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HUNGARY

Heat and drought test Hungary's economic recovery, but momentum holds up

Extreme heat and severe drought took their toll on Hungary in August. Consumers appeared to cut back on trips to stores, but industrial production proved surprisingly resilient. Low river levels created additional headaches, but the economic recovery wasn't washed away completely



Bathers enjoy the waters of Budapest's Széchenyi Thermal Bath amid this summer's high temperatures

As we near the end of the year, it is becoming increasingly clear that retail sales and industrial production are set to contribute positively to economic growth in Hungary, as we expected.

The sawtooth pattern in industrial production appears to have faded, strengthening the case for an industrial recovery. Retail sales lost momentum towards the end of the summer, but strong consumer confidence and rising real disposable incomes should help consumption regain momentum in the coming months.

Hungarian industry is fighting back

8.7%

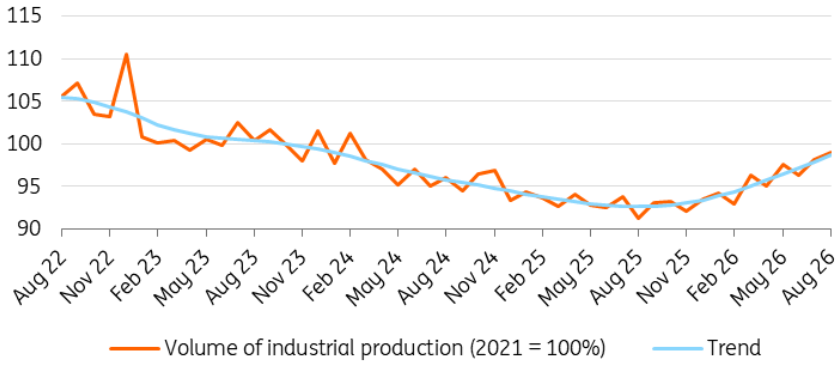
Industrial production (YoY, wda)

ING estimate: 3.7% / Previous: 4.7%

Hungarian industrial output delivered a significant positive surprise in August. Based on the pattern of recent months, we had expected a month-on-month decline. Instead, industrial output rose by 1.0% MoM. Helped by last year's low base, the working-day-adjusted yearly growth rate jumped to 8.7%, its strongest reading since late 2022.

With the previous sawtooth pattern failing to reappear, the positive trend emerging since late 2025 remains intact. As a result, output in August was only 0.9% below the 2021 monthly average, in line with our expectations. After more than three years of contraction, this is a refreshingly positive development.

Volume of industrial production

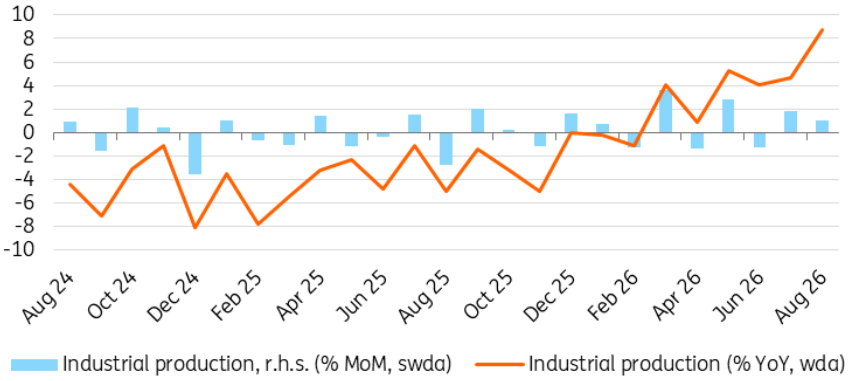


Source: HCSO, ING

It is encouraging that the Hungarian Central Statistical Office (HCSO) does not list the energy sector among the negative contributors. This suggests that the impact of the Paks Nuclear Power Plant's temporary partial shutdown and voluntary production cuts by private sector companies on overall industrial output may have been smaller than expected. The detailed data may, of course, still add some nuance to the picture. Meanwhile, the construction of the Danube riverbed still probably provided some support to mining and quarrying, one of the smallest segments of Hungarian industry.

Looking ahead, soft indicators also point to continued recovery. Business confidence rebounded in September following its sharp drop in August, as the energy crisis eased and voluntary production cuts ended. Order books also suggest that the ramp-up of new manufacturing capacity will continue to provide meaningful support to industry, although growth is likely to remain concentrated in only a few sectors, affecting a handful of producers.

Performance of Hungarian industry



Source: HCSO, ING

On the upside, the European economy's better-than-expected resilience could support a stronger recovery in external demand. Conversely, elevated energy prices and supply-chain disruptions stemming from geopolitical tensions in the Strait of Hormuz and the Red Sea remain important downside risks.

Industrial output was 3.4% higher in the first eight months of the year, meaning that our forecast of 3-4% growth in 2026 still looks comfortably achievable. The industrial turnaround therefore looks increasingly convincing. The next major test will be whether growth can spread from a few isolated pockets to the industry as a whole.

Retail sales hit as consumers stayed home in the extreme heat

2.4%

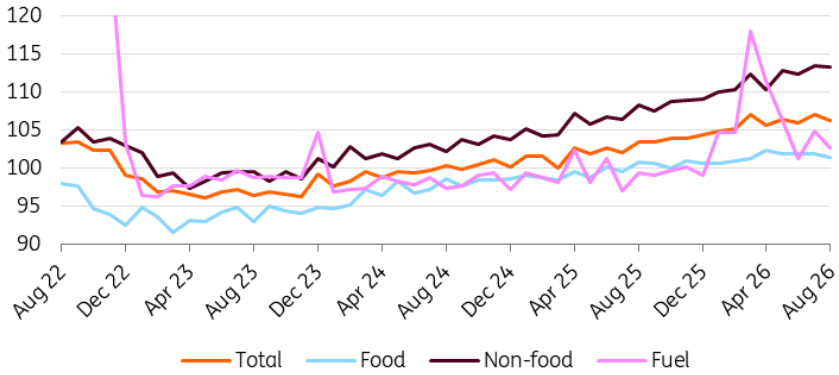
Volume of retail sales (YoY, wda)

ING estimate: 4.2% / Previous: 4.9%

The heatwave and the associated energy crisis may not have disrupted industrial production, but Hungary's retail sector proved far less resilient. Retail sales volumes fell by 0.7% month-on-

month in August, pushing the calendar-adjusted yearly growth rate down to 2.4%. This was a significant negative surprise, as we had expected the extreme heat to generate additional sales, particularly in certain product categories. Instead, Hungarian consumers appear to have responded differently from what historical patterns suggested.

Retail sales volume in detail (2021 = 100%)



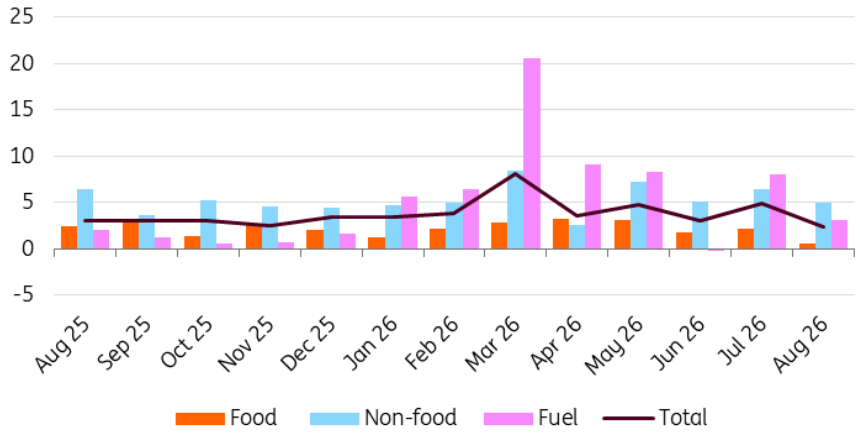
Source: HCSO, ING

Looking at the longer-term trend, retail sales volumes in August stood 6.3% above the 2021 monthly average. Although the fixed-base index declined compared with the previous month, revisions to recent data suggest that we can no longer speak of a plateau. Instead, a modest upward trend appears to be taking shape.

The details behind August's weaker performance highlight the impact of extreme weather. Non-food retail sales were broadly stagnant, while mail-order and online sales increased by 3% MoM. By contrast, in-store sales fell significantly, by around 1-3%, across almost every segment. One notable exception was clothing, where sales increased by 3% on a monthly basis. It seems the extreme heat may have prompted consumers to refresh their wardrobes with lighter, more breathable clothing.

Sales at grocery stores fell by 0.4% MoM. Given that the decline was concentrated in stores selling food, beverages and tobacco, we cannot rule out the possibility that households shifted some purchases to online channels to avoid the heat. Fuel sales, meanwhile, dropped by 2.1% compared to the previous month. Given the sharp increase in fuel prices, this suggests a relatively strong demand response to higher prices. The weakness in August retail sales can therefore be partly attributed to lower fuel purchases.

Breakdown of retail sales (% YoY, wda)



Source: HCSO, ING

Looking ahead, the foundations for continued growth in retail sales, and consequently household consumption, remain favourable. Consumer confidence has risen to historically high levels, although it is currently undergoing some correction, while inflation remains relatively moderate and nominal wage growth is still strong. Rising incomes and stronger consumer confidence are a combination that has historically helped shift consumption into a higher gear.

We therefore expect the upward trend in retail sales to continue over the remainder of the year, albeit with considerable month-to-month volatility. For 2026 as a whole, we continue to expect growth of around 4-5%. Moreover, economic policy measures planned for next year are specifically aimed at supporting lower-income households, which typically have a higher propensity to consume. This could provide an additional boost to retail sales and, ultimately, household consumption.

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