SZÁZADVÉG

MACROECONOMIC MONITOR

JUNE 2025

SZÁZADVÉG KONJUNKTÚRAKUTATÓ ZRT. ....

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1. SUMMARY

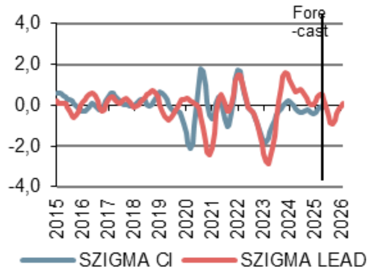
According to seasonally and calendar-adjusted and balanced data for Q1 2025, Hungary's economy shrank by 0.4% year on year and by 0.2% quarter on quarter. Despite the more subdued first quarter, we expect the economy to grow again for the rest of the year.

At its June meeting, the central bank's Monetary Council did not change the base rate, which has been in place since September. The base rate in Hungary therefore remains at 6.5%.

Raw data show that retail sales increased by 6.8%, while calendar-adjusted data show that they increased by 5.0% in April 2025, compared to the same period of the previous year.

In April 2025, turnover in specialised and non-specialised food shops increased by 3.7%, and the turnover in non-food shops increased by 4.0%. In fuel retailing, sales increased by 2.4% year on year in April.

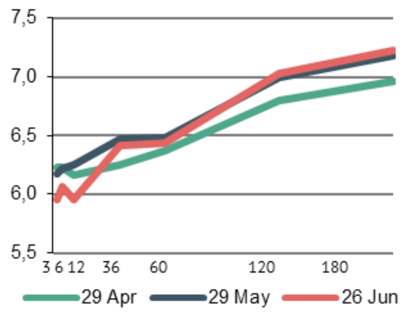
SIGMA indicators



Source: Századvég

The monthly value of the SZIGMA CI indicator, which provides feedback on the current state of the Hungarian economy, was -0.1353 up to May 2025. This means that the Hungarian economy's growth rate continued to remain below its historical trend. The indicator points to an economic slowdown from the previous month.

Forint yield curve (%)



Source: Refinitiv

The latest forecast of another indicator, SZIGMA LEAD, a short-term indicator of the future of the Hungarian economy, suggests that Hungarian economic growth should pick up significantly from autumn 2025. Furthermore, the indicator forecasts that Hungarian economic growth will exceed the historical trend by the end of the forecast horizon (early 2026).

Our forecast (25.06.2025)	2025
Change in GDP (%)	1.0
Inflation (annual average, %)	4.6

In May 2025, consumer prices rose on average by 4.4% on an annual basis.

2. OVERVIEW OF THE ECONOMY

2.1 External environment

Construction output in the EU rose by 1.4% from the previous month.

According to a report published by Eurostat on 19 June 2025, construction output showed significant growth in April 2025 in both the eurozone and the European Union as a whole. Compared with the previous month, output rose by 1.7% in the euro area and by 1.4% in the EU. This positive shift is noteworthy in the light of the slight decline recorded in both regions in March.

A detailed breakdown shows that, in the euro area, construction of buildings increased by 0.9%, specialised construction activities rose by 1.7%, while civil engineering fell by 0.2%. The EU as a whole shows a similar pattern, with construction of buildings up 0.5%, specialised activities up 1.4% and civil engineering down 0.2%.

Compared with April 2024, construction output rose by 3.0% in the euro area and by 2.5% in the EU as a whole. All sectors grew year on year: construction of buildings rose by 1.7%, civil engineering by 3.3% and specialised services by 2.4% in the euro area. In the EU, these figures were 0.5%, 2.4% and 2.6%, respectively.

Member States differ significantly. The highest monthly increases were registered in Hungary (+5.3 percentage points), Spain (+4.3 percentage points) and Slovenia (+4.0 percentage points). In contrast, the largest decreases were recorded in the Czech Republic (-5.0 percentage points), Denmark (-0.9 percentage points) and Poland (-0.8 percentage points). On an annual basis, Spain recorded an outstanding increase of 14.7 percentage points, while Bulgaria (+7.0 percentage points) and Belgium (+6.6 percentage points) also recorded significant growth. The largest annual falls were recorded in Slovenia (-5.9 percentage points), Poland (-4.3 percentage points) and Slovakia (-2.1 percentage points).

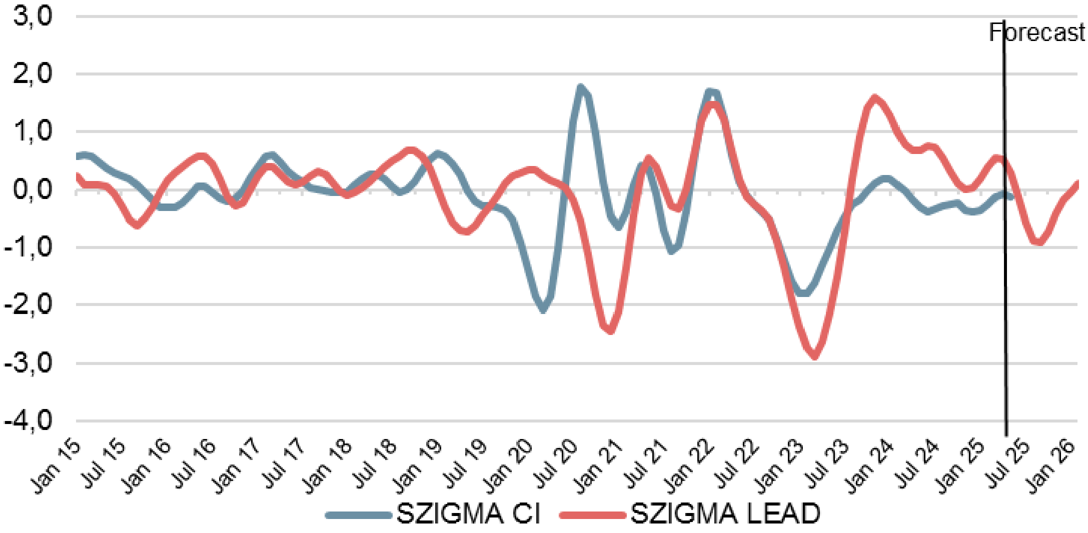
2.2 Our SIGMA indicators

In May 2025, the growth rate of the Hungarian economy remained below its historical trend rate.

In June 2025, the value of the SZIGMA CI indicator ***reflecting the current state of the Hungarian economy*** was -0.1353 up to May 2025. This means that the Hungarian economy's growth rate continued to remain below its historical trend. The indicator showed a weaker economic performance compared to the previous month. As for ***industrial*** figures, which serve as the background for the indicators, the volume of industrial production strengthened by 4.4% year on year and by 1.5% month on month, based on the latest April 2025 fixed base (2021 monthly average = 100.0%) seasonally and working-day adjusted data. On a fixed basis for April 2025 (2021 monthly average = 100.0%), the volume of industrial sales decreased in all dimensions (domestic and exports) on an annual basis according to seasonally and working-day adjusted data, while strengthening on a monthly basis. The volume of total sales (domestic and exports combined) contracted by 1.0% year on year, while it expanded by 1.5% month on month. Domestic sales fell by 1.4% on an annual basis, but rose by 1.9% on a monthly basis. Export sales contracted by 0.5% on an annual basis, while they increased by 1.1% on a monthly basis. According to the latest data on **construction output** for April 2025, construction output rose by 5.3% month on month, with construction of buildings increasing by 1.1% and construction of civil engineering works by 7.7%. At the same time, construction output fell by 1.2% year on year, driven by a 3.4% decline in the construction of buildings and a 0.6% decline in civil engineering works. 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 April 2025, grew by 0.9% on a monthly basis, while it grew by 7.3% on an annual basis. Looking at the main groups of construction, there was a contrasting effect between the monthly and annual bases. While the 7.3% **year-on-year** increase in the stock of contracts was due to an 8.3% decline in the stock of construction contracts for buildings and a 20.9% increase in the volume of construction contracts for civil engineering works, the 0.9% **month-on-month** increase in the stock of contracts was attributable to a 4.9% increase in the stock of construction contracts for buildings and a 1.3% decrease in the stock of construction contracts for civil engineering works.

In June 2025, our **short-term leading indicator**, **SZIGMA LEAD**, forecasts a rebound in growth in the second half of the forecast horizon (from autumn 2025) and indicates growth above the trend value by the end of the forecast horizon (early 2026). So, the first part of the current forecast estimates a decline, while the second part estimates a sharp rebound. Looking at future ***industrial*** prospects, it cannot be considered favourable that the stock of new industrial orders (domestic and export) declined on both a monthly and annual basis. The 12.1% decline in annual terms was driven by a 2.5% increase in new domestic industrial orders and a 14.4% decline in new industrial export orders. The 7.4% month-on-month decline was driven by a 1.0% decrease in new domestic industrial orders and an 8.4% decline in new industrial export orders. 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 an important factor. It improved by 0.6 index points on a monthly basis and weakened by 1.4 index points on an annual basis in May 2025, to stand at 87.5 index points. The business environment improved slightly for the German manufacturing sub-index. The decline in the stock of orders has stopped and can be considered stable. Companies rated their current situation as better. Among manufacturing companies, sentiment improved most in the food industry, while it deteriorated in the chemical industry. The other confidence index underlying the indicator, **Eurostat's consumer confidence index**, weakened by 0.6 index points on a monthly basis and by 2.2 index points on an annual basis in May 2025. Thus, in May 2025, it stood at -26.4 index points.

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



Source: Századvég

2.3 The real economy

2.3.1 GDP

In Q1 2025, Hungarian GDP contracted by 0.2% quarter on quarter.

In Q1 2025, gross domestic product (GDP) stagnated **on an annual basis** according to raw data, but decreased by 0.4% based on seasonally and calendar-adjusted and balanced data.

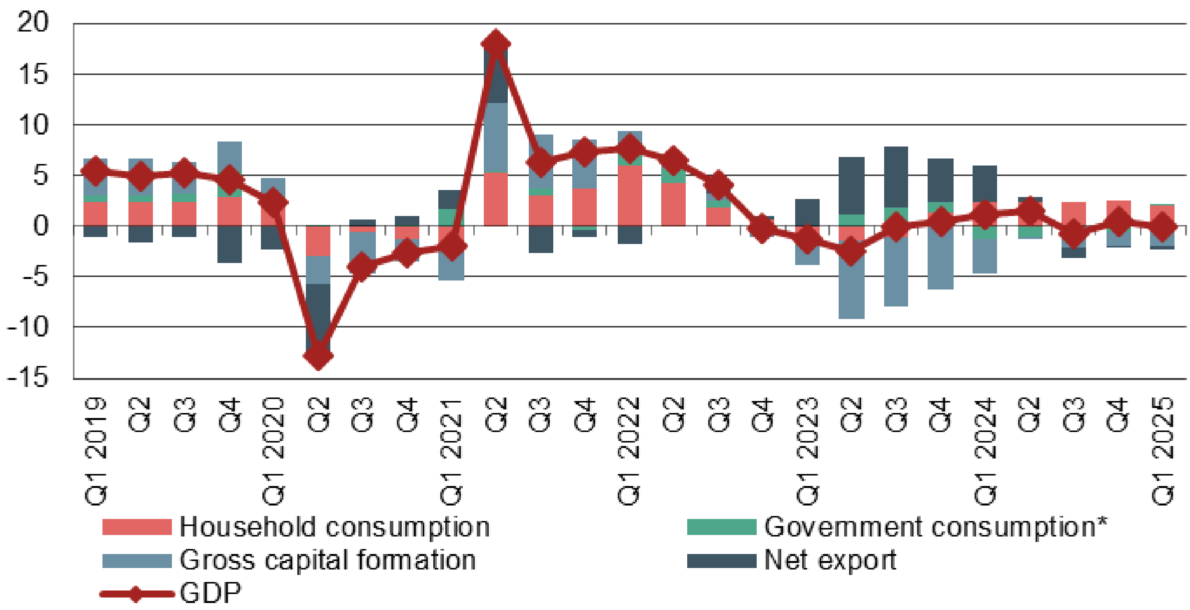
Quarter on quarter, Q1 2025 GDP shrank by 0.2%.

On the **production** side: Q1 2025 GDP was helped by the services sector (0.73 percentage points). GDP growth was held back by industry (-0.7 percentage points) and construction (-0.2 percentage points). With a contribution of 0.0 percentage points, agriculture neither helped nor hindered growth. The Q1 performance of the individual sectors was as follows on an annual and quarterly basis: ***Compared to the same period of the previous year, Q1 2025*** saw industrial output decline by 3.9%, agriculture by 0.7% and construction by 5.1%. ***The services sector was the only one to see an increase in output (by 1.1%).*** Within services, the largest year-on-year volume growth was achieved by trade and repair of motor vehicles (2.1%). ***On a quarterly basis***, in Q1 2025, construction output fell by 1.1%, industrial output by 2.3% and services output by 0.2%; by contrast, agricultural output rose by 4.6%.

On the production side, Q1 2025 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 1.3 percentage points, while collective consumption by 0.8 percentage point. Overall, final consumption, which includes both the actual **final consumption of households** and collective consumption, supported economic growth by 2.2 percentage points. This meant that the ***actual final consumption of households*** **grew by 2.2% year on year and shrank by 0.1% quarter on quarter in Q1 2025**. Gross accumulation, which includes investment and changes in inventories, reduced GDP growth by 1.9 percentage points. Examining the two items, it can be seen that while ***investments*** *held back economic growth by 2.0 percentage points*, the change in inventories boosted it by 0.2 percentage points. *Investment performance fell by 10.1% year on year and by 2.4% quarter on quarter.* The **net export balance** weakened quarter-on-quarter economic performance by 0.3 percentage point. In terms of net exports, exports weakened (-0.4%) **on an annual basis**, while imports essentially stagnated (+0.1%). Meanwhile, both exports (1.5%) and imports (1.4%) grew **on a quarterly basis**.

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 and imports of goods grew at similar rates, with exports of goods increasing by 0.6% and imports by 0.4%. Meanwhile, *compared to the previous quarter*, exports of goods grew significantly faster (3.2%) than imports (0.9%). For **services**, which account for a smaller share of external trade, both exports (-0.9%) and imports (-0.4%) fell in annual terms. At the same time, exports of services declined *quarter on quarter* (–2.4%), while imports of services increased significantly (6.5%).

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



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

2.3.2 Industry

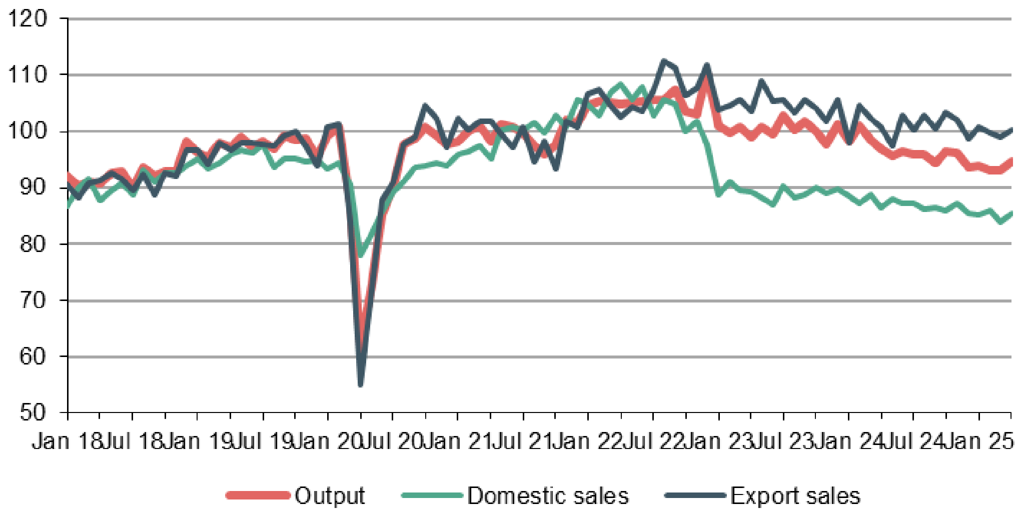
On a monthly basis, the volume of seasonally and working-day adjusted industrial production increased by 1.5%.

In April 2025, industrial production volume decreased by 5.0% in raw data terms and by 2.3% in seasonally adjusted and working day-adjusted terms compared to the same period of the previous year. This means that cumulative performance for January-April 2025 was 4.5% lower than for January-April 2024.

Industrial sales weakened by 3.5% on an **annual** basis in April 2025. This was driven by a 3.3% decline in domestic industrial sales and a 3.7% decline in export sales. On an annual basis, in terms of *industrial export sales*, the manufacture of transport equipment, which accounts for 32% of the total, declined by 5.9%, while *the manufacture of computer, electronic and optical products, which accounts for 15% of the total, increased by 15.2%*. Year on year, *domestic* sales in the manufacturing industry fell by 2.4%.

At the same time, the positive thing is that on a monthly basis, in April 2025, the seasonally and working day adjusted industrial production volume jumped by 1.5% compared to the previous month (March 2025). The volume of industrial sales increased by 1.5% month on month, within which export sales strengthened by 1.1% and domestic sales by 2.0%.

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



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

In April 2025, a 5.2% fall in manufacturing output, which was the dominant sector (95.8%), contributed most to the decline in industrial production on an annual basis. Of the other two sectors accounting for industrial output, energy, with a weight of 3.7%, increased by 6.3%, and mining and quarrying, with a weight of 0.6%, decreased by 15.5%. In manufacturing, the volume of industrial production decreased in 10, while it increased in 3 of the 13 subsections. The performance of the three main manufacturing sectors, which accounted for 50.0% of manufacturing output, was mixed. Manufacture of transport equipment, the largest contributor with a 26.5% share, decreased by 4.1% year on year. The second largest subsection, food (with a weight of 12.9%), decreased by 4.0%. The third largest subsection (10.5%), manufacture of computer, electronic and optical products, grew by 3.5% on an annual basis, again the second highest volume growth among the 13 manufacturing subsections. The largest volume increase (13.7%) was in a small sector (coke production). The third highest (1.1%) volume increase was in wood processing, another relatively minor sector. The biggest drop in output (16.7%) was in the manufacture of electrical equipment, which accounts for the fourth largest share (9.0%) of manufacturing output.

In April 2025, the **stock of new orders** in the priority manufacturing industries fell by 12.2% year on year on a fixed basis (average monthly price in 2021) and **by 7.1% month on month**. For both the annual and monthly bases, the stock of new orders declined in all dimensions, with the exception of the stock of new domestic orders on an annual basis. The exception (the stock of new domestic orders) saw a 2.5% volume increase on an annual basis. In addition to the stock of new orders, the **volume of the total stock of orders also fell:** by 16.2% year on year and by 4.5% month on month. For both the annual and the monthly base, **the volume decline was due to a fall in the stock of industrial export orders**. However, **the stock of domestic industrial orders expanded both on a monthly basis** (9.8%) and on **an annual basis** (4.2%).

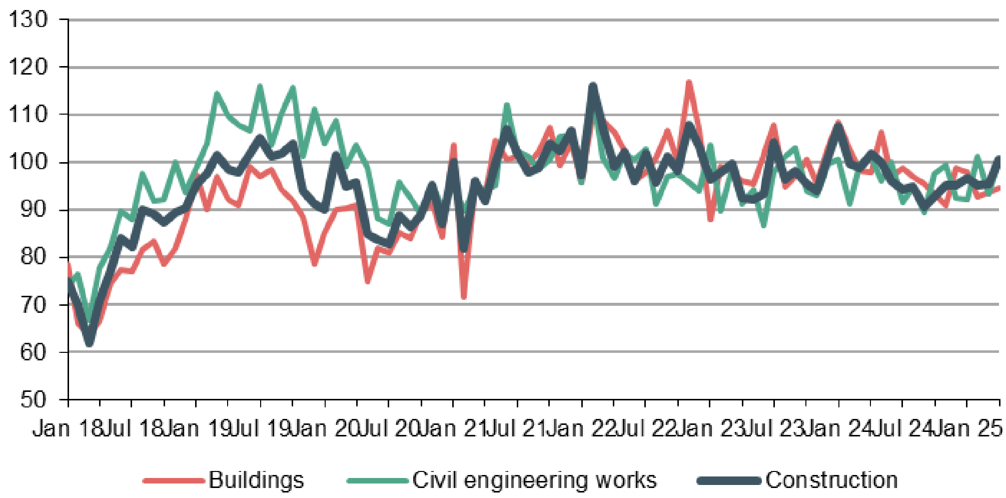
2.3.3 Construction

Construction output in April 2025 was up 5.3% on the previous month.

In April 2025, the annual volume of construction output decreased by 0.5% in terms of raw data. Within the two main groups of construction, the construction of buildings decreased by 5.7% year on year, while civil engineering works (roads, bridges, railways, complex industrial facilities, pipelines, etc.) increased by 6.5%.

At the same time, adjusted for seasonal and working day effects, construction output grew by 5.3% **month on month** in April 2025. This outstanding month-on-month growth was attributable mainly to the increase in the output of civil engineering works (7.8%) and, to a lesser extent, to the increase in the output of building construction (1.1%).

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

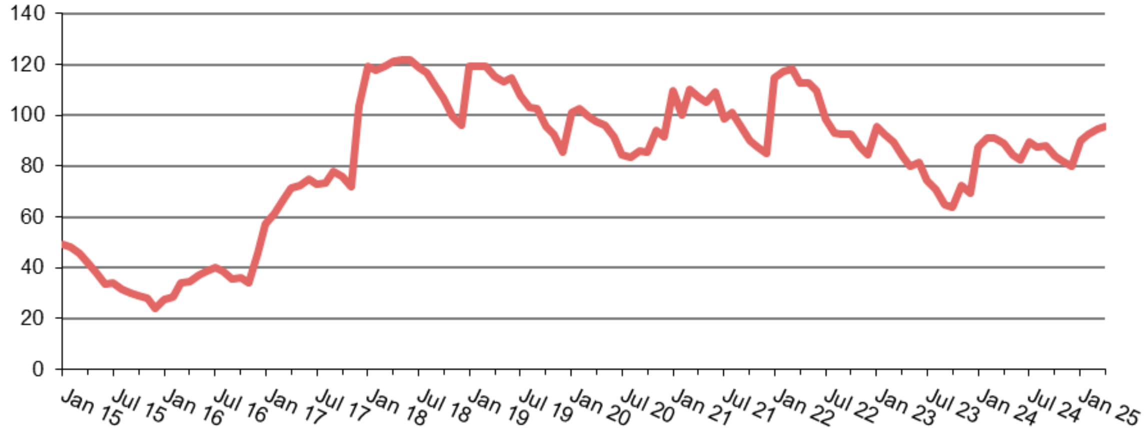


Source: Hungarian Central Statistical Office, Századvég, Remark: Seasonally and calendar adjusted indices.

As regards stocks of contracts, similarly to the previous month, despite the decline in new contracts concluded in April 2025, the stock of contracts at the end of April 2025 still increased. This can still be seen as positive for the future. The stock of contracts at the end of April 2025 showed a **month-on-month** *increase of 0.9%*, which was due to a 4.9% increase in the stock of construction contracts for buildings. Meanwhile, the stock of construction contracts for civil engineering works fell by 1.3%.

The graph below 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 (95.7) is a high level, **exceeding** the highest value for the period 2023-2024. In January 2023, the level was 95.8. Subsequently, the stock of contracts at the end of the month under review fell sharply and then started to improve. The previous high was best approached by January 2024 (87.7). **The current level of the stock of contracts in April 2025 (95.7) was as close as possible to**, or **higher than**, these two previous outliers, the January 2023 level (95.8) and the January 2024 level (87.7). The increase in the stock of contracts is encouraging, but further improvement is needed for economic growth.

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



Source: Hungarian Central Statistical Office, Századvég

2.3.4 Retail

Retail sales volume increased by 6.8% in April.

Raw data show that retail sales increased by 6.8%, while calendar-adjusted data show that it increased by 5.0% in April 2025, compared to the same period of the previous year.

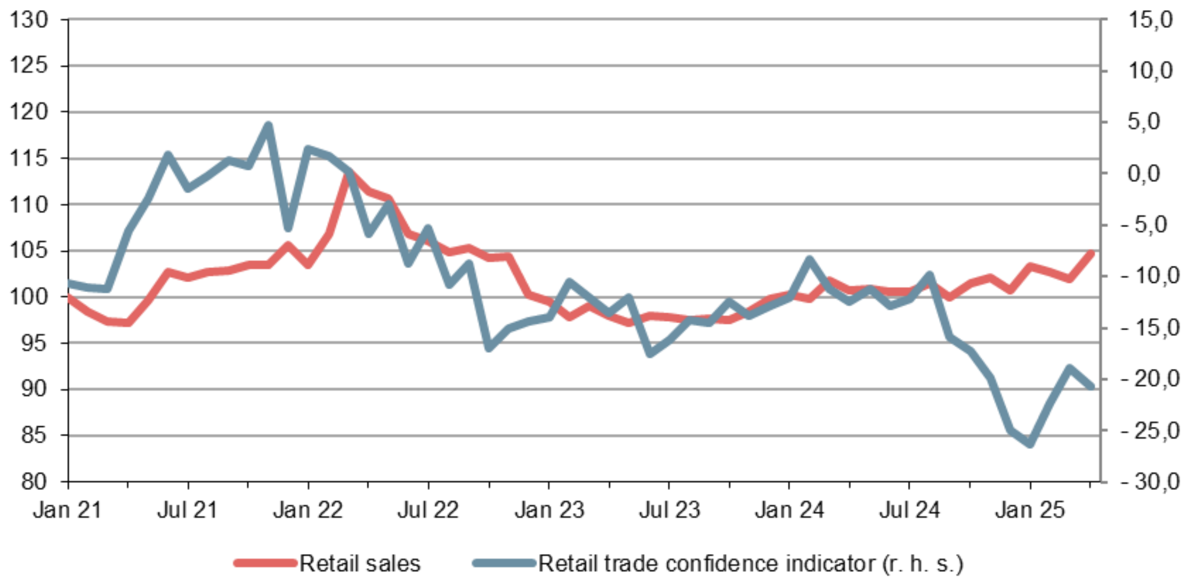
In April 2025, turnover in specialised and non-specialised food shops increased by 3.7%, and the turnover in non-food shops increased by 4.0%. In fuel retailing, sales increased by 2.4% year on year in April.

In food retailing, sales volumes increased by 4.1% in non-specialised food and beverages shops, while the volume in specialised food, beverage and tobacco stores decreased by 1.6%.

In non-food retailing, the volume of mixed range of manufactured goods increased by 8.3%, while the turnover of books, newspapers and stationery increased did not change compared to the same period last year. In non-specialised shops dealing in manufactured goods, turnover in pharmaceutical and medical goods shops increased by 5.3%. The sales volume of computers and other specialised goods increased by 3.6%. A similar change was seen for books, computer equipment and other specialised stores, which, after a 5.2% decrease in March, increased by 3.9%. However, sales of second-hand goods fell by 0.4%. Other categories saw a general increase, with mail order and internet retailing standing out, with a 9.1% increase in sales volume.

Overall, the largest growth was in non-specialised food shops, more specifically mail order and internet retailing, where volumes increased by 9.1%. Other categories showed a more moderate increase.

FIGURE 6: RETAIL SALES (JANUARY 2021 = 100%) AND EUROSTAT'S RETAIL TRADE CONFIDENCE INDICATOR



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

2.3.5 Labour market

In May, the unemployment rate was 4.3%.

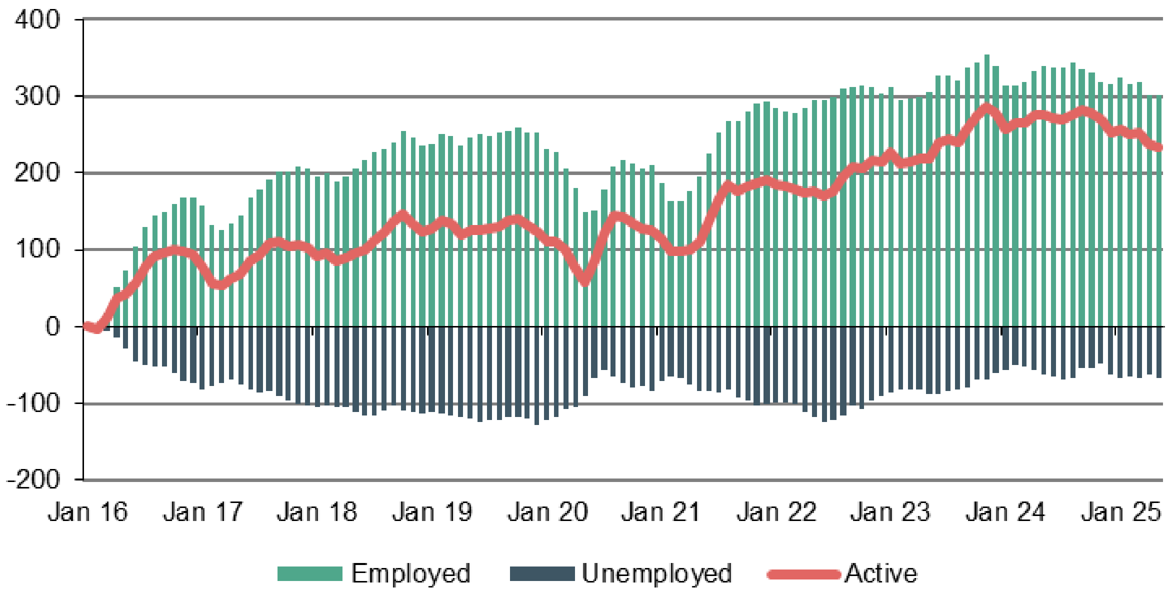
In May 2025[1], according to the latest data of the Hungarian Central Statistical Office, the seasonally adjusted activity rate of the population aged 15-74 was 68.1% (4,885,000 employees), which is 43,000 less than in the same period of the previous year. The seasonally adjusted number of employees was 4,673,000, a decrease of 38,000 compared to the same period of the previous year. The number of the unemployed was 211,500, a decrease of 5,000 compared to May 2024. Based on May data, employment rose slightly on a monthly basis, by only 230 people, while unemployment fell by 5,100, resulting in an overall decline of 4,800 in activity. Labour market trends still reflect the macroeconomic developments that had a major impact last year, such as the global automotive difficulties and the slowdown in construction, but there are also signs of consolidation.

In April, the number of full-time employees rose by 3,600 compared to the same period last year and by 10,200 compared to March. Compared to April 2024, there were 8,100 fewer employees in the competitive sector and 2,900 more employees in the public sector. The number of people employed in the non-profit sector increased by 6,600 in one year. Compared to March, the number of employees increased in all three sectors.

According to Eurostat's latest data from April, Hungary's unemployment rate of 4.4% was the tenth lowest among the 27 countries of the European Union. The EU average was 5.9% in the fourth month of the year.

[1] Three-month moving average

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



Source: Hungarian Central Statistical Office, Századvég

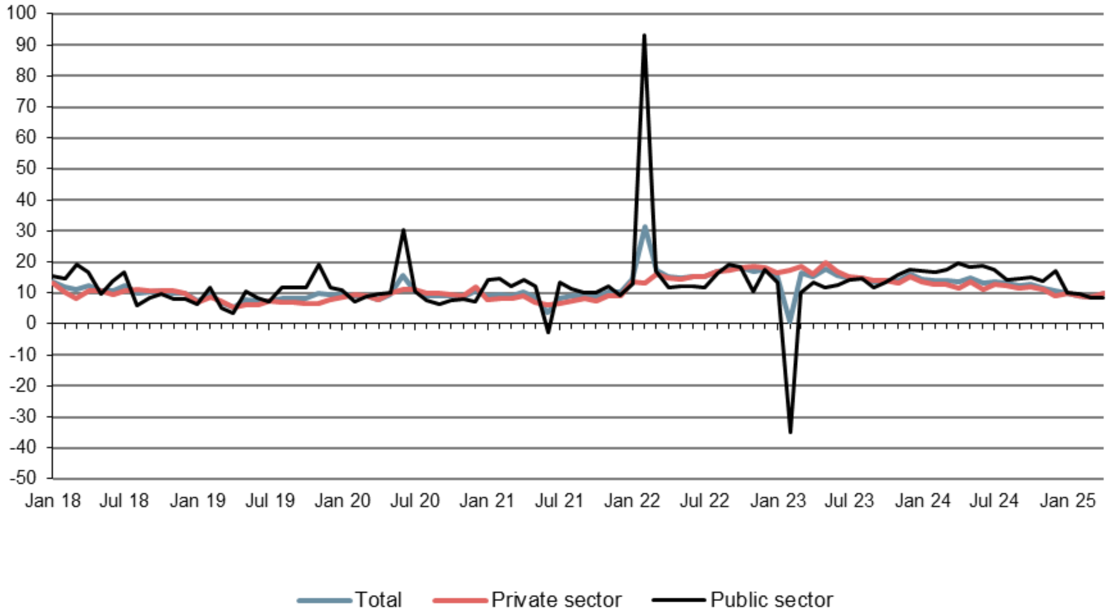
Real earnings rose by 5.2% in April.

In April 2025, average gross earnings in the national economy were HUF 708,300, 9.8% higher than in the same period of the previous year. Median gross earnings were HUF 564,800, an increase of 10.2% in a year. Real earnings increased by 5.2%, while consumer prices rose by 4.2%.

The increase in average gross earnings was 9.9% in the business sector, 8.4% in the public sector and 12.5% in the non-profit sector. As these indicators were 11.6%, 19.7% and 17.4% a year earlier, the aggregate wage dynamics in April were 3.7 percentage points below a year earlier. The lower wage growth rate can be partly explained by the fact that while the government's wage increases last year fueled earnings growth in the public and non-profit sectors, no similarly large wage increase programme is planned for this year. In April, the highest average gross earnings were recorded in the corporate sector, at HUF 716,500.

We expect unemployment to continue to fall over the next two years (2025: 4.1%, 2026: 3.6%), while gross wages are forecast to rise by 9.5% in 2025 and 7.2% in 2026.

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



Remark: Seasonally and calendar-adjusted indices

Source: Hungarian Central Statistical Office, Századvég

2.4 External balance

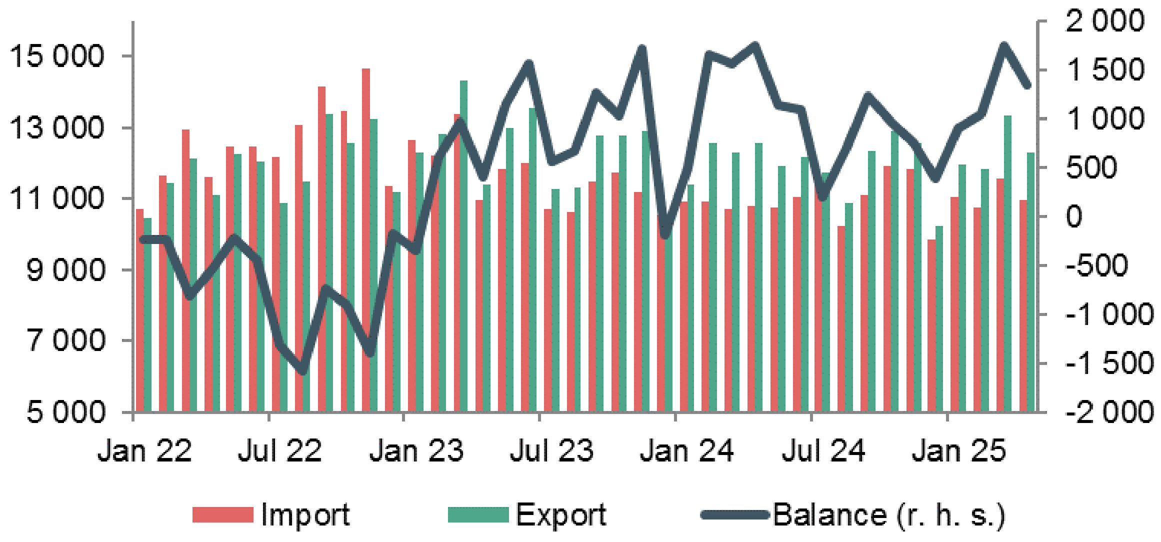
In April, the volume of exports of goods decreased by 2.3%, and imports by 0.1% year on year.

In April, the import volume of food products, beverages and tobacco decreased by 2.0%, and their export volume by 13.0% year on year. As for energy carriers, imports increased by 43.0%, while exports by 39.0%. As for processed products, imports decreased by 7.4%, and exports by 7.5% year on year. As for machinery and transport equipment, imports increased by 0.9%, and exports by 0.5%.

In April, the foreign trade surplus in goods amounted to EUR 1.4 billion.

According to estimates for April 2025, the value of exports in EUR terms decreased by 1.5%, while imports increased by 1.5% compared to the same period of the previous year. This brought the foreign trade surplus in goods to EUR 1.4 billion, which is EUR 354 million weaker than a year earlier.

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



Source: Hungarian Central Statistical Office, Századvég

2.5 Fiscal outlook

By the end of May, VAT receipts had increased by 16.2%.

At the end of May 2025, the deficit of the central budgetary subsystem stood at HUF 2,800.9 billion. This was caused by a deficit of HUF 2,747.2 billion in the central budget and HUF 99.0 billion in social security funds, as well as a surplus of HUF 45.3 billion in extra-budgetary funds. In May, the monthly balance of the central subsystem showed a surplus of HUF 129.5 billion.

Kornél Kisgergely (State Secretary for Public Finances of the Ministry of National Economy) and Mihály Hoffmann (President and CEO of the Government Debt Management Agency Ltd.) announced at a joint press conference on 10 June that the expected cash deficit would be HUF 4,774 billion[2]. The new cash deficit target was 58.7% of the annual deficit target by the end of May.

Cumulative central subsystem revenue at the end of May were 4.7% higher, and central budget revenue were 3.7% higher than in the same period last year. Tax and contribution revenues of the central subsystem increased by 7.8%, higher than the general revenue level.

Payments by economic units decreased by 11.2%, i.e. HUF 179.7 billion, compared to the end of May 2024. Within payments from economic units, corporate tax receipts, the most significant item, were 19.6% (HUF 126.9 billion) lower than in the same period of the previous year. The reason for the decrease is that the deadline for paying corporate tax falls on the second of June this year. Another major factor in the decline in payments by economic units was the fact that payments by the energy sector were HUF 85.3 billion lower than in the first five months of the previous year. The latter is due to a technical delay in the deadline for submitting tax returns

[2] https://www.portfolio.hu/gazdasag/20250610/breking-meg-tobb-devizakotvenyt-ad-el-magyarorszag-766837

and the lower-than-expected level of the Ural-Brent spread special tax. Tolls, the second largest revenue item, increased by HUF 14.1 billion.

Revenues from taxes on consumption increased by 11.9% (HUF 459.4 billion) compared to a year earlier. VAT receipts, the most significant item, were HUF 460.7 billion (16.2%) higher than in the previous year. Most of the increase in VAT receipts was due to a 6.8%, HUF 356.7 billion, increase in VAT payments. The other part of the increase is due to a decrease in VAT refunds. Excise tax receipts was HUF 7.8 billion (1.3%) more than by the end of May 2024. The two largest items show that while revenues from fuels increased by HUF 23.1 billion, revenues from tobacco products decreased by HUF 14.8 billion. Excise tax receipts on spirits and other products also fell by HUF 1.4 billion from last year.

Personal income tax receipts increased by 11.5% (HUF 211.0 billion) compared to the end of May in 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 10.1% (HUF 334.4 billion) compared to the same period of the previous year, also caused by wage increases.

The total revenue from EU programmes at the end of the fifth month was HUF 168.3 billion, down HUF 378.0 billion from a year earlier. Expenditure on EU programmes amounted to HUF 824.6 billion, an increase of HUF 22.7 billion compared to the end of May last year.

Thanks to MVM's HUF 213.5 billion dividend payment, payments related to state assets rose to HUF 330.6 billion by the end of May. The dividend payment also contributed to the budget surplus in May.

In May 2025, central government expenditure was 5.4% higher than in the previous year. Within this, central subsystem expenditure increased by 4.4%.

Among significant expenditure items, expenditure on central budgetary institutions and chapter-administered appropriations, expenditure of the Health Security Fund, pensions 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, decreased slightly by HUF 5.3 billion compared to last year. Support for public transport also decreased, by HUF 28.6 billion. Road network availability charges increased by HUF 13.5 billion compared to the previous items.

Housing subsidies decreased by HUF 11.8 billion compared to the same period last year.

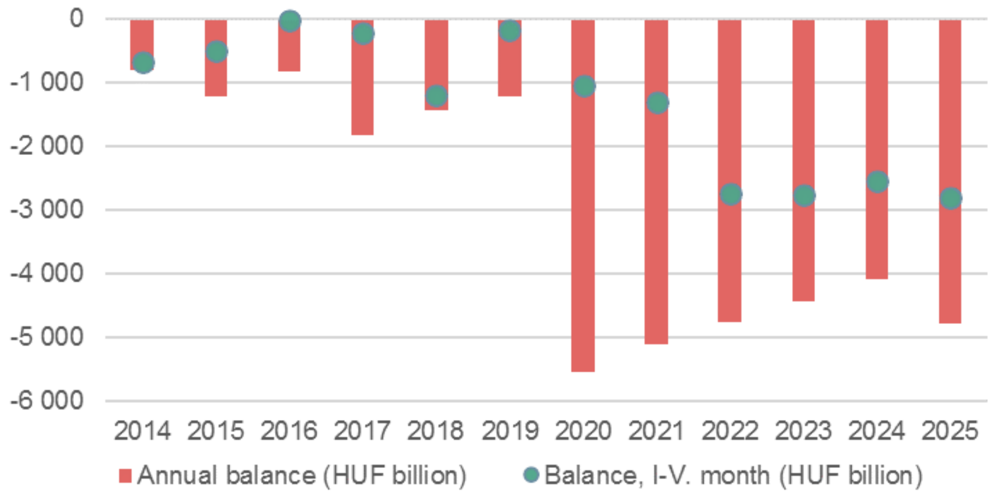
Expenditure on central budgetary institutions and chapter-administered appropriations was HUF 313.3 billion higher than at the end of the fifth month of the previous year. This corresponds to an increase of 5.6%, while the Budget Act foresees a decrease of 6.5%. At the same time, a significant slowdown can be observed compared to the 11.2% growth rate at the end of April, which is due to the fact that in May, expenditures were reduced by HUF 181.1 billion compared to May 2024.

Expenditure on public assets decreased by HUF 430.0 billion compared to the same period of the previous year, as the same period of 2024 was substantially affected by the expenditure related to the buy-back of Budapest Liszt Ferenc Airport.

By the end of May 2025, pensions amounted to HUF 2,991.1 billion, an increase of 5% (HUF 142.7 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 2,076.4 billion, an increase of HUF 215.3 billion, i.e. 11.6%, 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 14.6% (HUF 157.8 billion).

The balance of interest expenditures and receipts was HUF 512.2 billion (32.9%) more negative than at the end of May 2024.

FIGURE 10: CENTRAL SUBSYSTEM BALANCE*, 2014-2025 (MONTHLY CUMULATIVE RESULT FOR MAY, IN BILLION FORINTS)



Source: MINISTRY OF FINANCE, HUNGARIAN STATE TREASURY;

2.6 Monetary developments

2.6.1 Consumer prices

Consumer prices rose by an average of 4.4% in May.

In May 2025, consumer prices increased by 4.4% on average—compared to the same period of the previous year. Over the past year, the prices of alcoholic beverages and tobacco have increased the most, by 7.3% and 5.9%, respectively. Prices of electricity, gas and other fuels increased by 5.3% compared to the same period of the previous year. Consumer prices rose by 0.2% in a month. The seasonally adjusted core inflation rate was 4.8% higher than in the same period of the previous year.

A larger share of the 5.9% average increase in food prices was due to a 26.0% rise in egg prices, a 25.3% rise in edible oil prices and a 25.0% rise in flour prices. The price of coffee at shops rose by 22.5%, that of chocolate and cocoa by 22.3% and that of fruit and vegetable juices by 14.1%, 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: margarine prices fell by 30.0%, pork fat prices by 20.4% potato prices by 7.9% and milk product (without cheese) prices by 7.4%. The rise in excise duties played a significant role in the average inflation rate of 7.3% for alcoholic beverages and tobacco. Within the product group, wine prices saw a significant increase of 9.3%, and there were no price decreases in this category.

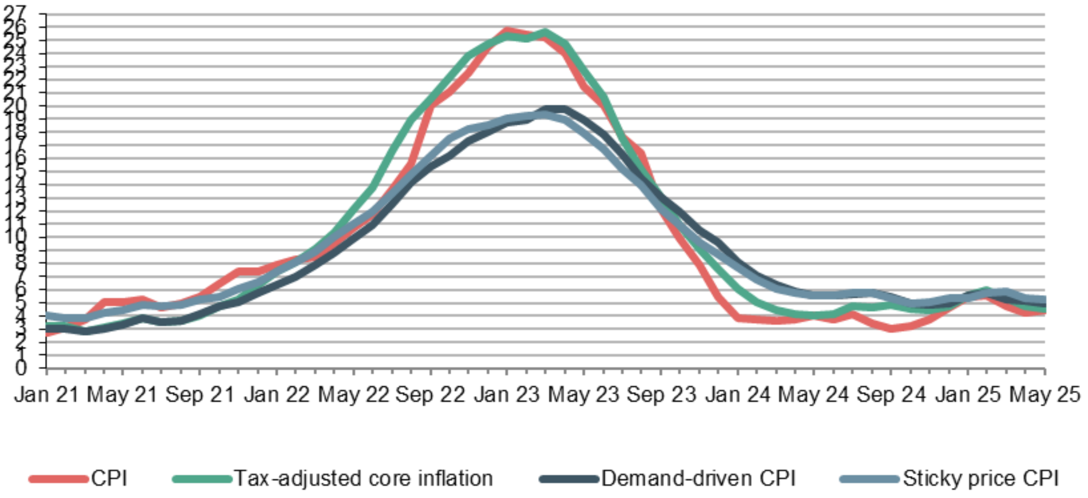
The average annual increase in consumer durable goods of 2.0% in April was followed by an average increase of 2.2% in May. If we look at the main group in more detail, we can see that the price of living and dining-room furniture increased by 4.1% and jewellery by 22.7%, which is above average. Inflation in consumer durable goods was boosted by a 4.0% rise in the new passenger cars and a 3.4% 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 May, just like in April, compared to the same period last year.

The average increase in household energy prices was 5.3% in May as compared to the same period of the previous year. Within electricity, gas and other fuels, there has been no price decrease over the past year. However, in the same group, the price of coal was 14.7% higher, briquettes and coke 10.1% higher, and butane and propane gas 6.8% higher. In addition, the price of natural and manufactured gas rose by 11.4% and the price of electricity by 1.0%.

In May, the price of services rose by an average of 5.9%, with theatre tickets and postal services contributing to this increase by 11.3% and repairs of major household appliances by 10.8%. The price increase for gambling, which has not been a significant contributor in the recent period, was 0.4%, the same as in previous months. Rents rose by 7.0% compared to the previous year. Prices for household services and cinema tickets both rose by 10.6% compared with 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 and a 0.8% decrease in TV fees. 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 also remained unchanged.

Compared to the previous month, consumer prices increased by 0.2%. Within the overall consumer basket, food prices rose by 0.6% compared with the previous month. Prices of services fell by 0.1%, while the price of electricity, gas and other fuels fell by 0.8% compared with the previous month. The price of other products and fuels fell by 0.4% from April.

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



Source: MNB, Századvég

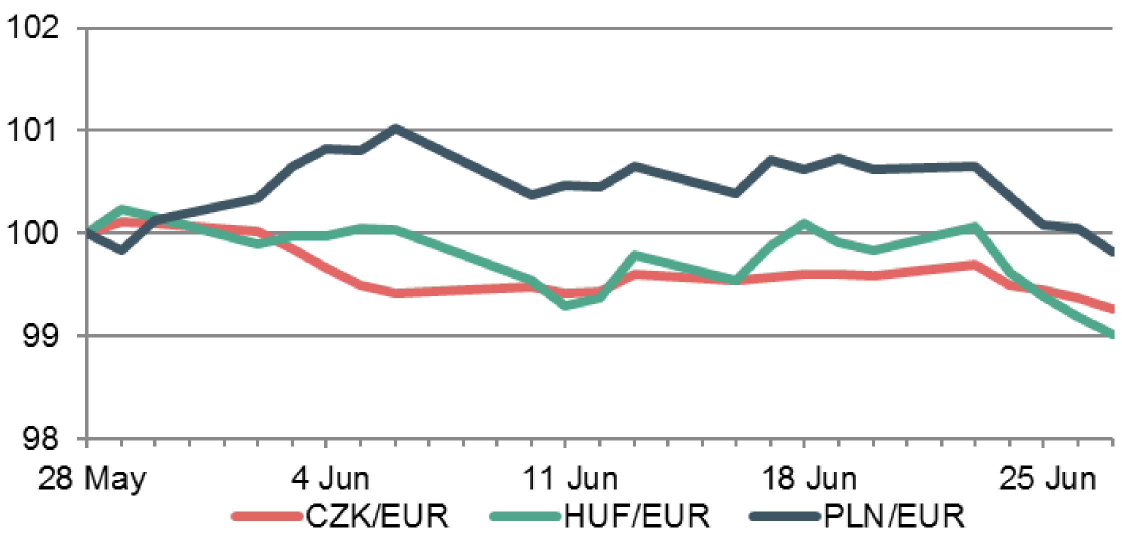
Among the core inflation indicators published by the MNB, the core inflation rate net of indirect taxes was 4.5%, the core inflation rate excluding processed food was 4.9% and the sticky price inflation rate was 5.3% in the fifth month of the year.

2.6.2 Regional currencies

The currencies of competitors in the region have strengthened against

Regional currencies strengthened against the euro in June. In the past period, the Czech koruna strengthened by 0.74% and the Polish zloty by 0.18% against the Euro. Government bond yields were roughly flat over the period, with the Czech 10-year government bond yield 6 basis points higher at 4.22%, and the Polish 10-year yield 2 basis point higher at 5.47%.

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



Source: Refinitiv, Századvég

The forint strengthened against the dollar, the Swiss franc and the euro.

Hungarian money and foreign exchange market indicators showed a positive picture over the last month. The HUF strengthened by 1.0% against the euro and by 0.8% against the Swiss franc, while it weakened by 4.4% against the US dollar. This means that at the end of June 2025, 1 euro was worth 399 forints, 1 US dollar was worth 341 forints and 1 Swiss franc was worth 427 forints. In June, sovereign debt held by foreigners increased by HUF 386 billion to HUF 6,314 billion.

2.6.3 Base rate

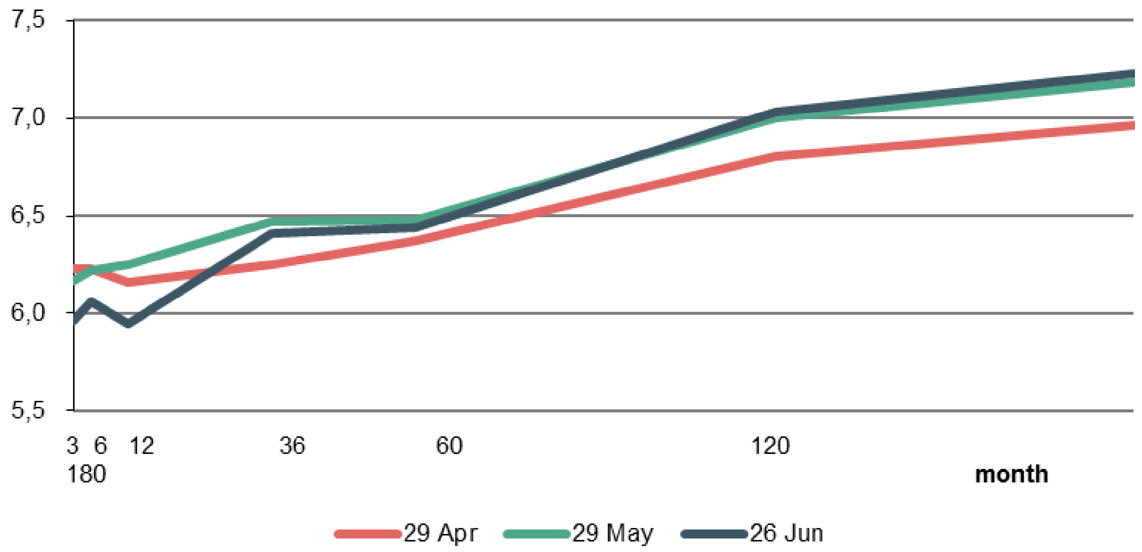
At its June meeting, the central bank's Monetary Council kept the base rate at 6.5%.

At its June 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 main reasons for keeping the central bank interest rate unchanged continued to be to achieve the inflation target in a sustainable manner and to ensure financial stability. Although inflation rose to 4.4% in May, the decline in core inflation and the moderation of household inflation expectations are positive developments. At the same time, factors pushing price dynamics upward, such as sharp price increases for market services, volatility in raw material prices and the sustained rise in wage costs, continue to pose risks. Uncertainty surrounding the global economic environment, in particular geopolitical tensions in the Middle East, and developments in tariff negotiations also warrant a cautious monetary approach. The Monetary Council considers that maintaining tight monetary conditions is essential to achieve the inflation target over the medium term, to ensure financial market stability and to strengthen the credibility of the central bank.

2.6.4 Government securities market

In June, government bond market yields for shorter maturities varied between -30 basis points and 5 basis points on the secondary yield curve. This means that the 3-month yield was 5.96%, the 6-month yield was 6.06% and the 1-year yield was 5.95% on 26 June. The 3-year yield fell by 6 basis points to 6.41%. Yields on 5-year maturities fell by 4 basis points, yields on 10-year maturities fell by 3 basis points, while yields on 15-year government securities rose by 5 basis points compared to the previous month. These three yields changed, therefore, to 6.44%, 7.03%, and 7.23%, respectively.

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



Source: GDMA, Századvég

On 23 June 2025, the total value of "MÁP Plusz" government securities held by retail investors was HUF 821.28 billion after a HUF 8.65 billion increase from the HUF 812.63 billion level in the previous month. In addition, the cumulative value of PMÁP securities was HUF 4,529.63 billion, while the cumulative value of the "Bónusz" Hungarian Government Bonds was HUF 2,195.62 billion. Treasury Savings Bills amounted to HUF 583.2 billion and FixMÁP to HUF 2,578.3 billion. The subscription of 1MÁP securities ended on 31 May 2024. In addition, funds held in "Baby" Bonds amounted to HUF 457.1 billion and funds held in Printed MÁP Plus amounted to HUF 99.74 billion. The retail stock of FixMÁP increased by HUF 184.02 billion and that of BMÁP by HUF 145.04 billion compared to the previous month. Significant decreases are observed in the PMÁP (HUF 410.69 billion) and 1MÁP (HUF 27.3 billion). The total stock of government securities held by retail investors stood at HUF 11,264.91 billion at the end of June 2025, up from HUF 11,274.79 billion at the beginning of 2025, meaning that people held HUF 9.88 billion less 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; but rather a shift towards FixMÁP and BMÁP, which currently offer the most favourable interest rates.

2.6.5 Sovereign debt

The share of foreign currency debt in the sovereign debt changed by 0.23 percentage point to 30.3% in May, which is above the range (maximum 30%) specified in the financing plan for 2025 of GDMA. Over the past 12 months, the average foreign currency debt ratio averaged 29.7%, with the May ratio somewhat higher than this.

The Hungarian government debt rating remains in the investment grade category with all three major international credit rating agencies. On 6 June 2025, Fitch Ratings affirmed Hungary's sovereign debt rating at "BBB" with a stable outlook.[3] The decision is based on the country's

[3] https://www.fitchratings.com/research/sovereigns/fitch-affirms-hungary-at-bbb-outlook-stable-06-06-2025

favourable structural indicators, in particular its high GDP per capita, as well as investment in the automotive and battery manufacturing sectors. At the same time, subdued economic growth and limited access to EU funds, as well as deteriorating institutional indicators, pose risks. Fitch expects GDP growth of 0.7% in 2025, driven by low investment and weakening external demand. The budget deficit could fall to 4.6% of GDP in 2025, while inflationary pressures and the volatility of the forint mean that the central bank's base rate could only gradually decline.

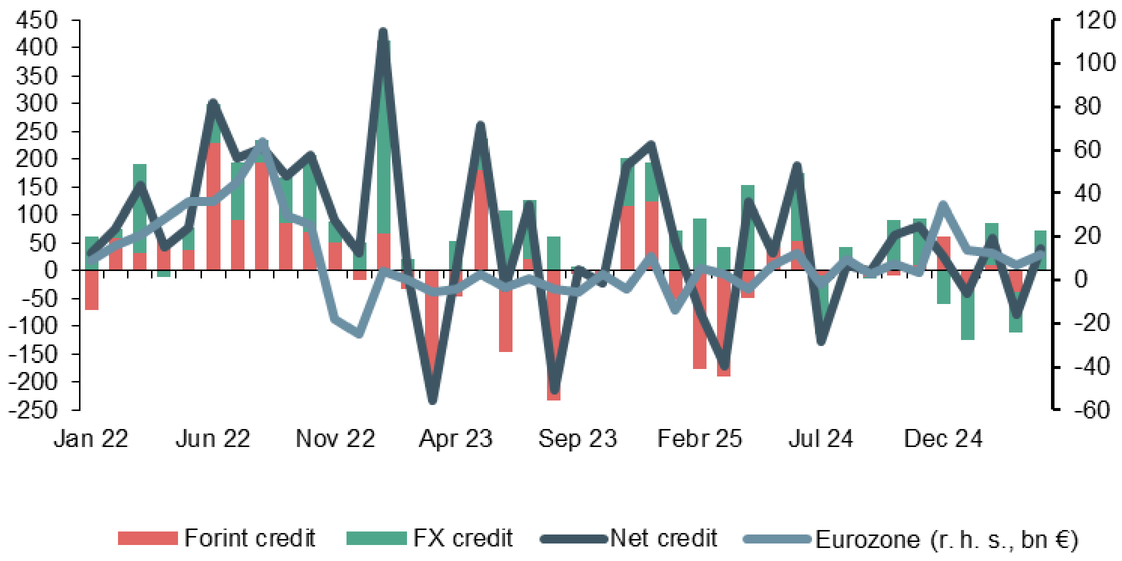
Moody's Investors Service affirmed Hungary's sovereign debt rating of "Baa2" on 30 May 2025, but left the outlook negative.[4] And S&P Global Ratings rates the country as "BBB-", also with a negative outlook.

2.6.6 Corporate credits

Corporate credits increased in Hungary.

Seasonally adjusted data show that the net borrowing of HUF loans in the business sector decreased by HUF 32.8 billion in April 2025. However, the value of net lending in foreign currency increased, with net borrowing amounting to HUF 72.2 billion in the fourth month of the year. Seasonally adjusted total net borrowing increased by HUF 40.7 billion in the period under review. Corporate borrowing in the euro area was EUR 12,062 million in April 2025.

FIGURE 14: CORPORATE BORROWING (HUF BILLION)



Source: MNB, ECB, Századvég

4 https://www.portfolio.hu/gazdasag/20250530/megjott-a-moodys-friss-itelete-magyarorszagrol-764949

3. MACROECONOMIC FORECAST

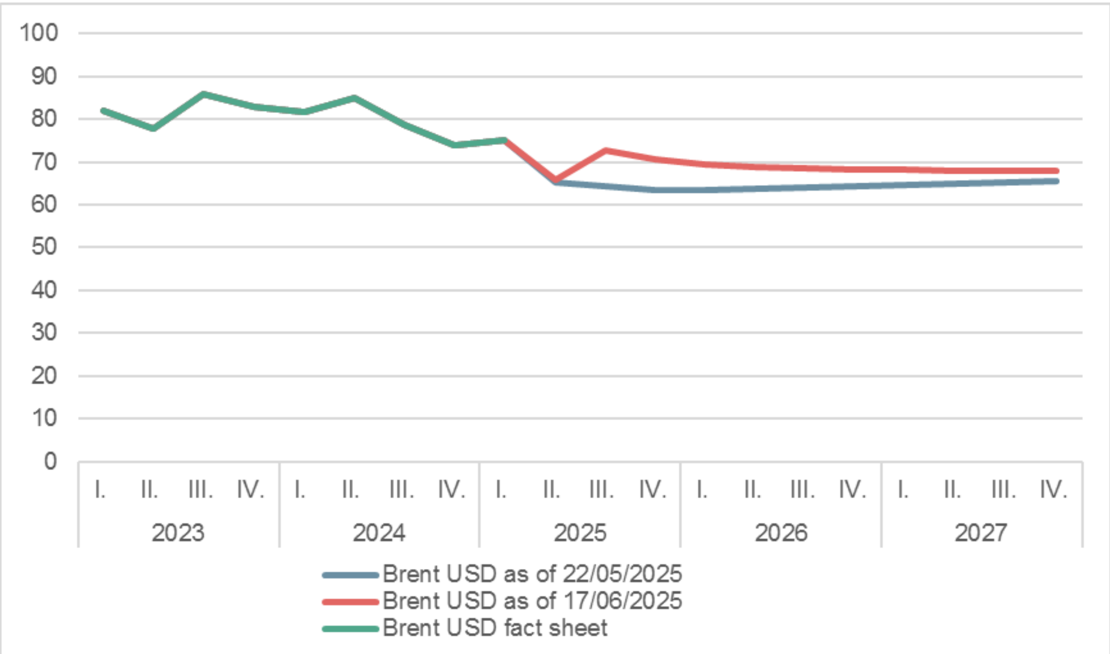
Századvég Konjunktúrakutató estimates that the Hungarian economy could grow by 1.0% in 2025, followed by 2.6% growth in 2026. The reason for revising our previous forecast downwards is that Q1 production data showed a decline on both an annual and quarterly basis, and the industrial and construction data available for Q2 (covering April) do not yet point to a turnaround. Growth prospects are greatly influenced by the trade war launched by the United States and the conflict between Israel and Iran. Despite growing geopolitical uncertainty and mounting global economic risks, household consumption continues to support domestic GDP growth, which may reach 2.3% in Q4 2025.

3.1 Inflation

Externally, European disinflation continued in the recent period, and without further external shocks, euro area inflation could fall to 2% in the medium term. The positive external environment suggests that external inflationary pressures in Hungary will remain subdued in the coming period. The European Central Bank lowered its refinancing rate to 2.15% in June and is expected to reduce it further during the year.

The global environment poses significant risks due to fluctuations in global oil and gas prices. In our forecast, we assumed a Brent oil price below USD 65 for the second half of 2025, but with the outbreak of the conflict between Israel and Iran, oil futures prices have risen in both the short and long term: Current market expectations are that Brent crude oil prices will exceed USD 70 in the second half of 2025.

FIGURE 15: BRENT OIL PRICE BEFORE AND AFTER THE OUTBREAK OF THE ISRAELI-IRANIAN WAR (IN USD)



Source: Reuters

Currently, the strongest drivers behind inflation in Hungary are the high rates of food and service price inflation. These two main groups account for more than 55% of the total consumer basket, making it particularly important to moderate inflation in both areas. High food price inflation is driven by rising global prices for certain products (such as coffee, cocoa beans and eggs), while drought in Hungary has also had a significant impact on other products. In the services sector, particularly the significant increases in monthly fees caused problems in the first half of 2025. The government's price margin regulations and its agreements with telecommunications providers and banks may push the inflation rate below the market expectations at the beginning of the year.

In the light of global and domestic trends, inflation could reach 4.4% in Q2 2025, fluctuating between 4% and 5% throughout the year according to our calculations. In 2025, inflation in Hungary may be 4.6%, falling back within the central bank's target range (3.8%) in 2026. Inflation trends are limiting the central bank's room for manoeuvre this year. We expect a maximum reduction of 25 basis points from the current base rate of 6.5% in the last quarter of the year, provided the geopolitical and economic environment remains favourable.

3.2 GDP

Seasonally and calendar-adjusted and balanced data show that Q1 2025 GDP was 0.4% lower on an annual basis and 0.2% lower on a quarterly basis, falling short of market expectations. In addition to the more subdued Q1 data, our forecast for lower growth also reflects increasing geopolitical and global economic risks. Our previous forecast did not take into account the economic impact of the trade war or the consequences of the Israeli-Iranian war, so we have incorporated these effects into our current forecast. Accordingly, we expect the Hungarian economy to grow by 1.0% in 2025 and 2.6% in 2026. We expect growth to accelerate steadily in 2025, enabling the Hungarian economy to expand by 2.3% year on year in Q4.

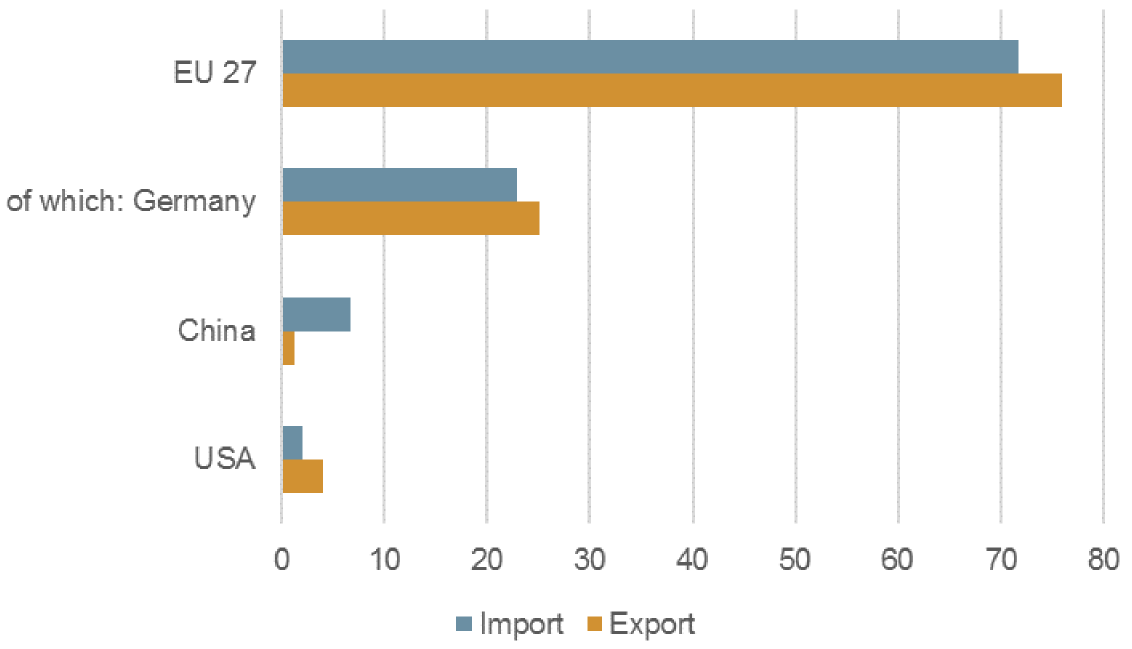
In 2025, Hungarian economic growth will be powered mainly by rising consumption. Our calculations suggest that consumption could grow by 3.7% this year and next. Current dynamics reveal that, in terms of production, consumer growth is most evident in the growth of services. Besides real wage growth, consumption growth is also supported by the government's economic action plan, interest payments on government securities, the broadening of the scope of personal income tax exemptions, and the doubling of family tax allowances in two steps.

Given the subdued Q1 investment data (-12.3%), we have revised downwards our forecast for investment. Overall, the 3.5% decline in 2025 could be followed by a 5.0% increase in 2026. In addition to the postponement of public investment projects in recent years, low investment activity among companies is also contributing to weaker investment performance. The cautious investment appetite among companies may be attributable to the previous high interest rate environment, the changing geopolitical environment and uncertainties surrounding external demand. Large-scale industrial investments (BMW, BYD, CATL) are expected to have a one-off positive impact on investment performance in the second half of the year.

The country's exports could grow by 1.9% in 2025 and 4.5% in 2026. Looking at the dynamics during the year, we expect exports to pick up rather in the second half of the year. The economic performance of Hungary's target markets is decisive for its exports: since the last forecast, the European Commission has revised downwards its estimates for European countries, including Germany, which is Hungary's main export market, negatively affecting Hungary's export expectations. In addition, the new tariff policy of the US raises further questions regarding the restructuring of supply chains.

In the trade war, the US increased tariffs on major commodities such as motor vehicles and related parts, as well as steel and aluminium imports. The highest tariffs were imposed on China, Canada and Mexico, but the level of integration of supply chains means that indirect effects will also be significant. The below figure illustrates the distribution of imports and exports of goods by destination in 2024. The data show that 4.1% of Hungarian goods exports go directly to the US, while the largest share, almost 76%, goes to countries in the European Union. Therefore, besides the direct effects, indirect effects are also likely to be significant in Hungary, mainly because the machinery and vehicles targeted by the tariffs account for 39% of exports from Europe to the US and more than a quarter of Hungary's manufacturing industry.

FIGURE 16: DISTRIBUTION OF HUNGARIAN IMPORTS AND EXPORTS BY DESTINATION REGION IN 2024 (%)



Source: Hungarian Central Statistical Office, Századvég's calculation

Hungary's imports may rise by 2.9% this year and 4.8% next year, mainly supported by consumption growth. We expect import growth to exceed the export growth rate until Q2 2026, so net exports may be negative this year and early next year, before turning positive. On an annual basis, net exports may still contribute negatively to GDP this year, but next year this contribution could be around zero.

3.3 Labour market

The labour market continued to grow in Q1 2025, with the employment rate increasing compared to both the same period last year and the previous quarter, while the unemployment rate also declined. In our previous forecasts, we already indicated that many people, such as pensioners and students, entered the labour market in the second half of 2023, resulting in a sharp increase in activity and maintaining employment levels, accompanied by a simultaneous rise in the number of unemployed. 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. The correction was gradually followed by the number of employed and unemployed persons, a process that seems to continue in 2025, so we expect unemployment to decline this year. In 2025, strategic changes aimed at sustainable labour market growth may once again come to the forefront: 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. We expect unemployment to continue to fall over the next two years (2025: 4.1%, 2026: 3.6%), while gross wages are forecast to rise by 9.5% in 2025 and 7.2% in 2026.

3.4 Government budget

The ESA 2024 budget deficit was 4.9% of GDP, down from 6.7% in 2023. Government debt reached 73.5% of GDP, representing a 0.5 percentage point increase from a year earlier.

Tax revenues are on track in the 2025 fiscal year, with consumption taxes up 12.9% and household payments up 11.0%, exceeding projections. In contrast, increased spending can be attributed to the government raising its deficit target from 3.7% of GDP to 4.1% in May. We consider this deficit target to be achievable, but significant risks are associated with higher-than-planned expenditure by budgetary agencies and interest payments, as well as with the receipt of EU funds. Deficit reduction will definitely continue in 2026, but the fundamental condition for achieving the 3.7% deficit target set in the Act on the 2026 Budget is that the 4.1% deficit target for 2025 is met.

We expect government debt to decline again over the next two years, falling to 73.2% of GDP in 2025 and further to 72.7% of GDP in 2026.

4. SZÁZADVÉG'S FORECAST[5]

TABLE 1: Q2 2025 FORECAST

	2024	2025	2026
Gross domestic product (volume index)	0.5	1.0	2.6
Household final consumption expenditure (volume index)	5.1	3.7	3.7
Gross fixed capital formation (volume index)	-6.4	-3.5	5.0
Export volume index (based on national accounts)	-3.0	1.9	4.5
Import volume index (based on national accounts)	-4.0	2.9	4.8
Balance of international trade in goods (EUR billion)	1.4	1.4	1.0
Consumer price index (%)	3.7	4.6	3.8
Central bank base interest rate at the end of the period (%)	6.5	6.4	5.5
Unemployment rate (%)	4.5	4.1	3.6
Current account balance as a percentage of GDP	2.2	2.0	1.5
Net lending as a percentage of the GDP	2.6	2.4	1.8
ESA balance of public finances as a percentage of GDP	-4.9	-4.1	-3.7
Sovereign debt as a percentage of GDP	73.5	73.2	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.

[5] Date of preparation: 25 June 2025

SZÁZADVÉG

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

Századvég’s mission is to help create clarity for better decisions. And good decisions require two things: clear objectives and substantial information.

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