Monitoring Hungary: Tensions are rising

In our latest update, we share our thoughts on how the recent spike in geopolitical tensions could affect the Hungarian economy and the forthcoming elections. Rising energy prices pose a significant risk to the Hungarian macro landscape

Budapest, Hungary

Hungary: At a glance

- We downgraded the GDP outlook for 2026 from 1.9% to 1.7%, mainly due to energy price shocks and the expected worsening of consumer and business confidence. We see risks tilted clearly to the downside.
- February's retail sales and industrial data were positive, but the recent war in the Middle East could destroy all hope for a sustained acceleration in growth.
- Some companies have started laying off staff amid cost pressures from the labour market. Hence, employment dropped to a level not seen for almost five years.
- The external surplus is still holding up, but geopolitical risks are mounting due to higher energy imports and still limited external demand. We see the current account balance dipping into a small deficit in 2026.
- Inflation came in at a 10-year low rate in February, but the country can't enjoy this for long. The energy price pressures will lift inflation, and we revise our forecast from 2.6% to 3.4% for the yearly average in 2026.

- Following the first rate cut in 16 months, the easing cycle ended before it had even got started. The war in the Middle East has forced the National Bank of Hungary to revise its stance, pushing it towards the more hawkish side.
- February's budget deficit came as an unpleasant surprise, mainly due to a spending spree. However, revenues are also showing signs of being out of sync with economic data. We forecast a deficit-to-GDP ratio of around 5.5–6.0% for 2026.
- The general election is taking place on 12 April 2026. Some political analysts think that rising geopolitical tensions favour the ruling party, making the political race even tighter.
- With the central bank being as cautious as possible, and even actively using its FX reserves to redirect import-related FX market flows, if necessary, the EUR/HUF 385-390 range will act as a gravity line.

Quarterly forecasts

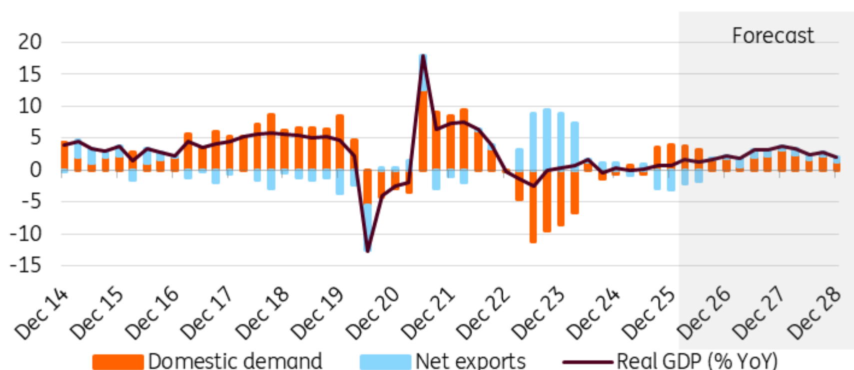
	4Q25	1Q26F	2Q26F	3Q26F	4Q26F	1Q27F	2Q27F	3Q27F
Real GDP (%YoY)	0.8	1.6	1.4	1.7	2.2	1.9	3.2	3.1
CPI (eop, %YoY)	3.3	2.3	4.1	3.7	4.0	4.1	3.9	3.5
Central bank key rate (eop, %)	6.50	6.25	6.25	6.00	6.00	5.75	5.75	5.00
3m interest rate (eop, %)	6.47	6.45	6.25	5.90	6.00	5.75	5.60	4.85
10yr yield (eop, %)	6.77	7.35	7.05	6.35	6.70	6.60	6.25	5.50
EUR/HUF exchange rate (eop)	385.4	390.0	385.0	390.0	385.0	390.0	385.0	390.0
USD/HUF exchange rate (eop)	328.4	339.1	331.9	330.5	320.8	325.0	320.8	325.0

Source: ING

Geopolitical risks complicate the path out of stagnation

Although the detailed data for the Hungarian economy in the fourth quarter did not differ significantly from the initial figures, the outlook for economic growth in the near future appears uncertain. Spillover effects stemming from the structure of fourth-quarter growth and the energy price shock meant that we had to lower our economic forecasts for this year once again. Initially, we expected growth of 2.3%, which we later reduced to 1.9%. Yet it seems that even this was too optimistic. Currently, we forecast growth of 1.7% for 2026. This figure is subject to both positive and negative risks. On the one hand, consumption may be the driving force in the early part of this year. In the second half of 2026, we anticipate improved export activity, driven by new factories. However, the recent war in Iran tilts the balance of risks to the downside.

Real GDP (% YoY) and contributions (ppt)

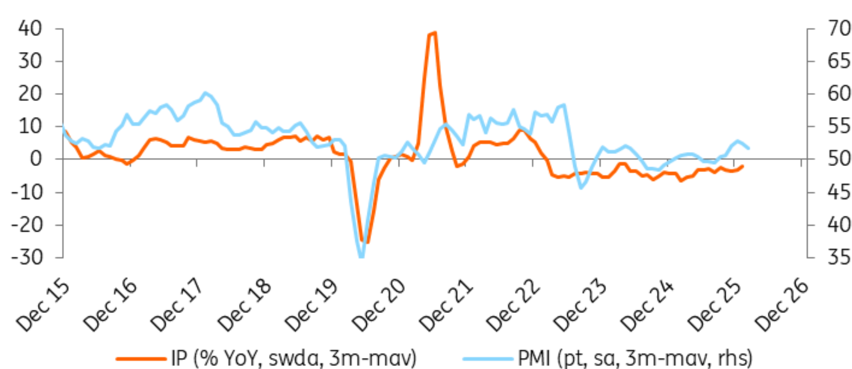


Source: HCSO, ING

Two good months in industry, but the outlook is cloudy

The performance of industry provided a pleasant surprise at the start of the year, by expanding in February. For the first time in a long while, Hungarian industry expanded for two consecutive months. Given the new export capacity that is becoming available this year, we can be optimistic about a lasting improvement. However, we believe this is more likely to occur in the second half of the year. That said, the ongoing war in the Middle East poses significant risks to industrial growth. As of now, we forecast that the fixed base index will recover and reach the baseline level – representing the 2021 average – by the end of the year. However, if the war drags on, we should expect the anticipated growth to be lower, and confidence indices could sink once again.

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

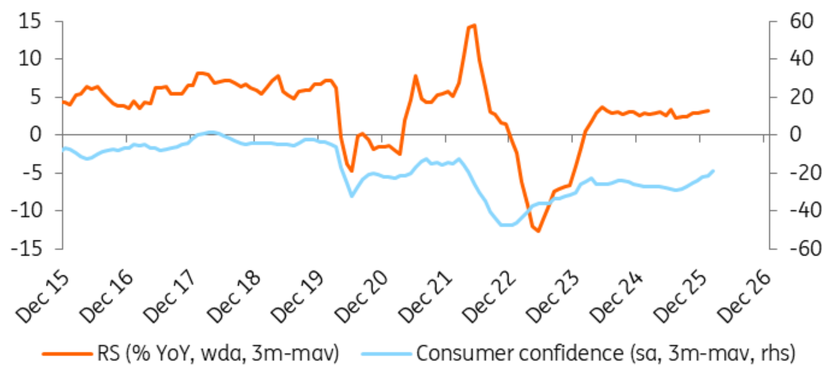


Source: HALPIM, HCSO, ING

Retail sales at risk of worsening consumer confidence

Despite the headwinds surrounding it, the retail sector started the year even more positively than forecasts had suggested. Domestic retail trade grew by 0.5% month-on-month in January, meaning that monthly growth has now been seen for six consecutive months, so performance is not faltering. While pre-election fiscal measures may have had a positive impact on spending levels, this is likely to be a short-term, one-off effect rather than a lasting shift in momentum. For retail sales growth to accelerate sustainably, a lasting improvement in consumer confidence is needed. Although this indicator has moved in a positive direction in recent months, the newly erupted war will be a significant setback. If consumption falls as a result, the only factor currently preventing the Hungarian economy from stagnating will be seriously jeopardised.

Retail sales (RS) and consumer confidence

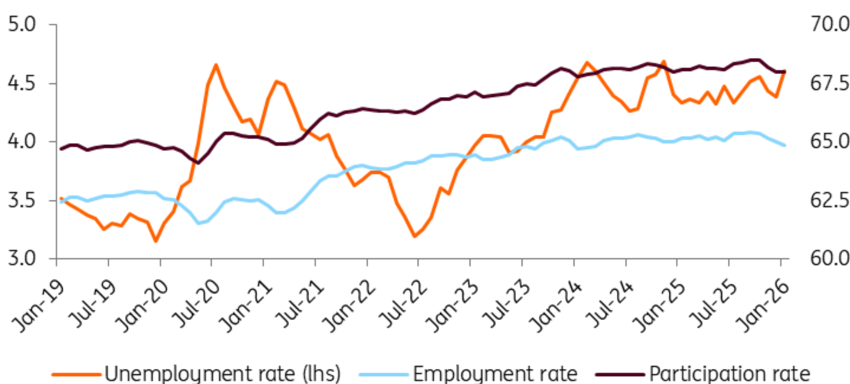


Source: Eurostat, HCSO, ING

Companies can't hold off any longer; layoffs begin

Unemployment figures saw a surprising increase at the start of 2026. It seems that companies adapted to the increased wage costs caused by the minimum wage hike much sooner than expected. According to model estimates, the unemployment rate reached 4.6% in January 2026. Data reveals that the decline in the working-age population continued at the start of this year, accompanied by a fall in employment. In January, there were just over 4.6 million people in employment, the lowest figure since May 2021. Since mid-2022, when the number of unemployed people was at a record low, the working-age population has fallen by 144,000. Due to supply-side issues, the labour market remains tight. External risks to GDP growth will put further pressure on companies, hence the rising probability of an increase in unemployment.

Historical trends in the Hungarian labour market (%)



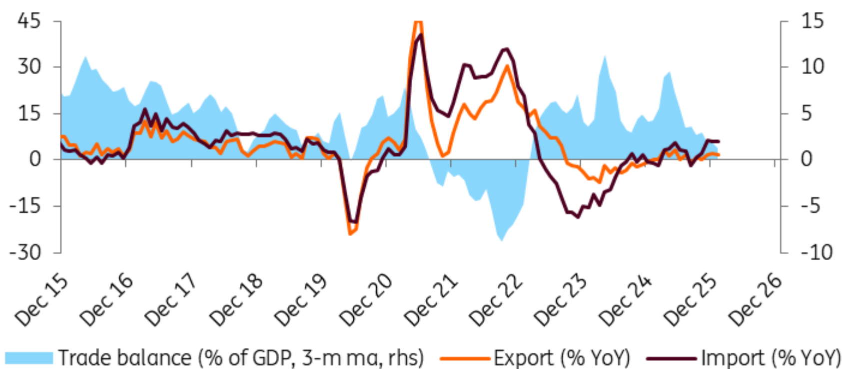
Source: HCSO, ING

Growth in imports, decline in exports: a bad combination

The trade surplus was EUR12m in January 2026, with the balance deteriorating by EUR756m compared to the same period in the previous year. The volume of exports was 9.9% lower and imports were 2.3% higher on a yearly basis. As large foreign direct investment (FDI) projects in manufacturing entered their final phase and energy needs rocketed due to the cold spell, imports increased. The lack of external demand kept exports in check. The outlook is somewhat mixed.

While some companies have decided to reduce the number of shifts due to retooling and demand issues, others have begun laying off workers. However, some new producers will gradually increase production and exports throughout the year. The war in the Middle East has negatively impacted overall confidence in the European Union, exacerbating the external demand issue. If the war drags on, we see the current account balance dipping into negative territory in 2026.

Trade balance (3-month moving average)

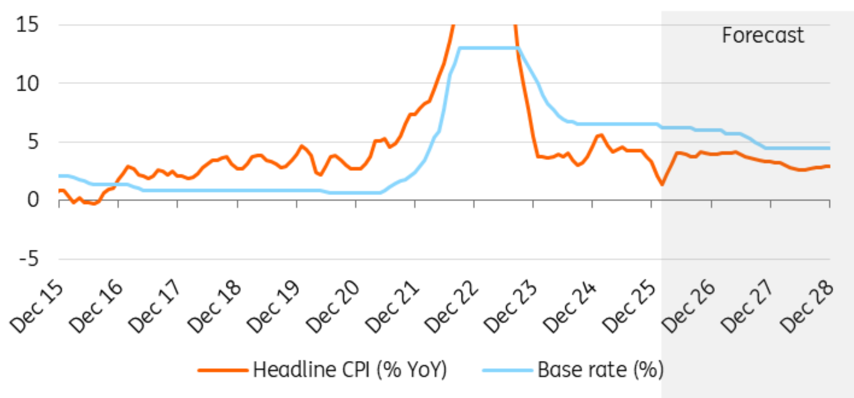


Source: HCSO, ING

Historically low inflation will prevent from extreme high levels

Inflation in February fell to a 10-year low. At 1.4%, the year-on-year inflation rate was lower than even the most optimistic forecasts. On a monthly basis, prices rose by just 0.1%. Food inflation was moderate on a monthly basis, while household energy prices fell significantly. Inflation in the services sector continued to develop favourably. According to our latest forecast, the year-on-year inflation rate could rise above 3% again by the spring and hover around 4% over the remainder of the year. Without the energy price shock, average annual inflation would comfortably have remained below 3%. However, given recent developments in the Middle East, a more realistic figure is now 3.4%, potentially rising to 3.8% in 2027.

Inflation and policy rate



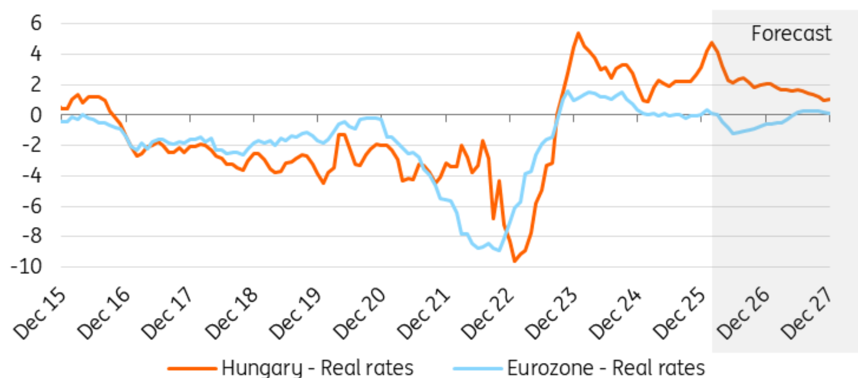
Source: HCSO, ING

Monetary policy is back to square one

In line with our expectations, the Monetary Council decided to keep the base rate at 6.25% on 24

March. Unsurprisingly, in light of the war in the Middle East and related market turmoil, the National Bank of Hungary has reverted to a hawkish stance. We agree with the central bank's view that it is too early to press the panic button. If our base case holds (40% chance) and the impact of energy prices fades as expected, inflation will remain mostly within the central bank's tolerance band. This could pave the way for monetary policy easing in the second half of 2026, following a lengthy pause. However, if our 'long war' scenario plays out (30% chance), we believe that the forint would require additional support, and the NBH could follow the European Central Bank's lead with the same number of rate hikes (most likely two) during the next couple of quarters.

Real rates (%)

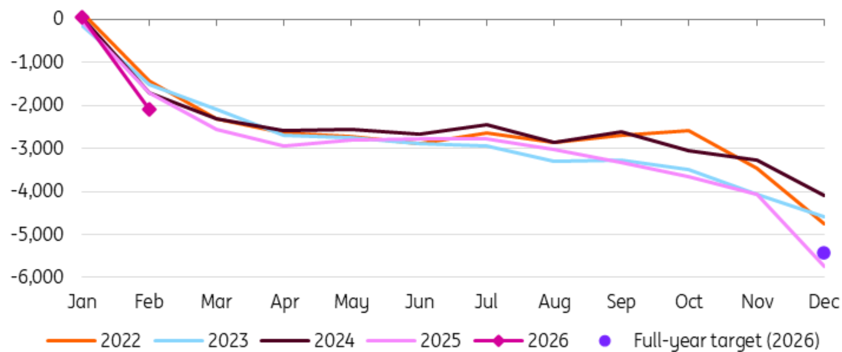


Source: ECB, NBH, ING

Election effect represented in budget data

By the end of February, the central government sector had recorded a deficit of HUF 2,107bn billion. This figure is the result of a small surplus in January and a record-high deficit in February. The high deficit in February was due to housing subsidies for public sector employees and wage increases for public sector workers, among other pre-announced spending measures. Fiscal measures aimed at boosting confidence ahead of the elections may continue to put pressure on the budget in the coming months. Based on the latest official data, the government is targeting a deficit of 5% of GDP in 2026. Taking into account the difference in the macro projections, we expect the deficit to be around 5.5% in the next couple of years. There is a significant risk of Hungary failing to secure the planned EU funds (including some RRF and SAFE money), which would put more pressure on debt financing.

Budget performance from cash-flow perspective (year-to-date, HUFbn)

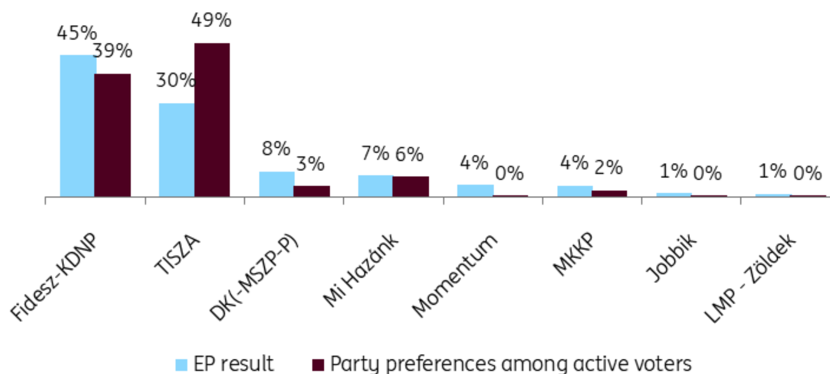


Source: Ministry for National Economy, ING

The political race is tightening

General elections will be held in Hungary on 12 April. According to most political analysts, the recent lead of the main opposition party (TISZA) suggests that it will be a close race, given the electoral system. Examining trends over the past month, the latest political analyses reveal a shift in campaign dynamics. Until now, the opposition party had dominated public discourse and steadily increased its lead, but geopolitical events have changed this. Escalating geopolitical tensions fit into the ruling party's (FIDESZ) narrative, enabling it to assert its messaging more effectively. These changes increase the likelihood of a quick narrowing of the gap in the opinion polls, creating a tail-risk scenario of a hung parliament or lengthy legal debates over the fate of certain seats, which could cause significant market volatility. Our macro forecasts are based on a no-policy-change scenario, in line with academic standards.

Average of opinion polls (early-Mar 2026) and the results of the 2024 EP election



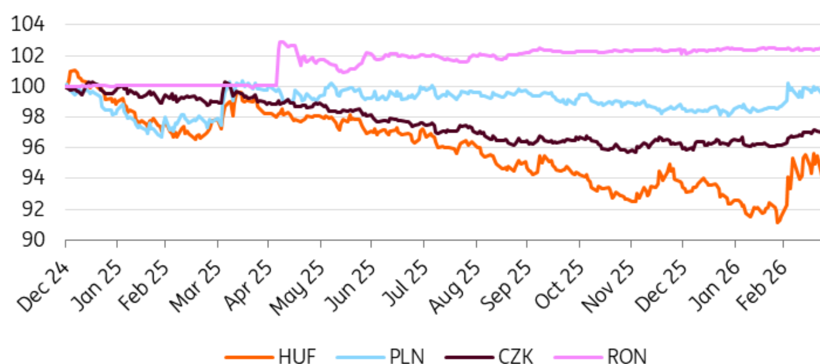
Source: EP, Opinion polls, ING

We foresee continued high volatility in HUF

We are now in a 'pick your poison' situation with regards to the forint. The war in the Middle East

and the energy price shock are hitting Hungary hard due to its reliance on energy imports. Even if the market calms down slightly, there is another red flag event: the general election on 12 April, which is set to be a close race. We think that monetary policy will be sidelined in the coming weeks, with either the energy situation or politics deciding the fate of the currency. With the central bank being as cautious as possible, and even actively using its FX reserves to redirect import-related FX market flows, if necessary, the 385-390 range will act as a gravity line.

CEE FX performance vs EUR (31 Dec 2024 = 100%)



Source: NBH, ING

On the political front, we predict that investors will react asymmetrically, as long positions related to political bets have largely been liquidated. We believe that there will be less resistance to a stronger HUF. In either case (a result-driven rally or a sell-off), however, the move will be short-lived, with the fundamentals dragging EUR/HUF back to around 385 as the dust settles on the election results.

Forecast summary

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Real GDP (%YoY)	0.8	1.6	1.4	1.7	2.2	0.4	1.7	3.0
CPI (eop, %YoY)*	3.3	2.3	4.1	3.7	4.0	4.4	3.4	3.8
Central bank key rate (eop, %)	6.50	6.25	6.25	6.00	6.00	6.50	6.00	4.50
3m interest rate (%)*	6.47	6.45	6.25	5.90	6.00	6.50	6.21	5.31
10yr yield (%)*	6.77	7.35	7.05	6.35	6.70	6.93	6.84	6.01
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USD/HUF exchange rate*	328.4	339.1	331.9	330.5	320.8	353.2	330.2	324.2

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

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