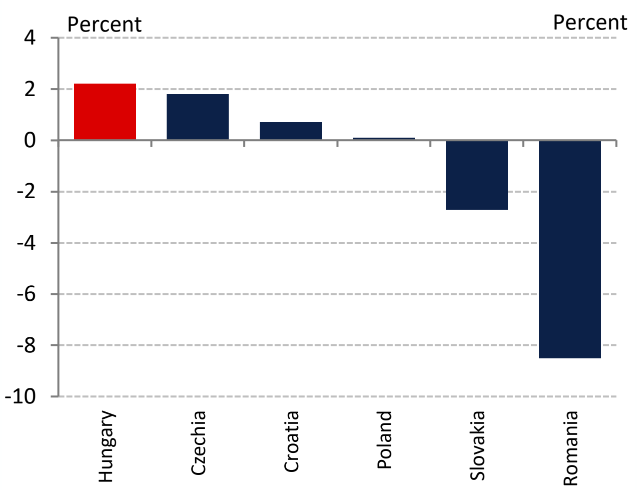
According to preliminary data, the current account balance continued to rise in 2024, after a surplus of 0.7 percent of GDP in 2023. The improvement in Hungary's external position is mainly due to an increase in the trade surplus, while the income balance deficit has also narrowed. On the financing side, net FDI inflows were significant at the end of the year, accompanied by a slight increase in net debt liabilities. At the end of 2024 Q3, gross external debt stood at 62 percent of GDP, while net debt was at approximately 10 percent of GDP.

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



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

Chart 5-2: 2024 current account balance in the CEE region



Note: As a percentage of GDP. Corrected with trade data from the GDP statistics for Hungary. Estimates based on monthly data for Q4 for other countries.
Source: Eurostat, MNB

5.1.1 Developments in Hungary's external balance position

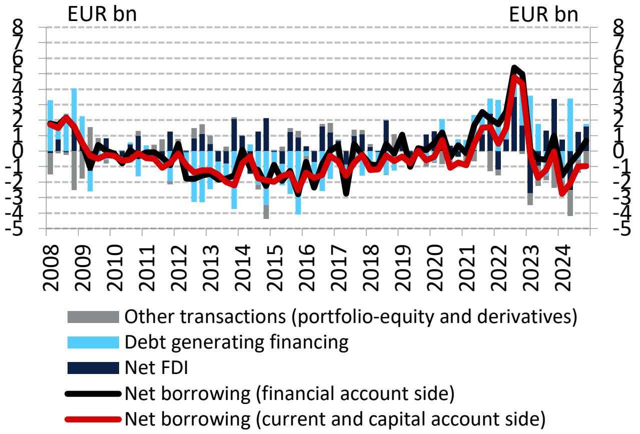
The current account surplus reached a high level in 2024 (Chart 5-1). The improvement in external balance indicators was mainly driven by an increase in the trade balance, which was accompanied by a decline in the income deficit. The increase in the annual trade balance was due to a rise in the goods balance, while the services surplus remained broadly unchanged. The goods balance was lifted by the significantly lower energy deficit than in the previous year and by the lower import requirements from decreasing investment, the effects of which were partly counterbalanced by falling exports amid weakening industrial production and by the impact on imports of a rise in consumption. The transfer balance continued to decline moderately to well below earlier levels, given the historically low net balance with the European Union.

Hungary's 2024 current account balance exceeded those of its regional peers (Chart 5-2). As a result of the rapid improvement in its external balance position in 2023–2024, Hungary's current account surplus caught up with the level typical for other EU countries. However, among the countries of the region, it stood out: The 2024 surplus of Czechia was close to that of Hungary, but the close-to-balance level of Poland's current account and the deficits in Slovakia and Romania fell far behind it.

5.1.2 Developments in financing

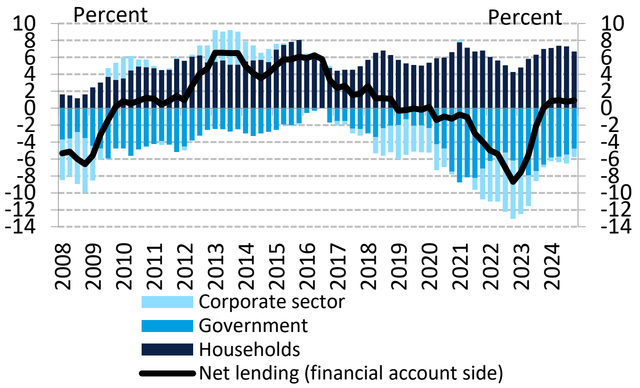
In 2024 Q4, debt liabilities increased somewhat, in parallel with significant net FDI inflows (Chart 5-3). In the last quarter of 2024, the significant increase in net foreign direct investment was mainly driven by reinvested earnings of foreign companies in Hungary. Resident investors bought a significant amount of foreign investment fund shares and stocks during the quarter. At the same time, transaction data showed a slight increase in net external debt during the period, as net borrowing by the general government exceeded the decline in net foreign debt of banks and corporations.

Chart 5-3: Structure of net lending



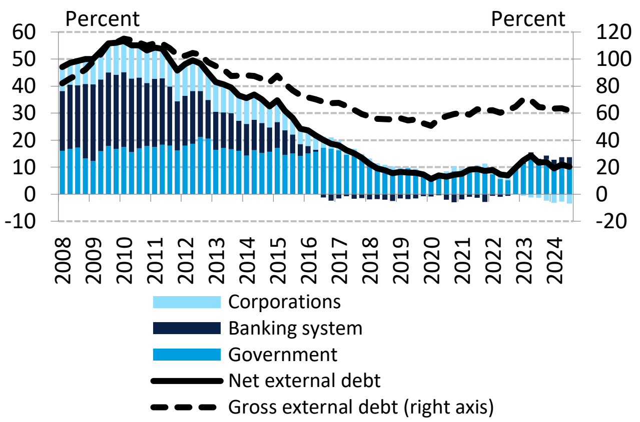
Note: The net lending from the financial account side corresponds to the sum of current account, capital account and the BOP balance of statistical errors and omissions. The technical effect of the switch between unallocated gold accounts and gold bullion is excluded. Source: MNB

Chart 5-4: Decomposition of net lending by sectors



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

Chart 5-5: Debt ratios in proportion to GDP



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

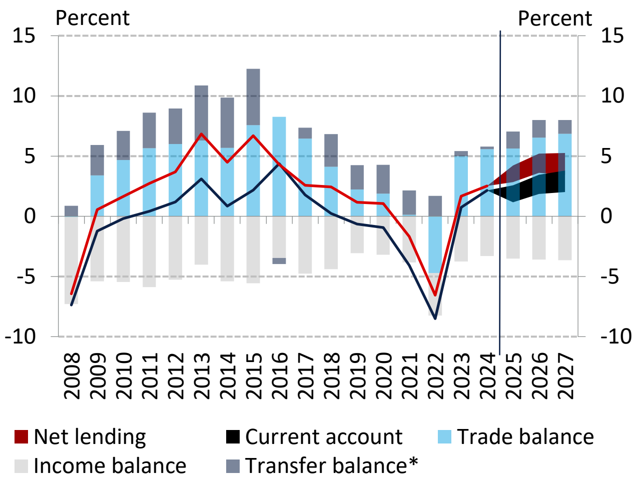
In 2024 Q4, the external balance impact of the decrease in government borrowing was offset by the fall in private sector net financial savings (Chart 5-4). Government net borrowing continued to decrease moderately, thanks to higher tax revenues on consumption and lower expenditures on interests and on government sector investments. Net financial savings of the private sector decreased to a similar extent, but remained at a high level. Households' net financial savings declined somewhat as consumption picked up, while the net borrowing of companies remained essentially unchanged.

By the end of September 2024, the economy's net external debt fell to around 10 percent of GDP (Chart 5-5). The decrease in the indicator was mainly linked to the stock-reducing effect of transactions in the third quarter and to revaluation. The decrease in net external debt originated from the private sector, while general government had the opposite effect. Hungary's gross external debt fell to 62 percent of GDP by the end of the quarter.

5.2 Forecast for Hungary's net lending position

The current account surplus will decline slightly this year, before gradually improving again in 2026–2027. Against the backdrop of stronger domestic demand, the trade surplus will remain stable in 2025. However, the more dynamic export performance resulting from better utilisation of existing capacities and increasing production by investment projects currently in progress will lead to a gradual improvement in the external balance over the rest of the forecast horizon. From a sectoral financing perspective, the external balance improvement will emanate primarily from lower general government deficits, while the financial savings of the private sector will remain high.

Chart 5-6: Evolution of net lending



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

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

	2023	2024	2025	2026	2027
Balance of goods	0.0	0.7	0.5	1.4	1.7
Balance of energy	-4.7	-3.4	-3.4	-3.1	-3.0
Balance of other goods	4.7	4.0	3.9	4.6	4.7
Balance of services	5.0	4.9	5.1	5.1	5.1
Trade balance	**5.0**	**5.6**	**5.6**	**6.5**	**6.8**

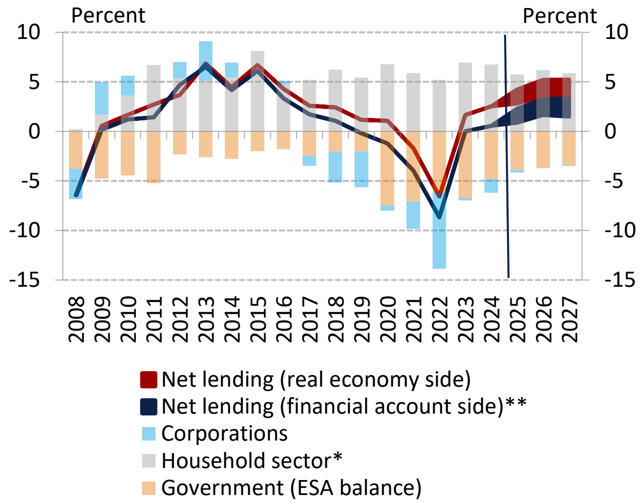
Source: HCSO, MNB

After a temporary decline this year, the current account surplus will continue to rise over the forecast horizon (Chart 5-6). In 2024, the current account surplus increased to a high level. This year, it is expected to temporarily moderate slightly in an environment of rising domestic demand and merely slow growth in exports. From 2026, faster export growth resulting from better utilisation of existing production capacities and the upswing in production at ongoing investments will lead to an increase in Hungary's export market share and further improvement in the external balance. The deficit of the income balance will increase gradually amid rising corporate operating profits from growing exports, while the extra profit tax will significantly reduce the profit of foreign companies. Overall, the current account surplus will gradually increase over the forecast horizon, as will net lending in parallel with the utilisation of EU transfers.

The substantial surplus on the trade balance is expected to remain unchanged in 2025 before improving again from 2026. With the correction of higher gas and electricity prices in recent months, the energy deficit may remain at last year's level in 2025. We expect even lower energy prices and thus more favourable energy balances from 2026 onwards. The import-increasing impact of buoyant domestic demand will slightly reduce the other goods surplus this year, but rapidly growing exports over the rest of the forecast horizon point to a significant increase in the balance of other goods. The surplus on the balance of services is expected to be around 5 percent of GDP over the forecast horizon (Table 5-1).

Based on the sectoral financing approach, in parallel with the decline in the fiscal deficit, the private sector's net savings position remains high (Chart 5-9). The lower fiscal deficit in 2025 reflects decreasing interest expenditures, energy prices stabilising at a lower level and higher tax revenues due to economic growth being stronger than last year. The gradual introduction of the recently announced tax allowances from 2026 will have a substantial budgetary impact; that notwithstanding, the deficit will continue to moderate slightly. The net financial savings of households will moderate this year amid strong growth in consumption and household investment, but will also remain high from

Chart 5-7: 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

2026 as wage dynamics will continue to be elevated. In an improving business environment, corporate net borrowing will decline this year. It will remain low even in the second half of the forecast horizon, as the impact of investment growth will be offset by the revenue-increasing effect of rising exports and the utilisation of EU transfers.

5.3 Fiscal developments

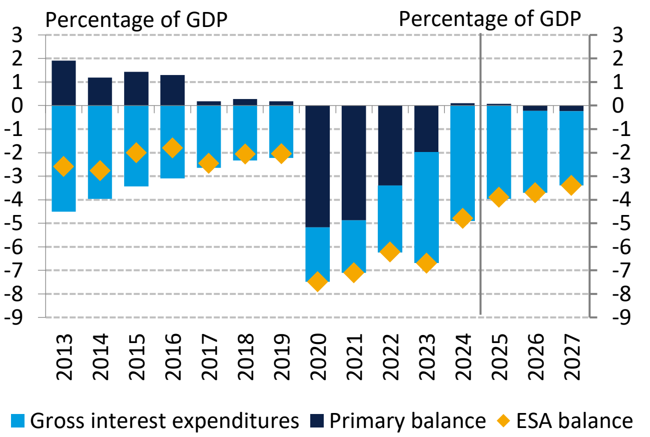
Based on preliminary fiscal accounts data, the accrual-based balance of the general government sector showed a deficit of 4.8 percent of GDP in 2024, 1.9 percentage points lower than in the previous year. According to our forecast, the fiscal balance may continue to improve: The general government deficit may be in the range of 3.5–4.3 percent of GDP in 2025, 3.2–4.2 percent of GDP in 2026 and 2.9–3.9 percent of GDP in 2027. The primary balance, calculated without interest expenditure, will be close to equilibrium over the entire forecast horizon. The decline in fiscal deficit expected for this year is supported by falling interest expenditures, energy prices stabilising at a lower level and higher tax revenues due to improving economic growth relative to the previous year. The recently announced tax allowances will have a significant fiscal impact; consequently, the government revised its deficit target upwards, from 2.9 percent to 3.5 percent, for next year. According to preliminary data, gross public debt amounted to 73.8 percent of GDP at the end of 2024. Based on our forecast, gross public debt will decrease to 73.2 percent of GDP by the end of 2025, and then decline to below 69 percent of GDP over the forecast horizon.

Table 5-2: General government balance indicators

	2024	2025	2026	2027
ESA balance	-4.8	(-4.3) - (-3.5)	(-4.2) - (-3.2)	(-3.9) - (-2.9)
Primary ESA balance (point estimate)	0.1	0.1	-0.2	-0.2
Gross interest expenditures	4.9	4.0	3.5	3.2

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

Chart 5-8: Changes in the fiscal balance and government interest expenditures



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

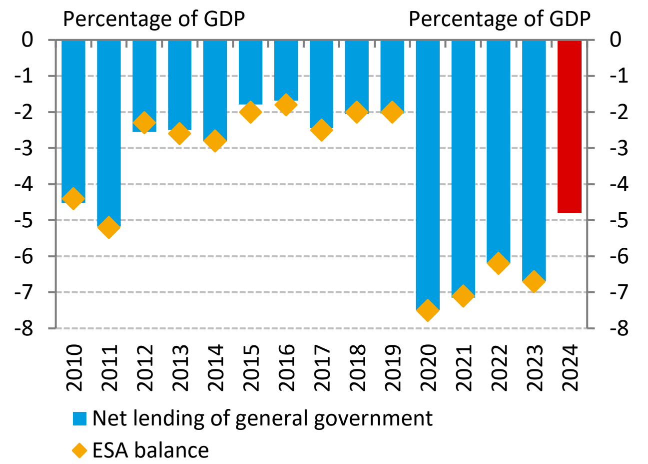
5.3.1 Main balance indicators

We forecast a gradual decline in the accrual-based deficit, which may be in the range of 3.5–4.3 percent of GDP in 2025, 3.2–4.2 percent of GDP in 2026 and 2.9–3.9 percent of GDP in 2027 (Table 5-2). Based on preliminary fiscal accounts data, in 2024 the general government deficit decreased to 4.8 percent, falling by 1.9 percent of GDP compared to the previous year. According to our forecast, the fiscal deficit may decline further this year, supported by falling interest expenditures, energy prices stabilising at a lower level and higher tax revenues due to improving economic growth relative to the previous year. From 2026, we project a higher deficit compared to our previous expectation, primarily due to the recently announced tax measures, as a result of which the government's deficit target for next year was also revised upwards from 2.9 percent to 3.5 percent. The primary balance may be close to equilibrium levels over the forecast horizon; consequently, we expect the overall deficit to decline gradually, in parallel with gross government interest expenditures (Chart 5-8).

5.3.2 Budget balance in 2024

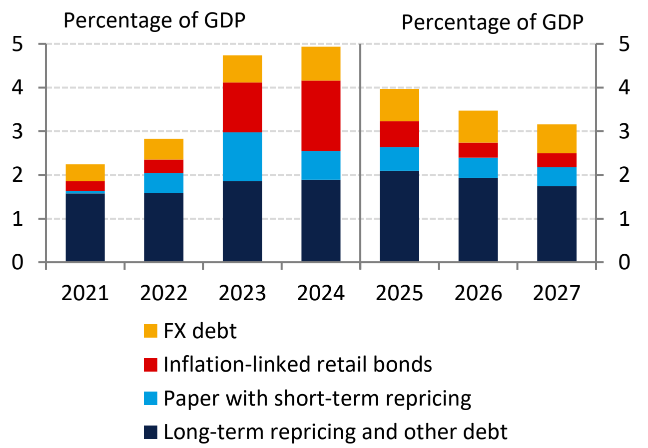
Based on preliminary fiscal accounts data, the accrual-based balance of the general government sector indicated a deficit of 4.8 percent of GDP in 2024 (Chart 5-9). The budget deficit fell by 1.9 percentage points compared to the previous year's figure of 6.7 percent. Based on forecasts, Hungary is the third best performer among EU Member States in terms of the improvement in the budget balance relative to the previous year. In 2024, dynamically rising tax revenues relative to the previous year brought the negative primary balance of previous years to equilibrium levels, while higher payments on inflation-indexed government securities raised interest expenditures to 4.9 percent of GDP.

Chart 5-9: Accrual balance of the general government sector



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

Chart 5-10: Development of the structure of gross accrual-based interest expenditures



Source: ÁKK, Eurostat, MNB forecast

5.3.3 Budget balance in 2025

Our forecast for the accrual-based deficit-to-GDP ratio is 3.5–4.3 percent in 2025; consequently, with adequate expenditure control the deficit target of the government is achievable. The 2025 Budget Act sets the accrual deficit-to-GDP ratio of the general government at 3.7 percent of GDP, which translates to a reduction of 1.1 percentage points this year compared to the preliminary figure of 4.8 percent in 2024.

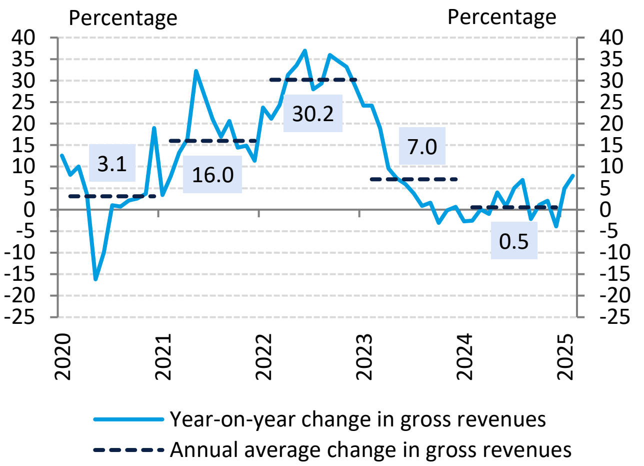
In 2025, improvement in the fiscal balance will be supported by a decline in interest expenditures and rising tax revenues due to stronger economic growth than in the previous year. Improvement in the balance indicator is supported by the expected decline in interest expenditures, primarily related to the repricing of inflation-indexed government securities to lower interest rates (Chart 5-10). According to our projections, cash-based tax and contribution revenues may be close to the 2025 Budget Act appropriations. This is supported by the fact that VAT revenues, which are the main pillar of the Hungarian tax system, exhibited a significant increase at the beginning of this year (Chart 5-11). Gross VAT revenues rose by 5 percent in January and by nearly 8 percent in February in year-on-year terms. In addition to the favourable macroeconomic outlook, the measures adopted in 2024 (e.g. inflation-indexed increases of certain taxes, extending the scope of windfall taxes) will also contribute to the growth in tax revenues this year. As energy prices stabilise at a lower level, a decline is expected in expenditures related to the utility cost reduction measures. As our current inflation projection exceeds the 3.2-percent rate of the macroeconomic assumption forming the basis for the 2025 Budget Act, pensions and the material expenditures of institutions are expected to increase.

5.3.4 Budget balance for 2026 and 2027

Based on our forecast, the primary balance may remain close to equilibrium in 2026 and 2027, and as a result, with a parallel decline in interest expenses the deficit may continue to decrease. The accrual-based balance of the general government may show a deficit of 3.2–4.2 percent of GDP in 2026, before decreasing to 2.9–3.9 percent of GDP in 2027. The recently announced tax allowances will have a significant fiscal impact from 2026; consequently, the government revised next year's deficit target upwards, from 2.9 percent to 3.5 percent.

We estimate that the recently announced tax measures will leave families and pensioners with additional income amounting to 0.1 percent of GDP in 2025, 0.5 percent of

Chart 5-11: Change in gross VAT revenues versus same prior-year period



Source: Hungarian State Treasury, MNB

Table 5-3: Fiscal impacts of the recently announced tax measures

Measure	Fiscal impact (as a percentage of GDP)		
	2025	2026	2027
PIT exemption	**0.11**	**0.35**	**0.55**
Mothers with 3 children	0.1	0.2	0.2
Mothers with 2 children	-	0.1	0.3
Mothers under 30, with 1 child	-	0.03	0.03
Infant care allowance, child care fee	0.01	0.02	0.02
VAT refund for pensioners	**0.02**	**0.1**	**0.1**
Total	**0.1**	**0.5**	**0.7**

Note: The impact of the VAT refund was quantified based on the current consumption structure.

Source: MNB calculation based on HCSO and NTCA data

GDP in 2026 and 0.7 percent of GDP in 2027 (Table 5-3). Pursuant to the latest government tax measures, from 1 October 2025, mothers with three children will benefit from a lifetime personal income tax exemption, which will provide additional income of 0.2 percent of GDP to the households concerned. The lifelong personal income tax exemption for mothers with two children will be fully integrated into the tax system in four steps starting in 2026 based on the age of the persons concerned, with a fiscal impact of 0.1 percent of GDP in 2026 and 0.3 percent in 2027. From 1 July 2025, infant care and childcare benefits (CSED and GYED benefits) will be exempted from personal income tax, and from 1 January 2026, the tax exemption will also apply for mothers under the age of 30 with one child. The combined fiscal impact of the latter two measures is close to 0.1 percent of GDP. From 1 October 2025, VAT will be refunded to pensioners on purchases of fruits, vegetables and dairy products with a VAT rate higher than 5 percent. The details of the measure (e.g. the maximum amount of the refund) are currently unknown, but according to our calculations the VAT refund may have a fiscal impact of around 0.1 percent of GDP per year based on current consumption. An increase in pensioners' consumption of the product categories concerned will result in an even higher VAT refund (for a detailed description of the measures, see Box 1-2). One positive development in 2026–2027 expenditures is the decline in forward gas and electricity prices, which may drive further reductions in expenditures related to utility cost reduction measures.

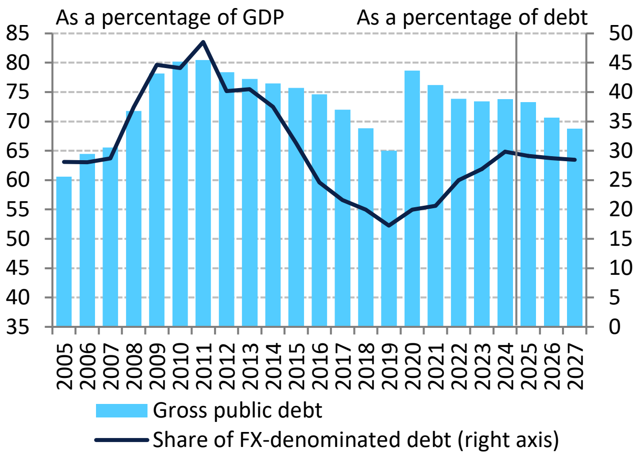
5.3.5 Risks surrounding the baseline scenario

Limited access to EU funds continues to pose uncertainty for budgetary processes. Hungary may have access to a total of EUR 12.2 billion in the 2021–2027 cohesion cycle, the drawdown of which is progressing at a rate exceeding the EU average. The Hungarian absorption rate stood at 8.3 percent at the end of 2024, while the EU average was around 2 percentage points lower, at 6.4 percent. In the case of the Recovery and Resilience Facility (RRF) funds, no agreement has yet been reached with the European Commission.

5.3.6 Expected trends in public debt

According to preliminary fiscal accounts data, the gross public debt-to-GDP ratio rose to 73.8 percent at the end of 2024, translating to an increase of 0.4 percentage point from 73.4 percent at the end of 2023. As a result of foreign currency bond issuance, the foreign currency debt ratio of the central government rose to 29.8 percent by end-2024 from 26.9 percent at end-2023.

Chart 5-12: Gross public debt forecast



Source: MNB, ÁKK

According to our forecast, the gross public debt-to-GDP ratio may decrease to nearly 73.2 percent at the end of 2025 (Chart 5-12). The debt ratio is expected to decrease steadily over the forecast horizon and, after a decline of 0.6 percentage point in 2025, the debt ratio may fall by 2 percentage points on average each year, dropping below 69 percent by the end of 2027. Changes in the EUR/HUF exchange rate affect the debt ratio through the revaluation of foreign currency debt and accordingly, a HUF 10 change in the EUR/HUF exchange rate alters the public debt-to-GDP ratio by around 0.6 percentage point.

6 Special topics

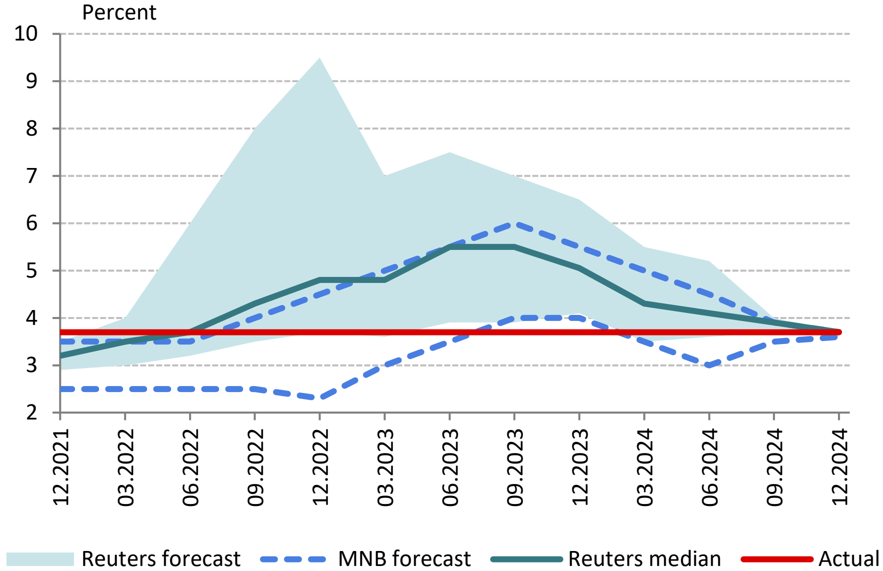
6.1 Assessment of forecasts for 2024 in the Inflation Reports

This section discusses the extent to which the forecasts for 2024 included in the Inflation Reports have been met over the past three years. In addition, we also look at how the forecasting performance of the Inflation Reports compares to that of market expectations. Overall, actual inflation in 2024 was in line with the MNB's projections from last year, with economic growth and private sector employment lower, while private sector wage dynamics were higher than our projections last year.

6.1.1 Inflation

Annual inflation averaged 3.7 percent in 2024. Inflation in Hungary continued to fall early in the year, with the price index returning to the central bank's tolerance band in January. Following this, it ranged between 3.6 and 4.0 percent for the rest of 2024 H1, at the upper end of the tolerance band. Between December 2021 and June 2022, the central bank's inflation forecast range for 2024 was around the 3 percent target. Due to the rise in inflation, the forecast range was raised from September 2022 to September 2023 to between 4.0 and 6.0 percent. Subsequently, the forecast range gradually narrowed, in line with the faster-than-expected decline in inflation. **At 3.7 percent, the actual figure corresponded to the range of projections given in 2024. The mid-range of our forecasts for 2024 as a whole was closer to the actual data over the past year than the median of expectations by market analysts** (Chart 6-1).

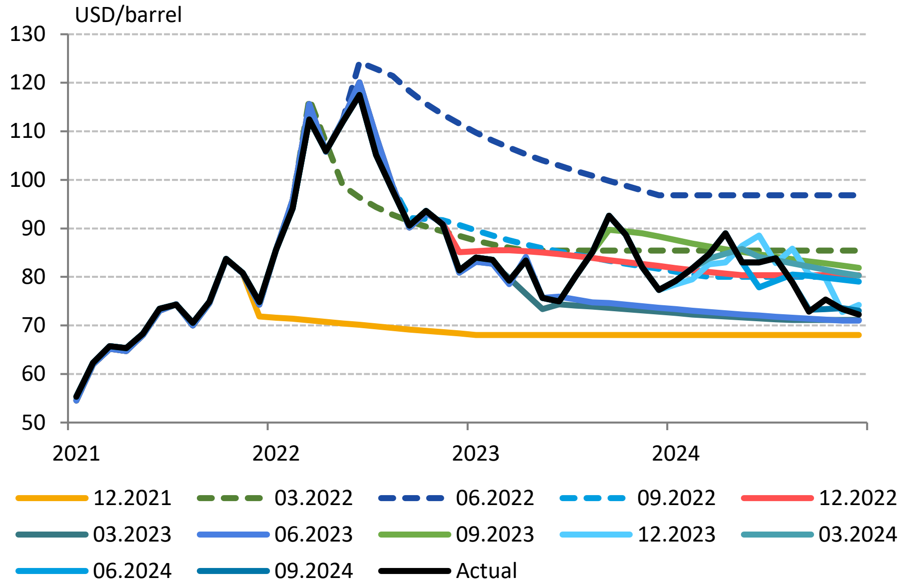
Chart 6-1: MNB and market forecasts for 2024 inflation



Source: HCSO, MNB, Reuters

The change in the projection for 2024 was largely linked to the evolution of energy prices (Chart 6-2). After peaking during the energy crisis in June 2022 and falling for almost a year and a half, oil prices started to rise again from the end of 2023, with Brent oil reaching USD 89 per barrel in April 2024. In the months following April, oil prices fell to around USD 70 per barrel as demand moderated and remained at a similar level at the end of the year.

Chart 6-2: Oil price assumptions

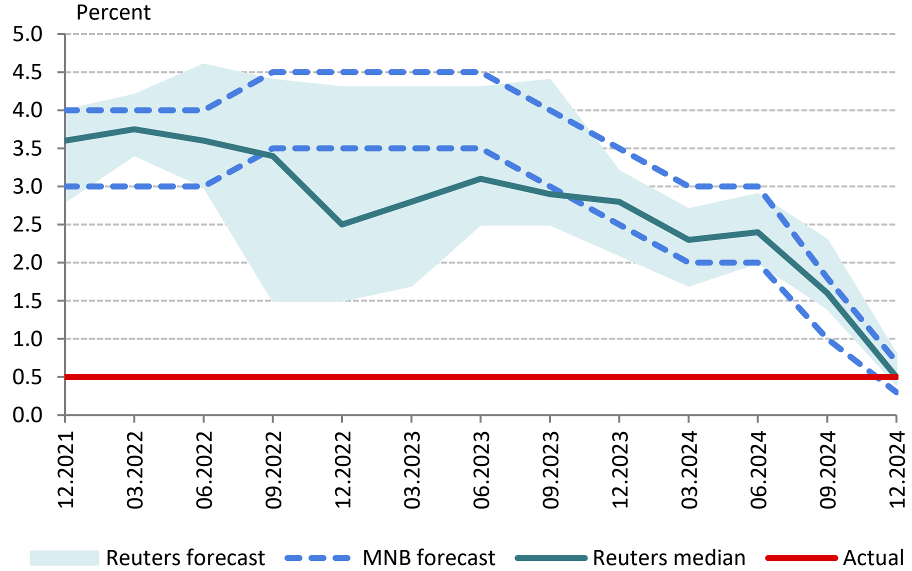


Source: Bloomberg

6.1.2 Economic growth

In 2024, domestic GDP increased by 0.5 percent on an annual basis. The December 2021 Inflation Report projected an expansion of between 3.0 and 4.0 percent, a range that remained unchanged until June 2022. Over the following four quarters, the forecast for 2024 increased to 3.5–4.5 percent, and then gradually fell from 2023 Q2, in line with incoming data. **The figure was in line with expectations ranging between 0.3 and 0.7 percent in December 2024** (Chart 6-3).

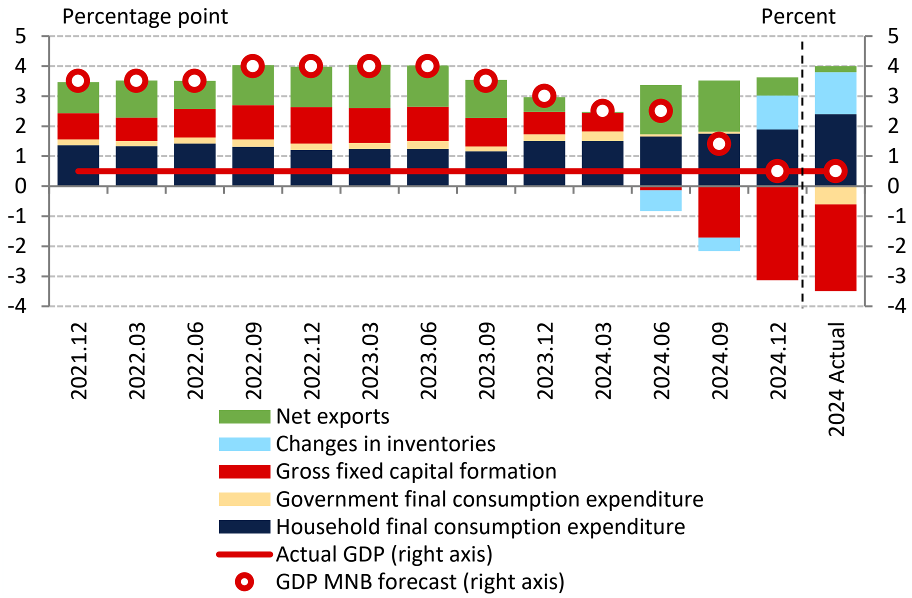
Chart 6-3: MNB and market forecasts for GDP growth in 2024



Source: HCSO, MNB, Reuters

In 2024, household consumption expenditure (+2.4 percentage points), change in inventories (+1.4 percentage points) and net exports (+0.2 percentage point) supported growth, while gross fixed capital formation (-2.9 percentage points) and final government consumption (-0.6 percentage point) restrained growth. The forecast expected net exports to make a positive contribution to domestic growth despite the deteriorating external economic activity. After 2022, expectations for gross fixed capital formation were gradually revised downwards. Surveys show that corporate development was mainly hampered by high price levels, lack of demand and uncertainty. In line with rising real wages and a recovery in consumer confidence, the forecast for household consumption gradually increased. Among the items, final government consumption and gross fixed capital formation were initially expected to make a substantially positive contribution, but the projections for the contributions of these two items were gradually lowered to reflect incoming data. **Overall, the projections were above the actual dynamics** (Chart 6-4).

Chart 6-4: MNB forecasts for the consumption-side decomposition of GDP in 2024

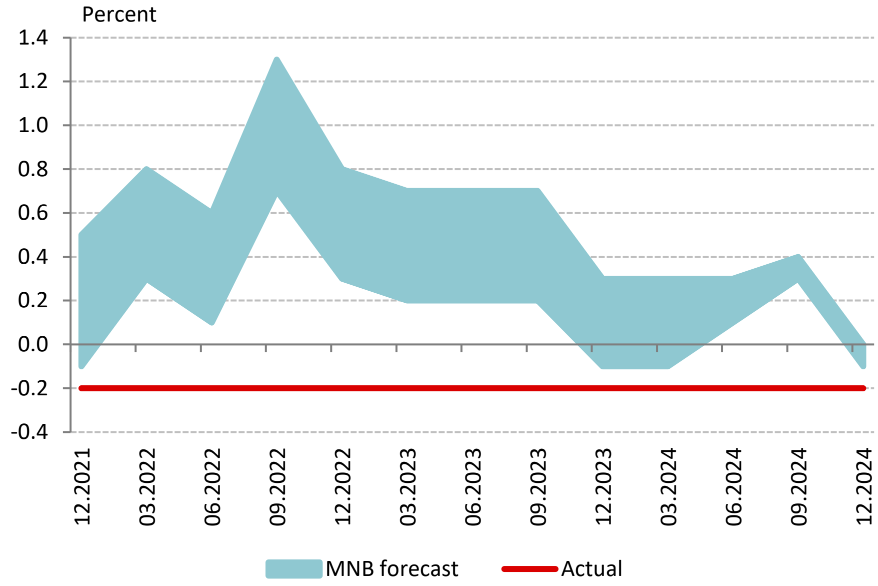


Note: The GDP values represent the forecast point estimate, the sub-categories show the growth contribution. Actual final government consumption includes government consumption and transfers from government and non-profit institutions.
Source: HCSO, MNB

6.1.3 Labour market

In 2024, employment in the private sector dropped by 0.2 percent. The forecasts since December 2021 assumed a slight increase in employment. The September 2022 Inflation Report projected employment growth of between 0.7 and 1.3 percent. In subsequent rounds, however, projections were gradually revised downwards in view of falling labour demand, demographic trends and subdued economic growth. The December 2024 forecast range was reduced to (-0.1) - 0.0 percent. The tightness of the labour market eased in recent quarters. Unemployment was low, falling to 4.3 percent by the end of the year. **The forecasts made last year were higher than the actual dynamics** (Chart 6-5).

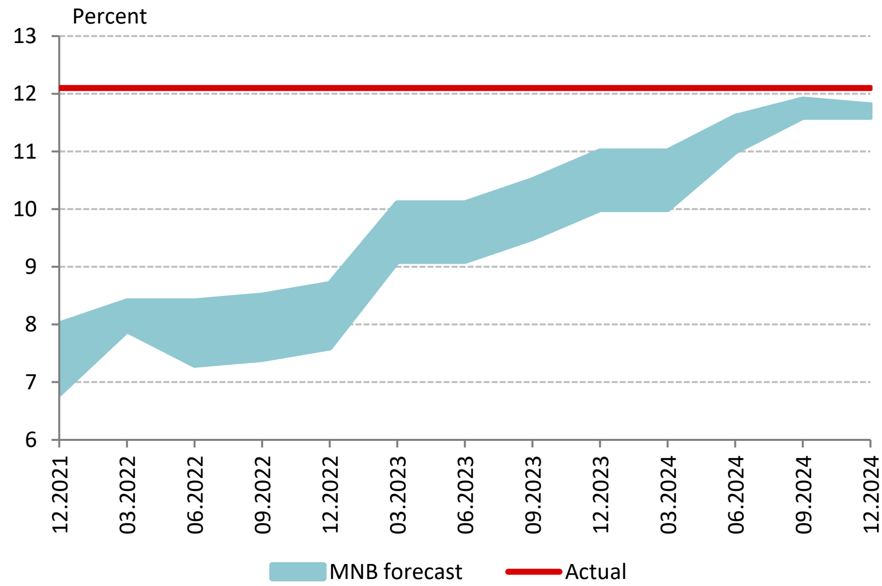
Chart 6-5: MNB projections for the 2024 employment index for the private sector



Source: HCSO, MNB

In 2024, wages in the private sector rose by 12.1 percent. Expectations for the wage index increased substantially from a range of 6.8 – 8.0 percent in December 2021, with the midpoint of the forecast range reaching 10 percent in September 2023. The initial projections for wage dynamics last year were influenced by falling inflation expectations, weak domestic demand and a gradual easing of labour market tensions. Average wage growth was also boosted by effect of the 15 percent and 10 percent increases in the minimum wage and the guaranteed minimum wage, respectively, as enacted in December 2023. The forecast for average gross earnings in the competitive sector was increased overall as incoming data were incorporated. **On the whole, actual wage growth for the private sector in 2024 exceeded the forecast** (Chart 6-6).

Chart 6-6: MNB forecasts for 2024 private wage growth



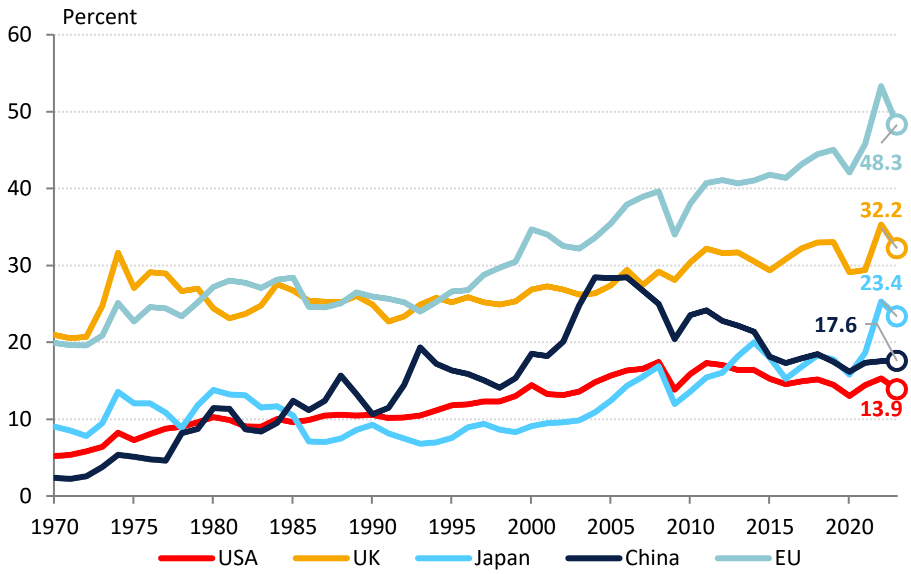
Source: HCSO, MNB

6.2 Focus: Impact of rising international tariffs

If introduced, the tariffs planned and announced by the US administration could lead to a fundamental change in international trade relations. The US administration's main objectives in imposing tariffs are to reduce the bilateral trade deficit – and thus the current account deficit – with individual economies, and to strengthen domestic industries. In addition, protective tariffs may also aim to offset the budgetary impact of planned tax cuts with higher revenues from tariffs. There is considerable uncertainty about the introduction, size and impact of tariffs. The scope, level and timing of the proposed tariffs have changed several times during the notifications, and the final impact is strongly influenced by the response of trading partners. In this analysis, we describe the extent and characteristics of the external trade relations and goods likely to be affected by tariffs, and include early estimates by international analysts of the expected macroeconomic impact, which are subject to considerable uncertainty for the reasons mentioned above.

In the United States, imports are low by international standards (Chart 6-7), accounting for only 13.9 percent of annual GDP in 2023. The same proportion was 17.6 percent for China, 23.4 percent for Japan and 48.3 percent for the EU as a whole. Nevertheless, the US is an important destination for the world's leading exporters: In 2023, 13.2 percent of global merchandise exports went to the United States. The US trade balance is negative, showing a deficit of 3.1 percent of GDP in 2024. Compared to other advanced economies, the US runs a high trade deficit. In France, for example, the trade deficit amounts to 0.7 percent of GDP, while in the UK it is 1.0 percent. For the US, the deficit is observed in goods exports, while a surplus of 1.0 percent of GDP in services was registered in 2024.

Chart 6-7: Import-to-GDP ratio



Source: World Bank

As tariffs only affect trade in goods, it is worth looking at the countries and products that are involved in the US goods deficit. The EU is the United States' most important trade partner in goods, with trade in goods between the two economies accounting for nearly 3.8 percent of US GDP in 2024 (Table 6-1). In relation to China, however, despite lower trade turnover, the US goods deficit is the largest (1.0 percent of GDP). The deficit was also significant in relation to Mexico (0.6 percent), while the figure for Canada was not particularly high (0.2 percent).

Table 6-1: US balance of goods, percent of GDP (2024)

Rank	Partner	Export of goods (%)	Import of goods (%)	Balance of trade in goods (%)
	World	7.1	11.2	-4.1
1.	China	0.5	1.5	-1.0
2.	EU	1.5	2.3	-0.8
3.	Mexico	1.1	1.7	-0.6
4.	Vietnam	0.0	0.5	-0.4
5.	Taiwan	0.1	0.4	-0.3
6.	Japan	0.3	0.5	-0.2
7.	South Korea	0.2	0.5	-0.2
8.	Canada	1.2	1.4	-0.2
9.	India	0.1	0.3	-0.2
10.	Thailand	0.1	0.2	-0.2

Note: In order of the size of the US trade deficit with each country.
Source: UNCTAD, IMF

As for the major product groups, the deficit is largest for manufactured goods, dominated by China, as well as for machinery and electrical equipment (Table 6-2). Thanks to globally competitive European pharmaceutical companies, Europe has the largest weight in chemicals and pharmaceuticals. US exports of machinery, electrical equipment and road vehicles are important for European economies and for Hungary, but the US deficit with the EU in these sectors is significantly lower than with China or Mexico. In the case of Canada, the largest deficit is in energy commodities, while the US trade balance is generally in surplus for other products.

Table 6-2: US balance of goods by country and product group (2023)

USD billion	Energy	Chemicals, pharmaceutical products	Manufactured goods	Machinery, electrical equipment	Road vehicles	Other	Total
China	19.5	4.1	-156.9	-186.6	-8.7	28.4	-300.2
EU	63.5	-94.7	-59.1	-80.3	-42.3	-7.2	-220
Mexico	20.1	27.9	-18.3	-71.5	-101.4	-13.5	-156.8
Vietnam	0.2	1.1	-51.1	-57.2	-0.9	-1.2	-109.1
Canada	-103.3	7.7	-0.7	35.3	0.1	-15.9	-76.8
Japan	11.3	0.2	-7.5	-45.9	-48.1	14.5	-75.4
South Korea	12.3	-4.7	-9.7	-27.3	-34.5	8.9	-54.9
Taiwan	6.5	0.3	-12.2	-47.1	-2.9	5.3	-50.1
India	5.9	-11.1	-27.8	-14.1	-1.8	1.8	-47.2
Thailand	2.8	0.5	-12.9	-30.2	-1	-2.2	-43
World	56.5	-66.2	-448.1	-508.3	-226.1	42.1	-1149.9

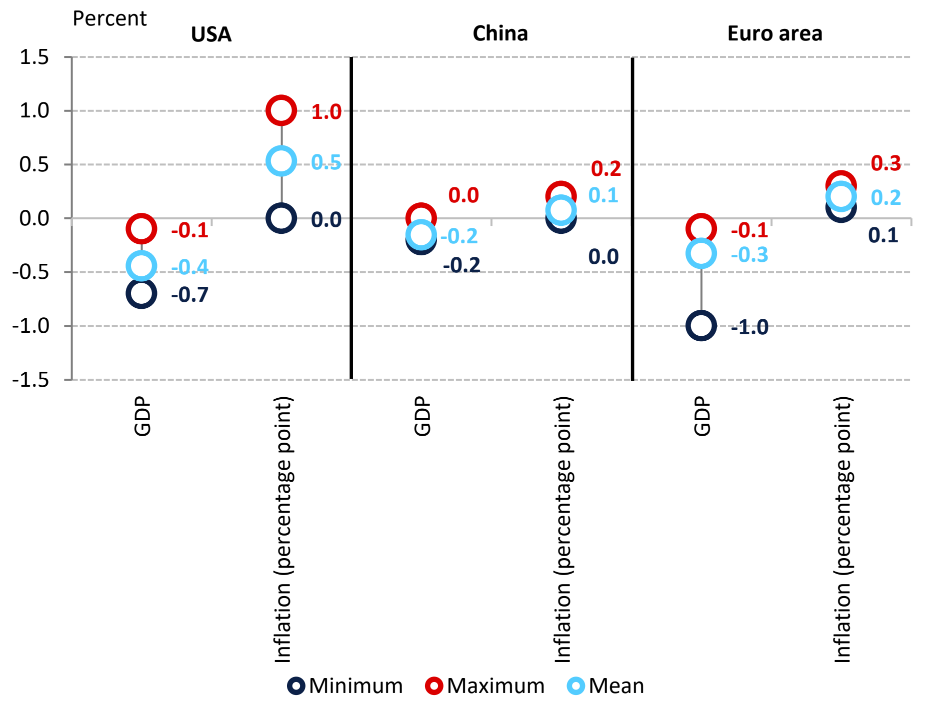
Note: Each field shows the US balance of goods with the partner in the particular row for the product group to which the column relates.
Source: UNCTAD

The impact of tariffs imposed by the first Trump administration in 2017 and 2018 was moderate. This may have been because, unlike now, these measures targeted specific industries and products, such as solar panels and washing machines in the first instance, followed by steel and aluminium. Another important difference is that the first Trump administration introduced tariffs in several waves, and many countries were granted temporary exemptions. Behind the first wave of tariffs, there was a clearly defined and explicit objective to protect the domestic energy sector and industry.

The new measures announced so far are less targeted at individual countries and apply to a wider range of imported goods. A 25-percent additional tariff on a wide range of goods against Canada and Mexico came into effect in March, while in the case of the tariffs announced in relation to the EU no specifics are known regarding the timing of their introduction or the range of products affected. For China, a tariff increase of 20 percentage points has been introduced in two steps, and a 25-percent tariff on steel and aluminium came into force from March against all trade partners. In response to the tariffs, China has increased import duties on US LNG and agricultural machinery, as well as agricultural and food products, and Canada plans to impose a 25-percent tariff on a total of USD 100 billion worth of US imports. According to the European Commission, the EU will impose tariffs on a total of USD 26 billion of US imports from mid-April. The proposed measures would also represent a substantial increase in average US import tariffs by historical standards. According to Bloomberg calculations, even the mildest scenario would raise the average tariff level in the US to near the level of the 1960s, while the largest conceivable increase would bring it up to the level of the first decade of the last century.

Institutional and analyst forecasts suggest that both the US and exporters could experience a negative GDP effect in the short term (Chart 6-8). For exporters, the increase in tariffs means an increase in the relative price of their products compared to US producers, which will drive appreciation of the real exchange rate for the exporting economy. As a direct effect, the export market share is expected to decline due to falling demand. The decline in exports and GDP is exacerbated by the direct impact through supply chains. In the country that imposes the tariff, consumer goods and intermediate goods used in production will become more expensive, lowering GDP and pushing up inflation as consumption and production fall. In the medium term, adverse effects can be mitigated if consumers are price-insensitive to the products concerned and the price increase only slightly reduces demand for the product. In the case of previously imposed tariffs, the practice was to avoid duties through an intermediary third country. At the same time, a sustained increase in tariff levels could lead to a transformation of production and supply chains, since capital and production could move closer to the destination country and exporters could move to new markets.

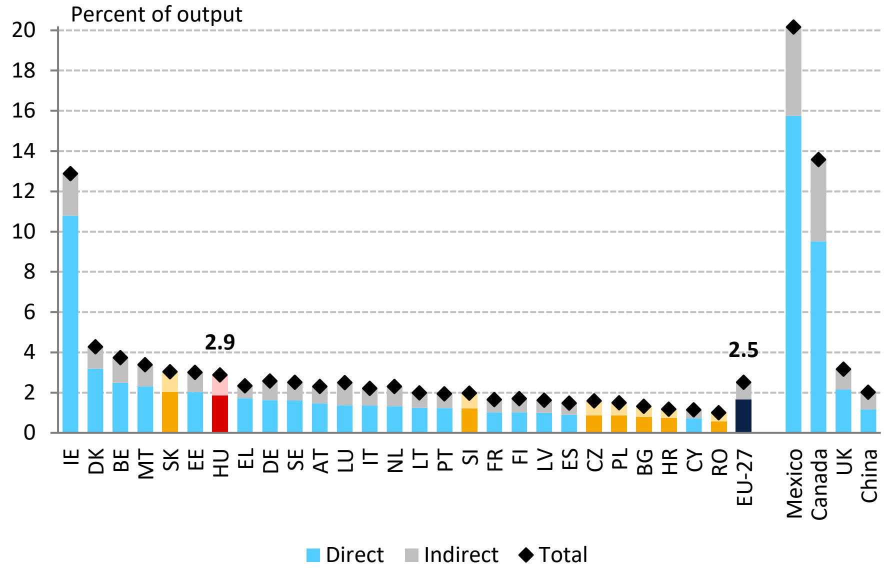
Chart 6-8: Expected impact of tariffs on GDP and inflation this year, based on institutional and investor forecasts



Source: IMF, Tax Foundation, Bundesbank, Oxford Economics, S&P Global, Fitch, PIIE, Barclays, DB, Capital Economics, Boston Fed, Goldman Sachs, JP Morgan, Citi, ECB

Rising tariffs also have an indirect impact on the domestic economy via supply chains. Domestic output is not only affected by customs duties directly, but also indirectly. Demand may fall both through trade links with China, Mexico and Canada and for suppliers to domestic exporters. Hungary exports nearly two percent of its total domestic output directly to the US. If first-round indirect exports from supplying sectors through the production chains are also taken into account, the domestic output affected by tariffs is an additional one percentage point higher (Chart 6-9). This puts the US export share of domestic output (2.9 percent) slightly above the EU average (2.5 percent) and this rate is the seventh highest overall among EU economies.

Chart 6-9: Direct and indirect exports of output from selected countries to the United States (2020)

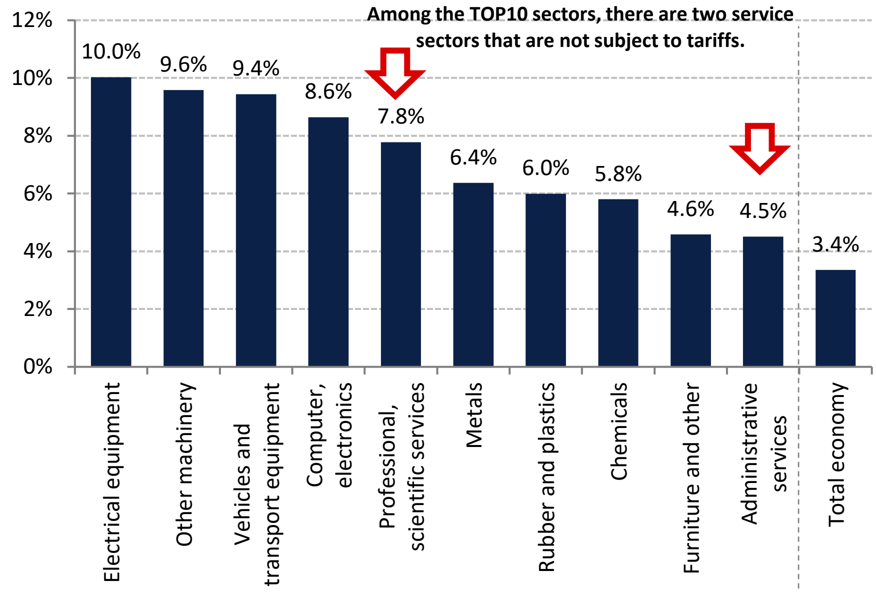


Note: For indirect trade linkages, the latest available data are for 2020. Indirect exposure is estimated on the basis of first-round trade linkages via the European Union (including Hungarian sectors), China, Canada, Mexico and the UK. For indirect contacts, the latest available data are from 2020. Indirect exposure is estimated

Source: MNB calculation based on OECD

In terms of the sectoral value added relevant for the evolution of domestic GDP, the exposure of particular domestic sector varies significantly (Chart 6-10). When looking at the value added of Hungarian sectors to US final consumption, the most exposed sectors include the manufacture of electrical equipment, including batteries (10.0 percent) and the manufacture of transport equipment, which is the largest contributor to domestic industry (9.4 percent). Other machinery (9.6 percent), as well as computer and electronic products (8.6 percent) are also significantly affected. The top ten sectors in terms of value added include two services sectors: professional and scientific services, including consultancy activities (7.8 percent) and administrative activities (4.5 percent).

Chart 6-10: Value added of Hungarian sectors in US final consumption (2020)



Note: As a proportion of sectoral value added.
Source: MNB calculation based on OECD

As Hungary is a small open economy, price (tariffs) and non-price barriers to international trade have a significant impact on the growth trajectory. International analysis confirms the negative growth and inflationary impact of tariffs. At the same time, the moderate substitutability of products and regional reorganisation of production chains may cushion the impact of tariff increases in the medium term.

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Mátyás Hunyadi

(23 February 1443 – 6 April 1490)

He ruled from 1458 to 1490 as King of Hungary, and had been Czech king from 1469 and Prince of Austria from 1486. Hungarian tradition regards him as one of the greatest Hungarian kings whose memory is preserved in many folk tales and legends. He is also known as Matthias Corvinus, King Matthias the Just or officially as Matthias I, but commonly he is simply denoted as King Matthias.

His father, János Hunyadi, the regent of Hungary, was one of the most outstanding military leaders and strategists in the country's medieval history who triumphed at the Battle of Nándorfehérvár in 1456. Matthias' mother was Erzsébet Szilágyi, and he had an elder brother, László Hunyadi. The future king was brought up by his mother and nurse until the age of six, and was subsequently placed under the supervision of his tutors. János Hunyadi did not have a chivalrous education in mind for his son: first, it was a Polish humanist, Gergely Szánoki who introduced him to the realm of knowledge, then this task was assigned to János Vitéz. Mátyás was brought up and educated in a humanistic spirit to become a versatile and curious-minded person who had been taught canon and constitutional law, arts and Latin. In addition to Hungarian, he also spoke German and Czech.

After the death of László V, his uncle, Mihály Szilágyi, and the armed forces supporting Hunyadi exercised pressure to have Matthias crowned as King of Hungary on 24 January 1458. Even in the early years of his reign Matthias had troubles both with the magnates of the country and Emperor Frederick III of the Holy Roman Empire. As the king was still a minor, parliament appointed Mihály Szilágyi to act as regent on his behalf. However, Matthias did not tolerate any guardianship and pushed his uncle to the background who devised a plot against the king in response. Returning from battle with the Turks, the king had the rebels captured and he imprisoned his uncle in the castle of Világos.

Upon his ascension to the throne the annual income of the treasury hardly exceeded 110 to 120 thousand forints. During his rule spanning thirty-two years the king managed to multiple revenues from taxes. Considering the average of the taxes levied, less the revenues from the Czech and Austrian provinces, this yearly amount approximated 628,000 forints and may as well reached 900,000 gold forints in the most prosperous years. This was still much less than the annual revenue of the western powers of the age. In order to raise the low income of the treasury, reform-like and comprehensive financial actions were needed. Matthias recognised that a centralised, nationwide financial system was the only solution to the problem, and that the royal revenues had to be directed to a single person, the treasurer. The reforms of Matthias were adopted by parliament and his decrees were promulgated on 25 March 1467.

We can get a glimpse of the cultural life in the royal court, which represented the elite of European civilisation at the time, at the partly reconstructed Royal Palace in Visegrád. The most distinguished pieces of the cultural legacy of Matthias are the Corvinian books, richly illustrated volumes of the former royal library.

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