Article | 1 September 2026 HUNGARY

Why we're not fully satisfied with Hungary's steady GDP growth

Detailed Hungarian GDP data points to a future path of continuous and resilient growth. However, the factors limiting growth make the overall picture less sunny. The dip in investment and the demographic crisis act as a dark cloud

Hungary's latest GDP data suggests growth is coming, but with limitations

0.5%

GDP growth in Q2 (QoQ, swda)

Revised from 0.4%

Our latest economic growth forecast for 2026 projects a 1.7% increase. Throughout the year, consumption is likely to drive the Hungarian economy, while investment may show modest growth in the second half if EU funding boosts year-end investment statistics. However, net exports could significantly dampen GDP growth, given the developments seen in the first half of the year and the expected negative impact of the nuclear energy crisis on the trade balance in the third quarter. Further ahead, in 2027-2028, a continued strengthening of domestic demand and an eventual pickup in external demand could lead to GDP growth of around 3.0%.

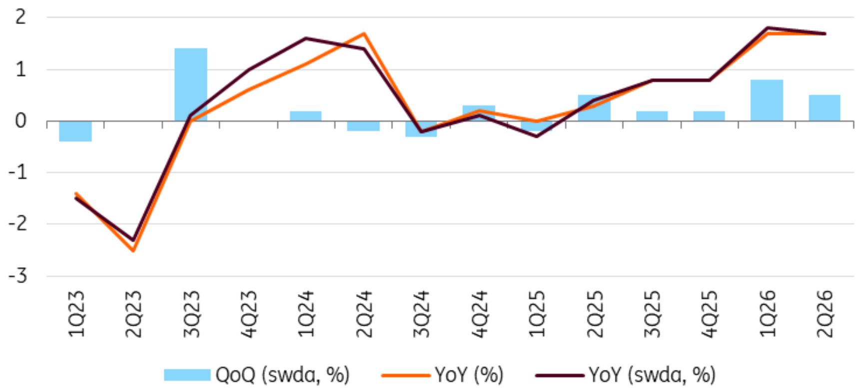
However, the nearly four-year-long stagnation in capital stock and the deteriorating demographic situation make it increasingly unlikely that the Hungarian economy will be able to sustain growth above 3% without suffering a significant loss of internal and/or external balance in the long run.

Growth is becoming more solid, but there are still plenty of risks on the horizon

Based on the detailed data, the short-term outlook for the Hungarian economy has not changed significantly. The overall picture remains fundamentally positive. Further growth in consumption may be supported by the dynamic rise in real disposable income and the surge in consumer confidence. However, the renewed decline in investment is bad news in both the short and long term, as there is no substantial driving force behind potential GDP growth from either the labour market or capital accumulation. Furthermore, weak investment dynamics do not support productivity growth.

However, we can take some comfort from the fact that the decline in investment is partly due to the review and suspension of projects initiated by the previous government, so it may be only temporary. Meanwhile, investment activity could see a sharp rise towards the end of the year as a result of the drawn-down of EU funds. Export growth may be constrained by geopolitical uncertainties, rising production costs and potential supply disruptions, the signs of which are not yet evident in the second-quarter statistics.

Hungarian GDP growth



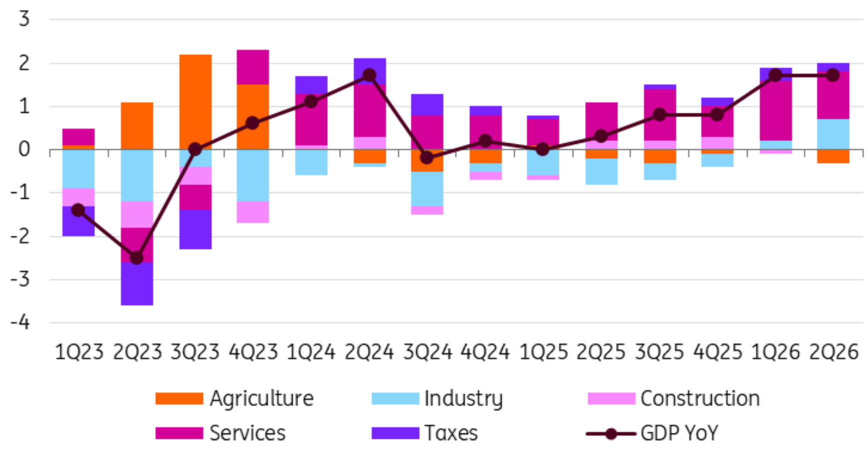
Source: HCSO, ING

Hungarian economy making steps towards further growth

The Hungarian Central Statistical Office (HCSO) has revised the second-quarter GDP data slightly upwards compared to the preliminary release. On a quarterly basis, the Hungarian economy grew by 0.5% during the April–June period. However, the seasonally and calendaradjusted year-on-year index remained unchanged at 1.7%. The Hungarian economy has expanded steadily over the past five quarters, finally and clearly leaving behind the preceding three-and-a-half-year period of stagnation.

First, we will take a closer look at the most important quarterly growth indicators. In terms of production, agriculture declined significantly (by 15.6%), which, despite its modest weight, substantially dampened economic performance. This larger-than-expected decline is therefore one of the key surprises. We should recall that economic performance in the second quarter was weaker than the market consensus expected. Meanwhile, manufacturing grew by 2.5%, which was broadly in line with expectations based on monthly industrial production data.

Contributions to GDP growth – production side (% YoY)



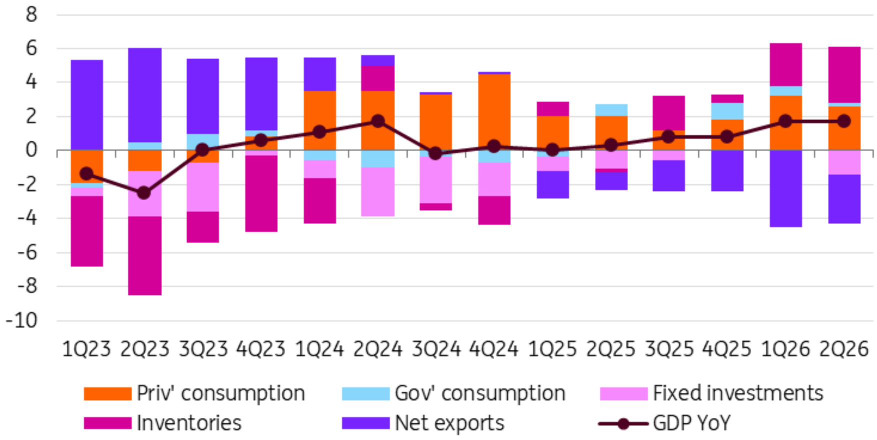
Source: HCSO, ING

After declining in the first quarter, the construction sector rebounded by 5.6%, which can certainly be considered a positive surprise. The other major negative surprise was therefore the weak performance of the service sector as a whole. Following the election boom, the information and communications sector declined slightly again, while the real estate sector has now been contracting for 10 consecutive quarters. The arts and entertainment sector, which carries little weight, also showed a decline in value added in the second quarter. Only the financial and insurance sectors, and logistics, were able to achieve meaningful growth. Overall, the services sector's modest expansion of just 0.5% is notable.

The performance on the demand side largely mirrors that on the supply side. Actual household consumption growth slowed to 0.7% on a quarterly basis, and government consumption increased only slightly. The real cause for concern lies in investment dynamics, where the 3.6% quarterly decline marks a negative record not seen since late 2022. Meanwhile, inventory build-up is intensifying, likely driven in part by the strong performance of the manufacturing and construction sectors. With new manufacturing capacity coming online, exports of goods expanded at the fastest pace in four years, while exports of services also surged significantly.

In contrast, imports grew at a slower pace than expected, mainly due to a decline in imports of services. This may be due to the high base from the previous quarter, which was driven by high energy demand caused by extreme cold weather.

Contributions to GDP growth – expenditure side (% YoY)



Source: HCSO, ING

Hopes are still pinned on most sectors

As for the traditional year-on-year growth indicators, all sectors except construction and real estate activities expanded, thereby contributing to GDP growth of 1.7% to varying degrees. While the 2.3% growth in services can be described as strong, the 1.3% growth in manufacturing also represents a significant improvement.

Based on year-on-year indices, domestic demand increased significantly in the first quarter of 2026, while exports continued to shrink and imports grew substantially. In other words, the structure of economic growth has not changed compared to recent quarters; it has simply become more imbalanced. Net exports alone slowed the economy's year-on-year performance by 4.5ppts, a figure offset by a 6.2ppt contribution from domestic demand. Consumption and inventory accumulation provided nearly equal contributions as drivers of growth.

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