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No. 2. 2025

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I. The international economy

The **global economy** continues to be characterized by **general uncertainty**. The unpredictability of US fiscal and trade policy measures is causing uncertainty among businesses. These effects cannot be quantified at this stage, not least because it is impossible to know what tariffs will be introduced and what their impact will be, but the uncertainty itself is already having a dampening effect on growth. It is becoming increasingly clear that the tariff measures will not only have a negative impact on the countries against which they are imposed but will also have negative repercussions for the US. This is partly due to disruptions in production chains and partly because certain products will become more expensive if importers pass on the customs costs to consumers. After all, the tariffs imposed by the US and the retaliatory measures taken by the countries concerned could lead to higher production costs and increased inflation. As things stand now, the US seems to be the bearing the brunt of the China-US trade war more heavily, while the longer-term bilateral restrictions also carry the risk of supply chain disruptions. According to the latest OECD forecast, **global economic growth** could fall below 3% this year and next. Both OECD and non-OECD countries are expected to see lower growth rates in 2025 and 2026 than in the past two years. Largely due to the trade restrictions, both US and Chinese growth are expected to decelerate in 2025-26. According to the latest data, the Chinese economy has proven to be more resilient to the tariff war than previously assumed, but its internal structural problems, slowing wage growth, and in some cases declining wages are making it difficult to maintain growth driven by the expansion in domestic demand. The uncertainties caused by US trade policy remain prevalent. Although a process of adjustment has begun, the unpredictability and constant modification of measures continue to test the patience of economic actors.

The GDP of the **eurozone** rose by 1.3% in the first quarter of this year, and, more importantly, investments also gained some momentum. The first reading suggests that economic growth continued at a roughly similar pace in the second quarter as well. We expect a GDP growth rate of 1% for the year as a whole, which is slightly higher than the rate predicted in our previous report. According to the first estimate, the euro area GDP growth decelerated minimally, by 0.1 percentage point, in the second quarter. The average growth outlook in the EU20 is positively influenced by the fact that Germany appears to be emerging from recession, and the German economy is not expected to contract further this year. Both this year and the next, investment will pick up, albeit moderately, and private consumption will also become more robust. The growth-stimulating effect of the German investment package and rising defense spending everywhere will remain moderate this year but will be more noticeable in 2026. Inflation will remain moderate, gradually approaching the central bank's target.

II. The new EU member states

Due to several factors, we are revising downwards our growth forecasts for the member states in the region. The main reason is the uncertainty caused by the trade war – the disadvantageous, and on top of that, fragile trade deal between the EU and the US is creating serious uncertainty among economic actors. Both companies and consumers are being forced to change their behavior, the effects of which are already evident in the region's economic development.

The increased tariffs are already partially reflected in producer prices. The eurozone import price index rose by around 7.7% between January and April, while the export price index climbed 9%, and this trend is expected to continue even if demand weakens. Although the direct trade relations between Central and Eastern European countries and the US are not significant, indirect exposure is greater, not to mention the multiplier effects.

Another factor holding back growth in the region is the global crisis in the automotive industry, which has been now spreading to lower-level suppliers. This is not unrelated to the tariff war but would have happened even without the US protectionist measures; the latter have merely accelerated the process. This is also indicated by the fact that in the first quarter of 2025, i.e. even before the announcement of the increased tariffs, production in the European automotive industry had already fallen by 3-6% compared to the same period of the previous year. The global slowdown in the automotive industry is being felt most acutely in the Central and Eastern European Member States (probably more painfully than anywhere else in the world).

Save Cyprus and Malta, only Poland is expected to achieve a growth rate of 3% or more in 2025, while the other member states are expected to expand by around 2.5% or less. The region's aggregate growth this year therefore depends almost entirely on Poland. In the other EU13 countries, the growth outlook is clearly worse than it was nearly four months ago, although it is still at least 1 percentage point higher than in the old EU member states. The Baltic states have still not really found their footing: on top of the contraction of the Russian market, they are also significantly exposed to the slowdown in the Swedish and Finnish economies. Romania is still unable to break out of the structural crisis caused by the fiscal missteps of the past years. Real wage increases far exceeding productivity growth have led to a significant expansion in import demand, which continues to weigh heavily on economic growth, while the inflation rate of around 5% has put the central bank between a rock and a hard place.

Growth in the region was 2.2% in the first quarter of the year, a slight increase compared to the annual GDP growth in 2024. According to the first readings, the growth rates may have even accelerated somewhat in the majority of the new member states. We expect a roughly similar growth rate for the whole year within the region, but there are significant downside risks. The fact that the trade war and the downturn in the automotive industry have hit the new EU member states at a time of stronger economic growth makes it possible for them to avoid recession, although growth will be less robust. Inflation accelerated somewhat in the majority of the new member states in the first seven months of the year, due to the uncertainties caused by the tariff war. This year, we expect the average price index for the EU13 to be around 4%, with upside risks.

Table 2/1.

Economic Growth in the EU Member States

(Percentage change of real GDP over the previous year)

	Weight	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	1.4
France	16.5	2.0	-7.4	6.9	2.6	0.9	1.2	0.6	0.9
Italy	12.3	0.4	-8.9	8.9	4.8	0.7	0.7	0.6	0.7
Netherlands	6.1	2.3	-3.9	6.3	5.0	0.1	1.1	1.2	1.0
Belgium	3.4	2.4	-4.8	6.2	4.2	1.3	1.0	0.8	0.7
Luxembourg	0.5	2.9	-0.9	7.2	1.4	-1.1	1.0	-0.1	1.4
Ireland	3.0	5.0	7.2	16.3	8.6	-5.5	1.2	8.1	0.6
Greece	1.3	2.3	-9.2	8.7	5.7	2.3	2.3	2.0	1.9
Spain	8.6	2.0	-10.9	6.7	6.2	2.7	3.2	2.4	2.2
Portugal	1.6	2.7	-8.2	5.6	7.0	2.6	1.9	1.5	2.2
Austria	2.8	1.8	-6.3	4.8	5.3	-1.0	-1.0	0.0	1.2
Finland	1.6	1.3	-2.5	2.7	0.8	-0.9	-0.1	0.8	1.3
Estonia	0.2	3.7	-2.9	7.2	0.1	-3.0	-0.3	2.0	2.5
Slovakia	0.7	2.3	-2.6	5.7	0.4	2.2	2.1	1.6	2.0
Slovenia	0.4	3.5	-4.1	8.4	2.7	2.1	1.6	1.0	2.6
Cyprus	0.2	5.9	-3.2	11.4	7.4	2.8	3.4	3.0	2.5
Malta	0.1	4.1	-3.4	13.3	4.3	6.8	5.9	4.0	4.4
Latvia	0.2	0.7	-3.5	6.9	1.8	2.9	-0.4	1.7	2.5
Lithuania	0.4	4.7	0.0	6.4	2.5	0.3	2.8	2.8	2.5
Croatia	0.4	3.1	-8.3	12.6	7.3	3.3	3.9	2.8	2.5
Euro Area	84.7	1.6	-6.0	6.3	3.5	0.4	0.9	1.0	1.2
Denmark	2.2	1.7	-1.8	7.4	1.5	2.5	3.5	2.4	2.1
Sweden	3.2	2.5	-2.0	5.9	1.5	-0.1	1.0	0.9	1.7
Hungary	1.2	5.1	-4.3	7.2	4.3	-0.8	0.5	0.5	2.9
Czech Republic	1.8	3.6	-5.3	4.0	2.8	-0.1	1.1	2.1	2.3
Poland	4.4	4.6	-2.0	6.9	5.3	0.2	2.9	3.3	3.2
Romania	1.9	3.9	-3.7	5.5	4.0	2.4	0.8	1.7	2.4
Bulgaria	0.6	3.8	-3.2	7.8	4.0	1.9	2.8	2.6	2.7
EU14	87.5	-5.8	-5.7	6.4	3.5	0.4	0.9	1.0	1.2
New EU13	12.5	4.0	-3.3	6.6	4.1	0.8	1.9	2.3	2.7
EU27	100	1.9	-5.6	6.3	3.5	0.4	1.0	1.2	1.4
Memorandum items									
USA		2.3	-2.2	5.8	2.5	2.9	2.8	1.6	1.5
Japan		-0.4	-4.3	2.6	0.9	1.4	0.2	0.7	0.4
United Kingdom		1.6	-11.0	8.7	4.8	0.4	1.1	1.3	1.0
China		6.0	2.0	8.4	3.0	5.2	5.0	4.7	4.3
Russia		2.0	-3.0	5.6	-1.2	3.6	4.1	0.8	0.5
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)

	Weight	2019	2020	2021	2022	2023	2024	2025*	2026*
Germany	23.5	1.4	0.4	3.2	8.7	6.0	2.5	2.4	1.8
France	16.7	1.3	0.5	2.1	5.9	5.7	2.3	1.0	1.7
Italy	14.2	0.6	-0.1	1.9	8.7	5.9	1.1	1.8	1.8
Netherlands	5.1	2.7	1.1	2.8	11.6	4.1	3.2	3.2	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	2.0	1.9
Ireland	1.6	0.9	-0.5	2.4	8.1	5.2	1.3	1.8	1.9
Greece	1.7	0.5	-1.3	0.6	9.3	4.2	3.0	2.4	2.1
Spain	9.2	0.8	-0.3	3.0	8.3	3.4	2.9	2.2	2.1
Portugal	1.9	0.3	-0.1	0.9	8.1	5.3	2.7	1.9	2.1
Austria	2.7	1.5	1.4	2.8	8.6	7.7	2.9	2.9	2.2
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	4.1	3.2
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	2.0	2.0
Cyprus	0.2	0.5	-1.1	2.3	8.1	3.9	2.1	1.5	1.9
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	2.7	2.5
Lithuania	0.5	2.2	1.1	4.6	18.9	8.7	0.8	3.5	2.5
Croatia	0.5	0.8	0.0	2.7	10.7	8.4	4.1	4.0	3.5
Euro Area	84.4	1.2	0.3	2.6	8.4	5.4	2.4	2.1	1.9
Denmark	1.9	0.7	0.3	1.9	8.5	3.4	1.3	1.7	1.8
Sweden	2.7	1.7	0.7	2.7	8.1	5.9	2.0	2.0	2.0
Hungary	1.1	3.4	3.4	5.2	15.3	17.6	3.7	4.8	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	2.0	1.9
New EU13	13.5	2.7	2.7	4.4	13.9	10.8	3.5	4.1	2.9
EU27	100.0	1.4	0.7	2.9	9.2	6.4	2.5	2.3	2.0
Memorandum items^a									
USA		1.8	1.4	4.7	6.6	3.8	2.5	3.2	2.8
Japan		0.5	0.0	-0.3	2.5	3.3	2.7	2.8	2.1
United Kingdom		1.8	0.8	2.6	9.1	7.3	2.5	3.1	2.3
China		2.9	2.5	0.8	1.9	0.3	0.2	-0.1	1.4
Russia ^b		4.5	2.6	5.9	13.8	5.9	8.4	10.0	8.0
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)

	Weight	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	7.6	7.6
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	3.7	3.8	3.6
Belgium	2.4	5.4	6.4	6.3	5.6	5.6	5.7	6.3	6.3
Luxembourg	0.2	5.6	5.8	5.5	4.7	5.0	6.3	6.5	6.0
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	10.1	9.5	8.9
Spain	11.0	14.1	15.2	14.8	13.1	12.0	11.4	10.6	10.0
Portugal	2.4	6.5	6.7	6.6	5.9	6.5	6.5	6.3	6.0
Austria	2.2	4.5	6.4	6.2	4.6	6.4	7.0	7.5	7.3
Finland	1.3	6.4	7.7	7.7	6.7	7.0	8.4	9.1	9.0
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	6.3
Denmark	1.4	5.0	5.3	5.1	4.2	4.8	6.2	6.2	5.5
Sweden	2.6	6.8	8.9	8.8	7.4	7.4	8.4	8.5	7.5
Hungary	2.3	3.3	4.1	4.1	3.7	4.1	4.6	4.4	4.2
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	6.5	6.3
New EU13	22.8	4.1	4.4	4.6	4.1	4.1	4.2	4.1	4.0
EU27	100.0	6.8	7.2	7.1	6.1	6.0	6.0	6.0	5.8
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	2.5	2.5
United Kingdom		3.8	4.5	4.6	3.9	4.0	4.3	4.6	4.6
China ^b		3.8	3.6	4.0	4.2	4.2	5.2	5.0	5.0
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		
	2023	2024	2025			2025		2026
			Q1	Q2	July	2025 May	2025 Aug.	2025 Aug.
GDP aggregates, real growth								
GDP total	-0.8	0.5	0.0	0.1		1.3	0.5	2.9
Domestic Demand	-5.4	-0.1	0.4			2.3	1.4	3.4
Private Consumption	-0.3	3.5	2.2			3.7	3.2	3.7
Public Consumption	3.2	-3.9	7.3			0.0	3.0	0.2
Gross Fixed Capital Formation	-7.7	-11.1	-10.1			-0.7	-4.5	4.0
Gross Capital Formation	-16.7	-6.5	-10.3			-0.3	-4.0	4.0
Export	1.7	-3.0	-0.4			1.7	1.2	3.7
Import	-3.4	-4.0	0.1			3.1	2.4	4.4
Industrial production	-5.5	-4.0	-3.7	-4.1		0.0	-0.7	4.0
Consumer Price Index	17.6	3.7	5.3	4.4	4.3	5.0	4.8	3.5
Employment, earnings								
Number of Employed, growth ^a	0.6	0.0	0.0	-1.0	-0.6 ^e	-0.1	-0.3	0.3
Unemployment Rate ^a	4.1	4.5	4.3	4.5	4.3 ^e	4.4	4.4	4.2
Unit Labor Costs, in EUR ^b	26.1	10.0	7.3			3.5	5.5	2.2
Gross Nominal Wages ^c	14.0	13.2	9.2	9.1		8.7	8.7	8.5
Net Real Wages ^c	-3.1	9.0	3.6	4.3		3.5	3.7	4.8
Savings Rate, % of GDP ^d	6.8	6.9	6.2	5.6		6.2	5.4	5.5
Current and Capital Accounts								
Balance, % of GDP	1.2	2.6	1.5 ^g			1.5	1.5	0.5
General government								
Fiscal Balance, ESA-2010, % of GDP	-6.7	-4.9	-3.9			-4.5	-4.8	-4.5
Gross Government Debt, % of GDP	73.0	73.5	75.3	76.0		74.0	75.0	74.0
Short-term Government Yields (3M), eop	6.23	5.10	6.20	5.95		6.0	6.0	5.7
Long-term Government Yields (10Y), eop	5.86	6.55	7.21	7.04		7.0	7.0	6.5
External assumptions								
Internat. Trade in Goods and Services ^d	0.4					2.7	2.7	3.0
Brent Oil Price (\$/bbl, p. avg.)	82.5	80.5	75.8	68.0	69.5 ^f	76.0	71.0	68.0
GDP Real Growth, Eurozone	0.5	0.9	1.3	1.2		0.8	1.0	1.2
GDP Real Growth, New EU Members	0.8	1.9	2.2			2.6	2.3	2.7
EUR-HUF, period average	382	395	405	404	399	410	403	410
EUR-USD, period average	1.08	1.08	1.05	1.13	1.17	1.06	1.11	1.12

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 May-July

f July-August

g Seasonally adjusted data by the MNB

III. The Hungarian economy

3.1. Macroeconomic situation

In the first quarter of this year, the **GDP stagnated** in annual comparison. This – i.e. the fact that the symbolic growth that had just restarted in the last quarter of last year came to a halt again, instead of accelerating as expected – was a major disappointment. The Hungarian economy's subpar growth performance, which has been trailing expectations for years now, continued in early 2025. The year-on-year stagnation was not an outstandingly bad outcome in the EU – six member states saw a decline in unadjusted GDP – but it is much less favorable than the EU's average growth rate of 1.4%. In addition, the seasonally and working day adjusted GDP was 0.4% lower than a year earlier, and the Hungarian Central Statistical Office (the CSO registered a 0.1% decline compared to the previous quarter. The *second quarter*, according to the *first estimate*, saw a modest about-turn, with a year-on-year growth of 0.1% for unadjusted and 0.2% for seasonally and working day adjusted GDP. On a quarterly basis, GDP was up 0.4% in the second quarter. While this is good news, the degree of the improvement is marginal – on average, the unadjusted GDP still stagnated in the first half of 2025. The components of the second-quarter GDP growth are still not known.

Household income and consumption growth softened in the first quarter

Amidst a polarizing global economy, marred by the uncertainty caused by the trade war and geopolitical crises, private consumption remains the primary driver of Hungarian economic growth. At the same time, the rise in real earnings supporting consumption has slowed in the first quarter, mainly due to moderating nominal earnings growth, but also as a result of an acceleration in inflation. In the first quarter of the year, the growth rate of **net real wage disbursements** (4.2%) essentially halved compared to its previous level. The slowdown is due, on the one hand, to a less drastic raise in the minimum wage than last year and, on the other hand, to the increasingly gloomy corporate prospects. Accordingly, *household consumption expenditures also grew at a more moderate pace than before*, by 4.1% in the first quarter.

This alone could suggest a weakening willingness to consume. However, it should be noted that the *slowdown was much less pronounced than the deceleration of real wage growth*. From this perspective, the data can also be interpreted as confirming earlier expectations that households are becoming less cautious, despite the less than encouraging labor market environment.

Considering that, based on income account data from the GDP statistics, the real value of *households' disposable income* may have grown by less than 2% (mainly due to unfavorable developments in property income), the more than 4% increase in household consumption expenditure can be considered quite dynamic given the circumstances. However, due to the continuing decline in the volume of transfers in kind, *actual household consumption* rose only modestly, by 2.2%.

In line with the above, the households' *current savings* declined in the first quarter, while borrowing continued to grow strongly. According to data from the Hungarian National Bank (MNB), the four-quarter rolling savings rate (as a percentage of GDP) declined to

6.2% from 6.7% at the end of last year. Similarly, net lending according to GDP statistics is also on a decline. In the second quarter, the savings rate declined further, to 5.6%, amid decreasing gross current savings and rising net borrowing. This also points toward a strengthening of private consumption (and, possibly, household investments).

Investments keep falling, export performance underwhelming

A particularly painful aspect of the Hungarian economy's woes in recent years has been the steep downturn in *fixed capital formation*: this decline has been ongoing since the last quarter of 2022, usually at a rate of around 10% or more on an annual basis. This represents a striking divergence from the EU as a whole – even though the shocks that began in 2022 severely affected the entire European Union – as fixed capital formation remained largely flat on average across the EU during the same period.

The first quarter of this year brought no change in this regard: fixed capital formation fell by 10.1%. According to investment statistics from the Hungarian Central Statistical Office (KSH), the decline was more than 14% in the medium and large enterprise sector, stronger than at any quarter of the last year, while the plunge in public sector investment also continued. Investments by micro and small enterprises and households also declined, but at a more moderate pace. In the largest sector, manufacturing, the decline accelerated dramatically, with a fall of around 27% in the first quarter. In a way, this is not surprising, as the export-oriented industrial sector is affected the most directly by the deterioration of the external economic environment and the visible breakdown of global economic framework. At the same time, it is also true that this deterioration occurred even before Donald Trump announced a tariff war in the name of liberating the US from the external trade deficit.

Investments dropped in agriculture, trade, and – as has been the case in almost every quarter since early 2022 – the transport and storage sector, the latter due to the dearth of funds available for transport infrastructure development. However, in the second largest sector, real estate, the CSO registered strong investment growth in the first quarter following last year's decline, the only outlier among the more significant economic areas.

It is worth noting that the fall in investment appears to be linked to a *deterioration in corporate profitability*: the operating surplus fell in the first quarter, particularly in manufacturing and construction, and the gross disposable income of the corporate sector as a whole declined sharply.

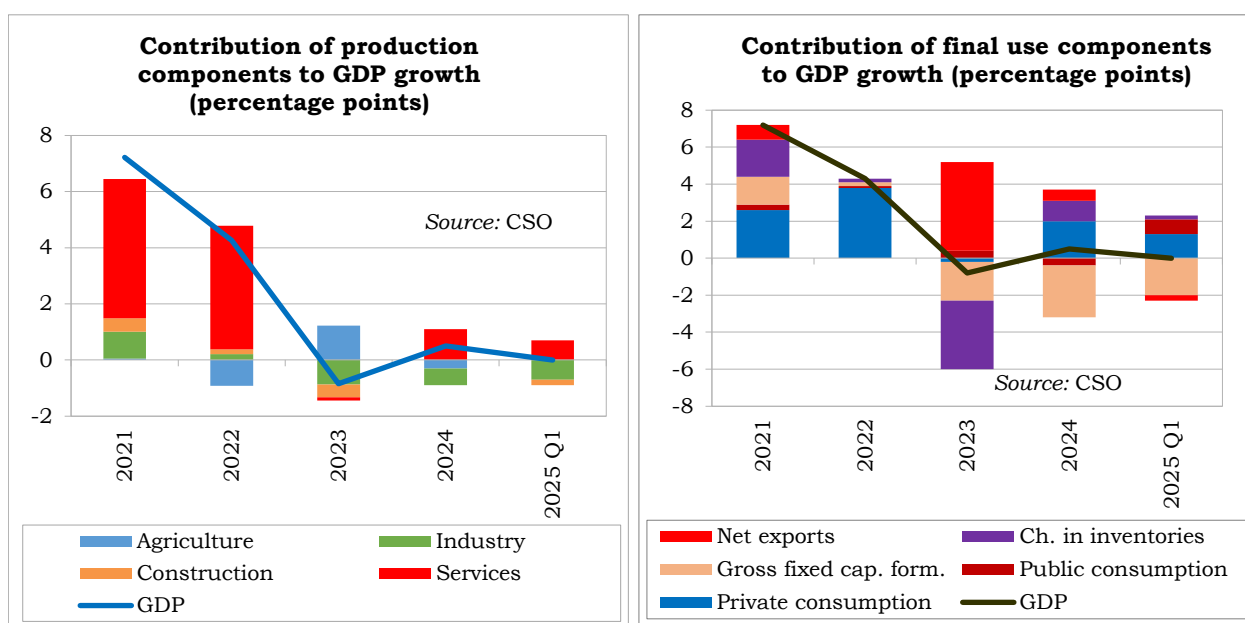
As a result, **final domestic use** grew by just 0.4% in the first quarter of 2025. This symbolic growth was offset by the negative growth contribution of the *net exports of goods and services*. In contrast to the previous two quarters, this time the external trade in services was the culprit – the services exports declined faster than the import of services. However, the export of goods also grew only very modestly, and even this growth was mainly due to a temporary surge in the highly volatile fuels export.

On the **expenditure side** of GDP, consumption supported growth, while capital formation – and to a lesser extent foreign trade – offset the positive contribution of consumption to growth, resulting in zero growth in the first quarter of this year. On the

production side, weather conditions in recent months have raised the possibility that *agricultural* output will undergo a near-catastrophic fall.

There were no signs of recovery in *industry*: in the first quarter, sectoral value added fell by nearly 4%, a higher pace than in 2024 as a whole. According to the seasonally adjusted data by industrial statistics, industrial export sales were stagnating until April at a low level after a decline that lasted until the end of last year but took another downward turn in May and June. At the same time, domestic sales continue to sink, with no sign of eventually reaching the lowest point. The downward trend persists despite the fact that consumer demand already expanded in 2024, which indicates that investment trends are the key factor regarding the fortunes of domestic industrial sales. Among the major manufacturing sectors, only the electronics industry saw strong production growth in the first quarter (with much weaker growth in the chemical and pharmaceutical industries). At the same time, the output declined, to varying degrees, in the food industry and the other three engineering-related sub-sectors (especially the electrical machinery industry, which includes the battery industry).

The decline in *construction* industry performance began in the middle of last year but

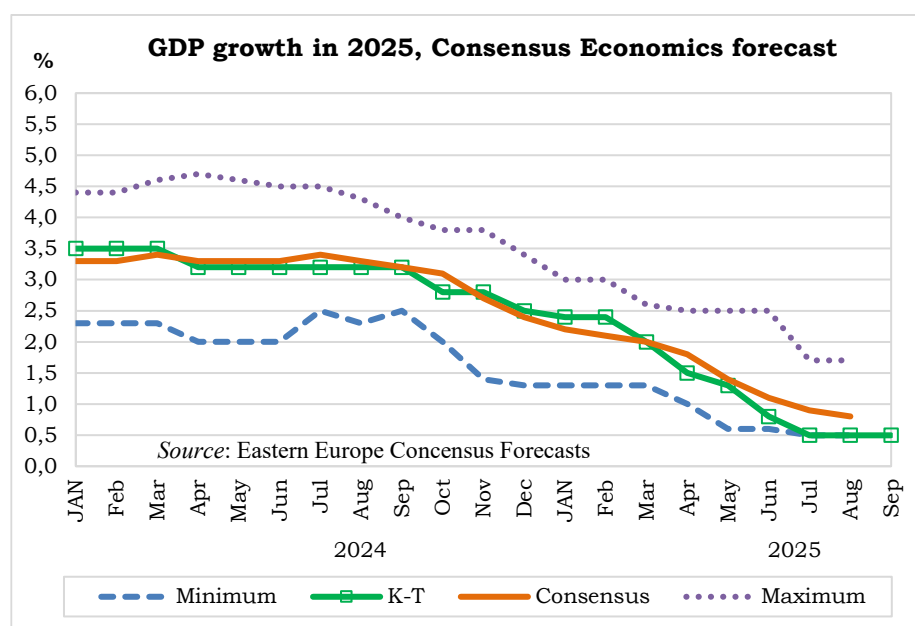


continued in the first quarter of this year at a rate of around 5%. The downturn was much more pronounced in the *construction of buildings*, while in civil engineering the decline has been more moderate and intermittent.

Although *services* continued to expand, the rate of growth (1.1%) was lower than in any quarter of the last year. The slowdown may be related to the more subdued growth in household incomes and consumer demand. The slowdown was particularly significant in tourist accommodation & food services and in the information and communications sector. But even so, performance continued to improve in most other segments of the market services sector, with the exception of information and communication – which seem to have entered a period of stagnation – and real estate transactions.

3.2. Forecast for 2025

In light of the disappointing first quarter GDP data, this year's growth forecasts have become increasingly pessimistic month by month. While at the time of our last report the consensus forecast still projected an annual growth rate close to 2%, by July the average forecast had slipped below 1%, and further souring of expectations is likely. For our part, we currently expect GDP to grow by 0.5% in 2025. The first reading regarding GDP growth in the *second quarter* – unadjusted GDP *almost* stagnated again on an annual basis – continued to paint a less-than-encouraging picture. Although our forecast is lower than the market consensus, even this forecast is not without downside risks.



Our forecast is based on the assumption that GDP growth will start at some point during the second half, following the stagnation in the first quarter and the near-stagnation in the second. Let us examine the factors supporting this assumption.

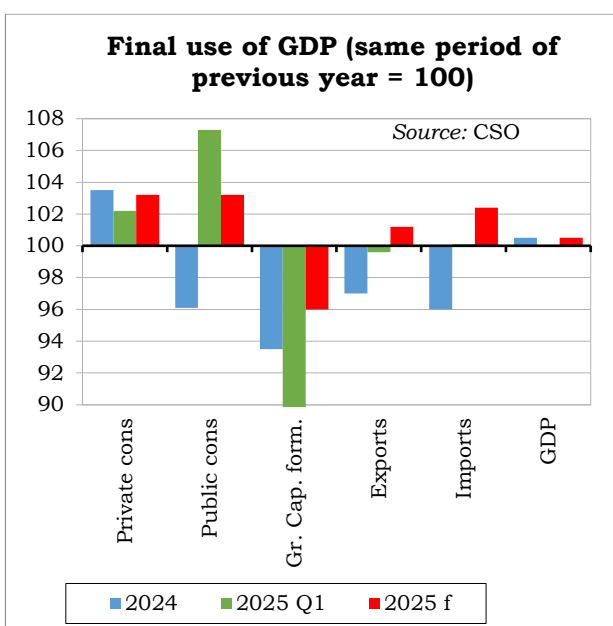
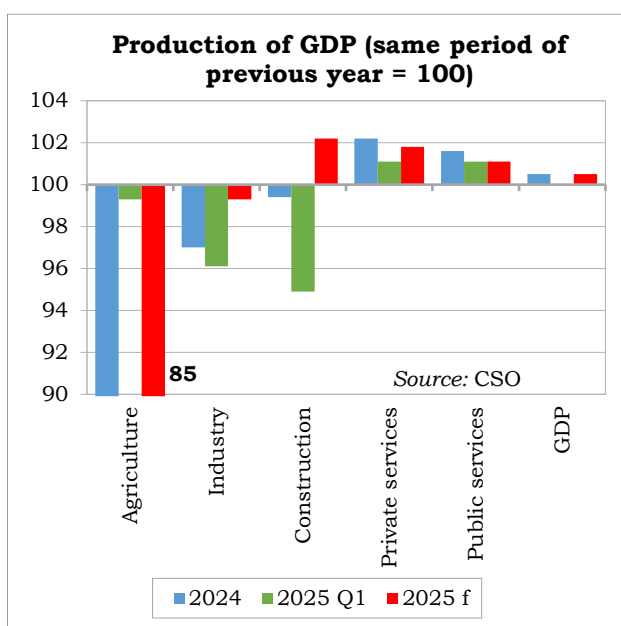
On the **expenditure side**, we expect *private consumption* growth to accelerate compared to the 2.2% recorded in the first quarter. (Although the retail data for the second quarter are not impressive in themselves, they show a noticeable improvement compared to the first quarter.) In the second quarter, the faster real wage expansion, due to the more moderate inflation, will support consumption. In the second half of the year, we cannot expect such an effect from wages, but on the other hand, various demand-stimulating measures will come into effect, such as an increase in family allowances, tax exemptions for mothers with three children, food vouchers for pensioners, etc., which will boost consumer demand. For the time being, we expect private consumption to grow at a rate above 3% in 2025.

Our second assumption is that the rate of decline in *fixed capital formation* will decelerate, and by the end of the year the decline will turn into stagnation or near-stagnation. This is based on the assumption that, while consumption accelerates and exports will return to modest growth, the industrial decline on the production side will also slowly come to an end. As a result, heavy cuts in investment activity will be less

widely seen as necessary among firms, at least in the absence of further negative shocks. This does not mean, however, that an upturn in investments will necessarily come next.

On the **production side**, the chances of *industrial* activity avoiding decline in 2025 have now faded. According to industrial statistics data, the rate of decline in gross production did not even slow in the second quarter compared to the first. During the first half of 2025, only the electronics industry displayed any potential of positive growth in 2025. As for the automotive industry, the outlook has soured again in June – after the slightly more promising spring months – possibly the first taste of what to come due to the worsening of tariff conditions. Moreover, due to the threat of a renewed escalation of the trade war and the general uncertainty, the possibility of even further negative surprises is very real. The fact that CATL has suspended the second phase of its investment in its Debrecen plant, amid persistent-looking demand constraints, suggests that the impact of the activation of the industrial mega-investments on industrial dynamism will also be smaller toward the end of the year than previously expected. We expect an annual decline of about 1.5% for this year. In *services*, we expect the moderate upward trend to become more robust, in line with the expected acceleration in consumption, although there are uncertainties regarding the degree of upturn.

Finally, it should be noted that on the production side, the observed improvement in *construction* activity during the second quarter poses some *positive* risk. Especially civil engineering gathered speed, which is remarkable given the continuing fiscal constraints. How long this will last remains to be seen. The upturn in the housing market, which has been observed for some time, and is about to become stronger due to the Otthon Start program from September, will give some additional boost to building construction in the second half of the year. According to the iBuild database, the volume of *condominium* construction projects *started* in the first two quarters of this year grew rapidly. As a result, the construction sector is by now likely to achieve some positive growth in 2025.



However, all these assumptions are fraught with significant risks which arise primarily from the unstable global situation. The baseline scenario is that the EU, and within it

Germany's economy, is slowly gaining strength, despite the controversial tariff deal with the US – although it continues to suffer from high energy prices, increasing technological lag behind the US and/or China in several industries, and other structural problems. But this scenario may be undermined by further rounds of the tariff war as indicated by threats from Donald Trump in August. On the other hand, trade relations between the EU and China appear to be worsening rather than improving. The latter could have a particularly negative impact on Hungary, whose growth strategy is heavily dependent on the relative stability of existing East-West relations. Any further negative shock from either direction will delay the stabilization in *industry*, *exports*, and *investment*.

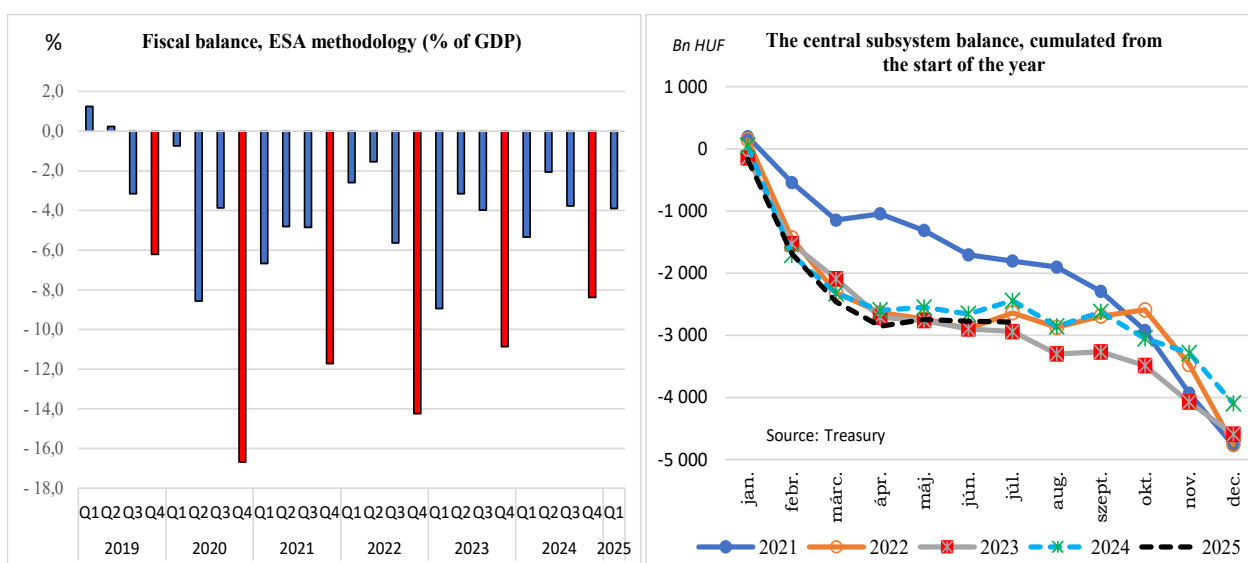
Furthermore, our expectations regarding the strengthening of consumption growth may prove overly optimistic. The potential dampening effect of the renewed slowdown in real wage growth in the second half of the year and by the growing uncertainty in the labor market may be stronger than expected, even amid the stimulating impact of measures aimed at giving a boost to household demand. The increase in group layoffs in recent months, mainly in industry, and the unusually high level of so-called voluntary unemployment may also affect consumer confidence over time. In an unfavorable scenario, the above factors could push the growth rate below the forecast 0.5% and toward stagnation.

3.3. Fiscal developments

3.3.1. Budgetary developments

According to data from the Ministry of National Economy, the cash flow deficit of the central budget amounted to HUF 3,299 billion in the first seven months of 2025. This would have amounted to 66% of the original annual deficit target, but in June, the Ministry of National Economy raised the annual deficit target from HUF 4,214 billion to HUF 4,774 billion. As a result, the deficit accumulated by the end of July was only 58% of the revised annual target. However, due to the significant difference between the cash-based and accrual-based (ESA) deficits in previous years, this still says little about the expected development of the annual accrual-based deficit.

Accrual based data are only available for the first quarter. The central budget deficit was HUF 824 billion in the first three months of the year (3.9% of seasonally adjusted GDP). In contrast, the cash flow deficit was HUF 2,460 billion in the first quarter. The difference is mainly due to interest and budgetary pre-financing settlements related to European Union programs. In the first third of the year, actual interest expenditures amounted to more than HUF 1,550 billion, mainly due to the high inflation-linked yield on PMÁK government securities. However, the pro rata portion of this expenditure was already accounted for in the previous year under the accrual-based methodology, so the ESA deficit was only HUF 820 billion in the first quarter of 2025.



As regards the two main revenue sources within cash flow revenue, taxes on consumption and payments of households evolved roughly in line with the pro-rate trajectory in the first seven months of the year. There is no significant difference between cash-based and accrual-based accounting here. The budget law expects HUF 11 billion from taxes on consumption (mainly VAT) and HUF 5.2 billion from household payments (mainly personal income tax). In the first seven months, HUF 6,304 billion (58% of the plan) was collected from the former and HUF 3,127 billion (59% of the plan) from the latter.

It is noteworthy, though not surprising, that the revenue from the EU programs did not reach HUF 182 billion in the first seven months, which is merely 8.1% of the target. This will cause a significant shortfall in the cash flow-based accounts, but the effect on

the accrual-based numbers will be less dramatic. At the same time, the expenditures related to EU programs also fell short of the plan, but not to the same extent by far: they amounted to 43.8% of the annual plan (HUF 1,326 billion). According to data from the Ministry of National Economy and the Széchenyi program, the largest outlays were made under the Territorial and Settlement Development OP (TOP Plus) and the Human Resources Development OP Plus (EFOP Plus) programs. Forecasting the size of this year's deficit is complicated by the extension of the family tax credit during 2025 and, in particular, the as yet unquantifiable cost of the state subsidy paid for preferential housing loans under the Otthon Start program – provided with an interest rate of merely 3% – which is to be introduced in September.

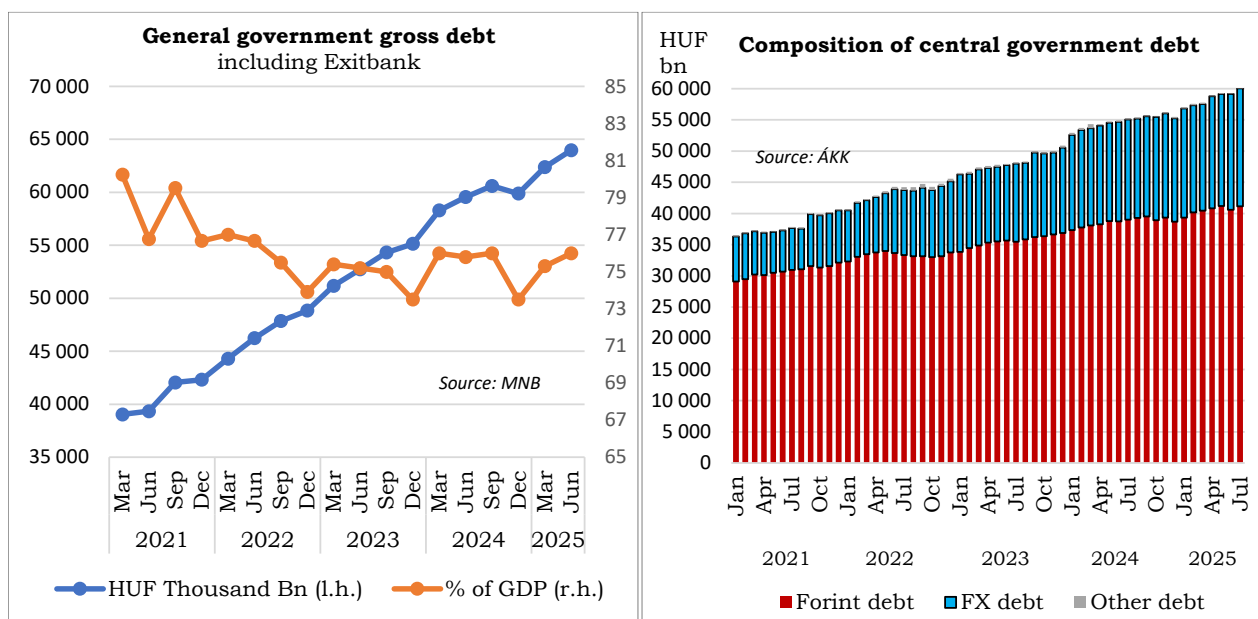
We revise our forecast for the 2025 budget deficit to **4.8%** of GDP, up from the 4.5% projected in our previous report.

3.3.2. Government debt

According to data from the Hungarian National Bank (MNB), at the end of June 2025, the so-called Maastricht debt of the general government (which is the benchmark for the EU debt rule) got close to HUF 64 trillion, which means that the gross public debt is at 76% of GDP again, up from 73.5% at the end of December 2024.

The ratio of foreign currency debt exceeded the 30% limit set by law in April 2025, despite the fact that the strengthening of the forint exchange rate reduced the forint-denominated value of FX debt by approximately HUF 300 billion.

In June 2025, in line with the cash flow deficit target, the Government Debt Management Agency increased the annual net issuance plan by HUF 651 billion from the original HUF 4,123 billion. It intends to reach the new target by additional foreign currency issuances. By the end of the year, public debt could rise to around HUF 65-65.5 trillion, which, based on a GDP of HUF 87,000 billion, could result in a **debt-to-GDP ratio of 74.7%-75.3%**.



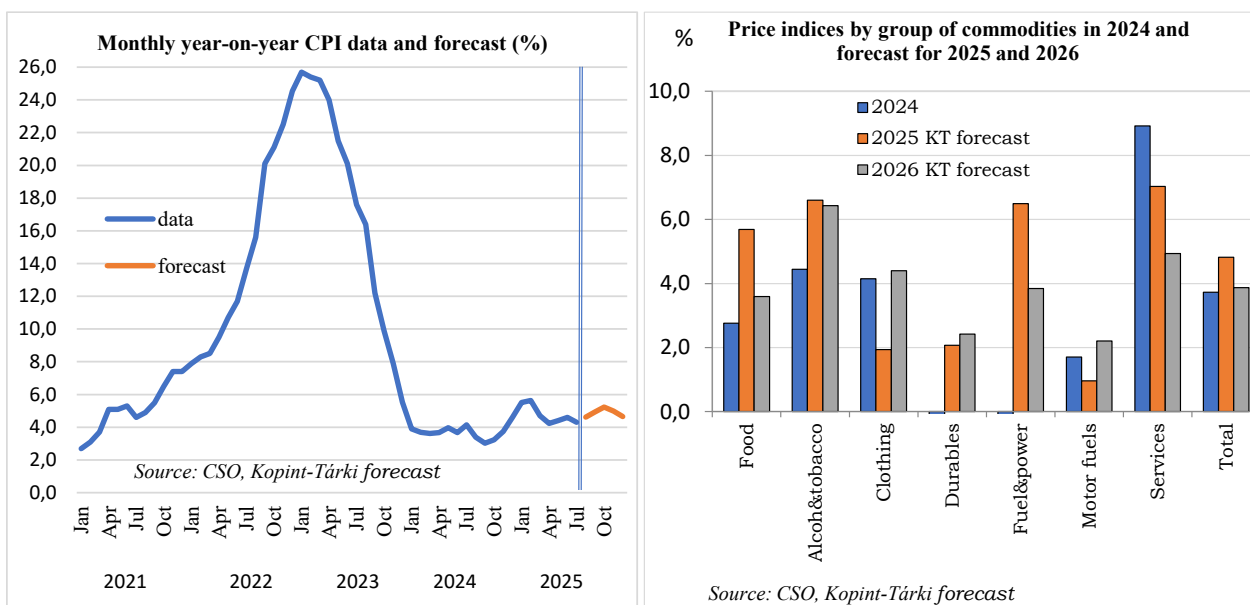
3.4. Inflation

The annual price index of 3.7% in 2024 was followed by a 4.7% average rate of price increase in January-July 2025. From September 2024, monthly indices began to rise, and the price adjustments at the beginning of 2025 were particularly high. Tax increases (transaction tax, fuel tax) also played a role in high inflation rates at the beginning of the year.

Confronted by the 5.6% year-on-year monthly price index in February 2025, the government responded by introducing a margin cap (ÁRS) on March 17, which limited the margin that retailers could charge (often mistakenly referred to as profit in political communications) to 10% for 30 food groups: mainly meat, dairy products, vegetables, eggs, flour, sugar, and later certain hygiene products (and medicines). According to our calculations, the food products subject to the ÁRS may account for approximately 6% of the total consumer basket, while hygiene products may account for 0.5-1%. The latter is particularly difficult to calculate, as the data from the Hungarian Central Statistical Office (KSH) are not structured according to products subject to price caps, and it is not possible to determine from the statistics what proportion of the products concerned are offered by retailers that are not subject to the ÁRS (those with an annual turnover of less than HUF 1 billion). The measure was originally intended to last until May 31, but after two extensions, the deadline is November 30 by now.

The second-quarter inflation data show that the prices of products subject to margin caps fell in April, but month-on-month data for the following months paint a mixed picture, with some products rising slightly again (e.g., sugar). Price caps do not protect against increases in producer prices, and in May there were significant price increases in this area (pork, dairy products, milled products, etc.).

In any case, the average consumer price index of 5.3% in the first quarter was followed by a 4.4% increase in the second quarter and a monthly rate of 4.3% in July. The prices of non-price-capped foods continue to rise slightly, but services prices soared at the highest pace in January-July, by 7%. Even if the monthly price index rises again during the rest of the year, the annual rate will be lower than previously expected. We **revise our annual price index forecast for 2025 downward to 4.8%**.



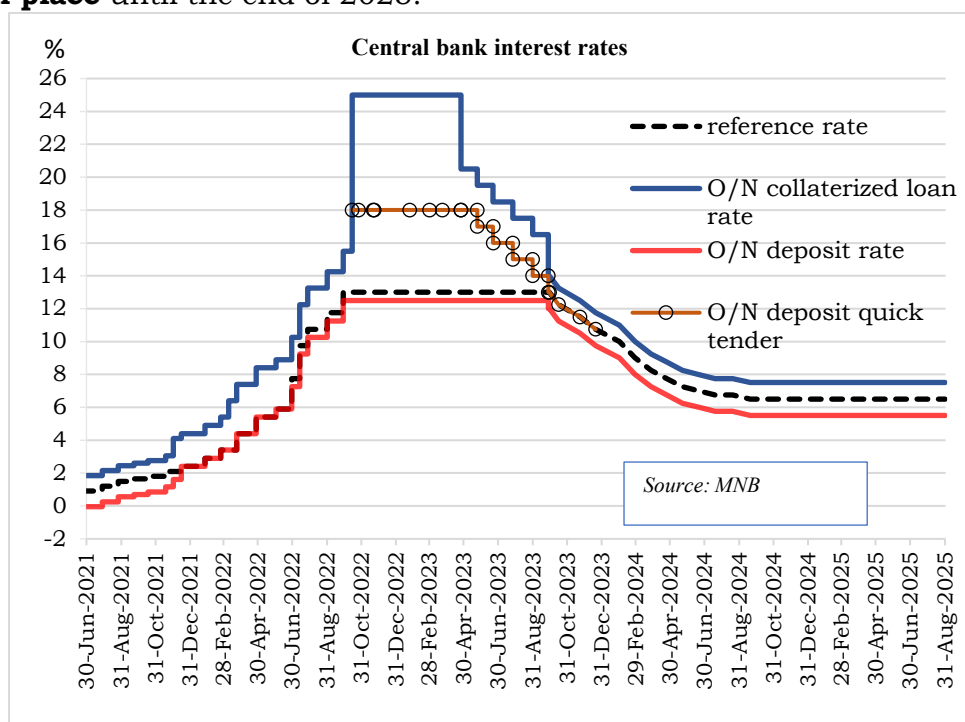
3.5. Central bank interest rates

Between September 2023 and September 2024, the central bank reference rate was reduced from 13% to **6.5%**, and has remained at that level ever since. The interest rate corridor has not changed either: it remained relatively narrow and symmetric (± 1 percent). From September 2024, the upper and lower bounds of the corridor have been 5.5% and 7.5%, respectively.

In last October, the rate cut cycle was halted by the resurgence of inflationary pressures and the rapid weakening of the forint. The threat of rising inflation still remains, even if in recent months it has even moderated somewhat, in part due to the price margin cap. Although the euro exchange rate has returned to the 400 EUR/HUF range from above 410 since the end of last year, the risk of weakening remains.

The unpredictable international trade factors, including the chaotic twists and turns of the trade war initiated by the new US president, create further uncertainty. Experience shows that the forint is extremely sensitive to international trade and financial turbulence.

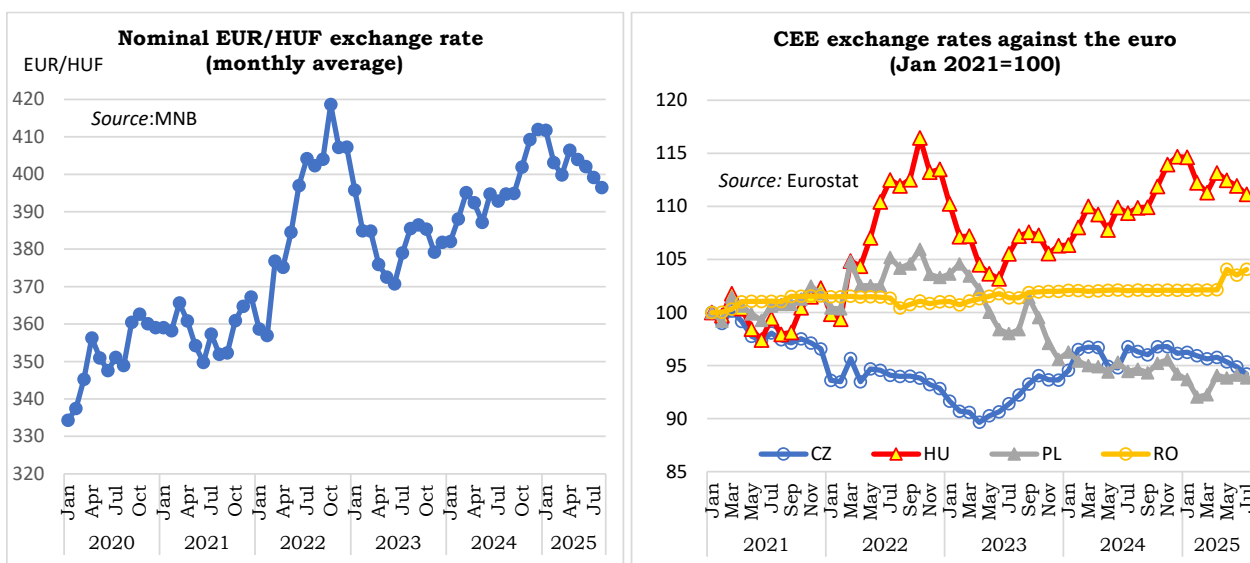
Therefore, we consider it likely that the current central bank interest rate conditions will **remain in place** until the end of 2025.



3.6. Exchange rate

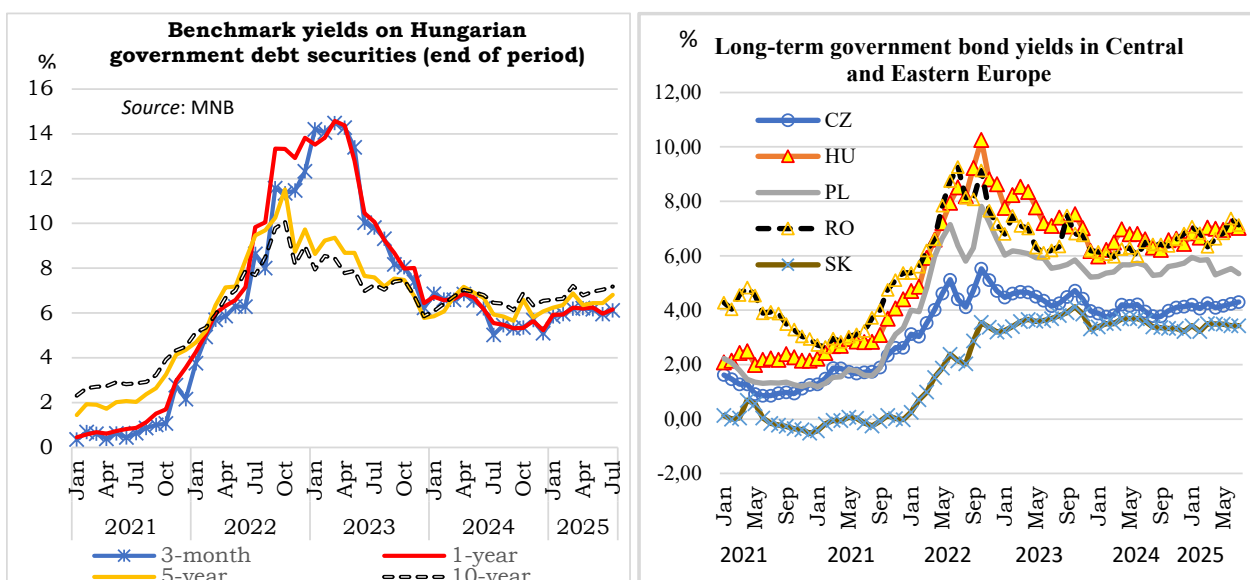
The **euro** exchange rate of the forint passed the 400 EUR/HUF threshold in September 2024, after which it rose very quickly to over 410 forints. This was followed by a slight correction in February 2025 and a more pronounced strengthening in March, with the monthly average exchange rate of the forint falling below 400 EUR/HUF. Since April, the exchange rate has fluctuated around 400. The euro exchange rate in January–August was 403 EUR/HUF.

The other regional currencies have shown only minor movements during the recent months. The Czech koruna has strengthened, while the Romanian leu – following a longer period of stability – has weakened somewhat.



3.7. Government yields

There were no significant changes in Hungarian government bond yields in the first half of 2025. Short-term yields fluctuated around 6%, but the 10-year yield rose above 7% again in June–July 2025. Hungarian and Romanian 10-year government bonds continue to offer the highest yields in the region (and in the EU).



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