REPORT ON GDP

4 June 2025

The recovery has proved to be short-lived; the main growth driver, consumption growth, seems to have lost momentum

- In Q1 2025, Hungary's GDP stagnated on YoY basis (in non-adjusted terms), matching the preliminary estimate. To recap: the preliminary data delivered a negative surprise for the market (consensus: 0.3%) and for us (forecast: 0.5%). In Q1, gross domestic product declined by 0.2% QoQ according to the KSH, while our in-house seasonal adjustment showed 0.1% QoQ contraction. Starting 2025 on a very weak note is worrying, especially as the trade war is expected to take its toll on economic growth from the second quarter onwards.

- Non-farm GDP shrank by 0.1% YoY in Q1 (and by 0.2% QoQ), while non-farm private sector GDP declined by 0.3% YoY and 0.4% QoQ. These figures suggest that underlying economic activity is even weaker than the headline data implies, as growth is being propped up by the agricultural and public sectors. Industry and construction have declined on both YoY (by 3.9% and 5.1%, respectively) and QoQ basis (according to our in-house adjustment: 3% and 1.2%, respectively). Value added in the market service sector increased by 1.1% YoY (the lowest figure since Q3 2023) and stagnated on QoQ basis (the lowest figure since Q1 2023).

- In the big picture, we can say that the Hungarian economy is facing similar challenges to those experienced by other industry-focused economies across Europe. These challenges include a shift in demand toward services, while the automotive sector – the former driver of growth - struggles with high energy prices, technological transitions, and increasing competition from China. In addition, country-specific factors also contribute to Hungary's weak economic performance. Investment levels have been falling sharply for the third consecutive year, as the previous, investment-heavy economic strategy led to overcapacities in certain sectors. Meanwhile, public investments have been scaled back following the suspension of EU funds. Hungary's manufacturing sector is heavily reliant on car and battery production – industries that are currently underperforming across many economies.

- On the expenditure side, the key driver of economic growth in 2024 (0.5% YoY) was household consumption, which had been expanding at a pace of 4–5% in the past quarters. In Q1, consumption remained the main growth engine, with a year-on-year increase of 4.1%. However, quarter-on-quarter growth slowed to 0.5% from 1.2% (based on our in-house seasonal adjustment), marking the weakest performance since Q2 2023. Moreover, the quarterly growth rates show a clear downward trend. This is particularly disappointing, as we had expected household consumption to remain the primary driver of growth in 2025, with an anticipated growth rate of around 5%. Several factors now suggest that the slowdown in consumption growth may not be temporary. Real wage growth has decelerated from 10% in 2024 to around 4%, employment figures have slightly deteriorated, consumer confidence has failed to recover, and despite the slowdown in consumption, household financial asset accumulation remained weak. This latter may indicate that actual income developments are less favourable than wage data alone suggest. While several fiscal measures – such as the personal income tax exemption for mothers with three or more children – are set to take effect in the second half of this year, they are unlikely to reverse the current trends. As a result, we have revised our household consumption growth forecast for 2025 down to 3.5%.

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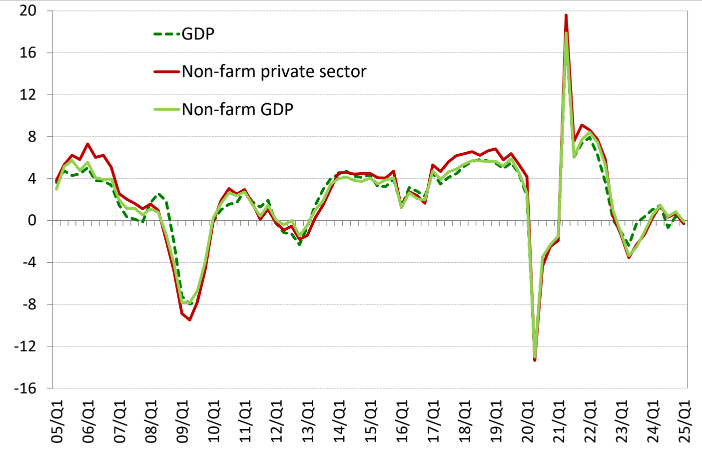
- The main reason behind the weak growth in Q1 is that investment has continued to fall sharply (10.2% YoY and 2.4% QoQ). This indicates that the eleven-quarter-long contraction in investment has yet to reach its bottom. The downturn is driven by several factors: weak GDP growth across Europe, structural challenges in the automotive and battery industries, overcapacities resulting from pre-2022 investment-focused stimulus packages, and the ongoing freeze of EU funds. In addition, retail trade – another important branch from an investment point of view – also faces challenges. Sales volumes remain well below their mid-2022 peaks, and the sector is burdened by a growing number of extra taxes and government interventions, such as price caps. Unfortunately, currently none of the main forward-looking indicators point to rapid turnaround in investment; building permits are decreasing, and corporate borrowing remained weak. Our demand cycle indicator is also falling, while the uncertainty caused by the tariff war will kick in in Q2. We have reduced our investment forecast to -5% for 2025 as a whole, taking into account the following factors: (1) the carry-over effect in 2025 is -3.5%, (2) investment declined further in Q1 on QoQ basis, and (3) because of the abovementioned factors, there is low probability of a sharp improvement in the remaining part of the year.

- In Q1, the growth contribution of net exports was -0.3 ppts as exports contracted by 0.4% and imports increased by 0.1% YoY. We should point out that exports' decline was far from common in CEE peer countries (exports surged +3.6% in Czechia, +1.1% in Poland, and +0.1% in Slovenia.) This can be the consequence of Hungary's export structure, which is more heavily focused on batteries and autos. The recent weak performance of battery production is particularly noteworthy in light of the robust growth in electric vehicle (EV) sales across Europe, which have jumped by 27.9% by the end of April. This divergence raises concerns regarding the absorption capacity for both existing and planned battery production capacities in Hungary. Hungary's total (both direct and indirect) export exposure to the USA is significant: our estimates indicate that approximately 10% of total Hungarian exports are linked to United States' final demand. Consequently, the ongoing trade war could have a substantial impact on Hungary's exports in the remainder of the year – particularly due to the elevated 25% tariff currently imposed on automobiles and automotive parts. As a result, we lowered our 2025 export and import forecasts to -1.1% and -0.6% (from 0.5% and 2%, respectively). As import growth forecast was lowered to a greater extent – because of the lower import demand of weaker consumption and investment growth – than that of export, the growth contribution of net export improved slightly. Exports are expected to improve in 2026, thanks to new export capacities coming on stream (BYD, BMW), the German fiscal stimulus, and the hope that the new tariff regime will crystallize by 2026, and the respective uncertainties will be fading.

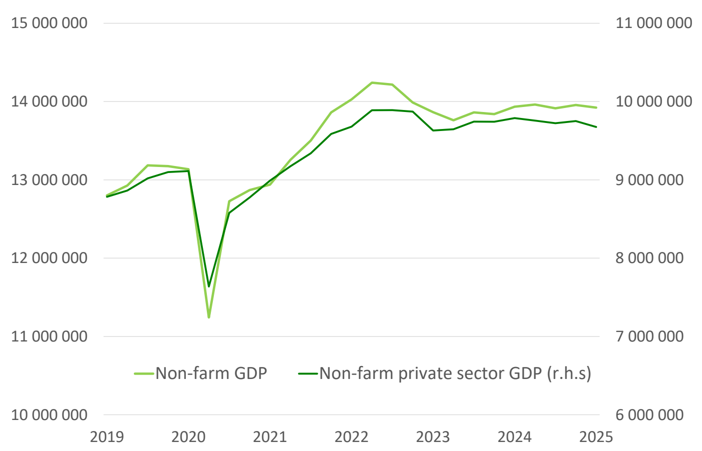
- After the release of preliminary GDP data, we lowered our 2025 GDP forecast from 2% to 1%, but in light of the unfavourable structure of the Q1 GDP data, we reduced our GDP forecast further, to 0.6%.

Chart 1: Indicators of economic activity
(annual changes, %)



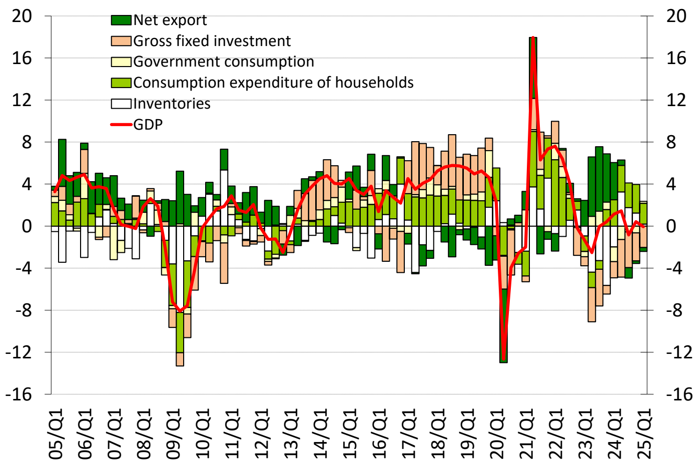
Sources: KSH, OTP Research

Chart 2: Non-farm and non-farm private sector's GDP
(at 2021 constant prices)



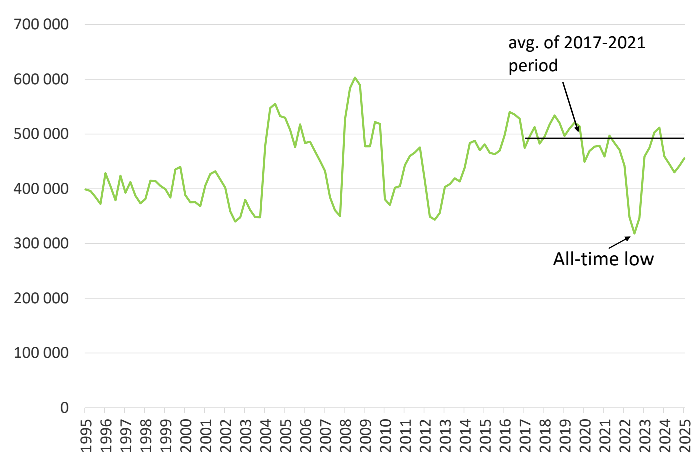
Sources: KSH, OTP Research

Chart 3: Decomposition of GDP growth by expenditure-side items (annual data, %)



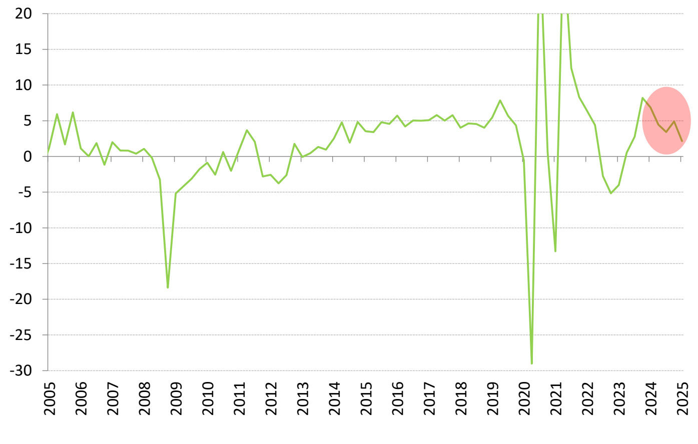
Sources: KSH, OTP Research

Chart 4: Agricultural GDP
(at 2021 constant prices, SA)



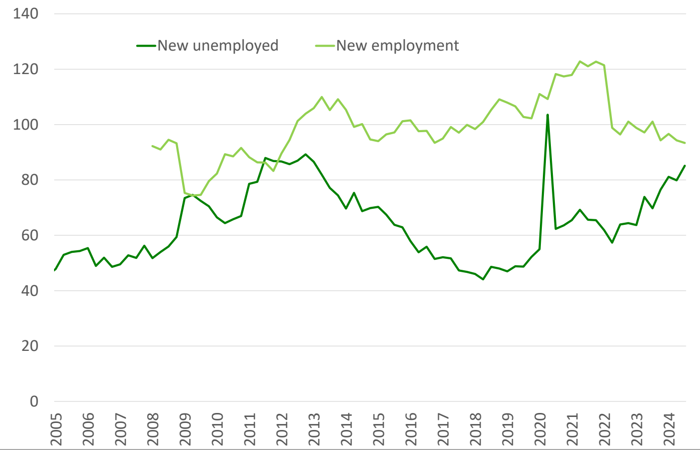
Sources: KSH, OTP Research

Chart 5: Households' consumption expenditure
(annualized QoQ change, %)*



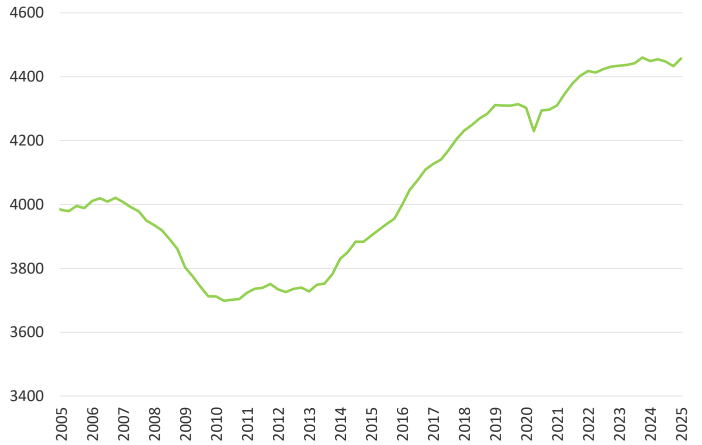
Sources: KSH, OTP Research
: calculated from our in-house seasonally adjusted data

Chart 6: Flow indicators of the labour market
(ths. people)



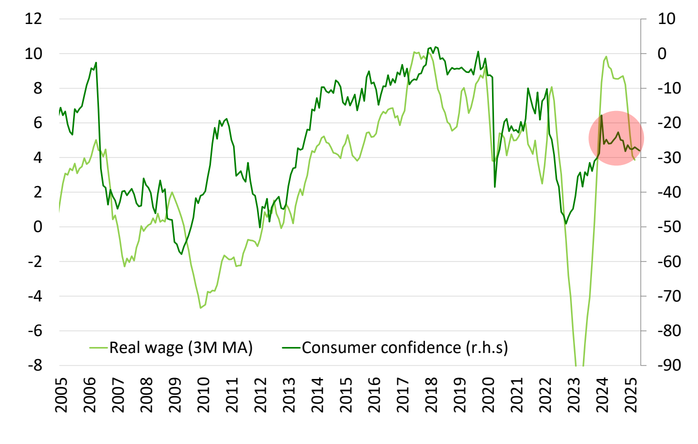
Sources: Eurostat, OTP Research

Chart 7: Employment* (ths. people)



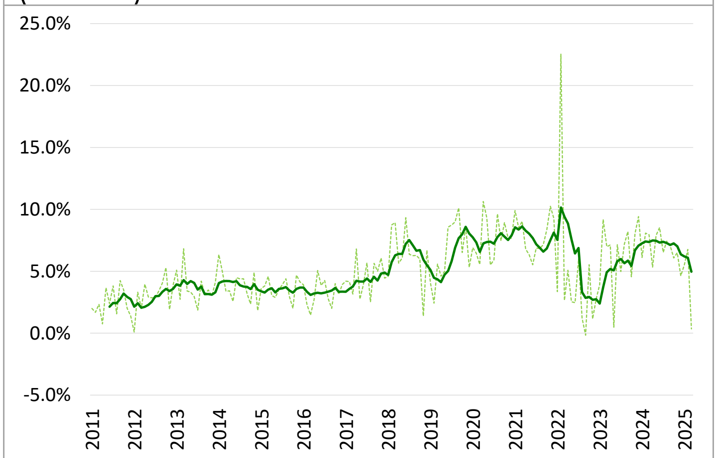
Sources: KSH, OTP Research
**: Domestic employment w/o public workers*

Chart 8: Real wage and assessment of financial situation (annual change, % and balance point)



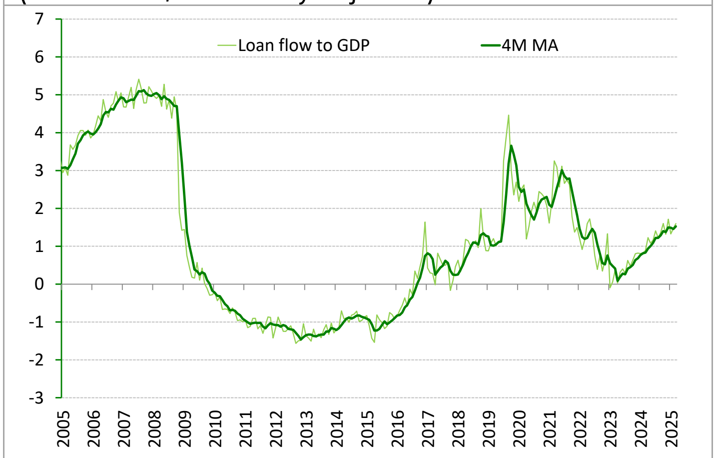
Sources: KSH, Eurostat, OTP Research

Chart 9: Financial asset acquisition*
(% of GDP)



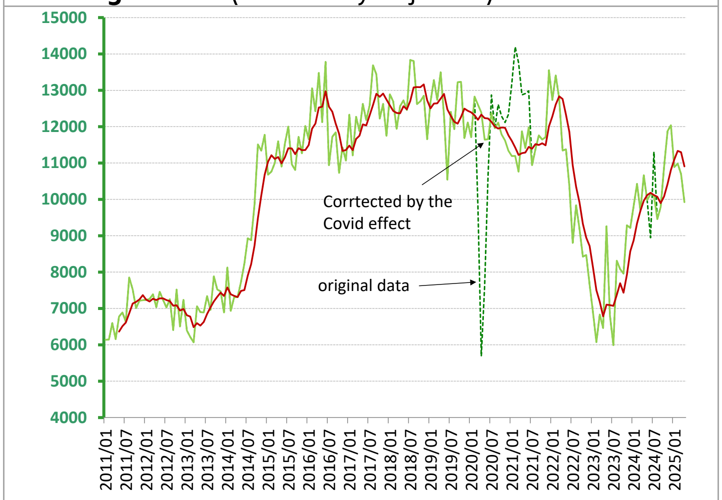
Sources: MNB, OTP Research
**: deposits, securities other than shares, listed shares, mutual funds*

Chart 10: Loan flow to households
(in % of GDP, seasonally adjusted)



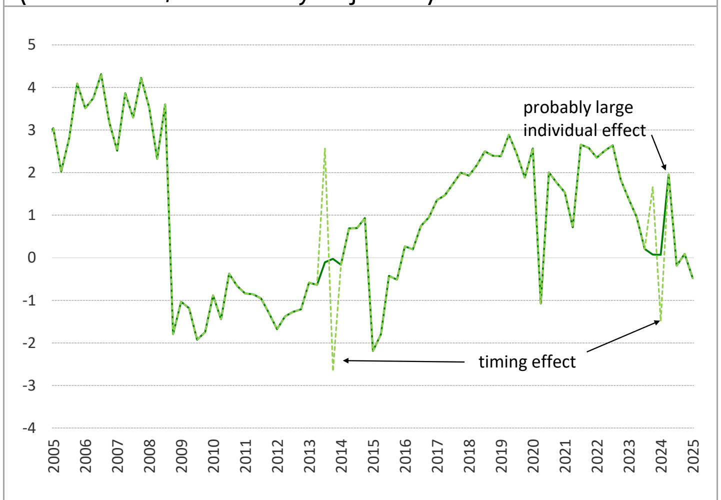
Sources: MNB, OTP Research

Chart 11: Monthly transaction numbers on the housing market (seasonally adjusted)



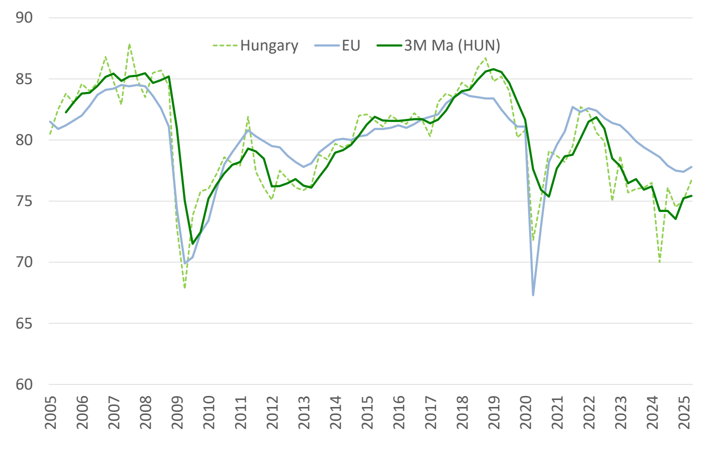
Sources: Duna House, OTP Research

Chart 12: Loan flow to non-financial companies
(in % of GDP, seasonally adjusted)



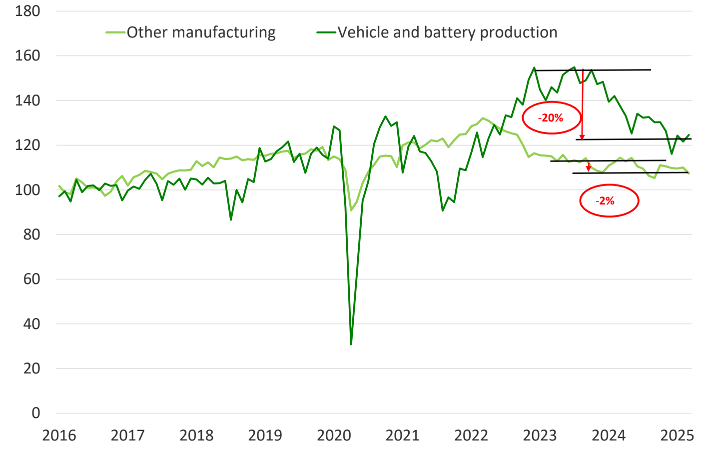
Sources: MNB, OTP Research

Chart 13: Capacity utilization in manufacturing (%)



Sources: European Commission, OTP Research

Chart 14: Manufacturing production in different segments (2015=100)

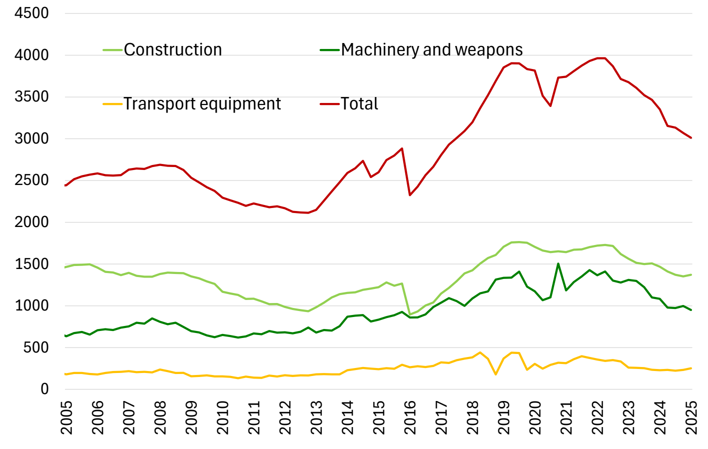


Sources: KSH, OTP Research

Chart 15: Demand cycle*
(balance point)

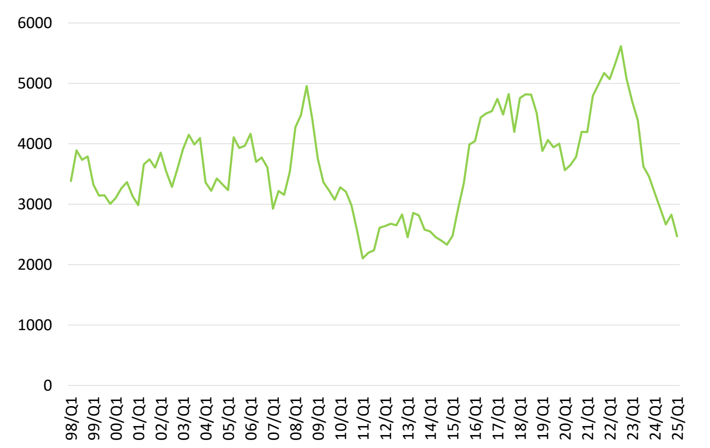
Sources: European Commission, OTP Research
: calculated from ESI "demand as production limited factor" component

Chart 16: Fixed capital formation by asset type
(at 2021 constant prices, HUF bn)



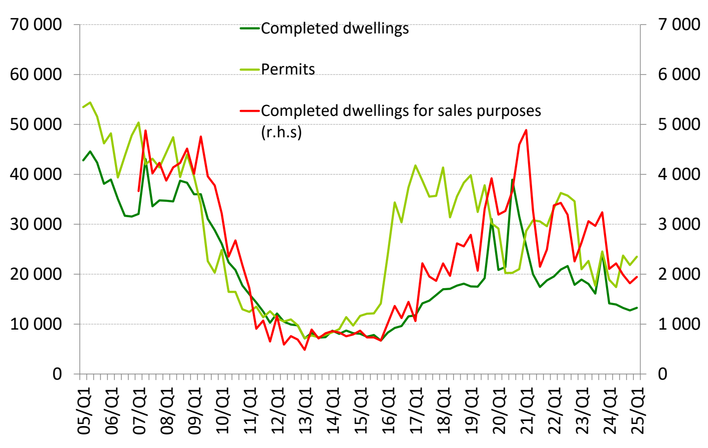
Sources: KSH, OTP Research

Chart 15: Non-residential construction permits
(ths m2)



Sources: KSH, OTP Research

Chart 16: Residential construction permits and completed dwellings (unit)



Sources: KSH, OTP Research

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