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I. International Economy

The outlook for the global economy is relatively bleak. The war in Iran and the threat of a prolonged energy crisis have overturned all previous forecasts. The IMF has pointed out that the world is far less prepared today to handle a serious economic downturn than it was before the coronavirus pandemic. In the wake of the pandemic and the war in Ukraine, most governments' room for maneuver regarding economic policy has became limited, while public debt levels have not decreased significantly anywhere. Meanwhile, tensions among major powers are hindering the international cooperation that is essential for crisis management. The energy crisis could reignite inflation – that was thought to have been defeated – which in turn could lead to further tightening of monetary policy. Uncertainty and the unpredictability of conflict outcomes will go hand in hand with downward revisions of growth forecasts. The OECD predicts a global growth rate of 2.9% this year and 3% next year. This forecast, however, is based on the assumption that the war in Iran will end quickly, energy prices will stabilize, and supply chains will recover. Unfortunately, based on current information, the likelihood of all this happening is diminishing. While the planned increase in defense spending everywhere may contribute to global growth, it will also be accompanied by a rise in individual countries' debt levels, posing new risks for the future.

Currently, the global economy is characterized by both geopolitical uncertainty and the need to adapt. **In global trade**, it is not a collapse in demand but the deterioration of shipping routes, insurance conditions, and the regulatory environment that is causing a shock, particularly due to tensions around the Strait of Hormuz, which is driving up logistics costs and curbing trade expansion.

It is currently difficult, if not impossible, to provide a reliable forecast for the price of **Brent crude oil**. The escalation of the conflict in the Middle East, the war with Iran, the uncertainties surrounding the outcome, and the closure of the Strait of Hormuz have driven prices sky-high. Markets are nervous, reacting to every change with sharp swings, and fears are growing that an oil shortage will occur, with drastic consequences. There is an equal chance that prices will fall as the conflict subsides as there is that high oil prices will remain for an extended period.

The same applies to **gas prices**. Following the two-week ceasefire between the United States and Iran, gas prices began a steep decline, but the new blockade pushed prices upward—normally, about one-fifth of the world's crude oil and LNG traffic passes through the Strait of Hormuz. The frantic position-shifting by various speculative players only exacerbates the volatility of the European gas market. The situation is compounded by the fact that European gas storage facilities are at 30% capacity, and the Commission has called on member states to begin filling them earlier than usual, which also drives up prices.

Logistical and supply risks also dominate the market for **non-energy commodities**: prices for fertilizers, industrial metals, and certain foodstuffs are soaring not due to a classic demand boom, but because of bottlenecks and geopolitical risks.

The **monetary easing** previously initiated by the world's leading central banks is expected to stall. Events in the Middle East are overturning all previous scenarios. Rising energy prices, fears of disruptions in oil and gas supplies, and shipping disruptions affecting fertilizers and certain other raw materials—resulting from the closure of the Strait of Hormuz —are pushing prices upward both directly and indirectly. Central banks

are navigating amid rising inflationary pressure, deteriorating growth prospects, and increasing indebtedness; for now, they are adopting a wait-and-see approach and are not committing to any particular interest rate trajectory. For them, too, uncertainty remains the biggest problem. The ***Fed*** left interest rates unchanged at its April meeting. In its statement, the Fed's monetary policy committee indicated that stronger-than-expected inflation and labor market data could influence the next decision. The ***ECB*** has not changed interest rates since June 2025 and has not committed to any specific interest rate path. The next interest rate decision is expected in May, but there are now voices suggesting a tightening, especially if rising energy prices prove to be persistent and affect medium-term inflation expectations and wage trends.

The **euro** weakened somewhat in March, then strengthened again in early April; the exchange rate is currently 1.16–1.17 EUR/USD. International developments, and particularly changes in energy prices, are significantly driving exchange rate movements. Interest rate decisions by the ECB and the Fed also significantly influence exchange rates. The euro is expected to remain relatively strong, and hectic fluctuations cannot be ruled out.

As usual, **the international environment outside the European Union** presents a mixed picture. Growth prospects for this year have been significantly dampened by the war in Iran and the energy crisis; forecasts have been revised downward, and slower growth is expected across the board compared to last year. Thus, growth in *the United States* will also be slower this year than in 2025; in fact, according to the OECD's forecast, it will decelerate to 1.7% next year, the rate dipping below 2%. There are many signs that the protectionist course launched last year is primarily hurting the U.S. economy. In Japan, the recovery that began last year has lost momentum. Exports are barely growing this year, and investment is driven primarily by domestic demand. Inflation has also begun to moderate, but this trend was interrupted by the energy crisis, which continues to warrant monetary tightening. Thus, in Japan, growth rates of less than 1%—slower than in 2025—are expected both this year and next. In the *United* Kingdom, growth remains sluggish, and no significant acceleration is expected during the forecast period. Expansionary fiscal policy is trying to provide positive momentum to the economy by launching various infrastructure projects, but only moderate results have been observed. The deteriorating external environment and the energy crisis are also having a dampening effect on the British economy. Thus, GDP is expected to grow by 0.7% this year, slower than last year.

The year 2026 is the opening year of China's new, 15th Five-Year Plan: the growth rate is projected to be around 4.5% this year, with a slight slowdown expected in 2027. One of the plan's key messages is that the goal is no longer rapid growth, but rather high-quality, resilient growth. The main emphasis is on stability, resilience, and sustainability. An important objective is to achieve technological self-sufficiency and eliminate dependence on Western technology in the fields of semiconductors, sectors related to the rise of artificial intelligence, quantum technology, and the so-called green industry. In the future, China aims to be not only a manufacturer but also a technological competitor and standard-setter. In addition to causing a sharp rise in energy prices and energy supply issues, the closure of the Strait of Hormuz poses a massive logistical risk for Chinese exports as well.

Moderate growth characterized **the eurozone** in the second half of 2025, with **EU21** GDP expanding by 1.4% in 2025 as a whole. This was driven by the exceptionally dynamic Irish growth rate, which in turn was a result of the activity of pharmaceutical and technology companies. The initially more positive outlook for this year was significantly dampened by the outbreak of the war in Iran and the resulting energy shock. The improving trend of the ESI indicator has been broken; the expected trend for the remainder of the year depends on whether the Iranian conflict is resolved, how long the crisis drags on, how long the blockade of the Strait of Hormuz hinders cargo shipments, what shortages emerge in the markets, whether the oil and gas price increases will be lasting, and to what extent they will be incorporated into prices. As a result, we have revised our previous forecast downward: we now project a eurozone GDP growth rate of 0.9% for this year, while we expect 1.2% growth in 2027. This year, the pickup in exports may provide some momentum, as U.S. tariff measures no longer act as much of a drag as they did last year. At the same time, private consumption is expanding at a somewhat slower pace than before. Expansionary fiscal measures are having a positive impact on investment trends, but uncertainties in the external environment are dampening this effect, so it is no surprise that overall investment growth is much more anemic than it was in 2025. Government spending remains robust. This year, due to various infrastructure developments and increased defense spending, the government deficit will widen in most countries.

Germany's economic outlook has significantly deteriorated by the energy crisis and the consequences of the conflict in the Middle East. Following the last year's minimal growth of 0.2%, economic performance is not expected to be much better this year. The latest spring forecasts from the leading German institutes project a growth rate of 0.6% for this year and only 0.9% for next year, revising downward their forecasts from the beginning of the year. Expansionary fiscal policy can somewhat offset the negative effects of the energy shock; without it, growth would be negative once again. Spending is having an impact primarily in the defense industry, environmental protection, and infrastructure development. The situation for manufacturing companies remains bleak, as clearly shown by the recent drop in the IFO index. Uncertainty continues to hold back private investment, and exports are set to decline again this year due to U.S. tariffs and shipping bottlenecks. All of this is already having an impact on the labor market as well. Employment is expected to decline this year, and only a modest improvement can be expected in 2027.

II. Central and Eastern European New Member States

Our region grew by 2.2% in the fourth quarter of 2025, a favorable outcome given the trends of recent years. Last year, the new EU member states grew by 2.4%, exceeding the average of the old member states. On January 1, the eurozone expanded with a new member, and the Bulgarian lev was replaced by the euro for good. Bulgaria was committed to adopting the euro and likely could have introduced it sooner had the pandemic not prevented it. *Bulgaria*'s adoption of the euro was fundamentally made possible by the fact that, starting in 1997, it operated under an IMF-supported currency board system, which first pegged the lev to the German mark, and then to the euro, thereby creating a credible nominal anchor for curbing inflation and achieving macroeconomic stabilization following the banking crisis and hyperinflationary episode in 1996-97. Consequently, the structural reforms and real economic adjustments implemented over the following decade (particularly the EU accession in 2007 which strengthened trade and capital market integration) substantially supported convergence, although the country remains the poorest member state. The institutional basis for this process was the country's entry into ERM II in 2020, which effectively paved the way for full monetary integration. Although Bulgarian inflation rose above the eurozone average in 2022, this was largely explained by supply-side factors (such as greater exposure to Russian energy imports and the shift away from Russian imports), while the currency board severely limited the scope for independent monetary policy responses from the outset. Another important policy-economic factor was that, due to the currency board, Bulgaria effectively imported monetary conditions from Frankfurt. The deepening of financial integration (the banking regulatory environment, the background provided by the backup lender, and the decline in the required reserve ratio), along with the resulting strengthening of investor confidence, also created a set of "accompanying" conditions that supported a smooth transition. It is therefore not surprising that Bulgarian GDP grew by 3% in the fourth quarter of 2025 and by 3.1% for 2025 as a whole, already pricing in the introduction of the euro.

Regional growth was distributed quite unevenly across member states in the fourth quarter. *Romania* is the only country where the economy contracted in the last quarter, and the annual growth rate was merely 0.7%. Romanian private consumption remains weak because the fiscal tightening has significantly curbed real income growth, and public investment has also slowed. Due to stubbornly high inflation, the central bank had little room to cut interest rates, so monetary policy has remained tight for some time. A silver lining, however, is that fiscal consolidation is successful, and investor confidence is slowly returning to Romania.

The situation is similar in *Slovakia*, where annual growth was just 0.8% (0.9% in the last quarter). Private consumption grew only moderately, hampered by consolidation measures, high uncertainty, and the VAT hike introduced at the beginning of 2025. Meanwhile, the export-oriented economy was held back by weak external demand and the slow and difficult recovery of the German industrial sector. So in 2025, for the first time in many years, net exports may contribute negatively to overall growth, a reflection of the impact of tariffs and trade tensions).

By contrast, *the Czech Republic* returned to growth after two years of struggling, with an annual growth rate of 2.6%. The main driver of growth was household consumption,

supported by a favorable labor market, low inflation, and improving consumer sentiment. The Czech Republic was the only country in the region where inflation remained low: the figure of around 1.8% in April 2025 is notable, as it created more favorable conditions regarding real incomes and confidence, compared to the above-target inflation in most of the other countries in the region. Disinflation and the more stable situation also helped on the monetary front, as by early 2025 the central bank had lowered the rate to 3.25% – while for several other regional central banks, easing could only be considered later and with less room for maneuver – which supported domestic demand.

The investment picture in the region was weak and "mixed" in many places, but in the Czech Republic (along with Poland), investment dynamics have been improving, which provided another growth impulse in addition to consumption. Finally, although the external environment (particularly the German economic situation and uncertainty) dampened foreign trade and private investment, the Czech economy remained surprisingly strong and resilient in the first half of 2025, likely due in large part to consumption and investment that had been postponed over the past two years.

In Poland, growth stood at 3.6%, the highest among the new member states (apart from Malta and Cyprus). Domestic demand was the backbone of growth: in the fourth quarter of 2025, private consumption and investment continued to drive momentum, while GDP grew by 0.8% on a quarterly basis and 3.6% year-on-year. Household consumption remains the strongest driver; households are choosing to consume rather than save, even amid slowing real wage growth, which provides stable support for domestic demand, though it weakens resilience. The other major difference compared to other member states in the region was the strength of investment: fixed capital formation is particularly robust and may become even more dynamic in 2026, largely due to the effective use of the Recovery and Resilience Facility (RRF). This mattered greatly, as investment performance in the region was weak or declining in many other countries during the first half of 2025; thus, where consumption growth was accompanied with strong investment, above-average growth was easier to achieve.

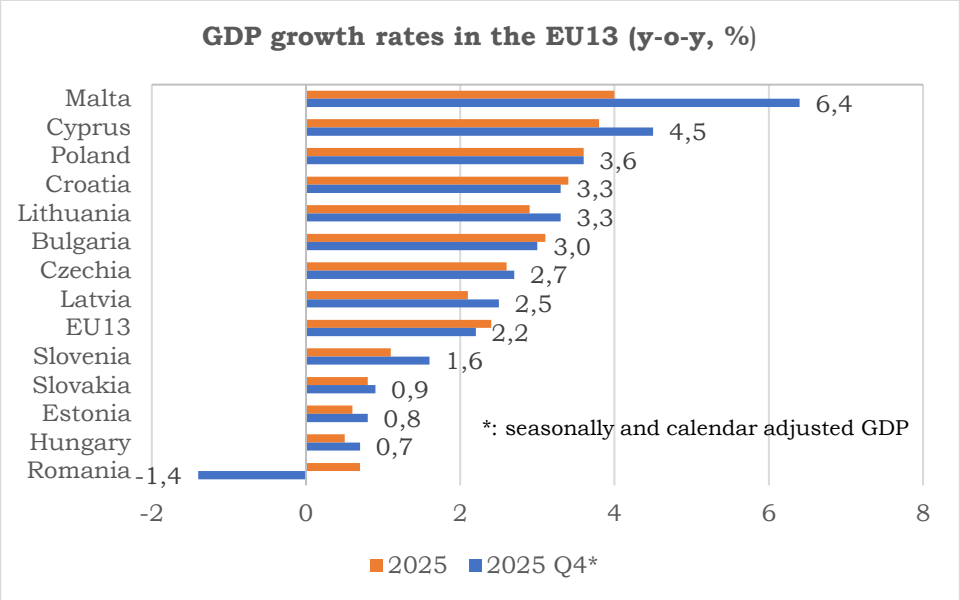


Table I/1

Economic Growth in EU Member States

(Percentage change in real GDP over the previous year)

	Weights	2020	2021	2022	2023	2024	2025	2026*	2027*
Germany	23.8	-4.1	3.9	1.8	-0.9	-0.5	0.2	0.6	0.9
France	15.8	-7.4	6.9	2.7	1.4	1.2	0.8	0.9	1.0
Italy	12.0	-8.9	8.9	4.8	1.0	0.7	0.5	0.5	0.8
Netherlands	6.3	-3.9	6.3	5.0	-0.6	1.1	1.8	1.3	1.2
Belgium	3.4	-4.8	6.3	4.0	1.7	1.1	1.0	0.8	1.1
Luxembourg	0.5	-0.5	6.9	-1.1	0.1	0.4	0.6	1.5	1.6
Ireland	3.4	7.2	16.3	7.5	-2.5	2.6	12.3	-0.7	1.3
Greece	1.3	-9.2	8.7	5.5	2.1	2.1	2.1	2.1	1.9
Spain	9.0	-10.9	6.7	6.4	2.5	3.5	2.8	2.1	1.9
Portugal	1.6	-8.2	5.6	7.0	3.1	2.1	1.9	2.0	1.9
Austria	2.7	-6.3	4.9	5.3	-0.8	-0.7	0.6	0.9	1.3
Finland	1.5	-2.5	2.7	0.8	-1.3	0.4	0.2	0.9	1.2
Estonia	0.2	-2.9	8.3	-1.2	-2.7	-0.1	0.6	2.1	2.4
Slovakia	0.7	-2.6	5.7	0.5	2.1	1.9	0.8	1.2	1.8
Slovenia	0.4	-4.1	8.4	2.7	2.4	1.7	1.1	2.3	2.3
Cyprus	0.2	-3.2	11.4	8.3	3.6	3.9	3.8	5.6	5.2
Malta	0.1	-3.5	13.3	2.6	10.6	7.0	4.0	4.0	3.5
Latvia	0.2	-3.5	6.9	1.9	-0.9	0.0	2.1	1.9	2.2
Lithuania	0.4	0.0	6.4	2.5	0.7	3.0	2.9	2.5	2.5
Croatia	0.5	-8.3	12.6	7.3	3.8	3.8	3.2	2.5	2.5
Bulgaria	0.6	-3.1	7.8	4.1	1.7	3.4	3.1	2.7	2.6
Eurozone	**84.7**	**-6.0**	**6.4**	**3.6**	**0.4**	**0.9**	**1.4**	**0.9**	**1.2**
Denmark	2.2	-1.8	6.5	0.4	0.6	3.5	2.9	2.6	1.9
Sweden	3.2	-1.9	5.2	1.3	-0.2	0.9	1.5	2.2	2.0
Hungary	1.2	**-4.3**	**7.2**	**4.2**	**-0.8**	**0.6**	**0.5**	**2.0**	**2.5**
Czech Republic	1.8	-5.3	4.0	2.8	0.0	1.3	2.6	2.3	2.5
Poland	4.9	-2.0	6.9	5.3	0.2	3.0	3.6	3.6	3.2
Romania	2.0	-3.6	5.6	4.2	2.3	0.9	0.7	1.1	2.3
EU-14	**86.7**	**-5.7**	**6.4**	**3.5**	**0.4**	**0.9**	**1.4**	**1.0**	**1.2**
New EU-13	**13.3**	**-3.3**	**6.7**	**4.1**	**0.9**	**2.1**	**2.4**	**2.6**	**2.7**
EU27	**100.0**	**-5.6**	**6.4**	**3.5**	**0.4**	**1.1**	**1.5**	**1.2**	**1.4**
Memorandum items									
US		-2.2	5.8	2.5	2.9	2.8	2.1	2.0	1.7
Japan		-4.3	2.6	0.9	1.4	-0.2	1.2	0.9	0.9
United Kingdom		-11.0	8.7	4.8	0.3	1.1	1.3	0.7	1.3
China		2.0	8.4	3.1	5.4	5.0	5.0	4.4	4.3
Russia		-3.0	5.6	-1.2	3.6	4.1	1.0	0.6	0.8
Southeast Europe									
Serbia		-0.9	6.7	2.7	3.7	4.0	2.2	3.3	4.2
Turkey		1.8	9.0	5.4	5.0	3.3	3.6	3.4	3.8

* Kopint-Tárki forecast.

EU14 = Countries that joined the European Union before 2004 ('old' member states)

New EU13 = Countries that joined the European Union in 2004, 2007, and 2013 ('new' member states)

Sources: Eurostat, National Statistical Offices, OECD

Table I/2

Inflation in the EU member states

(Harmonized Consumer Price Indices, percentage change over the previous year)

	Weights	2020	2021	2022	2023	2024	2025	2026*	2027*
Germany	24.0	0.4	3.2	8.7	6.0	2.5	2.3	2.8	3.1
France	16.0	0.5	2.1	5.9	5.7	2.3	0.9	2.1	1.9
Italy	13.4	-0.2	2.0	8.7	5.9	1.1	1.6	2.7	2.6
Netherlands	5.2	1.1	2.8	11.6	4.1	3.2	3.0	2.8	2.5
Belgium	3.4	0.4	3.2	10.3	2.3	4.3	3.0	3.2	2.7
Luxembourg	0.3	0.0	3.5	8.2	2.9	2.3	2.5	3.0	1.9
Ireland	1.6	-0.5	2.4	8.1	5.2	1.3	2.1	2.6	2.2
Greece	1.7	-1.3	0.6	9.3	4.2	3.0	2.9	3.2	2.6
Spain	9.5	-0.3	3.0	8.3	3.4	2.9	2.7	2.9	2.1
Portugal	1.9	-0.1	0.9	8.1	5.3	2.7	2.2	2.7	2.0
Austria	2.6	1.4	2.8	8.6	7.7	2.9	3.6	2.5	2.2
Finland	1.4	0.4	2.1	7.2	4.3	1.0	1.8	2.5	2.3
Estonia	0.2	-0.6	4.5	19.4	9.1	3.7	4.8	3.4	2.6
Slovakia	0.8	2.0	2.8	12.1	11.0	3.2	4.2	3.8	2.4
Slovenia	0.4	-0.3	2.0	9.3	7.2	2.0	2.5	2.2	2.2
Cyprus	0.2	-1.1	2.3	8.1	3.9	2.3	0.8	3.7	3.3
Malta	0.1	0.8	0.7	6.1	5.6	2.4	2.4	1.9	2.0
Latvia	0.3	0.1	3.2	17.2	9.1	1.3	3.8	3.0	2.3
Lithuania	0.5	1.1	4.6	18.9	8.7	0.9	3.4	3.0	2.6
Croatia	0.5	0.0	2.7	10.7	8.4	4.0	4.4	3.7	3.5
Bulgaria	0.7	1.2	2.8	13.0	8.6	2.6	3.5	3.9	3.0
Eurozone	**84.8**	**0.3**	**2.6**	**8.4**	**5.5**	**2.4**	**2.1**	**2.7**	**2.5**
Denmark	1.8	0.3	1.9	8.6	3.4	1.3	1.8	2.8	2.3
Sweden	2.8	0.7	2.7	8.1	5.9	2.0	2.6	2.3	2.1
Hungary	1.1	**3.4**	**5.2**	**15.3**	**17.6**	**3.7**	**4.4**	**3.0**	**3.7**
Czech Republic	1.7	3.3	3.3	14.8	12.0	2.7	2.3	2.2	2.1
Poland	5.4	3.6	5.2	13.2	10.8	3.7	3.3	3.0	2.5
Romania	2.4	2.3	4.1	12.0	9.7	5.8	6.8	7.2	3.2
EU14	**85.7**	**0.4**	**2.6**	**7.8**	**5.3**	**2.3**	**2.1**	**2.7**	**2.5**
New EU13	**14.3**	**2.7**	**4.4**	**13.9**	**10.8**	**3.5**	**3.9**	**3.7**	**2.7**
EU27	**100.0**	**0.7**	**2.9**	**9.2**	**6.4**	**2.6**	**2.5**	**2.8**	**2.5**
Memorandum items[a]									
USA		1.4	4.7	6.6	3.8	2.6	3.4	4.0	2.6
Japan		0.0	-0.3	2.5	3.3	2.7	3.2	2.4	1.9
United Kingdom		0.8	2.6	9.1	7.3	3.7	3.4	4.0	2.6
China		2.5	0.8	1.9	0.3	0.2	-0.1	1.3	1.1
Russia[b]		2.6	5.9	13.8	5.9	8.4	8.7	7.8	6.9
Southeast Europe									
Serbia		1.7	3.6	11.7	12.0	4.8	4.0	4.1	3.7
Turkey		12.3	17.8	72.3	53.9	58.5	34.9	27.4	19.8

a Non-harmonized price indices
b December/December
* Kopint-Tárki forecast
EU14 = Countries that joined the European Union before 2004 ('old' member states)
New EU13 = Countries that joined the European Union in 2004, 2007, and 2013 ('new' member states)
Sources: Eurostat, National Statistical Offices, OECD

Table I/3

Unemployment in European Union Member States

(unemployment rate as a percentage of the total labor force aged 15–74, Eurostat harmonized rates)

	Weights	2020	2021	2022	2023	2024	2025	2026*	2027*
Germany	19.8	3.6	3.6	3.1	3.1	3.4	3.8	3.7	3.7
France	14.3	8.0	7.9	7.3	7.3	7.4	7.7	7.4	7.4
Italy	11.6	9.3	9.5	8.1	7.7	6.5	6.1	6.0	6.1
Netherlands	4.6	4.9	4.2	3.5	3.6	3.7	3.9	3.8	3.7
Belgium	2.5	5.8	6.3	5.6	5.5	5.7	6.2	6.2	6.0
Luxembourg	0.2	6.8	5.3	4.6	5.2	6.4	6.5	6.8	6.4
Ireland	1.3	5.9	6.2	4.5	4.3	4.3	4.7	4.8	4.5
Greece	2.2	17.6	14.7	12.5	11.1	10.1	8.9	8.7	8.4
Spain	11.3	15.5	14.9	13.0	12.2	11.4	10.5	10.2	9.5
Portugal	2.4	7.1	6.7	6.2	6.5	6.5	6.0	5.9	5.7
Austria	2.2	6.0	6.2	4.8	5.1	5.2	5.7	5.7	5.5
Finland	1.3	7.7	7.7	6.8	7.2	8.4	9.7	10.0	9.8
Estonia	0.3	6.9	6.2	5.6	6.4	7.6	7.5	7.1	7.0
Slovakia	1.3	6.7	6.8	6.1	5.8	5.3	5.4	5.7	5.7
Slovenia	0.5	5.0	4.8	4.0	3.7	3.7	3.9	3.5	3.5
Cyprus	0.2	7.6	7.2	6.3	5.8	4.9	4.4	4.5	4.3
Malta	0.2	4.9	3.8	3.5	3.5	3.2	3.1	2.8	2.8
Latvia	0.4	8.1	7.6	6.9	6.5	6.9	6.9	6.6	6.5
Lithuania	0.7	8.5	7.1	6.0	6.9	7.1	6.9	6.8	6.8
Croatia	0.8	7.4	7.5	6.8	6.1	5.0	4.9	4.5	4.6
Bulgaria	1.4	6.1	5.2	4.2	4.3	4.2	3.5	3.7	3.8
Eurozone[c]	**78.0**	**7.9**	**7.7**	**6.7**	**6.5**	**6.3**	**6.3**	**6.3**	**6.1**
Denmark	1.5	5.6	5.1	4.5	5.1	6.2	6.4	6.1	6.0
Sweden	2.6	8.5	8.9	7.5	7.7	8.4	8.8	8.0	7.5
Hungary	2.2	**4.1**	**4.0**	**3.6**	**4.1**	**4.5**	**4.4**	**4.8**	**4.5**
Czech Republic	2.4	2.6	2.8	2.2	2.6	2.6	2.8	3.0	3.1
Poland	8.1	3.2	3.4	2.9	2.8	2.9	3.1	3.1	3.0
Romania	3.8	6.1	5.6	5.6	5.6	5.4	6.1	5.8	5.6
EU14	**77.6**	**7.9**	**7.8**	**6.7**	**6.6**	**6.5**	**6.5**	**6.3**	**6.2**
New EU13	**22.4**	**4.4**	**4.6**	**4.1**	**4.1**	**4.2**	**4.3**	**4.3**	**4.3**
EU27	**100.0**	**7.2**	**7.1**	**6.2**	**6.1**	**5.9**	**6.0**	**5.9**	**5.8**
Memorandum items[a]									
USA		8.1	5.4	3.6	3.6	4.0	4.3	4.4	4.4
Japan		2.8	2.8	2.6	2.6	2.5	2.5	2.5	2.4
United Kingdom		4.5	4.6	3.9	4.0	4.3	4.8	5.5	5.2
China[b]		3.6	4.0	4.2	4.2	5.2	5.0	5.0	5.0
Russia[c]		6.0	5.9	3.9	4.5	4.9	5.9	6.5	6.2
Southeast Europe									
Serbia[d]		9.0	10.7	9.5	9.4	8.6	8.9	8.7	8.6
Turkey		13.2	12.8	12.9	10.1	9.3	8.5	8.5	8.5

a non-harmonized unemployment rates
b urban unemployment
c OECD statistics, unemployment rates for the age group 15–64
d national statistical office statistics, unemployment rates for the age group 15–64
* Kopint-Tárki forecast

EU14 = Countries that joined the European Union before 2004 ('old' member states)
New EU13 = Countries that joined the European Union in 2004, 2007, and 2013 ('new' member states)
Sources: Eurostat, National Statistical Offices, OECD

Macroeconomic indicators for Hungary and Kopint-Tárki forecast

(year-on-year change, percentage)

			Data					Forecast		
			2025				2026	2026		2027
	2024	2025	Q1	Q2	Q3	Q4	Q1	2026 Feb.	2026 May	2026 May
GDP aggregates, real growth										
GDP Total	0.7	0.5	*0.0*	*0.3*	*0.8*	*0.8*	*1.7*	2.0	**2.0**	**2.5**
Domestic Demand	0.0	2.3	*2.0*	*1.5*	*2.5*	*3.2*		2.9	**3.7**	**3.2**
Private Consumption	6.4	2.9	*3.3*	*2.1*	*2.9*	*2.9*		3.4	**3.5**	**2.8**
Government Consumption	-6.0	3.2	*-3.2*	*6.8*	*-0.3*	*8.9*		0.5	**0.5**	**0.5**
Gross Fixed Capital Formation	-8.6	-2.8	*-4.2*	*-4.9*	*-2.4*	*-0.2*		2.5	**4.7**	**5.5**
Gross Capital Formation	-11.4	0.5	*2.0*	*-5.5*	*3.7*	*1.3*		2.5	**4.7**	**5.5**
Export	-0.5	-1.1	*-0.9*	*-1.0*	*-0.7*	*-1.7*		1.5	**0.6**	**2.1**
Import	-1.4	1.2	*1.0*	*1.2*	*3.7*	*3.1*		2.6	**2.6**	**3.0**
Industrial Production	-4.1	-3.2	*-3.7*	*-4.1*	*-2.3*	*-2.6*	*1.0*	2.3	**1.3**	**3.0**
Consumer Price Index	3.7	4.4	*5.3*	*4.4*	*4.3*	*3.8*	*1.8*	3.7	**3.0**	**3.7**
Employment, earnings										
Number of Employed, growth [a]	0.0	-0.7	*0.0*	*-1.0*	*-0.6*	*-1.0*	*-1.4*	0.1	**-0.7**	**0.1**
Unemployment rate [a]	4.5	4.4	*4.3*	*4.5*	*4.5*	*4.4*	*4.7*	4.5	**4.8**	**4.5**
Unit Labor Costs, in EUR [b]	9.3	9.7	*7.0*	*7.0*	*7.2*	*9.7*		3.0	**4.3**	
Gross Nominal Wages [c]	13.2	9.0	*9.2*	*9.1*	*9.1*	*8.7*	*14.9*	9.3	**9.3**	**7.0**
Net Real Wages [c]	9.0	4.8	*3.6*	*4.3*	*5.0*	*6.0*	*14.9*	5.3	**6.1**	**3.2**
Savings rate, % of GDP [d]	6.7	4.6	*6.2*	*5.3*	*5.0*	*4.6*	*6.0*	4.6	**4.6**	**4.0**
Current and Capital Accounts Balance, % of GDP	2.1	2.1	*1.4* [h]	*2.6* [h]	*2.5* [h]	*2.0* [h]		1.0	**1.5**	**1.0**
General government Fiscal Balance, ESA-2010, % of GDP	-5.1	-4.7	*-5.9*	*0.4*	*-4.7*	*-8.3*		-4.8	**-6.8**	**-4.8**
Gross Government Debt, % of GDP	73.5	74.6	*75.3*	*76.0*	*75.0*	*74.6*	*77.9*	75.0	**75.5**	**75.0**
Short-term Government Yields (3M), eop	5.10	6.04	*6.20*	*5.95*	*6.10*	*6.04*	*6.39*	6.0	**6.5**	**6.0**
Long-term Government Yields (10Y), eop	6.55	6.79	*7.21*	*7.04*	*6.80*	*6.79*	*7.17*	6.8	**7.3**	**6.8**
External assumptions										
Internat. Trade in Goods and Services [d]								2.3	**2.8**	**3.8**
Brent Oil Price ($/bbl, p. avg.)	80.5	69.1	*75.8*	*68.0*	*69.0*	*63.6*	*80.2*	63.0		
GDP Real Growth, Eurozone	0.9	1.4	*1.4*	*1.4*	*1.4*	*1.4*		1.2	**0.9**	**1.2**
GDP Real Growth, New EU Members	2.1	2.4				*2.2*		2.4	**2.6**	**2.7**
Forint/euro, period average	395	398	*405*	*404*	*396*	*386*	*384*	403	**370**	**370**
Dollar/euro, period average	1.08	1.13	*1.05*	*1.13*	*1.17*	*1.16*	*1.17*	1.16	**1.16**	**1.14**

a ILO methodology, period average, 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 Seasonally adjusted data by the MNB

III. The Hungarian Economy

Introduction

In our previous report, we projected 2% growth for 2026, with downside risks. This was based on the assumption that the three-year decline in investment would come to a halt and even turn into slight growth. By the end of 2025, investment had fallen so low that it was reasonable to expect the decline had already bottomed out. This was supported by the fact that the pace of the decline in investment moderated quarter by quarter throughout 2025, reaching just 1.3% in the last quarter. It was also reasonable to expect a 3–3.5% expansion in household consumption, particularly given the impact of pre-election budget handouts.

However, this forecast was made before the U.S. launched its military attack against Iran. The dramatic impact of the war in Iran on global energy and raw material supplies, as well as the rapid rise in the prices of these commodities, has created a new situation. The turbulent global economic situation caused by the war significantly worsens the growth prospects of the Hungarian economy, which would have justified lowering the 2% forecast to 1–1.5%.

On the other hand, the **change in government** due to the election outcome is creating a new economic policy framework. The new set of conditions has both medium- to long-term growth-stimulating effects (restructuring of economic governance, elimination of corruption, restoration of conditions for a competitive economy, reduction of coercive state intervention and centralization, etc.) and short-term effects. As for the effects on this year, the most important factor in this regard may be the investment-stimulating impact of the release of frozen EU funds which could play a significant role in moving the Hungarian economy out of its deadlock. There is considerable uncertainty in this regard, because meeting the conditions for the funding (the so-called “super milestones”), as well as the EU’s procedure for awarding the funding and the preparation of projects (public procurement), take time. The use of RRF (Recovery and Resilience Facility) funds is particularly urgent this year, as this program must be implemented by the end of August 2026 and accounted for by the end of 2026. Otherwise, the total of 10 billion euros in funds (grants and low-interest loans) will be lost entirely.

According to reports, there may also be a compromise solution that would make it possible to postpone the use of these funds to a later date, through the recapitalization of the MFB. This is financially advantageous, but it would not have a positive impact on economic performance this year. GDP is increased only by development projects that are actually carried out. It is also unclear what stage the preparation of the planned projects is at. For this reason, we have largely factored in the growth-generating effect of the use of European funds only in the last quarter of this year. Furthermore, it cannot be ruled out that the private sector’s willingness to invest will also strengthen as a result of the change in government, through improved confidence in the stability of economic policy.

Our 2% growth forecast for this year therefore entails both downside and upside risks. If the efforts to utilize significant EU funds this year fail, and also the war in Iran escalates, growth could be lower. However, if the new economic policy line yields results sooner than expected, a higher growth rate cannot be ruled out.

3.1. Macroeconomic overview

By the time GDP data for the fourth quarter of last year were released, analysts had few illusions left regarding year-end and annual growth performance. Although the revised **annual growth figure—0.5%**—was slightly higher than the consensus among forecasters in December of last year, overall, the GDP data was in line with the gloomy picture. Although the annual growth rate was 0.8% in both the third and fourth quarters, and for most of the year the seasonally adjusted quarterly volume of GDP approached its previous peak (recorded in the second quarter of 2022), a clear upward trend still did not emerge. The preliminary first-quarter GDP report suggests a trend change early this year, but it is uncertain whether the new momentum will be cut short by the reverberations of the Iran war.

On the expenditure side, the *structure* of growth did not change significantly by the end of the year. The primary driver is domestic demand, but it remains lopsided: while private consumption saw substantial growth, the volume *of investments* declined slightly even at the end of the year. The year-on-year growth ***of household consumption expenditure*** slowed in 2025 compared to the previous year as *real wage growth* decelerated, and then it did not accelerate consistently during the year despite the acceleration in real wages (and, according to sector accounts, disposable income). In the last quarter, both purchased consumption and actual private consumption expanded by nearly 2.9%, which lags significantly behind the simultaneous rise in real wages. Uncertainty stemming from the gradual loosening of the labor market may have played a role in this to some extent.

Gross fixed capital formation continued to decline in the last quarter, although this time the pace of decline was only nominal (-0.2%) and did not exert a measurable downward pull on overall growth, though it did not support it either. According to investment statistics, corporate sector investment—and within that, particularly investment in the manufacturing sector—continues to shrink. The investment appetite of export-oriented sectors remains low, which is not surprising—the overall picture regarding the recovery of the external markets is mixed at best. In several *domestically oriented* sectors (trade, construction, finance), investment increased in the last quarter, but this—combined with a slight expansion in public investment—was only enough to slow the decline in total investment to near-stagnation.

Nevertheless, the significant expansion in private consumption—combined with dynamic public consumption and the once more positive growth contribution of the change in inventories—while fixed capital formation no longer actively weighed upon growth—resulted in total ***domestic demand*** growth to accelerate to 3.2% in the fourth quarter. This is the fastest pace in more than four years. *Still*, GDP grew by only 0.8% in the fourth quarter, because ***net exports dragged on overall growth rate to an extent not seen since 2021***. While goods exports declined throughout the year, the rate of decline accelerated to 2.6% in the fourth quarter, while the growth rate of goods imports slowed only slightly and remained above 3%. The negative gap between the dynamics of goods exports and imports widened to a record level, which the temporary upturn in service exports was far from able to offset.

In other words, while we are currently seeing a strengthening of domestic demand—though this trend is not without uncertainties—the external trade performance actually

appears to be deteriorating, which is by no means an encouraging development for a small open economy. The year-end decline in export performance appears to be due to exports to the EU (but not exclusively to exports to the eurozone). It should be noted that no similar negative shift was observed regarding imports of goods to the EU or the eurozone as a whole, hence Europe-level developments cannot be readily used to explain this unfavorable evolution of Hungarian external trade performance.

On the *production side*, the decline in agriculture slowed significantly, meaning that on an annual basis—despite the unfavorable weather shocks—it weighed only minimally on overall growth. From the second quarter on, the construction sector was expanding—or more precisely, the construction of buildings expanded specifically, thanks to the very low statistical base)—and the growth rate accelerated in the fourth quarter. The much more significant industrial sector continued to shrink, however; according to sectoral data, both domestic and export sales of industrial firms declined. International demand conditions remained unfavorable, but the trends in domestic sales were even more disheartening than those of export sales.

The volume ***of services*** continued to grow, but despite a slight acceleration in consumer spending, the growth rate of services *slowed* significantly (from 2% in the third quarter to 1.2%) in the last quarter. The slowdown—to a greater or lesser extent—affected the vast majority of service sectors, such as trade, tourism, the information and communications sector, etc.

Regarding the outlook for **this year**, one of the key factors is the changes in the factors supporting *private consumption*—the current main driver of growth—and the extent of their impact. On the one hand, the minimum wage increase—which is slightly steeper than it was in the last year—and the raise in the wage minimum for qualified workers at the same rate as in 2025—will have a stimulating effect, while inflation expected to decelerate compared to the last year. In addition, *the one-time bonus* amounting to half-year's wage, paid in February to the members of the "armed" bodies (from the army to the border patrol) provides a dramatic boost to full-year earnings growth, thanks to which the nominal gross wage growth rate recorded for January-February was 18%. Third, the cumulative effect of the several increases in the family tax credit during the last year and at the beginning of this year, as well as the expansion of tax exemptions, will also boost consumption this year through net wage growth. Based on retail data for the first quarter, this effect became spectacular in March, resulting in a year-on-year first-quarter growth rate of 6% in the volume of retail trade. This points to a ***faster consumption growth this year than in 2025***.

It should be noted, however, that these are one-time effects, tied to on-off measures—that is, they are not consumption-stimulating factors that naturally follow from the good state of the economy. The near-stagnation that has persisted for years is limiting businesses' willingness to raise wages, and this may be the force behind the accelerating decline *in the number of employed*. On the other hand, due to severe fiscal pressures, it is possible that the new government will take fiscal stabilization measures in the second half of the year. The question is, how these steps will affect consumption behavior.

The other crucial factor is the issue *of external demand*, as an improvement in the international economic climate, the easing of trade tensions, and, as a result, a new wave of export growth—an event that analysts have been waiting/hoping for in vain for years to occur—would be vital for a new growth trajectory. The scheduled launch of

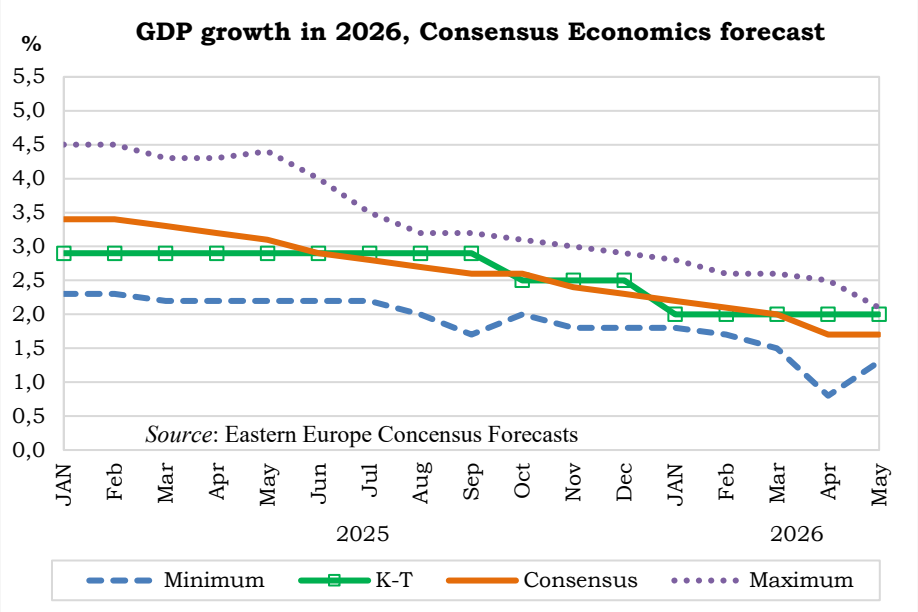
several new automotive and battery industry capacities could provide a boost to industrial and export performance, but without an improvement in the overall external market situation, its overall impact may be limited. Regarding the latter, the preliminary industrial reading for March suggests a non-trivial effect of elevated auto industry production, while the first-quarter external trade data shows no improvement in export performance.

Taking the previous two points into account (income and earnings growth stemming rather from pre-election government measures than from the economy's internal dynamics, as well as uncertain and increasingly uncertain external economic prospects), high levels of optimism regarding a near-term upturn in investment, particularly export-oriented investment, might be unwarranted.

Prior to the closure of ***the Strait of Hormuz***—based on the above considerations—we considered a moderate growth rate of around 2% in 2026 to be realistic. However, due to the war and the closure of the strait, we can now expect a global shock to raw material supply lasting several months even in the best-case scenario, which may manifest itself in drastic price increases and, in some cases, actual shortages that literally bring economic activity to a standstill. On the other hand, the impending ***change of government*** creates previously nonexistent opportunities in Hungary, above all a relatively rapidly launched *new wave of investment*, with the help of EU funds that have been frozen until now.

Also, the recently released *preliminary GDP data for the first quarter of 2026* shows a surprisingly high year-on-year growth rate of 1.7%. Beyond the *services sector*, the CSO cited *industrial growth* as a driving force. Indeed, the preliminary industrial statistics data suggest a sudden upward shift in industrial activity in March, probably due to an upturn in the automotive sector. Also, the retail trade data suggests a sudden jump in consumption in March, likely a result of the above-mentioned stimulus measures by the government.

Due to the favorable first-quarter growth data and the new perspectives emerging in the wake of the election outcome, **we are not revising down our previous growth forecast**: with some luck, **GDP could grow by 2% this year**.



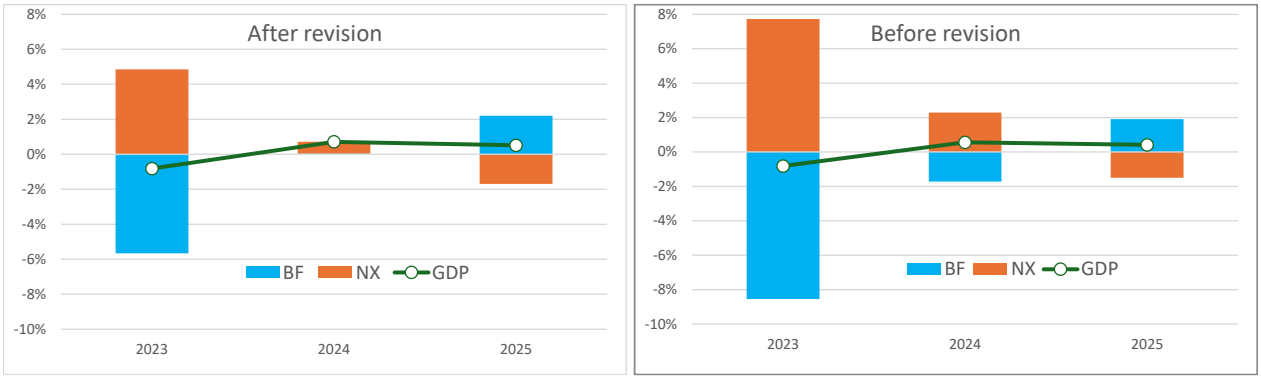
Impact of revisions to GDP components on 2023 and 2024 data: higher growth contribution from domestic use, smaller loss from changes in external trade prices

In early April this year, the Hungarian Central Statistical Office (KSH) significantly revised the previously published *volume* data (measured at previous year's prices) for *the components of* GDP in 2023 and 2024. Levels measured at current prices barely changed, and the revisions affected the overall GDP growth rates by only 0.1 percentage points. In contrast, the deflators for certain items were significantly adjusted, thereby altering our understanding of the processes characterizing the Hungarian economy between 2023 and 2025 in two key respects.

One important change concerns the contribution of domestic consumption and net export (the external trade balance measured at constant prices) to growth. The other: the revision of foreign trade price indices has significantly modified our previous understanding of the country's terms of trade (and thus the gains and losses from external price changes, and consequently the evolution of real gross domestic income).

Below, we illustrate the most important effects of the revisions with two pairs of graphs. The first two graphs show the contributions of domestic consumption and net exports to GDP growth. The second set of graphs in turn shows the evolution of real gross domestic income—that is, GDP growth adjusted for changes in the terms of trade (RGDI)—and its components based on the latest data.[1]

The impact of revisions on contributions to GDP volume change: domestic use vs. net exports



Codes: BF: contribution of domestic demand to GDP growth (percentage points), NX: contribution of net exports to GDP growth (pp), GDP: real change in GDP (%)
Source (for this chart and the next): Own calculations based on CSO data

As shown in the graphs, the negative contribution of domestic consumption and the positive contribution of net exports to economic growth decreased significantly in both

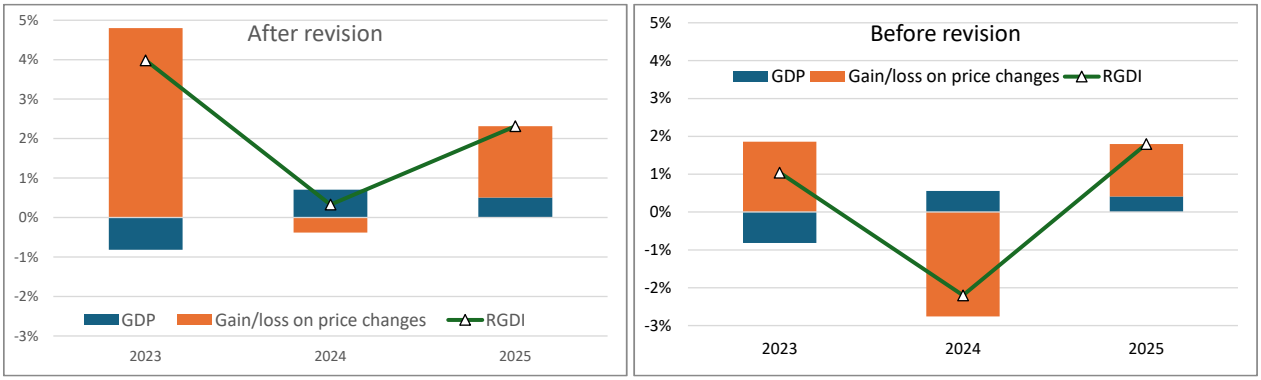
[1] The RGDI (real gross domestic income) is not included in the official GDP statistics, but it is part of the national accounting system (SNA, ESA); however, there is no standard formula for calculating it. We rely on the "command-basis GDP" definition by the U.S. Bureau of Economic Analysis. According to this, the change in RGDI = the nominal change in GDP / the domestic use deflator.

2023 and 2024 due to the revisions, while the growth rate itself remained unchanged or changed only over the same period.

The revision had a particularly strong impact on the numbers regarding external trade price indices. As a result, the data on terms of trade (the ratio of export and import price indices) changed significantly between 2023 and 2024. In 2023, the terms of trade improved by 6% instead of the previously reported 3%, and in 2024, in contrast to the 2.4% deterioration according to the earlier data, the terms of trade remained essentially unchanged according to the revised numbers.

This, of course, also altered our view of the trajectory of terms-of-trade-adjusted GDP (RGDI). The previously published information suggested a change in real gross domestic income between 2023 and 2025 to be 1%, -2.2%, and 1.8%, respectively; based on the revised data, RGDI growth changed to 4.0%, 0.3%, and 2.3%, respectively. The figure clearly shows that while the previous data indicated a very significant difference between the changes in GDP and RGDI between 2024 and 2025, the revisions have eliminated most of this discrepancy.

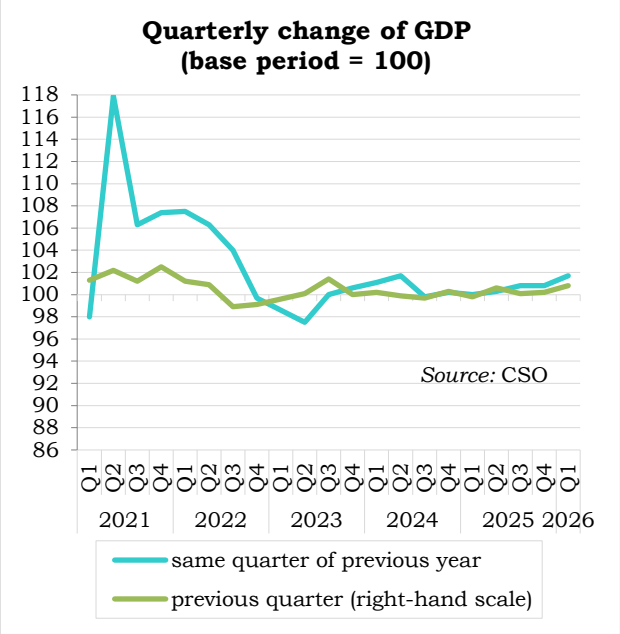
Contributions of GDP volume change and terms-of-trade effects to the change in real gross domestic income (RGDI) (percentage points and percentage change)

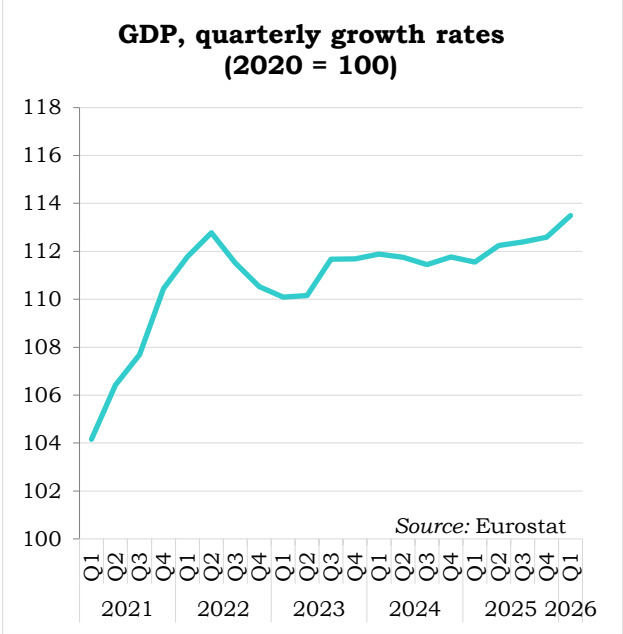


Energy prices, which are expected to be significantly higher this year than last year, point to a deterioration in terms of trade, which is likely to result in a reversal of the relationship between RGDI and GDP growth in 2025; indeed, depending on the extent of the terms-of-trade deterioration, a decline in RGDI cannot be ruled out.

3.2. GDP and Its components

In the fourth quarter of 2025, GDP was up 0.8% year-on-year, the same as in the third quarter. With this growth rate, Hungary still ranks in the bottom third of the EU. The *seasonally and calendar-adjusted* growth rate was 0.7% year-over-year. Compared to the previous quarter, however, GDP volume grew by only 0.2%, a minimal speed-up compared to the third quarter. Overall, Hungary's economy expanded by 0.5% **in 2025**, meaning it actually slowed slightly compared to the previous year. As shown in the chart on the right (on a constant basis), quarterly GDP volume rose just slightly above the 2023–2024 level last year, but we still hardly can speak of a stable upward trend.

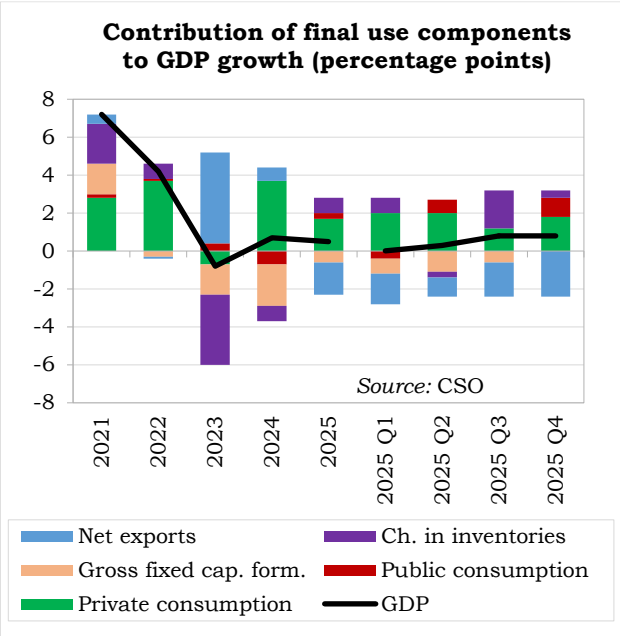


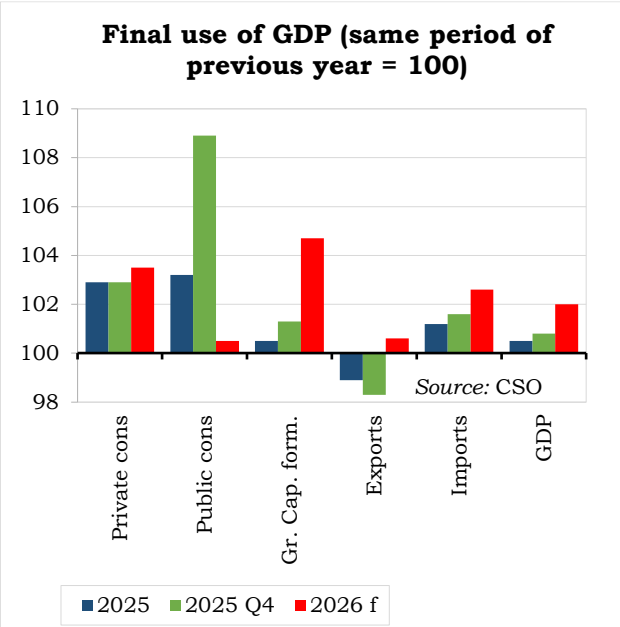


Regarding the latter, question marks remain even after the release of the better-than-expected preliminary data on the *first quarter of this year*.

On the **expenditure side**, the growth rate ***of domestic demand*** accelerated in Q4, reaching a multi-year high (3.2%). This is partly attributable to a certain degree of pick-up in *private consumption* (given the steadily accelerating growth in real wages last year, 2.9% does not seem drastic). Furthermore, the rate of decline in *fixed asset accumulation* slowed to 0.2%—amid modest growth in public investment, investment also rose in most domestically-oriented sectors, while the decline in investment in export-oriented sectors (including manufacturing) continued. Furthermore, *changes in inventories* continued to support growth to some extent even in the fourth quarter. However, the acceleration in domestic final use was driven most significantly by an unexpected surge in *public consumption* (8.9%)—the volume of this component fluctuates erratically and is essentially unpredictable, meaning that the acceleration in domestic demand this time is in part attributable to one-off factors.

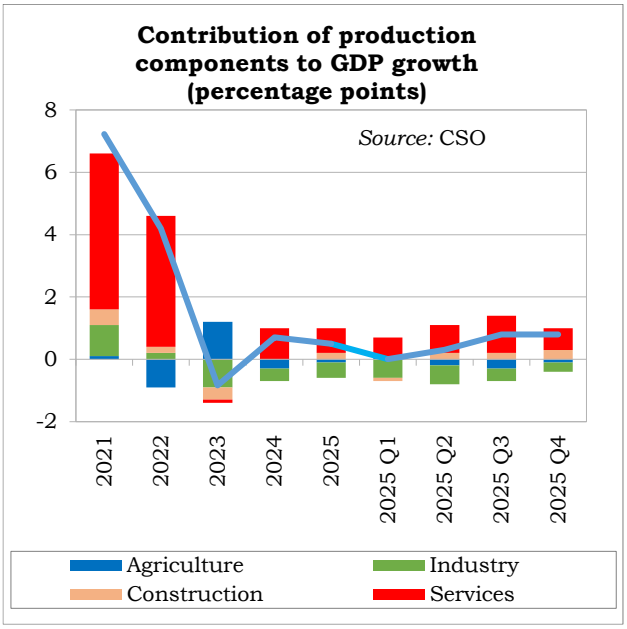
At the same time, however, the negative contribution of the ***net exports of goods and services*** to growth reached a level not seen since 2021. Behind this lies the year-end acceleration in the decline of *goods exports*, which were already shrinking. Not only did earlier hopes for an improvement in external market conditions by year-end prove to be false, but the partial ramp-up of new automotive and battery industry capacities has not yet resulted in a statistically visible improvement in export performance.

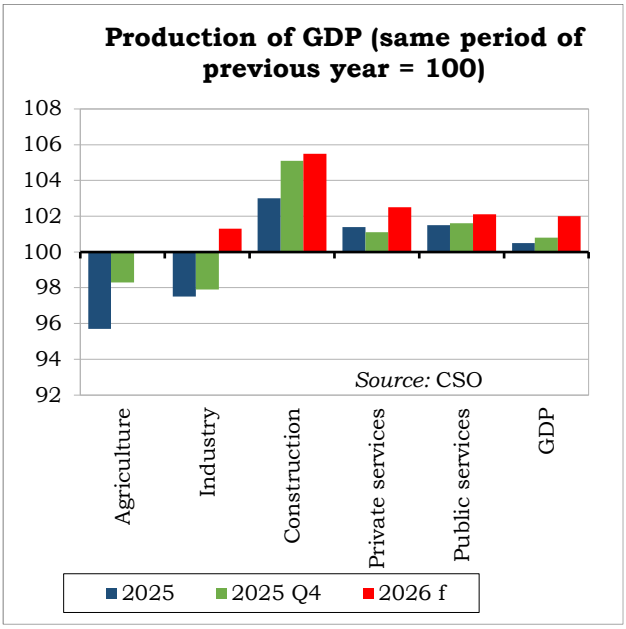




On the ***production side***, the moderate decline in industry continued in the fourth quarter. According to industrial statistics, the uptick in domestic demand appears to have left domestic sales unaffected—even as the decline in investments has shifted to near stagnation. Meanwhile, amid continued turbulent external economic conditions, the decline in export sales also continued. In the construction industry, the volume of value added grew in the last quarter as well, although the growth was limited to the construction of buildings, and given the industry sentiment and the trend in orders, it is unclear how sustainable this growth will be. A positive development in the last quarter was that the pace of decline in agriculture slowed significantly, so the sector's performance did not decline drastically on an annual basis.

Alongside the less significant construction sector, *services* are once again the primary driver of growth. However, the growth of services slowed (from an already modest 2% to 1.2%) in the fourth quarter, and this slowdown was relatively broad-based. This is noteworthy, as consumer demand strengthened somewhat at the same time.





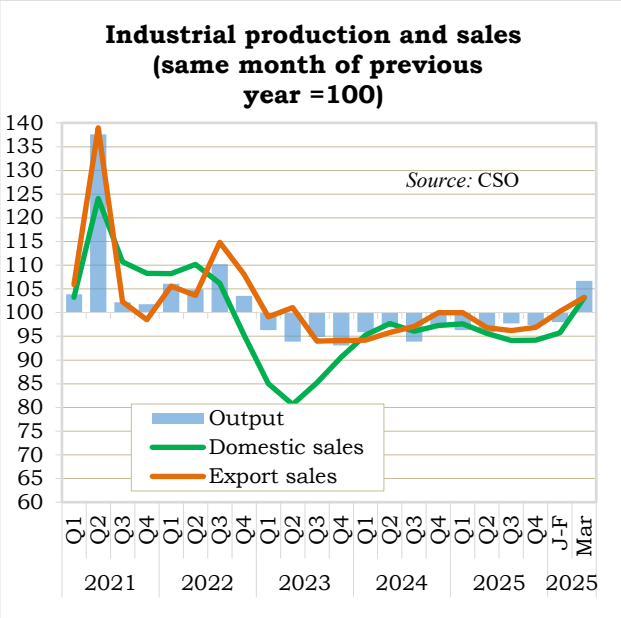
In the first quarter of 2026, a surprisingly high growth rate of 1.7% was recorded, apparently driven by services and a sudden upturn in industry toward the end of the quarter. On the expenditure side, consumption growth may have become much steeper, but also the net export position worsened even further.

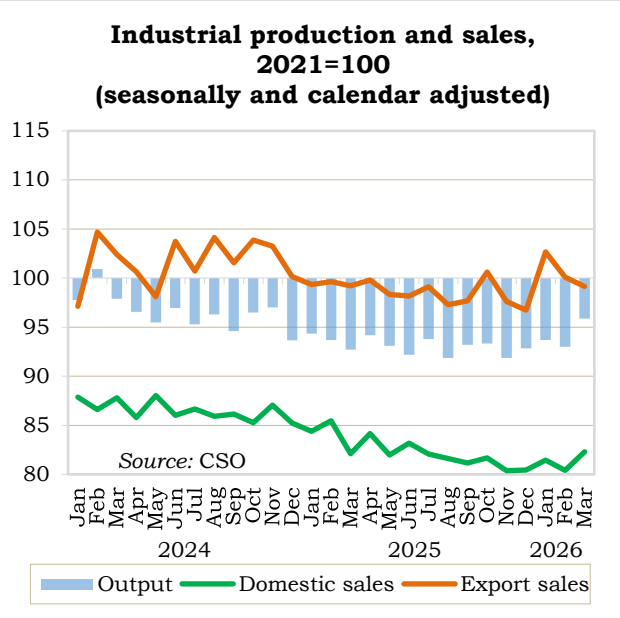
For the year as a whole, we can expect the intersecting effects of various accelerating and decelerating factors, and it is not easy to estimate to what extent the Hungarian economy will improve as a result. Consumer demand is being stimulated by numerous income policy measures (minimum wage increases, cash handouts, tax breaks, and exemptions). At the same time, the war in Iran and the closure of the Strait of Hormuz are dealing a serious blow to external demand—which was already weak and has been strengthening only slowly and inconsistently—as well as to the global supply of raw materials, and Hungarian export performance will certainly feel the impact of this. Based on the above, we would have good reason to view this year's investment outlook with some skepticism, even if the relatively strong first-quarter growth is taken into account. However, since April 12, new prospects have opened up for economic growth, provided that the new government is able to quickly mobilize EU funds that have been frozen until now and give a strong boost to public investments *already this year*. The latter could also have a galvanizing effect on part of the corporate sector. Thus, overall, even in the now very gloomy external economic environment, we consider **GDP growth of around 2%** in 2026 to be plausible. In 2027, the growth rate could accelerate to around 2.5%.

3.3. The production side of GDP

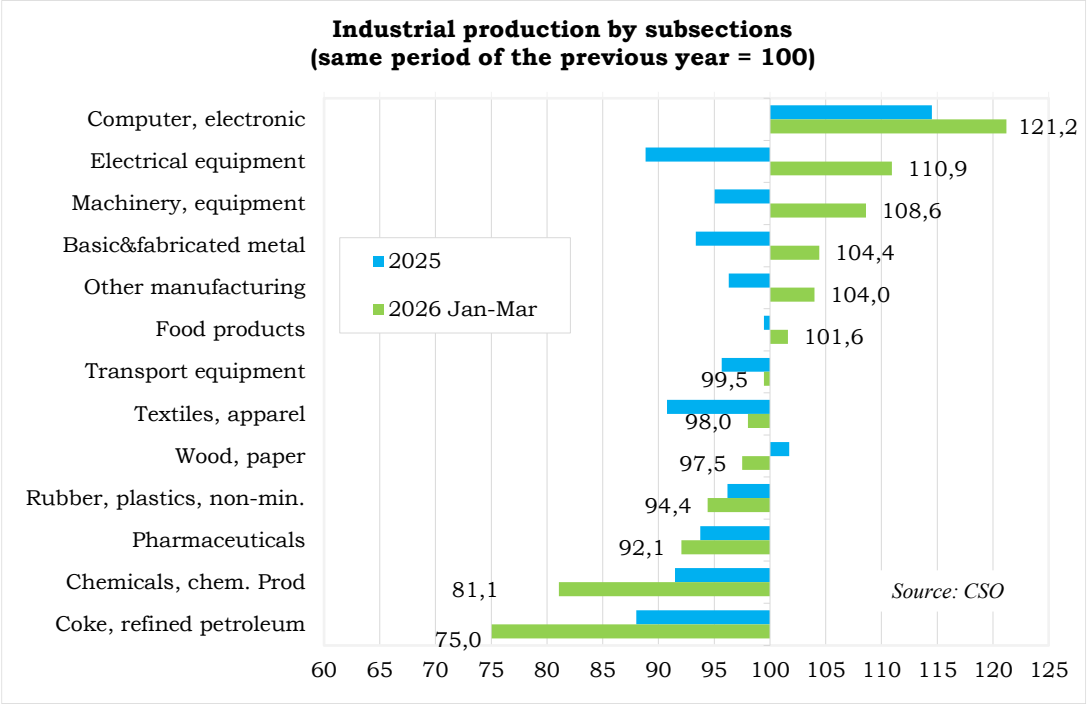
3.3.1. Industry

The decline in industry continued throughout last year, although the pace of the decline slowed somewhat toward the end of the year. In the last quarter, production contracted by 2.6%, while both domestic and export sales declined. Data for the first two months of this year did not indicate a sharp reversal either: in January–February, production volume was 2% lower than a year earlier. Seasonally and working-day adjusted monthly volumes suggested that the decline was turning into stagnation. The situation seems to have changed in March, with a year-on-year growth rate of 6.7%. Even if about half of this growth rate was due to the calendar effect, the seasonally and calendar adjusted data also shows an upturn, with a monthly production volume that surpassed every month in 2025. It is to be seen whether this upturn will be lasting—the volume of industrial sales, especially export sales, did not replicate the sharp improvement seen in production. Domestic sales, however, seems to have come out of its coma state in March.





By sector, the decline in *the electrical machinery industry*—which includes battery manufacturing—was clearly the main drag on the sector in 2025: although the sector's performance began to improve in the second half of the year, it declined by approximately 11% on an annual average. Thanks to the low base, the year-over-year growth rate was 11% in January–February in the electrical product industry, but within this sector, battery manufacturing output alone increased by as much as 28%. The year-on-year decline in vehicle manufacturing, the country's largest industrial section, slowed to merely 0.5% in the first quarter, and—assuming optimistically that the ramp-up of newly built capacity continues beyond March, and the Hormuz shock does not deal a knockout blow to the sector—the vehicle industry output is likely to grow this year. As for the rest of the year, it is a positive sign that about half of the manufacturing sectors (including all of the engineering sectors) recorded year-on-year growth in March even if the calendar effect is filtered out. Due to the decline in the first two months before, however, the average growth rate in the first quarter was still negative for the majority of manufacturing sectors.



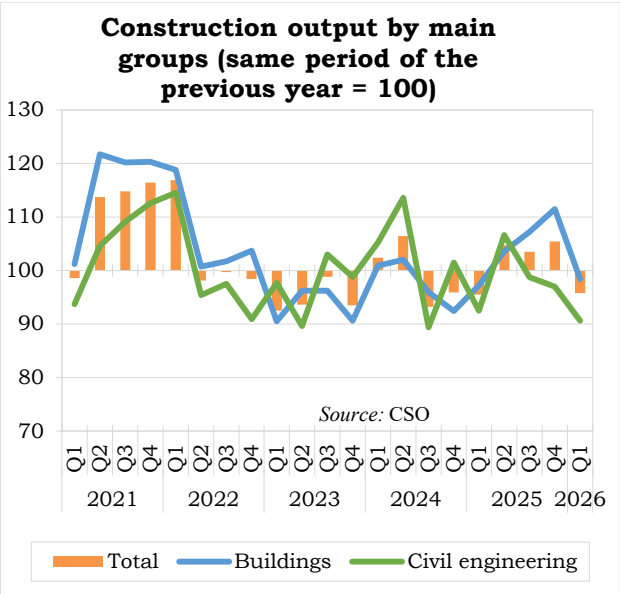
The outlook for this year is even more uncertain than before. While the combination of growing European demand for cars and the newly introduced domestic production capacities may drive industrial growth upward, the overall economic outlook for Europe is not rosy. The U.S. tariffs cause strife among European producers and remain a source of uncertainty. Moreover, the global commodity market shock caused by the war in the Middle East will severely limit European industry's growth potential—though it remains unclear how much and for how long. Thus, our current forecast of **1.5–2% industrial growth** is not immune to the negative risks arising from the expected difficulties in the raw materials market, even if some positive surprises are also possible.

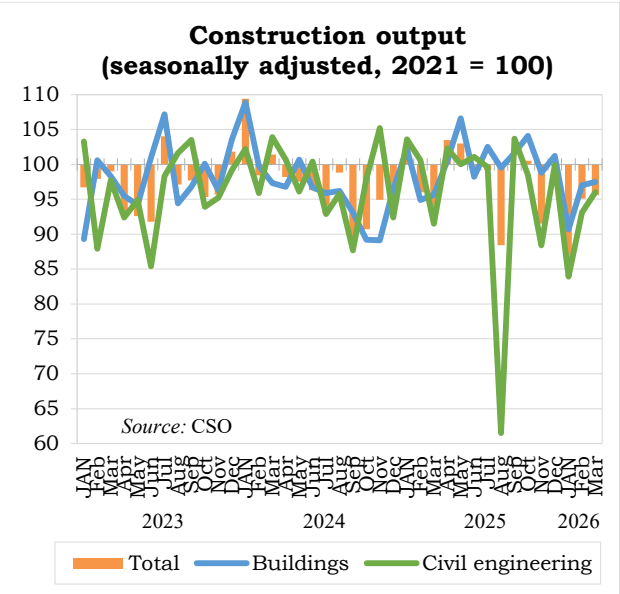
3.3.2. Construction

The upturn that began in the second quarter of 2025 persisted through the end of the year: the growth rate in the last quarter was 5.4%. At the same time, growth in the last two quarters was limited to building construction, while in civil engineering, amid sharp monthly fluctuations, the quarterly average growth rates were negative. *In the first quarter of this year*, however, construction output contracted, and it did so in both main groups on average over the three-month period. The seasonally and working-day-adjusted data show that in the first quarter monthly output volumes in the formerly better-performing building construction sector dipped into a lower range than in most of the previous year.

Regarding the *stock of orders*, there has been no trend change: in building construction, the stock of orders continues to shrink year-over-year, although the pace of decline appears to be slowing, while in civil engineering, the volume of orders continues to expand, albeit the pace of growth is sharply decelerating. During much of the last year, trends in the order and output volumes have diverged—currently, building construction activity seems to adjust in a negative way to the low volume of orders, while civil engineering output is still to gain momentum in line with the expanding stock of orders.

According to the *iBuild* database, *construction of condominium apartments* was the only segment in which significant growth was observed last year in the volume of newly started construction projects—and even in this segment, momentum slowed in the last quarter. The construction sector has continues to suffer from insufficient demand, including a decline in public sector demand, as well as liquidity problems. Based on all this, the outlook for the construction industry this year could be described as relatively gloomy. ***However, we currently assume that the rapid addressing of issues between Hungary and the EU will generate a significant inflow of formerly frozen EU funds, and consequently significant new government orders, which will provide a major boost to construction activity as early as the second half or the last quarter of this year***. Therefore, we expect the construction industry **to grow at** a relatively robust rate **of 5–6%** in 2026.

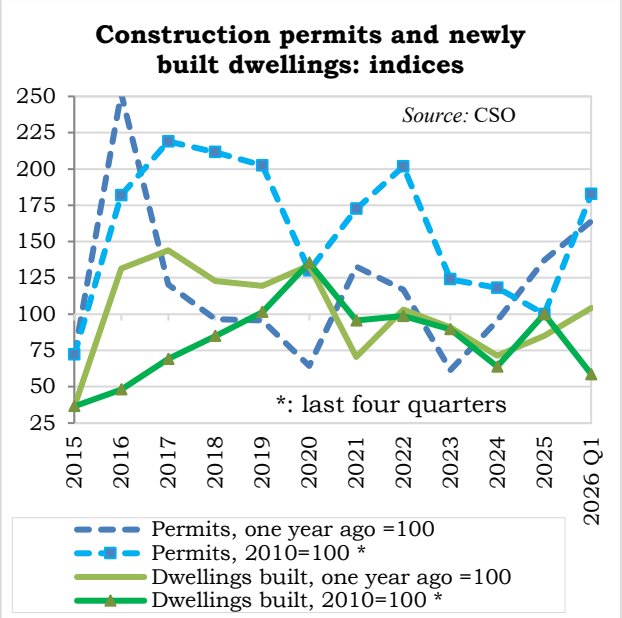




3.3.3. Housing construction

In the fourth quarter of 2025, the decline in the number of *newly built housing units* nearly turned into stagnation, with a rate of decline of only 0.3%. For the entire year 2025, the number of housing units built fell by 9.3% to 12,062, down from 13,295 in 2024. According to the data, the number of homes built by individuals increased by 16%, while the number of homes handed over by developers decreased by approximately 8%, following a slight increase in the third quarter. Accordingly, the number of single-family homes built rose, while the number of apartments in condominiums and residential parks fell sharply.

Meanwhile, the number *of building notifications/permit applications* rose steadily throughout last year and was approximately 37% higher in the fourth quarter than a year earlier. The growth throughout the year was driven primarily by an increase in the number of permits issued for apartments to be built *in multi-unit buildings*, but in the last quarter, the number of permits issued for single-family homes also rose by nearly 15%.



According to data from the iBuild database, the strong growth in the volume of *newly* started construction projects in the *condominium housing* sector did not continue in the last quarter. Nevertheless, looking at the full year, the volume of housing construction projects started rose to a level close to the record high seen 6–7 years ago. This upturn, combined with the growth in the volume of orders, pointed toward a positive turn in the number of completed apartments in 2026.

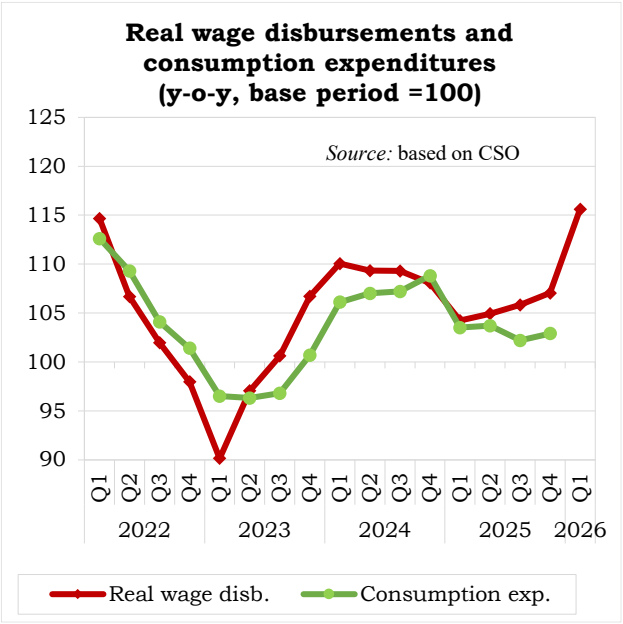
Demand in the housing market has been supported both last year and this year by various government measures (such as facilitating access to the CSOK and the "baby loan" for some groups of taxpayers, or making the conversion of voluntary pension fund savings for housing purposes tax-exempt), as well as (indirectly) the Housing Capital Program. These are complemented by the '*Otthon Start*' housing loan program launched last September. The latter has had a noticeably stimulating effect on demand. Housing supply has responded differently across regions, yet the program's impact is also reflected in the rise in the number of building permits (which is also shaped by construction companies' housing development plans).

The demand-supporting measures seem to pay off: in the *first quarter of this year*, the number of dwellings built *increased by a modest rate* of 4.3% on an annual basis, with a continuing strong growth (64%) in the number of building permits. The question is whether the Iran war will cause serious supply shocks on the building material market that could disrupt the improving trend in housing construction.

3.4. The final use of GDP

3.4.1. Household income, consumption and savings

Nominal gross average wages rose by 9% in 2025, while median wages increased by 9.1%, against a backdrop of 4.4% inflation. Average net real earnings rose sharply by 4.8% on an annual average. However, this rate is nearly half of the 9% real earnings growth recorded in 2024. Since the number of employees *according to wage statistics* continued to grow slightly, even amid the economy's approximate stagnation (in contrast to the number of employees estimated by the labor force survey), ***net real wage disbursements*** were 5.5% higher last year than in 2024. *In the last quarter*, the growth of net real earnings accelerated somewhat, as the newly introduced *tax breaks* gave an upward push to the growth rate of *net* nominal earnings. Meanwhile, the *gross nominal* growth rate slowed slightly in the last quarter as well.



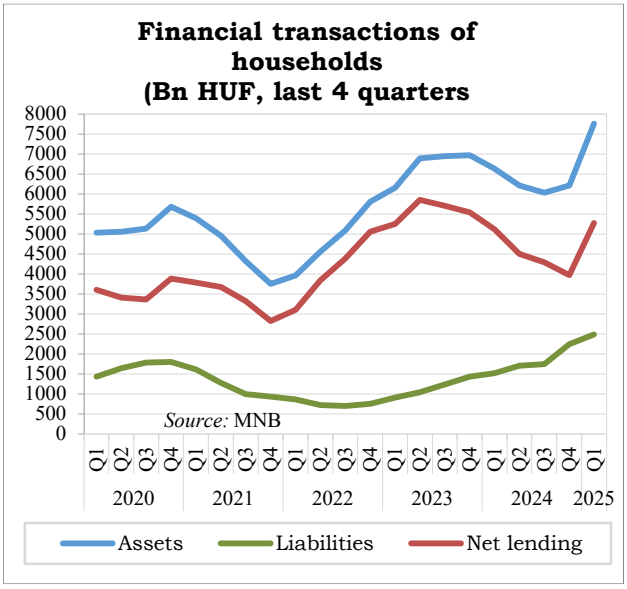
Household consumption expenditures did not visibly respond to the acceleration in real earnings: after 3.6% in the first half of the year, growth was only 2.5–2.6% in the second half (and 2.9% in the last quarter alone), despite the stronger real wage growth. On an annual average, consumer spending rose by 3.1% and actual private consumption by 2.9% last year. For a proper assessment, it is important to note that, based on sector accounts data, *the real value of* total *disposable* household *income* largely stagnated in the first half of the year—meaning that the parallel expansion of consumption suggested household optimism. However, in the second half of the year, the sector's real disposable income grew at an accelerating pace, despite a decline in property incomes. In light of this, the moderate pace of household consumption suggests a degree of caution.

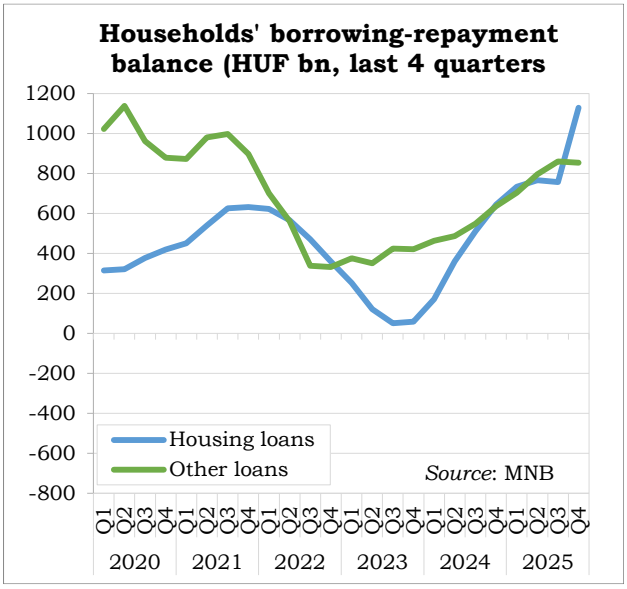
At the same time, ***net financing capacity***, as measured by MNB statistics, declined significantly in all quarters of 2025. Households' *four-quarter rolling* ***savings rate*** (as a percentage of GDP) fell from 6.8% at the end of 2024 to 4.6% by the end of 2025. After several quarters of sharp decline, the nominal value of gross financial savings rose in the fourth quarter, but at the same time the value of *net borrowing* grew at an

accelerating pace. Within the latter, the balance *of housing loans* jumped dramatically in the last quarter, while the rise in the balance of other loans turned to stagnation. In other words, the boost provided by the Otthon Start program to housing loans may have had a crowding-out effect on consumer loans.

Sector account data suggest that, *on an annual average*, the real value of household monetary income grew at a rate of only around 2%, that is, it lagged behind the roughly 3% growth in consumer spending—in light of this, it is not surprising that both financial savings and household investments declined last year.

This year, both domestic and foreign factors affecting income trends are extremely uncertain and difficult to predict. The most immediate impact is ***the drastic surge in wages at the beginning of the year***. This is largely temporary—without the huge bonus paid to members of the armed bodies, the gross wage increase would have been 8.3% in January according to the Hungarian CSO's estimates, instead of the actually recorded 26.3%. That said, the wage growth rate recorded in the first quarter—17%— pushes up the wage growth rate for the entire year—probably above 9%. It also gives a boost to consumer demand, even if this effect will not be as spectacular as it was in 2022, the first time this "service benefit" had been paid. (In the first quarter, retail trade turnover grew by a respectable 6%, but not by 10%, as it did in the first quarter of 2022. Also, much of the temporary wage explosions went into *savings*, at least for now: the *four-quarter net lending of households* rose to 6% of GDP in the first quarter, from 4.6% in 2025) The additional tax breaks and exemptions introduced in mid-October of last year and in January this year are pushing ***net*** wage growth upward. Based on this**, net real wage growth could exceed 6%** this year. Household consumption could grow at a rate of **around 3.5% in 2026**, while housing investment may also begin to rise.





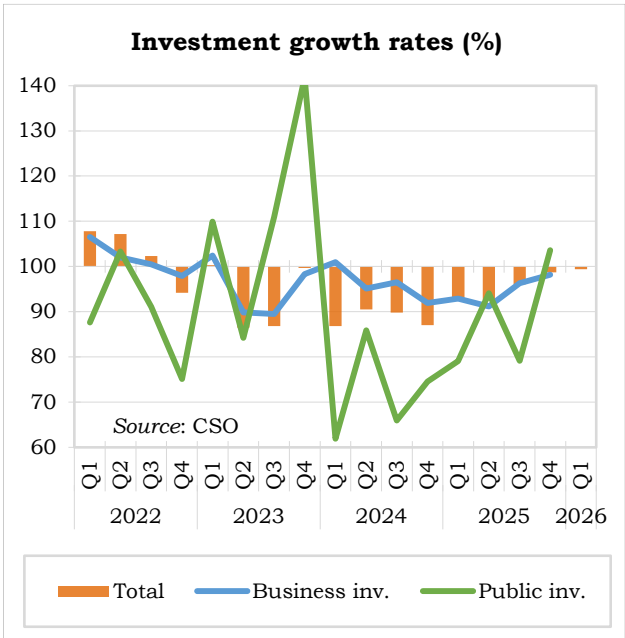
3.4.2. Investments

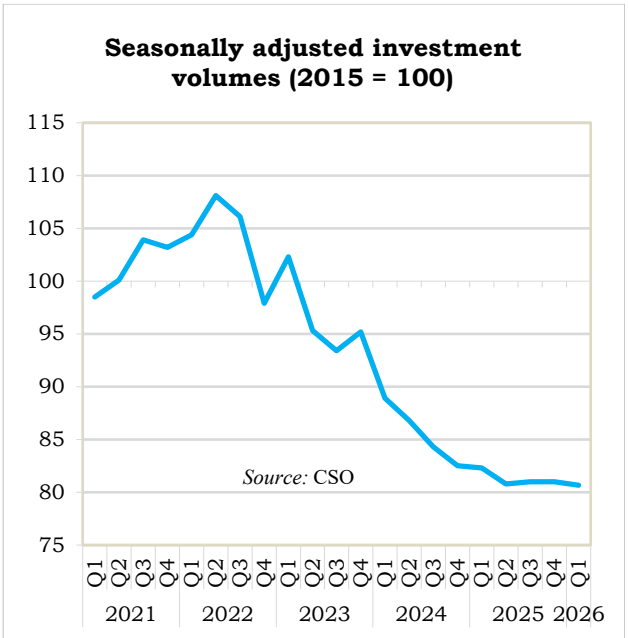
The decline in the volume of investments continued in the fourth quarter of 2025, resulting in a 4.3% *annual* decline last year. At the same time, the year-on-year decline moderated to 1.3% in the last quarter. On the other hand, compared to the previous quarter, the volume of investment stagnated for the second time—meaning that the year-over-year decrease was driven solely by the base effect.

The annual decline continued in the fourth quarter *in* the *medium- and large-enterprise* segment (at least in the segment as a whole), while the Hungarian Central Statistical Office (KSH) recorded some growth *in* the *public sector* for the first time in two years. Nevertheless, the rate of decline continued to moderate in the corporate sector as well. As suggested by the data, investments in the small business and household sector continued to decrease, albeit at a slower pace, in the fourth quarter.

The decline in *manufacturing* investments (by around 11%) remains the primary factor behind the contraction in private-sector investments. External economic conditions are changing turbulently but remain unfavorable overall. At the same time, investments increased in seven out of 19 economic sectors in the last quarter. More importantly, some of the growing sectors are far from marginal. Real estate investments grew only slightly, while investments in wholesale and retail trade expanded at a moderate pace; in contrast, the volume of investments in transportation and storage jumped to one and a half times its previous level, albeit from a low base.

Regarding **this year,** the preliminary data says that investments dipped 0.5% in an annual basis and also decreased by 0.4% against the previous quarter. The latter detail is the most discouraging, the quarter-on-quarter stagnation in the previous quarters, instead of turning into growth, turned into decline once again. At the moment, conditions for significant improvement do not appear to be in place, at least if we consider the hard data. External demand conditions, after some signs of a slight and partial improvement, will be disrupted by the drastic price and supply shocks caused by the closure of the Strait of Hormuz. This makes it doubtful whether manufacturing companies' willingness to invest will improve this year. After the elections, however, it seems possible that EU





funds will start flowing as early as this year, which could allow for a substantial acceleration of public investment toward the end of the year. The change in government also *gave a sudden boost to business confidence*—even if that does not mean automatically a boost to the willingness to launch investment projects. Still, it cannot be ruled out that, **on an annual average**, **the volume of national economic investment will grow at a rate of around 5% this year**.

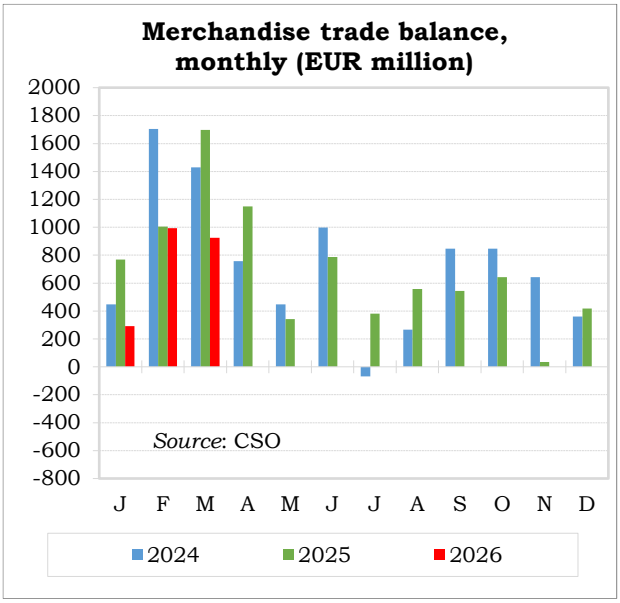
3.4.3. Foreign Trade

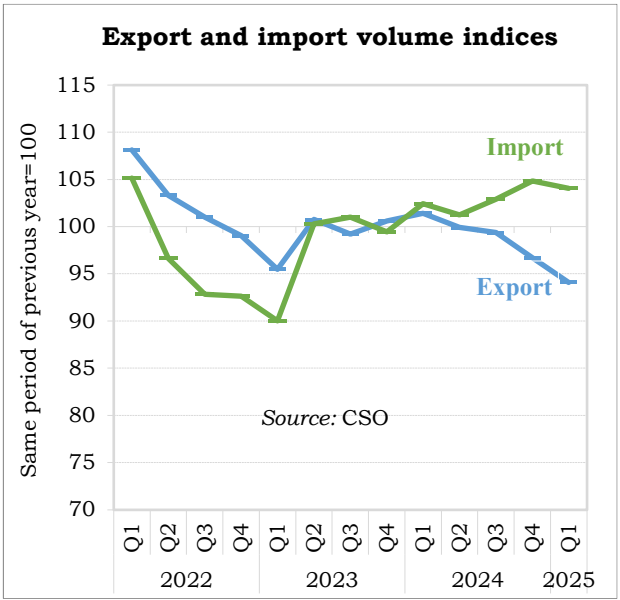
For much of last year, the monthly euro value of net exports alternated between trailing and exceeding the respective figures from a year earlier, but in the final third of the year, a nearly uninterrupted downward trend began, which continued into the first quarter of this year. Overall, the annual decline in 2025 was not drastic—a surplus of EUR 8.3 billion, compared to 8.7 billion a year earlier, representing a 4% drop. By contrast, the first-quarter figure this year was some 36% lower than in the same period of the previous year. What is more, the extent of the decline in euro-denominated figures was cushioned by a significant *terms-of-trade improvement*. The trend in foreign trade *volumes* paints a much bleaker picture.

The volume of goods exports expanded at an accelerating pace until the end of the last year, and the expansion continued in the first quarter of 2026. Meanwhile, the volume of imports has been decreasing at an accelerating pace since Q2 2025. In the first quarter, the negative gap between export and import dynamics widened to 10 percentage points: a 5.9% decline in export volume was accompanied by a 4.1% increase in the volume of import.

While the prospect of a meaningful improvement in the international economic climate is becoming increasingly distant—and as a result, export growth numbers are weakening rather than strengthening—even a relatively modest uptick in domestic demand is now providing a significant boost to goods imports. Export growth has been hampered most by the continuous decline in exports of *manufactured goods*. Imports have been driven primarily by a sharp rise in imports of *machinery and transport equipment*.

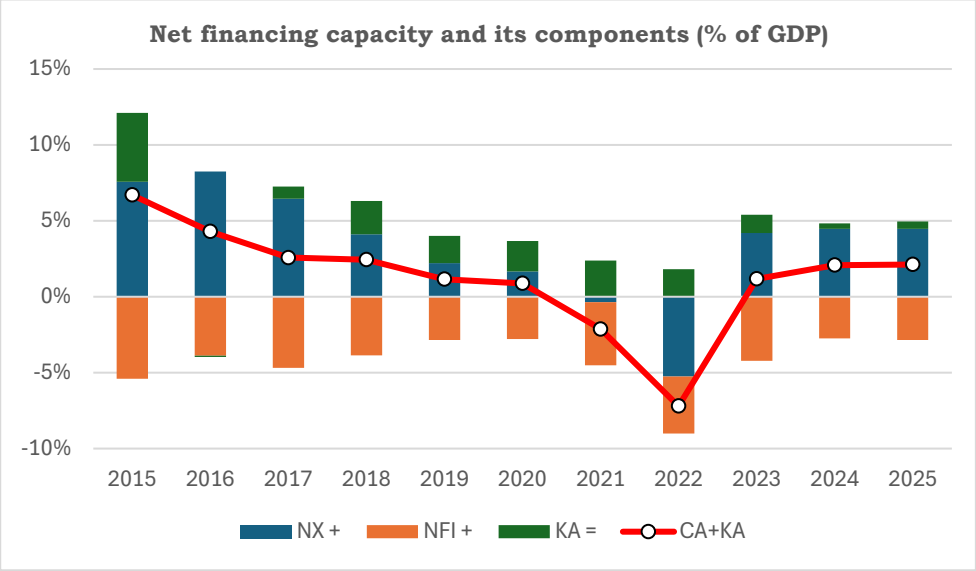
The outlook for this year has deteriorated in recent months. Most of the modest expectations for a German economic recovery this year have also been swept away by the unfolding, far-reaching economic effects of the war in Iran. As a result, the export outlook remains bleak. Meanwhile, import volume growth may be checked by rising commodity prices, but also surging import prices amid the Hormuz-shock could put an end to the terms of trade improvement observed so far. This year, the annual foreign trade surplus could fall to EUR 6–7 billion from the EUR 8.3 billion recorded in 2025.





3.5. Balance of payments

In 2025, the ratio of net external financing capacity calculated from above (the combined balance of the current and capital accounts) to GDP remained unchanged from 2024: it was 2.1% in both years. Its composition also remained unchanged: the surplus in the trade in goods and services, the income balance deficit, and the surplus in the capital account were around 4.5%, 2.8%, and 0.5% of GDP, respectively, in both years.



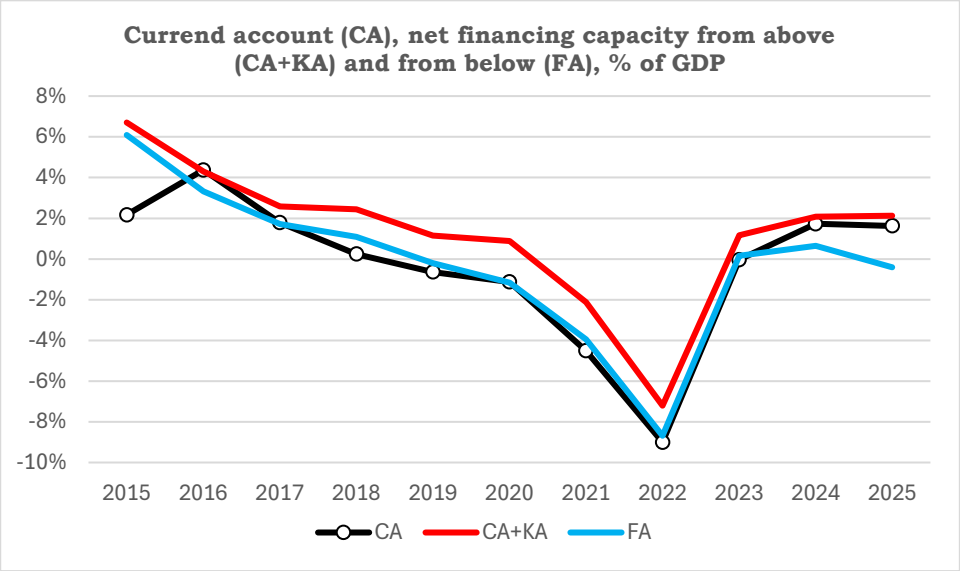
Codes: NX: net exports; NFI: net foreign income; KA: capital account; CA (=NX+NFI): current account

Source (for the above and following figures): Own calculations based on MNB data

The chart above shows the evolution of the combined current and capital account balance (red line) and their components since 2015. After a significant correction in 2023—following a drastic external trade deficit in 2022 (amounting to about 5.5% of GDP)—the net export surplus stabilized around 4.5% (blue bars). The economic stagnation, particularly the decline in investments, played an important role in this, but in 2025, the terms-of-trade improvement also contributed to maintaining the level of the trade surplus. A positive development is that the income balance deficit (orange bars) has been lower over the past two years than in previous years; however, this was accompanied by an extremely unfavorable trend: between 2021 and 2023, due to the tapering out of the EU transfer inflows, the capital account surplus (green bars) decreased by 0.6 percentage points of GDP annually, falling to around 0.5% by 2024–25.

The chart below shows the levels of the three key balances of the balance of payments as a percentage of GDP between 2015 and 2025.

In the figure, the red line (as in the previous figure) shows the external financing capacity calculated from above, the combined balance of the current account and capital account balances. What is new on this chart is the current account balance (black line) and the financial account balance (the so-called external financing capacity calculated "from above"—blue line).



Codes: FA: financial account balance

We can see that toward the end of the period under review—particularly in 2025—the financing capacity measured from the two directions changed differently: while the indicator calculated "from above" remained unchanged in 2025, it visibly deteriorated when measured "from below"—based on financial transactions—and the country's external balance turned into a slight deficit. The discrepancy between the two balances (the "net errors and omissions" (NEO)) has traditionally been negative in Hungary: as shown in the chart, the balance of the financial account has consistently been less favorable than the combined balance of the current and capital accounts. This persistent gap has widened over the past two years. Since NEO reflects the "errors and omissions" of both components of the balance of payments, it may indicate an underestimation of the trade balance (e.g., recorded imports are lower than actual imports), but it may also signal *unrecorded capital outflows*.

The chart also reveals an interesting detail: between 2017 and 2023, the current account balance was almost exactly equal to the financial account balance, meaning that the NEO's negative balance was offset by the positive balance of the capital account, which includes the majority of EU transfers. This is clearly a coincidence; after 2023—as EU transfers dry up—it was no longer the case, and the current account balance has come close to the financing capacity calculated from above.

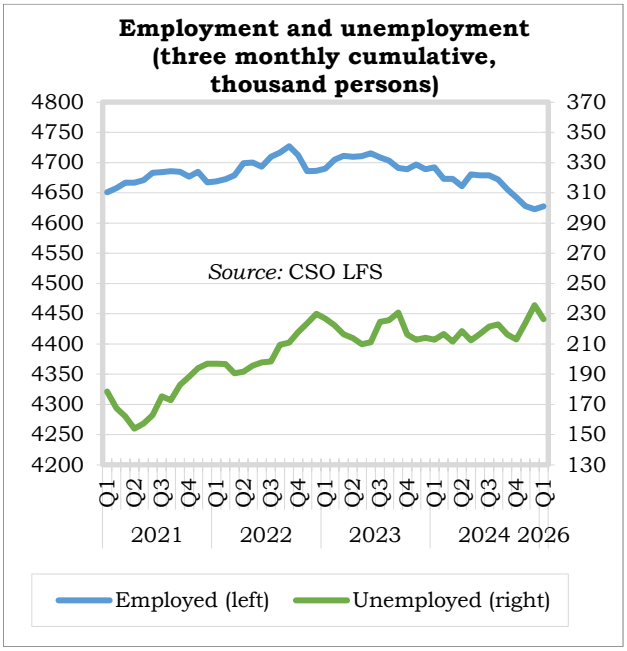
In 2026, two factors with opposite effects are expected to influence the balance of payments. The trade balance—and thus the current account balance—will be clearly worsened by rising energy import costs; the extent of this depends on how long high energy prices persist. The potential release of previously frozen EU funds following the expected measures by the incoming government will have an opposite effect. These funds will improve the capital account and the country's financing capacity, the extent of which depends on when these funds become available for drawdown and can be spent on meaningful projects.

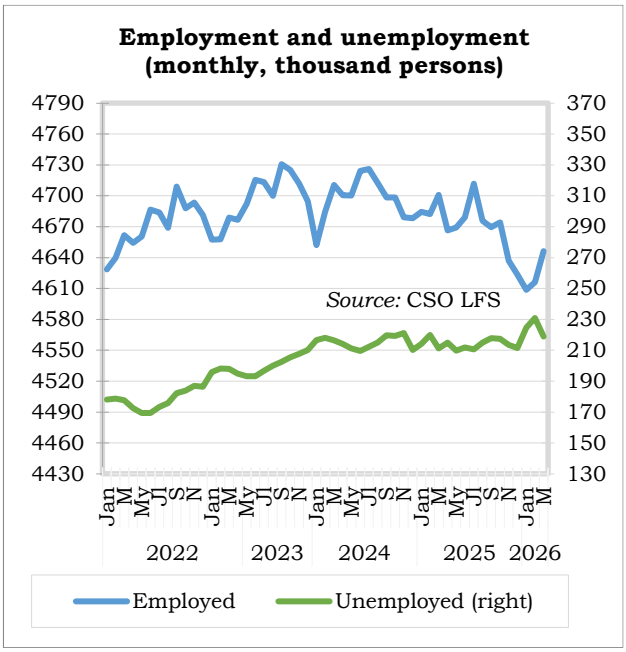
3.6. Employment, unemployment

According to *Labor Force Survey* (KSH-LFS) data, employment has been steadily declining since the second quarter of last year. On an annual average, the rate of decline was 0.7%, with a 1% drop in the last quarter and 1.4% in the first quarter of 2026. Over the past six months, the number of workers *in the primary labor market* has declined more sharply than the total number of employed: the data show a 1.3% decline in the last quarter of 2025 and a 1.9% decrease in the first quarter. The number *of workers in public employment* has been rising unabated for about a year now. According to the latest LFS data, in the fourth quarter of 2025 the decline extended to manufacturing, construction, and market services. *In* the *private sector,* the vacancy rate stagnated at 1.7% throughout last year.

The three-month moving *average unemployment rate* remained stable through the end of last year—standing at 4.4% in the last quarter—but soared to 4.7% in the first quarter of this year, accompanied by a markedly accelerating rise *in the absolute number* of unemployed. At the same time, the number of registered job seekers continued to decline in the first quarter of this year.

Since economic growth for this year is expected to be very modest at best, **we anticipate a decline in employment** for the year as a whole, while the unemployment rate could reach 4.7–5%. Following an economic upturn toward the end of the year—linked to the release of EU funds that have not yet been definitively lost—a cautious expansion in employment could begin next year.





3.7. Fiscal, monetary, and financial Developments

3.7.1. Fiscal developments

In 2025, the general government deficit on a accrual basis stood at 4.7% of GDP. This is slightly lower than the 5% projected in the December briefing, Ministry for National Economy, but falls within the 4.5–5% forecast range projected in Kopint-Tárki's fall and winter 2025 reports.

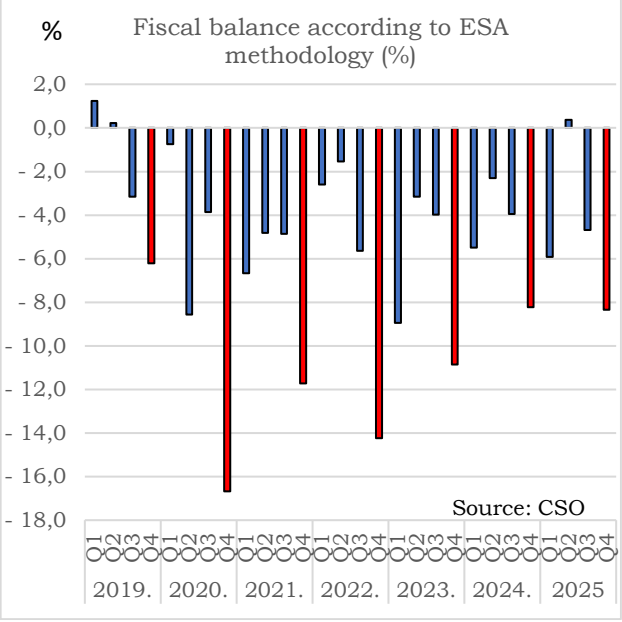
In 2025, the cash-based budget deficit was HUF 5,743 billion (6.6% of GDP), while the accrual-based deficit, calculated according to ESA standards, was HUF 4,060 billion (4.7%). The accrual-based deficit was only HUF 100 billion lower than in 2024, when the ESA deficit was 5.1% of GDP; the deficit-to-GDP ratio is thus primarily due to the nominal increase in GDP.

The 3.4% ESA deficit-to-GDP ratio in the first three quarters was followed by an 8.3% deficit in the fourth quarter. The Hungarian Central Statistical Office (KSH) significantly revised downward the accrual-based budget data for the first three quarters, as the deficit for the first three quarters had been estimated at 1.9% of GDP in the previous report.

The reason for the high deficit in the last quarter is that the budget's cash flow deficit was exceptionally high in December, as usual. In that month, the budget accumulated a deficit of HUF 1,668 billion, which is 29% of the total annual cash-flow deficit. The sharp rise in the deficit in December can largely be attributed to a surge in expenditures. The government spent several hundred billion forints on state property: real estate and movable property, as well as state-owned companies. Further details, however, are not known.

Accrual-based interest payments amounted to HUF 3,311 billion in 2025, while cash-based interest expenditures were HUF 4,200 billion. On an accrual basis, interest expenditure amounted to 3.8% of GDP (HUF 87,055 billion), which represents a significant decrease compared to the previous year's 4.8%. This, however, means that in 2025 the **primary deficit** was 0.9% of GDP, i.e., it increased compared to 2024, when the total deficit was 5.1% of GDP and the primary deficit was 0.3%.

The difference between the accrual-based and cash-based deficits, the so-called **ESA bridge**, stems partly from the different methods of accounting of pre-financing expenditures related to European Union programs, as well as interest payments: the ESA accounts for interest expenditures on a pro-rata basis rather than at the time of payment. In 2025, interest payments were particularly high due to the high, inflation-linked yield on PMÁK government securities. The third-largest item in the ESA bridge is the financial indicators of "non-financial corporations and non-profit



organizations classified as part of the general government."

The 2026 Budget

The 2026 Budget Act projected a general government deficit of HUF 4,168.7 billion, which is 4.4% of the planned GDP of HUF 95,747 billion. The Act set economic growth at 4.1% for 2026, hence this planned nominal GDP figure.

The budget law passed in May and was already overturned in the fall, as it became clear—as analysts had previously warned—that the 4.1% growth forecast was an overestimation by far. The deficit forecast also soon became moot, as the finance minister announced in the autumn that the general government deficit would be 5% in 2026. He did not specify what additional expenditures would contribute to this, but it is clear that part of the additional spending will be linked to family income tax exemptions, the payment of one week's worth of the 14th-month pension, and the pay raises for teachers, vocational training instructors, government office employees, local government officials, and for workers in the justice, water management, social, and cultural sectors, new housing subsidies for public servants, and expenditures related to additional election-related spending measures.

Then came the first quarter, during which the cash flow deficit **exceeded all previous levels**. By the end of March, the budget deficit had reached HUF 3,420 billion. After a surplus in January (largely due to VAT payments), the next two months saw deficits of HUF 2,140 billion and HUF 1,313.6 billion, respectively. In other words, 82% of the deficit planned for the entire year was realized in the first three months. Detailed data are available only for January, while less detailed data are available for February. However, these do not reveal the specific cause of the deficit overshoot. The Ministry of Finance cites the increase in housing subsidies, but this accounts for only a small part of the year-to-date deficit overshoot. In the first three months of the year, both interest expenditure (HUF 807 billion forints, 24% of the planned amount) and pre-financing related to EU programs (614 billion, 22%) were both lower than the pro-rata amounts. The latter two are the items where the cash deficit typically divergs significantly from the ESA deficit. Since these items actually "underperformed" in terms of expenditures, there is no reason to assume that the ESA deficit would be significantly better than the cash deficit. By contrast, the year-on-year growth rate in expenditures on *budgetary institutions and chapter-administered appropriations*, a major item within the central budget, exceeded 60%, with expenditures far above the prorated amount.

In the EDP (Excessive Deficit Procedure) report published on the KSH website, dated March 31, 2026, the former government still projected an accrual-based deficit of HUF 5,000 billion for 2026. Based on the cash flow data for the first three months, this is essentially already out of the question.

A new budget will be produced by the new government. The new government has promised that the structure of expenditures will be reviewed and fundamentally restructured; unnecessary and wasteful expenditures will be eliminated. However, reorganizing state institutions, downsizing various unnecessary agencies, and achieving more frugal operations will take time; therefore, only a portion of these

measures can be implemented in this year's budget. Additionally, there are substantial built-in determinants: income tax exemptions for mothers with children, as well as housing subsidies and the preferential business loan schemes.

However, given the massive deficit in the first three months, even with the most prudent fiscal management, there appears to be no chance of keeping the 2026 general government deficit below 6.5%, and there is a marginal likelihood that the deficit will be even larger. The question is how credit rating agencies will react to this. A deficit of this magnitude would not be unprecedented in the region, as both Poland and Romania are also expected to have fiscal deficits exceeding 6% of GDP in 2026. However, Poland currently has a significantly better sovereign credit rating, and Romania began significant consolidation measures in 2025.

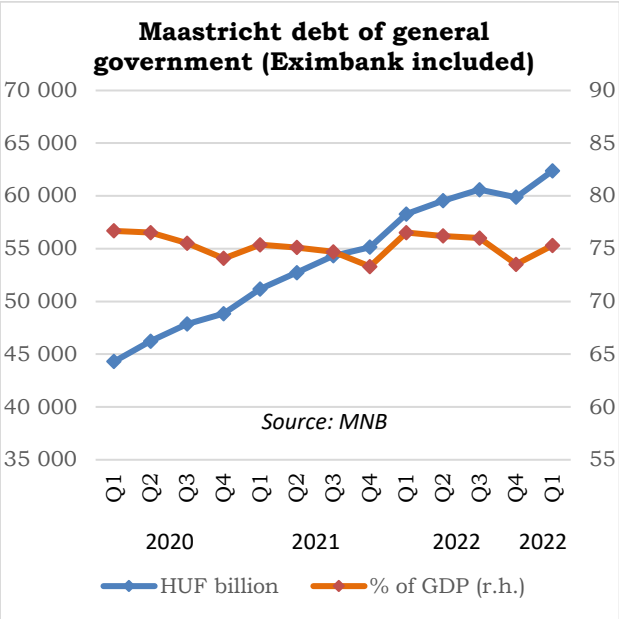
Fitch Ratings' assessment, released on April 13, the day after the elections, gives cause for cautious optimism in this regard; however, the budget will undoubtedly face severe difficulties in 2026.

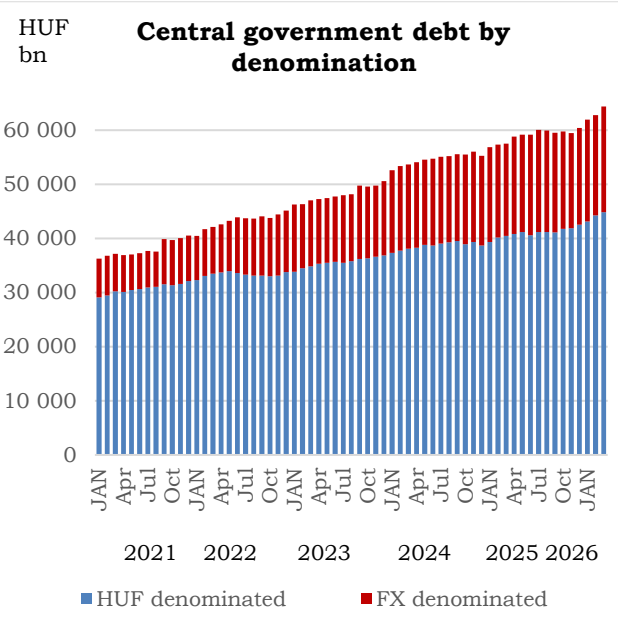
Public Debt

According to data from the MNB, in 2025 the general government's so-called Maastricht debt (the metric used under EU debt rules) rose by HUF 5 trillion, reaching HUF 64.91 trillion at the end of December. This brought gross public debt to 74.9% of GDP, compared to 73.5% at the end of December 2024. Net borrowing contributed by HUF 5,624 billion to the increase in debt, while revaluation due to the strengthening of the forint exchange rate reduced the stock by HUF 1,336 billion.

More specifically, the central government's debt rose by HUF 5,050 billion in 2025 according to ÁKK data, with forint-denominated debt increasing by HUF 3,874 billion and foreign currency debt by HUF 1,251 billion. The ratio of foreign currency debt occasionally exceeded the 30% limit set by law during the year but fell below 30% by year-end.

According to the same ÁKK-dataset, central government debt rose by 3,978 billion forints in the first three months of 2026.

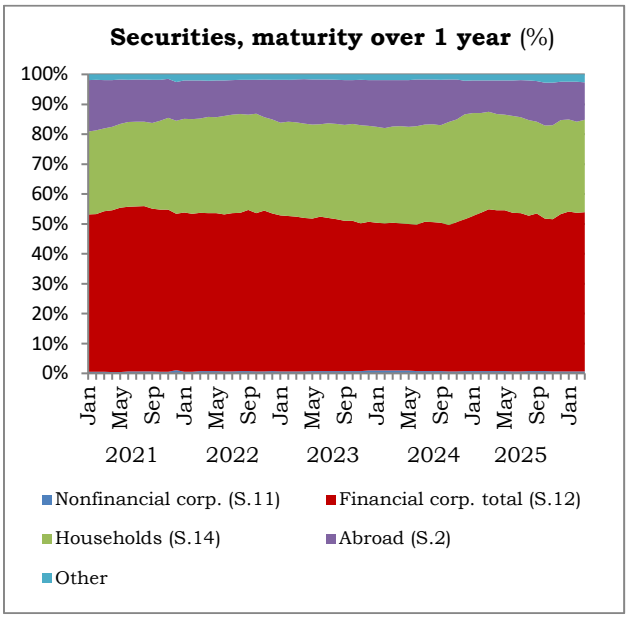


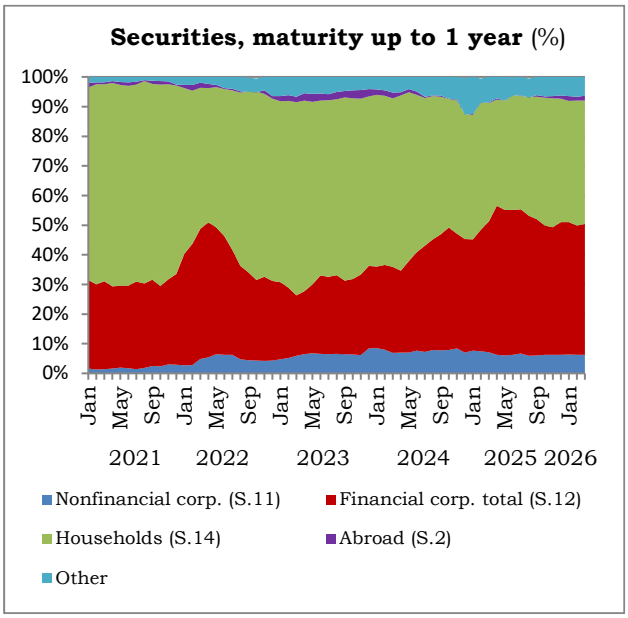


Breakdown of government securities holdings by ownership sector

Contrary to expectations, there was no significant shift in the distribution of government securities by ownership during 2025.

The stock of government securities held by *households* decreased slightly: Between February 2025 and February 2026, the share of forint-denominated government securities with maturities of over one year fell from 33.3% to 30.4%, while that of securities with maturities of less than one year dipped from 43.2% to 42.1%. The decline was not linear. It reached its lowest point in the late summer months of 2025, after which interest in government securities picked up again. Which means, households did not turn away from the government securities market to any significant extent due to lower yields.





The share of foreign investors rose slightly in both the long-term and short-term government securities markets (though foreign ownership in the latter category is very low).

The Government Debt Management Agency (ÁKK) aims to increase the proportion of fixed-rate government securities at the expense of variable-rate ones. The fixed-rate security yielding around 7% generates a significant real return under the current inflation conditions, but it also carries a certain degree of risk. The fiasco of the MÁP Plusz, a fixed-rate, tiered-yield bond issued in 2022 with an initial yield of 4.95%, may prompt households to exercise caution.

These intentions notwithstanding, the share of fixed-rate securities has declined significantly since early 2025. Between 2022 and early 2025, the share of floating-rate government securities within the total forint portfolio rose from 15% to 34% but decreased to 27% by February 2026.

3.7.2. Inflation

In 2025, consumer prices rose by 4.4%, while the monthly price index showed a downward trend; in December, the year-on-year price index fell to 3.3%. Core inflation stood at 4.6%, and the constant tax rate index was 4.1%. Both indicators moderated in line with the consumer price index over the course of the year.

Favorable inflation trends continued into early 2026. The average price index for the first three months was just 1.8%, well below the analysts' expectations. Price adjustments at the start of the year were extremely modest: a January price index as low as 2.1% was last seen in 2018. In the following two months, the monthly year-over-year price index remained below 2%. The low inflation rate in the first three months was also supported by a 5%-high year-on-year price index during the base period, but the month-over-month index also remained moderate in early 2026. In *April*, inflation accelerated only slightly, to 2.1% on an annual basis.

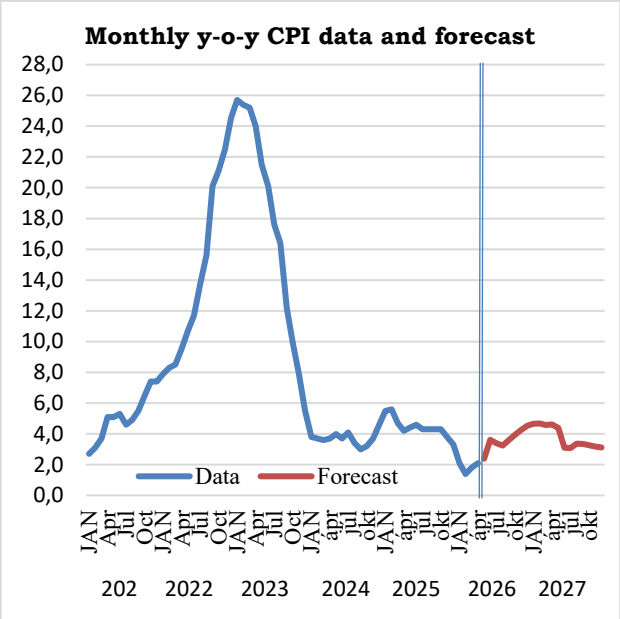
In 2026, the average year-on-year price increase for food prices in the first four months was only 0.8%. The largest year-on-year increases were seen in the prices of tobacco & alcoholic drinks (5.4%), services (4.3%), and household energy (3.6%).

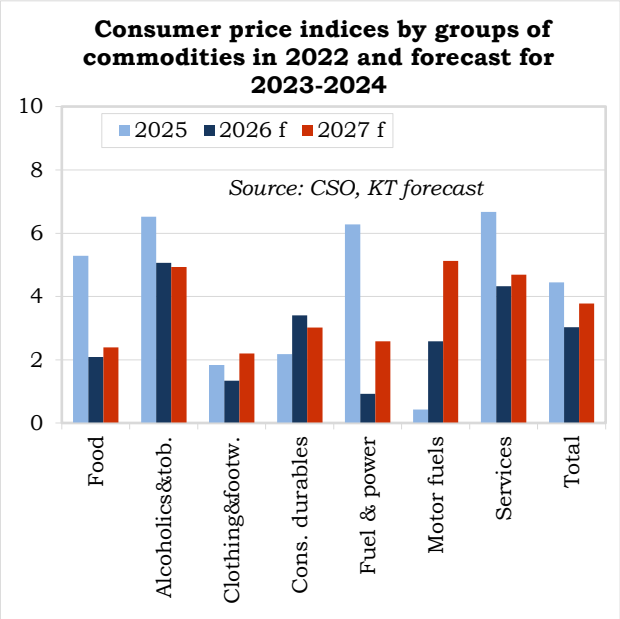
However, for the remainder of the year, several upward risk factors must be taken into account which are the consequences of the currently artificially suppressed inflation: the price margin cap, the protected motor fuel price, and the postponement of increases in inflation-linked regulated prices. According to our calculations, the food products subject to the **price margin cap** (ÁRS) account for approximately 6% of the total consumer basket, while the hygiene products under the ÁRS account for 1%. The latter is particularly difficult to calculate, as the CSO data are not structured by margin-capped products, and furthermore, the statistics cannot grasp the proportion of the affected products that are offered by retailers not subject to the ÁRS (those with annual turnover below 1 billion forints). According to our calculations, the price cap reduced annual inflation by 1–1.2 percentage points in 2025. If the price cap is phased out at the end of May 2026, it could raise the annual price index by 0.5–0.6%, with a considerable margin of error.

As for the **protected fuel** price cap, the share of vehicle fuel in the consumer basket is 5.79% in 2026; the extent of the price increase will obviously depend on the development of global market prices. The new prime minister declared in mid-May that the government would wait with the abolition of the protected fuel prices until global fuel prices take a downward turn. We expect no positive developments in this regard in the near future. In any case, a 10 percentage point jump in fuel prices due to a hypothetical removal of price controls could *directly* increase annual inflation by 0.4%. The *indirect* effect of rising fuel prices, through higher transportation costs, could result in additional inflationary pressure, which we estimate at around 0.3%.

All in all, the extent of this year's price increase is influenced by a variety of factors. The very low price index at the beginning of the year would have suggested an annual price index of around 2% or lower. The price cap did not have the greatest impact here, as this measure has been in effect for nearly a year, so it no longer had any additional inflation-dampening effect. The impact of the expected phase-out of the price cap at the end of May is about 0.5 percentage point, with additional direct and indirect effect from the abolition of the protected fuel price if and when that happens. Taking all this into

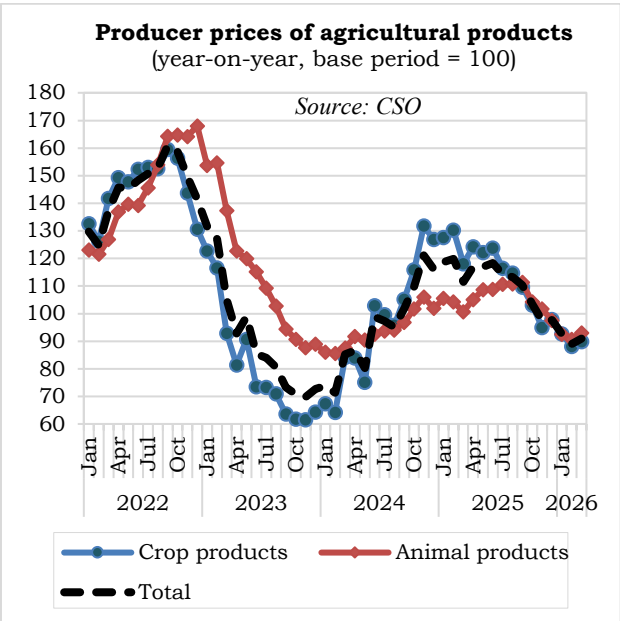
account, we expect a 3% price index in 2026, provided there are no other dramatic developments on the global market.

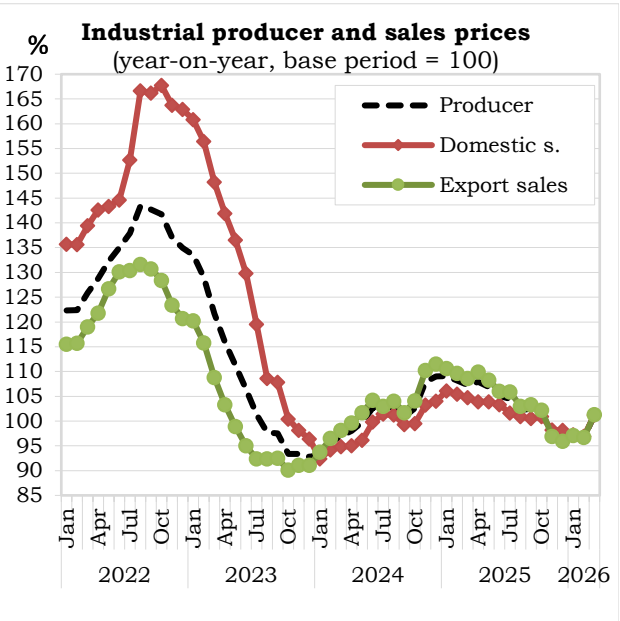




In 2027, a higher price increase of around 3.7% is expected, largely due to inflation being suppressed during the first five months of this year. If fuel prices were to fall due the ending of the war in Iran, this could moderate the inflation rate by a few tenths of a percentage point.

Agricultural and industrial producer prices also point to a moderate price increase at most. Agricultural producer prices are characterized by wide fluctuation. The massive price surge of 2022–23 (which marked the peak of the inflationary period) was followed by a sharp decline in 2023 and another minor upward phase in 2024. Since early 2025, however, the rise in agricultural prices has slowed significantly, and since November 2025, prices themselves have been declining for both plant and animal products. In March 2026, agricultural purchase prices were 9.1% lower than a year earlier. If we accept this pattern of price fluctuations, an upward trend may resume in the second

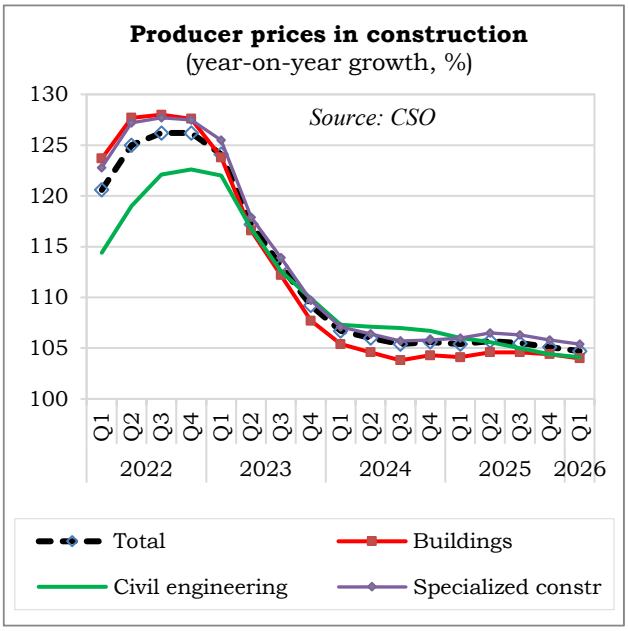




half of 2026, which could be reinforced by the unfavorable weather conditions forecast for this year.

The trajectory of **industrial** producer prices was similar to that of agricultural products, but with significantly smaller fluctuations. Since early 2025, a moderating price increase has been observed here as well, and since November 2025, as in the case of agricultural products, a price decline has been observed. Domestic and export sales prices are falling at a similar rate.

The producer price index **for the construction sector** rose to a lesser extent than agricultural and industrial prices during 2022; then, following a decline in 2023, it has essentially fluctuated around 5% since early 2024. The annual construction price index was 5.4% in 2025; with construction prices for buildings rising somewhat more moderately, while those for specialized construction rose to a greater extent. If investment activity picks up in the second half of the year, the pace of price increase may accelerate somewhat.



3.7.3. Central bank interest rates

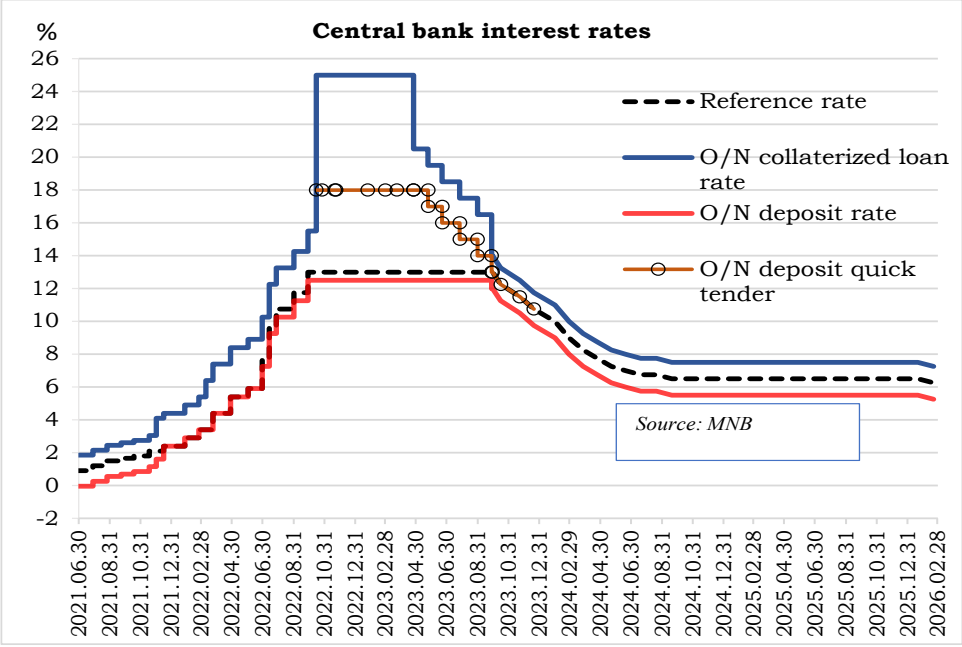
Between September 2023 and September 2024, the central bank's reference rate fell from 13% **to 6.5%** and remained at this level until February 2026. The interest rate corridor also remained relatively narrow and symmetric (±1 percentage point), with O/N lending rates at 7.5% and O/N deposit rates at 5.5%.

Change came with the February 2026 meeting of the MNB Monetary Council, which decided to cut the reference rate by 25 basis points to 6.25%. At the same time, overnight lending rates and overnight deposit rates also fell by 25 basis points, to 7.25% and 5.25%, respectively. The money market reacted neutrally to the base rate cut, and the forint exchange rate did not weaken.

In our previous economic report, we did not consider a base rate cut likely until April 2026, despite the decline in the consumer price index. The reason was that the interest rate cut cycle did not seem to be sustainable. The central bank itself commented on the rate cut by stating that it did not necessarily mark the beginning of a rate cut cycle. In other words, the central bank continues to continuously assess macroeconomic developments and monetary policy conditions, and makes decisions on interest rates on a case-by-case basis.

Indeed, this is what happened: the rate cut stalled in March and April, which the Monetary Council attributed to intensifying geopolitical tensions and the partially related risk of a rise in inflation. According to the central bank, inflation will rise above the tolerance band starting in the third quarter of 2026, which will result in an annual average of 3.8% this year.

In March, inflation was even lower than positive expectations (1.8%), though this was partly influenced by price caps, regulated fuel prices, and the postponement of certain price hikes until after the election. April saw a very slight acceleration in the y-o-y inflation rate to 2.1%. At the same time, geopolitical uncertainties persisted, and the risk of a protracted war in Iran initiated by the U.S. remains, which carries inflationary risks. These factors will determine monetary policy in the coming months. Despite the uncertainties, we expect one additional interest rate cut during the first half of 2026.



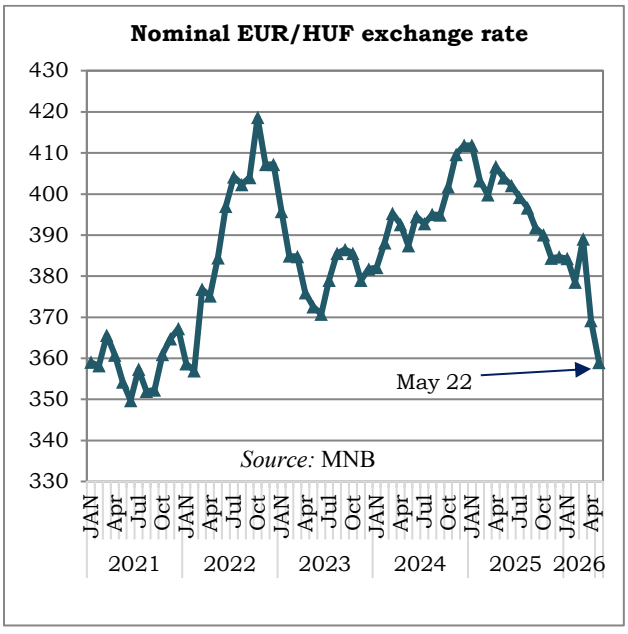
3.7.4. Exchange rate

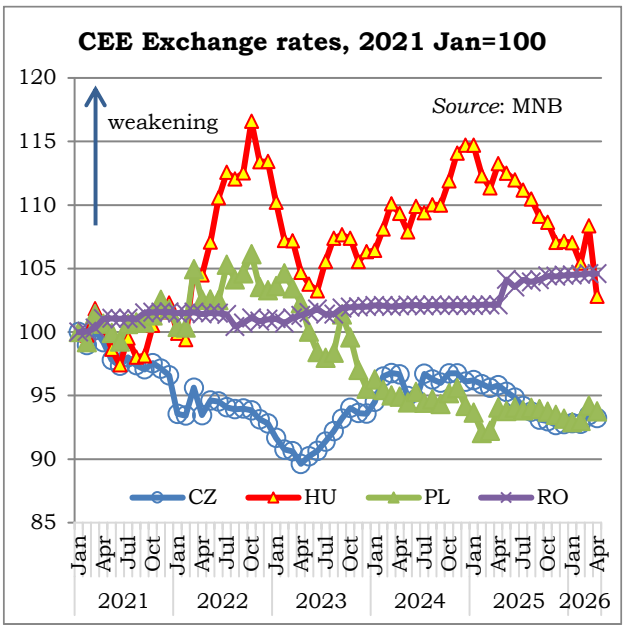
The **forints exchange rate against the euro** crossed the 400 EUR/HUF threshold in September 2024 and subsequently rose very rapidly above 410 EUR/HUF. This was followed by a mild correction in February 2025 and a more pronounced one in March, with the forint's monthly average exchange rate falling below 400 EUR/HUF. The average exchange rate for 2025 was 396.75 EUR/HUF, while the December rate was 385.4 EUR/HUF. As a result of several months of strengthening, the average exchange rate in December 2025 once again reached the level seen at the beginning of 2024.

The strengthening of the bilateral exchange rate in 2025 marked a turnaround from the essentially uninterrupted weakening of previous years, particularly given the Hungarian economy's weak performance. The strengthening of the forint is driven partly by abundant international liquidity and partly by the high returns on investments in HUF assets, supported by the still relatively high policy rate.

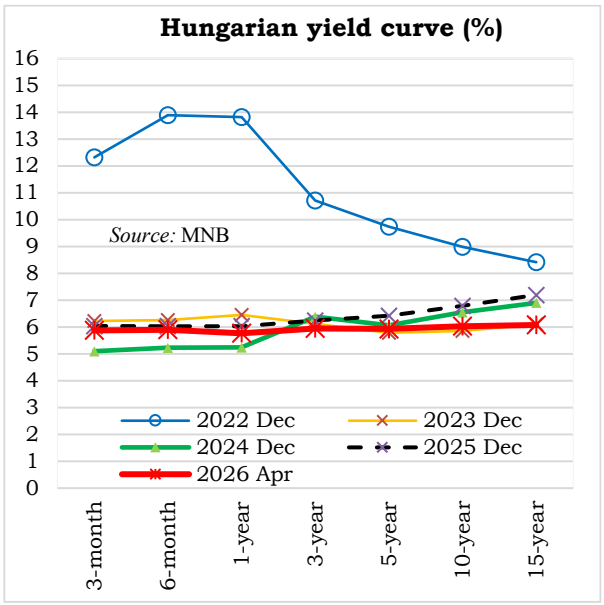
The central bank's February 2026 rate cut did not shake the forint exchange rate; investors had already priced in the rate cut, which only slightly reduced the yields available on forint investments. However, the geopolitical uncertainty resulting from the outbreak of the U.S.-Iran war and the energy crisis had a negative impact on the exchange rate. While the euro/forint exchange rate fluctuated around 380 in January and February, it rose again to around 390 EUR/HUF in March. In early April, however, the forint began to strengthen steadily, as investors started to price in the change of government. After the election, the forint drastically strengthened, reaching 354 EUR/HUF in early May, followed by only a mild correction afterward.

In March and April, other regional currencies weakened slightly first and strengthened somewhat afterward, with the exception of the Romanian leu. The Romanian leu's remarkably stable exchange rate was ensured for several years by the Romanian central bank's interventions in the foreign exchange market. The central bank was forced to abandon this policy in May 2025, but even so, the subsequent weakening of the Romanian leu has been very mild.





3.7.5. Government yields

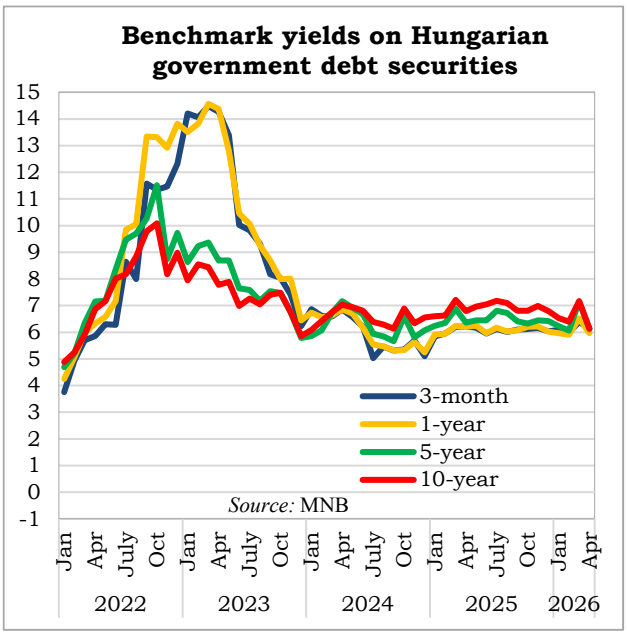


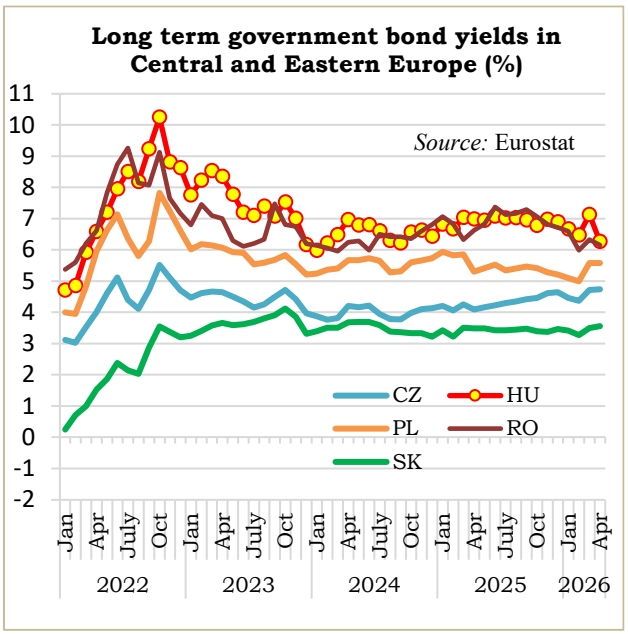
In 2025, the yield curve of government securities remained relatively flat, with some shift compared to end-2024. In December 2025, short-term yields were somewhat higher than a year earlier, the 3-year yield was exactly in line with the levels seen before, while longer yields were a few tenths of a percentage point higher than in December 2024. The 10-year yield stood at 6.79% in end-December. By April 2026, however, the yield curve has got flattened.

In the first three months of 2026, yields on government securities with maturities between 3 and 10 years rose by nearly 1 percentage point. Yields on securities with maturities of one year or less remained virtually unchanged. In April, however, yields had fallen across all maturities, with the 10-year benchmark yield dropping to 6.03%, a level not seen since the beginning of 2024.

Hungarian and Romanian 10-year government bonds still tend to offer the highest yields in the region (and in the EU). These two markets have essentially been neck and neck in this negative competition over the past few years. In the first four months of 2026, Hungarian yields were actually slightly higher (6.27% in April) than Romanian yields (6.15% in April). In April, Polish long-term yields stood at 5.6%, Czech yields at 4.7%, and Slovak yields in the eurozone at 3.6%.

The future trend in yields depends partly on the possibility of resolving fiscal problems and partly on investor confidence regarding the acceptability of the new Hungarian government's program.



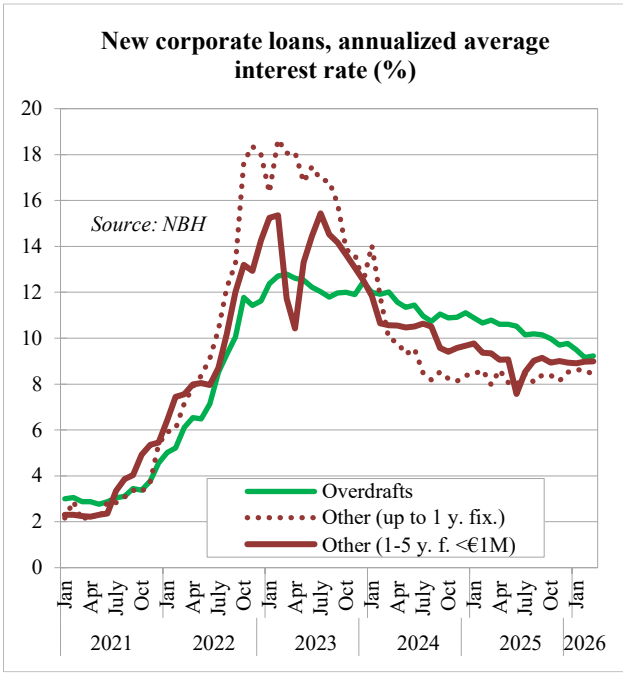


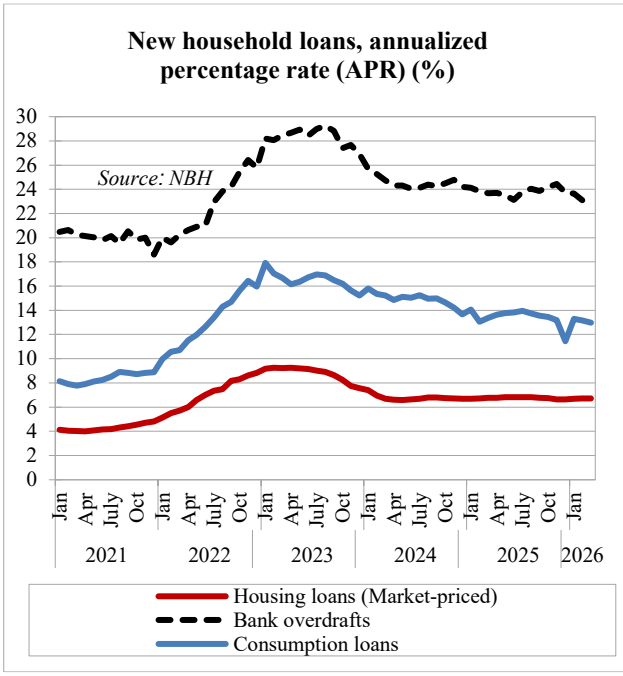
3.7.6. Corporate and retail interest rates

The **corporate** credit market broadly stabilized in 2025 and early 2026 but continued to exhibit a dual structure: the market interest rate environment remained relatively high, while the role of subsidized schemes became more prominent. Corporate loan rates declined in the first half of 2025 and then stabilized around 8–9% in the second half. The corporate loan portfolio grew by 7.5% in 2025, partly due to large one-off transactions in the fourth quarter. The loan portfolio of the small and medium-sized enterprise (SME) sector expanded by 6.5% year-on-year in 2025. The share of subsidized loans in the SME sector rose to 35.3% in the fourth quarter of 2025, representing a 17-percentage-point increase year-on-year. This growth is linked to the reduction in interest rates under the Széchenyi Card Program in October 2025. The increase was primarily driven by loans for working capital and liquidity purposes, as indicated by the surge in overdraft lending at year-end. The total value of corporate overdraft agreements increased by 17% in 2025. This also indicates that lending growth is largely driven by subsidized government programs.

At the beginning of 2026, the moderate recovery in the corporate loan market continued but did not accelerate. Interest rates on corporate overdrafts declined in both January and February, while interest rates on other loans remained largely unchanged. The loan portfolio showed volatility in the first months of 2026. Based on feedback from banks, the uptick in loan demand was primarily concentrated on short-term and forint-denominated loans. The contractual volume of overdrafts continued to grow at a rate exceeding 20% in early 2026. Subsidized loan programs remain dominant in lending, particularly fixed-rate SME loans. According to bank forecasts, corporate loan demand may persist in the first half of 2026, primarily for forint-denominated and short-term loans. No turnaround is yet in sight regarding demand for long-term loans for investment purposes.

The **household** loan portfolio grew by 14.7% in 2025, while the volume of new contracts rose by 81% in the fourth quarter, reaching a historic high (HUF 1,304 billion). As a





result of the Otthon Start Program, which has been available since September 2025, the value of new housing loans more than doubled in the fourth quarter.

In 2025, the interest rate and volume trends of retail loans diverged by loan type. The average cost of consumer loans (weighted by the amount of new business) declined, while the amount of new consumer loan placements expanded by more than one-third, with a sharp, nearly 70% increase in December. This expansion was driven primarily by personal loans and loans for the purchase of goods. By early 2026, the pace of growth had moderated, though the volume of personal loans continued to grow at a rate exceeding 15%. Interest rates on household overdraft loans remained consistently above 23–24%, while the portfolio expanded by 5%.

In 2025, the retail lending market was characterized by the expansion of consumer lending and the dominance of subsidized housing loans, amid persistently high interest rates. On the deposit side, the growth of liquid savings was the defining factor. The stock of overnight deposits of households grew by approximately 17%, while their interest rates stagnated at around 0.2%. This indicates a persistent preference for liquid assets.

Housing loans

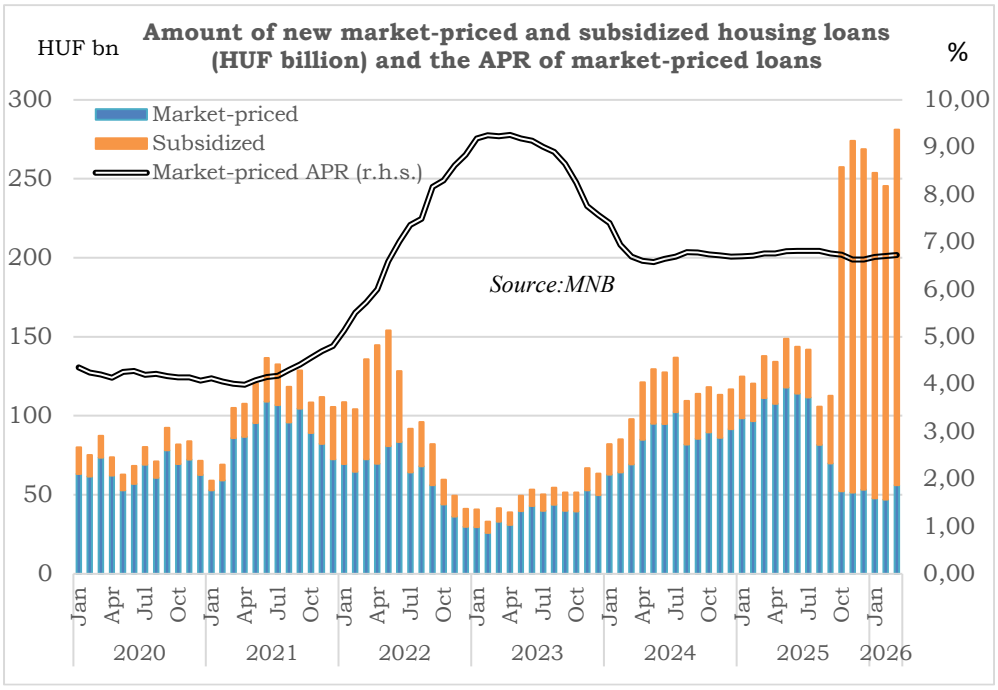
Regarding housing lending, the defining event in 2025 was the surge in demand for loans linked to the September launch of the Otthon Start Program (OSP). The total value of new housing loans increased by nearly 50% in the year as a whole. The expansion was primarily driven by the fourth quarter, when the amount of new loans exceeded the same period of the previous year by 130%. Under the OSP program, 16,400 contracts were signed, totaling 575 billion forints. As a result, the share of subsidized loans within total loan disbursements rose from 27% in the third quarter to 81%. The monthly average number of new housing loan contracts was approximately 6,600 until September 2025, rising to 9,700 between October 2025 and Marh 2026, though it fell short of the credit market peaks linked to previous subsidy programs. The increase in lending volume, despite the lower number of contracts compared to previous peaks, points to a rise in the average loan amount per contract, which is also linked to rising home prices.

With the launch of the OSP, the share of loans financing the purchase of existing homes rose from 77% to over 80% (nearly 90% in October), while the share of loans for new home purchases remained below 10%, suggesting that the uptick in housing demand has not materialized in the new home market, which is consistent with the high price levels and limited supply of new dwellings.

The average annual percentage rate (APR) for market-priced home loans stabilized in the 6.7–6.8% range following a significant decline in February 2024. By contrast, the cost of subsidized housing loans rose from 8.1% in January to 8.4% by the end of 2025. This increase can be attributed to changes in the structure and fee components of the loan programs. At the same time, the interest burden borne by customers did not increase significantly, as the state covers a substantial portion of the costs for subsidized loans. The total amount of interest subsidies, calculated in accordance with Government Decree No. 227/2025 (31 July) remained below 20 HUF billion forint until March 2026. Due to the high volume of the OSP and its maximum customer interest rates of 3%, the average interest rate for new borrowers fell from 5.1% to 3.6% in 2025.

It is expected that the high loan amounts available under the OSP and the broad eligibility criteria will continue to support strong demand for housing loans in 2026,

which could be further bolstered by the new housing support program for employees of budgetary institutions. On the supply side, simplified permitting procedures, support for the housing projects with priority investment status, and the acceleration of new housing development projects may contribute to sustaining lending activity.



Economic indicators for 2018–2025, with forecasts for 2026 and 2027 (percentage change)

	2018	2019	2020	2021	2022	2023	2024	2025	2026*	2027*
GDP AGGREGATES ANNUAL REAL GROWTH										
Total GDP	5.6	5.1	-4.3	7.2	4.2	-0.8	0.7	0.5	2.0	2.5
Domestic consumption	7.3	7.3	-2.2	6.8	4.3	-5.4	0.0	2.3	3.7	3.2
Private consumption	4.1	4.7	-0.8	4.8	6.3	-1.2	6.4	2.9	3.5	2.8
Community consumption	4.3	9.6	4.2	2.1	0.7	3.8	-6.0	3.2	0.5	0.5
Gross capital formation	17.1	12.2	-7.7	13.1	1.6	-15.7	-11.4	0.5	4.7	5.5
of which: fixed asset accumulation	16.4	12.7	-7.6	5.9	-1.0	-5.9	-8.6	-2.8	4.7	5.5
Exports[a]	5.0	5.5	-6.1	8.2	10.7	1.8	-0.5	-1.1	0.6	2.1
Imports[a]	7.0	8.2	-3.6	7.7	10.8	-3.4	-1.4	1.2	2.6	3.0
PRODUCTION INDICES										
Agricultural output (gross)	2.6	-0.1	-2.4	-1.1	-16.5	25.6	-4.3	-2.6	0.0	0.0
Industrial production	3.5	5.6	-6.0	9.5	6.1	-5.5	-4.1	-3.2	1.8	3.0
Retail sales volume	6.7	6.3	-0.1	3.7	5.0	-7.7	2.8	2.9	4.2	2.9
EMPLOYMENT, INCOME										
Number of employees	1.3	0.8	-0.9	0.7	1.3	0.6	0.0	-0.5	-0.7	0.1
Unemployment rate (population aged 15–74)	3.6	3.3	4.1	4.0	3.6	4.1	4.5	4.4	4.8	4.5
Gross nominal earnings[b]	11.3	11.9	9.0	8.7	17.6	14.0	13.2	9.0	9.3	7.0
Net real earnings[b]	8.3	8.4	5.7	3.1	3.2	-3.1	9.0	4.8	6.1	3.2
PRICES, EXCHANGE RATES, INTEREST RATES										
Consumer Price Index	2.8	3.4	3.3	5.1	14.5	17.6	3.7	4.4	3.0	3.7
Forint/euro exchange rate (annual average)	319	325	351	359	391	382	395	398	370	370
Dollar/euro exchange rate (annual average)	1.18	1.12	1.14	1.18	1.05	1.08	1.08	1.13	1.16	1.14
Short-term interest rates (3 months), end of period	0.00	-0.01	0.28	2.16	12.32	6.23	5.10	6.0	6.5	6.0
Long-term interest rates (10 years), end of period	3.01	2.01	2.08	4.51	8.98	5.86	6.55	6.79	7.3	6.8
CURRENT ACCOUNT										
Current account and capital account balance as a percentage of GDP	2.4	1.2	0.9	-2.1	-7.4	1.1	2.1	2.1	1.5	1.0
PUBLIC FINANCES										
General government balance, as a percentage of GDP	-2.0	-2.0	-7.5	-7.1	-6.2	-7.0	-5.1	-4.7	-6.8	-4.8
Gross public debt, as a percentage of GDP [c]	68.8	65.0	78.7	76.2	74.1	73.3	73.5	74.6	75.5	75.0

a Exports and imports of goods and services according to GDP statistics
b From 2019, the data cover all employers; earlier data in the time series cover enterprises employing at least five people, all budgetary institutions, and non-profit organizations significant in terms of employment.
c General government, including Eximbank
* Kopint-Tárki forecast

Source: KSH, MNB

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