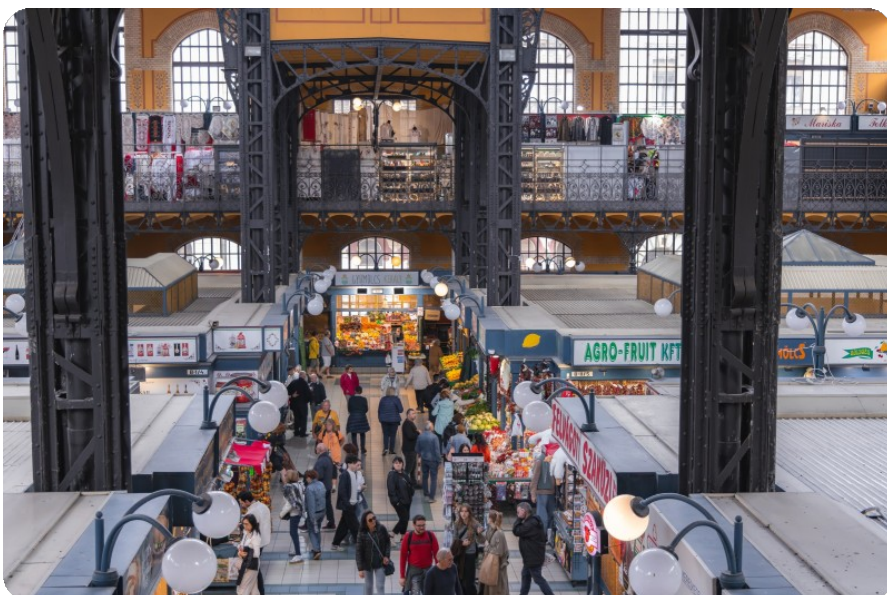


Snap | 7 July 2025

HUNGARY

Hungarian outlook becomes gloomier as retail sales stumble

May retail sales data was disappointing. Most sectors saw significant monthly declines, clearly showing that the strong increase in the previous month was a one-off



The Great Market Hall in Budapest

2.1%

Volume of retail sales (YoY, wda)

ING estimate: 3.7% / Previous: 4.9%

Worse than expected

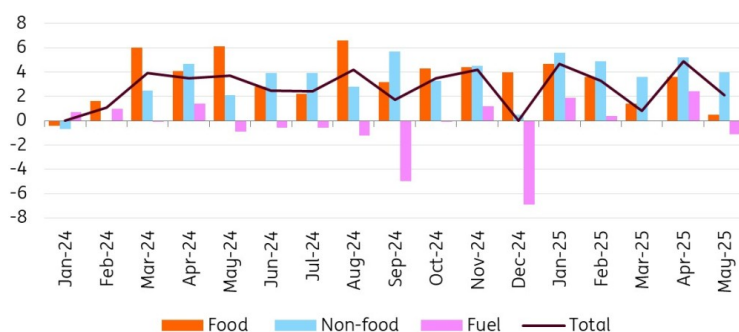
Unfortunately, retail sales mirrored the trend in [industry](#): after a month of positive results, disappointing data soon followed. In May, Hungarian retail sales performed poorly. The sector shrank by 1.3% on a monthly basis, which equated to a 2.1% year-on-year increase – far below the market's expectations. Together with industrial performance, May's retail sales data will negatively impact the overall economic outlook.

Clearly, the strong start to the second quarter was a one-time occurrence, with negative corrections in both the retail sector and industry already evident by May. Nevertheless, we still

do not believe that the Hungarian economy will show negative quarter-on-quarter growth in the second quarter, and therefore we can probably dismiss the possibility of a technical recession. However, based on the data so far, the April-June period does not look economically strong.

Furthermore, the 'two steps forward, one step back' pattern persists when examining the long-term trend. Retail sales volumes are increasing in a saw-tooth pattern, which aligns with the overall growth trend. However, this growth trajectory is far from smooth or steep. Volatility remains high and is likely mainly driven by one-off effects, such as government retail bond payouts, corporate bonuses and extreme calendar effects. Accordingly, the evolution of the fixed base index shows that, following the significant increase in April, a correction occurred. Nevertheless, retail sales volumes are 1.7% higher than the monthly average for 2021. Based on data from the second quarter so far, this is a better result than in the first quarter. Therefore, we can probably expect a positive GDP contribution from consumption.

Breakdown of retail sales (% YoY, wda)



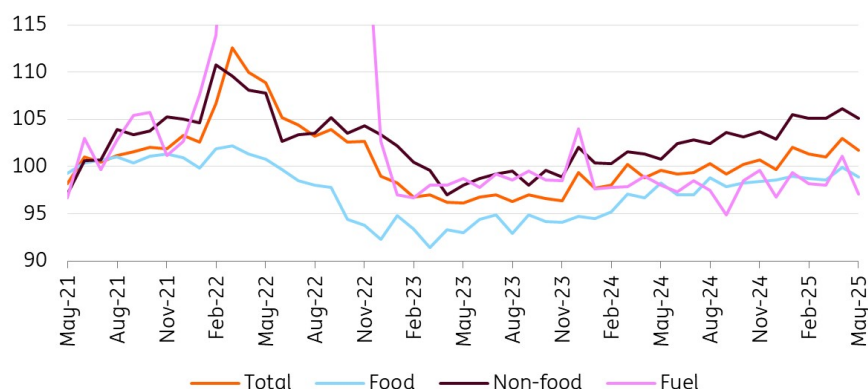
Source: HCSO, ING

Looking at the finer details, it's evident that the food retail sector experienced a notable decline in May compared to the previous month. The last time the Hungarian Central Statistical Office (HCSO) recorded a drop of around 1% in this sector was in September last year. While the government was waiting in vain to extend the margin freeze on food products, households did not start stockpiling in May. It seems that the public expected the measure to be extended, so there was no real surprise and thus no demand stimulus.

As the Ministry for National Economy had already floated the idea of drug price cuts in May, sales in these stores presumably fell as households adopted a wait-and-see approach. Sales of books, computer equipment and other specialised stores also declined significantly. The wait-and-see approach due to the margin freeze on household goods from 19 May probably has played a role here, and the fact that the government price measures were only in force for the last third of the month may have reduced sales volume. Despite falling fuel prices, fuel sales in

May showed a sharp drop compared to April, following a big surge. Consequently, this sector also contributed significantly to the overall decline in retail sales.

Retail sales volume in detail (2021 = 100%)



Source: HCSO, ING

Overall, there were disappointing performances across the board, which has raised renewed doubts about the strength of the economic recovery in the second quarter following the slump in the first. Focusing on the retail sector alone, it is clear that volatility will persist for the remainder of the year. However, we also anticipate continued growth as the government's measures to stimulate demand take effect towards the end of the year. Although we can expect a more positive outlook for retail sales in 2025 than in the past two years, the outlook has deteriorated based on the latest data. We expect the sector to grow by an average of 2.5-3.5% this year.

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THINK economic and financial analysis

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