A gloomy outlook is emerging for Hungarian GDP growth

Although there were no major surprises in the second release of GDP data for the Hungarian economy in the fourth quarter, we still had to lower our forecast for 2026. Internal, external and structural issues could hinder economic growth this year

The economic growth outlook for Hungary looks shaky and uncertain

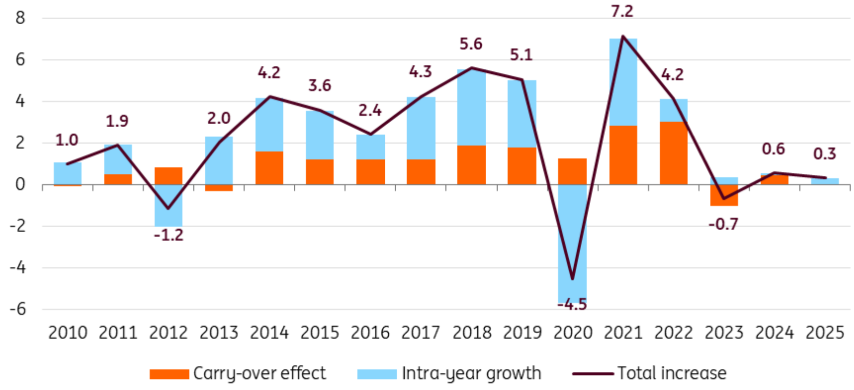
We are downgrading our GDP outlook for 2026

Based on detailed data, the outlook for the Hungarian economy appears somewhat gloomier. One-off factors, such as the performance of the agriculture and construction sectors, helped in the fourth quarter, while the most important segment, services, is showing weakening performance. Furthermore, the indicators observed so far this year, in terms of both the labour market and foreign trade, only serve to reinforce this negative outlook. The rise in energy prices caused by the war in the Middle East may also negatively impact the performance of the Hungarian economy this year.

Our latest economic growth forecast for 2026 has been revised downwards again to 1.7%, from 1.9%. This negative revision is partly due to the energy price shock and partly due to the structure of economic performance in the fourth quarter. The so-called carry-over effect accounts for 0.3ppt of this growth. In other words, if GDP were to stagnate in each quarter compared to the previous quarter during 2026, annual GDP growth would be 0.3% this year.

Growth dynamics this year are being driven by consumption supported by government measures, a modest pickup in investment, and continued weakness in net exports.

Decomposition of Hungarian GDP growth (% YoY, seasonally and calendar adjusted)



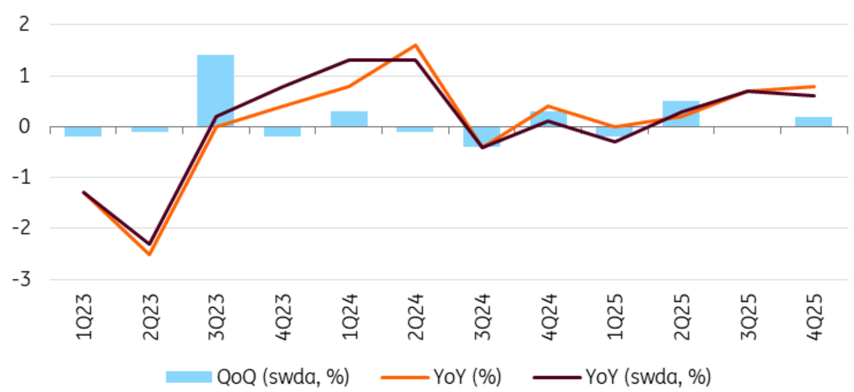
Source: HCSO, ING

Further ahead, in 2027-28, continued growth in domestic demand and a long-awaited upturn in external demand could result in GDP growth of around 2.7-3.0%. However, three years of sluggish capital stock growth and an increasingly challenging demographic situation are making it extremely difficult for the Hungarian economy to sustain growth above 3% without serious imbalances.

A deep dive into the fourth quarter of 2025

The Hungarian Central Statistical Office (HCSO) made only minimal changes to the GDP data for the fourth quarter. The Hungarian economy showed quarterly growth of 0.2% in the October–December period, unchanged from the flash estimate. In contrast, the seasonally and calendar-adjusted year-on-year index came in slightly higher, posting modest growth of 0.8%. According to raw data, the Hungarian economy grew by 0.4% in 2025 as a whole, and thus has not achieved meaningful growth since 2022, with real GDP fluctuating around the same level since then.

Hungarian GDP growth



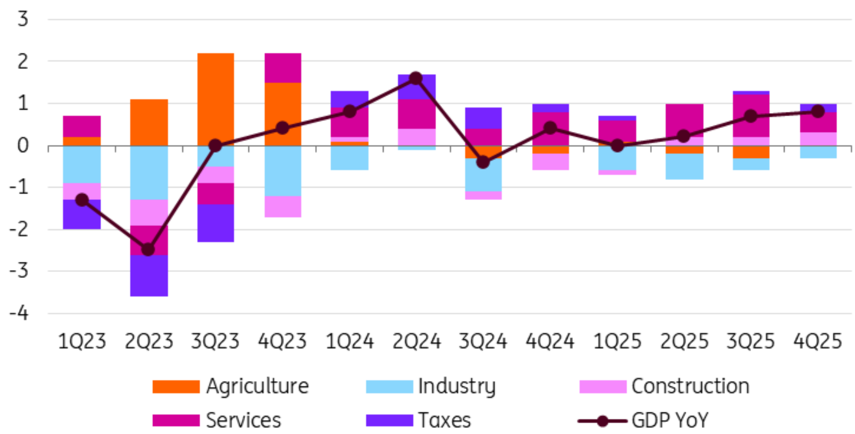
Source: HCSO, ING

In terms of production, the HCSO recorded a 2.5% increase in agriculture on a quarterly basis. Meanwhile, industry declined by 1.2%, while construction grew by 1.3% in comparison to the previous quarter. Services performed poorly, growing by only 0.1% on a quarterly basis, which explains the weaker-than-expected performance at the end of the year.

The weak holiday season is evident in every respect. Neither retailers nor the tourism sector showed strong growth during the holiday season, with quarter-on-quarter growth in this area standing at just 0.3%. Despite the launch of the new housing subsidy programme, the real estate sector has also been unable to take off. Of the last eight quarters, only one saw growth, and even then, it was at the lowest possible rate. Overall, the trend of slowing growth in services makes the outlook for the coming quarters rather gloomy.

In terms of traditional year-on-year growth indicators, the agriculture sector experienced a more modest decline than in previous quarters, while the industrial sector recorded a decline of around 2% again. The construction industry recorded one of the most significant year-on-year growth rates in recent years, at 5.1%, mainly due to the start of road and railway developments. Growth in services of 1% can be considered modest and disappointing.

Contributions to GDP growth – production side (% YoY)



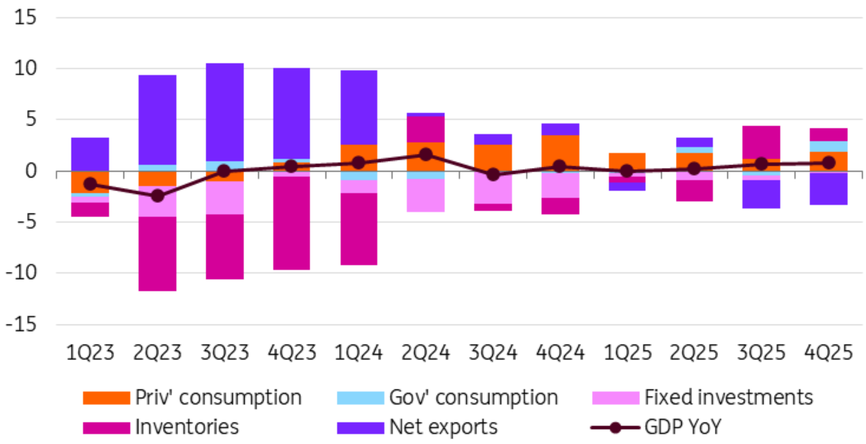
Source: HCSO, ING

In terms of the expenditure approach, there are some contradictions with the production-side indicators. Actual final consumption of households showed one of the strongest growth rates in recent years, increasing by 1.4% on a quarterly basis. Additionally, the actual final consumption of the government grew strongly, with the total actual final consumption rising by almost 2% on a quarterly basis – a rate not witnessed since early 2022. Interestingly, there is no sign of this in the services sector. Furthermore, we cannot say that the dynamic expansion of consumption is import-driven, given that imports fell by 0.2% in the last quarter of 2025. Exports also declined similarly on a quarterly basis.

The poor end to the year is primarily due to the hectic changes in inventories, with the HCSO showing a significant decline in this area. While investments showed minimal contraction, gross capital formation (gross fixed capital formation plus inventory changes) indicates a quarterly decline of 7.7%. It is still safe to say that there are serious problems with data quality, and that it is difficult to form a coherent picture of the performance of the Hungarian economy based on the latest data.

Based on annual indices, it can be said that domestic demand grew significantly in the fourth quarter, while exports of goods continued to decline. In other words, the structure of economic growth has not changed compared to previous quarters. Net exports significantly slowed down economic performance, which was offset by domestic demand.

Contributions to GDP growth – expenditure side (% YoY)



Source: HCSO, ING

The bottom line

As hard data for the first quarter is not yet available, it is too early to draw conclusions about the performance of the real economy this year. Several factors are limiting our ability to see clearly. Geopolitically, the recent conflict in the Middle East could put pressure on the Hungarian economy in the event of an energy crisis. Historically, a 10% increase in energy prices in Hungary has been associated with a 0.4% increase in average annual inflation and a 0.1% decrease in GDP growth.

Furthermore, internal factors also make the outlook uncertain. Parliamentary elections are to be held on 12 April, and the outcome is still uncertain. The election results could have a significant impact on our economic forecasts. Based on professional practice, we are currently assuming no policy change in our calculations. And while many factors could influence the performance of the Hungarian economy this year, based on our current calculations, we expect to see moderate growth at best once again.

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