Decision of the Fiscal Council
on its consent to the final vote on Hungary’s 2026 central budget bill

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

The Fiscal Council (hereinafter referred to as the Council, Fiscal Council) shall formulate its position on the basis of Section 25 of Act CXCIV of 2011 on the Economic Stability of Hungary (hereinafter referred to as the Stability Act, Stab. Act) on the preliminary consent required for the adoption of the draft law on the central budget pursuant to Article 44 (3) of the Fundamental Law. In doing so, it shall examine whether the draft law meets the requirement of a reduction in the level of the public debt ratio as provided for in Article 36(5) of the Fundamental Law.

In its Opinion No 4/2025.05.04 on the draft bill on Hungary's 2026 central budget, the Council noted that it expects economic growth of 4.1 per cent in 2026, but 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 FC believes that the government's growth projection could be achieved, but is subject to significant uncertainties: "[the] macroeconomic path set out in the budget is at risk, in particular from protracted geopolitical conflicts and escalating trade tensions." In contrast, however, growth could benefit from "[the] fiscal stimulus planned by Germany and some other large economies of the EU, which could also be supported by a more flexible set of EU fiscal rules."

In its opinion, the Council indicated that, as in previous years, it continued to consider it necessary "to bring the government sector deficit below 3 percent in order to balance the Hungarian economy and budget". The draft budget bill set the "general government sector deficit on an accrual basis (ESA) at 3.7 percent of GDP", which "represents a reduction of 0.3 percentage points in magnitude compared to the government's announced expectation of around 4 percent for 2025."

According to the FC assessment, "there are material risks to the achievement of the 2026 deficit target", mainly due to lower-than-planned economic growth resulting in lower-than-planned tax revenues and uncertainties surrounding the availability of EU funds. Another risk identified by the Council was that the "Exceptional Government Measures appropriation includes a reserve of HUF 50 billion, which is below past levels and the level of risk". In its opinion, the Council also recommended a significant increase in the reserve in view of the above.

In the Council's opinion, "in accordance with the provisions of Article 36 Section (5) of the Fundamental Law, and without making use of the possibility of exemption under Article 36 Section (6), the government debt ratio[1] is expected to decline in the course of 2026 according to the draft budget bill": from 73.1 per cent at the end of 2025 to 72.3 per cent at the end of 2026. At the same time, the Council also noted that the 0.8 percentage point reduction in the debt-to-GDP ratio "is achieved with nominal GDP growth of 9.0 percent and real GDP growth of 4.1 percent, respectively, and cash and ESA deficits of 4.4 percent and 3.7 percent of GDP, respectively, according to the macroeconomic path of the budget." For this reason, the lower-than-planned economic performance could make such a decline in the indicator substantially more difficult.

On this basis, the Council concluded that "the draft Budget Bill 2026 complies with the debt rule of the Constitution and the provision of Article 4 Section (2a) of the Stab. Act."

In accordance with Article 23 Section (1) (ac) of the Stability Act, the FC examined whether a budgetary reimbursement is necessary in 2026 to ensure the adequacy of the capital of the Magyar Nemzeti Bank (MNB) and concluded that, under the current rules, a recapitalization of the MNB is not necessary at present.

The government's response to the comments of the Council on the draft bill on the 2026 central budget of Hungary is contained in the general explanatory memorandum of the bill submitted under T/11864. This was referred to by the President of the Council during his oral presentation of the Opinion at the beginning of the general debate on the draft law, as authorized by the Council.

On 10 June 2025, the Speaker of the National Assembly sent to the Council by letter No OE-42/351-2/2025, the draft bill T/11864/359. requesting the Council's opinion on its compliance with the public debt rule pursuant to Article 25 of the Stability Act and its prior consent to the final vote on the bill pursuant to Article 44 Section (3) of the Fundamental Law.

[1] Public debt indicator: the ratio [...] to be taken into account in the implementation of Article 36 Sections (4) to (5) and Article 37 Section (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).

In making this decision, the Fiscal Council has relied on the assessment of the State Audit Office of Hungary and the National Bank of Hungary.

II.

Opinion of the Fiscal Council

At its meeting of 11 June 2025, the Council adopted the following resolution, based on the examination of the Budget Bill No. T/11864/359 on the Central Budget of Hungary for 2026 pursuant to Article 25 of the Stability Act.

1) The Council concludes that the amendments proposed for adoption in the Budget Bill do not change the projected cash deficit. Consequently, the planned amount of government debt will not change.

2) In the draft budget law, the Government has accepted the Council's proposal for an increase in the reserves, and has therefore increased the appropriations for Exceptional Government Measures from HUF 50 billion to HUF 192 billion. At the same time, it cut expenditure by the same amount, leaving the budget balance unchanged.

3) In accepting the Council's proposal, the bill stipulates that, after the EU rules following the activation of the country-specific exemption provisions under Article 26 of Regulation (EU) 2024/1263 of the European Parliament and of the Council have been finalized, but no later than 31 December 2025, the Government will review whether the expenditure, revenue and balance under the 2026 Budget Law comply with the EU's requirements, in particular the net expenditure path for Hungary. The Government commits that if the review shows non-compliance, the Government will take the necessary measures to ensure compliance. In the meantime, the Government has submitted a request to the European Commission to activate the national escape clause. On the basis of its assessment, the Commission recommends to the Council of the European Union to allow Hungary to exceed the previously agreed maximum growth rate of net expenditure over the period 2025-2028 by the increase in defense expenditure as a percentage of GDP compared to 2021, but not by more than 1.5% of GDP. The adoption of the recommendation could create the possibility of complying with the requirement under Article 3/A of the Stability Law when the Law on the Central Budget of Hungary for 2026 enters into force.

4) The Council maintains its comments on the risks to macroeconomic developments in the draft budget bill. In the Council's view, the lower-than-expected GDP figure for the first quarter of 2025 and trade tensions in the global economy pose risks to lower

growth. These pose material growth and budgetary risks for 2025, which is the base year for the budget, and also carry over to 2026.

5) In giving its consent to the final vote on the budget bill, the Fiscal Council examined whether the proposed bill is in line with the requirement of Article 36 Section (5) of the Fundamental Law. The Council notes that the debt ratio planned for 31 December 2026 in Article 3 Section (1) of the Unified Budget Bill No. T/11864/359. on the Central Budget of Hungary for 2026 is determined in accordance with the provisions of the Stability Act, in line with the macroeconomic forecast underlying the bill and the projected public finance developments. The public debt indicator calculated for the end of 2026 in the bill is 0.8 percentage points lower than the expected value of the indicator for the end of 2025, without making use of the possibility of exemption under Article 36 Section (6) of the Fundamental Law. On this basis, the Council concludes that the requirement of Article 36 Section (5) of the Fundamental Law is fulfilled and therefore gives its preliminary consent, pursuant to Article 44 Section (3) of the Fundamental Law, to the final vote on the Unified Budget Bill T/11864/359.

6) The Fiscal Council authorizes its Chairman to inform the President of Parliament of the Decision without delay and to present it to the plenary session of Parliament prior to the final vote.

III.

Justification

The changes in appropriations adopted by the National Assembly, compared to those contained in the bill submitted under the number T/11864, increase the revenue and expenditure of the central sub-system of the general government budget for 2026 by the same amount of HUF 16.46 billion.

The amendments do not change the planned cash deficit of the central subsystem and thus the planned amount of government debt. The general government sector balance calculated according to the EU methodology remains unchanged as well.

The increase in revenues is mainly due to a HUF 14.8 billion increase in dividend receipts related to the Ministry of National Economy's ownership. The increase is justified by the ability of one of the companies that was purchased by the state in 2024 to pay dividends. However, there are risks to the overall dividend income outturn. An additional increase in expenditure of around HUF 30 billion is offset by an equivalent decrease in expenditure and does not pose an additional risk to the increase in the budget deficit.

Several of the expenditure revisions are zero balance transfers related to changes in functions between government agencies. The most significant changes in expenditure appropriations are: the provision of the necessary resources for the continuation of the Gondosóra programme (HUF 17 billion), an increase in the appropriation of the National Cultural Fund (HUF 7.7 billion), and the support for the European Space Agency (ESA) membership fee and ESA Requesting Party Activities (RPA) programme (HUF 2.2 billion in total).

Among the expenditure-cutting amendments, the most notable are the reduction of the Court of Justice's staff appropriations and related contributions and social contribution tax, totaling HUF 12.6 billion, and the reduction of the Prosecutor's Office's staff appropriations and related contributions and social contribution tax, totaling HUF 3.4 billion.

In its Opinion 4/2025.05.04. the Fiscal Council indicated that the initial appropriation for Exceptional Government Measures included a reserve of HUF 50 billion, which was below past levels and the level of risk. In view of this, the Council proposed a significant increase in the appropriations for Exceptional Government Measures, which the Government accepted, and amended the amount to HUF 192 billion in the bill submitted to Parliament, while at the same time reducing expenditure by the same amount in the draft, leaving the budget balance unchanged. The expenditure reductions are most significant in the appropriations for rail improvements based on international contracts, utility prices compensation for institutions with public service obligations and infrastructure management.

The FC noted that the main risks to the achievement of the macroeconomic path set out in the budget are the prolonged geopolitical conflicts and the escalating trade tensions. Hungary, as an open and export-oriented country, is significantly exposed to these external shocks. In line with this, forecasts by international organizations and analysts following the announcement of the US tariff hikes point to more subdued economic growth for Hungary in both 2025 and 2026. All these uncertainties amplify the risks of early budget planning. However, domestic growth could benefit from the fiscal stimulus planned by Germany and some other large economies of the EU, which could also be supported by more flexible EU fiscal rules.

The Council drew attention to the review mechanism of the wage agreement between the industry and the members of the government's Permanent Consultation Forum, under which a combined deviation of economic growth, inflation and average gross earnings above the threshold level could lead to a renegotiation of the wage agreement. This could have a significant impact on the macroeconomic trajectory through changes in the dynamics of net wage growth and, consequently, consumption developments. This trend further reduces the likelihood that the rate of wage growth in the competitive sector will rise above 10 per cent in 2026, as forecast by the government.

No information was provided in the draft budget law on the growth rate of net expenditure, which is a priority in the new EU budgetary framework. The EU's rulebook for the period 2025-2028 is currently being amended in view of the REARM Europe programme. 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 deducted when back-testing the cumulative net expenditure path. This is because the deviation from the net expenditure trajectory may take into account the increase in defense spending as a share of GDP relative to 2021.

In the light of the above circumstances, the Council recommended that, following the final assessment of the national derogation clause by the European Commission and the amendment of the relevant EU legislation, the Government, under the scrutiny of the Council, should examine the compliance of the 2026 budget with EU rules and, if necessary, take measures to ensure compliance with the requirement of Article 3/A of the Stability Law. This proposal has been accepted by the Government and its commitment to this effect has been enshrined in the draft budget bill.

On 30 April 2025, the Government of Hungary submitted its request to the European Commission to activate the national escape clause. If the Commission's recommendation of 4 June 2025, forwarded to the Council of the European Union, is accepted, Hungary will have the possibility to exceed the previously agreed maximum growth rate of net expenditure in the period 2025-2028, but the deviation should not exceed the increase in defense expenditure as a percentage of GDP compared to 2021 or 1.5 percent of GDP.

According to Article 36 Section (5) of the Fundamental Law, as long as the public debt ratio exceeds 50 per cent, Parliament may only adopt a law on the central budget that includes a reduction of the public debt ratio. This may be derogated from 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.

According to the proposed 2026 Budget Law, the government debt-to-GDP ratio is projected to fall to 72.3 percent on 31 December 2026 from 73.1 percent at the end of 2025, thus meeting the requirement of a reduction in the government debt-to-GDP ratio as set out in Article 36 Section (5) of the Fundamental Law. According to the draft budget, nominal government debt could increase by nearly HUF 5 000 billion (from HUF 64 251.3 billion to HUF 69 227.7 billion) in 2026, which, in addition to the HUF 4 219 billion cash deficit, will be contributed by an increase of HUF 200 billion in the debt of government sector entities, while the government debt of classified entities to be consolidated will decrease by HUF 330 billion. The increase in nominal government debt is offset by the fact that the bill projects nominal GDP to increase by 9.0 percent in 2026 compared to projected GDP in 2025.

Furthermore, the Stability Law requires that the value of the government debt indicator planned for the last day of the fiscal year in the Central Budget Act should be set, if necessary to reduce it in line with the Fundamental Law and EU law, in such a way that it is reduced relative to the reference year. The bill also fulfils the requirement of the Stability Law.

Overall, the amendments contained in the Unified Budget Bill T/11864/359 did not require a revision of the findings of the Fiscal Council’s earlier Opinion 4/2025.05.04 on the validity of the public debt rule. In the light of the above, the Council adopted its opinion on the unified budget bill on compliance with the public debt rule, in accordance with Article 25 of the Stability Act, and gave its assent to the final vote on the Unified Budget Bill T/11864/359. At the same time, in its Opinion, the Council considered it necessary to draw attention to the risks surrounding the implementation of the 2026 budget.

Budapest, 11 June 2025.

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