INFLATION REPORT

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Act CXXXIX of 2013 on the Magyar Nemzeti Bank designates achieving and maintaining price stability as the primary objective of the Magyar Nemzeti Bank (MNB), the central bank of Hungary. Over the long term, low inflation ensures higher economic growth and a more predictable economic environment, while moderating the cyclical fluctuations that impact both households and companies. Without prejudice to its primary objective, the MNB supports the maintenance of the stability of the financial intermediary system and the enhancement of its resilience and its sustainable contribution to economic growth, as well as the economic and environmental sustainability policy of the government using the instruments at its disposal.

Within the inflation targeting framework, the central bank aims to achieve price stability by ensuring an inflation rate near the 2.5-percent medium-term target, effective from January 2028. The Monetary Council, the supreme decision-making body of the Magyar Nemzeti Bank, performs a comprehensive review of expected developments in inflation every three months, in order to establish the monetary conditions consistent with achieving the inflation target. The Monetary Council takes its decisions on the basis of and in accordance with the objectives set out in the Act on the Magyar Nemzeti Bank. Accordingly, in its decisions, it takes into account, among other things, prospective economic developments, the inflation outlook, financial and capital market trends and risks to stability.

In order to provide the public with a clear insight into how the central bank's monetary policy works and to enhance transparency, the Bank publishes the information available at the time of making its monetary policy decisions. The Inflation Report presents the inflation forecasts prepared by the Economic Forecast and Analysis Directorate, the Monetary Policy, Strategy and Financial Market Analysis Directorate, the Fiscal Analysis Directorate and the Financial Stability and Monetary Policy Instruments Directorate, as well as the macroeconomic developments underlying these forecasts. The forecast is based on the assumption of endogenous monetary policy. In respect of economic variables exogenous to monetary policy, the forecasting rules used in previous issues of the Report are applied.

The projections are based on information available for the period ending 17 September 2026.

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The Monetary Council's key findings related to the Inflation Report

The Magyar Nemzeti Bank's (MNB) primary objective is to achieve and maintain price stability. Without compromising its primary objective, the Bank supports the maintenance of financial stability and the Government's policies on economic and environmental sustainability.

The volatile geopolitical environment continues to pose uncertainty for the global economic outlook.

GDP of the European Union grew by 1.4 percent year-on-year in 2026 Q2, while GDP in the United States increased by 2.1 percent. The economic performance of Germany, Hungary's most important foreign trade partner, grew by 1.0 percent. Events in the Middle East continue to have a significant impact on the international economic environment. In addition, trade tensions continue to pose a risk to international supply chains and, in particular, to the European, and specifically Hungarian, export-oriented industry.

As a result of the renewed escalation of the conflict in Iran, global inflation risks have intensified.

Euro area inflation stood at 3.2 percent in August, unchanged from May. Inflation rates across the Member States varied within a 6-percentage-point range. In nearly two-thirds of the OECD member countries that have already published their data, inflation rates were above central bank targets. In the United States, consumer prices increased by 3.4 percent year-on-year in August. Among the countries in the region, the Harmonised Index of Consumer Prices stood at 6.3 percent in Romania, 3.5 percent in Poland, 3.1 percent in Slovakia and 1.5 percent in Czechia in August year-on-year.

The European Central Bank (ECB) and the Federal Reserve (Fed) raised interest rates by 25 basis points in September.

In September, the ECB raised its key deposit rate by 25 basis points to 2.50 percent. According to the central bank's communication, the conflict in the Middle East continues to exert inflationary pressure, and inflation may remain significantly above the 2-percent target for an extended period.

In September, the Fed raised the target range for its policy rate by 25 basis points to 3.75–4.00 percent. According to the central bank's statement, inflation remains elevated, and based on the latest forecast, policymakers now expect inflation to return to the central bank's 2-percent target only in 2029. The central bank governor, however, indicated that the Fed remains committed to achieving its 2-percent inflation target.

Regional central banks have left monetary conditions unchanged in recent months. The policy rates of the Polish and Czech central banks thus remain unchanged at 3.75 percent, while the Romanian central bank's base rate remains at 6.5 percent.

The international market sentiment continues to be driven by the conflict in Iran and developments related to the Strait of Hormuz as well as the resulting reactions in commodity markets. In addition, long-term government bond yields in developed economies have risen to, or close to, their highest levels in decades.

The volatility indicators decreased overall compared to their end-June levels, despite showing considerable fluctuations. Commodity prices also remain volatile, with the price of Brent crude oil back at around USD 105 per barrel in the middle of September, while WTI is above USD 100 per barrel. European gas prices on the Dutch exchange have increased significantly compared to the levels observed at the end of June, standing at EUR 80 / MWh in mid-September. The increase has been driven by limited LNG capacity and low storage levels in European gas storage facilities. US 10-year yields rose to around 5 percent, while German yields increased to close to 3.5 percent.

The forint weakened against the euro over the quarter, while domestic government bond yields increased modestly, but risk premia on domestic assets remained broadly unchanged.

Among regional currencies, the Polish zloty weakened by 1.6 percent, the Romanian leu by 0.3 percent and the Czech koruna by 0.4 percent against the euro over the period. The 2.5-percent depreciation of the forint was primarily driven by

international factors. Hungarian government bond yields increased moderately in line with global trends, but Hungary's spreads did not change significantly over the period.

Inflation stood at 1.3 percent in August. The rapid pass-through of the spring appreciation of the exchange rate is significantly mitigating the inflationary impacts of the increase in the external cost environment.

In August, inflation stood at 1.3 percent and core inflation at 2.0 percent, representing a moderate increase compared to the July figures. Repricing in August was above the average for the 2017–2020 period but remained moderate overall when viewed over several months. Household and corporate inflation expectations remain subdued.

The impact of the appreciation of the forint exchange rate observed in the spring months, as well as its faster-than-previously-expected pass-through, will continue to affect consumer price developments this year and next year. However, the disinflationary impact resulting from the rapid pass-through is being offset by the renewed increases in oil and natural gas prices due to the conflict in Iran as well as the increase in excise duties on tobacco products. As the external cost factors gradually pass through, inflation will temporarily rise to a level marginally above 3 percent by mid-2027, before declining towards the revised 2.5-percent inflation target in 2028 H2, also supported by the assumed normalisation of energy prices. Inflation will average 1.8 percent this year and 3.1 percent in 2027.

In 2026 Q2, the Hungarian economy grew by 1.7 percent year-on-year, and we expect further acceleration from the end of this year.

From the expenditure side, Hungary's GDP growth is primarily supported by an increase in household consumption, while net exports and investment constrained growth. Labour market tightness has eased in recent years and is currently stable at a low level relative to the past ten years, while the unemployment rate remains moderate by historical standards. Wage dynamics in the private sector are slower than in previous years, while real wage growth remains robust.

The severely dry and hot weather experienced this year is weighing on GDP growth through its impact on agriculture, resulting in more subdued growth this year than expected in June. As in the previous year, household consumption will be the main driver of growth in 2026. As a result of positive real wage growth, consumption growth will remain strong. Soaring energy prices are also dampening growth in Hungary's export markets; however, capacity-expanding investment projects implemented in recent years are supporting the growth of industrial exports. Investment activity may remain subdued this year; however, from next year onwards, investment volumes may increase in both the private and public sectors. Hungarian GDP may grow by 1.8 percent in 2026, 2.9 percent in 2027 and 2.8 percent in 2028.

Corporate and household lending strengthened in 2026 Q2.

Corporate loans outstanding increased by 10.5 percent in the year to June 2026. According to banks, demand for short-term loans increased in the second quarter, while demand for long-term investment loans continued to show no increase. According to our forecast, the corporate loan portfolio of the total financial intermediary system will increase by 8–9 percent in 2026 and 2027. The household sector's loans outstanding increased by 18 percent, while the disbursement of new loans increased by one and a half times year-on-year. The Home Start Programme contributed significantly to this, while consumer lending also picked up in the second quarter. According to our forecast, the household loans outstanding of the total financial intermediary system is expected to increase by 19 percent in 2026 and by 13 percent in 2027.

Following the significant surplus recorded last year, the current account is expected to be close to balance this year, before recording a moderate surplus over the following two years.

In 2026, the current account will move close to equilibrium, as the expected recovery in exports in the second half of the year will only partially offset the impact of stronger domestic demand, drought and higher energy prices on the trade balance. Next year, the current account balance will move into a moderate surplus, supported by an increase in the export market share and investment, and will increase further in 2028 as the energy balance is expected to improve.

In 2026, the budget deficit may increase to 6.9 percent of GDP.

According to the Bank's forecast, the budget deficit is expected to reach 6.9 percent of GDP in 2026. From 2027 onwards, the deficit may return to a downward trajectory, supported by the absence of one-off deficit-increasing items and declining interest expenditure. However, the preparation of the 2027 budget bill and the submission of Hungary's medium-term

fiscal-structural plan are expected to take place after the publication of the September Inflation Report, and the government plans set out in these documents may materially alter the fiscal and macroeconomic forecast paths. According to the Bank's forecast, gross public debt as a percentage of GDP may increase to 77.7 percent in 2026 due to a higher deficit than expected in June and the anticipated increase in the stock of government liquid deposits by the end of the year, before declining in 2027 and 2028.

Based on the Monetary Council's assessment, the baseline scenario in the September projection is surrounded by balanced risks to both inflation and growth.

The Monetary Council highlighted four alternative risk scenarios around the baseline projection in the September Inflation Report. The two alternative scenarios that envisage a higher inflation path than the baseline warrant tighter monetary conditions, while the two scenarios assuming lower price dynamics warrant looser monetary conditions. The alternative path assuming persistently rising energy and food prices due to geopolitical tensions and climate change is consistent with a higher inflation path and a lower growth path. The scenario featuring persistently high wage growth and services inflation is consistent with a higher inflation path and higher economic growth. The scenario anticipating a lower risk premium and lower energy prices due to the rapid resolution of geopolitical tensions is consistent with a lower inflation path and a higher growth path. The scenario assuming weaker domestic exports as a result of the international economic recovery proceeding more slowly than expected is consistent with a lower inflation path and lower economic growth. In addition to the highlighted scenarios, the Monetary Council also discussed alternative scenarios assuming capital outflows from emerging economies and an increase in the risk premium as well as a scenario assuming more restrained willingness among companies to adjust prices.

SUMMARY TABLE OF THE BASELINE SCENARIO

(Data show annual changes and the forecast is based on endogenous monetary policy.)

	2025	2026	2027	2028
	Actual		Forecast	
Inflation (annual average)				
Inflation	4.4	1.8	3.1	2.6
Core inflation excluding indirect tax effects	4.6	2.1	3.0	2.8
Core inflation	4.5	2.1	3.0	2.8
Economic growth				
GDP	0.5	1.8	2.9	2.8
Household final consumption expenditure	3.1	4.8	3.5	3.1
Government final consumption expenditure[1]	2.5	2.2	0.0	0.5
Gross fixed capital formation	-2.8	-1.8	4.8	3.6
Domestic absorption	2.3	4.2	2.9	2.5
Exports	-1.1	2.4	4.8	3.9
Imports	1.2	5.8	4.9	3.5
Labour productivity[2]	0.1	1.2	2.6	2.9
External balance[3]				
Current account balance	1.7	0.0	0.3	0.6
Net lending	2.2	1.5	2.2	2.5
Government balance[3]				
ESA balance	-4.7	-6.9	-5.9	-5.2
Labour market				
Whole-economy gross average earnings[4]	9.0	9.3	5.8	6.0
Whole-economy employment	-0.7	-0.5	0.2	-0.1
Private sector gross average earnings[4]	8.8	7.7	6.9	6.3
Private sector employment	-1.0	-0.7	0.3	0.0
Unemployment rate	4.4	4.5	4.2	4.1
Private sector real unit labour cost	2.7	3.7	0.3	-0.1
Household real income[5]	-1.7	6.0	3.2	3.0

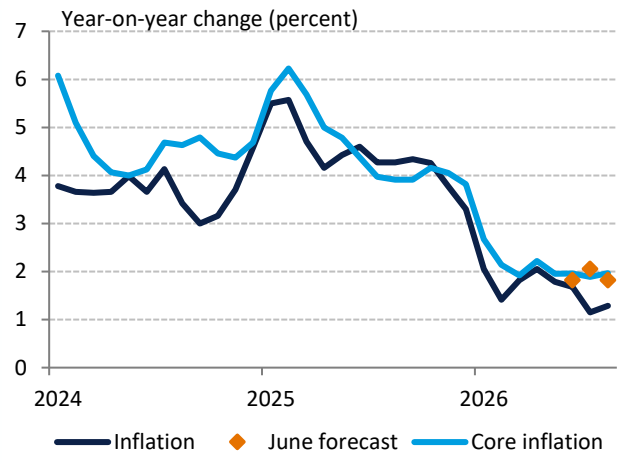
[1] Government final consumption expenditure includes final consumption expenditure of general government and nonprofit institutions.
[2] Whole economy, based on national accounts data.
[3] As a percentage of GDP.
[4] For full-time employees.
[5] MNB estimate.

1. Macroeconomic forecast

1.1. Inflation

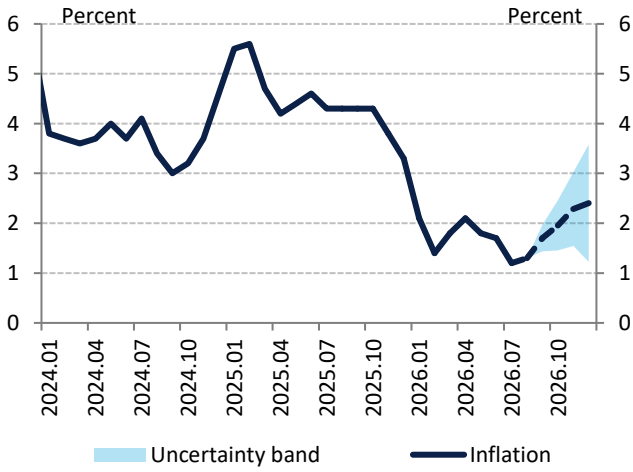
Inflation amounted to 1.3 percent in August, with core inflation at 2.0 percent. The pace of price increases was more moderate than expected in June, and both inflation and core inflation currently remain well below the inflation target. Annual indices have continued to decline since May, primarily due to the rapid pass-through of the effects of forint appreciation in the spring months and the resulting lower inflation in food and manufactured goods. However, for the remainder of the year this impact will be offset by the impact of higher global energy prices on consumer prices. As a result, our inflation forecast remains unchanged for this year at 1.8 percent. For 2027, our inflation forecast has risen to 3.1 percent, due to the indirect effects of higher oil and natural gas prices lasting into the first half of the year as well as the increase in excise duties on tobacco products. The Bank's inflation target, which was revised down to 2.5 percent, is expected to be sustainably achieved from mid-2028.

Chart 1-1: Inflation in Hungary



Source: HCSO, MNB

Chart 1-2: Monthly evolution of the near-term inflation forecast



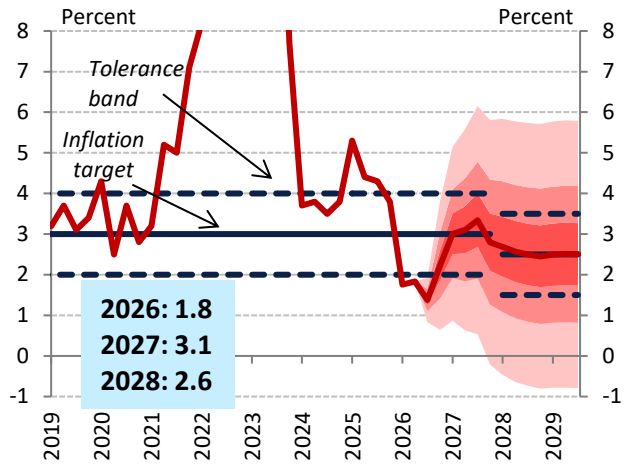
Note: Annual change. The uncertainty band shows the uncertainty around the forecast range with regards to the root mean squared error of previous years' near-term forecasts.
Source: HCSO, MNB

Since May, inflation has fallen by 0.5 percentage point, reaching 1.3 percent in August of this year (Chart 1-1). The decline in annual indices between May and August was primarily due to the rapid pass-through of the exchange rate appreciation seen in the spring months (the effect of exchange rate pass-through is discussed in more detail in Box 1-1). The inflation figure for August was lower than forecasted in the June Inflation Report.

In the case of food and industrial goods, price declines were observed in recent months, while price increases for market services – excluding the repricing following the end of voluntary price restrictions – remained moderate, ranging at the levels typically seen during the years with price stability. In addition to trends in global food prices, the disinflationary effect of the stronger forint also contributed to the drop in food prices compared to May. The forint, which is stronger than at the same time last year, also plays an important role in the moderate development of underlying inflation trends.

Inflation may gradually increase for the rest of this year to approach 2.5 percent by year-end (Chart 1-2). **Inflation may continue to rise until mid-2027, with the rate peaking at slightly above 3 percent. The Bank's inflation target, which has been revised to 2.5 percent, may be achieved in a sustainable manner from mid-2028.** Based on exchange market futures, energy prices, which rose again due to escalation of the conflict in Iran, may decline from the end of this year for oil and from next spring for gas. Oil and gas prices may normalise in 2027 H2 at levels above those prevailing before the outbreak of the conflict. Disciplined monetary policy, exchange rate stability and the decline in energy prices next year, along with the base effects of this year's and next year's price increases will jointly support disinflation in 2028. **Average annual inflation is projected to be 1.8 percent in 2026, 3.1 percent in 2027 and 2.6 percent in 2028** (Chart 1-3).

Chart 1-3: Fan chart of the inflation forecast



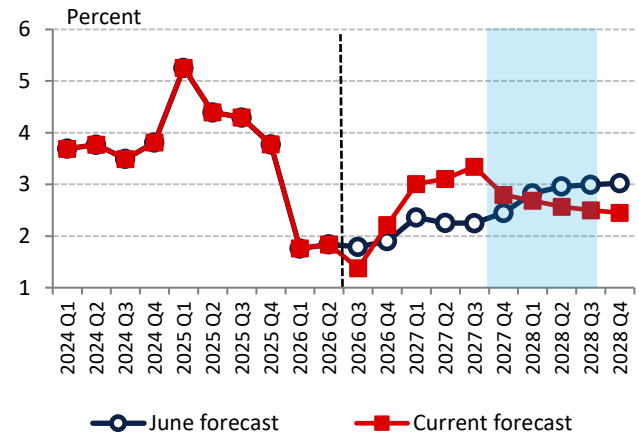
Note: Based on seasonally unadjusted data.
Source: HCSO, MNB

Table 1-1: Details of the inflation forecast

		2026	2027	2028
Core inflation excluding indirect tax effects		2.1	3.0	2.8
Core inflation		2.1	3.0	2.8
Non-core inflation	Unprocessed food	-4.1	5.8	5.9
	Fuel and market energy	0.9	-2.3	-2.4
	Regulated prices	2.4	1.8	1.6
	Alcohol and tobacco	4.6	8.5	3.9
Inflation		**1.8**	**3.1**	**2.6**

Note: In percent.
Source: MNB

Chart 1-4: Inflation forecast



Note: The section highlighted in blue indicates the monetary policy horizon.
Source: MNB forecast

Compared to the June projection, our inflation forecast has not changed significantly for this year, but has risen by 0.8 percentage point for 2027 and fallen by 0.4 percentage point for 2028 (Chart 1-4). The inflation trajectory for this year is primarily attributable to the lower actual data, resulting from the faster pass-through of exchange rate movements on the one hand and higher-than-anticipated global oil and gas prices on the other. For 2027, we raised our inflation forecast due to higher energy prices and the higher excise duty on tobacco products taking effect this November. The central bank's inflation target, which has been revised to 2.5 percent, should be reached on a sustainable basis from mid-2028 (revision of the inflation target and the macroeconomic effects of lowering the target are discussed in detail in Special Topic 4-1).

Core inflation net of indirect taxes, which reflects the underlying processes, is expected to amount to 2.1 percent in 2026, 3.0 percent in 2027 and 2.8 percent in 2028. Based on the current underlying trends, we expect moderate repricing for the remainder of this year. The temporary, indirect impact of higher energy prices may become apparent from the first half of next year. From 2028, however, disinflationary effects will intensify, with this trend supported by the impact of the lower inflation target on expectations.

Global market inflation remains moderate in relation to food; looking ahead, however, exchange prices have risen. As a result of incoming data and a stronger exchange rate, domestic consumer prices for this product group may turn out to be lower this year than we had anticipated in June, while food inflation in 2027 and 2028 may be higher than previously expected. For unprocessed food, prices may decline by 4.1 percent this year, while price increases in the coming year and in 2028 could reach 5.8 percent and 5.9 percent, respectively, representing levels that are higher than the historical average. (Table 1-1).

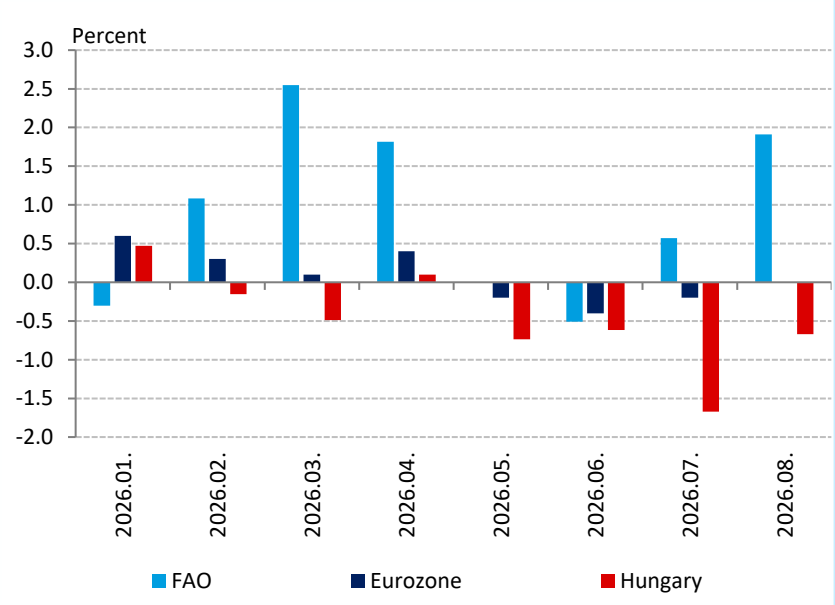
Prices of fuel and market energy may rise by an annual average of 0.9 percent this year and 2.3 percent next year, but may fall by 2.4 percent in 2028. Due to the rise in global oil prices, we expect inflation for this year and next year to be higher than in our June forecast. Inflation for goods and services with regulated prices is expected to rise by an average of 2.4 percent in 2026. In our forecast, we assumed that measures regarding household energy prices would remain in effect unchanged over the entire forecast horizon.

Box 1-1: The role of exchange rate pass-through in lower-than-expected inflation

Inflation has declined significantly in recent months. From June to August, the figures were lower than both the forecasts in the MNB's June Inflation Report and analysts' expectations. The decline in domestic inflation since the beginning of the year is also noteworthy by international standards, as the rate of price increases accelerated in most European countries, primarily due to geopolitical conflicts. The divergence between domestic and international inflation trends suggests that the drop in Hungarian inflation observed in recent months has been significantly influenced not only by developments in the external environment but also by domestic factors.

The most price sensitive product groups played the most important role in the stronger-than-expected decline in inflation, pointing to faster-than-expected pass-through effect of the earlier appreciation of the forint. Annual inflation in food products, which are characterised by a high degree of pass-through due to the strong integration of European markets, fell by 4.2 percentage points between April and August. Inflation in industrial goods, which are also sensitive to exchange rate movements, declined by 0.7 percentage point over the same period. Thus, taking into account the weights of these items in the consumer basket, the combined 1.0-percentage-point contribution of food and industrial goods to the decline in price changes fully explains the disinflation observed in the past four months.

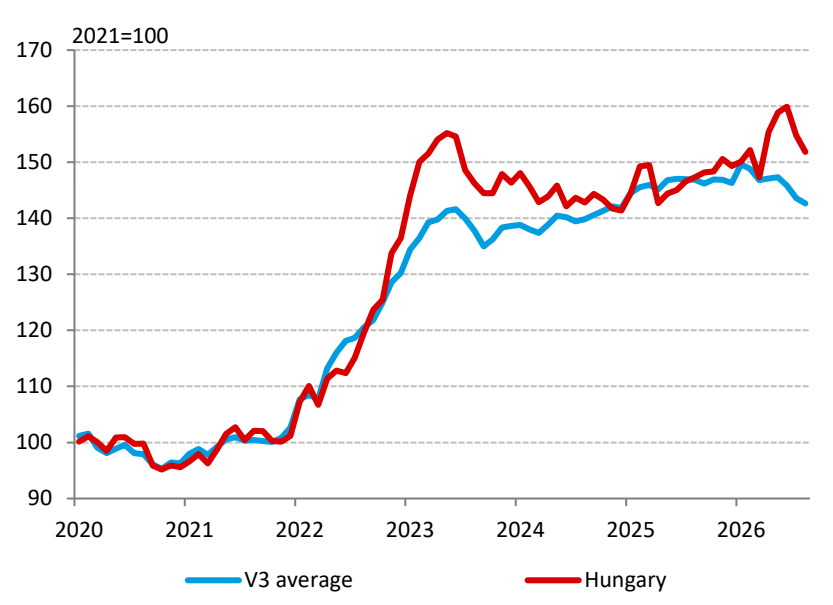
Chart 1-5: Month-on-month change in food prices



Source: HCSO, FAO, Eurostat

The decline in domestic food prices is larger than would be justified by the international food price cycle alone, meaning that domestic factors also contributed to disinflation in this product group. On a monthly basis, domestic food prices fell by 1.7 percent in July and by 0.7 percent in August, compared to the 0.2-percent decline in July and stagnation in August, which was observed in the euro area (Chart 1-5). Seasonal food price trends played a significant role in the domestic price reduction; however, the fact that price declines were observed across a wide range of processed food products suggests the emergence of effects of exchange rate appreciation. However, when comparing Hungarian and regional prices calculated in euros, it can be assumed that there is still scope for further adjustment in domestic prices, as the exchange rate strengthening has not yet been fully factored into prices (Chart 1-6).

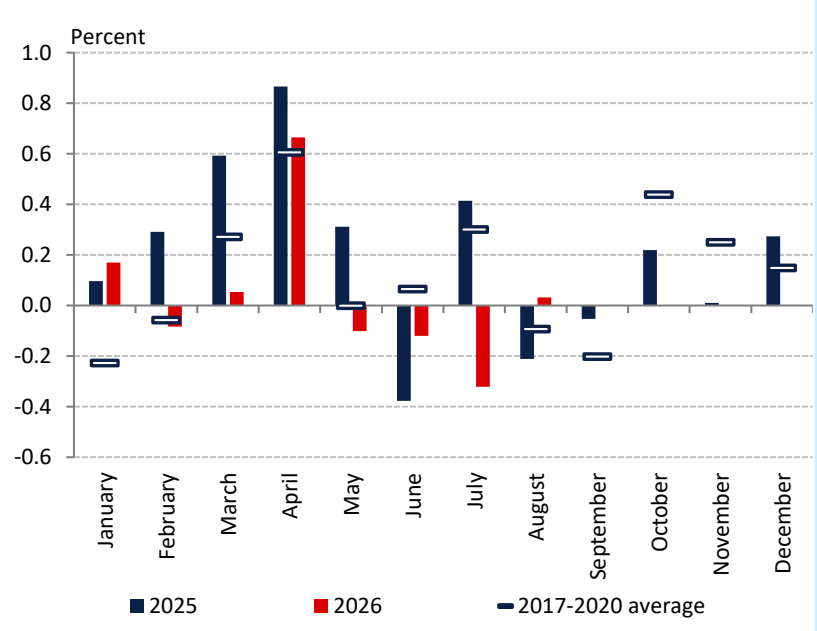
Chart 1-6: Developments in HICP food inflation in euro terms



Note: HICP data on a 2021 basis are also suitable for a direct comparison of domestic and regional price levels for food, as the difference between domestic and regional food price levels that year was less than 1 percent based on purchasing power parity data.
Source: Eurostat, MNB

Divergence from the international inflation trends can also be seen in the case of industrial goods, with the falling rate of price increases for this product group occurring against a backdrop of essentially stagnant European and regional prices for industrial goods. Compared to the average for the period of price stability (2017–2020), the rate of domestic monthly repricing has been 0.2 percentage point lower on average since May (Chart 1-7). As price declines exceeding the EU average are evident across a wide range of industrial goods, the appreciation of the exchange rate – which may be regarded as a common factor – presumably plays an important role in price developments.

Chart 1-7: Month-on-month change in industrial goods prices



Source: Eurostat, MNB

The strong appreciation of the forint may have played a part in the exchange rate being reflected in consumer prices more quickly than expected and may also have triggered more intensive price adjustments. Our previous analyses did

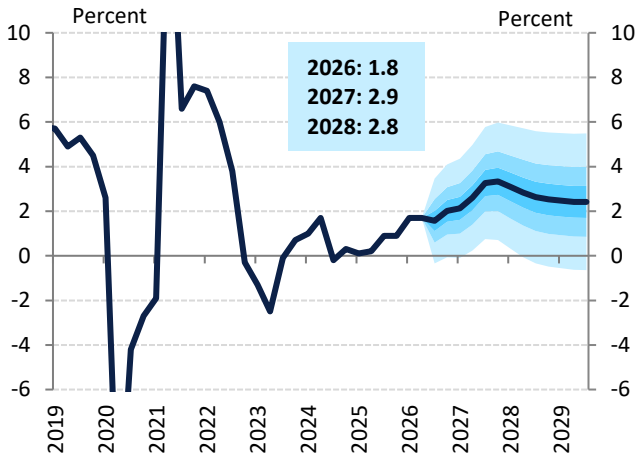
not find evidence that the magnitude of exchange rate changes materially affected either the degree or speed of exchange rate pass-through. Given the current developments, it therefore appears that factors other than the magnitude of the exchange rate movement may have also contributed to the acceleration in exchange rate pass-through. For food, the higher domestic price level (in euro terms) resulting from the earlier appreciation of the forint may have accelerated the adjustment towards price correction, while in the case of industrial goods, the intensifying competition brought about by the rise of online sales channels may have contributed to a more rapid adjustment in pricing. In addition, growing confidence in the forint's continued strength may also have contributed to the faster adjustment. If companies regard the stronger exchange rate as a lasting trend, they are less likely to view the fall in import costs as temporary, which may have resulted in faster adjustment.

Overall, based on the inflation data for this summer, the appreciation of the exchange rate may have been reflected in consumer prices more quickly than previously expected. The biggest inflationary surprises were seen in those products – industrial goods and food – where exchange rate pass-through is inherently more pronounced. The widespread decline in prices observed in these categories thus points to faster exchange rate pass-through, which may contribute more strongly to disinflation this year.

1.2. Real economy

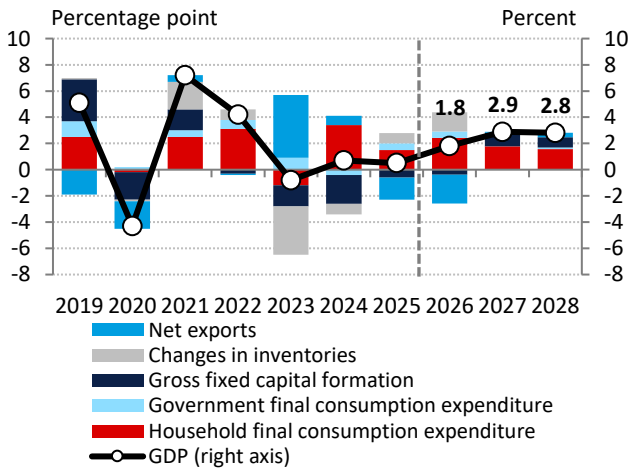
Hungarian GDP expanded at a year-on-year rate of 1.7 percent in 2026 Q2. In the third quarter, we expect growth of around 1.5 percent on an annual basis, while Hungarian economic output may rise by 1.8 percent overall this year. This year's GDP growth is being driven by industry and services, while agriculture is restraining growth significantly. GDP growth is expected to continue at a rate of 2.9 percent in 2027 and 2.8 percent in 2028. Strong consumption dynamics, linked to rising real wages, will support growth over the entire forecast horizon. Investment activity may remain subdued this year, but from next year onwards, all three sectors will contribute to growth. Despite the uncertainties in the external economic environment, domestic exports will grow from this year onwards, strongly supported by rising production capacities, meaning that Hungary's export market share may rise again in 2027. According to our estimates, GDP remains below its potential level, meaning that real economic performance continues to have a disinflationary effect. This is supported by the fact that, despite capacity utilisation in the manufacturing industry and services converging towards its long term average, the number of hours worked in private sector remains at historically low level due to labour hoarding and a historically low share of firms consider labour as a factor constraining production.

Chart 1-8: Fan chart of the GDP forecast



Note: The quarterly profile is based on seasonally and calendar adjusted data.
Source: HCSO, MNB

Chart 1-9: Expenditure side decomposition and forecast of GDP



Note: Government final consumption expenditure includes final consumption expenditure of general government and nonprofit institutions.
Source: HCSO, MNB

Hungarian GDP expanded at a year-on-year rate of 1.7 percent in 2026 Q2. Looking at the main economic sectors, services and industry contributed the most to GDP growth on an annual basis, while agriculture restrained it significantly. The incoming data were moderately higher than the June forecast.

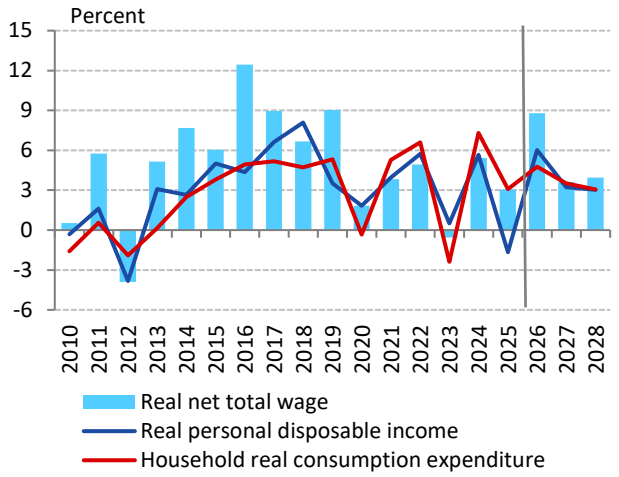
The Hungarian economy may grow by 1.8 percent this year, which is 0.2 percentage point lower than our June expectation (Chart 1-8). We expect growth of around 1.5 percent on an annual basis in the third quarter, which may be followed by acceleration towards the end of the year.

This year's GDP growth is being driven by industry and services. In the first seven months of 2026, industrial output rose by 2.7 percent year-on-year, according to unadjusted data. This expansion is primarily driven by a few major industrial players, a trend which we expect to continue into the second half of the year. In addition to industry, the growth contribution of services will remain significant for the remainder of the year. Construction failed to expand in the second quarter as well, and overall, the sector's contribution to growth may be negative this year.

Economic growth this year is lower than our June forecast, mainly due to the decline in agriculture caused by the severe drought. Due to the severely dry, hot weather, yields of wheat and maize – two of the most important arable crops – will be even lower than in the exceptionally drought-stricken year of 2022 (the economic effects of extreme summer weather are discussed in detail in Box 1-2). The sector's output may fall by nearly 15 percent this year, which could hold back GDP growth by around 0.4 percentage point.

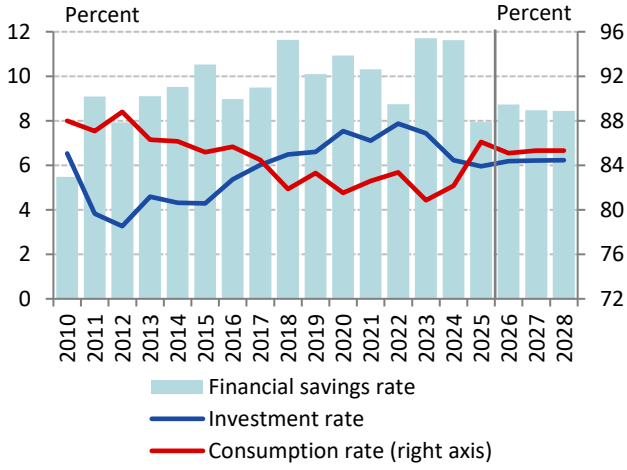
GDP growth is projected to continue at a rate of 2.9 percent in 2027 and 2.8 percent in 2028. Strong household consumption will remain a key growth driver over the

Chart 1-10: Annual changes in net total wage, personal disposable income and household consumption expenditure in real terms



Source: HCSO, MNB

Chart 1-11: Evolution of households' consumption, investment and financial savings as a percentage of personal disposable income



Note: Based on nominal data.

Source: HCSO, MNB

Table 1-2: Evolution of gross fixed capital formation and the investment rate

	2025	2026	2027	2028
Gross fixed capital formation	-2.8	-1.8	4.8	3.6
Government investment	-12.0	-4.8	11.2	0.9
Private investment	-0.6	-1.1	3.5	4.2
Investment rate	21.9	20.9	21.5	21.8
Real investment rate	21.6	20.8	21.2	21.4

Note: In percent. Year-on-year growth for gross fixed capital formation and investment rate as proportion of GDP. Real investment rate calculated at 2021 prices.

Source: HCSO, MNB

forecast horizon. Investment may support GDP growth from next year onwards (Chart 1-9).

This year, households' real personal disposable income is projected to expand by 6.0 percent year-on-year (Chart 1-10). In 2026, against a backdrop of low inflation and an 11-percent increase in the minimum wage, growth in net income will also be supported by fiscal measures (such as the service benefit for military and law enforcement personnel, the public service housing support programme, sector-specific wage increases, and school-start benefit). In 2027, the higher consumer price index dynamics will be partially offset by the increase in pension-like transfers (minimum pension, disability benefits), allowing real disposable income to grow by 3.2 percent, followed by an expansion of 3.0 percent in 2028.

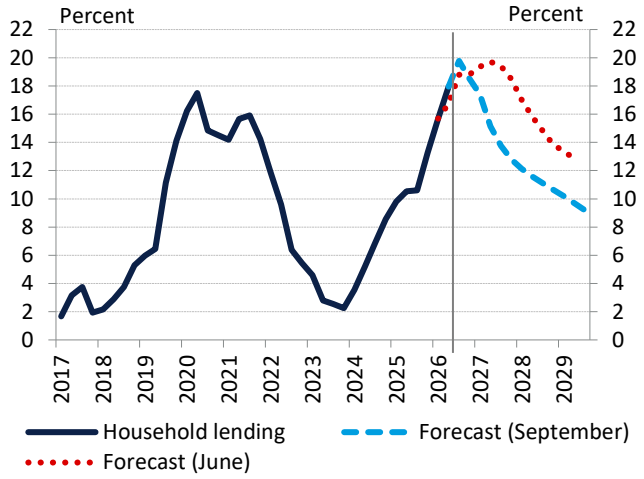
GDP growth continues to be driven primarily by accelerating consumption. Our forecast for this year has been revised downwards moderately in light of the latest data, but consumption growth remains robust owing to rising real wages, the improvement in consumer confidence observed this year and income-boosting fiscal measures. According to the forecast, household consumption is expected to grow by 4.8 percent in 2026, 3.5 percent in 2027 and 3.1 percent in 2028 (Chart 1-10). The savings rate, calculated as a percentage of disposable income, may stabilise between 8–9 percent, while investments are expected to reach a rate of over 6 percent. The consumption rate may exceed 85 percent in the coming years (Chart 1-11).

Investments may decline by 1.8 percent in 2026, while they may grow by 4.8 percent in 2027 and 3.6 percent in 2028 (Table 1-2). Compared to the June forecast, we are projecting more subdued investment performance, which is explained by the figure of -6.3 percent reported for the second quarter.

Compared to our June forecasts, this year's expected growth in the volume of public investment has declined. Thanks to an agreement between the European Commission and the government, approximately EUR 16.4 billion in EU funds have once again become available to Hungary, public investment from own sources may be more subdued this year compared to our previous expectations.

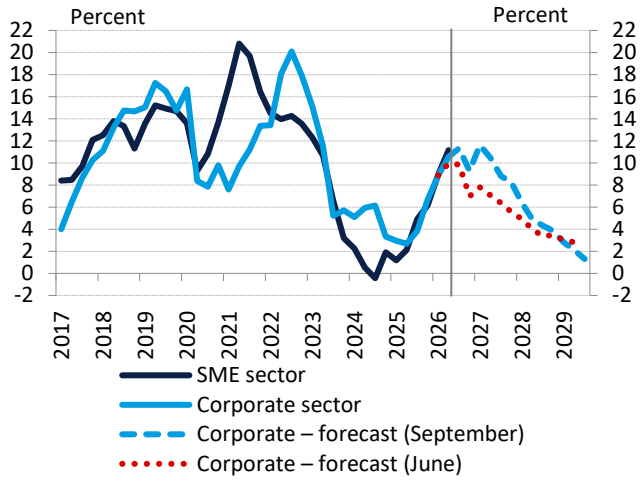
Household investment is expected to rise from this year onwards, supported by a marked increase in household loans outstanding over the forecast horizon. The household sector's loans outstanding expanded by 18 percent on an annual basis through the end of June 2026, and the disbursement of new loans also rose to a historic high last year. The Home Start Programme also contributes

Chart 1-12: Forecast for lending to households



Note: Transaction-based annual growth rate, based on the household loan portfolio of the financial intermediary system.
Source: MNB

Chart 1-13: Annual change in lending to non-financial corporations and SMEs



Note: Transaction-based, year-on-year data. The SME sector does not include the self-employed. The growth rate of the overall corporate sector is based on the total amount of outstanding credit to the financial intermediary system as a whole.
Source: MNB

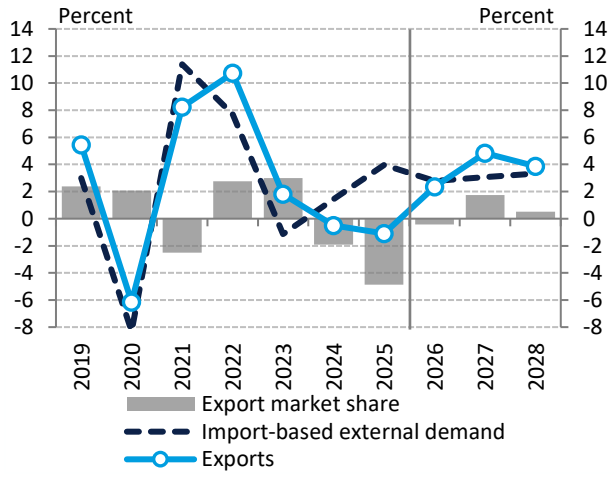
to the pickup in lending, which – due to the relatively high maximum contract size and the broad range of eligible applicants – has significantly boosted demand for housing loans. According to our forecast, the household loans outstanding of the total financial intermediary system is expected to increase by 19 percent in 2026. Although the annual growth rate will slow thereafter, household debt is expected to continue to rise dynamically, expanding by 13 percent in 2027 and 11 percent in 2028 (Chart 1-12).

A turnaround in corporate investment is expected from next year. Based on sectoral data for the first half of the year, there was a significant, 16-percent decline in manufacturing investments. Amid a deteriorating external economic environment and rising energy prices, investment activity in the sector may recover more slowly than anticipated; consequently, the trend in corporate investment may be more subdued than projected in June. However, the corporate loan portfolio expanded by 10.5 percent in the year to June 2026, and the annual growth rate for SME loans – which better reflects underlying trends – also rose to 11 percent. Overall, according to our forecast, the corporate loan portfolio of the total financial intermediary system will expand at an annual rate of 8–9 percent between 2026 and 2027 (Chart 1-13).

After two years of declines, domestic exports may grow by 2.4 percent this year. Growth in goods exports exceeded our June forecasts, driven by a faster-than-expected ramp-up in export-oriented industrial capacity. However, uncertainties in the external economic environment persist. Like Hungary, most of the country's trading partners are energy importers; therefore, the increase in energy prices may also significantly dampen growth in Hungary's export markets. For this reason, despite second-quarter growth figures that were more favourable than expected, our forecast for external demand has been slightly lowered for both this year and next. At the same time, the subdued underlying external demand trends are offset by exports linked to domestic companies manufacturing electric vehicles and network devices used for artificial intelligence. Due to the upturn in exports, Hungary's export market share may also rise again in 2027 (Chart 1-14). **According to our forecast, exports may grow by 4.8 percent in 2027 and by 3.9 percent in 2028.**

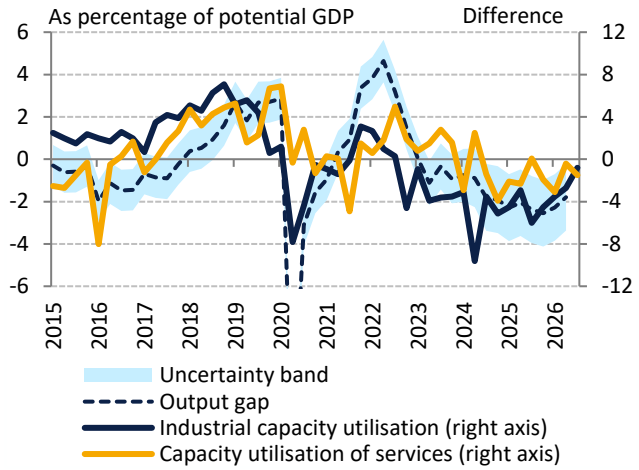
We expect imports to rise by 5.8 percent in 2026. This year, accelerating exports and expanding household consumption will boost import growth. Net exports will dampen GDP growth by 2.2 percentage points this year, but as exports gain momentum, they may provide a modest

Chart 1-14: Changes in export market share



Source: HCSO, MNB

Chart 1-15: Uncertainty band around the output gap and capacity utilisation in services and industry



Note: The estimation uncertainty band covers one standard deviation. Output gap excluding agriculture performance. In the case of capacity utilisation, deviation from the historical average.
Source: ESI, HCSO, MNB estimate

boost to growth from 2027 onwards. **Imports may expand by 4.9 percent in 2027 and by 3.5 percent in 2028.**

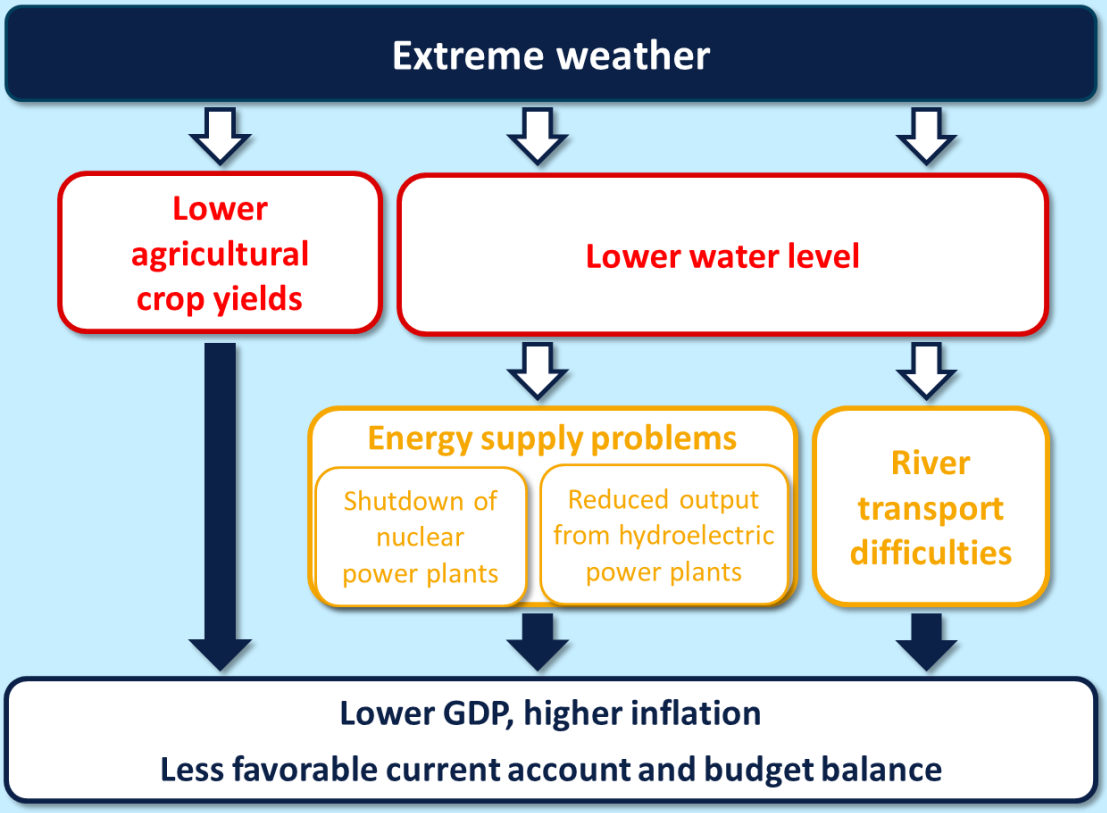
We estimate that the cyclical position of the economy has been negative since 2023. The output gap excluding agricultural performance remains negative (Chart 1-15). The external output gap has also remained in negative territory, which affects the domestic cyclical position this year. According to questionnaire-based surveys, capacity utilisation in the manufacturing industry has approached its historical average over the past year. Capacity utilisation in the services sector remains below the historical average. The negative output gap is supported by the number of hours worked remaining at historical low level in private sector due to labour hoarding. Less than one-third of the surveyed firms consider labour as a factor constraining production in industry, in the construction sector and in services as well.

Our assessment of medium-term growth has been revised slightly downward due to the more subdued investment rate and demographic constraints becoming increasingly effective.

Box 1-2: Economic impacts of extreme summer weather

The weather this summer in Europe was significantly hotter and drier than average, which may restrain economic performance through a number of channels (Chart 1-16). Not only does it reduce agricultural yields and the sector's value added, it also leads to lower water levels, which may result in reduced output or shutdowns at nuclear and hydroelectric power plants while also hampering river transport.

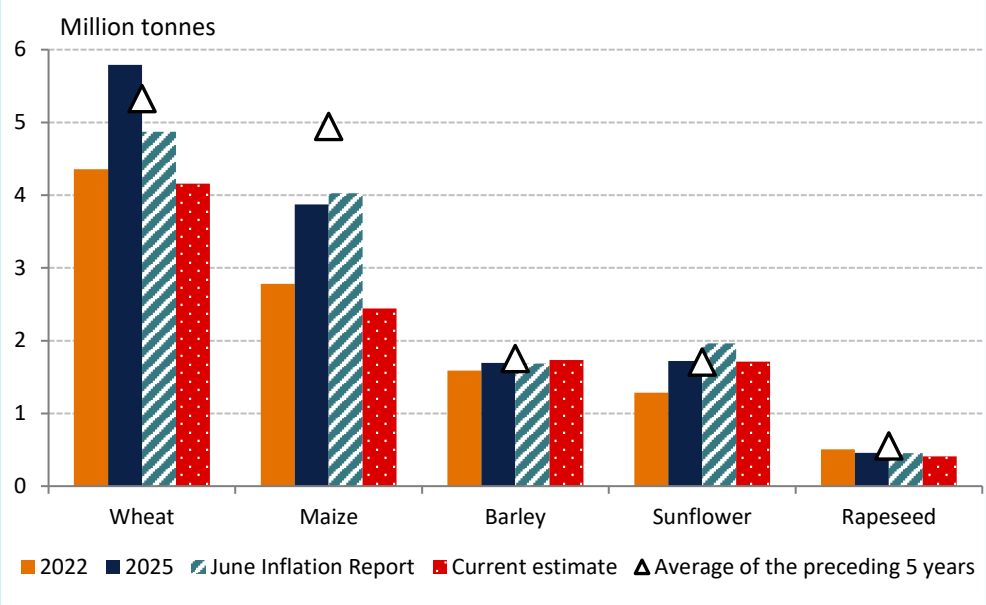
Chart 1-16: Macroeconomic impacts of extreme weather



Source: MNB

In Hungary, the summer months have been characterised by above-average mean temperatures and significantly lower rainfall; consequently, the yield of arable crops this year may be low even by historical standards (Chart 1-17). We estimate that wheat production may be nearly 22 percent lower, maize production 51 percent lower and rapeseed production 26 percent lower than the average of the previous five years, and for all three arable crops, production may also fall short of the results recorded in the drought-stricken year of 2022. Based on our estimates, the agricultural value added could fall by as much as 15 percent this year, reducing GDP growth by 0.4 percentage point.

Chart 1-17: Expected production for the five most important arable crops

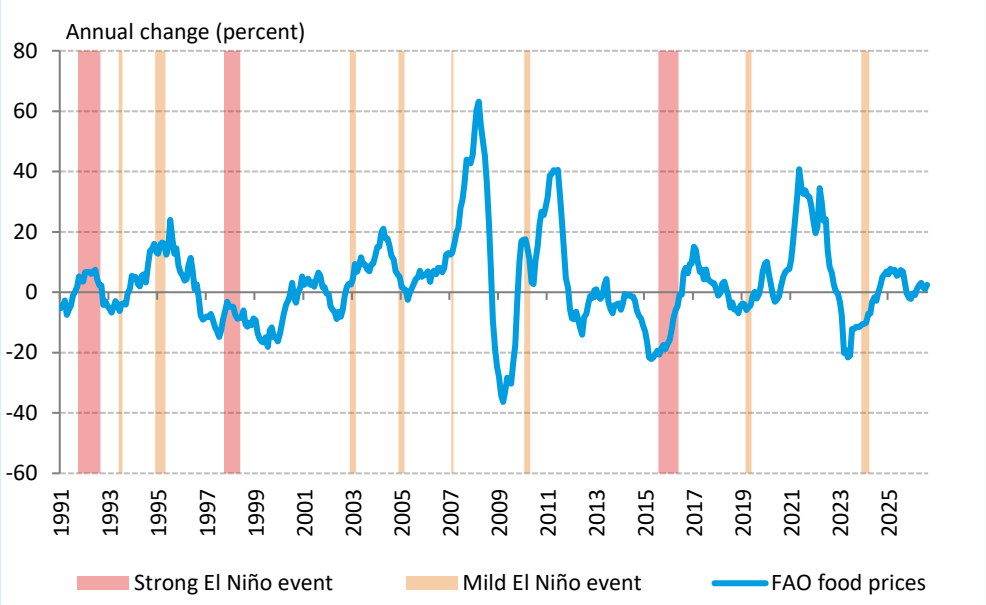


Source: HCSO, AKI, Datelite, MNB

This year's drought may affect a smaller area in Europe than in 2022; accordingly, the rise in agricultural prices may also be more moderate than that observed in 2022. Based on satellite imagery, the severity of the drought at the European level is milder than that experienced in 2022 and has been more concentrated in the Carpathian Basin and France. According to the European Commission's yield estimates, domestic yields for both wheat and maize are likely to fall short of the average yields of the past five years to the greatest extent. At the EU level, wheat yields are expected to be similar to the 2021–2025 average, while maize yields are expected to be 7 percent lower. Based on futures prices, the price forecasts for wheat and maize in 2027 are 17.0 percent and 15.9 percent higher, respectively, than this year's prices. This price increase falls short of the rise observed in 2022, which was driven not only by drought conditions but also by the impact of the global energy crisis.

The trend in global food prices is subject to other upside risks in addition to this year's drought. According to weather forecasting models, there is a 69-percent chance that this year's so-called El Niño phenomenon will be the strongest observed since 1950. Historical evidence suggests that El Niño raises global food prices by an average of 1–2 percent with a lag of 9–15 months (Chart 1-18). Another risk stems from the trend in prices of fertiliser raw materials due to tensions in the Middle East; following a significant rise at the start of the year, these prices have largely fallen back to their early-year levels but could rise again should the conflict escalate. **At the same time, the free trade agreements concluded by the European Union with Mercosur and India in 2026 may, through the globalisation of food markets, mitigate the local impacts of climate change.**

Chart 1-18: Developments in global food prices since 1990

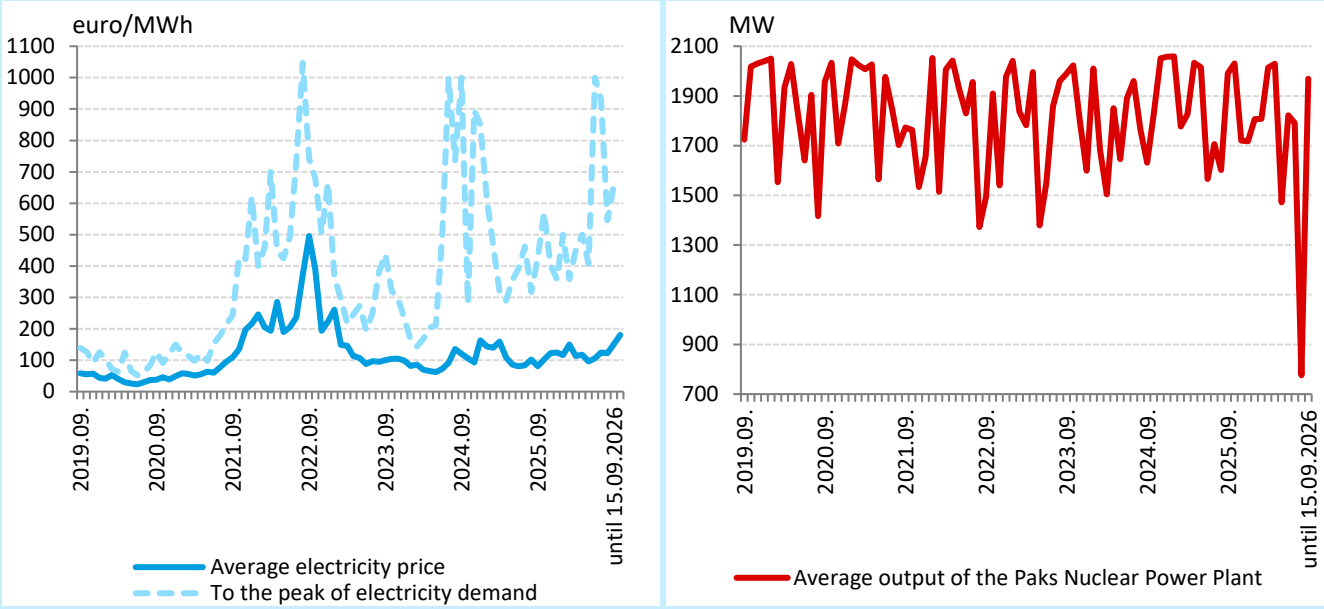


Note: A given month is classified as an El Niño event if the 3-month moving average of the relative sea surface temperature in the equatorial Pacific has been at least 0.5 degrees higher than the historical average for at least five months. An El Niño event is classified as strong if the deviation exceeds 1.5 degrees.
Source: FAO, National Centers for Environmental Information

Due to the high level of integration within the European electricity system, the loss of output from the Paks Nuclear Power Plant did not cause a sharp rise in domestic electricity prices (Chart 1-19). The Paks Nuclear Power Plant is cooled by the River Danube; consequently, due to low water levels, the output of the power plant – which has a nominal capacity of nearly 2,000 MW – had to be gradually reduced, and by early August, generation had fallen to 224 MW, representing 11–12 percent of its nominal capacity. The shortfall in nuclear generation at the beginning of August was primarily offset by an increase in net imports. Thanks to the high level of integration of the European electricity system, the outage at the Paks Nuclear Power Plant did not pose a risk to the security of supply, nor did it cause a sharp rise in electricity prices compared to the spikes experienced during previous events affecting the electricity market. The loss of nuclear power generation is expected to reduce GDP by less than 0.1 percent and to worsen the trade deficit by less than 0.1 percent of GDP. In addition to Hungary, the extreme weather also affected energy production in France, amongst other places, where production shortfalls at nuclear power plants due to the heatwave reached record levels in June and July.

Heatwaves and dry weather also cause logistical difficulties due to lower water levels. Due to low water levels, cargo ships were only able to navigate the Rhine with partial loads, and shipments were also delayed, thereby jeopardising supplies to industrial sectors in certain regions of Germany, Hungary's largest foreign trade partner.

Chart 1-19: Average monthly trends in the output of the Paks Nuclear Power Plant (left), and domestic electricity prices (right)



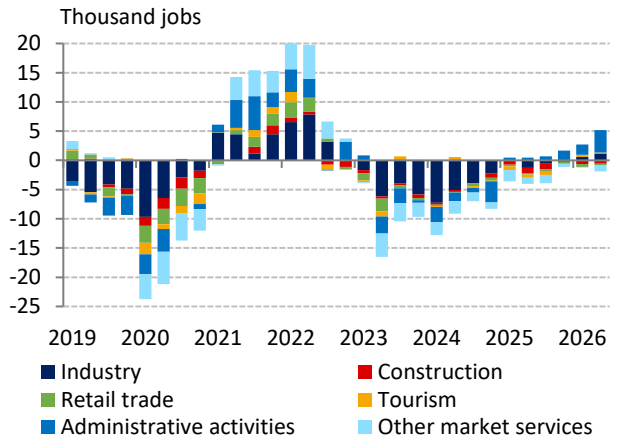
Note: The electricity prices shown in the chart reflect the trend in day-ahead prices quoted on the domestic organised market.
Source: Entso-e, MAVIR, MNB calculation

This year's drought may dampen domestic growth, but its impact on prices is likely to be more moderate than in 2022. Due to extreme weather conditions, the poor performance of the domestic agricultural sector could restrain this year's growth by up to 0.4 percentage point. As the severity of the drought at the European level is milder than that experienced in 2022, the increase in food prices has so far remained below that observed in 2022. At the same time, the El Niño phenomenon and tensions in the Middle East mean that any further rise in the prices of fertiliser raw materials poses a risk to food price trends. Although output at the Paks Nuclear Power plant fell to 11–12 percent of nominal capacity in early August due to low water levels, this did not lead to a sharp rise in the price of electricity thanks to the high level of integration within the electricity system and therefore did not result in any significant cost-side price pressure.

1.3. Labour market

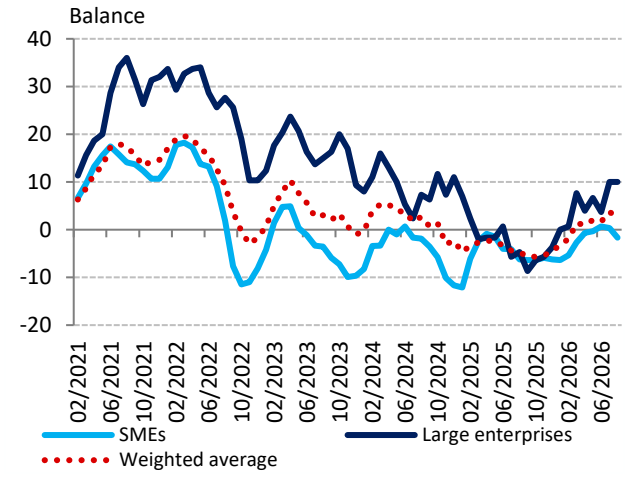
Despite the higher-than-expected GDP growth, labour demand remained subdued in the first half of the year. As economic growth picks up, we expect employment to increase from 2026 H2, however, further growth faces increasing demographic constraints. Wage growth this year and next year will be shaped by loose labour market conditions, minimum wage increases and inflation expectations. According to our forecast, gross average wages in the private sector will rise by 7.7 percent this year, 6.9 percent in 2027 and 6.3 percent in 2028.

Chart 1-20: Annual changes in job vacancies in the private sector



Note: In the case of companies with at least five employees.
Source: HCSO

Chart 1-21: Employment expectations by company size



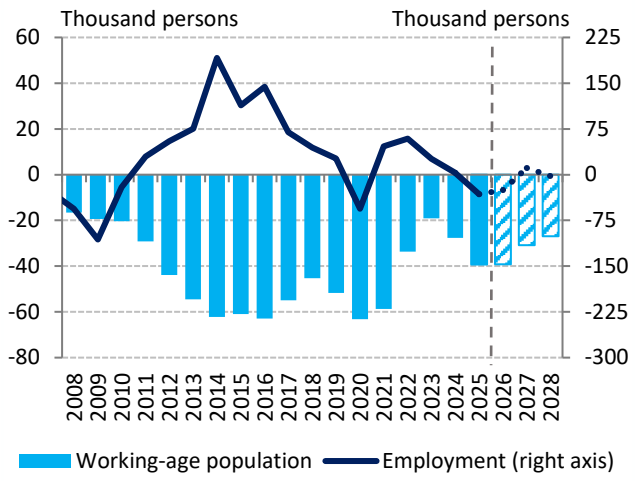
Note: The balance indicator is the difference between the proportions of positive and negative responses. Three-month moving averages.
Source: MNB-HCCI Business Sentiment Survey

Employment has stabilised in recent months, based on seasonally adjusted data. The number of people employed in the national economy has decreased since mid-2024 as a result of adjustments on the extensive margin to the weak economic climate and increasingly pronounced demographic constraints. On average, between May and July 2026, the number of employed persons aged 15–74 was 29,000 lower than in the same period of the previous year, representing a 0.6-percent decline year-on-year. The rate of this year-on-year decline is milder than that observed at the beginning of the year (1.4–1.5 percent), while seasonally adjusted data suggest that employment levels have largely stagnated over the last three months.

Trends in the number of vacancies in the private sector indicate that labour demand has stabilised, but labour market tightness has not changed significantly. In 2026 Q2, the number of job vacancies in the private sector increased by 7.4 percent versus the same period of the previous year, while seasonally adjusted data were unchanged versus the previous quarter (Chart 1-20). In 2026 Q2, labour market tightness – as measured by the ratio of job vacancies in the private sector to the unemployed – stagnated, while the labour market conditions have eased significantly in recent years. According to the MNB–HCCI Business Sentiment Survey conducted in August, a small majority of companies expect the number of employees to increase; by company size, it is large enterprises that are more likely to plan to increase their workforce (Chart 1-21).

According to our forecast, employment levels may rise again in 2026 H2, although the number of employed people may still fall by 0.5 percent on an annual basis. Given the labour hoarding observed in recent years, firms still have considerable scope to make more intensive use of their existing workforce. The low level of average number of hours worked per week may be one sign of this. Due to labour hoarding, growth in employment may remain subdued even with the economy picking up. Furthermore, demographic factors also stand in the way of any significant expansion in employment (Chart 1-22). **Employment may increase by 0.2 percent in 2027 and decline by 0.1 percent in 2028.** Based on data for May–July 2026, labour market participation continued to drop, with the number of active individuals falling by 0.3 percent versus the same prior-year

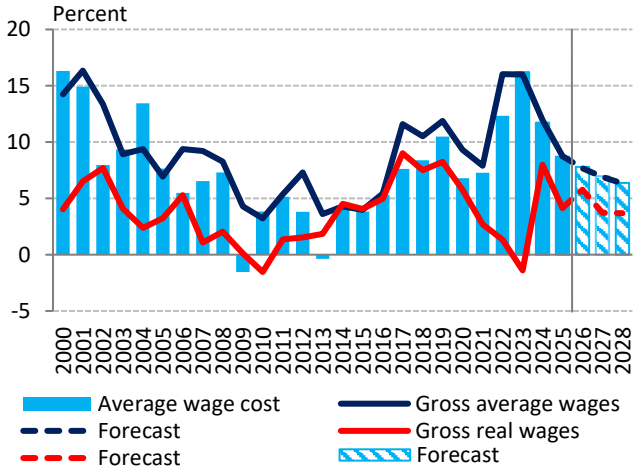
Chart 1-22: Annual change in working age population and number of persons employed in the private sector



Note: The number of persons employed refers to those aged 15–74, while the projection for the working-age population refers to those aged 15–64.

Source: Eurostat, HCSO, MNB

Chart 1-23: Annual changes in gross average wages and average labour cost in the private sector



Source: HCSO, MNB

period. As labour force participation is declining in parallel with the shrinking working-age population, the participation rate remains at a historically high level. The number of economically active persons continues to decline due to demographic factors over the forecast horizon.

The unemployment rate is expected to fall in parallel with the expansion of employment. Based on seasonally adjusted data, the average rate for May–July 2026 was 4.7 percent. This figure remains low by international standards. **According to our forecast, the unemployment rate will be 4.5 percent this year, before declining to 4.2 percent in 2027 and 4.1 percent in 2028.**

As labour market tightness has eased, the annual growth rate of average gross earnings has been trending downwards in the private sector since 2023. In July 2026, gross average earnings in the private sector rose by 7.4 percent compared to the same period last year, while regular gross average earnings (calculated without bonuses) rose by 6.8 percent on an annual basis. Real earnings were 6.2 percent higher in July versus the same month of the previous year.

The minimum wage rose by 11 percent (and the guaranteed minimum wage by 7 percent) in 2026. The 3-year minimum wage agreement concluded on 25 November 2024 envisaged a 14-percent minimum wage increase in 2027 based on the macroeconomic parameters projected at the time of its signing. Given that the envisaged minimum wage increase is subject to renegotiation under the agreement depending on actual economic developments, we have factored in a lower minimum wage increase based on underlying trends. We discuss in detail the reasons for the high real wage growth and the role played by the minimum wage increase in this regard in Box 1-3. The wage share has been rising since 2024, and the growth in labour costs may continue to exceed the growth in nominal value added in the near future.

In view of the moderate economic activity, rising corporate costs and rapid wage growth in previous years, companies have implemented more restrained wage increases than last year. According to our forecast, due to the more modest underlying wage trend and inflation expectations, average gross earnings in the private sector will rise by 7.7 percent this year, 6.9 percent in 2027 and 6.3 percent in 2028, which translates into real wage increases of 5.8 percent this year and 3.7 percent in 2027 and 2028 (Chart 1-23). Companies' average labour costs may rise by 7.8 percent in 2026, 7.0 percent in 2027 and 6.4 percent in 2028.

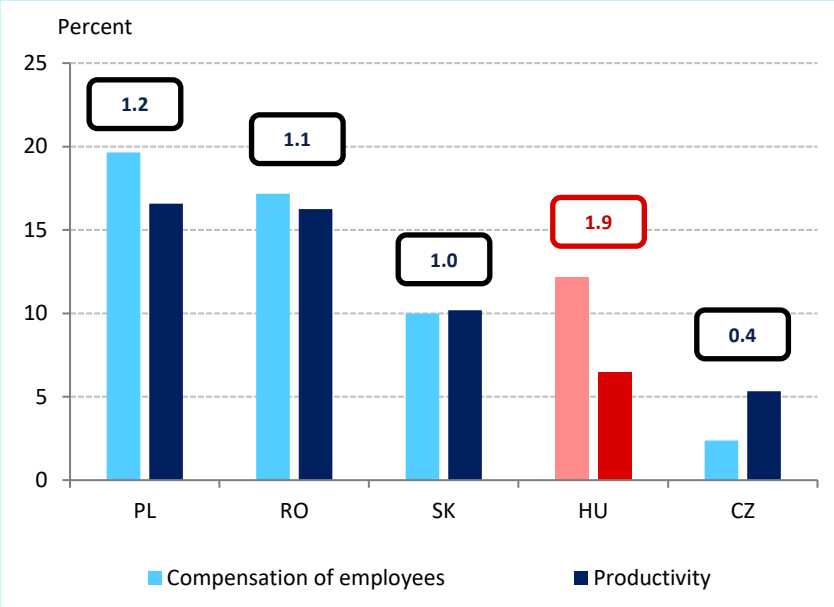
Economy-wide wage dynamics this year are significantly affected by the 6-month service benefit paid to armed forces and law enforcement personnel in January and by sectoral wage increases in the general government sector (e.g. teachers, the social and cultural sectors, government officials, courts, and prosecution services). As a result, wage dynamics in the public sector will be materially higher than in the private sector this year and much more moderate in 2027 due to the base effect of this year's service benefit. We expect national wage growth to reach 9.3 percent this year, 5.8 percent in 2027 and 6.0 in 2028, while real earnings are projected to rise by 7.3 percent this year, 2.6 percent in 2027 and 3.3 percent in 2028.

Box 1-3: Factors behind high real wage growth

In the first half of this year, the deceleration in wage growth in the private sector continued at a more subdued pace. Gross average earnings in the private sector increased by 8.1 percent between January and July compared to the same period of the previous year, versus 8.8 percent last year and 8.5 percent in 2025 H2. Real wages rose by 6.3 percent in the first seven months, around one and a half times the historical average.

This strong wage growth is not supported by economic fundamentals. In recent years, the rise in domestic labour costs has diverged from productivity growth: the rate of increase in labour costs was almost double of that of productivity between 2020 and 2025. This exceeded both the EU average and the rates observed in other countries in the region (Chart 1-24). The labour market is currently characterised by a mix of factors supporting both an acceleration and a slowdown in wage dynamics, which may also influence wage trends next year. These factors are reviewed in this box, with particular attention to the role of the minimum wage.

Chart 1-24: Changes in per capita labour costs and productivity and their ratio in the countries of the region from 2020 to 2025

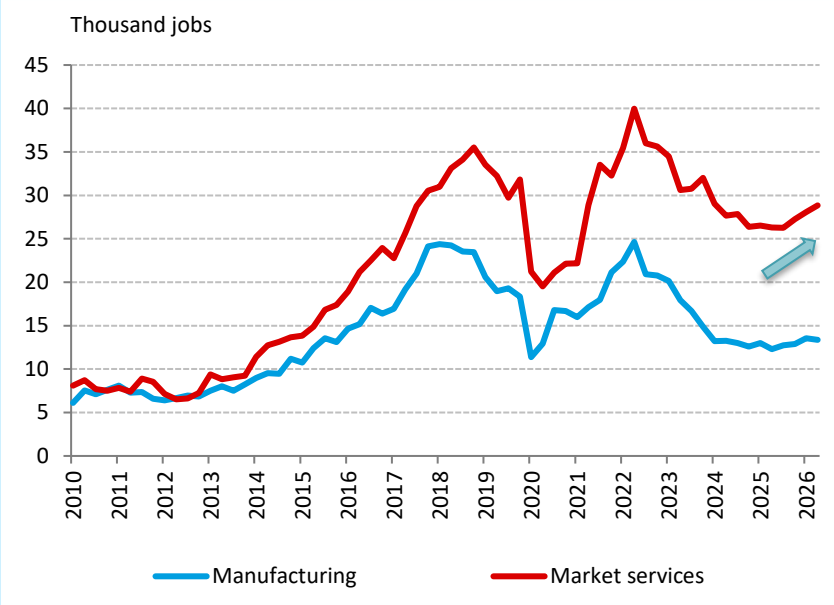


Note: National accounts data, real indicators. The ratio of labour cost growth (compensation of employees) to productivity growth is shown above the columns.
Source: Eurostat, HCSO, MNB

The cyclical position of the labour market is looser than in the period preceding the coronavirus pandemic, which in itself is holding back the pace of wage growth. In line with subdued real economic activity, the labour market tightness indicator has been falling for three years since its peak in 2022 Q2 and has stagnated in recent quarters. The decline in labour market tightness – expressed as the ratio of job vacancies to the number of unemployed persons – has been driven by both a fall in additional labour demand (job vacancies) and a rise in labour supply (the number of unemployed persons), thereby weakening employees' wage bargaining position.

Although the labour market is currently in a disinflationary phase of the business cycle, as the economy enters an upturn, firms will face labour supply constraints with increasing severity. According to Eurostat estimates, the working-age population, aged 15–74, will decline by roughly 55,000–60,000 persons annually until 2030. The measures proposed by the government – some of which are already in force – could lead to a gradual decline in the number of foreign nationals employed in Hungary, which could remove up to 70,000 persons from the Hungarian labour market in the medium term. Although the number of unemployed persons has remained above 200,000 since 2023, some of these jobseekers are prevented from finding employment by mismatches between supply and demand in terms of geography or qualifications. As labour market tightness increases, the impact of staff turnover on wage dynamics may become more pronounced, as employees change jobs in the hope of higher wages. Higher wages paid to new entrants may also affect the earnings of existing staff. **Wage pressure arising from staff turnover may also be amplified by the EU Pay Transparency Directive, which enables employees to learn the pay range of their colleagues performing work of equal value.** The slow shift in the cyclical position is indicated by the fact that, at the same time, a moderate rise in job vacancies is already being observed in the market services sector (Chart 1-25). Should this trend become persistent, labour market tightness could once again become a factor in the strengthening of wage dynamics in the market services sector.

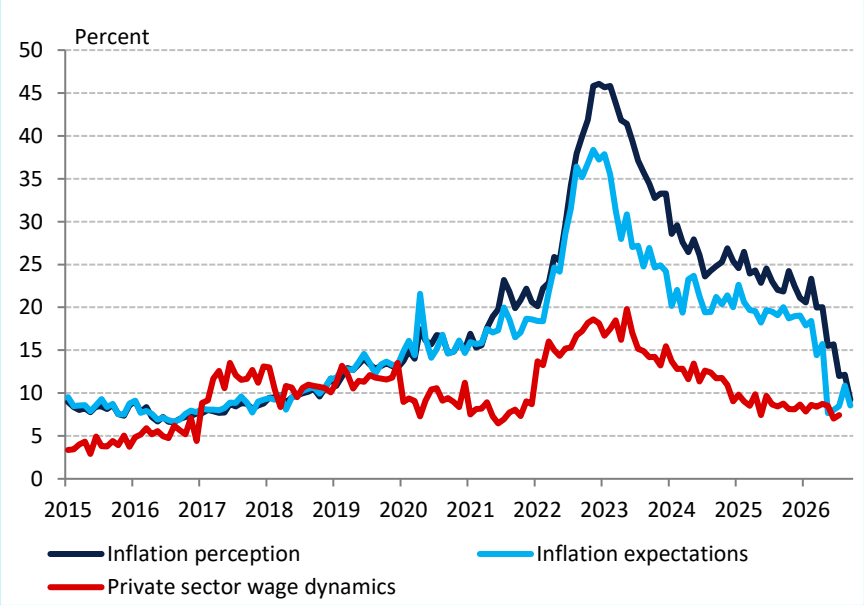
Chart 1-25: Number of job vacancies



Note: Seasonally adjusted data.
Source: HCSO, MNB

A sustained decline in inflation expectations may have a moderating effect on wage dynamics. Employees' wage increase expectations are also driven by a desire to compensate for past or anticipated future declines in their real earnings. Household inflation expectations remained high during the period of negotiations on this year's pay rises, but both indicators fell significantly in the spring of this year (Chart 1-26). There has not been such a sharp decline in inflation expectations since data became available as in May this year, while the perception of inflation has fallen to the levels typical of the period of price stability prior to 2020. Employees' expectations regarding pay rises may be tempered if both forward-looking and retrospective perceptions of inflation stabilise at their current low levels.

Chart 1-26: Trends in household inflation perception and expectations

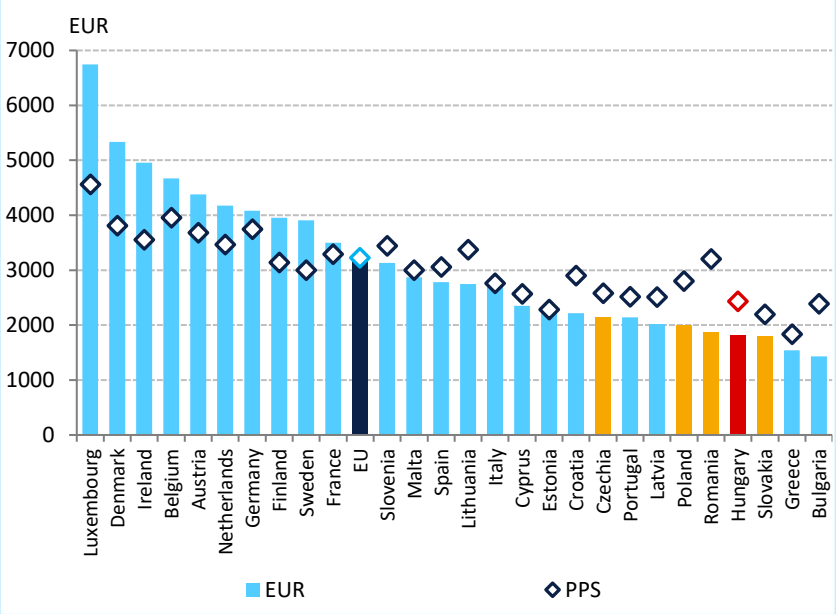


Source: GKI, HCSO

Employees' wage increase expectations continue to be driven upwards by the domestic wage level, which remains low in international comparison. Wages in Hungary, expressed in euros, remain among the lowest in the European Union, below those of neighbouring Member States except Slovakia, and improve by only two positions when measured at purchasing power parity (Chart 1-27). In addition to wage-level differences, the labour-draining effect of foreign markets

may become increasingly pronounced due to demographic constraints also affecting neighbouring labour markets and as a result of the expected upturn in the European economy, which will make Hungarian employers more sensitive to employees' wage expectations.

Chart 1-27: Average wages in EU Member States



Note: National accounts data covering the one-year period from the 2025 Q3 to 2026 Q2, calculated using 2025 PPS weights for actual household consumption. For Luxembourg and the Netherlands, the data cover the period from 2025 Q2 to 2026 Q1.
Source: Eurostat, HCSO

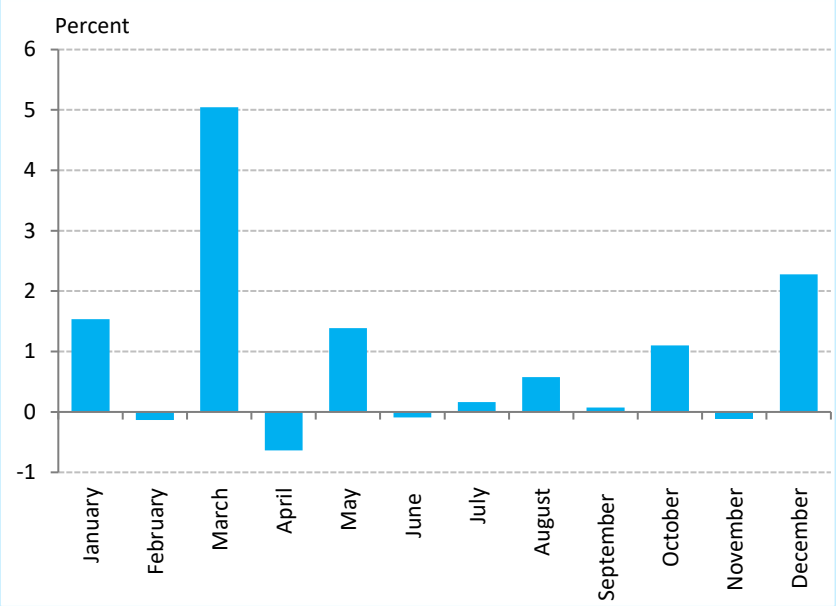
In such an environment, it is of key importance that increases in the minimum wage and in the guaranteed minimum wage are not out of step with current economic trends and are in line with changes in productivity. Regulated wages directly affect around 15 percent of employees. Around 4 percent of full-time employees earn the minimum wage, while 7 percent earn the guaranteed minimum wage; taking into account those earning between the two, their total proportion amounts to 15 percent. An increase in the statutory minimum wage affects higher earners as well, in order to avoid wage compression (where the earnings of those on regulated wages would approach those of workers with greater skills and experience); according to our estimates, this could have an impact up to the average wage.

According to empirical research on the minimum wage, raising the statutory minimum wage may also have an impact on employment. Until the 1990s, a low minimum wage was considered desirable by mainstream economic policy. Economic thinking placed its trust in the self-regulating capacity of markets and opposed measures of state intervention, including the minimum wage. The latter, it was argued, could distort wages away from market equilibrium, reducing labour demand, which could lead to lower employment and higher unemployment. As new empirical results accumulated, finding no significant negative aggregate impact on employment, policy recommendations also gradually changed from the 2000s onwards. Recommendations became more nuanced across countries, as the newer view holds that the employment effect depends on the level of the minimum wage and the groups of employees affected. At the same time, international recommendations have consistently emphasised that, where the minimum wage is already too high, further increases entail growing risks to employment, particularly amongst workers with low productivity. According to international estimates, these effects may occur when the minimum wage exceeds 50–60 percent of the median wage. The Kaitz index, which measures the ratio of the minimum wage to the median wage, stood at 53.1 percent in 2025 and 54.7 percent in the first seven months of 2026 in the domestic private sector (we estimate it may be around 54 percent for the whole of this year).

We will only be able to gain a comprehensive picture of the impact, and the direction and extent of the impact of the factors influencing the underlying wage trends early next year. Wage adjustments in Hungary show strong seasonality (Chart 1-28). From the perspective of wage trends, March can be regarded as the most important month, when corporate wage adjustments are most common. This is mainly linked to the closing of the previous business year, as its result affects

firms' room for wage adjustments. Wage adjustments in January are mainly determined by the implementation of minimum wage and guaranteed minimum wage increases, while in December, it is not scheduled pay rises that cause larger pay adjustments (although we did see an example of this in 2023 due to the timing of the minimum wage increase on 1 December) but rather the impact of increased end-of-year overtime and shift supplements and variable pays appearing in regular earnings.

Chart 1-28: Average monthly change in regular earnings in the private sector



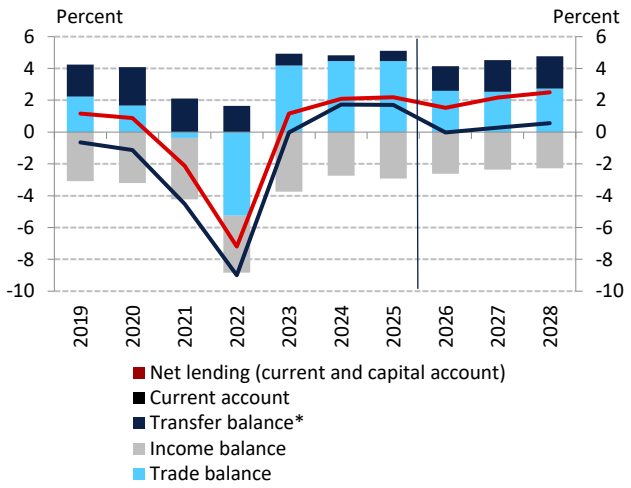
Note: Average monthly wage adjustments between 2017 and 2025.
Source: HCSO, MNB

Overall, the labour market is currently characterised by a mix of factors supporting both an acceleration and a slowdown in wage growth. Persistently high wage growth is supported by sticky wage expectations, wage levels that lag behind those of neighbouring countries, and supply constraints and frictions in the labour market. More moderate wage growth is supported by a sustained decline in inflation expectations and by labour market tightness remaining at a lower level. It is important that increases in the minimum wage, which have a significant impact on national wage dynamics, do not become detached from current economic trends and are in line with changes in productivity.

1.4. External balance

Based on preliminary monthly data, the rolling annual current account surplus had narrowed to 0.7 percent of GDP by June 2026. Expanding domestic demand, rising energy prices and the drought are having an adverse effect on the goods trade balance this year, and thus the current account balance will narrow compared to the surplus recorded last year and move close to equilibrium. Next year, the trade balance will likely remain at a similar level to this year's, before rising in 2028 due to lower deficit of the energy balance. The income balance deficit is expected to decline in the coming years as the interest balance improves. The current account will thus show a moderate surplus in 2027–2028. External net lending will rise to around 2.5 percent of GDP by the end of the forecast horizon, in conjunction with faster inflows of EU funds. In terms of sectoral financing positions, the general government deficit will temporarily increase this year before moderating from next year, while private sector savings will remain high.

Chart 1-29: Evolution of net lending



Note: As a percentage of GDP. *The sum of the balance of the current transfers and the capital account balance.

Source: MNB

Table 1-3: Development of trade balance as a percentage of GDP

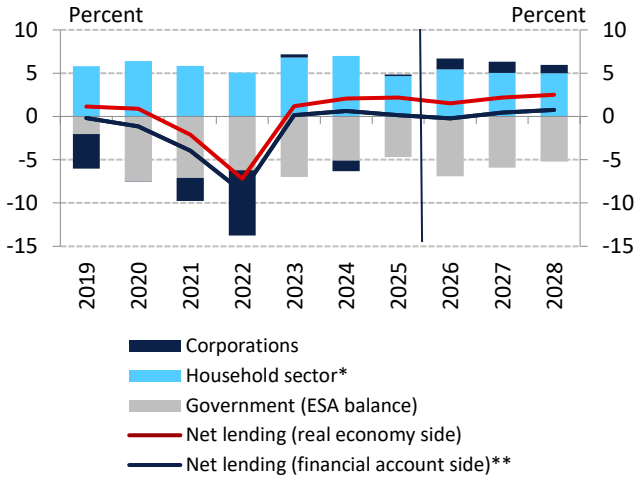
	2025	2026	2027	2028
Balance of goods	-0.9	-2.4	-2.6	-2.5
Balance of energy	-2.9	-3.7	-3.9	-3.4
Balance of other goods	2.1	1.3	1.3	1.0
Balance of services	5.3	5.0	5.1	5.2
Trade balance	**4.5**	**2.6**	**2.5**	**2.7**

Source: HCSO, MNB

The current account balance may be close to equilibrium this year, followed by a moderate surplus in 2027–2028 (Chart 1-29). Following significant surpluses in previous years, in 2026 the current account balance will decrease to a level close to equilibrium, against a backdrop of rising consumption, high energy prices and drought. As production at new factories ramps up, industrial production will rise from the first half of this year, but the favourable impact of export growth on the non-energy balance of goods will be offset in the coming years by the import-boosting effects of rising consumption and stronger investment activity. The energy deficit will widen this year, primarily due to the impact of armed conflicts, and high energy prices will continue to weigh significantly on the trade balance next year (Table 1-3). The surplus on the services balance as a percentage of GDP may increase moderately over the forecast horizon, thanks to tourism. Overall, the trade surplus will decline this year and next year, before rising again in 2028 as the deficit on the energy balance decreases. The income balance deficit will narrow this year and in the coming years due to lower net interest expenditure linked to a decline in domestic yield premiums. Consequently, the current account balance is likely to be close to equilibrium this year, while in the next two years, it is projected to record moderately higher surpluses. In conjunction with an increase in the utilisation of EU funds, external net lending is expected to rise from 1.5 percent of GDP this year to 2.5 percent by 2028.

According to sectoral financing positions, the general government deficit temporarily increases in 2026, while the private sector's net financial savings increase and may remain high in the coming years (Chart 1-30). As a result of the one-off measures in the first quarter, the expenditures related to the drought and the energy crisis (Contingency (Havaria) Fund), and the larger impact of the RRF loan agreement on increasing the accrual-based deficit, the budget deficit may rise to 6.9 percent of GDP in 2026, before beginning to decline from 2027. Households' net financial savings will rise this year,

Chart 1-30: Changes in the savings of sectors



Note: As a percentage of GDP. * Net financial saving of households does not contain the pension savings of those who return to the public pension system. Net savings in the financial accounts differ from the data in the chart. ** We expect that 'Net errors and omissions' (NEO) will return to the historical average.
Source: MNB

despite a tangible increase in consumption, thanks to substantial government income transfers and a nearly 8-percent rise in average gross earnings in the private sector, before returning to a level close to that of 2025 in 2027. The corporate sector's net lending position may decrease over the forecast horizon due to accelerating growth in investment but may remain positive in connection with the utilisation of EU funds.

1.5. Fiscal developments

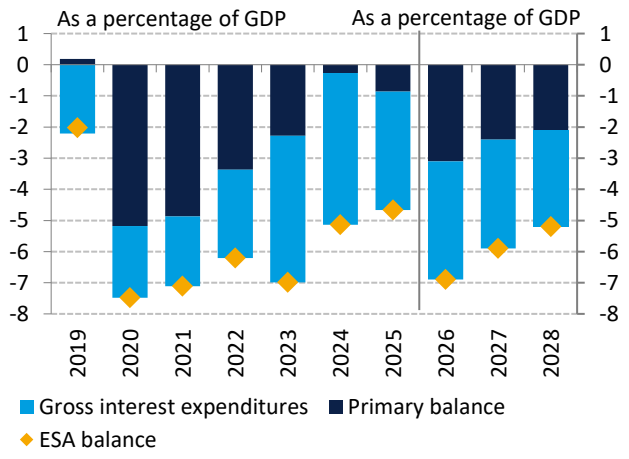
According to our forecast, the budget deficit may rise to 6.9 percent of GDP in 2026, after which it may return to a downward path starting in 2027, to reach 5.9 percent in 2027 and 5.2 percent in 2028. The deficit for this year, which is 0.4 percentage point higher than that published in the June Inflation Report, is primarily due to programmes financed by the Recovery and Resilience Facility (RRF). In 2027 and 2028, the deficit forecast is raised by the impact of the increase in the minimum pension, which will take effect from January 2027, and reduced by the increase in excise duty on tobacco products from November 2026. The drafting of the 2027 Budget Act and the submission of Hungary's medium-term budgetary and structural plan are expected following publication of the September Inflation Report, and the government's plans set out therein may significantly alter the fiscal and macroeconomic forecast. According to our forecast, the gross public debt-to-GDP ratio may rise to 77.7 percent in 2026, before returning to a downward trajectory from 2027.

Table 1-4: General government balance indicators

	2025	2026	2027	2028
ESA balance	-4.7	-6.9	-5.9	-5.2
Primary ESA balance	-0.9	-3.1	-2.4	-2.1
Gross interest expenditures	3.8	3.8	3.5	3.1

Note: As a percentage of GDP.
Source: HCSO, MNB

Chart 1-31: Fiscal balance and government interest expenditures



Source: HCSO, MNB

1.5.1. Main balance indicators

According to our forecast, the accrual (ESA) basis deficit of the general government sector may amount to 6.9 percent of GDP in 2026, 5.9 percent in 2027 and 5.2 percent in 2028 (Table 1-4). The 2026 Budget Act which was adopted last year contained a deficit target of 3.7 percent of GDP. In November 2025, the deficit target was raised to 5 percent, in line with the requirements of the new European economic governance framework, in particular the activation of the so-called national escape clause. According to the July 2026 forecast of the newly formed government, the ESA deficit expected for 2026 reached 7.5 percent of GDP, mainly due to the high deficit at the beginning of the year. The amendment to the Budget Act submitted in August set a deficit target of 7.5 percent for 2026, in line with the July prognosis.

Our forecast incorporates the measures included in the submitted amendment to the 2026 Budget Act, whose impact on this year's balance is close to neutral. From 2027, owing to the lack of this year's one-off measures (service benefit for military and law enforcement personnel, EU court judgments, housing support for public-service employees, measures related to protected fuel prices and expenditure arising from use of the RRF loan), which amount to 1.6 percent of GDP, as well as declining interest expenditures, the budget deficit may return to a declining path according to our rule-based forecast.

In our forecast, in addition to the impact of the excise duty increase on tobacco products from November 2026 and the increase in the lowest pensions and disability benefits from January 2027, we have – in line with past practice – only incorporated into our forecast decisions that are already codified in legislation or government resolutions, while we have not yet taken into account the budgetary impact of more specific measures without a deadline and unspecified commitments.

Table 1-5: Deviations compared to the June forecast

	Deviations as a percentage of GDP		
	2026	2027	2028
June 2026 forecast	**-6.5**	**-5.4**	**-4.7**
Measures in the 2026 Budget Act Amendment	**0.1**	**-0.1**	**-0.1**
Social measures (school-start benefit, VAT reduction on prescription medicines, measures affecting firewood)	-0.1	-0.1	-0.1
Expenditure reduction implemented by government decision	0.4	0.0	0.0
Payment obligation of budgetary organisations	0.3	0.0	0.0
Establishing the Contingency (Havaria) Fund	-0.5	0.0	0.0
Macroeconomic and other impacts	**-0.5**	**-0.4**	**-0.4**
Higher ESA impact of programmes financed from the RRF loan	-0.4	0.0	0.0
Increase in excise duty on tobacco products	0.0	0.1	0.1
Increase in minimum old-age pension and disability benefits	0.0	-0.2	-0.2
Interest expenditures	0.0	-0.2	-0.2
Other (e.g. diesel subsidy, energy-related expenditures)	-0.1	-0.1	-0.1
Total balance impact	**-0.4**	**-0.5**	**-0.5**
September 2026 forecast	**-6.9**	**-5.9**	**-5.2**

Note: Positive values indicate a deficit-reducing impact, while negative values indicate a deficit-increasing impact compared to the previous forecast.
Source: MNB calculation

1.5.2. Budget balance for 2026

According to our forecast, the accrual-based deficit may rise to 6.9 percent of GDP in 2026 (Chart 1-31). By the end of August, the cumulative cash-flow deficit of the budget's central government sub-sector amounted to HUF 5,169 billion, equivalent to 73 percent of the HUF 7,110 billion cash-flow deficit target in the amended budget. Government wage increases, one-off wage supplements, pension payments, the service benefit for military and law enforcement personnel, and the housing support for public-sector employees all contributed to the stronger-than-usual early-year seasonality of the monthly deficit. During the May–July period, a decline was observed in the cash-flow deficit. In August, a cash-flow deficit of over HUF 2,300 billion arose, mainly in connection with the pre-financing of RRF funds.

The deficit for this year, which is 0.4 percentage point higher than that published in the June Inflation Report, is mainly attributable to programmes financed by the Recovery and Resilience Facility (RRF). Based on the amendment to the 2026 Budget Act, our forecast incorporates the effects of social policy measures (school-start benefit, VAT exemption on prescription medicines, an increase in the budget of the social firewood programme and a reduction in the VAT rate on firewood), expenditure savings and planned payment obligations of budgetary chapters for 2026, the establishment of the Contingency (Havaria) Fund and introduction of a diesel subsidy. The forecast also includes the increase in excise duties on tobacco products from November 2026.

In August, HUF 2,187 billion in EU recovery funds was pre-financed from the budget in order to meet the RRF milestones. As a result, payment requests may be submitted in September, and nearly EUR 10 billion in RRF funds may be drawn down during December. Completion of the rule-of-law components of the 27 super milestones set as a condition for the recovery funds also opens the way towards releasing cohesion funds frozen under the conditionality procedure. Expenditure on programmes financed from RRF loan resources may increase the 2026 accrual-based deficit by 0.6 percent of GDP, which is 0.4 percentage point more than assumed in our June forecast. According to government communications, the capital increase provided to MFB under the RRF loan programme and the financing of IRIS[2] and the AI Gigafactory together increase the ESA deficit by nearly HUF 600 billion.

Since publication of the previous report, the interest expenditure forecast for this year has remained

unchanged; interest expenditure of 3.8 percent of GDP is therefore expected in 2026.

1.5.3. Budget balance for 2027 and 2028 and risks surrounding the baseline scenario

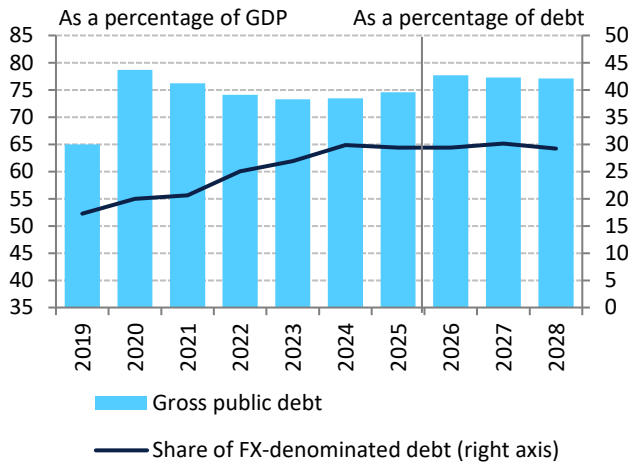
Based on our rule-based forecast, the deficit may stand at 5.9 percent in 2027 and 5.2 percent in 2028. Accordingly, alongside a gradual decline in interest expenditure, the primary balance embarks on an improving path. In contrast to previous years, preparation of the 2027 Draft Budget Act is expected only after publication of the September Inflation Report; therefore, we have continued to prepare a rule-based forecast for next year. Consequently, the measures to be announced in parallel with the planning of next year's Budget Act – and the details thereof – are currently unknown. Therefore, our forecasts are subject to uncertainty. Government measures that are still being developed in detail may result in a different deficit-reduction path compared to our current technical assumption and may materially affect the domestic macroeconomic environment. In addition, the composition of measures eventually implemented in next year's budget may also have a material impact on macroeconomic forecasts. The dynamics of tax revenues and expenditures are strongly influenced by developments in the macroeconomic environment over the forecast horizon. In our forecast, we incorporate the impact of the increase in excise duty on tobacco products from November 2026, and the increase in the lowest pensions and disability benefits from January 2027.

1.5.4. Projected trends in public debt

According to the preliminary data, the gross public debt-to-GDP ratio amounted to 75.1 percent at the end of 2026 Q2. The debt ratio was thus 0.5 percentage point higher than the 74.6 percent recorded at end-2025, but 2.6 percentage points lower than the 77.7 percent recorded in 2026 Q1. The decline in the public debt ratio in the second quarter was primarily attributable to moderate net issuance and the revaluation of foreign currency debt.

According to our forecast, gross public debt as a percentage of GDP may rise from 74.6 percent at end-2025 to 77.7 percent by end-2026, followed by a decline in 2027 and 2028 (Chart 1-32). In addition to a higher cash-flow deficit than expected in June, the forecasted increase in government liquid deposits by end-2026 contributes to the rise in public debt. Changes in the EUR/HUF exchange rate affect the debt ratio through the revaluation of foreign currency debt; accordingly, a change of HUF 10 in the EUR/HUF exchange rate alters the public debt-to-GDP ratio

Chart 1-32: Gross public debt forecast



Source: MNB, GDMA

by around 0.7 percentage point. According to our forecast, the debt ratio may return to a downward trajectory from 2027.

Table 1-6: Changes in projections compared to the previous Inflation Report

	2025	2026		2027		2028	
	Actual	Forecast					
		Previous	Current	Previous	Current	Previous	Current
Inflation (annual average)							
Inflation	4.4	1.8	1.8	2.3	3.1	3.0	2.6
Core inflation	4.6	2.2	2.1	2.6	3.0	3.1	2.8
Core inflation excluding indirect tax effects	4.5	2.2	2.1	2.6	3.0	3.1	2.8
Economic growth							
GDP	0.5	2.0	1.8	3.0	2.9	2.9	2.8
Household final consumption expenditure	3.1	5.0	4.8	3.6	3.5	3.1	3.1
Final consumption of government[1]	2.5	1.6	2.2	0.0	0.0	0.5	0.5
Gross fixed capital formation	-2.8	3.0	-1.8	4.8	4.8	3.7	3.6
Domestic absorption	2.3	4.3	4.2	3.0	2.9	2.6	2.5
Exports	-1.1	1.1	2.4	4.4	4.8	4.4	3.9
Imports	1.2	4.2	5.8	4.5	4.9	3.9	3.5
Labour productivity[2]	0.1	1.5	1.2	2.7	2.6	2.8	2.9
External balance[3]							
Current account balance	1.7	-0.7	0.0	-0.2	0.3	0.2	0.6
Net lending	2.2	0.9	1.5	1.7	2.2	2.1	2.5
Government balance[3]							
ESA balance	-4.7	-6.5	-6.9	-5.4	-5.9	-4.7	-5.2
Labour market							
Whole-economy gross average earnings[4]	9.0	9.7	9.3	6.0	5.8	6.7	6.0
Whole-economy employment	-0.7	-0.7	-0.5	0.3	0.2	0.1	-0.1
Private sector gross average earnings[4]	8.8	8.0	7.7	7.3	6.9	6.8	6.3
Private sector employment	-1.0	-0.9	-0.7	0.4	0.3	0.2	0.0
Unemployment rate	4.4	4.5	4.5	4.2	4.2	4.1	4.1
Private sector real unit labour cost	2.7	5.0	3.7	0.4	0.3	-0.2	-0.1
Household real income[5]	-1.7	6.3	6.0	3.4	3.2	3.2	3.0

Note: In the case of the previous forecast, except for the general government balance, the midpoint values of the forecast range are indicated.
[1] Government final consumption expenditure includes final consumption expenditure of general government and nonprofit institutions.
[2] Whole economy, based on national accounts data.
[3] As a percentage of GDP.
[4] For full-time employees.
[5] MNB estimate.

Table 1-7: MNB baseline forecast compared to other forecasts

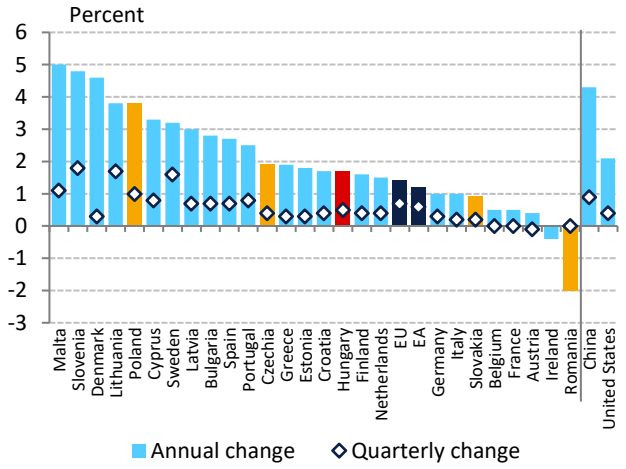
	2026	2027	2028
Consumer Price Index (annual average growth rate, %)			
MNB (September 2026)	1.8	3.1	2.6
Consensus Economics (August 2026)[1]	1.3 - 2.2 - 3.3	1.2 - 3.0 - 4.6	
European Commission (May 2026)	3.2	3.1	
IMF (April 2026)	3.8	3.5	3.1
OECD (July 2026)	1.9	2.7	
Reuters survey (September 2026)[1]	1.6 - 1.8 - 2.1	2.2 - 2.8 - 3.5	2.4 - 2.7 - 3.0
GDP (annual growth rate, %)			
MNB (September 2026)	1.8	2.9	2.8
Consensus Economics (August 2026)[1]	1.4 - 1.9 - 2.4	2.2 - 2.6 - 3.4	
European Commission (May 2026)	1.8	2.1	
IMF (April 2026)	1.7	2.0	2.3
OECD (July 2026)	1.9	2.2	
Reuters survey (September 2026)[1]	1.4 - 1.8 - 2.0	1.7 - 2.5 - 3.0	2.4 - 2.8 - 3.0
Current account balance[3]			
MNB (September 2026)	0.0	0.3	0.6
European Commission (May 2026)	-0.2	0.5	
IMF (April 2026)	-0.4	0.4	0.7
OECD (July 2026)	-0.7	0.3	
Budget balance (ESA 2010 method)[3]			
MNB (September 2026)	-6.9	-5.9	-5.2
Consensus Economics (August 2026)[1]	(-7.5) - (-6.8) - (-6.0)	(-6.3) - (-5.4) - (-4.7)	
European Commission (May 2026)	-6.2	-5.8	
IMF (April 2026)	-5.5	-5.7	-5.8
OECD (July 2026)	-6.7	-5.5	
Reuters survey (September 2026)[1]	(-7.5) - (-7.2) - (-7.0)	(-6.2) - (-5.6) - (-5.0)	(-5.0) - (-4.6) - (-4.1)
Forecasts of the GDP growth rate of Hungary's trade partners (annual growth rate, %)			
MNB (September 2026)	1.3	1.8	1.9
ECB (September 2026)[4]	0.9	1.4	1.5
Consensus Economics (August 2026)[1]	1.2	1.5	
European Commission (May 2026)[2]	1.2	1.6	
IMF (July 2026)[2]	1.2	1.4	1.6
OECD (June 2026)[2]	1.3	1.7	

[1] For Reuters and Consensus Economics surveys, in addition to the average value of the analysed replies, we also indicate the lowest and the highest values to illustrate the distribution of the data.
[2] Values calculated by the MNB; the projections of the named institutions for the relevant countries are adjusted with the MNB's weighting system, which is also used for the calculation of the MNB's own external demand indices. Certain institutions do not prepare forecasts for all partner countries.
[3] As a percentage of GDP.
[4] The values show the expected growth in the euro area, based on the latest ECB forecast.
Source: Consensus Economics, ECB, European Commission, IMF, OECD, Reuters survey, MNB

2. Key international factors influencing the forecast

Among the world's major economies, in 2026 Q2 the rate of economic growth slowed to 2.1 percent in the United States and to 4.3 percent in China, while it accelerated to 1.4 percent in the European Union and, within it, to 1.2 percent in the euro area. Inflation did not change in the euro area, but declined in the United States between May and July. As a result of geopolitical tensions escalating once again in July, global energy prices rose again, and the impact of this was already seen in the euro area's August inflation figures. European gas prices rose by an average of 71 percent between June and September, and in recent weeks, market prices have been more than double the levels seen in February, prior to the outbreak of the conflict in the Middle East. International food commodity prices were also characterised by increases in recent months; however, year-on-year price dynamics remained moderate overall. Among the globally important central banks, both the ECB and the Fed raised their policy rates by 25 basis points in September, bringing the ECB's deposit rate to 2.50 percent and the Fed's target range to 3.75–4.00 percent, respectively. Based on current market pricing, more interest rate hikes are expected from both central banks by the end of this year. Despite the favourable incoming data, we have only moderately revised upwards our forecast for external demand this year, owing to crop losses caused by extreme weather and the escalation of geopolitical tensions.

Chart 2-1: Annual and quarterly GDP change in EU countries, the US and China in 2026 Q1



Note: Seasonally and calendar adjusted data. No available data for Luxembourg.
Source: Eurostat

International macroeconomic developments

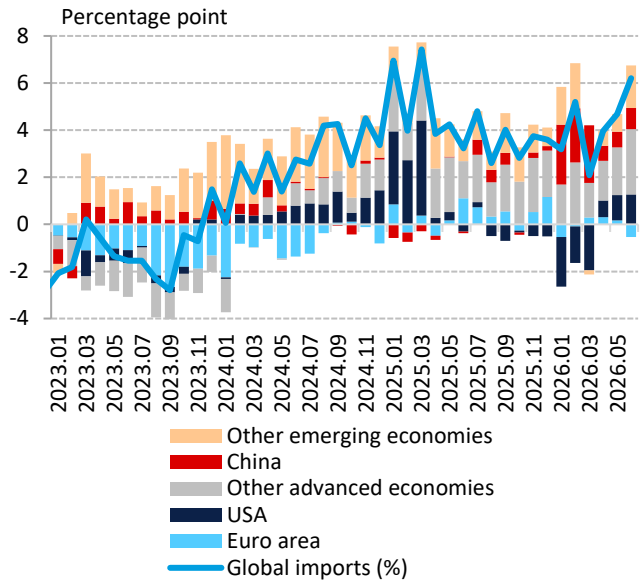
The European Union economy grew by 1.4 percent in 2026 Q2, with the euro area recording an increase of 1.2 percent (Chart 2-1). Growth thus accelerated in both cases, exceeding analysts' expectations. Compared to the first quarter, the EU economy grew by 0.7 percent and the euro area economy by 0.6 percent. With the exception of changes in inventories, all of the main consumption-side items contributed to the annual growth in the second quarter in both cases.

Germany, as Hungary's most important trading partner, recorded year-on-year growth of 1.0 percent in the second quarter, exceeding expectations. Among the countries in the region, economic growth amounted to 3.8 percent in Poland, 1.9 percent in Czechia and 0.9 percent in Slovakia. In Romania, annual GDP contracted by 2.0 percent (Chart 2-1).

Economic growth slowed in both the United States and China in 2026 Q2. GDP rose by 2.1 percent in the US and by 4.3 percent in China compared to the same period of the previous year (Chart 2-1). In the US, consumption and investment were the main growth drivers, with exports playing this role in China. Compared to the previous quarter, the US economy grew by 0.4 percent, while the Chinese economy expanded by 0.9 percent.

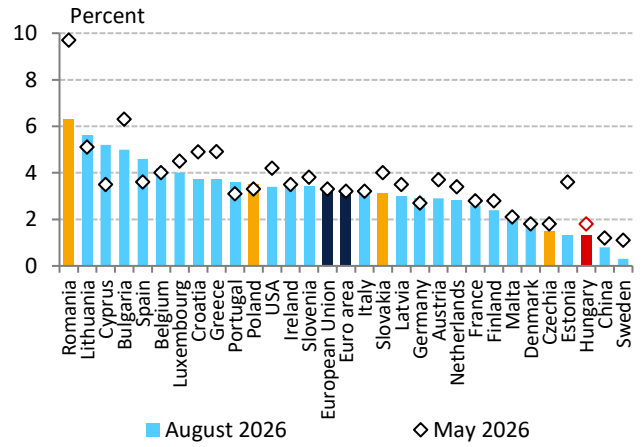
Global trade and industrial production have continued to rise in recent months on an annual basis. The growth in global imports is attributable not only to the increase in Chinese imports but also to economic activity in other advanced and other emerging economies as well as in the

Chart 2-2: Annual change in goods imports



Note: Seasonally adjusted data.
Source: CPB

Chart 2-3: Developments in the international inflation environment



Note: National CPI data for Hungary, HICP data for other EU member states, CPI data for other countries
Source: Eurostat, Trading Economics, national statistical offices

United States (Chart 2-2).

Euro area inflation eased temporarily in June and July, before rising again in August to reach the May level of 3.2 percent (Chart 2-3). Higher price dynamics were driven by the increase in oil and fuel prices resulting from the escalation of the conflict with Iran: fuel price inflation rose from 22.7 percent in May to 25.9 percent in August, after a temporary decline. Inflation in household energy prices also rose from 1.3 percent in May to 4.9 percent in August. The rise in energy prices was offset by the decline in the annual inflation of food and services between May and August. Core inflation stood at 2.4 percent in August, representing a mild drop compared to the 2.6 percent recorded in May. Euro area inflation came in at 3.2 percent, which was slightly below analyst expectations.

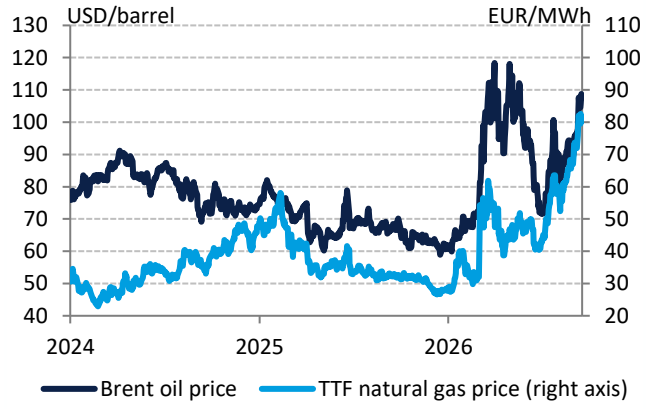
Inflation in the countries of the region continues to vary widely. From May to August, with the exception of Poland, inflation rates fell in every country in the region, according to Eurostat's harmonised data (Chart 2-3). The highest inflation was recorded in Romania (6.3 percent), followed by Poland (3.5 percent), Slovakia (3.1 percent) and Czechia (1.5 percent).

Inflation in the United States stood at 3.4 percent in August, reflecting a fall of 0.8 percentage point since May. The lower inflation was explained primarily by the correction in fuel prices and, to some extent, by the lower core inflation. Core inflation edged down from 2.9 percent in May to 2.4 percent in August. Consumer prices in China rose at a year-on-year rate of 0.8 percent according to the August data (Chart 2-3).

With the conflict in Iran escalating in July global energy prices rose once again. The price of Brent crude has fluctuated within a wide range in recent months. As a result of the agreement between the United States and Iran, tanker traffic through the Strait of Hormuz temporarily resumed from 17 June, which brought down the price of Brent crude oil to below USD 75 per barrel by the end of June. In early July, however, renewed escalation of the conflict led to a sharp rise in prices. In the first half of September, amid high volatility, oil price fluctuated between USD 90–110 / barrel, depending on news related to the conflict (Chart 2-4). Tight supply significantly increased refinery margins and, consequently, the prices of refined products, particularly diesel and kerosene, in Europe.

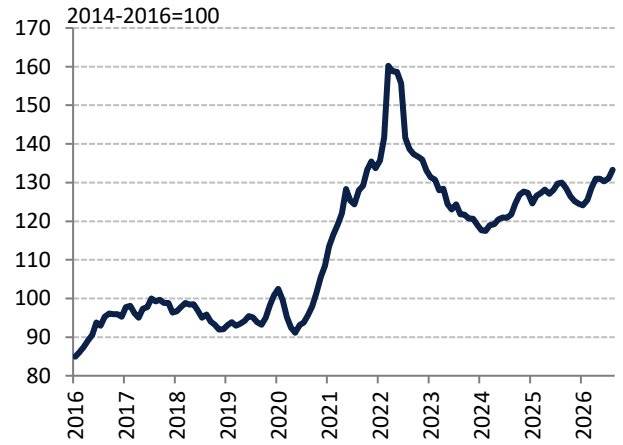
European gas prices reached a 3-year high, exceeding our June projections. Gas prices are also driven primarily by developments in the US–Iran conflict. Following an easing

Chart 2-4: Development of global oil and natural gas prices



Source: Bloomberg

Chart 2-5: Development of world market prices of food



Source: FAO

of the conflict, the European TTF gas price fell to a level close to EUR 40 / MWh by the end of June, before renewed escalation pushed prices above EUR 80 / MWh by September (Chart 2-4). Low storage levels in Europe also contributed to the rise in prices. In Germany as well, the average gas storage fill rate was 54.8 percent in the first half of September, which is significantly lower than the average September rate of 83.6 percent for the period 2021–2025.

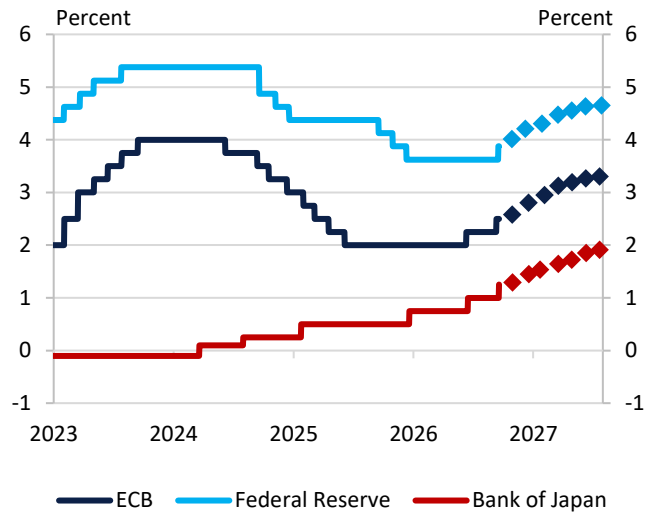
Global food prices rose moderately, advancing at a year-on-year rate of 2.5 percent (Chart 2-5). Compared to the previous month, prices rose by 1.9 percent in August, driven by increases in prices of grain and sugar. The rise in global grain prices (+2.2 percent) was driven not only by disruptions to Black Sea wheat exports resulting from the Russia–Ukraine war but also by the adverse impact of heatwaves in major grain-producing regions on expected harvest yields and strong demand. The price of sugar rose significantly (+11.9 percent) due to unfavourable weather in Europe and the impact of El Niño, which dampened crop expectations in Asia. Based on futures prices, price expectations for both wheat and maize rose compared to the June round. Box 1-2 discusses in detail the impact of the drought conditions on prices.

In June, the ECB raised its policy deposit rate by 25 basis points to 2.25 percent, before leaving it unchanged in July. In September, it decided to raise the key deposit rate by 25 basis points to 2.50 percent (Chart 2-6). Based on the central bank's communications, inflation may remain significantly above the 2-percent target for longer than previously expected. The Governing Council continues to take a data-dependent, meeting-by-meeting approach and does not pre-commit to a specific interest rate path.

Regional central banks did not change monetary conditions in recent months (Chart 2-7). The policy rates of the Polish and Czech central banks thus remain unchanged at 3.75 percent, while the Romanian central bank's base rate remains at 6.5 percent.

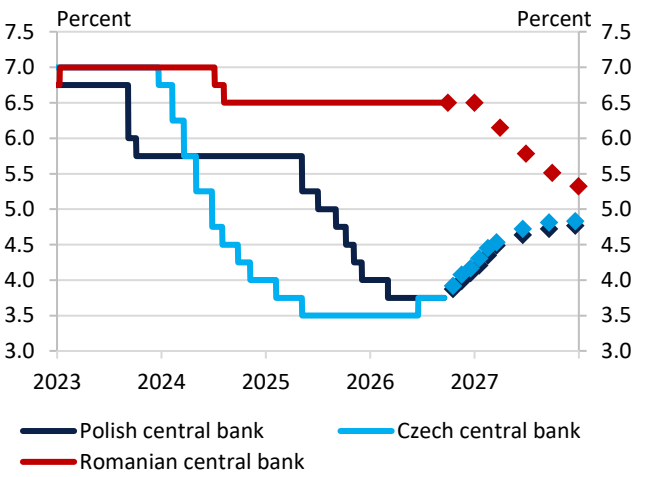
At its policy meeting in July, the Fed kept the target range for the federal funds rate at 3.5–3.75 percent, before raising it by 25 basis points to 3.75-4.00 percent in September (Chart 2-6). Inflation remains elevated, and based on the latest projections, policymakers now expect inflation to return to the central bank's 2-percent target only in 2029. The Fed Chair, however, indicated that the Fed remains committed to achieving its 2-percent inflation target. Following a 25-basis-point interest rate hike in June, the Bank of Japan left the policy rate

Chart 2-6: Key interest rates of globally important central banks



Note: In the case of the ECB and the Bank of Japan: overnight deposit rate; in the case of the Fed: midpoint of the federal funds target range. The diamond denotes the interest rate path implied by current market pricing for each central bank.
Source: Bloomberg

Chart 2-7: Key interest rates of regional central banks



Note: In the case of the Polish and Czech central banks, we indicate the expected interest rate path based on current market pricing with a diamond; for the Romanian central bank, the diamond marks the median value for analysts' August expectations.
Source: Bloomberg

unchanged in July, before raising it by another 25 basis points to 1.25 percent in September.

International macroeconomic outlook

Since the June Inflation Report, geopolitical conflicts have escalated once again, while extreme weather conditions also pose a downside risk to growth. In August, the United States announced strict financial sanctions against Iran to sever its economic ties, with Iran promising retaliatory measures in response. Any further prolongation of the conflict poses a downside risk to growth in Hungary's export markets. The index measuring trade uncertainty stagnated recently while remaining above the level seen before the start of the trade war. In July, the United States imposed punitive tariffs on 80 countries, including those in the European Union, to replace the previous tariffs. Extreme weather conditions in Europe pose a downside risk to growth via the agricultural, energy and logistics sectors. Box 1-2 discusses in detail the impact of the drought conditions on growth.

Despite favourable incoming data, we have only moderately raised our forecast for external demand this year due to the negative risks. Analysts' growth forecasts for Hungary's export partners have on the whole, risen moderately for this year compared to the June forecast (Table 2-1). According to the European Central Bank's June forecast, GDP growth in the euro area is expected to reach 0.9 percent in 2026 and 1.4 percent in 2027. Despite better-than-expected data for 2026 Q2, we have only moderately raised our forecast for external demand this year, by 0.1 percentage point, as this year's growth is subject to risks arising from the negative economic impact of extreme weather and the potential protracted nature of the conflict with Iran.

According to the latest analyses, the outlook for the German economy in 2026 has improved by 0.4 percentage point over the past quarter. Both the current business situation and business expectations have risen in recent months, according to the German Ifo Business Climate Index. German order books continued to increase in manufacturing, which may have contributed to export growth. Germany's exports grew at a significant rate of 3.5 percent in 2026 Q2, while analysts expect a turnaround in German industry in the second half of the year. Analysts' forecasts for German GDP growth this year advanced to 1.0 percent in September, which is 0.4 percentage point higher than the June forecast. The IMF forecasts growth of 0.7 percent, while the IFO predicts 1.4 percent for this year.

Market analysts' growth forecasts for this year have

Table 2-1: Economic growth in Hungary's key export partners according to market expectations in 2026 and 2027

Partners	2026		2027	
	June	Sept	June	Sept
EU (74.6)	**1.2**	**1.2**	**1.5**	**1.5**
Germany (25.3)	**0.6**	**1.0**	**1.2**	**1.1**
Romania (5.6)	**0.2**	**-0.5**	**2.4**	**2.3**
Poland (4.9)	**3.4**	**3.5**	**3.0**	**3.0**
Italy (4.9)	**0.6**	**0.9**	**0.7**	**0.7**
Slovakia (4.7)	**1.1**	**0.9**	**1.9**	**1.7**
Czechia (4.2)	**2.2**	**2.1**	**2.4**	**2.4**
United States (4.0)	**2.1**	**2.1**	**2.0**	**2.1**
France (3.9)	**0.7**	**0.5**	**0.9**	**0.9**
Austria (3.8)	**0.6**	**0.8**	**1.2**	**1.2**
United Kingdom (3.5)	**1.0**	**1.2**	**1.1**	**1.2**
China (1.1)	**4.6**	**4.6**	**4.4**	**4.4**
Growth of Hungarian export markets	**1.2**	**1.3**	**1.9**	**1.8**

Note: Partner names are followed by their percentage share in product exports in brackets, based on 2025 data. Expectations are based on data available as of the data cut-off date of 17 September 2026.

Source: Bloomberg

remained unchanged for both the US and China. Market analysts expect GDP growth of 2.1 percent in the United States and 4.6 percent in China for 2026. Next year, they project growth of 2.1 percent in the USA and 4.4 percent in China (Table 2-1).

Based on futures prices, oil and gas prices are likely to remain high in the coming months. Based on current market pricing, the price of Brent crude may remain above USD 100 per barrel until the end of 2026 and average around USD 85 per barrel in 2027. European gas prices may remain close to the current level of EUR 76–80 / MWh until next spring, with a significant price correction expected from 2027 Q2.

According to the European Central Bank's latest forecast from September, inflation in the euro area may reach 3.0 percent this year, which is identical to the June forecast. The institution raised its inflation forecast for next year by 0.2 percentage point; therefore, inflation may come in at 2.5 percent in 2027. In 2028, inflation may reach 2.1 percent.

Based on market pricing, the ECB may continue to raise interest rates until the end of this year (Chart 2-6). Based on analysts' expectations, the Romanian central bank is likely to keep its policy rate unchanged this year, while market participants have priced in interest rate hikes of 25 basis points for the Polish and Czech central banks (Chart 2-7).

In the case of the Fed, an interest rate hike of 25 basis points is expected by the end of this year (Chart 2-6). For the Bank of Japan, the market is pricing in a high probability of one further interest rate hike for this year.

Table 2-2: Main external assumptions of our forecast

Technical assumptions	2026		2027		2028		Change		
	Previous	Current	Previous	Current	Previous	Current	2026	2027	2028
EUR/USD	1.171	1.160	1.173	1.154	1.173	1.154	-0.9%	-1.6%	-1.6%
Oil (USD/barrel)	82.7	92.8	74.3	84.9	72.6	76.0	12.2%	14.3%	4.6%
Gas (EUR/MWh)	41.7	57.6	34.4	59.4	28.3	36.5	38.1%	72.7%	29.1%
Euro area inflation (%)	3.0	3.0	2.3	2.5	2.0	2.1	0.0 pp.	0.2 pp.	0.1 pp.
Euro area real GDP (%)	0.8	0.9	1.2	1.4	1.5	1.5	0.1 pp.	0.2 pp.	0.0 pp.
GDP growth of Hungary's main export partners* (%)	1.2	1.3	1.9	1.8	1.9	1.9	0.1 pp.	-0.1 pp.	0.0 pp.

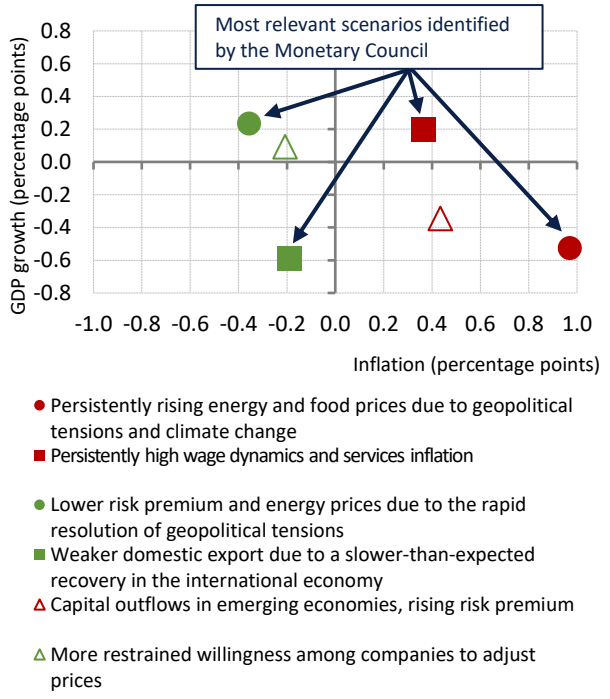
Note: Annual average in the case of oil prices. * Growth rate of Hungary's 21 most important export partners weighted by share in exports. The projections are based on information available for the period ending 17 September 2026.

Source: Bloomberg, Consensus Economics, MNB, ECB

3. Effects of alternative scenarios on our forecast

The Monetary Council highlighted four alternative risk scenarios around the baseline projection in the September Inflation Report. The two alternative scenarios that envisage a higher inflation path than the baseline warrant tighter monetary conditions, while the two scenarios assuming lower price dynamics warrant looser monetary conditions. The alternative path assuming persistently rising energy and food prices due to geopolitical tensions and climate change is consistent with a higher inflation path and a lower growth path. The scenario featuring persistently high wage growth and services inflation is consistent with a higher inflation path and higher economic growth. The scenario anticipating a lower risk premium and lower energy prices due to the rapid resolution of geopolitical tensions is consistent with a lower inflation path and a higher growth path. The scenario assuming weaker domestic exports as a result of the international economic recovery proceeding more slowly than expected is consistent with a lower inflation path and lower economic growth. In addition to the highlighted scenarios, the Monetary Council also discussed alternative scenarios assuming capital outflows from emerging economies and an increase in the risk premium as well as a scenario assuming more restrained willingness among companies to adjust prices.

Chart 3-1: Risk map: effect of alternative scenarios on the baseline forecast



Note: The risk map presents the average difference between the inflation and growth path of the alternative scenarios and the baseline forecast over the next 8 quarters. The red markers represent tighter and the green markers represent looser monetary policy than in the baseline forecast.
Source: MNB

Persistently rising energy and food prices due to geopolitical tensions and climate change

Global energy price developments are essentially determined by uncertainty related to the conflict in Iran. The global price of Brent crude oil is volatile and rose back above USD 100 per barrel by mid-September, while the price of Dutch TTF gas increased from around EUR 40 / MWh in mid-June to EUR 80 / MWh.

The drought situation in Europe this year was less widespread than in 2022, but as a consequence of the drought, river transport disruptions have occurred in recently, due to low water levels on the Rhine amongst others. The ongoing conflict in the Middle East continues to pose a risk to price developments for fertiliser inputs that are crucial for agriculture.

As a result of persistent price effects stemming from climate change and geopolitical tensions, the inflation expectations of economic agents may increase. In addition to persistent upward price pressures in energy and food markets, there is a high risk of an increase in households' inflation expectations as well as of the emergence of second-round inflationary effects.

In this alternative scenario, in addition to the protracted geopolitical conflict, extreme weather conditions associated with climate change give rise to second-round inflationary effects through households' inflation expectations. This scenario is consistent with a higher inflation and lower growth path, which may justify tighter monetary conditions compared to the baseline scenario.

Persistently high wage growth and services inflation

Persistently high wage growth may increase inflation in labour-intensive services. The moderation of market services inflation is a slow process: in August, the monthly price change in the sector exceeded the pricing patterns observed during the 2017–2020 period of price stability. Wage growth in Hungary remains the highest among the countries in the region.

From the employees' perspective, persistently low inflation and declining inflation expectations may lead to more moderate wage demands than previously. This is also supported by the role of the central bank's new inflation target in guiding expectations. At the same time, the still low level of average wages in an EU comparison may lead to higher wage expectations, particularly in positions which have more available employment opportunities abroad.

In this alternative scenario, wages increase faster than assumed in the baseline scenario, which is also reflected in higher market services prices. This scenario is consistent with higher inflation and growth paths as well as tighter monetary conditions.

Lower risk premium and energy prices due to the rapid resolution of geopolitical tensions

The resolution of the conflict in the Middle East remains subject to uncertainty. Despite the ceasefire agreement reached in June, the conflict in Iran escalated again. The global price of Brent crude oil and the Dutch TTF gas price have increased significantly overall in recent months amidst high volatility; at the same time, for the time being both OPEC countries and China are mitigating the impact of shortfalls in energy supply by reducing their inventories.

Global investor sentiment has improved overall in recent months, while risk indicators have remained broadly unchanged. The US S&P stock market index is at historical highs, with investment related to artificial intelligence playing a significant role in this development. At the same time, investor concerns regarding the returns on and financing of AI investments, which have intensified at times, warrant close attention.

The risk premium on Hungarian assets has remained stable despite the volatile international environment. The forint exchange rate is volatile but remains significantly stronger than at the beginning of the year. Looking ahead, domestic risk perception will be influenced primarily by expectations regarding the fiscal path and euro adoption as well as by the external market environment.

In this alternative scenario, we expect geopolitical tensions to ease rapidly. The de-escalation of the conflict in the Middle East may lower energy prices and, as global financial market risk aversion eases, lead to an improvement in the region's risk perception. Similar dynamics also unfolded in connection with the ceasefire agreement reached in June. In addition, the external balance of the Hungarian economy improves as a result of the lower external cost environment. This scenario is consistent with lower inflation and higher growth paths as well as looser monetary conditions compared to the baseline scenario.

Weaker domestic exports due to a slower-than-expected recovery in the international economy

In 2026 Q2, euro area GDP growth exceeded expectations. However, looking ahead, extreme weather conditions, as well as trade and geopolitical tensions, may weigh on European growth through the agricultural, energy and logistics channels.

Compared to the increase in Hungarian industrial production observed this year, German industry has seen more moderate growth. In Germany, capacity utilisation in industry also did not improve significantly in the second quarter, in contrast to the increase observed in Hungary and Czechia. At the same time, order books in both the German manufacturing and automotive industries are showing an expansion. According to analysts' expectations, a turnaround in German industry may be signalled by the data for the second half of this year.

Although divergence can be observed between Hungarian and European industrial trends, the performance of the European automotive industry will remain a key determinant of Hungary's medium-term growth prospects. The market share of major European car manufacturers was unchanged or declined in June compared to one year earlier, while the expansion of Chinese car manufacturers continued. In Europe, the share of electric cars is increasing dynamically relative to that of cars with internal combustion engines. Electric vehicle production is ramping up in Hungary.

This alternative risk scenario assumes lower growth in the European Union and Germany. Subdued performance in Hungary's external markets hampers domestic export performance via a decline in external demand, thus contributing to a slowdown in GDP growth. In addition, due to lower external inflation, Hungarian inflation will be lower than in the baseline scenario, which is consistent with looser monetary conditions.

Other risks

In addition to the highlighted scenarios, the Monetary Council considered two other alternative paths.

In the risk scenario assuming capital outflows in emerging market economies and rising risk premium, exchange rate depreciation resulting from a global increase in risk aversion leads to inflationary pressures. The scenario is consistent with a higher inflation path, lower economic growth and tighter monetary conditions compared to the baseline scenario.

In the alternative scenario assuming **more restrained willingness among companies to adjust prices**, in particular companies that adjust their prices less often and on a backward-looking basis reduce their willingness to reprice. This scenario is consistent with a lower inflation path, somewhat higher economic growth and looser monetary conditions.

4. Special topics

4.1. Background to the reduction of the inflation target

As an inflation-targeting central bank, the Magyar Nemzeti Bank (MNB) regularly reviews its monetary policy framework in light of global and domestic macroeconomic developments and its long-term strategy. Based on international experience, there has been a convergence in the elements of inflation-targeting frameworks, including the target measure, flexibility (the tolerance band), the monetary policy horizon and the mandate. At the same time, central banks' practices differ more markedly with regard to the inflation target, partly depending on the level of economic development. The key elements of the MNB's inflation-targeting framework are consistent with international best practices; however, the level of the inflation target is higher than that prevailing both in the euro area and in the region. Against this background, the review of the medium-term inflation target was at the centre of the process.

In reviewing the inflation target, the Monetary Council conducted a detailed assessment of nominal and real economic convergence, international practices, and, on this basis, the appropriate level of the inflation target for the domestic economy. Based on this, the Monetary Council decided to set the central bank's medium-term inflation target at 2.5 percent from 1 January 2028, over the monetary policy horizon, while leaving the symmetric ±1-percentage-point tolerance band around the inflation target unchanged.

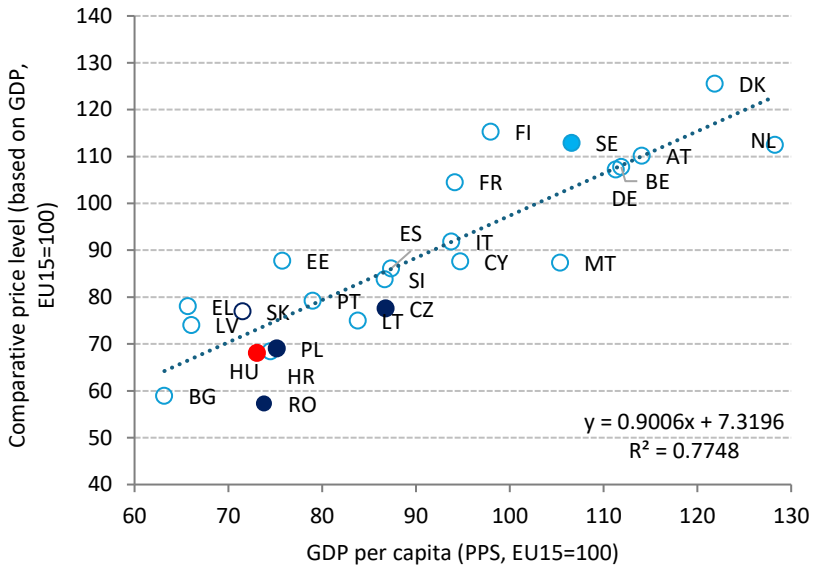
This analysis sets out the background to the decision and summarises the key analytical considerations and findings underpinning the review of the inflation target.

4.1.1. Macroeconomic considerations in determining the inflation target

In the practice of inflation-targeting central banks, price stability means maintaining a low but positive rate of inflation. A moderate and predictable increase in consumer prices minimises the welfare costs of inflation, while facilitating adjustment to distortions arising from nominal price and wage rigidities and providing monetary policy with room for manoeuvre in the face of the zero lower bound on nominal interest rates and deflationary risks. Accordingly, central banks in developed economies generally pursue an inflation target of 2 percent or close to 2 percent.

The level of the inflation target partly reflects the level of economic development of the economy concerned. A positive relationship can be identified between the level of economic development and the price level of economies (the Penn effect), which can also be observed among the Member States of the European Union (Chart 4-1). Real economic convergence leads to price level convergence (real appreciation), meaning that the price level in emerging economies gradually converges towards the higher price level observed in developed economies. Higher inflation can be an important channel of price level convergence in emerging economies, therefore their central banks often pursue inflation targets somewhat higher than the 2-percent targets, or targets close to 2 percent, typically observed in developed economies.

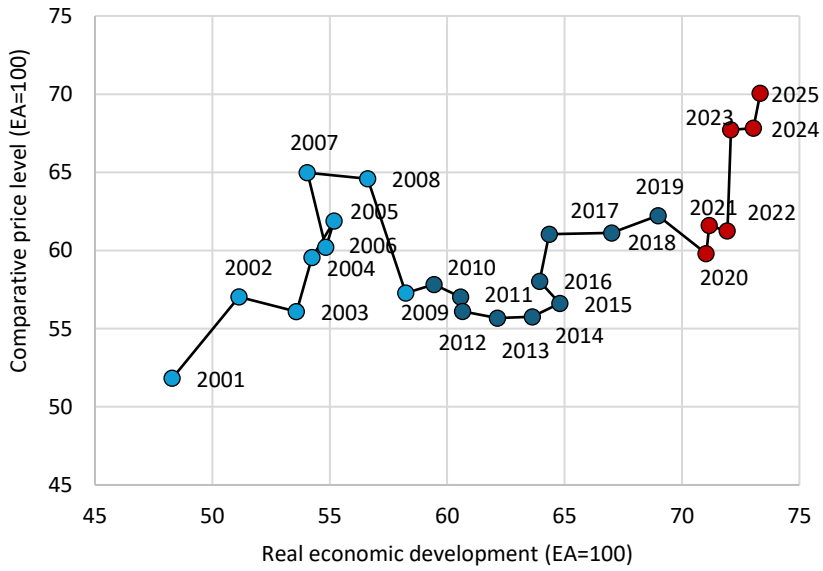
Chart 4-1: Comparative price level as a function of relative development (2024)



Note: Countries using the euro or maintaining an exchange rate peg to the euro are indicated by open circles. The region is shown in dark blue, while Hungary is shown in red.
Source: Eurostat, MNB

Over the past decades, the domestic price level has converged significantly towards the euro area average (Chart 4-2). Based on purchasing power parity data, the domestic price level has reached more than two-thirds of the average price level in the euro area; however, the extent of price level convergence varies significantly across individual product and service groups. The price level of consumer goods has converged significantly more towards the euro area average (82.0 percent) than that of services (60.6 percent). The latter is reduced by public services provided directly to households free of charge. These fall outside the scope of the goods and services covered by the consumer price index; consequently, the relative price level of non-government services may be significantly higher. The price level of items relevant from an inflation perspective has therefore moved closer to the euro area average than indicated by purchasing power parity-based data. The higher price level warrants a slower pace of price level convergence.

Chart 4-2: Developments in the comparative price level and real economic convergence in Hungary

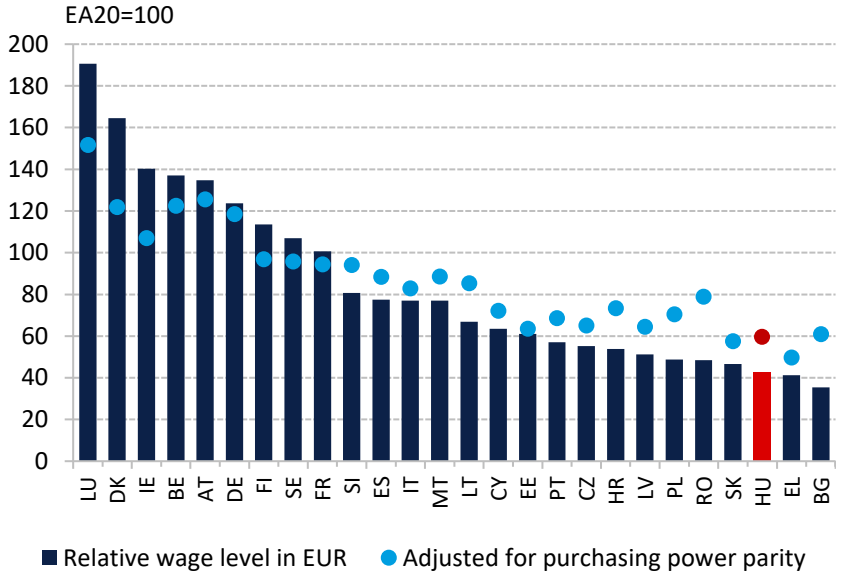


Source: Eurostat, MNB

The domestic wage level is significantly below the euro area average. Based on 2024 data, domestic wage levels amount to 42 percent of the average wage level in the euro area when measured in euros, while they reach 60 percent when

adjusted for purchasing power parity (Chart 4-3). Domestic nominal wage growth significantly exceeds that of regional countries, suggesting that Hungary's relative position may have improved from 2025 onwards. Over the past decade, Hungary has experienced gradual wage convergence. At the same time, the domestic wage level remains significantly below that of other EU Member States, meaning that wage convergence may continue over the long term.

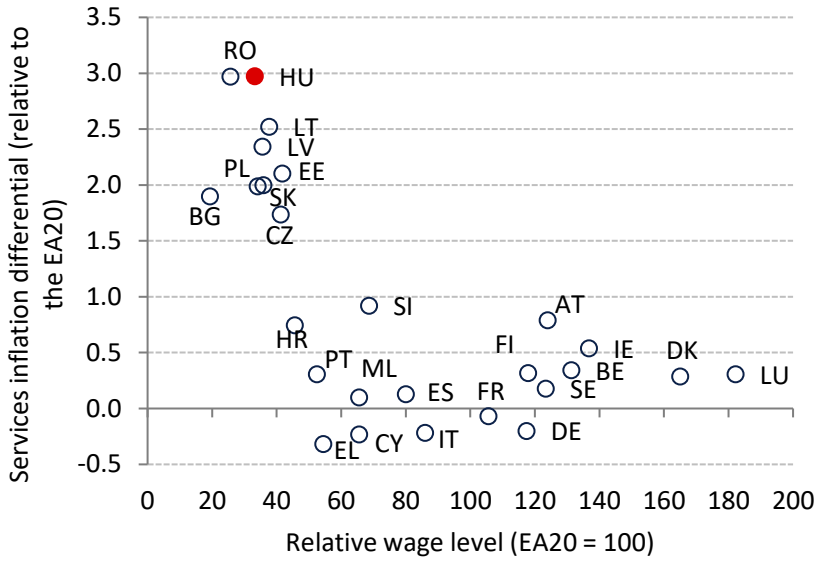
Chart 4-3: Relative wage levels in the European Union countries (2024)



Note: Annual gross average earnings for full-time employment.
Source: Eurostat, MNB calculation

In general, countries characterised by relatively low wage levels experience higher services inflation. It can be observed that in the Central and Eastern European countries that joined the European Union after 2004 and have wage levels below the euro area average, wage convergence has been accompanied by services inflation above the euro area average (Chart 4-4). The further gradual price level convergence associated with continued real economic convergence may primarily affect services. In the case of the Hungarian economy, the price convergence process presents a heterogeneous picture. The price level remains significantly below the euro area average primarily in the case of services. Looking ahead, stronger wage convergence in the services sector is expected to increase inflation primarily in market services. At the level of the consumer price index, the nominal exchange rate can offset the services sector's excess inflation relative to developed economies. This economic policy decision (between a higher inflation rate and an appreciating nominal exchange rate) is invariant in the sense that, in both cases, the real exchange rate appreciates.

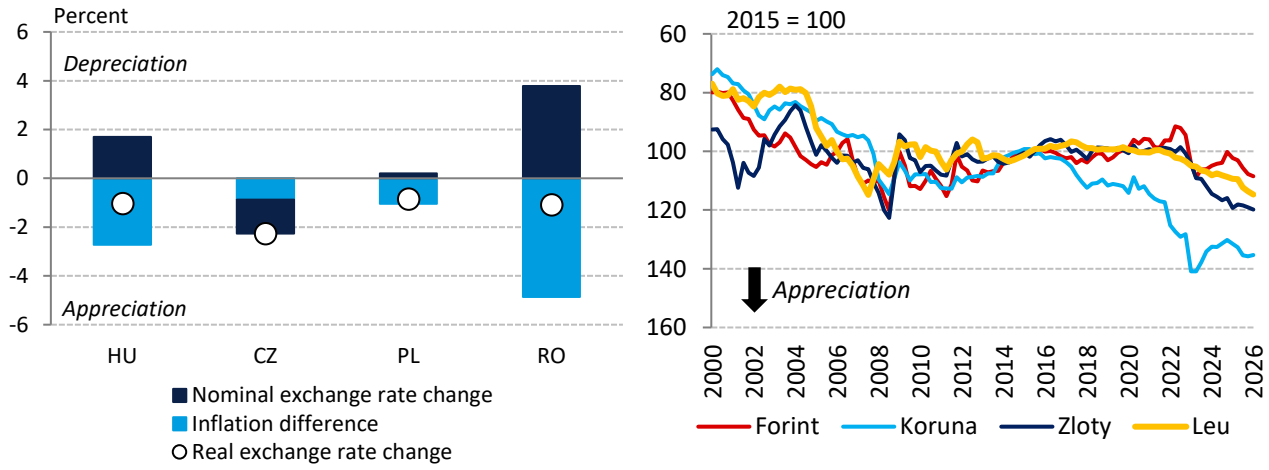
Chart 4-4: Wage levels relative to the Eurozone and the differential in services inflation in EU countries



Note: The horizontal axis shows the average annual gross wage for full-time employment in EUR, while the vertical axis shows the HICP for services.
Source: Eurostat, MNB calculation

The real appreciation observed in converging economies can occur through two nominal channels: first, through an inflation differential, when domestic inflation is higher than that of the reference economy; second, through theappreciation of the nominal exchange rate. A given degree of real appreciation can occur either alongside a higher inflation differential and a depreciating domestic currency or alongside a lower inflation differential and an appreciating currency. In the region, Hungary and Romania have been characterised by a combination of high inflation differentials and nominal depreciation over the past decades, while a similar degree of real appreciation took place in Poland alongside a stable nominal exchange rate and in Czechia alongside an appreciating nominal exchange rate and moderate inflation differentials (Chart 4-5, left panel). Examining the time series data on real appreciation over a longer period shows that Hungarian appreciation has been volatile over time but has remained below that of the region overall (Chart 4-5, right panel). An inflation target 0.5 percentage point higher than that of the euro area provides room for price level convergence to partially continue through the inflation differential, thereby avoiding an excessive burden on the real economy in the short term.

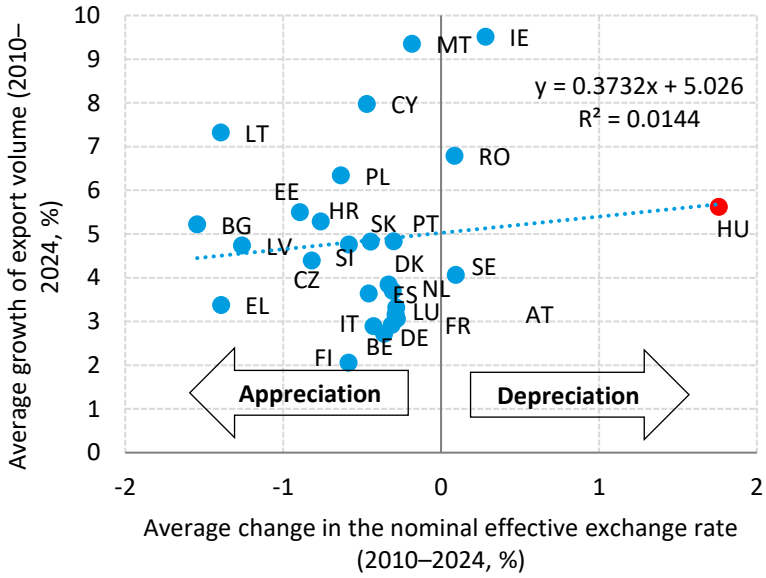
Chart 4-5: Decomposition of the real exchange rate based on the consumer price index (left panel) and the real effective exchange rate (right panel)



Note: Left panel: annual average (2001–2025), relative to the euro. Right panel: effective exchange rate calculated based on exchange rates against 37 trading partners. Source: Eurostat, MNB

The pass-through of the nominal exchange rate to consumer prices has strengthened in the 2020s compared to the previous decade, while its effects on the real economy have been moderate and materialised primarily in the short term. In the short term, nominal variables may have real effects due to price rigidities and stickiness; once these have dissipated, it can be assumed that the classical dichotomy holds in the long term, i.e. nominal and real variables are independent. A good example of this is the development of exports, where price competitiveness considerations may play a role in the short term; however, the nominal exchange rate is neutral with regard to export performance in the long term. No clear relationship can be identified between the exchange rate paths of EU countries and their export performance. The majority of countries recorded export growth despite significant appreciation, while Hungary's export performance did not increase at a faster rate than that of countries following different exchange rate paths, despite significant depreciation (Chart 4-6). The countries in the region have also maintained their ability to attract investment in conjunction with exchange rate appreciation and/or stability. Furthermore, faster and stronger exchange rate pass-through has an effect on consumption and investment opposite to that on exports, meaning that the real economic impact of changes in the exchange rate is close to neutral even in the short term.[1]

Chart 4-6: Relationship between export volume and changes in the nominal exchange rate (2010–2024)



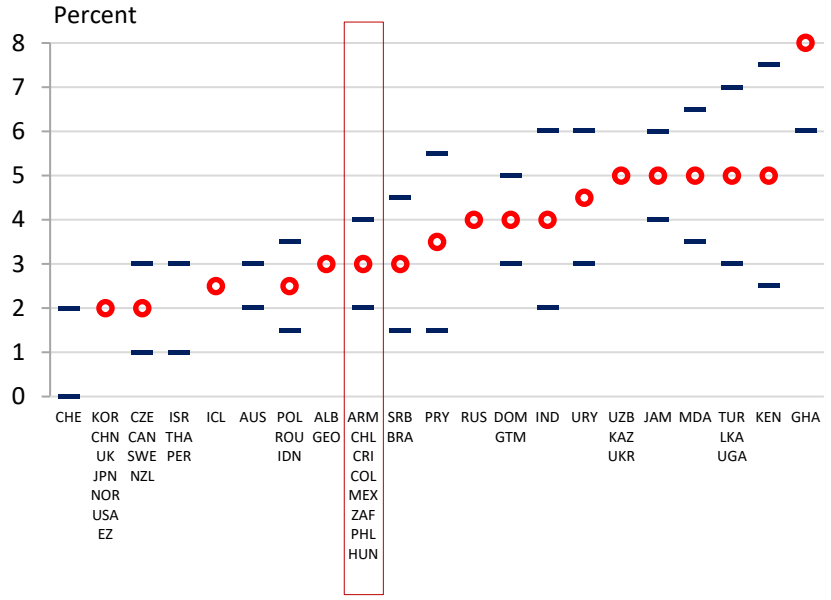
Note: Effective exchange rate calculated on the basis of exchange rates against 37 trading partners.
Source: Eurostat, MNB

4.1.2. The inflation target level in international comparison

In international practice, the level of the inflation target pursued by central banks varies and partly reflects the level of economic development of the country concerned. Developed economies typically pursue lower inflation targets than emerging economies (Chart 4-7). Among the globally significant central banks, both the Federal Reserve and the European Central Bank (ECB) have an inflation target of 2 percent. Among the central banks in the region, the Czech National Bank also pursues an inflation target of 2 percent, complemented by a ±1-percentage-point tolerance band. At a somewhat higher level, the central banks of Poland and Romania have set their inflation targets at 2.5 percent. By contrast, the central banks of several emerging economies pursue a 3-percent inflation target (e.g. Armenia, Chile, Colombia, Mexico and South Africa).

[1] Balatoni – Soós (2023): Changing world, changing impact – The macroeconomic impact of the exchange rate.

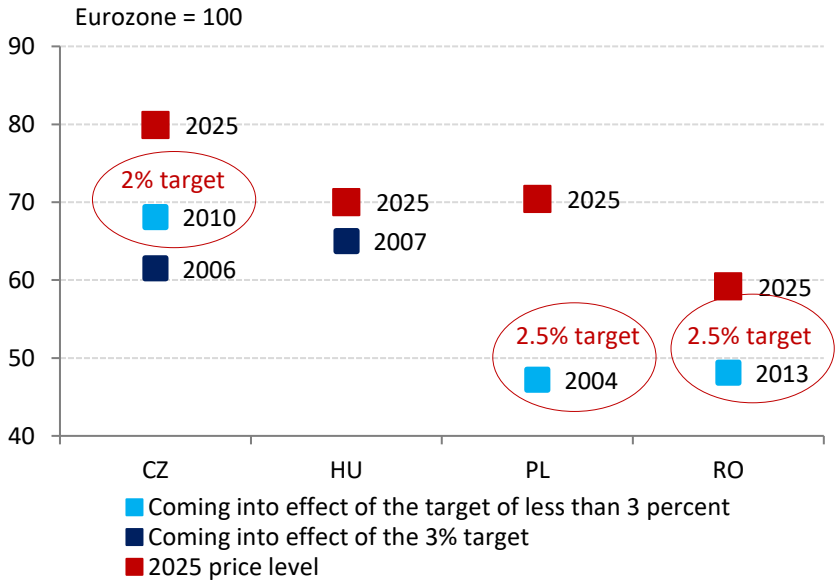
Chart 4-7: Inflation targets of inflation-targeting central banks



Note: The Federal Reserve and the ECB are not formally inflation-targeting central banks, but in practice, they apply elements of inflation targeting.
Source: Central banks' websites

Reducing the inflation target represents convergence towards regional and ECB practices. Given the current level of domestic price level convergence of around 70 percent, the countries in the region already pursued lower inflation targets, and their price level convergence continued even with a lower target (Chart 4-8). In the long term, a higher inflation target warrants a higher yield curve than in the region, due to higher nominal interest rates and inflation premia. This results in higher financing costs for the economy. A lower inflation target is consistent with lower inflation and nominal interest rates in the long term.

Chart 4-8: Relationship between GDP-based price-level convergence and inflation targets in the region



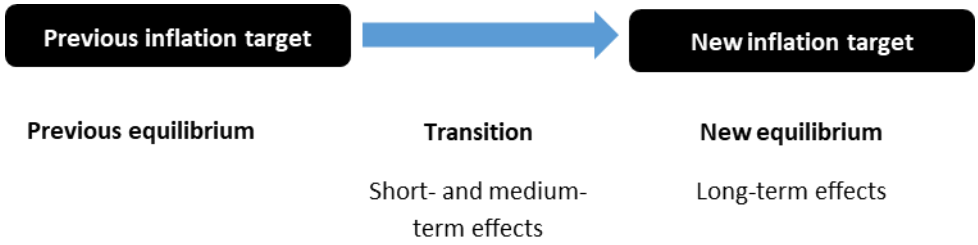
Source: Central banks' websites, Eurostat

4.1.3. Macroeconomic transition to a new inflation target

Following a change in the inflation target, achieving the new inflation target in an economy typically does not occur immediately, as the adjustment takes time. A reduction in the inflation target primarily affects the economy by shifting the nominal anchor. During the transition period, the economy moves towards a new nominal equilibrium, which may give rise to real economic and welfare impacts through the allocation of resources and income.

When quantifying the real economic effects, it is necessary to distinguish between the transition period and the long-term effects. It is not sufficient to examine how the economy operates under the new inflation target. In the short term, particular attention should be paid to the transition and the path towards the new (equilibrium) state (Chart 4-9).

Chart 4-9: Process of achieving the new inflation target



Source: MNB

The following section presents the path along which the economy transitions from the previous 3-percent inflation target to the new 2.5-percent inflation target as the inflation target is changed. In the new equilibrium, economic developments are consistent with the new inflation target. During the transition period – the period between the old and new equilibria – the economy undergoes an adjustment process. With simulations, we quantify the economic effects resulting from the shift between the two states.

We assess the impact of the reduction of the inflation target using a modelling framework widely used in international central banking practice.[2] We developed our own version of this theoretical framework which incorporates the key channels of monetary policy transmission. In an idealised, frictionless case, a reduction in the target is immediately incorporated into expectations if economic agents are perfectly forward-looking and there is no information asymmetry. In this case, nominal variables do not affect real economic variables, as prices adjust immediately and the nominal exchange rate immediately moves onto its new equilibrium path. In reality, however, this does not happen instantaneously. Within the model framework, the new inflation target of monetary policy is incorporated into economic agents' expectations through a learning process, with agents gradually adjusting to the new target. The real economic impacts of the reduction in the inflation target depend primarily on the speed of this process. If economic agents' expectations adjust rapidly, the real economic impact is smaller. If the adjustment is slower and more protracted, the adverse effect on GDP growth may be greater.

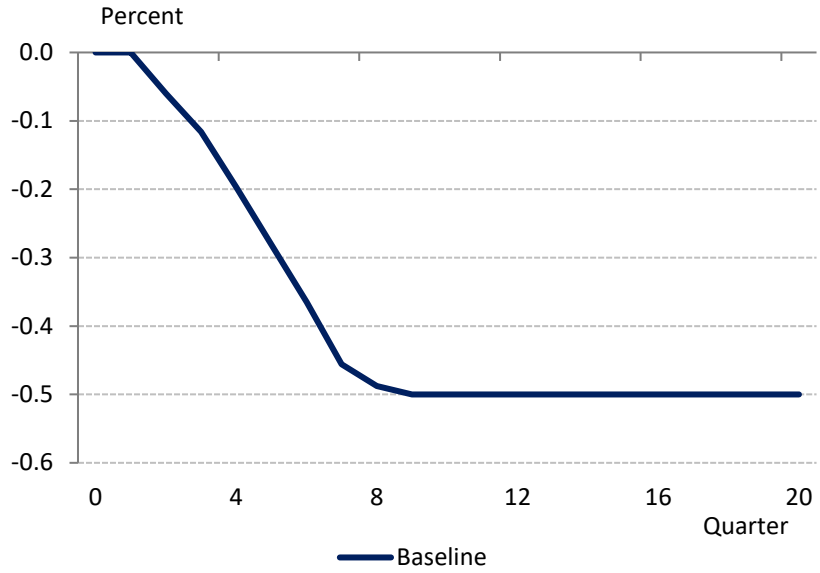
The real economic sacrifice during the transition period is, in line with the international literature, defined as the cumulative GDP loss incurred during the adjustment to the new equilibrium. The magnitude of this sacrifice manifests through several channels. First, it depends on the (price and wage) rigidities present in the economy. Second, it depends on the speed of adjustment, i.e. how quickly the newly announced target becomes embedded in economic agents' expectations (expectations channel). With lower price and wage stickiness, adjustment can occur more rapidly. The real economic sacrifice is minimised if the announced target is quickly incorporated into economic agents' expectations.

Reducing the inflation target from 3 percent to 2.5 percent and fully incorporating the change into expectations and the inflation path may take approximately one and a half to two years (Chart 4-10). Economic agents adjust to the central bank's new inflation target through a learning process. During the transition period, the annual rate of price growth gradually declines in parallel with the moderation of expectations until it reaches the new inflation target. A reduction in the inflation target can raise the forward-looking real interest rate, even without changes in nominal interest rates. These somewhat higher real interest rates may, in turn, dampen consumption to a small extent and reduce investment and demand for credit. In the short and medium term, GDP may be temporarily and marginally lower, but the reduction in the

[2] In economics, this is known as a dynamic stochastic general equilibrium (DSGE) model. Dynamic, as it captures changes in the economy over time. Stochastic, as it incorporates random shocks that disrupt the economy and push it away from equilibrium. General equilibrium, as it describes the functioning of the economy as a whole. For further details, see: Békési – Köber – Kucsera – Várnai – Világi (2016): The macroeconomic forecasting model of the MNB, MNB Working Paper 2016/4.

inflation target does not affect potential GDP; accordingly, economic activity gradually returns to its previous level in the second half of the adjustment period.

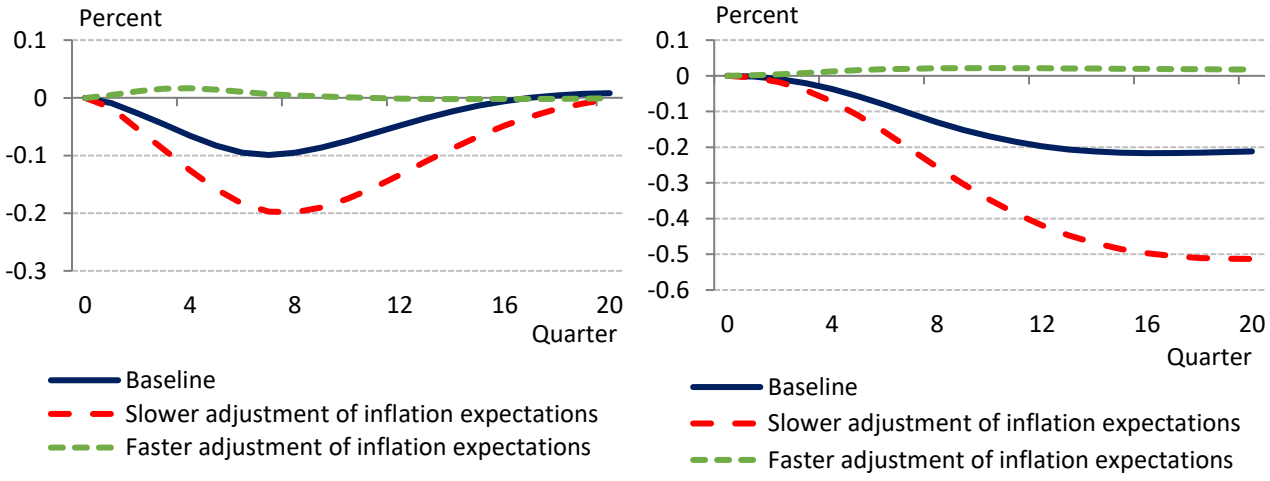
Chart 4-10: Impact of a 0.5-percentage-point reduction in the inflation target on year-on-year inflation



Note: The effect represents the deviation from the baseline path.
Source: MNB calculation

The pre-announced 0.5-percentage-point reduction in the inflation target results in a cumulative real economic sacrifice equivalent to 0.2 percent of one year's GDP as it becomes incorporated into expectations (Chart 4-11, right panel). However, expectations may adjust more quickly or slowly than assumed in the baseline calculations. With slower adjustment, monetary policy can reduce inflation only at the cost of a greater real economic sacrifice. In this case, the expectations channel does not dominate; instead, tighter monetary conditions may be required to reduce inflation expectations. With faster adjustment, the transition period may be achieved without real economic sacrifice, provided that no additional tightening is required.

Chart 4-11: Impact of a 0.5-percentage-point reduction in the inflation target on GDP
(Left: Change in GDP year-on-year, Right: Cumulative real economic sacrifice)



Note: The effect represents the deviation from the baseline path.
Source: MNB calculation

Another important factor in reducing the inflation target is the current inflation environment. It matters whether the economy is currently in a lower- or higher-inflation regime, i.e. whether current inflation is below or above the inflation

target. Currently, inflation in Hungary is below the inflation target, which may contribute to economic agents basing their inflation expectations on the new, lower target as soon as possible. In addition, inflation expectations are currently at historically low levels, which also facilitates rapid adjustment to the new target.

Reducing the inflation target affects not only macroeconomic variables but also the budget and public debt. The impact on the budget balance may be broadly neutral, as the effects on the revenue and expenditure sides largely offset each other. The decline in interest rates resulting from disinflation may reduce budgetary interest expenditure in the short term; however, the more significant reduction is likely to materialise primarily in later years due to slower repricing. The dynamics of the public debt ratio, however, are more sensitive. This is because disinflation may result in somewhat less favourable debt ratio dynamics in the short term. Over the longer term, however, a more stable and credible macroeconomic environment, together with the gradual repricing of lower interest expenditure, contributes to a more sustainable public debt trajectory.

Box 4-1: Experience with the reduction of the inflation target in South Africa

In recent years, there have been few examples of inflation-targeting countries reducing their inflation targets. Last year, the South African Reserve Bank reduced its inflation target, setting the lower bound of the previous 3–6-percent target range as its new inflation target. A few months later, this was also confirmed by the country's Ministry of Finance, which revised the central bank's inflation target range to a 3-percent inflation target with a ±1-percentage-point tolerance band.

The effects of the reduction in the inflation target were simulated using central bank models similar to those available at the MNB. Based on the results, South African central bank officials identified the following transitional effects of the reduction in the inflation target:

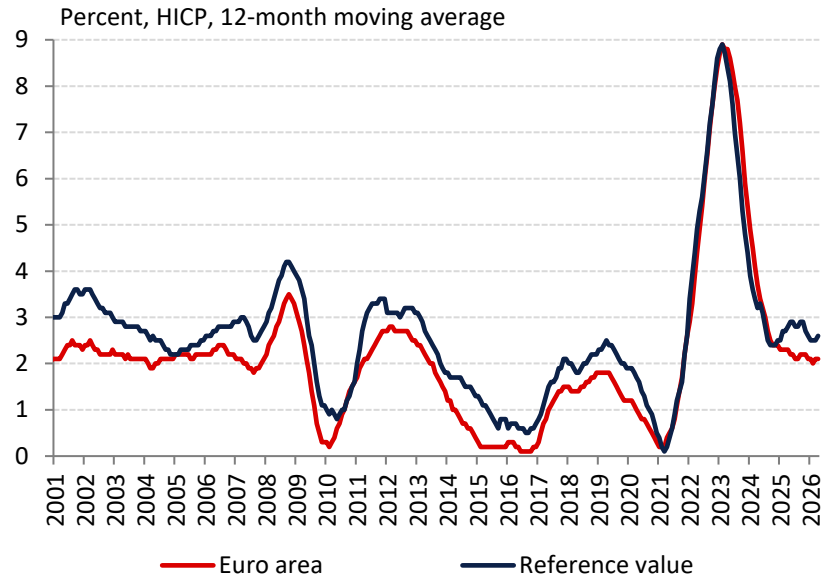
- Inflation expectations quickly converge towards the new target, reaching it almost fully by the second year, which also supports the decline in inflation. The disinflationary process is supported by slower nominal wage growth.
- Real GDP growth temporarily slows in the first year due to higher real interest rates. The growth effect is small, at around 0.3 percentage point, and is offset by lower nominal interest rates as early as the second year.
- Public debt increases in the first two years, as slower nominal GDP growth has an adverse effect on the debt ratio, but the increase amounts to only 0.1 percentage point in each of the first two years. Lower nominal interest rates are favourable for debt dynamics over the longer term.

4.1.4. Long-term effects of the reduction in the inflation target

A lower inflation target supports macroeconomic stability. For the Hungarian economy, a 2.5-percent inflation target implies lower inflation, a more predictable economic environment, and lower nominal interest rates and financing costs over the longer term. All of this helps preserve the purchasing power of incomes and the real value of savings, while supporting stronger consumption and investment, thereby contributing to sustainable economic growth. A lower inflation target also brings Hungary closer to the practices of the region and developed economies as well as to meeting the conditions for euro adoption.

The reduction in the inflation target supports compliance with the price stability criterion required for euro adoption. Adoption of the euro is a commitment undertaken by Hungary upon joining the European Union. Under the price stability criterion, the inflation rate of a Member State seeking to join the euro area may not exceed the average inflation rate of the three EU Member States with the lowest inflation rates by more than 1.5 percentage points. During periods when euro area inflation is in line with the ECB's 2-percent target, the Maastricht threshold typically ranges between 2.4 and 2.7 percent (Chart 4-12). The historical median of the reference value is 2.5 percent. With the achievement of an inflation target of 3 percent, the price stability criterion would have been met in less than one-third of the period, while achievement of a 2.5-percent target would have resulted in compliance with the criterion in approximately one-half of the period. Moreover, a lower inflation target also supports compliance with the other Maastricht criteria.

Chart 4-12: Euro area inflation and the Maastricht price stability reference value

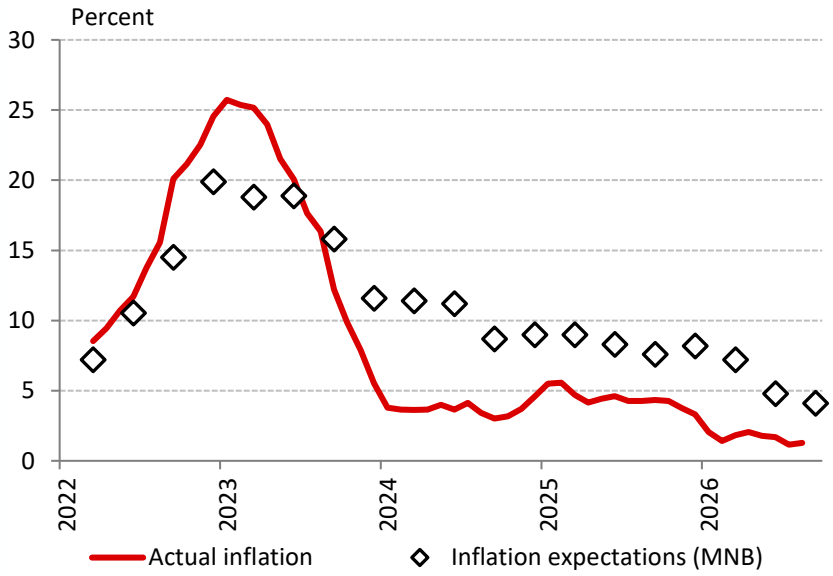


Source: MNB, Eurostat

4.1.5. Inflation environment and factors affecting the achievement of the target

The subdued inflation developments in the recent period, together with the overall favourable domestic inflation outlook, provided appropriate momentum for reducing the inflation target to 2.5 percent. Inflation has declined significantly over the past 18 months and has remained at or below the lower bound of the tolerance band since the beginning of 2026. Gradual disinflation was supported by both domestic and global trends. In addition to current inflation, the inflation outlook is also favourable, with household inflation expectations having declined significantly over the past 18 months. According to the MNB's household survey, inflation expectations have fallen significantly and are also low in level terms: from around 9 percent in 2025 H1, they gradually fell to 4.1 percent by 2026 Q3 (Chart 4-13). According to the Reuters survey, analysts' 1-year-ahead inflation expectations have remained around 3 percent with a decreasing trend since the start of the year. Following the beginning of 2025, corporate price expectations declined to levels close to those observed in the 2017–2020 period. The lower target may further reduce inflation expectations, while the decline in the domestic risk premium and the recent appreciation of the forint support anchoring them at lower levels.

Chart 4-13: Developments in households' 1-year-ahead inflation expectations



Source: HCSO, MNB

Cyclical and structural factors affecting inflation dynamics may influence achievement of the target. Global shocks directly affecting product groups outside the scope of monetary policy (such as changes in energy and food prices) have become more volatile in recent years. The increasing impact of more persistent structural changes (e.g. global trade restrictions, population ageing and the green transition) has become evident in the 2020s. The impact of global and country-specific factors on equilibrium inflation can be monitored through regular reviews of the inflation target.

In addition to a monetary policy commitment, disciplined fiscal policy and nominal wage growth in line with productivity growth are also essential to minimise the cost of real economic adjustment towards the lower target. One of the prerequisites for this is a sustainable fiscal deficit and a gradually declining public debt trajectory. While wage growth has moderated compared to previous years, the low productivity growth and underlying economic developments do not support the current wage growth rate of around 7–8 percent (see Box 1.3 of the September 2026 Inflation Report for further details). With employment close to full capacity, there is limited scope for further growth under a labour-intensive growth model. Looking ahead, a shift from input-driven, extensive growth to a productivity-focused, intensive growth model could provide the basis for further convergence. Wage growth consistent with productivity improvements supports continued wage convergence without generating inflationary pressure from labour costs. Structural transformation is therefore of key importance for macroeconomic stability, as improvements in efficiency and productivity can broadly reduce excess inflation in the economy.

4.1.6. Summary

From 1 January 2028, the MNB will set its medium-term inflation target at 2.5 percent, while maintaining the symmetric ±1-percentage-point tolerance band around the inflation target unchanged.

The reduction in the inflation target was supported by nominal and real convergence, while subdued inflation developments in the recent period, favourable domestic inflation prospects and the evolution of inflation expectations provided an appropriate environment for the decision. Looking ahead, the further gradual price level convergence associated with continued real economic convergence may primarily affect services. An inflation target 0.5 percentage point higher than that of the euro area provides room for price level convergence to partially continue through the inflation differential, thereby avoiding an excessive burden on the real economy in the short term.

In analysing the effects, it is particularly important to examine the path along which the economy would transition to the 2.5-percent inflation target following the change in the target. According to the calculations, it may take approximately one and a half to two years for the reduction in the target to be fully incorporated into expectations and the inflation path. Achieving the new inflation target may have a moderate impact on the real economy.

Over the longer term, a lower inflation target implies lower inflation, a more predictable economic environment, and lower nominal interest rates and financing costs for the Hungarian economy. All of this helps preserve the purchasing power of incomes and the real value of savings, while supporting stronger consumption and investment, thereby contributing to sustainable economic growth. The decision brings the inflation target in line with regional practices and closer to the European Central Bank's target, and also supports meeting the requirements for euro adoption.

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