Hungary's GDP growth may struggle to reach 1%

Based on the details of the surprisingly weak first quarter, the short-term outlook for the Hungarian economy has become gloomier. While the growth structure should balance out from next year onwards, we have downgraded our outlook due to structural challenges limiting GDP growth to around 3%

Labour market and/or inflation-related issues have led to a challenging set of circumstances for the Hungarian economy, and domestic demand has struggled as a result

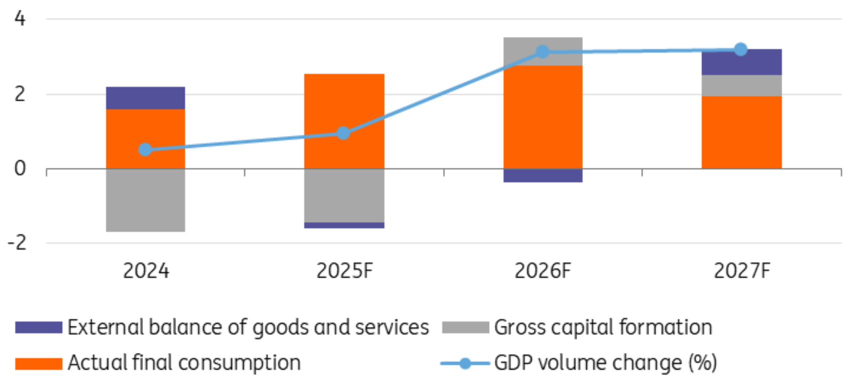
We are officially lowering our outlook for GDP growth in the years ahead

The detailed GDP report for the first quarter from the Hungarian Central Statistical Office (HCSO) confirmed our suspicions following the unexpectedly weak flash release. While we have made an interim update to our GDP growth outlook (a downward revision to 1.2% in 2025), based on the details, we have lowered our detailed forecast further to only 1.0%.

This comes with some changes: we now forecast weaker growth in domestic demand (in both consumption and investment activity), but anticipate a smaller negative contribution from net exports. Given the mounting global challenges, the further delays to new export capacities and the generally weak level of confidence, we have downgraded the outlook for 2026–2027 from the

4.0–4.5% range to around 3%.

Real GDP (% YoY) and contributions (ppt)



Source: HCSO, ING

A deep dive in our forecast changes

Low business and consumer confidence remains the main constraint on the Hungarian economy. This confidence reached historic highs in the years preceding the polycrisis (2018–2019). The unpredictable external situation is holding back investment activity, while the slowly deteriorating labour market and high inflation are encouraging savings over consumption. Government interventions have been ineffective so far in boosting business and consumer confidence and may even be counterproductive as they create further uncertainty. The occasional surge in community consumption before elections may bring some positives, but in its absence, the structural outlook is increasingly weak.

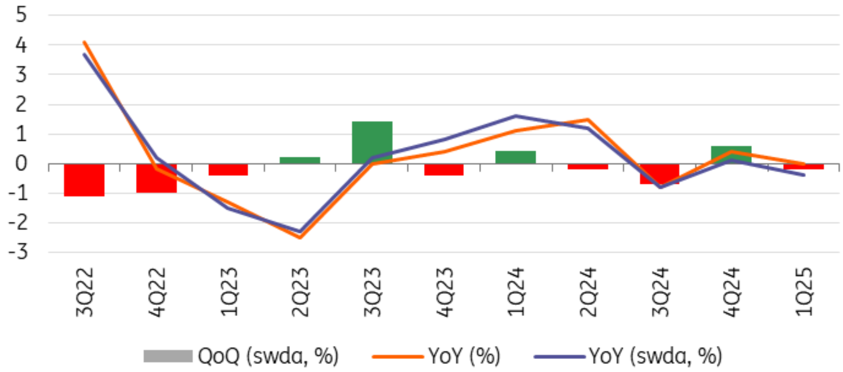
Slowing real wage growth does not point to a rapid recovery, and an upturn in external demand isn't expected in the near future. Furthermore, the German investment programme and the increase in EU defence spending are not expected to have a positive impact until 2026–2027.

Against this backdrop, we expect GDP growth of only around 1% this year, which is subject to downside risks. This growth will be driven by rising actual final consumption, albeit at a weaker pace than previously expected. We now anticipate a larger decline in investment activity. Due to weaker growth in domestic demand, the impact on GDP growth from net exports is slightly less negative than previously expected.

Hungary starts 2025 with economic stagnation

The Hungarian Central Statistical Office did not make any significant changes to the first quarter GDP data. On a quarterly basis, the Hungarian economy shrank by 0.2% in the January–March period. At the same time, the year-on-year index remained unchanged, indicating stagnation. The Hungarian economy therefore finds itself still unable to return to a growth path, as quarterly GDP volume has remained broadly unchanged since mid-2022.

Hungarian GDP growth



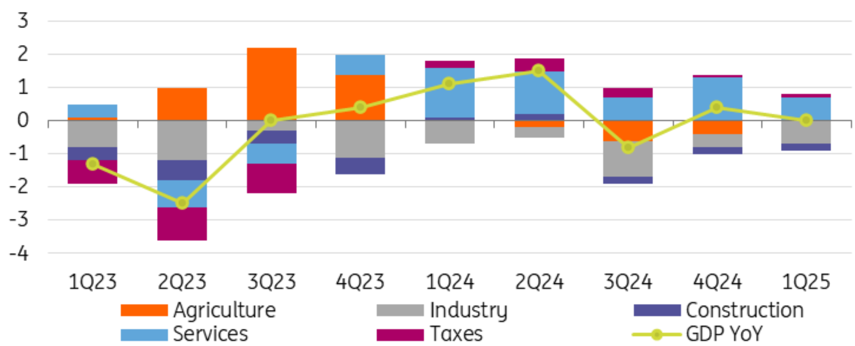
Source: HCSO, ING

A deep dive into the first quarter of 2025

On the production side, agriculture showed significant quarter-on-quarter growth on a core basis, which was somewhat surprising. However, its small weight meant that it did not contribute much to overall performance. As expected, both industry and construction contracted significantly compared to the final quarter of the previous year, in line with the picture presented by the monthly data. The biggest surprise, as we suspected after the preliminary release, was the negative performance of the services sector. Nevertheless, the fact that trade and logistics grew to some extent improves the overall picture. Most business-related services, however, declined in line with weak business confidence.

In terms of classic year-on-year growth indicators, the agriculture sector recorded only a slight decline in the first quarter compared to last year. Manufacturing output fell by 4.6%, while construction output fell by almost 5%. So it is still only the year-on-year growth in services that has pulled GDP up into stagnation. The difficult budgetary situation is also evident here, with public administration, defence and compulsory social security showing a contraction of over 1%.

Contributions to GDP growth - production side (% YoY)



Source: HCSO, ING

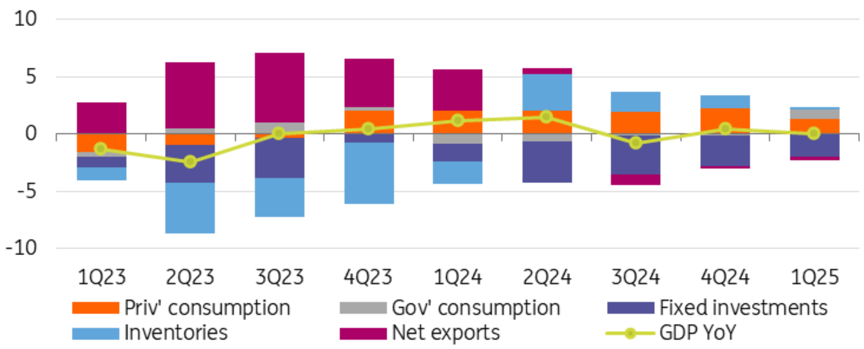
On the final use side, the most notable development is that, while household consumption expenditure increased on a quarterly basis, the rate of growth is the slowest since the second quarter of 2023. In addition to a significant contraction in benefits in kind, actual household consumption also fell on a quarterly basis. This has not happened since the beginning of 2023.

It's therefore clear that weak consumer confidence and a tight fiscal position are now holding back consumption growth. However, the picture of tight fiscal control is somewhat contradicted by the significant increase in community consumption, which could have been a one-off effect. Investment continues to be the weak spot, having contracted 10 times in the last 13 quarters, with no improvement at the start of 2025. Unsurprisingly, with such duality (i.e., weakening consumption and continued investment collapse), domestic demand has held back the economy's performance.

Against the backdrop of poor industrial performance, it is somewhat surprising that exports expanded at a pace not seen for some time. Imports, however, grew at a similar quarterly rate. This was presumably related to the tariff war, with companies trying to export more before the new tariffs came into force. They did so using stocks, as inventories also fell significantly. In contrast, the increase in imports was mainly driven by imports of services.

Regarding the year-on-year figures, domestic demand grew by just 0.4% in the first quarter. This was mainly driven by dynamic annual growth in household consumption. Meanwhile, a significant one-off increase in community consumption (7.3% growth) has improved the overall picture. This is a cause for concern because if this is a one-off effect, its absence in the second quarter could lead to a recession. Investment activity continues to decline by 10%. This trend is consistent with the fiscal situation and low business confidence, which are both caused by falling order books and uncertain growth prospects. For the third consecutive quarter, net exports have had a negative impact on GDP growth.

Contributions to GDP growth – expenditure side (% YoY)



Source: HCSO, ING

The bottom line

Hungary is still 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 three years, we have observed a combination of domestic and external shocks impacting the Hungarian economy.

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