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I. The Global Economy

According to the latest OECD forecast, **global economic growth** was 3.2% last year, partly due to the robust growth in the US and partly to the good growth performance of some emerging economies (e.g. India, but also China). The 2025 outlook is more subdued. Amid the mounting uncertainties, the OECD has lowered its forecast for this year to 3.1% and its forecast for 2026 to 3%, but these predictions may underestimate the growth-inhibiting and inflationary impact of the tariff measures announced in early April. The main reason for the slowdown is the uncertainty caused by US trade policy, which in itself reduces the risk tolerance of investors and curbs consumption. The economic impact of Trump's tariff measures is not yet quantifiable, but the unpredictability of the measures themselves is creating uncertainty among businesses that is holding back growth. The easing of monetary policy may ease, as global uncertainties, the escalation of the tariff war are all cost-increasing and inflation may regain strength. The moderation in inflation is likely to slow, but risks remain high as the cost impact of the tariff war cannot yet be estimated.

The prospects of **world trade** have been fraught with uncertainty since the US election, as it was impossible for a while to know for sure whether the trade restrictions promised during the campaign would actually materialize. However, the general import tariffs introduced at the beginning of April have confirmed the most pessimistic expectations, with almost all countries now facing tariffs of at least 10%. The European Union has not been spared: in addition to the general import duty of 20% (later temporarily reduced to 10%), specific duties of 25% apply to certain categories of products, such as steel and cars. This situation is pushing investors towards assets that are considered safer. Although there was a build-up of stocks before the tariffs were introduced, a reduction in trade volumes is expected in the future. The global economy is likely to adjust to the new circumstances, but the unpredictability of the Trump administration remains a significant risk, which could also have macroeconomic repercussions through a slowdown in investment.

The **energy commodity** index for March was 95.07, roughly the same as in last December (after rising in January-February and softening afterward), but it was 9.16 points lower than in March 2024. For **non-energy** raw materials, the price increase that started in August last year continued until February this year, before prices started to moderate in March, but with diverging trends across product groups.

Brent crude oil averaged around $76 a barrel in the first quarter, slightly below last year's annual average of $80 a barrel, and prices have since been on a decrease. The market is being affected by a number of factors: the fact that OPEC+ is expected to stick to its output hike plan in May and that US crude reserves have increased much more than expected are having a downward impact on prices. Trump's various announcements have led to hectic movements in the markets. Prices have started to fall again following the announcement of specific tariff measures, as investors fear of a slowdown in growth and a drop in oil demand. Overall, markets remain hectic and oil prices could average around USD 78-80 in 2025.

There is also much uncertainty about the evolution of **natural gas** prices. There was an increase in February, especially for liquified gas. The halt in Ukrainian transit and the colder-than-expected winter in Europe have pushed up gas prices. Since February, European gas storage levels have also fallen, reaching 34% in early April, the lowest level since 2022. Thus, the Dutch TTF gas price rose to around 58 MWh in February, but in the second half of February the price started to fall and by the end of March the European gas price had fallen back to €41, before rising to €42.6 again by the beginning of April. It then started to fall again, and European gas futures are now below €35/MWh, approaching the lowest levels of September 2024. However, this is still higher than the level seen a year ago (€28/MWh). Forecasts for gas prices are even more difficult than for crude oil, given the rapid and hectic movements in the market and the high degree of uncertainty. Experts estimate that a very aggressive gas procurement strategy will be needed in Europe this summer to fill up tanks in line with storage requirements, which would entail significant additional costs.

In the **non-energy commodities** market, the price of cocoa, coffee and gold have risen significantly over the past year, mainly due to adverse weather and supply problems. The hoarding of supples by importers exacerbated shortages and price hikes. At the same time, the US tariff war, in particular the 10% import tariffs, has further increased costs for US consumers, who are major buyers in the coffee and cocoa bean market.

Monetary easing could, in principle, continue as inflation moderates, but this is uncertain as well under the circumstances. The US base rate has been hovering in a range of 4.25-4.50% since mid-December last year. At its last policy meeting in March, the Fed did not change its base rate, but revised its economic forecasts, mainly due to the larger-than-expected US tariff measures: now it expects slower growth and higher inflation for this year and next and points out that unemployment may rise. This combination is not good news and implies that the FED will tread more cautiously in its interest rate adjustments. With so much uncertainty, the Fed is taking a wait-and-see stance for now, which is an option since the labor market is still in good shape and interest rates are still high, so it has room for future corrections. The rise in inflation is mainly caused by the tariffs, and higher inflation could lead to a fall in demand and a slowdown in growth, which puts the FED in a difficult position. The ECB cut its three benchmark interest rates by 25 basis points on 6 March, the second time this year. The reasoning was that inflation is in line with experts' expectations and is moving closer to the central bank's target. The weak economic outlook would necessitate further rate cuts, while on the other hand the uncertainties about inflation can make the European central bank more cautious. The situation is complicated by the fact that, looking ahead, US tariffs could lead to higher inflation and slower growth, while German spending could accelerate growth in the longer term but also boost inflation.

Last year, the annual average exchange rate of the euro against the dollar was 1.08 EUR/USD. In the first four months of this year the average was somewhat lower at 1.07 EUR/USD, but since March the euro has strengthened substantially. This is clearly the result of conscious US policy. How long this will last is difficult to say at the moment, just as it is difficult to make any predictions given the unpredictability of US economic policy. With Trump taking office, a completely chaotic financial and economic environment has emerged across the world and the role of the euro as a foreign exchange reserve has begun to strengthen. It is therefore difficult to give an exchange rate forecast for this year: for the time being, the euro seems set to strengthen further, but whether this will be a lasting process will depend to a large extent on the new zigzags in US economic policy. If investors see EU financial markets as a safer, more predictable alternative to US markets, then a sustained shift away from the dollar could occur, which could strengthen the euro.

The picture **outside the European Union** remains mixed. In the **US**, it is becoming difficult to make predictions regarding economic growth due to the unpredictability of US trade policy. The current trends point to an economic slowdown, higher inflation and rising unemployment. The recent data show a sharp deterioration in the US manufacturing sector, with the ISM manufacturing purchasing managers' index falling sharply. As a result, US GDP is expected to expand by around 1.9% this year and 1.5% next year, but the downside risks are significant as the economic impact of Trump's tariff measures cannot yet be quantified. The **Japanese** economy expanded moderately last year, while inflation remains persistent: much of it is imported inflation due to the weak yen. Private consumption is expanding only at a slow pace, and business investment activity remains subdued for the time being due to global uncertainties. As a result, even if growth will gather some momentum this year, it still remains moderate overall. The Bank of Japan, unlike other central banks, is tightening. The fiscal policy remains expansionary, but the impact of the new stimulus measures is still modest since they only replace earlier measures that are about to expire. Defense spending in Japan will also rise, especially next year. The US trade policy will also have a negative impact on Japan and will significantly curb export growth. The **UK** economy performed poorly last year, as it did in 2023. The GDP expanded by just 0.9% and the economy stagnated in the last two quarters. This sluggish performance was reflected in private consumption, investment and exports. Public consumption was the only area where strong growth was registered. On the production side, the main drag on growth came from the decline in industrial production. Inflation does not abate due to the persistently high service inflation, hovering around 5%. UK monetary policy is cautious. This year's growth could be boosted by the start of several major public investment projects, but export growth is unlikely to regain steam amid the adverse international environment. As a result, current projections suggest that the UK GDP could expand by 1.4% this year and 1.2% next year.

China is the only country for which the OECD revised its economic growth forecast upward in an analysis published in mid-March. They think that in 2024, with the support of various government stimulus packages, amid an exceptionally strong private consumption and export growth the country successfully met the official GDP growth target of 5%, but this feat will not be repeated this year or the next. The OECD predicts an annual growth rate of 4.8% in 2025 and only 4.4% in 2026. The Chinese government is still pushing for a 5% growth rate, and to this end the budget deficit will be increased from 3% to 4% of GDP in 2025 to stimulate the economy. China will continue to focus on technological self-sufficiency and innovation, particularly in artificial intelligence, semiconductors and other “industries of the future”, such as green technologies. A comprehensive action plan to boost *household consumption* was also announced in mid-March. The negative effects of protectionist measures on industrial production will be counterbalanced by an action plan to encourage *foreign investment*. The government has pledged to treat all enterprises, domestic and foreign, public and private, equally and it will remove restrictions on foreign enterprises' access to Chinese loans. China has been preparing for a change in US tariff policy for some time and is therefore strengthening its ties with the BRICS countries. It is also negotiating to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

The growth performance of the **euro area** is still modest. Although the ESI indicator has improved marginally, it is still at a very low level compared to 2021-2022. The contraction in manufacturing output has slowed somewhat, but there are still no signs of a real recovery. In Germany, after two years of contraction, GDP is again unlikely to expand in 2025. In Austria, GDP is expected to keep decreasing this year, after three years of continuous contraction. The geopolitical risks and tensions over trade policy are creating uncertainty for businesses and weighing on investment activity across Europe. Some sectors, such as the car industry, are facing a serious crisis, with layoffs and plant closures, whis in turn also undermines consumer confidence. Private consumption in the euro area is likely to expand only by 1.2% in 2025, down from 2.8% last year. This expectation is reinforced by the trend in retail sales, which started to fall at the beginning of the year, and by the very pessimistic consumer sentiment. The services sector continues to show dynamic growth, but it has decelerated compared to the second half of last year. An increase in public investment could give some impetus to the economy, but overall growth is not expected to exceed 0.8% this year in the eurozone, and the GDP is expected to expand by only 1.4% next year. For the European Union as a whole, GDP is expected to climb 1.1% this year and 1.5% next year, up from 1% in 2024. However, severe risks, especially downside risks exist, since the impact of Trump's tariff measures is difficult to quantify at this stage. One of the drivers of growth this year could be a rise in defense spending. However, financing an increase in defense spending at a time when many countries are facing high budget deficits could prove difficult.

The *labor market* situation seems stable for the time being: unemployment is around 6%, and the impact of the layoffs that are appearing in the press is not yet spectacular on a macro level.

As for *inflation*, the picture is still mixed. Increased defense spending and public investment could push prices upward, while wage pressures might ease, potentially having the opposite effect. However, the spill-over effects of Trump's tariff measures could end this impasse, and inflation could start to rise again. For the time being, we expect euro area inflation to be around 2.2%-2.3% over the forecast horizon. The previously stubborn high core inflation (currently at 2.6%) may ease as well, partly due to moderating demand, but this forecast does not yet take into account the price effects of the US tariff measures and the European response.

After 2023, the *German* economy contracted again last year, with the GDP falling by another 0.2%. The current outlook is also rather mixed. While the debt brake reform and an expansion of fiscal spending could give growth a boost, this will not yet make a big difference this year. The German economy suffers from structural problems that will be difficult to remedy in the short term. The announced US tariffs will hit German exports and further constrain economic growth. German exporters already lost significant market share last year and this trend could continue this year. Uncertainty over the US economic and trade policy is already discouraging investors. Thus, the GDP is expected to contract by 0.1% in 2025, while it could rise slightly above 1% the next year, mainly due to a pick-up in private consumption and investment. In the short term, the planned investment stimulus measures are unlikely to offset the crisis in the automotive sector, as the planned €500 billion investment budget will be spent gradually over the next 10 years.

II. The new EU member states (EU13)

In the last quarter of last year, the aggregate annual growth rate in the new EU Member States was 2.3%. Although this is low compared to the usual growth rates in recent years, the last of the four quarters saw the fastest GDP growth. Only Latvia was in a technical recession, while the downturn has ended in Estonia, Hungary and Romania. Thus, at the end of last year, it looked possible that the new Member States were entering a period of more buoyant economic activity. However, events in the global economy in recent months have made the outlook extremely uncertain, and while growth may be starting to pick up, there are increasingly serious downside risks.

It is not primarily the US trade war that Member States should fear, as the US share of exports is nowhere above 5% and the average for the region as a whole is just under 3%. A partial loss of this share at the national economy level is not a major concern, although there may be disruption in some sectors, especially if the US share of exports in a sector is much higher than average. However, indirect, second-round effects may be more noticeable, as Western European countries – which are also important for the Eastern European region – typically have a higher exposure. In Germany, for example, the US share in merchandise exports is 10%, in Italy 11%, while in France 8%.

The tariff war is likely to weigh on demand for Western European exports, affecting suppliers operating in the new EU Member States on the one hand, while the resulting reduced income in Western Europe reduces demand for exports from the new EU Member States on the other. A recession in Germany could lead to a GDP slowdown in the CEE region of up to several tenths of percentage points, especially in the Visegrad countries.

Although it may appear that most of the Member States in the region are expected to grow significantly this year and next, this growth is on very weak footing. It will be therefore important for the new Member States to be able to launch as much EU-funded investment as possible, as the contribution of other growth components to GDP growth is likely to be not particularly strong.

The net export outlook is highly uncertain, not only because of demand uncertainties, but also due to the evolution of exchange rates. The latter is compounded by significant exchange rate risk, as the dollar's exchange rate against the euro and other currencies is difficult to predict. If the Trump administration fails to prevent the dollar from weakening, export losses from exchange rate changes are also likely.

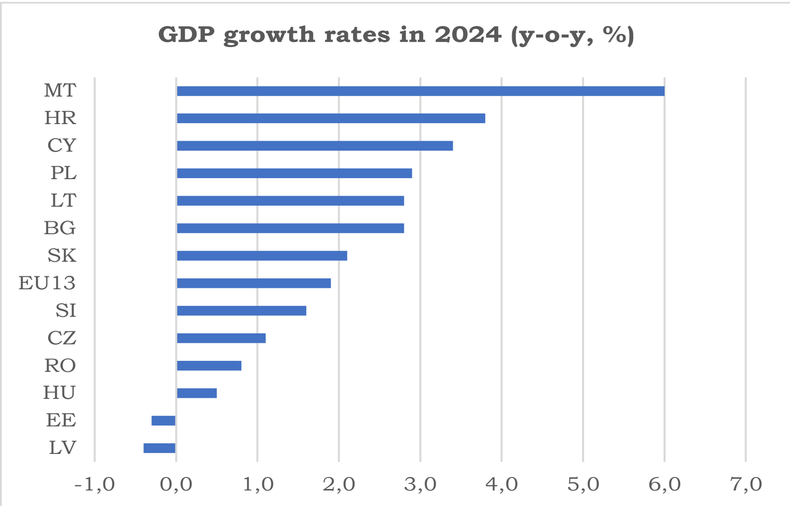
Household consumption and the pattern of consumption growth varies across Member States. In Romania, the tax cuts introduced last year have led to significant income outflows, but much of this has been absorbed by import demand. Thus, even the private consumption growth of up to 6-8% (in some quarters) was ineffective in stimulating growth: while imports increased by up to 5%, exports fell by 4-5%. On top of that, Romanian investment fell by 10% in the last quarter, one of the largest declines among the new Member States, so that Romanian growth expanded by only 0.9% in 2024, despite the high private consumption dynamics.

Although Polish economic growth also relied mainly on private consumption (expansion rates between 2-4% in each quarter), this has had little impact on net exports, even though external conditions for Poland are not ideal either. Investments trailed expectations, the construction of the announced Intel chip factory of historic proportions has been suspended, so investment growth has barely reached 2-4%. Even so, however, Polish GDP growth in 2024 was 2.8%, and in the last quarter it reached 3.7%. The inflow of EU funds fell short of expectations in 2024, but this year we expect it to pick up, which could set the stage for sustained growth in Poland at a rate above 3%.

Compared to Poland, the domestic markets of the other three Visegrad countries are smaller, thus, the external sector plays a much larger role in driving economic growth in the Czech Republic, Slovakia and Hungary. The automotive industry is crucial for these countries, hence the current crisis is pushing all three countries onto a lower growth trajectory. The exposure to the German economy is also very high in these countries. Relief could come partly from EU funds and partly from a widening of fiscal space, but the options for the latter are limited.

After years of near-stagnation, we expect the Czech economy to finally gain momentum this year, although the downside risks are still considerable and growing by the day. In the Czech Republic, much depends on the durability of the revival in private consumption, which may be primarily a monetary policy issue, as inflation, which has exceeded 10% for two years, has left a serious scar on consumer confidence.

Prices are currently stable almost across the board, but this year the statistical base effect will be much smaller than last year, so a slight rise in price indices is not out of the cards. Still, we do not expect the inflation rates to exceed the tolerance band ceilings substantially.



On the whole, we expect a regional GDP growth rate of 2.6% this year and 2.8% in 2025. There is considerable uncertainty in both directions, but downside risks have particularly increased recently. Governments now need to pursue a very cautious and prudent fiscal policy. They need to steer economies towards investments with sizeable spillover effects. In principle, there is possible to achieve this through defense and climate change measures, and also some stimulus may come from the German economy, although such a stimulus is not very likely to become effective before the next year.

Table 2/1.

Economic Growth in the EU Member States

(Percentage change of real GDP over the previous year)

	Weights	2019	2020	2021	2022	2023	2024	2025*	2026*
Germany	24.3	1.0	-4.1	3.7	1.4	-0.3	-0.2	-0.1	1.2
France	16.5	2.0	-7.4	6.9	2.6	0.9	1.2	0.2	1.0
Italy	12.3	0.4	-8.9	8.9	4.8	0.7	0.7	0.4	0.9
Netherlands	6.1	2.3	-3.9	6.3	5.0	0.1	0.9	1.5	1.1
Belgium	3.4	2.4	-4.8	6.2	4.2	1.3	1.0	1.0	0.9
Luxembourg	0.5	2.9	-0.9	7.2	1.4	-1.1	0.5	1.6	1.9
Ireland	3.0	5.0	7.2	16.3	8.6	-5.5	1.2	3.5	3.2
Greece	1.3	2.3	-9.2	8.7	5.7	2.3	2.3	2.5	2.0
Spain	8.6	2.0	-10.9	6.7	6.2	2.7	3.2	2.5	2.2
Portugal	1.6	2.7	-8.2	5.6	7.0	2.6	1.9	2.7	2.4
Austria	2.8	1.8	-6.3	4.8	5.3	-1.0	-1.2	-0.3	1.2
Finland	1.6	1.3	-2.5	2.7	0.8	-0.9	-0.1	1.2	1.3
Estonia	0.2	3.7	-2.9	7.2	0.1	-3.0	-0.3	2.3	2.5
Slovakia	0.7	2.3	-2.6	5.7	0.4	1.4	2.0	1.9	2.1
Slovenia	0.4	3.5	-4.1	8.4	2.7	2.1	1.6	2.5	2.6
Cyprus	0.2	5.9	-3.2	11.4	7.4	2.6	3.4	3.0	2.8
Malta	0.1	4.1	-3.4	13.3	4.3	6.8	6.0	4.0	4.4
Latvia	0.2	0.7	-3.5	6.9	1.8	2.9	-0.4	2.0	2.7
Lithuania	0.4	4.7	0.0	6.4	2.5	0.3	2.7	2.9	2.7
Croatia	0.4	3.1	-8.3	12.6	7.3	3.3	3.8	2.9	2.8
Euro Area	**84.7**	**1.6**	**-6.0**	**6.3**	**3.5**	**0.4**	**0.9**	**0.8**	**1.4**
Denmark	2.2	1.7	-1.8	7.4	1.5	2.5	3.6	2.0	2.1
Sweden	3.2	2.5	-2.0	5.9	1.5	-0.1	1.0	2.9	1.6
Hungary	1.2	**5.1**	**-4.3**	**7.1**	**4.3**	**-0.9**	**0.5**	**1.3**	**2.9**
Czech Republic	1.8	3.6	-5.3	4.0	2.8	-0.1	1.1	2.1	2.5
Poland	4.4	4.6	-2.0	6.9	5.3	0.1	2.9	3.4	3.2
Romania	1.9	3.9	-3.7	5.5	4.0	2.4	0.9	2.0	2.6
Bulgaria	0.6	3.8	-3.2	7.8	4.0	1.9	2.8	2.8	2.7
EU14	**87.5**	**-5.8**	**-5.7**	**6.4**	**3.5**	**0.4**	**0.9**	**0.8**	**1.3**
New EU13	**12.5**	**4.0**	**-3.3**	**6.6**	**4.1**	**0.8**	**1.9**	**2.6**	**2.8**
EU27	**100**	**1.9**	**-5.6**	**6.3**	**3.5**	**0.4**	**1.0**	**1.1**	**1.5**
Memorandum items									
USA		2.3	-2.2	5.8	2.5	2.9	2.8	1.9	1.6
Japan		-0.4	-4.3	2.6	1.2	1.7	0.1	1.1	0.6
United Kingdom		1.6	-11.0	8.7	4.8	0.3	0.9	1.7	1.3
China		6.0	2.0	8.4	3.0	5.2	5.0	4.8	4.4
Russia		2.0	-3.0	5.6	-1.2	3.6	4.1	1.3	0.9
South-Eastern Europe									
Serbia		4.3	-0.9	6.7	3.0	1.9	3.9	4.2	4.3
Turkey		0.8	1.8	9.0	2.0	3.5	3.0	3.2	4.0

* Kopint-Tárki forecast
EU-14 = Countries that joined the European Union before 2004
New EU13 = Countries that joined the European Union in 2004, 2007 and 2013
Data sources: Eurostat, national statistical offices, OECD

Table 2/2.

Inflation in the EU Member States

(Harmonized consumer price indices, percentage change over the previous year)

	Weights	2019	2020	2021	2022	2023	2024	2025*	2026*
Germany	23.5	1.4	0.4	3.2	8.7	6.0	2.5	2.5	2.4
France	16.7	1.3	0.5	2.1	5.9	5.7	2.3	2.3	2.2
Italy	14.2	0.6	-0.1	1.9	8.7	5.9	1.1	2.0	2.2
Netherlands	5.1	2.7	1.1	2.8	11.6	4.1	3.2	2.7	2.2
Belgium	3.4	1.2	0.4	3.2	10.3	2.3	4.3	2.9	2.1
Luxembourg	0.3	1.6	0.0	3.5	8.2	2.9	2.3	2.3	1.9
Ireland	1.6	0.9	-0.5	2.4	8.1	5.2	1.3	2.2	2.0
Greece	1.7	0.5	-1.3	0.6	9.3	4.2	3.0	2.5	2.2
Spain	9.2	0.8	-0.3	3.0	8.3	3.4	2.9	2.5	2.2
Portugal	1.9	0.3	-0.1	0.9	8.1	5.3	2.7	2.4	2.0
Austria	2.7	1.5	1.4	2.8	8.6	7.7	2.9	2.7	2.1
Finland	1.6	1.1	0.4	2.1	7.2	4.3	1.0	2.0	2.1
Estonia	0.2	2.3	-0.6	4.5	19.4	9.1	3.5	3.8	3.0
Slovakia	0.8	2.8	2.0	2.8	12.1	11.0	3.0	4.0	3.0
Slovenia	0.4	1.7	-0.3	2.0	9.3	7.2	2.0	1.9	2.2
Cyprus	0.2	0.5	-1.1	2.3	8.1	3.9	2.1	2.5	3.0
Malta	0.1	1.5	0.8	0.7	6.1	5.6	2.5	2.2	1.9
Latvia	0.3	2.7	0.1	3.2	17.2	9.1	1.3	2.3	2.3
Lithuania	0.5	2.2	1.1	4.6	18.9	8.7	0.8	2.5	2.5
Croatia	0.5	0.8	0.0	2.7	10.7	8.4	4.1	3.0	3.0
Euro Area	**84.4**	**1.2**	**0.3**	**2.6**	**8.4**	**5.4**	**2.4**	**2.4**	**2.3**
Denmark	1.9	0.7	0.3	1.9	8.5	3.4	1.4	1.9	1.8
Sweden	2.7	1.7	0.7	2.7	8.1	5.9	2.0	1.8	2.0
Hungary	**1.1**	**3.4**	**3.4**	**5.2**	**15.3**	**17.6**	**3.7**	**5.0**	**3.5**
Czech Republic	1.6	2.6	3.3	3.3	14.8	12.0	2.4	2.5	2.0
Poland	4.9	2.1	3.7	5.2	13.2	10.9	3.5	4.6	3.0
Romania	2.3	3.9	2.3	4.1	12.0	9.7	5.7	4.7	3.5
Bulgaria	0.6	2.5	1.2	2.8	13.0	8.6	2.4	3.0	2.7
EU14	**86.5**	**1.3**	**0.4**	**2.6**	**7.8**	**5.3**	**2.3**	**2.4**	**2.2**
New EU13	**13.5**	**2.7**	**2.7**	**4.4**	**13.9**	**10.8**	**3.5**	**4.0**	**2.9**
EU27	**100.0**	**1.4**	**0.7**	**2.9**	**9.2**	**6.4**	**2.5**	**2.6**	**2.3**
Memorandum items [a]									
USA		1.8	1.4	4.7	6.6	3.8	2.5	3.5	2.6
Japan		0.5	0.0	-0.3	2.5	3.3	2.7	3.2	2.1
United Kingdom		1.8	0.8	2.6	9.1	7.3	2.5	2.7	2.3
China		2.9	2.5	0.8	1.9	0.3	0.2	0.6	1.4
Russia [b]		4.5	2.6	5.9	13.8	5.9	8.4	9.9	6.3
South-Eastern Europe									
Serbia		1.9	1.7	3.6	8.5	12.6	4.7	3.7	3.5
Turkey		15.2	12.3	17.8	63.0	55.4	59.8	30.8	17.8

a Non-harmonized price indexes
b December/December
* Kopint-Tárki forecast
EU14 = Countries that joined the European Union before 2004
New EU13 = Countries that joined the European Union in 2004, 2007 and 2013
Data sources: Eurostat, national statistical offices, OECD

Table 2/3.

Harmonized Unemployment rates in the EU Member States

(Unemployed as a percentage of the labor force aged 15-74, ILO-Eurostat)

	Weights	2019	2020	2021	2022	2023	2024	2025*	2026*
Germany	20.1	3.1	3.6	3.6	2.7	2.9	3.4	3.6	3.8
France	14.2	8.4	8.0	7.9	7.3	7.3	7.4	7.7	7.8
Italy	11.7	10.0	9.6	9.6	8.2	7.7	6.5	6.2	6.0
Netherlands	4.5	3.4	3.3	4.2	3.4	3.5	3.6	3.6	3.6
Belgium	2.4	5.4	6.4	6.3	5.6	5.6	5.5	5.7	5.6
Luxembourg	0.2	5.6	5.8	5.5	4.7	5.0	6.0	6.1	5.6
Ireland	1.1	5.0	6.7	6.3	4.8	4.1	4.3	4.3	4.1
Greece	2.1	17.3	15.3	14.8	12.5	11.0	11.0	9.5	8.9
Spain	11.0	14.1	15.2	14.8	13.1	12.0	11.6	10.6	9.4
Portugal	2.4	6.5	6.7	6.6	5.9	6.5	6.3	6.0	5.8
Austria	2.2	4.5	6.4	6.2	4.6	6.4	5.6	7.3	7.1
Finland	1.3	6.4	7.7	7.7	6.7	7.0	8.4	8.6	8.0
Estonia	0.3	4.4	6.8	6.2	6.1	7.0	7.5	7.7	7.2
Slovakia	1.3	5.8	6.8	6.8	6.3	5.7	5.5	5.3	5.1
Slovenia	0.5	4.5	4.6	4.8	4.1	3.6	3.5	3.6	3.6
Cyprus	0.2	7.1	7.5	7.5	7.2	6.4	4.9	4.7	4.5
Malta	0.1	3.6	4.0	3.5	3.2	2.7	3.2	3.1	3.0
Latvia	0.5	6.3	7.3	7.6	7.1	6.8	6.7	6.7	6.5
Lithuania	0.7	6.3	7.1	7.1	6.0	6.8	7.5	7.0	6.9
Croatia	0.9	6.6	6.7	7.7	6.3	6.5	5.1	4.7	4.6
Euro Area	**77.7**	**7.6**	**8.0**	**7.7**	**6.7**	**6.5**	**6.4**	**6.4**	**6.2**
Denmark	1.4	5.0	5.3	5.1	4.2	4.8	6.0	5.8	5.4
Sweden	2.6	6.8	8.9	8.8	7.4	7.4	8.4	8.1	7.5
Hungary	2.3	**3.3**	**4.1**	**4.1**	**3.7**	**4.1**	**4.6**	**4.4**	**4.0**
Czech Republic	2.5	2.0	2.7	2.8	2.7	2.4	2.6	2.7	2.7
Poland	8.0	3.3	3.3	3.4	2.7	3.0	2.9	2.8	2.7
Romania	3.9	3.9	5.0	5.6	5.4	5.4	5.5	5.5	5.4
Bulgaria	1.6	4.2	5.1	5.3	5.2	4.2	4.3	4.0	3.8
EU14	**77.2**	**7.1**	**7.9**	**7.8**	**6.7**	**6.6**	**6.5**	**6.4**	**6.2**
New EU13	**22.8**	**4.1**	**4.4**	**4.6**	**4.1**	**4.1**	**4.2**	**4.1**	**3.9**
EU27	**100.0**	**6.8**	**7.2**	**7.1**	**6.1**	**6.0**	**6.0**	**5.9**	**5.7**
Memorandum items [a]									
USA		3.7	8.1	5.4	3.6	3.6	4.0	4.2	4.3
Japan		2.4	2.8	2.8	2.6	2.6	2.5	2.4	2.4
United Kingdom		3.8	4.5	4.6	3.9	4.0	4.1	4.0	3.9
China [b]		3.8	3.6	4.0	4.2	4.2	4.2	4.2	4.2
Russia [c]		4.6	6.0	5.9	3.9	4.5	4.9	5.9	5.9
South-Eastern Europe									
Serbia [d]		10.4	9.0	10.7	9.2	8.7	8.7	8.3	8.0
Turkey		13.7	13.2	12.8	12.9	10.1	9.3	9.8	9.8

a Non-harmonized unemployment rates
b Urban unemployment
c OECD statistics, unemployment rates for the age group 15-64
d National statistics, unemployment rates for the age group 15-64
* Kopint-Tárki forecast
EU14 = Countries that joined the European Union before 2004
New EU13 = Countries that joined the European Union in 2004, 2007 and 2013
Data sources: Eurostat, national statistical offices, ILO, OECD

Macroeconomic indicators for Hungary and Kopint-Tárki forecast

(year-on-year change, percentage)

	Data							Forecast		
			2024				2025	2025		2026
	2023	2024	Q2	Q2	Q3	Q4	Q1	2025 Feb.	2025 May.	2025 May.
GDP aggregates, real growth										
GDP total	-0.8	0.5	*1.1*	*1.5*	*-0.8*	*0.4*	*0.0*	2.4	**1.3**	**2.9**
Domestic Demand	-5.4	-0.1	*-2.4*	*1.2*	*0.5*	*0.9*		2.8	**2.3**	**3.4**
Private Consumption	-0.3	3.5	*3.2*	*3.4*	*3.4*	*3.8*		3.6	**3.7**	**3.7**
Public Consumption	3.2	-3.9	*-7.4*	*-6.6*	*-0.9*	*-1.2*		0.5	**0.0**	**0.2**
Gross Fixed Capital Formation	-7.7	-11.1	*-7.3*	*-13.2*	*-12.0*	*-10.5*		2.0	**-0.7**	**4.0**
Gross Capital Formation	-16.7	-6.5	*-19.1*	*-1.0*	*-3.7*	*-4.5*		2.0	**-0.3**	**4.0**
Export	1.7	-3.0	*-4.2*	*-2.3*	*-2.1*	*-3.3*		2.8	**1.7**	**3.7**
Import	-3.4	-4.0	*-8.4*	*-3.2*	*-0.8*	*-3.1*		3.4	**3.1**	**4.4**
Industrial production	-5.5	-4.0	*-3.9*	*-2.9*	*-6.0*	*-3.2*	*-4.4*	2.5	**0.0**	**4.0**
Consumer Price Index	17.6	3.7	*3.7*	*3.8*	*3.5*	*3.8*	*5.3*	4.3	**5.0**	**3.5**
Employment, earnings										
Number of Employed, growth [a]	0.6	0.0	*0.5*	*0.2*	*0.0*	*-0.5*	*0.0*	-0.1	**-0.1**	**0.3**
Unemployment Rate [a]	4.1	4.5	*4.6*	*4.3*	*4.6*	*4.4*	*4.3*	4.4	**4.4**	**4.0**
Unit Labor Costs, in EUR [b]	26.1	10.7	*17.5*	*12.6*	*12.8*	*10.7*		0.0	**3.5**	**2.2**
Gross Nominal Wages [c]	14.2	13.2	*14.2*	*13.9*	*13.2*	*11.9*	*9.8* [e]	8.0	**8.7**	**8.5**
Net Real Wages [c]	-2.9	9.2	*10.1*	*9.8*	*9.4*	*7.8*	*4.1* [e]	3.5	**3.5**	**4.8**
Savings Rate, % of GDP [d]	6.8	6.6	*6.9*	*7.3*	*7.1*	*6.6*		7.0	**6.2**	**6.3**
Current and Capital Accounts Balance, % of GDP	1.2	2.6	*2.6* [f]	*3.0* [f]	*2.4* [f]	*2.4* [f]		2.3	**1.5**	**0.5**
General government Fiscal Balance, ESA-2010, % of GDP	-6.7	-4.9	*-5.3*	*-2.1*	*-3.8*	*-8.4*		-4.5	**-4.5**	**-4.5**
Gross Government Debt, % of GDP	73.0	73.5	*75.6*	*75.5*	*75.6*	*73.5*		74.0	**74.0**	**73.5**
Short-term Government Yields (3M), eop	6.23	5.10	*6.59*	*6.21*	*5.32*	*5.10*		5.5	**6.0**	**5.7**
Long-term Government Yields (10Y), eop	5.86	6.55	*6.74*	*6.81*	*6.13*	*6.55*		6.0	**7.0**	**6.2**
External assumptions										
Internat. Trade in Goods and Services [d]	0.4							3.4	**2.7**	**3.0**
Brent Oil Price ($/bbl, p. avg.)	82.5	80.5	*83.0*	*84.6*	*79.8*	*74.6*	*75.8*	84.0	**76**	**78**
GDP Real Growth, Eurozone	0.4	0.9	*0.2*	*0.7*	*1.3*	*1.2*		0.9	**0.8**	**1.4**
GDP Real Growth, New EU Members	0.8	1.9						2.9	**2.6**	**2.8**
EUR-HUF, period average	382	395	*388*	*391*	*394*	*407*	*405*	415	**410**	**415**
EUR-USD, period average	1.08	1.08	*1.09*	*1.08*	*1.10*	*1.07*	*1.05*	1.05	**1.06**	**1.06**

a ILO methodology, period averages, aged 15-74, public workers are counted as employed.
b Manufacturing, based on gross value added and the monthly average compensation of employees in euro, cumulated from the beginning of the year
c All employers
d Net lending of households, financial accounts statistics, percentage of GDP, four-quarter cumulative data
e January-February
f Seasonally adjusted data by the MNB

III. The Hungarian Economy

After the contraction in the third quarter of last year, the Hungarian economy was able to return to modest growth in the fourth quarter, both on an annual basis (0.4%) and compared with the previous quarter (0.6%). This was a positive development, but it did not amount to a real qualitative change: neither the factors driving growth nor the factors holding it back changed significantly compared with the third quarter, only a slight shift toward the supporting factors took place.

On the expenditure side, private consumption continued to be the main driver of growth in the fourth quarter. The pace of ***household consumption expenditure*** accelerated to 5.5% in the last quarter amid continued strong real income growth. This can be interpreted as a sign that the cautious attitude of households has started to ease, as the rate of real income growth (7.8%), while still substantial, has slowed markedly compared to the previous three quarters. On the other hand, due to the fall in the volume of in-kind transfers received from the government, actual household consumption continued to expand at a much slower pace in the fourth quarter than consumption expenditures.

But that is pretty much the end of the list of positive growth drivers. More precisely, while the *change in inventories* supported growth in the fourth quarter, it was, as in the previous two quarters, only sufficient to dampen the downward impact of the continued steep decline in ***gross fixed capital formation***, i.e. to moderate the pace of decline in total gross capital formation. The main, though by no means the only, component of the full-year decline in investments was a double-digit fall in *manufacturing investments*. The pessimism of industrial firms about the short- and even medium-term outlook was also reflected in the manufacturing business survey of Kopint-Tárki for the last quarter of 2024.

The combined effect of all the above meant that overall ***final domestic use*** grew by only 0.9% in the last quarter – in fact, without the dampening effect of the change in inventories, the sharp fall in fixed investment would have turned domestic consumption into a contraction in the fourth quarter, as in the previous two quarters. Thus, *domestic demand, due to its very lopsided expansion, remained unable to provide a really substantial boost to the economy either during the year or at the end of the year*. (The contraction in the first quarter led, on an annual average, to the stagnation of final domestic use in 2024.) Meanwhile, the contribution of net export to growth was negative for the second year in a row. In short, the reason was that from mid-year onwards, domestic demand conditions were no longer sufficiently recessionary to allow the fall in imports enough to offset the continued decline in exports. Although the import of goods and services declined (and at a faster pace than in the third quarter) due to the sluggish increase in domestic demand, the pace of this decline again was milder than the fall in exports, which suffered from a lack of external demand. In other words, after the third quarter, the fourth quarter was again constrained not only by one-sided domestic demand but also by net exports, even though net exports allowed growth to continue in 2024 as a whole amid stagnating domestic consumption.

On the *production side*, as in the previous quarter, only the value added of the services sector achieved positive growth, while industry and construction continued to contract along with weather-stricken agriculture. The international demand conditions remain very unfavorable for Hungarian industry, including the key automotive and battery sectors. At the same time, domestic industrial sales seem to be stuck in a seemingly endless downward trend, which may last as long as investments keep falling.

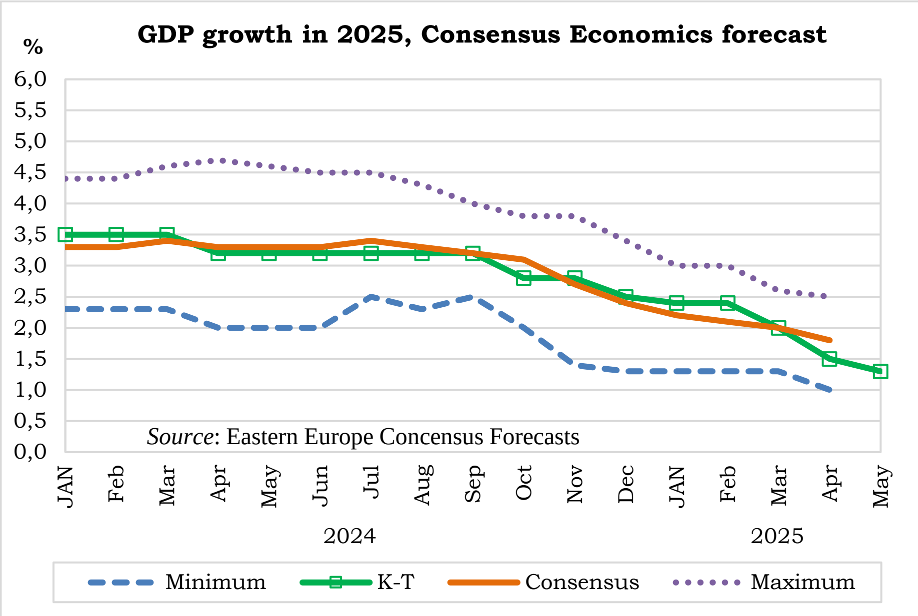
While expanding consumer demand was apparently able to generate growth in ***services*** over the course of last year, the pace growth was rather subdued – 2.1% in the last quarter and for the year as a whole. In addition to public services, the weak growth in the transport sector and the stagnation in real estate services were the main factors holding back services growth at the end of the year.

Regarding the outlook for **this year**, the main question is to what extent the growth pattern seen in the second half of last year can change in 2025. The hope for a substantial improvement in *external demand* is getting increasingly faint due to recent developments. The global economic outlook is becoming more and more uncertain. In the medium term, the EU economy might be positively affected by the turnaround in German economic policy, but in the short term it is more likely to be shaped – in a negative direction, of course – by the sudden escalation of the ***global trade war***. Exports could get some boost toward the end of the year from the completion of three major manufacturing investment projects and the (gradual) activation of the new production capacities – provided that the new global economic situation does not lead to a revision of previous decisions. These new capacities could lead to a return to growth in exports this year, but the annual growth rate is likely to remain very modest and below the rate of import expansion.

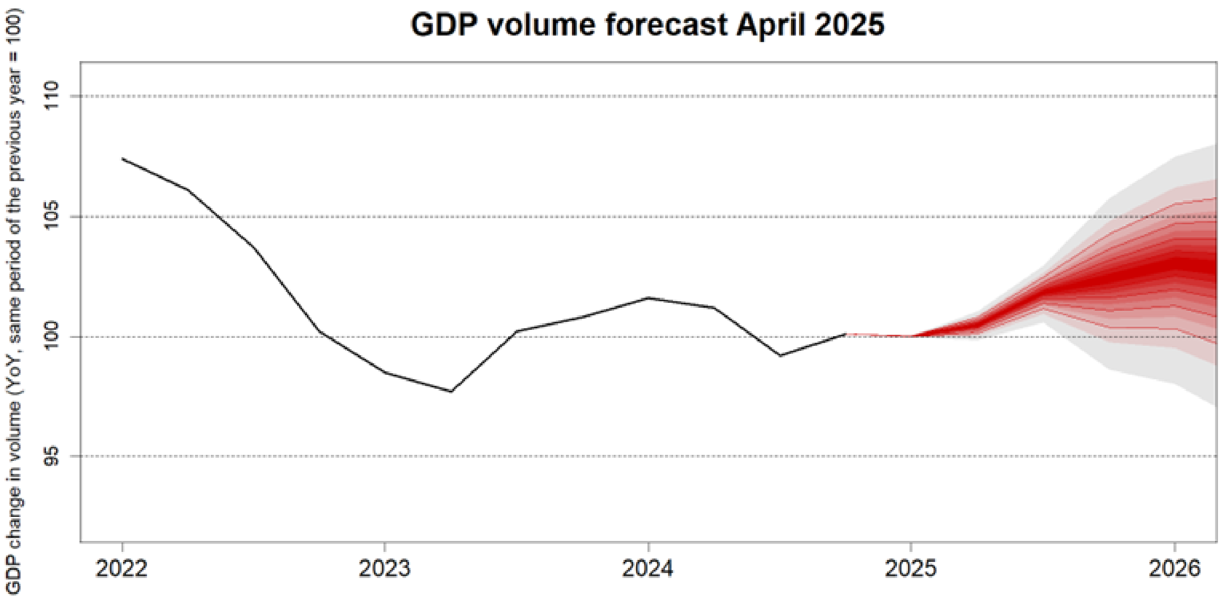
Thus, the growth outlook for this year is likely to be determined by the evolution of domestic demand. Regarding the latter, the main uncertainty is whether there will be a turnaround in investment. Public investment is unlikely to grow in 2025 due to fiscal constraints, and it is unclear what can give a boost to business investments amid continued uncertainty and a still – even increasingly – adverse external environment for industry. At the moment, we can hope that investments reached such lows (seasonally adjusted fixed capital formation fell to a level in the last quarter of 2024 that is unprecedented since 2017). This means that growth is likely to remain *lopsided this year, with investment unable to provide traction*, but it can be hoped at least that the steep fall seen last year will turn into a rough stagnation.

Meanwhile, the marked slowdown in *real wage growth* (moderating nominal wage growth, coupled with higher inflation) is expected to somewhat reduce the pace of ***consumption expenditure*** growth. We currently assume a slowdown of close to 1% point, but we also expect that the drastic divergence between consumption expenditures and total private consumption seen last year will not be repeated this year. As a result, actual household consumption growth may accelerate to 3.7% from 3.5% last year.

Thus, based on the considerations above, stagnating investment and a renewed substantial expansion in private consumption will allow domestic use to grow by more than 2.5%, but this is expected to be accompanied by a negative contribution of net export to growth. Overall, we still expect a very moderate **GDP growth rate of 1.3% in 2025**, followed by a further acceleration next year. This prediction for this year is below the April consensus of forecasters.

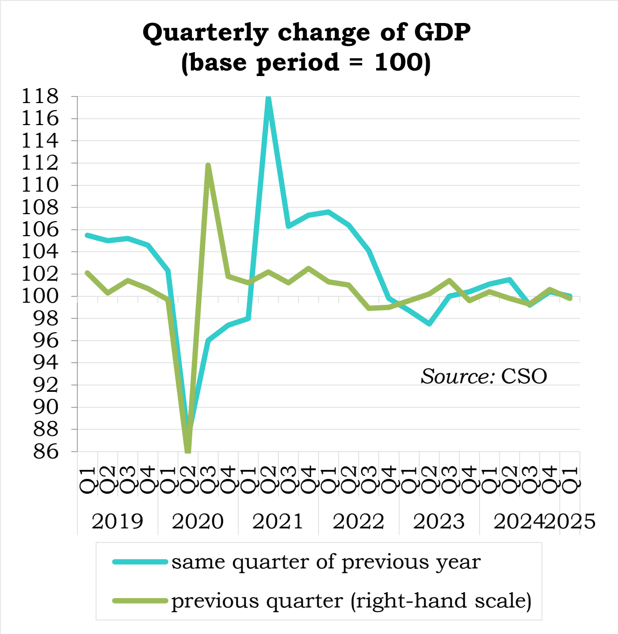


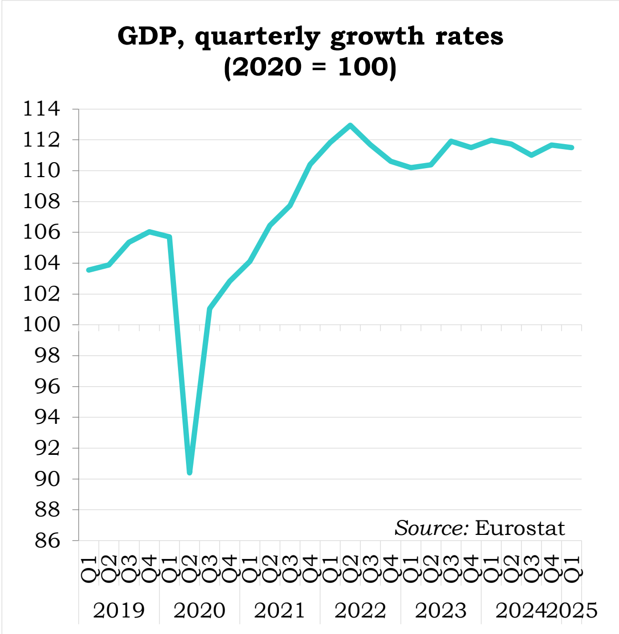
It is important to stress, however, that the above scenario is highly uncertain, as we do not yet know how the tariff war will proceed, and it is possible that the automotive industry, which is of key importance for the Hungarian economy, could take a more negative turn in the short term, overturning the scenarios regarding investment and even consumption in the extreme case (large-scale cutbacks) that seem plausible at the moment. The present uncertainties make the downside risks more pronounced than usual, and the extent of the risks difficult to estimate.



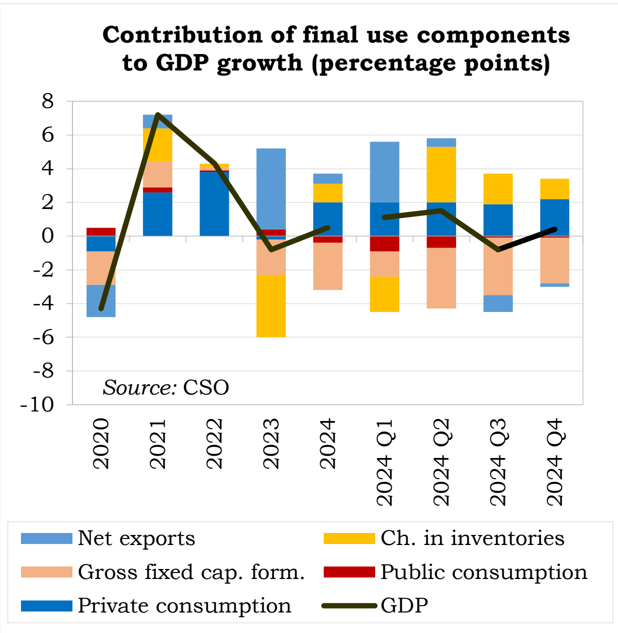
3.1. The GDP and its components

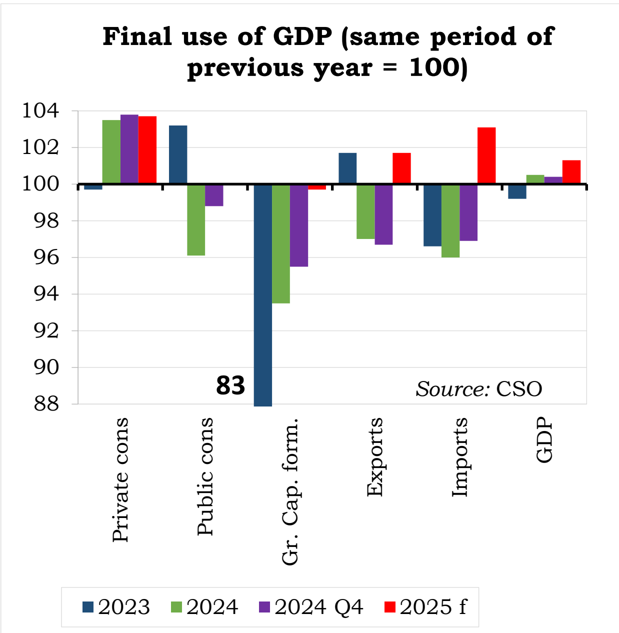
In the last quarter of 2024, GDP was up 0.4% on a year-on-year basis, following a contraction of 0.8% in the third quarter. The seasonally and calendar adjusted growth rate was even weaker at 0.2% year-on-year. Compared with the previous quarter, GDP volume expanded by 0.6%. All in all, the Hungarian economy was able to grow by a token 0.5% in 2024.





On the **expenditure side**, the growth rate of ***final domestic use*** accelerated slightly compared to the third quarter, but still remained below 1%. On the other hand, the contribution of ***net exports*** to growth remained negative in the last quarter, even if the extent of the downward impact moderated, mainly due to the markedly accelerating decline in imports.





The largest component of domestic consumption, ***household consumption expenditure***, continued to accelerate (from 5.3% in the third quarter to 5.5%), implying that household consumption behavior is gradually adjusting to the strong income growth, albeit gradually. Compared with the real wage index, the pace of consumption expenditures is still on the moderate side, but the narrowing of the gap between the respective growth rates suggests that the cautious stance observed throughout last year started to ease. The volume of transfers in kind provided by the state contracted steadily and sharply last year, thus ***actual household consumption*** *expanded by only 3.8% in the fourth quarter*.

In addition, the rate of decline in ***gross fixed capital formation***, another flagship component within domestic use, eased only slightly, and remained above 10% in the last quarter. Business investment decline even accelerated. This time, the downward effect of the continuing but slightly slowing decrease in manufacturing investments was overshadowed by the fall in investment in the transport and real estate sectors. In addition to the continued pessimism in much of the export-oriented sector, the low level of public infrastructure investment and the decline in residential construction contribute to the investment slump. At the same time, the continuing upward phase of the inventory cycle was able to cushion the impact of the fall in investment significantly in the last quarter, so the overall negative growth contribution of *total gross accumulation* remained mild enough to permit a modest acceleration in the growth in domestic use.

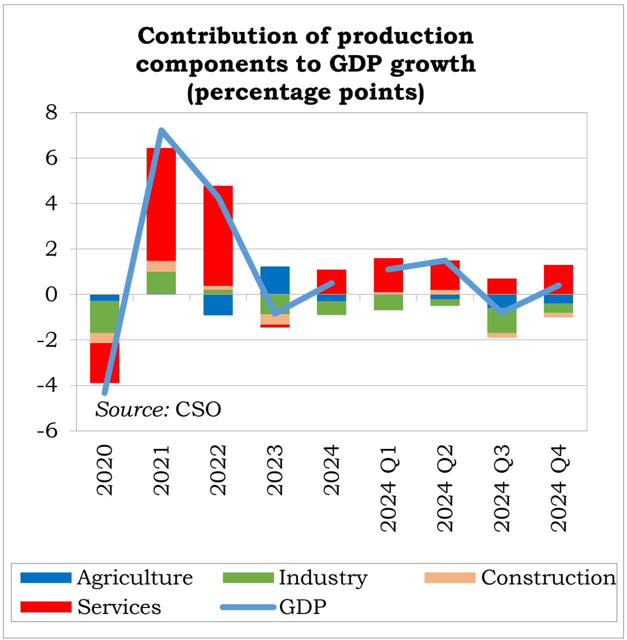
Meanwhile, the negative contribution of the ***net export of goods and services*** to growth eased to 0.2% from 1% in the third quarter. This was possible because, despite a slight upturn in domestic consumption, not only exports but also imports continued to decline at an accelerated pace in the last quarter.

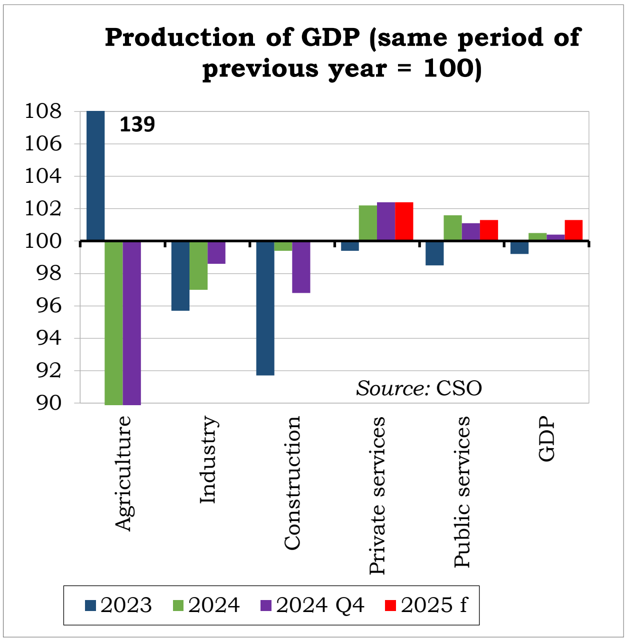
For the **last year as a whole**, the very anemic growth in domestic use in the last quarter and the two preceding quarters together failed to offset the decline in the first quarter – the latter was a result of the fact that in that quarter the change in inventories did not dampen but, on the contrary, amplified the negative impact of the contraction in fixed capital formation. Thus, in 2024, final domestic use stagnated (declined by 0.1%). On the other hand, the negative contribution of net exports in the second half of the year did not cancel out the strong positive contribution to growth in the first half of the year and especially in the first quarter. (The latter was purely the result of the sharp fall in imports.)

On the ***production side***, industry continued to contract in the fourth quarter, although the rate of decline (1.4%) was the lowest in two years. Industrial statistics show that *export sales* have been approaching stagnation, but there are no signs of a recovery. The main drag is still the e-car sector and, in this context, the battery industry, which is suffering from much weaker than previously expected demand in Europe and globally. The downturn in the construction sector continues, while agriculture was hit last year by adverse weather conditions (in the broader sense, it suffers from low productivity of cereal production and the lack of irrigation.

Thus, as in the previous quarters, *services* were again the main driver of growth. But despite a good expansion in consumption expenditures, the dynamism of services was surprisingly subdued last year: they grew by only 2.1%, in both the fourth quarter and the whole year, respectively. Although growth was more dynamic in several services subsectors, the weakness in two heavyweight segments – transport and storage, and real estate – dragged down the pace of growth in services as a whole.

On the production side, there was no such contrast between the first and second half of the year as on the consumption side, except for the fluctuating dynamics in construction, a relatively minor sector. Services were the only significant driver of economic growth throughout the year,





Only a very limited improvement in growth performance is expected ***in 2025*** compared to 2024, and even the prospect of this modest acceleration is becoming increasingly uncertain after the outbreak of the customs war and amid the further deterioration of the geopolitical situation. Regarding final domestic use, we assume that the sharp fall in ***investment*** seen last year will come to an end, although the conditions for a meaningful increase do not yet seem to be in place. On the one hand, ***household consumption*** expenditure could be held back by a moderation in real income growth compared to 2024, while on the other hand, some government tax and other measures could have a stimulating effect, and the cautious consumer behavior seen last year might continue to ease. Thus, with some deceleration in consumption expenditures, which is less pronounced than the slowdown in real wage growth, the pace of overall private consumption may even pick up slightly compared to 2024, provided that the exceptionally wide gap between the growth rates of consumption expenditures and actual household consumption seen last year moderates this year. Still, we do not expect the annual growth in *domestic consumption* to reach 2.5% in 2025.

Meanwhile, in external trade, the trend seen in the second half of last year is expected to continue, with a gradual strengthening of import dynamics and a more muted and volatile improvement in exports. Therefore, its contribution to net export growth will be negative this year.

On the *production side*, a higher growth rate than last year could be helped by the end of industrial decline – even if the return of industrial growth in 2025 is increasingly unlikely. Basically the completion and activation of three mega-investments (BMW, BYD and CATL), scheduled for the second half of the year, is the only factor that points toward an industrial upturn. Amid the risks arising from the trade war and geopolitical conflicts, even this supporting factor is likely to be offset by other, negative developments.

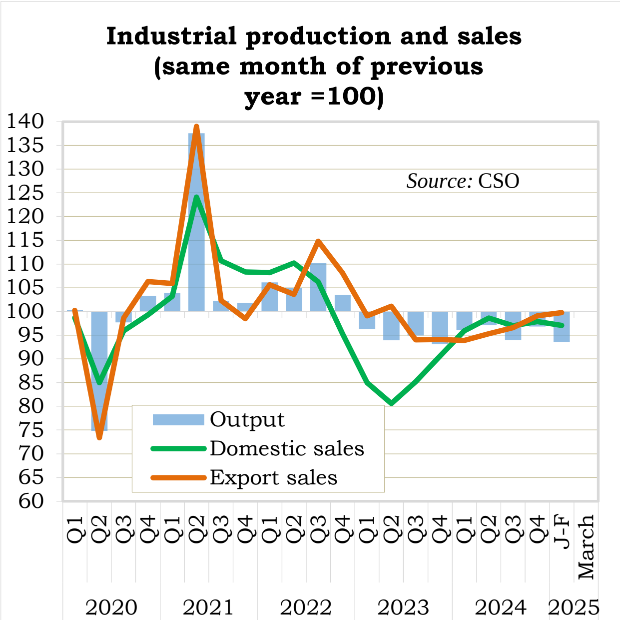
On the whole, we expect a modest **GDP growth of 1.3% in 2025**. The pace of growth may accelerate to 2.5-3% in 2026.

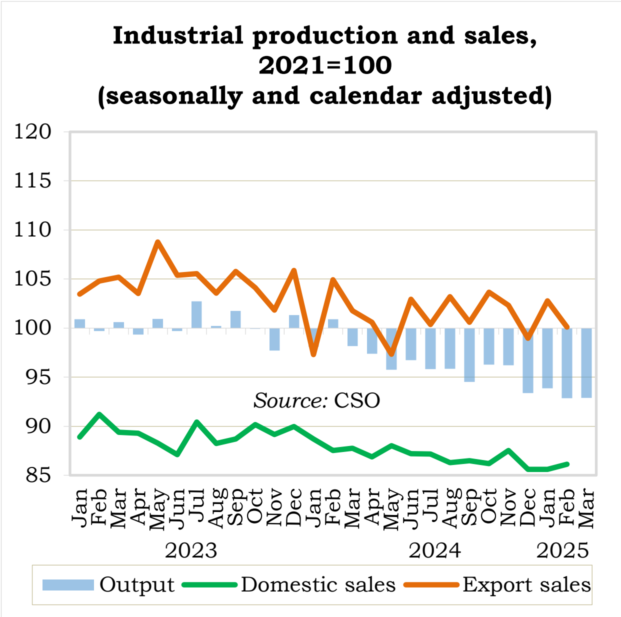
3.2. The production of GDP

3.2.1. Industry

Contrary to hopes at the beginning of last year, the decline in industry continued in 2024 after 2023. On average, output contracted by 4%, while both domestic and export sales fell. The external economic conditions remained unfavorable throughout, while a one-sided expansion in final domestic use, supported only by consumption demand and hampered by falling investments, was insufficient to put an end to the fall in domestic sales. Based on the seasonally adjusted time series, domestic sales kept slowly declining over the course of 2024, while the volume of monthly export sales remained broadly in the same range from mid-year onwards. However, the latter allowed the year-on-year decline in export sales to slow down significantly by the last quarter.

The fall in production continued in the first two months of this year, with an average fall of 6.4% over the two months. Export sales basically stagnated but domestic sales decreased again by about 3%.





As for the sectoral breakdown, it is clear that last year a sharp decline in battery production was the main drag on industry, with the output in the electrical machinery sector falling by around 14% year-on-year. Based on seasonally adjusted data, monthly production in the sector reached a low point in January this year but slightly bounced in February. The contraction in the manufacture of transport equipment (by 9% in 2024) was the second most important negative factor, while machinery and equipment output was also down 7%. Less than a third of manufacturing industries recorded growth last year – including food industry, which was boosted by the good yields in 2023, and the chemical industry, which had suffered a severe downturn in 2022-2023.

In the last quarter of 2024 and in January-February this year, the electronics industry joined the list of growing industries, after two years of decline. This is also the manufacturing sub-sector whose prospects seem positive now, based on recent trends in seasonally adjusted data – provided, of course, that the unfolding trade war does not upset everything.

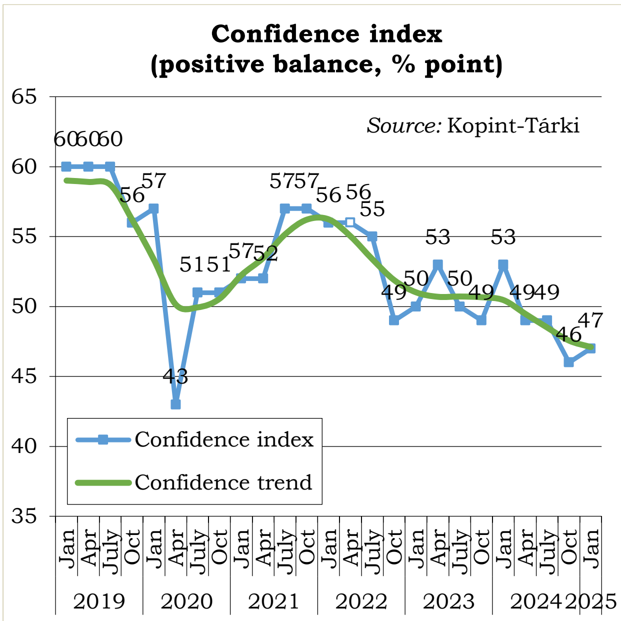
Looking ahead to the rest of this year, we expect that, on the one hand, the fall in domestic sales will come to an end, or even increase slightly this year, despite the poor start to the year, as domestic demand strengthens somewhat, including a partial turnaround in investment from a sharp decline to a rough stagnation. For export sales, which are more important for the industry as a whole, uncertainty is growing. While there has been scattered encouraging news on the German economy and the suspension of the German debt brake has raised hopes of a more robust recovery in the future, the announcement of the drastic US tariffs on exports from the EU in general and on motor vehicles dampens both the short and medium-term outlook.

In recent months, analysts have typically put the start of the recovery in the second half or last third of this year. But even these expectations may prove overly optimistic: there are few signs of a future recovery at present, and the prospects are becoming dimmer in the light of recent developments. The launching of new capacities by the three big manufacturers (BMW, BYD, CATL) will certainly generate some upturn at the end of the year but it is uncertain how this can improve the growth performance in this year as a whole. Therefore, we **currently expect industrial production to stagnate in 2025**. If industrial activity takes a bigger-than-expected hit from deteriorating global economic conditions and the disruptive impact of the tariff war, industrial production may even keep declining for the third year in a row.

Manufacturing confidence survey: outlook remains gloomy

According to our latest Manufacturing business survey, the mood among the Hungarian manufacturing firms remains gloomy. The downward trend, observed since the last quarter of 2021, continues, with the confidence index finally sinking into negative territory in 2024. The employment forecast has already turned negative in January 2023. According to the January 2025 survey, most objective and subjective sentiment indicators are only hovering around the 50-point threshold, indicating stagnation, with no indicators showing a clear positive trend.

The responses show that while there is traditionally a “culture of complaining" present among Hungarian companies, where subjective perceptions are often less positive than real economic indicators, the negative sentiment after the pandemic, especially after the inflationary period of 2023, seems to be deeper. The stocks of orders are falling, the production predictions are weakening, and the previously tight labor market is loosening, with the shortage of skilled labor no longer such an acute problem.



Regarding the investment plans, the survey suggests that a significant share of companies does not plan to make major investments. Among those that do invest, many are financing the costs partly or entirely through loans. Also, a significant proportion of firms can only finance part of their planned investments out of their own resources.

The measures introduced to tackle cost increases include redundancies, production cutbacks, restrictions on purchases and price increases. The impact of price increases is mixed: where the market has accepted the price hike, operating profit has not deteriorated, but in many cases, profits declined due to the only partial absorption of price increases by the customers.

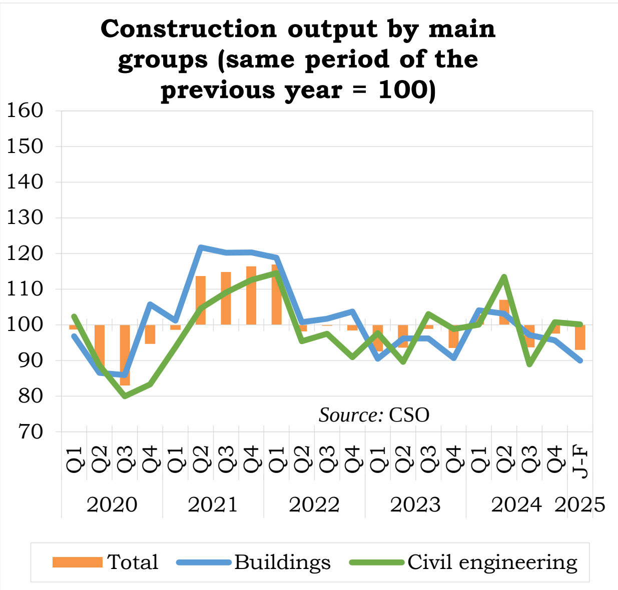
The current economic policy strategy does not appear to be eliciting a positive sentiment in the sector: the confidence index shows no significant improvement in response to the announced programs. Restoring business confidence would be crucial to prevent the stagnation of investments – such a stagnation can lead to the erosion of technological capabilities and competitiveness in the medium term. The share of firms facing financing difficulties is low (5%) according to the survey, while more than half of firms perceive insufficient demand as the main reason for the decline in production.

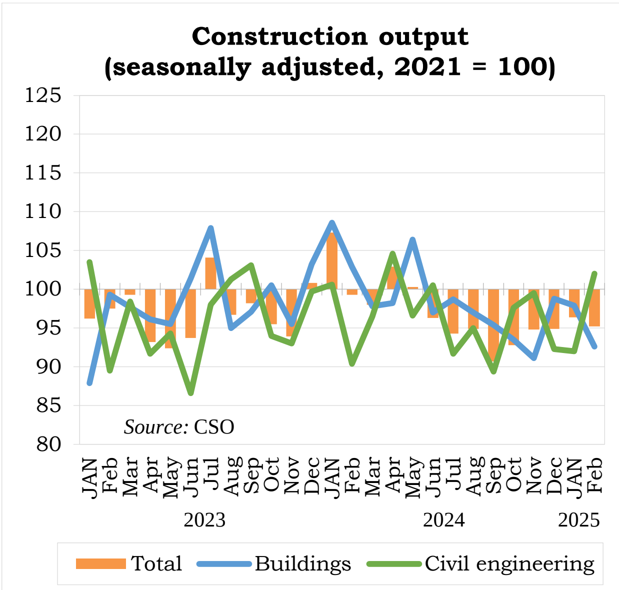
3.2.2. Construction

After steadily declining in 2023, the construction sector temporarily gained some momentum in the first half of last year, but this was followed by another weakening in the second half. Thus, overall, construction output fell by 0.4% in 2024. Although the increase in the first half of the year was partly the result of a particularly weak performance in the base period, seasonally adjusted output data suggest that there was indeed some temporary revival in the construction of buildings in the first half and in civil engineering at least in the second quarter of last year. In the second half, however, activity in both main groups slowed down markedly.

In *January-February this year*, the year-on-year decline in the construction of buildings was actually worse than at any time last year, with a fall of 10%. On the other hand, civil construction stagnated, leading to an average 7% decrease in overall construction output. While the steep fall in construction, which is prone to monthly fluctuations, is partly due to the high base, the seasonally adjusted data do not point to an improvement, while civil engineering output did jump in February compared to the previous month – probably temporary. The stock of orders for building construction were much lower in both January and February than a year earlier, while civil engineering remains higher – the question is whether this will allow civil engineering output to grow in 2025 (there was no such effect last year). According to the iBuild database, the volume of civil engineering construction projects started in the fourth quarter of last year was boosted by one major project (the Danube bridge in Mohács) – the overall stimulus effect of this jump is questionable, especially as the volume of civil engineering projects started in previous quarters was very low. In the construction of buildings, apartment building construction is the only activity indicator in the iBuild database that gives cause for optimism, but the weight of the whole residential segment in building construction is not large enough to single-handedly generate an upturn in buildings construction.

It should be noted that all this does not mean that the construction sector is suffering from a serious crisis. Output was still relatively high in 2024, if the last decade and a half is considered as a benchmark, although it was well below the peak levels of 2021-2022. Rather, the problem is that the demand conditions are not suitable for making a





shift to a higher level of activity. In several segments of industry, investments may be further delayed, while large investment projects by companies from the Far East do not easily involve domestic construction firms. In civil engineering, the contraction in demand is clearly due to the drastic freeze on public investment for fiscal reasons. The lower level of demand compared to the previous peak and the lack of dynamic growth, coupled with still high interest rates and high energy prices, could lead to intensifying competition and thus, some degree of selection within the sector.

At present, **construction is expected to be roughly flat this year**, followed by moderate growth in 2026.

3.2.3. Housing construction

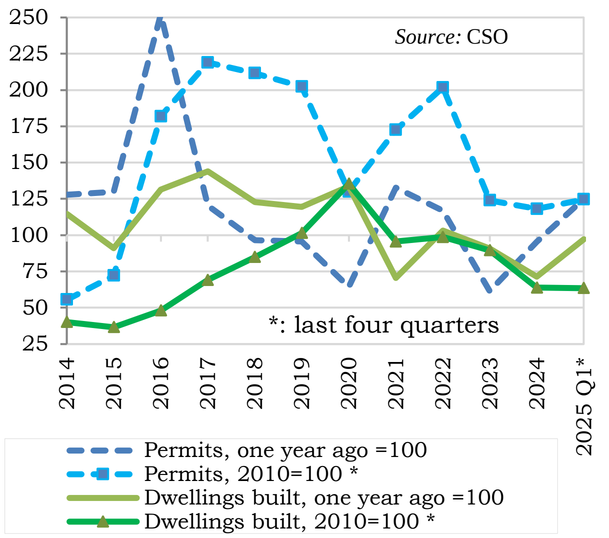
In 2024, the decline in the number of newly built dwellings continued, and the rate of decline was quite substantial, 29%. The number of dwellings built by both individuals and businesses decreased, as well as for single-family houses and apartment buildings alike. Last year, only 13,295 dwellings were built - the lowest annual figure since 2016. The number of building permits/notifications for building permits also continued to fall, although in this case the rate of decline was only 4.6%, compared with a steep fall in 2023.

In the *first quarter of 2025*, the number of dwellings built still declined on an annual basis, but at a milder rate of 3%. On the other hand, the number of permits/notifications *was up 25%*. Another slightly encouraging sign is that according to the iBuild database the volume of newly started apartment housing project surged sharply in the final quarter of last year, pushing activity starts in 2024 above the levels seen in 2022 and 2023. But the relevance of this in the short term, similarly to the upturn in the number of building permits, is limited, as housing projects that started at the end of last year are unlikely to be completed this year.

The increase in housing demand in 2024 is set to continue this year, partly as a result of various government measures (such as facilitating access to CSOK and baby loans for special taxpayers, or tax exemptions for voluntary pension savings used for housing purposes) Housing lending also is gaining momentum, but lending is still predominantly used for the purchase of second-hand dwellings, thus contributing only moderately to the pick-up in construction activity.

Therefore, the positive turnaround in the number of housing completions is likely to come later: **in 2025, the number of dwellings built is likely to decline again**.

Construction permits and newly built dwellings: indices



3.3. The final use of GDP

3.3.1. Household incomes, consumption and savings

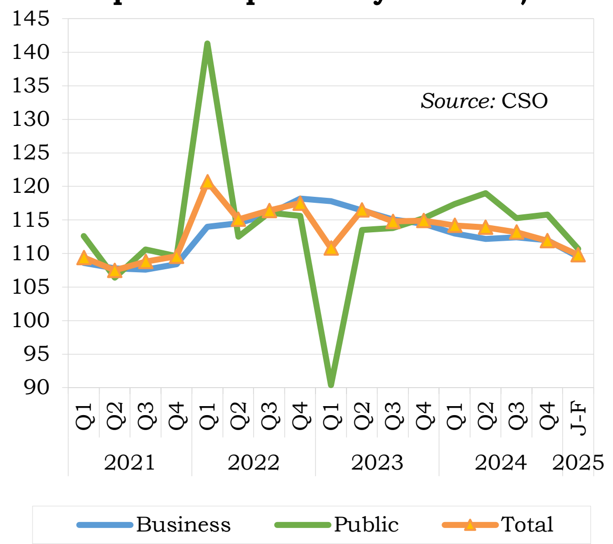
Nominal wages increased by 13.2% over 2024, with an annual inflation rate of 3.7%, resulting in a substantial *real wage* increase of 9.2% over the period. The rate of increase in real median earnings was even faster, by more than 2 percentage points. As the number of employees continued to grow slightly, ***net real wage disbursements*** were 9.5% higher in 2024 than in the previous year. True, this substantial increase can be in part seen as a correction after the fall in real earnings in 2023.

However, the pace of year-on-year growth has been edging downwards, and this trend is continuing *this year*: in January-February, gross earnings climbed 9.8% on a year-on-year basis. With inflation picking up at the same time, real earnings grew by 4.5% year-on-year in January, which is still far from trivial but well below the average pace seen in 2024.

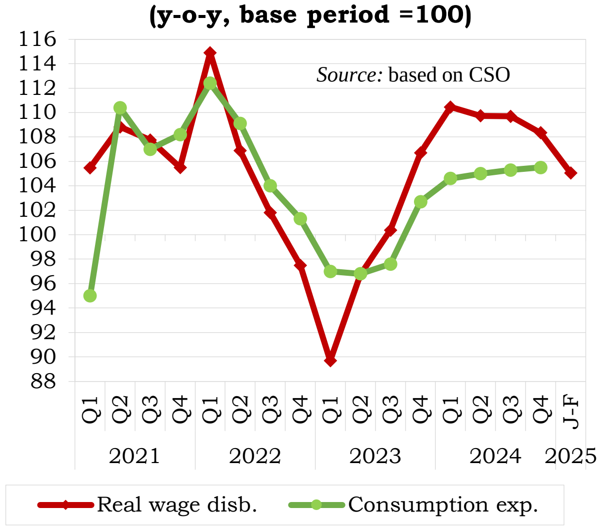
While ***household consumption expenditure*** growth was substantial last year, 5.1% on average, it lagged behind the rapid rise in real income. (Due to the sharp fall in the social transfers in kind from the government, the annual growth rate of *actual private consumption* was only 3.5%, well below the consumption expenditure growth rate.) The gap between the respective growth rates of consumption expenditures and real earnings suggests that households remained *cautious*, especially in the first half of the year.

By the end of the year, this caution appeared to be easing: by the fourth quarter, the gap between the growth rates of real wage disbursements and consumption expenditures narrowed, with consumption gaining some additional momentum. This has been accompanied by a decrease in household net financial savings, which is reflected in both set of ***net lending*** data, namely the quarterly sector accounts data by the CSO on the one hand and the financial accounts data by the MNB on the other). According to the latter dataset, the *cumulative four-quarter* ***household saving rate*** as a share of GDP rose to 7.3% by mid-2024 but fell back to 6.6% by the end of the year, thus the overall annual saving rate was lower than

Gross nominal wage growth (same period of previous year = 100)



Real wage disbursements and consumption expenditures (y-o-y, base period =100)



in 2023. (The savings rate for the fourth quarter alone was just 3.9%.) The nominal value of gross financial savings was higher last year than in 2023, but started to decline in the second half, while net borrowing, especially in the case of housing loans, rose at a good pace.

After growing by almost 10% in January-February this year, nominal earnings are likely to rise by an average 8.5-9% in 2025. Given higher inflation, this means that real earnings growth is likely to be below 4% this year. Private consumption expenditure growth is also expected to weaken as a result. The degree of weakening, however, may be moderate, even if the retail sales data about the first quarter of this year is not particularly encouraging. The new loan scheme for young blue-collar workers and the exemption of mothers of three (which will come into force in the autumn) may give a boost to consumption. The growth rate of *actual household consumption* may even accelerate to 3.7% this year, from 3.5% in 2024. (This does not rule out the moderate slowdown in *consumption expenditures*, however.) Meanwhile, household investment may also start to rise, while the savings rate moderates further.

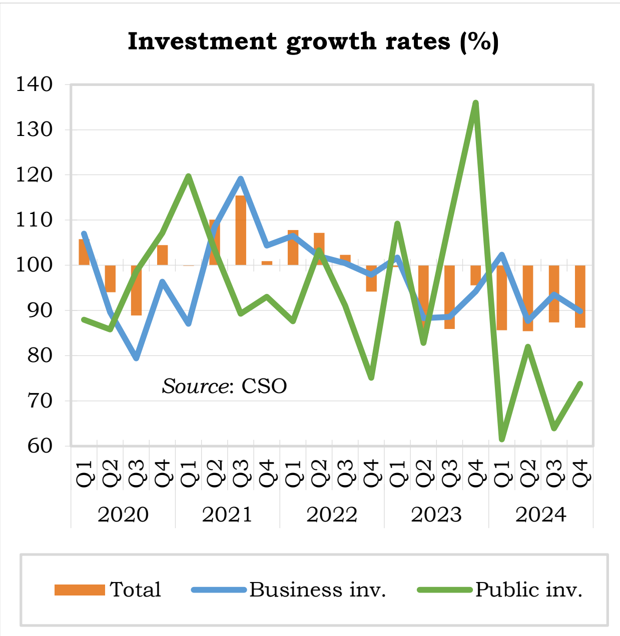
3.3.2. Investments

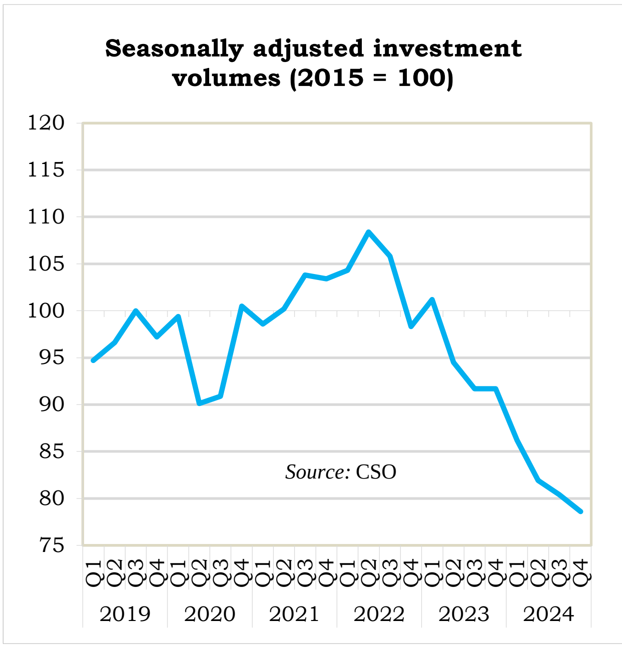
2024 as a whole was marked by a dramatic fall in investments. While the fall did not extend to *medium and large enterprises* in the first quarter (at least for the sector as a whole), business investments contracted sharply in the following three quarters, along with plummeting *public sector* investments. The data also suggest that the sharp fall in investment among small businesses and households continued in 2024.

As a result, investment contracted by almost 14% on average over the year, the most drastic fall since 2000. The seasonally adjusted quarterly volume of investments has been falling almost without interruption since mid-2022, and by the last quarter of 2024 it was already some 24% below its peak in the second quarter of 2022.

The contraction in *manufacturing* investments (by about 14%) was the most important drag on business investments, at least for the year as a whole. Amid a much gloomier external demand situation and outlook, firms appear to have drastically reduced their investment activity. On the one hand, however, it should be noted that the pace of the fall in investment in manufacturing moderated somewhat in the last quarter. Moreover, there are some exceptions within manufacturing: not only in the chemicals sector – which has recently shown signs of recovery – but also in the rubber, plastics and construction materials industry, and in the automotive sector – which is in crisis but at the same time also undergoing a major capacity expansion – investment increased substantially in 2024.

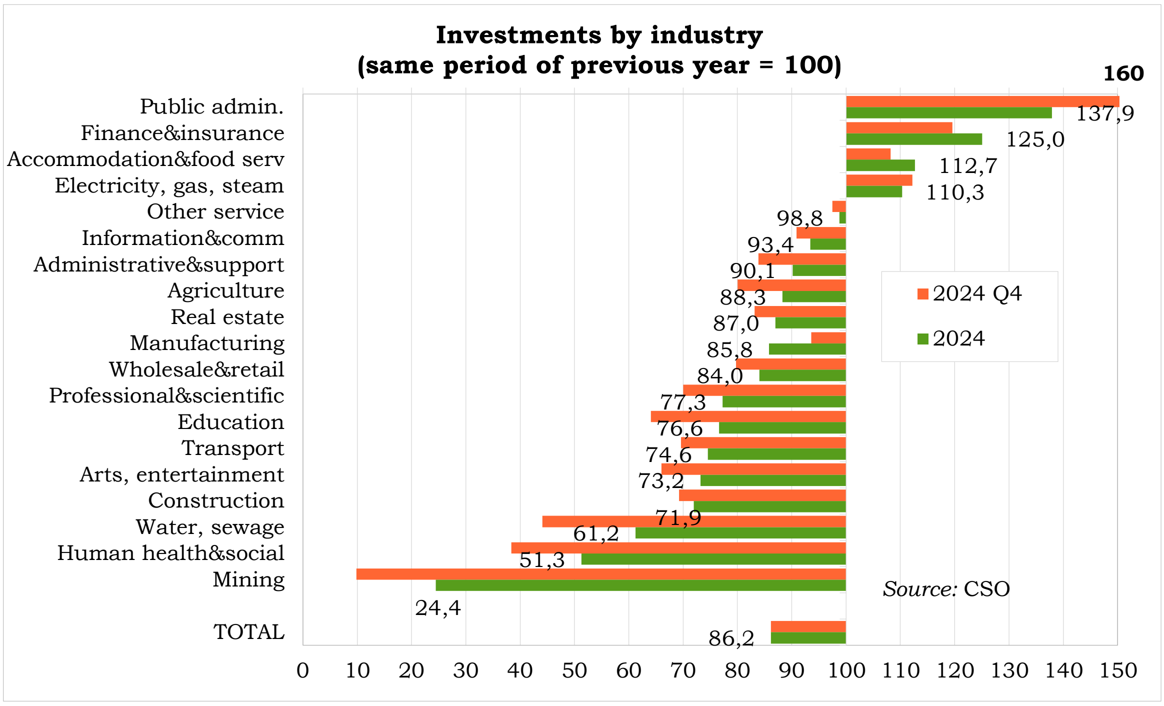
In addition to manufacturing, the sharp contraction in the transport and real estate sectors – reflecting both the plunge in state demand for infrastructure investments and the fall in the volume of buildings under construction – contributed strongly to the annual fall in investments. It should be noted that these two sectors were the main drags on investment growth in the last quarter, while the fall in manufacturing investments slowed somewhat. Despite a 29% fall in public investments, the picture is mixed, with a sharp rise in public administration investment, as opposed to the slowdown in health and social investments and the sharp fall in education investment.





Overall, the vast majority of sectors saw a decline in investments in 2024. In addition to public administration, investment increased – both in the last year as a whole and in the last quarter – in the energy sector, which depends on government orders, and in two minor sectors, hotels and restaurants, and financial activities,.

The prospects for **this year** is quite dim as well. The only factor that can give some hope is mainly the low statistical base after two consecutive years of steep decline. As for external demand conditions, not only is there no sign of improvement, but the negative shock of the tariff war is exacerbating uncertainty among export-oriented companies. The fiscal constraints will keep holding public investments back. The gradual consolidation of household demand has not yet led to a pick-up in investment activity in domestically oriented sectors. Household investments may recover somewhat. Thus, we expect investments to reach near-stagnation, with a **negative growth rate of 0.5-1%**.



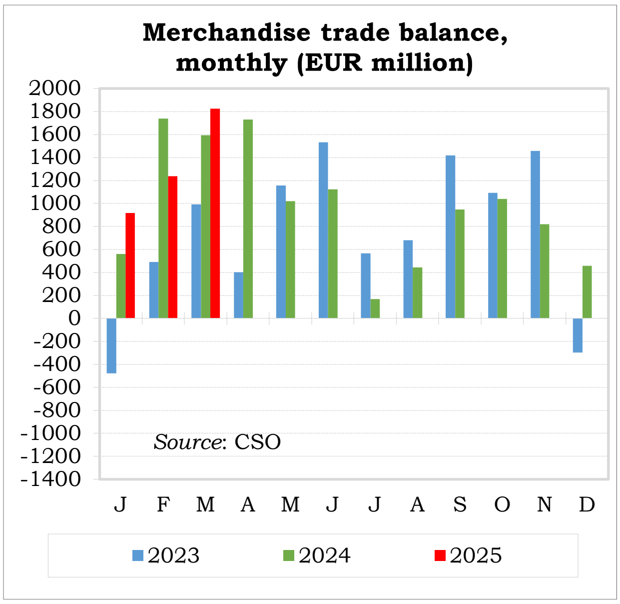
3.3.3. External trade

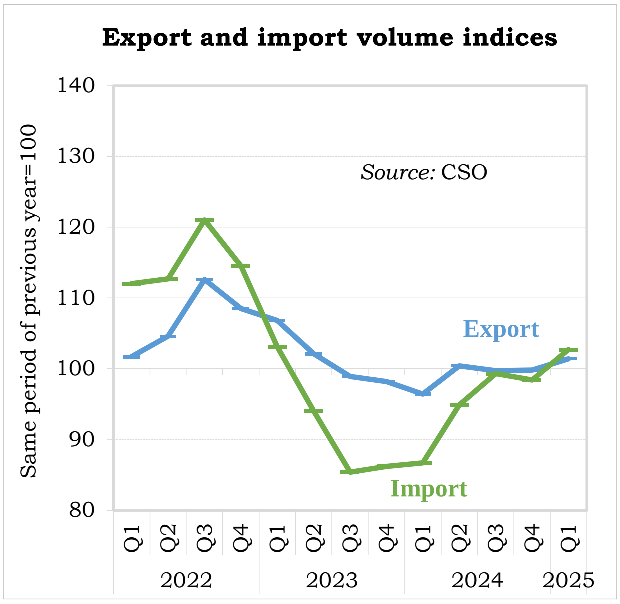
The external trade balance continued in the first third of last year, but thereafter the monthly value of net exports fell steadily below the levels seen one year earlier. Still, thanks to the surplus in the first four months, the annual trade balance stood at €11.6 billion, up from €9 billion in 2023, despite the terms-of-trade deteriorating by about 2% last year. In terms of volume change, the volume of exports decreased year-on-year in three out of four quarters, while the decline in import volumes was uninterrupted and, especially in the first half, more pronounced. The recently revised external trade data shows a somewhat different picture from the GDP data – according to the latter, the volume of export fell at a steeper pace than that of import in the second half of 2024.

In any case, the overall favorable trend in net export was driven by an unfavorable factor – imports shrinking faster in volume terms than exports. The strengthening of domestic demand, however slow and uneven, is expected to turn the tables ***this year***. In the first quarter, the volume of import was up 2.7%, while the volume of export only climbed 1.4% (which in itself is a slight positive surprise, considering the industrial export sales data for January-February). Despite the somewhat faster rate of import growth, the cumulative trade surplus in euro terms was up about 2% on an annual basis.

In the case of imports, the shift from decline to growth is becoming more broad-based. In the first quarter, the volume of import increased in all but one main group of commodities (manufactured goods). It is worth noting that after declining for 7 quarters in a row, even the import of machinery and transport equipment increased, even if this increase is merely symbolic (0.3%). The picture is much more mixed in the case of exports: the export of food and crude materials continued to decline and the manufactured goods export virtually stagnated (-0.2%), while the export of fuels and energy kept increasing at a steep pace and even the export of machinery and equipment was up 0.5%.

For the year as a whole, both imports and exports may increase, but import growth will probably remain moderate and export growth is expected to be more muted. The annual trade surplus could reach ***EUR 10-11 billion in 2025***.



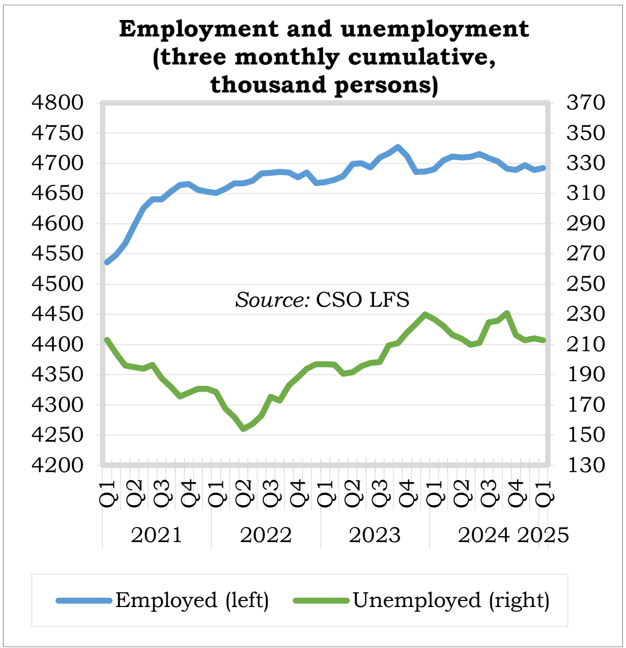


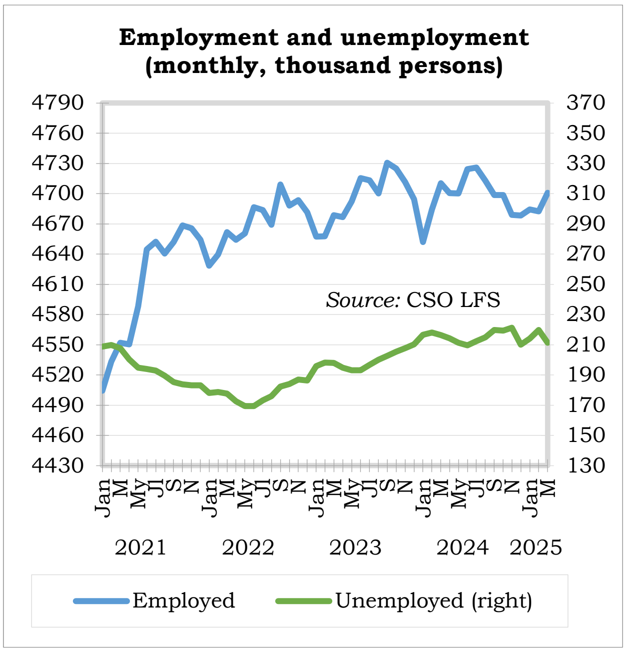
3.4. Employment, unemployment

According to the *Labor Force Survey* (LFS), employment stagnated in the middle of last year and then declined towards the end of the year. The number of persons employed was 0.5% lower in the fourth quarter than a year before. The simultaneous rise in the number of public workers and those working abroad led to a slightly faster year-on-year decline in the number of people in the *domestic primary labor market*, by 0.7% in the final quarter. In the *first quarter of this year*, however, the situation slightly improved, with a stagnation of overall employment and a 0.1% increase in the number employed in the domestic primary labor market. But employment in the *business sector* seems to keep declining: according to the LFS data, the decrease in employment in industry, construction, agriculture and market services was offset by a growth in government services. The *vacancy rate* in the business sector was lower in the final quarter of last year than at any time since the first half of 2020.

Meanwhile, the *unemployment rate* soared to 4.6% in the third quarter of last year, but then eased slightly to 4.3% by the first quarter of 2025. The year-on-year rise in the absolute number of unemployed since autumn 2022 turned into decrease in the last quarter of 2024 and dropped by 6% in the first quarter of this year. Nevertheless, the unemployment rate is basically stagnating, as the earlier rise in the number of economically active people has meanwhile also started to decline, with the working-age population shrinking at an accelerating pace.

As this year's economic recovery is expected to be very modest and somewhat one-sided again, we expect **employment to remain stagnant** over the year, with a very modest decline in the unemployment rate.



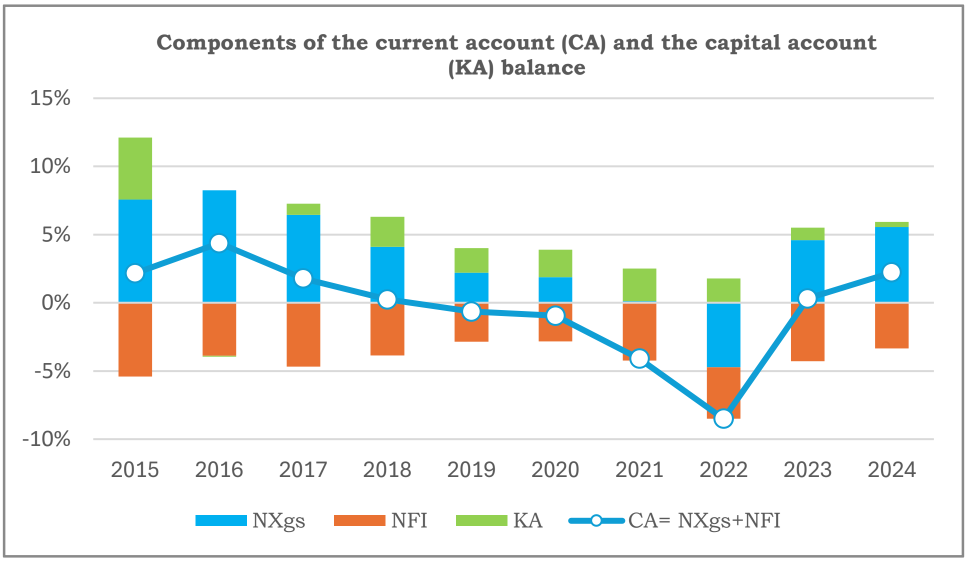


3.5. Balance of payments

The current account balance, which was approximately zero in 2023 following a deficit of 8.5% of GDP in 2022, improved further in 2024 to around 2% of GDP. The change in the combined current and capital account balances (the so-called net external financing capacity calculated from above) was less pronounced than in the case of current account, as the capital account surplus fell to below 0.5% in 2024 from 1% in 2023, due to the drying up of EU resources. On the other hand, the financial account balance (the so-called net financing capacity calculated from below), which shows the financing aspect of the economy, barely changed over the past year, turning from a slight deficit in 2023 to a modest surplus. Last year's net FDI inflows were also more moderate than in 2023 (0.7% and 0.4% of GDP, respectively). The country's stock of liabilities fell by 4 percentage points to below 40% of GDP, due to a slight decline in the GDP ratio of both net FDI and debt, and a rise of almost 3 percentage points in the ratio net other investment.

Current, capital and financial accounts

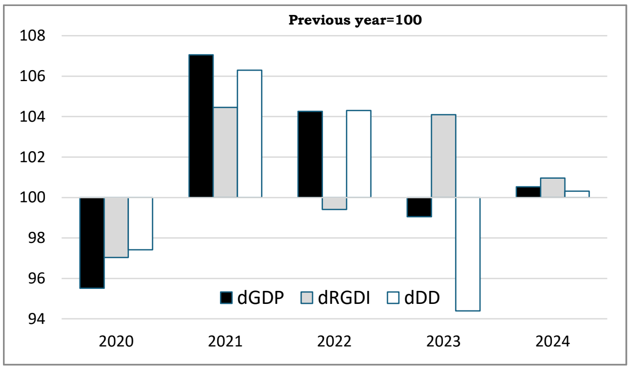
As shown in the graph below, the current account (CA) deficit of 8.5% of GDP in 2022, a result of the deterioration in the current account ratio (among other factors), underwent a sharp correction in 2023, and the correction continued, to a much lesser extent, in 2024. (The available quarterly data for 2024 at the time of writing are provisional and may be revised later.) The improvement was driven both by an increase in the surplus of the goods and services account (net exports, NXgs) and a decrease in the deficit of the income account (NFI). The improvement in net exports was mainly linked to the external trade in goods (the services balance hardly changed), but this occurred at a time when the fall in imports of goods exceeded the fall in exports.

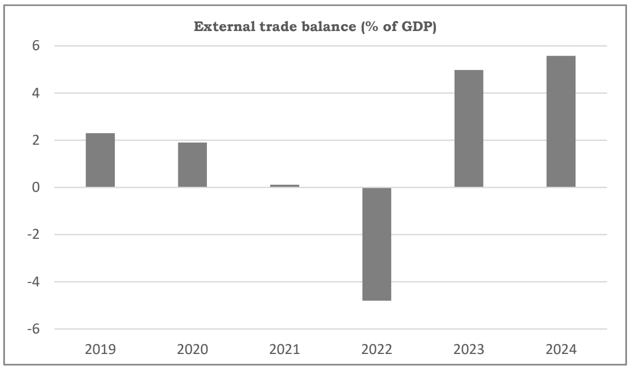


The green bars in the graph show the capital account balance (KA), which has traditionally been dominated by net capital transfers from the EU. Since 2021 (when it stood at 2.4% of GDP), the capital account surplus has been steadily declining, falling to a low of 0.4% of GDP in 2024.

There are many question marks as to whether the EU funds have been used for meaningful purposes that contributed to the development of the economy, but one thing is certain: they have contributed significantly to the country's foreign currency financing, for free. In years of current account surpluses, they have increased foreign exchange reserves and thus reduced net foreign currency debt, and in years of deficits, they have helped finance the deficit. As shown in the graph above, this source of financing virtually disappeared by 2024.

The macroeconomic background to the annual changes in the GDP ratio of net export





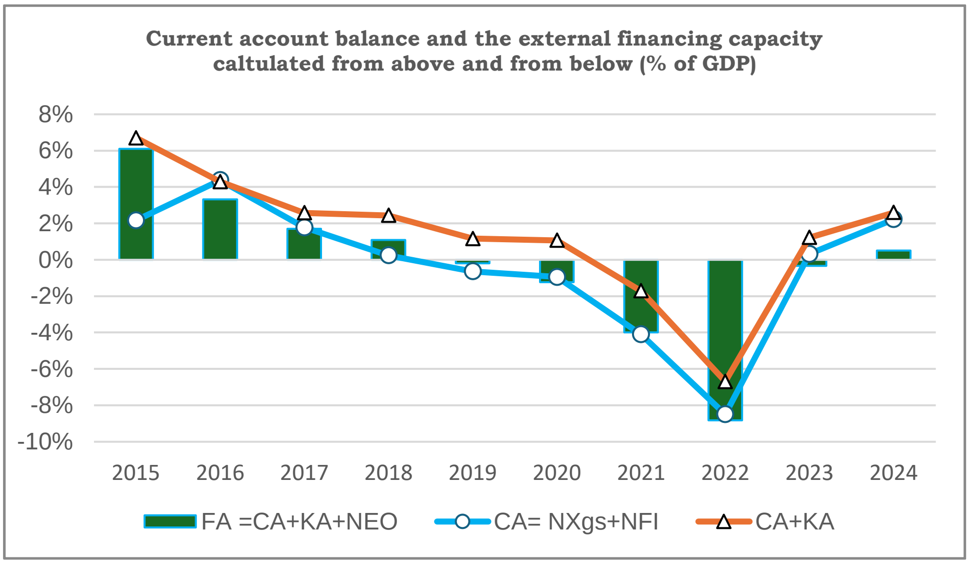
Codes: dGDP, dRGDI, dDD: yearly changes in GDP, RGDI and final domestic use.

Source: CSO

As can be seen in the graphs above, the year-to-year changes in net exports (right-hand side) are driven mainly by the year-on-year growth gaps (left-hand side) between RGDI (exchange rate adjusted GDP) and final domestic use (DD). In 2022, the brutal deterioration in net exports (right-hand side) was due to the fact that domestic consumption grew along with GDP while RGDI declined. In 2023, the situation was reversed: RGDI increased significantly (the terms of trade improved), while domestic consumption declined due to domestic austerity, leading to a significant improvement in the external balance.

The following graph shows the changes in the current account (CA), the current + capital account (CA+KA: external financing capacity from above) and the financial account (FA= CA+KA+NEO: external financing capacity from below) balances. The combined current and capital account shows the aggregate balance of real economic and income transactions and transfers, while the financial account shows the balance of financial asset flows. The difference between the two types of balances is the NEO (net errors and omissions), which in Hungary has traditionally had a negative sign and a value of around -2% of GDP in the 2020s. This means that the net financial inflow was that much lower, or the outflow that much higher, than what the combined current and capital account balance would warrant. There can be various factors behind this gap, such as over- or under-reporting of exports and imports, as well as implicit (unrecorded) capital outflows. The exact source of the discrepancy is difficult to identify. In the figure, the NEO is shown by the difference between the data points with the triangle-shaped markers (CA+KA) and the green columns (FA).

From 2017 to 2023, the current account (CA: blue line with ring-shaped markers) and the financial account corresponded almost perfectly, i.e. the capital account surplus in the balance of payments was offset by a negative NEO (but you can also look at it the other way round: the negative NEO was offset by capital transfers). This presumably coincidental similarity ended in 2024. With the drying up of capital transfers from the EU funds, the distinction between the current account and the "financing capacity from below", which was very important between 2018 and 2022 (compare the respective data points with triangle-shaped and ring-shaped markers), has become basically irrelevant in 2024.



Looking ahead, the current account surplus as a share of GDP may narrow to 1-1.5% in 2025, and the combined current and capital account surplus will likely be barely higher. In 2026, election-related public spending could turn both balances into deficits. However, the unforeseeable consequences of the tariff war announced by the Trump administration make any projections regarding the external balance much more uncertain than usual.

3.6. Fiscal, monetary and financial developments

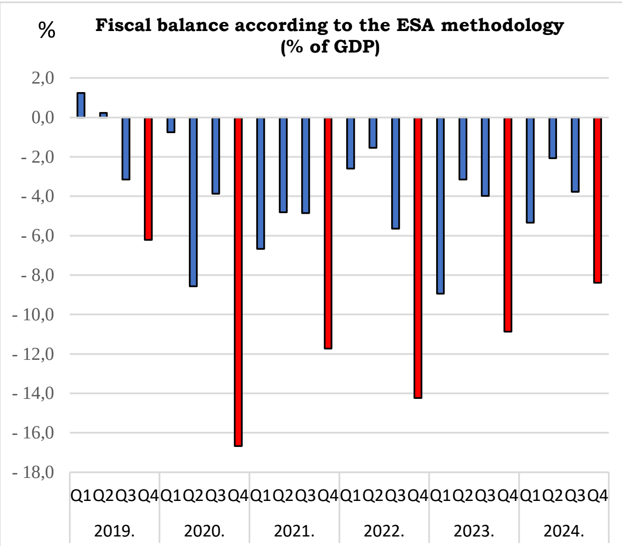
3.6.1. Fiscal developments

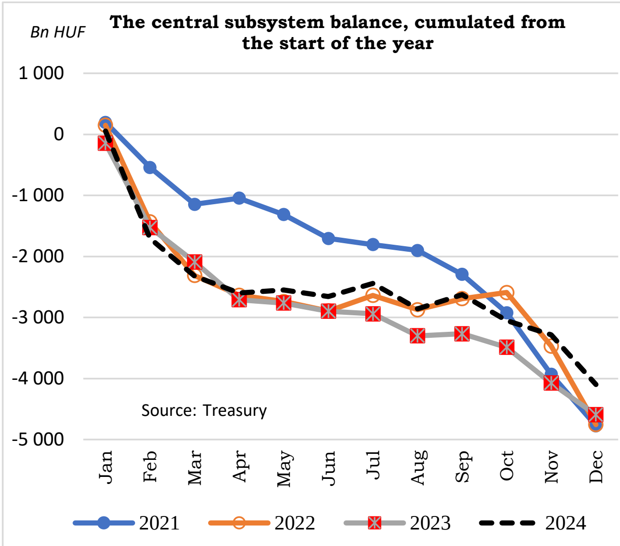
The 2024 budget

The accrual-based (ESA) deficit of the general government was 4.9% of GDP in 2024. This is well above the original target of 2.9%, which was gradually increased by the government over the course of 2024. In its April 2024 Convergence Report, the government already expected a deficit of 4.5% and maintained this projection in the Medium-Term Fiscal Structural Plan submitted to the EU in October 2024, but then raised the target again in December, to 4.8%. Eventually the outcome was a deficit amounting to 4.9% of GDP.

The 4.9% deficit represents an improvement of 1.8 percentage points compared to the 6.7% deficit in 2023. The decrease is partly due to the fact that the year-end spending spree was less extravagant in 2024 than in the last quarters of the years 2020-23, with quarterly deficits exceeding 10% of GDP. In the last quarter of 2024, by contrast, the ESA deficit was "only" 8.4% of GDP.

The cash-flow deficit was HUF 4,096 billion in 2024, while the deficit-reducing and deficit-increasing items in the ESA bridge broadly offset each other. The cash-flow deficit in 2024 is HUF 350 billion lower than in the previous year.





The detailed cash flow data show that on the **revenue side**, there was a significant shortfall in consumption tax revenues, as described in our previous report. Although revenues rose by 10% year-on-year (to HUF 10 thousand billion), they fell short of the unrealistic forecasts (HUF 11 thousand billion), which implied a 22% (!) increase compared to 2023. This miscalculation was due to the fact that at the time of planning it was not known that the 2023 base level would be extremely low (HUF 9,054 billion). The annual revenue shortfall is more than HUF 1,000 billion compared to the target.

On the other hand, the revenue inflow from the *payments of households* was in line with the target (HUF 4.863 billion), and increased by 12% compared to 2023. However, the monthly receipts at the end of the year were much lower than in the previous year (the December increase was only 6.5%).

At the same time, the revenues from *EU programs* barely surpassed half of the target in 2024 (€1,267 billion, as opposed to the planned €2,480 billion).

On the **expenditure side**, the main expenditure item, the (non-consolidated) *expenditures of budgetary institutions*, increased by 8%, with the December expenditure alone amounting to HUF 2 thousand billion.

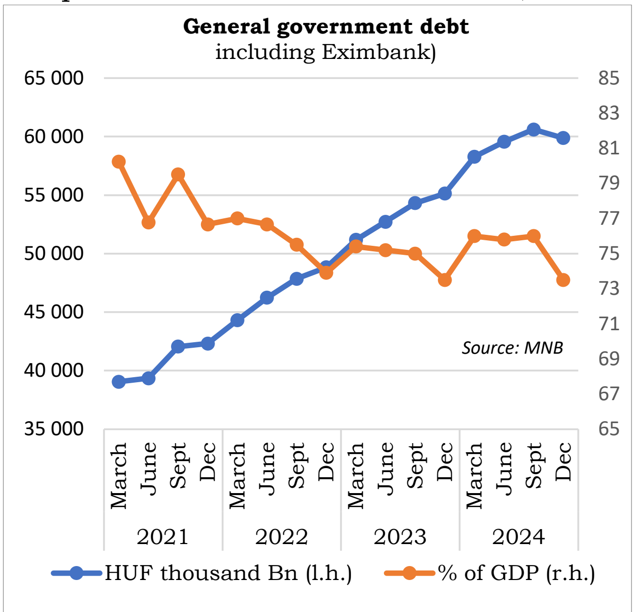
The *interest expenditures* in 2025 exceeded the target by HUF 500 billion (16.4%), reaching HUF 3,613 billion in cash-flow terms. Interest payments according to the ESA methodology were higher, at HUF 4,040 billion, as accrual-based accounting also includes the pro-rata share of interest. The interest expenditures in 2024 amounted to 4.96% of GDP.

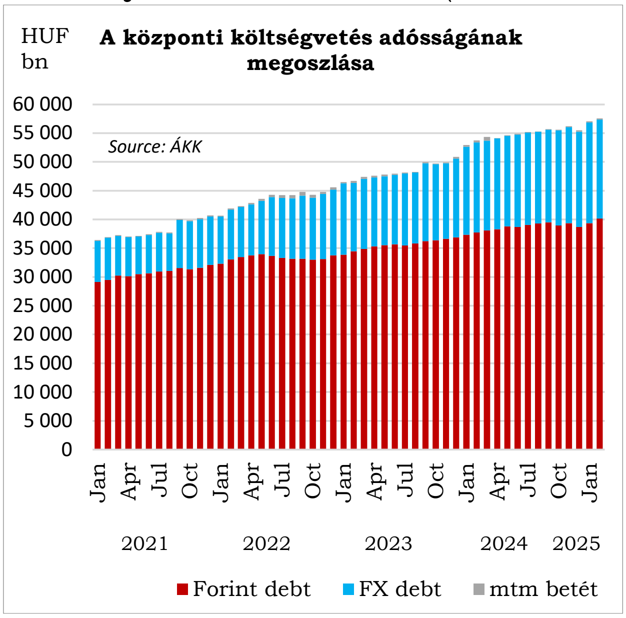
The *expenditures of EU Programs* (HUF 1,516 billion) only made up 42% of the target, also falling short of the 2023 expenditures by HUF 1,300 billion. The low figure reflects the curbing of pre-financing for EU programs, an indicator of the dwindling chances of receiving funding from the EU.

Government debt

At the end of 2024, gross fiscal debt stood at 73.5% of GDP, according to MNB data, 0.1% higher than at the end of 2023. In principle, this would be a violation of the debt rule which requires an uninterrupted reduction of the end-year debt ratio. However, as this rule allows for ignoring the increase in debt resulting from a weakening of the exchange rate, the authorities considered the year-end level of public debt to be in line with the rule.

The debt-to-GDP ratio has been brought down from 75.6% in September 2024 to 73.5% by the end of the year, according to the MNB. According to quarterly financial accounts data, the amount of government debt at the end of December (HUF 59,875 billion) was HUF 733 billion lower than in September (HUF 60,608 billion). However, according to the **monthly** statistics of the MNB on "Debt securities issued by the central government by sector of ownership", the decline occurred mainly in December, when the amount owed mainly to the MNB (EUR 782 billion) and to the rest of the world decreased (EUR 918 billion), while the amount owed to the other sectors of ownership increased, as in the previous months. Furthermore, the MNB's **daily** securities statistics ("Securities





held by non-residents") show that the stock of government securities held by non-residents fell by HUF 226 billion during the single business day between 23 and 30 December 2024, before rising by HUF 714 billion on 2 January. Daily data for the other sectors are not available.

At the end of 2024, the ratio of foreign currency debt to the overall central budget debt was 29.7%, just below the 30% ceiling (which was raised by the ÁKK (Government Debt Management Agency) from the previous 25% in 2022). The ÁKK's issuance plan aims to respect the 30% limit.

The 2025 budget

The 2025 budget law is surrounded by various forecasting uncertainties. The law assumes a GDP growth rate of 3.4% and a consumer price index of 3.2%. Both assumptions have since been proved unrealistic. In March 2025, the government already expected a more modest growth rate of 2.5% and raised its inflation forecast to 4.5%. Note that independent forecasters and international institutions have been predicting even lower growth and higher inflation for some time. This is likely to be reflected in the government's expectations later this year. In addition, the budget law is based on the assumption of 397.5 forint/euro, another unrealistic assumption.

The misplanning is noteworthy because in 2024 the government broke with the harmful practice of submitting the budget law in the summer of the previous year, at a time when even the figures for the t0 year are not yet known. This welcome change has not, as it seems, saved the government from misplanning, since it brushed aside the forecasts and warnings of independent forecasters and international institutions. From this perspective, the government's intention to return to the practice of early budgetary planning in 2025 – when the prospects for the next year are even harder to gauge – is particularly worrying.

A lower-than-expected actual economic growth worsens the chances of meeting the budget, as it could lead to lower-than-planned tax revenue growth. The impact of higher-than-assumed inflation (which is highly likely) is complex: higher VAT revenues could improve the fiscal balance while higher pension expenditure could worsen it, to mention just the two most important aspects. As for pension expenditure, the state may have saved a few tens of billions of forints through the 13th month pension, as it applies to the pension set at the beginning of the year, based on an unrealistically low inflation forecast. A weaker-than-assumed exchange rate could increase the cost of public investment, due to its high import content.

The budget law foresees a cash-flow deficit of HUF 4,200 in 2025. With the assumption of a GDP of around HUF 87 thousand billion (at current prices), this corresponds to a cash deficit of 4.8%. Paradoxically, the impact of lower real economic growth and a higher GDP deflator in the budget plan may roughly offset each other in terms of nominal GDP. If GDP growth is 3.4% and the deflator is 4%, as stated in the budget law, this would result in a current price GDP of around 87 thousand billion. A similar result is obtained if the GDP growth is only 1.8-2% and the GDP deflator is 6%. The ESA bridge (the difference between the cash-flow and ESA deficits) is set at 1.1 percentage points in the budget law, which is a realistic assumption. The government's ESA deficit target of 3.7% is based on the assumption of a cash deficit of 4.8%, which is mitigated by the ESA bridge of 1.1 percentage points.

In the first two months of 2025, the cash-flow deficit of the central budget amounted to HUF 1,722 billion, which is 40% of the planned cash deficit. This includes a deficit of HUF 1,655 billion in February.

The deficit overshoot was largely due to the high level of interest expenditures in the first two months of the year (HUF 1,038 billion), especially in February. However, this will be reflected to a much lesser extent in the ESA deficit, as part of the yields on government bonds have already been accounted for, on a pro-rata basis, in the accrual-based accounting for 2024. The situation will be similar in March, when the government also paid households substantial sums on yields on inflation-linked government bonds.

The costs of the EU programs may pose a more pressing problem for the budget. The budget law envisages a revenue of HUF 2,236 billion on this line, but only 122 billion has been collected in the first two months, and little is expected in the coming months. The government has also cut actual spending in the first two months (to HUF 300 billion, merely 10% of the planned annual spending), responding to the reduced inflow from EU funds. The question is whether the government will be able to respond in a meaningful way if the support from the EU funds fails to materialize (even the funding that has already been conditionally awarded by the EU). If the answer is yes, then it will further dampen growth prospects.

VAT revenues continue to be a weak link on the revenue side, as was the case last year and the year before. The government plans to increase the revenues from consumption taxes by more than 10% in 2025, with VAT receipts rising from HUF 10 thousand billion in 2024 to around HUF 11 thousand billion in 2025. This is not consistent with the envisaged growth in consumption and the consumer price index. The 3.9% increase in household consumption and the inflation rate of 3.2% envisaged in the budget law would justify a combined increase of 7.2% in VAT revenues. In fact, a 10% increase in VAT revenues, with a 3.9% increase in consumption, would imply an inflation rate of 6%. This is problematic even if we know that the net VAT revenue depends partly on the total amount of rebates. If export growth falls short of the 3.6% expected in the budget plan (as is highly likely), then fewer VAT refund claims may be received.

If the inflation rate exceeds the 3.2% target (by at least 2 percentage points), then the VAT revenue target may even be met, but in this case budgetary expenditure would rise proportionately as well. This is especially true of pension expenditures, which could increase by some HUF 130 billion with indexation. In addition, almost all expenditure items in the budget will be affected due to the higher procurement prices.

Overall, the revenue shortfall on the above items is expected to be around HUF 500-700 million this year, which amounts to 0.6-0.8% of the expected nominal GDP.

A further question is whether the state will be able to keep to its spending plans for the Professional chapter-administered appropriations and other items related to public investment. The planned expenditure on the “professional etc.” heading in 2025 is 6% above the previous year in nominal terms, i.e. broadly flat in real terms. In the first two months, there was no overshoot, and expenditure was slightly below the planned level. At the same time, the 2025 expenditure targets on the "expenses concerning state property" and "public investment" lines is less than half of the outcome in the last year: in 2024, the two items together amounted to HUF 1,607 billion (actual spending), but they make up only HUF 688 billion in 2025 (planned spending). In the first two months, 27% of this expenditure target was met. Further overspending is expected for the rest of the year, as meeting the target would lead to such a contraction in public investment that contradicts the government's optimistic expectations for economic growth and the announcement of a resumption of public investments.

An additional expenditure surplus will be caused by the extension of family tax credits in 2025. The tax exemption for mothers with three children from October 2025 will generate an additional expenditure of HUF 50 billion in 2025.

For the reasons above, we maintain our earlier predictions: we expect a cash-flow deficit of 5.6% and an accrual-based deficit of **4.5% in 2025** (with an ESA bridge of 1.1%).

According to the data of the Government Debt Management Agency, the debt of the central budget increased by HUF 2,101 billion by the end of February from the – reduced – debt level in December. Compared to November, the increase is HUF 1,400 billion. The significant increase was driven by the payment of yields on government securities.

The Government Debt Management Agency's 2025 issuance plan envisages net issuance of HUF 4,123 billion, in line with the projected cash-flow deficit of the general government. This translates into a debt-to-GDP ratio of 74% of GDP assuming a nominal GDP of HUF 87 thousand billion. However, since we assume that the cash deficit will be 0.7-0.8 percentage points higher, the ratio could be as high as **74.7-75%**. On the other hand, this can be mitigated by monetary policy tools to ensure a declining debt ratio at the end of the year.

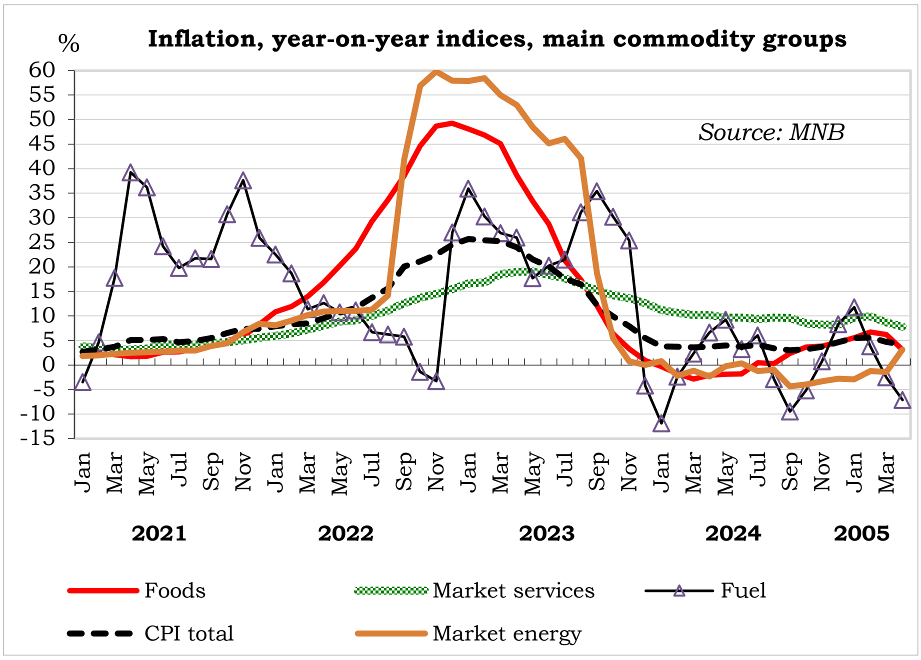
3.6.2. Inflation

The 17.6% increase in consumer prices in 2023 was followed by an annual inflation of 3.7% in 2024. Market services prices soared at the highest pace, by almost 10%. Although the significant price hikes by market service providers moderated in the second half of the year, the prices of services provided by monopoly/oligopoly service providers (internet, telecommunications, motorway tolls, housing costs) continued to rise at a higher rate than the average. Wage increases have also exerted an upward pressure on services prices, which are hard to offset by productivity gains in this highly labor-intensive sector.

*Food price*s rose at a relatively moderate pace in 2024, especially in the first half of the year, following a rapid hike in the previous year. However, in the last third of the year, food prices started to rise again massively. Nevertheless, the increase in food prices for the year as a whole was below the average price index, although this increase took raised further the already high food price level generated by the record-paced food price inflation in 2023.

Prices of tobacco & alcoholic products and clothing rose at a rate slightly above the average. Fuel prices fluctuated widely, but the annual average price increase was only 0.4%. The average annual price of household energy outside the utility price cap scheme fell by 1.8%. Since the latter price index is the volume index as well, this decrease indicates that households decreased their consumption of the energy sold at “household market price” in 2024, according to official estimates.

From 1 January 2025 onwards, Eurostat's Harmonised Index of Consumer Prices (HICP) will be calculated by using fixed relative weights of price-capped and non-price-capped energy throughout the year, based on the January consumption data. However, according to a KSH release, this change will not affect the methodology for calculating the domestic Consumer Price Index (CPI). Therefore, the divergence between the two types of price indices may increase in the future.

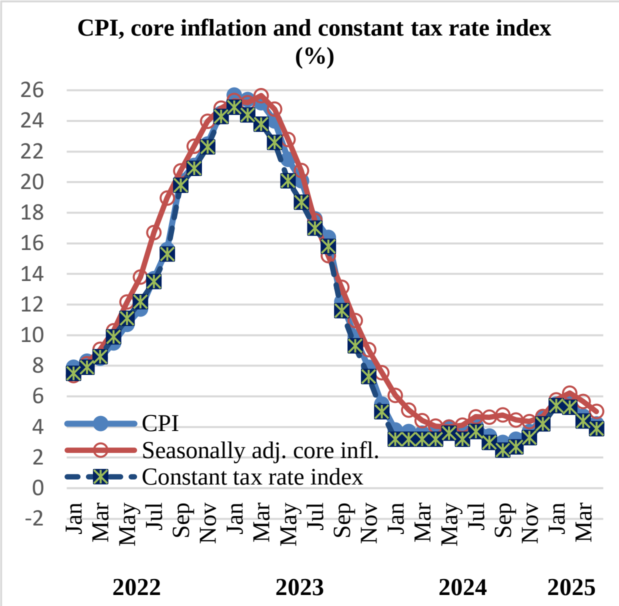


Inflation outlook for 2025

From September 2024, the monthly consumer price indices started to rise at a steady pace, virtually for all categories of goods and services. From an already accelerting price hike of 4.6% in December, the price index soared to 5.6% by February 2025.

The year-start repricing compounded an already rising price pressure. The announced tax increases, which will increase the excise tax burden by the inflation rate seen in last July, also point toward an inflation hike. This will essentially perpetuate the price increase, on top of which VAT will be added. Fuel prices, which are the most affected by the excise duty hike, rose by 11.8% in January 2025 compared to the same period last year. The increase in excise duty on fuel will have a knock-on effect on prices, as the price of fuel will eventually be felt across all product groups.

In 2024, the constant tax rate index was on average 0.5 percentage point below the actual price index, i.e. the tax increases caused this much additional inflation. In the first months of 2025, the tax effect amounted to 0.2-0.3 percentage point.



In the second half of 2024, core inflation increasingly outpaced actual inflation, indicating that internal inflationary pressures in the economy are greater than the ad hoc elements that have a short-term impact (like the effect of the weather on fruit and vegetable prices, or the global price fluctuation effect on domestic fuel prices). In the last third of 2024, the divergence was almost as high as 1 percentage point. By the beginning of 2025, this effect slightly diminished, with the divergence between the two indicators being "only" 0.7 percentage point on average in the first four months of the year.

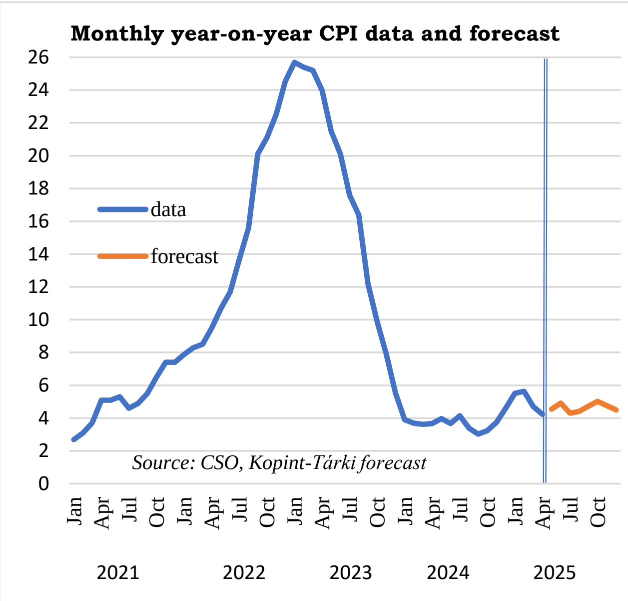
From 17 March 2025, the government introduced a margin cap (ÁRS) on 30 food categories, mainly meat, dairy and vegetables. The margin cap maximizes the margin that (larger) retail firms can charge at 10%. The margin is often – wrongly – called profit in political communication. It is estimated that the products covered by the ÁRS may account for around 10% of the total consumer basket. However, this is difficult to estimate because it is not possible to gauge from the statistical data what proportion of the products affected is sold by the retailers that are not covered by the ÁRS (smaller retailers with an annual turnover below HUF 1 billion). In addition, the information is lacking for certain products (e.g. fruit yoghurt) because they are not listed separately in the consumer basket reported by the CSO.

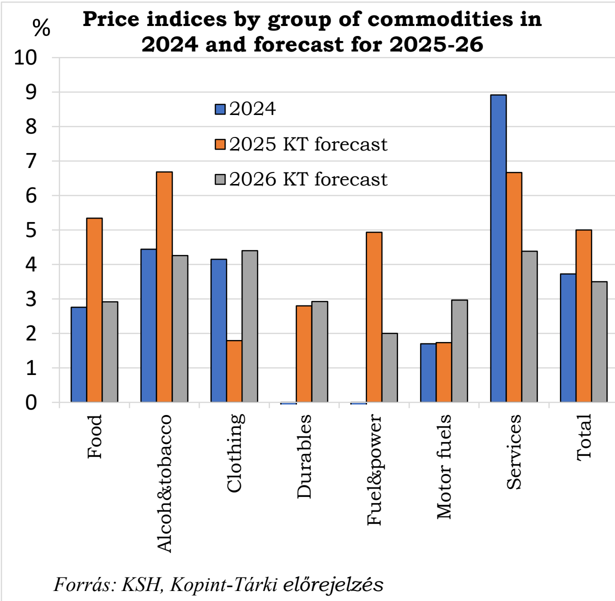
Due to the margin cap, the monthly consumer price index moderated to 4.7% in March and 4.2% in April. Month-on-month food prices stagnated, showing that the price decrease in the case of the affected product categories was offset by price increases for other food products. The longer-term impact is difficult to assess at present, as its scope is unclear: it was initially set to expire on 31 May, but the government has left open the possibility of extension. There are political-communication arguments in favor of either option. If the ÁRS ends at the end of May, prices will bounce in June, but by then the price structure will be completely upended and the bounce-back could be greater – like in the case of the spring effect – than the original downward effect of the artificial suppression of prices. In this case, the annual price index may therefore not fall but rise. If, on the other hand, the ÁRS remains in place until the end of the year, the bounce-back in prices will occur just before the elections.

Although the margin freeze is different from the previous price cap scheme, its impact is likely to be similar. Neither of these measures tackles the root of the problem - high food producer prices, taxes on the food industry, high energy prices and inefficiency - but only imposes constraints on the retailers, at the end of the chain.

The effect will also be similar in the sense that it will mainly put medium-sized domestic retailers (with a turnover of just over HUF 1 billion) in an impossible situation: their financial reserves are lower, and the range of marketed products is narrower than in the case of large players. In other words, the very group of businesses the government verbally intends to put in a better position will be the worst affected.

We expect consumer prices to **rise by 5% in 2025**, amid a significant degree of uncertainty.





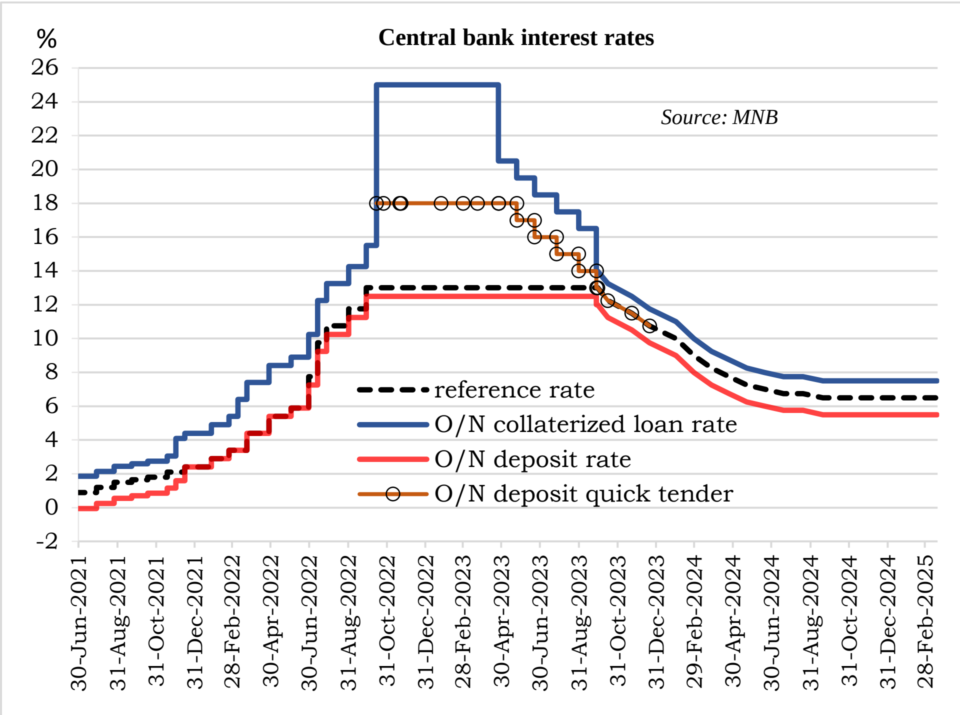
3.6.3. Central bank interest rates

Between September 2023 and September 2024, the **central bank reference rate** was reduced from 13% to 6.5%. This reduction was accompanied by a reduction in the O/N deposit and O/N lending rates. The interest rate corridor remained relatively narrow and symmetric (± 1 percent). From September 2024, the bottom and the top of the corridor have been 5.5% and 7.5%, respectively.

In last October, a base rate of 6% at the end of 2024 seemed to be a realistic outcome, based on the fact that the financial market had not reacted negatively to previous rate cuts. But even then, we noted that a substantial weakening of the forint could upend the easing cycle.

That is what eventually happened: in October 2024, the euro exchange rate started to weaken rapidly. The acceleration of inflation toward the end of the year also made further cuts risky

These two factors will also determine the evolution of the base rate in 2025. Exchange rate trends point towards a weakening, even if amid significant fluctuations, especially due to the disruption of the global economic environment by the US tariff measures. It is virtually certain that the 6.5% base rate remains unchanged in the first half of the year, since inflation remains high in the first months and the exchange rate is expected to weaken. Previously, we did not rule out a rate cut in the second half of the year, but by April 2025 the chances of such a move have been greatly reduced.



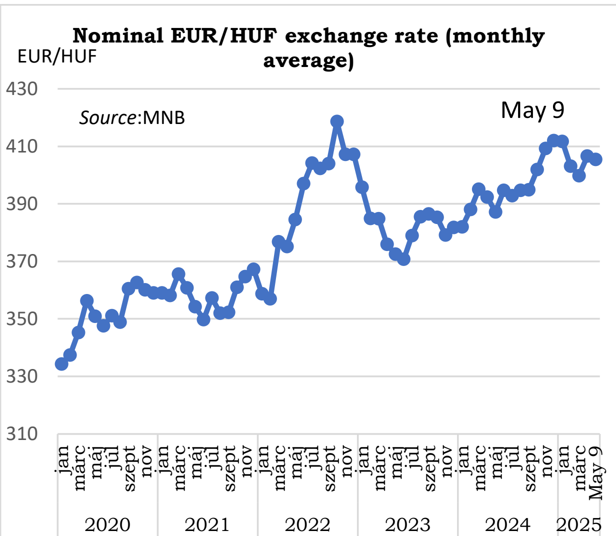
3.6.4. Exchange rate

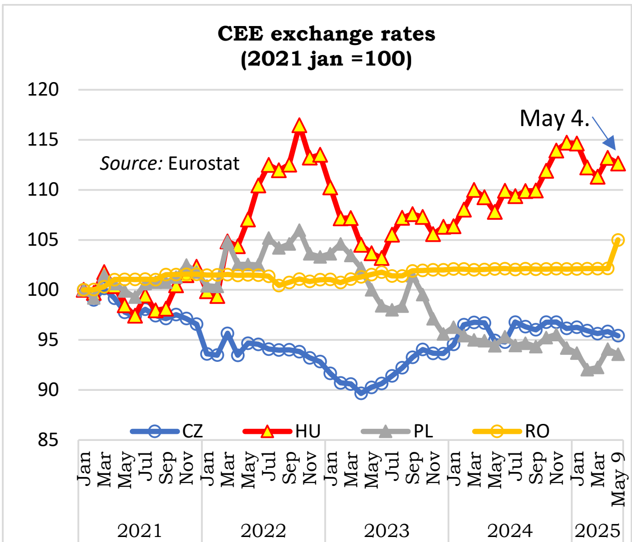
After hovering around 390-400 EUR/HUF from February 2024, the bilateral exchange rate crossed 400 EUR/HUF in September and then rose above HUF 410. In our autumn report, we expected the exchange rate to cross the 400 EUR/HUF threshold before the end of 2024, but the rapid pace of weakening was surprising. Instead of being stuck at a level slightly above 400, the forint kept weakening at eye-popping speed, way above 410 EUR/HUF. This was followed by a mild correction in February and a more pronounced one in March. The average monthly euro exchange rate of the forint dipped below 400, a surprising development, because the earlier crossings of psychological thresholds usually proved final and mostly irreversible.

The trend reversed again at the end of March, with the forint giving way slightly at first, but then more sharply in early April. On 3 April, the day of the launch of the Trump tariff war, the weakening accelerated. Given the global economic turbulence caused by the tariff war, we can expect further weakening rather than stabilization in the coming months.

The Polish zloty stagnated throughout 2024 but it has appreciated since December. The Czech koruna has also changed little since January 2024. The stability of the Romanian leu is supported by continuous central bank intervention.

The imposition of brutal US tariffs, the upheaval of the previous global economic order and the ensuing global uncertainty caused a weakening of most regional currencies in the first days of the shock, but not to the same extent. On 9 May 2025, the zloty, the leu and the forint was still noticeable weaker compared to the average exchange rate in March while the euro exchange rate of the Czech koruna returned to its earlier level by early May.





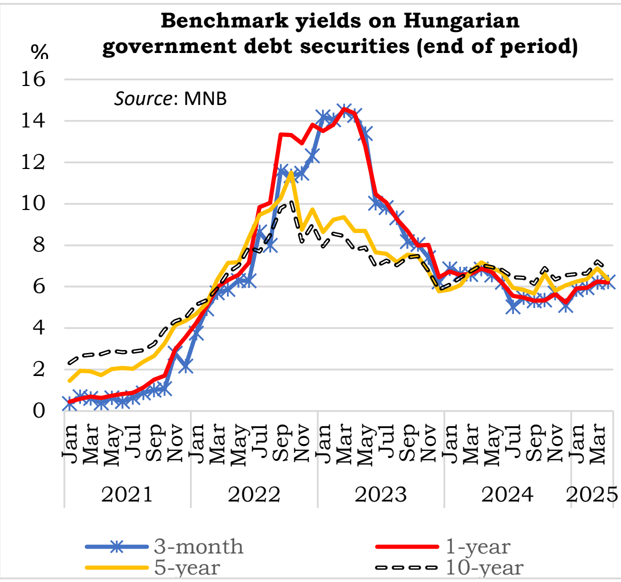
3.6.5. Government yields

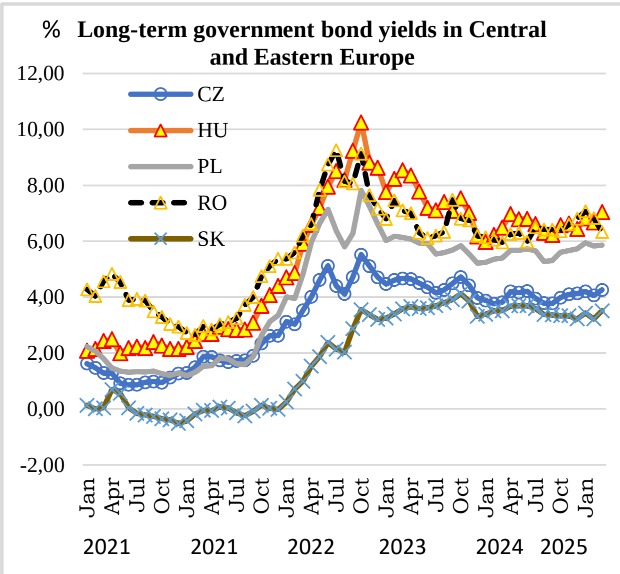
During 2024, benchmark government bond market yields on short maturities declined while long yields essentially stagnated. The 3-month yield fell to 5.1% in December 2024 and the 10-year yield stood at 6.55%. The latter has been alternately lower and higher than this over the year, amid moderate fluctuation.

In the first four months of 2025, yields rose across all maturities, in line with worsening inflation expectations and the weakening of the forint, until March. The rise in yields particularly affected short-term government bonds: between December 2024 and March 2025, the 3-month yield rose by 22% (from 5.1% to 6.2%), the 1-year yield by 19% (from 5.24% to 6.24%), the 5-year yield by 13% (from 6.07% to 6.88%) and the 10-year yield by 10% (from 6.35% to 7.21%). In April, the 3-month yield minimally rose further but the longer yields moderated somewhat.

As a result, the yield curve became even flatter: in April 2025, the difference between the 3-month and the 10-year curves decreased to merely 0.57 percentage point.

The differences between the 10-year government yields of the individual countries within the region has changed little over the past 3 years. Hungarian and Romanian 10-year benchmark yields remain the highest. Between 2022 and mid-2023, Hungarian yields slightly exceeded Romanian yields, but since autumn 2023 they have been approximately at the same level: in March 2025, the Hungarian 10-year yield stood at 7.04% and Romanian at 6.33%. Polish yields have closely followed Hungarian and Romanian yields in recent years, remaining consistently at levels roughly 1 percentage point lower than in the other two countries. Czech and Slovak long yields have been hovering around or somewhat below 4%. It is noteworthy that the long government yields in Slovakia, an euro area member, have been only moderately below the long yields of non-eurozone member Czechia since the beginning of 2023, although in 2021-22 the gap was more substantial, about 2 percentage points.





3.6.6. Business and household lending rates

Due to deteriorating macroeconomic fundamentals, the downward trajectory of both the central bank reference rate and money market interest rates started to flatten out in the second half of 2024, which made an impact on interest rates of household loans and, to a lesser extent, business loans as well.

The interest rate on **business** overdrafts, which is important for working capital financing, has stagnated at around 11% since the second half of 2024, after a decline in the first half of 2024. Banks introduced a voluntary interest rate ceiling on October 9, 2023, under which overdraft rates should have dropped below 10% from January 1, 2024. This drop did not materialize, however – the overdraft rate stood at 11.11% in December 2024 and 10.66% in February 2025.

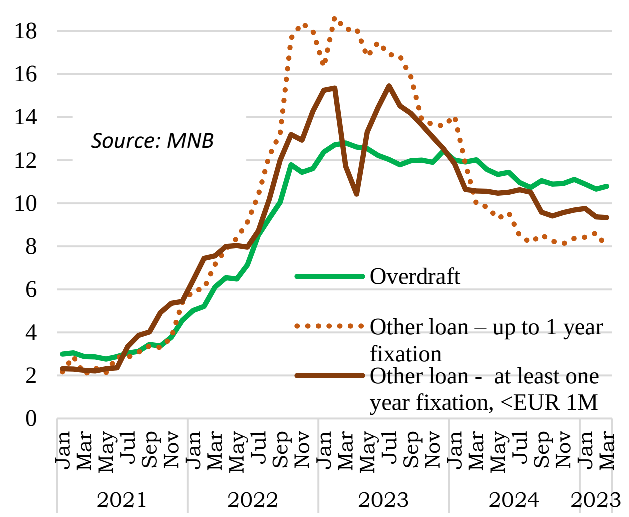
Interest rates on *other business loans* were more volatile. The rate of loans with up to 1 year fixation came close to 8% in August 2024, but it changed direction at the end of the last year and rose again to 8.61% in February. The interest rate on forint loans below €1 million with an interest rate fixation of at least 1 year fell to just below 10% in September 2024 and has remained approximately at that level since then.

The demand for business loans is still stagnating, with a slight uptick in the nominal amount of new overdrafts which was broadly in line with the inflation rate.

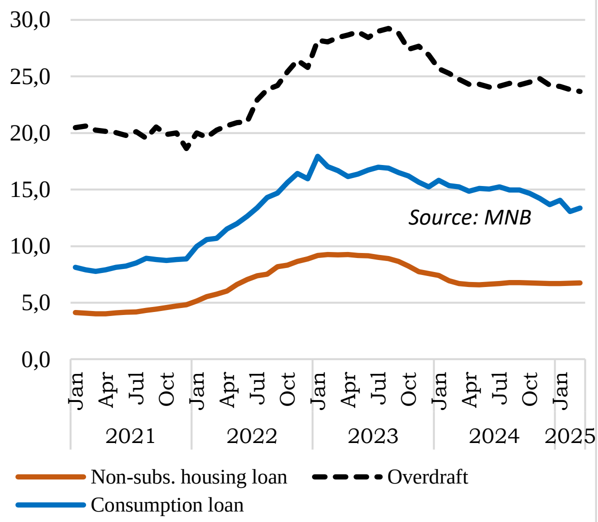
The APR of *consumption loans* to **households** peaked in January 2023 at almost 18% and tendentially declined afterwards, dipping below 15% by the end of 2024. Despite the high interest rates, the amount of outstanding consumption loans was one and a half higher in February 2025 than one year earlier.

The APR of household *overdrafts* decreased substantially in the first half of 2024 but stagnated afterwards, at a level around 25%. The amount of new overdraft loans has been flat for several years now. At the same time, the amount of households' demand deposits and current deposits has been steadily rising (it rose by 16.9% between February 2024 and February 2025, even though interest rate on demand deposits are well below 1% (in February 2025 it stood at 0.21%).

Average annualized interest rate of loans to non-financial corporations
(weighted by the amount of new business, %)



Average APR of loans to households
(weighted by the amount of new business, %)



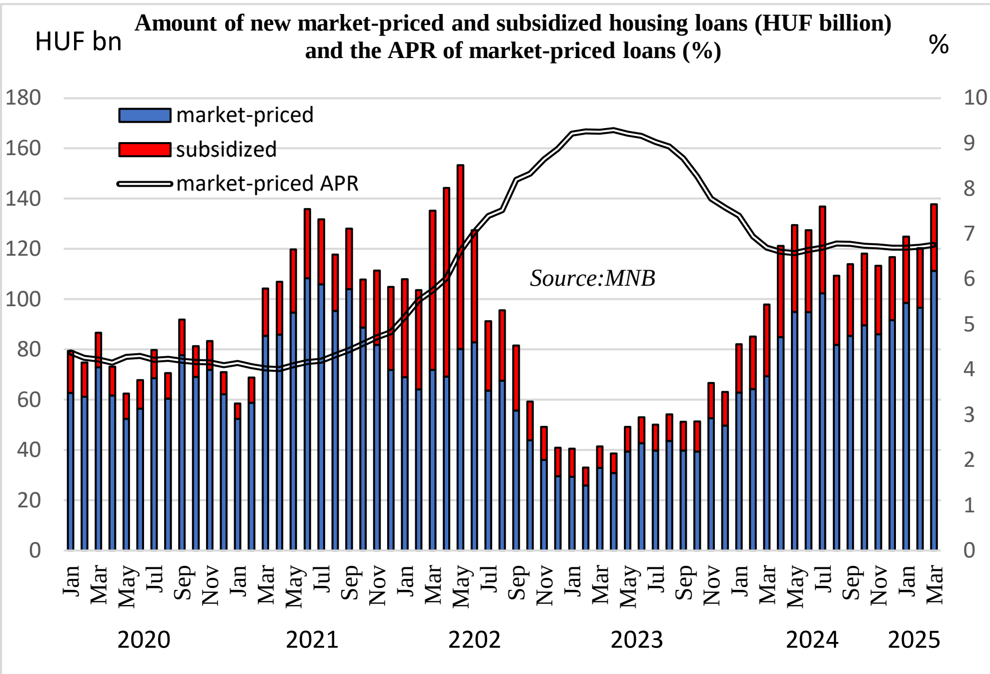
Housing lending

The average annualized percentage charge (APR) of *market-priced* housing loans fell from 7.4% in January to 6.94% in December 2024, and has mostly fluctuated within the 6.7-6.8% range since then. The banks' voluntary interest rate ceiling (APR no higher than 8.5% from October 9, 2023 and no higher than 7.3% from January 1, 2024) has been effectively implemented. At the same time, the APR for subsidized housing loans (where the bulk of the cost is borne by the state) has also decreased, from 13.23% at the beginning of 2023 to 7.98% in December 2024, slightly increasing afterwards.

In September 2024, the Minister of Economy expressed his wish that the banks reduce the APR for housing loans below 5%. This did not happen in 2024, as central bank interest rates also stagnated.

Under pressure from the Minister of Economy, the banks have developed a housing loan scheme with an interest rate below 5% for the period between 1 April and 1 October 2025, but with very strict conditions: it is only available for first-time buyers under 35 years of age, only for energy-efficient (at least A+ rating) properties of less than 60 sqm and for less than HUF 1.2 million per square meter. The fact that most banks fix this interest rate for only up to 5 years makes this lending scheme even more restrictive. Some banks offer a longer fixed term but require that the would-be borrowers apply for state-assisted loan (under the CSOK Plus scheme). It is questionable how much interest this 6-month offer can attract among potential home buyers, considering that the pool of buyers able to meet the long list of conditions is presumably very small.

The government expects that the reduction in housing loan rates will boost housing construction and improve overall housing conditions. The previous rise of housing rates to near-10% levels sharply reduced the households' demand for housing loans. Housing borrowing bottomed out in 2023, with both market and subsidized borrowing falling to roughly half of the level seen in the previous year. In 2024, however, there was a marked recovery, with market-based borrowing more than doubling (from HUF 468 billion to HUF 1,008 billion) and subsidized borrowing rising by one and a half times (from HUF 126.5 billion to HUF 344 billion).



But **78%** of the new loans were still used to finance the purchase of **existing homes**. 11% is used for the construction of new dwellings and just 5.85% financed home construction or expansion. This trend has not changed much for several years now – the share of housing borrowing to finance the purchase of existing homes has even somewhat increased, which shows that the upturn in household lending did not generate a revival of demand for new dwellings. This is partly due to the sizeable price premium of new homes compared to existing homes. The limited supply of new homes also caps demand.

In 2025, the housing lending is expected to rise, partially because of the rising house prices and construction costs. The upturn in borrowing is supported by the MNB's provision that lowered the required equity for the purchase of energy-efficient buildings and also relaxed the rules regarding how large part of the borrowers' income can be spent on debt service. Notably, this also makes the loans riskier. The government also hopes that the temporary measure that makes it possible to use private pension savings for housing purposes tax-free will boost demand for housing loans, although this effect may remain limited.

Economic indicators 2017-2024, forecast 2025-2026 (percentage change)

	2017	2018	2019	2020	2021	2022	2023	2024	2025*	2026*
GDP AGGREGATES, ANNUAL REAL GROWTH										
GDP total	4.1	5.6	5.1	-4.3	7.2	4.3	-0.8	0.5	1.3	2.9
Domestic Demand	5.6	7.3	7.3	-2.5	6.5	4.3	-5.4	0.1	2.3	3.4
Private Consumption	4.9	4.1	4.7	-1.5	4.5	6.6	-0.3	3.5	3.7	3.7
Public Consumption	3.8	4.3	9.6	4.2	2.4	1.3	3.2	-3.9	0.0	0.2
Gross Capital Formation	8.2	17.1	12.2	-7.0	12.5	1.1	-16.7	-6.5	-0.3	4.0
of which: Fixed Capital Formation	19.7	16.4	12.7	-7.3	5.7	0.7	-7.7	-11.1	-0.7	4.0
Export	6.5	5.0	5.5	-6.1	8.3	10.7	1.7	-3.0	1.7	3.7
Import	8.4	7.0	8.2	-3.9	7.4	10.7	-3.4	-4.0	3.1	4.4
PRODUCTION INDICES										
Agricultural Production (gross)	-4.1	2.6	-0.1	-2.4	-1.1	-16.5	25.6	-3.7	0.0	0.0
Industrial Production	4.6	3.5	5.6	-6.0	9.5	6.1	-5.5	-4.0	0.0	4.0
Retail Trade Volume	5.6	6.7	6.3	-0.1	3.7	5.0	-7.7	2.8	3.0	3.0
EMPLOYMENT, EARNINGS										
Number of Employed	1.5	1.3	0.8	-0.9	0.7	1.3	0.6	0.0	-0.1	0.3
Unemployment Rate	4.0	3.6	3.3	4.1	4.1	3.6	4.1	4.5	4.4	4.0
Gross Nominal Wages [a]	12.9	11.3	11.3	9.8	8.9	17.4	14.2	13.2	8.7	8.5
Net Real Wages [a]	10.3	8.3	7.6	6.3	3.6	2.5	-2.9	9.2	3.5	4.8
PRICES, EXCHANGE RATES										
Consumer Price Index	2.4	2.8	3.4	3.3	5.1	14.5	17.6	3.7	5.0	3.5
EUR/HUF Exchange Rate (annual average)	309	319	325	351	359	391	382	395	410	415
EUR/USD Exchange Rate (annual average)	1.13	1.18	1.12	1.14	1.18	1.05	1.08	1.08	1.06	1.06
Short-term Interest Rates (3M), eop	-0.01	0.00	-0.01	0.28	2.16	12.32	6.23	5.10	6.0	5.7
Long-term Interest Rates (10Y), eop	2.02	3.01	2.01	2.08	4.51	8.98	5.86	6.55	7.0	6.2
BALANCE OF PAYMENTS										
Current and Capital Accounts, % of GDP	2.6	2.4	1.2	1.1	-1.7	-6.9	1.2	2.6	1.5	0.5
GOVERNMENT BUDGET										
General Government Balance, ESA-95, % of GDP	-2.5	-2.0	-2.0	-7.5	-7.1	-6.2	-6.7	-5.0	-4.5	-4.5
Gross Government Debt, % of GDP [b]	72.0	68.8	65.0	78.7	76.2	73.8	73.0	73.5	74.0	73.5

a As of 2019, the data encompasses all employers; as for the preceding years, only the enterprises employing at least 5 persons, budgetary institutions and the non-profit organizations that are significant in terms of employment are included.

b Including the balance sheet of Eximbank

* Kopint-Tárki forecast

Source: CSO, MNB

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