

Monitoring Hungary: sticky inflation keeps rates unchanged, while the forint rallies

In our latest update, we reassess our Hungarian economic and market forecasts amid low growth and high inflation. In the absence of any positive structural developments in the short term, the stability of the forint stands out as a key highlight



Hungary: at a glance

- The details of the surprisingly weak economic performance in the first quarter confirmed our fears of a slowdown in consumption growth. This means we now estimate this year's GDP growth at only 1.0%, with further downside risks.
- However, there is a silver lining in that high-frequency data indicates a positive start to the second quarter. While we know that not everything that glitters is gold, the likelihood of another technical recession has diminished significantly.
- What we used to consider a stronghold now appears to be in decline: labour market metrics have hit two-year lows as companies have begun to adapt following roughly three years of economic stagnation.

- Lack of domestic demand and relatively low energy prices are helping to maintain favourable external balances for the country, providing constant support to the HUF.
- Inflation is rearing its ugly head again as the headline figure continues to rise despite the various measures implemented or introduced by the government. What goes around comes around: we expect inflation to average close to 4% in 2026-27.
- Sticky inflation, loosely anchored price expectations and global uncertainties will keep the National Bank of Hungary on the hawkish side for at least the remainder of this year.
- While the government updated its deficit target to 4.1% of GDP, we anticipate a further 0.5ppt slippage by year-end. The good news? Debt financing is going well.
- Hawkish central bank signals and easing geopolitical risks have strengthened the forint, but a weaker economic outlook could push EUR/HUF back to 410 by year-end.
- We don't see the current inflation problem in Hungary as too hot for the market due to the weak GDP outlook, and the long end of the yield curve thus seems too high.

Quarterly forecasts

	1Q25	2Q25F	3Q25F	4Q25F	1Q26F	2Q26F	3Q26F	4Q26F
Real GDP (%YoY)	0.0	-0.3	1.6	2.5	2.9	3.3	3.2	3.0
CPI (eop, %YoY)	4.7	4.5	4.7	4.3	3.3	4.3	4.2	4.5
Central bank key rate (eop, %)	6.50	6.50	6.50	6.50	6.25	6.00	5.75	5.50
3m interest rate (eop, %)	6.51	6.50	6.50	6.50	6.10	5.85	5.60	5.35
10yr yield (eop, %)	7.23	7.01	6.90	7.00	7.20	7.10	7.05	7.00
EUR/HUF exchange rate (eop)	401.9	399.6	405.0	410.0	415.0	420.0	415.0	418.0
USD/HUF exchange rate (eop)	371.2	338.9	349.1	356.5	360.9	365.2	357.8	357.3

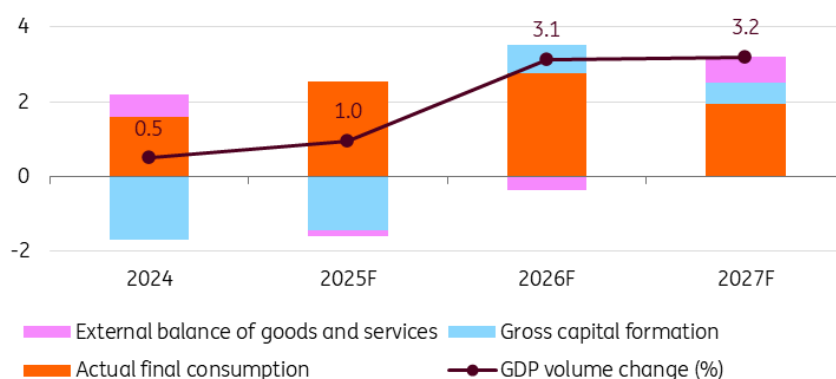
Source: National sources, ING estimates

We are lowering our 2025 GDP forecast again

In light of the detailed [1Q data](#), we have revised our GDP forecast once again. Now, we are only expecting growth of around 1% in 2025. This year's growth will be driven by rising actual final consumption, even though it will probably be at a weaker pace than previously expected. Moreover, a larger decline in investment activity is also expected, as well as a slightly less negative impact from net exports due to weaker growth in domestic demand.

Given the global challenges, further delays to new export capacities, and the generally weak level of confidence, we have downgraded our outlook for the next two years to around 3% on average.

Real GDP (% YoY) and contributions (ppt)



Source: HCSO, ING

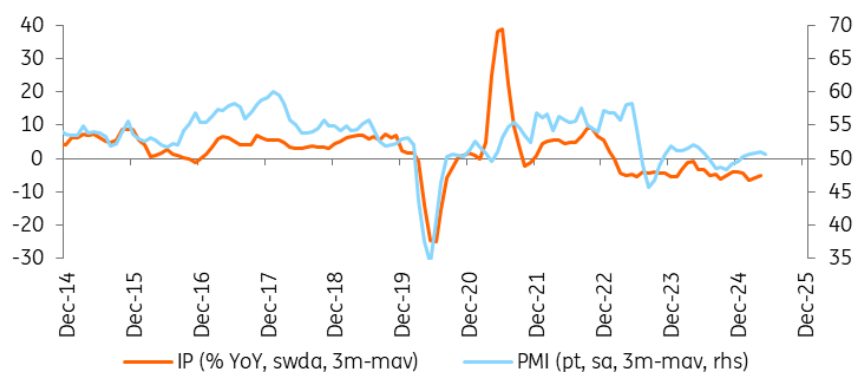
Despite the recent improvement in industry, caution is necessary

Industry showed a significant positive surprise in [April](#), with production now 2.3% below last year's level. However, production volume was 5% below the 2021 monthly average. Most sub-sectors contracted, with the exception of the manufacture of electronic products. Consequently, this positive surprise is probably just a one-off rather than an indication of a reversal in trends.

Various local confidence indices have tended to show a rather gloomy but mixed picture in recent months, indicating that there is no clear sign of a sharp positive turn in the industrial outlook. On the subject of gloominess, the total order book was 16.2% lower year-on-year in April.

Tariff war-related uncertainties pose further risks, and the poor start to the year makes it difficult for Hungarian industry to fully recover. Consequently, the sector will hold back the Hungarian economy for a third consecutive year.

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



Source: HALPIM, HCSO, ING

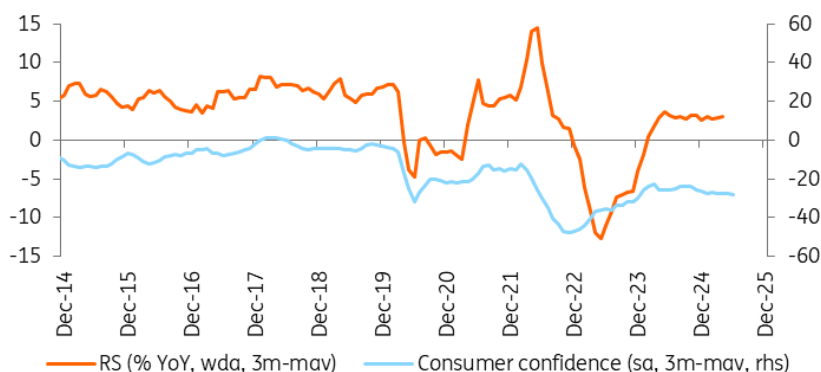
Retail sales are growing slowly but surely

Retail sales in April increased more quickly than expected, rising 5% above last year's figures. Although a sustained recovery is now evident, it is not a smooth process. Volatility remains high, and the sector's performance is likely driven primarily by one-off effects (government bond payouts, corporate bonuses).

Food store sales increased significantly in April, probably due to the margin freeze. There was a decline in non-food retail on a monthly basis, but demand for manufactured goods, which could be affected by frontloading related to the tariff war, has been particularly strong.

Looking ahead, volatility and growth are likely to continue as government measures to stimulate demand take effect towards the end of the year. Overall, we expect relatively healthy growth in retail sales in 2025.

Retail sales (RS) and consumer confidence



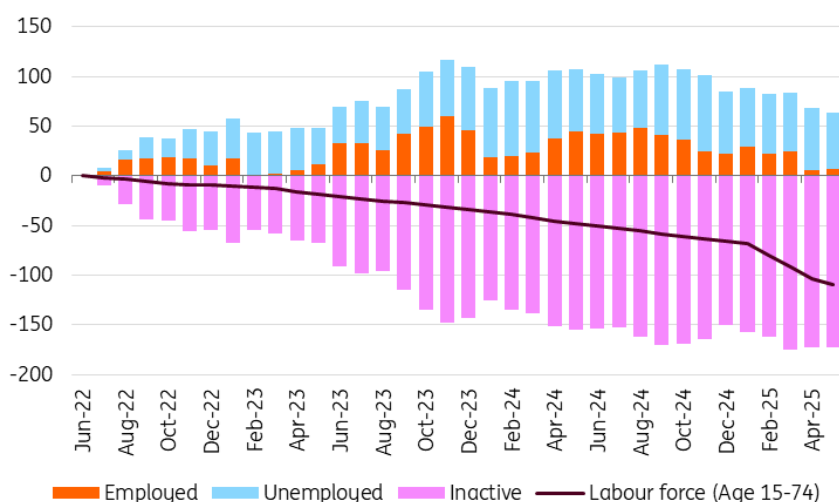
Source: Eurostat, HCSO, ING

Employment hits two-year low

The unemployment rate fell to 4.3% [between March and May](#). Detailed data reveals that the working-age population has continued to shrink, and that while the number of unemployed people fell, half of this decline is attributable to demographic trends. While the supply side is becoming more limited due to demographics, demand can no longer be described as buoyant either.

The economy has been stagnating since mid-2022, and this is starting to affect the labour market. Although the number of unemployed people has fallen to a one-year low, the number of labour market participants and the number of people in employment are at a two-year low. These trends suggest that the tight labour market is easing, which should continue both now and in the future. In parallel, this is weakening workers' bargaining power and lowering the outlook for wage growth.

Cumulative changes in the labour market since mid-2022 (3m-ma, '000)



Source: HCSO, ING

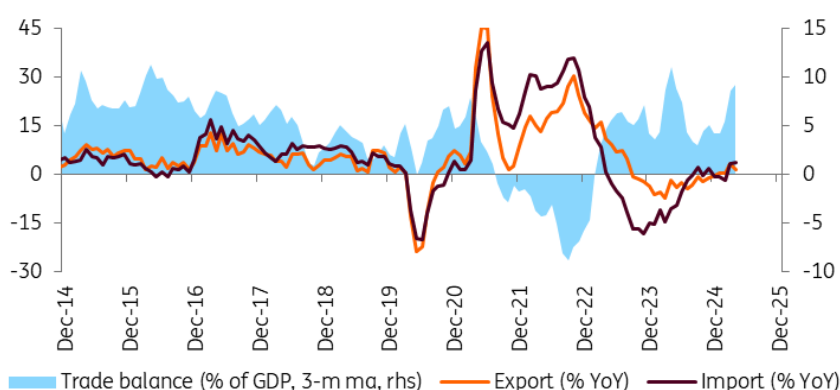
A minor downward revision in this year's current account surplus

During the first four months of the year, the volume of exports rose by 0.5%, and the volume of imports increased by 1.9% YoY. Consequently, the external trade balance for goods deteriorated by €267m YoY, reaching €5.4bn by the end of April.

Regarding the current account balance, the four-quarter current account surplus was 1.7% of GDP in 1Q25. Although the current account balance recorded a significant surplus in the first quarter, it was lower than expected.

Looking ahead, the start of new production capacities seems less likely to occur this year, with a more realistic timeframe being 2026. Taking these into account, we have revised our current account forecast downwards from 1.5% to 1.25% of GDP in 2025. We believe that the German investment programme and the increase in EU defence spending will have a positive impact on external demand in 2026-27, improving the current account balance to 1.5-2% of GDP.

Trade balance (3-month moving average)



Source: HCSO, ING

Inflation has surprised on the upside recently

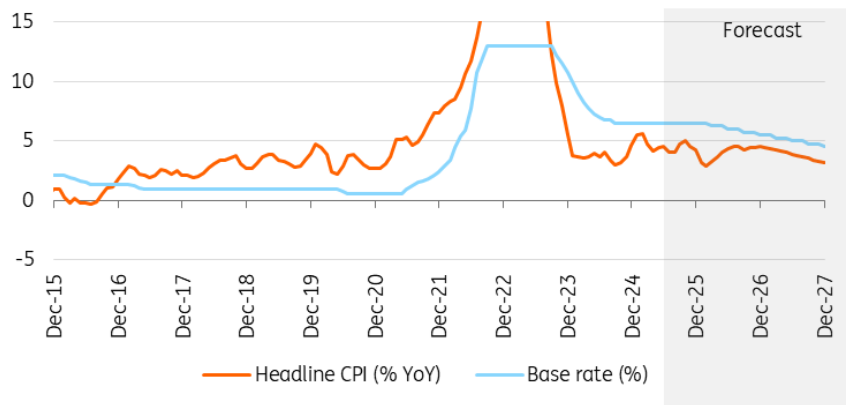
The latest inflation figures came as a surprise with prices increasing by 4.4% year-on-year and 0.2% month-on-month in May. Despite the price shield measures, rising food prices were the main factor, with eating out and unprocessed food prices increasing the most this time.

Meanwhile, despite the government urging voluntary price caps in telecommunications and financial services, services inflation also remained high.

In the short term, falling energy prices and base effects could push inflation down to 4%, but it will rise again to around 5% in the fourth quarter as temporary price measures are phased out by the end of August (as of now).

Against this backdrop, we expect inflation to average 4.6% this year and around 4% over the next two years, as artificially low inflation will lead to overshooting next year. If government measures are extended again, we may revise our 2025 forecast downwards, but we may also raise next year's forecast by approximately 0.2-0.2ppt.

Inflation and policy rate



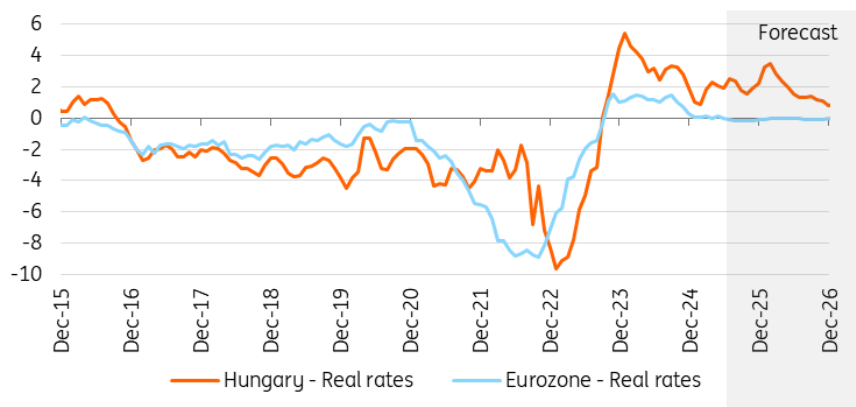
Source: NBH, ING

High inflation expectations keep the base rate unchanged

In [June](#), the National Bank of Hungary kept its base rate unchanged at 6.50% for the ninth consecutive month. The main reason for this decision was inflation, which, despite price control measures, remains high. Furthermore, inflation expectations remain too high, and government measures are having little impact.

The sensitivity of the forint has not decreased significantly, so the NBH will also be wary here. Governor Varga emphasised the need for a cautious and patient monetary policy oriented towards stability once again. Tight monetary conditions are necessary to achieve price stability. We believe it is safest to assume that the policy rate will remain at 6.50% for the rest of the year. While we do not completely rule out the possibility of a deviation from this towards the end of the year, given the inflation risks, this is unlikely.

Real rates (%)



Source: ECB, NBH, ING

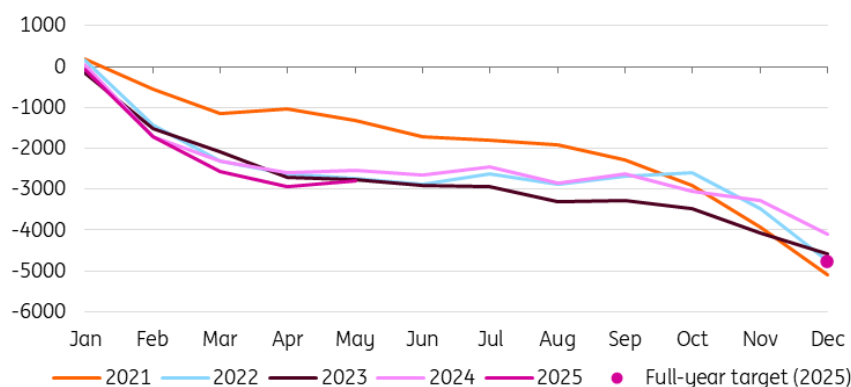
Despite recent revision, we still see slippage risk in the 2025 budget

The budget deficit reached HUF 2,800.9bn in the first five months of the year, which is

approximately 60% of the updated cash-flow budget plan for 2025, revised by the government in June. As part of this revision, the government increased the Maastricht deficit target from 3.7% to 4.1% of GDP in 2025, alongside a roughly HUF 650bn upward revision in the cash-flow shortfall. The excess deficit and restructuring have been funded by successful FX debt issuance (US\$4bn).

Despite the recent revision, revenues are rising at a slightly slower rate than expenditures. Hence, we still anticipate a slippage risk of around 0.5ppt, forecasting a Maastricht deficit of 4.6% of GDP. However, even if this materialises, we don't think it will cause any financing issues, although it will increase the likelihood of negative credit rating action.

Budget performance (year-to-date, HUFbn)



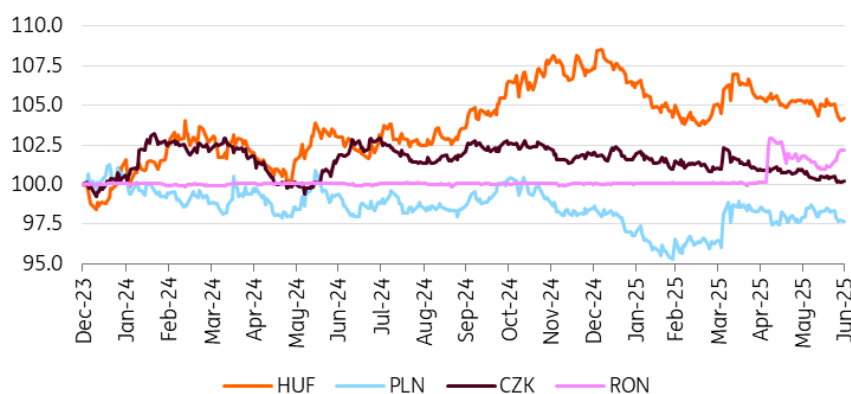
Source: Ministry for National Economy, ING

Forint market as a global playground, but the local story is still here

The latest hawkish message from the National Bank of Hungary came just as the CEE FX market feels the relief of a Middle East ceasefire, further fuelling the rally in the forint.

At the end of June, EUR/HUF went from levels around 404 to within reach of 398. The short-term global story is clearly the main driver here. Unless we anticipate a significant reversal and the US dollar continues to weaken, the HUF and its CEE peers are well-positioned for the summer months.

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



Source: NBH, ING

On the other hand, global dovish sentiment is also driving HUF rates lower, as is typically the case with high beta currencies. We thus see the last two weeks of narrowing interest rate differentials despite hawkish NBH support.

Moreover, given the deteriorating outlook for the Hungarian economy, the market will take the opportunity to price in more rate cuts later this year. Overall, we are bullish in the short term for the summer months, but in the medium term, we remain bearish with 410 EUR/HUF at year-end, revised down in the new forecast.

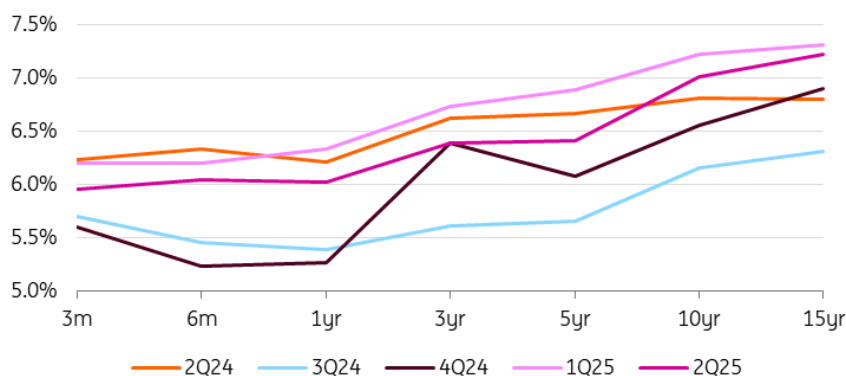
The short-end is anchored by NBH policy, while the long-end looks cheap

The market corrected expectations recently and, since the beginning of May, has erased about 50bp of easing. Still, the market is pricing in roughly 100bp of cuts in total, with one cut this year and the rest in 2026. On the other hand, the outlook for the economy is deteriorating, which supports a weaker inflation profile going forward and the prospect of rate cuts at some point.

Furthermore, the global outlook has become more dovish, accompanied by a stronger HUF against both the EUR and particularly the USD. Therefore, the market is clearly reluctant to price in additional rate cuts, and overall conditions suggest that more cuts are anticipated.

While the temporary drop in inflation during the summer months may lend some support to this narrative, we believe the National Bank of Hungary will maintain its hawkish stance. Therefore, we prefer to pay dips in rates rather than the opposite at the front end of the IRS curve.

Hungarian sovereign yield curve (end of period)



Source: GDMA, ING

The Hungarian government bond (HGBs) market looks a bit more optimistic in our view. Despite the upward revision of the funding plan in June, overall funding conditions look under control. The debt agency has covered about 52% of HGB issuance according to our calculations, and funding is smooth in other sources as well. We also saw some reduction in supply in June after a heavy first half of the year, along with some pickup in demand in the primary auctions. Yet on the valuation side, HGBs currently look relatively cheap when compared to CEE peers. At the same time, the fiscal situation, despite some slippage in our forecast versus the official target, seems under control compared to most CEE peers.

The summer months tend to be positive for the duration in general, and HGBs might currently be benefiting from the market's positive sentiment.

Forecast summary

	1Q25	2Q25F	3Q25F	4Q25F	2024	2025F	2026F	2027F
Real GDP (%YoY)	0.0	-0.3	1.6	2.5	0.5	1.0	3.1	3.2
CPI (eop, %YoY)*	4.7	4.5	4.7	4.3	3.7	4.6	4.0	3.8
Central bank key rate (eop, %)	6.50	6.50	6.50	6.50	6.50	6.50	5.50	4.50
3m interest rate (%)*	6.51	6.50	6.50	6.50	7.50	6.50	5.88	4.85
10yr yield (%)*	7.23	7.01	6.90	7.00	6.42	6.95	7.07	6.70
EUR/HUF exchange rate*	401.9	399.6	405.0	410.0	396.3	405.1	415.6	421.8
USD/HUF exchange rate*	371.2	338.9	349.1	356.5	366.3	362.0	359.5	360.5

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

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