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COMMISSION STAFF WORKING DOCUMENT

In-depth review for Hungary

**Prepared under Regulation 1176/2011 on the prevention and correction of
macroeconomic imbalances**



European
Commission

Hungary

In-Depth Review 2026



This in-depth review presents the main findings of the Commission's staff assessment of macroeconomic vulnerabilities for Hungary for the purposes of Regulation (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances. It provides technical input to the Commission for the Communication "European Semester – 2026 Spring Package" that will set out the Commission's assessment as to the existence of imbalances or

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1. INTRODUCTION

This in-depth review (IDR) analyses the evolution of Hungary's vulnerabilities, mainly related to government financing needs, cost competitiveness, the housing market, and the financial sector. An IDR was carried out for Hungary in spring 2025 and the Commission concluded that Hungary was continuing to experience imbalances.⁽¹⁾ This year's IDR, which follows the 2026 Alert Mechanism Report (AMR) published in November 2025, assesses the persistence or unwinding of the vulnerabilities identified last year, potential emerging risks, relevant policy progress and policy options that could be considered for the future.⁽²⁾

Hungary's vulnerabilities are assessed against the backdrop of three years of stagnation that is now expected to be followed by an economic recovery. Economic growth in 2025 remained sluggish at 0.5% following a 0.7% increase in 2024. The resilient labour market and moderating but significant wage increases bolstered consumption. However, investment and exports were subdued due to uncertainties around trade prospects and weak performance in Hungary's sizeable automotive industry. GDP growth is projected to accelerate to around 2% in 2026 and 2027, with consumption expected to be the key driver, supported by strong real income growth. Exports are also projected to increase significantly in 2026 and 2027, with the launch of assembly facilities in the automotive industry. Expansionary fiscal policy is expected to support growth in 2026, though it will also increase the government deficit, debt, and debt servicing costs, with gross financing requirements expected to remain high. Significant downside risks to the outlook remain. In particular, continued weaknesses linked to developments in global supply chains pose a risk to the macroeconomic outlook and the current account balance. Deteriorating cost competitiveness due to high price and wage growth in the economy exacerbates these risks. Hungary's access to some EU funds under the Recovery and Resilience Facility and cohesion policy has been blocked due to rule of law issues, which has added uncertainty and limited investment that would help facilitate the economic recovery.

Inflation increased in 2025 and inflationary pressures are expected to continue in 2026. Inflation rose to 4.4% in 2025 on the back of rising global food prices and continued domestic demand. Core inflation remained well above the EU average at 5.3%, owing to services inflation reflecting elevated inflation expectations and the third highest wage growth in the EU in 2025. Nominal wage growth, reinforced by a 11% minimum wage hike and

⁽¹⁾ European Commission (2025), Hungary – In-depth Review 2025, Staff Working Document, [SWD\(2025\) 127 final](#) (published as European Economy, [Institutional Paper 312](#), May 2025); and European Commission (2025), 2025 European Semester - Spring package, Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank, [COM\(2025\) 200 final](#).

⁽²⁾ European Commission (2025), Alert Mechanism Report 2026, Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee, [COM\(2025\) 956 final](#); and European Commission (2025), Alert Mechanism Report 2026, Staff Working Document, [SWD\(2025\) 956 final](#).

public wage increases in 2026, is set to sustain domestic price pressures. Inflation is expected to remain above 3% in 2026, with core inflation higher at over 4%.

The cut-off date for the data for preparing this IDR was 23 April 2026. Unless stated otherwise, all the forecast data used in this IDR were taken from the Commission's Autumn 2025 Forecast ⁽³⁾ to ensure the coherence of the various figures and calculations. However, if actual outturn data become available after the publication of the autumn forecast, that is used. Assumptions concerning energy prices, other commodities prices, and other general assumptions were taken from the Autumn 2025 Forecast and do not reflect developments related to the war in the Middle East and its impact on energy prices ⁽⁴⁾.

⁽³⁾ European Economy, [Institutional Paper 327](#)

⁽⁴⁾ The Commission is assessing the sensitivity of Member States to major economic shocks originating abroad, including in the context the recent sharp increase in energy prices and trade tensions. The results of this analysis will be published in the forthcoming European Commission Institutional Paper dedicated to spillovers analysis that accompany the 2026 in-depth reviews.

2. ASSESSMENT OF MACROECONOMIC IMBALANCES

In 2025, deteriorating cost competitiveness, soaring house prices and an elevated fiscal deficit continued to create vulnerabilities in the Hungarian economy. Wage and unit labour cost (ULC) growth were among the highest in the EU in 2025, deteriorating the economy's cost competitiveness. House prices continued to rise sharply in 2025 following a pick-up in 2024, reflecting strong demand amid persistent housing undersupply. At the same time, the policy mix remains broadly unchanged. The budget deficit remained elevated in 2025 and the government debt-to-GDP ratio continued to increase. The expansionary fiscal policy in 2025 is set to continue in 2026 due to additional public spending. The achievement of fiscal targets is not guaranteed and the national fiscal framework provides only a limited medium-term orientation. Monetary policy has been tight, but its transmission to the real economy has been weakened by state interventions. In particular, subsidised lending schemes distort capital allocation, despite banks maintaining ample capital buffers and a solid credit portfolio.

2.1. GOVERNMENT SECTOR

Assessment of gravity, evolution and prospects of vulnerabilities

Both the government deficit and debt ratio remained elevated in 2025 and this is projected to continue in 2026 and 2027. Government accounts data show a deficit of 4.7% of GDP in 2025 after deficits of 7.0% and 5.1% of GDP in 2023 and 2024, respectively. The Commission's 2025 Autumn Forecast projected the deficit to rise to 5.1% in 2026 and 2027 (Graph 2.1.a). However, policy measures introduced in late 2025 and early 2026 risk further increasing the deficit. The elevated deficits are also driving a rise in the government debt ratio, which is projected to rise from 73.5% of GDP in 2024 to 74.9% in 2027. The debt sustainability analysis indicates that risks to fiscal sustainability are overall high in both the medium and long term (see Box 2.1).

As a result, government gross financing and refinancing needs remain elevated. Hungary expects to require financing worth 18% of GDP in 2026.⁽⁵⁾⁽⁶⁾ While this is lower than the 26% of GDP raised in 2025, the composition of the debt poses additional challenges. In particular, households hold 19% of government debt in the form of retail bonds, which can be redeemed at any time and therefore present a refinancing risk. The Hungarian debt

⁽⁵⁾ This includes T-bills that are rolled over multiple times within a year, as well as retail bonds that can be redeemed at any time. For these reasons, the gross financing raised is higher than the figures in the Commission's Debt Sustainability Monitor 2025.

⁽⁶⁾ See the press release from Hungary's debt management office (AKK) [here](https://akk.hu/download?path=2f3b7e94-ff5d-42ea-b00f-4c45a711c93f.pdf): <https://akk.hu/download?path=2f3b7e94-ff5d-42ea-b00f-4c45a711c93f.pdf>

management office (AKK) changed its foreign currency debt benchmark in 2025 to facilitate further foreign currency debt issuances: the 30% maximum share was changed to “around 30%” with a tolerance range of +/- 3 percentage points. Hungary already faces the second highest debt-servicing costs in the EU (at 3.8% of GDP in 2025). Average yields on 10-year government bonds increased from 2.2% in 2020 to 6.9% in 2025, and stood at 6.7% in March 2026, reflecting the fiscal sustainability risks the country faces. The high level of government guarantees that could potentially be called adds to the risks (see Annex 1). The elevated financing needs further expose it to changes in investor sentiment. Hungary’s credit rating has a negative outlook with the three major credit rating agencies and is ranked one notch above investment grade by S&P.

Assessment of MIP relevant policies

Fiscal policy continues to be expansionary, driven by the adoption of new deficit-increasing measures. Measures were introduced on both the expenditure and revenue side in 2025 and 2026, beyond what was adopted in the 2026 budget. This included public wage increases, large cuts in personal income taxes, a 14th month pension, generous housing subsidies and other (largely untargeted) subsidised lending schemes. Many of these measures are permanent, and the extension of temporary sector-specific taxes in finance, energy and retail in 2026 is not expected to offset their impact. Hungary’s tax revenue has declined as a share of GDP, from 39% in 2016 to 35% in 2025. Income tax revenues as a share of GDP were projected to fall in 2026 and 2027 as a result of the phase-in of the personal income tax exemption for mothers through 2029.⁽⁷⁾ In recent years, fiscal consolidation attempts have mainly impacted public investment, which fell from 6.2% of GDP in 2019 to 3.8% in 2025. Uncertainty around the public finances has been exacerbated by Hungary’s blocked access to some EU funds due to rule of law issues, under both the Recovery and Resilience Facility and cohesion policy.

The national fiscal framework offers only limited incentives for fiscal sustainability. The ‘state of danger’ in force since 2020 has lifted the requirement to publish a multiannual budgetary plan and, as long as the state of danger remains in place, limits the ability of the fiscal framework to ensure a medium-term orientation and accountability, as discussed in Hungary’s IDRs since 2023.⁽⁸⁾ This issue is compounded by early budget adoption and frequent revisions to fiscal targets. Hungary ranks second lowest in the EU in the Commission’s fiscal governance database, both in terms of the strength of the medium-term budgetary framework and the design strength of its national fiscal rules.⁽⁹⁾ The original 2025 budget deficit target was 3.7% of GDP, but the government subsequently increased it with three successive revision announcements, to 4.1%, 4.3%, and ultimately 5.0% of GDP. This undermines the credibility of fiscal targets. The government also announced that it would not achieve its national debt rule—which stipulates that the government should ensure the

⁽⁷⁾ This includes current taxes on income and wealth.

⁽⁸⁾ Under the state of danger, the government may issue decrees by which it can suspend the application of certain laws, deviate from legal provisions, and take other extraordinary measures, which can be adopted by the parliament as laws ex post. The state of danger under the Article 53 of the Fundamental Law was introduced during COVID-19 pandemic and has been repeatedly extended. It is currently in force until 13 May 2026.

⁽⁹⁾ https://economy-finance.ec.europa.eu/economic-research-and-databases/economic-databases/fiscal-governance-database_en

public debt ratio is reduced each year—in either 2025 or 2026. With regard to the Hungarian Fiscal Council, its mandate remains narrow, and strengthening its role and independence by enhancing its own operational capacities could help improve fiscal discipline and transparency.⁽¹⁰⁾ Hungary currently ranks 20th out of the 27 EU Member States in the Commission's Scope of Fiscal Institutions index.⁽¹¹⁾

2.2. COST COMPETITIVENESS AND EXTERNAL SECTOR

Assessment of gravity, evolution and prospects of vulnerabilities

Inflation increased in 2025 and it is set to decline only gradually as underlying inflationary pressures ease. On average, HICP inflation rose to 4.4% in 2025 from 3.7% in 2024, largely driven by the increasing global food prices in the beginning of 2025, while services inflation remained elevated. Inflation declined throughout mid and late 2025 and stood at 2.1% in March 2026 owing to a decline in food inflation, modest repricing of services and fuel price regulations which limited the impact of rising oil prices due to the conflict in the Middle East. Moreover, a government decree⁽¹²⁾ aiming to cap the difference between the retail and purchase prices of certain food and industrial goods lowered inflation in 2025.⁽¹³⁾ However, core inflation fluctuated around 5.5% in 2025 and the core inflation differential against the euro area has remained one of the largest in the EU, at 2.9 pps. in 2025 (Graph 2.1.b). This suggests that underlying price pressures are persistent, even if core inflation eased to 4.4% in Q1 2026, owing to a fall in services inflation. Inflation and core inflation are expected to decline gradually in 2026-27 thanks to the currency appreciation, and a somewhat lower wage growth.

Firms only partially passed rising wage costs onto their customers, which resulted in a decline in profits as a share of value added in 2025. The GDP deflator decreased from 7.6% in 2024 to 6.3% in 2025, but remained elevated due to increasing wages (Graph 2.1.c).⁽¹⁴⁾ Wage growth remained elevated, fuelled by high perceived inflation and public sector wage increases, although it declined to 9.0% in 2025, from 12% in 2024. The minimum wage increased by 9% in 2025, directly affecting 5% of employees, while the guaranteed minimum wage for skilled workers, which affects 8% of employees directly, increased by 7%. At the same time, firms' gross operating surplus as a share of value added declined from 42.4% in 2024 to 41.3% in 2025 and remained slightly below that of regional peers, while the

⁽¹⁰⁾ The requirements for the national medium-term budgetary framework and remit of the Fiscal Council of Hungary are affected by the 2024 amendments to the Directive on requirements for budgetary frameworks of the Member States (2011/85/EU). The amendments strengthen national medium-term budgetary frameworks, extend the independence safeguards for independent fiscal institutions to all EU Member States and assign some new compulsory tasks to these institutions.

⁽¹¹⁾ https://economy-finance.ec.europa.eu/economic-research-and-databases/economic-databases/fiscal-governance-database_en

⁽¹²⁾ See: [Government decree 42/2025](#), in Hungarian

⁽¹³⁾ See Box 3-1 in MNB (2025): [Inflation Report June 2025](#) for an estimation about the impact of this measure.

⁽¹⁴⁾ Although in the period between 2020 and 2024 the contribution of profit and wage increases were roughly equal. See a more detailed analysis in: Výškrabka and Bodea (2025): [After the Inflation Shock. Taking Stock of Price and Cost Competitiveness in the EU](#), European Economy Discussion Paper 240 January 2026

wage share was somewhat higher. In 2026, wage growth is expected to decline but remain the highest in the EU, owing to public wage hikes and an 11% minimum wage increase together with a 7% increase in the minimum wage for skilled workers. This could worsen competitiveness if firms also seek to avoid a further decline in their profit share. Furthermore, the planned 14% minimum wage increase in 2027, conditional on macroeconomic fundamentals, may add to wage pressures.⁽¹⁵⁾

Stagnating productivity together with rising wages resulted in a substantial labour cost increase. Unit labour costs (ULCs) rose by 8.6% in 2025, reflecting the impact of wage increases, after surging by 11.6% in 2024. This indicates that wage growth in 2025 was not backed by productivity gains. In particular, output per hour worked decreased by 0.1% in 2025 compared to a 0.6% decrease in 2024 due to weak economic growth and labour hoarding amidst an unfavourable business sentiment.⁽¹⁶⁾ ULC growth is set to decline gradually in 2026 and 2027, due to a decline in overall wage growth and improving productivity. Nonetheless it is expected to be the highest in the EU in 2026 and to remain elevated in 2027.

Currency appreciation also contributed to the deterioration in Hungary's cost competitiveness. The Hungarian forint appreciated by 0.5% on average against a basket of currencies in 2025 compared to 2024, and by 6% and 13% against the euro and the US dollar respectively. Currency appreciation, particularly in the second half of 2025, helped to decrease import prices although its pass-through to consumer prices remained limited.⁽¹⁷⁾ Overall, the HICP-based real effective exchange rate (REER) appreciated by 1.6% and the ULC-based REER appreciated by 4.0% in 2025 compared to the previous year, indicating that the price competitiveness of the Hungarian economy deteriorated in 2025 (Graph 2.1. d).

The export of goods declined and Hungary's sizeable automotive industry underperformed relative to regional peers in 2025. Exports declined by 1.1% in 2025 compared to 2024 owing to a decline in goods export, primarily rubber tyres and safety glass products, which may be attributed to weaknesses in the European automotive industry. Moreover, Hungary's automotive industry, which represents 17% of the value added in manufacturing, underperformed compared to regional peers because the international producers that have operations in Hungary performed worse than those in Czechia and Slovakia.⁽¹⁸⁾ Nevertheless, the wage level, namely the average hourly labour cost, in manufacturing in Hungary was still one of the lowest in the EU in 2024 and below that of regional peers. Thus, the recent weak performance is likely attributable to structural changes in the European automotive industry rather than to deteriorating cost competitiveness.

The current account surplus remained stable, helped by favourable terms of trade developments. The current account surplus remained stable at 1.8% of GDP in 2025, compared to 2024, and the trade balance surplus increased despite declining exports and increasing imports in volume terms. This is explained by a 2.7% improvement in the terms of trade in 2025, driven by rising export prices while import prices stagnated. Nonetheless, the

⁽¹⁵⁾ Note that the planned 14% minimum wage increase in 2027 is not incorporated in our forecast.

⁽¹⁶⁾ See Box 1-3 in MNB (2025): [Inflation Report December 2025](#) about labour hoarding in Hungary

⁽¹⁷⁾ See Box 1-2 in MNB (2025): [Inflation Report December 2025](#)

⁽¹⁸⁾ See Box 3-2 in MNB (2025): [Inflation Report December 2025](#)

current expansionary fiscal policy and elevated household consumption could increase imports further and decrease the current account balance in a less favourable terms of trade environment.

The high reliance on energy imports, particularly from Russia, poses a risk. Hungary's economy is among the most energy-intensive in the EU, alongside Czechia and Slovakia, using 70% more energy than the EU average to produce a unit of value added, owing to relatively high consumption by households and the industry. In 2025, Hungary's fossil fuel imports from Russia amounted to 1.6% of GDP. Cost considerations may explain Hungary's sustained reliance on Russian crude oil, however the cost advantage of Russian gas is less clear, and the existing oil and gas infrastructure appears adequate to allow for the substitution of Russian supplies.⁽¹⁹⁾

The impact of substituting Russian fossil fuels on Hungary's trade balance is expected to be limited. Phasing out Russian fossil fuels is expected to be feasible without creating supply shortages,⁽²⁰⁾ and with little or no additional impact on consumer prices, ceteris paribus.⁽²¹⁾ Eliminating Russian oil imports would likely increase import costs and widen Hungary's energy trade deficit, primarily due to higher crude oil prices. In contrast, for gas there would likely be no impact on the current account, as the unit price of Russian gas matches that of alternatives. In 2025, Hungary's crude oil imports from Russia amounted to 0.8% of GDP. This implies that the lower cost of Russian oil improved Hungary's energy trade balance by just 0.2% of GDP, compared with a scenario in which the average unit price of oil imports matched the average price of non-Russian oil. Moreover, measures to enhance energy efficiency may help offset those costs in the medium to long term.⁽²²⁾

Assessment of MIP relevant policies

Price regulations reduced inflation somewhat in 2025, but underlying price pressures are persistent. The government capped the retail markup of certain food and non-durable industrial goods in March 2025 and negotiated limits on price increases with major telecommunication and financial services providers to contain inflation. Such measures reduced HICP inflation markedly throughout 2025.⁽²³⁾ Additionally, the government capped

⁽¹⁹⁾ The lower cost of Russian crude oil can likely be attributed to an average Brent-Ural price spread of 22% in 2025. The spread narrowed in March 2026, but Ural still traded at a discount to Brent. The unit price of Russian gas was 5% lower than other sources in 2024 but prices converged in 2025.

⁽²⁰⁾ From a logistical perspective, the main alternative to the Druzhba pipeline (which transports crude oil from Russia to Hungary) is the Adria pipeline, which supplies Hungary's with seaborne crude oil through Croatia. Following the interruption of the Druzhba pipeline due to Russian airstrikes on its infrastructure on 27 January, Hungary fully relied on the Adria pipeline for its crude oil imports (from non-Russian origin) from February to late April (when the Druzhba pipeline restarted) without any disruption reported in the country's fuel market.

⁽²¹⁾ In addition to general oil price increases due to the conflict in the Middle East. This analysis assumes Hungary's energy companies will absorb the increase in oil prices, as domestic fuel prices are aligned with regional prices rather than actual input costs and tax differences.

⁽²²⁾ Simulations indicate that discontinuing fossil fuel subsidies, accelerating the provision of renewable energy permits and tightening energy standards for households, transport, and buildings, along with EU-wide policies, could reduce Hungary's energy expenditure by up to 10% and decrease energy security risks by up to 30% within five years. See: Moheb T Malak, Augustus J Panton, Hugo Rojas-Romagosa, and Atticus Weller. "Promoting Energy Security in Hungary: A Model-based Analysis", *Selected Issues Papers* 2025, 121 (2025), accessed 05/12/2025, <https://doi.org/10.5089/9798229023177.018>

⁽²³⁾ See Box 3-1 in MNB (2025): [Inflation Report June 2025](#) for an estimation for the period up to 31 August

fuel prices as of 10 March 2026 to address the impact of the soaring oil prices in March. Nonetheless, the experience from 2022⁽²⁴⁾ suggests that prices are likely to adjust upward once those measures are phased out. Furthermore, such regulations also distort market signals, increase policy uncertainty, and may negatively impact investment.

Fiscal expansion and elevated wage growth due to public wage hikes and minimum wage increases adds to domestic price pressure. Nominal and real wage growth are expected to be among the highest in the EU in 2026, owing to a tight labour market and public wage hikes and minimum wage increases in 2025 and 2026.⁽²⁵⁾ Furthermore as part of a three-year agreement between the government, major trade unions and employers' associations in the private sector to bring the minimum wage to 50% of the average wage by 2027,⁽²⁶⁾ a further minimum wage hike of 14% is envisaged for next year.⁽²⁷⁾ At the same time, the minimum-to-average-wage ratio was 43% in Hungary, similarly to that of Czechia and Slovakia. Moreover, the minimum wage in Hungary was the fourth lowest in the EU in nominal terms at the beginning of 2026.⁽²⁸⁾ Nonetheless, continuous minimum wage increases that do not go hand-in-hand with improvements in productivity, including via improvement of skills, and reforms risk further undermining competitiveness.

2.3. HOUSING MARKETS

Assessment of gravity, evolution and prospects of vulnerabilities

House prices continued to rise markedly on the back of strong demand and restricted supply. Following a 13.7% surge in 2024, nominal house price growth reached 18.3% year-on-year in 2025, the highest in the EU (Graph 2.1.e) and were estimated (using Commission methodology) to overvalued by approximately 22%. Rising wages and government supported mortgage schemes together with rising financial wealth and funds withdrawn from pension accounts boosted housing demand in 2025. This demand was not met with a corresponding increase in supply. In 2025, new dwelling construction declined by 9% compared to 2024, although the number of building permits issued increased by 37% in the same period.⁽²⁹⁾ Dwelling supply is expected to increase in late 2026 and in 2027 resulting from projects commenced in 2025.⁽³⁰⁾ The renewal rate of the housing stock of 4.6 million units was the lowest in the EU at 0.3% in 2024. At the same time, the estimated housing construction gap indicates that taking into account demographic developments and

⁽²⁴⁾ See European Commission (2023): [In-Depth Review 2023 Hungary](#)

⁽²⁵⁾ MNB (2024): [Inflation Report December 2024](#) estimates that regulated wages indirectly affect wages up until the average wage level.

⁽²⁶⁾ see European Commission (2025): [In-Depth Review 2025 Hungary](#) for an analysis about the tripartite agreement about minimum wages.

⁽²⁷⁾ See Annex 2 in European Commission (2025): [In-Depth Review 2025 Hungary](#)

⁽²⁸⁾ Note that in Purchasing Power Parity terms it was the 7th lowest.

⁽²⁹⁾ Note that over 12% of dwellings are vacant often in areas where demand is low or houses are in poor condition.

⁽³⁰⁾ See MNB (2025): [Housing Market Report November 2025](#)

amortisation, 38,700 dwelling units are needed (concentrated to the capital region) by 2035, beyond those already expected to be constructed.⁽³¹⁾

Assessment of MIP relevant policies

Generous and insufficiently targeted policies supporting housing demand are not helping affordability but rather exerting further pressure on prices and the public finances. On top of the existing subsidised scheme for married couples and various home renovation programmes,⁽³²⁾ the government stepped up support for housing purchases in 2025. Notably, it launched the Home Start Programme (HSP) in September 2025, which offers a mortgage with a fixed interest rate of 3.0% (well below the 10-year government bond yield, which was 6.9% in 2025) for amounts up to HUF 50 million to purchase apartments, subject to a maximum price and a unit price limit of HUF 1.5 million/m² (€3,700/m²). Unlike previous programmes aimed at couples with criteria based on having children, the HSP is available to anyone who has not owned more than 50% of a flat or dwelling in the past 10 years, with no requirement to reside there. Additionally, a yearly subsidy of HUF 1 million for mortgage down-payments for civil servants was launched in January 2026. Such measures increase housing demand that coupled with constrained housing supply contribute to house price increases and decreasing housing affordability.⁽³³⁾

Efforts to increase supply remain limited. On the supply side, the government aims to boost construction with a reduced VAT rate of 5% until end-2026, and the Housing Capital Programme as discussed in last year's IDR.⁽³⁴⁾ This scheme aims to provide capital amounting to 0.3% of GDP to housing developers through the state-owned development bank. However, the programme is not anticipated to have a tangible impact on dwelling construction⁽³⁵⁾ before 2027 due to the construction time of a dwelling unit, which was around 2 years in 2024, and it remains unclear whether a lack of capital is the primary bottleneck in dwelling construction. Nonetheless, weak and volatile construction profitability and regulatory changes discourage investment in the sector.⁽³⁶⁾ Furthermore, in August 2025 a government decree⁽³⁷⁾ opened up the possibility for simplifying the licensing procedure for projects with over 250 apartment that meet the criteria of the HSP, although there is no evidence that licensing had been a barrier for large scale dwelling construction projects.

⁽³¹⁾ See Balouktsi et al. (2025) [Housing investment needs in the EU](#), JRC Technical Report 144703

⁽³²⁾ See European Commission (2025): [In-Depth Review 2025 Hungary](#)

⁽³³⁾ See: European Commission (2024): [In-Depth Review 2024 Hungary](#)

⁽³⁴⁾ See: European Commission (2024): [In-Depth Review 2024 Hungary](#)

⁽³⁵⁾ Taking into account average construction cost in 2025 (around HUF 650 thousands/m²) and average dwelling size around 96 m², as well as assumptions for leverage and other costs from Box 1 of MNB (2025): [Trends in lending, December 2025](#), suggests that the programme could finance around 13 thousands dwelling unit over five years.

⁽³⁶⁾ See Box 1 in MNB (2025): [Housing Market Report November 2025](#)

⁽³⁷⁾ See [Government decree 335/225](#), in Hungarian

2.4. FINANCIAL SECTOR

Assessment of gravity, evolution and prospects of vulnerabilities

The banking sector is characterised by strong capital buffers and a high-quality loan portfolio, but banks' government bond holdings remained elevated and profitability declined somewhat. In Q3 2025, the Common Equity Tier 1 ratio remained high at 18.6% compared to 19.1% in Q3 2024 and the non-performing loan ratio remained historically low at 2.1%. Banks continued to purchase government bonds due to a tax incentive that allows banks to reduce their windfall tax liability by 10% of the increase in their government bond holdings, up to a maximum of 30% in 2027. Banks' domestic sovereign bond holdings are among the highest in the EU, at 17% of total assets at the end of 2025, posing risks related to the strong bank-sovereign nexus⁽³⁸⁾ (Graph 2.1.f). Despite high interest rate income (amounting to 3% of GDP in 2025) and increasing revenue from fees, an increase in the windfall tax and special tax on financial institutions have reduced profitability. Notably return on equity declined to 18.1% from 19.6% in 2024, although it remained at a high level.

Subsidised lending schemes fuelled household borrowing, but corporate lending remained sluggish due to weak demand. Household borrowing increased by 14.2% in 2025 compared to the stock at the end of 2024, but the household debt-to-GDP ratio remains the second lowest in the EU at 19% in 2025. The rapid growth of household lending was supported by an increase in consumer loans and housing loans, in particular in Q4 2025, due to the launch of the HSP. Overall, government-subsidised loans accounted for 34% of total household loan disbursements in 2025. Corporate lending increased by 4.5% in 2025 and the corporate debt-to-GDP ratio declined to 56% in 2025, from 61% in 2024. Subsidised lending constituted 31% of new corporate loans, well above the pre-COVID level of 7%, driven by disbursements from the Demján Programme, aimed at enhancing the capacity of exporting firms, and the Széchenyi Card Programme, available to SMEs.⁽³⁹⁾ Despite these lending initiatives, corporate lending remains constrained by low demand and sluggish investment, according to surveys.⁽⁴⁰⁾

Assessment of MIP relevant policies

Subsidised lending risks adversely impacting capital allocation while limiting the effectiveness of monetary policy on top of being costly to the public finances. To boost SME lending, the preferential interest rate of the Széchenyi Card Programme was reduced from 4.5% to 3% as of October 2025, which helped to increase credit demand in Q4 2025 as it is well below benchmark rates. However, surveys indicate that financing was not the key factor limiting production. Furthermore, the government launched the HSP in September 2025, in addition to existing subsidised mortgages and general-purpose loans for families

⁽³⁸⁾ See Annex 3 in European Commission (2025): [In-Depth Review 2025 Hungary](#) for a more detailed analysis on Hungary's bank-sovereign nexus

⁽³⁹⁾ See European Commission (2025): [In-Depth Review 2025 Hungary](#), for an overview about household and corporate lending schemes

⁽⁴⁰⁾ See: MNB (2025): [Trend in lending, December 2025](#)

and workers.⁽⁴¹⁾ Such subsidised loans offer borrowers an interest rate well below the central bank rate and generate revenue for credit institutions because the state provides an interest rate subsidy to cover the difference between the 3% interest rate and a calculated benchmark rate⁽⁴²⁾ with limited risk due to the partial or full state guarantee covering these loans. At the same time, these instruments put a burden on public finances⁽⁴³⁾ through interest rate subsidies and, in some cases, contingent liabilities (see Annex 1). Besides the associated fiscal costs and risks, such schemes constrain the transmission mechanism of monetary policy and may adversely impact capital allocation through financing of investment with low rates of return and with low productivity gains.

Table A: Policy considerations in context of this year's In-depth Review for Hungary		
Vulnerability	Policies	Implementation status
Government sector	<i>Doubling the child tax allowance</i> Permanent increase in the family tax and contribution allowance.	Implementation in 2025 and 2026
	<i>PIT exemption for mothers</i> Permanent PIT exemption for mothers with two children, uncapped and phased in to different age groups over 2026-2029.	Implementation over 2026-2029
	<i>14th month old-age pension</i> Permanent additional payment to be phased in over four years, with one quarter of the additional month's benefit to be added each year	Implementation over 2026-2029
	<i>Bonus for armed forces and law enforcement</i> One-time bonus to employees in armed forces and law enforcement amounting to 6 months' salary	Implementation in 2026
	<i>Sectoral taxes</i> Extension of temporary special taxes on firms in the energy, banking, insurance and retail sectors	Extended into 2026
Cost competitiveness	<i>Minimum wage increase</i> Minimum wage increased by 9% and by 11% in 2025 and 2026 respectively, and the agreement between labour unions and employer organisations predict further 14% increase in 2027 The minimum wage of skilled employees increased by 7% in 2025 and 2026 each year.	Implemented in 2025 and 2026
	<i>Retail mark-up cap</i> The difference between the retail purchase	Applicable as of 17 March 2025 until end of May 2026

⁽⁴¹⁾ European Commission (2025): [In-Depth Review 2025 Hungary](#) for an overview on subsidised lending programs

⁽⁴²⁾ The Government decree on the HSP mortgage limits the maximum interest rate of the loan as 110% of the 5-year benchmark government bond + 1 pp. This hypothetical interest rate serves as the basis for determining the interest rate subsidy.

⁽⁴³⁾ In the 2026 budget planned interest rate subsidies to household related to the prenatal baby loan and subsidised mortgages amount to 0.3% of GDP.

	price and the sale price of certain products may not exceed 10%	
	<i>Fuel price cap</i> <i>The government has set a maximum price of HUF 595 for gasoline and HUF 615 for diesel</i>	Applicable as of 10 March 2026
Housing markets	<i>Home Start Programme</i> Subsidised mortgage with fixed rate at 3% up to HUF 50 million for anyone who has not owned a flat in the past 10 years.	Launched in September 2025
	<i>Housing support for civil servants</i> Annual subsidy amounting to HUF 1 million for civil servants, available for mortgage downpayments or own funding.	Available as of January 2026
	<i>Simplified licencing for large scale dwelling projects</i> <i>Dwelling construction projects with more than 250 dwellings that meet the Home Start Programme are eligible for simplified licencing.</i>	Applicable as of July 2025
Financial sector	<i>Széchenyi Program interest rate decrease</i> Interest rates in Széchenyi Card Programme available for SMEs set to 3% from 4.5%	Reduced interest rate applied as of October 2025
	<i>Systemic risk buffer</i> 1% sectoral systemic risk buffer applied to exposures secured by mortgages	Applied as of January 2026
Note: This table lists the main measures that may increase or reduce the risks of macroeconomic imbalances. The measures are described more at length and reviewed in the text of this IDR.		

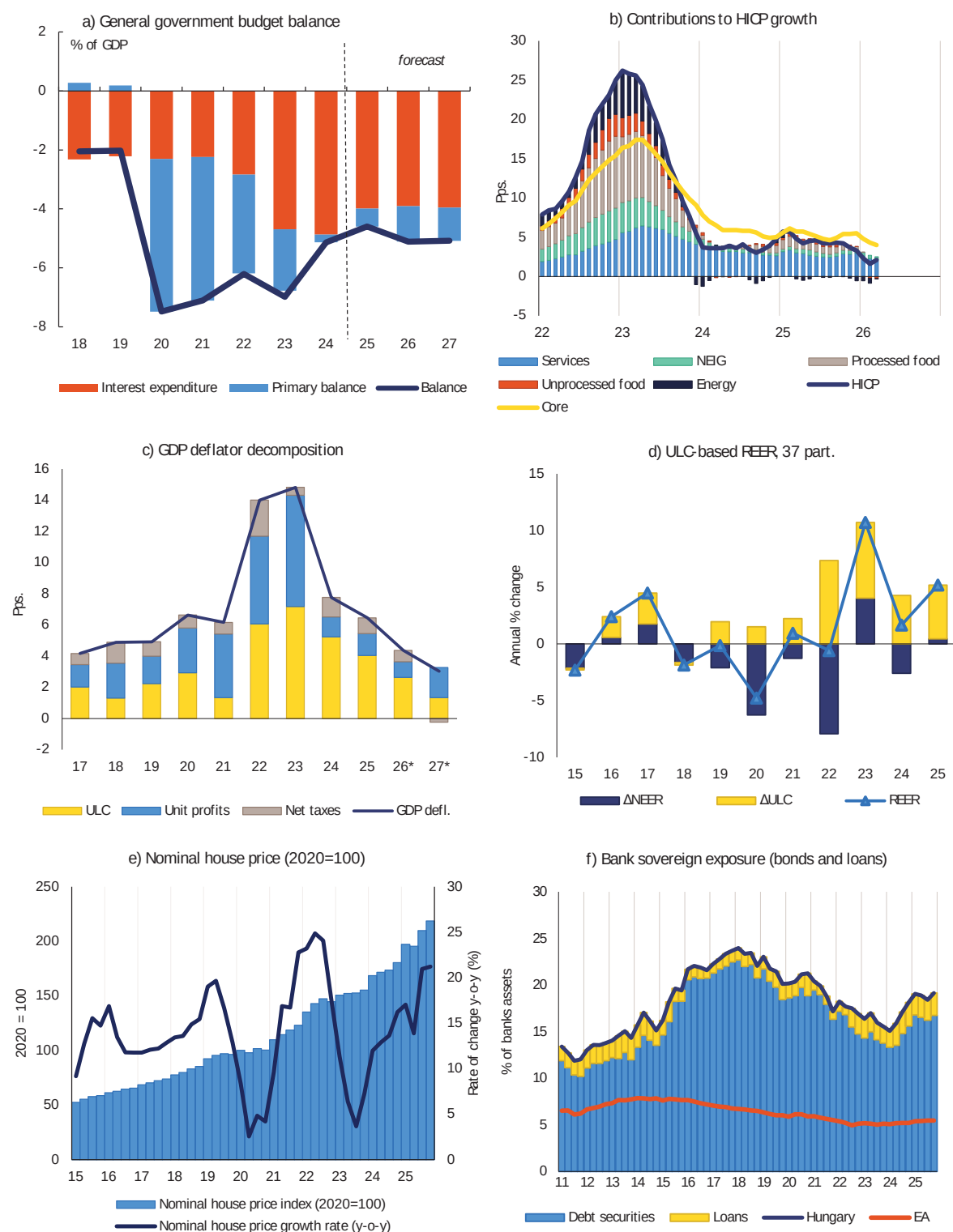
Conclusions

Hungary continues to face vulnerabilities primarily related to high government debt and high government financing needs, competitiveness, and house prices. Public debt increased in 2025 as a result of continued high deficits and debt-servicing costs and gross financing needs remain at high levels, even if narrowing marginally. Meanwhile, rapid wage growth and the planned minimum wage hike in 2027 are expected to continue exerting pressure on unit labour costs and competitiveness. Substantial energy imports also pose risks to competitiveness and external balances. In parallel, inflation remains at one of the highest rates in the EU. House price growth accelerated further in 2025 driven by strong demand, which reflected extensive demand-supporting measures. The financial sector displays high capital and liquidity buffers and a solid credit portfolio. However, tax incentives for domestic banks to purchase government debt have deepened the already significant bank-sovereign link.

Government policies, - and the expansionary fiscal policy in particular, - have compounded the vulnerabilities reviewed above. The practice of untargeted subsidies and loans to households and corporations has persisted, and even stepped up, while government measures to regulate lending rates strain public finances and limit the effectiveness of monetary policy. Housing subsidies and preferential lending schemes also distort the housing market and exacerbate price pressures. Fiscal consolidation will be

necessary to reduce the deficit, but fiscal policy is rather projected to be expansionary in 2026. The effectiveness of the national fiscal framework continues to be limited by the 'state of danger' in place since 2020. Reducing the deficit without relying on temporary windfall and profit taxes or cuts in public investment will be important.

Graph 2.1: Selected charts, Hungary



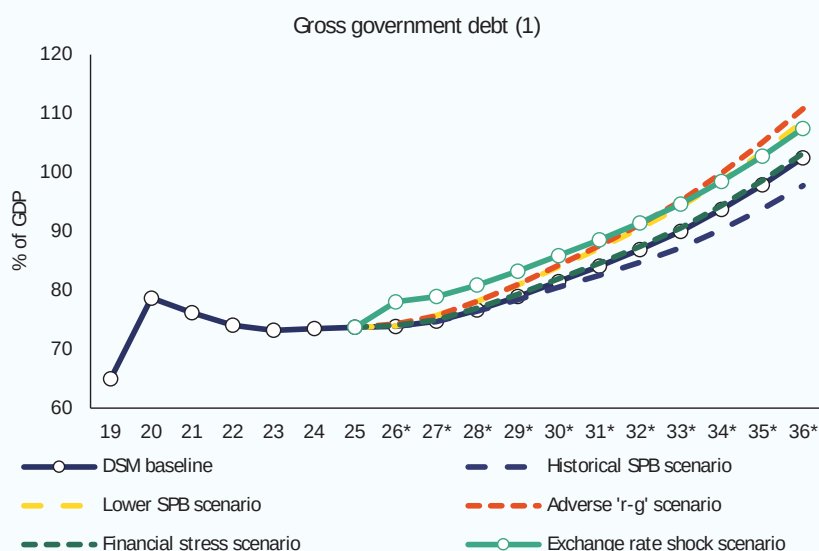
Source: Eurostat, ECB, and European Commission calculations.

Box 2.1: Medium-term government debt projections

This Box summarises government debt-to-GDP projections for Hungary over the next decade, based on scenario analysis. It covers diverse scenarios to take into account different underlying assumptions and to understand how they affect the debt trajectories, and is based on the latest government debt sustainability analysis conducted by the Commission.

Medium-term fiscal sustainability risks for Hungary are high, and long-term fiscal sustainability risks are high too⁽¹⁾. The debt sustainability analysis carried out by the Commission indicates that, under the baseline scenario, the government debt-to-GDP ratio is projected to increase to around 82% in 2030 and to around 98% in 2035 (Graph 1). The increase in the government debt ratio is mainly driven by the unfavourable snowball effect expected from 2027. To assess the impact of changes in key assumptions, the baseline scenario is stress tested against alternative deterministic scenarios. By the end of the projection period, the debt ratio rises the most under the adverse interest rate-growth differential scenario, in which the differential permanently deteriorates by 1 pp. compared with the baseline (Graph 1). The government debt path over the medium-term is more elevated than the one considered in the 2025 IDR for Hungary.

Graph 1: Government debt projections, based on scenario analysis for Hungary



(1) The projections for government debt are taken from the Debt Sustainability Monitor 2025. The DSM baseline is stress-tested against alternative deterministic scenarios to assess the impact of changes in key assumptions: the 'historical structural primary balance (SPB)' scenario, in which the SPB returns to its historical 15-year average of -0.4% of GDP; the 'lower SPB' scenario, in which the SPB is 0.5 pp. lower than in the baseline; the 'adverse interest rate-growth differential' scenario, in which the interest rate-growth differential is 1 pp. higher compared with the baseline; and the 'financial stress' scenario, in which market interest rates temporarily increase by 1 pp. compared with the baseline; the 'exchange rate shock' scenario: in which, for 2026, the exchange rate varies by the maximum annual change in the country's exchange rate observed over the last 10 years, after which the baseline assumption prevails (no appreciation or depreciation afterwards).

Source: Debt Sustainability Monitor 2025.

⁽¹⁾ The sustainability risks and debt projections presented here are based on the European Commission (2026), Debt Sustainability Monitor 2025, [European Economy Institutional Paper 332](#).

Table 2.1: **Key economic and financial indicators, Hungary**

	average 2017-2019	average 2020-2022	2023	2024	2025*	forecast	
						2026	2027
Output and Prices							
Real GDP (1 year % change)	4.9	2.2	-0.8	0.7	0.5	2.3	2.1
Real GDP per capita (1 year % change)	5.2	2.5	-0.7	1.0	1.0	2.5	2.3
GDP deflator (1 year % change)	4.5	8.8	15.0	7.6	6.3	4.3	3.0
Harmonised index of consumer prices (1 year % change)	2.9	7.8	17.0	3.7	4.4	3.6	3.5
Core inflation (HICP excluding energy, food, alcohol and tobacco) (1 year % change)	2.0	5.6	14.0	5.9	5.3	4.4	3.7
External position							
Current account balance, balance of payments (% GDP, 3y average)	1.8	-2.4	-4.5	-2.4	1.2	1.1	0.3
Current account balance, balance of payments (% of GDP)	0.5	-4.8	0.0	1.8	1.7	-0.3	-0.5
of which: trade balance (% GDP)	4.3	-1.4	4.2	4.5	4.5		
of which: income balance (% GDP)	-3.8	-3.5	-4.2	-2.6	-2.8		
Current account norm (% of GDP) (1)	-0.3	0.0	0.0	0.1	0.1	0.2	0.3
Current account req. to reach fund. NIIP (% of GDP) (2)	-3.5	-2.9	-2.0	-1.8	0.0		
Net international investment position (% of GDP)	-46.5	-48.3	-38.9	-33.3	-32.4	-30.0	-28.4
NENDI - NIIP excluding non-defaultable instruments (% of GDP)	-4.6	-2.2	-6.7	3.3	-1.4		
Net lending-borrowing (% of GDP)	2.1	-2.8	1.2	2.2	2.2		
Competitiveness							
Nominal unit labour cost index per hour worked (3y % change)	10.5	18.0	37.2	48.4	41.0	28.1	18.1
Nominal unit labour cost index per hour worked (1 year % change)	3.8	7.8	16.4	11.6	8.6	5.7	2.9
Real effective exchange rate - 42 trad. part., HICP defl. (3y % change)	0.9	-5.7	10.3	7.3	14.4	1.8	5.4
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)	0.1	-2.7	15.3	-2.3	1.6	3.5	0.9
Export performance against advanced economies (3y % change)	2.8	-0.2	1.6	0.3	0.4	-0.7	4.7
Export performance against advanced economies (1 year % change)	0.9	-1.1	8.2	-5.4	-0.6	3.9	1.4
Core inflation differential vis-à-vis the euro area (pps.)	0.9	3.6	9.2	3.1	2.9	2.3	1.7
Corporations							
Non-financial corporate (NFCs) debt, consolidated (% of GDP)	50.3	60.0	55.6	56.3	54.9	55.5	56.0
NFC (excl. FDI) credit flow, cons. (% debt stock t-1, excl. FDI)	9.1	16.7	7.5	3.1	5.9	10.7	10.2
Households and housing market							
Household debt, consolidated (% of GDP)	18.3	20.1	16.9	17.1	18.2	19.5	20.6
Household debt, consolidated (% of GDI)	27.2	29.1	23.8	23.4	25.1		
Household credit flow, consolidated (% debt stock t-1)	7.5	11.9	3.7	9.9	14.3	12.5	11.2
House price index, nominal (1 year % change)	14.5	14.3	7.1	13.7	18.3	9.0	5.0
House prices over/undervaluation gap (3)	-3.1	10.3	11.1	12.8	22.0		
Standardised price-to-income ratio	96.6	103.9	97.1	99.0			
Building permits (m ² per 1000 inh)	408.5	356.5	260.6	240.5	325.8		
Government							
General government gross debt (% of GDP)	68.6	76.3	73.3	73.5	74.6	73.9	74.9
General government balance (% of GDP)	-2.2	-6.9	-7.0	-5.1	-4.7	-5.1	-5.1
Banking sector							
Return on equity of banks (%)	14.5	10.8	21.2	19.4			
Tier-1 capital ratio banking sector (% risk-weighted assets)	15.6	17.1	17.8	19.1			
Gross non-performing loans, domestic and foreign entities (% gross loans)	6.0	3.3	2.4	2.2	2.1		
Cost of borrowing for households for house purchase (%), new loans	4.5	5.1	9.8	7.1	7.2		
Cost of borrowing for NFCs (%), new loans	1.7	4.8	12.7	9.0	8.1		
Labour market							
Unemployment rate (% labour force Y15-74)	3.6	3.9	4.1	4.5	4.4	4.4	4.3
Labour force participation rate - % pop. aged 15-64 (3y change in pp)	3.6	2.2	3.0	2.3	1.3	0.9	0.9

*If actual data were unavailable at the cut-off date, forecast or nowcast data are presented instead

(1) Current accounts in line with fundamentals (current account norms): derived from reduced form regressions capturing the main determinants of the saving-investment balance, including fundamental determinants, policy factors and global financial conditions. See Goutinho, Turini, and Zeugner (2018), "Methodologies for the Assessment of Current Account Benchmarks", European Economy, Discussion Paper 86, DG ECFIN, European Commission

(2) Current account required for a specific NIIP target: calculations make use of Commission's T+10 projections. See Goutinho, Turini, and Zeugner (2018), "Methodologies for the Assessment of Current Account Benchmarks", European Economy, Discussion Paper 86, DG ECFIN, European Commission

(3) House prices over/undervaluation gap: is the simple average of the price-to-income, price-to-rent and model valuation gaps. The model valuation gap is estimated in a cointegration framework using a system of five fundamental variables: total population, real housing stock, real disposable income per capita, real long-term interest rate and price deflator of final consumption expenditure. Based on Philipponnet and Turini (2017), "Assessing House Price Developments in the EU", European Economy, Discussion Papers 48, DG ECFIN, European Commission

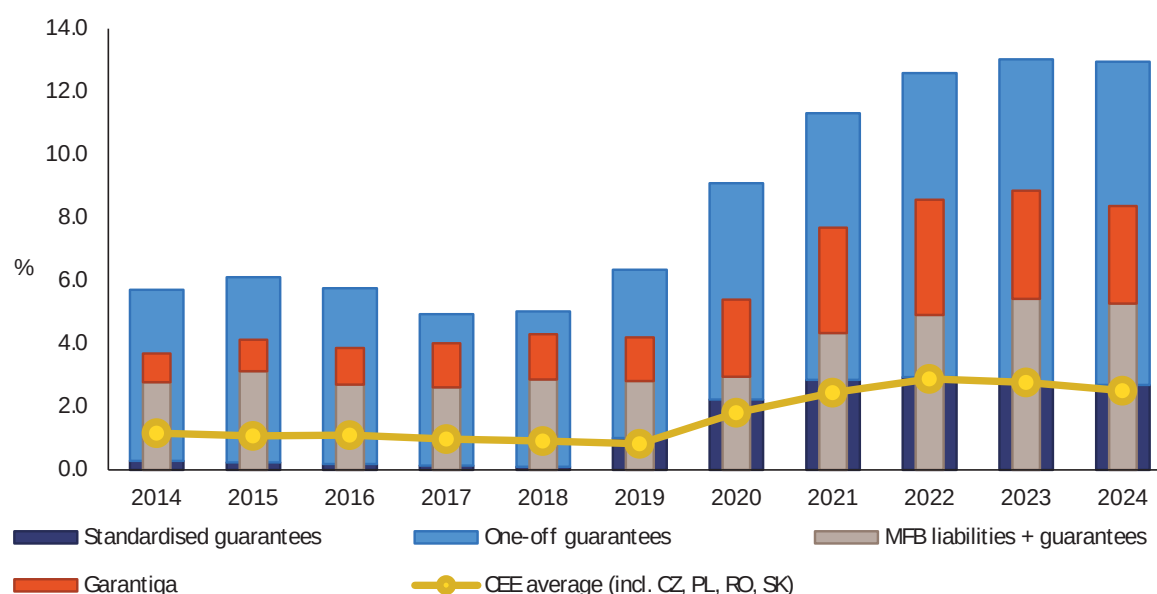
Source: Eurostat and ECB; European Commission for forecast figures (Autumn Forecast 2025).

ANNEX 1 - GROWTH OF GOVERNMENT GUARANTEES

There has been a significant increase in government guarantees in Hungary since 2019, which poses fiscal and financial challenges. Guarantees are a form of contingent liability that would add to the government's deficit and debt level if called. ⁽⁴⁴⁾ A high level of government guarantees can also distort markets by inducing moral hazard.

The Hungarian government's stock of guarantees has more than doubled since COVID-19. They rose from 6.3% of GDP in 2019 to 13.0% in 2024. This puts Hungary fifth highest in the EU, compared to 12th in 2019, and substantially above the average of its regional CEE peers (where guarantees amount to 2.5% of GDP). These guarantees aim to facilitate lending by reducing the risk to lenders through a state backstop. This is typically done to facilitate borrowing by households and businesses who might otherwise have difficulty accessing financing, usually because they do not have collateral for the loan, e.g. SMEs with few assets or students borrowing to pay for education. There are two types of guarantees: one-off guarantees and standardised guarantees, both of which have grown rapidly since 2019.

Graph A1.1: **Government guarantees, as % of GDP**



Source: Eurostat, MFB and Garantiqa annual reports

One-off guarantees account for almost 80% of total guarantees and have tripled since 2019 to reach 10.3% of GDP in 2024. These are individual guarantees on borrowing that are based on a government decree, to support specific entities or projects. The majority of these guarantees relate to (i) borrowing by the MFB (the Hungarian Development Bank) and Eximbank⁽⁴⁵⁾ (Hungary's export bank) and (ii) guarantee institutions, including Garantiqa (a

⁽⁴⁴⁾ Other forms of contingent liabilities include the liabilities of government-controlled entities classified outside general government, liabilities related public-private partnerships (PPPs) recorded off the government balance sheet and government non-performing loans. In 2014, Hungary had the second-highest level of liabilities related to PPPs at 1.9% of GDP, however, this share has gradually reduced to 0.6% of GDP since then. The focus here is on government guarantees, which are the most common type of contingent liability in the EU.

⁽⁴⁵⁾ Eximbank has been classified in the general government sector by Eurostat since 2020. As such, its borrowings are already counted as liabilities of the general government and included in Hungary's Maastricht Treaty debt level, rather than as contingent liabilities that could be called.

financial institution which provides guarantees on loans to SMEs) and MEHIB (Hungarian Export Credit Insurance). The MFB and Eximbank's liabilities are guaranteed by the government to facilitate their access to market financing, which in turn is used to provide financing to Hungarian businesses.⁽⁴⁶⁾ Similarly, the government counter-guarantees the guarantees provided to firms by guarantee institutions such as Garantiqa to reduce their financial risk and thus facilitate firms' access to finance. Other one-off guarantees relate to agricultural loans, student loans and loans provided by international financial institutions or multilateral development banks.⁽⁴⁷⁾

An increase in guarantees to the Hungarian Development Bank, MFB, has been a key driver of the rise in one-off guarantees (see Graph 2). The MFB has rapidly expanded its balance sheet to increase lending to SMEs, facilitated by government capital injections. Some of its lending relates to subsidised lending schemes, which also incur a direct fiscal cost to the government, such as the *Széchenyi Microcredit Refinancing Programme*, which offers subsidised loans to micro- and small firms to finance large-scale investments. The MFB's liabilities, which are fully guaranteed by the State, rose by 161% between 2019 and 2024.⁽⁴⁸⁾

The expansion of Garantiqa's guarantee portfolio has also contributed significantly to the rise in government guarantees. Garantiqa's stock of guarantees, of which the state typically guarantees 85%, more than tripled between 2019 and 2024 (see Graph 2). Part of the rise during COVID-19 was due to the introduction of the *Garantiqa Crisis Guarantee Programme* (phased out in 2022), which aimed to address liquidity shortages for SMEs and large firms by guaranteeing their overdrafts, investments and working capital loans during the pandemic. The expansion of subsidised lending programmes has also been a factor in the growth in Garantiqa's guarantees. For example, Garantiqa guaranteed the loans under the *Széchenyi Card Programme*, which the government counter-guarantees. The programme was first launched in 2002 to provide subsidised loans to SMEs with limited collateral. It has been expanded and adapted over time, most recently in October 2025, when the government announced a subsidised interest rate of 3% (down from 4.5%) on HUF 1 000 bn of loans under the programme. This is likely to further increase the level of guarantees. The maximum limits to these guarantees are set in the annual budget. Nonetheless, these limits have increased substantially in recent years and are quite broad. In the 2026 Budget, the limit for MFB was HUF 5 000bn (5.4% of GDP) and HUF 3 400bn for Garantiqa (3.7% of GDP).

Standardised guarantees have more than quadrupled since 2019, driven by the prenatal baby loan scheme. The stock of standardised guarantees represented 2.7% of GDP in 2024, the third highest in the EU. Standardised guarantees are linked to government schemes that support certain sectors or activities and typically cover many smaller contracts with similar levels of credit risk. The increase in standardised guarantees can be primarily attributed to the prenatal baby loan scheme (*Babaváró Hitel*) launched in 2019.⁽⁴⁹⁾ The

⁽⁴⁶⁾ The government also guarantees the MFB's assets, e.g. the loans it makes to companies. However, in practice, only the guarantees on one side of the balance sheet would likely need to be called.

⁽⁴⁷⁾ For example, all EU Member States provided guarantees for loans under the EU's SURE instrument (Support for Unemployment Risks during an Emergency). Hungary's share amounted to 0.1% of GDP in 2020.

⁽⁴⁸⁾ The MFB also provides guarantees, similar to Garantiqa, which are counter-guaranteed by the government, but this represents a smaller part of its operations. Its stock of guarantees was HUF 955bn in 2024.

⁽⁴⁹⁾ The standardised guarantees also include certain housing loan programmes that have not granted new loans since 2025, thus have not contributed to the recent rise in guarantees.

government guaranteed collateral-free subsidised loans for couples as an incentive to have children. If a couple has one child, the loan remains interest free, and if they have three children, the debt is forgiven, with the cost borne by the government. In theory, if all recipients were to have three children, the government could become liable for repaying all the loans—amounting to a gross book value of HUF 2 366 bn in 2025-Q3 (2.9% of GDP).⁽⁵⁰⁾ There is also a non-negligible risk of the guarantees being called if the couples do not have children, in which case they would be required to pay the full interest accrued over the first five years of the loan. The deadline to have the first child was extended to July 2026, after which there would be an increased risk of the loans becoming non-performing.

The growth in government guarantees poses an increasing fiscal risk that requires monitoring. Many of the guarantees serve a useful economic purpose, in particular to stimulate economic activity and support households. However, collateral-free lending is inherently risky, and if called, the guarantees would require substantial budgetary support, increasing the already-high government deficit. Some of the guarantees relate to subsidised lending, which already imposes substantial costs on the budget, estimated at around 1% of GDP.⁽⁵¹⁾ Much of this lending is untargeted, particularly the lending to households (including the prenatal baby loans), which increases the fiscal cost. Thus far, calls on the guarantees have been limited, with related net expenditure estimated at just under 0.1% of GDP in 2025 and 2026.⁽⁵²⁾ However, the risk of future calls remains, and is rising with the level of guarantees. In particular, an economic downturn or even a sector-specific shock in more exposed sectors would increase the likelihood of the guarantees being called.

The high level of government guarantees also creates financial risks in the private sector on top of potentially distorting the allocation of financing across the economy. With one of the largest stocks of government guarantees in the EU, government intervention in Hungary's private sector is substantial. The government backstop creates a moral hazard. Financial institutions, including the MFB and Garantiqa as well as private banks granting subsidised loans, have less incentive to allocate capital efficiently or based on risk. As a result, unproductive firms can obtain financing more easily to remain afloat, while the overall level of indebtedness in the economy could rise.

⁽⁵⁰⁾ MFB; Household lending activity of credit institutions.

⁽⁵¹⁾ Based on estimates in MNB's Public Finance Report 2025 and Commission calculations.

⁽⁵²⁾ Calculated based on the 2025 and 2026 budget laws.