Council of the European Union

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NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
Subject:	COUNCIL RECOMMENDATION on the economic, social, employment, structural and budgetary policies of Hungary

Delegations will find attached the above-mentioned draft Council Recommendation, as revised and agreed by various Council committees and finalized by the Economic and Financial Committee, based on the Commission Proposal COM(2025) 217 final.

COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of Hungary

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 121(2) and Article 148(4) thereof,

Having regard to 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[1], and in particular Article 3(3) thereof,

Having regard to Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances[2], and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

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[1] OJ L, 2024/1263, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj.
[2] OJ L 306, 23.11.2011, p. 25, ELI: http://data.europa.eu/eli/reg/2011/1176/oj.

Whereas:

General considerations

(1) Regulation (EU) 2024/1263, which entered into force on 30 April 2024, specifies the objectives of the economic governance framework, which aims at promoting sound and sustainable public finances and sustainable and inclusive growth and resilience through reforms and investments, and preventing excessive government deficits. The Regulation stipulates that the Council and the Commission conduct multilateral surveillance in the context of the European Semester in accordance with the objectives and requirements set out in the TFEU. The European Semester includes, in particular, the formulation, and the surveillance of the implementation of country-specific recommendations. The Regulation also promotes national ownership of fiscal policy and emphasises its medium-term focus, combined with more effective and coherent enforcement. Each Member State must submit to the Council and the Commission a national medium-term fiscal-structural plan, containing its fiscal, reform and investment commitments, over 4 or 5 years, depending on the length of the national legislative term. The net expenditure[3] path in these plans has to comply with the Regulation's requirements, including the requirements to put or keep general government debt on a plausibly downward path by the end of the adjustment period, or for it to remain at prudent levels below 60% of gross domestic product (GDP), and to bring and/or maintain the general government deficit below the 3%-of-GDP Treaty reference value over the medium term. Where a Member State commits to a relevant set of reforms and investments in accordance with the criteria set out in the Regulation, the adjustment period may be extended by up to three years.

[3] Net expenditure as defined in Article 2, point (2), of Regulation (EU) 2024/1263: 'net expenditure' means government expenditure net of (i) interest expenditure; (ii) discretionary revenue measures; (iii) expenditure on programmes of the Union fully matched by revenue from Union funds; (iv) national expenditure on co-financing of programmes funded by the Union; (v) cyclical elements of unemployment benefit expenditure; and (vi) one-offs and other temporary measures.

(2) Regulation (EU) 2021/241 of the European Parliament and of the Council[4], which established the Recovery and Resilience Facility (the 'RRF'), entered into force on 19 February 2021. The RRF provides financial support to Member States for implementing reforms and investments, delivering a fiscal impulse financed by the Union. In line with the priorities of the European Semester for economic policy coordination, the RRF fosters economic and social recovery while driving sustainable reforms and investments, in particular promoting the green and digital transitions and making Member States' economies more resilient. It also helps strengthen public finances and boost growth and job creation in the medium and long term, improve territorial cohesion within the Union and support the continued implementation of the European Pillar of Social Rights.

(3) Regulation (EU) 2023/435 of the European Parliament and of the Council[5] (the 'REPowerEU Regulation'), which was adopted on 27 February 2023, aims to phase out the Union's dependence on Russian fossil-fuel imports. This helps achieve energy security and diversify the Union's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. Hungary added a new REPowerEU chapter to its national recovery and resilience plan in order to finance key reforms and investments that will help achieve the REPowerEU objectives.

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4 Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17, ELI: http://data.europa.eu/eli/reg/2021/241/oj).

5 Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC (OJ L 63, 28.2.2023, p. 1, ELI: http://data.europa.eu/eli/reg/2023/435/oj).

(4) On 11 May 2021, Hungary submitted its national recovery and resilience plan to the Commission, in accordance with Article 18(1) of Regulation (EU) 2021/241. Pursuant to Article 19 of that Regulation, the Commission assessed the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines set out in Annex V. On 15 December 2022, the Council adopted its Implementing Decision approving the assessment of the recovery and resilience plan for Hungary[6], which was amended under Article 18(2) on 8 December 2023 to include the REPowerEU chapter[7]. The release of instalments is conditional on the adoption of a decision by the Commission, in accordance with Article 24(5), stating that Hungary has satisfactorily achieved the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory achievement requires that the achievement of preceding milestones and targets for the same reform or investment has not been reversed.

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[6] Council Implementing Decision of 15 December 2022 on the approval of the assessment of the recovery and resilience plan for Hungary (ST 15447/2022).

[7] Council Implementing Decision of 8 December 2023 amending the Implementing Decision of 15 December 2022 on the approval of the assessment of the recovery and resilience plan for Hungary (ST 15964/2023).

(5) On 18 February 2025, the Council, upon the recommendation of the Commission, adopted a recommendation endorsing the national medium-term fiscal-structural plan of Hungary[8]. The plan was submitted in accordance with Article 11 and Article 36(1), point (a), of Regulation (EU) 2024/1263, covers the period from 2025 until 2028 and presents a fiscal adjustment spread over four years.

(6) On 26 November 2024, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the 2025 Alert Mechanism Report, in which it identified Hungary as one of the Member States for which an in-depth review would be needed. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area and a proposal for the 2025 Joint Employment Report, which analyses the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights. The Council adopted the Recommendation on the economic policy of the euro area[9] on 13 May 2025 and the Joint Employment Report on 10 March 2025.

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8 Council Recommendation of 18 February 2025 endorsing the medium-term fiscal-structural plan of Hungary, OJ C/2025/1707, 18.3.2025.

9 Council Recommendation of 13 May 2025 on the economic policy of the euro area (OJ C, C/2025/2782, 22.5.2025, ELI: http://data.europa.eu/eli/C/2025/2782/oj).

(7) On 29 January 2025, the Commission published the Competitiveness Compass, a strategic framework that aims to boost the EU's global competitiveness over the next five years. It identifies the three transformative imperatives of sustainable economic growth: (i) innovation; (ii) decarbonisation and competitiveness; and (iii) security. To close the innovation gap, the EU aims to foster industrial innovation, support the growth of start-ups through initiatives like the EU Start-up and Scale-up Strategy, and promote the adoption of advanced technologies like artificial intelligence and quantum computing. In pursuit of a greener economy, the Commission has outlined a comprehensive Affordable Energy Action Plan and a Clean Industrial Deal, ensuring that the shift to clean energy remains cost-effective, competitiveness-friendly, particularly for energy-intensive sectors, and is a driver for growth. To reduce excessive dependencies and increase security, the Union is committed to strengthening global trade partnerships, diversifying supply chains and securing access to critical raw materials and clean energy sources. These priorities are underpinned by horizontal enablers, namely regulatory simplification, deepening of the single market, financing competitiveness and a Savings and Investments Union, promotion of skills and quality jobs, and better coordination of EU policies. The Competitiveness Compass is aligned with the European Semester, ensuring that Member States' economic policies are consistent with the Commission's strategic objectives, creating a unified approach to economic governance that fosters sustainable growth, innovation and resilience across the Union.

(8) In 2025, the European Semester for economic policy coordination continues to develop alongside the implementation of the RRF. The full implementation of the recovery and resilience plans remains essential for delivering on the policy priorities under the European Semester, as the plans help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations issued in recent years. These country-specific recommendations remain equally relevant for the assessment of amended recovery and resilience plans in accordance with Article 21 of Regulation (EU) 2021/241.

(9) The 2025 country-specific recommendations cover the key economic policy challenges that are not sufficiently addressed by measures included in the recovery and resilience plans, taking into account the relevant challenges identified in the 2019-2024 country-specific recommendations.

(10) On 4 June 2025, the Commission published the 2025 country report for Hungary. It assessed Hungary's progress in addressing the relevant country-specific recommendations and took stock of Hungary's implementation of the recovery and resilience plan. Based on this analysis, the country report identified the most pressing challenges Hungary is facing. It also assessed Hungary's progress in implementing the European Pillar of Social Rights and in achieving the Union's 2030 headline targets on employment, skills and poverty and social exclusion reduction, as well as progress in achieving the United Nations Sustainable Development Goals.

(11) The Commission carried out an in-depth review under Article 5 of Regulation (EU) No 1176/2011 for Hungary. The main findings of the Commission's assessment of macroeconomic vulnerabilities for Hungary for the purposes of that Regulation were published on 13 May 2025[10]. On 4 June 2025, the Commission concluded that Hungary is experiencing macroeconomic imbalances. In particular, vulnerabilities primarily related to competitiveness and government financing needs remain relevant. Rapid wage growth has compromised cost competitiveness in recent years and inflationary pressures stronger than in the rest of the EU persist, while the economic recovery is slow and subject to downside risks. The external account recorded a surplus in 2024, but policies boosting domestic demand pose risks to external sustainability. The government deficit decreased in 2024 due to lower investment and a fall in spending on energy subsidies but remains high and is not forecast to improve much this year or next. The government debt ratio is not falling and debt-servicing costs and gross financing needs remain high. The bank-sovereign nexus has deepened due to tax incentives for domestic banks to purchase government debt. House prices accelerated markedly in 2024 driven by strong demand, which has been compounded by demand supporting government measures. Policy progress has been limited. Hungary will need to introduce permanent fiscal measures and rely less on temporary windfall profit taxes or cuts in investments. Monetary policy has been tight, but its effectiveness has been weakened by government interventions: poorly targeted subsidies and loans to household and corporations persist and controls of lending rates limit the effectiveness of monetary policy. At the same time, housing subsidies and preferential lending schemes continue to distort the housing market and exacerbate house price pressures.

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[10] SWD(2025) 127 final.

Assessment of the Annual Progress Report

(12) On 18 February 2025 the Council recommended the following maximum growth rates of net expenditure for Hungary: 4.3% in 2025, 4.0% in 2026, 3.9% in 2027, and 3.7% in 2028, which correspond to the maximum cumulative growth rates calculated by reference to 2023 of 9.1% in 2025, 13.5% in 2026, 17.9% in 2027, and 22.2% in 2028. In 2025-2026, these maximum growth rates of net expenditure coincide with the corrective path in accordance with Article 3(4) of Regulation 1467/97, as recommended by the Council on 18 February 2025 with a view to bringing an end to the situation of an excessive deficit[11]. On 30 April 2025 Hungary submitted its Annual Progress Report[12], on action taken in response to the Council recommendation of 18 February 2025 with a view to bringing an end to the situation of an excessive deficit and the implementation of reforms and investments responding to the main challenges identified in the European Semester country-specific recommendations. The Annual Progress Report also reflects Hungary's biannual reporting on the progress made in achieving its recovery and resilience plan in accordance with Article 27 of Regulation (EU) 2021/241.

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[11] Council Recommendation with a view to bringing an end to the situation of an excessive deficit in Hungary, OJ C/2025/5896.

[12] The 2025 Annual Progress Reports are available on: https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact/preventive-arm/annual-progress-reports_en.

(13) Russia's war of aggression against Ukraine and its repercussions constitute an existential challenge for the European Union. The Commission recommended to activate the national escape clause of the Stability and Growth Pact in a coordinated manner to support the EU efforts to achieve a rapid and significant increase in defence spending and this proposal was welcomed by the European Council of 6 March 2025. Following the request of Hungary on 30 April 2025, on [date; OJ: please insert here as date 8 July 2025] the Council, upon the recommendation of the Commission, adopted a recommendation allowing Hungary to deviate from, and exceed, the recommended maximum growth rates of net expenditure[13].

(14) Based on data validated by Eurostat[14], Hungary's general government deficit decreased from a deficit of 6.7% of GDP in 2023 to a deficit of 4.9% in 2024, while the general government debt rose from 73.0% of GDP at the end of 2023 to 73.5% at the end of 2024. According to the Commission's calculations, these developments correspond to a net expenditure growth rate of 2.3% in 2024. In the Annual Progress Report, Hungary estimates the net expenditure growth in 2024 at 2.3%. Based on the Commission's estimates, the fiscal stance[15], which includes both nationally and EU financed expenditure, was contractionary, by 3.3% of GDP, in 2024.

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[13] Council recommendation allowing Hungary to deviate from the maximum growth rates of net expenditure as set by the Council under Regulation (EU) 2024/1263 (Activation of the national escape clause), OJ [OJ: please insert in this footnote the reference and date of adoption of Council Recommendation contained in document ST 10471/25].

[14] Eurostat-Euro Indicators, 22.4.2025.

[15] The fiscal stance is defined as a measure of the annual change in the underlying budgetary position of the general government. It aims to assess the economic impulse stemming from fiscal policies, both those that are nationally financed and those that are financed by the EU budget. The fiscal stance is measured as the difference between (i) the medium-term potential growth and (ii) the change in primary expenditure net of discretionary revenue measures and including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds.

(15) According to the Annual Progress Report, the macroeconomic scenario underpinning the budgetary projections by Hungary expects real GDP growth at 2.5% in 2025, while HICP inflation is projected at 4.5% in 2025. The Commission Spring 2025 Forecast projects real GDP to grow by 0.8% in 2025 and 2.5% in 2026, and HICP inflation to stand at 4.1% in 2025 and 3.3% in 2026.

(16) In the Annual Progress Report, the general government deficit is expected to decrease to 4.1% of GDP in 2025, while the general government debt-to-GDP ratio is set to decrease to 73.1% by the end of 2025. These developments correspond to net expenditure growth of 7.4% in 2025. The Commission Spring 2025 Forecast projects a government deficit of 4.6% of GDP in 2025. The decrease of the deficit in 2025 mainly reflects lower interest expenditure due to decreasing coupon payments on the inflation-linked bonds and a further decrease in subsidies to utility companies for the losses incurred due to caps on residential energy prices. According to the Commission's calculations, these developments correspond to net expenditure growth of 6.1% in 2025. This is lower than the Hungarian authorities' projection in the Annual Progress Report due to lower nationally financed expenditure. The Commission forecast projects a higher deficit due to significantly lower revenue from production and income taxes driven by weaker GDP growth. Based on the Commission's estimates, the fiscal stance, which includes both nationally and EU financed expenditure, is projected to be expansionary, by 0.4% of GDP, in 2025. The general government debt-to-GDP ratio is set to increase to 74.5% by the end of 2025. The increase of the debt-to-GDP ratio in 2025 mainly reflects the high general government deficit and a positive stock-flow adjustment due to large interest payments in cash terms accrued in the previous year.

(17) General government expenditure amounting to 0.4% of GDP is expected to be financed by non-repayable support ("grants") from the Recovery and Resilience Facility in 2025, compared to 0.2% of GDP in 2024, according to the Commission Spring 2025 Forecast[16]. Expenditure financed by Recovery and Resilience Facility non-repayable support enables high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of Hungary.

(18) General government defence expenditure in Hungary amounted to 1.1% of GDP in 2021, 1.4% of GDP in 2022 and 1.9% of GDP in 2023[17]. According to the Commission Spring 2025 Forecast, expenditure on defence is projected at 2.0% of GDP in both 2024 and 2025. This corresponds to an increase of 0.9 percentage points of GDP compared to 2021. The period when the national escape clause is activated (2025-2028) allows Hungary to reprioritise government expenditure or increase government revenue so that lastingly higher defence expenditure would not endanger fiscal sustainability in the medium term.

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[16] According to the Guidance note on the statistical recording of the RRF, similarly to 'traditional' EU grants, the expenditure to be financed by RRF grants is recorded in national accounts at the time it is incurred, and matched in time and in size with an imputed revenue from the EU, regardless of the timing of the cash settlements, which are conditional on the satisfactory fulfilment of the milestones and targets. Hungary has so far not submitted any payment request under the RRF and has only received pre-financing disbursements. Eurostat (2021) Guidance note on the statistical recording of the Recovery and Resilience Facility.

[17] Eurostat, government expenditure by classification of functions of government (COFOG). Due to methodological differences between the COFOG and NATO definitions, expenditure based on the COFOG definition may differ from the expenditure based on the NATO definition.

(19) According to the Commission Spring 2025 Forecast, net expenditure in Hungary is projected to grow by 6.1% in 2025 and 8.6% cumulatively in 2024 and 2025. Based on the Commission Spring 2025 Forecast, the net expenditure growth of Hungary in 2025 is projected to be above the recommended maximum growth rate established by the corrective path, corresponding to a deviation[18] of 0.7% of GDP in annual terms. When considering 2024 and 2025 together, the cumulative growth rate of net expenditure is projected to be below the recommended maximum growth rate. The projected deviation is within the flexibility of the national escape clause based on current projections for defence spending. Therefore, the excessive deficit procedure for Hungary is held in abeyance.

(20) Moreover, the Council recommended that Hungary wind down the emergency energy support measures before the 2024/2025 heating season. According to the Commission Spring 2025 Forecast, while the net budgetary cost[19] of emergency energy support measures is estimated at 1.0% of GDP in 2024, it is projected to decrease to 0.5% in 2025. In particular, subsidies to utility companies for the losses incurred due to caps on residential energy prices remained in force. The emergency energy support measures were not wound down before the 2024/2025 heating season. This is not in line with what was recommended by the Council.

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[18] From 2026 these figures will appear in the control account that is established in Article 22 of the Regulation (EU) 2024/1263.

[19] The figure represents the level of the annual budgetary cost of those measures, including revenue and expenditure and, where applicable, net of the revenue from taxes on windfall profits of energy suppliers.

(21) The Annual Progress Report does not include budgetary projections beyond 2025. Based on policy measures known at the cut-off date of the forecast, the Commission 2025 spring forecast projects a government deficit of 4.7% of GDP in 2026. The slight increase of the general government deficit in 2026 mainly reflects the impact of higher tax exemptions for mothers and public sector wage increases and bonuses. These developments correspond to net expenditure growth of 6.0% in 2026. Based on the Commission's estimates, the fiscal stance, which includes both nationally and EU financed expenditure, is projected to be expansionary by 1.0% of GDP in 2026. The general government debt-to-GDP ratio is projected by the Commission to decrease to 74.3% by the end of 2026. The decrease of the debt-to-GDP ratio in 2026 mainly reflects higher nominal GDP growth.

Key policy challenges

(22) Some practices distort the functioning of the financial and retail market, which may also limit the effectiveness of monetary policy. While caps on bank-deposit and corporate-lending rates were phased out in 2024, banks are widely expected to lower lending rates. Additionally, to boost domestic demand, there is widespread use of broadly targeted subsidised loans to households and corporations, as well as administratively controlled mortgage rates. The proportion of subsidised loans remains high compared to pre-COVID-19 levels, which leads to suboptimal capital allocation by financing projects with low returns and limited productivity gains. Although price caps on food products were phased out in 2024, in 2025, the government capped the difference between the retail purchase price and the sales price of a wide range of food products.

(23) Weaknesses in budget planning and execution have limited policy transparency and contributed to the expansionary bias of fiscal policy in the past. The very early adoption of annual budgets since 2016, with an exception in 2024, has reduced the reliability of macroeconomic and budgetary forecasts. The introduction of a 'state of danger', in force since 2020, has increased the discretion in implementing the annual budgets. Hungary's national fiscal framework has not led to a more prudent fiscal stance and presents a number of shortcomings, such as procyclical features of the debt rule and weak enforcement of medium-term budget planning. Frequent and significant revisions of fiscal targets have undermined the role of the budget as an anchor for market participants and have called into question the credibility of medium-term fiscal plans. Basing medium-term fiscal planning on multiannual spending ceilings, as set out in the revised EU fiscal rules, would help address the expansionary bias of fiscal policy. The mandate and operational capacities of the Hungarian Fiscal Council remain limited. The new public fund management structures such as public interest trusts weaken budgetary oversight as they seem to operate without effective control mechanisms.

(24) Population ageing is set to intensify the long-term fiscal sustainability challenges in Hungary. The ratio of working age population to individuals aged 65 or older is projected to decline from 2.9 in 2023 to 1.8 by 2070. As a result, pension expenditure is projected to rise substantially, from around 7.7% in 2022 to above 12% of GDP in 2070. According to the Commission's debt sustainability analysis, fiscal risks are high in the medium term and medium in the long term. The design of the pension system generates equity issues, such as increasing expenditure on pensions for high-income individuals and large pension gaps between pensioners from different age cohorts due to the sensitivity of the pension calculation method to fluctuations in the national average wage. The minimum pension has remained nominally unchanged since 2008 and is not effective at ensuring adequate pensions for those with an interrupted employment history and low average earnings during their career.

(25) In accordance with Article 19(3), point (b), of Regulation (EU) 2021/241 and criterion 2.2 of Annex V to that Regulation, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. These are expected to help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations. Within this tight timeframe, finalising the effective implementation of the recovery and resilience plan, including the REPowerEU chapter, is essential to boost Hungary's long-term competitiveness through the green and digital transitions, while ensuring social fairness. The Commission Communication NextGenerationEU – The road to 2026, adopted on 4 June 2025, clarifies the applicable timeline for the end of the Facility and provides guidance to Member States to maximise implementation by 31 August 2026, including on how to further streamline their RRPs, lays out key options to consider when revising them, and stresses the importance of careful joint planning ahead for the submission of the last payment requests in 2026. To deliver on the commitments of the recovery and resilience plan by August 2026, it is essential for Hungary to urgently accelerate the implementation of reforms and investments by addressing relevant challenges, in the first place by swiftly implementing the necessary measures to ensure effective protection of the financial interests of the EU. Strengthening the anti-corruption framework and increasing competition in public procurement are key elements in this respect and also crucial to improve the business environment and foster competitiveness. The systematic involvement of local and regional authorities, social partners, civil society and other relevant stakeholders remains essential in order to ensure broad ownership for the successful implementation of the recovery and resilience plan.

(26) The implementation of cohesion policy programmes, which encompass support from the European Regional Development Fund (ERDF), the Just Transition Fund (JTF), the European Social Fund Plus (ESF+) and the Cohesion Fund (CF), has accelerated in Hungary. It is important to continue efforts to ensure the swift implementation of these programmes, while maximising their impact on the ground. Furthermore, it's key to the successful implementation of cohesion policy programmes that Hungary urgently resolves the pending issues on the enabling conditions, in particular the outstanding issues as regards compliance with the Charter of Fundamental Rights, and on the protection of the Union's financial interests. Hungary is already taking action under its cohesion policy programmes to boost competitiveness and growth while enhancing social cohesion. At the same time, Hungary continues to face challenges, including those relating to enhancing competitiveness in the context of industrial transition, strengthening innovation and digital capacities, accelerating the energy transition, improving access to affordable housing, including social housing, the upskilling and labour market integration of disadvantaged groups, combatting poverty and social exclusion as well as educational inequalities, and increasing water resilience. In accordance with Article 18 of Regulation (EU) 2021/1060, Hungary is required – as part of the mid-term review of the cohesion policy funds – to review each programme taking into account, among other things, the challenges identified in the 2024 country-specific recommendations. The Commission proposals adopted on 1 April 2025[20] extend the deadline for submitting an assessment – for each programme – of the outcome of the mid-term review beyond 31 March 2025. They also provide flexibilities to help speed up programme implementation and incentives for Member States to allocate cohesion policy resources to five strategic priority areas of the Union, namely competitiveness in strategic technologies, defence, housing, water resilience and energy transition, and to investments in skills in priority sectors while maintaining the focus on persons in most vulnerable situations in ESF+ programmes.

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20 Proposal for a regulation of the European Parliament and of the Council amending Regulations (EU) 2021/1058 and (EU) 2021/1056 as regards specific measures to address strategic challenges in the context of the mid-term review - COM(2025) 123 final.

(27) The Strategic Technologies for Europe Platform (STEP) provides the opportunity to invest in a key EU strategic priority by strengthening the EU's competitiveness. STEP is channelled through 11 existing EU funds. Member States can also contribute to the InvestEU programme supporting investments in priority areas. Hungary could make optimal use of these initiatives to support the development or manufacturing of critical technologies, including clean and resource-efficient technologies.

(28) Beyond the economic and social challenges addressed by the recovery and resilience plan and other EU funds, Hungary should effectively address the remaining challenges related to the business environment, access to finance, innovation, reliance on Russian fossil fuels, fossil-fuel subsidies, balancing of the electricity network, water management, education, skills levels and integration of disadvantaged groups into the job market, social assistance, social dialogue and housing.

(29) As set in the Competitiveness Compass, all the EU, national, and local institutions must make a major effort to produce simpler rules and to accelerate the speed of administrative procedures. The Commission has set ambitious goals for reducing administrative burden: by at least 25% and by at least 35% for SMEs; and has created new tools to achieve these goals, including systematic stress test of the stock of EU legislation and enhanced stakeholders' dialogue. To match this ambition, Hungary also needs to take action. 49% of businesses consider the complexity of administrative procedures to be a problem for their company when doing business in Hungary[21]. The weak business environment is still a major barrier to innovation. According to competitiveness indicators, Hungary was among the worst performers in the EU in 2024. Businesses face a high level of regulatory volatility, which makes long-term business planning difficult. The public and stakeholders are not consulted on important draft laws, as they are often tabled in parliament by individual members instead of the government, thus not requiring a public consultation. The government continues to widely use emergency decrees to amend laws during the 'state of danger', which has been continuously extended for the last five years for various reasons. The longstanding emergency regime limits public consultation and makes it possible to introduce sudden, often major, policy shifts potentially disrupting normal business operations. The lack of equal treatment of companies limits competition. The market structure is concentrated and only a few firms compete in specific markets[22]. Several services are entrusted to state-owned or private firms that operate without competition. The large-scale use of framework agreements in public procurement procedures also limits competition by locking in certain firms and helping them acquire a dominant market position. The retail sector, in particular, operates in an unstable business environment. Retailers are also affected by administrative interventions, such as retail price caps, limits on sales margins, mandatory discounts, prohibition of selling food products 48 hours before their expiry date and mandatory online price reporting. Policy measures and high taxes decrease the competitiveness of retailers.

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21 'Businesses' attitudes towards corruption in the EU' Flash Report, Eurobarometer Report (April 2024)

22 World Bank's Business Ready report.

The increasing use of sector-specific taxes complicates the tax system and disproportionately impacts larger, often foreign-owned firms. In 2023, revenues from sector-specific taxes accounted for 2.7% of GDP. The sectors most affected include banking, energy, retail, construction materials, insurance, telecommunication and utilities. The State is active in business transactions and crowds out private actors by purchasing or facilitating the purchase of several large companies with subsidised financing. Various state interventions have been used to force – mostly foreign – owners to sell their firms, facilitating the creation of public or government-connected national champions. The increasing presence of private equity funds creates new challenges. This company structure is used, in particular, by individuals with links to the government as it ensures anonymity, similar to offshore companies. Private equity funds have increased significantly in number and size in recent years and represented more than 2.5% of GDP in 2024. Private equity funds are increasingly investors in companies winning public procurements and securing high-value concessions, and have a strong presence in business transactions with the State. The weak business environment contributed to the erosion of competitiveness and holds back investments, and ultimately leads to higher inflation and slow economic recovery as shown by the in-depth review on Hungary under the macroeconomic imbalance procedure.

(30) Capital markets as channels to finance start-ups and highly innovative small to medium-sized enterprises are underdeveloped in Hungary. In 2023, the stock market capitalisation stood at 17.6% of GDP (EU average: 68%). Recent policy measures have further obstructed the development of capital markets, such as tax-free long-term bonds for retail investors and tax incentives for housing investment.

(31) R&D intensity has increased only marginally over the past decade and was still well below the EU average in 2023 (1.4% vs 2.2% of GDP). Public R&D spending, including in universities, is one of the lowest in the EU, which holds back scientific excellence. The ongoing reorganisation of research institutes, as well as unclear internal evaluation mechanisms, contribute to uncertain working conditions for researchers. Technology transfer offices are not yet sufficiently embedded in and accepted by academic circles, and spin-off channels are not yet well developed. Cooperation between academia and businesses is mainly limited to incumbent firms with links to universities. Only a few, mainly large, companies innovate and benefit from the various subsidies due to the heavy administrative burden and not always clear eligibility rules on innovation expenditure.

(32) Hungary continues to heavily rely on Russia for fossil fuels. In 2024, more than 70% of natural gas and more than 80% of crude oil consumed was of Russian origin. Hungary's efforts to shift away from Russian dependence are slow.

(33) Hungary records sizeable relevant fossil-fuel subsidies without a planned phase-out before 2030. In particular, fossil-fuel subsidies that address neither energy poverty in a targeted way nor genuine energy security concerns, hinder electrification and are not crucial for industrial competitiveness could be considered a phase-out priority. In Hungary, fossil-fuel subsidies – such as the utility cost reduction programme, a value added tax reduction for district heating using natural gas, and excise tax refunds for agricultural use of diesel – are economically inefficient, perpetuate reliance on fossil fuels and do not incentivise electrification in the residential sector. Scaling down and phasing out these subsidies is in line with EU commitments and can help Hungary to control government spending.

(34) Without more system flexibility, fast deployment of renewables fails to reduce reliance on electricity imports and has led to extreme volatility of the wholesale electricity price over the course of individual days. Household consumers have limited access to dynamic pricing, and the roll-out of smart meters is low (below 10%), also impeding flexibility. Limited cross-border trade prevents Hungary from exploiting the full benefits of the single market by letting electricity flow where demand is higher. Furthermore, low competition in the Hungarian balancing market results in higher costs. The energy price for businesses in Hungary is one of the highest in the EU. Energy imports decreased in 2024 but remain substantial, making the external balance vulnerable to increases in energy prices, which is a challenge identified under the macroeconomic imbalance procedure.

(35) Hungary is increasingly affected by climate risks, evidenced by the droughts it experienced in 2022, in particular, but also in 2024, which led to significant losses in the agricultural sector. Weak administrative capacities and insufficient green infrastructure undermine Hungary's overall water resilience, and in particular its natural water retention capacity. Moreover, water quality is poor due to pollution from agriculture, industry and human settlements, with only 11.3% of surface waters having good ecological status (EU average: 37.3%). Hungary's progress in embracing the circular economy is slow, with insufficient emphasis on reuse, repair and recycling. According to 2023 data, Hungary's resource productivity of 1.33 EUR/kg and circular material use rate of 5.9% are substantially below the EU average (2.74 EUR/kg and 11.8%) and no convergence can be observed. Scarce resource allocation and insufficient treatment capacities in the waste management sector have resulted in relatively low recycling rates and an over-reliance on landfilling.

(36) Hungary's competitiveness and innovation potential are limited by weak basic skills among disadvantaged and vocational education and training (VET) students, low tertiary education attainment, and limited up-skilling and reskilling for vulnerable groups. Strong inequalities in education, particularly affecting Roma, leave one in two disadvantaged pupils with low basic skills. The 2022 PISA survey shows one of the largest gaps in average mathematics performance between general and vocational programmes in the EU, largely due to socio-economic disparities. VET participation is increasing, yet the system is still insufficiently permeable[23] and the three-year VET programmes – with their reduced general education content – fail to provide direct access to educational pathways leading to higher qualification levels. Teacher shortages are a pressing concern against the background of an ageing workforce, especially in the most disadvantaged regions and rural areas. In 2024, Hungary started to implement a major reform of teacher salaries, co-financed by the ESF+. In addition, greater teacher autonomy and a teacher assessment system rewarding innovative and inclusive pedagogical teaching approaches, could help attract high-achieving candidates and retain young teachers in the profession. Despite an increasing demand for a highly skilled workforce, tertiary education attainment remains one of the lowest in the EU. This is combined with low shares of science, technology, engineering and mathematics graduates, which further reduces Hungary's ability to attract investment in high-tech sectors.

[23] Smooth transition of learners within the entire education and training system, horizontally and vertically.

(37) The average employment rate is high, but some disadvantaged groups, such as people with a low level of educational attainment, persons with disabilities and Roma, continue to face barriers to accessing upskilling and reskilling opportunities and entering into stable employment. This remains an untapped reserve of workers, while Hungary also relies on foreign workers. There is still room for improvement regarding the availability of effective reskilling and upskilling opportunities, and appropriate tailor-made support services – including transversal skills development, health and psychological support and job-seeking support – for disadvantaged groups. The recent amendment of the legal framework on active labour market policies creates more opportunities for promoting training provision, and there is scope for improving the capacities of the public employment services in this respect. The average duration of unemployment is over 12 months. The three-month unemployment benefit limits the time for finding suitable employment or adequate upskilling opportunities and increases risks of low-quality jobs, long-term unemployment and poverty.

(38) Social dialogue between employers and trade unions remains weak, especially in the public sector. Although the private sector tripartite forum received a legal framework for minimum wage negotiations in 2024, major economic policies proposed in 2024 and 2025 were adopted without consulting relevant employers and trade unions. Workers' rights in the public sector have gradually eroded. For certain public employees, a separate employment status has been created, which weakens their ability to collectively defend their interests.

(39) Social exclusion and poverty are on the rise, especially among children, older people and persons with disability. Wealth inequality has increased significantly and is among the highest in the EU. The tax system favours high-income households, while most social support is provided through tax credits. The adequacy of the minimum income, especially of the employment substituting benefit (FHT), is one of the lowest in the EU. The impact of social benefits declined further in 2023 in terms of reducing poverty (especially for children) and remained low in terms of reducing income inequality. An EU-funded programme supporting housing, social services and education in the 300 most disadvantaged municipalities is a major step forward, but more targeted measures to improve access to mainstream social and basic services are needed. The uneven geographical distribution of doctors is a major barrier to accessing care in outlying regions of the country. Policy measures to address low healthcare spending and persistent shortages of health professionals remain limited. Life expectancy at birth is among the lowest in the EU. Addressing these challenges would also contribute to supporting upward social convergence, in line with the Commission services' second-stage country analysis in line with the Social Convergence Framework[24].

(40) Housing costs negatively impact living standards, in particular among people living below the poverty threshold. House prices increased by 230% between 2010 and 2024. The social housing stock is small and decreasing, and low-income households have limited access to housing support in absence of clear and more targeted government housing policy support. Generous and untargeted housing subsidies and restricted housing supply contributed to house price increases.

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24 SWD(2025) 95 – Second-stage country analysis on social convergence in line with the Social Convergence Framework (SCF), 2025.

(41) In light of the Commission's in-depth review and its conclusions on the existence of imbalances, recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendations (1), (2), (3), (4) and (6). Policies referred to in recommendations (1), (2), (4) and (6) help to address vulnerabilities linked to government and external financing needs. Policies referred to in recommendation (3) help to address vulnerabilities linked to cost competitiveness and price pressures.

HEREBY RECOMMENDS that Hungary take action in 2025 and 2026 to:

1. Reinforce overall defence and security spending and readiness while ensuring debt sustainability in line with the European Council conclusions of 6 March 2025. Adhere to the maximum growth rates of net expenditure recommended by the Council on 18 February 2025, with a view to bringing an end to the situation of an excessive deficit while making use of the allowance under the national escape clause for higher defence expenditure. Wind down the emergency energy support measures. Pursue effective coordination and clear demarcation of macroeconomic policies to ensure fiscal and external sustainability. Phase out remaining price and interest-rate caps, and equivalent measures, to reduce distortive effects and facilitate the smooth transmission of monetary policy. Strengthen the medium-term budgetary framework, align the preparation of annual budgets with the budgetary year and limit discretion in the implementation of annual budgets. Improve the long-term sustainability of the pension system, while preserving adequacy, in particular by addressing income inequalities.

2. In view of the applicable deadlines for the timely completion of reforms and investments under Regulation (EU) 2021/241, urgently accelerate the implementation of the recovery and resilience plan, including the REPowerEU chapter, swiftly implementing the necessary measures to ensure the protection of the EU's financial interests. Accelerate the implementation of cohesion policy programmes (ERDF, JTF, ESF+, CF), building, where appropriate, on the opportunities offered by the mid-term review. Make optimal use of EU instruments, including the opportunities provided by the InvestEU programme and the Strategic Technologies for Europe Platform, to improve competitiveness.

3. Improve the regulatory framework and enhance competition in product markets and services, in particular in retail, by avoiding arbitrary administrative interventions, tailor-made legislation providing undue advantage or disadvantage to specific companies and market-distorting state-supported transactions and by reducing the use of emergency measures to what is strictly necessary, in line with the principles of the single market and the rule of law. Stimulate the development of capital markets by increasing tax and regulatory incentives. Strengthen the innovation framework for the public sector and businesses by improving the predictability of public R&D spending and better targeting existing measures towards SMEs.

4. Accelerate the diversification of fossil fuel supply to phase out dependence on Russian sources and take concrete steps to phase out fossil-fuel subsidies, in particular those related to excise duties on diesel and those hindering electrification in the residential sector. Improve flexibility and competition in the electricity sector, by strengthening the balancing market and boosting cross-border electricity trading. Improve water resilience through natural water retention and strengthened administrative capacities, and improve circularity, in particular by strengthening waste treatment capacities.

5. Improve education outcomes and tertiary attainment rate and increase the participation of disadvantaged groups, particularly Roma, in quality mainstream education by further increasing the attractiveness of the teaching profession and the share of pupils obtaining an upper-secondary qualification that gives access to tertiary education.

6. Increase access to effective active labour market measures, in particular by providing upskilling and reskilling opportunities to the most disadvantaged groups, and ensure effective social dialogue. Improve the adequacy of social assistance and unemployment benefits, and ensure access to essential services for all. Target support measures in the housing sector to low-income households and increase housing supply, including for social housing.

Done at Brussels,

For the Council
The President