Hungarian economy begins to recover from stagnation

January's retail sales and industry data came as a pleasant surprise, as both showed signs of continuous growth. Hopes of a positive contribution from these sectors in 2026 are emerging, but one crucial factor could stop this from happening

The extreme weather conditions in Hungary seem to have been beneficial for retail trade

The Hungarian Central Statistical Office (HCSO) has released figures on retail sales and industrial production for January. As this is the first hard data regarding economic activity to emerge from 2026, it can significantly influence expectations for the rest of the year. The fresh set of data came as a positive surprise and initially strengthened our view that the Hungarian economy's stagnation will come to an end. However, recent geopolitical developments pose a major downside risk.

Regarding the outlook for Hungarian GDP in 2026, the latest retail and industrial data suggest favourable progress. Retail sales growth has stabilised and could accelerate further, while the decline in industrial production volume appears to be ending, with output beginning to expand. Taken together, these developments keep alive the prospect that both sectors will make a positive contribution to average annual growth.

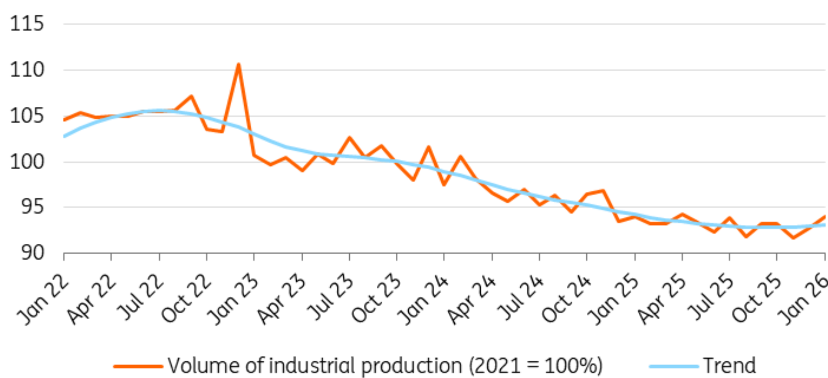
Hungarian industry showing positive signs, but geopolitics could ruin everything

0.3% Industrial production (YoY, wda)

ING estimate: -3.3% / Previous: -1.0%

The first industrial production statistics of the year have arrived, and we are pleasantly surprised. Growth was 1.5% on a monthly basis, and there is something we haven't seen in a very long time: industrial production volume expanded significantly in two consecutive months. Despite last year's relatively high base, the year-on-year index also improved significantly thanks to the good performance in January. The calendar-adjusted indicator shows a 0.3% increase year-on-year.

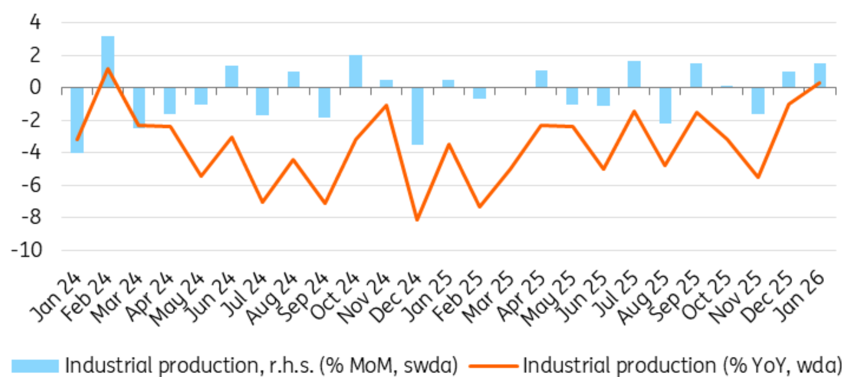
Volume of industrial production



Source: HCSO, ING

The positive overall picture is further enhanced by the fact that performance relative to the 2021 monthly average has improved significantly over the past two months. Based on the fixed-base index, production volume is currently 5.9% below the 2021 average. While the gap is still significant, the indicator is nevertheless at its highest level in nine months.

Performance of Hungarian industry



Source: HCSO, ING

As this is preliminary data, we do not yet know many details about the industry's surprisingly good start to the year. However, based on the HCSO's brief commentary, it seems that the production of electrical equipment may have reached its lowest point and is now increasing. The electronics industry continued to perform well, as it has for many months. In contrast, the other two major industries, vehicle manufacturing and food processing, performed poorly. In the case of the automotive industry, the start-up of the Debrecen car factory does not seem to be enough to offset the significant reduction in capacity at the Kecskemét factory.

Overall, it seems that the positive signs seen across Europe in recent months and the cyclical upturn in industrial performance may slowly reach Hungary as well. Order books are rising while inventories are falling, and lending has started to pick up in most European industrial countries. However, another potential problem has emerged: the war in the Middle East could raise energy prices, increasing production costs and causing supply issues. Aluminium is an important raw material for the automotive industry, and the blockade of the Strait of Hormuz means that 8% of the world's aluminium production is out of circulation. However, Europe's exposure is much greater: 30% of the continent's aluminium imports come from the Middle East.

Overall, it seems that the war in the Middle East could not have come at a worse time – although there is never a good time for war. However, there is a glimmer of hope, which could be quickly extinguished by rising production costs and potential supply chain disruptions (if the blockade lasts for months). Essentially, we can hope for some kind of lasting improvement thanks to the new export capacities in Hungary that will become available throughout this year. However, given the current situation, this is more likely to happen in the second half of the year.

Consequently, the fixed-base index could reach the monthly average for 2021 by the end of the year. Thus, while not explosive, the overall annual performance of Hungarian industry in 2026 could see sectoral growth of around 3-4% on average. In other words, after three years of industrial recession, industry could once again contribute positively to the overall performance of the Hungarian economy, if geopolitical factors do not ruin these prospects.

Cold weather supported Hungarian retail sales in January

3.5%

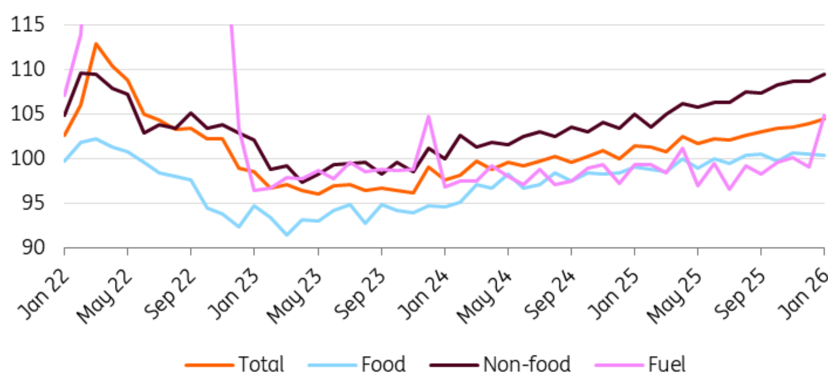
Volume of retail sales (YoY, wda)

ING estimate: 1.7% / Previous: 3.5%

Although various big data suggested a generally weak start to the year, the latest retail statistics refute this. Domestic retail trade grew by 0.5% month-on-month in January, meaning that, based on the revised data, we are now seeing continuous growth for the sixth consecutive month, so performance is not faltering. As for the year-on-year data, January's growth of 3.5% (adjusted for calendar effects) exceeded analyst expectations by a wide margin and is consistent with the rate observed in December.

Examining longer-term trends, retail sales volume in January 2026 was 4.5% higher than the monthly average for 2021, suggesting that the sector is experiencing steady growth. This trend has continued since the end of 2023, with only minor fluctuations, and the pace of growth has stabilised over the past six months.

Retail sales volume in detail (2021 = 100%)



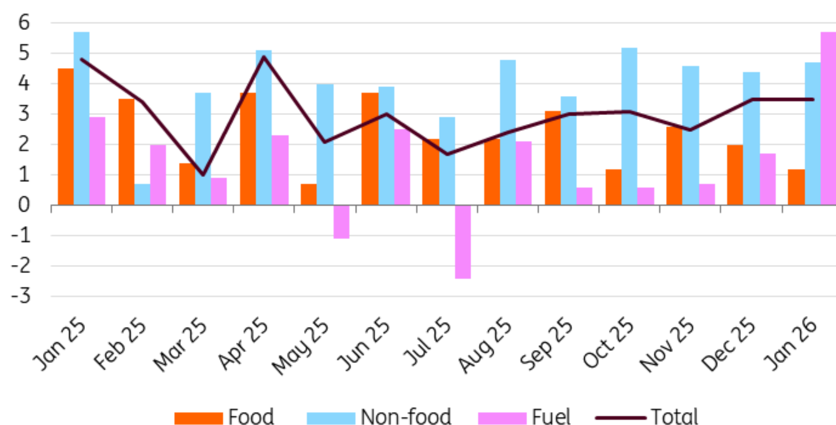
Source: HCSO, ING

Looking closer at the details, it appears food shop sales essentially stagnated on a monthly basis, primarily due to a sharp decline in sales of food, beverages and tobacco. In contrast, non-food shops experienced an increase in sales volume on a monthly basis. However, even within this segment, the picture is quite mixed. Mail order and internet purchases grew by 6% on a monthly basis – a pace not seen in years. This may be due to the cold spell in January, when people preferred to shop from home rather than venture out in the snow and frost. Textiles, clothing, footwear stores also experienced fairly dynamic sales growth, which can also be attributed to the exceptionally cold weather. Unsurprisingly, sales of furniture and electrical goods and manufactured goods in non-specialised shops fell significantly. In other words, any purchases that could be postponed were.

In general, it seems that the freezing weather has been beneficial for retail trade, especially the online sector. Finally, fuel sales also rose significantly compared to the previous month, which may be partly due to lower fuel prices. On the other hand, the surge in sales can be partially explained

by stockpiling: before the onset of the cold weather, many people may have filled up their cars to be on the safe side.

Breakdown of retail sales (% YoY, wda)



Source: HCSO, ING

Overall, the January data is somewhat difficult to interpret. While performance was better than expected, this is likely due to one-off effects. Nevertheless, it is undeniable that there has been sustained growth for many months now, as shown by the revised data. The weak performance of the Hungarian economy is certainly not due to a lack of consumption.

The sustained increase in consumption, suggested by improving consumer confidence in recent months, will put the economy as a whole on a growth path. Despite the weakening labour market, we expect retail sales to grow significantly this year due to continued dynamic wage growth and government transfers.

Therefore, the main questions regarding economic growth this year are whether exports will increase, whether investment will rise from its current low point, and whether an energy crisis can be avoided. If the answer to any of these questions is negative, it would pose further challenges to achieving our forecast of 1.7% GDP growth for this year.

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