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COMMISSION STAFF WORKING DOCUMENT

CONVERGENCE REPORT 2026

Accompanying the document

**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND
THE COUNCIL**

**CONVERGENCE REPORT 2026 (prepared in accordance with Article 140(1) of the
Treaty of the Functioning of the European Union**

{COM(2026) 585 final}

European Commission

Directorate-General for Economic and Financial Affairs

Convergence Report

2026

EUROPEAN ECONOMY

ABBREVIATIONS

Member States

| | |
|-------|--|
| CZ | Czechia |
| HU | Hungary |
| PL | Poland |
| RO | Romania |
| SE | Sweden |
| EA-21 | Euro area, 21 Member States |
| EA-20 | Euro area, 20 Member States before 2026 |
| EA-19 | Euro area, 19 Member States before 2023 |
| EA-18 | Euro area, 18 Member States before 2015 |
| EA-17 | Euro area, 17 Member States before 2014 |
| EU-28 | European Union, 28 Member States |
| EU-27 | European Union, 27 Member States before July 2013 (i.e. EU-28 excl. HR) and from February 2020 (i.e. EU-28 excl. UK) |
| EU-25 | European Union, 25 Member States before 2007 (i.e. EU-28 excl. BG, RO and HR) |
| EU-15 | European Union, 15 Member States before 2004 |

Currencies

| | |
|-----|---------------------------------------|
| EUR | Euro |
| HUF | Hungarian forint |
| PLN | Polish zloty |
| RON | Romanian leu (ROL until 30 June 2005) |
| SEK | Swedish krona |
| USD | United States dollar |

Central Banks

| | |
|-----|---|
| ČNB | Česká národní banka (Czech National Bank – central bank of Czechia) |
| MNB | Magyar Nemzeti Bank (Hungarian National Bank – central bank of Hungary) |
| NBP | Narodowy Bank Polski (National Bank of Poland – central bank of Poland) |
| BNR | Banca Națională a României (National Bank of Romania – central bank of Romania) |

Other abbreviations

| | |
|----------|--|
| AML | Anti-money laundering |
| AMR | Alert Mechanism Report |
| BoP | Balance of Payments |
| CIT | Corporate Income Tax |
| CPI | Consumer price index |
| EC | European Commission |
| ECB | European Central Bank |
| EDP | Excessive Deficit Procedure |
| EMU | Economic and monetary union |
| ERM II | Exchange rate mechanism II |
| ESA | European System of Accounts |
| ESCB | European System of Central Banks |
| EU | European Union |
| Eurostat | Statistical Office of the European Union |
| FDI | Foreign direct investment |

| | |
|-------|---|
| GDP | Gross domestic product |
| HICP | Harmonised index of consumer prices |
| HFSA | Hungarian Financial Supervisory Authority |
| IDR | In-Depth Review |
| MIP | Macroeconomic Imbalance Procedure |
| MTFSP | Medium-term fiscal-structural plan |
| NCBs | National central banks |
| NEER | Nominal effective exchange rate |
| OJ | Official Journal |
| OJ L | Official Journal Lex |
| PIT | Personal Income Tax |
| PPS | Purchasing Power Standards |
| REER | Real effective exchange rate |
| RRF | Recovery and Resilience Facility |
| RRP | Recovery and Resilience Plan |
| SGP | Stability and Growth Pact |
| TFEU | Treaty on the Functioning of the European Union |
| ULC | Unit labour costs |
| VAT | Value added tax |

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Convergence Report 2026

(prepared in accordance with Article 140(1) of the Treaty)

Report

Convergence Report 2026

Technical annex

1. INTRODUCTION

1.1. ROLE OF THE REPORT

The euro was introduced on 1 January 1999 by eleven Member States, namely Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain. Subsequently, Greece (2001), Slovenia (2007), Cyprus and Malta (2008), Slovakia (2009), Estonia (2011), Latvia (2014), Lithuania (2015), Croatia (2023) and Bulgaria (2026) also adopted the euro.

Member States for which the Council has not yet decided that they fulfil the necessary conditions for the adoption of the euro are referred to as 'Member States with a derogation'. Article 140 of the Treaty lays down provisions and procedures for examining the convergence situation of Member States with a derogation (Box 1.1). At least once every two years, or at the request of a Member State with a derogation, the Commission and the European Central Bank (ECB) prepare Convergence Reports for such Member States. Denmark negotiated an opt-out arrangement before the adoption of the Maastricht Treaty ⁽¹⁾ and does not participate in the third stage of EMU. Until Denmark indicates that it wishes to participate in the third stage and adopt the euro, it will not be the subject of an assessment as to whether it fulfils the necessary conditions for such a participation.

In 2024, the Commission and the ECB adopted their latest regular Convergence Reports ⁽²⁾. None of the Member States assessed in those reports was deemed to meet the necessary conditions for adopting the euro.

On 25 February 2025, Bulgaria submitted a request for an ad hoc convergence assessment. Following the preparation of a Convergence Report on Bulgaria and on the basis of a proposal by the Commission, the Council decided in July 2025 that Bulgaria fulfilled the necessary conditions for adopting the euro on 1 January 2026 ⁽³⁾.

In 2026, two years have elapsed since the last regular reports were prepared. Denmark has not expressed a wish to enter the third stage of EMU. Therefore, this convergence assessment covers Czechia, Hungary, Poland, Romania and Sweden. This Commission Staff Working Document is a Technical Annex to the Convergence Report 2026 and includes a detailed assessment of the progress with convergence, as required by Article 140(1) of the Treaty.

The convergence assessment in this report is presented against the backdrop of several major economic and policy developments over the course of 2025 and the first half of 2026. In 2025, volatility in US trade policy and the increase in the US trade tariffs, although lower than originally announced, disrupted global trade flows and led to heightened policy uncertainty. However, despite this challenging external environment, the EU economy showed resilience and continued to grow at a steady pace. Following moderate economic growth of 1.0% in 2024, the EU economy gained momentum in 2025, with GDP consequently growing by 1.4%. This growth was underpinned by a strong labour market, easing inflationary pressures, and favourable financial conditions. Following its peak in 2022-23, annual consumer price inflation fell to 2.6% in 2024 and 2.5% in 2025. Driven by lower

⁽¹⁾ Protocol (No 16) on certain provisions relating to Denmark.

⁽²⁾ European Commission, Convergence Report 2024, COM(2024) 270 final, 26 June 2024; European Central Bank, Convergence Report 2024, June 2024.

⁽³⁾ Council Decision (EU) 2025/1407 of 8 July 2025 on the adoption by Bulgaria of the euro on 1 January 2026 (OJ L 1407, 14.7.2025, pp. 1-4).

energy prices and falling services inflation, it continued to fall across the EU during the first half of 2025, before stabilising at around 2% during the second half of the year and the first two months of 2026.

However, the outbreak of the war in the Middle East on 28 February 2026 materially changed this picture, by creating the most significant global energy supply disruption in recent history. The Middle East conflict was followed by the virtual closure of the Strait of Hormuz, which reduced seaborne flows of oil and LNG and led to a surge in energy prices. Between the outbreak of the Middle East conflict and 29 April - the cut-off date for the technical assumptions of the Commission's Spring 2026 Economic Forecast, which is the basis for the sustainability assessment in this Convergence Report - oil and gas prices increased by 65% and 50% respectively, leading to a strong acceleration of energy inflation. Price pressures are set to broaden progressively, as rising energy costs feed through the production chain and are partially passed through to consumers. The external assumptions of the Commission's Spring 2026 Economic Forecast take into account the path of futures prices for energy commodities at the time of the cut-off date of the forecast. These energy commodity assumptions suggest a relatively swift, albeit partial, normalisation of supply conditions, with oil and gas prices expected to stabilise at around 20% above pre-war levels by 2027.

In parallel, Russia's war of aggression against Ukraine implies a significant threat to European security and requires spending to be increased on defence for the foreseeable future. As part of this, the Commission presented a defence package in March 2025 under the ReArm Europe Plan/Readiness 2030 initiative. Under this plan, the Commission invited Member States to request the activation of the National Escape Clause of the Stability and Growth Pact, which provides them additional budgetary space to transition to a durably higher level of defence expenditure, within the EU fiscal rules. The amount of the planned deviation from the recommended net expenditure path under the escape clause is capped at 1.5% of GDP, available for a period of four years. In addition, the new Security Action for Europe (SAFE) package provides loans of up to EUR 150 billion to help EU Member States quickly and substantially increase investments in Europe's defence capabilities.

Faster implementation of the national recovery and resilience plans (RRPs), ahead of the closure of the Recovery and Resilience Facility (RRF) at the end of the year, along with progress in the implementation of 2021-2027 cohesion policy programmes are expected to partly offset the negative consequences of the current geopolitical instability and contribute to the convergence process of non-euro area EU Member States. Besides contributing to higher growth and improved public finances, the RRF and cohesion policy programmes strengthen Member States' long-term growth and resilience by supporting major reforms and investments that help address both long-standing and new challenges, such as diversifying energy supplies. By the end of May 2026, RRF disbursements reached EUR 405.9 billion, which is around 70% of the total amount of support committed under the RRF. For the 2021-2027 period, the EU will provide cohesion policy funding of EUR 420 billion to Member States. Cohesion policy is concentrated on fields that are critical for promoting convergence and competitiveness. It supports long-term investment in line with EU priorities, encourages EU GDP growth, and has a particularly high impact on the Member States and regions that are the main beneficiaries of the policy. The mid-term review of cohesion policy, which was concluded in autumn 2025, provided Member States with greater flexibility and incentives to deploy existing resources more rapidly and accelerate programme implementation and better align funding with key EU priorities.

On 22 April 2026, the Commission adopted the 'AccelerateEU' Communication, which presented a comprehensive set of actions and measures to address rising energy costs and further reduce dependency on volatile fossil fuel markets, while putting Europe on a steady pathway to energy independence. The plan aims to provide relief to consumers facing energy price spikes and accelerate the transition to clean, secure and affordable energy. Many Member States have adopted budgetary policy measures to mitigate the social and economic impact of high energy prices on households and businesses. According to the Commission's Spring 2026 Economic Forecast, the total budgetary cost of such measures is EUR 14.6 billion, or 0.07% of EU GDP in 2026, with large differences between Member States.

Box 1.1: Article 140 of the Treaty

'1. At least once every two years, or at the request of a Member State with a derogation, the Commission and the European Central Bank shall report to the Council on the progress made by the Member States with a derogation in fulfilling their obligations regarding the achievement of economic and monetary union. These reports shall include an examination of the compatibility between the national legislation of each of these Member States, including the statutes of its national central bank, and Articles 130 and 131 and the Statute of the ESCB and of the ECB. The reports shall also examine the achievement of a high degree of sustainable convergence by reference to the fulfilment by each Member State of the following criteria:

- the achievement of a high degree of price stability; this will be apparent from a rate of inflation which is close to that of, at most, the three best performing Member States in terms of price stability,
- the sustainability of the government financial position; this will be apparent from having achieved a government budgetary position without a deficit that is excessive as determined in accordance with Article 126(6),
- the observance of the normal fluctuation margins provided for by the exchange-rate mechanism of the European Monetary System, for at least two years, without devaluing against the euro,
- the durability of convergence achieved by the Member State with a derogation and of its participation in the exchange-rate mechanism being reflected in the long-term interest-rate levels.

The four criteria mentioned in this paragraph and the relevant periods over which they are to be respected are developed further in a Protocol annexed to the Treaties. The reports of the Commission and the European Central Bank shall also take account of the results of the integration of markets, the situation and development of the balances of payments on current account and an examination of the development of unit labour costs and other price indices.

2. After consulting the European Parliament and after discussion in the European Council, the Council shall, on a proposal from the Commission, decide which Member States with a derogation fulfil the necessary conditions on the basis of the criteria set out in paragraph 1, and abrogate the derogations of the Member States concerned.

The Council shall act having received a recommendation of a qualified majority of those among its members representing Member States whose currency is the euro. These members shall act within six months of the Council receiving the Commission's proposal.

The qualified majority of the said members, as referred to in the second subparagraph, shall be defined in accordance with Article 238(3)(a).

3. If it is decided, in accordance with the procedure set out in paragraph 2, to abrogate a derogation, the Council shall, acting with the unanimity of the Member States whose currency is the euro and the Member State concerned, on a proposal from the Commission and after consulting the European Central Bank, irrevocably fix the rate at which the euro shall be substituted for the currency of the Member State concerned, and take the other measures necessary for the introduction of the euro as the single currency in the Member State concerned.'

On 3 June 2026, the Commission published its 2026 European Semester Spring Package. The package includes the Commission's assessment of Member States' compliance with the relevant Council recommendations on fiscal policy. For the 10 Member States currently under excessive deficit procedure (EDP), including Hungary, Poland and Romania, the Commission assessed the action taken in response to the Council recommendations under the EDP. For the other Member States (not currently in EDP), including Czechia and Sweden, the Commission assessed progress with the implementation of the medium-term plans and compliance with the relevant Council recommendations. For Member States that benefit from a fiscal adjustment period of seven instead of four years in the context of their medium-term plans, including Romania, the Commission also assessed the implementation

of the key steps of reform and investment commitments underpinning the extension. The Commission also announced that Member States that take action to strengthen Europe's energy security and accelerate the transition away from fossil fuels may request limited fiscal flexibility under the current National Escape Clause for defence spending. Upon request by the Member State, the scope of the clause can be expanded to include measures, undertaken since February 2026 that reduce the dependence on imported fossil fuels, subject to a dedicated annual cap for the period 2026-2028 (0.3% of GDP) and a cumulative cap (0.6% of GDP).

The remainder of this first chapter presents the methodology used for the application of the assessment criteria. Chapters 2 to 7 examine the fulfilment of the convergence criteria and other requirements in the order in which they appear in Article 140(1) (see Box 1.1). The cut-off date for the statistical data included in this Convergence Report was 17 June 2026. The examination of the compatibility of national legislation is based on the legislation in force by the end of April 2026.

1.2. APPLICATION OF THE CRITERIA

In accordance with Article 140(1) of the Treaty, the Convergence Reports shall examine the compatibility of national legislation with Articles 130 and 131 of the Treaty and the Statute of the European System of Central Banks (ESCB) and of the European Central Bank. The reports shall also examine the achievement of a high degree of sustainable convergence by reference to the fulfilment of the four convergence criteria dealing with price stability, public finances, exchange rate stability and long-term interest rates as well as some additional factors. The four convergence criteria are developed further in a Protocol annexed to the Treaty (Protocol No 13 on the convergence criteria).

1.2.1. Compatibility of legislation

In accordance with Article 140(1) of the Treaty, the legal examination includes an assessment of compatibility between a Member State's legislation, including the statute of its national central bank, and Article 130 and 131 of the Treaty. This assessment mainly covers three areas.

- First, the independence of the national central bank and of the members of its decision-making bodies, as laid down in Article 130, must be assessed. This assessment covers all issues linked to a national central bank's institutional and financial independence and to the personal independence of the members of its decision-making bodies.
- Second, in accordance with Articles 123 and 124 of the Treaty, the compliance of the national legislation is verified against the prohibition of monetary financing and privileged access. The prohibition of monetary financing is laid down in Article 123(1) of the Treaty, which prohibits overdraft facilities or any other type of credit facility with the ECB or the central banks of Member States in favour of Union institutions, bodies, offices or agencies, central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of Member States; and the purchase directly from these public sector entities by the ECB or central banks of debt instruments. As regards the prohibition on privileged access as set out in Article 124, the central banks, as public authorities, may not take measures granting privileged access by the public sector to financial institutions if such measures are not based on prudential considerations.

- Third, in accordance with Article 131, the integration of the national central bank into the ESCB has to be examined, in order to ensure that at the latest by the moment of euro adoption, the objectives of the national central bank are compatible with the objectives of the ESCB as formulated in Article 127 of the Treaty. The national provisions on the tasks of the national central bank are assessed against the relevant rules of the Treaty and the ESCB/ECB Statute.

1.2.2. Price stability

The price stability criterion is defined in the first indent of Article 140(1) of the Treaty: ‘the achievement of a high degree of price stability; this will be apparent from a rate of inflation which is close to that of, at most, the three best performing Member States in terms of price stability’.

Article 1 of the Protocol on the convergence criteria further stipulates that ‘the criterion on price stability [...] shall mean that a Member State has a price performance that is sustainable and an average rate of inflation, observed over a period of one year before the examination, that does not exceed by more than 1.5 percentage points that of, at most, the three best performing Member States in terms of price stability. Inflation shall be measured by means of the consumer price index on a comparable basis, taking into account differences in national definitions.

Since national consumer price indices (CPIs) diverge substantially in terms of concepts, methods and practices, they do not constitute the appropriate means to meet the Treaty requirement that inflation must be measured on a comparable basis. To this end, the Council adopted on 23 October 1995 a framework regulation ⁽⁴⁾ setting the legal basis for the establishment of a harmonised methodology for compiling consumer price indices in the Member States. This process resulted in the production of the Harmonised Indices of Consumer Prices (HICPs), which are used for assessing the fulfilment of the price stability criterion.

As has been the case in past convergence reports, a Member State’s average rate of inflation is measured by the percentage change in the arithmetic average of the last 12 monthly indices relative to the arithmetic average of the 12 monthly indices of the previous period. The reference value is calculated as the arithmetic average of the average rate of inflation of the three ‘best-performing EU Member States in terms of price stability’ plus 1.5 percentage points (see Box 1.2).

Accordingly, the reference value is currently 2.7%, based on the data of Cyprus (0.9%), France (1.2%) and Denmark (1.6%) over the 12-month period covering June 2025 – May 2026. No Member States were identified as outliers in terms of inflation performance for the calculation of the reference value, as none of their inflation rates deviated by a wide margin from the euro area average due to country-specific circumstances (see Box 1.2).

The Protocol on the convergence criteria not only requires Member States to have achieved a high degree of price stability but also calls for a price performance that is sustainable. The requirement of sustainability aims at ensuring that the degree of price stability and inflation convergence achieved in previous years will be maintained after adoption of the euro. This

⁽⁴⁾ Council Regulation (EC) No 2494/95 of 23 October 1995 concerning harmonised indices of consumer prices (OJ L 257, 27.10.1995, pp. 1-4), amended by Regulations (EC) No 1882/2003 and No 596/2009 of the European Parliament and of the Council, and repealed by Regulation (EU) 2016/792 of the European Parliament and of the Council.

deserves particular attention as sustained divergences in price developments in one or more euro area Member States can lead to the emergence of competitiveness losses that must be corrected via painful adjustment processes and can trigger negative spillover effects on other Member States.

Inflation sustainability implies that the satisfactory inflation performance must essentially be due to the adequate behaviour of input costs and other factors that influence price developments in a structural manner, rather than reflecting the influence of cyclical or temporary factors. Therefore, this Technical Annex also takes account of the role of the macroeconomic situation and cyclical position in the inflation performance, of developments in unit labour costs as a result of trends in labour productivity and nominal compensation per head, and of developments in import prices to assess how external price developments have impacted on domestic inflation. Similarly, the impact of administered prices and indirect taxes on headline inflation is also considered.

From a forward-looking perspective, the report includes an assessment of medium-term prospects for price developments. The analysis of factors that have an impact on the inflation outlook is complemented by the projections from the most recent Commission inflation forecast. Medium-term inflation prospects are also assessed by reference to the economies' key structural characteristics, including the functioning of the labour and product markets.

Box 1.2: Assessment of price stability and the reference value

The numerical part of the price stability criterion implies a comparison between a Member State's average price performance and a reference value.

A Member State's **average rate of inflation** is measured by the percentage change in the unweighted average of the last 12 monthly indices relative to the unweighted average of the 12 monthly indices of the previous period, rounded to one decimal. This measure captures inflation trends over a period of one year as requested by the provisions of the Treaty. Using the commonly used inflation rate – calculated as the percentage change in the consumer price index of the latest month over the index for the equivalent month of the previous year – would not meet the one-year requirement. The latter may also be excessively volatile from month to month and excessively affected by temporary factors.

The **reference value** is calculated as the unweighted average of the average rates of inflation of, at most, the three best-performing Member States in terms of price stability plus 1.5 percentage points. The outcome is rounded to one decimal. While in principle the reference value could also be calculated on the basis of the price performance of only one or two best performing Member States in terms of price stability, it has been existing practice to select the three best performers. Defining the reference value in a relative way (as opposed to a fixed reference value) allows taking into account the effects of a common shock that affects inflation rates across all Member States.

Table 1:
Inflation reference value in previous and current Convergence Reports

| Convergence Report adoption date | Cut-off month | Three best performers ^{1) 2)} | Reference value ³⁾ | Euro area average inflation rate ⁴⁾ |
|----------------------------------|---------------|--|-------------------------------|--|
| 1998 | January 1998 | Austria, France, Ireland | 2.7 | 1.5 |
| 2000 | March 2000 | Sweden, France, Austria | 2.4 | 1.4 |
| 2002 | April 2002 | United Kingdom, France, Luxembourg ⁵⁾ | 3.3 | 2.4 |
| 2004 | August 2004 | Finland, Denmark, Sweden | 2.4 | 2.1 |
| 2006 May | March 2006 | Sweden, Finland, Poland | 2.6 | 2.3 |
| 2006 December | October 2006 | Poland, Finland, Sweden | 2.8 | 2.2 |
| 2007 | March 2007 | Finland, Poland, Sweden | 3.0 | 2.1 |
| 2008 | March 2008 | Malta, Netherlands, Denmark | 3.2 | 2.5 |
| 2010 | March 2010 | Portugal, Estonia, Belgium | 1.0 | 0.3 |
| 2012 | March 2012 | Sweden, Ireland, Slovenia | 3.1 | 2.8 |
| 2013 | April 2013 | Sweden, Latvia, Ireland | 2.7 | 2.2 |
| 2014 | April 2014 | Latvia, Portugal, Ireland | 1.7 | 1.0 |
| 2016 | April 2016 | Bulgaria, Slovenia, Spain | 0.7 | 0.1 |
| 2018 | March 2018 | Cyprus, Ireland, Finland | 1.9 | 1.4 |
| 2020 | March 2020 | Portugal, Cyprus, Italy | 1.8 | 1.1 |
| 2022 | April 2022 | France, Finland, Greece | 4.9 | 4.4 |
| 2024 | May 2024 | Netherlands, Italy, Latvia | 4.1 | 3.4 |
| 2025 | April 2025 | Ireland, Finland, Italy | 2.8 | 2.3 |
| 2026 | May 2026 | Cyprus, France, Denmark | 2.7 | 2.2 |

1) EU15 until April 2004; EU25 between May 2004 and December 2006; EU27 between January 2007 and June 2013; EU28 between July 2013 and January 2020; EU27 (without UK) from February 2020 onwards.

2) In case of equal rounded average inflation for several potential best performers, the ranking is determined on the basis of unrounded data.

3) Reference values are only computed at the time of Convergence Reports. All calculations of the reference value between the Convergence Reports are purely illustrative.

4) Measured by the percentage change in the arithmetic average of the latest 12 monthly indices relative to the arithmetic average of the 12 monthly indices of the previous period.

5) Based on revised data, Germany would replace Luxembourg as one of the three Member States with the lowest 12-month average inflation in April 2002.

This change would not affect the price and long-term interest rate reference values in April 2002.

Sources: Eurostat and European Commission calculations.

(Continued on the next page)

Box (continued)

As Article 140(1) of the Treaty refers to 'Member States' and does not make a distinction between euro area and other Member States, the Convergence Reports select the three best performers from all Member States – EU-15 for the Convergence Reports before 2004, EU-25 for the reports between 2004 and 2006, EU-27 for reports between 2007 and 2013, EU-28 for reports between 2014 and 2018 and EU-27 for the reports between 2020 and 2025.

The notion of '**best performer in terms of price stability**' is not defined explicitly in the Treaty. It is appropriate to interpret this notion in a non-mechanical manner, taking into account the state of the economic environment and country-specific factors at the time of the assessment. In particular, an outlier analysis should be performed to identify those countries whose inflation rates cannot be seen as meaningful benchmarks. These outliers are identified on the basis of two criteria taken in combination: i) an inflation rate substantially below the euro area average; and ii) an inflation rate driven by country-specific factors that cannot be seen as representative of the process that is driving inflation in the euro area.

Outliers were identified in the convergence reports of 2004, 2010, 2013, 2014, 2016, 2022 and 2024. In the 2004 report, Lithuania was not taken into account in the calculation of the reference value because its negative rate of inflation, which was due to country-specific economic circumstances, was significantly diverging from that of the other Member States, making Lithuania a de facto outlier that could not be considered as 'best performer' in terms of price stability. Its 12-month average inflation rate was 2.3 percentage points below that of the euro area (2.1%). In 2010, in an environment characterised by exceptionally large common shocks (the global economic and financial crisis and the associated sharp fall in commodity prices), a significant number of countries faced episodes of negative inflation rates (the euro-area average inflation rate in March 2010 was only slightly positive, at 0.3%). In this context, Ireland was excluded from the best performers on the ground that its average inflation rate (-2.3% in March 2010) deviated by a very wide margin from that of the euro area, mainly due to the severe economic downturn in that country. In 2013, Greece was excluded from the best performers, as its inflation rate was 1.8 percentage points lower than the euro area average of 2.2%, mainly reflecting the severe adjustment needs and the exceptional situation of the Greek economy. In 2014, Greece, Bulgaria and Cyprus were identified as outliers. In April 2014, the 12-month average inflation rate of Greece, Bulgaria and Cyprus were respectively -1.2%, -0.8% and -0.4%, significantly deviating from the euro area average of 1.0%. In case of Greece and Cyprus, negative inflation mainly reflected the severe adjustment needs and exceptional situation of the economy. In case of Bulgaria, it was due to an unusually strong combination of disinflationary factors, inter alia, a good harvest, administrative energy price reductions and declining import prices. In 2016, it was warranted to identify Cyprus and Romania as outliers, as their inflation rates deviated by a wide margin from the euro area average. In April 2016, the 12-month average (negative) inflation rates of Cyprus and Romania were respectively 1.9 percentage points and 1.4 percentage points below the euro area inflation rate of 0.1%. In case of Cyprus, deeply negative inflation mainly reflected the adjustment needs and exceptional situation of the economy. In case of Romania, it was mainly due to large VAT rate reductions. In 2022, Malta and Portugal were identified outliers as their average inflation rates in April 2022 were 2.2 percentage points and 1.7 percentage points below the euro area average of 4.4%. In the case of Malta, the comparatively low average inflation rate reflected broadly stable energy prices due to government measures in a context of surging international oil and gas prices and larger changes in the weights used to calculate the HICP than in most other EU Member States in 2021. In the case of Portugal, the comparatively very low average inflation rate reflected low energy inflation and the weaker cyclical position of the country compared with most of other EU Member States. In addition, the COVID-19 crisis had a prolonged negative impact on Portuguese activity and inflation. In 2024, Denmark, Finland and Belgium were identified outliers, as their average inflation rates in May 2024 were 2.3, 1.6 and 1.5 percentage points below the euro area average of 3.4%. In the case of Denmark and Belgium, the very low average inflation rates mainly reflected the much faster transmission of the drop in wholesale energy prices to retail prices, as a result of most electricity contracts in Denmark having variable prices and retail prices

(Continued on the next page)

Box (continued)

in Belgium based on formulae that use the future gas and electricity prices. Finland's very low inflation was largely due to the combined effects of a much weaker-than-average cyclical position and an exceptional adjustment by Statistics Finland to the price index of electricity. Table 1 lists the reference value in the convergence reports issued since 1998.

In this convergence report, no Member States were identified as outliers in terms of inflation performance for the calculation of the reference value, as none of their inflation rates deviated by a wide margin from the euro area average due to country-specific circumstances. The reference value is 2.7%, based on the data of Cyprus (0.9%), France (1.2%) and Denmark (1.6%) over the 12-month period covering June 2025 – May 2026.

1.2.3. Public finances

The convergence criterion dealing with the government budgetary position is defined in the second indent of Article 140(1) of the Treaty as 'the sustainability of the government financial position; this will be apparent from having achieved a government budgetary position without a deficit that is excessive as determined in accordance with Article 126(6)'. Furthermore, Article 2 of the Protocol on the convergence criteria states that this criterion means that 'at the time of the examination the Member State is not the subject of a Council decision under Article 126(6) of the said Treaty that an excessive deficit exists'.

The convergence assessment in the budgetary area is thus directly linked to the excessive deficit procedure which is specified in Article 126 of the Treaty and further clarified in the Stability and Growth Pact (see Box 1.3) for further information on the excessive deficit procedure as strengthened by the 2024 reform of the Stability and Growth Pact). The details of the excessive deficit procedure are defined in Regulation 1467/97 as amended in 2024 which sets out the way in which government deficit and debt levels are assessed to determine whether an excessive deficit exists, under Article 126 of TFEU. The convergence assessment of the budgetary position is therefore judged by whether the Member State is subject to a Council decision under 126(6) on the existence of an excessive deficit ⁽⁵⁾.

On 3 June 2026, as part of the European Semester Spring 2026 package, the Commission considered that effective action has been taken towards correcting the excessive deficit by Hungary, Poland and Romania, and that, therefore, no further steps need to be taken under the EDP at this stage. For Member States not currently under an EDP, including Czechia and Sweden, the Commission assessed progress on the implementation of their medium-term fiscal-structural plans. Czechia and Sweden are assessed as compliant in 2025, as Sweden's net expenditure growth is below the maxima recommended by the Council and Czechia's deviation is within the flexibility provided by the national escape clause. For Member States that benefit from a fiscal adjustment period of seven instead of four years in the context of their medium-term plans, including Romania, the Commission considers the all the

⁽⁵⁾ The definitions of the government deficit and debt used in this report are in accordance with the excessive deficit procedure, as was the case in previous convergence reports. These definitions are laid out in the amended Council Regulation (EC) No 479/2009. In particular, government debt is general government consolidated gross debt at nominal value. Information regarding the excessive deficit procedure and its application to different Member States since 2002 can be found at: http://ec.europa.eu/economy_finance/economic_governance/sgp/deficit/index_en.htm.

concerned Member States have complied with their commitments in a satisfactory manner⁽⁶⁾.

⁽⁶⁾ For more details, see Box 1: Fiscal surveillance under the Stability and Growth Pact, 2026 European Semester: Spring Package Communication.

Box 1.3: Excessive Deficit Procedures under the new EU fiscal framework

The new EU fiscal framework was adopted on 29 April 2024. The rules on the opening of a deficit-based Excessive Deficit Procedure (EDP) remain unchanged while the rules on the opening of a debt-based EDP are changed and clarified in the amended Council Regulation (EC) 1467/97 ⁽¹⁾.

In order to simplify the EU fiscal framework and increase transparency, a single operational indicator (net expenditure) anchored in debt sustainability serves as a basis for setting the fiscal path and for carrying out annual fiscal surveillance. Net expenditure means government expenditure net of interest expenditure, discretionary revenue measures, expenditure on Union programmes fully matched by revenue from Union funds, national expenditure on co-financing of programmes funded by the Union, as well as cyclical elements of unemployment benefit expenditure. One-offs and other temporary measures will also be excluded from the net expenditure indicator.

The EDP is specified in Article 126 of the Treaty on the Functioning of the European Union (TFEU). Protocol 12 of the Treaty gives further details on the excessive deficit procedure, including the reference values on deficit and debt. Council Regulation (EC) 1467/97 on speeding up and clarifying the implementation of the EDP (the corrective arm of the Stability and Growth Pact) clarifies the implementation of the excessive deficit procedure. Together, these provisions determine the steps to be followed to reach a Council decision on the existence and correction of an excessive deficit.

The Commission will produce reports under Article 126(3) of TFEU on the basis of the following criteria:

- whether the ratio of the planned or actual government deficit to gross domestic product exceeds 3% of GDP, unless:
 - the ratio has declined substantially and continuously and reached a level that comes close to the reference value;
 - or, alternatively, the excess over the reference value is exceptional and temporary and the ratio remains close to the reference value;
- when the ratio of the government debt to GDP exceeds 60% of GDP, the budgetary position is not close to balance ⁽²⁾ or in surplus and when the deviations recorded in the control account ⁽³⁾ of the Member State exceed the established annual or cumulative thresholds (0.3% and 0.6% of GDP respectively).

When assessing the existence of an excessive deficit in accordance with Article 126(3) TFEU, the Commission should take into account all relevant factors. Substantial public debt challenges in the Member State concerned should be considered a key aggravating factor. The increase of government investment in defence, where applicable, should be considered as a relevant factor when assessing the existence of an excessive deficit. The Commission shall give due and express consideration to any other factors which, in the opinion of the Member State concerned, are relevant in order to comprehensively assess compliance with the deficit and debt criteria and which the Member State has put forward to the Council and the Commission. In that context, particular consideration shall be given to financial contributions to fostering international solidarity and achieving the common priorities of the Union

⁽¹⁾ OJ L, 2024/1264, 30.4.2024, [Council Regulation \(EU\) 2024/1264 of 29 April 2024 amending Regulation \(EC\) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure \(europa.eu\)](https://eur-lex.europa.eu/eli/reg/2024/1264/20240430). The consolidated version of Regulation No 1467/97 can be found at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A01997R1467-20240430>.

⁽²⁾ The budgetary position shall be considered close to balance if the general government deficit does not exceed 0.5 % of GDP.

⁽³⁾ The Commission has set up a control account for each Member State to keep track of annual and cumulative upward and downward deviations of the net expenditure observed from the net expenditure path as set by the Council pursuant to the new preventive arm Regulation (see footnote 5).

(Continued on the next page)

Box (continued)

referred to in the new preventive arm Regulation ⁽⁴⁾. For deficit-based EDPs, the relevant factors can be considered for i) those Member States with debt below 60% and ii) those Member States with debt exceeding 60% of GDP and satisfying the double condition of the overarching principle, i.e. that the general government deficit remains close to the 3% of GDP reference value and its excess over the reference value is temporary.

In the next step of the procedure, the Economic and Financial Committee (EFC) should formulate an opinion in accordance with Article 126(4) TFEU within two weeks of the adoption by the Commission of a report issued in accordance with Article 126(3) TFEU. Taking fully into account this opinion, the Commission, if it considers that an excessive deficit exists, should address an opinion and a proposal to the Council in accordance with Article 126(5) and (6) TFEU and inform the European Parliament thereof. The Council should then decide on the existence of an excessive deficit in accordance with Article 126(6) TFEU, as a rule within four months of the reporting dates established in Article 3(2) and (3) of Regulation (EC) No 479/2009. When it decides that an excessive deficit exists, the Council should at the same time make recommendations to the Member State concerned in accordance with Article 126(7) TFEU.

In its recommendation, the Council shall request that the Member State implements a corrective net expenditure path which ensures that the general government deficit remains or is brought and maintained below the reference value within the deadline set in the recommendation. The corrective path should also ensure that the debt is kept on a plausibly downward path or remains at prudent levels below 60% of GDP in the medium term. In the case of a debt-based EDP, the corrective net expenditure path shall be at least as demanding as the net expenditure path under the preventive arm from which the Member State deviated and correct as a rule the cumulated deviations of the control account ⁽⁵⁾.

⁽⁴⁾ OJ L 1263, 30.4.2024, [Regulation \(EU\) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation \(EC\) No 1466/97 \(europa.eu\)](#).

⁽⁵⁾ OJ L 1264, 30.4.2024. Council Regulation (EU) 2024/1264 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure.

1.2.4. Exchange rate stability

The Treaty refers to the exchange rate criterion in the third indent of Article 140(1) as ‘the observance of the normal fluctuation margins provided for by the exchange-rate mechanism of the European Monetary System, for at least 2 years, without devaluing against the euro’.

Article 3 of the Protocol on the convergence criteria stipulates: ‘The criterion on participation in the exchange rate mechanism of the European Monetary System [...] shall mean that a Member State has respected the normal fluctuation margins provided for by the exchange-rate mechanism of the European Monetary System without severe tensions for at least the last 2 years before the examination. In particular, the Member State shall not have devalued its currency’s bilateral central rate against the euro on its own initiative for the same period’ ⁽⁷⁾. Based on the Council Resolution on the establishment of the ERM II ⁽⁸⁾, the European Monetary System has been replaced by the Exchange Rate Mechanism II upon the introduction of the euro, and the euro has become the centre of the mechanism.

⁽⁷⁾ In assessing compliance with the exchange rate criterion, the Commission examines whether the exchange rate has remained close to the ERM II central rate, while reasons for an appreciation may be taken into account, in accordance with the Common Statement on Acceding Countries and ERM II by the Informal ECOFIN Council, Athens, 5 April 2003.

⁽⁸⁾ 97/C 236/03 of 16 June 1997, OJ C 236, 2.8.1997, p.5.

Box 1.4: A reinforced approach to ERM II participation by means of upfront policy commitments by the applicant Member States

Participating in ERM II is an essential step for a Member State with a derogation on the way to fulfil the exchange rate criterion and to euro adoption. Fulfilling the exchange rate criterion through the smooth participation in ERM II is provided for in Article 140 of the TFEU, Protocol No 13 to the TFEU on the convergence criteria and the Resolution of the European Council on the establishment of an exchange-rate mechanism in the third stage of economic and monetary union adopted in Amsterdam on 16 June 1997 ⁽¹⁾. In accordance with this framework, ERM II entry of a Member State with a derogation requires a mutual agreement of all 'ERM II parties'. These include the finance ministers of euro area Member States, the European Central Bank, and the finance ministers and the central bank governors of the non-euro area Member States participating in ERM II. The European Commission provides analytical support to the ERM II process, but has no voting right and no right of initiative in the ERM II entry process.

In July 2018, learning from past episodes of economic overheating in ERM II and the euro-area crisis, the ERM II parties clarified the modalities of a reinforced approach for future ERM II participation with a view of ensuring a smooth transition to, and participation in, ERM II, in their statement on Bulgaria's path towards ERM II, stating that this approach would apply to all Member States wishing to join ERM II from then onwards ⁽²⁾. The reinforced approach was confirmed in the later statement of the ERM II parties of July 2019 on Croatia's path towards ERM II participation ⁽³⁾.

According to this reinforced approach, the applicant Member State and ERM II parties agree on a number of policy commitments to be implemented by the former before joining ERM II. This package of so called prior policy commitments aims at maximising the country's chances to operate smoothly in ERM II. It is country-specific, targeted and covers policy areas that are highly relevant for a smooth transition to and participation in ERM II including, for instance institutional quality, governance, the financial sector, fiscal policy, or the business environment.

In particular, as being part of the euro area now also implies for a Member State to be part of the Banking Union's pillars of the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM), the applicant Member State is expected to enter into 'close cooperation' with the ECB for banking supervision purposes at the latest by the time of its participation in ERM II. A Member State with a derogation can join the Banking Union before its euro adoption via an arrangement called 'close cooperation'. Entering in close cooperation with the ECB means that the significant credit institutions established in the country concerned are supervised by the ECB via the involvement of the domestic national supervisor. Entering in close cooperation also implies participation in the Single Resolution Mechanism, including the Single Resolution Fund.

In terms of process, the ECB and the Commission monitor the fulfilment of the prior-commitments undertaken by the applicant Member States in the respective areas of competence of the ECB and the Union and in close cooperation with the Member State concerned. The two institutions regularly inform ERM II parties on the progress made with the prior-commitments. A comprehensive assessment of the applicants' banking sector is carried out by the ECB as part of the process of establishing close cooperation with the ECB. This includes an asset quality review and a stress test that aims at assessing whether banks are fundamentally sound. The results of the comprehensive assessment are made public on the ECB's website ⁽⁴⁾.

⁽¹⁾ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A31997Y0802%2803%29>

⁽²⁾ See: <https://www.consilium.europa.eu/en/press/press-releases/2018/07/12/statement-on-bulgaria-s-path-towards-erm-ii-participation/>

⁽³⁾ See: <https://www.consilium.europa.eu/en/press/press-releases/2019/07/08/statement-on-croatia-s-path-towards-erm-ii-participation/>

⁽⁴⁾ The results of the comprehensive assessment of six Bulgarian banks are available at: <https://www.bankingsupervision.europa.eu/press/pr/date/2019/html/ssm.pr190726~1b474e3467.en.html>

(Continued on the next page)

Box (continued)

In line with the long-standing ERM II practice, ERM II parties also expect applicant Member States to take further policy commitments at the moment of joining ERM II with the aim of achieving a high degree of sustainable economic convergence by the time the euro will be adopted.

At the time of writing this report, Denmark was the only non-euro-area Member State participating in ERM II.

The reinforced approach to ERM II participation has been applied to Bulgaria and Croatia, which joined the ERM II on 10 July 2020 after having completed their respective prior policy commitments⁽⁵⁾. Both countries established close cooperation with the ECB. In addition, the prior policy commitments of the Bulgarian authorities covered measures related to the macroprudential framework, the supervision of the non-banking financial sector, the insolvency framework, the anti-money laundering framework and the governance of state-owned enterprises⁽⁶⁾. The additional prior policy commitments of the Croatian authorities covered measures related to the macroprudential framework, the anti-money laundering framework, the collection, production and dissemination of statistic, public sector governance and firms' administrative and financial burden⁽⁷⁾.

At the time of ERM II entry, the Bulgarian and Croatian authorities also committed to pursue sound economic policies with the aim of preserving economic and financial stability and achieving a high degree of sustainable economic convergence. In particular, the Bulgarian authorities committed to implement specific policy measures (the so-called post-ERM II entry commitments) on the non-banking financial sector, state-owned enterprises, the insolvency framework and the anti-money laundering framework⁽⁸⁾. The Croatian authorities committed to implement specific policy measures on the anti-money laundering framework, the business environment, state-owned enterprises and the insolvency framework⁽⁹⁾.

⁽⁵⁾ For the details on the decision of the ERM II parties on Croatia and Bulgaria see:

https://ec.europa.eu/commission/presscorner/detail/en/IP_20_1321

⁽⁶⁾ For more details on the prior-commitments taken by Bulgarian authorities see:

<https://www.consilium.europa.eu/media/36125/st11119-en18.pdf>.

⁽⁷⁾ For the details on the decision of the ERM II parties on Croatia and Bulgaria see:

https://ec.europa.eu/commission/presscorner/detail/en/IP_20_1321.

⁽⁸⁾ See: https://www.ecb.europa.eu/pub/pdf/annex/ecb.pr200710_annex~29156bba37.en.pdf.

⁽⁹⁾ See: https://www.ecb.europa.eu/pub/pdf/annex/ecb.pr200710_1_annex.en.pdf.

In its assessment of the exchange rate stability criterion, the Commission takes into account developments in auxiliary indicators such as foreign reserve developments and short-term interest rates, as well as the role of policy measures, including foreign exchange interventions, and international financial assistance wherever relevant, in maintaining exchange rate stability.

The assessment of this criterion verifies the participation in ERM II (see Box 1.4 for further information on ERM II participation) and examines exchange rate behaviour within the mechanism. The relevant period for assessing exchange rate stability in this Technical Annex is 18 June 2024 to 17 June 2026.

1.2.5. Long-term interest rates

The fourth indent of Article 140(1) of the Treaty requires that 'the durability of convergence achieved by the Member State with a derogation and of its participation in the exchange rate mechanism' is 'reflected in the long-term interest rate levels'. Article 4 of the Protocol on the convergence criteria further stipulates that 'the criterion on the convergence of interest rates [...] shall mean that, observed over a period of one year before the examination, a Member State has had an average nominal long-term interest rate that does not exceed by more than 2 percentage points that of, at most, the three best performing

Box 1.5: Data for the interest rate convergence

The fourth indent of Article 140(1) of the Treaty requires that the durability of nominal convergence and exchange rate stability in Member States should be assessed by reference to long-term interest rates. Article 4 of the Protocol on the convergence criteria adds that these *'Interest rates shall be measured on the basis of long-term government bonds or comparable securities, taking into account differences in national definitions'*.

Article 5 of the Protocol requires that the Commission should provide the statistical data used for the application of the convergence criteria. However, in the context of the interest rate criterion, the ECB has developed the criteria for harmonising the series of 10-year benchmark bond yields on behalf of Eurostat and collects the data from the central banks. The selection of bonds for inclusion in this series is based on the following criteria:

- issued by central government;
- a residual maturity as close as possible to 10 years;
- adequate liquidity, which is the main selection criterion; the choice between a single benchmark or the simple average of a sample is based on this requirement;
- fixed coupon;
- yield gross of tax.

For thirteen Member States, the residual maturity of the benchmark bond is at least 10 years. For fourteen Member States, the residual maturity of the benchmark bond is below 10 years, in particular for Bulgaria and Lithuania with the residual maturity 6 or close to 6 years. All yields are calculated on the basis of secondary market rates, where available. For Czechia, Germany, Malta and Spain a basket of bonds is used, while a single benchmark bond is used in twenty-three Member States.

Data used in this Report can be found on Eurostat ('Maastricht criterion bond yields (mcb): EMU convergence criterion bond yields', code: te00097). The same series is also published by the ECB's Statistical Data Warehouse (code IRSM.Country Code.LL40.CI.0000.Currency Code.NZ) and in a dedicated page in the ECB website with additional information:

http://www.ecb.europa.eu/stats/financial_markets_and_interest_rates/long_term_interest_rates/html/index.en.html.

Member States in terms of price stability. Interest rates shall be measured on the basis of long-term government bonds or comparable securities, taking into account differences in national definitions' (see Box 1.5).

For the assessment of the criterion on the convergence of interest rates, yields on benchmark long-term bonds have been taken, using an average rate over the latest 12 months. The reference value for May 2026 is calculated as the simple average of the average long-term interest rates in Cyprus (3.1%), France (3.5%) and Denmark (2.6%) plus 2 percentage points, yielding a reference value of 5.1%.

1.2.6. Additional factors

Article 140(1) TFEU also requires that the reports take into account other factors relevant to economic integration and convergence. These additional factors include financial, product and labour market integration and the development of the balance of payments. The analysis of the development of unit labour costs and other price indices, which is also prescribed by Article 140 of the Treaty, is covered in the price stability section.

Box 1.6: The Macroeconomic Imbalance Procedure (MIP)

Key elements of the MIP

A key lesson from the global financial crisis was that the EU economic governance framework needed strengthening to better support macroeconomic stability, beyond just fiscal policy. The Macroeconomic Imbalance Procedure (MIP) responds to that need by aiming at the detection, prevention and correction of macroeconomic imbalances that could harm economic stability in an EU country, the euro area, or the EU as a whole. It was introduced as part of the 2011 'Six-Pack' legislative package.

Identifying macroeconomic imbalances is complex and no simple and mechanistic criteria are available. That is the case as drivers of macroeconomic instability are multi-faceted phenomena whose severity needs to be assessed along several aspects, considering country-specific features, including those linked to the adjustment capacity of the economy. Therefore, the MIP relies on a two-step approach.

In a first step, the Alert Mechanism Report (AMR) identifies the Member States that require more in-depth investigation for potential macroeconomic imbalances. The AMR is based on the economic reading of a scoreboard of economic and financial indicators. The scoreboard covers different challenges Member States may be faced with and comprises indicators in the areas of external accounts, competitiveness, private debt and credit flows, government debt, financial sector, housing market, and employment. It encompasses variables that the economic literature associates with crisis episodes. Beyond the scoreboard, the analysis in the AMR considers additional information and assessment tools, including previous in-depth assessments under the MIP.

In a second step, in-depth reviews (IDRs) for Member States selected in the AMR provide the basis for the identification of imbalances in those countries, and the assessment of their severity. The IDR analysis makes use of latest country-specific information and analytical tools developed by the Commission services. In addition, when relevant, the IDRs may reflect spillovers across Member States and vulnerabilities of cross-border relevance.

Both 'imbalances' and 'excessive imbalances' may lead to recommendations by the Council upon Commission proposal. Those recommendations have been integrated in the single package of Country-Specific Recommendations (CSRs) under the European Semester. The identification of 'excessive imbalances' may imply a stronger surveillance process, possibly leading to an Excessive Imbalance Procedure. The latter involves a corrective action plan designed by the concerned Member State, endorsed by the Commission and the Council and monitored by the Commission, and includes the possibility of sanctions for euro area Member States in case of repeated non-compliance.

The implementation of the MIP has been refined following the recent review of the EU economic governance framework. A main objective is to have a more forward-looking surveillance, including an enhanced preventive role for the MIP to better address new risks to macroeconomic stability. Another objective is to increase ownership by the Member States of policies to address their imbalances, which should improve policy effectiveness. To achieve that, medium-term fiscal-structural plans should include measures to address MIP-relevant Country-Specific Recommendations (CSRs) and tackle imbalances or excessive imbalances. Enforcement is being stepped up as no implementation of those measures in the plans could lead to escalation of the surveillance, including the opening of an Excessive Imbalance Procedure. Finally, a stronger EU and euro area dimension in the MIP surveillance is being sought too. All those objectives are being pursued within the existing legal provisions, which were not changed over the governance review.

The 2026 Alert Mechanism Report (AMR) and In-Depth Reviews (IDR)

In its latest AMR from November 2025, the Commission concluded that IDRs were warranted for seven Member States. That set of countries coincided with the ones that had been identified with macroeconomic imbalances or excessive imbalances in spring 2025 in the previous annual cycle of

(Continued on the next page)

Box (continued)

MIP implementation ⁽¹⁾. Three of those Member States are covered in this Convergence Report (Hungary, Romania, and Sweden). Taking into account the most recent IDRs, in June 2026, the Commission concluded that Sweden is no longer experiencing imbalances, that Hungary continues to experience imbalances and that Romania continues to experience excessive imbalances ⁽²⁾.

⁽¹⁾ European Commission (2025), Alert Mechanism Report 2026, COM(2025) 956 final; and European Commission (2025), Alert Mechanism Report 2026, SMD(2025) 956 final.

⁽²⁾ 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 '2026 European Semester – Spring Package', COM(2026) 200 final.

The assessment of additional factors gives an important indication of a Member State's ability to integrate into the euro area without difficulties. As regards the balance of payments, the focus is on the situation and development of the external balance ⁽⁹⁾. Market integration is assessed through trade, foreign direct investment and a smooth functioning of the internal market. Moreover, progress in financial integration is examined, together with the main characteristics, structures and trends of the financial sector. Given that Member States which adopt the euro also participate in the banking union, developments in national banking sectors are specifically looked at as well.

Starting with the 2012 Convergence Report, the convergence assessment is aligned with the broader European Semester approach which takes an integrated look at the economic policy challenges facing EMU in ensuring fiscal sustainability, competitiveness, financial market stability and economic growth.

The section on additional factors makes reference to the surveillance of macroeconomic imbalances under the Macroeconomic Imbalance Procedure (see Box 1.6).

⁽⁹⁾ The external balance is defined as the combined current and capital account (net lending/borrowing vis-à-vis the rest of the world). This concept permits in particular to take full account of external transfers (including EU transfers), which are partly recorded in the capital account. It is the concept closest to the current account as defined when the Maastricht Treaty was drafted.

2. CZECHIA

2.1. LEGAL COMPATIBILITY

2.1.1. Introduction

The Česká národní banka (ČNB – Czech national bank, hereafter ČNB) was established on January 1, 1993. Its main legal basis is the Czech National Council Act No. 6/1993 Coll. on the Czech National Bank, adopted on 17 December 1992 (the ČNB Law).

Following the Commission's 2024 Convergence Report, the ČNB Law was amended ⁽¹⁰⁾. However, since there have been no amendments as regards the incompatibilities and imperfections highlighted in the Commission's 2024 Convergence Report, the comments made in the latter report remain relevant and are repeated in this year's assessment.

2.1.2. Central bank independence

Article 9(1) of the ČNB Law prohibits the ČNB and its Board from taking instructions from the President of the Republic, Parliament, the Government, administrative authorities of the Czech Republic, European Union bodies, institutions, or other entities of the European Union, any government of a Member State of the European Union or any other body.

Article 9(1) of the ČNB Law needs to be adapted to fully comply with the provisions of Article 130 TFEU and Article 7 of the ESCB/ECB Statute and consequently expressly prohibit third parties from giving instructions to the ČNB and its Board members who are involved in the performance of ESCB-related tasks.

Article 3 of the ČNB Law provides that the ČNB shall submit a report on monetary development to the Chamber of Deputies of Parliament at least twice a year for review. Upon decision of the Chamber of Deputies, the ČNB shall submit an extraordinary report on monetary development. The Chamber of Deputies shall be entitled to acknowledge or ask for a revised report on monetary development. Such powers of the Parliament may breach the prohibition on giving instructions to the ČNB. Therefore, Article 3 is not compatible with the provisions of Article 130 TFEU and Article 7 of the ESCB/ECB Statute.

In addition, the power for the Chamber of Deputies of the Parliament to impose modifications to the annual financial report, which was previously submitted and rejected (Article 47(5) of the ČNB Law) could hamper the ČNB's institutional independence. Moreover, it is formulated in a very general manner, which could create situations where the Parliament requests changes affecting the financial independence of the ČNB. Thus, the current wording of Article 47(5) of the ČNB Law constitutes an incompatibility that should be removed from the ČNB Law.

Article 6(10) of the ČNB Law provides that members of the Bank Board, which also includes the Governor of the ČNB, may be relieved from office only if they no longer fulfil the conditions required for the performance of their duties or if they have been guilty of serious misconduct. Although Article 6(10) of the ČNB Law extends the protection offered to Governors by Article 14.2 of the ESCB/ECB Statute against arbitrary dismissal, to all Bank Board members of the ČNB, it remains silent on the Governor's right in case of dismissal to seek judicial review before the Court of Justice of the European Union. However, footnote 22 in the ČNB Law specifically points out to Article 14.2 of the ESCB/ECB Statute. Therefore, the

⁽¹⁰⁾ The amendments stem from the Act. No. 278/2024 Coll and Act No. 280/2025 Coll.

Commission understands that the possibility to seek legal redress by the Governor before the Court of Justice of the European Union, as enshrined in Article 14.2 of the ESCB/ECB Statute, would apply. However, an explicit clarification in the ČNB Law on the right of the Governor to seek judicial review by the Court of Justice of the European Union would be required to ensure legal certainty. In addition, in order to increase legal certainty, the ČNB Law should provide for the right of the decision-making bodies of the ČNB involved in the performance of ESCB-related tasks, other than the Governor, to seek judicial review before the national courts in case of dismissal.

Pursuant to Article 11(1) of the ČNB Law, the Minister of Finance or another nominated member of the Government may attend the meetings of the Bank Board in an advisory capacity and may submit motions for discussion. Article 11(2) entitles the Governor of the ČNB, or a Deputy-Governor nominated by him, to attend the meetings of the Government in an advisory capacity. With regard to Article 11(1) of the ČNB Law, although a dialogue between a central bank and third parties is not prohibited as such, it should be ensured that this dialogue is constructed in such a way that the Government should not be in a position to influence or to appear to be able to influence the central bank when the latter is to adopt decisions for which its independence is protected by Union law. The active participation of the Minister, even without voting rights, in discussions where monetary policy is set, would structurally give to the Government the opportunity to influence the central bank when taking its key decisions, or to appear to be able to do so, casting doubts on the central bank's independence. Therefore, Article 11(1) of the ČNB Law is incompatible with Article 130 TFEU.

2.1.3. Prohibition of monetary financing and privileged access

Pursuant to Article 33a of the ČNB Law on emergency liquidity to the Financial Market Guarantee System, in emergencies where the Financial Market Guarantee System has insufficient funds to carry out its duties arising from the legislation on deposit insurance, and this situation might jeopardise the stability in the financial market, the ČNB may, upon request, exceptionally provide it with short-term credit or conclude a repo transaction with it, for a period of up to three months. The short-term credit must be guaranteed by government bonds or other securities underwritten by the Government and owned by the Financial Market Guarantee System. The Financial Market Guarantee System qualifies as a 'body governed by public law' within the meaning of Article 123(1) TFEU, being closely dependent on the public sector entities referred to in Article 123(1) TFEU. The governing body of the Financial Market Guarantee System is composed of two employees of the Czech National Bank, two employees of the Ministry of Finance, and one representative appointed on a proposal from the Czech Banking Association. Although only a minority of the members of the Financial Market Guarantee System's governing body are representatives of the Ministry of Finance, the Ministry of Finance has the right to appoint and dismiss all the members of the Financial Market Guarantee System's governing body. Therefore, the provisions laid down in Article 33a of the ČNB Law regarding the possibility of ČNB granting short-term credit to the Financial Market Guarantee System are not compatible with the monetary financing prohibition and the relevant legal framework should be amended accordingly.

Article 34a(1) first half-sentence of the ČNB Law prohibits the ČNB from providing overdraft facilities or any other type of credit facility to the bodies, institutions or other entities of the European Union, central governments, regional or local authorities or other bodies governed by public law, other entities governed by public law or public undertakings of the Member

States of the European Union. The list of entities does not fully mirror the one in Article 123(1) TFEU and, therefore, must be amended.

2.1.4. Integration into the Eurosystem

Objectives

Pursuant to Article 2(1) of the ČNB Law, 'in addition' to the ČNB's primary objective of maintaining price stability, the ČNB shall work to ensure financial stability and the safe and sound operation of the financial system in the Czech Republic and – without prejudice to its primary objective – support the general economic policies of the Government leading to sustainable economic growth and the general economic policies in the European Union with a view to contributing to the achievement of the objectives of the European Union. Article 2(1) of the ČNB Law needs to be amended with a view to render it compatible with Article 127(1) TFEU and Article 2 of the ESCB/ECB Statute. The secondary objective of the ČNB of ensuring financial stability and the safe and sound operation of the financial system in the Czech Republic should be also stated to be 'without prejudice' to the primary objective of maintaining price stability. In addition, Article 2(1) of the ČNB Law needs to be further amended to fully comply with the wording of Article 127(1) TFEU as regards the secondary objective of the ESCB.

Tasks

The incompatibilities in this area, following the TFEU provisions and ESCB/ECB Statute, include:

- definition of monetary policy and monetary functions, operations and instruments of the ECB/ESCB (Articles 2(2)(a), 5(1) and 23 to 26, 32, 33 of the ČNB Law);
- conduct of exchange rate operations and the definition of exchange rate policy (Article 35 of the ČNB Law);
- holding and management of foreign reserves (Articles 35(c), and 47a of the ČNB Law);
- non-recognition of the competences of the ECB and of the Council on the banknotes and coins (Article 2(2)(b), Articles 12-16, 19 to 22 of the ČNB Law);
- ECB's right to impose sanctions (Article 46a of the ČNB Law).

There are also some imperfections regarding the following issues:

- the partial absence of reference to the role of the ECB and of the EU in the collection of statistics (Article 41 of the ČNB Law);
- non-recognition of the role of the ECB in the functioning of the payment systems (Articles 2.2 c), 38 and 38a of the ČNB Law);
- non-recognition of the role of the ECB and of the Council in the appointment of the external audit of the ČNB (Article 48(2) of the ČNB Law);
- absence of an obligation to comply with the Eurosystem's regime for the financial reporting of NCB operations (Article 48 of the ČNB Law);
- non-recognition of the role of the ECB in the field of international cooperation (Article 2(3) of the ČNB Law).

2.1.5. Assessment of compatibility

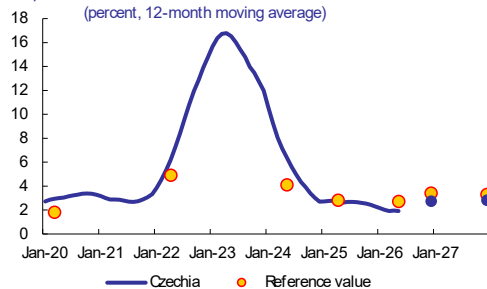
As regards the independence of the central bank, the prohibition of monetary financing and the integration of the central bank into the Eurosystem, the ČNB Law is not fully compatible with the requirements of Article 131 TFEU for the reasons set out above. The Czech authorities are invited to remedy the above-mentioned incompatibilities and imperfections.

2.2. PRICE STABILITY

2.2.1. Respect of reference value

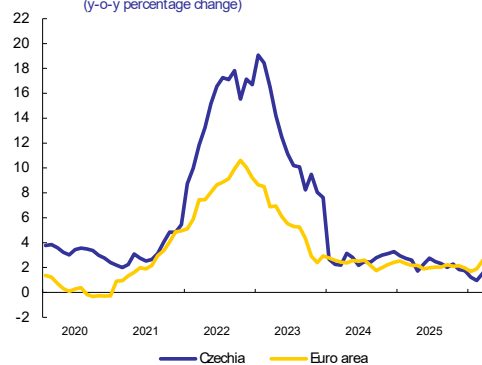
The 12-month average inflation rate, which is used for the convergence assessment, was 2.2 percentage points above the reference value at the time of the last convergence assessment of Czechia in 2024. In May 2026, the reference value was 2.7%, calculated as the average of the 12-month average inflation rates in Cyprus, France and Denmark plus 1.5 percentage points. The corresponding inflation rate in Czechia was 1.9%, i.e. 0.8 percentage point below the reference value. The 12-month average inflation rate is projected to increase but still remain below the reference value by the end of 2026. It is projected to decrease in the second half of 2027 and should stay below the reference value by the end of 2027.

Graph 2.1: Czechia - Inflation criterion
(percent, 12-month moving average)



Note: The dots at the right end of the chart show the projected reference value and 12-month average inflation rate of Czechia in December 2026 and December 2027. The reference values for 2020, 2022, 2024 and 2025 refer to the reference values calculated in the previous convergence reports. Source: Eurostat, Commission's Spring 2026 Economic Forecast.

Graph 2.2: Czechia - HICP inflation
(y-o-y percentage change)



Source: Eurostat.

2.2.2. Recent inflation developments

Following the high inflation period of 2021-2023, which started with the post-COVID recovery and was further aggravated by the energy price shock following Russia's full-scale invasion of Ukraine, HICP inflation started moderating over 2024 (2.7%) and 2025 (2.3%). Annual inflation slowed down further in the first two months of 2026, before rebounding in the subsequent months and reaching 1.8% in May 2026, driven by services inflation and a spike in energy inflation due to the Middle East conflict.

Table 2.1:

| Czechia - Components of inflation | (percentage change) ¹⁾ | | | | | | | weights |
|--|-----------------------------------|------|------|------|------|------|--------|------------------|
| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | May-26 | in total 2025 |
| HICP | 3.3 | 3.3 | 14.8 | 12.0 | 2.7 | 2.3 | 1.9 | 1000 |
| Non-energy industrial goods | 2.6 | 4.2 | 12.2 | 7.2 | 1.0 | 0.6 | 0.7 | 256 |
| Energy | -1.5 | 1.7 | 31.5 | 25.5 | 3.0 | -4.4 | -3.6 | 134 |
| Unprocessed food | 6.6 | -1.2 | 14.1 | 12.4 | -3.2 | 4.7 | 1.9 | 61 |
| Processed food | 5.4 | 4.6 | 13.2 | 9.7 | 0.9 | 4.1 | 2.8 | 225 |
| Services | 3.6 | 3.0 | 11.8 | 11.1 | 6.7 | 4.8 | 4.6 | 324 |
| HICP excl. energy, food, alcohol and tobacco | 3.2 | 3.6 | 12.0 | 9.3 | 4.1 | 2.9 | 2.9 | 580 |
| HICP at constant tax rates | 3.2 | 3.4 | 14.3 | 12.0 | 2.3 | 2.0 | 1.7 | 1000 |
| Administered prices HICP | 3.9 | 0.8 | 13.0 | 28.5 | 8.4 | 1.5 | 0.3 | 150 |

1) Measured by the arithmetic average of the latest 12-monthly indices relative to the arithmetic average of the 12-monthly indices in the previous period.
Source: Eurostat, European Commission calculations.

HICP inflation excluding energy and food remained below headline inflation until January 2024, before overtaking it and averaging 4.1% in 2024 and 2.9% in 2025. The decline in headline inflation was driven by contractions in food prices in 2024 and energy prices in 2025. Services inflation, which typically is relatively persistent and driven by wages, slowed down during that period but remained well above headline inflation. While it remained above the EU average, service inflation was in line or below the levels recorded in other countries in the region, reflecting a more rapid price stabilisation, after the recovery in real wages. Unit labour costs increased in nominal terms in 2024 and 2025 by 5.5% and 4.9%, respectively, adding to inflation pressures, but remaining on a downward trajectory compared with 2023. HICP inflation excluding energy and food remained broadly stable in the first five months of 2026, reaching 2.8% in May 2026.

2.2.3. Underlying factors and sustainability of inflation

Macroeconomic policy mix and growth developments

In the context of declining inflation and increasing consumer confidence, the Czech economy registered a gradual improvement in activity in 2024-2025, with GDP growth of 1.2% in 2024 and 2.6% in 2025. Household consumption was the main growth driver, on the back of real wage improvements. Declining inflation, lower policy interest rates, reduced uncertainty, as well as the large stocks of precautionary savings accumulated by households over the previous years, all supported the pick-up in consumption. A loosening of financing conditions by the ČNB led to a recovery in the demand for loans, including mortgages. However, both residential and non-residential construction output remained lower than in 2022-2023, despite ongoing strong absorption of EU funds. As a result, gross fixed capital formation remained below the levels of 2023, partly also due to the large one-off spike in equipment investments recorded in 2023.

Table 2.2:
Czechia - Other inflation and cost indicators¹⁾ (annual percentage change)

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 ²⁾ | 2027 ²⁾ |
|--|------|------|------|------|------|------|--------------------|--------------------|
| HICP inflation | | | | | | | | |
| Czechia | 3.3 | 3.3 | 14.8 | 12.0 | 2.7 | 2.3 | 2.7 | 2.8 |
| Euro area | 0.3 | 2.6 | 8.4 | 5.5 | 2.4 | 2.1 | 3.0 | 2.3 |
| Private consumption deflator | | | | | | | | |
| Czechia | 3.0 | 4.2 | 14.3 | 8.6 | 3.1 | 3.0 | 3.7 | 2.6 |
| Euro area | 0.6 | 2.4 | 6.8 | 6.3 | 2.4 | 2.0 | 2.9 | 2.4 |
| Nominal compensation per employee | | | | | | | | |
| Czechia | 4.0 | 6.2 | 6.9 | 7.0 | 6.1 | 6.5 | 5.4 | 4.9 |
| Euro area | -0.4 | 4.4 | 4.6 | 5.3 | 4.5 | 3.9 | 3.2 | 3.2 |
| Labour productivity | | | | | | | | |
| Czechia | -3.1 | 3.0 | 1.8 | -1.5 | 0.7 | 1.5 | 1.7 | 2.4 |
| Euro area | -4.6 | 4.8 | 1.3 | -1.1 | 0.0 | 0.7 | 0.5 | 0.8 |
| Nominal unit labour costs | | | | | | | | |
| Czechia | 7.3 | 3.1 | 5.0 | 8.6 | 5.5 | 4.9 | 3.6 | 2.4 |
| Euro area | 4.5 | -0.4 | 3.3 | 6.5 | 4.6 | 3.2 | 2.7 | 2.3 |
| Imports of goods deflator | | | | | | | | |
| Czechia | -0.8 | 5.0 | 14.3 | -3.7 | 2.1 | -1.7 | 4.6 | -1.1 |
| Euro area | -3.9 | 9.7 | 22.0 | -4.1 | -1.8 | -1.0 | 3.7 | 0.5 |

¹⁾ The figures for the euro area refer to the euro area with 21 Member States.
²⁾ Commission's Spring 2026 Economic Forecast.
Source: Eurostat, Commission's Spring 2026 Economic Forecast.

Export activity expanded moderately in 2024 and picked up in 2025, partly due to stockpiling ahead of the introduction of tariffs in the US, as well as by strong performance of some sectors, such as the automotive sector. Real imports increased narrowly in 2024, but also accelerated significantly in 2025. Thus, overall, net exports contributed positively to growth in 2024 but this contribution was broadly neutral in 2025.

According to the Commission's Spring 2026 Economic Forecast, real GDP is expected to increase by 1.8% in 2026 and 2.4% in 2027. Consumer confidence improved markedly over 2025 and was above the long-term average in the beginning of 2026, despite a significant drop in April. Real wages and households' real purchasing power are expected to continue growing, driving up private consumption, which will be a main driver of GDP growth. Investment should also contribute to economic growth in 2026 and 2027, as looser financing conditions support expansion in both residential and non-residential construction, following the weak dwellings output recorded in 2024 and 2025. Exports are projected to continue growing in 2026 and 2027, also thanks to the expected fiscal expansion in some of Czechia's main trading partners. However, imports are forecast to accelerate at a faster pace, due to increasing domestic demand. Overall, net exports are expected to contribute negatively to GDP in 2026-2027 and downside risks remain from the uncertain international trade outlook.

The overall fiscal stance remained contractionary in 2024 and 2025 ⁽¹⁾, as the phasing-out of energy measures overlapped with the effects of the government's 2024 fiscal consolidation package. The fiscal stance is expected to turn broadly neutral in 2026, as the contribution from the national budget is projected to be close to zero, and the contribution

⁽¹⁾ The fiscal stance is measured as the change in general government primary expenditure, net of the incremental budgetary impact of discretionary revenue measures, excluding one-off and cyclical unemployment expenditure, but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to medium-term (10-year) average potential GDP growth rate. A negative (positive) sign of the indicator corresponds to an expansionary (contractionary) fiscal policy stance.

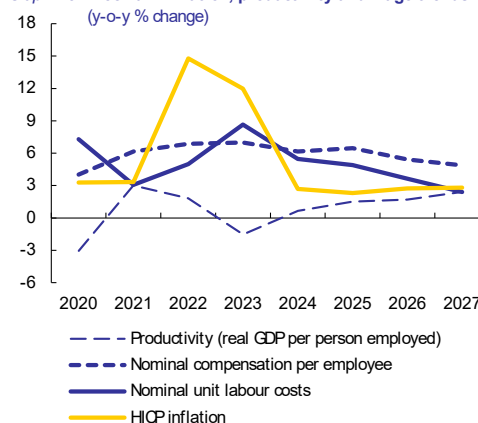
from EU-financed expenditure to decrease. The negative impact of the overall fiscal stance on inflation is thus expected to ease in 2026. Government consumption contributed positively to real GDP growth. It grew by 3.1% in 2024 but the pace of growth slowed down to 1.5% in 2025, and is expected to stabilise at that level in 2026 and in 2027. Public investment stayed high at around 5% of GDP in 2025 and 2026 with the help of EU funds (owing to growing completion of projects for the programming period 2021-2027, and the RRF), but it is likely to be less dynamic in 2027, as the RRF expires.

The Czech National Bank conducts monetary policy within an inflation targeting framework. The use of the exchange rate as an additional monetary policy instrument was discontinued in April 2017. Due to the easing of domestic inflation, since November 2023 the ČNB Board started to loosen its monetary policy and cut its main policy rate (the 2-week repo rate) on several occasions. Till the end of 2024 the main policy rate was cut by 300 basis points to 4.0%. Following a further decrease in the inflation rate in the first half of 2025, the ČNB Board continued to ease its monetary policy stance and cut the main policy rate by 50 basis points to 3.5%. Since May 2025 the main policy rate has remained at this level.

Wages and labour costs

The labour market remained tight over 2024 and the first half of 2025, however displaying some signs of loosening in the second part of 2025. Despite increasing from 2.5% in Q3 2024 to 3.0% in Q4 2025, the unemployment rate remained the lowest in the EU. The significant inflow of people fleeing the war in Ukraine, which stood at the highest levels in the EU (in per capita terms), helped alleviating some of the labour market pressures. At the same time, higher female participation in the labour force and the lagging growth performance of some segments of the industrial sector also contributed to reduce the gap between labour demand and supply. However, shortages of workers persisted especially at higher skill levels and added to the pressures on nominal wages. Over 2024 and 2025, growth in compensation per employee slightly moderated, but remained around 6%. Following a period of negative real wage growth due to the high inflation, real wage growth returned positive throughout 2024 and 2025. The minimum wage also increased significantly, by 7.7% in January 2026.

Graph 2.3: Czechia - Inflation, productivity and wage trends (y-o-y % change)



Source: Eurostat, Commission's Spring 2026 Economic Forecast.

Real labour productivity per hour worked slightly declined between 2022 and 2024, despite strong wage inflation, recovering only partly over 2025. This contributed to a significant increase in nominal unit labour costs, by 5.5% in 2024 and 4.9% in 2025, well above domestic inflation rates. Thus, the compensation of employees increased as percentage of nominal GDP, returning to pre-pandemic levels, while gross operating surplus decreased.

External factors

As Czechia is characterised by a high degree of trade openness, especially in goods trade, domestic prices are significantly influenced by developments in import prices. The import deflator for goods increased by 2.1% in 2024 before declining by 1.7% in 2025. This evolution followed international commodity price developments (energy and, to a less extent, food), which significantly determine fluctuations in the import deflator. In the first

quarter of 2026, import prices were impacted by a spike in fuel prices but, as of March 2026, they still recorded a 2.0% decline compared to March 2025. The cumulated increase in the import deflator was however below that of other EU Member States.

There are different possible explanations for this: the appreciation of the Czech koruna during the period, a comparatively lower share of energy in imports and the longer-term nature of gas contracts. In terms of effects stemming from the exchange rate, the nominal effective exchange rate (measured against the main 64 trading partners) depreciated slightly over 2024, to then appreciate in 2025 and the first half of 2026. The real effective exchange rate remains close to its historical high, as Czechia records positive current account balances and the ČNB's official policy rates remain significantly higher than the ECB ones.

Administered prices and taxes

Items with administered prices constituted 15.3% of the HICP basket in 2025, more than the EU average of 12.3%. In 2024, administered prices grew well above the headline inflation, at 8.4%, to then slow down markedly in 2025, to 1.5%. The most important drivers of these developments were energy prices, as electricity and heating have the highest weight in the basket of administered prices. Administered energy prices jumped in January 2024, as several energy measures were phased out, including price caps on electricity and gas, a support to households covering part of the electricity bills, support for the electricity distributors and for heating plants. Negative energy price growth explains a large part of the decline in administered prices over 2025 and the first quarter of 2026. This was partly due to the government, in January 2026, taking over from electricity consumers the payment of the renewable energy levy. In parallel, also administered prices growth in other areas moderated, gradually narrowing the gap with the headline inflation.

In terms of taxation, the largest impact on inflation came from changes in excises for fuels, tobacco and alcohol. A series of changes in VAT rates from January 2024 (from 15% to 12% for food and medicine, and an increase from 10% to 12% for transport, water and sewage, accommodation, and catering) had an impact on the corresponding HICP items but the overall impact on headline inflation was muted. Excise taxes increased on both tobacco products and spirits and further increases are planned for 2026 and 2027.

Medium-term prospects

According to the Commission's Spring 2026 Economic Forecast, annual HICP inflation is projected to average 2.7% in 2026 and 2.8% in 2027. The projected acceleration is mainly attributed to the spike in fuel prices following the start of the Middle East conflict, partly attenuated in 2026 by lower electricity prices due to the government taking over from electricity consumers the costs of the renewable energy levy.

Growth in wages is expected to continue outpacing inflation in 2026 and 2027. Services are thus forecast to remain the component with the highest price growth in 2026 and, after energy, also in 2027. According to the Commission's Spring 2026 Economic Forecast, wage growth is likely to continue with 5.4% in 2026 and 4.9% in 2027. The labour market remains extremely tight, Czechia reporting a very low unemployment rate in 2025 (2.8% vs 6.0% in EU) and high employment rates (82.9% vs 76.1% in EU), adding some pressure on salaries. However, conditions have been loosening in some sectors, notably industry, leading to an uptick in the unemployment rate over the second half of 2025. In 2026, wage growth in the public sector is expected to be higher than in the private sector, reflecting some catching up from lower growth rates since 2021, and to align with private wage growth in 2027. Considering a sustained recovery in economic activity and in productivity, the growth in

nominal unit labour costs should be limited at 3.6% in 2026 and 2.4% in 2027. The further increase in salaries could be partly absorbed by companies' profits, with operating surplus and mixed income expected to grow at a slower pace, declining as a share of GDP and contributing less to inflation.

The long-term convergence of prices towards the EU levels also plays a role in determining the inflation levels in the coming years. The level of consumer prices in Czechia was about 85% of the euro area average in 2024, suggesting that there is still potential for further price level convergence in the long term. Since 2012, Czechia has steadily converged to the euro area average in GDP per capita in PPS, to about 88% in 2025 (the COVID-19 pandemic brought about a small decrease from 92% reached in 2020).

Some upside risks remain to the inflation outlook. More severe or long-lasting disruptions to global trade from the conflict in the Middle East could lead to further increases in energy and food prices, putting additional pressure on inflation considering that the consumer basket in Czechia has a comparatively higher weight for these goods and considering that the Czech economy is one of the most energy intensive economies in the EU. In the context of a tight labour market, higher goods' prices could lead to an increase in wage growth beyond the baseline scenario. However, for the moment, the risks of significant second-round effects of wage increases – a wage-price spiral – appear to be contained.

2.3. PUBLIC FINANCES

2.3.1. Recent fiscal developments

The Czech deficit has remained within the 3% of GDP Treaty reference value since 2024. After dropping to 2.0% in 2024, on the back of the phase-out of energy-related measures and of the government consolidation package, the deficit slightly increased to 2.1% in 2025, reflecting higher public wages and increased government subsidies to renewable energy sources only partly compensated by the positive impact of economic activity on public finances.

The revenue-to-GDP ratio increased from 40.3% in 2023 to 41.2% in 2024 and declined somewhat to 41.0% in 2025. In 2024, revenues were supported by a fiscal consolidation package, notably the increase in corporate income tax, the reintroduction of employee sickness insurance, an increase in social security contributions for state-insured persons and for the self-employed, and an increase in recurrent immovable property tax. In addition, the across-the-board waiver of the renewable energy levy for households and firms introduced in response to the energy crisis was discontinued at the end of 2023. In 2025, revenue growth was dampened by declining windfall profit tax revenue and the negative effect of the exemption of income tax on government bond yields.

The expenditure-to-GDP ratio decreased from 44.0% in 2023 to 43.2% in 2025. In 2024, expenditure was contained by the reduced indexation of pensions and decreased subsidies, as energy-related measures were phased out. In 2025, the expenditure ratio stabilised, supported by the continued reduced indexation of pensions and declining growth in social transfers, counterbalancing an increase in compensation of public employees as well as higher expenditure on public investment.

On 16 October 2024, Czechia submitted its national medium-term fiscal-structural plan to the Council and to the Commission. On 26 November 2024, the Commission recommended to the Council to endorse Czechia's national medium-term fiscal structural plan. Based on the plan's policy commitments and macroeconomic assumptions, the net expenditure path

put forward in the plan is consistent with the requirements set out in Regulation (EU) 2024/1263. On 21 January 2025, the Council adopted a recommendation endorsing Czechia's national medium-term fiscal-structural plan.

On 8 July 2025, the Council activated the national escape clause (NEC) for increases in defence spending for Czechia covering the period from 2025 to 2028. The NEC allows Czechia to deviate from, and exceed, the net expenditure path in force to increase defence expenditure as long as the deviation is within 1.5% of GDP, taking 2021 as a reference year.

Net expenditure grew by 4.9% in 2025, above the recommended growth rate of 4.5%. When considering 2024 and 2025 together, the cumulative growth rate of net expenditure is below the recommended maximum growth rate. This is due to the phase-out of energy-related measures and the government consolidation package adopted in 2024, driving down net expenditure growth in 2024.

Table 2.3:

Czechia - Budgetary developments and projections (as % of GDP unless indicated otherwise)

| Outturn and forecast ¹⁾ | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 ¹⁾ | 2027 ¹⁾ |
|---|------|------|------|------|------|------|--------------------|--------------------|
| General government balance | -5.6 | -5.0 | -3.1 | -3.7 | -2.0 | -2.1 | -2.8 | -2.9 |
| - Total revenue | 40.6 | 40.1 | 40.2 | 40.3 | 41.2 | 41.0 | 40.4 | 39.5 |
| - Total expenditure | 46.3 | 45.0 | 43.2 | 44.0 | 43.2 | 43.2 | 43.2 | 42.4 |
| of which: | | | | | | | | |
| - Interest expenditure | 0.7 | 0.7 | 1.1 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 |
| p.m.: Tax burden | 35.3 | 34.8 | 34.1 | 33.9 | 35.1 | 35.4 | 34.8 | 34.7 |
| Primary balance | -4.9 | -4.2 | -2.0 | -2.4 | -0.7 | -0.8 | -1.5 | -1.6 |
| Fiscal stance ²⁾ | -0.2 | -1.4 | -0.4 | 0.6 | 2.0 | -0.1 | -0.7 | 0.6 |
| Recommended growth in net expenditure (%) | | | | | | 4.5 | 2.5 | 2.6 |
| Growth in net expenditure (%) | | | | | | 4.9 | 6.4 | 4.3 |
| Government gross debt | 36.9 | 40.7 | 42.5 | 42.2 | 43.3 | 44.3 | 45.8 | 47.2 |
| p.m.: Real GDP growth (%) | -5.3 | 4.0 | 2.8 | 0.0 | 1.3 | 2.6 | 1.8 | 2.4 |

¹⁾ Commission's Spring 2026 Economic Forecast.

²⁾ The fiscal stance is based on the increase in net expenditure (including that financed by the EU budget) relative to medium-term potential GDP growth. A positive (negative) sign indicates a contractionary (expansionary) fiscal stance (in % of GDP). The fiscal stance profile in 2020-2023 does not include the temporary impact of COVID-19 emergency measures.

Source: European Commission.

The fiscal stance was broadly neutral in 2025, as the slightly contractionary contribution of net nationally financed expenditure was offset by the expansionary contribution of EU financed expenditure, owing to the completion of projects financed by the EU structural funds for the programming period 2021-2027.

The general government gross debt-to-GDP ratio increased from 42.2% in 2023 to 43.3% in 2024 and to 44.3% in 2025. In 2025, the increase in the debt-to-GDP ratio was mostly driven by the debt-increasing stock-flow adjustment (+1.3 percentage points of GDP), interest expenditure (+1.3 percentage points of GDP) and, to a lesser extent, the primary deficit (+0.8 percentage point of GDP), only partly offsetting the debt-reducing impact from nominal GDP growth.

2.3.2. Medium-term prospects

Due to the electoral cycle, since 1 January 2026, Czechia has been operating under a provisional budget, which capped monthly spending at 1/12th of the previous year's expenditures. This restriction limited new public investments and subsidies.

The final budget was approved by the Chamber of Deputies on 11 March 2026 with a planned deficit of state budget and state funds of 3.5% of GDP. This reflects a fiscal loosening compared to 2025, driven by increased spending on social benefits, infrastructure, and state employee salaries. It prioritises infrastructure investments alongside continued, albeit slightly adjusted, defence spending.

On 30 April 2026, Czechia submitted its 2026 Annual Progress Report, reporting on relevant fiscal outturn data and projections, and the implementation of reforms and investments responding to the main challenges identified in the European Semester country-specific recommendations. The 2026 Annual Progress Report also reflects Czechia's biannual reporting on the progress made in delivering on its recovery and resilience plan in accordance with Article 27 of Regulation (EU) 2021/241.

Based on the Commission's 2026 Spring Economic Forecast, the general government deficit is projected to rise to 2.8% of GDP in 2026, reflecting *inter alia* the full phase-out of the tax on energy companies' windfall profits and taking over from electricity consumers the payment of the renewable energy levy.

In spring 2026, the Commission assessed Czechia's risks of compliance with the recommended maximum growth of net expenditure in 2026, based on outturn data for 2024-2025 and the Commission's Spring 2026 Economic Forecast, which incorporates information provided in the Annual Progress Report. Net expenditure is projected to grow by 6.4% in 2026, above the recommended growth of 2.5%. The deviation above the recommended maximum is equivalent to an annual deviation of 1.5% of GDP and a cumulative deviation of 0.1% of GDP. Taking the flexibility under the NEC into account, the projected deviation for 2026 is within the flexibility of the national escape clause based on current projections for defence spending.

The general government debt-to-GDP ratio is forecast to increase to 45.8% in 2026 and to reach 47.2% in 2027, driven by the negative primary balance, the higher interest expenditure and, to a lesser extent, the debt-increasing stock-flow adjustment, partly offset by nominal GDP growth.

Based on the Commission's estimates, the fiscal stance is projected to become expansionary in 2026, at -0.7% of GDP. The expansionary fiscal stance in 2026 is driven by the contribution from the national budget. The fiscal stance is expected to turn contractionary in 2027 (0.6% of GDP), on account of the negative impulse from EU funded expenditure following the expiry of the RRF.

Debt sustainability risks appear medium over the medium term. Government debt is projected to increase from around 44% in 2025 to around 56% of GDP in 2036. This projection assumes that the structural primary deficit deteriorates from 0.1% in 2025 to 0.5% of GDP in 2026 and remains at that level (excluding changes in the cost of ageing) over the projection period ⁽¹²⁾.

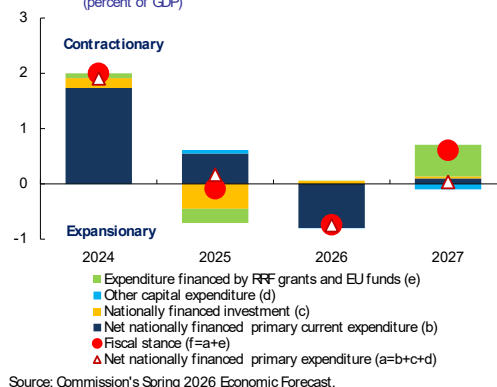
The sensitivity to possible macro-fiscal shocks also contributes to this assessment. In particular, if the structural primary deficit increased by another 0.5 percentage point, the projected debt ratio in 2036 would be 6 percentage points higher than in the baseline.

Finally, several additional risk factors need to be considered in the assessment. On the one hand, the announced backtracking on the pension reforms adopted at the end of 2024 (as included in the policy statement of the new government) can constitute a risk-increasing factor, given that the pension reforms have the potential to mitigate some of the long-term ageing-related fiscal sustainability risks. On the other hand, risk-mitigating factors include (i) the reduced share of short-term debt, (ii) the relatively stable financing sources with a diversified and large investor base, and (iii) the currency denomination of debt.

The Czech national fiscal framework performs well but is increasingly challenged. The general government debt has increased, compliance with the structural balance rule requires additional consolidation, and defence spending above 2% of GDP is excluded from the national expenditure framework. Amendment of the national expenditure framework is underway, including linking the national rule to the EU governance framework, while excluding infrastructure investment from the national expenditure framework. The general government debt rule and structural balance rule have been complied with in 2024 but the Czech Fiscal Council (CFC) ⁽¹³⁾ underlined that the reference forecast was not the most up to date. Local governments' finances are healthy, but about 10% of local municipalities failed to comply with their debt rule and 11 municipalities could not implement the debt reduction rule.

The CFC is well-resourced and with a relatively narrow mandate. Macroeconomic and budgetary forecasts were evaluated as realistic by the Committee on Budgetary Forecasts (CBF), which is not an Independent Fiscal Institution (IFI). The CBF ex-post assessment of the macroeconomic and budgetary forecasts over 2023–2024 found them of high quality. The effective staggering mandates of the CFC members have been loosened recently, access to information appears to be an issue for the CFC and the IFI has not been subject to any external review. These are examples of aspects of the Czech fiscal framework which will be affected by the amended Budgetary Framework Directive (2011/85/EU), part of the Economic Governance Review of 2024.

Graph 2.4: Czechia - Fiscal stance and its components
(percent of GDP)



⁽¹²⁾ This is in line with the no-fiscal-policy-change assumption as from 2027 and implies that the adjustment that Czechia commits to in its medium-term plan beyond 2026 is not taken into account in the projection. For details on the methodology, see European Commission (2026), Debt Sustainability Monitor 2025, Institutional Paper 332, February 2026.

⁽¹³⁾ <https://www.rozpocetovarada.cz/en/publikace/report-on-compliance-with-the-rules-of-budgetary-responsibility-for-2024/>.

2.4. EXCHANGE RATE STABILITY

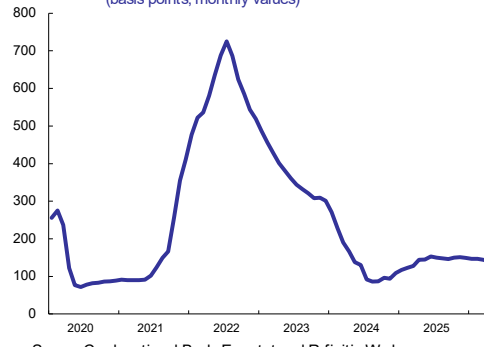
The Czech koruna does not participate in ERM II. Since the late 1990s, the ČNB has been operating an explicit inflation targeting framework combined with a floating exchange rate regime, that allows for foreign exchange market interventions by the central bank⁽¹⁴⁾. The ČNB is legally allowed to conduct foreign exchange interventions to influence the Czech koruna exchange rate and moderate excessive exchange rate volatility in exceptional situations (e.g., in 2022).

Graph 2.5: Czechia - CZK/EUR exchange rate
(monthly averages)



Source: ECB.

Graph 2.6: Czechia - 3-M Pribor spread to 3-M Euribor
(basis points, monthly values)



Source: Czech national Bank, Eurostat and Refinitiv Workspace.

The ČNB terminated its exchange rate commitment in April 2017. Following a period of relative stability in 2018-2019, the Czech koruna has experienced significant volatility since the COVID-19 pandemic. It depreciated significantly in 2020, due to an economic downturn that was more pronounced than expected. This was then followed by a moderate appreciation trend up to early 2022. In 2022, pressure for depreciation following Russia's full-scale invasion of Ukraine triggered stabilising interventions by the ČNB on the foreign exchange market between May and October 2022. In October 2022, the Czech koruna was trading against the euro at around 24.5. It then slightly appreciated until April 2023, after when it started to depreciate again on account of market expectations of a decline in interest rates, a trend that lasted until April 2024. Between April 2024 and January 2025, the Czech koruna fluctuated at around 25.1 CZK per euro, before appreciating again. By the end of 2025, the Czech koruna traded at around 24.3 CZK per euro and continued to fluctuate around that level till May 2026.

The three-month interest rate differential vis-à-vis the euro area reached a peak by mid-2022 before returning to close to after-pandemic levels of approximately 100 basis points by mid-2024. The strong easing cycle of the ČNB between December 2023 and May 2025 led to a steady and large decrease in the Czech three-month PRIBOR and, accordingly, in the spread vis-à-vis the euro area, which dropped below 100 basis points level in the second half of 2024. As of September 2024, the spread started to widen slightly amid the slow-down of the monetary policy easing by the ČNB and a continuation of the monetary policy easing by the ECB. The moderate widening continued till mid-2025. The spread stabilised afterwards around 150 basis points and registered 133 basis points in May 2026.

International reserves held by the ČNB increased from EUR 134 billion at the end of 2023 (42% of GDP) to about EUR 150 billion (43% of GDP) at the end of 2025. The main driving factors behind these changes were an increase in foreign currency reserves and gold

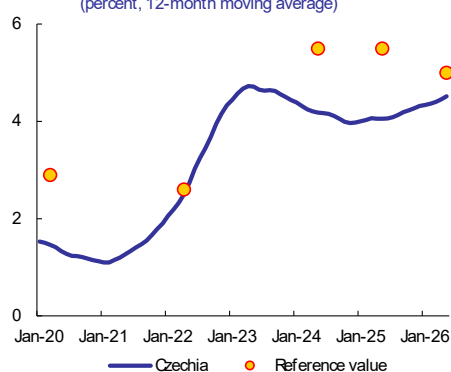
⁽¹⁴⁾ Since 2010, the inflation target has been set at 2% with a tolerance band of +/- 1%.

holdings. The reserves increased in the first months of 2026 and stood at around EUR 156 billion in May 2026.

2.5. LONG-TERM INTEREST RATES

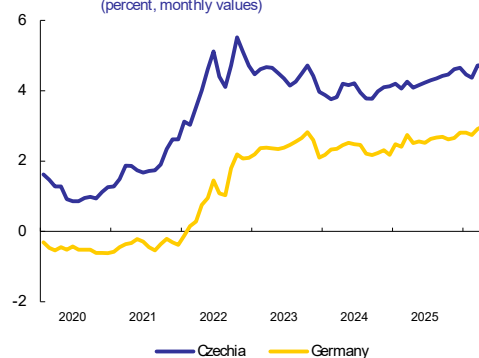
Long-term interest rates in Czechia, which are used for the convergence examination, reflect secondary market yields on a basket of government bonds with an average residual maturity of close to, but below, 10 years.

Graph 2.7: Czechia - Long-term interest rate criterion
(percent, 12-month moving average)



Source: European Commission.

Graph 2.8: Czechia - Long-term interest rates
(percent, monthly values)



Source: Eurostat.

The Czech 12-month average long-term interest rate, relevant for the assessment of the Treaty criterion, was 1.3 percentage points below the reference value at the time of the last convergence assessment in 2024. In May 2026, the reference value, given by the average of long-term interest rates in Cyprus, France and Denmark plus 2 percentage points, stood at 5.1%. In that month, the 12-month moving average of the yield on the Czech benchmark bond stood at 4.5%, i.e. 0.6 percentage point below the reference value.

The long-term interest rate of Czechia decreased to 3.8% in September 2024 and reached lows unseen for more than 2 years following the substantial ČNB interest rate cuts. As the ČNB stopped its monetary policy easing in May 2025, the long-term interest rates experienced a slight, but steady, upward movement and by the end of 2025 the long-term interest rates reached 4.7%, in line with rising yields in the region and inflationary fears. During the first few months of 2026, the long-term interest rate decreased slightly, but in March increased again amid growing inflationary pressures and stood at 4.9% in May 2026.

The spread between the long-term interest rates in Germany and Czechia fluctuated around 175 basis points during the last 2 years. In February 2024 the spread had narrowed to 143 basis points, however by the end of that year it increased to 195 basis points. Subsequently, after a brief fall in the first quarter of 2025 (to 152 basis points in March) it increased back to 184 basis points by the end of that year. During the first two months of 2026 the spread decreased slightly, but in March picked up marginally and reached 184 basis points in May 2026.

2.6. ADDITIONAL FACTORS

The Treaty (Article 140 TFEU) calls for an examination of other factors relevant to economic integration and convergence to be considered in the assessment. The assessment of the additional factors – including developments in the balance of payments, product, labour and financial market integration – gives an important indication of a Member State's ability to integrate into the euro area without difficulties.

In November 2025, the Commission published its 15th Alert Mechanism Report (AMR 2026) under the Macroeconomic Imbalance Procedure (MIP – see also Box 1.6), which highlighted issues relating to price competitiveness and the real effective exchange rate in Czechia. However, since overall risks remained limited, the report concluded that no In-Depth Review (IDR) was warranted for Czechia. Concerns in terms of price competitiveness are related to nominal unit labour costs (ULC), which have increased significantly in 2023 and 2024, as productivity was dampened by the slow pick-up in economic activity, while wages continued growing, albeit at a slowing pace. A slowdown in ULC growth is expected in 2025-2027, as economic activity grows and wage growth decelerates. The current account turned positive in 2024 and is expected to remain so over the following years, also on the back of a positive trade balance. House prices grew faster than incomes over the past decade and are estimated to be overvalued by close to 20% in 2024. House prices in nominal terms declined over 2023, but accelerated through 2024 and 2025. A structural supply constraint remains, which could continue to put upside pressures on house prices.

Czechia's recovery and resilience plan (RRP) includes measures to address a series of structural challenges, in synergy with other EU funds, including cohesion policy funds, to boost its competitiveness and stimulate sustainable growth and reduce the country's territorial and social disparities. The RRF funding provides Czechia with EUR 8.4 billion in grants and EUR 343 million in loans over the 2021-2026 period.

Czechia has submitted six payment requests, five of which have already been assessed resulting in an overall disbursement of EUR 6.8 billion by the end of May 2026 and has fulfilled approximately 71% of the milestones and targets in the plan. Key reforms in Czechia's RRP include those in the areas of renewable energy, zero-emission mobility, long-term care, affordable housing, and conflict of interest and lobbying rules.

In addition to the RRF funding, cohesion policy provides Czechia with EUR 24.2 billion for the 2021-2027 period. Cohesion policy financing aims particularly to further support Czechia's competitiveness, by helping research and innovation, SMEs competitiveness, improving energy efficiency, modernisation of public employment services, skills development and lifelong learning, as well as work-life balance and equal opportunities.

2.6.1. Developments in the balance of payments

According to balance of payments data, Czechia's external balance (i.e., the combined current and capital account) recorded a surplus of 3.3% of GDP in 2024 and 2.2% in 2025, driven mainly by changes in the balance of trade in goods and services. Exports increased in 2024 and 2025 due to an overall increase in export prices (the export deflator increased by 4.3% in 2024 and declined by -0.6% in 2025) but also in volumes (1.5% in 2024 and 3.9% in 2025). The automotive industry, one of the main engines of growth, continued recovering after the drop suffered during the COVID-19 pandemic. Imports also increased during the period, driven by higher prices of services imports in 2024 and internal demand growth in 2025. In volume terms, imports grew by 0.5% in 2024 and 5.0% in 2025, in both years the main driver was import of services. Import price volatility declined significantly over the period, as commodity prices stabilised. Thus, the import deflator stood at 3.2% in 2024, followed by a subsequent decline of -1.3% in 2025, as wholesale commodity prices declined.

The services balance was positive in both years, although the values of services exported and imported are significantly lower than those of goods. The main drivers of the services balance were telecom and IT services. The primary income balance registered an improvement in 2025 (-4.6% of GDP, up from a dip of -5.3% in 2022) as the profitability of foreign-owned enterprises decreased as a share of GDP.

Table 2.4:

| Czechia - Balance of payments | | (percentage of GDP) | | | | |
|---------------------------------------|-------|---------------------|-------|-------|------|------|
| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
| Current account | 1.8 | -2.1 | -4.7 | -0.1 | 1.7 | 0.7 |
| of which: Balance of trade in goods | 4.8 | 1.7 | -0.3 | 3.8 | 5.1 | 4.6 |
| Balance of trade in services | 1.9 | 1.9 | 1.4 | 1.1 | 1.4 | 1.2 |
| Primary income balance | -4.5 | -5.3 | -5.3 | -4.4 | -4.3 | -4.6 |
| Secondary income balance | -0.5 | -0.4 | -0.5 | -0.6 | -0.5 | -0.5 |
| Capital account | 1.1 | 1.7 | 0.6 | 1.1 | 1.6 | 1.5 |
| External balance ¹⁾ | 2.9 | -0.4 | -4.1 | 1.0 | 3.3 | 2.2 |
| Financial account | 2.8 | -0.3 | -4.1 | 1.2 | 3.3 | 1.7 |
| of which: Direct investment | -2.6 | -0.5 | -1.2 | -1.0 | -0.2 | -0.6 |
| Portfolio investment | -2.3 | 1.2 | 4.7 | 1.2 | -2.4 | 0.4 |
| Other investment ²⁾ | 6.8 | -5.7 | -3.3 | 0.5 | 5.4 | -1.1 |
| Change in reserves | 0.8 | 4.7 | -4.4 | 0.5 | 0.5 | 3.1 |
| Financial account without reserves | 2.0 | -5.0 | 0.2 | 0.7 | 2.8 | -1.3 |
| Errors and omissions | -0.1 | 0.1 | -0.1 | 0.1 | 0.0 | -0.5 |
| Gross capital formation | 24.7 | 28.1 | 31.0 | 28.2 | 26.3 | 26.8 |
| Gross saving | 25.2 | 27.6 | 26.8 | 28.3 | 28.4 | 28.5 |
| Net international investment position | -16.0 | -14.9 | -20.2 | -14.4 | -7.4 | -9.8 |

1) The combined current and capital account.

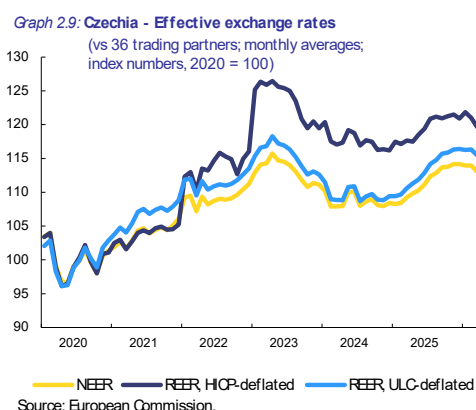
2) Including financial derivatives.

Sources: Eurostat, European Commission calculations, the Czech National Bank.

The capital account also improved in 2024 (1.7% of GDP compared to 0.6% in 2022), thanks to growth in the utilisation of funds from the EU budget as well as to the reductions in emission allowance (ETS) prices. The capital account stabilised in 2025, at 1.5% of GDP.

Balance of payment developments were positive also in the financial account (1.2% of GDP in 2023 and 3.3% of GDP in 2024). The strong increase in 2024 was driven by a record net capital outflow from Czech households and firms (3.9% of GDP), involving both equity and debt investment. Similar developments in financial accounts are expected for 2025 and 2026. The net international investment position (NIIP) improved, from -20.2% of GDP in 2022 to -9.8% at the end of 2025, due to improved net external lending and nominal GDP growth. In nominal terms, the NIIP deficit increased by 242 billion CZK between Q4 2024 and Q4 2025, to 837 billion CZK.

The long-term upward trend in Czechia's export market share has slowed down since 2018. The export market share in volumes declined during the pandemic years but recovered in 2023 and 2024. Several measures are signalling losses in cost competitiveness compared to trading partners. As already mentioned, nominal unit labour costs increased markedly between 2023 and 2025 as weak but improving economic activity dampened productivity, while labour costs grew, compensating previous losses in real wages induced by inflation. Cost competitiveness was also influenced negatively by the movements in the nominal effective exchange rate (NEER), as the Czech koruna



strengthened significantly during part of 2022 and part of 2023, also supported by interventions by the ČNB. The NEER weakened in 2024, resumed a positive trend in 2025 and weakened again in the first months of 2026. Due to comparatively higher inflation in Czechia in 2022 and 2023, the real effective exchange rates based on HICP and core inflation appreciated even more than implied by the evolution of the NEER during the period. As inflation has declined significantly since the beginning of 2024, this gap is not expected to significantly widen further.

According to the Commission's Spring 2026 Economic Forecast, the external balance (based on national accounts data) is expected to make a negative contribution to real GDP growth in 2026, as the positive effect of export growth is counterbalanced by solid imports growth, on the back of a recovery of internal demand and the spike in fuel prices. The contribution is then expected to turn positive in 2027, following a decline in prices of imported energy commodities.

2.6.2. Market integration

The Czech economy is highly integrated with the euro area through trade and investment linkages. The trade openness (see Table 2.5 for a definition) of Czechia decreased in 2025 and was below to its long-term average of around 85% of GDP. The share of trade with euro area countries stood at around 48% of GDP in 2025. In 2025, Czechia's main trading partners within the euro area were Germany, Slovakia and the Netherlands, while the main trade partners outside the euro area were Poland and China.

Table 2.5:
Czechia - Market integration

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|-------|-------|-------|-------|-------|-------|
| Trade openness ¹⁾ (%) | 81.5 | 84.7 | 89.9 | 81.7 | 82.9 | 80.3 |
| Trade with euro area in goods & services ²⁾⁺³⁾ (%) | 50.1 | 52.3 | 55.1 | 50.1 | 49.6 | 48.1 |
| IMD World Competitiveness Ranking ⁴⁾ | 33 | 34 | 26 | 18 | 29 | 25 |
| Internal Market Transposition Deficit ⁵⁾ (%) | 1.5 | 2.4 | 1.4 | 0.9 | 0.7 | 0.9 |
| Real house price index ⁶⁾ | 135.6 | 155.7 | 159.3 | 144.3 | 147.0 | 157.5 |

1) (Imports + Exports of goods and services / (2 x GDP at current market prices)) x 100 (Foreign Trade Statistics, Balance of Payments).

2) (Imports + Exports of goods with EA-21 / (2 x GDP at current market prices)) x 100 (Foreign Trade Statistics).

3) Trade in services with EA-21 (average credit and debit in % of GDP at current prices) (Balance of Payments).

4) International Institute for Management Development (IMD).

5) Percentage of internal market directives not yet communicated as having been transposed, relative to the total.

6) Deflated house price index (2015=100) (Eurostat).

Sources: Eurostat, World Bank, International Institute for Management Development, European Commission calculations.

FDI inflows remained stable between 2022 and 2024, close to 3% of GDP ⁽¹⁵⁾. The largest part of the FDI inflows was represented by reinvested earnings, while new capital participations remained low, representing only 3% of net flows in 2024. Nevertheless, the stock of FDIs as percentage of GDP reached 67% in 2024. More than half of the stock of FDIs in 2024 is accounted for by investors from Austria, Belgium, Germany, France, the Netherlands and Luxembourg. Financial services, manufacturing, real estate and trade are the main target sectors for FDI inflows. The geographical proximity to EU core markets, a good infrastructure and a highly educated labour force have supported the attractiveness of the country for foreign investors.

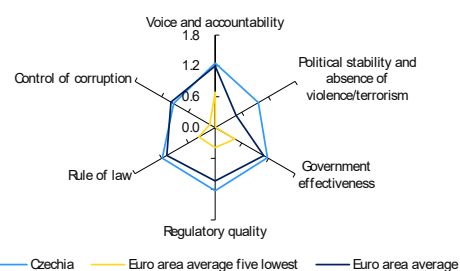
As price competitiveness concerns persisted, due to the rapid growth in unit labour costs, Czechia's position in the IMD's World Competitiveness Index worsened significantly in 2024,

⁽¹⁵⁾ See the database on foreign direct investment statistics of the Czech National Bank.

moving down the rankings from 18th to 29th position. However, it recovered in 2025 thanks to a steady economic performance to 25th position. The improvements are especially in terms of employment, price developments and performance of the domestic economy, while Czechia records its best rankings in the institutional and societal framework dimensions. According to the World Bank's 2024 Worldwide Governance Indicators, Czechia ranks higher than the average of the euro area Member States, in particular in relation to indicators that measure regulatory quality, political stability and absence of violence, the rule of law, control of corruption and government effectiveness⁽¹⁶⁾. According to the 2026 Country Report, Czechia faces challenges in the application of lawmaking rules, especially in terms of a consistent use of Regulatory Impact Assessments. The perception of corruption when doing business in Czechia is around the EU average, and the level of experienced corruption is low. Corruption cases are largely investigated and prosecuted, yet there is room for improvement as regards high-level corruption cases. The justice system is performing efficiently, while performing moderately well in digitalising the justice system⁽¹⁷⁾, although the rollout of the e-file system continues to face delays. According to the 2025 Single Market Scoreboard, Czechia's transposition deficit of Single Market Directives was at 0.9%, down from 2.4% in 2022. This is below the EU average (1.1%) but above the target (0.5%) proposed by the European Commission in the Single Market Act (2011).

Efforts are being made to address any pending corruption issues in Czechia, including by the reforms implemented under the Recovery and Resilience Plan. Legal and institutional frameworks to address corruption are broadly in place. Reforms to the whistleblowing, framework a lobbying reform, or a set of measures to strengthen the legislative framework in the areas of courts, judges, prosecutors and bailiffs are part of the Recovery and Resilience Plan and have already been implemented. However, room for improvement remains.

Graph 2.10: Czechia - World Bank's 2024 Worldwide Governance Indicators



Note: Estimate of governance ranges from -2.5 (weak) to 2.5 (strong).
Source: World Bank.

Czechia has notified a complete transposition of the 5th Anti-Money Laundering Directive. The Commission has assessed the transposition as complete and in conformity.

Czechia has developed a robust anti-money laundering and countering the financing of terrorism framework that complies well with international standards, particularly following significant reforms to address deficiencies identified in earlier evaluations. In 2022 the country underwent a 3rd Enhanced Follow-up Report & Technical Compliance Re-Rating by Moneyval. While the technical compliance is high, evaluations have highlighted the need to improve the practical effectiveness of the system, particularly regarding law enforcement outcomes, investigations, and prosecution.

The Czech labour market continued to remain tight in 2024 and 2025, recording the lowest unemployment rate in the EU. However, the unemployment rate stabilised in 2024 and increased slightly over 2025. The employment rate of those aged between 20 and 64 has

⁽¹⁶⁾ A Member State is considered to have a 'low' ('high') ranking compared with the average five euro area Member States with the lowest scores for each indicator if its score is at least 0.3 percentage point lower (higher) than that of this group of five euro area Member States.

⁽¹⁷⁾ European Commission (2026), 2026 Country Report on Czechia, pp. 74-78. See also Annual Rule of Law Report, country chapter on Czechia.

increased constantly over the past years and reached 83% in 2025, which was seven percentage points above the EU average. Labour shortages and skill mismatches remain pervasive, hampering Czechia's growth potential and increasing wage pressure, with implications also for inflation. Cross-border migration flows have increased significantly in 2022 and 2023 as Czechia was the country with the highest number of people displaced from Ukraine, per capita, in the EU. Progress was made in integrating this labour force in the economy, but the impact on the labour market remains condensed in low-qualified jobs.

The financial sector in Czechia continues to be smaller and somewhat less developed than in the euro area. Assets managed by the financial sector amounted to 242% of GDP in 2024. This is much less than in the euro area (707% of GDP) but higher than in the five euro area Member States with the smallest financial sectors. The financial sector's relative size has decreased in both the euro area (by 99 percentage points) and Czechia (by 12 percentage points) since 2020. Banks dominate the Czech financial sector and made up around 53% of the financial sector's assets in 2024. The central bank is the second largest holder of financial assets with a share of 18% in 2024 (more than double that of the euro area average). The rest of financial intermediaries constituted slightly more than one quarter of the financial sector assets holdings in 2024, which is about half of the share observed for the euro area. This lower share is close to that of the five euro area Member States with the smallest financial sector and reflects the relative underdevelopment of insurance corporations and pension funds.

Table 2.6:
Czechia - Allocation of assets by financial sub-sector

| | CZ | | EA | | Ratio to GDP (%) EA 5 smallest | |
|--|--------------------------------|------|------|------|-----------------------------------|------|
| | 2020 | 2024 | 2020 | 2024 | 2020 | 2024 |
| | Financial corporations (total) | 254 | 242 | 806 | 707 | 199 |
| Central bank | 61 | 44 | 77 | 51 | 61 | 44 |
| Monetary financial institutions | 133 | 128 | 308 | 275 | 93 | 93 |
| Other financial intermediaries | 32 | 36 | 195 | 177 | 20 | 15 |
| Non-MMF investment funds ¹⁾ | 10 | 19 | 125 | 125 | 4 | 6 |
| Insurance co. and Pension Funds | 18 | 14 | 102 | 80 | 22 | 23 |

| | CZ | | EA | | Share of total (%) EA 5 smallest | |
|---------------------------------|--------------|------|------|------|-------------------------------------|------|
| | 2020 | 2024 | 2020 | 2024 | 2020 | 2024 |
| | Central bank | 24 | 18 | 10 | 7 | 30 |
| Monetary financial institutions | 52 | 53 | 38 | 39 | 47 | 52 |
| Other financial intermediaries | 13 | 15 | 24 | 25 | 10 | 8 |
| Non-MMF investment funds | 4 | 8 | 15 | 18 | 2 | 3 |
| Insurance co. and Pension Funds | 7 | 6 | 13 | 11 | 11 | 13 |

¹⁾ MMF stands for money market funds.

Source: Eurostat.

As to the financing of the economy, outstanding liabilities as a share of GDP are much lower than in the euro area (345% of GDP vs. 722% of GDP in the euro area) but comparable to that of the euro area Member States with the lowest financing needs. Like in the euro area, loans are the dominant source of funding. However, Czechia has less developed bond and equity markets than the euro area, and market financing (especially debt securities and listed shares) is relatively underdeveloped. Equity and private sector debt markets

represented 8% of liabilities in 2024 (and 30% of GDP altogether), compared to 19% of liabilities in the euro area (where private sector debt and listed stocks amounted to 73% and 64% of GDP respectively). Czechia is still comparable to the five euro area Member States with the smallest national financing needs and it has a higher share of private debt securities in the financing of the economy than these Member States.

Unlisted shares and other equity made up 41% of total liabilities in 2024, which is higher than in the euro area (37%). Trade credits and advances play a bigger role in the financing of the economy in Czechia than in the euro area. Relative to GDP, the bond market is smaller in Czechia than in the euro area, which reflects the lower level of public debt in Czechia.

Table 2.7:

Czechia - Financing of the economy¹⁾

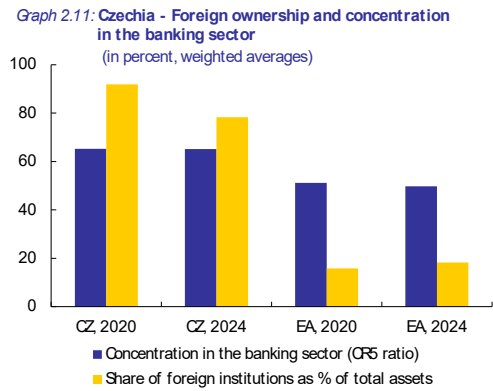
| | CZ | | EA | | Ratio to GDP (%) | |
|-----------------------------------|------|------|------|------|------------------|------|
| | | | | | EA 5 smallest | |
| | 2020 | 2024 | 2020 | 2024 | 2020 | 2024 |
| Liabilities (total) | 350 | 345 | 813 | 722 | 325 | 305 |
| Loans | 94 | 97 | 251 | 215 | 103 | 92 |
| Non-financial co. debt securities | 6 | 5 | 15 | 12 | 3 | 2 |
| Financial co. debt securities | 20 | 15 | 68 | 61 | 3 | 5 |
| Government debt securities | 37 | 38 | 94 | 72 | 49 | 43 |
| Listed shares | 10 | 10 | 71 | 64 | 8 | 12 |
| Unlisted shares | 74 | 71 | 196 | 187 | 65 | 54 |
| Other equity | 73 | 70 | 82 | 76 | 58 | 64 |
| Trade credits and advances | 37 | 39 | 36 | 36 | 36 | 33 |

| | CZ | | EA | | Share of total (%) | |
|-----------------------------------|------|------|------|------|--------------------|------|
| | | | | | EA 5 smallest | |
| | 2020 | 2024 | 2020 | 2024 | 2020 | 2024 |
| Loans | 27 | 28 | 31 | 30 | 32 | 30 |
| Non-financial co. debt securities | 2 | 1 | 2 | 2 | 1 | 1 |
| Financial co. debt securities | 6 | 4 | 8 | 8 | 1 | 2 |
| Government debt securities | 11 | 11 | 12 | 10 | 15 | 14 |
| Listed shares | 3 | 3 | 9 | 9 | 2 | 4 |
| Unlisted shares | 21 | 21 | 24 | 26 | 20 | 19 |
| Other equity | 21 | 20 | 10 | 11 | 17 | 20 |
| Trade credits and advances | 10 | 11 | 4 | 5 | 10 | 11 |

¹⁾ The table focuses on the financing needs of a country and how these are met by the financial system. The table is constructed from the liabilities of all economic sectors, but only considers loans, debt securities, equity and trade credits. The sum of liabilities in the table only reflects the total for the liabilities considered.

Source: Eurostat.

The Czech financial sector is highly integrated into the euro area's financial sector. This integration is noticeable in the ownership linkages of the banking system. Foreign institutions held approximately 80% of the banking sector's assets via their local branches and subsidiaries in 2024. Concentration in the banking sector, as measured by the market share of the largest five credit institutions in total assets, amounted for 65% in 2024 and thus continued to exceed the euro area average of 50% by 15 percentage points.



Source: ECB, Structural financial indicators.

3. HUNGARY

3.1. LEGAL COMPATIBILITY

3.1.1. Introduction

The main rules governing the Magyar Nemzeti Bank (MNB – Hungarian national bank, hereafter MNB) are laid down in Article 41 of the Hungarian Fundamental Law ⁽¹⁸⁾ and Act CXXXIX 2013 ⁽¹⁹⁾ on the MNB (hereafter: MNB Act). The amendments passed with regard to MNB law ⁽²⁰⁾ did not solve the incompatibilities and imperfections mentioned in the Commission's 2024 Convergence Report. Therefore, the issues raised in the Commission's 2024 Convergence Report remain largely relevant and are repeated in this year's assessment.

3.1.2. Central bank independence

Pursuant to Article 176 of the MNB Act, the MNB has become the legal successor of the liabilities of the former Hungarian Financial Supervisory Authority (HFSA), which ceased to exist on 1 October 2013. This legal succession also implies the transfer of all employees from the HFSA to the MNB pursuant to Article 183 of the MNB Act. The principle of central bank independence pursuant to Article 130 TFEU implies that the MNB must have sufficient financial, material, and human resources to perform its ESCB and ECB-related tasks, in addition to its national tasks. The tasks transferred from the HFSA to the MNB must not affect its ability to carry out these tasks from an operational and financial point of view.

Further to this principle, the MNB should be fully insulated from all financial obligations resulting from any HFSA activities. Contractual relationships in the period prior to 1 October 2013 including, amongst others, all employment relations between any new MNB staff member and the former HFSA can be continued only with the proviso that the continuation does not impinge on the MNB's independence and its power to fully carry out its duties under the Treaties. Against this background, Article 176 and 183 of the MNB Act should be aligned to the principle of central bank independence as enshrined in Article 130 of the TFEU.

The Commission took note of the Government Decree 474/2024 (XII. 31.) on the implementation of the law on the resilience of critical entities ⁽²¹⁾ as amended by Law LXXI of 2025 on the amendment of laws supporting the efficiency of law enforcement ⁽²²⁾ effective as of 1 January 2026, which may impede on central bank independence due to inconsistencies between Law LXXXIV of 2024 on the resilience of critical entities and its implementing Decree regarding the MNB's designation as a critical entity.

According to Article 9(7) of the MNB Act, the Governor and the Deputy Governors shall take an oath before the President of the Republic and other members of the Monetary Council before the Parliament upon taking office with the words required by Law XXVII of 2008 as

⁽¹⁸⁾ Magyarország Alaptörvénye, Magyar Közlöny 2013/163. (X.3.).

⁽¹⁹⁾ A Magyar Nemzeti Bankról szóló 2013. évi CXXXIX. törvény, Magyar Közlöny 2013/158. (IX.26.).

⁽²⁰⁾ The assessment of the compatibility of the MNB Law takes into consideration the consolidated version of the law as of 11 January 2026 and communicated by the Hungarian authorities on February 2026.

⁽²¹⁾ A kritikus szervezetek ellenálló képességéről szóló törvény végrehajtásáról szóló 474/2024. (XII. 31.) Korm. rendelet, Magyar Közlöny 2024/139.

⁽²²⁾ A rendészeti feladatellátás hatékonyságát támogató törvények módosításáról 2025. évi LXXI. törvény, Magyar Közlöny, 124/2025 (X.22.).

amended on the oath and solemn promise of certain public officials. The Law requires making an oath with words 'I, (name of the person taking the oath), hereby make an oath to be faithful to Hungary and to its Fundamental Law, to comply with its laws, and make sure others citizens comply with them too; I will fulfil the duties arising from my position as a (name of the position) for the benefit of the Hungarian nation [...]'. The oath does not contain any reference to the principle of central bank independence enshrined in Article 130 TFEU. What is more, the Fundamental Law only contains an indirect reference to EU law. Since the Governor and the Deputy Governors as members of the Monetary Council are involved in the performance of ESCB related tasks, the oath should include a clear reference to the requirement of central bank independence enshrined in Article 130 TFEU. Therefore, the oath as it stands is an imperfection as regards the institutional independence of the MNB, and the wording of the oath should be adapted to be in line with Article 130 TFEU.

Article 153(6) of the MNB Act provides for the possibility for members of the Monetary Council (including the Governor) and MNB employees to take on roles in the management, boards of trustees or supervisory boards of foundations and business associations under majority ownership of the MNB established by the MNB under Article 162(2) of the MNB Act without being subject to the conflict of interest rules provided for in Article 152(1) to (5) of the MNB Act, including any formal disclosure requirement. Hence, for those activities, the MNB officials involved, including the Governor, are fully shielded from any scrutiny. Moreover, Article 153(6) of the MNB Act also provides for an explicit exemption to the rule of Article 156(1) of the MNB Act, which determines that members of the Monetary Council (including the Governor) may only perform other activities, which are compatible with their central bank decision-making duties. Hence, under national law such members may undertake activities in the MNB's foundations and business associations that are incompatible with their central bank decision-making duties. The provision conflicts with Article 162(2) of the MNB Act, which provides that the MNB may only establish foundations and business associations in line with its tasks and primary objective of ensuring price stability. Moreover, central bank decision-making duties must always be performed in compliance with Article 130 TFEU. The exemption therefore seems to imply that the latter principles of primary Union law may be disregarded by members of the Monetary Council when acting in the context of the foundations and business associations under MNB ownership. Therefore, this incompatibility needs to be removed.

In addition, Article 156(7) read in conjunction with Article 152(1) of the MNB Act, extends the application of conflict of interests provisions to Monetary Council members to six months following termination of their employment relationship with the MNB. However, an exemption is granted as regards organisations covered by acts enumerated in Article 39 in which the Hungarian State or the MNB has a majority stake. Such an exemption could create situations where the privileged position of Monetary Council members could give them an unfair advantage in obtaining nominations or posts in other organisations, putting them in a position of conflict of interest while still in employment at the MNB.

Moreover, Article 157 of the MNB Act provides for an obligation for members of the Monetary Council, including the Governor and the Deputy Governors, to file asset declarations in the same manner as Members of Parliament, pursuant to the provisions of Article 90 of the Act XXXVI of 2012 on the National Assembly. According to Article 157(1) of the MNB Act and Article 90(2) of the Act XXXVI of 2012, the obligation to submit an asset declaration extends to close family members (spouse, domestic partner, and children). Pursuant to Article 90(3) of the Act XXXVI of 2012, members of the Monetary Council who fail to submit an asset declaration will not be allowed to exercise their functions and will receive no remuneration until they comply with the obligation. This provision allows for the

temporary removal from office of, inter alia, the Governor, a removal that seems to follow automatically if the failure to submit an asset declaration as required by the above provisions is established by the Parliament. To fully preserve the requirement of central bank independence, a two-step approach could be considered: first, to officially notify the members of the Monetary Council, including the Governor and the Deputy Governors, of the failure of submission and its possible legal consequences to allow for its correction within a set, short and reasonable timeframe; second, to impose proportionate sanctions, which could include dismissal or temporary removal from office if the failure to submit an asset declaration constitutes serious misconduct within the meaning of Article 14.2 of the ESCB/ECB Statute. In any case, the law should clarify that the sanctions for the breach of the obligation to file asset declarations do not constitute extra grounds for dismissal (including temporary removal from office) of the members of the Monetary Council, including the Governor and the Deputy Governors, in addition to those contained in Article 14.2 of the ESCB/ECB Statute.

The Commission notes the provisions on restoration of capital of Article 166(3) of the MNB Act, which aim to safeguard the financial independence of the central bank. This implies that MNB should always be sufficiently capitalised in order to avoid any situations which may negatively impact the central bank's ability to perform its ESCB-related tasks but also its national tasks. However, the MNB Act provide for a wide margin of discretion of the State authorities to determine when the MNB's equity would be restored up to the level of the MNB's subscribed capital.

3.1.3. Prohibition of monetary financing and privileged access

Pursuant to Article 36 of the MNB Act and subject to the prohibition of monetary financing set out under Article 146 of the MNB Act, the MNB can provide an emergency loan to credit institutions in the event of any circumstance arising in which the operation of a credit institution jeopardises the stability of the financial system. In order to comply with the prohibition of monetary financing of Article 123 TFEU, it should be clearly specified that the loan is granted against adequate collateral to ensure that the MNB would not suffer any loss in case of debtor's default.

Pursuant to Article 37, the MNB may grant loans to the National Deposit Insurance Fund and Investor Protection Fund in emergency cases, subject to prohibition of monetary financing under Article 146 of the Act. Though the Act adequately reflects conditions for central bank financing provided to a deposit guarantee scheme, a specific requirement should be included to ensure that the loans granted to the National Deposit Insurance Fund are provided against adequate collateral (e.g. a claim on future cash contributions, government securities, etc.) to secure the repayment of the loan. Therefore, Article 37 is incompatible with the prohibition of monetary financing as laid down in Article 123 TFEU.

Article 177(6) of the MNB Act provides for state compensation to the MNB of all expenses resulting from obligations, which exceed the assets the MNB has taken over from the HFSA. The law does not contain any provisions on the procedure and deadlines on how the state shall reimburse the MNB of the expenses. Therefore, the reimbursement under Article 177(6) of the MNB Act is not accompanied by measures that would fully insulate the bank from all financial obligations resulting from any activities and contractual relationships of the HFSA originating from prior to the transfer of tasks. In case of a substantial time gap between the costs arising to the MNB and the reimbursement by the state pursuant to Article 177(6) of the MNB Act, the reimbursement would result in an ex-post financing scheme. Should the expenses incurred at the MNB exceed the value of assets taken over from the HFSA, such a

scenario would constitute a breach of the prohibition of monetary financing laid down in Article 123 TFEU. In order to comply with the prohibition of monetary financing, Articles 176 and 183 of the MNB Act should be amended in order to insulate the MNB by appropriate means from all financial obligations resulting from the HFSA's prior activities or legal relationships and obligations including those deriving from the automatic further employment of HFSA staff by the MNB.

Article 162(3) and (4) of the MNB Act lay down the conditions of disclosure of data by a company related to the MNB. Furthermore, Article 162(5) provides for supervision of the State Audit Office of the operations of foundations established by the MNB. Notwithstanding the limitations regarding access to data of MNB companies, it is noted that pursuant to the principle of sincere cooperation (Article 4 TEU) a Member State is required, in full mutual respect, to assist the Commission and the European Central Bank in carrying out tasks which flow from the Treaties, such as providing the information necessary for monitoring the application of EU law.

Pursuant to Article 162(2) of the MNB Act, the MNB may establish business associations under majority of MNB ownership, or foundations. Article 162(2) has been further amended in 2025 stating that the MNB may not establish an asset management foundation and that a foundation established by MNB may not engage in investment or asset management activities as a business activity, nor may it conduct payment services. However, these provisions do not apply to foundations established prior to its entry into force. In order to dispel any concerns from the perspective of Article 123 TFEU, the MNB Act should be amended by providing for a clear framework delimiting the operations of such foundations and the volumes or resources which the MNB could endow them with, enabling them to purchase large volumes of Hungarian government securities. Moreover, the exemption provided under Article 153(6) of the MNB Act to the rule of Article 156(1) of the MNB Act which determines that members of the Monetary Council (including the Governor) may only perform other activities which are compatible with their central bank decision-making duties, is incompatible with Article 123 TFEU. The exemption provided for in national law seems to imply that the prohibition of monetary financing enshrined in Article 123 TFEU may be disregarded by members of the Monetary Council (including the Governor) when acting in the context of the foundations and business associations under MNB ownership. This incompatibility needs to be removed.

3.1.4. Integration into the Eurosystem

Objectives

Article 3(2) of the MNB Act determines that, without prejudice to the primary objective of price stability, the MNB shall uphold to maintain the stability of the financial intermediary system, to increase its resilience, to ensure its sustainable contribution to economic growth and support the economic policy of the government. The objective laid down in Article 3(2) of the MNB Act is reduced to supporting the economic policy in Hungary. The provision should be aligned to the secondary objective of the ESCB enshrined in Article 127(1) TFEU and Article 2 of the ESCB/ECB Statute in order to embrace the support of the general economic policies in the entire European Union rather than in Hungary only.

Tasks

The MNB Act contains a series of incompatibilities with regard to the following ESCB/ECB tasks:

- definition of monetary policy and the monetary functions, operations and instruments of the ESCB (Articles 1(2), 4(1), 9, 16 – 21, 159 and 171 of the MNB Act);
- conduct of foreign exchange operations (Articles 1(2), 4(3), (4) and (12), 9 and 159(2) of the MNB Act) and the definition of foreign exchange policy (Articles 1(2), 4(4) and (12), 9, 22 of the MNB Act);
- competences of the ECB and of the Council for banknotes and coins (Article K of the Fundamental Law and Articles 1(2), 4(2) and (12), 9, 12, 23 to 26 and 171(1) of the MNB Act).

There are also some imperfections in the MNB Act regarding the following matters:

- non-accurate reflection of the principle of central bank independence in the MNB Act (Article 1(2) and (3) of the MNB Act);
- non-recognition of the role of the ECB in the functioning of the payment systems (Articles 1(2), 4(5) and (12), 9, 13, 27-28, and 159(3), 171 (3) of the MNB Act);
- non-recognition of the role of the ECB and of the EU in the collection of statistics (Article 1(2), 9, 30(1) and 171(1) of the MNB Act);
- non-recognition of the role of the ECB in the field of international cooperation (Articles 1(2), Article 135(5) of the MNB Act);
- absence of an obligation to comply with the Eurosystem's regime for the financial reporting of NCB operations (Article 12(4)(b) and Law C of 2000/95 (IX.21.) in conjunction with Government Decree 221/2000 (XII.19.), Article 147 of the MNB Act);
- non-recognition of the role of the ECB and the Council in the appointment of external auditors (Articles 6(1) (b), 15 and 144 of the MNB Act).

3.1.5. Assessment of compatibility

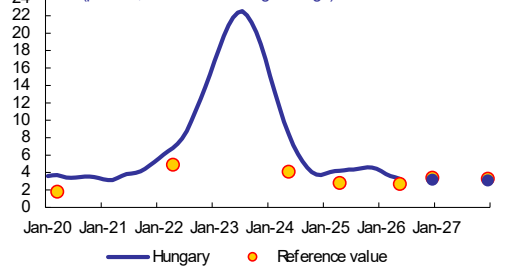
As regards the independence of the MNB, the prohibition of monetary financing and the integration of the MNB into the Eurosystem, existing Hungarian legislation is not fully compatible with the Treaties and the ESCB/ECB Statute pursuant to Article 131 TFEU for the reasons set out above. The Hungarian authorities should remedy the above-mentioned incompatibilities and imperfections.

3.2. PRICE STABILITY

3.2.1. Respect of reference value

The 12-month average inflation rate, which is used for the convergence assessment, was 4.3 percentage points above the reference value at the time of the last convergence assessment of Hungary in 2024. In May 2026, the reference value was 2.7%, calculated as the average of the 12-month average inflation rates in Cyprus, France and Denmark plus 1.5 percentage points. The corresponding inflation rate in Hungary was 3.3%, i.e. 0.6 percentage point above the reference value. The 12-month average inflation rate is projected to decrease in 2026 and to fall back below the reference value in the second half of 2026. It is also projected to increase slightly above the reference value in the first half of 2027 but to be below the reference value by the end of 2027.

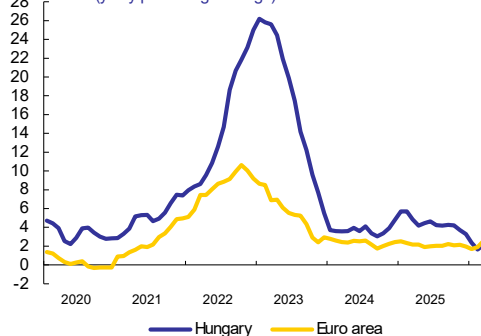
Graph 3.1: Hungary - Inflation criterion
(percent, 12-month moving average)



Note: The dots at the right end of the chart show the projected reference value and 12-month average inflation rate of Hungary in December 2026 and December 2027. The reference values for 2020, 2022, 2024 and 2025 refer to the reference values calculated in the previous convergence reports.

Source: Eurostat, Commission's Spring 2026 Economic Forecast.

Graph 3.2: Hungary - HICP inflation
(y-o-y percentage change)



Source: Eurostat.

3.2.2. Recent inflation developments

Annual HICP inflation declined from an average of around 16% in 2022-23 to 3.7% in 2024 before picking up again to 4.4% in 2025. Food inflation was a key driver in the moderation of overall inflation, declining from an average of over 21% in 2022-23 to 1.7% in 2024, before rising to around 5.0% in 2025 due to increasing global food prices. Simultaneously, energy inflation decreased significantly from an average of around 18% in 2022-23 to -2.0% in 2024 and -0.8% in 2025, reflecting lower gas and electricity prices in 2024 and reduced motor fuel prices in 2025. Nonetheless, inflation remained above the euro area average in both years. This inflation differential mostly reflected higher domestic inflation pressures in Hungary stemming from strong consumer demand. The government capped the retail markup of certain food and non-durable industrial goods from March 2025. The inflation differential against the euro area narrowed significantly to 1.3 percentage points in 2024 but widened again at 2.3 percentage points in 2025. Headline inflation declined at the beginning of 2026, bottoming at 1.6% in February, before increasing gradually in the subsequent months. Inflation stood at 2.3% in May 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.

Table 3.1:

| Hungary - Components of inflation | (percentage change) ¹⁾ | | | | | | | weights |
|--|-----------------------------------|------|------|------|------|------|--------|----------|
| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | May-26 | in total |
| HICP | 3.4 | 5.2 | 15.3 | 17.0 | 3.7 | 4.4 | 3.3 | 1000 |
| Non-energy industrial goods | 1.2 | 3.2 | 11.3 | 10.8 | 2.0 | 2.0 | 1.7 | 238 |
| Energy | -3.2 | 12.4 | 18.7 | 18.2 | -2.0 | -0.8 | -1.3 | 112 |
| Unprocessed food | 10.2 | 2.1 | 23.4 | 20.5 | 1.7 | 5.0 | 2.0 | 64 |
| Processed food | 6.3 | 6.9 | 21.8 | 21.7 | 1.7 | 4.4 | 2.0 | 212 |
| Services | 3.8 | 3.8 | 10.2 | 16.3 | 8.6 | 7.5 | 6.5 | 374 |
| HICP excl. energy, food, alcohol and tobacco | 2.8 | 3.5 | 10.7 | 14.0 | 5.9 | 5.3 | 4.6 | 612 |
| HICP at constant tax rates | 3.3 | 4.7 | 15.3 | 16.2 | 3.3 | 4.2 | 3.1 | 1000 |
| Administered prices HICP | 0.4 | 0.9 | 12.1 | 11.6 | 1.8 | 5.0 | 4.6 | 113 |

1) Measured by the arithmetic average of the latest 12-monthly indices relative to the arithmetic average of the 12-monthly indices in the previous period.

Source: Eurostat, European Commission calculations.

Annual HICP inflation excluding energy and food fell sharply after peaking at 14% in 2023, reaching 5.9% in 2024 and 5.3% in 2025, driven by declining production costs and a moderation of wage growth. The inflation of non-energy industrial goods declined from around 11% in 2022 and 2023 to 2.0% in 2024 and 2025, in line with inflation developments in the euro area. By contrast, services inflation remained elevated, at 8.6% in 2024 and 7.5% in 2025, fuelled by elevated domestic demand and high wage growth. Furthermore, service

providers adjusted their prices based on past inflation which, together with sector-specific tax hikes, further contributed to higher services prices in Hungary over this period. To contain services inflation, the government negotiated limits to price increases with major telecommunication and financial services providers in 2025. Additionally, the government capped fuel prices as of 10 March 2026 to address the impact of the soaring oil prices in March.

3.2.3. Underlying factors and sustainability of inflation

Macroeconomic policy mix and growth developments

Hungary's economy grew by 0.7% in 2024. Growth was particularly hindered by a 8.6% decline in investment due to an unfavourable business environment, uncertainties around the outlook of the European car industry to which Hungary is closely tied and reductions in public investment. Exports fell by 0.5%, due to the weak performance of machinery and vehicle exports; however, net exports contributed positively to growth because imports declined by 1.4% in 2024 due to the reduced domestic demand, particularly investment. Meanwhile, consumption rose by 7.3%, driven by substantial wage increases and a decrease in household savings. In 2025, exports continued to face challenges from weak demand from trading partners, while investment remained subdued in this unfavourable environment. Consequently, the economy grew by 0.5% in 2025, with consumption as the sole growth driver. According to the Commission's Spring 2026 Economic Forecast, GDP growth is projected to recover gradually in 2026-2027, driven by a recovery in exports and investment while consumption is expected to remain elevated, supported by fiscal policy measures. Growth is projected to accelerate to 1.8% in 2026 and 2.1% in 2027.

Hungary's fiscal stance was strongly contractionary in 2024 at 3.2% of GDP but turned expansionary in 2025 at -0.4% of GDP. According to the Commission's Spring 2026 Economic Forecast, the fiscal stance is projected to be expansionary at 1.7% of GDP in 2026. The no-policy-change forecast for 2027 shows a broadly neutral stance at 0.1% of GDP.

Monetary policy is conducted within an inflation targeting framework, with an inflation target set at 3% and a tolerance band of ± 1 percentage point around this target. Since May 2024, the MNB has continued reducing the policy rate as inflation was receding during 2024. It implemented three more 25 basis point cuts, in June, July and September 2024, and the policy rate reached 6.5% with inflation declining fast. The MNB did not change its policy rate throughout 2025 despite inflation being over the upper end of the tolerance band during most of 2025. The slowdown in inflation since its peak in 2023 resulted in positive real interest rates throughout 2024 and 2025, which contributed to the subdued economic growth. The elevated geopolitical and economic uncertainty, forecasts indicating that inflation would be close to target in 2026 and the appreciating forint were additional factors behind this decision.

Table 3.2:
Hungary - Other inflation and cost indicators¹⁾ (annual percentage change)

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 ²⁾ | 2027 ²⁾ |
|--|------|------|------|------|------|------|--------------------|--------------------|
| HICP inflation | | | | | | | | |
| Hungary | 3.4 | 5.2 | 15.3 | 17.0 | 3.7 | 4.4 | 3.2 | 3.1 |
| Euro area | 0.3 | 2.6 | 8.4 | 5.5 | 2.4 | 2.1 | 3.0 | 2.3 |
| Private consumption deflator | | | | | | | | |
| Hungary | 2.8 | 5.9 | 15.4 | 13.8 | 5.7 | 5.7 | 4.3 | 3.2 |
| Euro area | 0.6 | 2.4 | 6.8 | 6.3 | 2.4 | 2.0 | 2.9 | 2.4 |
| Nominal compensation per employee | | | | | | | | |
| Hungary | 4.1 | 7.9 | 17.0 | 15.1 | 12.6 | 9.0 | 9.3 | 5.9 |
| Euro area | -0.4 | 4.4 | 4.6 | 5.3 | 4.5 | 3.9 | 3.2 | 3.2 |
| Labour productivity | | | | | | | | |
| Hungary | -2.4 | 4.7 | 2.5 | -1.4 | 0.5 | 0.1 | 1.9 | 1.9 |
| Euro area | -4.6 | 4.8 | 1.3 | -1.1 | 0.0 | 0.7 | 0.5 | 0.8 |
| Nominal unit labour costs | | | | | | | | |
| Hungary | 6.7 | 3.0 | 14.2 | 16.8 | 12.0 | 8.9 | 7.4 | 3.9 |
| Euro area | 4.5 | -0.4 | 3.3 | 6.5 | 4.6 | 3.2 | 2.7 | 2.3 |
| Imports of goods deflator | | | | | | | | |
| Hungary | 2.7 | 11.9 | 31.8 | -5.8 | 2.0 | -0.2 | -1.0 | -1.4 |
| Euro area | -3.9 | 9.7 | 22.0 | -4.1 | -1.8 | -1.0 | 3.7 | 0.5 |

¹⁾ The figures for the euro area refer to the euro area with 21 Member States.

²⁾ Commission's Spring 2026 Economic Forecast.

Source: Eurostat, Commission's Spring 2026 Economic Forecast.

On February 2026, the MNB resumed its monetary easing by reducing its policy rate by 25 basis points to 6.25%. Low GDP growth, the strong decline of inflation in January 2026, the still positive real interest rates and favourable inflation forecasts suggested that inflation may remain sustainably within the target band. The central bank continued its practice of holding foreign exchange swap tenders (with one-day maturity) occasionally to provide euro liquidity to domestic banks.

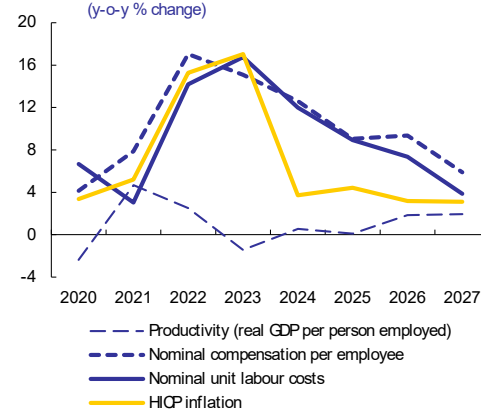
Wages and labour costs

Employment growth continued in 2024, with the employment rate for the 20-64 age group reaching 81.1% followed by a stagnation in 2025. Employment remained elevated in 2024-25, despite subdued economic growth, as companies opted to hoard labour in a tight labour market. Nonetheless, the number of vacancies decreased from previous peaks. The unemployment rate remained at around 4.5% throughout 2024-25 and the projected economic recovery is expected to sustain labour demand and keep unemployment low. Challenges to Hungary's competitiveness persist, in particular regarding productivity growth, employment support, regional and societal disparities in the labour market, labour mobility and social dialogue.

In 2024 and 2025, labour cost growth remained substantial but it slowed down somewhat compared to earlier years, reflecting a decline in inflation and more moderate minimum wage hikes. Nonetheless, the minimum wage (in national currency) rose by a cumulative 25.4% in over those two years 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% which is well above the 8.3% increase in the consumer price level. With the labour market remaining tight, nominal wage growth is set to remain elevated in 2026, driven by public sector wage increases and a 11% minimum wage increase. Wage growth is expected to moderate in 2027 as the one-off public-sector wage hike fades out and inflation subsides.

Labour productivity growth, measured in terms of GDP per worker, remained very low in 2024 and 2025, amidst weak GDP growth. Productivity growth is projected to improve in 2026-27 driven by the rebound in the manufacturing and construction sectors which had previously experienced significant labour hoarding. Nonetheless, structural barriers such as weak product market competition, skills shortages and low digitalisation continue to pose barriers to productivity growth. Unit labour cost growth eased to 12.0% in 2024 and to 8.9% in 2025, compared to average growth of 15.5% in 2022 and 2023, but remained elevated. As wage growth is projected to slow down and productivity is set to recover, unit labour costs growth is expected to ease further in 2026-27. Nonetheless, persistently weak productivity growth in combination with continued strong wage growth may pose risks to cost competitiveness unless accompanied by structural improvements in skills, innovation and product market functioning.

Graph 3.3: Hungary - Inflation, productivity and wage trends (y-o-y % change)



Source: Eurostat, Commission's Spring 2026 Economic Forecast.

External factors

Due to the high degree of openness of the Hungarian economy, developments in import prices play an important role in domestic price formation. Import prices remained a key driver of inflation in 2024-25, reflecting both the pass-through effects of currency depreciation, particularly in 2024, and rising global commodity prices, most notably in 2025. The forint's nominal effective exchange rate (measured against a group of 36 trading partners) depreciated by 2.6% in 2024, followed by a marginal appreciation of 0.4% in 2025. The forint appreciated against the euro by 7% between January and May 2026.

Administered prices and taxes

The share of administered prices in the Hungarian HICP basket was 11.3% in 2025, slightly below the euro area average of 11.9%. Administered prices rose by 1.8% in 2024 and 5.0% in 2025, considerably lower than the average annual growth of 11.9% in 2022 and 2023. These increases in 2024-25 primarily reflected the indexation of road tolls, parking services, and rises in administered rental prices. Additionally, a decline in gas and electricity demand in 2024 contributed to a decrease in administered energy prices, while increased energy demand in 2025 raised these prices. This is characteristic of Hungary's two-tier energy pricing scheme for households, which determines energy prices based on consumption, with higher consumption resulting in a higher average price. Administered prices reduced headline inflation by 0.3 percentage point in 2024 and had no impact on it in 2025.

Changes in indirect taxation raised headline inflation by 0.5 percentage point in 2024 due to increased excise duty on motor fuel. In 2025, the excise duties on fuel, alcohol, and tobacco products were further increased, adding 0.3 percentage point to inflation. Excise duties on tobacco products and motor fuel are adjusted annually based on national year-over-year inflation for July in the preceding year. Consequently, indirect taxes on alcohol and tobacco were increased in January 2026, but the excise duty increase on fuel was postponed to July 2026.

Medium-term prospects

The currency appreciation throughout 2025, along with the expected moderation of energy prices and somewhat lower wage growth, is set to moderate inflation in 2026 and 2027. According to the Commission's Spring 2026 Economic Forecast, inflation is forecast to decrease to 3.2% in 2026 and to 3.1% in 2027. However, high labour cost growth and strong consumption growth are set to keep domestic price pressures elevated and slow disinflation in the coming quarters. Furthermore, energy prices increased due to the conflict in the Middle East, although fuel price regulations introduced in March 2026 limited the impact of rising oil prices.

The risks to the inflation outlook are balanced. On the one hand, expansionary fiscal policy, a tight labour market and high inflation expectations are driving domestic inflation developments. On the other hand, currency appreciation is helping to moderate imported inflation, including the impact of rising energy prices due to the conflict in the Middle East.

The price level of household final consumption in Hungary stood at about 70% of the euro area average in 2024, closing 6% of the relative price gap since 2022. The lower aggregate price level relative to the euro area suggests that there is still scope for price level convergence in the long term, as GDP per capita in PPS (73% of the euro area average in 2025) increases towards the euro area average.

Medium-term inflation prospects will depend strongly on policies, and wage and productivity developments, notably in the non-traded sector and on the success with anchoring inflation expectations at the central bank's 3% target.

3.3. PUBLIC FINANCES

3.3.1. Recent fiscal developments

Hungary's general government deficit has remained above the 3% of GDP Treaty reference value since 2020. It decreased to 5.1% in 2024 and 4.7% in 2025, from 7.0% in 2023.

The revenue-to-GDP ratio fell to 42.2% in 2024, largely due to a decrease in EU transfers (which were related to lower spending on EU-financed projects and thus did not impact the government deficit). The ratio then rose to 42.6% in 2025 but remains below pre-pandemic levels. Robust consumption drove VAT revenue growth, despite the weak macroeconomic environment. The extension of sectoral taxes on companies in the energy, financial, retail and pharmaceutical sectors, as well as a small increase in excise duties, helped offset the impact of the decline in the income tax share of GDP, due in particular to the phase-in of personal income tax exemptions for mothers and an increase in the family tax allowance. Strong wage increases led to an increase in social contributions as a share of GDP.

The expenditure-to-GDP ratio fell significantly in 2024, from 49.7% to 47.3%, due to large cuts to public investment (in nominal terms and as a share of GDP) and a reduction of some current expenditure categories, including energy subsidies. These reductions were tempered by a rise in the compensation of employees as a share of GDP, reflecting the rapid wage growth in the public sector. In 2025, the expenditure ratio remained at 47.3%, despite further increases in public wages and other operating expenditures, as investment and interest expenditure declined. Hungary's elevated interest payments dropped from 4.9% in 2024 to 3.8% of GDP in 2025 due to lower coupons on inflation-linked bonds.

On 4 November 2024, Hungary submitted its national medium-term fiscal-structural plan to the Council and to the Commission. On 16 January 2025, the Commission recommended to

the Council to endorse Hungary's national medium-term fiscal structural plan. Based on the plan's policy commitments and macroeconomic assumptions, the net expenditure path put forward in the plan is consistent with the requirements set out in Regulation (EU) 2024/1263. On 18 February 2025, the Council adopted a recommendation endorsing Hungary's national medium-term fiscal-structural plan. The plan sets out a fiscal adjustment path over four years, with maximum net expenditure growth of 4.3% in 2025, 4.0% in 2026, 3.9% in 2027 and 3.7% in 2028.

The Council opened a deficit-based excessive deficit procedure (EDP) for Hungary in July 2024 as its government deficit exceeded the Treaty reference value of 3% of GDP. On 18 February 2025, the Council adopted a recommendation with a view to bringing an end to the situation of an excessive deficit. The recommended maximum net expenditure growth rates under the EDP were in line with those set out in Council recommendation endorsing Hungary's national medium-term fiscal-structural plan. These equate to an annual adjustment of 0.5% of GDP to the structural primary balance. The EDP correction deadline is 2026, at which point the medium-term fiscal-structural plan envisaged a deficit of 2.5% of GDP.

On 8 July 2025, the Council activated the national escape clause (NEC) for increases in defence spending for Hungary covering the period from 2025 to 2028. The NEC allows Hungary to deviate from, and exceed, the net expenditure path in force to increase defence expenditure as long as the deviation is within 1.5% of GDP, taking 2021 as a reference year.

In Spring 2026, the Commission assessed the effective action taken by Hungary to address the Excessive Deficit Procedure recommendation on the basis of the Commission's Spring 2026 Economic Forecast. Net expenditure grew by 8.1% in 2025 and 11.2% cumulatively over 2024 and 2025. The net expenditure growth in 2025 is above the recommended maximum growth rate, corresponding to a deviation of 1.5% of GDP in annual terms. When considering 2024 and 2025 together, the cumulative growth rate of net expenditure is also above the recommended maximum growth rate, corresponding to a deviation of 0.8% of GDP in cumulative terms. However, the deviation is within the flexibility of the national escape clause, taking into account the increase in defence spending. As a result, the EDP was held in abeyance for Hungary in spring 2026.

The fiscal stance was expansionary in 2025 at -0.4% of GDP, driven by an increase in EU-funded expenditure, net nationally-financed current primary expenditure and other capital expenditure. This more than offset the contraction in nationally-finance gross fixed capital formation.

The government debt-to-GDP ratio rose in 2024, for the first time since 2020, to 73.5% before increasing again to 74.6% in 2025. The rise in 2025 was primarily due to the large primary deficit and elevated interest payments, alongside weak real GDP growth and a debt-increasing stock flow adjustment.

3.3.2. Medium-term prospects

The 2026 budget was adopted by the Hungarian Parliament on 17 June 2025. It targeted a headline deficit of 3.7% of GDP and included contingency reserves of 0.2% of GDP to cover potential slippages, based on projected GDP growth of 4.1% in 2026.

The budget included a number of tax measures that would reduce the revenue-to-GDP ratio in 2026. In particular, the personal income tax exemption for mothers was extended to mothers under 40 with two children, while the family tax allowance for parents was increased. This will be partially offset by an extension of the windfall sectoral taxes that were

due to expire in 2025 on companies in the financial, retail and energy sectors. Since the adoption of the 2026 budget, the tax on banks was further increased to compensate for additional expenditure measures that were also later introduced.

On the expenditure side, the 2026 budget foresaw higher compensation for public employees, reflecting in particular the minimum wage increase, wage increases for teachers and a bonus of 6 months' wages to military and law enforcement employees. It included an increase in defence expenditure. In the second half of 2025, after the adoption of the 2026 budget, Hungary introduced new housing support measures, supports for SMEs and a 14-month pension.

For 2026, the Commission's 2026 Spring Economic Forecast projects the general government deficit to rise to 6.2% of GDP, reflecting *inter alia* the personal income tax reductions and public sector wage increases and bonuses. The general government debt is projected to increase to 75.1% of GDP in 2026, driven by the high primary deficit and elevated interest expenditure.

Table 3.3:

Hungary - Budgetary developments and projections (as % of GDP unless indicated otherwise)

| Outturn and forecast ¹⁾ | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026¹⁾ | 2027¹⁾ |
|---|-------------|-------------|-------------|-------------|-------------|-------------|--------------------------|--------------------------|
| General government balance | -7.5 | -7.1 | -6.2 | -7.0 | -5.1 | -4.7 | -6.2 | -5.8 |
| - Total revenue | 43.5 | 41.0 | 42.9 | 42.8 | 42.2 | 42.6 | 42.5 | 41.6 |
| - Total expenditure | 51.0 | 48.1 | 49.1 | 49.7 | 47.3 | 47.3 | 48.7 | 47.4 |
| of which: | | | | | | | | |
| - Interest expenditure | 2.3 | 2.2 | 2.8 | 4.7 | 4.9 | 3.8 | 3.9 | 3.7 |
| p.m.: Tax burden | 35.8 | 33.7 | 35.2 | 35.0 | 35.3 | 35.6 | 34.9 | 34.0 |
| Primary balance | -5.2 | -4.9 | -3.4 | -2.3 | -0.3 | -0.9 | -2.3 | -2.1 |
| Fiscal stance ²⁾ | 1.1 | -2.8 | -1.7 | 3.6 | 3.2 | -0.4 | -1.7 | 0.1 |
| Recommended growth in net expenditure (%) | | | | | | 4.3 | 4.0 | 3.9 |
| Growth in net expenditure (%) | | | | | | 8.1 | 9.7 | 3.7 |
| Government gross debt | 78.7 | 76.2 | 74.1 | 73.3 | 73.5 | 74.6 | 75.1 | 76.8 |
| p.m.: Real GDP growth (%) | -4.3 | 7.2 | 4.2 | -0.8 | 0.7 | 0.5 | 1.8 | 2.1 |

¹⁾ Commission's Spring 2026 Economic Forecast.

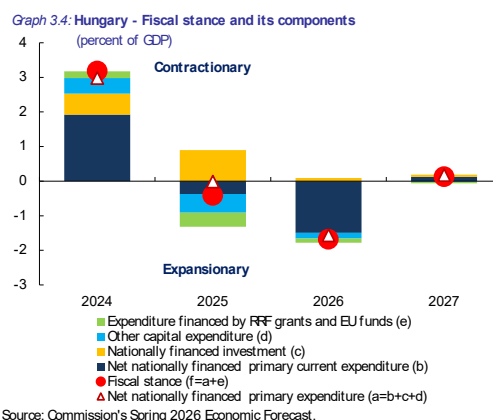
²⁾ The fiscal stance is based on the increase in net expenditure (including that financed by the EU budget) relative to medium-term potential GDP growth. A positive (negative) sign indicates a contractionary (expansionary) fiscal stance (in % of GDP). The fiscal stance profile in 2020-2023 does not include the temporary impact of COVID-19 emergency measures.

Source: European Commission.

In spring 2026, the Commission assessed Hungary's risk of compliance with the recommended maximum growth of net expenditure in 2026, based on outturn data for 2024-2025 and the Commission's Spring 2026 Economic Forecast. Net expenditure is projected to grow by 9.7% in 2026, above the recommended growth of 4.0%. The deviation above the recommended maximum is equivalent to an annual deviation of 2.3% of GDP and a cumulative deviation of 3.0% of GDP when considering 2024, 2025 and 2026 together. Taking the flexibility for higher defence spending provided for by the NEC into account, the cumulative deviation reduces to 1.9% of GDP. Hungary is projected to be at risk of material non-compliance in 2026. The projected risk of material non-compliance in 2026 would entail a strong presumption of no effective action and could require a stepping up of the EDP at a later stage. After the new government took office, on 1 June 2026, Hungary informed the

Commission about its intention to submit a revised national medium-term fiscal-structural plan.

Based on the Commission's estimates, the fiscal stance is projected to remain expansionary in 2026, at -1.7% of GDP, driven by net nationally-financed current expenditure. The contribution of EU-financed expenditure and net nationally-financed investment and other capital expenditure is projected to be broadly neutral. In 2027, the fiscal stance is projected to be broadly neutral, on a no-policy-change basis.



Debt sustainability risks appear high over the medium run. Government debt is projected to increase from around 75% in 2025 to around 103% of GDP in 2036. This projection assumes that, under a no-fiscal-policy-change assumption, the structural primary balance deteriorates from a surplus of 0.2% of GDP in 2025 to a deficit of 0.9% of GDP in 2026 and remains at that level (excluding changes in the cost of ageing) over the projection period ⁽²³⁾.

The sensitivity to possible macro-fiscal shocks also contributes to this assessment. In particular, if the interest rate-growth differential deteriorates by 1.0 percentage point compared with the baseline, the projected debt ratio in 2036 would be around 8 percentage points higher than in the baseline.

Several additional risk factors need to be considered in the assessment. On the one hand, risk-increasing factors relate to (i) the significant proportion of foreign currency debt, which exposes the government to exchange rate risk, (ii) the high exposure of domestic banks to government debt, which poses a threat to both the financial sector and the government, (iii) the sizable amount of redeemable retail government bonds, which accounted for approximately 20% of central government debt at the end of 2024 and poses a refinancing risk, and (iv) the high level of contingent liabilities arising from state guarantees, which poses additional fiscal risks, potentially straining public finances. On the other hand, Hungary's government financing benefits from a diversified debt portfolio, which relies on multiple sources including bond issuances on international capital markets, a sizable retail bond programme, and the domestic financial sector.

Despite gradual improvements, Hungary's fiscal framework has not fostered transparency and a prudent fiscal stance. The continued practice of early budget adoption, with an exception in 2024, and frequent revisions of fiscal targets reduce policy predictability and accountability. In addition, the introduction of the 'state of danger', in force since 2020 and repeatedly extended, has lifted the requirement to publish a multiannual budgetary plan, and increased the discretion in the implementation of annual budgets. Establishing a realistic and stable national medium-term budgetary framework would enhance the credibility and effectiveness of Hungary's fiscal policy. Additionally, strengthening the role and independence of the Hungarian Fiscal Council by enhancing its own operational

⁽²³⁾ This is in line with the no-fiscal-policy-change assumption as from 2027 and implies that the adjustment that Hungary commits to in its medium-term plan beyond 2026 is not taken into account in the projection. For details on the methodology see European Commission (2026), Debt Sustainability Monitor 2025, Institutional Paper 332, February 2026.

capacities could help improve fiscal discipline and transparency. 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 Directive was revised as part of the reformed EU Economic Governance Framework, which places the medium-term perspective at the core of fiscal planning. Amendments strengthen national medium-term budgetary frameworks, extend the independence safeguards for independent fiscal institutions to all EU Member States and assign some compulsory tasks to these institutions.

3.4. EXCHANGE RATE STABILITY

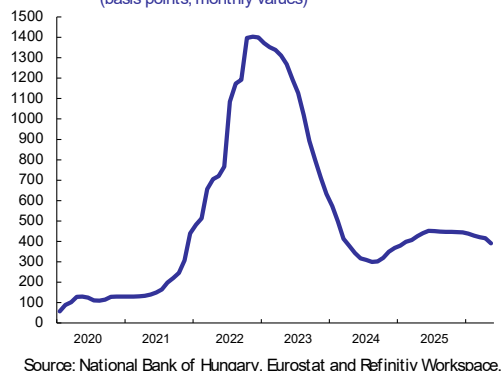
The Hungarian forint does not participate in ERM II. The MNB operates its monetary policy in an inflation targeting regime with the inflation target set at 3 percent with a tolerance band of +/-1 percentage point. Since 26 February 2008, the exchange rate band was abolished and a floating exchange rate regime was adopted that, however, allows foreign exchange interventions by the MNB.

In 2024, the HUF/EUR exchange rate continued the depreciation path that started after the June 2023 high of 371 HUF/EUR. The forint fell from 382 HUF/EUR in January 2024 to a low of 412 HUF/EUR in December 2024. The depreciation of the forint reflected general uncertainty related to the war in Ukraine, the aggressive policy rate cuts until mid-2024 and the higher inflation in Hungary relative to the euro area. However, between September 2024 and January 2026 MNB kept the policy rate constant, while ECB continued reducing its policy rates until June 2025. At the same time, the abrupt fall of HICP inflation from July 2023 to July 2024 has resulted in the policy rate being higher than inflation since early 2024. This positive real interest rate, that reached as high as 6% in mid-2024, and a high and rising interest rate differential with euro area, are the main drivers behind forint's appreciation to around 385 HUF/EUR by December 2025. The appreciation of the forint continued in the first months of 2026 due to the slowdown in inflation, with a brief reversal in March due to the Middle East conflict. Following the results of April's national elections, the forint appreciated once again in April and May, averaging 358 HUF/EUR in May.

Graph 3.5: Hungary - HUF/EUR exchange rate (monthly averages)



Graph 3.6: Hungary - 3-M Buber spread to 3-M Euribor (basis points, monthly values)



International reserves of the central bank that had already reached EUR 41.4 billion end-2023 rose to 44.6 billion by the end of 2024. The positive interest rate differential vis-à-vis the euro caused reserves to increase faster in 2025 and reach EUR 50.2 billion by end 2025, which was around 23% of GDP. International reserves further increased to EUR 61.1 billion in May 2026.

Short-term interest rate differentials measured by the 3-month interbank interest rate spread vis-à-vis the euro area started rising in fall 2024, after their minimum of 299 basis points in August 2024. The increase reflected the divergent monetary policy stances between ECB, which lowered rates, and MNB, that kept them constant. During 2025, the interest rate differential continued rising and reached a peak level of 452 basis points in June 2025. It remained close to this level thereafter, as both central banks kept their policy rates unchanged. The cut of the policy rate in February resulted in an almost one-to-one decline in the interest rate differential relative to the January level, and the results of the elections in April caused it to shrink even further. The spread stood at around 390 basis points in May 2026.

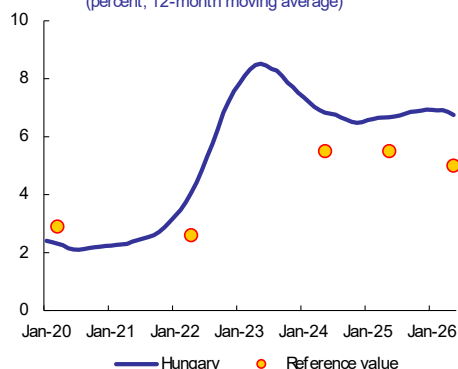
3.5. LONG-TERM INTEREST RATES

The long-term interest rate in Hungary used for the convergence assessment reflects the secondary market yields on a single benchmark bond with a residual maturity of about 10 years.

The Hungarian 12-month moving average long-term interest rate relevant for the assessment of the Treaty criterion was 1.3 percentage points above the reference value at the time of the last convergence assessment in May 2024. In May 2026, the latest month for which data are available, the reference value, given by the average of long-term interest rates in Cyprus, France and Denmark, plus 2 percentage points, stood at 5.1%. In that month, the 12-month moving average of the yield on the Hungarian benchmark bond stood at 6.7%, i.e. 1.6 percentage points above the reference value.

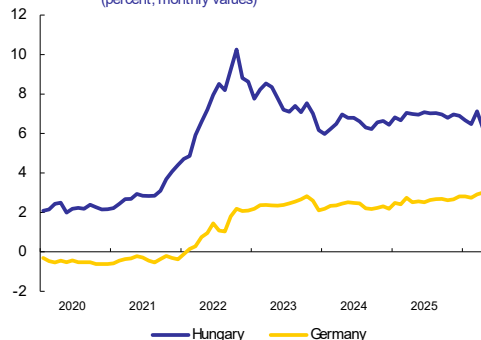
The long-term interest in Hungary has been fluctuating inside an 80 basis points band, reflecting the constant monetary policy rate and moderate inflation changes. It bottomed at 6.2% in September 2024 but then started rising slightly on the back of increasing inflation. During 2025 it remained broadly stable and reached 6.9% on December 2025. The policy rate cut in February and the sharp decline in inflation in early 2026 caused Hungary's long-term interest rate to decrease. However, heightened risks due to the war in the Middle East temporarily raised it to 7.1% in March, the highest level since 2023. The results of April's elections caused the long-term interest rate to return to a declining path, reaching 5.7% in May 2026.

Graph 3.7: Hungary - Long-term interest rate criterion
(percent, 12-month moving average)



Source: European Commission.

Graph 3.8: Hungary - Long-term interest rates
(percent, monthly values)



Source: Eurostat.

The long-term interest rate spread vis-à-vis the German benchmark bond remained very close to the level of the previous report (427 basis points in May 2024), despite the fact that ECB has lowered policy rates by 1.50% since September 2024, when the MNB last changed its rate. It was at 426 basis points in December 2024 and at 409 basis points in December

2025. The broad stability of the long-term spread, despite an increase in the short-term spread, reflected the stronger decrease in inflation between 2022-2023 and 2024-2025 relative to the euro area and the market assessment of fiscal risks, against the background of substantial fiscal deficits in 2024 and 2025 but a stable debt-to-GDP ratio. The spread narrowed in January-February and, following a sharp rise to 422 basis points in March, narrowed again in the subsequent two months, reaching 260 basis points in May.

3.6. ADDITIONAL FACTORS

The Treaty (Article 140 TFEU) calls for an examination of other factors relevant to economic integration and convergence to be taken into account in the assessment. The assessment of the additional factors – including balance of payments developments, as well as product, labour and financial market integration – gives an important indication of a Member State's ability to integrate into the euro area without difficulties.

In November 2025, the Commission published its 15th Alert Mechanism Report (AMR 2026) under the Macroeconomic Imbalance Procedure (MIP - see also Box 1.6), which concluded that an In-Depth Review was warranted for Hungary. In May 2026, the Commission published an In-Depth Review for Hungary. Taking into account the assessment in the In-Depth Review, the Commission, in its Communication 'European Semester – 2026 Spring Package' ⁽²⁴⁾, considers that Hungary continues to experience macroeconomic imbalances. The 2026 In-Depth Review found that Hungary continues to face vulnerabilities primarily related to high government debt and elevated government financing needs, competitiveness, and house prices. Public debt increased in 2025 as a result of continued high deficits and debt-servicing costs. Meanwhile, rapid wage growth and the planned minimum wage hike in 2027 are expected to continue exerting pressure on unit labour costs and competitiveness and substantial energy imports pose risks to competitiveness and external balances. House price growth accelerated further in 2025 driven by strong demand, which reflected accommodative financial conditions as well as extensive demand-supporting measures. Government policies, in particular the expansionary fiscal policy, have compounded the vulnerabilities reviewed above.

Hungary submitted a replacement recovery and resilience plan (RRP) on 9 June. It includes measures to address a series of structural challenges, in synergy with other EU funds, including cohesion policy funds, to boost its competitiveness and stimulate sustainable growth and reduce the country's territorial and social disparities. The RRF funding provides Hungary with EUR 10 billion over the 2021-2026 period. Key reforms in Hungary's RRP include those in the areas of Rule of Law (e.g. the judicial system, anti-corruption, public procurement), sustainable transport, energy, water management and circular economy, taxation and the fiscal framework.

In addition, cohesion policy provides Hungary with EUR 23.7 billion for the 2021-2027 period. Cohesion policy financing aims to further support Hungary's competitiveness, including innovation and the uptake of advanced technologies, green transition, and upward social convergence, including by addressing poverty and developing education systems and skills. While Hungary has made progress in implementing cohesion policy, challenges remain and significant social and regional disparities persist.

⁽²⁴⁾ COM(2026) 200 final, 3.6.2026.

3.6.1. Developments in the balance of payments

Hungary's current account surplus stood at 1.8% of GDP in 2024. The trade balance improved from 4.1% in 2023 to 4.5% in 2024, on the back of a terms of trade improvement and declining imports due to a fall in investment. The deficit of the primary and secondary income account declined from 4.2% of GDP to 2.6% of GDP, particularly due to a decline in foreign firms' profits. At the same time, the capital account balance, which captures capital transfers from the EU, declined from 1.2% of GDP to 0.4% of GDP in 2024, due to lower EU transfer inflows.

Table 3.4:

| Hungary - Balance of payments | (percentage of GDP) | | | | | |
|---------------------------------------|---------------------|-------|-------|-------|-------|-------|
| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
| Current account | -1.1 | -4.4 | -9.0 | 0.0 | 1.8 | 1.7 |
| of which: Balance of trade in goods | -1.3 | -3.3 | -9.4 | -0.6 | -0.5 | -0.8 |
| Balance of trade in services | 3.0 | 2.9 | 4.1 | 4.7 | 5.0 | 5.3 |
| Primary income balance | -2.2 | -3.0 | -2.9 | -3.1 | -2.0 | -2.4 |
| Secondary income balance | -0.5 | -1.0 | -0.8 | -1.1 | -0.6 | -0.4 |
| Capital account | 2.0 | 2.4 | 1.7 | 1.2 | 0.4 | 0.5 |
| External balance ¹⁾ | 0.9 | -2.0 | -7.3 | 1.2 | 2.2 | 2.2 |
| Financial account | -1.1 | -4.0 | -9.0 | 0.1 | 0.7 | -0.4 |
| of which: Direct investment | -1.9 | -2.2 | -2.6 | -0.7 | -6.5 | 4.0 |
| Portfolio investment | -1.9 | 0.6 | -2.5 | -4.3 | 0.6 | -2.1 |
| Other investment ²⁾ | -1.7 | -4.7 | -4.6 | 3.7 | 6.5 | -3.7 |
| Change in reserves | 4.5 | 2.3 | 0.7 | 1.3 | 0.0 | 1.4 |
| Financial account without reserves | -5.5 | -6.3 | -9.7 | -1.3 | 0.7 | -1.8 |
| Errors and omissions | -2.0 | -2.0 | -1.7 | -1.1 | -1.5 | -2.6 |
| Gross capital formation | 27.5 | 30.9 | 34.3 | 26.2 | 23.7 | 22.2 |
| Gross saving | 26.5 | 26.6 | 25.3 | 26.2 | 25.5 | 23.9 |
| Net international investment position | -50.5 | -49.7 | -44.7 | -38.9 | -33.3 | -32.4 |

1) The combined current and capital account.

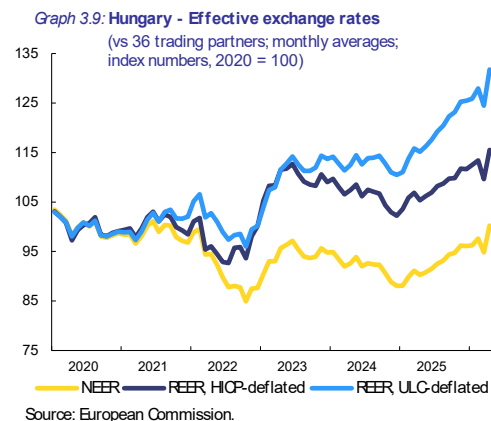
2) Including financial derivatives.

Sources: Eurostat, European Commission calculations, the Magyar Nemzeti Bank.

In 2025, the current account surplus slightly decreased to 1.7% of GDP. The trade balance surplus remained flat at 4.5% of GDP. The balance of goods decreased slightly, reflecting a fall in manufactured goods exports, but it was offset by the increase in the balance of services, which reflected a decline in business services and tourism imports. At the same time the deficit of the primary and secondary income account increased from 2.6% of GDP to 2.8% of GDP, while the surplus of the capital account increased slightly to 0.5% of GDP.

The financial account vis-à-vis rest of the world recorded a surplus of 0.7% in 2024 compared to 0.1% in 2023. The increase in the surplus reflected a decline in portfolio investment inflows, and an increase in other investments abroad in particular currency and deposits, amid a significant increase in net FDI liabilities. The financial account decreased to -0.4% of GDP in 2025, driven by other investment inflows while international reserves increased.

According to the Commission's Spring 2026 Economic Forecast, the current account surplus is expected to turn into a deficit of 0.2% in 2026 owing to a deterioration of the terms of trade, which lowers the trade balance. Then in 2027, the current account is set to return to a slight surplus due to the increase in exports, supported by a recovery of goods exports thanks to the launch of assembly facilities in the automotive industry and the expected recovery of external demand.



Price and cost competitiveness showed a mixed picture in 2024 and in 2025. The growth of ULCs was higher in Hungary than in its trading partners in both years, while the exchange rate depreciated in 2024 and appreciated slightly in 2025. The ULC-based real exchange rate (REER) appreciated by 1.7% and 5.2% in 2024 and 2025 respectively. Inflation in Hungary was similar to that of trading partners, consequently, the HICP-based REER depreciated in 2024 by 2.3% and appreciated by 1.6% in 2025. At the same time, Hungary's export market share (measured at current prices) decreased in 2024.

As the budget deficit remained persistently high in 2024-2025, the external borrowing of the government sector also remained elevated, leading to debt-generating portfolio investment inflows, and rising gross external debt. Meanwhile, direct investments continued to register net inflows in 2024-2025. Overall, the net international investment position was negative at -32% of GDP at the end of 2025, an improvement from the -39% registered in 2023.

3.6.2. Market integration

Hungary's economy is highly integrated with the euro area through trade and investment linkages. The economy is strongly embedded into continental and global value chains. Nevertheless, trade openness (see Table 3.5 for a definition) has declined in 2023 to around 91% relative to the 2022 peak (105%) and it fell further to around 85% in 2024 and to 81% in 2025. Flows with the euro area dominate trade, accounting for almost 46% of the total trade in goods and services in 2025; however, trade with euro area has declined after its peak in 2022. Hungary's main euro area goods trading partners in 2024 were Germany, Slovakia, Austria and Netherlands. Outside the euro area, the main trading partners were Poland, Czechia, China and Romania.

Table 3.5:
Hungary - Market integration

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|-------|-------|-------|-------|-------|-------|
| Trade openness ¹⁾ (%) | 86.9 | 90.5 | 105.2 | 90.5 | 85.1 | 81.1 |
| Trade with euro area in goods & services ²⁾⁺³⁾ (%) | 51.0 | 53.1 | 60.0 | 51.9 | 48.5 | 46.1 |
| IMD World Competitiveness Ranking ⁴⁾ | 47 | 42 | 39 | 46 | 54 | 48 |
| Internal Market Transposition Deficit ⁵⁾ (%) | 1.0 | 0.7 | 1.5 | 0.2 | 0.5 | 1.1 |
| Real house price index ⁶⁾ | 154.1 | 169.5 | 181.1 | 169.2 | 179.6 | 200.7 |

1) (Imports + Exports of goods and services / (2 x GDP at current market prices)) x 100 (Foreign Trade Statistics, Balance of Payments).

2) (Imports + Exports of goods with EA-21 / (2 x GDP at current market prices)) x 100 (Foreign Trade Statistics).

3) Trade in services with EA-21 (average credit and debit in % of GDP at current prices) (Balance of Payments).

4) International Institute for Management Development (IMD).

5) Percentage of internal market directives not yet communicated as having been transposed, relative to the total.

6) Deflated house price index (2015=100) (Eurostat).

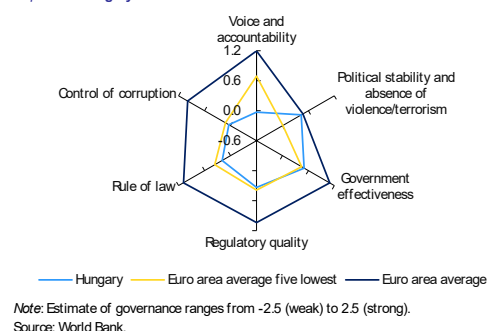
Sources: Eurostat, World Bank, International Institute for Management Development, European Commission calculations.

The stock of FDI in Hungary amounted to about 55% of GDP in 2024 (excluding special purpose entities, 'SPEs' ⁽²⁵⁾), with FDI mainly originating in Germany, the Netherlands and Austria. Manufacturing and services account for 47% and 46% of inward FDI, respectively, suggesting that FDI plays an important role in enhancing Hungary's export capacity and contributes significantly to economic integration with the euro area.

Concerning the business environment, Hungary performs in general worse than many euro area Member States in international rankings. In 2025, Hungary ranked 48th out of 69 countries in the IMD World Competitiveness Ranking ⁽²⁶⁾. This is despite the fact that certain features of Hungary's business environment, such as the lowest corporate income tax in the EU (9%) and generous state subsidies create an attractive location for investments. According to the

2026 Country Report, businesses continue to face a highly volatile and unpredictable regulatory environment. This includes frequent amendments, the extensive use of emergency measures and limited preparation time for economically significant changes. This remains a structural challenge, as the pace and manner of regulatory change have not stabilised and continue to affect long-term business planning. Moreover, competition is restricted in several service and product markets. Several services are entrusted to state-owned or private firms which operate without competition. Such services include textbook publishing, waste management, mobile payments, the cash-in-transit market, tobacco wholesale and retail trade, gambling, motorway construction and, from 2025, cybersecurity audits and certified translation services. Concerns remain about the anti-corruption

Graph 3.10: Hungary - World Bank's 2024 Worldwide Governance Indicators



⁽²⁵⁾ The Hungarian statistics introduced the notion of special purpose enterprise (SPE) for those passive financial intermediaries that have financial relations only with non-residents, and allocated them to the financial corporations sector as private financial intermediaries / captive financial institutions (S.127). They are typically related to tax optimization by holdings. For more details, see: <https://statisztika.mnb.hu/sw/static/file/pszlakonyv-en.pdf> p. 33. Data for this sector are available at https://statisztika.mnb.hu/timeseries/evespszisalko_en.xlsx.

⁽²⁶⁾ https://www.imd.org/centers/wcc/world-competitiveness-center/rankings/world-competitiveness-ranking/rankings/wcr-rankings/#_tab_List

framework and the quality of lawmaking, which have an additional bearing on the business environment.

According to the World Bank's 2024 Worldwide Governance Indicators, Hungary ranks the lowest in the EU in terms of voice and accountability ⁽²⁷⁾, the second lowest in terms of rule of law and the third lowest in regulatory quality and control of corruption ⁽²⁸⁾. It also ranks lower than the euro area average in terms of government effectiveness. According to the 2026 Country Report, Hungary's processes for developing and evaluating legislation remain below the EU average. Corruption continues to be increasingly perceived as an obstacle to businesses (50% versus an EU average of 35%), and the perception persists that the only way to succeed in business is to have good political connections (78% versus an EU average of 51%). Businesses' views on corruption risks in public procurement are above the EU average. Few steps were taken to improve the prevention and detection of corruption. Hungary faces challenges in terms of enforcement and establishing a track record for corruption cases. Overall, the justice system continues to perform efficiently. In terms of digitalisation, Hungary performs very well ⁽²⁹⁾. Hungary's transposition deficit of EU Directives was 0.9%, below the EU average (1.7%) in May 2026. Nonetheless, the conformity deficit was 4.0%, the highest in the EU and above the EU average of 1.5%, showing that a relatively high share of EU directives were incorrectly transposed into national legislation.

Transposition of the 4th and the 5th Anti-Money Laundering Directive by Hungary is now considered complete. Concerning conformity, the Commission after its assessment came to the conclusion that parts of the 5th Anti-Money Laundering Directive had not been transposed in a conform manner and, in that regard, an infringement procedure is still pending.

Hungary's progress in the anti-money laundering and countering the financing of terrorism area has led to significant improvements, but key deficiencies remain in risk assessments, outreach, sanctions, and scope of regulations. In its 6th Enhanced Follow-up Report & Technical Compliance Re-Rating, dated May 2024, Moneyval highlighted deficiencies related to non-profit organisation (NPO) oversight and virtual asset service providers (VASPs), which require further reforms and risk-based measures.

The labour market remains tight, nonetheless, youth unemployment has increased from an average of 11.7% in 2022-23 to 15.2% in 2024, before moderating to 13.9% in 2025. Low-educated people, Roma and persons with disabilities continue to face barriers to accessing and staying in the labour market. While Hungary performs relatively well on most dimensions of job quality, the gender pay gap is one of the highest in the EU, low-skilled workers experience a high in-work poverty rate, and the duration of unemployment benefits – three months – is inadequate to support unemployed people to find relevant work, as the average job-seeking period exceeded 12 months in 2024 and 2025. Persisting labour market participation gaps and barriers affecting vulnerable groups weaken labour supply,

⁽²⁷⁾ According to the World Bank's methodology, 'voice and accountability' captures perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media. See <https://www.worldbank.org/content/dam/sites/govindicators/doc/va.pdf>.

⁽²⁸⁾ A Member State is considered to have a 'low' ('high') ranking compared with the average five euro area Member States with the lowest scores for each indicator if its score is at least 0.3 percentage point lower (higher) than that of this group of five euro area Member States.

⁽²⁹⁾ European Commission (2026), [2026 Country Report on Hungary](#), pp. 15, 58, 70-74. See also Annual Rule of Law Report, country chapter on Hungary.

exacerbate shortages and constrain Hungary's medium-term growth and convergence potential.

Table 3.6:
Hungary - Allocation of assets by financial sub-sector

| | HU | | EA | | Ratio to GDP (%) EA 5 smallest | |
|--|--------------------------------|------|------|------|-------------------------------------|------|
| | 2020 | 2024 | 2020 | 2024 | 2020 | 2024 |
| | Financial corporations (total) | 426 | 298 | 806 | 707 | 199 |
| Central bank | 41 | 33 | 77 | 51 | 61 | 44 |
| Monetary financial institutions | 108 | 94 | 308 | 275 | 93 | 93 |
| Other financial intermediaries | 252 | 137 | 195 | 177 | 20 | 15 |
| Non-MMF investment funds ¹⁾ | 14 | 26 | 125 | 125 | 4 | 6 |
| Insurance co. and Pension Funds | 11 | 9 | 102 | 80 | 22 | 23 |
| | HU | | EA | | Share of total (%) EA 5 smallest | |
| | 2020 | 2024 | 2020 | 2024 | 2020 | 2024 |
| Central bank | 10 | 11 | 10 | 7 | 30 | 24 |
| Monetary financial institutions | 25 | 31 | 38 | 39 | 47 | 52 |
| Other financial intermediaries | 59 | 46 | 24 | 25 | 10 | 8 |
| Non-MMF investment funds | 3 | 9 | 15 | 18 | 2 | 3 |
| Insurance co. and Pension Funds | 3 | 3 | 13 | 11 | 11 | 13 |

¹⁾ MMF stands for money market funds.

Source: Eurostat.

The financial sector in Hungary is smaller and less developed than in the euro area. Assets managed by the financial sector amounted to 298% of GDP in 2024 and to 172% of GDP when excluding special purpose entities (SPEs), which perform no financial intermediation in the domestic economy. This is much less than in the euro area (707% of GDP) and comparable to the euro area Member States with the least developed financial sectors. At the same time, the financial sector has contracted faster than in the euro area since 2020, even when excluding SPEs. The structure of the financial sector is different from that of the euro area, where the banking sector is the largest sub-sector in the financial sector. The share of other financial intermediaries, which include SPEs, has declined substantially to 137% of GDP in 2024 and despite still being the biggest sector in Hungary, it is now much smaller than that in the euro area. In Hungary, the share of the banking sector in the total assets managed by the financial sector increased from 25% in 2020 to 31% in 2024, but remains lower than the euro area average of 39%. The share of other financial intermediaries, which include SPEs, decreased from 59% to 46%⁽³⁰⁾; both developments reversed previous trends. However, when excluding other financial intermediaries, the banking sector represents a large and stable share of the financial sector, with 62% of total assets in 2020 and 58% in 2024. With this correction, the financial system can be assessed as more bank-based than in the euro area. The weight of the central bank is also higher than in the euro area when excluding SPEs (20% of total assets in 2024). Insurance companies and pension funds are clearly underdeveloped compared with the euro area and with its five

⁽³⁰⁾ As indicated above, this likely reflects the large presence of foreign holdings in Hungary for tax optimisation purposes.

Member States with the smallest financial sectors (3% of the total assets of the financial sector).

Table 3.7:

Hungary - Financing of the economy¹⁾

| | Ratio to GDP (%) | | | | | |
|-----------------------------------|------------------|------|------|------|---------------|------|
| | HU | | EA | | EA 5 smallest | |
| | 2020 | 2024 | 2020 | 2024 | 2020 | 2024 |
| Liabilities (total) | 638 | 502 | 813 | 722 | 325 | 305 |
| Loans | 190 | 170 | 251 | 215 | 103 | 92 |
| Non-financial co. debt securities | 3 | 4 | 15 | 12 | 3 | 2 |
| Financial co. debt securities | 7 | 16 | 68 | 61 | 3 | 5 |
| Government debt securities | 75 | 64 | 94 | 72 | 49 | 43 |
| Listed shares | 17 | 18 | 71 | 64 | 8 | 12 |
| Unlisted shares | 54 | 42 | 196 | 187 | 65 | 54 |
| Other equity | 257 | 151 | 82 | 76 | 58 | 64 |
| Trade credits and advances | 35 | 36 | 36 | 36 | 36 | 33 |

| | Share of total (%) | | | | | |
|-----------------------------------|--------------------|------|------|------|---------------|------|
| | HU | | EA | | EA 5 smallest | |
| | 2020 | 2024 | 2020 | 2024 | 2020 | 2024 |
| Loans | 30 | 34 | 31 | 30 | 32 | 30 |
| Non-financial co. debt securities | 0 | 1 | 2 | 2 | 1 | 1 |
| Financial co. debt securities | 1 | 3 | 8 | 8 | 1 | 2 |
| Government debt securities | 12 | 13 | 12 | 10 | 15 | 14 |
| Listed shares | 3 | 4 | 9 | 9 | 2 | 4 |
| Unlisted shares | 9 | 8 | 24 | 26 | 20 | 19 |
| Other equity | 40 | 30 | 10 | 11 | 17 | 20 |
| Trade credits and advances | 6 | 7 | 4 | 5 | 10 | 11 |

¹⁾ The table focuses on the financing needs of a country and how these are met by the financial system. The table is constructed from the liabilities of all economic sectors, but only considers loans, debt securities, equity and trade credits. The sum of liabilities in the table only reflects the total for the liabilities considered.

Source: Eurostat.

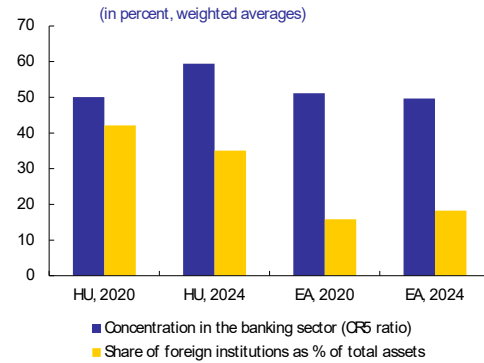
As to the financing of the economy, outstanding liabilities declined to 502% of GDP in 2024 (vs. 722% of GDP in the euro area). The structure of the financial sector is reflected in the financing of the economy: with 30% of total liabilities in 2024 (vs. 11% in the euro area), other equity is a main source of funding due to the presence of foreign holdings and SPEs ⁽³¹⁾, even though not the biggest anymore. Loans, a large part of which is also provided by SPEs, have become the dominant source of funding (34% of total liabilities, slightly higher than the euro area average). Debt and equity markets are smaller than in the euro area and market financing (debt securities and listed shares) is relatively underdeveloped. Listed equity and private-sector debt markets represented 8% of total liabilities respectively (38% of GDP). This compares to 19% of total liabilities in the euro area (73% of GDP for private-

⁽³¹⁾ The most important impact of SPEs on liabilities in 2024 concerned other equity (SPEs were responsible for 43% of all other equity) and loans (SPEs were responsible for 30% of all loans).

sector debt and 64% of GDP for listed stocks). Hungary is still broadly comparable to the five euro area Member States with the smallest financial needs.

The Hungarian banking sector is well-integrated into the euro area financial sector, posting a level of foreign ownership that remains well above the one of the euro area. The share of foreign-owned institutions in total bank assets fell from 42% in 2020 to 35% in 2024, with the corresponding figure for the euro area being at around 18%. Bank concentration, as measured by the market share of the five largest credit institutions in total assets, increased from 50% in 2020 to 59% in 2024, a somewhat higher value than the euro area average (50% in 2024).

Graph 3.11: Hungary - Foreign ownership and concentration in the banking sector



Source: ECB, Structural financial indicators.

4. POLAND

4.1. LEGAL COMPATIBILITY

4.1.1. Introduction

The main rules governing the Narodowy Bank Polski (NBP – Polish national bank, hereafter NBP) are laid down in the Act on the Narodowy Bank Polski ⁽³²⁾ (the NBP Act) which was adopted on 29 August 1997. The NBP Act has not been amended since the Commission's 2024 Convergence Report. In absence of any legislative action regarding the issues mentioned in the Commission's 2024 Convergence Report, the comments provided in the latter report remain relevant and are repeated in the 2026 assessment.

4.1.2. Central bank independence

The Polish Constitution ⁽³³⁾ and the NBP Act do not explicitly prohibit the NBP and members of its decision-making bodies from seeking or taking outside instructions; they also do not expressly prohibit the Government from seeking to influence members of NBP decision-making bodies in situations where this may have an impact on NBP's fulfilment of its ESCB related tasks. The absence of such an explicit reference to Article 130 TFEU and Article 7 of the ESCB/ECB Statute or its content constitutes a clear incompatibility. However, the Polish Constitutional Court has recognised that the central bank's independence is based on Article 227(1) of the Constitution. In this respect, it is noted that at the occasion of a future amendment to the Polish Constitution, the Polish authorities should seize the opportunity to clarify in the Constitution that the principle of central bank independence as enshrined in Article 130 TFEU and Article 7 of the ESCB/ECB Statute applies. Alternatively, or in addition, the NBP Act could also be amended to ensure compatibility with the principle of central bank independence.

The Commission recalls the rulings of the Polish Constitutional Tribunal which considered certain provisions of the EU Treaties incompatible with the Polish Constitution, expressly challenging the primacy of EU law ⁽³⁴⁾. The primacy of EU law is essential as regards the compatibility between the national legislation, including the statute of its national central bank, and Articles 130 and 131 TFEU and ESCB/ECB Statute. The Commission considers that these rulings of the Constitutional Tribunal are in breach of the general principles of autonomy, primacy, effectiveness and uniform application of Union law and the binding effect of rulings of the Court of Justice of the European Union. Moreover, the Commission considers that the Constitutional Tribunal of Poland no longer meets the requirements of an independent and impartial tribunal previously established by law. The Court of Justice of the European Union upheld the Commission's assessment ⁽³⁵⁾. It should therefore be ensured

⁽³²⁾ Ustawa o Narodowym Banku Polskim of 29 August 1997. Consolidated version published in Dziennik Ustaw of 2022, item 2025.

⁽³³⁾ Konstytucja Rzeczypospolitej Polskiej of 2 April 1997, Dziennik Ustaw of 1997, No 78, item 483, with further amendments.

⁽³⁴⁾ Polish Constitutional Tribunal, Judgment No. P 7/20 of 14 July 2021; Polish Constitutional Tribunal, Judgment No. K 3/21 of 7 October 2021.

⁽³⁵⁾ On 22 December 2021, the Commission launched an infringement procedure concerning the Constitutional Tribunal and its case-law; see Commission press release IP/21/7070. On 15 July 2022, the Commission decided to send a reasoned opinion to Poland, to which Poland replied on 14 September 2022, rejecting the reasoning of the Commission. The Polish reply did not address the Commission's concerns, therefore on 15 February 2023, the Commission decided to refer Poland to the Court of Justice of the European Union. On 18 December 2025, the Court of Justice of the European Union delivered the judgement in *Commission v Poland* (Case C-448/23).

that the primacy of Union law, in particular of Articles 130 and 131 TFEU and the ESCB/ECB Statute, over national law is respected by Polish public authorities and courts.

Article 23(1)(2) of the NBP Act provides that the NBP's Governor has, *inter alia*, to provide draft monetary policy guidelines to the Council of Ministers and the Minister of Finance. This procedure provides for the opportunity for the Government to exert influence on the monetary and financial policy of the NBP and thus constitutes an incompatibility in the area of independence with Article 130 TFEU and Article 7 of the ESCB/ECB Statute. Article 23(1)(2) of the NBP Act should be revised in order to ensure that the monetary policy guidelines are provided to the Council of Ministers and the Minister of Finance, if ever, only after their approval by the NBP and for information purposes only.

Article 9(3) of the NBP Act provides that the Governor of the NBP shall assume his/her duties after taking an oath before the Parliament. This oath refers to the compliance with the provisions of the Polish Constitution and other laws, the economic development of Poland and the well-being of its citizens. The Governor of the NBP acts in dual capacity as a member of NBP's decision-making bodies and of the relevant decision-making bodies of the ECB. Article 9(3) of the NBP Act needs to be adapted to reflect the status and the obligations and duties of the Governor of the NBP as member of the relevant decision-making bodies of the ECB. Moreover, the oath does not contain any reference to the requirement of central bank independence as enshrined in Article 130 TFEU. The oath as it stands now is an imperfection and should be adapted to be in line with the TFEU and the ESCB/ECB Statute.

The wording of Article 9(5) of the NBP Act containing grounds for dismissal of the NBP's Governor could lead to interpretative issues and is an imperfection. In addition, under Article 25(3) in conjunction with Article 3 and Article 1.1(3) of the State Tribunal Act ⁽³⁶⁾, the Governor of the NBP may also be removed from office if he or she violates the Constitution or a law.

To provide for legal certainty and ensure correctness, these provisions would need to be clarified in the sense that these grounds correspond to a lack of fulfilment of conditions required for the performance of the Governor's duties or a serious misconduct of which the Governor has been guilty, as set out in Article 14.2 of the ESCB/ECB Statute, and do not extend those grounds in any way.

The State Tribunal Act provides for the suspension of the Governor from his/her duties following a procedure that contains some imperfections as regards the Union law principle of central bank independence and Article 14.2 of the ESCB/ECB Statute. Pursuant to the second sentence of Article 11(1) of the State Tribunal Act read in conjunction with its Articles 3 and 1.1(3), the Governor of the NBP can be suspended as a result of an indictment by the Parliament for violating the Constitution or an act of law when performing his/her duties even before the State Tribunal has delivered its judgment on the removal from the office. While suspending a Governor for the purpose of a (criminal) investigation may be provided for, the Governor concerned is always entitled to bring an action for annulment against such a temporary measure before the Court of Justice of the European Union (CJEU) pursuant to Article 14.2 of the ESCB/ECB Statute. In that context, the Governor may also request the

The Court determined that the Polish Constitutional Tribunal violated Article 19(1) TEU, and the principles of autonomy, primacy, and effectiveness, the uniform application of EU law and the binding effect of the Court of Justice's case law. The Court also held that the Poland's Constitutional Tribunal does not meet the EU law requirements of an independent and impartial tribunal established by law.

⁽³⁶⁾ Ustawa o Trybunale Stanu of 26 March 1982. Consolidated version published in Dziennik Ustaw of 2022, item 762, with further amendments.

CJEU to adopt interim measures pursuant to Article 279 TFEU. The purpose of such an action pursuant to Article 14.2 of the ESCB/ECB Statute is to enable the CJEU to review the legality of such a temporary prohibition of performing a Governor's duties, which is only possible if there are sufficient indications that he/she has engaged in serious misconduct capable of justifying such a measure ⁽³⁷⁾. Such a guarantee is a reflection of the Union law principle of central bank independence and is of significant importance, especially in case of a suspension from office on grounds of serious misconduct further to an indictment by a parliamentary body depriving the Governor of the possibility to continue exercising the duties. In the absence of any clear reference in the NBP Act or Constitution to the Union law principle of central bank independence, the NBP Act would need to recall that the Governor of the NBP has the possibility to seek legal redress against his/her dismissal, or suspension before the CJEU, as enshrined in Article 14.2 of the ESCB/ECB Statute.

In addition, in order to increase legal certainty, the NBP Act should provide for the right of the NBP's decision making bodies involved in the performance of ESCB-related tasks, other than the Governor, to seek judicial review before the national courts in case of dismissal.

Pursuant to Article 11(3) of the NBP Act, the Governor of the NBP shall represent the interests of the Republic of Poland within international banking institutions, and, unless the Council of Ministers decides otherwise, within international financial institutions. This procedure provides for the opportunity for the Council of Ministers to exert influence on the activity of the central bank and thus constitutes an incompatibility in the area of independence with Article 130 TFEU and Article 7 of the ESCB/ECB Statute.

According to Article 203(1) of Poland's Constitution, the Supreme Audit Office (Najwyższa Izba Kontroli (NIK)) is entitled to examine the NBP's activities as regards its legality, economic prudence, efficiency and diligence. The NIK controls are not performed in the capacity of an independent external auditor, as laid down in Article 27.1 of the ESCB/ECB Statute and thus, should for legal certainty reasons be clearly defined so as to respect Article 130 TFEU and Article 7 of the ESCB/ECB Statute. Furthermore, the provision's relationship with Article 69.1 of the NBP Act is also unclear. The relevant provision of the Constitution is therefore incompatible and needs to be adapted in order to comply with Article 130 TFEU and Article 7 of the ESCB/ECB Statute.

4.1.3. Prohibition of monetary financing and privileged access

Article 42 in conjunction with Article 3(2)(5) of the NBP Act allow the NBP to extend refinancing loans to banks in order to replenish their funding and also extend refinancing to banks for the implementation of bank rehabilitation programmes, subject to conditionality under Article 42(4) of the same Act. Against this background, the current wording of Article 42(3) and (4) can be interpreted as allowing an extension of refinancing loans to banks experiencing rehabilitation proceedings which, however, could end in insolvency of the banks concerned. Effective preventive measures and more explicit safeguards should be provided in the NBP Act to ensure the compatibility of those provisions with Article 123 TFEU.

⁽³⁷⁾ Judgment of the Court of Justice of the EU (Grand Chamber) of 26 February 2019 *Ilmārs Rimšēvičs and European Central Bank v Republic of Latvia*, Joined Cases C-202/18 and C-238/18, ECLI:EU:C:2019:139. In this ruling, the CJEU declared it has jurisdiction to hear and determine an action of annulment brought against a temporary measure like a suspension of performing duties as a Governor under Article 14.2 of the ESCB/ECB Statute.

Article 43 of the NBP Act in conjunction with Articles 270 and 306 of the Act on the Bank Guarantee Fund, deposit guarantee system and forced restructuring⁽³⁸⁾ provides for NBP's powers to grant short-term credit to the Bank Guarantee Fund related to the financing of its deposit guarantee function, if a threat to financial stability arises and in view of its urgent needs. The Bank Guarantee Fund qualifies as a 'body governed by public law' within the meaning of Article 123(1) TFEU. The Bank Guarantee Fund is closely dependent on public sector entities referred to in Article 123(1) TFEU, as the majority of the members of the Bank Guarantee Fund's Council are appointed by the Minister competent for financial institutions and the Chairman of the Financial Supervisory Authority (Article 7(4) of the Act on the Bank Guarantee Fund, deposit guarantee system and forced restructuring). Therefore, the provisions laid down in the NBP Act and the Act on the Bank Guarantee Fund, deposit guarantee system and forced restructuring regarding the possibility of NBP granting loans to the Bank Guarantee Fund are not compatible with the prohibition of monetary financing. The relevant legal framework should be amended accordingly.

As such, there is also no direct reference to the prohibition on monetary financing in the NBP Act. While Article 220(2) of the Polish Constitution provides that the budget shall not provide for covering a budget deficit by way of contracting credit obligations to the State's central bank, and this could be interpreted as a reference to the rationale of Article 123 TFEU, this provision is not compatible with Article 123 TFEU. At the occasion of a future amendment to the Polish Constitution, Article 220(2) should be amended to ensure compatibility with the aforementioned principle.

4.1.4. Integration into the Eurosystem

Objectives

Article 3(1) of the NBP Act sets the objectives of the NBP. It refers to the economic policies of the Government while it should make reference to the general economic policies in the Union, in line with Article 127(1) TFEU. This constitutes an incompatibility with respect to Article 127(1) TFEU and Article 2 of the ESCB/ECB Statute.

Tasks

The incompatibilities in the NBP Act and in the Polish Constitution in this area are linked to the following ESCB/ECB/EU tasks:

- limitation of the NBP's activities to the territory of the Republic of Poland (Article 2(3) of the NBP Act) and absence of a general reference to the NBP as an integral part of the ESCB (Article 227(1) of the Constitution and Article 1 of the NBP Act);
- definition and implementation of monetary policy (Article 227(1) and (6) of the Constitution, Articles 3(2)(5), 12, 23, 38-50a, and 53 of the NBP Act);
- holding of foreign reserves; management of foreign exchange and the definition of foreign exchange policy (Articles 3(2)(2), 3(2)(3), 17(4)(2), 24 and 52 of the NBP Act);

⁽³⁸⁾ Ustawa o Bankowym Funduszu Gwarancyjnym, systemie gwarantowania depozytów oraz przymusowej restrukturyzacji of 10 June 2016. Consolidated version published in Dziennik Ustaw of 2025, item 643.

- competences of the ECB and of the EU for banknotes and coins (Article 227(1), second sentence of the Constitution and Articles 4, 31-37 of the NBP Act). The NBP shall exercise its responsibility for issuing currency as part of the ESCB/Eurosystem;
- appointment of independent auditors - Article 69(1) of the NBP Act foresees that NBP accounts are examined by external auditors. The NBP Act does not take into account that the auditing of a central bank has to be carried out by independent external auditors recommended by the Governing Council and approved by the Council. It is incompatible with Article 27.1 of the ESCB/ECB Statute.

There are also some imperfections regarding the following issues:

- non-recognition of the role of the ECB in the functioning of the payment systems (Articles 3(2)(1) of the NBP Act);
- incomplete recognition of the role of the ECB and of the EU in the collection of statistics (Article 3(2)(7) and 23 of the NBP Act);
- non-recognition of the role of the ECB in the field of international cooperation (Article 5(1) and 11(3) of the NBP Act).

4.1.5. Assessment of compatibility

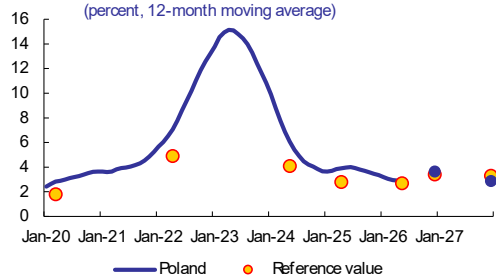
As regards the independence of the central bank, the prohibition of monetary financing and the central bank's integration into the Eurosystem, the legislation in Poland, in particular the NBP Act and the Constitution of the Republic of Poland is not fully compatible with the requirements of Article 131 TFEU, for the reasons set out above. The Polish authorities should remedy the abovementioned incompatibilities and imperfections.

4.2. PRICE STABILITY

4.2.1. Respect of reference value

The 12-month average inflation rate, which is used for the convergence assessment, was 2.0 percentage points above the reference value at the time of the last convergence assessment of Poland in 2024. In May 2026, the reference value was 2.7%, calculated as the average of the 12-month average inflation rates in Cyprus, France and Denmark plus 1.5 percentage points. The corresponding inflation rate in Poland, was 2.9%, i.e. 0.2 percentage point above the reference value. The 12-month average inflation rate is projected to increase and to remain above the reference value by the end of 2026. It is also projected to increase somewhat in the first months of 2027, before declining for the rest of 2027 and falling below the reference value by the end of 2027.

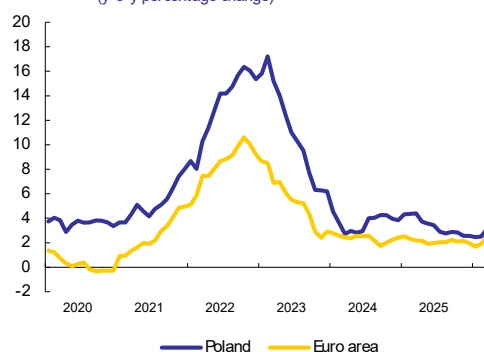
Graph 4.1: Poland - Inflation criterion
(percent, 12-month moving average)



Note: The dots at the right end of the chart show the projected reference value and 12-month average inflation rate of Poland in December 2026 and December 2027. The reference values for 2020, 2022, 2024 and 2025 refer to the reference values calculated in the previous convergence reports.

Source: Eurostat, Commission's Spring 2026 Economic Forecast.

Graph 4.2: Poland - HICP inflation
(y-o-y percentage change)



Source: Eurostat.

4.2.2. Recent inflation developments

Headline inflation fell substantially from 10.8% in 2023 to an average of 3.7% in 2024 and 3.3% in 2025. The headline figure was at 4.6% in January 2024 but it dropped to 2.6% in December 2025. Most inflation components, except for services and processed food, contributed to this reduction. Services inflation slowed from 7.3% in January 2024 to 5.4% in December 2025. Food prices were impacted by the phasing out of the temporary zero VAT rate on basic food products at the end of March 2024. Energy inflation was quite volatile, with monthly figures for the annual rate of change varying from -3.4% in January 2024 to 7.0% in January 2025. Energy prices were affected by global commodity price developments in 2024 and 2025, and the end of temporary government support measures which had been introduced in 2022. At the end of June 2024, the freeze on gas prices for households ended, and the freeze of electricity prices for households came to an end at the end of 2025. Non-energy industrial goods prices growth decreased and turned negative on a year-on-year basis between April and December 2025. In 2024 and 2025, the annual HICP inflation rate in Poland was on average higher than in the euro area as a whole. After moderating to 2.5% in January and February 2026, annual HICP inflation increased in the subsequent months, from 3.2% in March 2026 to 3.3% in May 2026, impacted by the growing global commodity prices affected by the conflict in the Middle East.

Table 4.1:

| Poland - Components of inflation | (percentage change) ¹⁾ | | | | | | | weights |
|--|-----------------------------------|------|------|------|------|------|--------|----------|
| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | May-26 | in total |
| HICP | 3.6 | 5.2 | 13.2 | 10.8 | 3.7 | 3.3 | 2.9 | 1000 |
| Non-energy industrial goods | 0.9 | 2.4 | 7.7 | 7.9 | 1.1 | -0.3 | -0.8 | 309 |
| Energy | -1.0 | 12.2 | 29.5 | 10.7 | 1.8 | 2.6 | 2.4 | 124 |
| Unprocessed food | 4.7 | 2.3 | 14.5 | 14.3 | 2.1 | 4.6 | 3.2 | 57 |
| Processed food | 4.4 | 2.9 | 11.9 | 14.8 | 4.6 | 5.4 | 4.7 | 185 |
| Services | 7.8 | 7.2 | 12.3 | 10.6 | 6.7 | 5.7 | 5.4 | 325 |
| HICP excl. energy, food, alcohol and tobacco | 4.3 | 4.7 | 9.8 | 9.2 | 3.9 | 2.8 | 2.4 | 633 |
| HICP at constant tax rates | 3.4 | 5.1 | 16.1 | 9.6 | 3.0 | 2.8 | 2.5 | 1000 |
| Administered prices HICP | 7.1 | 6.7 | 11.2 | 14.2 | 5.9 | 7.3 | 5.4 | 132 |

1) Measured by the arithmetic average of the latest 12-monthly indices relative to the arithmetic average of the 12-monthly indices in the previous period.

Source: Eurostat, European Commission calculations.

HICP inflation excluding energy and food decreased broadly in line with headline HICP inflation and was 3.9% in 2024 and 2.8% in 2025. Higher inflation of processed and unprocessed food contributed to increased headline inflation in 2025 compared to inflation excluding energy and food. In 2025, non-energy industrial goods inflation was negative. At the same time, services prices were affected by large increases in salaries and the minimum wage as average compensations per workers increased by 10.9% in 2024 and 8.0% in 2025.

In the first quarter of 2026, inflation excluding energy and food continued to slow and reached 2.2% due to declining prices of non-energy industrial goods ⁽³⁹⁾.

4.2.3. Underlying factors and sustainability of inflation

Macroeconomic policy mix and growth developments

The Polish economy grew by 3.2% in 2024 and 3.6% in 2025. The main growth drivers in 2024 were private consumption, government consumption and inventories, while the contributions from investment and net exports were negative. The decline in investment was affected by tight financing conditions and a base effect in EU-funded investment projects as 2023 was the final year when EU funding from the 2014-20 programming period could be spent. Private consumption was propped up by strong growth of real disposable income and improving household sentiment. Growth of exports slowed in 2024 reflecting weaker demand in key trading partners. Growth of import volumes increased sharply in 2024 reflecting stronger private consumption. In 2025, private consumption growth continued to increase as disposable income increased strongly alongside receding inflationary pressures and improving sentiment. A positive contribution from investment and government consumption benefitted from stronger utilisation of EU funds including from the RRF. According to the Commission's Spring 2026 Economic Forecast, economic growth in Poland is set to remain strong in 2026 supported by private consumption and investment, including investment funded by the EU. The negative contribution to economic growth from net exports is expected to lessen. Risks to the economic outlook relate to geopolitical situation, commodity prices, and delays to public investments.

Table 4.2:
Poland - Other inflation and cost indicators¹⁾ (annual percentage change)

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 ²⁾ | 2027 ²⁾ |
|--|------|------|------|------|------|------|--------------------|--------------------|
| HICP inflation | | | | | | | | |
| Poland | 3.6 | 5.2 | 13.2 | 10.8 | 3.7 | 3.3 | 3.6 | 2.9 |
| Euro area | 0.3 | 2.6 | 8.4 | 5.5 | 2.4 | 2.1 | 3.0 | 2.3 |
| Private consumption deflator | | | | | | | | |
| Poland | 3.5 | 5.6 | 14.1 | 9.5 | 3.4 | 3.8 | 3.4 | 2.6 |
| Euro area | 0.6 | 2.4 | 6.8 | 6.3 | 2.4 | 2.0 | 2.9 | 2.4 |
| Nominal compensation per employee | | | | | | | | |
| Poland | 4.9 | 4.7 | 12.3 | 14.4 | 13.0 | 8.0 | 6.7 | 6.0 |
| Euro area | -0.4 | 4.4 | 4.6 | 5.3 | 4.5 | 3.9 | 3.2 | 3.2 |
| Labour productivity | | | | | | | | |
| Poland | -2.2 | 3.9 | 4.1 | 0.2 | 3.9 | 3.6 | 3.3 | 2.6 |
| Euro area | -4.6 | 4.8 | 1.3 | -1.1 | 0.0 | 0.7 | 0.5 | 0.8 |
| Nominal unit labour costs | | | | | | | | |
| Poland | 7.3 | 0.8 | 7.9 | 14.2 | 8.7 | 4.3 | 3.3 | 3.3 |
| Euro area | 4.5 | -0.4 | 3.3 | 6.5 | 4.6 | 3.2 | 2.7 | 2.3 |
| Imports of goods deflator | | | | | | | | |
| Poland | -0.4 | 12.3 | 24.3 | -6.3 | -7.1 | -3.0 | 3.0 | 1.5 |
| Euro area | -3.9 | 9.7 | 22.0 | -4.1 | -1.8 | -1.0 | 3.7 | 0.5 |

¹⁾ The figures for the euro area refer to the euro area with 21 Member States.

²⁾ Commission's Spring 2026 Economic Forecast.

Source: Eurostat, Commission's Spring 2026 Economic Forecast.

⁽³⁹⁾ Comparisons of data on HICP special aggregates for 2025 with previous years should be interpreted with caution due to methodological changes resulting from the implementation of version 2 of the European classification of individual consumption according to purpose (ECOICOP).

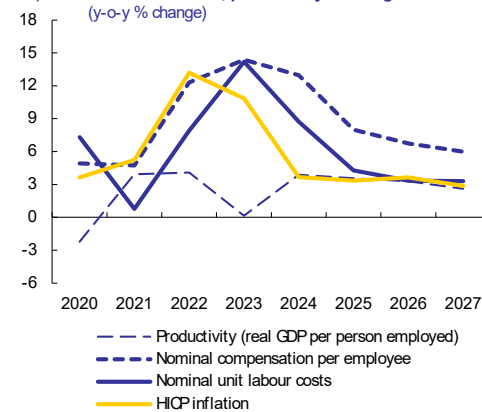
Poland's fiscal stance is estimated to have been strongly expansionary in 2024 (-1.7% of GDP), driven by nationally financed current expenditure, including increases in social benefits and compensation of employees⁽⁴⁰⁾. Based on the Commission's Spring 2026 Economic Forecast, the fiscal stance is expected to have remained expansionary in 2025 (-1.3% of GDP). It is projected to remain still expansionary in 2026 (-0.3% of GDP), driven by a fiscal impulse from EU funded expenditure.

Following a large reduction of the interest rates in September and October 2023, the Monetary Policy Council (MPC) of the NBP maintained interest rates unchanged in 2024, with the main reference policy rate at 5.75% in a context of falling but elevated inflation, still well above target. The MPC held the reference interest rate constant until May 2025 when it was cut by 0.5 percentage point to 5.25%, amidst slowing wage growth. July 2025 saw a further reduction by 0.25 percentage point to 5.0%, with the MPC noting an improving inflation outlook for 2025 and 2026. Further cuts by 0.25 percentage point were made in September, October, November and December when the NBP reference rate reached 4.00%, the lowest level since April 2022. In March 2026, the MPC further cut the policy rate to 3.75%. Throughout 2024 and 2025, the MPC highlighted uncertainties in energy price regulations, wage growth and services inflation, loose fiscal policy, and, in 2025, also global geopolitical and trade risk, while reiterating their commitment to maintaining macroeconomic and financial stability aligned with the NBP inflation target in the medium term. The 2024 and 2025 Monetary Policy Guidelines as well as the MPC statements include a possibility of intervening in the foreign exchange market.

Wages and labour costs

Nominal labour costs growth slowed from 14.2% in 2023 to 8.7% in 2024 and 4.3% in 2025 but remained above the euro area average. Nominal compensations per employee, as well as nominal unit labour costs growth surpassed the euro area average in 2024 and 2025 in a context of a tight labour market and large minimum wage increases which followed elevated inflation in the previous years. At close to 3%, the unemployment rate remained historically low in both 2024 and 2025, and was one of the lowest in the EU. In 2024, wages of public administration employees increased by about 20%, and in 2025 by about 5%. The minimum wage increased by about 20% in 2024 and about 10% in 2025. Stronger economic growth and a decline in employment contributed to rising labour productivity, which increased by 3.9% in 2024, well above the euro area average. In 2025, labour productivity grew by 3.6%, slightly less than in 2024, despite faster GDP growth as employment increased by 0.1%. Labour productivity growth partly mitigated pressures on unit labour costs. Looking ahead, wages are set to continue to moderate in

Graph 4.3: Poland - Inflation, productivity and wage trends (y-o-y % change)



Source: Eurostat, Commission's Spring 2026 Economic Forecast.

⁽⁴⁰⁾ The fiscal stance is measured as the change in general government primary expenditure, net of the incremental budgetary impact of discretionary revenue measures, excluding one-off and cyclical unemployment expenditure, but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to medium-term (10-year) average potential GDP growth rate. A negative (positive) sign of the indicator corresponds to an expansionary (contractionary) fiscal policy stance.

2026 and 2027 amid lower growth of the minimum wage and public sector salaries. In the same period, labour productivity is set to grow faster than the euro area average as robust economic growth in Poland continues.

External factors

Import prices contributed to a decrease in inflation in 2024 and 2025. Prices of imported goods declined by 7.1% in 2024 and 3.0% in 2025. The decline was larger than that in the euro area average which was 1.9% in 2024 and 1.0% in 2025.

The strong appreciation of the zloty's nominal effective exchange rate (measured against a group of 36 trading partners) by 6.6% in 2024 and 2.6% in 2025 contributed to a decrease in inflation. In January and February 2026, the nominal exchange rate was broadly stable but exchange rate volatility increased in March, April and May in the context of the conflict in the Middle East.

Administered prices and taxes

Administered prices rose more than headline HICP inflation in 2024 and 2025, due to the larger increase of administered energy prices as a consequence of the gradual withdrawal of energy support measures. While headline inflation slowed from 3.7% in 2024 to 3.3% in 2025, the growth of administered prices accelerated from 5.8% to 8.0% respectively. At the same time the weight of administered prices in the HICP basket increased from 12.8% in 2024 to 13.2% in 2025 and was above the euro area average (11.9% in 2025). The weight of the administered energy prices in the HICP basket is significantly bigger (6.9% in 2025) compared to the euro area (1.7% in 2025).

Changes in taxes and excise duties also contributed to higher headline inflation in 2024 and 2025. In 2024, the VAT rate was increased as from April for basic food products (from 0% to 5%) while it was decreased for services in the beauty sector (from 23% to 8%). Excise duties on alcohol and cigarettes were increased in 2024 and further in 2025. In addition, in 2025 excise duties on tobacco were extended to other nicotine products, and to devices for vaping. In 2024, the changes in taxes and excise duties contributed to higher inflation by 0.8 percentage points, and in 2025 by 0.5 percentage points.

Medium-term prospects

Looking ahead, inflation is expected to increase in 2026 and ease in 2027 but remain above the euro area average. The Commission's Spring 2026 Economic Forecast projects annual HICP inflation to average 3.6% in 2026 and 2.9% in 2027, which is slightly above the central bank target of 2.5% +/- 1 percentage point in 2026, but remains within the target in 2027. Inflation excluding energy and food is forecast to average 2.8% in 2026 and 3.1% in 2027. Energy inflation is expected to follow the global energy price shocks with some delay, as most households buy electricity and gas at regulated prices, already set for the first half of 2026 in case of gas, and the whole 2026 in case of electricity. Wage growth is expected to slow only gradually, and services will continue to have the biggest contribution to core inflation both in 2026 and 2027. Core inflation will ease somewhat in line with lower services inflation. The inflation outlook remains uncertain due to risks related to global commodity prices and geopolitical situation.

The level of consumer prices in Poland was at around 69% of the euro area average in 2024. This suggests a potential for price level convergence in the long term, as GDP per capita in purchasing power standards (PPS), representing about 78% of the euro area average in 2025, increases towards the euro area average.

4.3. PUBLIC FINANCES

4.3.1. Recent fiscal developments

Poland's general government deficit has remained above the 3% of GDP Treaty reference value since 2022, increasing from 3.4% of GDP in 2022 to 6.4% of GDP in 2024 and 7.3% of GDP in 2025. The expenditure-to-GDP ratio increased from 49.2% in 2024 to 50.9% in 2025. At the same time, the revenue-to-GDP ratio increased from 42.8% to 43.6%.

The increase in expenditures was due to higher public spending driven by substantial defence investments, increased social benefits (including pension indexation and also new Active Parent and Widow Pension programmes), rising costs of servicing the public debt, increased salaries in the public sector and higher spending on healthcare.

Revenues grew on the back of increasing compensations of employees in the economy, as real wages caught up following the period of high inflation. The main discretionary revenue measures included the non-indexation of personal income tax brackets and hikes in excise duties on alcohol and tobacco.

On 9 October 2024, Poland submitted its national medium-term fiscal-structural plan to the Council and to the Commission. On 26 November 2024, the Commission recommended to the Council to endorse Poland's national medium-term fiscal structural plan. Based on the plan's policy commitments and macroeconomic assumptions, the net expenditure path put forward in the plan is consistent with the requirements set out in Regulation (EU) 2024/1263. On 21 January 2025, the Council adopted a recommendation endorsing Poland's national medium-term fiscal-structural plan. The plan set out a fiscal adjustment path over four years, with maximum net expenditure growth of 6.3% in 2025, 4.4% in 2026, 4.0% in 2027 and 3.5% in 2028. The plan does not include a fully-fledged and quantified fiscal strategy.

The Council opened a deficit-based excessive deficit procedure (EDP) for Poland in July 2024 as its government deficit exceeded the Treaty reference value of 3% of GDP and on 21 January 2025, the Council adopted a recommendation with a view to bringing an end to the situation of an excessive deficit. The recommended maximum net expenditure growth rates under the EDP were in line with those set out in the medium-term fiscal-structural plan. These equate to an annual adjustment of 0.5% of GDP to the structural primary balance. The EDP correction deadline is 2028, at which point the plan envisages a deficit of 2.9% of GDP.

In July 2025, the Council activated the national escape clause for increases in defence spending for Poland, allowing Poland to deviate from, and exceed, the correction path under the EDP and the net expenditure path of the medium-term fiscal-structural plan. Defence expenditure increased by 1.8% of GDP between 2021 and 2025.

In spring 2026, the Commission assessed the effective action taken by Poland to address the Excessive Deficit Procedure recommendation on the basis of the Commission's Spring 2026 Economic Forecast and Poland's report on action taken. Net expenditure grew by 8.5% in 2025 and 22.9% cumulatively over 2024 and 2025. The net expenditure growth in 2025 was above the recommended maximum growth rate of 6.3%, corresponding to a deviation of 0.9% of GDP in annual terms. When considering 2024 and 2025 together, the cumulative growth rate of net expenditure was also above the recommended maximum growth rate of 19.6%, corresponding to a deviation of 1.2% of GDP in cumulative terms. However, the cumulated deviation was within the flexibility provided by the national escape clause, taking into account the increase in defence spending. Therefore, Poland was assessed to be compliant with the recommended maximum growth rate of net expenditure in 2025. The

Commission assessed Poland as having taken effective action. As a result, the EDP was held in abeyance for Poland.

The fiscal stance was expansionary, by 1.3% of GDP, in 2025, driven by the expansionary contributions of net nationally financed expenditure, by 1.0% of GDP, and of EU-funded expenditure, by 0.3% of GDP, based on the Commission's Spring 2026 Economic Forecast.

The debt ratio increased from 54.8% of GDP in 2024 to 59.7% of GDP in 2025. The primary deficit of 4.7% of GDP, interest expenditure of 2.5% of GDP and an upward stock-flow adjustment of 1.0% of GDP contributed to this increase, while the impact of nominal GDP growth offset the growth in the debt ratio by 3.4% of GDP.

4.3.2. Medium-term prospects

The 2026 budget was adopted by the Sejm on 5 December 2025. On the revenue side, it introduced new discretionary measures to increase revenue in support of fiscal consolidation. These included a temporary increase in the corporate income tax on banks, hikes in excise duties on alcohol and tobacco and an increase in VAT on certain beverages. Furthermore, the introduction of a mandatory electronic invoicing system is expected to enhance tax compliance in VAT collection.

On the expenditure side, total nationally financed expenditure is estimated to decline slightly as a share of GDP due to strong nominal growth and owing to the reduced subsidies, reduced nationally-financed investments and restrained growth of salaries in the public sector. Conversely, interest expenditure and social benefits are set to increase. EU-financed investments and current expenditure are expected to rise considerably in 2026, driven by the planned acceleration of the Recovery and Resilience Plan (RRP) implementation.

On 30 April 2026, Poland submitted its 2026 Annual Progress Report, which included relevant fiscal outturn data and projections, and reported on the implementation of reforms and investments addressing the main challenges identified in the European Semester country-specific recommendations. The 2026 Annual Progress Report also reflects Poland's biannual reporting on the progress made in delivering on its Recovery and Resilience Plan in accordance with Article 27 of Regulation (EU) 2021/241.

For 2026, the Commission's 2026 Spring Economic Forecast projects the general government deficit to decrease to 6.5% of GDP, reflecting a restraint in nationally-financed expenditure and adopted discretionary revenue measures. The Commission forecast also includes impact of the temporary reduction of VAT and excise duties on fuel adopted in late March 2026, which were in force until 15 May 2026. The general government debt is projected to increase to 64.5% of GDP in 2026, driven by the high primary deficit, elevated interest expenditure and upward stock-flow adjustments.

Table 4.3:

Poland - Budgetary developments and projections (as % of GDP unless indicated otherwise)

| Outturn and forecast ¹⁾ | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026¹⁾ | 2027¹⁾ |
|---|-------------|-------------|-------------|-------------|-------------|-------------|--------------------------|--------------------------|
| General government balance | -6.9 | -1.7 | -3.4 | -5.2 | -6.4 | -7.3 | -6.5 | -6.3 |
| - Total revenue | 40.9 | 41.9 | 39.9 | 41.7 | 42.8 | 43.6 | 45.3 | 44.6 |
| - Total expenditure | 47.7 | 43.6 | 43.2 | 46.9 | 49.2 | 50.9 | 51.8 | 50.9 |
| of which: | | | | | | | | |
| - Interest expenditure | 1.3 | 1.1 | 1.5 | 2.1 | 2.2 | 2.5 | 2.8 | 2.9 |
| p.m.: Tax burden | 36.0 | 37.2 | 35.0 | 35.9 | 37.6 | 37.7 | 38.3 | 38.9 |
| Primary balance | -5.6 | -0.6 | -1.8 | -3.1 | -4.3 | -4.7 | -3.7 | -3.3 |
| Fiscal stance ²⁾ | 0.1 | 1.1 | -3.1 | -0.8 | -1.7 | -1.3 | -0.3 | 1.7 |
| Recommended growth in net expenditure (%) | | | | | | 6.3 | 4.4 | 4.0 |
| Growth in net expenditure (%) | | | | | | 8.5 | 4.0 | 4.9 |
| Government gross debt | 56.6 | 53.0 | 48.8 | 49.5 | 54.8 | 59.7 | 64.5 | 68.3 |
| p.m.: Real GDP growth (%) | -2.0 | 6.9 | 5.3 | 0.2 | 3.2 | 3.6 | 3.5 | 2.8 |

¹⁾ Commission's Spring 2026 Economic Forecast.

²⁾ The fiscal stance is based on the increase in net expenditure (including that financed by the EU budget) relative to medium-term potential GDP growth. A positive (negative) sign indicates a contractionary (expansionary) fiscal stance (in % of GDP). The fiscal stance profile in 2020-2023 does not include the temporary impact of COVID-19 emergency measures.

Source: European Commission.

In spring 2026, the Commission assessed Poland's risks of compliance with the recommended maximum growth of net expenditure in 2026, based on outturn data for 2024-2025 and the Commission's Spring 2026 Economic Forecast, which incorporates information provided in the Annual Progress Report. Net expenditure is projected to grow by 4.0% in 2026, and 27.9% cumulatively over 2024, 2025 and 2026. The projected net expenditure growth in 2026 is below the recommended maximum growth rate of 4.4%. When considering 2024, 2025 and 2026 together, the projected cumulative growth rate of net expenditure is above the recommended maximum growth rate of 24.9%, corresponding to a deviation of 1.0% of GDP in cumulative terms. However, the projected deviation is within the flexibility of the national escape clause based on current projections for defence spending.

Based on the Commission's estimates, the fiscal stance is projected to remain expansionary in 2026, by 0.3% of GDP. This expansionary fiscal stance is largely driven by EU-financed expenditure, by 1.3% of GDP, especially the Recovery and Resilience Facility (RRF) grants. The contribution of net nationally financed expenditure is projected to become contractionary, by 1.0% of GDP, in 2026, owing to the gradual fiscal consolidation planned by the government, including contractionary fiscal impulses from both current expenditure and investment.

Debt sustainability risks appear high over the medium run. Government debt is projected to increase steadily from around 60% in 2025 to around 107% of GDP in 2036. This projection assumes that the structural primary deficit decreases from 4.7% of GDP in 2025 to 3.4% of GDP in 2026 and remains at that level (excluding changes in the cost of ageing) over the projection period ⁽⁴¹⁾.

⁽⁴¹⁾ This is in line with the no-fiscal-policy-change assumption as from 2027 and implies that the adjustment that Poland commits to in its medium-term plan beyond 2026 is not taken into account in the projection. For details

The sensitivity to possible macro-fiscal shocks also contributes to this assessment. In particular, if the interest-rate growth differential deteriorates by 1.0 percentage point compared with the baseline, the projected debt ratio in 2036 would be around 8 percentage points higher than in the baseline.

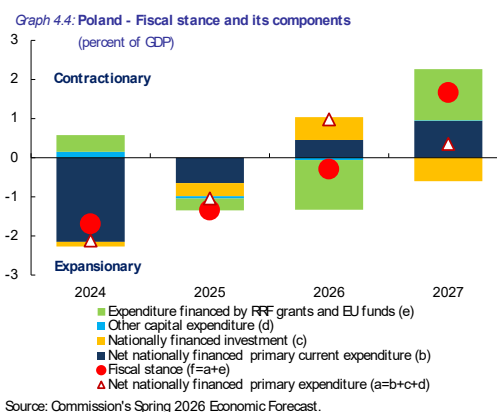
Finally, several additional risk factors need to be considered in the assessment. On the one hand, risk-increasing factors are related to (i) the domestic banks' potential costs associated with Swiss franc-denominated loans, while risk is lower than previously as banks have already made provisions, and (ii) their exposure to non-performing loans. On the other hand, risk-mitigating factors are related to (i) the country's relatively stable financing sources with a large domestic investor base, (ii) the currency denomination of debt, i.e. over three-quarters of outstanding debt is denominated in local currency, and (iii) the gradually increasing average maturity of external debt.

The Polish fiscal framework saw two significant reforms in 2024, namely the amendment of the Public Finance Act and the introduction of the Fiscal Council.

The Public Finance Act was reviewed to amend the Stabilising Expenditure Rule (SER), Poland's main fiscal rule, to support alignment with the new EU fiscal framework. As part of this reform, Poland became the fourth EU member state to adopt an ex ante correction mechanism. Beforehand, frequent revisions of the SER formula had decreased the effectiveness of the SER in supporting consolidation and reversing the debt increase over the last decade. Debt rules at central and local government level complement the SER. The effectiveness of the national debt rule is limited by use of off-budget funds to raise sizeable new debt (about 10% of GDP in 2025 (PLN 400 billion)).

The Fiscal Council Act entered into force on 1st January 2026, making Poland the last EU Member State to establish an independent fiscal institution. The seven-member independent fiscal council has a standard mandate in line with the Council Directive on National Budgetary Frameworks.

Other reforms included new legal requirements for the development of a standardised approach to project appraisal for projects over the threshold value of PLN 10 million (EUR 2.3 million) and the inclusion of spending reviews findings in line with ministry budget plans.



on the methodology see European Commission (2026), Debt Sustainability Monitor 2025, Institutional Paper 332, February 2026.

4.4. EXCHANGE RATE STABILITY

The Polish zloty does not participate in ERM II. Since April 2000, Poland has been operating a free-floating exchange rate regime, with the NBP preserving the right to intervene in the foreign exchange market, if it deems this necessary, in order to achieve the inflation target.

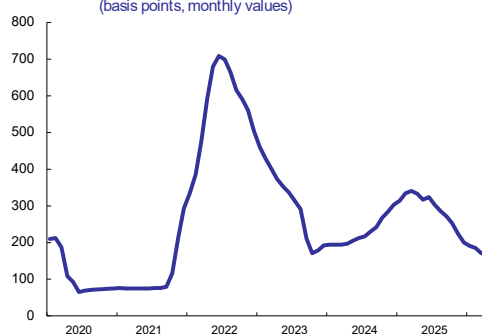
Throughout 2024 the zloty remained relatively stable around 4.31 PLN/EUR on average. Between January and March 2025, the currency strengthened slightly from 4.25 to around 4.18. This was followed by a rapid depreciation and then a period of relatively minor fluctuations around 4.24. In May 2025, the zloty's exchange rate against the euro averaged 4.25 PLN/EUR and stayed close to this level till the end of the year. In May 2026, the zloty's exchange rate against the euro averaged 4.24.

Graph 4.5: Poland - PLN/EUR exchange rate
(monthly averages)



Source: ECB.

Graph 4.6: Poland - 3-M Wibor spread to 3-M Euribor
(basis points, monthly values)



Source: Polish National Bank, Eurostat and Refinitiv Workspace.

International reserves held by the NBP increased from EUR 188 billion in the first quarter of 2024 to around EUR 211 billion in the second quarter of 2025, in line with the country's macroeconomic stabilisation efforts. The reserves continued to increase throughout the second half of 2025 to a high of around EUR 231 billion at the end of 2025, reaching around 25% of GDP. The reserves continued to increase in the first quarter of 2026, standing at around EUR 254 billion in May 2026.

The short-term interest rate differential with the euro area increased continuously during 2024 and the first three months of 2025. It reached 341 basis points in March 2025. During this period, in line with easing the ECB policy interest rate, the euro area rate continued to fall, while the Polish three-month rate remained stable, contributing to spread increases. From April onwards, the Polish rate also started to decline, which led to the spread differential to narrow. In August 2025, the euro area rate stabilised at around 2.0% while the Polish rate continued falling. As a result, the spread further narrowed and reached 162 basis points in May 2026.

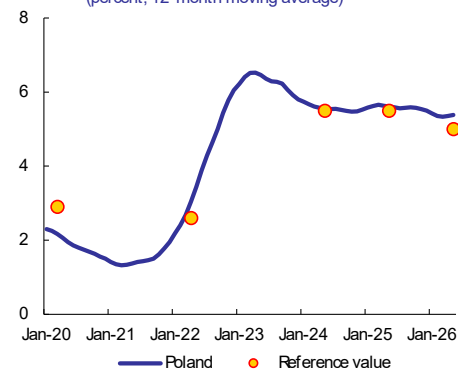
4.5. LONG-TERM INTEREST RATES

The long-term interest rates in Poland used for the convergence assessment reflect secondary market yields on a single benchmark government bond with a residual maturity of around 9 years.

The Polish 12-month average long-term interest rate relevant for the assessment of the Treaty criterion was 0.1 percentage point above the reference value at the time of the last convergence assessment in 2024. In May 2026, the latest month for which data are available, the reference value, given by the average of long-term interest rates in Cyprus, France and Denmark plus 2 percentage points, stood at 5.1%. In that month, the 12-month moving

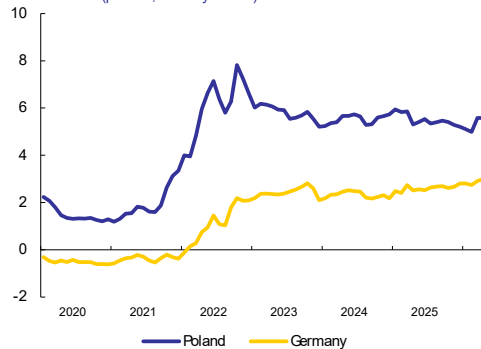
average of the yield on the Polish benchmark bond stood at 5.4%, i.e. slightly above the reference value.

Graph 4.7: Poland - Long-term interest rate criterion
(percent, 12-month moving average)



Source: European Commission.

Graph 4.8: Poland - Long-term interest rates
(percent, monthly values)



Source: Eurostat.

The long-term interest rate of Poland initially moved slightly upwards in 2024, peaking at 5.7% in June, in a context of a restrictive monetary policy and high fiscal deficit. Over that period, the long-term interest rate spread vis-à-vis the German benchmark bond was relatively stable. It started to increase from 319 basis points in July to a peak of 355 basis points in December 2024. Since January 2025, the long-term interest rate has entered a period of gradual decrease as monetary policy has eased, although with some fluctuations, reaching 5.7% in May 2026. As a result, the spread versus the German benchmark bond has narrowed steadily at around 269 basis points.

4.6. ADDITIONAL FACTORS

The Treaty (Article 140 TFEU) calls for an examination of other factors relevant to economic integration and convergence to be taken into account in the assessment. The assessment of the additional factors – including balance of payments developments, product, labour and financial market integration – gives an important indication of a Member State's ability to integrate into the euro area without difficulties.

In November 2025, the Commission published its 15th Alert Mechanism Report (AMR 2026) under the Macroeconomic Imbalance Procedure (MIP - see also Box 1.6), which assessed that overall risks in Poland remain limited but highlighted developments related to unit labour costs and the real effective exchange rate. Nominal unit labour costs increased in 2024 and 2025 more than the euro area average, raising cost competitiveness risks in the medium term. External sustainability concerns remain contained. The current account surplus deteriorated in 2024 and turned negative in 2025. In terms of export market share against advanced economies, Poland continued to perform strongly. Nominal house prices increased by 15% in 2024, but their growth slowed to 4.9% in 2025. The AMR 2026 concluded that no In-Depth Review was warranted.

Poland's recovery and resilience plan (RRP) includes measures to address a series of structural challenges, in synergy with other EU funds including cohesion policy funds, to boost competitiveness, stimulate sustainable growth and reduce the country's territorial and social disparities. The RRF funding provides Poland with EUR 54.7 billion in grants and loans over the 2021-2026 period. Key reforms in Poland's RRP include those in the areas of decarbonisation of the Polish economy, facilitating the development of network

infrastructure to ensure universal access to internet, reforming the health sector and labour market institutions.

The implementation of Poland's recovery and resilience plan is underway, with EUR 34.15 billion, 62.4% of the total amount, disbursed till the end of June 2026. The simplification revision of the plan, endorsed by the Council on 9 December 2025, included a reduction in the loan amount by EUR 5.1 billion, bringing down the total value of the Polish RRP from EUR 59.8 billion to EUR 54.7 billion. In 2026, which is the final year of the RRF, Poland needs to satisfactorily fulfil all remaining milestones and targets in the final two payment requests.

In addition, cohesion policy provides Poland with EUR 80.6 billion for the 2021-2027 period. Cohesion policy financing aims particularly to further support Poland's competitiveness, environmental sustainability as well as skills and social fairness. Poland has made progress in implementing cohesion policy, but challenges remain and regional disparities between eastern regions and the rest of the country have continuously widened.

4.6.1. Developments in the balance of payments

Poland's external balance (i.e. the combined current and capital account) deteriorated in both 2024 and 2025, largely driven by developments in the current account. In 2024 and 2025, the current account balance declined due to a lower balance of trade in goods and services in the context of a decline in the terms of trade for goods in 2024 as export prices fell faster than import prices.

The income balance remained negative over 2024-2025, reflecting negative primary income balance and despite the secondary income balance turning slightly positive in 2025.

Table 4.4:

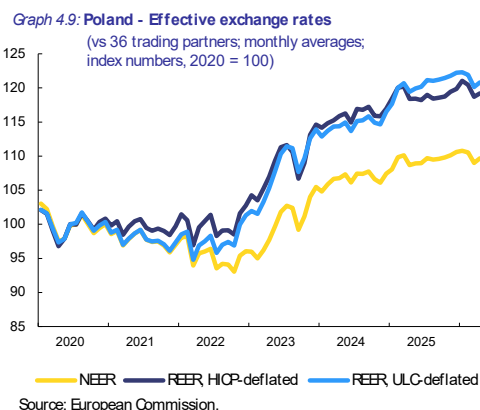
| Poland - Balance of payments | (percentage of GDP) | | | | | |
|---------------------------------------|---------------------|-------|-------|-------|-------|-------|
| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
| Current account | 2.4 | -1.3 | -2.2 | 1.6 | 0.3 | -0.9 |
| of which: Balance of trade in goods | 1.3 | -1.3 | -3.3 | 0.6 | -0.7 | -1.5 |
| Balance of trade in services | 4.3 | 4.5 | 5.4 | 5.2 | 4.7 | 4.3 |
| Primary income balance | -3.7 | -4.4 | -3.9 | -4.1 | -3.3 | -3.6 |
| Secondary income balance | 0.5 | -0.2 | -0.4 | -0.3 | -0.3 | 0.0 |
| Capital account | 1.8 | 0.8 | 0.2 | 0.1 | 0.3 | 0.8 |
| External balance ¹⁾ | 4.1 | -0.6 | -2.1 | 1.7 | 0.6 | 0.0 |
| Financial account | 3.2 | -0.7 | -2.3 | 1.5 | -0.6 | -1.1 |
| of which: Direct investment | -2.5 | -4.0 | -4.1 | -2.9 | -1.1 | -1.2 |
| Portfolio investment | 1.2 | 1.7 | -0.4 | 0.6 | -1.2 | -1.3 |
| Other investment ²⁾ | 1.4 | -1.1 | 0.2 | 1.3 | -1.5 | 0.6 |
| Change in reserves | 3.1 | 2.7 | 2.0 | 2.5 | 3.2 | 0.8 |
| Financial account without reserves | 0.2 | -3.4 | -4.2 | -1.0 | -3.8 | -1.8 |
| Errors and omissions | -0.9 | -0.1 | -0.2 | -0.2 | -1.2 | -1.1 |
| Gross capital formation | 18.8 | 21.8 | 22.1 | 17.7 | 18.2 | 18.2 |
| Gross saving | 21.1 | 20.4 | 19.2 | 19.2 | 18.1 | 17.5 |
| Net international investment position | -44.5 | -40.6 | -34.6 | -31.8 | -28.2 | -29.5 |

1) The combined current and capital account.

2) Including financial derivatives.

Sources: Eurostat, European Commission calculations, the National Bank of Poland.

The balance of the financial account was negative in 2024 and 2025, as the direct, portfolio, and other investment balances remained negative. Poland's external price competitiveness deteriorated in 2024 and 2025, but export performance remained strong. The nominal and real effective exchange rates appreciated strongly in 2024. In 2025, the nominal and real effective exchange rates were increased slightly. Poland's export performance (as measured by the growth of its exports relative to its foreign markets) improved in 2024 and 2025.



The net international investment position (NIIP) as a share of GDP improved from -31.8% in 2023 to -28.2% in 2024 and slightly deteriorated to -29.5% in 2025. Moreover, external vulnerabilities remain contained, as a major part of the NIIP consists of the accumulated stock of foreign direct investments.

4.6.2. Market integration

Poland's economy is well-integrated with the euro area, through both trade and investment linkages. Trade openness (see Table 4.5 for a definition), however, decreased from around 52% in 2024 to around 50% of GDP in 2025. The share of trade with euro area partners expressed in percentage of GDP saw a slightly downward trend in recent years, before dropping to 29% in 2025. Poland's main goods trading partners in 2025 were Germany, the Netherlands, China, Czechia, France, Italy.

FDI inflows to Poland have originated mainly from the Netherlands, Germany, Luxembourg and France, which together provided more than a half of the FDI stock at the end of 2024.

Table 4.5:
Poland - Market integration

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|-------|-------|-------|-------|-------|-------|
| Trade openness ¹⁾ (%) | 52.6 | 58.8 | 64.3 | 57.1 | 52.0 | 50.5 |
| Trade with euro area in goods & services ²⁾⁺³⁾ (%) | 30.4 | 34.0 | 36.2 | 32.7 | 29.7 | 28.9 |
| IMD World Competitiveness Ranking ⁴⁾ | 39 | 47 | 50 | 43 | 41 | 52 |
| Internal Market Transposition Deficit ⁵⁾ (%) | 1.8 | 1.5 | 2.1 | 1.6 | 1.7 | 2.1 |
| Real house price index ⁶⁾ | 124.8 | 129.0 | 126.5 | 125.7 | 139.8 | 141.3 |

1) $(\text{Imports} + \text{Exports of goods and services} / (2 \times \text{GDP at current market prices})) \times 100$ (Foreign Trade Statistics, Balance of Payments).

2) $(\text{Imports} + \text{Exports of goods with EA-21} / (2 \times \text{GDP at current market prices})) \times 100$ (Foreign Trade Statistics).

3) Trade in services with EA-21 (average credit and debit in % of GDP at current prices) (Balance of Payments).

4) International Institute for Management Development (IMD).

5) Percentage of internal market directives not yet communicated as having been transposed, relative to the total.

6) Deflated house price index (2015=100) (Eurostat).

Sources: Eurostat, World Bank, International Institute for Management Development, European Commission calculations.

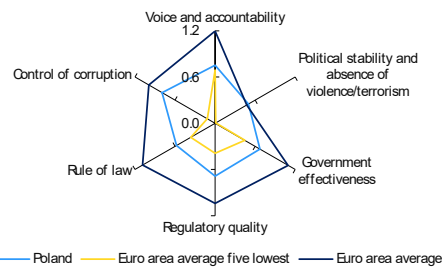
According to the World Bank's 2024 World Governance Indicators, Poland ranks close to or below the average of the euro area Member States for the six dimensions covered by the database⁽⁴²⁾ ⁽⁴³⁾. According to the 2026 Country Report, Poland has good lawmaking rules,

⁽⁴²⁾ A Member State is considered to have a 'low' ('high') ranking compared with the average five euro area Member States with the lowest scores for each indicator if its score is at least 0.3 percentage point lower (higher) than that of the average of this group of five euro area Member States.

and their application has improved laws. Although the perception of corruption when doing business in Poland is relatively low, the reported level of experienced corruption is above the EU average. Poland has taken no measures to improve the prevention and detection of corruption. However, it is taking measures to improve the prosecution of corruption. The Polish justice system has a reasonable level of digitalisation, and the overall efficiency of ordinary and administrative courts remains relatively stable ⁽⁴⁴⁾.

In the IMD's World Competitiveness Index, Poland's position improved in 2024 (placing 41st) from 2023 (43rd position) before deteriorating in 2025 (placing 52nd), weaker than in the previous years, due to underperformance in areas of business efficiency and government efficiency. In the Single Market Scoreboard, according to the latest data, Poland lags behind in the transposition of EU directives as the deficit was at 2.1% in 2025, which is above the target (0.5%) proposed by the European Commission in the Single Market Act (2011), and the second worst performance in the EU.

Graph 4.10: Poland - World Bank's 2024 Worldwide Governance Indicators



Note: Estimate of governance ranges from -2.5 (weak) to 2.5 (strong).
Source: World Bank.

Poland has notified a complete transposition of the 5th Anti-Money Laundering Directive. The Commission has assessed the transposition as complete and in conformity. Poland has further achieved a satisfactory level of transparency of legal persons, arrangements, and their beneficial ownership, although deficiencies remain in the application of the requirement for determining and verifying the identity of beneficial owners.

As of December 2025, Poland remained in the enhanced follow-up process for its Anti-Money Laundering and Counter-Terrorist Financing measures, with Moneyval highlighting progress in risk assessment but noting gaps in new technologies. Poland is expected to report further progress by late 2025/early 2026 to address deficiencies.

⁽⁴³⁾ According to the World Bank's methodology, 'voice and accountability' captures perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media. See <https://www.worldbank.org/content/dam/sites/govindicators/doc/va.pdf>.

⁽⁴⁴⁾ European Commission (2026), 2026 Country Report on Poland, pp. 75-79. See also Annual Rule of Law Report, country chapter on Poland.

Table 4.6:

Poland - Allocation of assets by financial sub-sector

| | PL | | EA | | Ratio to GDP (%) | |
|--|------|------|------|------|--------------------|------|
| | | | | | EA 5 smallest | |
| | 2020 | 2024 | 2020 | 2024 | 2020 | 2024 |
| Financial corporations (total) | 166 | 147 | 806 | 707 | 199 | 180 |
| Central bank | 29 | 29 | 77 | 51 | 61 | 44 |
| Monetary financial institutions | 96 | 84 | 308 | 275 | 93 | 93 |
| Other financial intermediaries | 11 | 11 | 195 | 177 | 20 | 15 |
| Non-MMF investment funds ¹⁾ | 14 | 11 | 125 | 125 | 4 | 6 |
| Insurance co. and Pension Funds | 16 | 14 | 102 | 80 | 22 | 23 |
| | PL | | EA | | Share of total (%) | |
| | | | | | EA 5 smallest | |
| | 2020 | 2024 | 2020 | 2024 | 2020 | 2024 |
| Central bank | 18 | 19 | 10 | 7 | 30 | 24 |
| Monetary financial institutions | 58 | 57 | 38 | 39 | 47 | 52 |
| Other financial intermediaries | 7 | 7 | 24 | 25 | 10 | 8 |
| Non-MMF investment funds | 8 | 8 | 15 | 18 | 2 | 3 |
| Insurance co. and Pension Funds | 10 | 9 | 13 | 11 | 11 | 13 |

¹⁾ MMF stands for money market funds.

Source: Eurostat.

The labour market has performed well in 2024 and 2025, with employment rate for the 20-64 age group increasing to 78.8% in 2025, above the euro area average, and unemployment rate around 3.0%, among the lowest in the EU. However, some challenges remain. The Commission's 2026 Country Report for Poland highlighted that participation gaps continue to constrain labour supply and exacerbate labour shortages, driven by demographic trends and persistently low participation among several groups, notably women, persons with disabilities and older people. The 2025 country-specific recommendations for Poland highlighted the need to foster education and skills relevant to the labour market, including green and digital skills, and increase the participation of disadvantaged groups in the labour market, including through effective education to employment transitions. Working time patterns in Poland are among the most intensive in the EU, which may have a negative impact on job quality and labour market inclusiveness. Over 76% of workers are working more than 40 hours per week (EU: 47.5%), and only 5% working part-time (EU: 17%). These patterns may discourage people with care responsibilities, persons with disabilities and older workers from labour market participation. Persistent participation gaps and rigid working-time patterns constrain labour supply and may reinforce labour shortages, despite Poland's strong overall labour market performance. Several of the country's recovery and resilience plan (RRP) reforms are expected to improve labour market participation, strengthen public employment services, and improve access to childcare.

Table 4.7:
Poland - Financing of the economy¹⁾

| | PL | | EA | | Ratio to GDP (%) | |
|-----------------------------------|------|------|------|------|------------------|------|
| | | | | | EA 5 smallest | |
| | 2020 | 2024 | 2020 | 2024 | 2020 | 2024 |
| Liabilities (total) | 273 | 232 | 813 | 722 | 325 | 305 |
| Loans | 97 | 80 | 251 | 215 | 103 | 92 |
| Non-financial co. debt securities | 4 | 2 | 15 | 12 | 3 | 2 |
| Financial co. debt securities | 10 | 11 | 68 | 61 | 3 | 5 |
| Government debt securities | 51 | 41 | 94 | 72 | 49 | 43 |
| Listed shares | 22 | 19 | 71 | 64 | 8 | 12 |
| Unlisted shares | 25 | 20 | 196 | 187 | 65 | 54 |
| Other equity | 44 | 39 | 82 | 76 | 58 | 64 |
| Trade credits and advances | 21 | 21 | 36 | 36 | 36 | 33 |

| | PL | | EA | | Share of total (%) | |
|-----------------------------------|------|------|------|------|--------------------|------|
| | | | | | EA 5 smallest | |
| | 2020 | 2024 | 2020 | 2024 | 2020 | 2024 |
| Loans | 36 | 35 | 31 | 30 | 32 | 30 |
| Non-financial co. debt securities | 1 | 1 | 2 | 2 | 1 | 1 |
| Financial co. debt securities | 4 | 5 | 8 | 8 | 1 | 2 |
| Government debt securities | 19 | 18 | 12 | 10 | 15 | 14 |
| Listed shares | 8 | 8 | 9 | 9 | 2 | 4 |
| Unlisted shares | 9 | 9 | 24 | 26 | 20 | 19 |
| Other equity | 16 | 17 | 10 | 11 | 17 | 20 |
| Trade credits and advances | 8 | 9 | 4 | 5 | 10 | 11 |

¹⁾ The table focuses on the financing needs of a country and how these are met by the financial system. The table is constructed from the liabilities of all economic sectors, but only considers loans, debt securities, equity and trade credits. The sum of liabilities in the table only reflects the total for the liabilities considered.

Source: Eurostat.

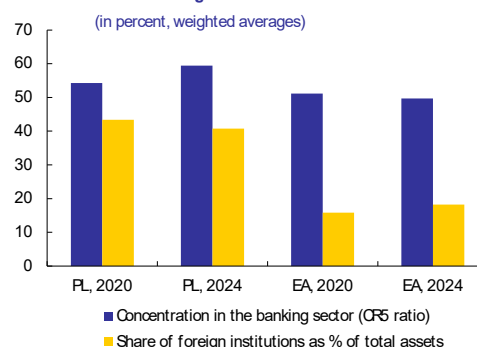
The financial sector in Poland is smaller and less developed than in the euro area. Relative to GDP, assets managed by the financial sector amounted to 147% of GDP in 2024, which is much less than in the euro area (707% of GDP). The financial sector's size has decreased slightly since 2020, in contrast to the small increase registered in the euro area. Banking dominates the Polish financial sector and made up 57% of the financial sector's assets in 2024. The central bank is the second largest holder of financial assets with a share of 19%. These shares are larger than for the euro area and reflect the relative underdevelopment of non-bank financial intermediaries and investment funds. They are comparable to that of the five euro area Member States with the smallest financial sectors, although the share of investment funds in total assets is more than twice as high in Poland as it is in these Member States. Based on its relative size in the assets held by the financial sector, the insurance and pension-fund sector in Poland is comparable to the euro area average, although it is much smaller relative to GDP (14% of GDP in 2022 vis-à-vis 80% of GDP in the euro area).

As to the financing of the economy, outstanding liabilities are much lower than in the euro area (232% of GDP in 2024 vis-à-vis 722% of GDP in the euro area) and lower than in the five euro area Member States with the lowest financing needs. Like in the euro area, loans

are the dominant source of funding (35% of outstanding liabilities in 2024). However, Poland has less developed bond and equity markets than the euro area, and market financing (debt securities and listed shares) is relatively less developed. Equity and private sector debt markets represented 14% of liabilities in 2024 (and only 32% of GDP altogether), compared to 19% of liabilities in the euro area, where private-sector debt and listed stocks amounted to 73% and 64% of GDP respectively. However, Poland is still relatively comparable to the five euro area Member States with the smallest financing needs and its listed equity market is more developed than in these Member States. As a share of GDP, the government debt market is slightly more than half as large as that of the euro area average.

Poland's banking sector is well-integrated into the euro area financial sector, in particular through a high level of foreign ownership in its banking system. The share of foreign-owned institutions in total bank assets stood at 41% in 2024. Bank concentration, as measured by the market share of the five largest credit institutions in total assets, has increased notably since 2018, and reached 59% in 2024, almost 10 percentage points above the euro area average.

Graph 4.11: Poland - Foreign ownership and concentration in the banking sector



Source: ECB, Structural financial indicators.

5. ROMANIA

5.1. LEGAL COMPATIBILITY

5.1.1. Introduction

The Banca Națională a României (BNR – Romanian national bank, hereafter 'BNR') is governed by Law No. 312 on the Statute of the National Bank of Romania of 28 June 2004 (hereinafter 'the BNR Law') which entered into force on 30 July 2004.

The BNR law has not been amended since the Commission's 2024 Convergence Report. Therefore, the comments provided in the Commission's 2024 Convergence Report remain relevant and are repeated in this year's assessment.

5.1.2. Central bank independence

As regards central bank independence, a number of incompatibilities and imperfections have been identified with respect to the TFEU and the ESCB/ECB Statute.

According to Article 33(10) of the BNR Law, the Minister of Finance and one of the State Secretaries in the Ministry of Finance may participate, without voting rights, in the meetings of the BNR Board. Although a dialogue between a central bank and third parties is not prohibited as such, this dialogue should be framed in such a way that the Government should not be in a position to influence or to appear to influence the central bank's decision-making in areas for which its independence is protected by Union law. The active participation of the Minister and one of the State Secretaries, even without voting rights, in discussions of the BNR Board where BNR policy is set, could structurally offer to the Government the possibility to influence the central bank, or to appear to be able to do so, when taking its key decisions. Against this background, Article 33(10) of the BNR Law is incompatible with Article 130 TFEU.

Article 3(1) of the BNR Law needs to be amended with a view to ensuring full compatibility with Article 130 TFEU and Article 7 of the ESCB/ECB Statute. Pursuant to Article 3(1) of the BNR Law, the members of the BNR's decision-making bodies shall not seek or take instructions from public authorities or from any other institution or authority. First, to ensure legal certainty, it should be clarified that the BNR's institutional independence is also protected vis-à-vis national, foreign and Union institutions, bodies, offices or agencies. Moreover, Article 3 should expressly oblige the government not to seek to influence the members of the BNR's decision-making bodies in the performance of their tasks.

The BNR Law should be supplemented by rules and procedures ensuring a smooth and continuous functioning of the BNR in case of the Governor's termination of office (e.g. due to expiration of the term of office, resignation or dismissal). So far, Article 33(5) of the BNR Law provides that in case the Board of BNR becomes incomplete, the vacancies shall be filled following the procedure for the appointment of the members of the Board of BNR. Article 35(5) of the BNR Law provides that in case the Governor is absent or incapacitated to act, the First Deputy Governor shall replace the Governor.

Pursuant to Article 33(9) of the BNR Law, the decision to recall a member of the BNR Board (including the Governor) from office may be appealed to the Romanian High Court of Cassation and Justice. However, Article 33(9) of the BNR Law remains silent on the possibility of judicial review by the Court of Justice of the European Union, pursuant to Article 14.2 of the ESCB/ECB Statute, in the event of the Governor's dismissal. This imperfection should be corrected.

Article 33(7) of the BNR Law provides that no member of the Board of BNR may be recalled from office for other reasons or following a procedure other than those provided in Article 33(6) of this Law. Law 161/2003 on certain measures for transparency in the exercise of public dignities, public functions and business relationships and for the prevention and sanctioning of corruption and the Law 176/2010 on the integrity in the exercise of public functions and dignities define the conflicts of interest incompatibilities applicable to the Governor and other members of the Board of the BNR and require them to report on their interests and wealth. It should be clarified that the sanctions for the breach of obligations under those laws do not constitute extra grounds for dismissal of the Governor, in addition to those contained in Article 33 of the BNR Law.

According to Articles 21 and 23 of the Law concerning the organisation and functioning of the Court of Auditors (No 94/1992), the Court of Auditors is empowered to control the establishment, management and use of the public sector's financial resources, including the BNR's financial resources, and to audit the performance in the management of the funds of the BNR. Those provisions constitute an imperfection as regards Article 27.1 of the ESCB/ECB Statute and thus, to ensure legal certainty, the Law should state clearly that the scope of audits by the Court of Auditors is without prejudice to the activities of the BNR's independent external auditors.

Article 43 of the BNR Law provides that the BNR must transfer to the State budget an 80% share of the net revenues left after deducting expenses relating to the financial year, including provisions for credit risk, and any losses relating to previous financial years that remain uncovered. Such a procedure might, in certain circumstances, be seen as an intra-year credit (see Section 5.1.3.) which negatively impacts on the financial independence of the BNR. A Member State may not put its central bank in a position where it has insufficient financial resources to carry out its ESCB tasks, and also its own national tasks, such as financing its administration and own operations. Article 43(3) of the BNR Law also provides that the BNR sets up provisions for credit risk in accordance with its rules, after having consulted the Ministry of Finance. The central bank must be free to independently create financial provisions to safeguard the real value of its capital and assets. Article 43 of the BNR Law is therefore incompatible with Article 130 TFEU and Article 7 of the ESCB/ECB Statute and should be amended to ensure that the above arrangements do not undermine the ability of the BNR to carry out its tasks in an independent manner.

5.1.3. Prohibition of monetary financing and privileged access

According to Article 26 of the BNR Law, the BNR, under exceptional circumstances and only on a case-by-case basis, may grant loans to credit institutions which are unsecured or secured with assets other than assets eligible to collateralise the monetary or foreign exchange policy operations of the BNR. It cannot be excluded that such lending results in the provision of solvency support to a credit institution that is facing financial difficulties and thereby would breach the prohibition of monetary financing and be incompatible with Article 123 TFEU. Article 26 of the BNR Law should be amended to preclude such lending operations.

Articles 6(1) and 29(1) of the BNR Law prohibit direct purchases by the BNR in the primary market of debt instruments issued by the State, national and local public authorities, autonomous public enterprises, national corporations, national companies and other majority state-owned companies. Article 6(2) of the BNR Law extends this prohibition to the debt instruments issued by other bodies governed by public law and public undertakings of other Union Member States. Article 7(2) of the BNR Law prohibits the BNR from granting

overdraft facilities or any other type of credit facility to the State, central and local public authorities, autonomous public service undertakings, national societies, national companies and other majority state owned companies. Article 7(4) of the BNR Law extends this prohibition to other bodies governed by public law and public undertakings of Member States. These provisions do not fully mirror the entities listed in Article 123 TFEU (amongst others, a reference to Union institutions is missing). In consequence, they have to be amended.

Pursuant to Article 7(3) of the BNR Law, majority state-owned credit institutions are exempted from the prohibition on granting overdraft facilities and any other type of credit facility under Article 7(2) of the BNR Law and benefit from loans granted by the BNR in the same way as any other credit institution eligible under the BNR's regulations. Article 7(3) of the BNR Law is incompatible with Article 123(2) TFEU, which only exempts publicly owned credit institutions 'in the context of the supply of reserves by central banks'. The national provisions should be aligned.

As noted above in Section 5.1.2., Article 43 of the BNR Law provides that the BNR shall transfer to the State, on a monthly basis, 80% of its net revenues left after deduction of the expenses related to the financial year and the uncovered loss of the previous financial years. This provision does not rule out the possibility of an intra-year anticipated profit distribution under circumstances where the BNR would accumulate profit during the first half of a year but suffer losses during the second half. The adjustment would be made by the State only after the closure of the financial year and would thus imply an intra-year credit to the State, which would breach the prohibition on monetary financing. This provision is, therefore, incompatible with the Article 123 TFEU and must be amended.

5.1.4. Integration into the Eurosystem

Objectives

Pursuant to Article 2(3) of the BNR Law, the secondary objective of the BNR is to support the State's general economic policy. Article 2(3) of the BNR Law should contain a reference to the objective of supporting 'the general economic policies in the Union with a view to contributing to the achievement of the objectives of the Union as laid down in Article 3 of the Treaty on European Union', as per Article 127(1) TFEU and Article 2 of the ESCB/ECB Statute.

Tasks

The incompatibilities in the BNR Law are linked to the following ESCB/ECB tasks:

- absence of a general reference to the BNR as being an integral part of the ESCB (Article 1 of the BNR Law);
- definition of monetary policy and monetary functions, operations and instruments of the ESCB (Articles 2(2)(a), 5, 6(3), 7(1), 8, 19, 20, 21(1) and (2), 22(3) and 33(1)(a) and (e) of the BNR Law);
- conduct of foreign exchange operations and the definition of foreign exchange policy (Articles 2(2)(a) and (d), 9 and 33(1)(a) of the BNR Law);
- holding and management of foreign reserves (Articles 2(2)(e), 9(2)(c), 30 and 31 of the BNR Law);

- right to authorise the issue of banknotes and the volume of coins (Articles 2(2)(c), 12 to 18 of the BNR Law);
- non-recognition of the role of the ECB and of the Council in regulating, monitoring and controlling foreign currency transactions (Articles 10 and 11 of the BNR Law);
- lack of reference to the role of the ECB in payment systems (Articles 2(2)(b), 22 and 33(1)(b) of the BNR Law).

There are also imperfections regarding the following issues:

- non-recognition of the role of the ECB and the EU in the collection of statistics (Article 49 of the BNR Law);
- non-recognition of the role of the ECB and of the Council in the appointment of an external auditor (Article 36(1) of the BNR Law);
- absence of an obligation to comply with the ESCB/ECB regime for the financial reporting of NCB operations (Articles 37(3) and 40 of the BNR Law);
- non-recognition of the ECB's right to impose sanctions (Article 57 of the BNR Law).

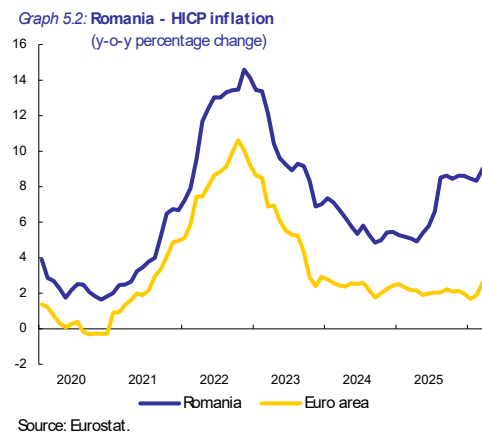
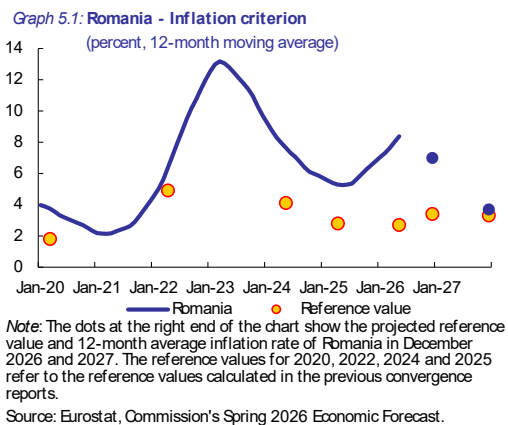
5.1.5. Assessment of compatibility

As regards the independence of the BNR, the prohibition of monetary financing and the BNR's integration into the Eurosystem, the legislation in Romania, in particular the BNR Law, is not fully compatible with the requirements of Article 131 TFEU, for the reasons set out above. The Romanian authorities should remedy the above-mentioned incompatibilities and imperfections.

5.2. PRICE STABILITY

5.2.1. Respect of reference value

The 12-month average inflation rate, which is used for the convergence assessment, was 3.5 percentage points above the reference value at the time of the last convergence assessment of Romania in 2024. In May 2026, the reference value was 2.7%, calculated as the average of the 12-month average inflation rates in Cyprus, France and Denmark plus 1.5 percentage points. The corresponding inflation rate in Romania was 8.4%, which was 5.7 percentage points above the reference value. The 12-month average inflation rate is projected to decrease in the second half of 2026, but to remain well above the reference value by the end of 2026. It is projected to continue decreasing in 2027, but remain above the reference value through to the end of 2027.



5.2.2. Recent inflation developments

Annual HICP inflation in Romania rose to 6.8% in 2025, from 5.8% in 2024. Disinflation, which followed the sharp rise in energy prices in 2022, stalled and subsequently reversed in mid-2025. The year-on-year headline HICP inflation rate fell from 7.3% in January 2024 to 4.8% in September 2024, before rebounding temporarily to 5.5% in December 2024. It then resumed its fall at the beginning of 2025 to 4.9% in April, before increasing steadily and significantly to 8.6% in September and remaining at that level in December 2025. The rise in inflation in the second half of 2025 was largely the effect of the elimination of the household electricity price cap in July 2025, combined with a rise in VAT and excise duties. After having remained broadly flat in 2023 and 2024, energy prices rose by 7.5% in 2025. Processed food prices increased by 6.5% in 2025. Prices of unprocessed food and services also surged by about 7% and 8% respectively, reflecting still strong underlying inflation pressures and the impact of volatile weather conditions on agriculture. Among inflation components, administered prices recorded the highest growth rate of 8.9% in 2025, up from 5.3% in 2024 due to the increase in indirect taxes. Over the past two years, annual HICP inflation in Romania was higher than in the euro area by around 4 percentage points on average. The increase in energy prices following the conflict in the Middle East caused headline inflation to increase to 9.7% in May 2026 from 8.3% in February 2026.

HICP excluding energy and food declined from 8.4% in 2024 to 6.6% in 2025, coming in slightly below headline HICP inflation, as wage growth moderated significantly. In year-on-year terms, it fell from a peak of 10.4% in April 2024 to 5.6% by July 2025, before increasing again to 8.3% in December 2025, as higher energy prices gradually impacted the wider economy. A slowdown in private consumption and domestic demand resulted in a somewhat lower increase in HICP inflation excluding energy and food. Persistent services inflation, which increased by 8.1% and 8.0% in 2024 and 2025 respectively, contributed significantly to HICP inflation excluding energy and food, while non-energy industrial goods inflation declined from 8.6% in 2024 to 5.5% in 2025. Following a freeze in public sector wages and the cooling of the labour market, wage growth more than halved from about 17% in 2024 to 8% in 2025. In the first quarter of 2026, core inflation remained elevated at around 8.2%, reflecting persistent services inflation, still high domestic cost pressures and the pass-through of earlier increases in indirect taxes.

Table 5.1:

| Romania - Components of inflation | (percentage change) ¹⁾ | | | | | | | weights |
|--|-----------------------------------|------|------|------|------|------|--------|----------|
| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | May-26 | in total |
| HICP | 2.3 | 4.1 | 12.0 | 9.7 | 5.8 | 6.8 | 8.4 | 1000 |
| Non-energy industrial goods | 2.3 | 2.6 | 5.7 | 9.6 | 8.6 | 5.5 | 6.2 | 302 |
| Energy | -7.4 | 15.2 | 31.7 | -0.9 | 0.7 | 7.5 | 13.8 | 98 |
| Unprocessed food | 4.5 | 0.7 | 15.3 | 15.4 | 4.1 | 7.3 | 7.3 | 119 |
| Processed food | 5.5 | 4.8 | 14.2 | 12.9 | 3.9 | 6.5 | 7.8 | 232 |
| Services | 2.7 | 2.7 | 6.3 | 9.9 | 8.1 | 8.0 | 9.9 | 248 |
| HICP excl. energy, food, alcohol and tobacco | 2.5 | 2.6 | 6.0 | 9.7 | 8.4 | 6.6 | 7.8 | 550 |
| HICP at constant tax rates | 2.3 | 3.9 | 12.2 | 9.5 | 5.1 | 5.4 | 6.0 | 1000 |
| Administered prices HICP | 1.2 | 1.8 | 7.3 | 3.9 | 5.3 | 8.9 | 12.9 | 117 |

1) Measured by the arithmetic average of the latest 12-monthly indices relative to the arithmetic average of the 12-monthly indices in the previous period.
Source: Eurostat, European Commission calculations.

5.2.3. Underlying factors and sustainability of inflation

Macroeconomic policy mix and growth developments

After a strong post-pandemic rebound in economic activity, favoured by lax monetary conditions and expansionary fiscal policy, real GDP growth dropped to below 1% in both 2024 and 2025 which is notably lower than Romania's potential growth rate. In 2024, real GDP growth was 0.9% after 2.4% in 2023, despite buoyant private consumption supported by lax fiscal and incomes policies in an electoral year. The latter had only a limited impact on GDP growth, because of investment underperformance and the high negative contribution of net exports, which also led to a widening of the external deficits. Sluggish external demand from Romania's main trading partners, a rapid increase in wages and high energy prices weighed on industrial production, residential construction, IT and transport services, while a severe drought led to a significant decline in agriculture output.

Real economic growth remained subdued also in 2025 at 0.7%, as the necessary fiscal consolidation together with resurging inflation dampened private and public consumption, while growth drivers rebalanced towards investment and net exports. At the same time, a moderate recovery in gross fixed capital formation on the back of improved business confidence, further reinforced by the acceleration of RRP projects supported the economy. Gross fixed capital formation grew by 4.1%, recovering from the decline in 2024. Import growth was contained by the strong deceleration in private consumption while exports were resilient, reducing significantly the drag to growth of net exports. According to the Commission's Spring 2026 Economic Forecast, the Romanian economy is set to stagnate in 2026, with a growth rate of just 0.1%. Falling private consumption due to sizeable fiscal consolidation and the hike in energy prices following the conflict in the Middle East is projected to be largely offset by robust investment helped by an acceleration of RRF-funded spending and a small positive contribution to growth of net exports. Real GDP growth is forecast to rebound at 2.3% in 2027, as lower inflation stabilises real disposable income, supporting a turnaround in both consumption and investment, while financing conditions turn more favourable. Inflation is forecast to decline as of the second half of 2026, but at a slower pace, due to the hike in energy prices following the conflict in the Middle East.

Romania's fiscal stance ⁽⁴⁵⁾ is estimated to have been contractionary in 2025, at 2.2% of GDP and, based on the Commission's Spring 2026 Economic Forecast, the stance is expected to remain contractionary in 2026 (2.5% of GDP) and 2027 (0.7% of GDP).

Amid disinflationary pressures, Banca Națională a României (BNR), operating within an inflation targeting framework ⁽⁴⁶⁾, eased its monetary policy stance by lowering the policy rate by a total of 50 basis points between July and August 2024. Thereafter, as inflationary pressures resurfaced, the BNR paused further rate cuts from mid-2024 onwards. The policy rate remained stable at 6.5% through to June 2026. The reserve requirement ratio on accounts opened with BNR for the foreign currency holdings of the credit institutions has been 5% since November 2020. The reserve requirement ratio for leu denominated holdings has also been unchanged at 8% since May 2015.

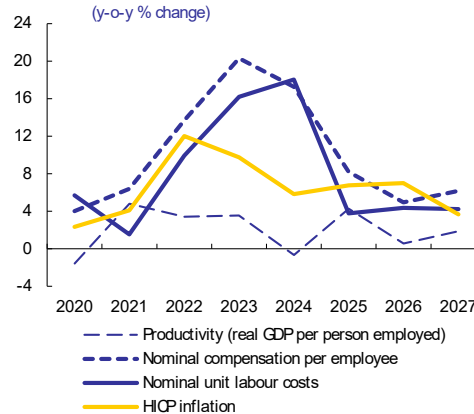
Wages and labour costs

In 2025, the labour market cooled in line with subdued growth and wage moderation. The employment rate for people aged 20-64 fell from 69.5% in 2024 to 69% in 2025, remaining well below the EU average of 76.1%. In parallel, the unemployment rate increased gradually from 5.4% in 2024 to 6.1% in 2025, slightly exceeding the EU average of 6%.

Although it has improved significantly over the past decade, the still relatively low employment rate in Romania reflects a larger share of semi-subsistence agricultural workers (who are not counted in the labour force according to Eurostat methodology), high net outward migration which affects predominantly younger population groups and a large contingent of people who work abroad but maintain their residence in Romania (IMF, 2023, Selected issues) ⁽⁴⁷⁾. The labour force participation rate also appears relatively low across all population groups, but lower skilled women, older man with secondary education and the youth stand out. The latter groups also display higher unemployment rates on average. At the same time, the vast majority of employed work full-time. Part-time employees represented only about 2% of total employment in Romania relative to a high EU average of 17% in 2024. These labour market weaknesses limit Romania's growth potential and ability to sustain convergence and competitiveness over time.

The increase in labour market slack following subdued economic activity, together with the freeze of public wages in 2025 and 2026 and minimum wage increases in line with inflation and productivity growth, following the new mechanism for setting the minimum wage under the RRP, have reduced wage pressures and supported cost competitiveness and exports. Nominal compensation per employee decelerated strongly to around 8% in 2025 from more

Graph 5.3: Romania - Inflation, productivity and wage trends (y-o-y % change)



Source: Eurostat, Commission's Spring 2026 Economic Forecast.

⁽⁴⁵⁾ The fiscal stance is measured as the change in general government primary expenditure, net of the incremental budgetary impact of discretionary revenue measures, excluding one-off and cyclical unemployment expenditure, but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to medium-term (10-year) average potential GDP growth rate. A negative (positive) sign of the indicator corresponds to an expansionary (contractionary) fiscal policy stance.

⁽⁴⁶⁾ As from 2013, the BNR follows a flat multi-annual inflation target of 2.5% (± 1 percentage point).

⁽⁴⁷⁾ IMF Country Report No. 23/396, Romania – Selected Issues, December 2023.

than 17% in 2024, but still remained more than double the euro area average. In the second half of 2025 real wages declined markedly due to the surge in inflation. The very large real wage increases of 2024, which also reflected real-wage catching-up, coincided with weak productivity growth and a sharp deterioration in unit labour costs. In 2025, real compensation growth ran below productivity growth, helping to ease some of the cost competitiveness pressure accumulated in recent years. Wage growth is forecast to moderate further in 2026 and 2027, ensuring real wage growth dynamics below labour productivity over the forecast horizon and helping restore somewhat the deteriorated cost competitiveness in recent years.

Table 5.2:
Romania - Other inflation and cost indicators¹⁾ (annual percentage change)

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 ²⁾ | 2027 ²⁾ |
|--|------|------|------|------|------|------|--------------------|--------------------|
| HICP inflation | | | | | | | | |
| Romania | 2.3 | 4.1 | 12.0 | 9.7 | 5.8 | 6.8 | 7.0 | 3.7 |
| Euro area | 0.3 | 2.6 | 8.4 | 5.5 | 2.4 | 2.1 | 3.0 | 2.3 |
| Private consumption deflator | | | | | | | | |
| Romania | 2.4 | 4.6 | 13.9 | 9.0 | 6.4 | 7.6 | 7.6 | 4.0 |
| Euro area | 0.6 | 2.4 | 6.8 | 6.3 | 2.4 | 2.0 | 2.9 | 2.4 |
| Nominal compensation per employee | | | | | | | | |
| Romania | 4.0 | 6.4 | 13.7 | 20.3 | 17.3 | 8.2 | 4.9 | 6.2 |
| Euro area | -0.4 | 4.4 | 4.6 | 5.3 | 4.5 | 3.9 | 3.2 | 3.2 |
| Labour productivity | | | | | | | | |
| Romania | -1.6 | 4.8 | 3.4 | 3.5 | -0.7 | 4.3 | 0.6 | 1.9 |
| Euro area | -4.6 | 4.8 | 1.3 | -1.1 | 0.0 | 0.7 | 0.5 | 0.8 |
| Nominal unit labour costs | | | | | | | | |
| Romania | 5.7 | 1.5 | 9.9 | 16.2 | 18.0 | 3.8 | 4.4 | 4.2 |
| Euro area | 4.5 | -0.4 | 3.3 | 6.5 | 4.6 | 3.2 | 2.7 | 2.3 |
| Imports of goods deflator | | | | | | | | |
| Romania | -2.5 | 10.2 | 18.7 | 0.7 | -0.8 | 1.1 | 3.2 | 1.8 |
| Euro area | -3.9 | 9.7 | 22.0 | -4.1 | -1.8 | -1.0 | 3.7 | 0.5 |

¹⁾ The figures for the euro area refer to the euro area with 21 Member States.

²⁾ Commission's Spring 2026 Economic Forecast.

Source: Eurostat, Commission's Spring 2026 Economic Forecast.

Despite the slowdown in real GDP growth, labour productivity rose by around 4% in 2025, because of a hefty reduction in employment. It was higher than in the euro area on average, but with labour compensation growing also faster than in the euro area, the increase in nominal unit labour costs (ULC) remained above the euro area average in 2025, a trend likely to continue into 2026.

External factors

Import prices play a significant role in domestic price formation as a result of Romania's strong trade links with other EU Member States, and large import volumes are reflected in a high trade deficit. Romania is a net importer of energy and the decline in international energy prices in 2024 and 2025 from the peaks in preceding years was transmitted also to domestic inflation. Imported inflation was also dampened by a moderation in international food prices in 2024. Therefore, import price inflation (measured by the imports of goods deflator) turned negative to -0.8% in 2024 and contributed to lower HICP inflation. It was, however, less than half of the decline recorded in the euro area. In 2025, international food prices resumed their ascending trend and energy prices became more volatile. Import price inflation was positive again in 2025, at close to 2%, and above the euro area average. In early 2026, import price pressures appear to have strengthened again, as energy prices

surged above 10% amid heightened geopolitical tensions in the Middle East. Looking ahead, imported inflation is expected to continue contributing to lower HICP inflation in the next two years.

The leu's nominal effective exchange rate (measured against a group of 36 trading partners) continued to appreciate slightly, by less than 1% in 2024, helped by sustained capital inflows, in particular portfolio inflows. The trend changed in 2025, when the leu depreciated by almost 3% against the euro following political uncertainty and market stress in May 2025. Nevertheless, the nominal effective exchange rate remained broadly stable in 2025, while the real effective exchange rate (REER), both HICP- and ULC-deflated REERs, appreciated by around 3%. Overall, Romania's REER appreciation was similar to that of many CESEE peers during this period, which shielded somewhat export competitiveness.

Administered prices and taxes

The weight of administered prices in the 2025 Romanian HICP basket is the same as the euro area average (11.9%). In 2024, the average annual change in administered prices at 5.3% was below the headline inflation rate, similarly to previous years and the longer-term trend. However, due to the removal of the cap on electricity prices, administered prices rose by 8.9% on average in 2025 and were a major contributor to the pick-up in inflation.

Following significant VAT, excises and other tax increases, tax changes pushed up headline inflation in both 2024 and 2025. HICP inflation measured at constant taxes was 5.1%, about 0.7 percentage point below actual headline inflation in 2024, whereas this differential widened to 1.4 percentage points in 2025.

Medium-term prospects

Prices are set to decelerate in both 2026 and 2027, despite an upward inflation shock linked to the escalation of tensions in the Middle East and higher energy prices. The strong moderation of wage growth is also supportive of a steady disinflation path, whereas the expected liberalisation of gas prices in 2027 may counterbalance this trend to some extent. Underlying inflationary pressures are subsiding as well, with HICP excluding energy and food inflation likely to lead the deceleration in price increases. In the Commission's Spring 2026 Economic Forecast, average annual HICP inflation is projected to be 7.0% in 2026, before slowing to 3.7% in 2027 and thereby approaching the Central Bank inflation target band (2.5% \pm 1 percentage point).

Risks to the inflation outlook are tilted towards a more gradual reduction in headline HICP inflation if the impact of higher energy prices related to geopolitical tensions in the Middle East, as well as the planned liberalisation of gas prices in 2027, prove more persistent than foreseen. According to the Commission's Spring 2026 Economic Forecast, the nominal ULC growth rate in Romania is expected to accelerate only modestly in both 2026 and 2027, but still remain above those in the euro area. In real terms, however, ULC growth is set to remain in negative territory in 2026 and turn only slightly positive in 2027.

In 2024, the level of consumer prices in Romania increased to about 61% of the euro area average. The GDP per capita further converged to around 75% of the euro area average in terms of purchasing power standards in 2025. Due to the catching-up of the Romanian economy, price level convergence is expected to continue over the next years.

5.3. PUBLIC FINANCES

5.3.1. Recent fiscal developments

Romania's general government deficit decreased from 9.3% of GDP in 2024 to close to 8% of GDP in 2025, but it remained well above the 3% of GDP Treaty reference value.

The revenue to-GDP ratio was broadly stable in 2024 and then increased in 2025, supported by stronger tax collection and by two large consolidation packages with a combined estimated revenue and expenditure yield of about 3.7 percentage points of GDP. In July 2025, the authorities adopted a first fiscal package amounting to more than 3% of GDP, including an immediate increase in the two main VAT rates (from 9% and 19% to 11% and 21%), a health contribution for higher-income pensioners, higher taxation of the banking sector, and a higher dividend tax rate. These measures were complemented by a second package in September 2025, which introduced increased property taxation, a new fee on parcels imported from non-EU countries, a special tax to limit profit shifting abroad, and higher taxation of polluting vehicles.

The expenditure-to-GDP ratio increased by 2.2 percentage points to 43.3% of GDP in 2024 and remained stable in 2025, as persistent pressures from pensions, interest costs, and priority expenditure, including defence and RRF-related investment, were increasingly offset by tighter current spending control, notably through the wage and pension freeze, which was extended into 2026, and cuts to benefits and bonuses for public administration staff. The full-year impact of the measures adopted in 2025 should support a further reduction in the government deficit in 2026 to 6.2% of GDP.

On 25 October 2024, Romania submitted its national medium-term fiscal-structural plan (MTFSP) to the Council and to the Commission. On 26 November 2024, the Commission recommended to the Council to endorse Romania's national medium-term fiscal-structural plan. Based on the plan's policy commitments and macroeconomic assumptions, the net expenditure path put forward in the plan was consistent with the requirements set out in Regulation (EU) 2024/1263, including the extension of the fiscal adjustment period from four to seven years. On 21 January 2025, the Council adopted a recommendation endorsing Romania's national medium-term fiscal-structural plan. The plan set out a fiscal adjustment path over seven-years running to 2031.

Romania has been subject to an excessive deficit procedure since 2020 ⁽⁴⁸⁾. Following the sharp deterioration in the fiscal position in 2024, the Commission proposed a Council decision under Article 126(8) on 4 June 2025 that Romania had not taken effective action to correct its excessive deficit. On 20 June 2025, the Council adopted that decision in line with the Commission proposal (Council Decision 10157/25). The Council then revised Romania's EDP fiscal adjustment path on 8 July 2025, under which Romania must keep nominal net expenditure growth below 2.8% in 2025, 2.6% in 2026, 4.6% in 2027, 4.4% in 2028, 4.2% in 2029 and 4.0% in 2030. These equate to an annual adjustment of about 2 percentage points per year in 2025 and 2026 and about 1 percentage point thereafter. The EDP correction deadline is 2030 at which point the July 2025 revised recommendation under Article 126(7) TFEU envisages a deficit of 2.8% of GDP. The revised recommendation replaced the maximum growth rates of net expenditure established by the Council Recommendation of 21 January 2025 endorsing Romania's medium-term fiscal-structural plan as the operative

⁽⁴⁸⁾ Following the expansionary fiscal stance and the high fiscal deficit recorded in 2019 and previous years, Romania entered an Excessive Deficit Procedure (EDP) in the spring of 2020.

benchmark for EDP monitoring, while the reforms and investments underpinning the MTFSP's extended adjustment period remain in force and continue to be monitored by the Commission.

On 20 October 2025, Romania submitted its report on effective action in line with the EDP recommendation under Article 126(7) TFEU of 8 July, projecting a decline in the budget deficit from 9.3% of GDP in 2024 to 8.4% in 2025 and 6.2% in 2026.

In its 2026 European Semester Spring Package, the Commission assessed the measures taken by Romania to address the Council recommendation under the Excessive Deficit Procedure based on the Commission's Spring 2026 Economic Forecast and Romania's Annual Progress Report. Net expenditure grew by 0.5% in 2025, which is below the recommended maximum growth rate of 2.8%. Romania was therefore assessed as compliant with the recommended maximum growth rate of net expenditure in 2025 and the excessive deficit procedure was held in abeyance. As highlighted in the Council recommendation under Article 126(7) TFEU of 8 July 2025, Romania should strengthen tax administration and the budgetary process to avoid overspending relative to plans.

The fiscal stance was contractionary in 2025, at 2.2% of GDP, driven mainly by net nationally financed primary expenditure (3.5% of GDP) and nationally financed investment (1.1% of GDP), while expenditure financed by RRF grants and other EU funds (-1.3% of GDP) and other capital expenditure (-0.6% of GDP) were expansionary.

The general government gross debt ratio increased from 54.8% of GDP in 2024 to 59.3% in 2025. In 2024, this increase was driven mainly by a very large primary deficit of 6.8% of GDP. In 2025, the primary deficit remained large at 5.0% of GDP and continued to exert strong upward pressure on the debt ratio, although debt dynamics benefited from a favourable snowball effect of -1.6 percentage points, as the inflation and, to a lesser extent, growth effects outweighed the interest burden.

5.3.2. Medium-term prospects

The 2026 budget was adopted by the Parliament on 20 March 2026. The Commission projects revenues to rise to close to 37% of GDP in 2026, from about 35.4% in 2025, mainly on the back of tax measures already adopted, including higher VAT and excise rates, the increase in the dividend tax, higher property taxation, higher taxes on polluting cars, and the extension of health insurance contributions to higher pensions. Current expenditure growth is kept contained by the freeze in public wages and pensions. However, public investment is projected at a record high of close to 7% of GDP, largely supported by EU funds and the RRF. The budget also incorporates one-off aid for pensioners and other welfare support measures, while delaying other payouts in order to keep the cash deficit target at 6% of GDP in 2026.

Table 5.3:

Romania - Budgetary developments and projections (as % of GDP unless indicated otherwise)

| Outturn and forecast ¹⁾ | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026¹⁾ | 2027¹⁾ |
|---|-------------|-------------|-------------|-------------|-------------|-------------|--------------------------|--------------------------|
| General government balance | -9.3 | -7.2 | -6.5 | -6.6 | -9.3 | -7.9 | -6.2 | -5.8 |
| - Total revenue | 32.4 | 32.8 | 34.4 | 34.5 | 34.0 | 35.4 | 36.7 | 36.1 |
| - Total expenditure | 41.7 | 40.0 | 40.9 | 41.1 | 43.3 | 43.3 | 42.9 | 41.9 |
| of which: | | | | | | | | |
| - Interest expenditure | 1.4 | 1.5 | 1.5 | 2.0 | 2.4 | 2.8 | 3.0 | 3.0 |
| p.m.: Tax burden | 27.0 | 27.2 | 28.2 | 27.5 | 28.8 | 29.4 | 30.4 | 30.5 |
| Primary balance | -7.9 | -5.7 | -5.0 | -4.6 | -6.8 | -5.0 | -3.2 | -2.8 |
| Fiscal stance ²⁾ | -1.4 | 0.3 | -2.2 | 0.5 | -0.1 | 2.2 | 2.5 | 0.7 |
| Recommended growth in net expenditure (%) | | | | | | 2.8 | 2.6 | 4.6 |
| Growth in net expenditure (%) | | | | | | 0.5 | 1.8 | 7.5 |
| Government gross debt | 46.9 | 48.6 | 48.1 | 49.3 | 54.8 | 59.3 | 61.6 | 63.4 |
| p.m.: Real GDP growth (%) | -3.6 | 5.6 | 4.2 | 2.3 | 0.9 | 0.7 | 0.1 | 2.3 |

¹⁾ Commission's Spring 2026 Economic Forecast.

²⁾ The fiscal stance is based on the increase in net expenditure (including that financed by the EU budget) relative to medium-term potential GDP growth. A positive (negative) sign indicates a contractionary (expansionary) fiscal stance (in % of GDP). The fiscal stance profile in 2020-2023 does not include the temporary impact of COVID-19 emergency measures.

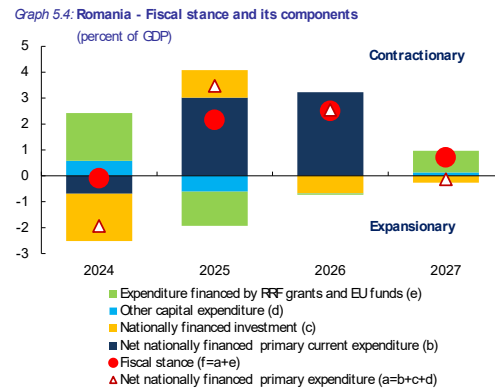
Source: European Commission.

On 4 May 2026, Romania submitted its 2026 Annual Progress Report, reporting on relevant fiscal outturn data and projections, and the implementation of reforms and investments agreed for the extension of the fiscal adjustment period to seven years and responding to the main challenges in the European Semester country-specific recommendations. The 2026 Progress Report also reflects Romania's biannual reporting on the progress made in delivering on its recovery and resilience plan in accordance with Article 27 of Regulation (EU) 2021/241. When it comes to the reforms and investments underpinning the extension of the adjustment period, the Commission found that the implementation of the key steps of these reforms and investments that were due by 30 April 2026 seemed to be broadly on track, while noting that further progress is needed in areas such as tax administration, VAT compliance, property taxation and expenditure monitoring.

Based on the Commission's 2026 Spring Economic Forecast, the general government deficit is projected to reach 6.2% of GDP in 2026, reflecting the full-year effect of the 2025 fiscal adjustment packages and additional revenue measures in 2026, alongside tighter control of current expenditure, although the pace of deficit reduction is partly limited by high public investment and rising interest costs. The general government debt-to-GDP ratio is projected to increase from 59.3% in 2025 to 61.6% in 2026, driven by the high primary deficit and high interest payments.

In spring 2026, the Commission assessed Romania's compliance risks with the recommended maximum net expenditure growth in 2026, based on outturn data for 2024 and 2025, the Commission's Spring 2026 Economic Forecast and information provided in the Annual Progress Report. Net expenditure in 2026 is projected to increase by 1.8%, below the ceiling of 2.6% recommended by the Council for 2026, and the cumulative net expenditure growth by 2026 is projected to remain within the recommended cumulative ceiling of 5.5%. At the same time, Romania's fiscal situation remains fragile as it recorded the highest budgetary deficit in the EU in 2025 and faces significant implementation risks that require a strong and persistent focus on fiscal adjustment in 2026 and subsequent years.

Based on the Commission estimates, the fiscal stance is set to remain contractionary in 2026 (2.5% of GDP), reflecting the ongoing fiscal consolidation effort. The tightening impulse comes mainly from net nationally financed primary current expenditure (3.2% of GDP). This is partly offset by nationally financed investment, which is projected to be expansionary at -0.7% of GDP. Expenditure financed by RRF grants and other EU funds is projected to be neutral in 2026.



Debt sustainability risks appear high over the medium term. Government debt is projected to increase rapidly from around 59% of GDP in 2025 to around 90% of GDP in 2036. This projection assumes that the structural primary deficit decreases from 4.7% of GDP in 2025 to 2.3% of GDP in 2026 and remains at that level (excluding changes in the cost of ageing) over the projection period ⁽⁴⁹⁾.

The sensitivity to possible macro-fiscal shocks contributes to this assessment. In particular, if the interest-rate growth differential deteriorates by 1.0 percentage point compared with the baseline, the projected debt ratio in 2036 would be around 7 percentage points higher than in the baseline.

Finally, several additional risk factors need to be considered in the assessment. On the one hand, risk-increasing factors are related to (i) the share of debt held by non-residents, (ii) the currency denomination of debt, (iii) some exposure to non-performing loans and (iv) the country's negative net international investment position, even if the latter is low if non-defaultable instruments are excluded. On the other hand, risk-mitigating factors include (i) the low share of short-term debt and (ii) low external and private debt.

Difficulties in implementing elements of the national fiscal framework remain. The Romanian Fiscal Council has a relatively broad mandate, including the monitoring of fiscal rules, assessment of macroeconomic and budgetary forecasts, and costings of the main discretionary revenues. However, it has struggled with severe recruitment problems (less than half of the 20 available positions at the secretariat have been filled) and poor policy dialogue with the government. Concerning the management of public investment, weaknesses remain regarding (i) alignment between the long-term strategy (Romania 2030) and sectoral strategies and EU-financed priorities which represent a significant part of public investment, (ii) mechanisms to support funding availability beyond the annual budget year and (iii) ex post reviews on the effectiveness and efficiency of investment projects are rare and not systematically integrated into future planning ⁽⁵⁰⁾. The amended Budgetary Framework Directive (2011/85/EU), part of the Economic Governance Review of 2024, may affect some aspects of the Romanian fiscal framework, for example because it extends the independence safeguards for independent fiscal institutions to all EU Member States and assigns some tasks to these institutions.

⁽⁴⁹⁾ This is in line with the no-fiscal-policy-change assumption as from 2027 and implies that the adjustment that Romania commits to in its medium-term plan beyond 2026 is not taken into account in the projection. For details on the methodology, see European Commission (2026), Debt Sustainability Monitor 2025, Institutional Paper 332, February 2026.

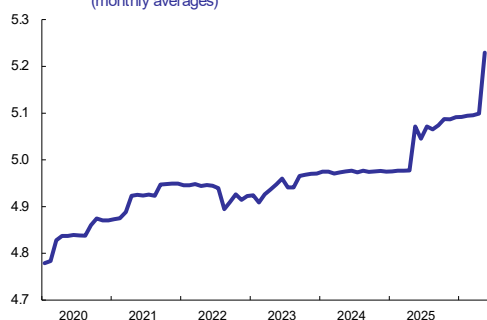
⁽⁵⁰⁾ See European Commission's 2025 Country Report on Romania.

5.4. EXCHANGE RATE STABILITY

The Romanian leu does not participate in ERM II. Romania has been operating a managed floating exchange rate regime since 1991 with no preannounced path for the exchange rate ⁽⁵¹⁾. De facto, the exchange rate regime moved gradually from a strongly managed float – including through the use of administrative measures until 1997 – to a more flexible one. In 2005, Romania shifted to a direct inflation targeting framework combined with a ‘crawl-like’ exchange rate arrangement that allows foreign exchange market interventions by the central bank. Exchange rate stability has been used by the BNR as an important mechanism to ensure financial stability and anchor inflation expectations.

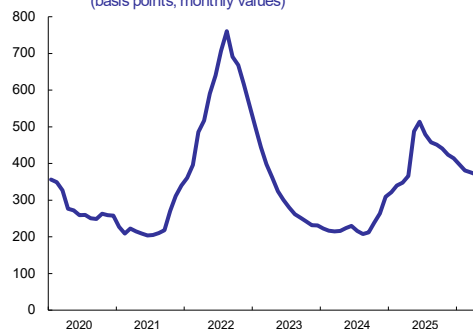
Romania’s exchange rate was relatively stable on average at 4.98 RON/EUR between January 2024 and April 2025. In May 2025, the leu weakened against the euro by nearly 2% compared to the previous month, reaching 5 RON per euro for the first time in history. This depreciation reflected capital outflow pressures amid heightened electoral uncertainty. Volatility of the leu was moderate in the second half of 2025, with the RON/EUR reaching 5.09 in December 2025. Following the vote of no confidence in the Romanian government in early-May, the leu weakened on average by around 3% compared with its value at the end of April. In May 2026, the leu’s exchange rate against the euro averaged 5.23.

Graph 5.5: Romania - RON/EUR exchange rate (monthly averages)



Source: ECB.

Graph 5.6: Romania - 3-M Robor spread to 3-M Euribor (basis points, monthly values)



Source: National Bank of Romania, Eurostat and Refinitiv Workspace.

The gross international reserves held by the BNR declined from around EUR 74 billion in the third quarter of 2024 to a low of around EUR 68 billion in the second quarter of 2025. The reserves recovered and continued to increase throughout the second half of 2025 to a high of around EUR 77 billion at the end of 2025, reaching close to 20% of GDP. Over this period, movements in the level of international reserves were influenced by changes in the foreign exchange reserve requirements of credit institutions, sovereign debt management decisions, such as euro- and US dollar-denominated government bond issuances and financing payments under the EU’s Recovery and Resilience Facility. The reserves continued to increase in the first three months of 2026, but subsided again during the recent political instability, standing at around EUR 77 billion in May 2026.

Short-term interest rate spreads vis-à-vis the euro area increased by around 300 basis points between August 2024 and June 2025, reaching a high of around 515 basis points in June 2025. This increase in the three-month interest rate spread was driven by the pause in the BNR’s policy easing as of mid-2024 compared to the monetary policy easing cycle in the

⁽⁵¹⁾ On 1 July 2005 the Romanian Leu (ROL) was replaced by the new leu (RON), with a conversion factor of 1 RON = 10,000 ROL. For convenience, however, the text of this report consistently refers to leu, meaning ROL before and RON after the conversion.

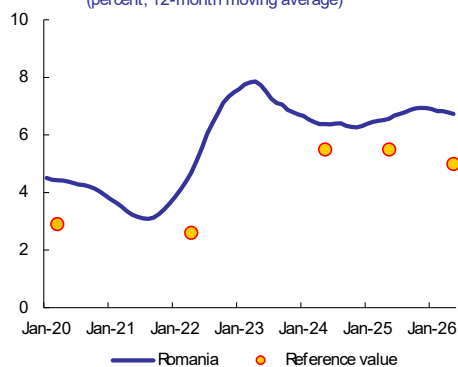
euro area. In Romania, the key policy rate was reduced from 7% in June 2024 to 6.5% by August 2024, and has remained unchanged since then, whereas the ECB’s key interest rate decreased gradually from 3.75% to 2% over the period between June 2024 and June 2025. Moreover, the rise in money market interest rates in Romania during the period of market stress in late spring 2025 also stems from the BNR’s deployment of liquidity management tools to absorb excess liquidity in the money market, leading to increased market interest rates, and to mitigate the sell-off pressures on the Romanian currency. Subsequently, the three-month spread decreased steadily during the second half of 2025 and in early 2026, reflecting improved liquidity conditions in Romania’s money market. The spread reached 362 basis points by May 2026.

5.5. LONG-TERM INTEREST RATES

The long-term interest rates in Romania used for the purpose of the convergence examination reflect secondary market yields on a single government benchmark bond with a residual maturity of around 9 years.

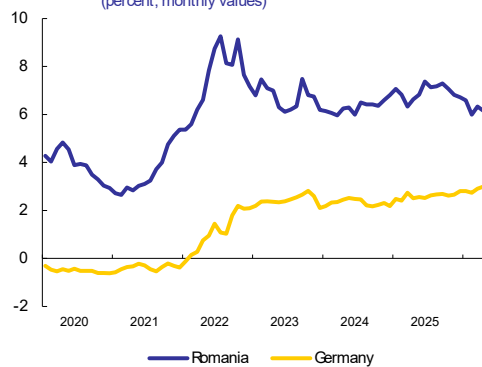
The Romanian 12-month moving average long-term interest rate relevant for the assessment of the Treaty criterion was 0.9 percentage point above the reference value at the time of the last convergence assessment of Romania in 2024. In May 2026, the reference value, which is calculated as the average of long-term interest rates in Cyprus, France and Denmark plus 2 percentage points, stood at 5.1%. In that month, the 12-month moving average of the yield on the Romanian benchmark bond was at 6.7%, i.e. 1.6 percentage points above the reference value.

Graph 5.7: Romania - Long-term interest rate criterion (percent, 12-month moving average)



Source: European Commission.

Graph 5.8: Romania - Long-term interest rates (percent, monthly values)



Source: Eurostat.

The long-term interest rate in Romania increased gradually throughout 2024, rising from 6.1% in January 2024 to 7.1% in January 2025, which was close to levels seen in 2023. It then decreased slightly in the first three months of 2025 before increasing in April back to the levels recorded at the beginning of the year and further to 7.4% in June. This increase largely reflected the increased market risk aversion in the context of a widening fiscal deficit and investors’ concerns about fiscal consolidation prospects. The 10-year interest rate for the German government bond, which is the benchmark security in European financial markets, rose by 0.3 percentage point between the beginning of 2024 and June 2025. Romania’s long-term interest rate decreased steadily during the second half of 2025, in part reflecting investors’ lower risk aversion following the government’s adoption of fiscal consolidation measures. The long-term interest rate of Romania was broadly stable during the first five months of 2026, although at 6.2% in May 2026, it remained at a relatively high level. The

long-term spread versus the German benchmark bond stood at 312 basis points in May 2026, down from 485 basis points in June 2025.

5.6. ADDITIONAL FACTORS

The Treaty (Article 140 TFEU) calls for an examination of other factors relevant to economic integration and convergence to be taken into account in the assessment. The assessment of the additional factors – including balance of payments developments, product, labour and financial market integration – gives an important indication of a Member State's ability to integrate into the euro area without difficulties.

In November 2025, the Commission published its 15th Alert Mechanism Report (AMR 2026) under the Macroeconomic Imbalance Procedure (MIP - see also Box 1.6), which concluded that an In-Depth Review (IDR) was warranted for Romania. In May 2026, the Commission published an In-Depth Review for Romania. Taking into account the assessment in the In-Depth Review, the Commission, in its Communication 'European Semester – 2026 Spring Package' ⁽⁵²⁾, considers that Romania continues to experience excessive macroeconomic imbalances. The IDR highlighted that Romania continues to face vulnerabilities related to large fiscal and external deficits, despite improvements since the second half of 2025. At the same time, wage and cost pressures have moderated, supporting cost competitiveness going forward. Romania's high government deficit has been a key driver of the large external deficits and borrowing needs. The fiscal consolidation process initiated in 2025 helps reducing Romania's vulnerabilities and should continue.

According to the Commission's analysis, Romania's fiscal and external deficits declined last year but remain large. Comprehensive fiscal measures, in particular the freeze in public sector wages and pensions and the increase in VAT and other taxes, have put the government deficit on a downward trajectory and allowed Romania to regain investor confidence. Private consumption cooled off, stifling imports and reducing the current account deficit, which was also financed by a more favourable financing mix. Real wage growth was considerably below productivity growth in 2025 while the planned minimum wage adjustment in July 2026 seems to support efforts to improve cost competitiveness. Advances in transport infrastructure projects, accession to Schengen and additional structural reforms under the RRP have supported exports and external competitiveness. Still, the general government deficit remains one of the highest in the EU, keeping borrowing costs for the sovereign elevated and Romania's sovereign credit rating just at investment grade. The bold fiscal consolidation package adopted in the summer of 2025 was a first and important step in addressing Romania's vulnerabilities, but the current policy stance needs to be maintained. In addition, structural reforms need to be continued, including via implementation of Romania's RRP, in order to improve competitiveness and potential growth.

Romania's recovery and resilience plan (RRP) includes measures to address a series of structural challenges, in synergy with other EU funds, including cohesion policy funds, to boost its competitiveness and stimulate sustainable growth and reduce the country's territorial and social disparities. The revised RRF funding envelope provides Romania with EUR 21.4 billion over the 2021-2026 period. Romania's revised plan has a reduced loan envelope (from EUR 14.9 billion to EUR 7.8 billion), due to significant delay in

⁽⁵²⁾ COM(2026) 200 final, 3.6.2026.

implementation and size of investments at risk. Romania has submitted four payment requests, resulting in an overall disbursement of about EUR 13 billion, slightly more than 60% of the total envelope, until end-June 2026. Key reforms in Romania's RRP include those in the areas of pensions, decarbonisation/coal and lignite energy production phase out, state-owned enterprises, tax administration and tax reform, and social and healthcare.

Romania still faces a significant delay and needs to speed up implementation of investments and reforms. This includes large scale investments in transport and energy, but also important reforms in public finances and wages and the energy sector. Given the hard deadline of 31 August 2026, without further acceleration, risk of partial decommitments remains non-negligible.

In addition, cohesion policy provides Romania with EUR33.7 billion for the 2021-2027 period. Cohesion policy financing aims to further support Romania's competitiveness and upward social convergence, including research, innovation, and SMEs competitiveness, the green and just transition, the modernisation of labour market institutions, the development of skills and increased quality and inclusiveness of education and training, as well as the reduction of poverty. Romania has made progress in implementing cohesion policy but challenges remain and significant territorial disparities in investment and employment persist between the capital region and the other regions, as well as between urban and non-urban areas.

5.6.1. Developments in the balance of payments

Romania's external balance (i.e. the combined current and capital account) deteriorated from close to -4.0% of GDP in 2023 to -6.7% in 2024, before improving slightly to -6.0% in 2025. The significant worsening of the external balance in 2024 was driven by a combined increase in the current account deficit by about 1.5 percentage points of GDP, while the surplus of the capital account also decreased by more than 1 percentage point of GDP. In 2025, the external balance improved mainly due to an increase in the capital account surplus thanks to better absorption of EU funds, while the current account deficit shrank marginally.

Table 5.4:

| Romania - Balance of payments | | (percentage of GDP) | | | | | |
|---------------------------------------|-------|---------------------|-------|-------|-------|-------|--|
| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | |
| Current account | -5.1 | -7.2 | -9.6 | -6.7 | -8.2 | -7.9 | |
| of which: Balance of trade in goods | -8.6 | -9.6 | -11.4 | -9.0 | -9.3 | -8.6 | |
| Balance of trade in services | 4.2 | 3.9 | 4.5 | 4.1 | 3.3 | 3.3 | |
| Primary income balance | -1.1 | -1.8 | -3.0 | -2.5 | -2.4 | -2.6 | |
| Secondary income balance | 0.4 | 0.2 | 0.4 | 0.7 | 0.2 | 0.0 | |
| Capital account | 1.9 | 1.8 | 2.1 | 2.8 | 1.5 | 1.9 | |
| External balance ¹⁾ | -3.2 | -5.4 | -7.4 | -3.9 | -6.7 | -6.0 | |
| Financial account | -3.5 | -6.0 | -6.6 | -3.1 | -5.6 | -5.9 | |
| of which: Direct investment | -1.3 | -3.7 | -3.3 | -2.0 | -1.3 | -2.0 | |
| Portfolio investment | -6.0 | -1.4 | -1.7 | -4.3 | -3.5 | -3.5 | |
| Other investment ²⁾ | 1.4 | -1.8 | -3.9 | -1.0 | -1.0 | -1.6 | |
| Change in reserves | 2.5 | 0.9 | 2.3 | 4.1 | 0.2 | 1.2 | |
| Financial account without reserves | -6.0 | -6.9 | -9.0 | -7.2 | -5.9 | -7.1 | |
| Errors and omissions | -0.3 | -0.5 | 0.8 | 0.8 | 1.1 | 0.1 | |
| Gross capital formation | 24.3 | 26.4 | 27.1 | 26.2 | 25.0 | 25.9 | |
| Gross saving | 19.2 | 19.1 | 17.4 | 19.4 | 16.6 | 17.9 | |
| Net international investment position | -48.7 | -47.3 | -42.6 | -41.6 | -41.3 | -45.1 | |

1) The combined current and capital account.

2) Including financial derivatives.

Sources: Eurostat, European Commission calculations, the National Bank of Romania.

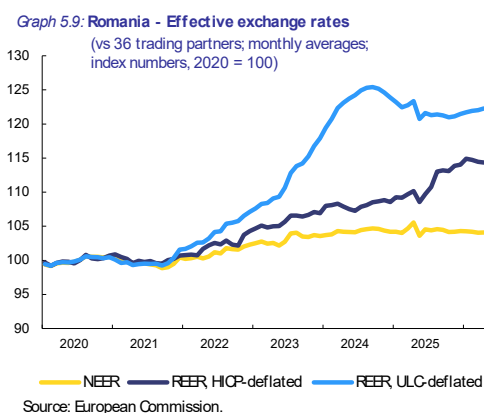
The widening of the current account deficit to 8.2% of GDP in 2024 was due primarily to a deterioration in the balance of trade of goods and services, as exports slowed down markedly because of weak external demand and unfavourable cost developments in Romania. At the same time, the negative primary income balance remained broadly flat while the surplus in the secondary income balance declined significantly due to higher remittances by foreign workers in Romania. The large current account deficit started to decline in the second half of 2025 in parallel with the strong deceleration in private consumption. It receded to around 7.9% of GDP until end-2025 amid fiscal consolidation, weaker domestic demand and robust exports. The trade deficit declined both in nominal terms and by 0.5 percentage point of GDP. At the same time, the negative primary income balance widened slightly due to higher outflows of FDI income and higher interest paid on external public debt.

After deteriorating in 2024, the financing mix of the external deficit became more favourable in 2025. In 2025, about half of the current account financing needs were covered by non-debt creating instruments, such as EU funds and net FDI, after this share had dropped to less than a third in 2024. Net FDI increased by about 60% from 1.4% of GDP in 2024 to 2.1% of GDP in 2025. Net portfolio inflows remained large at about 3.5% of GDP in both 2024 and 2025, as the large government deficit was increasingly financed from external sources.

Foreign reserves increased by close to EUR 5 billion to a record high EUR 77 billion or 20% of GDP by end-2025, despite large fluctuations during the year triggered by exchange rate interventions following political instability at the time of presidential elections in May 2025 and weak fiscal fundamentals. Romania's net international investment position (NIIP) increased by almost 4 percentage points to about -45% of GDP at end-2025, with valuation effects and strong growth in nominal GDP partly offsetting the effect of large deficits of the external balance. The NIIP excluding non-defaultable instruments (NENDI), which takes into

account Romania's large stock of net FDI, bolstering Romania's economic convergence with the euro area, remained low at about -12% of GDP in 2025.

Romania's external cost competitiveness continued to deteriorate in 2024 following the pre-electoral robust wage growth. The freeze in public sector wages and overall moderation of wage growth in a softer labour market curbed this negative trend in 2025. The appreciation of the HICP-based REER continued in 2024 and 2025, by 2% and 3% respectively, mainly as inflation in Romania was significantly above that of the euro area. The ULC-deflated real effective exchange rate (REER), recorded a large appreciation by around 10% in 2024 due to wage dynamics and negative labour productivity growth, but remained broadly flat in 2025 when wage growth moderated. At the same time, Romania's export market share (measured at current prices) decreased in 2024.



According to the Commission's Spring 2026 Economic Forecast, the current account deficit is expected to decline steadily, subject to continued firm fiscal consolidation and moderation of domestic demand, until reaching a still relatively high level of 6.4% of GDP in 2027. At the same time, an accelerated implementation of RRP investments upon completion of the plan, the continuation of the ascending trend of net FDI inflows and the expected decline in the current account deficit are likely to lead to a further improvement of the financing mix in 2026.

5.6.2. Market integration

Romania's economy is well-integrated with the euro area through trade and investment linkages. The degree of trade openness (see Table 5.5 for a definition) decreased somewhat in 2024, from around 44% of GDP in 2023 to 40% of GDP in 2025. This reflected weak domestic demand from the main trading partners, declining industrial output and a significant deceleration in domestic demand affecting imports. In 2025, Romania's main trading partners within the euro area were Germany, Italy, France and Bulgaria, while outside the euro area Romania mainly traded with Hungary, Poland and Türkiye. Trade with the euro area also decreased from around 26% of GDP in 2023 to 23% of GDP in 2025.

Since it joined the European Union, Romania has attracted substantial amounts of FDI. The total stock of inward FDI reached EUR 125 billion or 35% of GDP in 2024, up by 6% from 2023 ⁽⁵³⁾. About 37% of the total was invested in industry, mainly in manufacturing and around 17% in both construction and real estate transactions and in trade. More than 86% of the FDI stock originated in the EU, primarily from euro area Member States, such as the Netherlands, Germany, Austria and France.

Romania under-performs in international rankings of competitiveness relative to many euro area Member States, and its position has slightly worsened in the past two years, as partly reflected also in the subdued economic growth. Romania has moved down from the 48th place in 2023 to the 50th in 2024 and the 49th in 2025 from a total of 64 surveyed

⁽⁵³⁾ National Bank of Romania (2025), report on Foreign Direct Investment in Romania in 2024.

economies in the IMD's World Competitiveness Index. A patchy and unpredictable legal, regulatory and tax framework, an inefficient public procurement, poor infrastructure and weak public administration capacity, and, at times, ineffective corporate governance of state-owned enterprises, are some of the main obstacles to investment and productivity growth. According to the World Bank's 2024 Worldwide Governance Indicators, Romania ranks below the average of the euro area Member States for the six dimensions covered by the database. For two dimensions, voice and accountability and control of corruption, it ranks below the average of the five euro area Member States with the lowest scores ⁽⁵⁴⁾. However, as documented hereafter, some progress has been made since 2024 in the area of corruption. According to the 2026 Country Report, Romania has a formal framework to develop quality legislation, but there is scope for further improvement. Shortcomings persist in practice for public consultations, which remain often formalistic. Although the perception of corruption when doing business in Romania remains very high, the reported level of experienced corruption is only slightly above the EU average. Romania has made significant progress in strengthening its integrity framework. Furthermore, the authorities maintain a positive track record in combating corruption, including in high-level corruption cases. The justice system performs well in terms of efficiency while the quality of the justice system is average ⁽⁵⁵⁾. On the other hand, according to the 2025 Single Market Scoreboard, Romania's transposition deficit of EU Directives went up again from 0.2% in 2023, to 0.8% in 2024 and 1% in 2025, very close to the EU average, but above the target (0.5%) proposed by the European Commission in the Single Market Act (2011).

Table 5.5:
Romania - Market integration

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|-------|-------|-------|------|------|------|
| Trade openness ¹⁾ (%) | 41.0 | 45.1 | 49.3 | 43.9 | 40.5 | 39.7 |
| Trade with euro area in goods & services ²⁾⁺³⁾ (%) | 24.4 | 26.5 | 28.1 | 25.7 | 23.5 | 23.0 |
| IMD World Competitiveness Ranking ⁴⁾ | 51 | 48 | 51 | 48 | 50 | 49 |
| Internal Market Transposition Deficit ⁵⁾ (%) | 1.1 | 2.9 | 0.3 | 0.2 | 0.8 | 1.0 |
| Real house price index ⁶⁾ | 111.0 | 110.7 | 104.2 | 98.7 | 97.5 | 95.8 |

1) (Imports + Exports of goods and services / (2 x GDP at current market prices)) x 100 (Foreign Trade Statistics, Balance of Payments).

2) (Imports + Exports of goods with EA-21 / (2 x GDP at current market prices)) x 100 (Foreign Trade Statistics).

3) Trade in services with EA-21 (average credit and debit in % of GDP at current prices) (Balance of Payments).

4) International Institute for Management Development (IMD).

5) Percentage of internal market directives not yet communicated as having been transposed, relative to the total.

6) Deflated house price index (2015=100) (Eurostat).

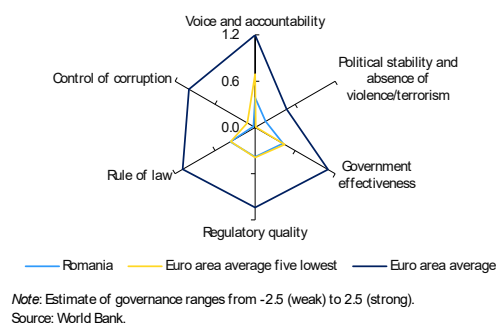
Sources: Eurostat, World Bank, International Institute for Management Development, European Commission calculations.

⁽⁵⁴⁾ A Member State is considered to have a 'low' ('high') ranking compared with the average five euro area Member States with the lowest scores for each indicator if its score is at least 0.3 percentage point lower (higher) than that of the average of this group of five euro area Member States.

⁽⁵⁵⁾ European Commission (2026), 2026 Country Report on Romania, pp. 73-78. See also Annual Rule of Law Report, country chapter on Romania.

As part of the 2026 Country Report, the Commission has identified several obstacles undermining Romania's business environment and competitiveness, among which labour and skills shortages and mismatches, over-regulation and volatile tax and regulatory environment, weak administrative capacity and insufficient competition in public procurement, still limited access to finance for SMEs, gaps in transport infrastructure and low levels of digitalisation and innovation.

Graph 5.10: Romania - World Bank's 2024 Worldwide Governance Indicators



In its June 2025 follow-up report, Moneyval concluded that Romania has taken several steps to enhance its measures to counter money laundering, terrorist financing and the financing of proliferation of weapons of mass destruction, including regarding targeted financial sanctions, but still needs to address several moderate shortcomings.

Romania has completed the transposition of the 4th and the 5th Anti-Money Laundering Directive. As regards the conformity of the transposition, the Commission sent two letters of formal notice concerning the transposition of different provisions related to beneficial ownership registers. One infringement procedure is still pending.

The Romanian labour market continues to face significant challenges. Aging population, continued emigration and low intra-country labour mobility are reducing the labour supply, with some support from increasing inflows of foreign workers. Employment and activity rates have risen in recent years but started receding again in 2025 due to the economic slowdown. They remain below EU averages, not least because of a high number of people engaged in subsistence agriculture or working cross border. Labour and skills shortages and job mismatches remain a pressing challenge for the labour market. High minimum wage increases above inflation and productivity growth which fuelled overall wage growth over the past three years, with adverse consequences for inflation persistence and external competitiveness, have moderated in 2026. Under the Romanian recovery and resilience plan, a new mechanism for setting the minimum wage on objective criteria, consistent with job creation and competitiveness, was adopted.

Table 5.6:
Romania - Allocation of assets by financial sub-sector

| | RO | | EA | | Ratio to GDP (%) EA 5 smallest | |
|--|--------------------------------|------|------|------|-----------------------------------|------|
| | 2020 | 2024 | 2020 | 2024 | 2020 | 2024 |
| | Financial corporations (total) | 96 | 94 | 806 | 707 | 199 |
| Central bank | 21 | 20 | 77 | 51 | 61 | 44 |
| Monetary financial institutions | 54 | 51 | 308 | 275 | 93 | 93 |
| Other financial intermediaries | 7 | 8 | 195 | 177 | 20 | 15 |
| Non-MMF investment funds ¹⁾ | 4 | 3 | 125 | 125 | 4 | 6 |
| Insurance co. and Pension Funds | 10 | 11 | 102 | 80 | 22 | 23 |

| | RO | | EA | | Share of total (%) EA 5 smallest | |
|---------------------------------|--------------|------|------|------|-------------------------------------|------|
| | 2020 | 2024 | 2020 | 2024 | 2020 | 2024 |
| | Central bank | 22 | 22 | 10 | 7 | 30 |
| Monetary financial institutions | 56 | 54 | 38 | 39 | 47 | 52 |
| Other financial intermediaries | 8 | 9 | 24 | 25 | 10 | 8 |
| Non-MMF investment funds | 4 | 3 | 15 | 18 | 2 | 3 |
| Insurance co. and Pension Funds | 10 | 12 | 13 | 11 | 11 | 13 |

¹⁾ MMF stands for money market funds.

Source: Eurostat.

The financial sector in Romania is smaller and less developed than in the euro area. The size of assets managed by the financial sector stood at 94% of GDP in 2024, which is much less than in the euro area (707% of GDP) and less than the average of the five euro area Member States with the smallest financial sectors. The size of the financial sector has remained broadly unchanged since 2020 while it has decreased in the euro area. Banking dominates the Romanian financial sector and made up 54% of the financial sector's assets in 2024. The central bank is the second largest holder of financial assets with a share of 22% in 2024. These shares of financial assets held by banks and the central bank are larger than in the euro area but relatively similar to those of the five euro area Member States with the smallest financial sectors. They mostly reflect the relative underdevelopment of non-bank financial intermediaries and investment funds compared to the euro area. Relative to GDP, the insurance and the pension-fund sector in Romania is around seven-times smaller than in the euro area. However, the sector's share of the total financial sector assets stood at 12% in 2024, which is close to that of the euro area.

As to the financing of the economy, outstanding liabilities are much lower in Romania than in the euro area (207% of GDP in 2022 vis-à-vis 722% of GDP in the euro area) and than in the euro area Member States with the smallest financing needs. Like in the euro area, loans are the dominant source of funding. They amounted to 27% of total liabilities in 2024. Trade credits and advances play an important role in the financing of the economy (17% of outstanding liabilities in 2024). Romania has less developed bond and equity markets than the euro area and market financing (debt securities and listed shares) is much less developed. Financing through debt securities by corporations is practically inexistent, while equity markets are very small compared to those of the euro area. Equity and corporate debt securities markets represented 7% of liabilities in 2024 (15% of GDP). This compares to 19% of liabilities in the euro area (73% of GDP for private-sector debt and 64% of GDP for listed stocks). However, Romania is still comparable to the five euro area Member States

with the smallest financial needs. The government bond market is smaller than in the euro area, reflecting the smaller debt-to-GDP ratio in the country, but similar to that of five euro area Member States with the smallest financial needs.

Table 5.7:

Romania - Financing of the economy¹⁾

| | RO | | EA | | Ratio to GDP (%) | |
|-----------------------------------|------|------|------|------|------------------|------|
| | | | | | EA 5 smallest | |
| | 2020 | 2024 | 2020 | 2024 | 2020 | 2024 |
| Liabilities (total) | 218 | 207 | 813 | 722 | 325 | 305 |
| Loans | 60 | 55 | 251 | 215 | 103 | 92 |
| Non-financial co. debt securities | 0 | 0 | 15 | 12 | 3 | 2 |
| Financial co. debt securities | 0 | 2 | 68 | 61 | 3 | 5 |
| Government debt securities | 44 | 43 | 94 | 72 | 49 | 43 |
| Listed shares | 9 | 13 | 71 | 64 | 8 | 12 |
| Unlisted shares | 29 | 20 | 196 | 187 | 65 | 54 |
| Other equity | 35 | 38 | 82 | 76 | 58 | 64 |
| Trade credits and advances | 41 | 36 | 36 | 36 | 36 | 33 |

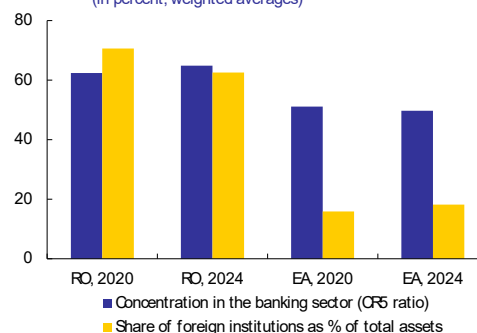
| | RO | | EA | | Share of total (%) | |
|-----------------------------------|------|------|------|------|--------------------|------|
| | | | | | EA 5 smallest | |
| | 2020 | 2024 | 2020 | 2024 | 2020 | 2024 |
| Loans | 28 | 27 | 31 | 30 | 32 | 30 |
| Non-financial co. debt securities | 0 | 0 | 2 | 2 | 1 | 1 |
| Financial co. debt securities | 0 | 1 | 8 | 8 | 1 | 2 |
| Government debt securities | 20 | 21 | 12 | 10 | 15 | 14 |
| Listed shares | 4 | 6 | 9 | 9 | 2 | 4 |
| Unlisted shares | 13 | 10 | 24 | 26 | 20 | 19 |
| Other equity | 16 | 18 | 10 | 11 | 17 | 20 |
| Trade credits and advances | 19 | 17 | 4 | 5 | 10 | 11 |

¹⁾ The table focuses on the financing needs of a country and how these are met by the financial system. The table is constructed from the liabilities of all economic sectors, but only considers loans, debt securities, equity and trade credits. The sum of liabilities in the table only reflects the total for the liabilities considered.

Source: Eurostat.

Romania's banking sector is well integrated with the euro area's financial sector, in particular through a high level of foreign ownership in its banking system. Foreign-owned banks, the majority of which are subsidiaries of parent banks based in the euro area, had a share of assets in the total held by the Romanian banking sector of 63% in 2024, well above the euro area average of nearly 18%. Bank concentration, as measured by the market share of the five largest credit institutions in total assets, has increased by 3 percentage points since 2020, and stood at 65% in 2024. This is around 15 percentage points above the euro area average in 2024.

Graph 5.11: Romania - Foreign ownership and concentration in the banking sector (in percent, weighted averages)



Source: ECB, Structural financial indicators.

6. SWEDEN

6.1. LEGAL COMPATIBILITY

6.1.1. Introduction

The Swedish Central Bank (Riksbank) is governed by the Law on the Sveriges Riksbank⁽⁵⁶⁾ which entered into force on 1 January 2023 (the 'Riksbank Act') and repealed the Riksbank Act from 1988, as amended. The Riksbank Act has been amended⁽⁵⁷⁾ since the Commission's 2024 Convergence Report. However, incompatibilities and imperfections still remain. Therefore, the comments provided in the 2024 Convergence Report remain relevant and are largely repeated in this year's assessment. The Law on Exchange Rate Policy⁽⁵⁸⁾ and the Instrument of Government⁽⁵⁹⁾ which form part of the Swedish Constitution, are also relevant for the assessment of the Riksbank, and have not been amended since 2024.

6.1.2. Central bank independence

Pursuant to Article 6 of Chapter 8 of the Riksbank Act, the Swedish Parliament adopts the balance sheet and the profit and loss account and approves the General Council's decision on the allocation of the central bank's profit. The Swedish Parliament may refuse to approve a decision only if it is contrary to Chapter 8 of the Riksbank Act. If approval is refused, the Council shall take a new decision. This practice impinges on the financial independence of the Riksbank and is incompatible with Article 130 TFEU. The Parliament must not be involved in the relevant decision-making process of the Riksbank.

Article 3 of Chapter 2 of the Riksbank Act provides that the central bank shall decide on the specification of the price stability target, after approval by the Swedish Parliament. The Parliament's right to approve any decision taken by the central bank on the design of the price stability objective is incompatible with the prohibition on giving instructions to the central bank as set out in Article 130 TFEU and Article 7 of the ESCB/ECB Statute.

Article 1(2) of Chapter 6 of the Riksbank Act states that the Riksbank shall base its international activities on the overall positions of the Government and the Riksdag in various policy areas. The right of third parties to influence the Riksbank's decisions is not compatible with Article 130 TFEU and Article 7 of the ESCB/ECB Statute.

Article 3 of Chapter 10 states that if the foreign reserves have been called upon for financial stability measures, the Riksbank may decide on borrowing in foreign currency for the purpose of restoring the reserve. These provisions may affect the financial independence of the Riksbank, as the Riksbank should be able to increase its foreign reserves whenever necessary in pursuing its foreign exchange, monetary and liquidity policies.

The Commission noted in the 2024 Convergence Report the provisions on restoration of equity introduced in the Riksbank Act, which have been further amended since that date. According to Article 15 of Chapter 8, if the sum of the equity and unrealised gains on revaluation accounts, with the exception of the account relating to gold, is less than one third of the target level, the Riksbank may submit a request to the Swedish Parliament to restore equity. The request shall relate to an amount which means that the sum of the equity

⁽⁵⁶⁾ SFS 2022:1568.

⁽⁵⁷⁾ SFS 2023:214, SFS 2024:371, SFS 2024:1372, SFS 2025:1024.

⁽⁵⁸⁾ SFS 1998: 1404.

⁽⁵⁹⁾ SFS 1974: 152.

and unrealised gains in revaluation accounts, except for the account relating to gold, is restored to a level corresponding to the basic level of equity. If this is necessary to ensure the Riksbank's ability to provide long-term self-financing, the proposal may refer to an amount that means that the sum of the equity and unrealised gains in revaluation accounts, excluding the account relating to gold, amounts to an amount corresponding to the target level.

These provisions aim to safeguard the financial independence of the central bank which also implies that Riksbank should always be sufficiently capitalised in order to avoid any situations which may negatively impact the central bank's ability to perform its ESCB-related tasks but also its national tasks.

6.1.3. Prohibition of monetary financing and privileged access

Article 6 of Chapter 1 of the Riksbank Act provides that the Riksbank may not extend credit or purchase debt instruments directly from: 1) the State, municipalities, regions or associations of municipalities or legal persons over which the State, regions, municipalities, or associations of municipalities, separately or jointly, have a direct or indirect legal determination; or 2) institutions, bodies, offices or agencies of the European Union, which are not central banks. Article 6 of Chapter 1 of the Riksbank Act does not enumerate the entities covered by the prohibition of monetary financing correctly, therefore, it is incompatible with the wording of Article 123(1) TFEU and 21(1) of the ESCB/ECB Statute.

Article 6 of Chapter 1 of the Riksbank Act provides that the Riksbank may grant credit to or purchase debt instruments directly from publicly owned credit institutions under the same conditions as applied to other credit institutions under the law. For the sake of legal certainty, it should be added that, in the context of the supply of reserves by central banks, these publicly owned credit institutions should be given the same treatment as private credit institutions.

According to Article 4 of Chapter 8 of the Riksbank Act, the General Council shall decide on the allocation of the profits of the year. Pursuant to Article 6 of Chapter 8 of the Riksbank Act, the Swedish Parliament shall adopt the balance sheet and profit and loss account and approves the Council's decision on the allocation of the central bank's profit. The Swedish Parliament may refuse to approve a decision only if it is contrary to Chapter 8 of the Riksbank Act. If approval is refused, the Council shall take a new decision. The Act should ensure that the reserve capital of Riksbank is left unaffected in any case and that the actual contribution to the State budget does not exceed the amount of the net distributable profit.

Pursuant to Article 4 first paragraph point 5 of Chapter 2 of the Riksbank Act, the Riksbank may, in relation to financial undertakings, buy and sell Swedish sovereign debt. Pursuant to Article 5 point 3 of Chapter 2 of the Riksbank Act, the Riksbank may, if there are exceptional reasons, buy and sell financial instruments other than sovereign debt referred to in Article 4 first paragraph point 5 of Chapter 2. The restriction on Riksbank's ability to purchase and sell financial instruments other than Swedish sovereign debt instruments is incompatible with the prohibition of privileged access under Article 124 TFEU. Article 124 prohibits any measure, not based on prudential considerations, establishing privileged access by, inter alia, central governments to financial institutions. Under Article 1(1) of Council Regulation (EC) No 3604/93, privileged access is understood as any law, regulation or other binding legal instrument adopted in the exercise of public authority which, inter alia, obliges financial institutions to acquire or to hold liabilities of, inter alia, central governments, or confers financial advantages that do not comply with the principles of a market economy, in order to encourage those institutions to acquire or hold such liabilities. Thus, as public

authorities, national central banks may not take measures granting privileged access to financial institutions by the public sector if such measures are not based on prudential considerations. Article 2 of Regulation (EC) No 3604/93 defines 'prudential considerations' as those which underlie national laws, regulations or administrative actions based on, or consistent with, Union law and designed to promote the soundness of financial institutions so as to strengthen the stability of the financial system as a whole and the protection of the customers of those institutions. As the restriction on Sveriges Riksbank's ability to purchase and sell financial instruments other than Swedish sovereign debt instruments is not based on prudential considerations within the meaning of Article 124 TFEU, the restriction on Sveriges Riksbank's ability to purchase and sell financial instruments other than Swedish sovereign debt instruments is incompatible with the prohibition on privileged access under Article 124 TFEU.

6.1.4. Integration into the Eurosystem

Objectives

Chapter 2, Article 1 of the Riksbank Act should include a reference to the secondary objective of the ESCB to support the general economic policies in the Union in line with Article 127(1) TFEU.

Tasks

The incompatibilities with regard to the ESCB/ECB tasks are as follows:

- absence of a general reference to the Riksbank subordination to the ECB's legal acts (Chapter 1, Article 4 of the Act and Chapter 9, Article 13 of Chapter 9 of the Instrument of Government);
- definition of monetary policy and monetary functions, operations and instruments of the ESCB (Chapter 2 of the Act; Chapter 9, Article 13 of Chapter 9 of the Instrument of Government);
- conduct of foreign exchange operations and the definition of foreign exchange policy (Chapter 2, Article 2 of the Act); Articles 1 to 4 of the Law on Exchange Rate Policy of 1998);
- right to authorise the issue of banknotes and the volume of coins and definition of the monetary unit (Chapter 4 of the Act; Chapter 9, Article 14 of Chapter 9 of the Instrument of Government);
- ECB's right to impose sanctions.

There are furthermore some imperfections regarding the:

- non-recognition of the role of the ECB and of the EU in the collection of statistics (Chapter 1, Article 11 of the Act);
- non-recognition of the role of the ECB in the functioning of payment systems (Chapter 3 of the Act);
- non-recognition of the role of the ECB and of the Council in the appointment of an external auditor;
- non-recognition of the role of the ECB in the field of international cooperation (Chapter 6 of the Act).

6.1.5. Assessment of compatibility

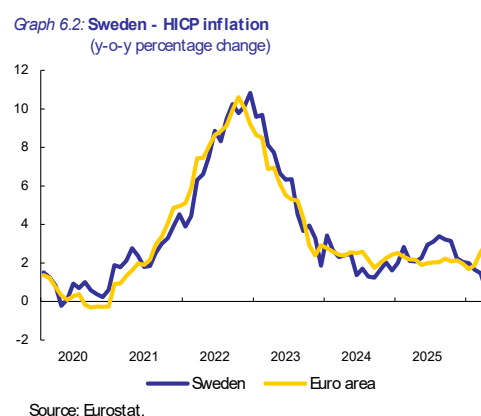
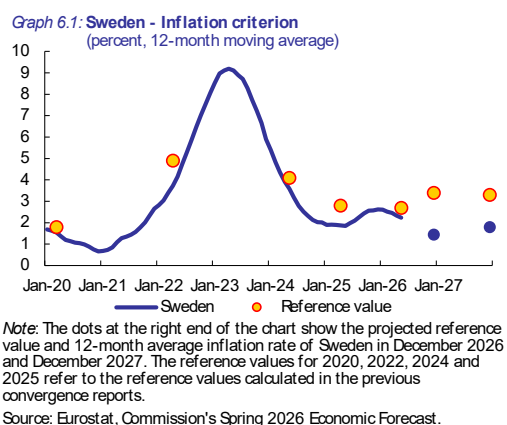
As regards independence of the central bank, the prohibition of monetary financing, privileged access and integration into the Eurosystem, the legislation in Sweden, in particular the Riksbank Act, the Instrument of Government as part of the Swedish Constitution and the Law on Exchange Rate Policy, is not fully compatible with the requirements of Article 131 TFEU for the reasons set out above.

The Swedish authorities should remedy the above-mentioned incompatibilities and imperfections.

6.2. PRICE STABILITY

6.2.1. Respect of reference value

The 12-month average inflation rate, which is used for the convergence assessment, was 0.5 percentage point below the reference value at the time of the last convergence assessment of Sweden in 2024. In May 2026, the reference value was 2.7%, calculated as the average of the 12-month inflation rates in France, Cyprus and Denmark plus 1.5 percentage points. The corresponding inflation rate in Sweden was 2.2%, which was 0.5 percentage point below the reference value. The 12-month average inflation rate is projected to decline by the end of 2026 before increasing somewhat in 2027, but to remain below the reference value in both years.



6.2.2. Recent inflation developments

HICP inflation in Sweden started to decrease from its year-on-year peak of 10.8% in December 2022 as both the impact of the sharp rise in energy prices in the wake of Russia's full-scale invasion of Ukraine and of supply bottlenecks faded. Lower energy prices, base effects and moderate wage increases as agreed by social partners further helped disinflation in the following two years, even as the nominal exchange rate weakened until the summer of 2023.

Table 6.1:
Sweden - Components of inflation

| | (percentage change) ¹⁾ | | | | | | | weights |
|--|-----------------------------------|------|------|-------|------|------|--------|----------|
| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | May-26 | in total |
| HICP | 0.7 | 2.7 | 8.1 | 5.9 | 2.0 | 2.6 | 2.2 | 1000 |
| Non-energy industrial goods | 1.0 | 1.0 | 5.6 | 7.4 | 0.8 | 0.2 | -0.3 | 288 |
| Energy | -8.8 | 15.3 | 31.4 | -11.3 | -8.5 | 1.6 | 7.0 | 77 |
| Unprocessed food | 2.4 | -0.7 | 12.5 | 12.7 | -1.3 | 1.1 | 1.2 | 37 |
| Processed food | 1.9 | 1.1 | 8.8 | 11.0 | 2.9 | 4.5 | 2.1 | 160 |
| Services | 1.8 | 2.5 | 4.1 | 5.7 | 4.9 | 3.8 | 3.2 | 438 |
| HICP excl. energy, food, alcohol and tobacco | 1.4 | 1.8 | 4.7 | 6.5 | 3.2 | 2.4 | 1.8 | 726 |
| HICP at constant tax rates | 0.6 | 2.6 | 8.2 | 5.8 | 1.9 | 2.7 | 2.5 | 1000 |
| Administered prices HICP | 2.4 | 1.7 | 2.4 | 4.5 | 6.0 | 4.9 | 4.0 | 149 |

1) Measured by the arithmetic average of the latest 12-monthly indices relative to the arithmetic average of the 12-monthly indices in the previous period.
Source: Eurostat, European Commission calculations.

Headline HICP inflation rates fell from 8.1% on average in 2022 to 2.0% in 2024. It was higher in 2025 at 2.6%, on the back of somewhat stronger food and energy prices. Food price increases registered double digit growth figures in 2023 before decelerating strongly in 2024 and picking up somewhat in 2025. Services inflation only moderated gradually from its 2023 peak and remained relatively elevated at 4.9% on average in 2024 and 3.8% in 2025. This contrasted with the pronounced easing of price increases in the non-energy industrial goods component, which reached 0.2% y-o-y in 2025. In the first quarter of 2026, HICP inflation decreased to 1.7%, with a marked increase in energy prices more than offset by falling non-energy industrial goods prices and a deceleration in services inflation⁽⁶⁰⁾. In January and February electricity accounted for the largest part of the rise in energy prices, partly reflecting a cold winter. By contrast, liquid fuel price increases in response to the conflict in the Middle East pushed up energy prices in March 2026. However, time-limited excise reductions on liquid fuels pushed down energy prices from May 2026 but downward impact is set to reverse when these reductions expire in late 2026. While exhibiting noticeable within-year dynamics in 2024 and 2025, inflation in Sweden was on average broadly in line with that of the euro area.

Following the increase in headline inflation with a lag and with an overall more muted profile, HICP inflation excluding energy, food, alcohol and tobacco had peaked at 6.5% in 2023 and then gradually declined to 2.4% in 2025. Compared with the euro area, underlying labour costs were more moderate, in line with multi-annual wage agreements. Firms also absorbed part of the cost increases caused by supply chain disruptions and exchange rate developments in their margins, dampening their impact on final consumer prices. In 2025, import prices fell stronger than in the euro area, in line with a strengthening exchange rate.

From the peak in inflation at the end of 2022, the HICP's energy and unprocessed food components exhibited strong initial downswings, along with noticeable volatility, followed by firming prices at the end of 2025. By contrast, other inflation components showed a more consistent moderating trend, which was most accentuated for non-energy industrial goods. The progressive disinflation reflected the fading impact of globally induced demand and supply shocks and their complex interactions affecting Swedish supply chains and consumption patterns. The unwinding of the direct effects of Russia's full-scale invasion of Ukraine, notably affecting energy markets and associated supply bottlenecks was followed by heightened global trade tensions and geopolitical uncertainty in the course of 2025. These affected not only trade patterns and prices, but also dampened economic activity in

⁽⁶⁰⁾ Comparisons of data on HICP special aggregates for 2025 with previous years should be interpreted with caution due to methodological changes resulting from the implementation of version 2 of the European classification of individual consumption according to purpose (ECOICOP).

Sweden, notably through effects on confidence and disposable income and profits, particularly affecting private consumption growth. Over the latter part of the period in focus, the lagged impact of the strengthening of the effective exchange rate of the krona from 2024 helped dampen price increases for imported goods and services, even as the pass-through of the exchange rate to consumer prices is estimated to have normalised after inflation peaked. In the period from January to May 2026, HICP inflation fell. This reflects the combined impact of movements in opposite directions for some of the main components of the consumption basket with higher energy prices, mainly for electricity, pushing up inflation and the lower rate of VAT on food along with temporarily reduced taxes on liquid fuels having had a downward impact from April 2026. In addition, services inflation remained moderate, reflecting weak underlying inflationary pressures.

6.2.3. Underlying factors and sustainability of inflation

Macroeconomic policy mix and growth developments

In 2024 real GDP growth in Sweden was weak, at 1%. This reflected, apart from global factors, the impact of previous high inflation and increases in interest rates. The latter had an important effect as the Swedish economy is much more sensitive to interest rates than most EU countries in view of high private debt levels and the short average interest rate fixation period of loans. As interest rates and inflation started to come down, global uncertainty held back spending by Swedish households and businesses as an incipient recovery began to take shape in the course of 2025. GDP growth for 2025 averaged 1.5%. For 2026 an economic recovery is expected to be led by domestic demand. Real household disposable income is set to benefit from tax reductions and lower indirect taxes on food, gains in real wages and the lagged impact of previous falls in interest rates. Gross fixed capital formation is also expected to contribute to the upturn, given increases in public investment, including capital outlays on defence, while the previous drag from housing construction is due to bottom out. The conflict in the Middle East, however, is set to dampen the pace of the recovery. This partly reflects the negative impact on household disposable income and profits of import price increases, especially for commodities, as well as on financing costs. Against a backdrop of business and consumer confidence being negatively affected as well, which is set to weigh on private consumption and investment, economic growth is expected to reach 1.8% in 2026. In 2027, a progressive normalisation of economic conditions is projected to result in real GDP growth of 2.2%. The labour market has remained broadly resilient despite sluggish economic activity in the past few years. Employment is set to gradually recover as the unemployment rate is expected to fall from a peak of 8.8% in 2025 to slightly below 8% in 2027.

The fiscal stance was expansionary in 2024, chiefly on account of other capital expenditure. It turned slightly contractionary in 2025⁽⁶¹⁾ but is expected to turn strongly expansionary again in 2026, on account of strong expenditure increases, including on defence, and substantial reductions in VAT and income taxes. In 2027, the fiscal stance is expected to be mildly contractionary on the assumption of no policy changes.

⁽⁶¹⁾ The fiscal stance is measured as the change in general government primary expenditure, net of the incremental budgetary impact of discretionary revenue measures, excluding one-off and cyclical unemployment expenditure, but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to medium-term (10-year) average potential GDP growth rate. A negative (positive) sign of the indicator corresponds to an expansionary (contractionary) fiscal policy stance.

Table 6.2:
Sweden - Other inflation and cost indicators¹⁾ (annual percentage change)

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 ²⁾ | 2027 ²⁾ |
|--|------|------|------|------|------|------|--------------------|--------------------|
| HICP inflation | | | | | | | | |
| Sweden | 0.7 | 2.7 | 8.1 | 5.9 | 2.0 | 2.6 | 1.5 | 1.8 |
| Euro area | 0.3 | 2.6 | 8.4 | 5.5 | 2.4 | 2.1 | 3.0 | 2.3 |
| Private consumption deflator | | | | | | | | |
| Sweden | 0.8 | 2.2 | 6.7 | 6.7 | 2.6 | 2.7 | 1.5 | 1.8 |
| Euro area | 0.6 | 2.4 | 6.8 | 6.3 | 2.4 | 2.0 | 2.9 | 2.4 |
| Nominal compensation per employee | | | | | | | | |
| Sweden | 2.5 | 4.9 | 2.0 | 5.3 | 5.2 | 1.7 | 3.4 | 3.7 |
| Euro area | -0.4 | 4.4 | 4.6 | 5.3 | 4.5 | 3.9 | 3.2 | 3.2 |
| Labour productivity | | | | | | | | |
| Sweden | -0.7 | 3.9 | -2.2 | -1.4 | 1.3 | 1.7 | 1.2 | 1.3 |
| Euro area | -4.6 | 4.8 | 1.3 | -1.1 | 0.0 | 0.7 | 0.5 | 0.8 |
| Nominal unit labour costs | | | | | | | | |
| Sweden | 3.1 | 0.9 | 4.3 | 6.8 | 3.8 | 0.0 | 2.2 | 2.4 |
| Euro area | 4.5 | -0.4 | 3.3 | 6.5 | 4.6 | 3.2 | 2.7 | 2.3 |
| Imports of goods deflator | | | | | | | | |
| Sweden | -5.4 | 5.1 | 23.7 | 4.4 | -1.5 | -3.6 | 0.9 | 0.7 |
| Euro area | -3.9 | 9.7 | 22.0 | -4.1 | -1.8 | -1.0 | 3.7 | 0.5 |

¹⁾ The figures for the euro area refer to the euro area with 21 Member States.
²⁾ Commission's Spring 2026 Economic Forecast.
Source: Eurostat, Commission's Spring 2026 Economic Forecast.

Monetary policy, conducted within an inflation targeting framework ⁽⁶²⁾, eased markedly in recent years. Since May 2022, the Riksbank has lowered its main policy rate in eight steps, from 4% to 1.75% as of October 2025 as inflation trended lower and inflation expectations remained anchored. At its latest meeting on 16 June 2026, the Executive Board decided to leave the policy interest rate unchanged at 1.75%. Furthermore, the Riksbank started normalising its balance sheet by reducing the stock of securities it accumulated over 2015-2022 as part of its monetary policy easing. From April 2023, the Riksbank started to sell government bonds. In June 2023 and February 2024, the Riksbank decided to increase the pace of bond sales with a view to enable well-functioning markets and lower financial risk for the central bank balance sheet without prejudice to reaching the inflation target. Overall, the central bank's securities holdings decreased from a peak of SEK 1012 billion (17.4% of GDP) in Q1 2022 to SEK 216 billion in January 2026. In accordance with the updated central bank law, the Riksbank received a capital injection in 2024 amounting to SEK 35 billion to restore its equity to the statutory level following the losses stemming from changes in the value of the bond portfolio purchases that had been aimed at countering the impact of the pandemic.

Wages and labour costs

Employment growth had been relatively strong in Sweden in the decade before the inflation peak in 2022. The labour force participation rate is one of the highest in the EU. However, employment growth and high labour force participation have gone hand in hand with a relatively high unemployment rate, which is among the highest in the EU. This partly reflects the relatively strong growth of the labour force. The unemployment levels are affected by a high share of upper secondary pupils and students who are reported as having a job

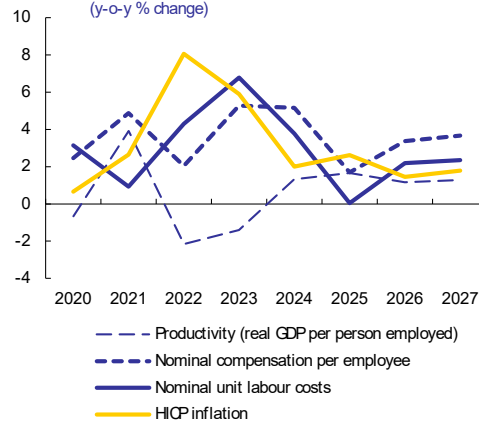
⁽⁶²⁾ Since 1995, the Riksbank has targeted increases in the domestic CPI with the aim of keeping inflation at 2%. In September 2017, the Riksbank changed its target from measuring inflation in terms of CPI to CPIF (CPI with the interest rate component kept unchanged).

according to LFS definitions but are at the same time enrolled in full-time education. For a part, however, the relatively high unemployment rate mirrors significant mismatches and skill shortages, including among persons from disadvantaged socio-economic and migrant backgrounds. On the back of heightened uncertainty in the wake of global economic policy developments and in line with muted economic activity, the labour market weakened in 2024. Employment growth only picked up appreciably in the second half of 2025. This notwithstanding, unemployment is expected to firm, following economic activity with the usual cyclical lag. The unemployment rate is set to have peaked at 8.8% in 2025 and to fall gradually in 2026-27 in line with the projected economic recovery.

The growth in nominal compensation per employee stood at 1.7% on average in 2025, down from 5.2% in 2024. As nominal compensation was well below inflation rates in 2022 and 2023, this development shows a recovery in real wages. However, nominal unit labour cost growth was appreciably lower than gains in nominal compensation in both 2024 and 2025, while import prices overall decreased in both years, partly reflecting exchange rate developments. Notwithstanding the appreciation of the exchange rate, wage developments were consistent with healthy corporate profitability and competitiveness. In Sweden, social partners typically first negotiate a benchmark agreement for exporting sectors aimed at maintaining cost competitiveness vis-a-vis major trading partners. Other sectors, including services, tend to follow this benchmark rather closely. The most recent multi-annual wage agreement was concluded in October 2025 and extends until September 2027. It provides for relatively moderate compensation growth with benchmark gains of 3.4% in the first and 3.0% in the second year. Allowing for a modest wage drift, the growth of compensation per employee is projected to 4.0% in 2026 against the backdrop of falling inflation and to increase to 4.6% in 2027. The current collective agreements should not contribute to upward price pressure. The Swedish wage negotiation framework thus is expected to continue delivering outcomes supporting medium-term price stability and firms' price competitiveness. Moreover, overall healthy corporate profitability should allow firms to cushion some increases in compensation in sectors with particular labour scarcity without adding to upward pressure on prices. Overall, the risks of significant second round effects of wage increase on inflation appear to be limited.

Sweden had moderate labour productivity growth in the years before 2019. In the period 2020-2022 the pandemic induced strong swings in economic activity while employment was cushioned by a combination of labour hoarding and various support schemes. As a result, aggregate measures of changes in labour productivity and unit labour costs were distorted in the aftermath of the pandemic but have started normalising since. Unit labour costs were flat in 2025 - well below to the euro area average - reflecting modest gains in overall labour compensation and productivity as employment remained resilient in the face of a delayed economic upturn. Unit labour cost growth is set to average to 2.2% in 2026 and to then rise again to 2.4% in 2027.

Graph 6.3: Sweden - Inflation, productivity and wage trends (y-o-y % change)



Source: Eurostat, Commission's Spring 2026 Economic Forecast.

External factors

Given the openness of the Swedish economy, developments in import prices traditionally play an important role in domestic price formation. Import price growth (measured by the deflator of imports of goods measured in national currency) has fluctuated significantly over the past years. This was for a large part due to the reaction of commodity prices to Russia's invasion of Ukraine, followed by gyrations induced by wider geopolitical, trade tensions and, more recently, the Middle-East conflict which affected import prices. The lagged effect of exchange rate movements also played a role, as the upward effects from krona weakening during 2022 and most of 2023 reversed subsequently.

In 2024, the import deflator for goods fell by 1.5% whereas the one for services rose by 2%. On the back of krona strengthening the import deflator for goods decreased by 3.6% in 2025, compared to a 1.0% fall in the euro area. The precise impact of changes in import prices on consumer price inflation is difficult to gauge. Going forward, this may remain more difficult to assess than in the period before the pandemic in view of high trade price volatility and the complex interactions between tariffs, trade and supply chain disruptions, exchange rate movements, and inventory adjustments. There is evidence that suggests that the pass-through strengthened significantly during the episode of high inflation but has normalised since. According to the Commission's Spring 2026 Economic Forecast, import prices gains are expected to increase by 0.7% in 2026 and 0.8% in the following year.

From the second half of 2023, the nominal as well as various measures of real effective exchange rates (measured against a group of 36 trading partners) strengthened, albeit with quite some short-term volatility. Real effective exchange rate closely followed movements in the nominal exchange rate. That said, changes in the bilateral nominal exchange rate against the US dollar were more pronounced than against the euro. Taken together, over the period in focus there were no major discrepancies between the growth in domestic prices and domestic price increases among Sweden's main trading partners. Likewise, for 2026 and 2027, major discrepancies between nominal and real effective exchange rates are not expected to occur. Overall, Swedish cost developments do not appear to pose major challenges to competitiveness.

Administered prices and taxes

The share of administered prices in the Swedish HICP basket amounts to just above 15%, a value some 4 percentage points above the euro area average. The most important item in the administered price basket is rents, which react to interest rates and overall inflation with a lag. Rent increases tend to be concentrated at the beginning of the year. In 2024 and 2025, overall administered price inflation was well above headline HICP inflation at just below 4.5 and 6% respectively, with rent increases an important factor accounting for this given the relevant lags.

Tax changes exerted no major impact on headline inflation in both 2024 and 2025, as the pace at which HICP at constant taxes increased was broadly in line with the headline number for both years. With a delayed response to past increases in consumer prices, rents are expected to have a lower impact on administered prices and thus overall HICP inflation in 2026 and 2027.

Medium-term prospects

According to the Commission's Spring 2026 Economic Forecast, inflation is set to remain somewhat below 2% in 2026 and 2027 despite price increases especially for fuels in 2026. This relatively moderate development mirrors VAT cuts, moderate wage developments, and

the lagged impact of krona strengthening. Firms' pricing plans have remained contained driven by the same factors. The profile for expected inflation is consistent with price stability even though upside risks stem from the impact of the global geopolitical situation, notably on energy and commodity prices.

Some limited upward price impact may emerge from labour costs if a firm economic recovery is taking hold and if policies to address skills mismatches are not sufficient to reduce labour shortages. Such structural labour market constraints, exacerbated by pervasive problems in the housing market, can amplify labour shortages in specific sectors and regions, with implications for wage pressures, productivity and adjustment capacity. However, the country has a long tradition of social partners taking competitiveness and price stability into account in their wage agreements. In all, HICP inflation is forecast to average 1.5% in 2026 and 1.8% in 2027. HICP inflation excluding energy, food, alcohol and tobacco is set to continue to fall from 2.4% in 2025 to 1.7% in 2026 and increase again to 2.2% in 2027.

As of 2026, inflation is expected to stay within the Riksbank's target. The main factor pushing down inflation in 2026 are set to be the temporary decrease in VAT on food from 12% to 6%, to take effect from April 2026 until 1 January 2028 along with decreases in excises on liquid fuels. Inflation is projected to reach 1.8% in 2027 as the impact of temporary factors is to fade. Risks to the inflation outlook appear broadly balanced for 2026 and 2027. Upside risks are related to weak productivity trends, the costs of the energy transition, structural labour and skill shortages, and the renewed supply disturbances resulting from the geopolitical environment. Downside risks could stem from commodity prices, further exchange rate strengthening and weaker-than-expected economic activity. Surveys of market inflation expectations suggest that they have remained well anchored at close to the Riksbank's target over the medium term.

The level of consumer prices in Sweden relative to the euro area has increased since Sweden joined the EU in 1995. In 2024, the Swedish price level stood at 110% of the euro area average, down from 117% in 2022. The relative real GDP per capita level in Sweden has also slightly decreased since 2021, reaching about 106% of the euro area average in PPS terms in 2025.

6.3. PUBLIC FINANCES

6.3.1. Recent fiscal developments

The Swedish general government deficit has remained within the 3% of GDP Treaty reference value. Sweden's general government balance strengthened slightly from a deficit of 1.5% of GDP in 2024 to a deficit of 1.3% of GDP in 2025, reflecting a modest pickup in growth.

The revenue-to-GDP ratio remained stable from 2023 to 2024 at just above 48.9% and decreased in 2025 to 48.6%, reflecting weak domestic demand and an increase in mortgage interest deductions.

The expenditure-to-GDP ratio increased from 50.0% in 2023 to 50.5% in 2024, reflecting higher spending *inter alia* on defence in the context of modest growth, but reversed to 49.9% in 2025, as growth picked up somewhat.

On 11 October 2024, Sweden submitted its national medium-term fiscal-structural plan to the Council and to the Commission. Based on the plan's policy commitments and macroeconomic assumptions, on 26 November 2024, the Commission recommended to the

Council that it endorse Sweden's national medium-term fiscal structural plan, since it fulfilled the requirements set out in Regulation (EU) 2024/1263. On 21 January 2025, the Council adopted a recommendation endorsing Sweden's plan. The plan covers the period 2025-2028 and defines an upper limit for net expenditure growth over the four years that the authorities commit not to exceed. The maximum growth rates of net expenditure are 4.0% in 2025, 4.4% in 2026, 4.4% in 2027, and 4.6% in 2028.

Net expenditure grew by 2.2% in 2025, below the recommended maximum growth rate of 4.0%. When considering 2024 and 2025 together, the cumulative growth rate of net expenditure is also below the recommended maximum growth rate.

The fiscal stance in 2025 was slightly contractionary at 0.3% of GDP, driven mainly by relatively modest growth in the net nationally financed primary current expenditure.

The downward path of the general government debt-to-GDP ratio, falling to a level of just over 32.0% of GDP in 2023, was reversed in 2024 and the ratio rose to a level of 35.1% of GDP in 2025. This reflects partially the ending of the effect of the stepwise debt-reducing repayment of a Riksbank loan for foreign currency reserves during 2021-2023 but also increased spending during a period of subdued growth.

6.3.2. Medium-term prospects

The 2026 annual budget was adopted by the Swedish parliament (*Riksdagen*) on 18 December 2025. It was based on a projected GDP growth of 3.1% in 2026 and plans a general government deficit of 1.8% of GDP, containing measures adding up to close to 2% of GDP notably on defence and support to Ukraine. The revenue side includes a decrease in income taxes and a temporary VAT reduction on food. On the expenditure side, besides the significant defence spending, the government expects to start spending on a multi-year support scheme for new nuclear facilities.

On 30 April 2026, Sweden submitted its 2026 Annual Progress Report, reporting on relevant fiscal outturn data and projections, and the implementation of reforms and investments responding to the main challenges identified in the European Semester and the Council's country-specific recommendations. The 2026 Annual Progress Report also entails Sweden's biannual reporting on the progress made in delivering on its recovery and resilience plan in accordance with Article 27 of Regulation (EU) 2021/241.

Table 6.3:

Sweden - Budgetary developments and projections (as % of GDP unless indicated otherwise)

| Outturn and forecast ¹⁾ | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026¹⁾ | 2027¹⁾ |
|---|-------------|-------------|-------------|-------------|-------------|-------------|--------------------------|--------------------------|
| General government balance | -3.2 | -0.2 | 1.0 | -0.9 | -1.5 | -1.3 | -2.8 | -2.5 |
| - Total revenue | 49.9 | 50.2 | 50.4 | 49.1 | 48.9 | 48.6 | 48.1 | 47.5 |
| - Total expenditure | 53.1 | 50.4 | 49.4 | 50.0 | 50.5 | 49.9 | 50.8 | 50.0 |
| of which: | | | | | | | | |
| - Interest expenditure | 0.3 | 0.2 | 0.5 | 0.7 | 0.7 | 0.6 | 0.6 | 0.7 |
| p.m.: Tax burden | 43.3 | 43.9 | 43.5 | 42.6 | 42.4 | 41.8 | 41.6 | 41.5 |
| Primary balance | -2.9 | 0.0 | 1.5 | -0.2 | -0.8 | -0.7 | -2.1 | -1.8 |
| Fiscal stance ²⁾ | 1.1 | -0.3 | 0.5 | -0.2 | -0.5 | 0.3 | -1.9 | 0.6 |
| Recommended growth in net expenditure (%) | | | | | | 4.0 | 4.4 | 4.4 |
| Growth in net expenditure (%) | | | | | | 2.2 | 6.5 | 2.0 |
| Government gross debt | 40.5 | 37.2 | 34.4 | 32.2 | 34.2 | 35.1 | 36.6 | 37.7 |
| p.m.: Real GDP growth (%) | -1.9 | 5.2 | 1.3 | -0.2 | 1.0 | 1.5 | 1.8 | 2.2 |

¹⁾ Commission's Spring 2026 Economic Forecast.

²⁾ The fiscal stance is based on the increase in net expenditure (including that financed by the EU budget) relative to medium-term potential GDP growth. A positive (negative) sign indicates a contractionary (expansionary) fiscal stance (in % of GDP). The fiscal stance profile in 2020-2023 does not include the temporary impact of COVID-19 emergency measures.

Source: European Commission.

For 2026, the Commission's 2026 Spring Economic Forecast projects the general government deficit to rise to 2.8%, reflecting inter alia spending on defence along with a lowering of VAT on food and a reduction in taxes on fuels and personal income. The general government debt is projected to increase from 35.1% of GDP in 2025 to 36.6% of GDP in 2026, driven mainly by the higher primary deficit.

In the spring 2026, the Commission assessed Sweden's risks of compliance with the recommended maximum growth of net expenditure in 2026, based on outturn data for 2024-2025 and the Commission's Spring 2026 Economic Forecast, which incorporates information provided in the Annual Progress Report. Net expenditure is projected to grow by 6.5% in 2026, above the recommended growth of 4.4%. The deviation above the recommended maximum is equivalent to an annual deviation of 1.0% of GDP. However, when considering 2024, 2025 and 2026 together, the projected cumulative growth rate of net expenditure is below the recommended maximum growth rate.

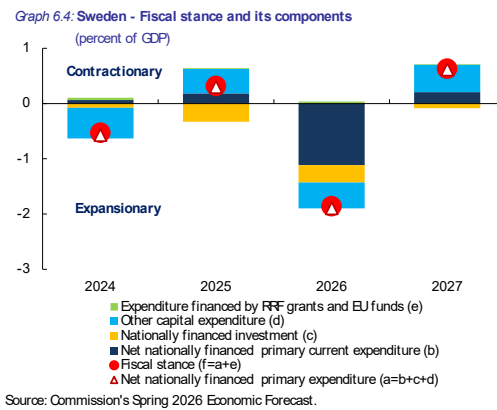
Based on the Commission's estimates, the fiscal stance for 2026 is projected to be expansionary at 1.9% of GDP with the growth in nationally financed primary current expenditure (net of new revenue measures) providing close to all the expansionary contribution.

Debt sustainability risks appear low over the medium term. The general government debt ratio is projected to increase from around 35% of GDP in 2025 to around 44% of GDP in 2036. This projection assumes that the structural primary surplus of 0.3% of GDP in 2025 deteriorates to a deficit of 1.2% of GDP in 2026 and remains at that level (excluding changes in the cost of ageing) over the projection period ⁽⁶³⁾.

⁽⁶³⁾ This is in line with the no-fiscal-policy-change assumption as from 2027 and implies that the net expenditure path that Sweden committed not to exceed in its medium-term plan is not taken into account beyond 2026 in

The low sensitivity to possible macro-fiscal shocks also contributes to this assessment. In particular, if the structural primary deficit increased by another 0.5 percentage point, the projected debt ratio in 2036 would be 5 percentage points higher than in the baseline, still well below 60% of GDP.

Finally, several additional risk factors need to be considered in the assessment. On the one hand, risk-increasing factors are related to (i) the relatively high share of short-term public debt and (ii) contingent liability risks stemming from elevated private debt. On the other hand, risk-mitigating factors include (i) a relatively low share of public debt held by non-residents, (ii) relatively stable financing sources with a diversified and large investor base, and Sweden's positive net international investment position.



Sweden has a robust fiscal framework with clear fiscal rules with a medium-term focus that has helped Sweden keep the government debt ratio at a sustainable level. It has a well-established Independent Fiscal Institution (IFI) with a relatively narrow mandate. Following the established practice, a Parliamentary Committee reviewed the net lending target in 2024. In line with its conclusions, the target level was lowered from 0.33% of GDP over the cycle to 0.0% of GDP, with effect from 2027. However, departing from the usual practice of including all government expenditure when assessing compliance with the target, a derogation has been made in the framework allowing the parliament to exclude defence spending and support to Ukraine of up to a cumulative total of SEK 300 billion (EUR 27.3 billion, 4.5% of GDP) until 2034. The debt anchor is, however, maintained at 35% of GDP (+/-5 percentage points).

The Parliamentary Committee was also tasked with identifying any need for further changes to the Swedish fiscal framework following the conclusion of the European Economic Governance Review, including the amended Budgetary Framework Directive (2011/85/EU). The amended Directive will affect some aspects of the Swedish fiscal framework, such as the tasks and status of the Swedish Fiscal Policy Council, as it extends the independence safeguards for independent fiscal institutions to all EU Member States and assigns some new tasks to these institutions. Currently, the Commission is assessing how Member States have transposed the new provisions.

6.4. EXCHANGE RATE STABILITY

The Swedish krona does not participate in ERM II. As indicated above, the Riksbank pursues inflation targeting under a free-floating exchange rate regime, that allows foreign exchange market interventions by the central bank.

A long-term trend of krona depreciation against the euro started in 2013. The Swedish krona depreciated against the euro by more than 40% from its strongest point in March 2013 to September 2023. In particular, from the end of 2021 to September 2023, the Swedish krona entered a depreciation cycle that culminated with the krona reaching an all-time low of 11.8

the projection. For details on the methodology, see European Commission (2026), Debt Sustainability Monitor 2025, Institutional Paper 332, February 2026.

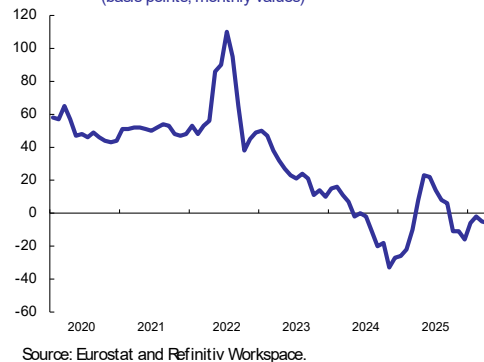
Swedish krona to the euro in September 2023. The krona then regained some of its losses, reaching 10.9 SEK to EUR in May 2026. Overall, the volatility in the exchange rate has been significant, with short-term fluctuations reflecting changes in risk appetite and short-term funding flows, as well as changing perceptions of the future direction of monetary policy in the context of high uncertainty regarding the inflation outlook.

The three-month STIBOR-Euribor spread has been volatile since the beginning of 2022. While it stood around 50 basis points in 2021, it increased rapidly in 2022 and peaked at 110 basis points in July 2022, reflecting an earlier monetary policy tightening in Sweden than in the euro area. The three-month spread then decreased until the November 2024 to a level of -33 basis points. Afterwards, it recovered to 23 basis points in May 2025 and fell again to -21 basis points in May 2026. The overall decrease reflected that monetary conditions have become similar in Sweden and in the euro area with some periods of volatility.

Graph 6.5: Sweden - SEK/EUR exchange rate
(monthly averages)



Graph 6.6: Sweden - 3-M Stibor spread to 3-M Euribor
(basis points, monthly values)



Since December 2015, the Riksbank can intervene on foreign exchange markets. At the end of 2025, international reserves (foreign currency and gold) stood at SEK 691 billion (10.5% of GDP). They increased to over SEK 705 billion (11% of GDP) in November 2024 before decreasing slightly. These changes can be related to valuation effects and fluctuations could also be related to the Riksbank's decision to change the financing method for its foreign exchange reserves. Starting in early 2021, the Riksbank started purchasing foreign currency whilst repaying the foreign currency loans it had taken at the Swedish National Debt Office over a period of 3 years.

6.5. LONG-TERM INTEREST RATES

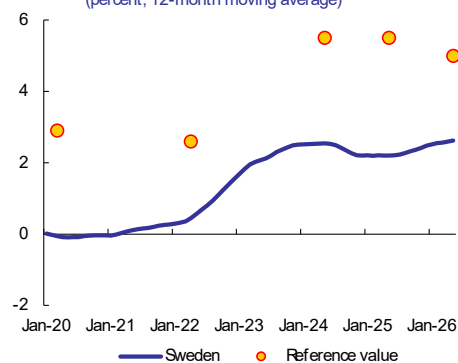
Long-term interest rates used to assess adherence to the convergence criterion reflect secondary market yields on a single benchmark government bond with a residual maturity of around 9 years.

The Swedish 12-month moving average long-term interest rate, relevant for the assessment of the Treaty criterion was 3.0 percentage points below the reference value at the time of the 2024 convergence assessment of Sweden. In May 2026, the latest month for which data is available, the reference value, given by the average of long-term interest rates Cyprus, France and Denmark plus 2 percentage points, stood at 5.1%. In that month, the 12-month moving average of the yield on the Swedish benchmark bond stood at 2.6%, i.e. 2.5 percentage points below the reference value.

As regards monthly data, long-term interest rates increased markedly over 2022-2023. The yield on the Swedish benchmark government bond increased from 0.1% at the end of 2021

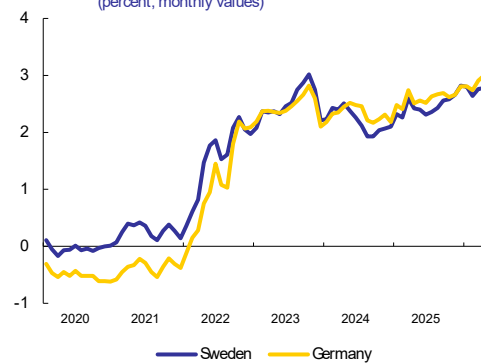
to a peak of 3.0% in October 2023. This increase mainly reflected the actual and expected tightening of monetary policy by the Riksbank against inflationary pressures. Long-term interest rates then slightly eased in 2024 and increased again in 2025, with the yield on the Swedish benchmark government bond reaching 2.8% in December 2025. It decreased slightly to 2.7% in May 2026.

Graph 6.7: Sweden - Long-term interest rate criterion
(percent, 12-month moving average)



Source: European Commission.

Graph 6.8: Sweden - Long-term interest rates
(percent, monthly values)



Source: Eurostat.

The yields on the Swedish benchmark government bond remained relatively closely aligned to the German benchmark bond, in line with the safe-haven status of Swedish government bonds. The spread between Swedish and German long-term interest rates has decreased over the last years. After reaching its peak of 82 basis points in May 2022, it decreased markedly and turned negative to -14 basis points in May 2024. Since May 2024 the spread fluctuated between 0 and -34 basis points, reaching -31 basis points in May 2026.

6.6. ADDITIONAL FACTORS

The Treaty (Article 140 TFEU) calls for an examination of other factors relevant to economic integration and convergence to be taken into account in the assessment. The assessment of the additional factors — including balance of payments developments, product, labour and financial market integration — gives an important indication of a Member State's ability to integrate into the euro area without difficulties.

In November 2025, the Commission published its 15th Alert Mechanism Report (AMR 2026) under the Macroeconomic Imbalance Procedure (MIP - see also Box 1.6), which concluded that an In-Depth Review was warranted for Sweden. In May 2026, the Commission published an In-Depth Review for Sweden. Taking into account the assessment in the In-Depth Review, the Commission, in its Communication 'European Semester – 2026 Spring Package' ⁽⁶⁴⁾, considers that Sweden is no longer experiencing macroeconomic imbalances. Vulnerabilities related to its real estate market and high levels of private debt remain but their gravity has lessened recently. High private debt levels combined with loans financed at the short end of the yield curve have exposed the Swedish economy to changes in monetary and financing conditions, leading to high interest rate sensitivity in comparison with peer countries. House prices moderated somewhat as debt service costs adjusted in response to changes in interest rates, yet household leverage remains elevated and is expected to rise against the backdrop of the easing of borrower-based macroprudential requirements from April 2026. The large commercial real estate sector (CRE) is showing improved refinancing capacity as

⁽⁶⁴⁾ COM(2026) 200 final, 3.6.2026.

interest rates have eased, and capital market access has improved. Banks remain strong, profitable, and with low non-performing loans. Nevertheless, households and corporates remain highly indebted and supply-side rigidities in housing, coupled with easing borrower requirements, are likely to induce increases in house prices and debt levels as the underlying drivers of vulnerabilities remain unaddressed. The financial sector is highly exposed to real estate but is profitable with sizable risk-weighted capital buffers against adverse developments. Policy progress has been limited, and without firmer policy action some of the structural features behind the identified vulnerabilities will persist. The tax system has continued to favour home ownership through low recurrent property taxation and to promote debt-financed housing acquisition through the generous tax deductibility of mortgage interest payments. Supply-side rigidities in housing remain and the rental market has seen limited reform and average rents are still well below market rents, resulting in long waiting lists and a very low vacancy rate relative to other EU countries as the interaction with debt bias in taxation combines to push up prices and reduce accessibility in the housing market. These policy factors behind the macroeconomic vulnerabilities remain unaddressed.

Sweden's recovery and resilience plan (RRP) includes measures to address a series of structural challenges, in synergy with other EU funds, including cohesion policy funds aimed at reducing country's territorial and social disparities. The RRF funding provides Sweden with EUR 3.4 billion over the 2021-2026 period and a first payment of EUR 1.6 billion was made in July 2025, with the remaining payments under assessment for 2026. Key reforms in Sweden's RRP include those in the areas of financing of greenhouse gas emission saving technologies and infrastructure, insulation of housing, training for elderly care and broadband roll-out in sparsely populated areas.

In addition to the RRF funding, cohesion policy provides Sweden with EUR 2.4 billion for the 2021-2027 period. Cohesion policy financing aims particularly to further improve conditions for research and innovation, create opportunities for entrepreneurship and industrial transformation, and support digitalisation, internationalisation and competitiveness. Sweden has made progress in implementing cohesion policy, but challenges remain, and disparities persist between the capital region and the rest of the country.

6.6.1. Developments in the balance of payments

According to Balance of Payments data, Sweden's current account surplus slightly increased to 6.9% of GDP in 2024 as domestic demand growth was slow to recover from a period of sustained weakness. Some improvement in the balance on goods offset a limited worsening in the services balance. The primary income balance remained broadly stable at around 5% of GDP after having trended up in previous years. In 2025, the current account surplus decreased to 6.1% of GDP, reflecting slight drops in the balance of trade in goods and services and the secondary income balance. The solid export performance was supported by the strong competitive position of Swedish exporters. By contrast, as in earlier years, the secondary income balance continued to exert a negative impact on the current account balance, reflecting Sweden's foreign aid and net contributions to international organisations, as well as remittances transferred by foreign workers in Sweden to their home countries.

Sweden's net international investment position improved markedly to around 68% of GDP in 2024 but has fallen to around 55% in 2025. Sweden's financial account (net of changes in reserve assets) shows relatively large fluctuations over time. However, seen over a longer period, the financial account balance has been mostly in surplus and mainly reflects Sweden's role as a net FDI investor abroad. The balance of portfolio investments fluctuates appreciably from year to year, mirroring the interplay of financial market conditions and

perceptions, exchange rate movements and relative cyclical positions. It registered surpluses in the period 2022-2025.

From the early 2000s, Sweden's export market share has been declining, a phenomenon also witnessed in several other high-income countries. However, in the last decade, Sweden's export share has stabilised. The development in the export market shares is linked to changing global trade patterns and a stable to weakening trend affects most mature, industrialised economies with a similar focus on high-value-added exports. Thus, it does not suggest any underlying competitiveness issues per se. It is difficult to assess short-term fluctuations in export shares given the high degree of volatility in global trade since 2020, with disruptions such as from the pandemic and more recent trade tensions clouding the picture. It is therefore hard to separate specific structural factors that impact trade performance from cyclical effects and the idiosyncratic impact of supply and demand disturbances that have been affecting the global and Swedish economies in recent years.

Table 6.4:

| Sweden - Balance of payments | (percentage of GDP) | | | | | |
|---------------------------------------|---------------------|------|------|------|------|------|
| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
| Current account | 5.7 | 6.2 | 4.0 | 6.2 | 6.8 | 6.0 |
| of which: Balance of trade in goods | 4.6 | 4.4 | 3.7 | 4.7 | 5.1 | 4.8 |
| Balance of trade in services | -0.4 | -0.3 | -1.9 | -1.6 | -1.4 | -1.8 |
| Primary income balance | 3.6 | 3.9 | 4.1 | 4.7 | 4.8 | 4.8 |
| Secondary income balance | -2.1 | -1.8 | -2.0 | -1.6 | -1.7 | -1.9 |
| Capital account | 0.0 | 0.0 | 0.1 | 0.0 | 0.1 | 0.1 |
| External balance ¹⁾ | 5.7 | 6.2 | 4.1 | 6.2 | 6.9 | 6.1 |
| Financial account | 0.9 | 7.4 | 0.0 | 5.3 | 13.6 | -1.5 |
| of which: Direct investment | 0.7 | 0.9 | 1.6 | 3.9 | -0.2 | -1.7 |
| Portfolio investment | 2.1 | 9.8 | -3.2 | -1.5 | 10.5 | 3.0 |
| Other investment ²⁾ | -1.9 | -4.2 | 0.2 | 3.9 | 2.8 | -3.2 |
| Change in reserves | -0.1 | 1.0 | 1.4 | -1.0 | 0.5 | 0.5 |
| Financial account without reserves | 0.9 | 6.5 | -1.4 | 6.2 | 13.1 | -1.9 |
| Errors and omissions | -4.8 | 1.2 | -4.1 | -0.9 | 6.7 | -7.6 |
| Gross capital formation | 24.4 | 25.3 | 26.9 | 25.3 | 25.1 | 25.5 |
| Gross saving | 30.0 | 31.1 | 30.6 | 31.2 | 31.3 | 30.7 |
| Net international investment position | 10.1 | 23.3 | 38.5 | 40.5 | 67.1 | 54.7 |

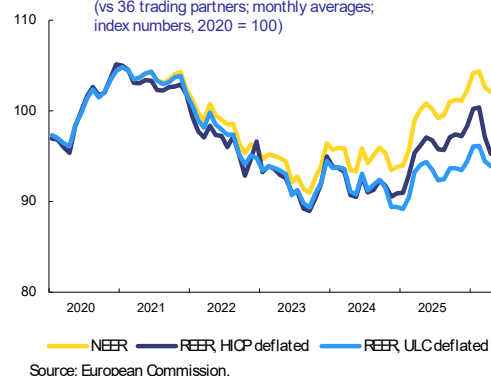
1) The combined current and capital account.

2) Including financial derivatives.

Sources: Eurostat, Statistics Sweden, European Commission calculations.

This benign conclusion on competitiveness is buttressed by developments in cost competitiveness indicators. In recent years, the real effective exchange rates mainly mirrored changes in the nominal exchange rate, rather than major divergences in price or cost indicators between Sweden and its main trading partners. Various measures of effective exchange rates moved together. They weakened appreciably over most of the period 2021-2023 and subsequently strengthened to broadly return to levels witnessed in late 2021.

Graph 6.9: Sweden - Effective exchange rates
(vs 36 trading partners; monthly averages;
index numbers, 2020 = 100)



Unit labour costs compared to trade partners exhibited relatively large swings in recent years due to disparate behaviours in economic activity and employment metrics, all affected heavily by the pandemic, large-scale policy intervention ⁽⁶⁵⁾, the following episode of high inflation, rapid monetary tightening and the subsequent disinflation, which in the Swedish case went hand in hand with a prolonged spell of cyclical weakness. Allowing for such volatility, there is not a clearly visible underlying trend in unit labour costs compared to Sweden's main trading partners. This suggests a continuing strong competitive position of Swedish exporters.

6.6.2. Market integration

Sweden is well-integrated with the euro area through trade and investment linkages. Trade openness of the Swedish economy has been high, at 40% or more every year since 2005. Trade openness (see Table 6.5 for a definition) increased significantly from around 41% in 2020 to around 52% in 2022, where it has stabilised since. In 2025 the Swedish trade openness was 51%. The main euro area trading partners are Germany, the Netherlands and Finland, while among non-euro area countries Norway, Denmark, and the United States are the main trade partners.

Table 6.5:
Sweden - Market integration

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|-------|-------|-------|-------|-------|-------|
| Trade openness ¹⁾ (%) | 41.4 | 44.2 | 52.3 | 52.7 | 52.1 | 51.1 |
| Trade with euro area in goods & services ²⁾⁺³⁾ (%) | 18.2 | 19.4 | 22.6 | 23.5 | 23.2 | 22.8 |
| IMD World Competitiveness Ranking ⁴⁾ | 6 | 2 | 4 | 8 | 6 | 8 |
| Internal Market Transposition Deficit ⁵⁾ (%) | 0.7 | 2.0 | 0.7 | 0.5 | 0.4 | 0.9 |
| Real house price index ⁶⁾ | 112.8 | 121.5 | 117.8 | 104.7 | 102.1 | 100.4 |

1) (Imports + Exports of goods and services / (2 x GDP at current market prices)) x 100 (Foreign Trade Statistics, Balance of Payments).

2) (Imports + Exports of goods with EA-21 / (2 x GDP at current market prices)) x 100 (Foreign Trade Statistics).

3) Trade in services with EA-21 (average credit and debit in % of GDP at current prices) (Balance of Payments).

4) International Institute for Management Development (IMD).

5) Percentage of internal market directives not yet communicated as having been transposed, relative to the total.

6) Deflated house price index (2015=100) (Eurostat).

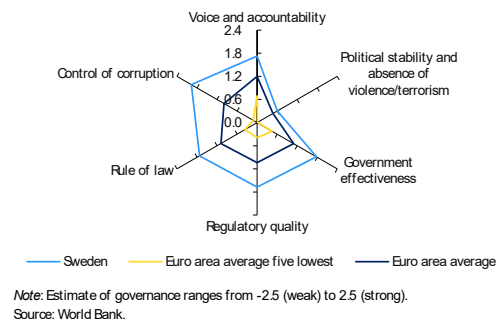
Sources: Eurostat, World Bank, International Institute for Management Development, European Commission calculations.

The stock of inward FDI has remained broadly stable relative to GDP in recent years but declined somewhat to just below 70% of GDP in 2024 down from 78% of GDP in 2023 and from 70% of GDP in 2022. As regards net inward FDI the largest share originates from the euro area, whereas substantial flows originate from non-euro area countries, primarily Denmark, Norway and the UK, a well-established pattern over a longer period.

⁽⁶⁵⁾ Short-term movements in REER based on unit labour costs should be interpreted with prudence as unit labour costs were distorted by various pandemic support schemes in several countries, including Sweden. The trend in this measure in recent years has, this notwithstanding, been very similar to price-based gauges of the REER.

Regarding the business environment, Sweden regularly scores top positions in international rankings, well above most euro area Member States and currently ranks in the top ten at global level, with respect to the IMD World Competitiveness Ranking. According to the World Bank's 2024 Worldwide Governance Indicators, Sweden ranks higher than the average of the euro area Member States in all six categories, notably voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law and control of corruption⁽⁶⁶⁾.

Graph 6.10: Sweden - World Bank's 2024 Worldwide Governance Indicators



According to the 2026 Country Report, Sweden has established strong frameworks for evaluating legislative impacts but could align better with best practices to ensure implementation and transparency. Perceived corruption as a barrier to doing business and reported experiences are extremely low, indicating that corruption risks are limited in practice. While Sweden has taken limited steps to strengthen its corruption prevention and detection framework, investigating and prosecuting corruption continues to achieve results, although law enforcement authorities are concerned by possible underreporting of corruption cases. The justice system performs efficiently overall⁽⁶⁷⁾. Sweden's deficit in the transposition of EU directives in 2025 (Scoreboard 2026) stood at 0.9%, below the EU average (1.1%) but above the 0.5% target proposed by the European Commission in the Single Market Act (2011). It was below the latter in 2024 (Scoreboard 2025).

Sweden has notified a complete transposition of the 5th Anti-Money Laundering Directive (AMLD). The Commission has assessed the transposition as complete and in conformity.

Sweden was last assessed by the FATF in 2017 with good results and exited the FATF's follow-up process in 2020 with the publication of its first regular follow-up report. The follow-up report reflects the situation after the 5th AMLD transposition. In the years since, Sweden has innovated and gone further in several areas, most notably as regards public-private partnerships. Sweden's SAMLIT public-private partnership has gone through several iterations supported by legislation, and the country has also created a Financial Intelligence Centre (Finuc) to further boost its effectiveness in this area.

⁽⁶⁶⁾ A Member State is considered to have a 'low' ('high') ranking compared with the average five euro area Member States with the lowest scores for each indicator if its score is at least 0.3 percentage points lower (higher) than that of the average of this euro area group of five euro area Member States.

⁽⁶⁷⁾ European Commission (2026), 2026 Country Report on Sweden, pp. 53-57. See also Annual Rule of Law Report, country chapter on Sweden.

Table 6.6:

Sweden - Allocation of assets by financial sub-sector

| | SE | | EA | | Ratio to GDP (%) | |
|--|------|------|------|------|--------------------|------|
| | 2020 | 2024 | 2020 | 2024 | EA 5 smallest | |
| | 2020 | 2024 | 2020 | 2024 | 2020 | 2024 |
| Financial corporations (total) | 674 | 678 | 806 | 707 | 199 | 180 |
| Central bank | 26 | 18 | 77 | 51 | 61 | 44 |
| Monetary financial institutions | 298 | 274 | 308 | 275 | 93 | 93 |
| Other financial intermediaries | 86 | 82 | 195 | 177 | 20 | 15 |
| Non-MMF investment funds ¹⁾ | 108 | 131 | 125 | 125 | 4 | 6 |
| Insurance co. and Pension Funds | 157 | 174 | 102 | 80 | 22 | 23 |
| | SE | | EA | | Share of total (%) | |
| | 2020 | 2024 | 2020 | 2024 | EA 5 smallest | |
| | 2020 | 2024 | 2020 | 2024 | 2020 | 2024 |
| Central bank | 4 | 3 | 10 | 7 | 30 | 24 |
| Monetary financial institutions | 44 | 40 | 38 | 39 | 47 | 52 |
| Other financial intermediaries | 13 | 12 | 24 | 25 | 10 | 8 |
| Non-MMF investment funds | 16 | 19 | 15 | 18 | 2 | 3 |
| Insurance co. and Pension Funds | 23 | 26 | 13 | 11 | 11 | 13 |

¹⁾ MMF stands for money market funds.

Source: Eurostat.

The Swedish labour market, largely governed by negotiations between social partners at sectorial level, is characterised by high employment rates, but coupled with relatively high unemployment, especially for certain groups. Sweden has the one of the highest labour force participation rates in the EU. Relatively modest nominal wage increases, even in the recent years with high inflation have contributed to control costs and prices. Sweden has one of the lowest wage dispersions in the EU, with high entry wages, relatively little wage progression and very similar average rates of wage increases across branches of activity. According to the 2019 OECD employment protection indicator, the employment protection of permanent workers is rather high compared to that of temporary workers. The dispersion of regional unemployment rates is relatively low, but persistent imbalances in the housing market and high costs of housing, not only in the larger cities but also in university cities and economic and development poles outside metropolitan areas pose challenges to labour mobility. Substantial educational gaps reflecting inter alia issues with the grading system and attainment and the role of independent schools mirror socio-economic status along with geographical factors. Skills upgrading and the integration of low-skilled workers remain other key challenges for the Swedish labour market. Education, competence and skills challenges are thus broad-based. The vacancy ratio as reported by Eurostat slowly decreased in seasonally adjusted terms from a peak of 3.3% in the third quarter of 2022 to 1.8% in the fourth quarter of 2025, mirroring signs of an incipient economic recovery. Relatively high vacancy rates persisting alongside high labour force participation indicate a fairly high rate of labour market turnover and job-switching, but also point at mismatches and skills shortages extending to a wide range of branches of economic activity. Skills shortages remain particularly pronounced in education, health care, social work, and real estate-related and other business services.

The financial sector in Sweden is highly developed and its size is proportionally similar to that of the euro area. Relative to GDP, assets managed by the financial sector stood at 678%

of GDP (vs. 707% of GDP in the euro area). Since 2020, the Swedish financial sector has grown significantly more than in the euro area. Banking dominates the Swedish financial sector and made up around 40% of the assets of the financial sector in 2024, which is more than in the euro area. The sector for insurance and pension-fund is the second largest financial assets manager in Sweden. It made up 26% of the assets held by the financial sector in 2024 (vs. 11% in the euro area). This reflects the high degree of development of the funded pension system. Non-money-market funds are at par with the euro area, and despite its past extensive asset-purchase programme, the Riksbank only holds a relatively small share of total financial assets (less than half of what the ECB accounts for). The investment-funds sector is of roughly equal size as in the euro area and plays a similar role.

Table 6.7:

Sweden - Financing of the economy¹⁾

| | SE | | EA | | Ratio to GDP (%) | |
|-----------------------------------|------|------|------|------|------------------|------|
| | | | | | EA 5 smallest | |
| | 2020 | 2024 | 2020 | 2024 | 2020 | 2024 |
| Liabilities (total) | 1028 | 950 | 813 | 722 | 325 | 305 |
| Loans | 277 | 258 | 251 | 215 | 103 | 92 |
| Non-financial co. debt securities | 29 | 23 | 15 | 12 | 3 | 2 |
| Financial co. debt securities | 108 | 100 | 68 | 61 | 3 | 5 |
| Government debt securities | 29 | 21 | 94 | 72 | 49 | 43 |
| Listed shares | 181 | 170 | 71 | 64 | 8 | 12 |
| Unlisted shares | 311 | 291 | 196 | 187 | 65 | 54 |
| Other equity | 73 | 66 | 82 | 76 | 58 | 64 |
| Trade credits and advances | 21 | 21 | 36 | 36 | 36 | 33 |

| | SE | | EA | | Share of total (%) | |
|-----------------------------------|------|------|------|------|--------------------|------|
| | | | | | EA 5 smallest | |
| | 2020 | 2024 | 2020 | 2024 | 2020 | 2024 |
| Loans | 27 | 27 | 31 | 30 | 32 | 30 |
| Non-financial co. debt securities | 3 | 2 | 2 | 2 | 1 | 1 |
| Financial co. debt securities | 10 | 10 | 8 | 8 | 1 | 2 |
| Government debt securities | 3 | 2 | 12 | 10 | 15 | 14 |
| Listed shares | 18 | 18 | 9 | 9 | 2 | 4 |
| Unlisted shares | 30 | 31 | 24 | 26 | 20 | 19 |
| Other equity | 7 | 7 | 10 | 11 | 17 | 20 |
| Trade credits and advances | 2 | 2 | 4 | 5 | 10 | 11 |

¹⁾ The table focuses on the financing needs of a country and how these are met by the financial system. The table is constructed from the liabilities of all economic sectors, but only considers loans, debt securities, equity and trade credits. The sum of liabilities in the table only reflects the total for the liabilities considered.

Source: Eurostat.

As to the financing of the economy, outstanding liabilities are higher than in the euro area (950% of GDP in 2024 vs. 722% of GDP in the euro area). Like in the euro area, loans and unlisted shares are the dominant source of funding. However, the order differs. While loans are the biggest source of funding in the euro area, in Sweden unlisted shares are the biggest source (with 31%), while loans only take up 27%. The higher importance of listed shares in total liabilities (taking up 18% in Sweden as compared to 9% in the euro area) reflects the larger share of market funding available in Sweden, and the traditional recourse to this type

of funding by corporation. The relatively smaller size of the government bond market in Sweden (2% in Sweden as compared to 10% in the euro area) reflects the lower level of general government debt in the country.

Sweden's banking sector is well-integrated into the euro area's financial sector, through a high level of foreign ownership in its banking system, and because Stockholm acts as regional financial hub. The share of foreign-owned institutions in total bank assets stood at 19% in 2024, slightly surpassing the euro area average by 1 percentage point. The share decreased by 2 percentage points between 2020 and 2024. Bank concentration, as measured by the market share of the five largest credit institutions in total assets, has increased to 56%, slightly above the euro area average, which was 50% at the end of 2024.

