SZÁZADVÉG

MACROECONOMIC MONITOR

MARCH 2025

SZÁZADVÉG KONJUNKTÚRAKUTATÓ ZRT.

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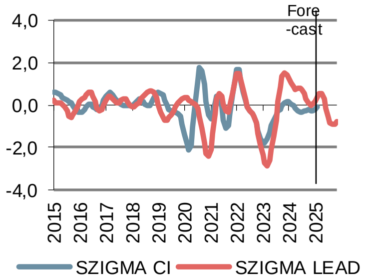
1. SUMMARY

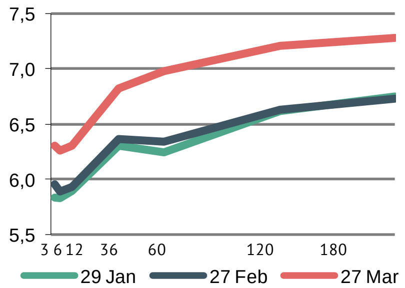
In Q4 2024, Hungarian economic output increased by 0.1% year on year and by 0.5% quarter on quarter, according to seasonally adjusted data. As a result, it grew by 0.5% based on raw data and by 0.6% based on seasonally and calendar-adjusted and balanced data in 2024, compared to 2023.

SIGMA indicators



Source: Századvég

Forint yield curve (%)



Source: Refinitiv

Our forecast (20.03.2025)	2025
Change in the GDP (%)	2.3
Inflation (annual average, %)	4.5

At its March meeting, the central bank's Monetary Council left the base rate in place since September. The base rate in Hungary therefore remains at 6.5%.

In January, retail sales increased by 4.7% year on year on both a raw and calendar-adjusted basis compared to the respective period of the previous year. Within this, compared to the same period of the previous year, sales increased by 4.7% in specialised and non-specialised food shops and by 5.6% in non-food retailing, while they decreased by 1.9% in automotive fuel retailing.

Measured up to February 2025, the value of the monthly SZIGMA CI indicator, which provides a snapshot of the current state of the Hungarian economy, was -0.0585, almost reaching the historical trend value and thus improving economic growth. Current calculations indicate that the Hungarian economy is still growing below the historical trend, but its growth rate gained momentum in the second half of 2024 and drew closer to the trend value.

The most recent forecast for the other indicator, SZIGMA LEAD, a short-term indicator for the future of the Hungarian economy, shows marked volatility. It forecasts a brief period of growth in the first phase, followed by a sudden and temporary slowdown, with an upward trend returning by the end of the short-term forecast period.

In February 2025, consumer prices rose by 5.6% on an annual average basis.

2. OVERVIEW OF THE ECONOMY

2.1 External environment

Inflation in the euro area fell from 2.5% in January to 2.3% in February.

According to a report published by Eurostat on 19 March, the annual inflation rate in the euro area fell to 2.3% in February 2025 from 2.5% in January, while the EU as a whole saw a decline from 2.8% in January to 2.7%.

The lowest inflation rates were recorded in France (0.9%), Ireland (1.4%) and Finland (1.5%), while the highest rates were in Hungary (5.7%), Romania (5.2%) and Estonia (5.1%).

The largest contributors to euro area inflation were services (+1.66 percentage points), followed by food, alcohol and tobacco (+0.52 percentage points) and manufacturing goods (+0.14 percentage points). Changes in energy prices had a minimal impact on the overall inflation rate (+0.01 percentage points).

Month-on-month inflation in both the euro area and the EU as a whole was 0.4%. The highest month-on-month increases were in Belgium (up 2.4 percentage points), the Netherlands (up 1.4 percentage points) and Estonia (up 1.3 percentage points), while Portugal saw a decrease of 0.1 percentage points.

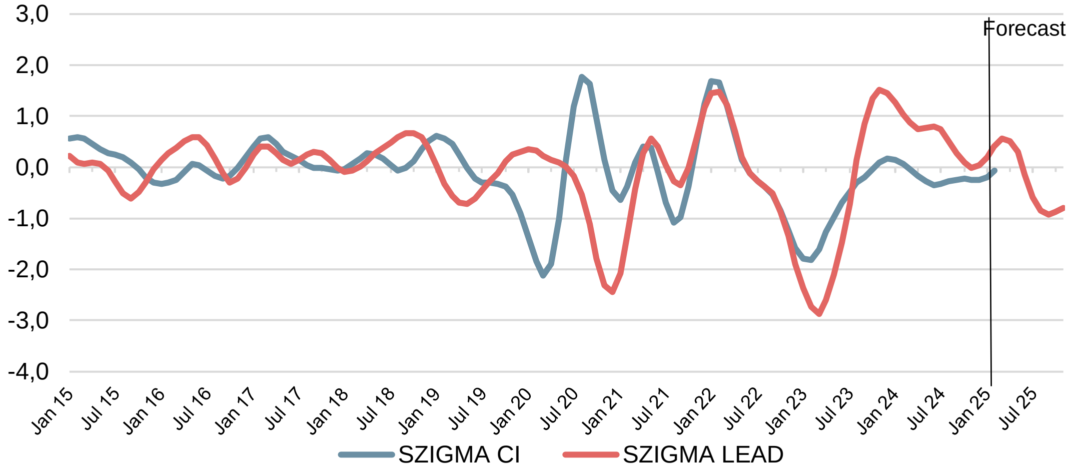
2.2 Our SZIGMA indicators

In March 2025, the growth rate of the Hungarian economy picked up sharply, almost reaching its historical trend rate.

In March 2025, the value of the SZIGMA CI indicator, which reflects the current state of the Hungarian economy, was -0.0585 up to February 2025, which almost reached the historical trend level, showing an improvement in economic performance compared to the previous month. Even though the Hungarian economy is still growing below the historical trend based on this calculation, the figure clearly shows that from the second half of 2024, the growth rate of the Hungarian economy came closer and closer to the trend value. This means that economic growth has gained momentum, and it will become clear later whether the economic growth rate will surpass the historical trend. This will be significantly affected by economic programmes launched in 2025 and the changing international environment. As for ***industrial*** figures, which serve as the background for the indicators, the volume of industrial production decreased by 3.9% year on year, but it increased slightly, by 0.9%, month on month, based on the latest January 2025 fixed base (2021 monthly average = 100.0%) seasonally and working-day adjusted data. The volume of industrial sales shows an annual and monthly expansion in one dimension (domestic and exports), according to seasonally and working-day adjusted data, on a fixed basis for January 2025 (2021 monthly average = 100.0%). The volume of total sales (domestic and exports combined) grew by 1.8% year on year and by 2.2% month on month. The only growth factor was an improvement in export sales. Domestic sales were flat on a monthly basis, but weakened by 3.6% on an annual basis. Export sales increased by 3.9% month on month and by 5.6% year on year. Based on the latest data, for January 2025, ***construction output*** volume increased by 1.6% month on month, but it decreased year on year. The latter was caused by a decline in both main groups of construction. In terms of the stock of contracts, the stock of contracts of construction firms, calculated on a fixed basis (monthly average for 2021 = 100.0%) for the end of January 2025, grew on a monthly basis, while it remained flat on an annual basis. The year-on-year decrease of 0.1% was due to a 14.8% decrease in the stock of contracts for the construction of buildings and a 14.3% volume increase in the stock of contracts for civil engineering works. On a monthly basis, however, the stock of contracts in construction firms at the end of January 2025 increased by 9.5%. Partial data suggest that this increase is mainly attributable to a 26.0% volume growth in the stock of contracts for buildings. The stock of contracts for civil engineering works increased by 0.9%.

In March 2025, our **short-term leading indicator, SZIGMA LEAD**, forecasts an improving growth rate at the end of the forecast horizon. The current forecast continues to show marked volatility. It forecasts a brief period of growth in the first phase, followed by a sudden and temporary slowdown, with an upward trend returning by the end of the short-term forecast period. The future outlook for ***industry*** remains mixed. As regards the stock of new orders in industry, in the short term, on a monthly basis, the stock of new industrial domestic orders increased by 11.1%, while exports fell by 28.0%. As a result, the stock of new orders in industry weakened by 25.1% month on month. The stock of orders also fell year on year (by 2.6%). Therefore, in the short term, rising domestic consumption may drive industrial production, but this will not be enough to offset the decline in exports. The German economy is one of the key drivers of industrial exports, so changes in the Ifo Business Climate Index, which **measures business sentiment in the German economy**, are also important. It improved by 0.1 index points on a monthly basis and weakened by 0.5 index points on an annual basis in February 2025, to stand at 85.3 index points. The business environment improved for the German manufacturing sub-index. Although companies consider the current situation to be unfavourable, they were less pessimistic about the period ahead. In addition, the previously declining stock of orders has now stabilised. The other confidence index underlying the indicator, **Eurostat's consumer confidence index**, improved markedly (1.1 index points) on a monthly basis in February 2025, while it weakened on an annual basis (1.1 index points). Thus, in February 2025 it stood at -27.6 index points.

FIGURE 1: CURRENT (CI) AND FORECASTING (LEAD) SZIGMA INDICATORS



Source: Századvég

2.3 The real economy

2.3.1 GDP

In Q4 2024, Hungarian GDP increased by 0.5% quarter on quarter.

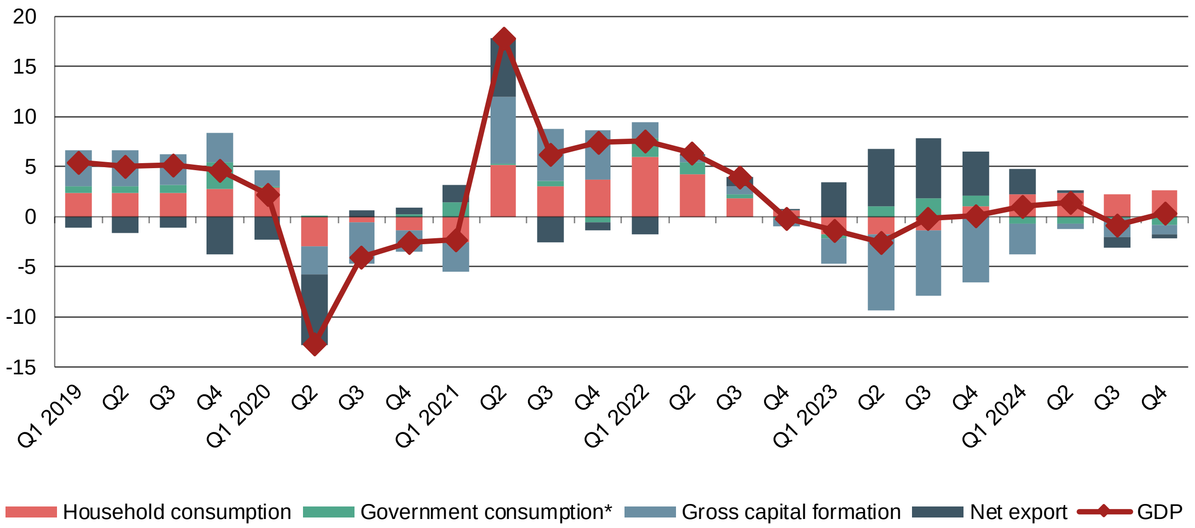
In Q4 2024, gross domestic product (GDP) increased by 0.4% on an annual basis in raw data and by 0.1% in seasonally and calendar-adjusted and balanced data. Quarter on quarter, Q4 2024 GDP was 0.5% lower. **As a result, it strengthened by** 0.5% based on raw data and **by 0.6% based on seasonally and calendar-adjusted and balanced data in 2024**, compared to 2023.

On the **production** side: Q4 2024 GDP was helped most by the services sector (1.3 percentage points). GDP performance was held back by industry (by 0.4 percentage points), agriculture (by 0.4 percentage points) and by construction (by -0.2 percentage points). The Q4 performance of the individual sectors was as follows on an annual and quarterly basis: ***compared to the same period of the previous year, Q4 2024*** saw industrial output decline by 1.6%, agriculture by 13.5% and construction by 3.1%. ***The services sector was the only one to see an increase in output (by 2.1%). On a quarterly basis, Q4 2024 saw***

construction output rise by 0.4% and services and agriculture output by 1.0% each. Industrial output fell by 1.2%.

On the **consumption** side: Q4 2024 GDP growth continued to be boosted by household consumption, while investment and the external trade balance held it back. The ***actual final consumption of households*** boosted GDP growth by 2.5 percentage points, while collective consumption weakened it by 0.7 percentage point. Overall, final consumption, which includes both the actual **final consumption of households** and collective consumption, supported economic growth by 1.8 percentage points. This meant that the ***actual final consumption of households* grew by 4.3% year on year and by 1.1% quarter on quarter in Q4 2024.** Gross accumulation, which includes investment and changes in inventories, reduced GDP growth by 0.9 percentage points. Examining the two items, it can be seen that while ***investments*** *held back economic growth by 2.8 percentage points*, the change in inventories boosted it by 1.9 percentage points. *Investment performance fell by 10.8% year on year and by 1.6% quarter on quarter.* The **net export balance** weakened quarter-on-quarter economic performance by 0.5 percentage point. In terms of the net export balance, exports weakened by a larger annual rate (-2.0%) than imports (-1.3%). Meanwhile, on a quarterly basis, imports shrank more than exports (by -2.6% and -1.9%, respectively). Looking at the individual items of external trade, the evolution of ***trade in goods***, which accounts for the bulk of external trade (almost 80%), was as follows: *on an annual basis*, exports of goods fell by 3.3%, while imports fell by 2.3%. *Compared to the previous quarter*, exports of goods (-1.9%) decreased at a similar rate as imports of goods (-1.8%). For **services**, which account for a smaller share of external trade, exports grew less than imports (by 2.3% and 3.3%, respectively) on an annual basis. Quarter on quarter, however, exports of services shrank less than imports (by 0.4% and 7.5%, respectively).

FIGURE 2: CONTRIBUTION TO ANNUAL GDP GROWTH (CONSUMPTION SIDE, %)



**Including social benefits in kind.*
Source: Hungarian Central Statistical Office

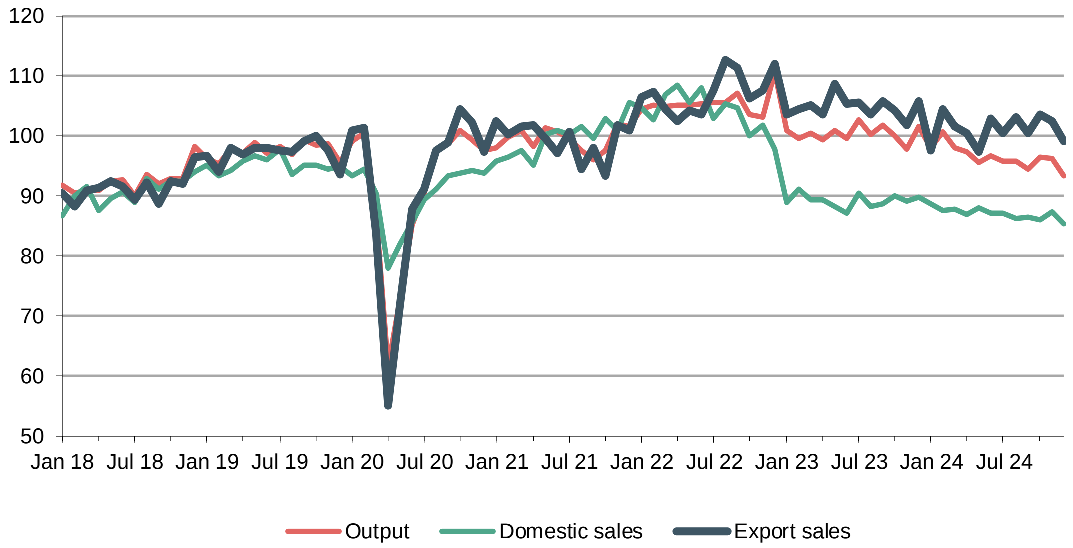
2.3.2 Industry

On a monthly basis, the volume of seasonally and working-day adjusted industrial production increased by 0.8%.

Compared with the same period of the previous year, industrial production fell by 3.9% year on year according to raw data as well as working-day adjusted data in January 2025. **Industrial sales** grew by 1.9% year on year in January 2025. This was driven by a 3.9% decline in domestic industrial sales and a 5.7% growth in export sales. Looking at individual manufacturing industries on an annual basis, in terms of industrial export sales, exports in the manufacture of transport equipment fell by 3.2%, while exports in the manufacture of computer, electronic and optical products rose by 28.6%. In the case of domestic industrial sales, domestic sales in the manufacturing industry fell by 3.1% on an annual basis.

On a monthly basis, compared to the previous month (December 2024), seasonally and working day-adjusted industrial output increased by 0.8% in January 2025. The volume of industrial sales increased by 2.1% month on month, with export sales up by 3.9% and domestic sales unchanged.

FIGURE 3: INDUSTRIAL PRODUCTION AND SALES TRENDS (2021 MONTHLY AVERAGE = 100%)



Source: HCSO, Századvég, Remark: seasonally and calendar-adjusted indices.

Turning back to industrial production, a 3.7% fall in manufacturing output, which was the dominant sector (95.6%), contributed to the decline in industrial production on an annual basis in January 2025. Of the other two sectors accounting for industrial output, energy, with a weight of 3.7%, fell by 8.9%, and mining and quarrying, with a weight of 0.7%, increased by 79.7%. In manufacturing, the volume of industrial production decreased in 8, while it increased in 5 of the 13 subsections. The performance of the three main manufacturing sectors, which accounted for 50.1% of manufacturing output, was mixed. Manufacture of transport equipment, the largest contributor with a 25.9% share, fell by 3.0% year on year. This was the second lowest volume decline among the 13 manufacturing subsections. The second largest subsection, food (with a weight of 13.4%), decreased by 0.6%, the smallest volume decline among the 13 manufacturing subsections. The third largest subsection (10.7%), manufacture of computer, electronic and optical products, grew by 15.4% on an annual basis, the highest volume growth among the manufacturing subsections. The biggest drop in output (29.5%) was in the manufacture of electrical equipment, which accounts for the fourth largest share (8.5%) of manufacturing output.

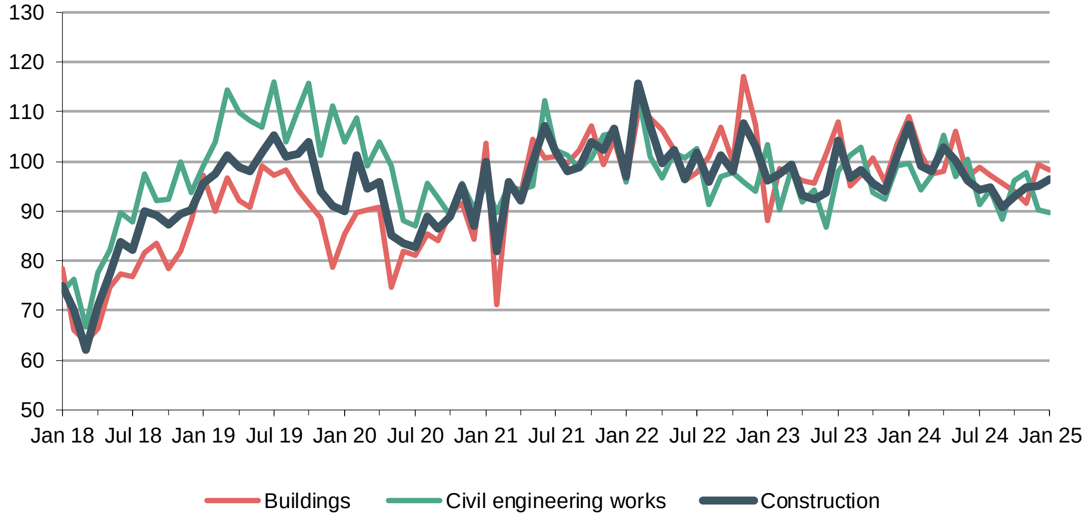
In January 2025, the **stock of new orders** in the priority manufacturing industries fell by 26% year on year on a fixed basis (average monthly price in 2021) and **fell by 25.1% month on month**. With the stock of new orders down by 25.1% month on month, the stock of industrial orders on a fixed basis (for the average monthly price in 2021) decreased by 0.3% month on month. The 0.3% **month-on-month** decline in the **stock of industrial orders** was mainly driven by a 7.0% fall in the stock of domestic industrial orders. Meanwhile, the stock of export orders in industry increased by 0.5% on a monthly basis.

2.3.3 Construction

Construction output in January 2025 was up 1.6% on the previous month.

In January 2025, the annual volume of construction output decreased by 9.6% in terms of raw data. Within the two main groups of construction, the construction of buildings decreased by 8.9% year on year, while civil engineering works (roads, bridges, railways, complex industrial facilities, pipelines, etc.) decreased by 10.8% compared to the same period of the previous year. At the same time, construction output, seasonally and working-day adjusted **on a monthly basis**, indicating a short-term trend, increased by 1.6% in January 2025.

FIGURE 4: CHANGES IN THE CONSTRUCTION INDUSTRY (MONTHLY AVERAGE FOR THE YEAR 2021 = 100%)

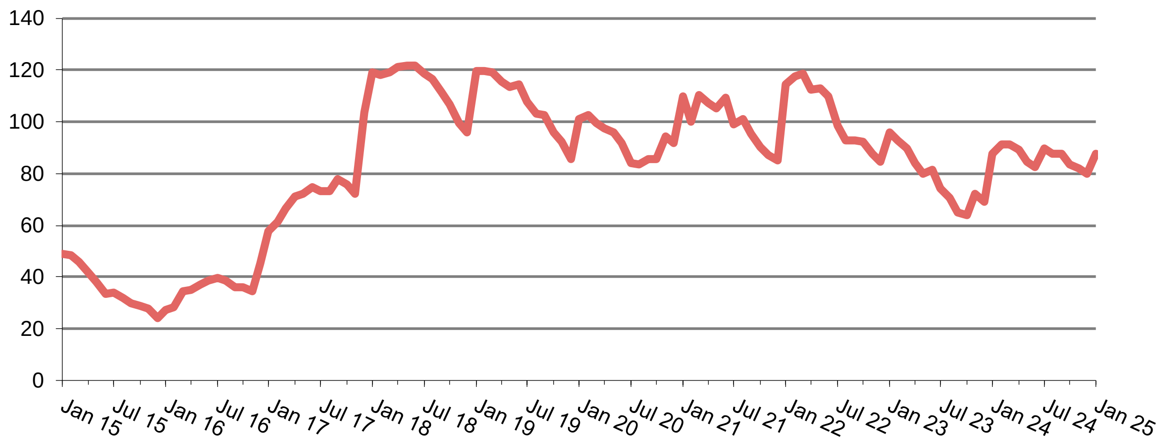


Source: Hungarian Central Statistical Office, Századvég, Remark: Seasonally and calendar adjusted indices.

Although the stock of contracts at the end of January 2025 was essentially stagnant on an annual basis, The future outlook appears favorable, given that, in addition to the **month-on-month** increase in new contracts in January 2025, the stock of contracts at the end of January 2025 also expanded. Compared with the previous month, the volume of new contracts increased by 4.5% in January 2025, and, as a result, the stock of contracts in construction enterprises at the end of January 2025 was 9.5% higher. By main groups of construction, the stock of new contracts for the construction of buildings jumped by 50.1% in January, bringing the monthly increase in the stock of contracts to 26.0% at the end of January. The stock of new contracts for civil engineering works fell by 52.8%, but nevertheless the stock of contracts for civil engineering works at the end of January 2025 increased by 0.9%.

This is illustrated in the graph below, which shows the evolution of the stock of construction contracts at the end of the month with a fixed base (monthly average for 2021 = 100.0). The current level is a relatively high level, but an improving construction output is essential for economic growth. This requires an increase in the volume of contracts for construction companies. Whether the volume increase in the stock of construction contracts seen at the end of January 2025 will be sustained will be seen in the coming months.

FIGURE 5: CHANGES IN MONTH-END CONSTRUCTION CONTRACTS (MONTHLY AVERAGE FOR 2021 = 100%)



Source: Hungarian Central Statistical Office, Századvég

2.3.4 Retail

The volume of retail sales increased by 4.7% in January.

In January, retail sales increased by 4.7% year on year on both a raw and calendar-adjusted basis compared to the respective period of the previous year.

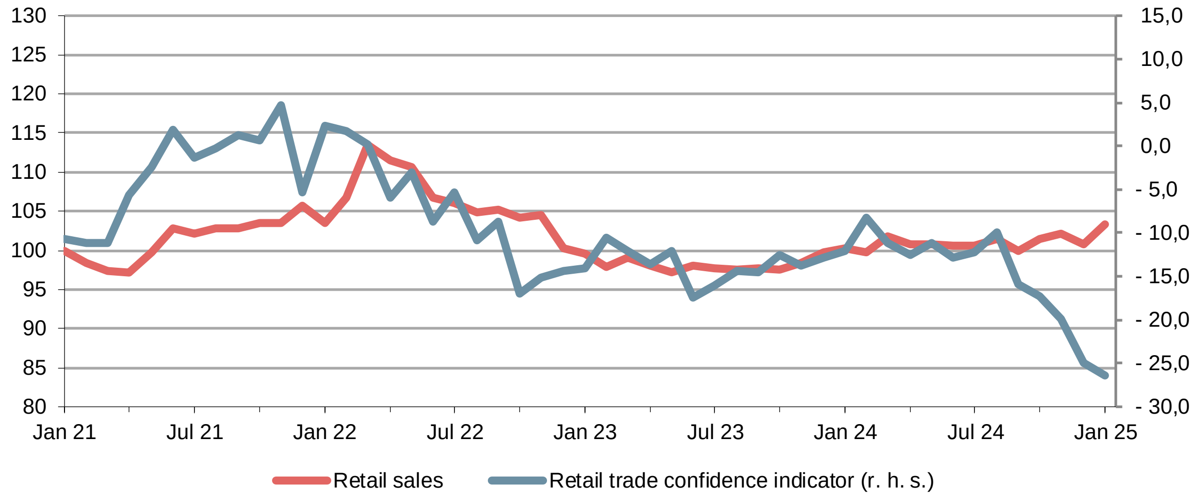
In January 2025, turnover in specialised and non-specialised food shops increased by 4.7%, and the turnover in non-food shops increased by 5.6%. In fuel retailing, sales increased by 1.9% year on year in January.

In food retailing, sales volumes increased by 5.1% in non-specialised food and beverages shops, while the volume in specialised food, beverage and tobacco stores rose by 3.2%.

In non-food retailing, the volume of mixed range of manufactured goods increased by 6.7%, while the turnover of books, newspapers and stationery fell by 1.6% compared to the same period last year. In non-specialised shops dealing in manufactured goods, turnover in textiles, clothing and footwear shops increased by 4.7%. In addition, sales of second-hand goods also increased, by 2.9%. The sales volume of computers and other specialised goods increased by 0.5%. A similar change was seen for books, computer equipment and other specialised stores, which, after a 6.1% decrease in December, increased again by 0.3%. Other categories showed an overall increase, with the most notable being cosmetics shops, which grew by 7.6%, pharmaceuticals, and pharmaceuticals and medicinal products, which increased by 11.1%.

Overall, the largest growth was in non-specialised food shops, more specifically pharmaceutical and medical goods, where volumes increased by 11.1%. Other categories showed more moderate increases.

FIGURE 6: RETAIL SALES AND RETAIL CONFIDENCE INDEX (JANUARY 2021 = 100%)



Remark: Seasonally and calendar adjusted indices.
Source: Hungarian Central Statistical Office, Eurostat, Századvég

2.3.5 Labour market

The unemployment rate was 4.4% in February.

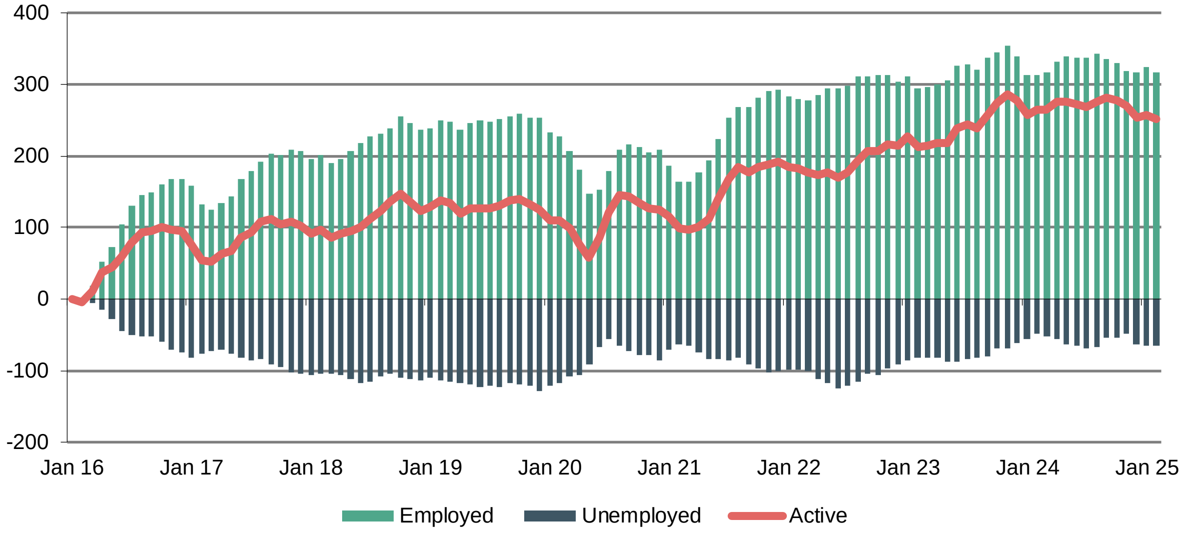
In February 2025[1], the seasonally adjusted activity rate of the population aged 15-74 was 68.1% (4,903,000 employees), which is 13,000 less than in the same period of the previous year. The seasonally adjusted number of employees was 4,689,000, an increase of 3,000 compared to the same period of the previous year. The number of the unemployed was 214,000, a decrease of 16,000 compared to February 2024. Based on February data, employment fell by 8,000 month on month, unemployment rose by 1,000, and overall activity declined by 6,000. Labour market trends still reflect the macroeconomic developments that had a major impact last year, such as the global

[1] Three-month moving average

automotive difficulties and the slowdown in construction, but a return to the previous trend has already begun.

In January, the number of people in full-time employment increased by 1,300 compared with the same period last year. Compared to January 2024, there were 8,000 fewer employees in the competitive sector and 4,900 fewer employees in the public sector. The number of people employed in the non-profit sector increased by 4,400 in one year.

FIGURE 7: CHANGES IN THE LABOUR MARKET (JANUARY 2016 = 0, THOUSAND EMPLOYEES)



Source: Hungarian Central Statistical Office, Századvég

Real earnings rose by 4.6% in January.

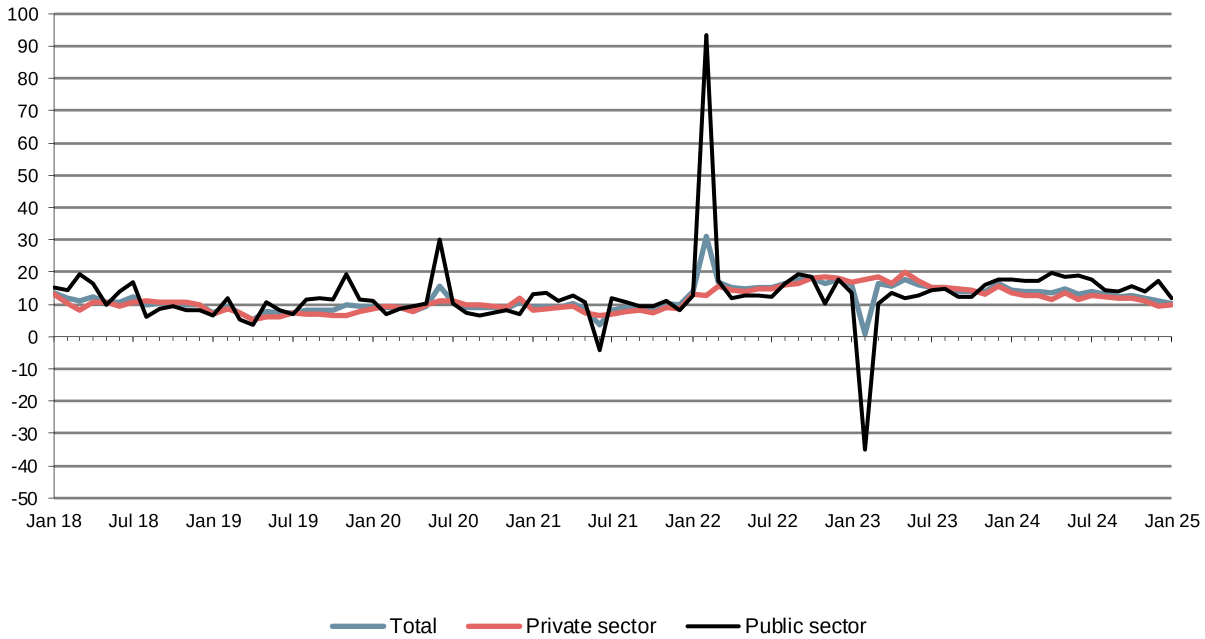
In January, average gross earnings in the national economy were HUF 668,100, up 10.4% compared to the same period last year. Median gross earnings were HUF 539,500, an increase of 9.3% in a year. Real earnings increased by 4.6%, while consumer prices rose by 5.5%.

The dynamic rise in wages is partly due to the direct effect of the increase in the minimum wage and the guaranteed minimum wage, and partly to their indirect effect through their wage-increasing effect.

The growth in gross wages exceeded previous expectations, reaching 9.9% in the business sector, 11.8% in the public sector, and 11.9% in the non-profit sector. The January figures also give an indication of the wage trends for this year. Wages in the competitive sector were also higher than expected, showing that while unemployment has increased slightly and vacancies have fallen, labour market tightness is still evident.

According to our latest forecast, published in March, average gross earnings will increase by 6.9% in 2025, while unemployment is expected to reach 4.1% for the year as a whole.

FIGURE 8: CHANGES IN GROSS WAGES (ANNUAL CHANGE, %)



Remark: Seasonally and calendar-adjusted indices

Source: Hungarian Central Statistical Office, Századvég

2.4 External balance

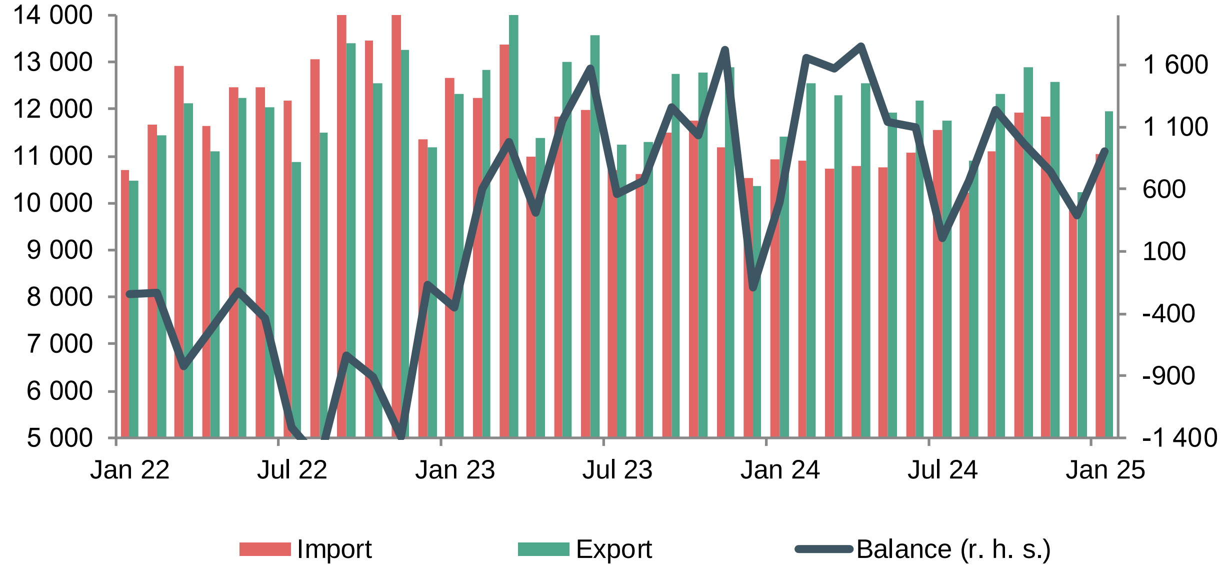
In December, the volume of exports of goods decreased by 1.9%, and imports by 9.8% year on year. This brought the external trade balance to a surplus of EUR 458 million, an improvement of EUR 756 million compared to the previous year.

In December, the import volume of food products, beverages and tobacco increased by 2.1%, and their export volume decreased by 4.8% year on year. As for energy carriers, imports decreased by 15.0% and exports increased by 68.0%. As for processed products, imports decreased by 7.6%, exports increased by 2.0% on a year-on-year basis. As for machinery and transport equipment, imports decreased by 10.0%, and exports by 7.4%.

The foreign trade surplus increased in January.

In January 2025, the first estimate for the EUR value of exports was up by 2.5% and that of imports down by 1.3% compared with the same period a year earlier. This brought the foreign trade surplus in goods to EUR 903 million, which is EUR 343 million stronger than a year earlier.

FIGURE 9: BALANCE OF FOREIGN TRADE IN GOODS (EUR MILLION)



Source: Hungarian Central Statistical Office, Századvég

2.5 Fiscal outlook

In recent years, the February deficit has typically been exceptionally high, which makes the annual course of the budget deficit look more dynamic in the first few months of the year.

At the end of February 2025, the deficit of the general government subsector stood at HUF 1,722,8 billion. This was caused by a deficit of HUF 1,683.5 billion in the central budget and HUF 77.3 billion in social security funds, as well as a surplus of HUF 38.0 billion in extra-budgetary funds.

Central subsystem revenue increased by 5.7%, and central budget revenue increased by 4.8% compared to the same period last year. Tax and contribution receipts were 13.5% higher.

Payments by economic units increased by 6.4%, i.e. HUF 29.9 billion, compared to the end of February 2024. The bulk of the increase is due to a HUF 12.9 billion increase in road tolls, the second largest revenue item. Within payments from economic units, corporate tax receipts, the most significant item, were 5.9% (HUF 8.3 billion) higher than in the same month of the previous year.

Revenues from taxes on consumption increased by 18.7% (HUF 263.3 billion) compared to a year earlier. VAT receipts, the most significant item, were HUF 218.2 billion (21.2%) higher than in the previous year. The increase in VAT receipts was driven by a 6.2% (or HUF 106.2 billion) increase in VAT payments, while the rest of the increase was due to a decrease in VAT refunds. Excise tax receipts was HUF 12.3 billion (5.3%) more than in February 2024. However, the growth rate slowed significantly compared to the end of January, which can be attributed, among other things, to the fact that while receipts from fuel increased by HUF 13.2 billion, receipts from tobacco products decreased by HUF 2.5 billion, whereas in January the two items showed similar growth rates.

Personal income tax receipts increased by 12.2% (i.e. HUF 93.9 billion) compared to the end of February of the previous year. The rise was driven by an increase in wage bills and earnings. Receipts from social contribution tax and social security tax increased by 11.4% (HUF 149.7 billion) compared to the same period of the previous year, also caused by wage increases.

Revenues from EU programmes were HUF 122.6 billion in February, which is HUF 157.8 billion less than a year earlier. Expenditure on EU programmes was HUF 301.6 billion, which was HUF 108.9 billion higher than at the end of February last year.

In February 2025, central government expenditure was 4.7% higher than in the previous year. Within this, central subsystem expenditure increased by 1.7%.

Among significant expenditure items, expenditure on central budgetary institutions and chapter-administered appropriations, expenditure of the Health Security Fund and interest expenditure were higher than a year earlier, while expenditure on public assets fell significantly.

Subsidies for utility services, which include subsidies for household energy bills, are practically unchanged compared to last year (HUF 1.6 billion decrease). At the same time, road network availability charges increased by HUF 21.7 billion.

Housing subsidies increased slightly, by HUF 3.2 billion, compared to the same period last year.

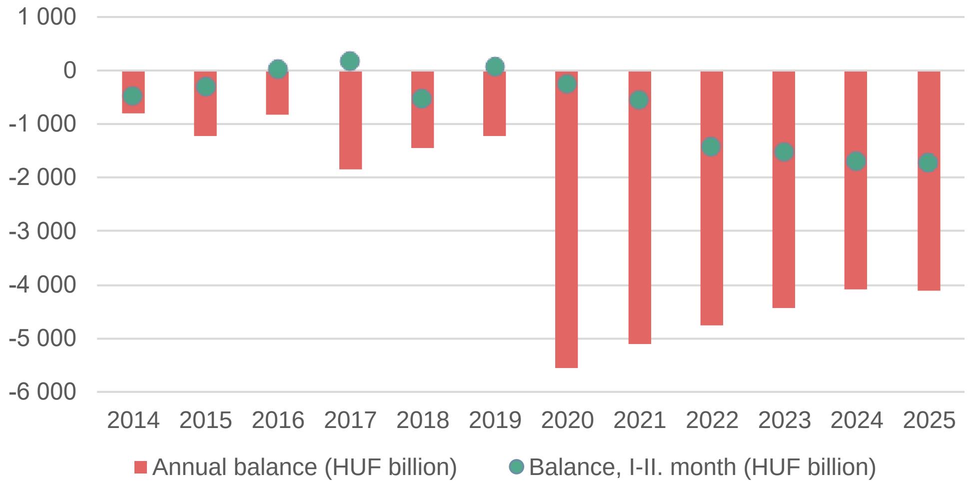
Expenditure on central budgetary institutions and chapter-administered appropriations was HUF 166.9 billion higher than in the second month of the previous year. This corresponds to an increase of 8.6%, while the Budget Act foresees a decrease of 6.5%.

Expenditure on public assets decreased by HUF 351.9 billion compared to the end of February 2024, as the same period of the previous year was also substantially affected by the expenditure related to the buy-back of Budapest Liszt Ferenc Airport.

By the end of February 2025, pensions amounted to HUF 1,491.2 billion, an increase of 5% (HUF 70.5 billion) compared to the same period last year, exceeding the official pension increase of 3.2%. During the same period, the Health Insurance Fund spent HUF 883.9 billion, an increase of HUF 171.7 billion, i.e. 171.7%, compared to the base period. Within this, expenditure on curative preventive care, which accounts for more than half of the Fund’s expenditure, increased by 37.6% (HUF 145.2 billion).

The balance of interest expenditures and receipts was HUF 208.6 billion (27.4%) more negative than at the end of February 2024.

FIGURE 10: CENTRAL SUBSYSTEM BALANCE*, 2014-2025 (CUMULATIVE FOR FEBRUARY, BILLION HUF)



Source: Ministry of Finance, Hungarian State Treasury;

2.6 Monetary developments

2.6.1 Consumer prices

Consumer prices rose by an average of 5.6% in February.

In February 2025, consumer prices increased by 5.6% on average—compared to the same period of the previous year. Over the past year, prices of services have increased the most (9.2%). Prices of electricity, gas and other fuels fell by 0.2% compared to the same period of the previous year. Consumer prices rose by 0.8% in a month. The seasonally adjusted core inflation rate was 6.2% higher than in the same period of the previous year.

A larger share of the 7.1% average increase in food prices was due to a 44.3% rise in flour prices, a 27.5% rise in edible oil prices and a 24.7% rise in egg prices. The price of milk rose by 22.5%, butter and butter cream by 19.2% and fruit and vegetable juice by 14.5%, all of which exceeded the average food inflation rate for the month. In contrast, deflation was observed for several products, as in the previous months: pork fat prices fell by 4.6%, pasta products by 4.4% and other confectionery products by 3.7%. The rise in excise duties played a significant role in the average inflation rate of 5.0% for alcoholic beverages and tobacco. Within the product group, wine prices saw a significant increase of 7.3%, and there were no price decreases in this category.

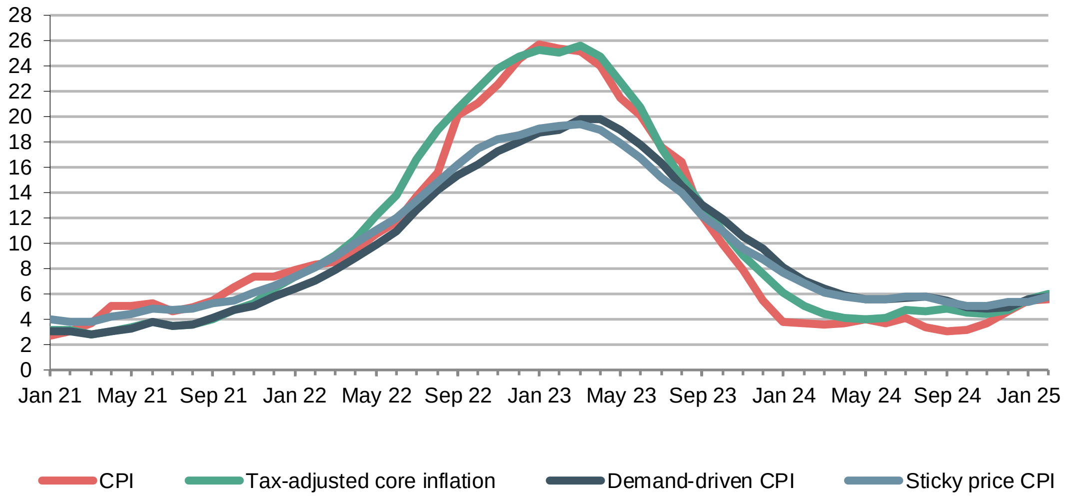
The average annual increase in consumer durable goods of 0.8% in January was followed by an average increase of 1.6% in February. If we look at the main group in more detail, we can see that the price of new passenger cars increased by 6.6% and jewellery by 18.9%, which is above average. Inflation in consumer durable goods was boosted by a 3.6% rise in the price of vacuum cleaners and air conditioners and a 3.2% rise in the price of heating and cooking equipment. It is also important to note the positive trend in the motorcycle market, where motorcycle prices were 7.0% lower in February than in January, compared to the same period last year.

The average decrease in the prices of electricity, gas and other fuels was 0.2% in February, compared to the same period of the previous year. Within electricity, gas and other fuels, firewood prices fell by 4.9% over the past year. However, in the same group, the price of butane and propane gas was 10.1% higher, coal was 6.0% higher, and briquettes and coke 1.8% higher. In addition, the price of natural and manufactured gas rose by 0.1% and the price of electricity by 0.6%.

In February, the price of services rose by an average of 9.2%, with postal services and communications contributing the most, with increases of 16.8% and 15.0% respectively. The price increase for games of chance, which have not been a significant contributor in previous months, was 0.4%, as in January. The price of telephone and internet services increased by 14.9% compared to the previous year. Cinema and TV subscription prices increased by 12.7% and 13.2% respectively compared to the same period last year. By contrast, the average price increase of services was moderated by, among other things, no change in the prices of sanitation, water and sewerage. The price of travelling to work and school has also remained unchanged thanks to the country and county passes. Prices for other long-distance trips fell by 6.9%.

Compared with the previous month, consumer prices rose by 0.8% on average. Within the overall consumer basket, food prices rose by 1.2% compared with the previous month. Prices for services and electricity, gas and other fuels rose by 1.2% and 0.2% respectively from the previous month. The price of other products and fuels was 0.1% lower than in January.

FIGURE 11: THE EVOLUTION OF INFLATION (ANNUAL CHANGE IN PERCENTAGE)



Source: MNB, Századvég

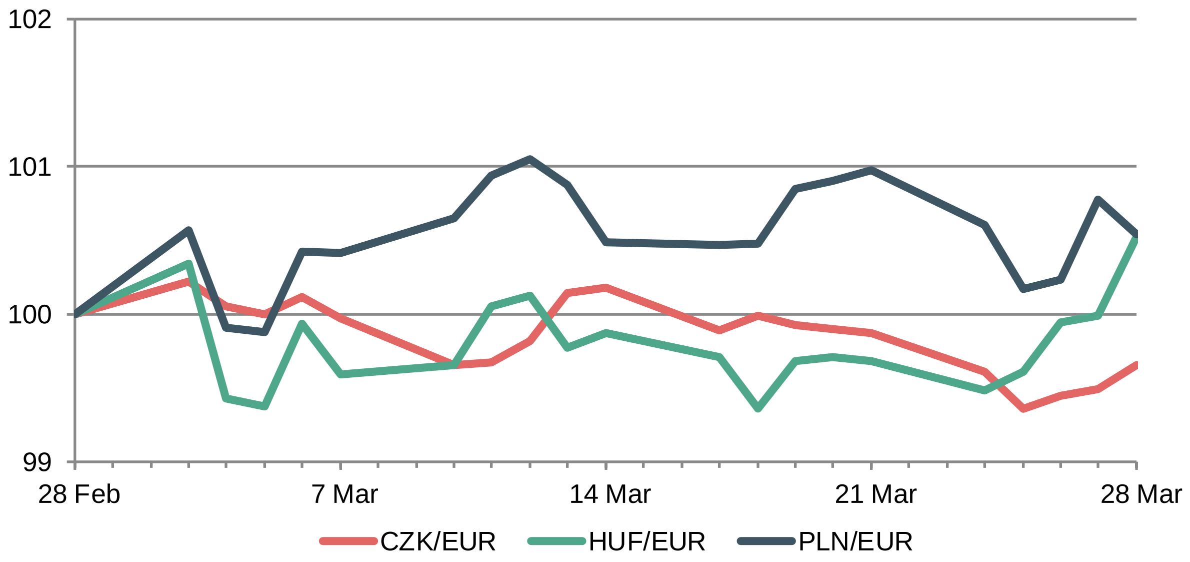
Among the core inflation indicators published by the MNB, the core inflation rate net of indirect taxes was 6.0%, the core inflation rate excluding processed food was 5.8% and the sticky price inflation rate was 5.8% in the second month of the year. The core inflation rate, 0.6 percentage point higher than total inflation, shows that, after a long period of time, goods with slow-moving prices have again contributed more to the acceleration in Hungary's inflation rate.

2.6.2 Regional currencies

The currencies of competitors in the region showed a mixed performance against the euro.

Regional currencies were mixed against the euro in March. In the past period, the Czech koruna strengthened by 0.35%, and the Polish zloty weakened by 0.55% against the Euro. Government bond yields also increased over the period, with the Czech 10-year government bond yield 26 basis points higher at 4.27%, and the Polish 10-year yield less than 1 basis point higher at 5.78%.

FIGURE 12: CHANGES IN EXCHANGE RATES IN THE REGION (BASELINE VALUE = 100%)



Source: Refinitiv, Századvég

The Hungarian currency strengthened against the Swiss franc and the dollar and weakened against the euro.

Hungarian money and foreign exchange market indicators tended to strengthen over the last month. The HUF weakened by 0.5% against the Euro and strengthened by 0.9% against the Swiss franc and by 3.1% against the US dollar. This means that at the end of March 2025, 1 euro was worth 403 forints, 1 US dollar was worth 373 forints and 1 Swiss franc was worth

423 forints. In March, sovereign debt held by foreigners increased by HUF 24 billion to HUF 5,547 billion.

2.6.3 Base rate

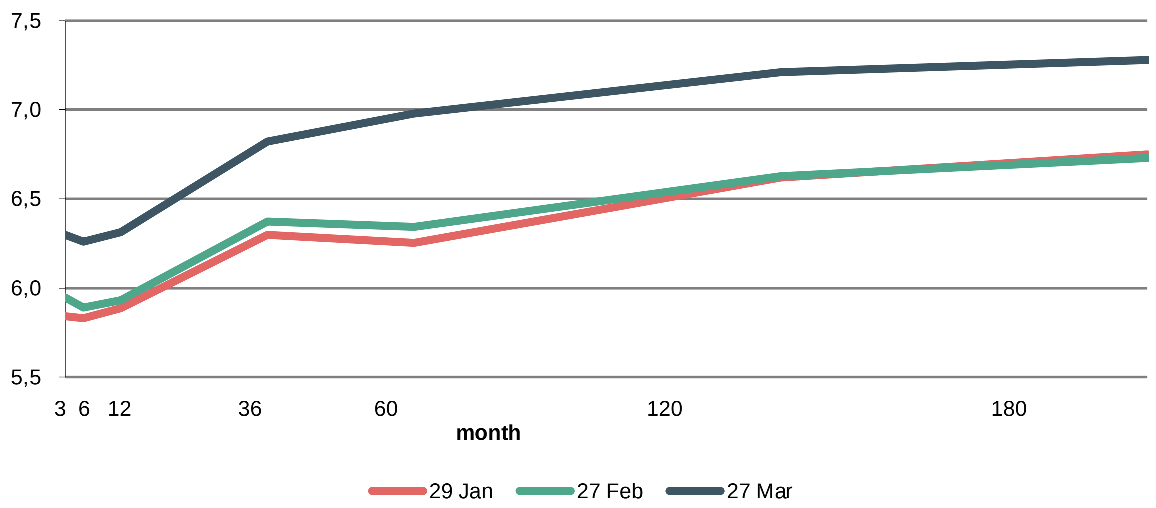
At its March meeting, the central bank's Monetary Council kept the base rate at 6.5%.

At its March meeting, the Monetary Council of the central bank left monetary conditions unchanged from September, and the base rate in Hungary currently stands at 6.5%. The upper end of the interest rate corridor remained at 7.5% and the lower end at 5.5%. The two most important factors in the central bank's decision were the inflation outlook and the maintenance of financial stability. Inflation was higher than expected in February and is likely to remain above the central bank's tolerance band for the rest of the year, justifying the maintenance of tight monetary conditions. In addition, global financial market uncertainty and trade tensions have led the central bank to adopt a cautious approach, and it does not see room for monetary easing at the moment. Maintaining price stability and investor confidence is a top priority.

2.6.4 Government securities market

In the government bond market, yields for shorter maturities varied between 35 basis points and 64 basis points on the secondary yield curve in March. This means that the 3-month yield was 6.30%, the 6-month yield was 6.26% and the 1-year yield was 6.31% on 27 March. The 3-year yield increased by 45 basis points to 6.98%. Yields are up 64 basis points over the 5-year horizon, 58 basis points over the 10-year horizon and 55 basis points over the 15-year horizon compared to the previous month. These three yields changed, therefore, to 6.98%, 7.21%, and 7.28%, respectively.

FIGURE 13: CHANGES IN THE HUF YIELD CURVE (%)



Source: GDMA, Századvég

On 24 March 2025, the total value of "MÁP Plusz" government securities held by retail investors was HUF 746.97 billion after a HUF 44.51 billion increase from the

HUF 702.46 billion level in the previous month. In addition, the cumulative value of PMÁP securities was HUF 5,992.17 billion, while the cumulative value of the "Bónusz" Hungarian Government Bonds was HUF 1,577.24 billion. The total value of the 1MÁP securities is HUF 149.72 billion, that of Treasury Savings Bills is HUF 564.19 billion and that of FixMÁP securities is HUF 1,878.06 billion. In addition, funds held in "Baby" Bonds amounted to HUF 444.97 billion and funds held in Printed MÁP Plus amounted to HUF 101.28 billion. The retail stock of FixMÁP increased by HUF 386.6 billion and that of BMÁP by HUF 270.4 billion compared to the previous month. Significant decreases are observed in the PMÁP (HUF 556.94 billion) and 1MÁP (HUF 89.86 billion). The total stock of government securities held by retail investors stood at HUF 11,454.60 billion at the end of March 2025, up from HUF 11,274.79 billion at the beginning of 2025, meaning that people held HUF 179.81 billion more in government securities than in the first month of 2025. The data show that even after the PMÁP paid outstanding interest, money did not start flowing out of government securities; at most, a shift between different instruments can be observed.

2.6.5 Sovereign debt

The share of foreign currency debt in the sovereign debt increased to 30.7% in January (i.e. increased by 0.86 percentage point from the previous month), which is above the range (maximum 30%) specified in the financing plan for 2024 of Government Debt Management Agency Ltd. The last time this share was this high was in February 2016. Over the past 12 months, the foreign currency debt ratio averaged 29.3%, with the January ratio higher than this.

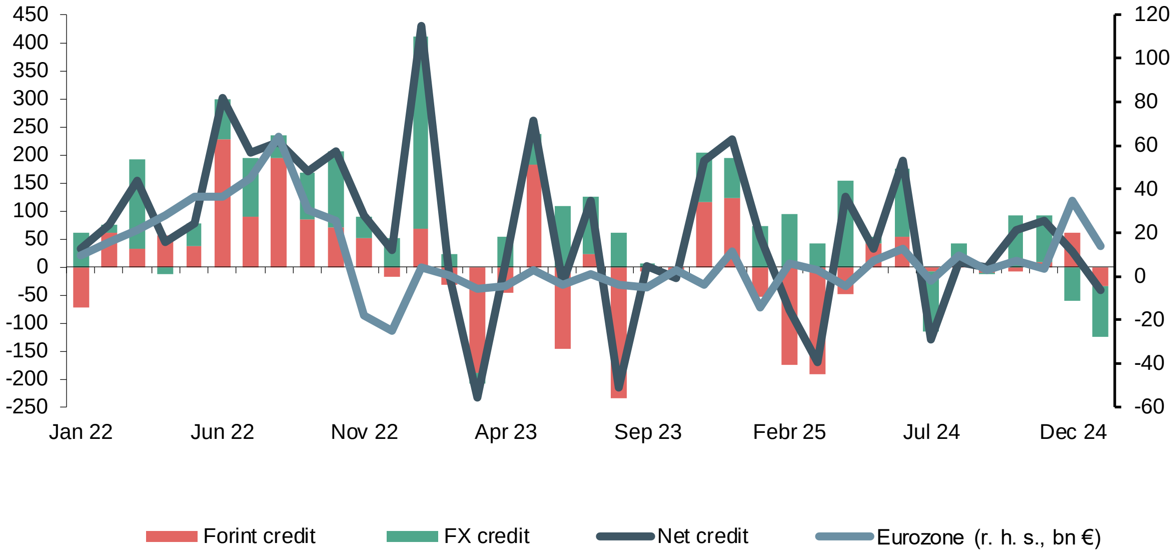
The rating of Hungarian sovereign debt remained in the investment grade by all three major international rating agencies. S&P maintains a stable outlook of "BBB-/A-3", while Fitch revised Hungary's debt rating to stable from a negative outlook of "BBB" on 6 December. However, Moody's revised its stable outlook to negative at the end of November, while maintaining its rating at "Baa2".

2.6.6 Corporate credits

Corporate credits decreased in Hungary.

Seasonally adjusted data show that the net borrowing of HUF loans in the business sector decreased by HUF 35.5 billion in January 2025. Net foreign currency loans also decreased, with repayments amounting to HUF 88.5 billion in the last month of the year. Seasonally adjusted total net borrowing decreased by HUF 41.7 billion in the period under review. Corporate borrowing in the euro area was EUR 13,919 million in January 2025.

FIGURE 14: CORPORATE BORROWING (HUF BILLION)



Source: MNB, ECB, Századvég

3. MACROECONOMIC FORECAST

According to the calculations of Századvég Konjunktúrakutató, the Hungarian economy could grow by 2.3% in 2025 and 3.7% in 2026. A number of uncertainties complicate the forecast for this year: first, the exchange rate of the forint and world prices will strongly determine inflation, and second, slower growth in our export markets, notably Germany, could dampen Hungarian exports. In addition, consumption is expected to continue to expand strongly throughout 2025, while investment growth is more likely to contribute to economic growth in the second half of the year.

According to the model calculation of Századvég Konjunktúrakutató, we expect slightly lower growth for 2025 compared to our December 2024 forecast. We have revised our growth expectation from 2.6% to 2.3%, mainly due to a higher-than-expected inflation environment and a weak external environment.

Inflation could peak above 5.0% in Q1 2025 and then again approach the upper end of the inflation target range (4.0%) by the end of the year. Thus, the annual inflation rate could reach 4.5% in 2025, and then fall to an annual average of 3.3% in 2026. World markets will be decisive for inflation. For one thing, the trend of disinflation so far appears to be coming to an end: accelerating global inflation and a global rise in food prices could raise imported inflation. For another thing, as oil production capacity increases, the global fall in fuel prices could reduce inflationary pressures. Moreover, the evolution of the forint exchange rate also has a strong impact on Hungarian inflation trends: with the euro exchange rate stable at around 400 forints, the inflation rate may slow down. Inflation trends also determine the central bank's room for manoeuvre: even with favourable inflation and money market developments this year, we expect only one rate cut in Q4 2025.

In 2025, Hungarian gross domestic product (GDP) is expected to grow by 2.3%, followed by 3.7% in 2026. The main growth driver could be consumption, which is expected to rise by 3.1% this year and 2.7% next year. Consumption growth could be supported by rising real wages, the government's economic action plan, the extension of the scope of exemptions from income tax and the payment of interest on retail government securities due this year. However, unfavourable inflation trends may cause households to be more cautious, which could hold back consumption growth.

Investment is more likely to grow significantly in the second half of the year. Positive investment figures may also be due to major industrial investments (BMW, BYD, CATL) and the implementation of various public infrastructure developments. Last year's low base may also play a role in the positive contribution of investment to Hungarian GDP in the second half of the year. Investment is expected to grow by 2.9% in 2025 and 3.4% in 2026. If investment grows faster than expected or the turnaround comes earlier, our annual forecast for both GDP and investment could be revised upwards.

Exports could grow by 2.7% in 2025 and 5.2% in 2026. Looking at year-on-year dynamics, we also expect exports to pick up in the second half of the year. The performance of the German economy will be crucial for exports: if the German economy resumes growth thanks to the release of the debt brake, this in itself could have a positive impact on the Hungarian economy's performance. In addition, the key issue is the performance of the European automotive industry. The US tariff policy has a negative impact on the European and especially the German automotive industry, but the EU's response could help boost the European automotive industry by changing carbon emission standards, supporting battery production and supporting digitalisation and innovation projects in the automotive industry.

Domestic imports could rise by 3.6% this year and 4.1% next year. In the first half of the year, rising consumption may cause imports to outpace export growth, which could result in net exports holding back economic expansion in the first half of the year. However, rising exports in the second half of the year could make net exports a positive contributor to GDP growth, and we expect net exports to remain positive in 2026.

In the labour market, we expect unemployment to fall over the next two years (4.1% in 2025 and 3.3% in 2026), with gross wages forecast to rise by 6.9% in 2025 and 5.6% in 2026. Recent dynamic price increases have pushed many people, such as retired people and students, into the labour market over the last year and a half or two years, leading to a surge in activity and a simultaneous rise in unemployment while maintaining employment levels. In the second half of 2024, however, the trend may have started to reverse slowly: activity fell steadily from the middle of the year onwards, back to its levels before the price shock, and this was gradually followed by a decline in the number of the employed and the unemployed. With the cooling of what can be seen as exceptional economic conditions, strategic changes to sustainably expand the labour market could come back to the fore this year. The government's target is that the activity rate of the 15-64 age group in Hungary reaches 85% by 2030 (78.6% in 2024). This requires helping current jobseekers into the labour market, as well as identifying the potential labour reserves in the inactive population and helping them into work through the right labour market action plan. Labour market developments are positively influenced by the relevant points of the New Economic Policy Action Plan announced at the end of last year, such as the three-year wage agreement, the increase in the family tax benefit and the exemption of women with children from paying personal income tax.

According to the government's still provisional communication, the ESA-based budget deficit will be 4.8% of GDP at the end of 2024, 0.3 percentage points higher than the government's target. Government debt reached 73.6% of GDP at the end of the year, a slight increase compared to the end of the previous year.

We consider the 3.7% deficit target projected in the 2025 Budget Act to be sustainable under tight fiscal management, but there is an upside risk in relation to maintaining the planned level of expenditure in the budget bodies and professional chapters. There is also a risk of a shortfall in EU revenues, which could be addressed by a similar reduction in expenditure under EU programmes. Our projections suggest that government debt could fall to 73.0% of GDP in 2025. The latest statement by the Ministry for National Economy forecast a deficit of 3.5% of GDP in 2026, up from the previously expected deficit of 2.9% of GDP. The increased deficit target, in our view, provides sufficient room for manoeuvre to implement the tax cuts and expenditure-increasing measures announced for 2026.

Our calculations are based on a model with external assumptions. The forint exchange rate, the international interest rate environment, oil prices, imported inflation and European economic developments are all factors that determine domestic developments. Changes to these assumptions can have a significant impact on the economic developments that take place.

4. SZÁZADVÉG'S FORECAST[2]

TABLE 1: 2025 Q1 FORECAST

	2024	2025	2026
Gross domestic product (volume index)	0.6	2.3	3.7
Household final consumption expenditure (volume index)	5.0	3.1	2.7
Gross fixed capital formation (volume index)	-7.2	2.9	3.4
Export volume index (based on national accounts)	-2.8	2.7	5.2
Import volume index (based on national accounts)	-3.3	3.6	4.1
Balance of international trade in goods (EUR billion)	1.3	1.7	5.6
Consumer price index (%)	3.7	4.5	3.3
Central bank base interest rate at the end of the period (%)	6.5	6.25	5.75
Unemployment rate (%)	4.5	4.1	3.3
Current account balance as a percentage of GDP	1.1	0.9	2.1
Net lending as a percentage of the GDP	2.0	1.7	2.9
ESA balance of public finances as a percentage of GDP	-4.8	-3.7	-3.5
Sovereign debt as a percentage of GDP	73.6	73.0	72.7

Source: MNB, Hungarian Central Statistical Office, Századvég's calculation, Remark: The base rate of the central bank applies to the last quarter of the year.

[2] Date of preparation: 20 March 2025

SZÁZADVÉG

"In our changing world, we can only make good decisions based on quality data."

Századvég's mission is to help you see clearly so that you can make better decisions. And good decisions require two things: clear objectives and substantial information.

We work to learn and understand Hungarian and international economic and social processes, and thus provide useful and understandable knowledge to decision-makers, whether they are corporate, governmental or private.

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