Opinion of the Fiscal Council
on the draft bill on the 2026 central budget of Hungary

I.
Background, legal basis and publicity of the preparation of the Opinion

The Fiscal Council (hereinafter referred to as the Council, Fiscal Council, FC), in accordance with Article 24 of Act CXCIV of 2011 on the Economic Stability of Hungary (hereinafter referred to as the Stability Act, Stab. Act), and in line with Article 44 (2) of the Fundamental Law, hereby gives its opinion on the draft Act on the Central Budget. In its Opinion, the Council may comment on the draft and, if it has fundamental objections to the draft as to its credibility or enforceability, may express its disagreement with the draft.

On 24 April 2025, the Minister of National Economy, Márton Nagy, sent the draft bill on the 2026 central budget of Hungary (hereinafter: the draft), which was discussed and approved by the Government, to the President of the Fiscal Council as an annex to his opinion request letter NGM/7786/2025.

The FC's assessment of the draft was also informed by the following background.

- In its Opinion No.6/2024.11.07. on the draft bill on the 2025 central budget of Hungary, the Council stated that "the draft budget bill foresees an economic growth of 3.4 per cent for 2025, at the upper end of the 2.5-3.8 per cent forecast range of international forecasts and domestic institutions preparing analyses for the Fiscal Council." It also stressed that "the Council considers that the economic growth forecast by the government could be achieved, but that there are risks." Among the risks, the FC highlighted the continuing spillover effects of the Russian-Ukrainian war and related sanctions, Europe's energy security concerns, the protracted negotiations on the disbursement of funds from the European Union to Hungary, the risk of escalation of the war in the Middle East, global trade policy conflicts, and the risks surrounding the realization of the positive investment trend reversal needed to achieve the projected economic path.
- The Council continued that "in order to balance the Hungarian economy and budget, the government sector deficit should be brought below 3 percent of GDP." The draft budget bill sets the government sector deficit on an accrual basis (ESA) at 3.7 percent of GDP

in 2025. This exceeds this limit and the criterion set by the EU's founding treaty. The FC added that "domestic legislation temporarily allowed the deficit to remain above 3 percent, but the suspension has ended, so the current set of rules sets a 3 percent deficit criterion for next year", which the Government has initiated to amend.

- The FC also pointed out that "there are risks to the achievement of the 2025 deficit target." One is that the expected economic growth may not materialize, which would reduce budget revenues. The other is the uncertainty of the inflow of EU funds, which would increase the cash deficit with unchanged spending. The Council criticized the fact that the budget's provision for risks was only 100 billion forints, below the rule of 0.5 percent (220 billion forints) of the total expenditure, which was in force at the time but has since been amended.
- The Council noted that the year-on-year reduction in the budget deficit is mainly supported by a reduction in high interest expenditure, due to lower inflation, as a result of the repricing of inflation-linked government bonds to lower interest rates, as well as by several tax measures and a total savings commitment of HUF 350 billion by budgetary bodies under the Government's control.
- The FC welcomed that the planned level of the government debt ratio will be reduced in the course of 2025, from 73.2 percent at the end of 2024 to 72.6 percent at the end of 2025, in line with the provisions of the Fundamental Law. The Council considered the decline in the debt ratio to be realistic and concluded that the draft 2025 budget bill complies with the debt rule of the Fundamental Law and the provision of Section 4 (2a) of the Stab. Act.
- The Council indicated, however, that "based on currently known circumstances, the debt ratio in 2024 could be higher than projected in the draft bill, which would not in itself affect the reduction next year, but would result in a higher debt trajectory." The Council drew attention to the gradual increase in the foreign exchange rate of the central government debt to close to 30 percent, which will materially increase the exchange rate sensitivity of the debt.
- The FC welcomed the deficit reduction targets of the national medium-term fiscal structural plan presented to the European Union, which, if met, would reduce the government sector deficit to 2.9% of GDP by 2026 and the debt-to-GDP ratio to below 70% by the end of 2027. The Council nevertheless underlined the importance of the disciplined fiscal policy needed to achieve these targets.

- The Council examined whether the provision of budgetary compensation in 2025 is necessary in order to ensure the adequacy of the capital of the Magyar Nemzeti Bank (MNB), as provided for in Article 23 (1) (ac) of the Stability Act. Based on the development of the MNB's own funds in 2024, the forecast approved and submitted by the MNB's Board of Directors, and a review of international experience, the Council concluded that there is no need for recapitalization of the MNB under the current rules.
- Finally, while acknowledging the benefits of spring budgeting, the Council welcomed the autumn 2025 budget, which reduces the predictability constraints on the macroeconomic conditions for budgetary planning and thus helps the budget to play its role as an economic compass.
- In its Opinion No 8/2024.12.19., the FC, giving its preliminary consent to the final vote on the 2025 central budget bill, concluded that the planned rate of the government debt ratio for 31 December 2025, as envisaged in paragraph 3 (1) of the draft unified budget law No T/9894/395., was "determined in accordance with the provisions of the Stability Act, in line with the macroeconomic forecast underlying the draft law and the projected public finance developments. The debt indicator calculated for the end of the year 2025 in the bill is 0.6 percentage points lower than the expected indicator for the end of the year 2024, thus fulfilling the requirement of Article 36 (5) of the Fundamental Law."
- The Council also noted that "the National Assembly, at its session of 17 December, adopted the amendment of Act CXCV of 2011. and that of the Stability Law, which eliminates the legal conflict between the previous provisions of the Public Finance Law on the level of the reserve provision for extraordinary government measures and the Stability Law on the balance of the government sector and the proposed budget law , which the Council had indicated during its opinion on the draft budget law."
- However, the Council maintained its comments on the risks of the draft budget bill "given that neither economic conditions nor the draft budget bill have changed in such a way that the tensions indicated have disappeared." The FC stressed that "the unchanged level of the contingency reserve provision for Exceptional Government Measures remains, in the view of the Council, low in relation to the risks identified."
- Having considered all these elements, the Council gave its preliminary consent, under Article 44 (3) of the Fundamental Law, to the final vote on the single draft budget bill T/9894/395.

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In formulating its Opinion on the draft bill on the 2026 central budget of Hungary, the Council - following its previous practice - based its Opinion on the written analyses and findings of the State Audit Office of Hungary and the National Bank of Hungary on the budget processes. In addition, it reviewed the economic forecasts of domestic research and analysis institutes commissioned by the FC Secretariat, as well as those of international organizations (European Commission, OECD, IMF, World Bank) and other authoritative market analysts. In addition, the Council took into account the medium-term fiscal structural plan of Hungary 2024 and the European Commission's assessment of the medium-term fiscal structural plan of Hungary published on 16 January 2025.

The Council examined the draft bill on the 2026 central budget of Hungary and its macroeconomic background as a whole: it analyzed the details, revenues and expenditures of the draft from the point of view of the balance of payments and compliance with the public debt rule. As in the past, the Council did not take a position on distributional and supply policy issues, in line with its mandate under the Fundamental Law and the Stability Law.

The Council shall inform the Speaker of the National Assembly and the Government of its Opinion and publish it on the website of the National Assembly.

II.

Opinion of the Council

On 4 May 2025, the Council discussed the draft bill on the 2026 central budget of Hungary pursuant to Section 24 (2) of the Stab. Act and, on this basis, by unanimous decision, formulated the following opinion.

1) The Council has no fundamental objections to the draft bill on Hungary's 2026 central budget that would justify a statement of disagreement with the draft. Given the higher than usual uncertainty in the global economic environment, the FC feels obliged to draw attention to the risks to the achievement of the planned targets.

2) The FC notes that the draft budget bill projects economic growth of 2.5 percent in 2025 and 4.1 percent in 2026. The Council considers that the lower-than-expected GDP figure for the first quarter of 2025 and trade tensions in the global economy pose risks to lower growth in 2025, the base year of the draft budget bill. The persistence of higher tariff levels would negatively affect the export sector of the Hungarian economy, while the uncertain outlook could dampen investment activity across the board, with growth risks carried over to 2026. These risks are mitigated by the fact that domestic consumption is expected to continue to expand on the back of high employment, rising real wages and government measures to boost household net income. In terms of sustaining buoyant wage dynamics, the review mechanism of the wage agreement between the business sector and the members of the Government's Permanent Consultative Forum will be a key focus of attention in the coming months. Under this mechanism, any combined deviation of economic growth, inflation and average gross earnings above the threshold level compared to the values set in the agreement could lead to a renegotiation of the wage agreement.

3) The draft budget bill sets the general government sector deficit on an accrual basis (ESA) at 3.7 percent of GDP in 2026, a reduction of 0.3 percentage point in magnitude compared to the government's announced expectation of around 4 percent in 2025. In 2026, the projected reduction in the budget deficit is mainly due to a reduction in interest expenditure compared to its expected value in 2025. Interest expenditure as a share of GDP on a gross accrual basis is projected to fall to 3.7 percent in 2026, with the primary balance of the budget excluding interest expenditure will be close to balance in 2026, similar to its actual level in 2024 and the expected level in 2025.

4) The Council continues to consider it necessary to bring the government sector deficit below 3% of GDP in order to balance the Hungarian economy and budget. The deficit target for 2026 is above the 3 percent criterion of the EU's founding treaty and the 2.5 percent deficit projection for 2026 that comes from the net expenditure path in the medium-term budgetary structural plan submitted by the Hungarian government and endorsed by the Council of the European Union. According to the recommendation issued by the Council of the European Union under the excessive deficit procedure (EDP), Hungary should put an end to the excessive deficit situation by 2026.

5) No information is provided in the draft budget law on the rate of increase in net expenditure, which is a priority benchmark in the new EU budgetary framework.

   The European Union's regulatory framework for the period 2025 - 2028 is currently being amended in view of the REARM Europe programme[1] . The activation of the national escape clause could lead to a net expenditure growth flexibility for Member States of up to 1.5 percent of GDP, which is expected to be deduced when back-testing the cumulative net expenditure path. The deviation from the net expenditure trajectory may take into account the increase in defense expenditure as a share of GDP compared to the 2021 expenditure. According to the European Commission[2], Hungary is one of the twelve Member States that have formally submitted a request to activate the national safeguard clause.

   In view of the circumstances detailed above, the Council proposes that, following the final assessment of the national exemption clause by the European Commission and the amendment of the relevant EU legislation, the Government, in parallel with the Fiscal Council's examination, should examine whether the 2026 budget complies with EU rules and, if necessary, take measures to ensure compliance with the requirement of Article 3/A of the Stab Act. The Council considers it appropriate for the Government to set out this commitment in this respect in the draft budget bill.

6) The Council considers that there are substantial risks to the achievement of the 2026 deficit target. Lower-than-planned economic growth in 2026 would reduce tax revenues for the budget, and the occurrence of downside risks to economic growth in 2025 and the 2025 budget outturn through the base effect can also affect the 2026 outturn. The

[1] see: 'Managing the increase in defense expenditure in the framework of the Stability and Growth Pact', issued by the European Commission on 19.03.2025 in the context of the ReArmEU
[2] https://ec.europa.eu/commission/presscorner/detail/en/ip_25_1121

impact of continued uncertainty surrounding the availability of EU funds would be that the under-performance of the Recovery and Resilience Fund and the level of revenue from cohesion funds in 2021-2027 would increase the cash deficit assuming unchanged expenditures. Managing risks is made more difficult by the fact that the contingency reserve of HUF 50 billion is included in the Exceptional Government Measures appropriation, which is below both historical levels and the level of risks. In view of this, the Council proposes a significant increase in the allocation for Exceptional Government Measures.

7) The Fiscal Council concludes that, in accordance with the provisions of Article 36 (5) of the Fundamental Law, the public debt ratio[3] will decline over the course of 2026 according to the draft budget bill, without making use of the exemption option under Article 36 (6). It is projected to decline from 73.1 percent at the end of 2025 to 72.3 percent at the end of 2026. On this basis, the Council concludes that the draft budget bill 2026 complies with the public debt rule of the Fundamental Law and with the provision of Article 4 (2a) of the Stab Act.

8) The Council examined whether the provision of budgetary compensation in 2026 is necessary in order to ensure the adequacy of the capital of the Magyar Nemzeti Bank (MNB), as provided for in Article 23 (1) (ac) of the Stability Act. In the Council's view, based on the development of the MNB's own funds in 2024, the forecast approved and submitted by the MNB's Board of Directors and a review of international experience, on the basis of the current regulations, there is currently no need for recapitalization of the MNB.

9) The FC authorizes its President to make this Opinion on the draft budget law public and to present it to the plenary session of the National Assembly, taking into account the differences between the submitted bill and the draft.

[3] Public debt indicator: the ratio [...] to be taken into account in the implementation of Article 36 (4) to (5) and Article 37 (2) to (3) of the Fundamental Law, expressed as a percentage, rounded up to one decimal place, the numerator of which is the value of the public debt, the denominator of which is the value of the gross domestic product, calculated in accordance with the Council Regulation on the European system of national and regional accounts in the Community, as defined in this Act (Art. 2 of the Stab. Act).

III.

Justification

1) Credibility and enforceability of the draft

Pursuant to Section 24 (2) of the Stab. Act, the Council may comment on the draft budget bill or, if it has fundamental objections to the draft, its credibility or enforceability, it may express its disagreement with the draft.

2) Budget targets and conditions for 2026

2.1. Macroeconomic indicators on which the planning is based

The draft budget projects economic growth of 2.5 percent in 2025 and 4.1 percent in 2026. There is considerable uncertainty surrounding the growth outlook in both years. The domestic fundamentals for growth are strong, in particular consumption, supported by high employment, dynamic real wage growth and income-increasing government measures. At the same time, the global economic environment has shifted in an unfavorable direction due to tariff measures and heightened global uncertainty.

In 2025, GDP growth of 2.5% is projected to be driven mainly by a 3.5% increase in household consumption, while investment is expected to rise by 2.3%. Gross domestic product stagnated in the first quarter of 2025 according to raw data, while according to seasonally and calendar-adjusted and balanced data, it declined by 0.4 percent year-on-year in the first quarter of 2025, according to the preliminary release of the HCSO. Compared to the previous quarter, domestic GDP contracted by 0.2% in the first quarter. The incoming data were materially below market expectations. Although the details of the GDP data are not yet available, the macroeconomic data for the first quarter of 2025 point towards a lower growth path than expected in the draft budget. The lower growth in 2025 also poses a risk to the 2026 budget in terms of tax revenue outturn through the base effect.

In 2026, the expected structure of economic growth is more balanced than in 2024-2025, but household consumption growth will continue to be the main driver. The expected 4.4 percent expansion in consumption is driven by a 6.7 percent rise in real wages and income-increasing government measures. The most significant of the latter are the doubling of the family tax allowance and the significant extension of the maternity allowance, which are accompanied by wage increases in the form of the amount of the gun money to be paid to members of the armed forces. The increase in household credit is also boosting household demand, and the historically high household saving rate could provide an additional cushion to growth.

In 2026, economic growth could be supported by a 5.9% expansion in gross fixed capital formation, in line with consumption, and a slightly positive contribution to net exports growth (0.1 percentage point), in line with a 6.4% expansion in exports. A pick-up in investment would mark a reversal of the moderation seen in recent years, conditional on an improvement in growth prospects and business confidence. An important support for the rise in exports is that large capacity-intensive investment projects in industry could start production in late 2025 and during 2026, depending on the European and global business cycle. The near-stagnation in net exports is explained by a rise in imports linked to investment and expanding household consumption.

The main risks to the achievement of the macroeconomic path set out in the budget are the protracted geopolitical conflicts and escalating trade tensions. Hungary, as an open, export-oriented country, is significantly exposed to these external shocks. Increases in US tariffs would reduce domestic exports to the US both directly and through indirect channels, and the response of other countries could lead to a more significant reduction in international trade. A more uncertain outlook could also dampen investment in the national economy, which would slow economic growth beyond the trade effects. In line with this, forecasts by international organizations and analysts following the announcement of the US tariff hikes project more subdued economic growth for Hungary in both 2025 and 2026. The difference is mainly due to the contribution to growth of net exports and gross fixed capital formation. However, domestic growth could benefit from the fiscal stimulus planned by Germany and some other major EU economies, which could also be supported by more flexible EU fiscal rules. In addition to Germany, the fiscal impulse could also boost Hungarian GDP, directly through purchases of goods from Hungary and indirectly through a more buoyant European growth environment.

The draft foresees a slight increase in employment. The increase is entirely in the competitive sector, with no change in the public sector. According to the forecast, average gross national earnings are projected to rise by 10.5 percent, with the agreed 13 percent increase in the minimum wage and the payment of the gun subsidy playing a significant role. Real net wages are projected to rise by 6.7 percent. In the competitive sector, the projected wage dynamics are subject to risks. Minimum wage increases typically have an upward impact on average wages, but dynamic economic growth and productivity improvements are also needed for the planned wage increases to materialize. The minimum wage agreement foresees a 7.6 percent increase in average gross earnings by 2026. Analysts' forecasts also reflect expectations around this level. The Fiscal Council draws attention to the review mechanism of the wage agreement between the industry and the members of the Permanent Consultative Forum of the Government, according to which the combined effect of economic growth, inflation and average gross earnings above the threshold level could lead to a renegotiation of the wage agreement, which could thus have a significant impact on the macroeconomic path through changes in the dynamics of net wage growth and, consequently, consumption.

The Hungarian labour market has remained stable in recent years, despite economic challenges, and is one of the key foundations for resuming growth. The Council considers that the budgetary expectations for the number of employed workers are plausible, but the draft does not substantiate why the forecast for wage growth in the competitive sector is more than 2 percentage points above the minimum wage agreed at the end of November 2024.

According to the fiscal path, inflation will be 4.5% in 2025 and 3.6% in 2026. Lower commodity prices and government and central bank measures should help to reduce inflation. Dynamic wage increases will not have a negative impact on economic balances, including inflation, assuming they are accompanied by productivity improvements. Moreover, the low wage ratio in Hungary also provides scope for wage catching-up without inflationary effects.

2.2. Revenue of the central subsystem

The total - non-consolidated - revenue estimate of the central subsystem for 2026 is HUF 39 546.3 billion, which is HUF 817.5 billion, or 2.1 percent, higher than the 2025 estimate. In the following, the appropriations for 2026 are compared with the appropriations for 2025 contained in the Act on the 2025 Central Budget of Hungary, adopted by Parliament on 20th of December, 2024 (hereinafter referred to as the draft appropriations).

The largest share of revenue comes from taxes and contributions.

The Council has assessed the reasonableness of the tax revenue estimates on the basis of information from the Ministry of National Economy on the tax changes planned by the Government for 2026 (including taxes currently covered by the emergency government decree) and the revenue increase expected from them. Thus, the revenue estimates require the planned tax changes that have not yet become law to come into effect during 2025. The priority tax changes planned for 2026 will have both revenue-reducing and revenue-increasing effects.

As a result of previously adopted tax law amendments, the inflation-tracking tax increase will have a revenue-increasing effect for certain tax types in 2026. In 2026, registration tax, motor vehicle tax, transfer tax, excise duty (on tobacco, fuel and alcohol) and company car tax will increase by the rate of the consumer price index for July of the previous year, as published by the Central Statistical Office, compared to the same period of the previous year.

Special taxes will remain a major source of revenue for the budget during 2026. These include payments from business entities: payments from financial institutions, environmental charges, mining levies, gaming taxes, energy sector payments, retail sales tax, pharmaceuticals tax, carbon dioxide quota tax, aviation pollution tax. Taxes linked to consumption include telecommunications tax, financial transaction tax, insurance tax and tourism development levy. In total, the special taxes mentioned will generate revenue of HUF 2 074.7 billion in 2026, representing 2.2 percent of GDP under the draft. The weight of the special taxes as a share of GDP will slightly decrease in light of the fact that special taxes accounted for 2.5 percent of GDP in 2024 and 2.3 percent of GDP in 2025 in the form of special tax revenues in the adopted budget law.

The appropriation for contributions from business organizations is HUF 3 968.2 billion, which is 1.4 percent (HUF 55.7 billion) higher than the appropriation of the 2025 Budget Act.

Corporate tax traditionally dominates the revenue group of payments by business entities, with an appropriation of HUF 1 258.4 billion, which decreases by 2.1 percent (HUF 27.1 billion) compared to the 2025 appropriation.

The tolls budget amounts to HUF 685.0 billion, which is 3.3 percent (HUF 22 billion) more than the value of this year's plan set in the law.

The retail sales tax budget is HUF 329.2 billion, HUF 33.9 billion higher than this year's budget. The previously increased tax rate is maintained in 2026.

The small business tax budget is HUF 303.1 billion, an increase of 17.6 percent compared to the 2025 budget, driven by an increase in the number of taxpayers and a stronger national economy.

The target for contributions from financial institutions is HUF 292 billion, compared to the 2025 target of HUF 253.1 billion. The extra profit tax and the related incentive role of the government bond purchase tax accounted for in this line will be maintained in 2026.

The rehabilitation contribution is HUF 228.8 billion, 11.8 percent (HUF 24.2 billion) higher than the 2025 allocation.

The energy sector's contribution target is HUF 195.9 billion, HUF 100.8 billion less than the 2025 target, due to the temporary increase in the tax rate to 41 percent and carry-over effects beyond the year. The Brent-Ural oil price differential tax will remain in 2026.

The estimate for the mining royalties is HUF 108.0 billion, which is 1.9 percent higher than the base year estimate.

A carbon tax of 75.0 billion forints could enter the budget, while the transaction fee for beneficiaries of the significant free allocation and the CO2 quota tax would be maintained.

The appropriation for the specific tax on small taxpayers amounts to HUF 72.2 billion, or 108.2 percent of the 2025 appropriation.

Consumption-related taxes are budgeted at HUF 11 592.0 billion, accounting for 29.3 percent of revenues. This revenue group is 5.8 percent (HUF 639.5 billion) more than planned for this year. These payments are significantly affected by the return of the economy to growth, the level of average earnings, the increase in household consumption and the reduction in inflation.

Consequently, if the government's projections for these are not met, revenues will be significantly lower than planned.

The general sales tax budget is HUF 8 793.0 billion, which is 6.2 percent (HUF 515.8 billion) higher than the 2025 budget. The availability of the appropriation is supported by a 4.4 percent increase in household consumption. There could be a risk to the VAT outturn if the macroeconomic developments in the base year 2025 turn out worse than expected.

The excise tax budget is HUF 1 796.3 billion, 5.5 percent (HUF 93.4 billion) more than the 2025 plan. Tax increases in line with the legislated inflation rate contribute to the increase in tax revenue.

The budget for the registration tax is HUF 22.2 billion, which is HUF 3.5 billion less than the 2025 budget.

The financial transaction tax is HUF 605.6 billion, which is HUF 16.3 billion more than the budget appropriations planned for this year.

The insurance tax is budgeted at HUF 220.3 billion, which is HUF 7.2 billion more than the draft law for 2025. In 2026, the insurance tax will be supplemented by the additional insurance tax liability.

The tourism development contribution is expected to reach HUF 103.7 billion, compared to HUF 90.2 billion in 2025.

The total amount of the per capita contributions is HUF 5,264.6 billion, 0.4 percent (HUF 20.9 billion) lower than the adopted 2025 target.

Personal income tax represents the dominant share of this revenue group, with HUF 4 837.4 billion of the budget, or 98.6 percent of the 2025 budget. Both revenue-raising and revenue-reducing effects are expected.

Gross earnings are projected to increase by 10.7 per cent and real net wages by 6.7 per cent from 2025 to 2026, including a 13 per cent increase in the minimum wage in 2026 as agreed by the Permanent Consultative Forum of the Business and Government Sector. In addition, the teacher wage increase will continue, and the budget plan has allocated HUF 450 billion for 2026 for the payment of arms money to law enforcement and defense agencies, which alone could generate HUF 57.0 billion in personal income tax revenue.

Revenues will be further boosted by a 15 percent increase in the salaries of local government civil servants in small municipalities and of judicial employees.

The revenue-reducing effect is that in 2026 the extension of personal income tax exemptions will continue, with an exemption from income tax for mothers of two children under 40 and an extension of the exemption from tax for mothers under 30 from average to total income and for all children. In addition, the second phase of the doubling of the family allowance will take effect from 1 January 2026 and the personal income tax exemption for CSED, GYED and adoption allowance from 1 July 2025. All this implies a revenue shortfall of around HUF 500 billion compared to the 2025 budget.

Tax revenue is estimated at HUF 319.2 billion, which is HUF 41.8 billion (15.1 percent) more than expected this year. A significant shift in revenues is expected as a result of a pick-up in real estate sales, while the transfer tax on the ownership of motor vehicles and trailers will rise in line with inflation.

The motor vehicle tax is HUF 108.0 billion, which is 5.2 percent more than the HUF 102.7 billion expected under the 2025 law.

The central sub-system's revenue appropriations from social contribution taxes and contributions amount to HUF 9 574.3 billion, which is 9.2 percent more than the amount foreseen in the 2025 Budget Law. Of this, the Pension Insurance Fund will receive HUF 6 244.1 billion, the Health Insurance Fund HUF 2 853.4 billion and the National Employment Fund HUF 476.8 billion.

The revenues of the EU programmes in the draft proposal of the 2026 Draft Budget Law amount to HUF 1 894.0 billion, which is 49.5 percent higher than the preliminary data of the 2024 execution and 15.3 percent lower than the 2025 estimate. The Council identifies a particular risk of under-execution for the revenue plans related to EU funds (Table 1).

Table 1: Revenue from EU programmes (HUF billion)

Title	2024 preliminary fact	Appropriation 2025	Draft proposal for 2026
(1) EU revenue from EU programmes, Of which:	775,1	2 129,0	1 790,3
Recovery and Resilience Facility (RRF)	*53,2*	*630,3*	580,1
Cohesion and Operational Programmes 2021-2027	*351,3*	*1 249,8*	979,9
(2) Other revenue from EU programmes	492,2	106,9	103,7
Revenue from EU programmes = (1) + (2)	**1 267,3**	**2 236,0**	**1 894,0**

Source: draft bill on Hungary's 2026 central budget, data from the Public Finance Portal of the Ministry of Finance, SAO calculation and editing

Hungary will continue to have no access to RRF funds until it satisfactorily implements the conditions related to the protection of the financial interests of the European Union and the strengthening of judicial independence (the so-called 27 "super-milestones"), according to the EU institutions. As a consequence, the absorption of RRF funds remains uncertain.

There are also risks to the delivery of revenue from the Cohesion Operational Programmes 2021-2027, as part of these funds is being withheld by the European Commission due to partial non-compliance with the so-called 'eligibility criteria' (horizontal criteria linked to the EU Charter of Fundamental Rights and five thematic eligibility criteria) and conditionality (rule of law) procedures.

Following a Commission proposal, the Council of the European Union adopted an implementing decision in December 2022 on the protection of the EU budget against breaches of the rule of law in Hungary. Under the decision, 55% of the budget commitments for three operational programmes in the field of cohesion policy (KEHOP Plus, IKOP Plus, TOP Plus) had to be suspended, meaning that the Commission will pay up to 45% of the commitments for these programmes until the end of the procedure.

Funds withheld under the rule of law procedure are subject to the so-called N+2 rule, which allows them to be used for two years from the year of availability. In 2024, around €1 billion fell into this category, and if no agreement is reached in the following years, a significant amount could be subject to the N+2 rule in 2025 and 2026 as well.

Furthermore, in December 2020, the Court of Justice of the European Union (CJEU) ruled that Hungary had failed to respect EU law, including in the area of procedures for granting international protection and returning illegally staying third-country nationals. Under the ruling, Hungary will have to pay a one-off lump sum of €200 million and an additional daily penalty payment of €1 million from 14 June 2024. The draft budget law for 2026 foresees that the obligation to pay the fine will be maintained.

2.3. Expenditure of the central subsystem

According to the draft, the total non-consolidated expenditure appropriations of the central government sub-system amount to HUF 43 764.9 billion, which is 2.1 percent higher than the HUF 42 851.8 billion in 2025. Expenditure appropriations thus increase by HUF 913.0 billion in 2026 compared to the previous year. It is worth noting that, as a share of GDP, the 2026 expenditure estimate is 3.1 percentage points lower than the 2025 budget's expenditure as a share of GDP.

Despite the relative decrease in expenditure, significant amounts are included to finance appropriations for some of the previous priorities. The most important elements of this are utility allowances, incentives to improve housing conditions, the 13th month pension, the development of Hungarian small and medium-sized enterprises, and increased financial reward for workers in certain areas of public services. The maintenance of increased defense spending in proportion to GDP should also be emphasized.

Of total expenditure, 85.4 percent of total expenditure appropriations in the central sub-system are allocated to current (operational) purposes, 1.3 percentage points higher than the 2025 rate. For expenditure functions, 6.5 percent of the total expenditure appropriations are planned to be allocated from domestic sources, 0.7 percentage point lower than the 7.2 percent share for this purpose in the 2025 budget appropriations. EU-funded operating and development expenditure is planned at 8.1% of total expenditure appropriations. The share of the same group of expenditure in the 2025 budget appropriations was 8.7 percent, which represents a 0.6 percentage point decrease in 2026.

The increase in current (operating) expenditure in previous years is thus also reflected in the 2026 draft budget. As in recent years, the government's operating budget will remain break-even next year, with only domestic accumulation and EU budgets running deficits.

The Utility Protection Fund, previously managed as a separate chapter, will be abolished from 2025, and residential redundancy protection will be moved to the Department of Energy chapter. Its appropriation has been gradually decreasing since 2024 in line with energy price developments, contributing to the reduction of the deficit: HUF 917 billion in 2024, HUF 880 billion in 2025 and HUF 792.5 billion in 2026. The subsidy for the energy costs of public transport services has been assigned to the chapter of the Ministry of Construction and Transport, while the central reserve covers expenditure related to the compensation of public utilities for overheads. The budget foresees an expenditure of HUF 34.0 billion for the former and HUF 253.2 billion for the latter. In addition, the Water Utilities Development and Compensation Fund has an expenditure allocation of HUF 155.7 billion for the purpose of water protection. Overall, the planned expenditure for 2026 is about 4.5 percent lower than the 2025 appropriations.

A provision in the draft guarantees the resources needed to implement the planned additional wage measures for certain categories of public servants and civil servants. The payment of the so-called "arms allowance" has also been planned in the budget headings, with the payment of six months' salary as a one-off bonus representing a wage cost increase of around HUF 450 billion.

The budget plans in line with the legislation by preserving the value of pensions and paying the 13th month pension. Expenditure on the Pension Insurance Fund is projected to increase by 6.7% to HUF 6 996.0 billion in 2026. If the expected economic growth rate exceeds 3.5 percent and the government balance target is met - pensioners will also receive a pension premium in November. The source of these is included in the Fund's expenditure appropriations (HUF 24 billion), in line with the projected economic growth of 4.1 percent, as well as the amount earmarked for the 13th month pension (HUF 531.7 billion).

The 2026 budget includes a total of HUF 1 126.3 billion for family and other normative support, which is 6.8 percent higher than the 2025 allocation. For housing subsidies, the budget foresees HUF 437.9 billion, 70.2 percent higher than the 2025 allocation.

Instead of the previously abolished Defense Fund, defense spending in the Ministry of Defense chapter of the central budget is projected to reach 2 percent of GDP in 2026. This includes the so-called "arms allowance" for defense personnel.

The statutory appropriation for Extraordinary Government Measures provides for a reserve of only HUF 50 billion, a substantial 50 percent reduction compared to the HUF 100 billion appropriation for 2025, which the Fiscal Council criticized for being too low in last year's budget. In 2024, 97.9 percent of the HUF 220.0 billion appropriation of HUF 215.4 billion was used in the budget, and in the first quarter of 2025, 26.7 percent of the annual allocation. Managing risks is made more difficult by the low level of Exceptional Government Measures appropriation, which is below past levels and the extent of the risks. A provision to compensate for possible revenue shortfalls is not foreseen in the budget. Based on the level of risks, the Fiscal Council proposes a significant increase in the appropriations for Exceptional Government Measures.

The total amount of the Central Reserves is HUF 1 055.0 billion, which is 2.3 percent higher than the 2024 utilization and 15.1 percent higher than the 2025 appropriation. Appropriations for Provisions increase by 33.5 percent (HUF 188.5 billion) in the 2026 draft budget law compared to the previous year, to HUF 750.7 billion. Based on the agreement between the Government and the interested parties, the draft budget foresees a 13 percent increase in the minimum wage in 2026. According to the draft proposal, the increase in the minimum wage/guaranteed minimum wage is covered by the appropriation for budgetary bodies and other bodies with public service missions. In the Provisions, the arms allowance for the police, the surplus from the teachers' pay rise, the salary increase and the salary adjustment for prosecutors, judges and municipal employees in small municipalities are budgeted. The amount of the appropriation is sufficient to cover the additional expenditure for the already known wage development measures, but does not include general increases for civil servants and public employees.

The reserve for the increase of state assets – an opened-from-above reserve – provides for the coverage of expenses (ownership transactions) made by the holder of the property rights pursuant to Article 19 (3) on Public Finances (Law CXCV of 2011). The amount of this appropriation is equal to the amount for 2025, HUF 1.0 billion. The Minister responsible for public finances may transfer funds from the reserve on the basis of the Government's decision to approve a property transaction, provided that the use of the reserve does not jeopardize the requirement of the reduction of the public debt ratio set out in the Fundamental Law. This provision, however, poses a risk to the achievement of the debt reduction envisaged in the draft bill, as it allows the Government to use the interim expenditure for the increase of public assets to fill most of the margin between the expected 2025 and the planned 2026 debt ratio, which is 0.8 percent of GDP. As a consequence, there is less room for maneuver to address risks that could lead to an increase in government debt or a lower-than-planned growth rate of nominal GDP.

Within the central subsystem's reserve provisions, the Government has created a new budget line under the Defense Reserve in case an EU regulation - currently under negotiation - exempts defense expenditure from budgetary regulation and provides room for maneuver for the EU accounting of defense expenditure up to 1.5% of GDP. The Defense Reserve appropriation covers expenditure incurred when using the general or defense-specific flexibility margins derived from the increase in defense expenditure. The appropriation is currently formal and amounts to HUF 1.0 million. From the Defense Reserve, the Government may transfer up to the amount of the general or defense-specific flexibility margin in case of activation of the relevant EU provisions[4] . The transfer may only be made if the specific conditions of the EU regulation are met and the use of the reserve does not jeopardize the ability to meet the public debt requirement of the Fundamental Law. However, the risk indicated for the reserve for the increase of public assets also exists in this case.

In 2026, cash interest expenditure is still high, at HUF 3 314.7 billion, although it represents a total decrease of HUF 521.4 billion, or 13.6 percent, compared to the 2025 estimate. The decrease in cash outflows is mainly due to lower interest payments on inflation-linked government securities. At the same time, gross accrued interest expenditure as a share of GDP is projected to be 3.7 percent under the draft law. Interest expenditure under ESA is projected to decline further in 2026, with the primary balance of the budget net of interest expenditure remaining close to balance in 2026, similar to the actual in 2024 and the projected in 2025. The decline in the budget deficit is therefore mainly due to a reduction in interest expenditure compared to its projected value in 2025. A shift in the forint-euro exchange rate implies a risk not only for public debt developments but also for interest expenditure, which may increase further as the foreign currency ratio of public debt increases. The debt financing plans presented in the draft are in line with the maximum government foreign currency debt ratio of 30% set by the Central Bank of Slovakia.

Expenditure under the public investment chapter will increase by 146% to HUF 496.3 billion, mainly related to the development of road and rail networks, and the renovation of health and social institutions. At the same time, spending on state property is 25.3 percent lower.

In the 2026 draft budget, the Health Insurance Fund will receive 1 710.9 billion forints in subsidies, 9.4 percent below the 2025 allocation. The health institutions could receive an additional HUF 80.0 billion over and above the resources systematically built in. Together with this, the 2026 appropriation for spending on preventive health care is HUF 2 886.3 billion, 4.3 percent above the 2025 appropriation. The planned 2026 appropriation for the financing of high-value medicines is HUF 195.0 billion, 8.3 percent above the 2025 legal appropriation. The 2023 appropriation implementation rate was 135.7 percent, the 2024 implementation rate was 153.1 percent, and the Q1 2025 implementation rate was 34.1 percent. The 2026 appropriation is likely to be insufficient given the last three years and the 2025 on-time performance.

[4] country-specific exemption provisions under Article 26 of Regulation (EU) 2024/1263 of the European Parliament and of the Council

The amount planned to support the general operation and sectoral functions of municipalities is budgeted at 111.3 percent of the 2025 appropriation. The amount of the appropriation and the specific amount of the appropriation are modified by law only for a few factors. The coverage of the additional payments to municipalities with a population of 10 000 inhabitants or less in 2025 for a 15 percent increase in the salaries of civil servants employed in offices has been included in the municipal chapter of next year's budget. Operating expenditure is mainly influenced by changes in the consumer price index (3.6 percent forecast) and energy costs, which are projected to fall further in 2026.

The contribution to the European Union budget in 2026 could amount to HUF 789.0 billion, which is HUF 92.1 billion, 13.1 percent higher than the 2025 allocation.

Expenditure on EU programmes in the draft budget bill for 2026 amounts to HUF 2 761.2 billion, which is 82.1 percent higher than the preliminary data on the 2024 execution, 8.7 percent lower than the 2025 appropriations and 6.3 percent higher than the expected 2025 execution (Table 2).

Table 2: **Expenditure on EU programmes, billion HUF and percentage**

Title	**2024 preliminary fact data**	**2025 expected data April**	**2026 plan**	**Estimates for 2025**	**2026 plan/2025 plan**	**2026 plan/2025 forecast**
Expenditure on EU programmes	1 516,1	2 597,4	**2 761,2**	3 023,8	91,3%	106,3%

Source: draft bill on Hungary's 2026 central budget, data from the Public Finance Portal of the Ministry of Finance, SAO calculation and editing

2.4. Capital adequacy of the Magyar Nemzeti Bank

The Council considers it acceptable that the draft bill on the 2026 central budget does not include a reimbursement from the budget to improve the MNB's capital position.

As a result of the balance sheet-increasing effect of the central bank programmes launched to fulfil the central bank mandate and the monetary policy designed to suppress inflation, the MNB's equity turned negative in 2023, amounting to - HUF 1,855 billion. It is important to stress, however, that while the positive impact of monetary policy measures was felt by all agents in the economy, the cost of these measures was concentrated at the central bank.

As a result of the gradual reduction of the policy rate, the MNB's loss in 2024 decreased significantly, while the central bank's equity position improved due to exchange rate movements. In 2024, the preliminary data show that the MNB's loss decreased, mostly due to lower interest expenditure as a result of lower domestic interest rates, but also due to an increase in interest income on foreign exchange reserves and an increase in the exchange rate result.

If price stability is achieved in a sustainable manner, external vulnerabilities are reduced and bank liquidity surpluses tighten in the coming years, the central bank's profit could rise, allowing the MNB's equity to turn positive in the longer term. However, in addition to monetary policy developments, a number of other variables, both domestic and external, could have a significant impact on the evolution of the MNB's capital. According to the forecast provided by the MNB, the future path of equity capital could exceed the level of subscribed capital in the longer term under several possible scenarios. This would require a sustainable achievement of price stability and a favorable development of external vulnerabilities.

One of the key findings of the online conference, held in autumn 2024 in cooperation with the Council and the MNB, was that a central bank can effectively perform its statutory tasks even with negative equity. There are several central banks that have had negative equity for a long time, yet have been operating smoothly and efficiently and successfully achieving price stability. Furthermore, experts consider that the use of profits from later years for this purpose is an accepted way of replenishing central bank capital.

2.5. General government deficit

The draft budget bill sets the general government sector's ESA deficit at HUF 3 588.2 billion in 2026, or 3.7 percent of GDP, which is the same as the planned deficit for 2025. However, it represents a reduction compared to the government's announced expectation of around 4 percent for 2025. The deficit target of 3.7 percent exceeds the government's deficit target for 2026 of 2.9 percent of GDP, announced in the explanatory memorandum for the 2025 budget and subsequently raised to 3.5 percent of GDP.

The projected reduction in the budget deficit in 2026 compared to 2025 is also mainly due to lower interest expenditure. Interest expenditure on gross accrual basis as a share of GDP is projected to fall to 3.7% in 2026 under the draft law. The primary balance of the budget excluding interest expenditure is projected to remain close to balance in 2026, similar to the actual balance in 2024 and the projected balance in 2025.

The Council continues to consider it necessary to bring the government sector deficit below 3% of GDP in order to balance the Hungarian economy and budget. At the same time, the deficit target for 2026 is above the 3 percent criterion of the EU's founding treaty and the 2.5 percent deficit target for 2026 resulting from the net expenditure path approved by the Council of the European Union. According to the recommendation issued by the Council of the European Union under the excessive deficit procedure, Hungary should put an end to the excessive deficit situation by 2026 and ensure that the growth rate of net expenditure does not exceed the specified values.

No information is provided in the draft budget law on the rate of increase in net expenditure, which is a priority in the new EU budgetary framework. Based on the above-mentioned recommendation of the Council of the European Union, the maximum annual growth rate of net expenditure in 2026 is 4.0 percent, while the cumulative growth rate between 2024 and 2026 is 13.5 percent. The rules allow for a deviation from these figures of 0.3 per cent of GDP per year and 0.6 per cent of GDP cumulatively. The 2026 requirement is therefore affected by the 2024 outturn and the projected expenditure developments in 2025.

According to the explanatory memorandum of the draft budget bill, "the European Commission's White Paper on the future of European defense, presented to the European Council of 20-21 March 2025, details the so-called REARM Europe plan for a rapid and substantial increase in defense spending. One of the main pillars of this is the activation of the national bail-out clause of the Stability and Growth Pact, which allows Member States to deviate from the correction path under the excessive deficit procedure if this is due to an increase in defense spending. The change of regulation could affect the period 2025 - 2028. The expenditure increase could be capped at 1.5 percent of GDP compared to the base period 2021, however, the exact definition of defense expenditure and the actual defense expenditure in 2024, which is an important input under the modifying rules criterion, will only be known at a later stage." Therefore, the margin of flexibility that will become known later and its possible use will affect the budget deficit, the evolution of the public debt and compliance with the fiscal rules. The Council notes that this legislation is at an early stage of development and is not yet in force, i.e. it does not currently increase the room for budgetary maneuver. If the Member States' requests for derogations are formally submitted by 30 April 2025, the Commission's recommendation (assessment) will be issued as part of the so-called spring package, expected on 4 June 2025. According to the European Commission, Hungary is one of the 12 Member States that have formally submitted a request to activate the national derogation clause.[5]

In view of the circumstances detailed above, the Fiscal Council proposes that, following the final assessment of the national exemption clause by the European Commission and the amendment of the relevant EU legislation, the Government, in parallel with the Council's examination, should examine whether the 2026 budget complies with EU rules and, if not, take the necessary measures to ensure compliance with the requirement of Article 3/A of the Stab. Act. The Council considers it appropriate for the Government to set out its commitment in this respect in the draft budget bill.

The Council considers that there are substantial risks to the achievement of the 2026 deficit target. Lower-than-planned economic growth in 2026 would reduce tax revenues in the budget, and risks to economic growth in 2025 and the 2025 budget outturn could also affect the 2026 outturn through the base effect. The continued uncertainty surrounding the availability of EU funds would lead to an increase in the cash deficit due to the under-performance of the Recovery and Resilience Fund and the under-performance of the Cohesion Fund for 2021-2027, with unchanged expenditure.

The cash deficit of the central government sub-system is included in the draft budget bill for 2026 at HUF 4 218.5 billion, which is 4.4% of the HUF 95 747.0 billion GDP planned for 2026 as specified in the explanatory memorandum of the draft.

[5] https://ec.europa.eu/commission/presscorner/detail/en/ip_25_1121

According to the draft budget bill for 2026, the amount of revenues will increase from HUF 38 728.8 billion in the 2025 Budget Act to HUF 39 546.3 billion (2.1 percent) in 2026. Planned expenditure appropriations will increase from HUF 42 851.8 billion in 2025 to HUF 43 764.9 billion in 2026, i.e. in 2026, compared to 2025, planned revenue appropriations of the central subsystem will increase by HUF 817.5 billion and expenditure appropriations by HUF 913.0 billion. On this basis, the cash deficit of the central subsystem increases from HUF 4 123.0 billion in 2025 to HUF 4 218.5 billion in 2026, an increase of HUF 95.5 billion.

2.6. Public debt

According to the draft budget bill for 2026, the government debt-to-GDP ratio is projected to decline to 72.3 percent (HUF 69 227.7 billion) by 31 December 2026 from 73.1 percent (HUF 64 251.3 billion) by the end of 2025, thus meeting the requirement of the reduction of the government debt-to-GDP ratio set out in Article 36 (5) of the Fundamental Law. According to the draft budget, nominal government debt could increase by nearly HUF 5 000 billion in 2026, with a HUF 4 219 billion cash deficit, while the debt of government sector entities will increase by HUF 200 billion and the government debt of classified entities to be consolidated will decrease by HUF 330 billion. The cash deficit of the central subsystem exceeds the increase in central government debt by HUF 172.5 billion. The increase in nominal government debt is offset by a projected increase in nominal GDP of 9.0 percent in 2026 compared to the projected GDP in 2025.

The Fundamental Law provides for the adoption and implementation of a budget law for the reduction of the public debt ratio above 50 percent, with the possibility of derogation in times of special legal order, to the extent necessary to mitigate the consequences of the circumstances giving rise to it, or in the event of a sustained and significant downturn in the national economy, to the extent necessary to restore the balance of the national economy.

In addition, the Stability Law requires that the value of the government debt indicator planned for the last day of the budget year in the Central Budget Law be set, if a reduction is necessary in accordance with the Constitution and EU law, in such a way that it is reduced compared to the reference year.[6] The requirement of the Stability Law is fulfilled as drafted.

According to the draft 2026 budget bill, the public debt ratio could decline by 0.8 percentage point in 2026, which is achieved with nominal GDP growth of 9.0 percent and real GDP growth of 4.1 percent, respectively, and cash flow and ESA deficits of 4.4 percent and 3.7 percent of GDP, respectively, according to the macroeconomic path of the budget. The potential lower-than-expected economic performance could make it substantially more difficult to achieve the planned reduction in the public debt ratio.

The Council reiterates that the foreign exchange ratio of the central government debt has risen to close to 30%, and according to the draft, it is 29.7%, which is below the 30% ceiling set by the GDMA Pte. Ltd., but very close to it. Changes in the forint-euro exchange rate have an

[6] Act CXCIV of 2011 on the Economic Stability of Hungary, § 4 (2a)

impact on the debt ratio through the revaluation of foreign currency debt. This impact is smaller the lower the share of foreign debt in government debt. Currently, a change in the forint-euro exchange rate of 10 forints changes the government debt-to-GDP ratio by about 0.6 percentage points. The draft assumes a euro exchange rate of 403.4 forints and a US dollar exchange rate of 387.5 forints.

The EU's debt rule states that Member States' debt ratios must not exceed 60% of GDP or, if they do, that a satisfactory reduction in the debt ratio is needed. Under Regulation (EU) No 2024/1263 of the European Parliament and of the Council, the new EU rules quantify the required debt reduction, the path in the national medium-term budgetary structural plan. National budgetary expenditure must be consistent with the net expenditure path in the plan, which, among other things, ensures a satisfactory reduction in government debt[7] .

Budapest. 4 May 2025.

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Member of the Fiscal Council

Gábor Horváth

President of the Fiscal Council

[7] It should be noted that, according to point 19 of the "European Commission recommendation on the approval of Hungary's medium-term fiscal structural plan" published by the European Commission on 16 January 2025, the plan submitted by Hungary projected a debt-to-GDP ratio of 73.5 per cent by the end of 2025 and 71.3 per cent by the end of 2026. In addition, based on point 15 of the same document, the Commission of the European Union, in its previous autumn forecast, projected a public debt of 74.5 percent of GDP by 2025 and 73.8 percent of GDP by 2026.