Hungary's positive economic momentum fades

Fresh data for February was a mixed bag after a strong January: industrial production surprised on the downside, while retail sales continued to grow steadily. There is still hope for meaningful GDP growth in the first quarter, but the recovery will remain uneven

The Hungarian Central Statistical Office (HCSO) has released figures on retail sales and industrial production for February. These releases presented the first negative surprise of 2026 in terms of Hungary's economic performance. Although this new set of data sent mixed signals and broke the clearly positive momentum, we still believe that Hungary's long-standing stagnation will end this year. However, there are many uncertainties surrounding local and geopolitical issues.

Regarding the outlook for Hungarian GDP in 2026, the latest retail and industrial data suggest moderate progress. Retail sales growth has stabilised and could accelerate further if consumer confidence remains strong. Meanwhile, despite the decline in the volume of industrial production in February, we still anticipate an increase in production this year. This means that there is still hope that both sectors will positively affect the average annual economic growth rate.

Hungarian industry came as a negative surprise

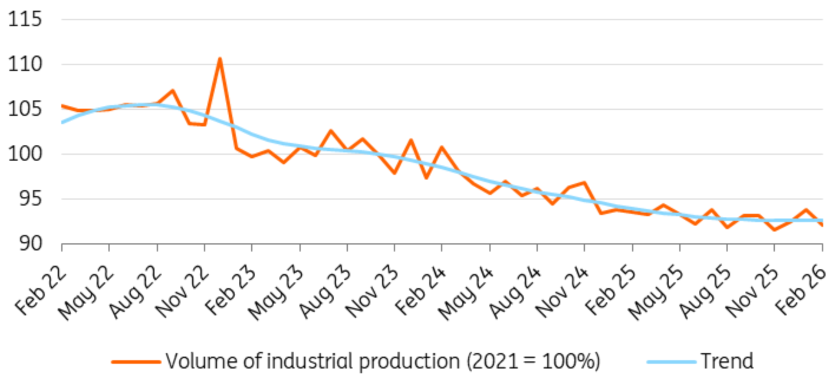
-1.5%

Industrial production (YoY, wda)

ING estimate: 0.0% / Previous: -0.3%

The positive performance of the previous two months came to an end in February 2026, with Hungarian industry faltering again. Production volume fell by 1.8% month-on-month, causing the year-on-year indicator to deteriorate significantly. Compared to February last year, production was 1.5% lower this year. This performance fell far short of market expectations.

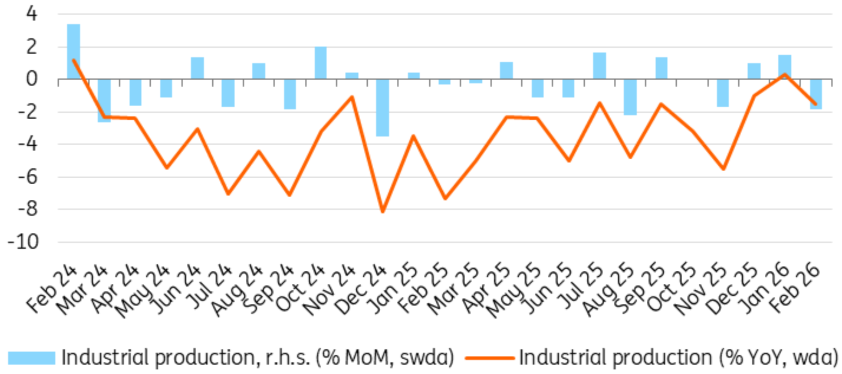
Volume of industrial production



Source: HCSO, ING

However, there is some good news: the strong performance of the past two months has not been completely wiped out. Although the fixed-base index deteriorated in February, it remains higher than its most recent nadir. While the performance relative to the monthly average for 2021 remains poor (-7.8%), the absence of a new low point may indeed signal that things can only get better. Nevertheless, this assertion seems somewhat reckless given the war in the Middle East, which poses numerous risks to Hungarian industry, including soaring energy prices, rising raw material costs, potential supply chain disruptions, and shaken business and consumer confidence.

Performance of Hungarian industry



Source: HCSO, ING

As this is a preliminary report, the HCSO did not provide many details. However, based on the brief commentary, there is nothing new. Production declined year-on-year in most manufacturing subsectors, with electronics manufacturing being the exception once again. It is somewhat surprising that battery production has started to trend upwards, but the low base may explain this. Meanwhile, despite the launch of the new EV car factory in Debrecen, vehicle production output declined, and the food industry continued its downward spiral.

Fundamentally, the new export capacity coming online this year gives us hope for some more lasting improvement, although the results so far are rather mixed. Taking the geopolitical situation into account, however, this upturn is more likely to occur in the second half of the year. Consequently, it is possible that the fixed-base index could reach the monthly average of 2021 by the end of this year. Therefore, while Hungarian industry's full-year performance in 2026 may not be explosive, sectoral growth could average 3–4% annually. In other words, after three years of industrial recession, industry could contribute positively to the overall performance of the Hungarian economy, provided these prospects are not derailed by the effects of the war in the Middle East.

Hungarian retail sales growth not losing momentum

3.8%

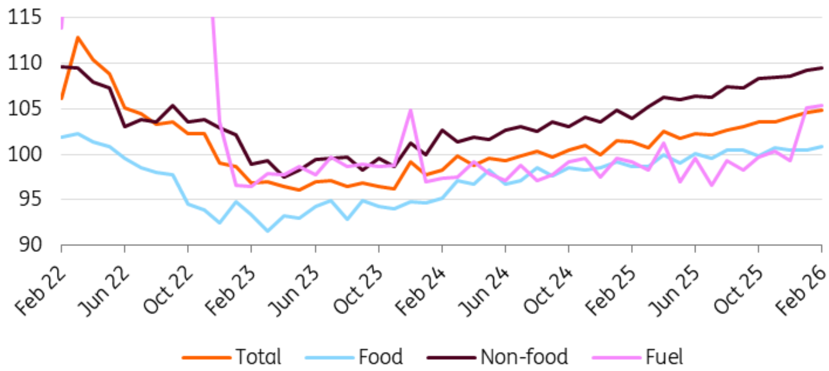
Volume of retail sales (YoY, wda)

ING estimate: 3.9% / Previous: 3.5%

Although the positive trend did not continue in the industrial sector, Hungarian retail performed well in February. Domestic retail sales grew by 0.4% month-on-month, marking the seventh consecutive month of growth. Year-on-year, the 3.8% calendar-adjusted growth was broadly in line with analyst expectations and showed a slight acceleration compared to the previous month.

Examining longer-term trends, retail sales volume in February was 4.9% higher than the monthly average for 2021, indicating sustained growth in the sector as the upward trend has persisted since late 2023, albeit with minor fluctuations. However, as the pace of growth has stabilised over the past few months, the current fixed-based figure can be considered a high not seen for over three-and-a-half years.

Retail sales volume in detail (2021 = 100%)

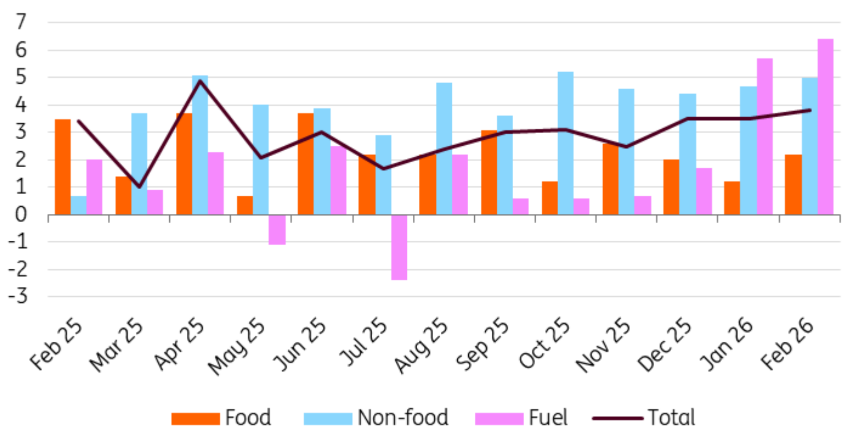


Source: HCSO, ING

Looking at the details, food store sales grew significantly on a monthly basis following two months of stagnation, a trend which is likely to be linked to the additional pension payments. Sales volume also increased in non-food stores month-on-month. Within this segment, however, the picture is very mixed. Turnover from mail-order and internet purchases fell significantly after the sharp increase the previous month, supporting our theory that the January surge may have been the result of the extreme cold weather.

Turnover at second-hand goods stores declined substantially for the second consecutive month, which may indicate an improvement in households' financial situation. The combination of the above-mentioned factors (weather and disposable income) likely contributed to the monthly increase in sales at furniture and electrical goods stores. However, the drastic price increase for computer equipment resulted in a significant decline in sales in February. Fuel sales rose only slightly compared to the previous month, possibly reflecting the impact of rising fuel prices.

Breakdown of retail sales (% YoY, wda)



Source: HCSO, ING

Overall, we saw a general improvement in performance in February, boosted by a few one-off factors too. Consumption is likely to remain one of the main drivers of the Hungarian economy in the first quarter of 2026, while sluggish industry (hence exports) suggests that poor foreign trade performance may have held back GDP growth during this period. Therefore, the main question regarding this year's economic growth will be whether exports pick up, whether investment will move upwards from its low point, and whether another energy crisis can be avoided. If the answer to any of these questions causes disappointment, this would present further challenges to achieving our projected GDP growth of 1.6% for this year.

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