

Article | 2 December 2025

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Hungary faces growing risk of another difficult year

Disappointing third-quarter results have cast a shadow over Hungary's economic outlook for 2026. The details reveal structural problems that are highly likely to persist next year, although there is a glimmer of hope, as always



We see some downside risks to our GDP outlook

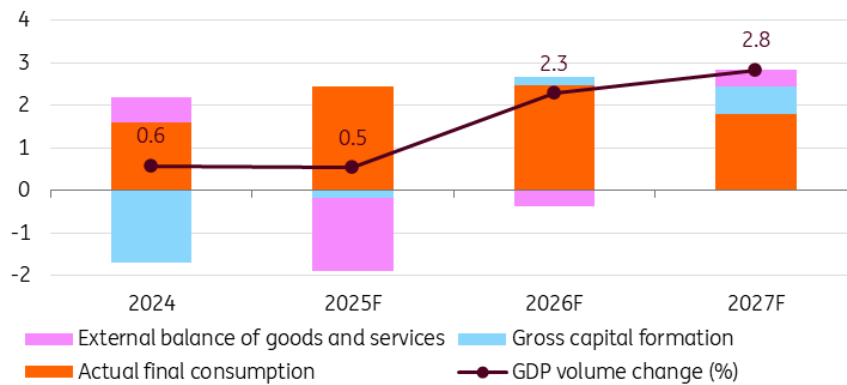
Based on detailed data, the outlook for the Hungarian economy appears somewhat gloomier when looking ahead. Unique factors – such as a strong agricultural performance – prevented a deeper contraction in the third quarter, leaving the economy stagnant. The hope now is that government measures will begin to take effect in 4Q, boosting consumption and investment on a quarterly basis.

These measures may also stimulate growth in the services sector. However, we don't expect any significant positive developments in exports in the short term. In the longer term, the German investment programme could stimulate external demand, and the gradual improvement in Hungarian consumer confidence could unlock further consumption potential.

If the economy picks up in the fourth quarter and achieves growth of close to 1% quarter-on-quarter, as expected, full-year growth of around 0.5% could be achievable. Nevertheless, this would still be weaker than last year's performance, offering little consolation. The biggest caveat is that the detailed data revealed that government measures so far have not had much

influence on economic activity.

Real GDP (% YoY) and contributions (ppt)



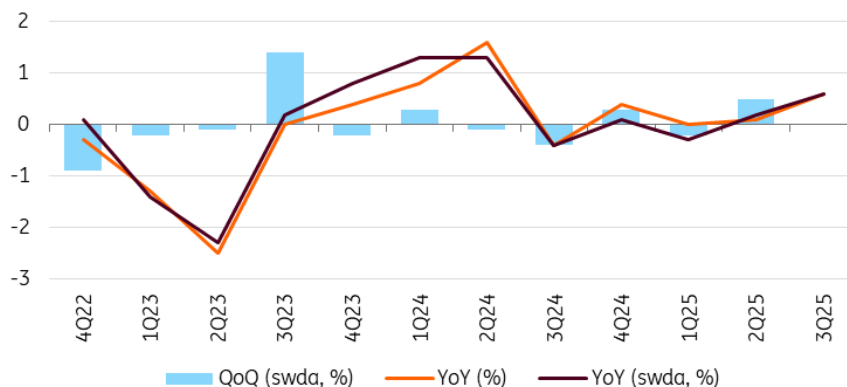
Source: HCSO, ING

Our current GDP forecast for 2026 is 2.3%, but if the end of the year is weaker than expected, achieving even 2% growth next year could be difficult due to the weaker carry-over effect. Looking further ahead, three years of sluggish capital growth and an increasingly deteriorating demographic situation make it highly unlikely that the Hungarian economy will be able to sustain growth of over 3% without serious imbalances.

A deep dive into the third quarter of 2025

The Hungarian Central Statistical Office (HCSO) did not revise its GDP data for the third quarter. The Hungarian economy stagnated on a quarterly basis during the July to September period. In line with this, the seasonally and calendar-adjusted year-on-year index remained unchanged, showing modest growth of 0.6%, underscoring the economy's inability to achieve sustained momentum since mid-2022.

Hungarian GDP growth



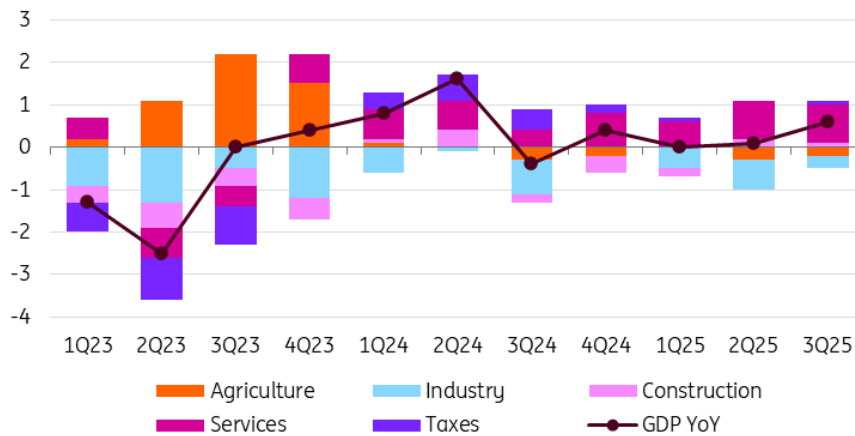
Source: HCSO, ING

On the production side, agriculture was a positive surprise, with the HCSO recording growth of 1% compared to the previous quarter. The industrial and services sectors also experienced modest expansion. Manufacturing performance was particularly impressive within industry. However, despite two consecutive quarters of significant manufacturing growth, the Hungarian economy has not been able to gain any real momentum. In the third quarter, the construction sector posted a sharp decline after a strong increase in the previous period. The preliminary data release was an unwelcome surprise, driven largely by quarterly weakness in the services sector, while developments in agriculture helped prevent a deeper contraction.

In terms of traditional annual growth indicators, the agricultural sector recorded a decline of just over 6%, while the industrial sector saw a decline of nearly 2%. However, manufacturing posted favourable data which has not been seen for a long time. The annual decline was less than 1%, thanks to the low base.

Construction output increased year-on-year, but its contribution to GDP growth was moderate due to its low weighting. The services sector continues to support growth, but the pace has clearly not picked up, slowing from around 2% last year to 1.0–1.5% this year. Overall, it can be said that no area of the economy is currently capable of demonstrating long-term strength, indicating structural problems.

Contributions to GDP growth - production side (% YoY)



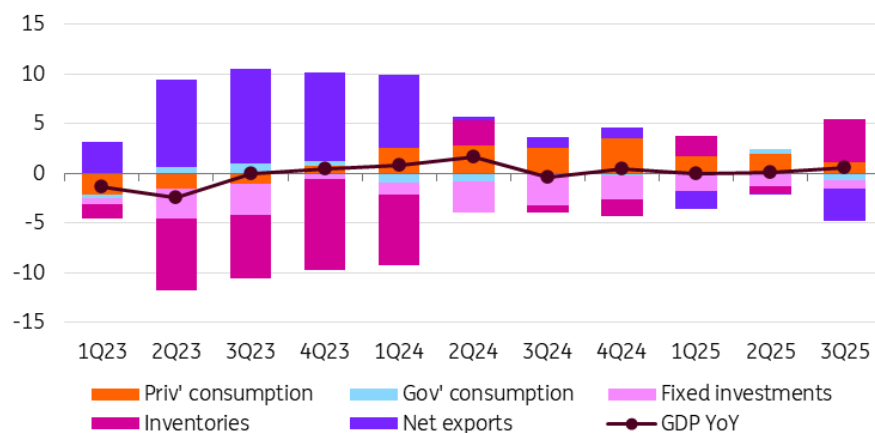
Source: HCSO, ING

In terms of the expenditure approach, the most notable development is that actual household consumption increased by only 0.1% QoQ. This is disappointing, as targeted government measures and significant payments linked to government securities held by households (retail bonds) have failed to stimulate spending. Detailed data suggest that government consumption fell sharply in the last quarter, which is perhaps the other major negative surprise. Overall, final consumption has shrunk on a quarterly basis.

The silver lining, perhaps, is that although investment continued to decline, this was only moderate. In contrast, inventory accumulation increased dramatically. This may stem from two sources. Firstly, ongoing large-scale investments that have not yet been activated (and are therefore not registered in the national accounts) are statistically booked as inventory. Secondly, increased inventories may also be due to products from ongoing trial production runs. The former process may also be reflected in the fact that imports of goods increased by almost 4% on a quarterly basis. This may be due to machinery and equipment imports necessary for production, as well as the initial supply of spare parts required for product assembly. In contrast, exports of goods essentially stagnated on a quarterly basis, confirming that the expansion of inventories is driven by industrial production rather than exports, given the low level of order books.

Year-on-year indices show that domestic demand grew exceptionally strongly in the third quarter. This was primarily due to base effects and a substantial rise in inventories. Public consumption fell by around 6%, while actual household consumption increased by only 1.9%. Investment activity declined by 3% year-on-year, indicating a slower pace of decline and potentially signalling that the investment-related downturn is coming to an end. For the third consecutive quarter, net exports negatively impacted overall economic performance, most notably in 3Q, due to weak exports and rising imports.

Contributions to GDP growth – expenditure side (% YoY)



Source: HCSO, ING

The bottom line

The Hungarian economy is still facing a confidence deficit. Though there has been some improvement in recent months, the country is not yet out of the woods. Despite the government's numerous targeted measures, signs of recovery are few and far between. However, the biggest impact may be ahead of us in the fourth quarter of this year and the first half of next year, given the timing of the next general election in spring 2026. Fiscal measures, a stronger forint and temporarily lower inflation may be just what the doctor ordered for an ailing economy. However, if these measures do not translate into a marked and sustained improvement in business and consumer confidence, the long-term GDP outlook will remain moderate at best.

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