Hungary's GDP growth could still reach 2% in 2025

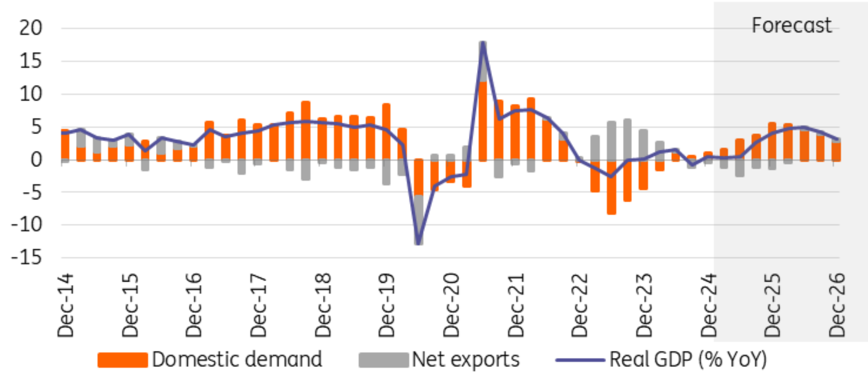
In light of today's detailed data, we see Hungary's real GDP growing by 1.9% this year. While we have not changed much in the headline number, we have tinkered with the details: stronger consumption, weaker investment activity and a slightly less negative impact from net exports

Hungary is currently facing a dual challenge – one that has been unprecedented in the last 30 years

Our headline GDP forecast is little changed, but we tinker with the structure

The Hungarian Central Statistical Office's (HCSO) detailed GDP report for the fourth quarter did not turn the world upside down. However, there are plenty of insights under the surface. Overall, based on the details released today, we expect the Hungarian economy to grow by 1.9%, a negligible downward revision of 0.1ppt compared to our previous forecast. However, this includes some significant shifts within the growth structure. We now forecast stronger consumption growth, much weaker investment activity with a possible drag on GDP growth, and a slightly less negative contribution from net exports.

Real GDP (% YoY) and contributions (ppt)



Source: HCSO, ING

A deep dive in our forecast changes

It is certainly encouraging that consumption continues to grow dynamically. The stronger-than-expected fourth quarter figure provides a better carry-over effect. However, the trend-like deterioration in the consumer confidence suggests that this positive momentum is at risk. And the propensity to save among households appears to remain very strong, judging by the inflows into retail government bonds at the beginning of the year. Even with that, we see roughly 5% year-on-year growth in household final consumption.

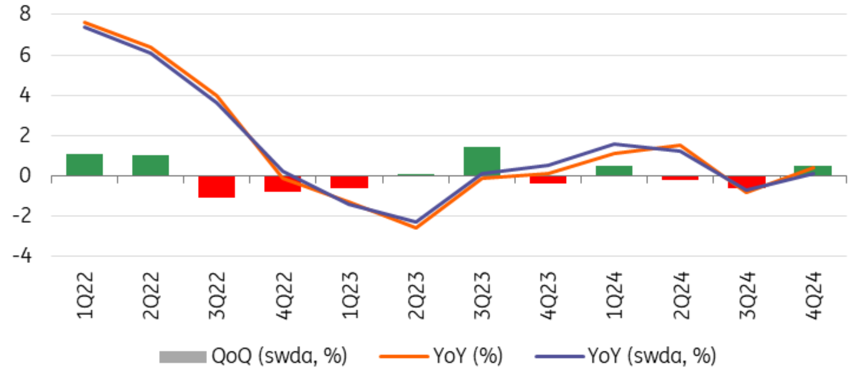
A turnaround in investment may still be some way off, as order books are slow to rebuild while fiscal space is tight. And new government programmes aim to help improving business confidence rather than implementing a drastic injection of capital. The slow absorption of EU funds does not help either. And in the absence of a major turnaround, which is nowhere in sight, there is a real possibility of three consecutive years of investment contraction. Actually, our updated base case sees a further 1.3% YoY drop in investments in 2025.

Net exports are likely to remain a drag on GDP growth. On the export side, a rapid turnaround is not yet in sight, while weaker investment is reducing the country's import demand in comparison with our previous forecast. In turn, we now see a 1.7ppt negative contribution from net exports to real GDP growth this year.

Economic growth in 2024 was far from expected

The Hungarian Central Statistical Office did not make any significant changes to the GDP data for the fourth quarter. On a quarterly basis, the Hungarian economy grew by 0.5% in the October-December period. At the same time, the seasonally and calendar adjusted year-on-year index remained at 0.4%, as indicated in the flash release. The data therefore confirmed that while the Hungarian economy has emerged from a short-lived technical recession, the recovery is far from strong or buoyant. It also confirmed that the Hungarian economy grew by only 0.5% in 2024 as a whole, far below expectations for the second year in a row.

Hungarian GDP growth



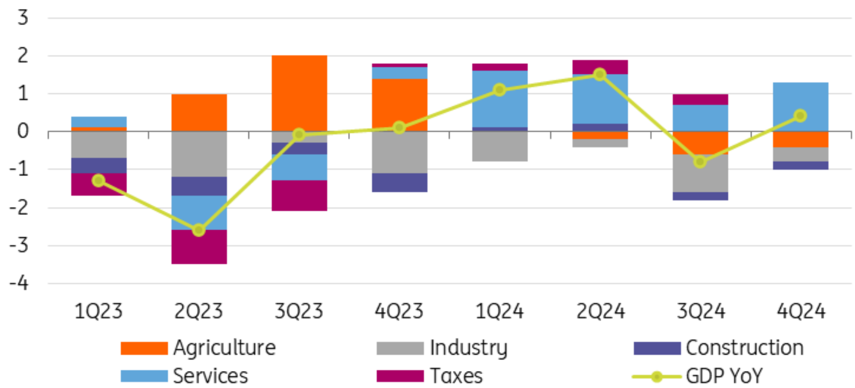
Source: HCSO, ING

A deep dive into the fourth quarter of 2024

On the production side, agriculture and construction posted slight quarter-on-quarter growth, boosting economic output in the fourth quarter. The services sector recorded its strongest growth since early 2022, with most sub-sectors growing around 1%, except real estate, which remained flat due to low household confidence and high savings rates. Public administration saw only slight growth, likely due to tight budgets. Industry, particularly manufacturing, contracted sharply, aligning with weak monthly production data.

High inflation in services continues to increase its share of household budgets. Combined with high savings rates, spending on durable and semi-durable goods stayed low in the fourth quarter, below historical averages, partly explaining industry's weak performance domestically.

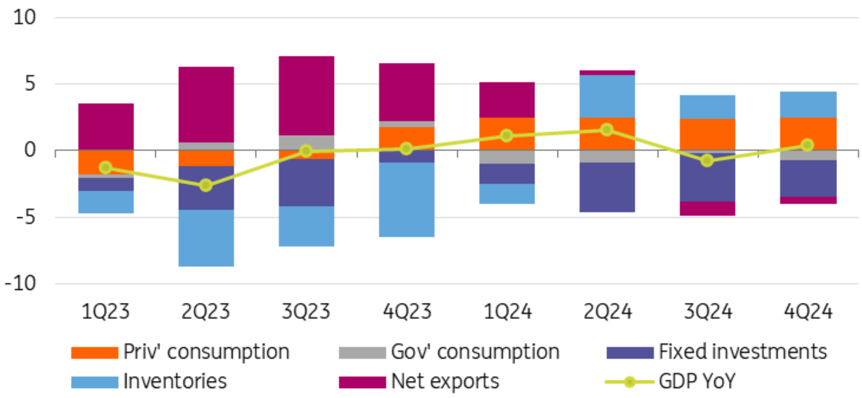
Contributions to GDP growth - production side (% YoY)



Source: HCSO, ING

On the final use side, household consumption rose significantly in the fourth quarter, driven by growth in services, while public consumption contracted due to tight fiscal control. Investment remained the weakest point, declining for the ninth time in 10 quarters. This imbalance – rising consumption and collapsing investment – resulted in only marginal growth in domestic demand. A poor industrial performance has led to a sharp decrease in exports, and imports have also fallen unexpectedly. Despite rising consumption, inventories remain high and restocking is still limited, which has had a consequential effect on import activity in goods. The most significant factor was a 7.5% quarter-on-quarter slump in services imports, which contradicts the government's claims that increased holiday travel weakened retail sales towards the end of last year.

Contributions to GDP growth – expenditure side (% YoY)

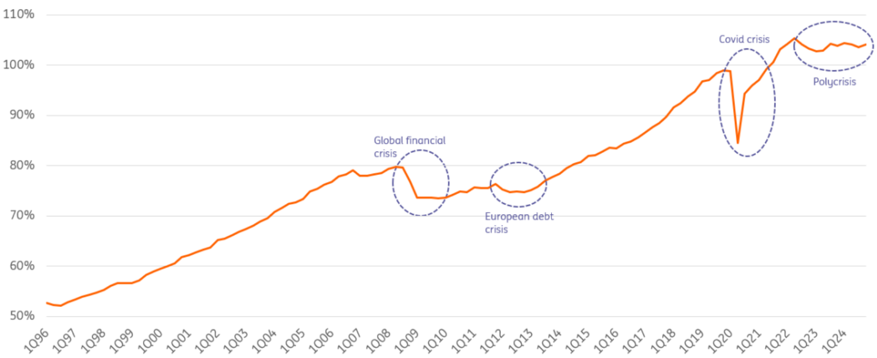


Source: HCSO, ING

The bottom line

Hungary is currently facing a dual challenge, unprecedented in the last 30 years. The country has experienced challenging periods due to labour market and/or inflation-related issues, which have affected domestic demand. However, external demand has played a crucial role in stimulating growth during these years. While some crises have led to a decline in external demand, policymakers have had ample opportunity to bolster domestic demand. Over the past two years, we have observed a combination of domestic and external shocks impacting the Hungarian economy.

Real GDP in Hungary (2021 = 100%)



Source: HCSO, ING

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