

Monitoring Hungary: A wish for a better year ahead

In our latest update, we reassess our Hungarian economic and market forecasts after a year that did not live up to expectations. We were not even close. We wish and hope for a better year ahead, and there are some signs that this may come true



Hungary: At a glance

- We expect the Hungarian economy to end 2024 with positive quarter-on-quarter growth, ending the technical recession. But the damage has already been done, and we lower our GDP growth to 0.5% in 2024 and 2.0% in 2025.
- Some high-frequency data (both hard and soft) suggests that there could be breakout points in the economy next year. And while the potential for better economic activity is clearly there, again, we hope history doesn't repeat itself.
- The labour market may be the hardest to remain optimistic about, mainly due to job cuts across Europe. However, the general labour shortage and the minimum wage agreement could provide enough firepower for the economy.
- We see the current account and trade balances remaining in surplus in 2025, but the

surplus will shrink due to the high share of imports in rising domestic demand.

- We forecast a gradually rising inflation trend in 2025, with a peak of around 5% and an average of 4.2%. Headline inflation will reach the target only in 2026.
- The National Bank of Hungary is on hold for an extended period. Easing will probably resume in the second quarter of 2025 with a total of 75bp of cuts. There is also a realistic chance of some targeted balance sheet measures.
- 2026 is an election year and the cabinet reshuffle means that 2025 may be a black box for fiscal policy. However, we see the 3.7% of GDP deficit target as within reach if there is a willingness to achieve it.
- The forint remains under pressure from the global environment. The stronger US dollar and dovish local story do not show much improvement and we expect further HUF weakness.
- The market is pricing in only two NBH cuts next year and we expect some dovish repricing. Bond issuance will rise next year, but local demand should remain high. Rate cuts and issuance at the long end of the curve should result in a steeper curve.

Quarterly forecasts

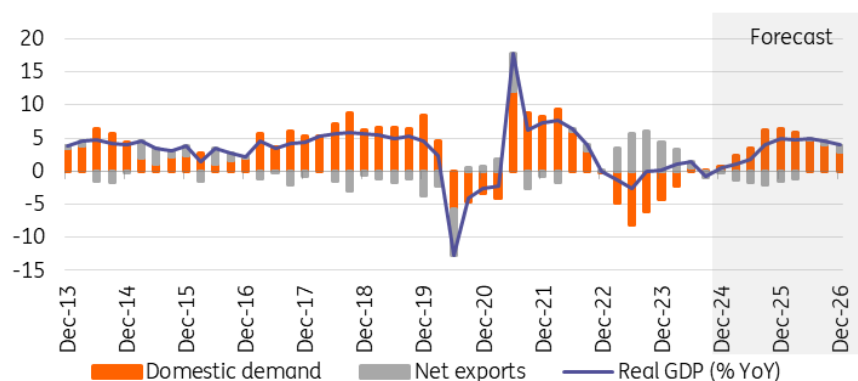
	3Q24	4Q24F	1Q25F	2Q25F	3Q25F	4Q25F	1Q26F	2Q26F
Real GDP (%YoY)	-0.8	0.2	0.3	0.5	2.8	4.3	4.9	5.2
CPI (eop, %YoY)	3.0	4.3	3.6	4.5	4.5	4.3	3.8	3.4
Central bank key rate (eop, %)	6.50	6.50	6.50	6.25	6.00	5.75	5.50	5.25
3m interest rate (eop, %)	6.32	6.50	6.50	6.10	5.85	5.60	5.35	5.10
10yr yield (eop, %)	6.16	6.25	6.60	6.75	7.00	7.15	7.35	7.25
EUR/HUF exchange rate (eop)	397.2	413.0	420.0	412.0	418.0	420.0	424.0	420.0
USD/HUF exchange rate (eop)	356.7	393.3	403.8	396.2	401.9	411.8	419.8	411.8

Source: National sources, ING estimates

We revise down our 2025 GDP forecast

The Hungarian economy entered a technical recession in the third quarter, but it may be over as quickly as it came. For the fourth quarter of the year, there is some positive data that could give cause for optimism. However, looking at the data and trends for the year as a whole, the damage has already been done. Moreover, the outlook for Hungary's main trading partners is now gloomier. As a result, we are revising down our forecast for 2025 to 2.0% as a base case. Looking ahead, it is encouraging that consumption continues to grow, but consumer confidence has fallen again. The new government programmes may bring some change, and we expect domestic demand and consumption to pick up and continue to recover next year.

Real GDP (% YoY) and contributions (ppt)

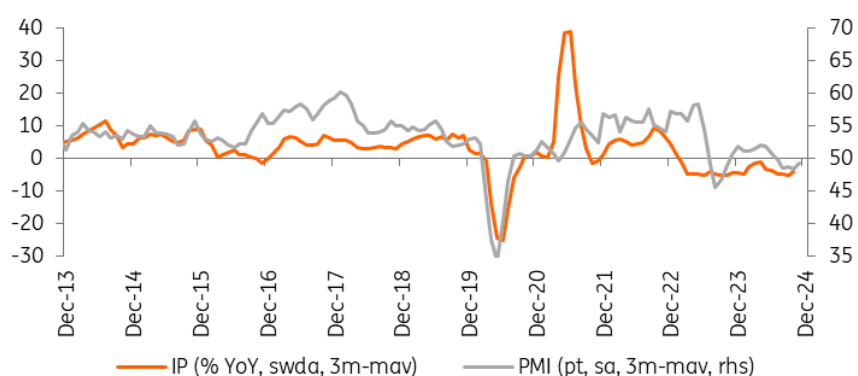


Source: HCSO, ING

Industry shows some signs of life

Industrial production rose by 2.0% month-on-month in October, which also improved the year-on-year decline to 3.1%. Production volumes are now 2.6% below the average monthly volume in 2021. Most importantly, total order books at the end of October were “only” 20% below the level from the same period of the previous year, so we can see some trend-like improvement there. In light of this data, we see a real opportunity for a gradual improvement in industrial performance. The big boost for next year will come from new export capacity (e.g. BMW, BYD, CATL). According to the central bank, the start of production in these factories could add 0.6ppt to GDP growth next year. However, this could prove too optimistic if the inventory cycle doesn't turn around globally and the expected rebound in external demand doesn't materialise.

Industrial production (IP) and Purchasing Manager Index (PMI)



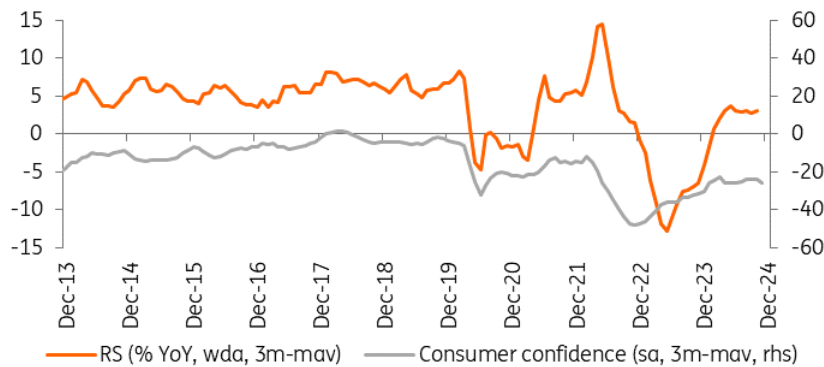
Source: HALPIM, HCSO, ING

We see consumption growth accelerating in 2025

October brought a rebound in retail sales after September's performance was negatively impacted by the floods. The volume of retail sales rose by 1.2% MoM, bringing the year-on-year print to 3.6%. Looking at the details, food retailing was the main driver with an expansion of 1.6% MoM, while the volume of non-food sales failed to benefit from the post-flood recovery and declined by 0.7%. Fuel sales rose by 3.3% on a monthly basis, likely due to the positive impact of the

availability of road transport. Next year, the expected high real wage growth and the huge retail government bond payments (concentrated in the first half) should provide some grounds for optimism. The question remains how much of this will be spent or reinvested. The government's new action plan may also improve consumer confidence, which could have an indirect positive effect on consumption and retail sales as lending picks up.

Retail sales (RS) and consumer confidence

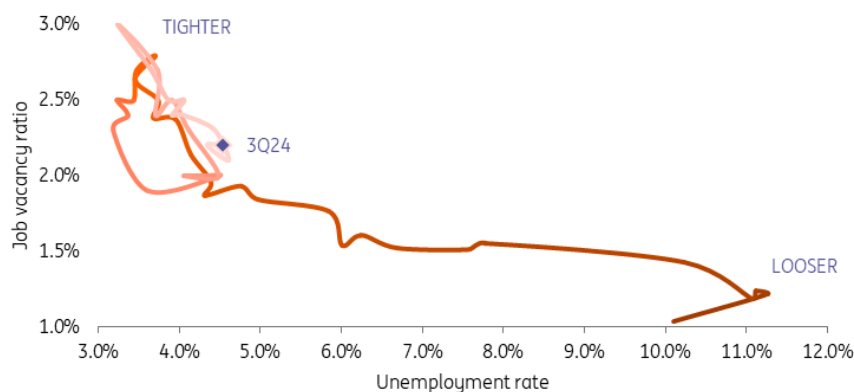


Source: Eurostat, HCSO, ING

Expansion of the economy and higher minimum wages bring optimism

The official three-month unemployment rate remained at 4.6% in August-October. The labour market is perhaps the hardest to remain optimistic about, largely because of the job cuts that are being mentioned across Europe. If companies start to get rid of the labour they have been hoarding, as the expected pick-up in economic activity fails to materialise, this poses a threat to employment. Looking ahead, if the Hungarian economy starts to expand as we expect, it could be just what the doctor ordered for companies. In 2025, the combination of public wage agreements, minimum wage increases and labour shortages could lead to nominal wage growth of 9-10%.

The Beveridge curve of the Hungarian labour market

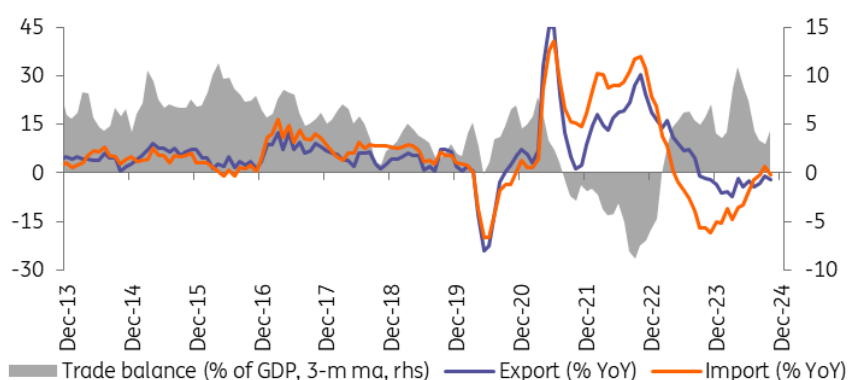


Source: HCSO, ING

Current account surplus narrows next year

While the value of exports in euro terms fell by 4.0% between January and October compared with the same period a year earlier, the value of imports fell by 6.3%. Thus, the surplus in the trade balance remains intact for the year as a whole, despite the continued weakness in industrial export sales. Looking at October alone, the goods balance deteriorated by EUR 127m year-on-year. Looking ahead, the trade surplus could be around EUR 11bn at the end of the year. In our view, domestic demand will drive GDP growth in 2025, leading to a significant increase in imports. And while new manufacturing capacity will help exports, it will also boost import needs. As a result, we forecast a negative impact of net exports on economic activity. Against this backdrop, we also expect the current account and trade balances to narrow, but remain in clear surplus territory.

Trade balance (three-month moving average)

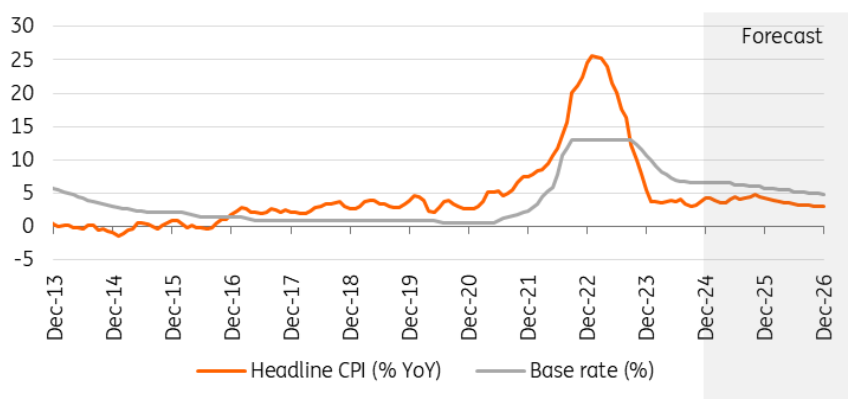


Source: HCSO, ING

Tax and excise duty changes to set the tone in inflation in 2025

Inflation rose to 3.7% YoY in November, roughly in line with expectations. Although headline inflation is rising, underlying inflation has been lower than expected. Given this, the near-term inflation picture is positive. Looking ahead to 2025, tax and excise duty changes will set the tone for re-pricing in the early part of the year. These will affect many sectors (especially retail and services), which is why we expect inflation to rise further in the coming months. After that, there will be a lot of volatility with a slight upward trend. The risks are two-sided, depending on the instability of the forint, strong wage growth and the ability of companies to pass on costs. In all, our current forecast for average inflation next year is 4.2%. Inflation will reach the 3% target in 2026.

Inflation and policy rate

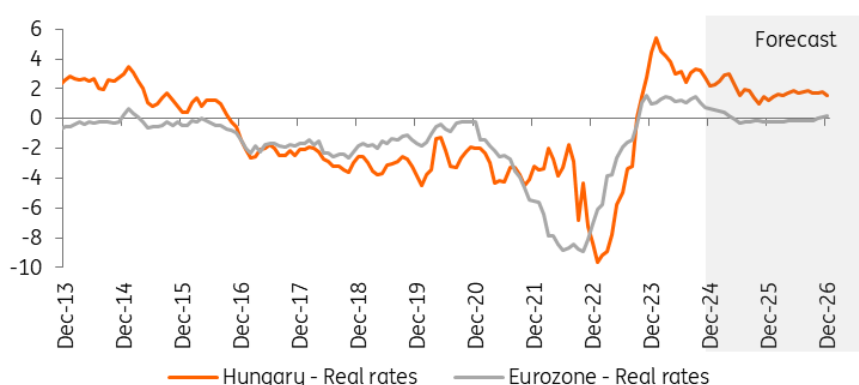


Source: NBH, ING

Monetary policy could be a tale of two halves in 2025

At its December meeting, the National Bank of Hungary kept its base rate unchanged at 6.50%. The main macroeconomic message is that the expected inflation path for 2025 has shifted upwards. This, along with the emphasis on a further pause in interest rate cuts to support the NBH's stability-oriented approach, and the final part of the forward guidance, which mentions geopolitical tensions, volatile financial market developments, and risks to the inflation outlook, justifies a continued pause in interest rate cuts. The European Central Bank's forward guidance was also cautious, leaving less room for manoeuvre for the NBH. We think a total of 75bp of rate cuts next year is realistic, with a resumption of easing in the second quarter (possibly in June). The expected total size of the easing would align with the average size of easing cycles expected in the region.

Real rates (%)



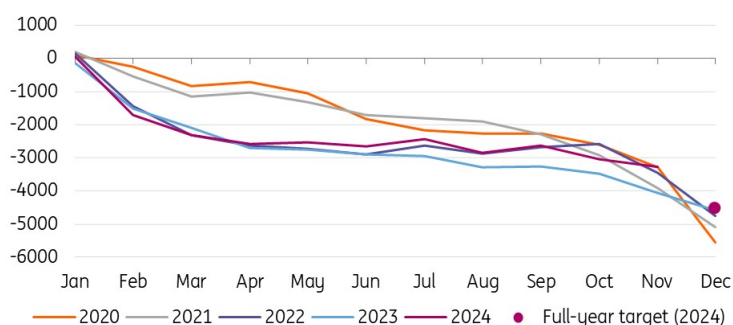
Source: ECB, NBH, ING

Budget deficit target is within reach

This November monthly budget deficit was the lowest since 2019, at HUF 233.8bn, bringing the year-to-date deficit to HUF 3.28tr, or 68% of the 2024 plan. This improves the fiscal outlook, with a potential deficit of HUF 1,500bn in December to meet the target. We expect a slippage of only

0.1% of GDP, indicating tight fiscal control despite weak VAT revenues. For next year, the planned accrual deficit target remains at 3.7% and the cash flow deficit at 4.8% of GDP. The expected slippage is 0.3-0.5% of GDP, mainly due to our different macroeconomic outlook, but this is a manageable risk. The new governor (Mihály Varga) and some new members of the NBH (Benő Péter Banai, Zoltán Kurali) were also introduced. In our view, this creates a greater risk and uncertainty for fiscal policy than before, as these budget and debt financing experts will be working at the central bank from March next year.

Budget performance (year-to-date, HUF bn)

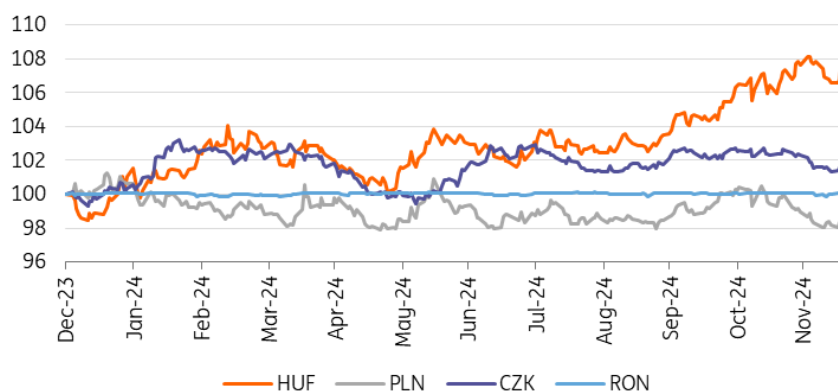


Source: Ministry of Finance, ING

Forint remains vulnerable and the start of next year does not suggest any improvement

The NBH saw a rather muted market reaction to its last meeting. The HUF market, like its CEE peers, seems to have already switched into Christmas mode, and with little news coming out of the NBH, it is hard to expect a strong view from traders and investors. On the other hand, the market cannot escape the hawkish Fed story. Since the US election, EUR/HUF has been strongly driven by EUR/USD and the market's view of a Trump presidency, putting pressure on the forint. Although EUR/HUF showed some signs of stabilisation in the 408-410 range, the hawkish Fed move is negative news for the forint and the NBH. Nevertheless, year-end is usually positive for CEE currencies, including HUF, and we expect year-end levels in the 410-413 range.

CEE FX performance vs EUR (29 December 2023 = 100%)



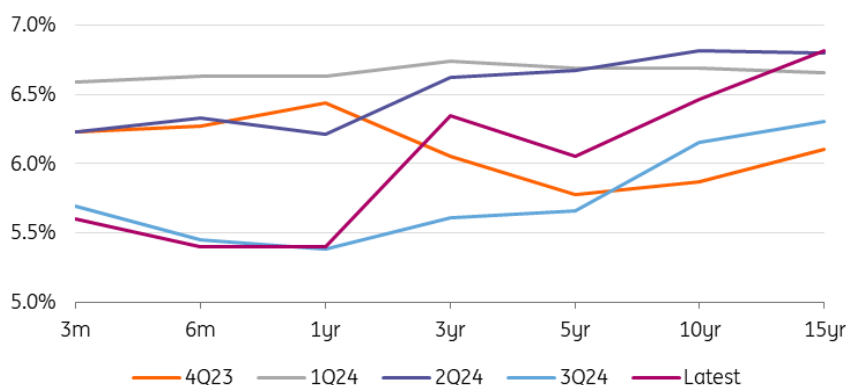
Source: NBH, ING

Overall, however, we see HUF remaining fragile, and next year does not suggest much improvement with our outlook for EUR/USD looking for a new low in 1Q25. At the same time, on the local side, we see only downside surprises in the economy and inflation, which the market will see as dovish amid the change in NBH leadership in March, putting pressure on the HUF. Therefore, we expect the pressure on the forint to return with the new year and we should see the HUF heading towards 420 EUR/HUF in 1Q25.

The market should return to dovish pricing next year, while bond supply will increase

The rates market, like the FX market, has already gone into Christmas mode and especially in the last few days we have seen rather random moves amid very low liquidity. However, similar to CEE peers, the market is pushing the IRS curve back up. Thus, very short FRAs after the NBH meeting are pricing in two rate cuts of less than 25bp next year and the rest of the curve remains very flat. Although the current Monetary Council seems unwilling to change its hawkish rhetoric, the looming NBH change and the rather weaker inflation and economy should lead to some repricing down in January and the curve should normalise with some re-steepening.

Hungarian sovereign yield curve (end of period)



Source: GDMA, ING

In the bond market, Hungarian government bonds (HGBs) continue to enjoy the highest demand in primary auctions in the CEE region. The debt agency has published a funding plan for next year that indicates a shift in focus towards local currency bonds and a lower weighting of retail and FX issuance. Overall, gross issuance of HGBs is expected to increase by around 33% next year. The debt agency expects the tax incentive for local banks and insurers to be the main buyers, while some of the retail bond redemptions should go to the local market. On the other hand, the fiscal risk points to larger supply than the debt agency is currently indicating. HGB issuance should be directed to the long end of the curve. Thus, combined with the NBH story, we see a re-steepening of a curve that flattened significantly during the November sell-off, offering interesting levels.

Forecast summary

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Real GDP (%YoY)	-0.8	0.2	0.3	0.5	2.8	-0.9	0.5	2.0
CPI (eop, %YoY)*	3.0	4.3	3.6	4.5	4.5	17.6	3.7	4.2
Central bank key rate (eop, %)	6.50	6.50	6.50	6.25	6.00	10.75	6.50	5.75
3m interest rate (%)*	6.32	6.50	6.50	6.10	5.85	13.98	7.50	6.11
10yr yield (%)*	6.16	6.25	6.60	6.75	7.00	7.56	6.36	6.75
EUR/HUF exchange rate*	397.2	413.0	420.0	412.0	418.0	382.0	396.8	416.6
USD/HUF exchange rate*	356.7	393.3	403.8	396.2	401.9	353.3	366.6	401.4

*Quarterly data is eop, annual is avg. Source: National sources, ING estimates

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