

# HUNGARY

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## GOOD GROWTH PROSPECTS DESPITE THE ELECTORAL UNCERTAINTY

All eyes are on the general elections on 12 April which will encapsulate the key issues facing Hungary. Regardless of the outcome of the election, Hungary's economic growth is expected to recover in 2026 and 2027, driven by more favourable export and consumption prospects. One cloud on the horizon, however, is the continued uncertainty around the trajectory of investment, as it hinges on European funds being released. Inflation is expected to remain within its target range in the short term, paving the way for a cycle of moderate monetary easing. Artificial intelligence is a promising sector and will play an important role in the coming years.

### A PICK-UP EXPECTED IN 2026

In 2025, the Hungarian economy was the weakest performer in the region, with barely positive GDP growth (+0.3% y/y compared to +0.6% in 2024 and -0.7% in 2023). By contrast, Poland and the Czech Republic recorded more dynamic growth despite the US tariff shock. This performance is particularly remarkable for the Czech economy, which is highly dependent on foreign trade and the automotive sector.

In Hungary, growth was hampered for several quarters by declining investment, although this was less pronounced in Q3 2025 (Chart 1). Exports also weighed on growth in 2025, with a negative contribution in the first three quarters. Meanwhile, household consumption was a key driver of growth. It grew by an average of 3.2% y/y in the first three quarters of last year. In Q4 2025, the economic indicators did not point to this trend reversing. Retail sales and new vehicle registrations held up well, while confidence indices rebounded over the same period.

The outlook for 2026 is expected to improve significantly owing to a recovery in exports, induced by the German recovery plan. Similarly, pre-election government measures ahead of the April general election will strengthen household consumption. These measures include an increase in the minimum wage (+11% on 1 January 2026), a lifetime income-tax exemption for mothers with two children and a fourteenth month's salary for pensioners (paid in February 2026). For the rest of the year, consumption is expected to remain solid, buoyed by strong wages and a healthy labour market. However, the outlook for investment remains uncertain in the short term, as it depends on European funds being released.

### INFLATION IS WITHIN ITS TARGET LEVEL

The year-on-year change in consumer prices has been within its target range of 3% ± 1 percentage point since November. Inflation slowed again to 2.1% y/y in January, thanks in particular to a slowdown in food and energy prices. The contribution of the goods segment to overall inflation declined (0.7 pp in January, after 1.5 pp in December). Similarly, inflation in services also eased, with a contribution of 1.3 pp.

A slight increase in consumer prices, particularly in the food segment, is expected after the elections, as the cap on corporate profits is likely to be removed. This measure, which was introduced in March 2025 and then extended until February 2026 with an expansion of the products covered, had contributed to significant disinflation in the agri-food sector. However, the upward effect on inflation is expected to be temporary, and inflationary pressures are likely to continue to ease gradually.

Over the next two years, inflation is expected to remain within its target range. Slower wage growth should lead to a more pronounced slowdown in inflation in services.

### CAUTIOUS MONETARY EASING

This year, the Central Bank began a cycle of easing in the first quarter, bringing an end to a prolonged monetary policy pause (with a 25-ba-

#### FORECASTS

	2023	2024	2025e	2026e	2027e
Real GDP growth, %	-0.7	0.6	0.3	2.3	2.8
Inflation, CPI, year average, %	17.6	3.7	4.5	3.2	3.0
General gov. balance / GDP (%)	-6.8	-5.0	-5.0	-5.5	-5.0
General gov. debt / GDP (%)	73.2	73.5	75.2	76.7	77.6
Current account balance / GDP, %	-0.0	1.6	1.8	1.4	1.2
External debt / GDP, %	86.1	85.4	87.2	82.2	80.7
Forex reserves, EUR bn	41.4	44.6	49.0	53.0	56.0
Forex reserves, in months of imports	3.5	3.9	4.2	4.4	4.6

e: ESTIMATES &amp; FORECASTS

SOURCE: BNP PARIBAS ECONOMIC RESEARCH

TABLE 1

#### SUBDUED INVESTMENT IN HUNGARY BUT LESS PRONOUNCED DECLINE IN Q3

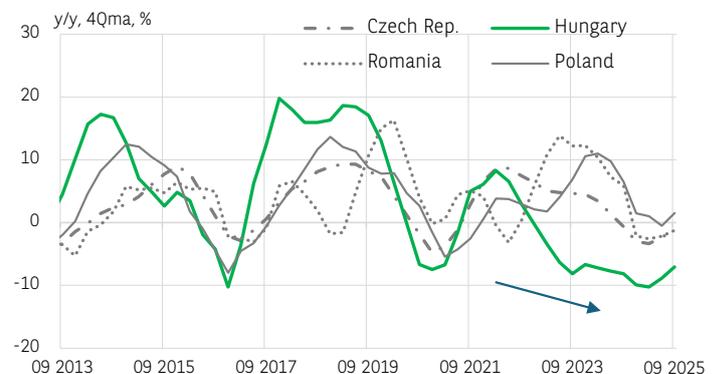


CHART 1

SOURCE: EUROSTAT, BNP PARIBAS

sis-point cut to 6.25%). The fact that inflation has come back down to its target is providing some leeway for the monetary authorities. However, the cut in the policy rate is likely to remain moderate in the short term. Household inflation expectations (around 20% since 2024) remain well above current inflation, which would encourage a degree of caution. The gap was larger in 2024 and 2025 than in previous years. According to our forecasts, the policy rate could stand at 5.50% at the end of 2025, then at 4.75% at the end of 2026.

### WHAT IS AT STAKE POST-ELECTIONS?

All eyes are on next April's general elections. The outcome is expected to be particularly close with a battle between Fidesz, the party


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in power since 2010 and Victor Orban's current government, and Tisza, the opposition led by Peter Magyar. Although opinion polls currently show the opposition as being slightly ahead, this could change between now and the election.

On a macroeconomic level, significant pre-election measures to support households and businesses have been put in place (around 2% of GDP) but have resulted in a deterioration in public finances. The budget deficit has been revised upwards to 5% of GDP in 2025 and is expected to worsen in 2026 (forecast of 5.5%). In addition, further support measures are expected in the coming weeks. Public debt (75.2% of GDP) is already the highest in Central Europe and is expected to increase further over the next two years. Indeed, the short-term budget deficit forecast far exceeds the threshold of 4% of GDP needed to stabilise debt. Corrective measures will be needed in the coming years to comply with EU budgetary rules.

European funds, which are still awaiting transfer since 2022, represent a significant challenge, regardless of the election results. The total amount is EUR 19 billion, or about 10% of GDP. The recovery and resilience funds alone account for EUR 10.4 billion (4.8% of GDP) and must be released almost in their entirety before December 2026, otherwise they will be permanently lost to Hungary. The full release of European funds will be conditional on the future government's commitment to implementing institutional reforms quickly to meet European standards on the rule of law.

## RESILIENCE OF EXPORTS

External accounts remain strong. In 2025, the current account balance is expected to show a surplus, which is expected to continue in 2026 and 2027. Both the services balance and the trade balance show a surplus. Exports of goods have held up well despite the tariff shock. They even grew by 1.7% in 2025, after falling by 3.5% in 2024. However, this trend varies across sectors. The sluggish picture in the automotive sector (which accounts for 13% of total exports) weighed on sales of vehicles and spare parts abroad. They fell by 7.5% y/y last year. Conversely, exports were buoyed by the beverages and tobacco, energy, oil products and machinery segments. With import growth remaining moderate and close to growth in exports (+2% in 2025 compared with -4.1% in 2024), the trade balance remained in surplus, at a level close to previous years (EUR 8.3 billion, 3.9% of GDP).

Hungary also remains an attractive destination for net foreign direct investment (FDI) flows and portfolio flows (EUR 4.5 billion expected for 2025, or 2.1% of GDP). In the short term, the outlook remains favourable, particularly for FDI, driven by nearshoring activities and Chinese investment.

## AI: A PROMISING SECTOR FOR STIMULATING INVESTMENT

The use of AI in Hungarian companies is currently less widespread than in most European countries (as is the case in other Central European countries). In 2025, only 6.7% of companies were using it, whereas the percentage was much higher in the EU (14.8% on average, Chart 2). The difference with the Nordic countries is even more striking (32.1% in Denmark, 23.7% in Sweden and 22.8% in Norway in 2025). Furthermore, the use of AI in these countries has been rising sharply since 2023, while it has been increasing relatively slowly in Hungary.

### THE USE OF AI IN COMPANIES IS LOW IN HUNGARY

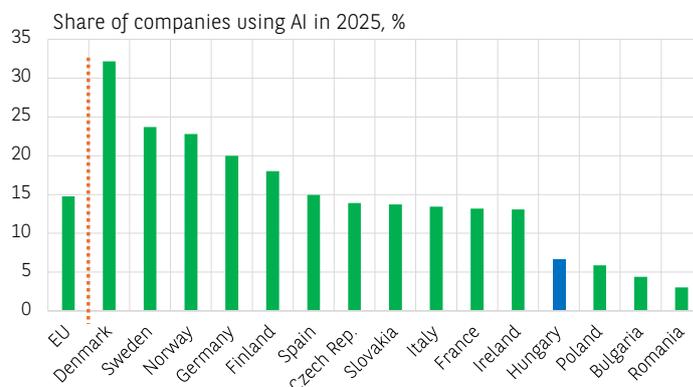


CHART 2

SOURCE: EUROSTAT, BNP PARIBAS

AI-related products currently account for a relatively high share of Hungarian exports (15.7% of the total) and a marginal share globally. It accounts for less than 1% of global exports of AI-related products (as is the case for many other countries). This figure is expected to increase in the near future, however.

The country is aiming to become an AI strategic hub in the region, following a similar approach to Poland. In September 2025, Hungary published a new strategic plan for the 2025–2030 period, aimed at supporting growth and revitalising competitiveness. Research and innovation, the development of the AI industry and the development of government services and regulations around AI are at the heart of this strategy. In order to achieve these objectives, a dedicated AI research centre will be established in 2026, while training in this sector will be integrated into study programmes. The necessary infrastructure (such as data centres) to support the development of AI is already under construction<sup>1</sup>.

Hungary has many assets in the region that will help it to develop its AI strategy. This is evidenced by a relatively good score of 0.56 on the IMF's AI Preparedness Index (0.66 for the EU and 0.77 for the United States), driven in particular by its existing digital infrastructure. In addition, the country has a skilled workforce in the region. The proportion of the population with higher education is 33%, slightly below the EU average. This proportion rises to 90% if people who have completed secondary school are included.

Foreign direct investment and investment in AI are expected to increase in the coming years. Investment in intellectual property has been on the rise since 2021 (+6.4% above the 2021 level), while other types of investment are declining overall. Similarly, net turnover, which is growing strongly in AI-related sectors, reflects this dynamic, including computer programming (+24.2% between 2021 and 2024), telecommunications and professional and scientific activities (+17.4%).

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<sup>1</sup> For example, the partnership signed with German company ParTec AG in July 2025 covers the construction of a new AI dedicated data centre and a solar park (to increase energy storage capacity), which should be operational by 2027.

