INTERNATIONAL MONETARY FUND

IMF Country Report No. 25/250

# HUNGARY

August 2025

## 2025 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR HUNGARY

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2025 Article IV consultation with Hungary, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its August 29 consideration of the staff report that concluded the Article IV consultation with Hungary.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on August 29, following discussions that ended on June 17, with the officials of Hungary on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 25, 2025.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Hungary.

The documents listed below have been or will be separately released.

*Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR 25/286

# IMF Executive Board Concludes 2025 Article IV Consultation with Hungary

**FOR IMMEDIATE RELEASE**

- The Hungarian economy is at a challenging juncture with stagnant output over the past three years and inflation above target.
- A modest recovery is expected with significant risks to the downside including a delay in needed fiscal adjustment and deepening geoeconomic fragmentation.
- To strengthen macroeconomic resilience and revitalize growth, it is essential to rebuild fiscal buffers, sustain a tight monetary stance into next year, and implement structural reforms to bolster competitiveness, energy security and productivity.

**Washington, DC – August 29, 2025:** The Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation for Hungary.[1] The authorities have consented to the publication of the Staff Report prepared for this consultation.

**The Hungarian economy is at a challenging juncture.** Output has stagnated over the past 3 years, while inflation remains well above the central bank's 3 percent target. Regulatory measures—such as price, interest and margin caps, along with windfall taxes and subsidized lending schemes—have distorted market signals and added uncertainty. Despite significant fiscal adjustment in recent years, public debt is elevated given high financing costs.

**High domestic and external uncertainty are expected to continue weighing on the outlook.** Modest consumption-driven growth of 0.7 percent is expected in 2025 underpinned by favorable wage dynamics. Growth is projected at 2 percent in 2026 on a recovery in investment and a positive impulse from German fiscal expansion. Inflation is expected at 4.5 percent in Q4:2025 and then to gradually decelerate to the central bank's 3 percent target by 2027. Under current policies, the fiscal deficit will remain around 4½ percent of GDP through the medium term, with debt-to-GDP rising to around 79 percent by 2030.

**Risks are tilted to the downside.** Deepening geoeconomic fragmentation amid a further escalation in trade measures, intensification of regional conflicts, a failure to enact a credible fiscal adjustment, and cancelation of EU funds, pose significant downside risks.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

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USA

**Executive Board Assessment**[2]

Executive Directors agreed with the thrust of the staff appraisal. They welcomed Hungary's economic resilience but noted that the outlook remains subdued amid weak investment and above target inflation. Noting downside risks and high external uncertainty, Directors stressed the need for strong reform efforts to promote macroeconomic stability, rebuild buffers, and boost productivity.

Directors emphasized the importance of additional fiscal effort to rebuild fiscal buffers and ensure debt sustainability. They welcomed the authorities' medium term goal of achieving a structural primary surplus, which would help reduce the headline deficit and place public debt firmly on a downward path. In that context, Directors underscored the importance of high quality fiscal adjustment. They called for broadening the tax base by reducing exemptions and rationalizing spending—particularly energy subsidies—while reallocating savings to strengthen targeted social support. Directors also stressed the need for reforms to contain long term pension and healthcare spending pressures and improve monitoring and mitigation of fiscal risks, including those stemming from state owned enterprises. Contingency planning, including in case of additional defense spending, would be important.

Directors agreed that the monetary policy stance should remain tight to return inflation to target. They supported a data dependent approach amid high uncertainty and highlighted the role of continued exchange rate flexibility and adequate reserves in mitigating external shocks. Directors agreed on the need to phase out price, fee, and margin controls to avoid market distortions and strengthen the effectiveness of monetary policy.

Directors considered that the financial sector is broadly sound, but urged continued vigilance. They noted that while banks are well capitalized, liquid and profitable, vulnerabilities remain, including from risks in the corporate sector, banks' growing sovereign and FX exposures, and buoyant housing prices. Directors also recommended phasing out housing related incentives to contain price pressures and concurred that differentiation in borrower based macroprudential measures should be introduced only on financial stability grounds.

Directors emphasized the need for structural reforms to boost productivity and competitiveness. Directors also stressed the importance of improving energy security and expanding the use of renewables to strengthen economic resilience and advancing governance reforms to foster a more predictable business environment and unlock EU funding.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

## Table 1. Hungary: Selected Economic Indicators, 2020-2030

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | *Projections* | | | | | |
| **Real economy** | *(Percentage change, unless otherwise indicated)* | | | | | | | | | | |
| Real GDP (percentage change) | -4.3 | 7.2 | 4.3 | -0.8 | 0.5 | 0.7 | 2.0 | 2.2 | 2.4 | 2.5 | 2.6 |
| Total domestic demand (contrib. to growth) | -2.4 | 6.5 | 4.3 | -5.4 | -0.1 | 1.0 | 2.0 | 1.9 | 2.1 | 2.2 | 2.2 |
| Private consumption | -0.9 | 2.7 | 3.8 | -0.2 | 2.1 | 1.3 | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 |
| Government consumption | 0.5 | 0.3 | 0.1 | 0.3 | -0.4 | 0.3 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Gross fixed investment | -2.1 | 1.6 | 0.2 | -2.0 | -2.7 | -1.1 | 0.5 | 0.5 | 0.6 | 0.7 | 0.7 |
| Foreign balance (contrib. to growth) | -1.9 | 0.7 | 0.0 | 4.3 | 0.7 | -0.2 | 0.1 | 0.3 | 0.4 | 0.4 | 0.4 |
| CPI inflation (average) | 3.3 | 5.1 | 14.6 | 17.1 | 3.7 | 4.6 | 3.5 | 3.0 | 3.0 | 3.0 | 3.0 |
| CPI inflation (end year) | 2.7 | 7.4 | 24.5 | 5.5 | 4.6 | 4.5 | 3.1 | 3.0 | 3.0 | 3.0 | 3.0 |
| Core CPI inflation (average) | 3.7 | 3.9 | 15.8 | 17.7 | 4.6 | 5.3 | 3.8 | 3.2 | 3.1 | 3.0 | 3.0 |
| Core CPI inflation (end year) | 3.2 | 6.4 | 24.8 | 7.5 | 4.7 | 5.3 | 3.4 | 3.1 | 3.1 | 3.0 | 3.0 |
| Unemployment rate (average, ages 15-74) | 4.1 | 4.1 | 3.6 | 4.1 | 4.5 | 4.5 | 4.2 | 4.0 | 3.9 | 3.8 | 3.8 |
| Gross fixed capital formation (percent of GDP) | 26.5 | 27.3 | 27.8 | 25.6 | 23.4 | 21.6 | 21.5 | 21.5 | 21.6 | 21.6 | 21.8 |
| Gross national saving (percent of GDP) | 26.6 | 26.7 | 25.9 | 26.1 | 25.7 | 24.3 | 24.3 | 24.3 | 24.5 | 24.6 | 24.8 |
| **General government 1/** | | | | | | | | | | | |
| Overall balance (percent of GDP) | -7.5 | -7.1 | -6.2 | -6.7 | -4.9 | -4.7 | -4.5 | -4.6 | -4.5 | -4.4 | -4.3 |
| Primary balance (percent of GDP) | -5.3 | -5.0 | -3.9 | -3.2 | -0.8 | -1.2 | -0.8 | -1.1 | -0.7 | -0.3 | 0.2 |
| Structural primary balance (percent of potential GDP) | -4.3 | -5.5 | -4.9 | -3.1 | -0.2 | -0.5 | -0.3 | -0.7 | -0.5 | -0.3 | 0.2 |
| Public debt (percent of GDP) | 78.7 | 76.2 | 73.9 | 73.0 | 73.5 | 74.8 | 75.3 | 76.3 | 77.3 | 78.0 | 78.6 |
| **Money and credit (end-of-period)** | | | | | | | | | | | |
| Broad money | 21.1 | 16.3 | 7.1 | 1.4 | 8.9 | 5.1 | 5.7 | 5.9 | 6.3 | 6.5 | 6.5 |
| Lending to the private sector, flow-based | 11.8 | 12.8 | 12.0 | 4.5 | 5.2 | 4.4 | 6.2 | 5.8 | 5.8 | 5.9 | 5.9 |
| **Interest rates** | | | | | | | | | | | |
| T-bill (90-day, average) | 0.4 | 0.9 | 7.6 | 11.0 | 6.1 | 6.1 | 6.4 | 6.6 | 6.6 | 6.6 | 6.7 |
| Government bond yield (5-year, average) | 1.5 | 2.4 | 8.1 | 8.0 | 6.2 | 6.6 | 6.8 | 7.0 | 7.2 | 7.3 | 7.3 |
| **Balance of payments** | | | | | | | | | | | |
| Current account (percent of GDP) | -0.9 | -4.1 | -8.5 | 0.3 | 2.2 | 1.4 | 1.1 | 1.3 | 1.5 | 1.6 | 1.8 |
| Reserves (billions of Euros) | 33.7 | 38.4 | 38.7 | 41.4 | 44.6 | 49.3 | 50.9 | 51.1 | 55.0 | 55.8 | 60.7 |
| Gross external debt (percent of GDP) 2/ | 80.7 | 86.4 | 91.8 | 85.8 | 84.8 | 79.1 | 75.1 | 71.7 | 70.2 | 68.3 | 67.5 |
| Gross official reserves in percent of the IMF ARA metric | 120.2 | 117.5 | 107.0 | 105.0 | 109.6 | 112.1 | 111.4 | 110.8 | 114.7 | 114.0 | 121.3 |
| **Exchange rate** | | | | | | | | | | | |
| Exchange rate, HUF per euro, period average | 351.2 | 358.5 | 390.9 | 381.8 | 395.4 | -- | -- | -- | -- | -- | -- |
| Nominal effective rate (2000=100, average) | 130.5 | 133.0 | 145.5 | 141.3 | 139.9 | -- | -- | -- | -- | -- | -- |
| Real effective rate, CPI basis (2000=100, average) | 84.2 | 84.1 | 87.5 | 77.0 | 82.9 | -- | -- | -- | -- | -- | -- |
| *Memorandum Items:* | | | | | | | | | | | |
| Nominal GDP (billions of Forints) | 48,808 | 55,560 | 66,149 | 75,569 | 81,514 | 86,470 | 91,354 | 96,175 | 101,236 | 106,696 | 112,524 |
| Per capita GDP (EUR) | 14,343 | 16,060 | 17,607 | 20,620 | 21,507 | 22,874 | 24,226 | 25,567 | 26,981 | 28,505 | 30,135 |
| Output gap (percent of potential GDP) | -2.8 | 0.6 | 2.0 | -0.4 | -1.3 | -1.5 | -1.2 | -0.9 | -0.4 | 0.0 | 0.0 |

Sources: Hungarian authorities; IMF, International Financial Statistics; Bloomberg Finance L.P.; and IMF staff estimates and projections.

1/ Consists of the central government budget, social security funds, extrabudgetary funds, and local governments. The primary balance is net of interest expenses and revenues.

2/ Excluding Special Purpose Entities.

INTERNATIONAL MONETARY FUND

# HUNGARY

## STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

July 25, 2025

## KEY ISSUES

**Context.** Hungary's rebound has stalled. A nascent recovery in early 2024 lost momentum in the second half of the year and output contracted in Q1:2025. Inflation re-accelerated in Q4:2024 and remains above the 1 percent tolerance band of the 3 percent target. These developments emerged against an already disappointing post-pandemic recovery and long-standing productivity impediments.

**Outlook and risks.** Modest consumption-driven growth of 0.7 percent is expected in 2025, with a pickup to 2 percent in 2026 on a nascent recovery in investment. Inflation is projected at 4½ percent in Q4:2025 and then to gradually decelerate to 3 percent by 2027. Under current policy, the fiscal deficit is expected to remain around 4½ percent of GDP through the medium term, with debt-to-GDP rising to around 79 percent by 2030. A further escalation in trade measures, intensification of regional conflicts, a delay in the needed fiscal adjustment, and cancellation of EU funds, pose significant downside risks.

**Policy Recommendations:**

- **Fiscal policy**. Additional measures are needed to achieve budget and medium-term targets and put debt on a downward path. These should be rooted in a tax structure with fewer exemptions and more efficient spending with reduced subsidies and less administrative overhead. Fiscal risks should be carefully monitored and managed.
- **Monetary and financial sector policies**. The monetary policy stance will need to remain tight into next year to durably return inflation to target. Continued robust supervisory vigilance is warranted amid risks in the corporate sector, banks' growing sovereign and FX exposures, elevated CRE vacancies, and buoyant house prices. Differentiation in macroprudential limits should be introduced only on financial stability grounds. Policies that distort market-based mechanisms—including margin, price and fee caps and housing-related incentives—should be phased out.
- **Structural reforms.** Priorities include fostering firm dynamism by eliminating barriers to factor mobility, including through a more cautious and targeted application of state aid, strengthening access to risk capital especially for young, high-growth firms, enhancing energy security to bolster economic competitiveness, and making further progress on governance reforms to promote a predictable business environment and unlock access to EU funds.

Approved By
**Kristina Kostial (EUR) and Jacques Miniane (SPR)**

The meetings took place in Budapest from June 5-17, 2025. The staff team comprised Anke Weber (head), Jakree Koosakul, Moheb Malak, Augustus Panton, Atticus Weller (all EUR), and Aleksandra Alferova (STA), with assistance from Estefania Cohn Bech and Ninfa Gonzales. Significant contributions to the staff report were made by Rafael Machado Parente and Hugo Rojas-Romagosa (both RES). Gábor Meizer and Dániel Palotai (OED) participated in the meetings. The mission held discussions with Minister Márton Nagy and State Secretaries Máté Lóga, Bence Gerlaki and Kornél Kisgergely (Ministry for National Economy); Deputy Central Bank Governors Barnabás Virág, Csaba Kandrács and Zoltán Kurali; Deputy CEOs Pál Péter Kolozsi and András Bebes (AKK); Szabolcs Ágostházy (State Secretary, Ministry of Public Administration and Regional Development); CEO Károly Mátrai and Director Réka Martini (MVM); Gábor Horváth (Chairman, Fiscal Council); Attila Steiner (State Secretary, Ministry of Energy); and other officials, representatives from the Parliamentary Economic Committee, banks, investment management firms, trade chambers, employee associations, research institutions, and automotive companies.

## CONTENTS

**TABLES**



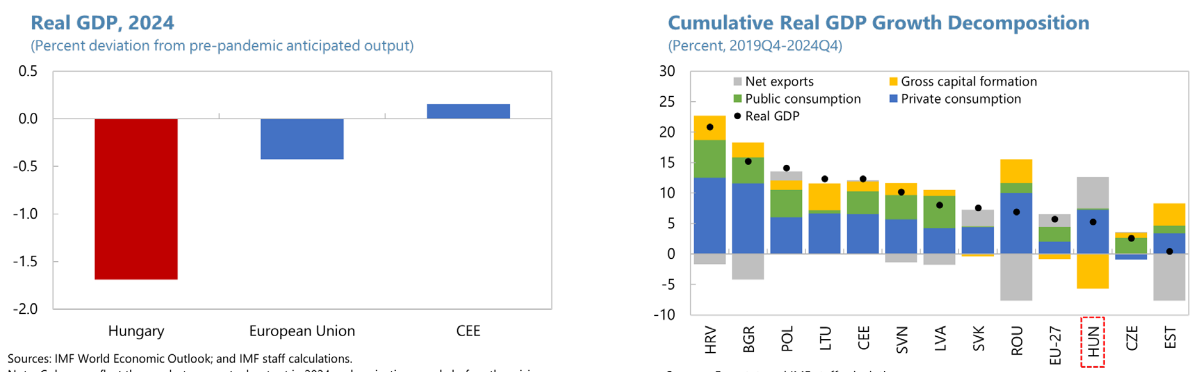
**ANNEXES**

# AT A GLANCE: A CRITICAL JUNCTURE

1. **A nascent recovery in early 2024 lost momentum in the second half of the year, while inflation re-accelerated.** Following a contraction in 2023, the economy expanded on a year-on-year basis in the first two quarters of 2024. However, amid elevated uncertainty, momentum cooled considerably by Q3, bringing 2024 GDP growth to a modest 0.5 percent. Thanks to an effective monetary policy response aided by tight fiscal policy, inflation approached the 3 percent target in September 2024. But amid forint depreciation and higher food and services prices, it moved out of the tolerance band in late 2024.

2. **These developments came against an already weak post-pandemic recovery and long-standing productivity impediments**. Hungary's output remains well below pre-pandemic expectations, contrasting with the average modest overperformance of CEE peers. The contribution from investment has been the most negative in the region. Productivity has fallen behind peers amid a heavy state presence in key sectors that impedes competition, distortive taxes, frequent regulatory changes, and delays in governance reforms leading to the suspension of some EU funds.

**Figure 1. Real GDP Relative to Expectations and Peers**




Sources: IMF World Economic Outlook; and IMF staff calculations.
Note: Columns reflect the gap between actual output in 2024 and projections made before the crisis (January 2020 WEO). CEE includes Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia. CEE and EU aggregates are weighted by purchasing power parity.

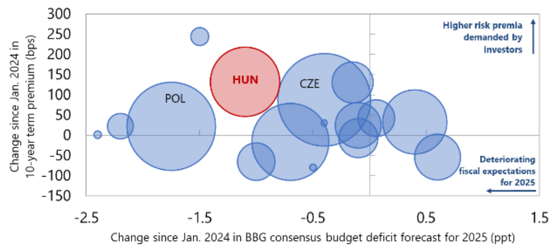
Sources: Eurostat; and IMF staff calculations.
Note: CEE includes Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Lithuania, Latvia, Poland, Romania, Slovenia, and Slovakia.

3. **Reforms are needed to strengthen growth and macroeconomic stability amid an unsettled external environment.** Elevated and still growing public debt and high refinancing costs underscore the urgency of credible, well-designed measures to restore fiscal buffers. This would also support efforts by the central bank to bring down inflation. Implementing structural reforms to address the root causes of stagnant productivity will be crucial to safeguard growth against trade tensions and heightened uncertainty. However, with national elections in early 2026, the political economy of reform could be challenging.

**Figure 2. Term Premia, Exposure to US, Public Debt and Ratings**

**Change in Term Premium, Fiscal Budget Expectations and Exposure to Spillovers from the US**

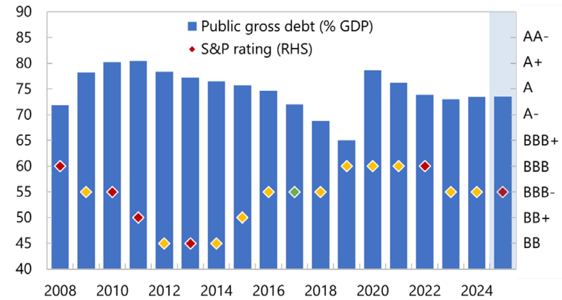
(Percentage points; basis points; bubble size = share of term premium variation from US shock)




Source: Bloomberg L.P.
Note: Term premium estimate based on of Adrian et al. (2013, Journal of Financial Economics). Spillovers refer to the share of EM term premium variation explained by shocks from US term premiums, per Diebold and Yilmaz (2009, The Economic Journal).

**Public Debt and Ratings**

(Percent of GDP (LHS); credit rating (RHS))




Sources: IMF World Economic Outlook; S&P Capital IQ; and Trading Economics.
Note: Diamond color reflects S&P outlook — green: positive, yellow: stable, red: negative.

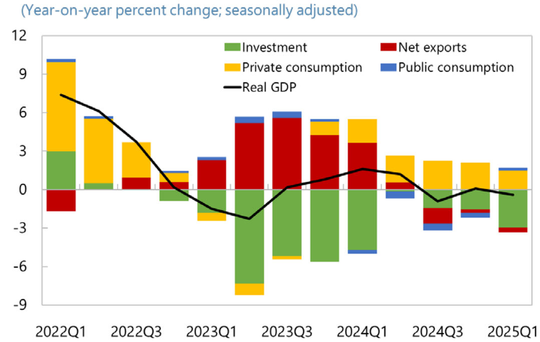
## RECENT DEVELOPMENTS: STAGNANT GROWTH AND ELEVATED INFLATION

4. **The economy contracted in Q1:2025.** Real GDP declined by 0.4 percent y/y (0.2 percent q/q sa) in Q1:2025, weighed down by a further drop in investment despite a positive contribution from consumption amid favorable real wage dynamics. High-frequency indicators point to a continued recovery in consumption while industrial production remains subdued amid persistently weak business confidence and restrained external demand from key trading partners.

**Figure 3. GDP Developments**

**Contributions to GDP Growth**

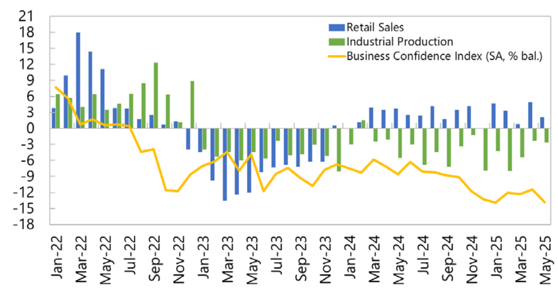
(Year-on-year percent change; seasonally adjusted)




Sources: Hungarian Central Statistical Office; Haver Analytics; and IMF staff calculations.

**Retail Sales Volumes and Industrial Production**

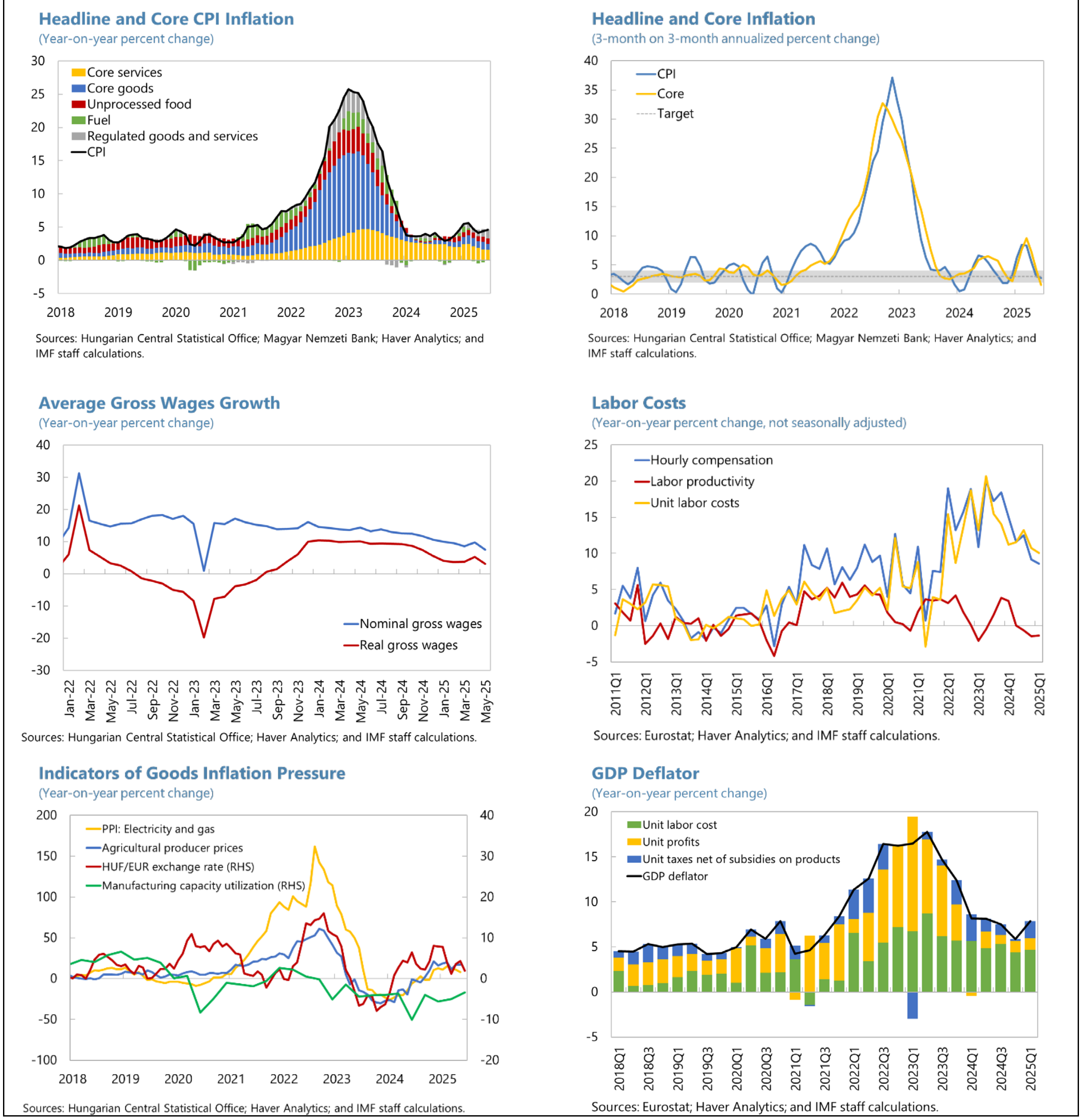
(Year-on-year percent change; seasonally adjusted percent balance)




Sources: Hungarian CSO; GKI Economic Research Co.; Haver Analytics; and IMF staff calculations.
Note: Business confidence index is a weighted average of sector-specific indices (industry, trade, construction, services), each based on survey response averages. Percent balance = share reporting increase minus share reporting decrease.

5. **Following a broad-based surge in late 2024, inflation remains well above the 3 percent target.** Headline inflation fell to 4.4 percent y/y in Q2:2025 (from 5.3 percent y/y in Q1:2025), partly reflecting declining commodity prices and forint appreciation. Core inflation softened to 4.7 percent y/y in Q2 (from 5.9 percent y/y in Q1:2025), with momentum (annualized three-month change) also easing. But underlying price pressures remain elevated with core (wage-sensitive) services inflation at 7.6 percent y/y, reflecting double-digit y/y increases in unit labor costs. The government's margin caps on various food and household items may have also played some role in lowering inflation (Annex II).

## Figure 4. Indicators of Inflation

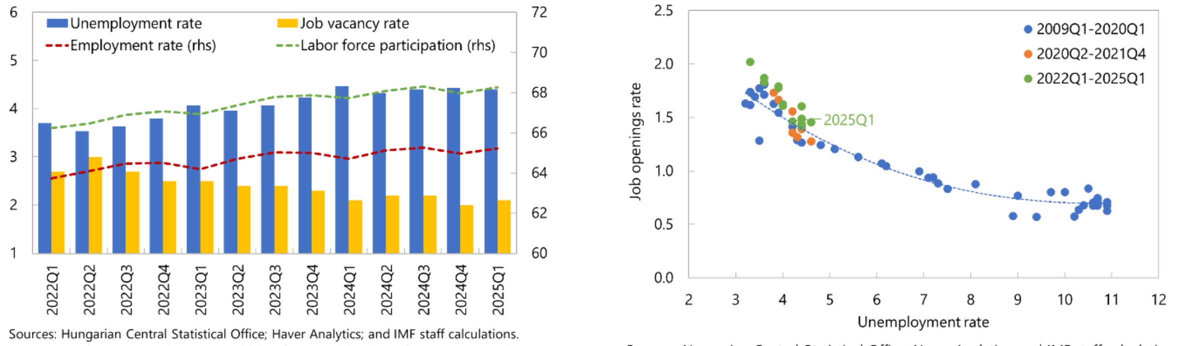



6. **The labor market remains strong, despite signs of softening.** Amid high costs of living, labor force participation increased further in 2024. As a portion of new job seekers did not find employment immediately, this resulted in a corresponding increase in the unemployment rate, which reached 4.3 percent in M6:2025, while the job vacancy rate declined further. The implied movement down the Beveridge curve suggests a modest labor market loosening, though it remains tight by historical standards.

**Figure 5. Labor Market Developments**

**Employment, Job Vacancy, and Labor Force**
(Percent; non-seasonally adjusted)

**Beveridge Curve**
(Percent)

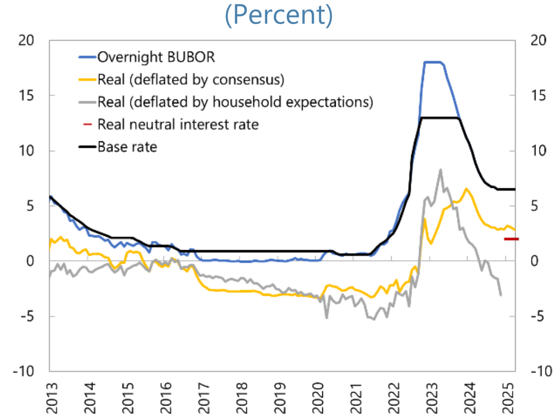



Sources: Hungarian Central Statistical Office; Haver Analytics; and IMF staff calculations.
Note: Unemployment, employment, and labor force participation refer to age group 15-74.

Sources: Hungarian Central Statistical Office; Haver Analytics; and IMF staff calculations.

7. **The central bank has kept its base rate on hold for an extended period and the overall stance remains modestly restrictive by some measures**. Following cumulative cuts of 350 basis points during Q1–Q3:2024, the Magyar Nemzeti Bank (MNB) has kept its base rate at 6.5 percent since September 2024.[1] The current monetary policy stance remains restrictive relative to staff's estimated real neutral interest rate of around 2 percent and one-year-ahead consensus inflation expectations of about 3.5 percent. However, elevated short-term household expectations—which tend to lag actual inflation developments—imply that some measures of real interest rates are below neutral, though uncertainty around the neutral rate remains.

**Figure 6. Nominal and Real Interest Rates**
(Percent)




Sources: Magyar Nemzeti Bank; Haver Analytics; and IMF staff calculations.

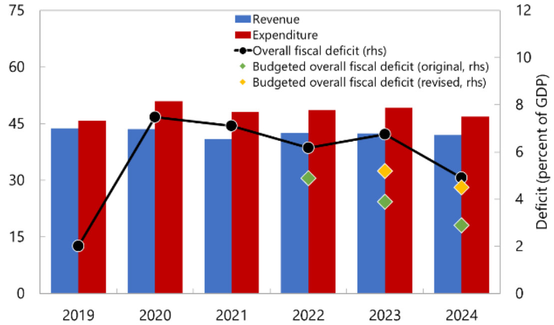
8. **Despite a welcome reduction in the headline deficit, the public debt-to-GDP ratio slightly increased in 2024.** The headline deficit improved by 1.8 percent of GDP to 4.9 percent of GDP in 2024. In primary cyclically-adjusted terms this amounted to an improvement of 2.8 percent of GDP, the fourth largest adjustment in the EU, with the bulk of the adjustment coming from cuts to capital outlays and spending on goods and services, subsidies, and non-household current transfers. The public debt-to-GDP ratio increased by 0.5 percentage points to 73.5 percent partly due to forint depreciation driving a positive stock-flow adjustment and despite a government debt buyback at end-2024. The cash deficit through June 2025 was 3.2 percent of annual GDP, about 60 percent of the revised 5.3 percent of GDP year-end cash target[2] (78 percent of the accrual target).

[1] The MNB reduced the required reserve ratio from 10 percent to 8 percent starting August 1, 2025, in line with the gradual decline in banking system excess liquidity.

[2] In June, the authorities revised their 2025 cash fiscal deficit target from 4.7 percent to 5.3 percent of GDP on account of lower-than-expected EU RRF funds flows but kept their accrual target of 4.1 percent of GDP unchanged.

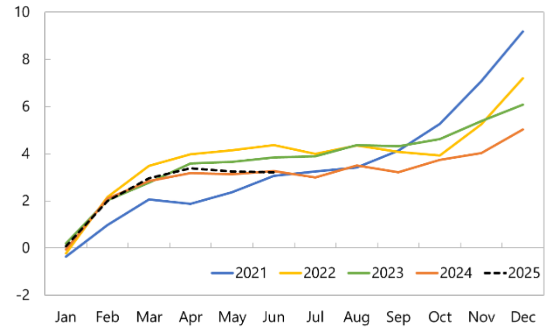
## Figure 7. Fiscal Indicators

**Fiscal Trajectory**
(Percent of GDP)




Sources: IMF World Economic Outlook; and IMF staff calculations.

**Overall Cash Fiscal Deficit**
(Percent of GDP)

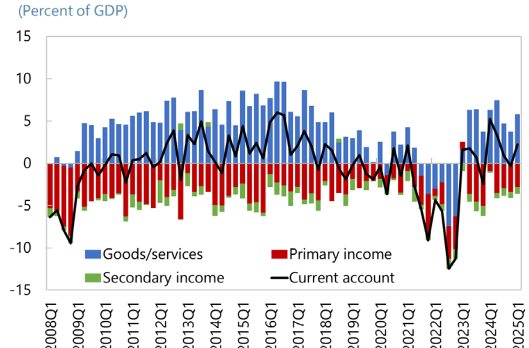



Sources: Hungary's Ministry of Finance; and IMF staff calculations.

**9. Hungary's external balance in 2024 is assessed as substantially stronger than implied by fundamentals and desirable policy settings** (Annex III). The current account surplus widened to 2.2 percent of GDP in 2024 on a small terms of trade improvement and weak public and private investment, contributing to a substantially stronger external position. Reserve coverage ticked up to about 110 percent of the Fund's adequacy metric. €19 billion of EU funds, including all RRF and a portion of Cohesion funds, remain suspended pending completion of rule of law reforms while the €12.2 billion in Cohesion funds released at the end of 2023 and beginning of 2024 have been slow to disburse.[3] External debt fell to 84.8 percent of GDP, underpinned by the current account improvement and lower inward FDI, while the current account surplus narrowed in Q1:2025 on increased outflows of investment income.

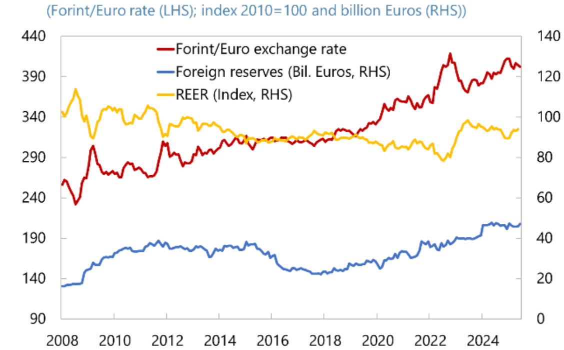
## Figure 8. External Sector Indicators

**Current Account Balance Composition**
(Percent of GDP)




Sources: Eurostat; Haver Analytics; and IMF staff calculations.

**Nominal Exchange Rate, REER, and Foreign Reserves**
(Forint/Euro rate (LHS); index 2010=100 and billion Euros (RHS))




Sources: Magyar Nemzeti Bank; Haver Analytics; and IMF Information Notice System database.

**10. Exchange rate and bond market conditions were volatile.** The forint depreciated against the euro in 2024 amid weak macroeconomic performance, monetary policy easing, and deteriorating global risk sentiment. To increase the cost of shorting the forint, the MNB raised the implied interest rate for its FX swaps facility by 50 bps in December, which helped stabilize FX swaps rates. Pressures on the forint re-emerged in March of 2025 amid heightened global risk sentiment

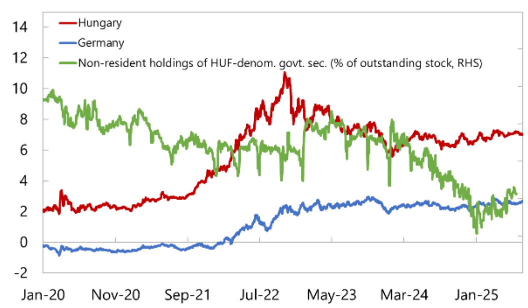
[3] In January, the EU canceled €1 billion of €8.5 billion in suspended Cohesion funds, given an assessment that rule of law reform conditionality was not met.

but subsided by mid-April as risk sentiment improved and euro area monetary policy eased further. Through Q2:2025, 10-year Hungarian government bond-Bund spreads had widened by about 25 bps year-to-date, though tax incentives for banks to increase sovereign debt holdings and required government debt holdings by investment funds may have helped to blunt the rise in yields.[4,5]

**Figure 9. Exchange Rate and Bond Yield Developments**

**10-Year Government Bond Yields and Non-Resident Holdings of HUF Denominated Government Securities**

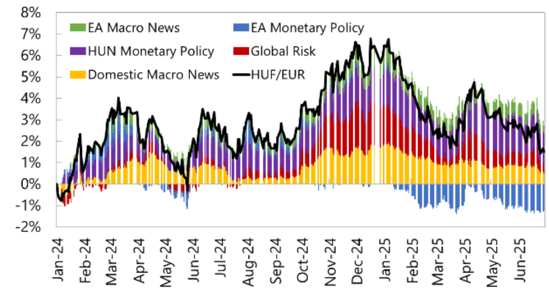
(Percent (LHS); percentage of total amount outstanding (RHS))




Sources: Magyar Nemzeti Bank; London Stock Exchange Group; and Haver Analytics.

**Forint/Euro Exchange Rate Decomposition**

(Percent change from long-term trend; + = HUF depreciation)



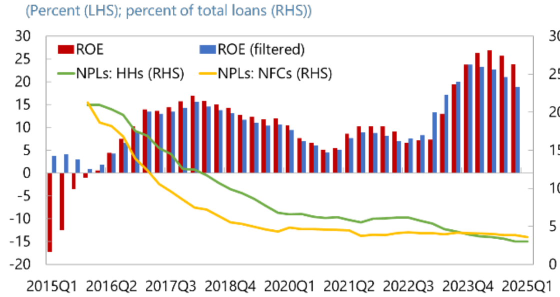

Sources: Haver Analytics; and IMF staff calculations.
Note: The results are estimated using vector autoregression following sign restrictions assumed in Annex II of the 2024 AIV Consultation Report for Czech Republic. Long-term trend is computed based on daily data between January 2015 and June 2025.

11. **Following a period of historically high profitability, bank profits started to decline in 2024, while balance sheets remain healthy.** Amid falling interest rates, return on equity declined throughout 2024, albeit at a gradual pace as banks were able to offset the significant decline in interest income earned from the central bank's liquidity facilities with higher interest income from other sectors. Profitability further dropped in Q1:2025, as both interest and dividend income fell, only partially offsetting a substantial increase in fees and commission income. Non-performing loan (NPL) ratios remain historically low.

**Figure 10. Banking System Indicators**

**Return on Equity and Non-Performing Loans**

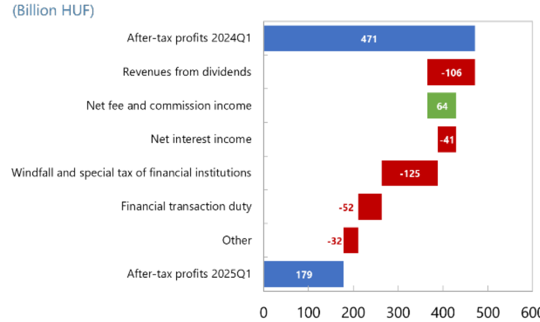
(Percent (LHS); percent of total loans (RHS))




Sources: Magyar Nemzeti Bank; Haver Analytics; and IMF staff calculations.
Note: Return on equity is based on after-tax profit and average equity over 12 months, excluding current year's profit. Filtered RoE omits one-off items: special financial sector taxes, dividend income, early repayments, exchange rate cap, and 2015 consumer loan settlement effects.

**Changes in Select After-Tax Profit Components of the Credit Institutions Sector**

(Billion HUF)




Sources: Magyar Nemzeti Bank; and IMF staff calculations.

[4] Starting October 2025, local investment funds must hold at least 3 percent of their assets in short-term government debt, on top of the existing 5 percent requirement for government bonds. In April 2026, these minimums will rise to 4 percent for shorter-term notes and 6 percent for bonds. For dedicated bond funds, the thresholds increase to 5 percent and 10 percent, respectively.

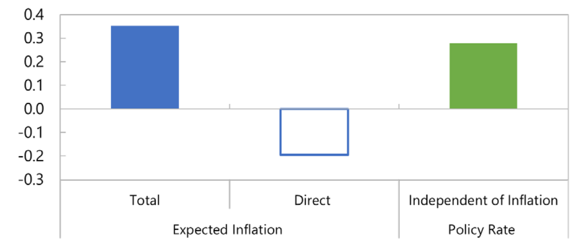
[5] In January, June and July 2025, the authorities issued €2.5bn, $4bn and CNY 5bn of forex bonds, lifting the share of FX financing to 31.3 percent of total debt (above the self-imposed threshold of 30 percent).

## Box 1. Bank Net Interest Margins and Their Exposure to Inflation

A recent period of historically high bank profitability in Hungary occurred at a time when inflation reached multi-decade highs, raising questions about their causal relationship. Following the methodology of Bergant et al. (2025) and using bank-level data from Fitch Connect, Hungarian banks' net interest margins are found to be significantly positively exposed to (expected) inflation, with a 1 percentage point increase in expected inflation for two consecutive years leading to a 0.35 percentage point rise in net interest margins. The exposure is driven primarily by indirect channels—namely shifts in the MNB policy rate in response to higher inflation—as the direct effect of inflation unrelated to the policy rate is not significant.

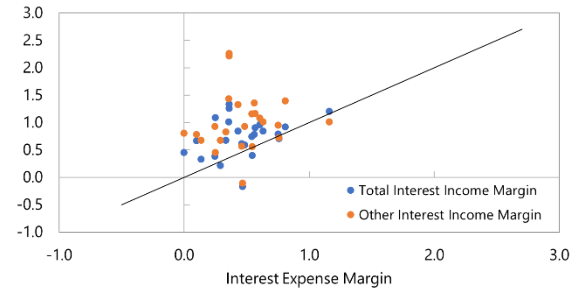
Most banks' net interest margin exposure to the policy rate is positive, in line with existing evidence for EMs. Partly driving this is the high sensitivity to policy rate changes of other (non-loan) interest income, a subset of total interest income that includes income on deposits held with the MNB.

**Exposure of Net Interest Margin to Inflation**
(Percentage points)




Sources: Fitch Connect; Magyar Nemzeti Bank; Consensus Forecasts; IMF WEO; and IMF staff analysis.
Note: Total (direct) effects of expected inflation include (are independent of) policy rate changes and show sums of contemporaneous and lagged coefficients. The third bar shows the impact of policy rate changes independent of inflation. The effects of unexpected inflation (difference between Consensus forecasts and actual inflation) are found to be statistically insignificant and are not shown. See specifications (2.1) and (2.2) in Bergant et al. (2025). Filled bars indicate statistically significant coefficients at the 5 percent level.

**Bank-Level Interest Exposures to Policy Rate**
(Percentage points)

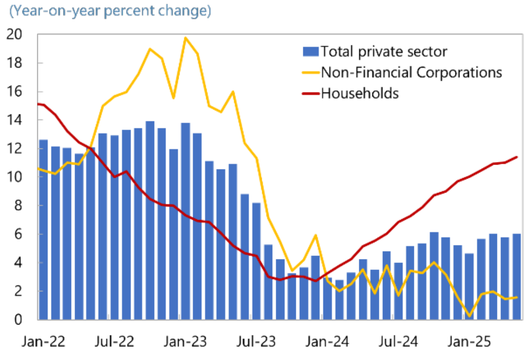



Sources: Fitch Connect; Magyar Nemzeti Bank; Consensus Forecasts; IMF WEO; and IMF staff analysis.
Note: Figure uses specification (2.2) in Annex 2 in Bergant et al. (2025), but including bank interactions. It shows the joint distribution of coefficients of the contemporaneous policy rate on interest expense (total and other interest income) on the x-axis (y-axis).

12. **Private credit to corporates and households has further diverged, while house price growth remains among the fastest in the EU.** Amid elevated uncertainty, lending to corporates remains subdued despite historically high banks' lending capacity. By contrast, household lending accelerated in consumer and housing loan segments. The pick-up in housing loans amid rising real income and government subsidized lending programs in turn contributed to double-digit house price growth. While market overvaluation continued moderating during the first three quarters of 2024, there was a modest reversal in Q4 partly as house prices rose faster than rents, incomes, and construction costs.

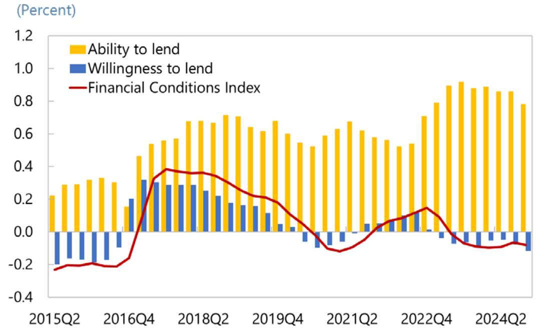
## Figure 11. Credit and Housing Market Indicators

**Credit Transactions Growth**
(Year-on-year percent change)




Sources: Magyar Nemzeti Bank; Haver Analytics; and IMF staff calculations.

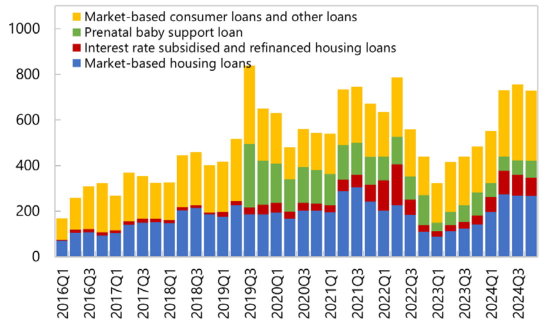
**Financial Conditions Index**
(Percent)




Source: Magyar Nemzeti Bank.
Note: Negative FCI values indicate a weaker boost to growth relative to the economy's cyclical position.

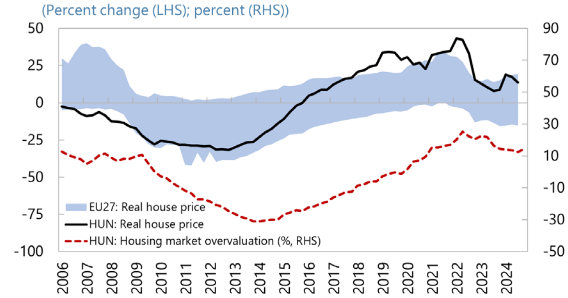
**Figure 11. Credit and Housing Market Indicators** (Concluded)

**New Household Loans in the Credit Institution Sector**
(Billion HUF)




Source: Magyar Nemzeti Bank.

**Real House Prices and Housing Market Overvaluation**
(Percent change (LHS); percent (RHS))

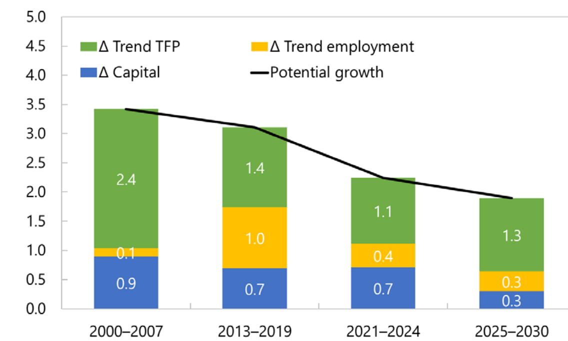



Sources: Magyar Nemzeti Bank; and IMF staff calculations.
Note: Overvaluation is a composite from MNB, based on deviations in house price/income, price/rent, new price/construction cost, price/loan amount, and investments/GDP. Shaded area for EU27 real house prices shows 10th–90th percentile range.

# A CHALLENGING OUTLOOK AMID DOWNSIDE RISKS

**13. The near-term outlook is less favorable than previously expected, while long-term potential growth has declined modestly.** The economy is projected[6] to grow by 0.7 percent in 2025 (2024 AIV: 3.3 percent), with private consumption being the main driver amid still favorable wage dynamics. The contribution of investment and the external sector is negative amid heightened uncertainty and trade tensions. While the baseline assumes prolonged uncertainty, growth is expected to pick up to 2 percent in 2026, fueled by private consumption and a modest recovery in investment and net exports, amid a positive impulse from German fiscal expansion and the operationalization of past investments in electric vehicle and battery production. In the medium term, growth is projected to converge to its long-term potential of around 2.6 percent. The downward revision from the 3 percent previously estimated during last year's Article IV reflects lower contributions from capital accumulation and total factor productivity amid persistently subdued investment.

**Figure 12. Potential Growth and Components** (Percent)




Sources: National authorities; and IMF staff calculations.
Note: A multivariate filter (MVF) approach is used to estimate potential output. The decomposition of the underlying growth contributors is then estimated using additional information on capital formation and depreciation, labor force participation, and working age population. Global financial crisis (2008-2009), European crisis (2010-2013), and pandemic (2020) periods are excluded.

**14. Inflation is projected to remain above the MNB's tolerance band in 2025 and durably reach the target by 2027**. Conditioned on a policy rate path (¶25) that keeps the base rate broadly unchanged this year, inflation is projected at 4.5 percent in Q4:2025 and 3.1 percent in Q4:2026, and durably converge to target in 2027. This reflects fading inflationary momentum from commodities, and slower wage growth and services inflation. Staff baseline projections incorporate near-term

[6] Projections are based on June 2025 WEO Global Assumptions

effects from retail margin caps (Annex II)—which are expected to be phased out by end-August 2025—and from the planned minimum wage increases in 2025 (Box 2).

**Text Table 1. Hungary: Macroeconomic Projections, 2025–2027**
(Percent)

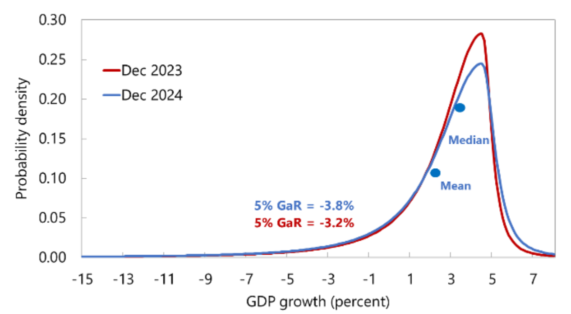
| | GDP Growth | | | Inflation (avg.) | | |
|---|---|---|---|---|---|---|
| | **2025** | **2026** | **2027** | **2025** | **2026** | **2027** |
| IMF staff projections | 0.7 | 2.0 | 2.2 | 4.6 | 3.5 | 3.0 |
| MNB (June 2025) | 0.8 | 2.8 | 3.2 | 4.7 | 3.7 | 3.0 |
| Consensus Forecasts (June 2025) | 1.1 | 2.9 | … | 4.6 | 3.7 | … |
| European Commission (May 2025) | 0.8 | 2.5 | … | 4.1 | 3.3 | … |
| IMF 2024 Article IV projections | 3.3 | 3.0 | 3.0 | 3.5 | 3.1 | 3.0 |

Sources: IMF World Economic Outlook; Consensus Forecasts; European Commission; MNB; and IMF staff projections.
Note: European Commission inflation forecast is based on the HICP.

**15. Risks to growth remain tilted to the downside** (Annex IV). There is a modest increase in tail risk to growth, based on the lower 5th percentile estimate of conditional GDP growth.

- Global downside risks include a further escalation in trade measures, with Hungary among the more exposed countries in Europe to US tariffs. Additional sectoral tariffs would affect Hungary's exports directly, including on pharmaceuticals and exports from new EV and battery plants. Indirect effects may be even larger, arising from prolonged trade uncertainty undermining private investment, and further weakening of global economic activity and supply chain disruptions. If the EU's proposed ban on Russian fossil fuel imports goes into effect at the end of 2027, or if there is an intensification of regional conflicts, higher energy prices could put pressure on external and fiscal balances.

**Figure 13. Forecasted Distribution of GDP Growth** (Percent, 4-quarter ahead)




Sources: National authorities; Eurostat; Haver Analytics; and IMF staff calculations.
Note: Projections based on a growth at risk (GaR) model to forecast the entire density of future growth distribution, where the explanatory variables capture domestic and trading partners' GDP growth as well as domestic, Euro Area and global financial conditions. 5% GaR is to be interpreted as the projected lower 5th percentile of conditional GDP growth.

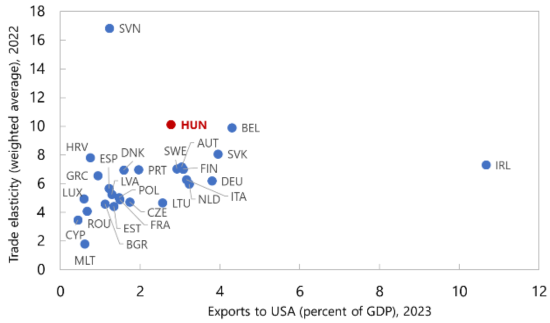
- On the domestic front, a delay in the needed fiscal adjustment or additional expansionary fiscal measures triggered by the upcoming elections could heighten market concerns about debt sustainability, increase risk premia, and exacerbate sovereign-bank linkages. A lack of progress in governance reforms being discussed with the EC could prompt a further delay in or cancellation of EU funds (in staff's baseline, the full amount of outstanding Cohesion funds and a portion of RRF funds are assumed to be disbursed over the medium term) with negative consequences for market confidence and external and fiscal positions. Inflation could be more persistent than projected, including because of larger-than-anticipated effects of minimum wage hikes, necessitating tighter policy for longer.

- On the upside, Hungary would benefit from an uptick in demand for European-produced cars given its significant EV and battery capacities.

- In the event of a downside scenario involving an escalation of trade tensions (Annex V), growth would be around 2 percent lower than in the baseline by 2026 while deficits would be around 1 percent of GDP larger annually and debt would be 5 percent of GDP higher by 2030. Corrective fiscal measures would be needed (¶20-22) while the disinflationary impact of the shock could create room for earlier monetary loosening subject to exchange rate developments.

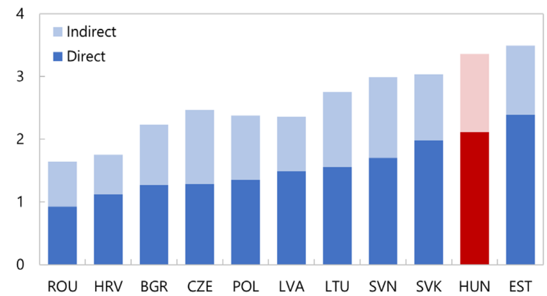
## Figure 14. Hungary's Direct and Indirect Exports to USA

**Exports to USA and Trade Elasticity**
(Percent of GDP; weighted average trade elasticity)




Sources: UN Comtrade Database; IMF World Economic Outlook; Fontagne et al. (2022); and IMF staff calculations.

**Trade Exposure from US Import Tariffs, 2020**
(Percent of GDP)



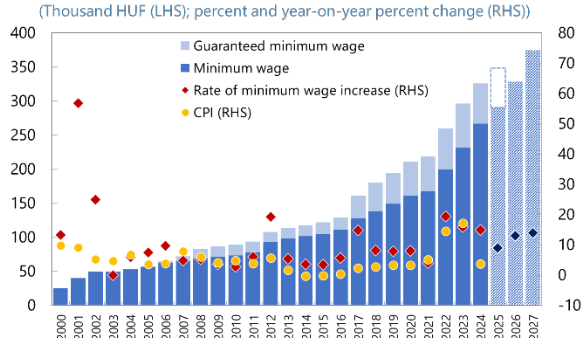

Sources: OECD-TiVA; and IMF staff calculations.
Note: Direct and indirect exposures are captured by the domestic value added content of gross exports and the origin of value added in gross exports, respectively.

## Box 2. Examining the Impact of Minimum Wage Hikes

Minimum wages in Hungary have surged in recent years, with the annual statutory and guaranteed minimum wages for skilled labor increasing by 16.8 percent and 14.2 percent on average, respectively, during 2022-24. Under the current wage agreement, the former will rise by 9 percent in 2025. If the government's macroeconomic expectations are met—further increases of 13 and 14 percent, respectively, will follow.

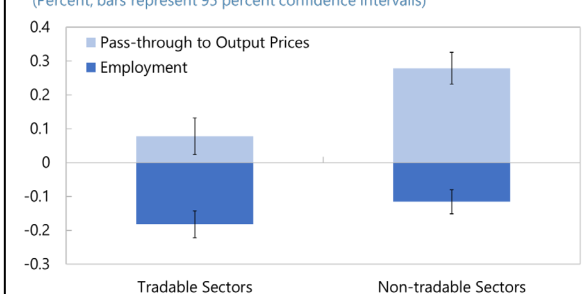
Drawing on Harasztosi and Lindner (2019), simulations suggest that the 2025 minimum wage hike may have a modest negative effect on aggregate employment. The impact on employment is greater in tradable sectors where competition limits firms' ability to pass on higher labor costs to output prices. In contrast, non-tradable sectors have more low-wage employment, but the unemployment risk in these sectors is lower as firms are more equally exposed and can more easily pass on costs to output prices. Future macroeconomic effects of minimum wage hikes will depend on several factors, such as firms' ability to cut other labor costs (e.g., bonuses) and invest in labor-capital substitution.

**Evolution of the Minimum Wage and the Guaranteed Minimum Wage**
(Thousand HUF (LHS); percent and year-on-year percent change (RHS))




Sources: Magyar Nemzeti Bank; and Hungarian Central Statistical Office.

**Simulated Impact of the 2025 Minimum Wage Hike**
(Percent; bars represent 95 percent confidence intervalis)




Sources: Eurostat; Hungarian Central Statistical Office; Harasztosi and Lindner (2019); and IMF staff calculations. Note: The share of 'low-wage employment' across sectors is used as a proxy for the full bite of the minimum as such hikes are likely to feed through to the median of the wage distribution. These stylized simulated effects assume that the share of affected workers remain unchanged over the policy horizon.

**16. *Authorities' Views.*** The authorities broadly agreed with staff's assessment of the outlook and risks, albeit with more optimistic medium-term growth expectations. They see a complex external environment with weakness in key trading partners such as Germany and the automotive sector as weighing on the short-term outlook. They expect that the current weak domestic cyclical position will eventually translate into significantly lower services inflation, though the timing of this is uncertain. Both the MNB and Ministry of National Economy (MNE) project stronger medium-term growth than staff—3 and 4 percent, respectively—driven in part by greater impacts from past capacity-expanding investments. While trade tensions present risks, the authorities also see upside potential from possible trade diversion to the EU.

# POLICY DISCUSSIONS

## A. Strengthening Fiscal Sustainability for Future Growth

**17. Staff estimates that currently announced policies fall short of the authorities' budget targets.** The authorities are targeting deficits of 4.1 percent and 3.7 percent, respectively, in 2025 and 2026. A further deficit reduction to below 2 percent by 2028 is envisaged in their medium-term fiscal structural plan (MTFSP) (Box 3). However, neither the budget nor MTFSP identifies sufficient savings measures to achieve the fiscal targets. As shown in Text Table 2, savings from recently renewed windfall taxes and other measures are more than offset by costs from tax policy initiatives and higher spending on housing and SMEs. Under announced policies, which is staff's baseline, the headline deficit is projected to decline slightly to 4.7 percent of GDP in 2025 and 4.5 percent of GDP in 2026 and gradually narrow to 4.3 percent by 2030.

**Text Table 2. Hungary: New Fiscal Initiatives Since November 2024**

(Percent of GDP)

| | | 2025 | 2026 | Average 2027-2030 |
|---|---|---|---|---|
| 21-Point Action Plan (Nov 2024) | **Costs** | | | |
| | Doubling family tax allowance | 0.1 | 0.3 | 0.3 |
| | Demjan Sandor SME program | 0.1 | 0.1 | 0.1 |
| | Rural home renovation program | 0.1 | 0.1 | 0.1 |
| | Other | 0.2 | 0.1 | 0.1 |
| | **Subtotal** | **0.5** | **0.5** | **0.5** |
| | **Savings** | | | |
| | Revised excise tax indexation | -0.1 | -0.2 | -0.3 |
| | Simplified employment tax rules | 0.0 | -0.1 | -0.1 |
| | New financial transactions tax duty | 0.0 | -0.1 | -0.1 |
| | Other | -0.2 | -0.2 | -0.2 |
| | **Subtotal** | **-0.3** | **-0.6** | **-0.7** |
| 2026 Budget | **Costs** | | | |
| | Civil servant wage increase | | 0.4 | 0.4 |
| | Extension of PIT exemption to mothers with 2 children | 0.0 | 0.1 | 0.6 |
| | Extension of PIT exemption to mothers with 3 children | 0.1 | 0.2 | 0.2 |
| | Increase in housing construction program | 0.1 | 0.1 | 0.1 |
| | Other | 0.1 | 0.4 | 0.1 |
| | **Subtotal** | **0.3** | **1.2** | **1.4** |
| | **Savings** | | | |
| | Extension of windfall taxes | | -0.4 | |
| | **Subtotal** | **0.0** | **-0.4** | **0.0** |
| | **Total estimated net cost** | **0.4** | **0.8** | **1.2** |

Sources: Hungarian Ministry for National Economy; and IMF staff calculations.
Note: The cost and savings are initial estimates as of July 10, 2025 relative to the October 2024 WEO projections.

### Box 3. Medium-Term Fiscal Structural Plan

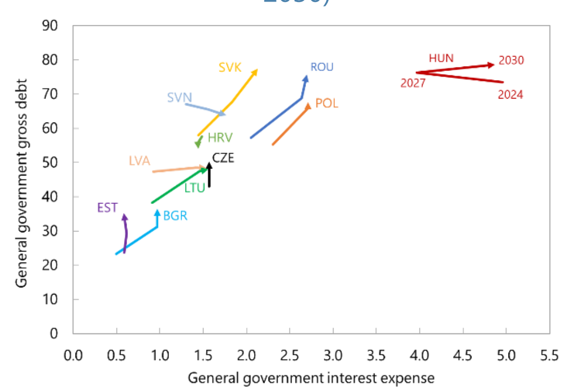
In the context of the EU's Economic Governance Framework, Hungary adopted its 2025-28 Medium-Term Fiscal Structural Plan (MTFSP) in January 2025. The plan targeted ex-ante (i) a reduction in the fiscal deficit below 3 percent of GDP by 2026, (ii) 0.5 percent annual consolidation in the structural primary balance, and (iii) a minimum annual decline in the debt-to-GDP ratio of 0.5 percent.

The plan is operationalized through expenditure ceilings. The annual nominal growth of net expenditure is capped at a 4 percent on average over the four-year adjustment period. While the MTFSP is based on an average 2 percent annual real GDP growth, deviations from those assumptions could result in higher ex-post deficits and debt even under compliance with the expenditure target. The net expenditure rules also provide room for deviation from the target up to 0.3 percent of GDP annually or 0.6 percent cumulatively. The newly introduced defense escape clause provides extra flexibility by allowing countries to raise defense expenditures relative to the 2021 level by up to 1.5 percent of GDP above the expenditure target. Hungary had already increased defense expenditures by 0.9 percent of GDP between 2021 and 2025 and can deduct this amount to meet its expenditure target. As a result, Hungary could remain compliant with the net expenditure rule even under a higher deficit and debt path than initially planned, weakening its role as a fiscal anchor.

**18. Hungary's overall risk of debt distress is assessed as moderate under announced policies (Annex VI) while the risk of an adverse scenario has increased since the last Article IV**. Debt would rise to around 79 percent of GDP by 2030, with average gross financing needs of 17 percent of GDP in 2025-30 amid the largest interest-to-GDP expenses in CESEE. The debt sustainability framework (DSF) indicates a "moderate" risk of distress, flagging the relatively high proportion of FX debt, contingent liabilities (¶25), and high bank exposure to government debt (¶33). Defense expenditure beyond the 2 percent of GDP currently budgeted is not factored into staff's baseline and an increase would further challenge the outlook. There are also long-term pressures on healthcare and pension spending from an aging population, which are not included, as well as contingent liabilities related to state guarantees of SOE borrowing and other off-balance sheet liabilities.

**Figure 15. Public Debt and Interest Expenditure**

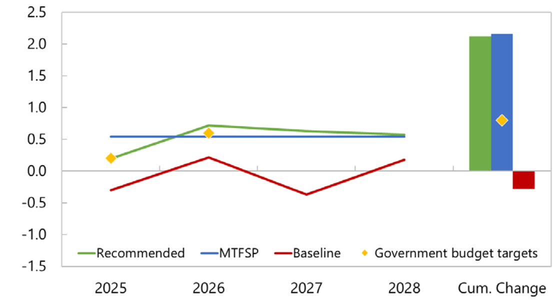
(Percent of GDP; indicators for 2024, 2027, and 2030)



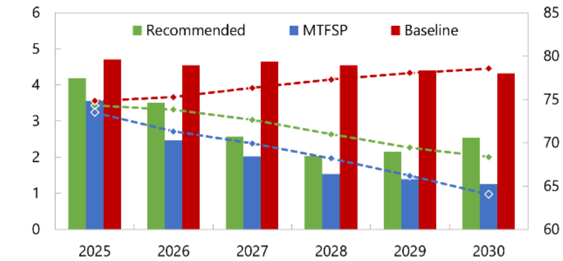

Sources: IMF World Economic Outlook; and IMF staff calculations.

**19. Given Hungary's elevated debt, high risk premia and interest expenses relative to peers, significant fiscal adjustment measures are needed to rebuild buffers**. A buffer-stock model calibration that reflects policy trade-offs between supporting output and medium-term debt sustainability (Box 1, 2024 IMF Hungary Staff Report) suggests an optimal SPB surplus of 1¾ percent of GDP in the medium term and an implied cumulative adjustment of about 2 percent of GDP between 2025-28. For 2025, the focus should be on meeting the budget target, which staff estimates would require additional measures of 0.5 percent of GDP relative to its baseline. Staff proposes a further cumulative adjustment of 1.3 percent of GDP in 2026 and 2027 to bring the headline deficit below 3 percent in 2027. Any additional defence spending should be accommodated within staff's recommended adjustment path.

## Figure 16. Fiscal Adjustment Scenarios




Sources: Ministry for National Economy; Medium-Term Fiscal Structural Plan; and IMF staff calculations.
Note: Fiscal effort = change in structural primary balance from t and t-1. MTFSP reflects Hungary's planned fiscal adjustment per the January 2025 Medium-Term Fiscal Structural Plan.




Sources: Ministry for National Economy; and IMF staff calculations.
Note: Based on a simulation that assumes initial fiscal multipliers of 0.3 for revenue, current spending, and capital and social spending, with the latter increasing to 0.5 over the medium-term. MTFSP path reflects EC macroeconomic assumptions.

**20. Measures underpinning the adjustment should be high-quality and growth-friendly.** The following set of recommended policy options would comfortably cover the proposed structural adjustment:

- *Rebalancing revenues:* The expanded family tax allowances and personal income tax exemptions for mothers could be replaced with capped tax credits per child for both parents to minimize fiscal costs and labor market distortions. A more balanced tax structure with fewer exemptions would simplify administration and raise revenues, while reliance on distortive windfall and financial transactions taxes should be reduced.[7] A higher marginal personal income tax rate for high earners would enhance progressivity and corporate income taxation could be made more efficient by rationalizing tax incentives and switching from the current two-tiered system to a single higher rate. There is scope to increase property taxes that are low by regional standards.

- *Rationalizing and reprioritizing expenditure (Annex VII):* Retail energy subsidies should be gradually phased out and replaced with targeted cash transfers to the most vulnerable. Reviews of procurement and government employment and compensation are needed to reduce high administrative expenditure. A hiring freeze in the interim can contain further expansion of employment, while increases in public compensation should not exceed inflation. A strategy to limit transfers to SOEs, other public organizations and off-balance sheet financing vehicles is needed. Spending on health, primary education and social protection, in which Hungary underspends and underperforms relative to peers, can be bolstered using a portion of the savings. Cuts to capital spending could weigh on growth and should be avoided.

**21. Further effort will be needed to reduce long-term spending pressures.** Population aging will add about 3.5 percent of GDP in pension and healthcare costs by 2050. Recommended changes to the pay-as-you-go pension scheme include (i) measures to raise the statutory retirement age by linking it to life expectancy and phasing out the early retirement scheme for women, (ii) adjusting benefit levels by lowering accrual rates and eliminating the 13$^{th}$ month pension and (iii) a limited

[7] Annex VI, 2024 Hungary Article IV Staff Report.

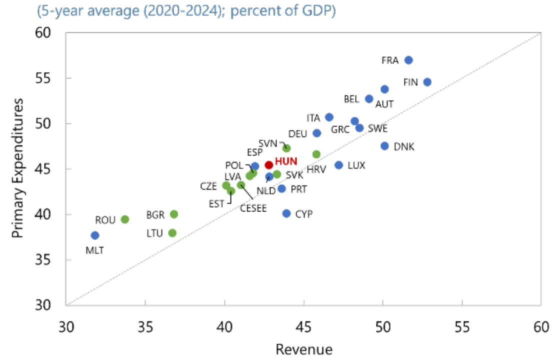
increase in the social security contribution rate.[8] Improved digitalization and efficient procurement would help contain health expenditures.

**22. Public financial management reforms and a strengthened spending review process would support better fiscal governance.** Shifting budget preparation to the fall would improve the reliability of forecasting. Budgets should be based on conservative macroeconomic assumptions, reflecting robust and up-to-date baselines and aligned with EU and national fiscal rules. Spending reviews are a useful tool for identifying realistic efficiency enhancing measures (Annex VII). Finally, improved coordination among spending ministries could help limit “pre-financing” of projects for which materialization of EU funding is uncertain.

## Figure 17. Public Expenditures in Hungary

### Primary Expenditures and Revenues in the EU

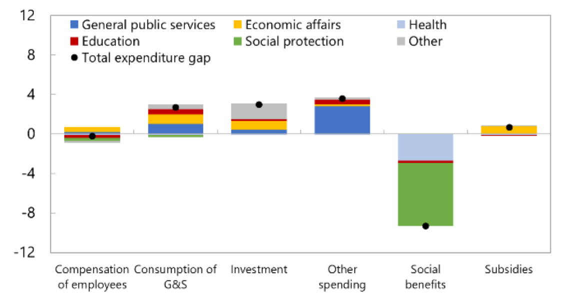
(5-year average (2020-2024); percent of GDP)




Sources: Eurostat; and IMF staff calculations.

### Contribution to Spending Gap vis-à-vis EU27, 2023

(Percent of GDP)




Sources: Eurostat; and IMF staff calculations.

Note: Other includes defense, public order and safety, environmental protection, housing and community amenities, recreation, culture, and religion spending.

### Spending Gap vis-à-vis EU27, 2023

(Percent of GDP on each category, colors indicate higher (+) or lower (-) than EU27 peers in percent of Hungary expenditure category)

Higher by more than 25 percent; Higher by 15-25 percent; Higher by 5-15 percent; Higher by 0-5 percent; Lower by 0-5 percent; Lower by 5-25 percent; Lower by more than 25 percent

| | | General public services | | | | Economic affairs | | | Health | | | | Education | | | | Social protection | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Total Expenditure** | **General public services** | Exec.& Legis. Organs, Fiscal, Financial & External affairs | Basic research | Public debt transactions | **Economic affairs** | General econ., commercial and labour affairs | Transport | **Health** | Medical products, appliances and equipment | Outpatient services | Hospital services | **Education** | Pre-primary and primary education | Secondary education | Tertiary education | **Social protection** | Sickness and disability | Old age | Survivors | Family and children | Social exclusion n.e.c. | Unemployment | **Other** |
| **Total General Government Expenditure** | **1.0** | **42.7** | **42.7** | **(133.3)** | **64.0** | **37.0** | **37.0** | **35.9** | **(78.0)** | **(83.3)** | **(76.9)** | **(77.8)** | **11.3** | **(60.0)** | **(13.3)** | **61.9** | **(56.1)** | **(50.0)** | **(52.9)** | **(100.0)** | **(18.8)** | **(25.0)** | **(500.0)** | **26.5** |
| Compensation of Employees | (2.0) | 12.5 | 12.5 | (100.0) | | 41.7 | 41.7 | 42.9 | (6.2) | | 20.0 | | (11.5) | (37.5) | (71.4) | 55.6 | (50.0) | (100.0) | (100.0) | | 33.3 | | | (9.1) |
| Consumption of goods and services | 30.7 | 52.6 | 52.6 | | 50.0 | 47.6 | 47.6 | 56.3 | (9.1) | | | | 41.7 | (100.0) | | 80.0 | (50.0) | | | | | | | 23.8 |
| Investment | 46.2 | 40.0 | 40.0 | (200.0) | | 42.9 | 42.9 | 30.8 | (100.0) | | | | 33.3 | | | 75.0 | | | | | | | | 61.5 |
| Other Spending | 37.1 | 48.3 | 48.3 | 0.0 | 64.6 | 15.4 | 15.4 | 33.3 | (100.0) | | 0.0 | (200.0) | 62.5 | (0.0) | 80.0 | 50.0 | 0.0 | | | | | 75.0 | | 16.7 |
| Social Benefits | (77.5) | | | | | | | | (225.0) | (66.7) | (220.0) | | (200.0) | | | | (59.8) | (35.3) | (51.5) | (100.0) | (16.7) | (250.0) | (400.0) | |
| Subsidies | 25.9 | | | | | 32.0 | 32.0 | | | | | | | | | | | | | | | | | 50.0 |

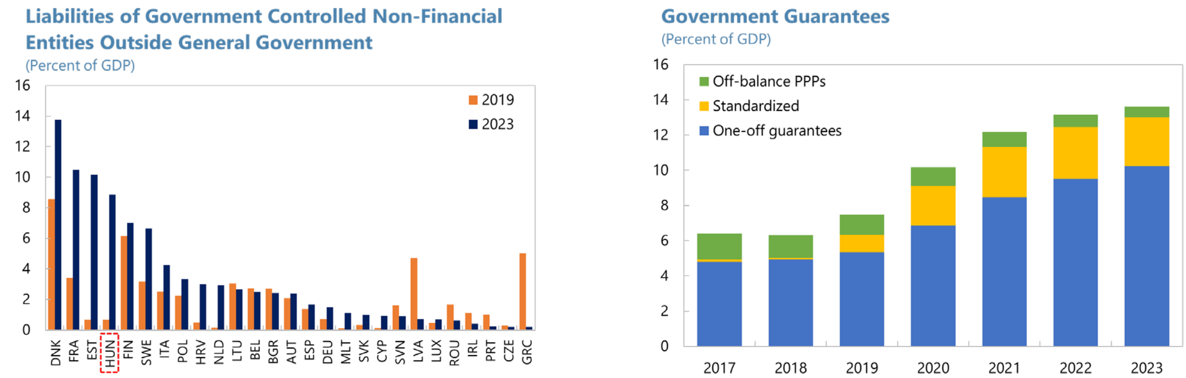
Sources: Eurostat; and IMF staff calculations.

**23. Fiscal risks should be carefully monitored and managed.** SOEs should be subject to regular performance and risk assessments by the MNE that are made publicly available and monitored by the Fiscal Council. The issuance of guarantees should be covered in the budget and governed by ceilings linked to the authorities’ fiscal capacity and risk tolerance, while off-balance sheet funding structures—such as foundations, special purpose vehicles, public asset management

[8] See “Strengthening the Hungarian Pension System” (OECD, 2024) for a costed menu of policy measures amounting to more than 4.3 percent of GDP by 2045 and 7.4 percent of GDP by 2070.

companies and private equity funds—should be subject to transparent reporting and governance requirements, including information on ultimate beneficial ownership. Subsidized lending by state-owned banks should be carefully monitored and limited to addressing market failures.

**Figure 18. SOE Liabilities and Government Guarantees**




Source: Eurostat.
Note: France and the Netherlands show data for 2022 instead of 2023 due to data availability.

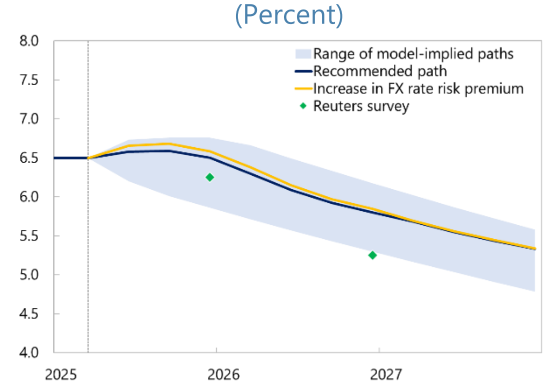
Source: Eurostat.

**24. *Authorities' Views.*** The authorities remain committed to their 2025 and 2026 budget targets. They expect wage increases and income tax cuts to stimulate growth, while Hungary's reliance on consumption-based taxes will help insulate revenues from currently weak investment. They noted that a higher top personal income tax rate could negatively impact labor force participation. They believe that employment incentives for second household earners such as the family tax allowances and tax exemptions for mothers will boost the extensive margin of labor supply and support important social goals. High administrative expenditure is attributed to small towns and villages maintaining their own governing structures, unlike in some other countries where larger population centers govern smaller ones. The authorities monitor SOE performance and related government guarantees periodically and consider fiscal risks to be limited.

## B. Bringing Inflation Durably Back to Target

**25. The monetary policy stance will need to remain tight into next year to anchor expectations and durably return inflation to target.** Monetary policy has been appropriately cautious, with the MNB signaling that maintaining tight monetary conditions is warranted. With average inflation expected to remain above the tolerance band in 2025, staff sees limited scope for policy rate cuts this year. This recommendation—a tighter stance than expected by market participants—is supported by a [model-based optimal path]() that considers inflation-growth tradeoffs. However, the balance of risks to

**Figure 19. Model-Based Optimal Policy Rate Projection**
(Percent)



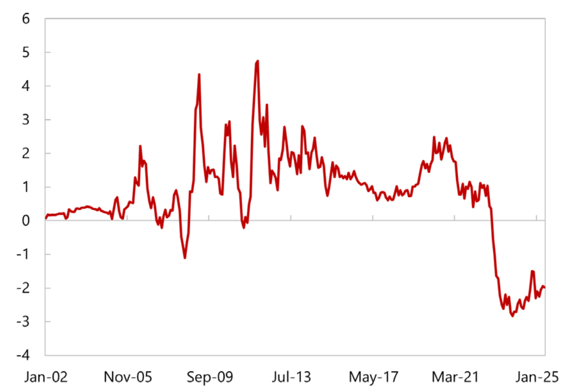

Sources: National authorities; Haver Analytics; and IMF staff calculations.
Note: Baseline conditioned on market participants' expectations for first year of the projection and then model implied path afterwards.

growth and inflation is evolving. Given exceptional uncertainty, the MNB should thus maintain a data-driven approach. For example, should risk premia deteriorate, leading to renewed exchange rate pressures that may pass through to inflation as experienced last fall, monetary policy would need to stay tighter for longer.

**26. Regulatory price and margin controls are not a sustainable path to disinflation.** Repeated government interventions, including capping retail margins and state-requested 'voluntary' reductions of bank and insurance fees—even if well-intended—often produce bad outcomes: they distort markets, defer price pressures, and weaken competition. Such measures thus risk complicating the fight against inflation and undermining the effectiveness of monetary policy.

**27. Staff welcomes ongoing efforts to refine the MNB's focus on the core objectives of price and financial stability**. The proposed change to the MNB Act—prohibiting foundations from engaging in asset management activities following a report by the State Audit Office that uncovered significant irregularities and potential losses—is a step in the right direction. In this context, a broader review of the MNB's non-core functions is warranted, including measures relating to its secondary goal of environmental sustainability. While the MNB should play an active role in climate-risk supervision, prudential regulation should remain risk focused, and all climate-related initiatives should be consistent with the MNB's price and financial stability mandates.

**Figure 20. MNB's Capital and Reserves Position**
(Percent of GDP)




Source: Magyar Nemzeti Bank.

**28. Exchange rate flexibility and adequate reserve coverage can continue to help Hungary manage external shocks**. Absent material frictions that would warrant foreign exchange interventions (FXI) in Hungary (see 2024 Article IV Staff Report), the policy rate should remain the primary instrument for anchoring inflation expectations and maintaining inflation at target. FXI could serve as a complementary tool during irregular periods of disorderly market conditions. Reserves are assessed as adequate, although faster reserve accumulation would help bolster the country's external buffers, especially given heightened external uncertainty.

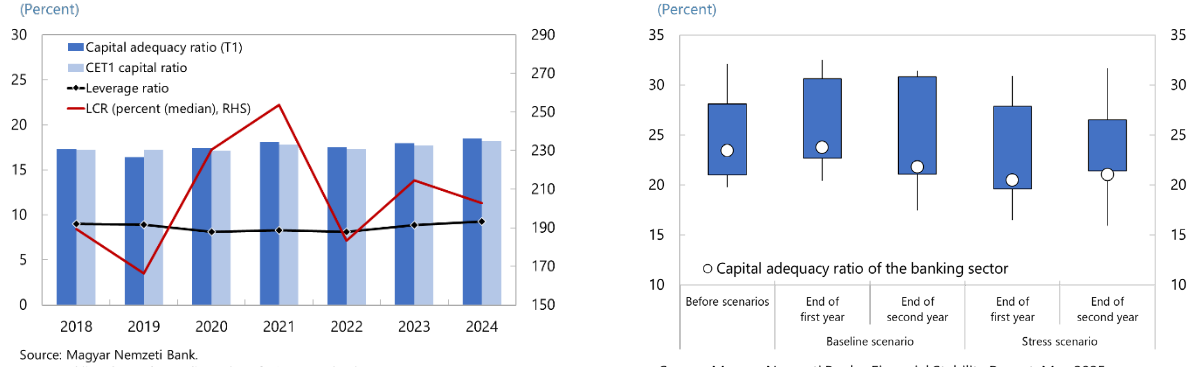
**29. *Authorities' Views.*** The MNB concurred that a tight monetary policy stance will be needed to ensure a durable return of inflation to target. The MNB emphasized the need for a data-dependent and patient approach to monetary policy as growing trade policy and geopolitical uncertainty clouds the inflation outlook. It also underscored the importance of the flexible exchange rate and adequate reserve buffers in reducing Hungary's external vulnerabilities. While agreeing with staff's assessment that price, fee, and margin controls are not a sustainable path to disinflation, the MNB noted that such measures—if used temporarily and well communicated—could help anchor near-term inflation expectations. The MNB affirmed its focus on the core objectives of price and financial stability while ensuring that prudential regulation remains risk-based, including in relation to its secondary goal of supporting environmental sustainability.

## C. Safeguarding Financial Sector Stability

**30. Systemic risks are assessed as broadly contained.** Overall, the banking sector remains sound, with Q4:2024 average capital adequacy and leverage ratios of 20.5 percent and 9.3 percent, respectively. Banks' liquidity coverage and net stable funding ratios, at 181 and 135 percent, suggest ample liquidity positions. The MNB's stress tests indicate the sector's broad resilience to external shocks, though capital accumulation is impaired in the stress scenario and two banks are found to experience mild capital shortfalls. One bank has to reduce dividend payments even in the baseline scenario to comply with its capital requirements. Banks are expected to continue fulfilling the LCR requirement after the MNB's long-term collateralized loan facility expires in 2025-2026.

**Figure 21. Banks' Capital and Liquidity Positions**

**Capital Adequacy and Liquidity** (Percent) | **Distribution of Banks by Capital Adequacy Ratio** (Percent)




Source: Magyar Nemzeti Bank.
Note: Red line shows the median value of LCR across banks.

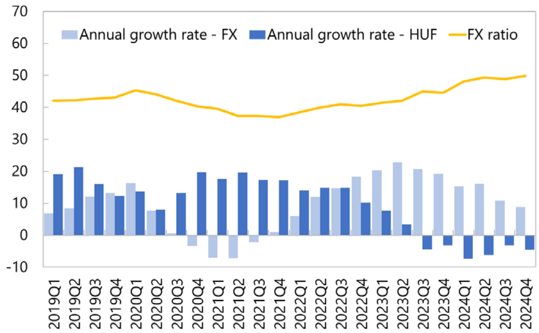
Source: Magyar Nemzeti Bank - Financial Stability Report, May 2025.

**31. But pockets of vulnerability appear to have increased since the last Article IV:**

- **Corporate sector amid heightened external uncertainty and elevated rates.** The share of FX corporate loans has risen, reaching almost 50 percent of total loans by Q4:2024. While natural hedging in the form of FX revenues partially mitigates FX risks, with over 80 percent of firms having some degree of natural coverage, these revenues could dry up if there are external shocks. In addition, following the refinancing of maturing corporate loans in 2023 amid elevated interest rates, the median value of interest coverage decreased materially. Related maturity and interest rate risks hence merit continued monitoring, especially since around half of the corporate HUF loans and 40 percent of FX loans are scheduled to mature in the next three years.

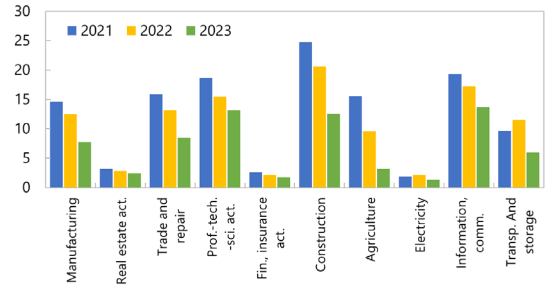
## Figure 22. Corporate Sector Risks

**Corporate Loan Portfolio by Currency**
(Percent)




Source: Magyar Nemzeti Bank.

**Median Value of Sectoral Interest Rate Coverage**
(Percent)

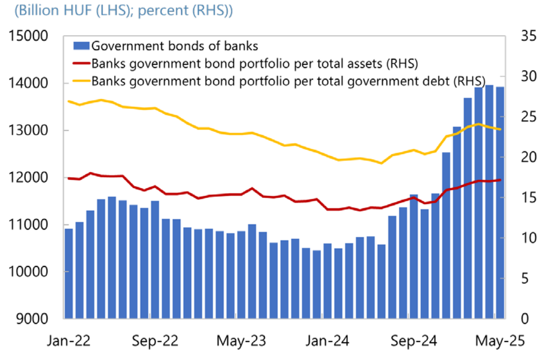



Source: Magyar Nemzeti Bank.
Note: Interest rate coverage = (Profit before tax + Interest and similar charges paid)/Interest paid and interest-like payments. Data covers the top 10 sectors with the largest loan portfolio, epresenting 92% total corporate loans as of end-2024.

- **Banks' sovereign and FX exposures.** Following tighter conditions for claiming windfall tax credits in 2024, banks' holdings of government securities rose. As a result, Hungary now ranks highly among CESEE peers in terms of banks' sovereign exposures, which amplifies macro-financial risks under the sovereign-bank nexus. While banks are meeting FX-related regulatory ratios, there has been a significant rise in their aggregate short FX positions.

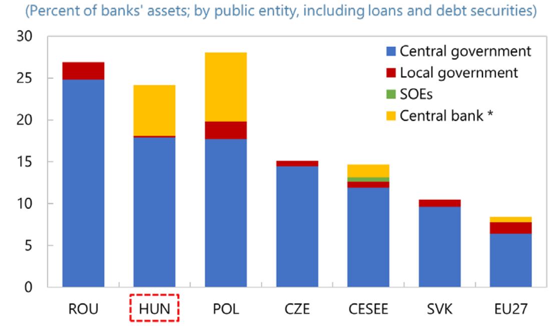
## Figure 23. Bank's Sovereign and FX Exposures

**Government Bonds of Banks**
(Billion HUF (LHS); percent (RHS))



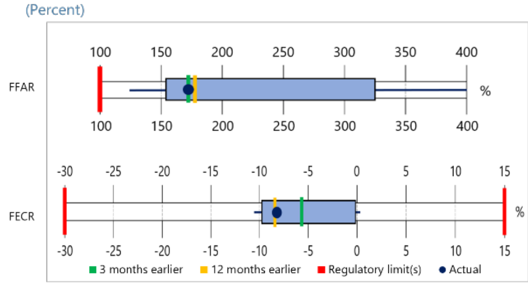

Source: Magyar Nemzeti Bank.

**Public Sector-Bank Nexus**
(Percent of banks' assets; by public entity, including loans and debt securities)



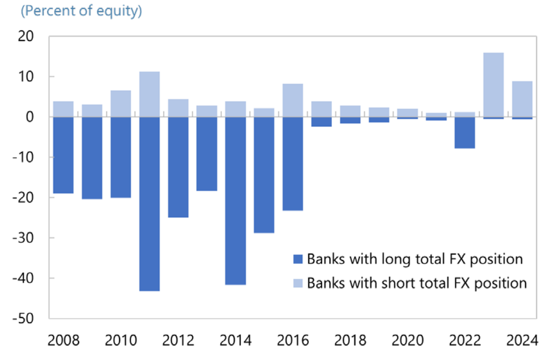

Sources: IMF MFS; and IMF staff calculations.
Note: *Excluding deposits. Due to data availability, CESEE average excludes Belarus, Croatia, Montenegro, and Russia, and EU27 average excludes Croatia. Data refer to December 2024.

**Compliance of the Banking Sector with FX-Related Requirements**
(Percent)




Source: Magyar Nemzeti Bank.
Note: FFAR=foreign exchange funding adequacy ratio, FECR=foreign exchange coverage ratio. The edges of the blue rectangles indicate the lower and upper quartiles of the distribution, and the ends of the dark blue lines indicate the 1st and 9th deciles. As of December 2024 for FFAR and February 2025 for FECR.

**The Exchange Rate Exposure of the Banking Sector**
(Percent of equity)




Source: Magyar Nemzeti Bank.

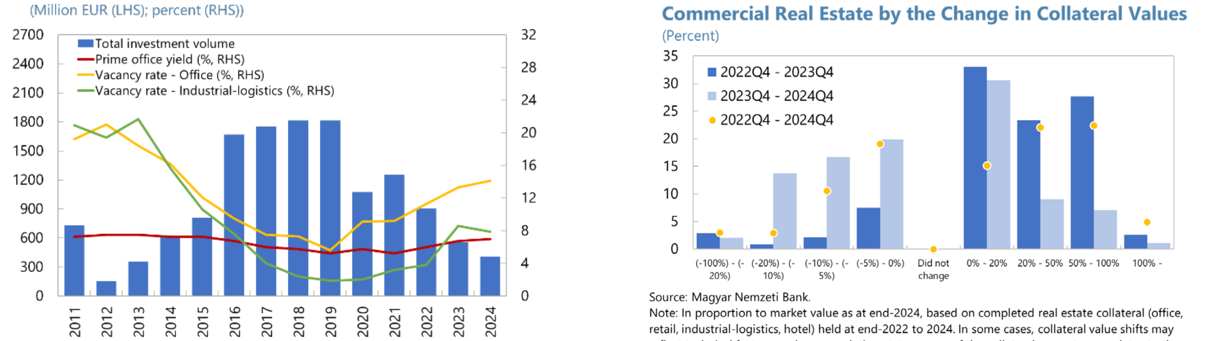
- **Commercial real estate (CRE).** With a sharp rise in prime yield since 2022 coming to a halt by Q1:2024, the market's cumulative depreciation appears to have ended. In addition, banks became more prudent in their valuation of CRE project loan collateral in 2024 compared to

2023, making downward revisions to the value of over half of the portfolio. Even so, collateral valuations of over 60 percent of the portfolio remain higher than in 2022, despite the market's cumulative depreciation during the period. The risk of overvaluation hence remains material, especially amid a continued contraction in total investment volumes and rising vacancy rates in certain segments.

**Figure 24. Commercial Real Estate Developments**

**Total Investment Volume, Vacancy Rate, and Prime Yield**
(Million EUR (LHS); percent (RHS))

**Distribution of Collateral of Project Loans Secured by Commercial Real Estate by the Change in Collateral Values**
(Percent)

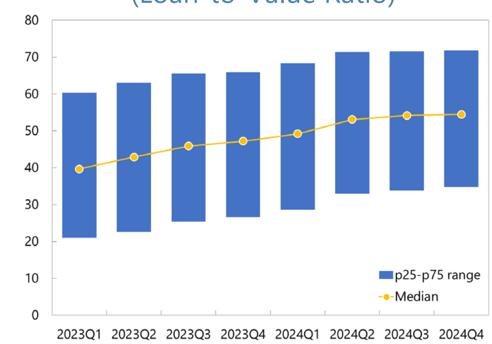



Sources: Budapest Research Forum; Cushman & Wakefield; CBRE; and Magyar Nemzeti Bank.

Source: Magyar Nemzeti Bank.
Note: In proportion to market value as at end-2024, based on completed real estate collateral (office, retail, industrial-logistics, hotel) held at end-2022 to 2024. In some cases, collateral value shifts may reflect technical factors, such as completion status errors of the collateral property or updates to the collateral register.

- **Residential real estate (RRE).** A substantial quantity of funds is expected to flow into the market in 2025 on the back of continued state subsidy programs (Annex II), holders of maturing retail government securities seeking higher returns, and approved tax-free private pension withdrawals for house purchases. Such inflows—together with higher maximum LTV ratios for first-time home buyers and "green" real estate and the increase in average HPS Plus loans—could fuel further price increases.

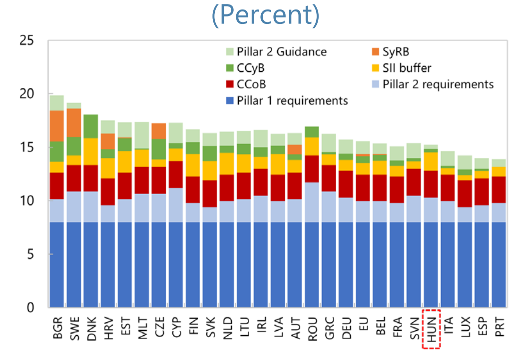
**Figure 25. New Housing Loan Contracts and Borrowers**
(Loan-to-Value Ratio)




Source: Magyar Nemzeti Bank.

**32. The current capital-based macroprudential toolkit is broadly appropriate, though pockets of vulnerability call for continued robust supervisory vigilance**. The introduction of a one percent positive neutral countercyclical buffer (CCyB) (effective July 2025) is appropriate given heightened uncertainty, as was the reactivation of the systemic risk buffer (SyRB) for banks' CRE exposures in July 2024. The latter could be complemented by strengthened supervisory efforts to ensure prudence in banks' collateral valuation practices. While risks arising from banks' growing sovereign exposures are partially mitigated by their comfortable leverage ratios, incorporating

**Figure 26. Capital Buffer Requirements for EU Countries**
(Percent)




Sources: EBA; and Magyar Nemzeti Bank.
Note: 2024Q2 data based on consolidated reports from banks classified "large" by the EBA. Hungary's countercyclical capital buffer (CCyB) increased to 0.5% in July 2024, set to reach 1% mid-2025. Data for Poland is under review and not included.

appropriate sovereign-bank nexus stress scenarios into the regular supervisory stress testing exercises would help identify potential vulnerabilities.

**33. Differentiation in borrower-based macroprudential limits should be introduced only if justified on financial stability grounds**. As the recent relaxation of LTV and/or debt-service-to-income limits for first-time home buyers and green real estate appears to be primarily motivated by considerations outside of the MNB's core mandates—notably housing affordability and energy efficiency—this should be reversed, especially given the already buoyant housing market. Such considerations should instead be tackled through appropriate structural and fiscal policies. Moreover, the current DSTI limit of 60 percent for first-time home buyers and for energy-efficient homes appears high relative to the overall limits in some peers.[9] The re-introduction of voluntary APR ceilings for housing loans in September 2024 (Annex II) artificially eliminates interest spreads, preventing prudent pricing of bank risks, and should be reversed. Phasing out housing-related fiscal incentives would help moderate future price growth and safeguard financial stability.

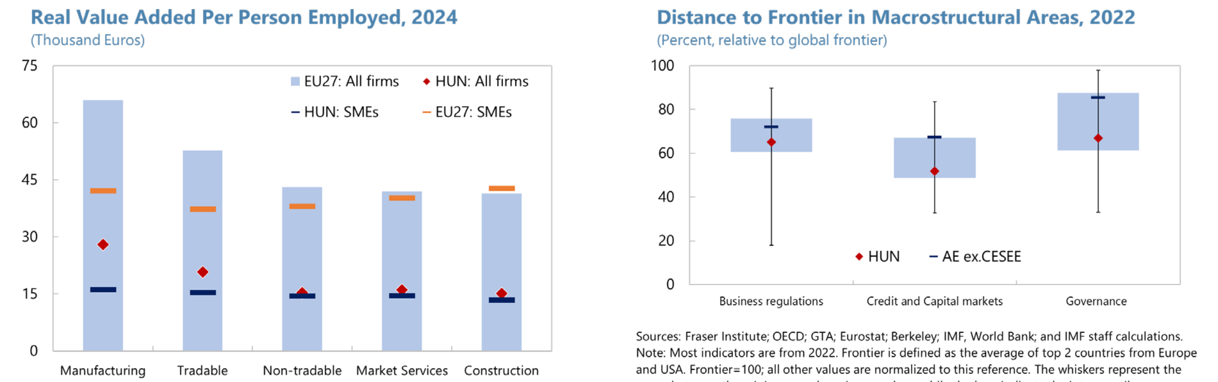
**34. *Authorities' Views.*** The MNB emphasized that the financial sector remains sound and risks are manageable. While stressing that it continues to closely monitor banks' government bond portfolios, the MNB noted that sovereign-bank risks are contained by current banking regulations, including the positive neutral CCyB and leverage ratio (with banks' capital well above the regulatory requirement). Likewise, banks with elevated FX positions are subject to relevant capital and liquidity requirements, and overall the banking sector has a significant FX surplus on the liability side. The MNB noted that the recent relaxation of borrower-based measures for first-home buyers and green loans, while partly motivated by affordability and energy concerns, is consistent with the assessed risk profile of relevant borrowers. In addition, such measures should not have a material impact on house prices given their very targeted nature.

## D. Macro-Structural Reforms to Boost Productivity

**35. Stagnant productivity remains a drag on Hungary's competitiveness.** The deep firm-level roots of Hungary's productivity deficit can be traced to several areas, requiring reforms aimed at (i) fostering firm dynamism by eliminating barriers to factor mobility, including through a more cautious and targeted application of state aid; (ii) strengthening access to risk capital for firm scale-up; (iii) promoting energy security to boost competitiveness and resilience; and (iv) improving governance to ensure a predictable business environment and unlock access to EU funds.

[9] For example, peer countries have the following DSTI limits (in percent): Austria – 40, Romania – 40 and 45 for first time home buyers, Lithuania – 40 and up to 60 for a very small portion of new housing loans, Latvia – 40 and 45 for energy-efficient housing.

**Figure 27. Drivers of Per Capita Income Gap to the EU**



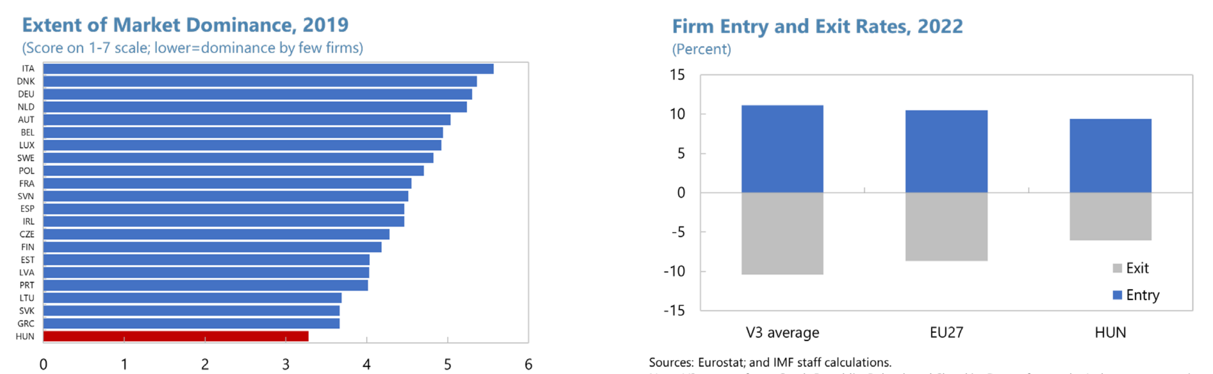

Sources: EU SME Performance Review 2024; and IMF staff calculations.

Sources: Fraser Institute; OECD; GTA; Eurostat; Berkeley; IMF, World Bank; and IMF staff calculations.
Note: Most indicators are from 2022. Frontier is defined as the average of top 2 countries from Europe and USA. Frontier=100; all other values are normalized to this reference. The whiskers represent the range between the minimum and maximum values, while the bars indicate the interquartile range, spanning from the 25th to the 75th quartile. Regional numbers are simple average.

***Fostering Firm Dynamism by Promoting a Competitive Business Environment***

36. **Hungary has one of the least competitive market structures in Europe, with the business landscape dominated by a few firms**. Entry and exit rates remain below EU and regional averages, in part reflecting an insolvency framework that has weaker mechanisms—relative to the EU average—to expedite the exit of non-viable firms. Streamlining sectoral licensing requirements, eliminating overlapping permits, and strengthening the transparency and proportionality of administrative rules would foster competition. Allowing creditor-initiated restructuring and simplifying procedures, including through out-of-court settlements, would facilitate timely firm exit.

**Figure 28. Market Competition and Firm Dynamism**




Source: World Economic Forum: Global Competitiveness Report, 2019.
Note: A lower score indicates that markets are dominated by fewer firms.

Sources: Eurostat; and IMF staff calculations.
Note: V3 peers refer to Czech Republic, Poland, and Slovakia. Data refers to the Industry, construction and market services sector (except public admin. and defense; compulsory social security; activities of membership organisations).

37. **Productivity gains from Hungary's industrial policy interventions remain elusive, underscoring the need for more effective horizontal reforms**. Hungary has implemented repeated waves of industrial policies (IP) to boost competitiveness and productivity in targeted sectors. Yet, new staff research[10]— that combines comprehensive cross-country IP data with firm-level indicators from Orbis—shows that the impact of IP on sustained productivity growth in Hungary remains elusive. Given their high fiscal cost, IP should not substitute for broader structural

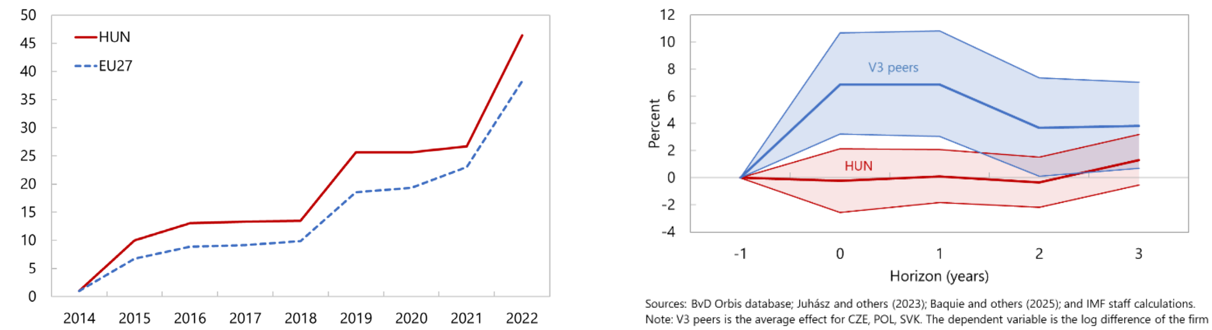
[10] Koosakul, Panton, and Parente 'The Limits of Industrial Policy for Productivity Growth: Firm-level Evidence from CESEE', IMF WP, forthcoming.

reforms. Where used, such measures must be appropriately targeted to address market failures and be time-bound and transparent. As a small, open economy, Hungary would benefit most from a coordinated approach to state aid and IP at the EU level.

**Figure 29. Industrial Policy and Firm-level Productivity**

**Industrial Policy Intensity**
(Average policy counts per sector-year; 2014=1)

**Impact of Industrial Policy Intervention on Firm-level TFP**
(Percent; shaded region indicates 90 percent confidence interval)




Sources: Juhász and others (2023); Global Trade Alert (GTA); and IMF staff calculations.

Sources: BvD Orbis database; Juhász and others (2023); Baquie and others (2025); and IMF staff calculations.
Note: V3 peers is the average effect for CZE, POL, SVK. The dependent variable is the log difference of the firm level TFP over the specified horizon, while the independent variable is the change in the number of IPs targeting a sector in a country.

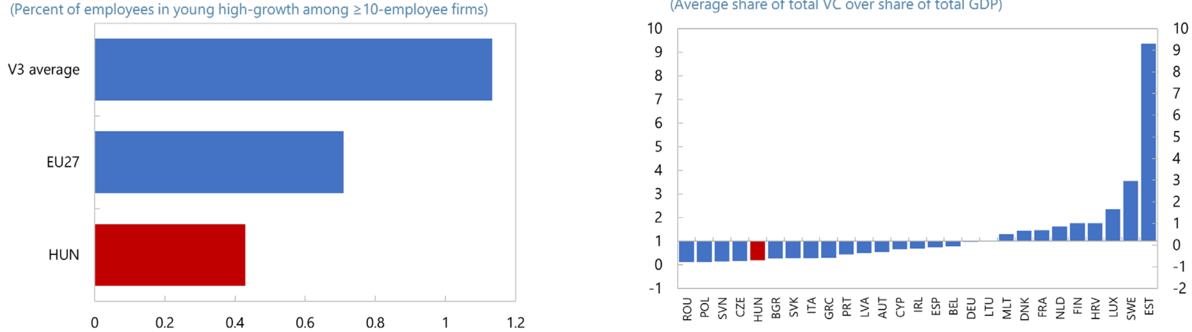
### *Strengthening Access to Risk Capital*

**38. Enhancing access to risk capital is essential to unlock the potential of young, high-growth firms, whose economic footprint remains low in Hungary compared to peers.** While ongoing initiatives—including *EDIOP Plus grants*, the *Hungarian Multi Program*, and the *Demján Sándor Program*—have expanded financing options, early-stage equity financing remains underdeveloped in Hungary with limited engagement and coordination of private investors. Strengthening private capital markets—including by enhancing co-investment schemes and improving tax treatment of equity—will be critical to fostering innovation-driven firm growth. Providing targeted support under existing initiatives, including the *SME Capital Program*, could help firms become investment-ready, particularly in digital and high-tech sectors. These reforms would also complement EU-level goals—such as the *Savings and Investment Union*—by enhancing Hungary's capacity to attract and channel cross-border private investment into productive ventures.

**Figure 30. Firm Startup and Access to Risk Capital**

**Employment Share of Young-High Growth Firms, 2022**
(Percent of employees in young high-growth among ≥10-employee firms)

**Venture Capital Intensity, 2021-2024**
(Average share of total VC over share of total GDP)




Sources: Eurostat; and IMF staff calculations.
Note: V3 peers refer to Czech Republic, Poland, and Slovakia.

Sources: PitchBook; IMF World Economic Outlook (April 2024 database); and IMF staff calculations.
Note: Axis value at 1. Countries above 1 contribute to EU27 VC investments disproportionately compared to their share of EU27 GDP.

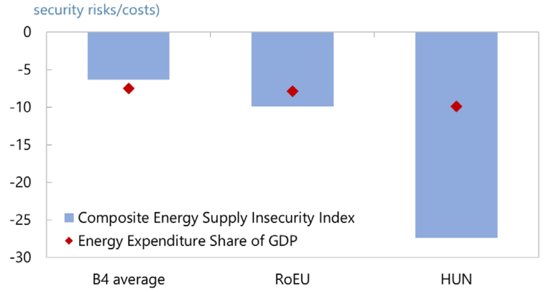
***Promoting Energy Security and Economic Competitiveness in the Low-Carbon Transition***

**39. A secure, affordable, and efficiently used energy supply is critical for competitiveness, productivity, and growth**. Ongoing efforts to diversify energy supply and increase renewable energy generation are commendable. Yet Hungary is one of the most energy-intensive economies in Europe, with subsidized fossil fuel consumption hindering its national decarbonization objectives of reducing national emissions by 55 percent (relative to 1990) by 2030 (see Annex VII in 2024 Article IV Report). A coordinated policy package that complements EU-level policies (e.g., carbon pricing and regional electricity market integration) with domestic reforms (e.g., targeted fossil fuel subsidy phase-out, investment in heat pumps) could deliver multiple dividends: reduce Hungary's energy security risks by up to 30 percent and cut the energy expenditure share of GDP by up to 10 percent by 2030 while also promoting the transition to carbon neutrality (see Selected Issues Paper on Promoting Energy Security in Hungary). Targeted support to vulnerable segments of society, including through partial recycling of EU carbon pricing revenues, can help build political support. The high upfront funding needs of these reforms could be largely covered by Hungary's Recovery and Resilience Plan.

**Figure 31. Energy Security, Macroeconomic Competitiveness, and Green Transition**

**Impact of Climate Policy on Composite Energy Insecurity Index**

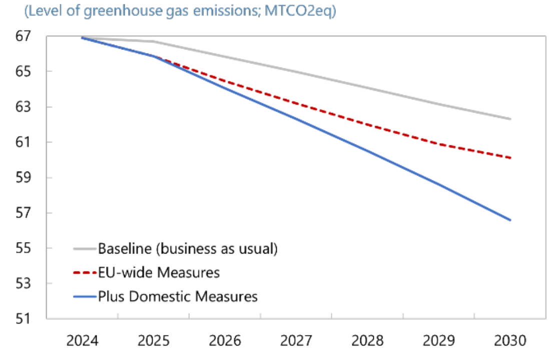
(Percent deviation from baseline; negative values=reduced energy security risks/costs)




Sources: Eurostat; International Energy Agency (2024); and IMF staff calculations.
Note: B4 average refers to France, Germany, Italy, and United Kingdom. RoEU=Rest of Europe.

**Emissions Paths Under Alternative Scenarios**

(Level of greenhouse gas emissions; MTCO2eq)




Sources: Model-based (IMF-ENV) Simulations; and IMF staff calculations.

***Improving Governance to Lay the Foundation for Strong Private Sector Led Growth***

**40. Governance reforms are vital to promote a predictable business environment and strengthen potential growth**. Hungary has taken some steps, including the 2023 judiciary reforms aimed at strengthening the National Judicial Council. Broad governance, rule of law and corruption concerns, however, persist. Further governance reforms and their effective enforcement—including related to anti-corruption and the rule of law, public procurement, extending the scope of the asset declaration system, conflict of interest rules, public finance management, regulatory oversight, and functioning of the Integrity Authority—could unlock EU funds and amplify the growth dividends of other reforms. Staff research in the 2024 Article IV Report shows that anti-corruption reforms can help reduce regional disparities and make growth more inclusive.

**41.** ***Authorities' Views.*** The authorities acknowledged the importance of structural reforms to close Hungary's productivity gaps. They reiterated their commitment to fostering firm-level dynamism by easing regulatory burdens and strengthening private sector competition. State support, they noted, is targeted toward strategic sectors and remains aligned with EU state aid rules. On energy security, the authorities pointed to several initiatives aimed at diversifying supply, modernizing grid infrastructure, and incentivizing private investment in the energy sector. They also reaffirmed their commitment to governance reforms, citing recent progress in key areas including public procurement and regulatory oversight.

# STAFF APPRAISAL

**42. The Hungarian economy is at a challenging juncture.** Output has stagnated over the past 3 years amid persistently subdued investment, while inflation remains well above the central bank's 3 percent target. Regulatory measures—such as price, interest and margin caps, along with windfall taxes and subsidized lending schemes, have distorted market signals and added uncertainty. Productivity has fallen behind peers amid a heavy state presence in key sectors that impedes competition. Despite significant fiscal adjustment in recent years, public debt remains elevated given high financing costs. Weak investment contributed to a widening of the current account surplus and assessment of a substantially stronger external position than implied by fundamentals and desirable policy settings (Annex III).

**43. The outlook is clouded by high domestic and external uncertainty.** Modest consumption-driven growth of 0.7 percent is expected in 2025, underpinned by favorable wage dynamics. Growth is projected at 2 percent in 2026 on a nascent recovery in investment and external demand, and to converge to its long-term potential of around 2.6 percent by 2030. Inflation is forecast at 4.5 percent in Q4:2025, and to gradually decelerate to the MNB's 3 percent target by 2027. Expansionary fiscal measures, including new tax exemptions, and high interest spending will drive headline deficits of around 4½ percent of GDP and a debt-to-GDP ratio of around 79 percent through the medium term. A further escalation in trade tensions, intensification of regional conflicts, a delay in the needed fiscal adjustment, and cancelation of EU funds pose significant downside risks.

**44. Additional fiscal effort is needed to preserve fiscal space and rebuild buffers.** Over the medium term, a structural primary surplus of around 1¾ percent of GDP would appropriately balance debt sustainability and output stabilization objectives. The implied cumulative adjustment of around 2 percent of GDP over 2025-2028 would bring the headline deficit below 3 percent of GDP by 2027 and reduce the public debt ratio below 70 percent by 2029. Any additional defense spending should be accommodated within this path.

**45. High-quality revenue enhancements and spending rationalization should underpin fiscal adjustment.** Corrective policies would include a tax structure with fewer personal and corporate income tax exemptions and more efficient spending with reduced energy subsidies and less administrative overhead, a portion of savings from which would be used to boost social spending. Further efforts are needed to contain long-term spending pressures related to pensions and healthcare. The budget process should include enhanced monitoring and mitigation of fiscal risks related to the rapid growth of SOE liabilities and state guarantees, and proliferation of off-budget financing vehicles.

**46. The monetary policy stance will need to remain tight into next year to return inflation to target.** With average inflation expected to remain above the tolerance band in 2025, staff sees limited scope for rate cuts this year. However, the balance of risks to growth and inflation is evolving. Given exceptional uncertainty, the MNB should thus maintain a data-driven approach. The flexible exchange rate regime and adequate reserve coverage can continue to help reduce Hungary's vulnerability to external shocks. Price, fee, and margin controls are not a sustainable path to lasting disinflation and should be phased out. Any climate-related initiatives should be consistent with the central bank's price and financial stability objectives.

**47. The financial sector is broadly sound, but pockets of vulnerability call for heightened vigilance.** Overall, the banking system remains well-capitalized, liquid, profitable. However, areas of vulnerability merit vigilance, including corporate sector risks, banks' growing sovereign exposure and significant FX positions, elevated commercial real estate vacancy rates, and buoyant housing prices. The capital-based macroprudential toolkit is broadly appropriate, while differentiation in borrower-based macroprudential limits should be introduced only on financial stability grounds. Consideration could be given to incorporating appropriate sovereign-bank nexus stress scenarios into regular supervisory stress testing. Phasing out housing-related incentives would help moderate price pressures and safeguard financial stability.

**48. Comprehensive structural reforms would help to close Hungary's productivity gaps and boost competitiveness.** To foster firm-level dynamism and productivity, barriers to factor mobility should be removed, including through a more cautious and targeted application of state aid, while expanding access to risk capital for scaling up young, innovative firms. It is also important to improve energy security to bolster economic competitiveness and resilience. Advancing governance reforms, including rule of law and regulatory oversight, will be vital in promoting a more predictable business environment and unlocking access to EU funds.

**49. It is recommended that the next Article IV consultation be held on the standard 12-month cycle.**

## Table 1. Hungary: Selected Economic Indicators, 2019–2030

(Percent of GDP, unless otherwise indicated)

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Projections | | | | | |
| | | | | | | | (Percentage change, unless otherwise indicated) | | | | | |
| **Real economy** | | | | | | | | | | | | |
| Real GDP (percentage change) | 5.1 | -4.3 | 7.2 | 4.3 | -0.8 | 0.5 | 0.7 | 2.0 | 2.2 | 2.4 | 2.5 | 2.6 |
| Total domestic demand (contribution to growth) | 7.1 | -2.4 | 6.5 | 4.3 | -5.4 | -0.1 | 1.0 | 2.0 | 1.9 | 2.1 | 2.2 | 2.2 |
| Private consumption | 2.7 | -0.9 | 2.7 | 3.8 | -0.2 | 2.1 | 1.3 | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 |
| Government consumption | 1.0 | 0.5 | 0.3 | 0.1 | 0.3 | -0.4 | 0.3 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Gross fixed investment | 3.4 | -2.1 | 1.6 | 0.2 | -2.0 | -2.7 | -1.1 | 0.5 | 0.5 | 0.6 | 0.7 | 0.7 |
| Foreign balance (contribution to growth) | -1.9 | -1.9 | 0.7 | 0.0 | 4.3 | 0.7 | -0.2 | 0.1 | 0.3 | 0.4 | 0.4 | 0.4 |
| CPI inflation (average) | 3.4 | 3.3 | 5.1 | 14.6 | 17.1 | 3.7 | 4.6 | 3.5 | 3.0 | 3.0 | 3.0 | 3.0 |
| CPI inflation (end year) | 4.0 | 2.7 | 7.4 | 24.5 | 5.5 | 4.6 | 4.5 | 3.1 | 3.0 | 3.0 | 3.0 | 3.0 |
| Core CPI inflation (average) | 3.1 | 3.7 | 3.9 | 15.8 | 17.7 | 4.6 | 5.3 | 3.8 | 3.2 | 3.1 | 3.0 | 3.0 |
| Core CPI inflation (end year) | 3.2 | 3.2 | 6.4 | 24.8 | 7.5 | 4.7 | 5.3 | 3.4 | 3.1 | 3.1 | 3.0 | 3.0 |
| Unemployment rate (average, ages 15-74) | 3.3 | 4.1 | 4.1 | 3.6 | 4.1 | 4.5 | 4.5 | 4.2 | 4.0 | 3.9 | 3.8 | 3.8 |
| Gross fixed capital formation (percent of GDP) | 27.1 | 26.5 | 27.3 | 27.8 | 25.6 | 23.4 | 21.6 | 21.5 | 21.5 | 21.6 | 21.6 | 21.8 |
| Gross national saving (percent of GDP) | 27.9 | 26.6 | 26.7 | 25.9 | 26.1 | 25.7 | 24.3 | 24.3 | 24.3 | 24.5 | 24.6 | 24.8 |
| **General government 1/** | | | | | | | | | | | | |
| Overall balance (percent of GDP) | -2.0 | -7.5 | -7.1 | -6.2 | -6.7 | -4.9 | -4.7 | -4.5 | -4.6 | -4.5 | -4.4 | -4.3 |
| Primary balance (percent of GDP) | 0.1 | -5.3 | -5.0 | -3.9 | -3.2 | -0.8 | -1.2 | -0.8 | -1.1 | -0.7 | -0.3 | 0.2 |
| Structural primary balance (percent of potential GDP) | -1.4 | -4.3 | -5.5 | -4.9 | -3.1 | -0.2 | -0.5 | -0.3 | -0.7 | -0.5 | -0.3 | 0.2 |
| Public debt (percent of GDP) | 65.0 | 78.7 | 76.2 | 73.9 | 73.0 | 73.5 | 74.8 | 75.3 | 76.3 | 77.3 | 78.0 | 78.6 |
| **Money and credit (end-of-period)** | | | | | | | | | | | | |
| Broad money | 8.1 | 21.1 | 16.3 | 7.1 | 1.4 | 8.9 | 5.1 | 5.7 | 5.9 | 6.3 | 6.5 | 6.5 |
| Lending to the private sector, flow-based | 15.3 | 11.8 | 12.8 | 12.0 | 4.5 | 5.2 | 4.4 | 6.2 | 5.8 | 5.8 | 5.9 | 5.9 |
| **Interest rates** | | | | | | | | | | | | |
| T-bill (90-day, average) | 0.0 | 0.4 | 0.9 | 7.6 | 11.0 | 6.1 | 6.1 | 6.4 | 6.6 | 6.6 | 6.6 | 6.7 |
| Government bond yield (5-year, average) | 1.6 | 1.5 | 2.4 | 8.1 | 8.0 | 6.2 | 6.6 | 6.8 | 7.0 | 7.2 | 7.3 | 7.3 |
| **Balance of payments** | | | | | | | | | | | | |
| Current account (percent of GDP) | -0.6 | -0.9 | -4.1 | -8.5 | 0.3 | 2.2 | 1.4 | 1.1 | 1.3 | 1.5 | 1.6 | 1.8 |
| Reserves (billions of Euros) | 28.4 | 33.7 | 38.4 | 38.7 | 41.4 | 44.6 | 49.3 | 50.9 | 51.1 | 55.0 | 55.8 | 60.7 |
| Gross external debt (percent of GDP) 2/ | 72.9 | 80.7 | 86.4 | 91.8 | 85.8 | 84.8 | 79.1 | 75.1 | 71.7 | 70.2 | 68.3 | 67.5 |
| Gross official reserves in percent of the IMF ARA metric | 104.3 | 120.2 | 117.5 | 107.0 | 105.0 | 109.6 | 112.1 | 111.4 | 110.8 | 114.7 | 114.0 | 121.3 |
| **Exchange rate** | | | | | | | | | | | | |
| Exchange rate, HUF per euro, period average | 325.2 | 351.2 | 358.5 | 390.9 | 381.8 | 395.4 | ... | ... | ... | ... | ... | ... |
| Nominal effective rate (2000=100, average) | 121.5 | 130.5 | 133.0 | 145.5 | 141.3 | 139.9 | ... | ... | ... | ... | ... | ... |
| Real effective rate, CPI basis (2000=100, average) | 80.4 | 84.2 | 84.1 | 87.5 | 77.0 | 82.9 | ... | ... | ... | ... | ... | ... |
| *Memorandum Items:* | | | | | | | | | | | | |
| Nominal GDP (billions of Forints) | 47,940 | 48,808 | 55,560 | 66,149 | 75,569 | 81,514 | 86,470 | 91,354 | 96,175 | 101,236 | 106,696 | 112,524 |
| Per capita GDP (EUR) | 15,196 | 14,343 | 16,060 | 17,607 | 20,620 | 21,507 | 22,874 | 24,226 | 25,567 | 26,981 | 28,505 | 30,135 |
| Output gap (percent of potential GDP) | 3.3 | -2.8 | 0.6 | 2.0 | -0.4 | -1.3 | -1.5 | -1.2 | -0.9 | -0.4 | 0.0 | 0.0 |

Sources: Hungarian authorities; IMF, International Financial Statistics; Bloomberg Finance L.P.; and IMF staff estimates and projections.

1/ Consists of the central government budget, social security funds, extrabudgetary funds, and local governments. The primary balance is net of interest expenses and revenues.

2/ Excluding Special Purpose Entities.

## Table 2a. Hungary: Consolidated General Government, 2019–2030

(Percent of GDP, unless otherwise indicated)

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | *Projections* | | | | | |
| Revenue | 43.8 | 43.5 | 41.0 | 42.5 | 42.4 | 42.0 | 42.8 | 42.6 | 42.7 | 42.9 | 43.2 | 43.2 |
| Tax revenue | 24.3 | 24.5 | 23.0 | 25.0 | 24.8 | 24.7 | 24.8 | 24.3 | 23.6 | 23.4 | 23.6 | 23.8 |
| Taxes on goods and services | 17.8 | 17.9 | 17.4 | 18.1 | 17.4 | 17.1 | 17.5 | 17.6 | 17.6 | 17.8 | 17.8 | 18.0 |
| VAT | 9.4 | 9.7 | 9.8 | 10.1 | 9.3 | 9.2 | 9.4 | 9.4 | 9.4 | 9.4 | 9.5 | 9.6 |
| Excises and other | 8.3 | 8.2 | 7.6 | 8.0 | 8.1 | 7.9 | 8.1 | 8.2 | 8.2 | 8.3 | 8.3 | 8.4 |
| Taxes on income, profits and capital gains | 6.5 | 6.6 | 5.6 | 6.9 | 7.4 | 7.6 | 7.2 | 6.7 | 5.9 | 5.6 | 5.7 | 5.7 |
| Personal income tax | 5.1 | 5.2 | 4.1 | 5.3 | 5.4 | 5.5 | 5.3 | 4.7 | 4.4 | 4.1 | 4.1 | 4.1 |
| Corporate taxes | 1.1 | 1.1 | 1.2 | 1.3 | 1.7 | 1.8 | 1.6 | 1.6 | 1.2 | 1.2 | 1.2 | 1.2 |
| Other | 0.3 | 0.3 | 0.3 | 0.2 | 0.3 | 0.3 | 0.4 | 0.4 | 0.4 | 0.4 | 0.5 | 0.5 |
| Capital taxes | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Social contributions | 11.6 | 11.1 | 10.5 | 9.9 | 9.9 | 10.4 | 10.5 | 10.6 | 10.5 | 10.4 | 10.4 | 10.4 |
| Current non-tax revenue | 4.7 | 4.6 | 4.5 | 5.1 | 5.6 | 5.2 | 5.2 | 5.2 | 5.2 | 5.2 | 5.2 | 5.2 |
| o/w interest revenue | 0.1 | 0.1 | 0.2 | 0.6 | 1.1 | 0.8 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| Current grants | 1.4 | 1.5 | 1.1 | 1.2 | 1.2 | 1.2 | 1.2 | 1.3 | 1.6 | 1.6 | 1.7 | 1.6 |
| Capital revenues and grants | 1.8 | 1.9 | 1.9 | 1.4 | 0.8 | 0.4 | 1.1 | 1.1 | 1.8 | 2.2 | 2.3 | 2.2 |
| Expenditure | 45.8 | 51.0 | 48.1 | 48.7 | 49.2 | 46.9 | 47.5 | 47.1 | 47.3 | 47.4 | 47.6 | 47.5 |
| Compensation of employees 1/ | 10.4 | 10.9 | 10.5 | 10.3 | 9.7 | 10.3 | 10.6 | 10.9 | 10.7 | 10.6 | 10.6 | 10.5 |
| Goods and services | 8.7 | 8.8 | 8.7 | 8.6 | 8.7 | 8.2 | 8.7 | 8.9 | 9.1 | 9.1 | 9.1 | 9.0 |
| Interest | 2.2 | 2.3 | 2.2 | 2.8 | 4.7 | 5.0 | 3.9 | 4.1 | 4.0 | 4.3 | 4.5 | 4.9 |
| Subsidies | 1.1 | 1.3 | 1.2 | 1.8 | 2.7 | 2.1 | 2.1 | 2.0 | 2.0 | 1.9 | 1.9 | 1.9 |
| Current transfers to households | 12.0 | 12.4 | 12.1 | 11.7 | 11.9 | 12.0 | 12.6 | 12.4 | 12.4 | 12.3 | 12.2 | 12.2 |
| Social security | 10.0 | 10.3 | 10.2 | 9.9 | 10.2 | 10.1 | 10.7 | 10.8 | 10.8 | 10.8 | 10.7 | 10.7 |
| Other | 2.0 | 2.1 | 1.9 | 1.8 | 1.8 | 1.9 | 1.8 | 1.6 | 1.6 | 1.5 | 1.4 | 1.4 |
| Other current transfers | 3.1 | 4.0 | 3.8 | 3.9 | 4.3 | 3.3 | 3.7 | 3.3 | 3.2 | 3.2 | 3.2 | 3.2 |
| Capital expenditures | 6.4 | 7.5 | 6.6 | 7.0 | 5.4 | 4.3 | 3.9 | 3.6 | 3.9 | 4.0 | 4.1 | 4.0 |
| Capital transfers | 1.8 | 3.9 | 2.9 | 2.5 | 1.7 | 1.6 | 1.9 | 2.0 | 2.2 | 2.1 | 2.2 | 2.0 |
| Other | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| General government balance | -2.0 | -7.5 | -7.1 | -6.2 | -6.7 | -4.9 | -4.7 | -4.5 | -4.6 | -4.5 | -4.4 | -4.3 |
| Primary balance 2/ | 0.1 | -5.3 | -5.0 | -3.9 | -3.2 | -0.8 | -1.2 | -0.8 | -1.1 | -0.7 | -0.3 | 0.2 |
| *Memorandum items:* | | | | | | | | | | | | |
| Structural balance (% of potential GDP) | -3.6 | -6.5 | -7.7 | -7.3 | -6.8 | -4.4 | -4.1 | -4.1 | -4.3 | -4.5 | -4.5 | -4.4 |
| Structural primary balance (% of potential GDP) 3/ | -1.4 | -4.3 | -5.5 | -4.9 | -3.1 | -0.2 | -0.5 | -0.3 | -0.7 | -0.5 | -0.3 | 0.2 |
| Cyclically-adjusted primary balance (% of potential GDP) | -1.4 | -4.1 | -5.4 | -5.0 | -3.0 | -0.2 | -0.5 | -0.3 | -0.7 | -0.5 | -0.3 | 0.2 |
| Gross public debt (Maastricht definition) | 65.0 | 78.7 | 76.2 | 73.9 | 73.0 | 73.5 | 74.8 | 75.3 | 76.3 | 77.3 | 78.0 | 78.6 |
| Nominal GDP (billions of Forints) | 47,940 | 48,808 | 55,560 | 66,149 | 75,569 | 81,514 | 86,470 | 91,354 | 96,175 | 101,236 | 106,696 | 112,524 |

Sources: Hungarian authorities; and Fund staff estimates.

1/ Includes social security contributions.

2/ The primary balance is net of interest expenses and revenues.

3/ The structural primary balance in 2025 is net of EU immigration-related fines while the 2026 SPB is net of additional fines and a one-off bonus for law enforcement personnel.

## Table 2b. Hungary: Consolidated General Government, 2019–2030

(Billions of Forints)

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | *Projections* | | | | | |
| Revenue | 21,009 | 21,253 | 22,767 | 28,140 | 32,046 | 34,199 | 37,035 | 38,919 | 41,067 | 43,410 | 46,122 | 48,623 |
| Tax revenue | 11,668 | 11,979 | 12,804 | 16,544 | 18,733 | 20,105 | 21,415 | 22,237 | 22,667 | 23,713 | 25,202 | 26,731 |
| Taxes on goods and services | 8,527 | 8,724 | 9,692 | 11,965 | 13,148 | 13,922 | 15,126 | 16,095 | 16,970 | 17,970 | 19,042 | 20,235 |
| VAT | 4,527 | 4,717 | 5,460 | 6,691 | 7,054 | 7,506 | 8,126 | 8,597 | 9,065 | 9,545 | 10,164 | 10,767 |
| Excises and other | 4,000 | 4,007 | 4,232 | 5,274 | 6,094 | 6,415 | 7,000 | 7,497 | 7,905 | 8,425 | 8,878 | 9,468 |
| Taxes on income, profits and capital gains | 3,121 | 3,239 | 3,096 | 4,559 | 5,566 | 6,161 | 6,266 | 6,117 | 5,671 | 5,716 | 6,131 | 6,466 |
| Personal income tax | 2,446 | 2,543 | 2,255 | 3,524 | 4,055 | 4,448 | 4,546 | 4,300 | 4,190 | 4,158 | 4,382 | 4,621 |
| Corporate taxes | 543 | 559 | 680 | 875 | 1,304 | 1,482 | 1,388 | 1,467 | 1,111 | 1,170 | 1,233 | 1,300 |
| Other | 133 | 137 | 161 | 159 | 207 | 231 | 332 | 350 | 369 | 388 | 516 | 544 |
| Capital gains taxes | 20 | 15 | 17 | 20 | 18 | 22 | 24 | 25 | 26 | 28 | 29 | 31 |
| Social contributions | 5,585 | 5,395 | 5,814 | 6,523 | 7,509 | 8,484 | 9,087 | 9,691 | 10,107 | 10,537 | 11,106 | 11,712 |
| Current non-tax revenue | 2,236 | 2,225 | 2,482 | 3,373 | 4,268 | 4,278 | 4,538 | 4,794 | 5,047 | 5,313 | 5,599 | 5,905 |
| o/w interest revenue | 28 | 69 | 89 | 371 | 818 | 659 | 346 | 365 | 385 | 405 | 427 | 450 |
| Current grants | 670 | 736 | 585 | 799 | 927 | 991 | 1,047 | 1,174 | 1,522 | 1,661 | 1,805 | 1,846 |
| Capital revenues and grants | 850 | 919 | 1,081 | 901 | 609 | 341 | 948 | 1,023 | 1,723 | 2,185 | 2,411 | 2,428 |
| Expenditure | 21,979 | 24,907 | 26,718 | 32,223 | 37,145 | 38,206 | 41,100 | 43,071 | 45,526 | 48,006 | 50,819 | 53,483 |
| Compensation of employees 1/ | 4,996 | 5,336 | 5,851 | 6,820 | 7,338 | 8,428 | 9,134 | 9,977 | 10,249 | 10,750 | 11,296 | 11,860 |
| Goods and services | 4,158 | 4,276 | 4,817 | 5,700 | 6,599 | 6,690 | 7,550 | 8,163 | 8,755 | 9,204 | 9,669 | 10,125 |
| Interest | 1,061 | 1,127 | 1,244 | 1,871 | 3,534 | 4,040 | 3,400 | 3,788 | 3,816 | 4,314 | 4,848 | 5,480 |
| Subsidies | 543 | 633 | 675 | 1,187 | 2,064 | 1,727 | 1,788 | 1,784 | 1,878 | 1,876 | 1,977 | 2,085 |
| Current transfers to households | 5,767 | 6,056 | 6,724 | 7,715 | 9,029 | 9,784 | 10,873 | 11,313 | 11,944 | 12,485 | 13,003 | 13,714 |
| Social security | 4,791 | 5,027 | 5,669 | 6,532 | 7,681 | 8,256 | 9,275 | 9,842 | 10,429 | 10,924 | 11,465 | 12,091 |
| Other | 976 | 1,029 | 1,055 | 1,183 | 1,348 | 1,528 | 1,598 | 1,471 | 1,515 | 1,561 | 1,538 | 1,622 |
| Other current transfers | 1,502 | 1,954 | 2,113 | 2,607 | 3,235 | 2,722 | 3,192 | 2,984 | 3,045 | 3,206 | 3,378 | 3,563 |
| Capital expenditures | 3,080 | 3,642 | 3,662 | 4,642 | 4,060 | 3,518 | 3,347 | 3,257 | 3,706 | 4,004 | 4,336 | 4,460 |
| Capital transfers | 872 | 1,882 | 1,631 | 1,682 | 1,286 | 1,299 | 1,672 | 1,805 | 2,133 | 2,168 | 2,312 | 2,196 |
| Other | 0 | 0 | 0 | 0 | 0 | 0 | 146 | 0 | 0 | 0 | 0 | 0 |
| General government balance | -970 | -3,654 | -3,950 | -4,082 | -5,100 | -4,007 | -4,065 | -4,151 | -4,459 | -4,596 | -4,697 | -4,860 |
| Primary balance | 62 | -2,596 | -2,796 | -2,582 | -2,384 | -625 | -1,012 | -729 | -1,029 | -687 | -276 | 170 |
| *Memorandum items:* | | | | | | | | | | | | |
| Gross public debt | 31,156 | 38,405 | 42,345 | 48,859 | 55,140 | 59,875 | 64,709 | 68,754 | 73,406 | 78,247 | 83,275 | 88,408 |
| Nominal GDP | 47,940 | 48,808 | 55,560 | 66,149 | 75,569 | 81,514 | 86,470 | 91,354 | 96,175 | 101,236 | 106,696 | 112,524 |

Sources: Hungarian authorities and Fund staff estimates.

1/ Includes social security contributions.

## Table 3. Hungary: Central Bank Survey, 2020–2025

(Billions of Forints, unless otherwise indicated)

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025Q1 |
|---|---|---|---|---|---|---|
| Net foreign assets | 12,988 | 14,860 | 16,294 | 16,002 | 17,019 | 16,960 |
| Foreign Assets | 12,988 | 14,900 | 16,297 | 16,585 | 19,092 | 19,095 |
| Foreign Liabilities | 0 | 40 | 3 | 583 | 2,073 | 2,135 |
| | | | | | | |
| Net domestic assets | -3,708 | -4,570 | -412 | 2,325 | 1,492 | 1,918 |
| Net claims on government | -1,743 | 1,402 | 1,521 | 1,688 | 914 | 619 |
| Assets | 1,114 | 3,303 | 3,312 | 3,307 | 2,243 | 2,241 |
| Liabilities (Govt Deposits at MNB) | 2,857 | 1,901 | 1,791 | 1,619 | 1,329 | 2,241 |
| HUF | 112 | 194 | 189 | 91 | 58 | 1,623 |
| FX | 2,745 | 1,706 | 1,601 | 1,528 | 1,271 | 50 |
| Net claims on banks 1/ | 1,900 | 39 | 5,099 | 4,482 | 3,878 | 1,572 |
| Assets | 5,145 | 6,323 | 6,194 | 5,212 | 4,650 | 3,707 |
| Liabilities | 3,244 | 6,284 | 1,096 | 730 | 771 | 562 |
| Deposits & CDs excl. current & overnight deposits | 3,244 | 6,244 | 1,093 | 200 | 200 | 806 |
| Securities Issued by MNB 2/ | 0 | 40 | 3 | 530 | 572 | 200 |
| Net claims on the economy 3/ | 547 | 1,362 | 1,596 | 2,101 | 2,372 | 607 |
| Other items, net | -1,537 | -1,440 | -8,627 | -5,946 | -6,912 | -5,244 |
| | | | | | | |
| Base money (M0) | 9,280 | 10,290 | 15,882 | 18,327 | 18,511 | 18,878 |
| Currency in Circulation | 7,332 | 7,856 | 8,411 | 8,218 | 9,000 | 9,074 |
| Banks' Reserves | 1,948 | 2,434 | 7,471 | 10,109 | 9,511 | 9,804 |
| Current Account Balances | 339 | 371 | 2,807 | 10,107 | 9,509 | 9,804 |
| Overnight Deposits | 1,609 | 2,063 | 4,664 | 2 | 2 | 0 |
| | | | | | | |
| *Memorandum items* : | | | | | | |
| International Reserves (billions of Euros) | 33.7 | 38.4 | 38.7 | 41.4 | 44.6 | 45.6 |
| Base Money (yoy percent change) | 13.5 | 10.9 | 54.4 | 15.4 | 1.0 | 2.0 |
| NFA (contribution to change) | 36.1 | 20.2 | 13.9 | -1.8 | 5.5 | -0.3 |
| NDA (contribution to change) | -22.6 | -9.3 | 40.4 | 17.2 | -4.6 | 2.3 |
| Government Deposits at Central Bank (percent of GDP) | 5.9 | 3.4 | 2.7 | 2.1 | 1.6 | 1.9 |
| HUF | 0.2 | 0.3 | 0.3 | 0.1 | 0.1 | 0 |
| FX | 5.6 | 3.1 | 2.4 | 2.0 | 1.6 | 2 |
| Reserve Requirement Ratio (percent of select liabilities) | 1.0 | 1.0 | 5.0 | 10.0 | 10.0 | 10.0 |

Sources: Hungarian National Bank (MNB); and Fund staff estimates and projections.

1/ Excluding swaps. Revaluation effects of swaps with other credit institutions are captured in other items net.

2/ Data are from MNB's monetary statistics Table 2.a.1 on bank assets.

3/ Does not include holdings of shares and equity stakes issued by other residents, which are captured in other items net. The Pallas Athene Foundations are independent and not part of the MNB's balance sheet.

## Table 4. Hungary: Monetary Survey, 2020–2025

(Billions of Forints, unless otherwise indicated)

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025Q1 |
|---|---|---|---|---|---|---|
| Net foreign assets | 15,475 | 17,598 | 17,241 | 16,035 | 15,857 | 15,865 |
| Central Bank | 12,988 | 14,860 | 16,294 | 16,002 | 17,019 | 16,960 |
| Commercial Banks | 2,487 | 2,738 | 947 | 33 | -1,162 | -1,095 |
| Net domestic assets | 18,088 | 21,420 | 24,534 | 26,309 | 30,243 | 32,373 |
| Domestic credit | 28,864 | 35,140 | 39,497 | 40,303 | 44,559 | 45,111 |
| Net claims on government | 8,782 | 11,198 | 12,690 | 11,880 | 14,083 | 14,701 |
| From Central Bank | (1,743) | 1,402 | 1,521 | 1,688 | 914 | 619 |
| From Commercial Banks | 10,525 | 9,796 | 11,168 | 10,192 | 13,169 | 14,083 |
| Gross Credit to the economy | 20,083 | 23,942 | 26,807 | 28,423 | 30,477 | 30,409 |
| From Commercial Banks | 19,536 | 22,580 | 25,212 | 26,322 | 28,104 | 28,007 |
| Other items, net | -10,776 | -13,720 | -14,963 | -13,994 | -14,317 | -12,738 |
| Broad money (M3) | 33,563 | 39,018 | 41,774 | 42,344 | 41,874 | 42,651 |
| M2 | 33,496 | 38,870 | 41,163 | 40,805 | 40,378 | 41,172 |
| M1 | 30,264 | 34,915 | 33,972 | 32,326 | 30,711 | 31,375 |
| Currency in circulation | 6,969 | 7,507 | 8,019 | 7,893 | 7,823 | 8,051 |
| Overnight Deposits | 23,295 | 27,408 | 25,952 | 24,433 | 22,887 | 23,324 |
| Deposits with Maturities up to 2 years | 3,232 | 3,955 | 7,191 | 8,479 | 9,667 | 9,797 |
| Repos | - | 35 | 11 | 242 | 190 | 159 |
| Money Market Fund Shares/Units | 42 | 22 | 315 | 542 | 546 | 553 |
| Debt Securities | 25 | 91 | 285 | 755 | 760 | 766 |
| *Memorandum items*: | *(Year-on-year percent change by contribution)* | | | | | |
| Broad Money | 21.1 | 16.3 | 7.1 | 1.4 | 8.9 | 5.1 |
| NFA | 14.4 | 6.3 | -0.9 | -2.9 | -0.4 | 0.0 |
| NDA | 6.6 | 9.9 | 8.0 | 4.2 | 9.3 | 5.1 |
| | *(Year-on-year percent change)* | | | | | |
| Credit to Private Sector | 11.8 | 12.8 | 12.0 | 4.5 | 5.2 | 4.4 |
| HUF | 16.6 | 16.1 | 9.9 | 0.3 | 3.5 | 7.1 |
| FX | -4.2 | 1.0 | 20.6 | 19.2 | 11.0 | 3.1 |
| Bank Deposits | 22.5 | 17.1 | 5.1 | -0.8 | 4.5 | 23.2 |
| Bank Holdings of Government Paper (percent of GDP) | 20.8 | 18.3 | 16.4 | 13.8 | 14.5 | 15.3 |

Sources: Hungarian National Bank (MNB); and Fund staff estimates and projections.

## Table 5. Hungary: Balance of Payments, 2019–2030

(Percent of GDP, unless otherwise indicated)

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | *Projections* | | | | | |
| Current Account | -0.6 | -0.9 | -4.1 | -8.5 | 0.3 | 2.2 | 1.4 | 1.1 | 1.3 | 1.5 | 1.6 | 1.8 |
| Goods and service (GS), net | 2.2 | 1.9 | 0.1 | -4.7 | 4.6 | 5.6 | 5.6 | 5.4 | 5.6 | 5.7 | 5.9 | 6.1 |
| Exports | 81.0 | 78.1 | 79.4 | 89.3 | 80.8 | 74.7 | 72.9 | 71.7 | 72.1 | 72.6 | 73.3 | 74.3 |
| Imports | -78.8 | -76.2 | -79.3 | -94.0 | -76.2 | -69.1 | -67.3 | -66.3 | -66.5 | -66.9 | -67.4 | -68.2 |
| Primary Income, net | -2.3 | -2.4 | -3.2 | -2.9 | -3.2 | -2.7 | -3.2 | -3.3 | -3.4 | -3.4 | -3.5 | -3.6 |
| Secondary Income/Current transfers, net | -0.6 | -0.5 | -1.0 | -0.8 | -1.0 | -0.6 | -0.9 | -1.0 | -0.9 | -0.9 | -0.8 | -0.8 |
| Capital Account | 1.8 | 2.0 | 2.4 | 1.8 | 0.9 | 0.4 | 1.1 | 1.5 | 0.9 | 0.8 | 0.7 | 0.7 |
| Financial Account 1/ | -0.4 | -5.5 | -6.4 | -9.3 | -1.6 | 0.6 | 0.4 | 2.0 | 2.1 | 0.7 | 2.0 | 0.7 |
| Direct investment, net | -0.5 | -1.5 | -2.2 | -2.7 | -0.7 | -0.4 | -1.0 | -1.0 | -0.7 | -0.8 | -0.8 | -1.0 |
| Net acquisition of assets | 1.3 | 0.6 | 3.4 | 5.6 | 1.5 | 1.6 | 2.1 | 2.2 | 2.3 | 2.5 | 2.5 | 2.3 |
| Net incurrence of liabilities | 1.8 | 2.1 | 5.6 | 8.3 | 2.2 | 2.0 | 3.1 | 3.2 | 3.1 | 3.3 | 3.3 | 3.3 |
| Portfolio investment, net 2/ | 1.1 | -2.1 | 0.1 | -3.7 | -3.0 | 1.1 | 1.3 | 3.1 | 3.4 | 2.2 | 2.7 | 1.4 |
| Other investment | -1.0 | -1.9 | -4.4 | -2.9 | 2.0 | -0.1 | 0.0 | -0.1 | -0.6 | -0.7 | 0.1 | 0.3 |
| Net errors and omissions | -1.4 | -2.3 | -2.3 | -2.1 | -1.6 | -1.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall Balance | 0.2 | 4.3 | 2.4 | 0.5 | 1.3 | 0.1 | 2.2 | 0.7 | 0.1 | 1.5 | 0.3 | 1.7 |
| Financing | -0.2 | -4.3 | -2.4 | -0.5 | -1.3 | -0.1 | -2.2 | -0.7 | -0.1 | -1.5 | -0.3 | -1.7 |
| Gross Reserves ("-": increase) | -0.2 | -4.3 | -2.4 | -0.5 | -1.3 | -0.1 | -2.2 | -0.7 | -0.1 | -1.5 | -0.3 | -1.7 |
| *Memorandum Items:* | | | | | | | | | | | | |
| Exports volume (percentage change) | 5.5 | -6.1 | 8.3 | 10.7 | 1.7 | -3.0 | 3.0 | 4.8 | 5.2 | 5.3 | 5.3 | 5.7 |
| Imports volume (percentage change) | 8.2 | -3.9 | 7.4 | 10.7 | -3.4 | -4.0 | 3.4 | 5.0 | 5.1 | 5.2 | 5.2 | 5.6 |
| Terms of trade (percentage change) | 0.6 | 2.1 | -3.4 | -6.9 | 6.5 | 0.1 | 1.5 | 0.7 | 0.1 | 0.1 | 0.1 | 0.1 |
| Gross external debt (percent of GDP) 3/ | 72.9 | 80.7 | 86.4 | 91.8 | 85.8 | 84.8 | 79.1 | 75.1 | 71.7 | 70.2 | 68.3 | 67.5 |
| Net International Investment Position | -49.3 | -45.8 | -48.4 | -43.7 | -37.2 | -36.0 | -29.6 | -26.3 | -24.4 | -22.1 | -20.0 | -18.7 |
| Gross official reserves (billion Euros) | 28.4 | 33.7 | 38.4 | 38.7 | 41.4 | 44.6 | 49.3 | 50.9 | 51.1 | 55.0 | 55.8 | 60.7 |
| In percent of s-t debt at remaining maturity | 160.6 | 150.6 | 131.7 | 109.3 | 123.0 | 127.2 | 112.9 | 108.3 | 111.8 | 113.1 | 114.4 | 124.5 |
| In months of next year's imports of G&S | 3.2 | 3.3 | 2.9 | 3.1 | 3.5 | 3.6 | 3.9 | 3.8 | 3.6 | 3.6 | 3.5 | 3.6 |
| In percent of IMF metric | 104.3 | 120.2 | 117.5 | 107.0 | 105.0 | 109.6 | 112.1 | 111.4 | 110.8 | 114.7 | 114.0 | 121.3 |

Sources: Hungarian authorities; and Fund staff estimates.

1/ A negative sign for financial accounts items indicates a net inflow from non-resident investors.

2/ Includes financial derivatives.

3/ Excludes Special Purpose Entities.

## Table 6. Hungary: Financial Soundness Indicators for the Banking Sector, 2019–2024

(Percent, unless otherwise indicated, end of period)

| | 2019 | 2020 | 2021 | 2022 | | | | 2023 | | | | 2024 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| **Capital** | | | | | | | | | | | | | | | |
| Regulatory capital to risk-weighted assets | 18.0 | 18.3 | 19.6 | 18.7 | 18.2 | 17.6 | 19.1 | 18.3 | 18.7 | 19.2 | 20.0 | 19.3 | 19.3 | 20.7 | 20.5 |
| Regulatory Tier 1 capital to risk-weighted assets | 15.9 | 16.2 | 18.1 | 17.3 | 16.7 | 16.2 | 17.5 | 16.3 | 16.7 | 17.2 | 18.0 | 17.3 | 17.7 | 19.1 | 18.5 |
| **Asset Quality** | | | | | | | | | | | | | | | |
| NPLs (90 days overdue) net of provisions to capital | 2.0 | 10.1 | 10.8 | 10.9 | 11.2 | 11.9 | 10.6 | 10.5 | 9.4 | 9.0 | 7.6 | 7.4 | 7.1 | 6.7 | 6.6 |
| NPLs (90 days overdue) to gross loans | 1.5 | 4.0 | 3.6 | 3.4 | 3.7 | 3.7 | 3.8 | 3.7 | 3.4 | 3.4 | 3.2 | 3.1 | 3.0 | 2.9 | 2.7 |
| **Profitability** | | | | | | | | | | | | | | | |
| ROA | 2.0 | 0.9 | 1.3 | 0.6 | 0.7 | 1.1 | 1.2 | 1.8 | 2.6 | 2.8 | 2.4 | 2.3 | 2.6 | 2.7 | 2.4 |
| ROE | 19.5 | 9.7 | 11.7 | 4.6 | 6.5 | 10.5 | 10.8 | 16.4 | 24.1 | 25.0 | 19.7 | 18.3 | 20.7 | 20.9 | 18.1 |
| Net interest income to gross income | 46.8 | 52.1 | 53.4 | 54.7 | 57.4 | 59.2 | 61.3 | 59.6 | 57.3 | 58.7 | 60.1 | 61.9 | 60.2 | 58.9 | 58.1 |
| Noninterest expenses to gross income | 68.1 | 64.7 | 64.8 | 65.5 | 69.6 | 64.5 | 62.6 | 71.5 | 57.5 | 54.5 | 55.1 | 63.5 | 56.4 | 55.0 | 55.7 |
| **Liquidity** | | | | | | | | | | | | | | | |
| Liquid assets to total assets | 24.9 | 27.7 | 15.6 | 15.5 | 14.4 | 14.9 | 21.1 | 23.1 | 22.7 | 23.6 | 25.8 | 26.5 | 26.5 | 26.9 | 26.6 |
| Liquid assets to short term liabilities | 39.7 | 34.4 | 17.9 | 17.7 | 16.7 | 23.9 | 34.6 | 37.6 | 37.9 | 39.2 | 43.3 | 44.0 | 43.8 | 44.5 | 44.0 |

Source: IMF Financial Soundness Indicators Database.

# Annex I. Authorities' Response to Past IMF Policy Recommendations

| IMF 2024 Article IV Recommendations | Authorities' Response |
|---|---|
| **Fiscal Policies** | |
| 1. Undertake decisive and front-loaded fiscal adjustment beginning with 2½ percent consolidation in the structural primary balance in 2024 with the structural deficit declining to 1.5 percent by 2029.<br>2. Implement revenue reforms by limiting VAT and PIT exemptions, introducing higher marginal PIT rate, rationalizing CIT exemptions and raising the CIT rate. Limit reliance on distortive and retrospective windfall taxes.<br>3. Reduce subsidies: replace energy price caps with targeted cash transfers.<br>4. Rationalize spending on the wage bill and goods and services to generate fiscal space for more productive and capital spending.<br>5.Enhance medium-term fiscal planning by reinstating the requirement to issue medium term budgets and establish an independent fiscal council. | 1. The structural primary balance consolidated by 2.9 percent of GDP in 2024, although the headline fiscal deficit, of 4.9 percent, came in higher than the authorities' target of 4.5 percent of GDP. Baseline projections point to limited progress over the medium term due to recently introduced expansionary revenue measures and absence of clearly designed and communicated consolidation measures.<br>2. Several revenue-enhancing tax changes, including excise tax indexation, were introduced in November 2024 but these were more than offset by revenue loss from the expansion of PIT exemptions and doubling of the family tax allowance. A few windfall taxes were phased out at the end of 2024 but taxes on banks, insurers, energy firms and retail companies were extended through 2026.<br>3. Retail energy price caps and subsidies stayed unchanged.<br>4. Goods and services spending was reduced by 0.5 percent of GDP to 8.2 percent in 2024 yet remains high. This was more than offset by higher spending on compensation of employees. Capital spending declined by 1 percent of GDP in 2024, including due to a decline in EU funding.<br>5. Regular medium-term budgets have not been reinstated. The budget cycle reverted back to the spring for 2026 risking larger deviations from macro-fiscal forecasts. |
| **Monetary and Financial Policies** | |
| 1. Maintain restrictive stance of monetary policy with limited rate cuts in 2024.<br>2. No dividends should be distributed until minimum capital requirements are reached. Scale back and business and foundations established by the MNB which are not related to its mandate. Limit MNB green prudential initiatives to those linked to its price and financial stability mandates.<br>3. Phase out interest rate caps on mortgages and encourage elimination of other voluntary interest rate caps. Scale back housing related fiscal incentives to contain house price growth.<br>4. Implement EU's AML/CFT package agreed in April 2024 and remaining MONEYVAL recommendations. | 1. Following cautious easing during 2024 Q1-Q3, the MNB has kept its policy rates on hold since September 2024—consistent with staff recommendations.<br>2. No dividends were paid during 2024. An amendment to the central bank law will restrict the ability of central bank foundations to engage in asset management activities. No action to scale back climate initiatives.<br>3. While some caps were phased out, others were added. Fiscal incentives for house purchases remain and house price growth is accelerating.<br>4. Next MONEYVAL evaluation is scheduled for 2025-27. |
| **Structural Reforms** | |
| 1. Take measures to strengthen digital competitiveness including those in the National Digitalization Strategy, the EU AI Act, and | Recent measures include EU-approved state aid schemes for clean-tech and energy storage, while updating competition rules and launching market inquiries to safeguard fair competition. |

| IMF 2024 Article IV Recommendations | Authorities' Response |
|---|---|
| boosting investment in reskilling and AI education.<br>2. Ensure appropriateness of Industrial Policy and state aid. This includes a coordinated approach at the EU level and ensuring a level-playing field and fair competition in the marketplace.<br>3. Implement reforms to enhance perceptions of rule of law and address gaps in government effectiveness and quality of governance. | There is ongoing progress on judicial reforms aimed at strengthening the National Judicial Council's oversight and operationalizing the newly created Integrity Authority to monitor EU fund use. Also, the authorities adopted draft laws on lobbying, revolving doors, and asset declarations as part of efforts to meet EU rule-of-law milestones. |

# Annex II. Current Windfall Taxes, Price/Rate Caps, and Subsidized Lending Programs

| Measure | Duration | Description |
|---|---|---|
| **Burden borne by the Private Sector** | | |
| **1. WINDFALL TAXES** | | |
| **Windfall tax on the banking sector** | Jul. 1, 2022-Dec. 31, 2026 | Rates of 7 percent for income up to HUF 20 billion and 18 percent for income above. Banks can deduct 10 percent of their government bond portfolio growth from their windfall tax, up to a maximum of 50 percent of the bank's windfall profits tax for 2024. Effective August 1, 2024, eligibility for the maximum tax reduction is only available to banks that increase both their holdings of government bonds expiring beyond January 1, 2030, and their total government bond holdings. The taxes were supposed to be phased out at the end of 2025 but were extended for another year in the 2026 budget. In May 2025, the tax rate was increased from 7 percent to 8 percent in the lower tax bracket of up to HUF 20 b and from 18 percent to 20 percent in the upper backet above HUF 20 b for the tax year 2026. The tax base was also revised from the 2023 to the 2024 adjusted pre-tax profit. |
| **Windfall taxes on the energy sector:** | Mid-2022-Dec. 31, 2026 | *Income tax on energy suppliers*: A rate of 41 percent has been in place since 2023. In 2026 the tax rate returns to the original 31 percent. |
| **i. Income tax on energy suppliers**<br>**ii. Windfall tax on the spread between Ural-Brents** | | *Windfall tax on Ural-Brent spread*: 95 percent tax (since Dec 8, 2022) on refined oil volume × price spread, with a per-barrel deduction of $7.5 (since Apr 2023), reduced to $5 from Aug 2024.<br><br>The windfall tax on the Ural-Brent spread was extended for another year in the 2026 budget. |
| **Special tax on retail sector** | Jul. 1, 2022-Dec. 31, 2026 | Progressive turnover tax (with 0.15, 1.0, and 4.5 percent rates on motor fuel sales) and the 3.0 percent rate on motor fuel sales remains in effect above HUF 500 million; from 2025, domestic and foreign online platforms facilitating retail sales are also subject to the tax. The tax was supposed to be phased out at the end of 2025 but was extended for another year in the 2026 budget. |
| **Special tax on the insurance sector** | Jul. 1, 2022-Dec. 31, 2026 | Rates of 2–3 percent on premiums up to HUF 48 billion and 6–14 percent above; insurers can reduce their tax by 30 percent based on increased holdings of long-term government bonds. The tax was |

| Measure | Duration | Description |
|---|---|---|
| | | supposed to be phased out at the end of 2025 but was extended for another year in the 2026 budget. In May 2025, tax relief was raised from 30 percent of the nominal increase in the government security portfolio to 60 percent, but with a maximum 40 percent of the tax liability for non-life insurance, and 100 percent for life insurance. |
| **2. CAPS ON MARGINS, PRICES, INTEREST RATES, FEES** | | |
| **Retail Margin Cap on Basic Food Items and Household Goods** | Mar.-Aug. 2025 | From March 17 to August 31, 2025, larger retailers (2023 revenue > HUF 1 billion) must cap markups on several food products to 10 percent or the January 2025 average margin, whichever is lower. Retailers are required to maintain sufficient stock. This short-term anti-inflation measure replaces the 2023 mandatory discount regime. In May, margin caps of 15 percent were added for household goods in 30 categories, also to remain in place until the end of August. |
| **Utility Price Caps** | 2014-2025 | Prices under threshold consumption levels for households have been fixed at 99.9 HUF/$m^3$ for gas and 36.2 HUF/KWh for electricity since April 2023. Prices beyond threshold consumption are 747 HUF/ $m^3$ for gas and 70,1 HUF/KWh for electricity. |
| **Voluntary APR caps for banks** | Oct. 9, 2023-Oct. 31, 2025 | The APR ceiling on housing loans, implemented from October 9, 2023 with an initial cap of 8.5 percent and reduced to 7.3 percent from January 2024, expired in June 2024. A new 5 percent cap on mortgages for green apartment purchases by first-time home buyers under 35, conditional on a maximum property size of 60 sqm at a price of no more than HUF 1,200,000/sqm, is in effect from April 1 until October 31, 2025. |
| **Retail banking fee caps** | 2025-26 | The MNB and Banking Association reached an agreement that banks would waive fees on basic retail accounts until the CPI stays below 4 percent for three months, simplify account switching, and enhance fee transparency. OTP Bank committed to freezing retail fees until mid-2026 and rolling back charges to early 2025 levels. |
| **Voluntary caps for telecoms** | 2025- | The big telecoms operators will not raise their prices until July 1, 2026, and those that have already raised their prices in 2025 will bring them back to the level of January 1, 2025. |
| **Caps on insurance premium increases** | 2025- | The government is in talks with insurance companies to freeze their premiums in 2025 (a 5 percent cap on premium increases was introduced in 2024). For 2026, a cap of 3 percent is being considered. |

| Measure | Duration | Description |
| --- | --- | --- |
| **Voluntary price caps on pharmaceuticals** | 2025-2026 | The government has reached a voluntary agreement with the pharmaceutical sector to cap prices on 44 widely used medications at their December 2024 levels through June 2026. |
| **Burden borne by the Public Sector** | | |
| **3. SUBSIDIZED LENDING SCHEMES** | | |
| **Home Purchase Subsidy for Families Plus (HPS Plus, Hungarian abbreviation: CSOK) and Rural HPS (Hungarian abbreviation: Falusi CSOK)** | 2015- | *HPS Plus:* Replaced the original HPS program in January 2024. Offers 3-percent subsidized loans (HUF 15–50M) to married couples planning children, with the wife under 41 (or pregnant regardless of age) until end-2025; includes tax exemption, HUF 10M debt forgiveness per additional child, and 10–25-year maturity with property caps (HUF 80M–150M).<br><br>*Rural HPS:* Provides grants (HUF 1–15M) for families in towns under 5,000 people, with no property cap, up to HUF 5M in tax refunds, and full exemption from the 4 percent transfer duty. |
| **Prenatal Baby Support Loan** | 2019- | Remains in effect, offering up to HUF 11 million to young married couples, with a 5-year deadline to have a child, available for pregnant women aged 18-35, and extended deadline until July 2026 applicable to contracts established between 2019 and 2021. |
| **Rural Pensioner Home-Renovation Grant** | Mar.. 2025-<br>Jun. 2026 | The state subsidy is up to 50 percent of the cost of renovation but can be a maximum of HUF 3 million per home in rural HPS areas. The total envelope is HUF 90 billion to modernize rural housing. The application for support can be submitted from March 26, 2025 to June 30, 2026. |
| **Széchenyi Card Programme** | 2002- | From March 1, 2025, interest rates reduced to 3 percent for investment, agricultural, and leasing loans, and to 4.5 percent for overdrafts, tourism, and liquidity loans—cutting rates to half of interbank levels to boost SME growth, supported jointly by banks, KAVOSZ, and government guarantees |
| **Demján Sándor Capital Programme (DST)** | Mar. 2025- | HUF 1,410 bn initiative offering grants, capital injections, and subsidized loans to help SMEs invest in technology, expand operations, and strengthen their digital presence. More than 1,100 firms registered; 363 qualified; around HUF 6bn already allocated. Aims to boost SME capital access and innovation. |
| **Workers' Loan Program** | Jan. 2025- | Zero-interest loans up to HUF 4 mn for employed Hungarians under 25 who are ineligible for student loans. Over 17,000 applicants, with 13,000 loans disbursed. Features child-linked grace periods (2 years after first and second child) and full forgiveness after third child. |

| Measure | Duration | Description |
| --- | --- | --- |
| **Home Start program** | Sep. 2025- | 3 percent subsidized loan scheme for anyone who has owned no more than 50 percent of a property in the previous 10 years. Maximum 25 years with interest subsidy and maximum loan amount of HUF 50mn, with a required co-payment of 10 percent. Properties eligible for purchase must cost under HUF 100 million for flats and HUF 150 million for detached houses, with a price cap of HUF 1.5mn per square meter. |

# Annex III. External Sector Assessment

Overall Assessment: *The external position in 2024 was substantially stronger than implied by fundamentals and desirable policy settings.* This was driven primarily by a significant improvement in Hungary's current account balance, and a continued improvement in its terms of trade. The current account surplus is expected to shrink in 2025 and 2026 as import growth rebounds and then improves gradually in 2027-30 as EV and battery exports come online. A downside risk is that these exports could take longer to materialize, while further delays or a decline in EU transfers below expected levels could worsen secondary income balances, causing a deterioration in the current account.

Potential Policy Responses: The authorities should implement policies to reduce the uncertainties that have constrained private investment to boost growth (see Policy Discussions section), stimulating imports and thus shrinking the current account surplus, especially as the recommended fiscal consolidation would reduce government consumption.

## Foreign Assets and Liabilities: Position and Trajectory

**Background.** The net international investment position (NIIP) improved from -37.2 percent of GDP in 2023 to -36.3 percent of GDP in 2024 as the reduction in liabilities outpaced that of assets driven primarily by a net improvement in other investment, including an increase in assets related to overseas loans, deposits and trade credits. Gross assets, 227 percent of GDP, are 70 percent overseas direct investment with smaller amounts of portfolio and other investment holdings while liabilities, 262 percent of GDP, are 73 percent FDI. The NIIP is projected to further improve over the medium term as asset growth outpaces that of liabilities driven by higher FDI outflows (assets) and reserve accumulation from an improving current account balance. Gross external debt (85 percent of GDP in 2024) declined slightly relative to 2023 levels and is expected to continue this trajectory.

**Assessment.** The NIIP is sustainable. Liabilities are predominantly composed of FDI with a relatively low rollover risk. Foreign portfolio liabilities are only 13 percent of the total though capital outflows in the event of a shock, such as concerns about fiscal sustainability could cause disorderly market conditions.

| | | | | | |
|---|---|---|---|---|---|
| 2024 (% GDP) | NIIP:<br>-36.3 | Gross Assets:<br>227 | Res. Assets:<br>21.6 | Gross Liab.:<br>262 | Ext Debt Liab.:<br>84.8 |

## Current Account

**Background.** The current account (CA) surplus improved significantly in 2024 to 2.2 percent of GDP from 0.3 percent in 2023 reflecting a continued terms of trade improvement and weak domestic demand rooted in low investment, which contributed to a sharp import contraction. Smaller primary income and transfers deficits, likely reflecting lower corporation profit repatriation and smaller contributions to the EU budget, also contributed to growth in the CA surplus. The surplus is expected to shrink in 2025-26 as import growth accelerates in line with the rebound in consumption, higher energy prices, and continuation of relatively weak external demand. Over the longer term, the operationalization of export-oriented EV and battery plants is expected to lead to a gradual improvement in the trade and current account balances. A downside risk is that these exports could take longer to materialize while higher commodity prices stemming from prolonged regional conflict could increase imports and lead to a deterioration of the trade balance. Further delays or a decline in EU transfers below expected levels could cause a deterioration in the current and capital accounts. From a savings-investment perspective, the projected medium-term improvement in the current account is in line with a modest fiscal consolidation driving increased public savings, while the rate of increase of investment is expected to slow with larger FDI outflows related to overseas expansion of Hungary's national champions.

**Assessment.** For 2024, the EBA CA model estimates a cyclically-adjusted CA of 2.1 percent of GDP against a cyclically-adjusted CA norm of -2.8 percent. This implies an EBA model CA gap of 4.9 percent of GDP reflecting a small policy gap (0.6 percent, driven largely by gaps related to the fiscal deficit and underspending on health) and an unidentified residual of (4.3 percent). The latter is hard to attribute precisely but is likely driven by excess savings, including a weak business climate driving low investment.

| 2024 | CA: | Cycl. Adj. | EBA CA | EBA CA | Prim. inc. | Trade bal. | Staff CA Gap: |
|---|---|---|---|---|---|---|---|
| (% GDP) | 2.2 | CA: 2.1 | Norm: -2.8 | Gap: 4.9 | Adj.: N/A | Adj.: N/A | |

## Real Exchange Rate

**Background.** In 2024, the real effective exchange rate (REER) depreciated by 6.2 percent, reflecting narrowing inflation differentials relative to trading partners and nominal depreciation, including a 7.9 percent depreciation against the Euro. Most of the latter occurred in Q4 and was driven in part by capital outflows at the end of the year underpinned by market concerns over possible fiscal slippage ahead of 2026 elections and ongoing delays with EU funds. By contrast, there was a 10.3 percent REER appreciation in 2023.

**Assessment.** The IMF staff CA gap implies a REER undervaluation of 8 percent vs. an overvaluation of 11.6 percent in the REER index model and 13.8 undervaluation in the REER level model. The staff's overall assessment, based on the CA gap approach, is a REER undervaluation in the range of 6.4 to 9.6 percent with a midpoint of 8 percent though this assessment is subject to significant uncertainty due to the large unidentified CA model residual.

## Capital and Financial Accounts: Flows and Policy Measures

**Background.** The financial account shifted to a surplus of 0.4 percent of GDP in 2024 from a deficit of 1.6 percent in 2023. This correlates broadly with the increase in the current account surplus and indicates net capital outflows driven by increased FDI abroad, in part because of the government's purchase of the Budapest airport, as well as reduced net portfolio inflows. Financial account surpluses of around 1½ percent of GDP are expected through the medium term due to somewhat lower net FDI inflows and lower FX portfolio debt issuance. The capital account surplus declined from 0.9 percent of GDP in 2023 to 0.4 percent in 2024 driven primarily by a reduction in capital transfers from the EU as certain disbursements continued to be withheld due to delayed implementation of rule of law reforms.

**Assessment.** Net FDI inflows are expected to be more than offset by net outflows of portfolio capital mirroring the projected gradual expansion of the current account surplus and reduction of external debt. EU disbursements are expected to pick up in 2025-26 with the release of frozen Cohesion and a portion of Hungary's RRF funds before the latter is phased out at the end of 2026. The relatively long maturity of sovereign debt, about 5.6 years, helps to mitigate rollover risk though elevated GFNs of around 22 percent of GDP in 2025 (averaging around 17 percent through 2030), further delays in EU funds, commodity price shocks, and further fiscal slippage or failure to address fiscal imbalances that could lead to a loss of investor confidence, pressure on the forint and/or potential rollover risk. There is also a refinancing risk related to a large outstanding stock of HUF retail bonds (8 percent of GDP) as coupons are repriced to lower, less attractive rates, potentially prompting some redemptions and capital outflows.

## FX Intervention and Reserves Level

**Background.** Gross international reserves increased to €44.6 billion (21.6 percent of GDP) in 2024 from €41.4 billion in 2023 partly as a result of improvement in the current account balance, which more than offset lower net FDI inflows and net outflows of other investments. Nominal reserves are expected to increase in 2025 while coverage will remain adequate. The forint is floating and largely market determined. The authorities do not publish FX intervention data.

**Assessment.** Reserves were equivalent to 3.6 months of next year's imported goods and services and 110 percent of the ARA metric in 2024 and are assessed to be sufficient to buffer against external shocks and disorderly market conditions though further accumulation would help to bolster the country's external buffers, especially given heightened external uncertainty.

# Annex IV. Risk Assessment Matrix[1]

| Risks | Likelihood | Impact of Risk | Policy Response |
|---|---|---|---|
| **Global risks** | | | |
| **Trade policy and investment shocks.** Higher trade barriers or sanctions reduce external trade, disrupt FDI and supply chains, and trigger further U.S. dollar appreciation, tighter financial conditions, and higher inflation. | **High** | **High:** As a very open economy, higher trade barriers could have significant growth and BOP-related impacts on Hungary. Hungary is also deeply integrated into global value chains centered in Germany and would be impacted by the downstream effect of higher trade barriers on German goods. | Focus on structural reforms to support domestic investment, diversify supply chains and exports. Adhere to recommended fiscal targets through a credible and high-quality adjustment; spending could be reprioritized to provide targeted support to the vulnerable and to facilitate sectoral resource reallocation. Maintain a level playing field between firms and sectors, and limit state intervention to address market failures. Monetary policy should respond if necessary to higher inflation pressures. |
| **Sovereign debt distress.** Higher interest rates, stronger U.S. dollar, and shrinking development aid amplified by sovereign-bank feedback result in capital outflows, rising risk premia, loss of market access, abrupt expenditure cuts, and lower growth in highly indebted countries. | **High** | **High:** With high debt and large financing needs, Hungary would be susceptible to a souring of EM risk sentiment caused by a sovereign debt crisis. Such a crisis could cause loss of market access necessitating sharp fiscal consolidation and monetary tightening. | Immediate fiscal and monetary tightening would be needed to restore market confidence. Adhere to recommended fiscal targets through a credible and high-quality adjustment; spending could be reprioritized to provide targeted support to the vulnerable. |
| **Tighter financial conditions and systemic instability.** Higher-for-longer interest rates and term premia amid looser financial regulation, rising investments in cryptocurrencies, and higher trade barriers trigger asset repricing, market dislocations, weak bank and NBFI distress, and further U.S. dollar appreciation, which widens global imbalances, worsens debt | **Medium** | **High:** An extended period of tighter financial conditions would dampen investment and economic growth. Volatility in the financial system would likely result in capital outflows and external balance deterioration. | Monetary policy tightening may be needed to mitigate exchange rate depreciation and resultant inflationary pressures. Macroprudential policies, including cyclical and systemic buffers, should be deployed as warranted to mitigate systemic financial instability. To mitigate rising debt servicing costs, adhere to recommended fiscal targets |

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent).

| Risks | Likeli-hood | Impact of Risk | Policy Response |
|---|---|---|---|
| affordability, and increases capital outflow from EMDEs. | | | through a credible and high-quality adjustment. |
| **Regional conflicts.** Intensification of conflicts (e.g., in the Middle East, Ukraine, Sahel, and East Africa) or terrorism disrupt trade in energy and food, tourism, supply chains, remittances, FDI and financial flows, payment systems, and increase refugee flows. | **Medium** | **High:** Geographical proximity makes Hungary vulnerable to the intensification of regional conflicts. Commodity price volatility, especially with respect to oil and gas, would likely intensify terms of trade deterioration and inflationary pressures, as well as increase fiscal and external imbalances that could affect investor confidence. | Adhere to recommended fiscal targets through a credible and high-quality adjustment; spending could be reprioritized to provide targeted support to the vulnerable. The central bank should tighten monetary policy as needed to mitigate second-round effects on inflation and to address capital outflows resulting from weakened investor confidence.<br>Strengthen energy security to lower vulnerability to energy supply and price shocks. |
| **Commodity price volatility.** Supply and demand volatility (due to conflicts, trade restrictions, OPEC+ decisions, AE energy policies, or green transition) increases commodity price volatility, external and fiscal pressures, social discontent, and economic instability. | **Medium** | **High** Same as above | Same as above. |
| **Conjunctural risks** | | | |
| **Deepening geoeconomic fragmentation.** Persistent conflicts, inward-oriented policies, protectionism, weaker international cooperation, labor mobility curbs, and fracturing technological and payments systems lead to higher input costs, hinder green transition, and lower trade and potential growth. | **High** | **High:** Reduced FDI in Hungary and disruption of critical value chains, including in the auto industry, would lower actual and potential output and employment, with negative effects on fiscal and external balances. Energy supply security would deteriorate and supply chain interruptions would spur inflation. | Prioritize structural reforms and investments that support output and productivity. Calibrate monetary and fiscal policies to address imported inflation and/or output loss. Adhere to recommended fiscal targets through a credible and high-quality adjustment; spending could be reprioritized to provide targeted support to the vulnerable. |

| Risks | Likeli-hood | Impact of Risk | Policy Response |
|---|---|---|---|
| **Climate change.** Extreme climate events driven by rising temperatures cause loss of life, damage to infrastructure, food insecurity, supply disruptions, lower growth, and financial instability. | **Medium** | **Medium:** Extreme weather events and climate change could have negative implications for physical infrastructure and growth. Higher climate risks could result in financial market volatility. | Reinforce commitment to climate goals and strengthen energy security.<br>The central bank should remain prudent and ensure financial stability. |
| **Social discontent.** Real income loss, spillovers from conflicts, dissatisfaction with migration, and worsening inequality ignite social unrest, populism, polarization, and resistance to reforms or suboptimal policies. This weakens growth and leads to policy uncertainty and market repricing. | **Medium** | **Medium**: Social discontent could affect investor confidence and stability of financial markets. | Strong governance and commitment to reform implementation are needed to support investor confidence.<br>Provide well-targeted support to the vulnerable. |
| **Domestic risks** | | | |
| **Weakening of investor confidence arising from delays in addressing fiscal imbalances, high inflation and/or governance shortcomings.** A lack of fiscal discipline could lead to higher inflation and risk premia and a cycle of exchange rate depreciation and higher debt. A failure to address governance issues could result in further delays in or cancellation of EU Cohesion and RRF funds, leading to weakened market confidence, higher risk premia, and a reduction or cutoff of an important source of fiscal and external financing. | **High** | **High:** A loss of investor confidence would result in delayed or reduced FX inflows or increased capital outflows, increased borrowing needs and costs, and larger fiscal and external imbalances. | A timely and credible medium-term fiscal plan is important to restore market confidence and ensure debt sustainability. Completion of the rule of law and governance reforms would release the disbursement of suspended funds. Monetary policy should respond if necessary to higher inflation pressures, including those resulting from exchange rate depreciation. Exchange rate flexibility would help absorb shocks, but if volatility causes disorderly market conditions, the central bank should take steps to restore market functioning. |

# Annex V. Illustrative Scenario

*This annex, based on Scenario A of the April 2025 WEO, presents a sensitivity analysis of the potential impact on the Hungarian economy from an escalation of trade tensions. This analysis is intended to be illustrative given that the scenario is based on specific policy assumptions and must be interpreted in light of latest developments.*

1. **Based on modeling,[1] Hungary's level of GDP would be around 2 percent lower than in the baseline by 2026 under a scenario of further escalating global trade tensions.** Scenario A of the WEO Box 1.1 assumes economic divergence across the main global players, higher trade tariffs, heightened uncertainty, and tighter financial conditions. In this context, Hungary's real GDP growth would be lower by 1.2 pp in 2025 and 0.8 pp in 2026. The higher impact compared to the euro area reflects Hungary's greater trade openness.

2. **Under the scenario, corrective fiscal measures may be needed.** Fiscal deficits would be around 1 percent of GDP per year larger through 2030 than in the baseline, while the public debt ratio would be 5 percent of GDP higher by 2030. Financing larger deficits would require additional borrowing and could pose potential liquidity risks given banks' high sovereign debt holdings and FX borrowing that is already above the authorities' self-imposed 30 percent of total debt threshold. Staff would recommend offsetting most of the impact through corrective measures and delivering a high-quality fiscal adjustment that would include the options described in ¶20-22. Implementation should be smoothed over the medium term, to avoid an immediate procyclical response. Targeted fiscal support to affected households would be needed and should be financed by reprioritizing spending.

3. **The shock is expected to be modestly disinflationary, potentially creating room for the MNB for easing faster than under the baseline, subject to exchange rate developments.** The direct effects of reciprocal tariffs on inflation are likely outweighed by lower global commodity prices and reduced activity in Hungary. Assuming forint pressures remain contained, inflation would move to target faster than under the baseline allowing the MNB to maintain a looser stance than under the baseline. Exchange rate flexibility would help absorb shocks, but if volatility causes disorderly market conditions, the central bank should take steps to restore market functioning. Reserve coverage is expected to stay in the adequate range if current account deterioration and capital outflows remain limited.

4. **The banking sector is expected to remain adequately capitalized.** Some lessons can be learned from the MNB's 2024 stress tests modeling an escalation in geopolitical tensions, which showed that banks' aggregate capital ratio would remain adequate following a much more severe shock to growth. If risks to financial stability begin to materialize and the banking system appears poised to tighten lending beyond what is justified by the broader economic conditions, the MNB could consider lowering the countercyclical capital buffer.

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[1] Using a QPM for Hungary and modeling the effects from lower growth in key trading partners.

# Annex VI. Debt Sustainability Analysis

## Annex VI. Table 1. Hungary: Risk of Sovereign Stress

| Horizon | Mechanical signal | Final assessment | Comments |
|---|---|---|---|
| **Overall** | | Moderate | The overall risk of sovereign stress is considered "moderate" though risks have intensified since the last Article IV and the headroom for retaining this rating has narrowed as various risk indices are closer to high risk thresholds. The medium-term trajectory for debt, the deficit and gross financing needs have deteriorated with the debt ratio expected to increase through 2030 and beyond as the interest bill expands as a result of a negative interest-growth differentials. Hungary's high risk premia relative to CESEE peers suggest that it is vulnerable to a reversal of risk sentiment which could lead to capital flight and increased borrowing costs. The substantial increase in FX debt, from 17 percent in 2019 to over 30 percent of total debt in early 2025, has heightened exchange rate risk. The rapid growth of SOE liabilities and related government guarantees of SOEs underscores the risk of contingent liabilities, while the relatively high exposure of domestic banks to government debt increases the possibility of a sovereign-bank feedback loop. Long-term risks stem from higher healthcare and pension costs caused by an aging population, threats to energy security, and geoeconomic fragmentation. Weighed against this, Hungary has been able to issue FX debt at relatively long tenors and at relatively favorable interest rates. |
| **Near term 1/** | | | |
| **Medium term** | Moderate | Moderate | Medium-term risks are assessed as moderate. The debt ratio is expected to increased gradually to 78.6 percent through 2030. The overall GFN risk signal is high as GFNs are elevated relative to most cohort countries while banks are in the upper percentiles of the peer group in terms of exposure to the general government in both the baseline and stress scenarios. The large stock of redeemable inflation-linked retail debt poses a refinancing risk through the medium-term. A contingent liability shock to the DSF equivalent to calling half of the 14 percent of GDP in outstanding state guarantees for SOEs and PPPs would lead to a significant deterioration of the debt ratio and gross financing needs. |
| Fanchart | Moderate | … | |
| GFN | Moderate | … | |
| Stress test | Cont. Liabty. | … | |
| **Long term** | … | Moderate | Long-term risks are considered moderate because of rising debt ratios, relatively high amortization levels and an aging population which could lead to higher healthcare- and pension-related spending. |
| **Sustainability assessment 2/** | Not required for surveillance countries | … | … |
| **Debt stabilization in the baseline** | | | No |

**DSA summary assessment**

The overall risk of sovereign stress is "moderate". The deficit, debt ratio and gross financing needs are elevated and are expected to remain so through the medium-term without corrective fiscal measures. The rapid growth of FX debt increases rollover risk and Hungary's high risk premia relative to peers suggest that it is vulnerable to a reversal of risk sentiment which could lead to capital flight and increased borrowing costs. The rapid growth of government guarantees and assets of state development banks and state-owned enterprises, and their persistent negative net worth, underscores the risk of contingent liabilities. Long-term risks stem from higher healthcare and pension costs caused by an aging population, threats to energy security, and geoeconomic fragmentation.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

## Annex VI. Table 2. Hungary: Debt Coverage and Disclosures

| | | | | | | Comments |
|---|---|---|---|---|---|---|
| **1. Debt coverage in the DSA: 1/** | CG | GG | NFPS | CPS | Other | |
| **1a. If central government, are non-central government entities insignificant?** | | | | | n.a. | |
| **2. Subsectors included in the chosen coverage in (1) above:** | | | | | | |

| Sector | # | Subsectors captured in the baseline | Inclusion |
|---|---|---|---|
| CPS / NFPS / GG: expected / CG | 1 | Budgetary central government | Yes |
| CPS / NFPS / GG: expected / CG | 2 | Extra budgetary funds (EBFs) | Yes |
| CPS / NFPS / GG: expected / CG | 3 | Social security funds (SSFs) | Yes |
| CPS / NFPS / GG: expected | 4 | State governments | Yes |
| CPS / NFPS / GG: expected | 5 | Local governments | Yes |
| CPS / NFPS | 6 | Public nonfinancial corporations | No |
| CPS | 7 | Central bank | No |
| CPS | 8 | Other public financial corporations | No |

| | | | | | |
|---|---|---|---|---|---|
| **3. Instrument coverage:** | Currency & deposits | Loans | Debt securities | Oth acct. payable 2/ | IPSGSs 3/ |
| **4. Accounting principles:** | Basis of recording | | Valuation of debt stock | | |
| | Non-cash basis 4/ | Cash basis | Nominal value 5/ | Face value 6/ | Market value 7/ |
| **5. Debt consolidation across sectors:** | | Consolidated | | Non-consolidated | |

**Color code:** chosen coverage; Missing from recommended coverage; Not applicable

### Reporting on Intra-Government Debt Holdings

| Issuer \ Holder | # | | Budget. central govt | Extra-budget. funds (EBFs) | Social security funds (SSFs) | State govt. | Local govt. | Nonfin. pub. corp. | Central bank | Oth. pub. fin corp | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| CPS / NFPS / GG: expected / CG | 1 | Budget. central govt | | | | | | | | | 0 |
| CPS / NFPS / GG: expected / CG | 2 | Extra-budget. funds | | | | | | | | | 0 |
| CPS / NFPS / GG: expected / CG | 3 | Social security funds | | | | | | | | | 0 |
| CPS / NFPS / GG: expected | 4 | State govt. | | | | | | | | | 0 |
| CPS / NFPS / GG: expected | 5 | Local govt. | | | | | | | | | 0 |
| CPS / NFPS | 6 | Nonfin pub. corp. | | | | | | | | | 0 |
| CPS | 7 | Central bank | | | | | | | | | 0 |
| CPS | 8 | Oth. pub. fin. corp | | | | | | | | | 0 |
| | | Total | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

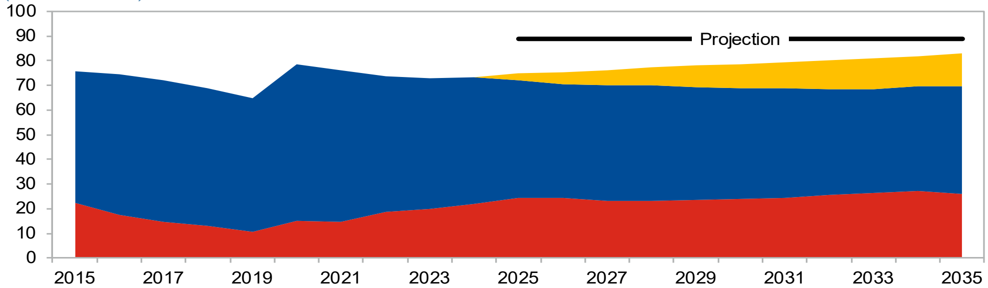
1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

The coverage in this SRDSF is for the general government including state/local governments and social security funds. The central government comprises about 93 percent of total debt with the remainder mostly composed of liabilities belonging to the Eximbank and HUSA (the Hungarian Hydrocarbon Stockpiling Association). Local government debt is de minimis.

## Annex VI. Table 3. Hungary: Public Debt Structure Indicators

### Debt by Currency

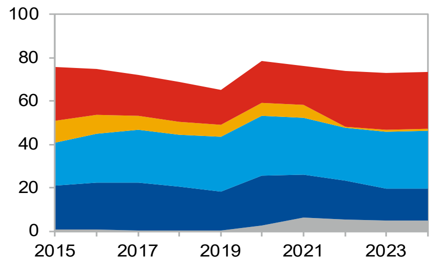
(Percent of GDP)




Note: The perimeter shown is general government.

### Public Debt by Holder

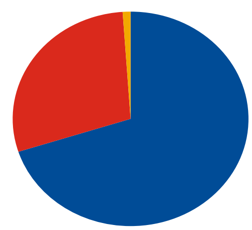
(Percent of GDP)




Note: The perimeter shown is general government.

### Public Debt by Governing Law, 2024

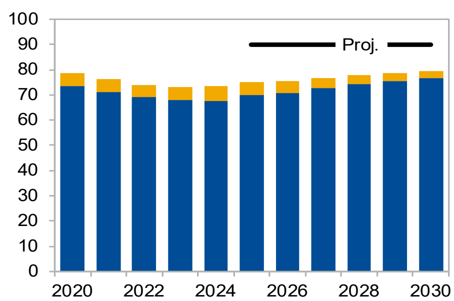
(Percent)




Note: The perimeter shown is general government.

### Debt by Instruments

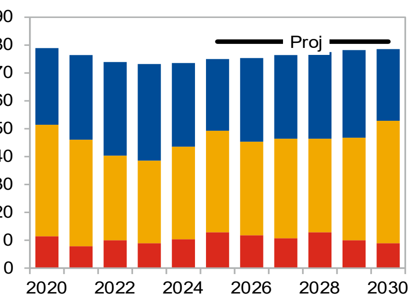
(Percent of GDP)




Note: The perimeter shown is general government.

### Public Debt by Maturity

(Percent of GDP)




Note: The perimeter shown is general government.

The bulk of Hungary's financing needs are expected to be met through the issuance of medium- and long-term debt in local currency, with a portion of new issuance composed of inflation-linked retail bonds, consistent with the objectives of the debt management agency. Borrowing will be concentrated in marketable securities and FX borrowing will remain around 30 percent of total borrowing, in line with the authorities' guidelines. Public debt is held predominantly by domestic other creditors (mostly retail holders) followed by external private creditors and domestic commercial banks.

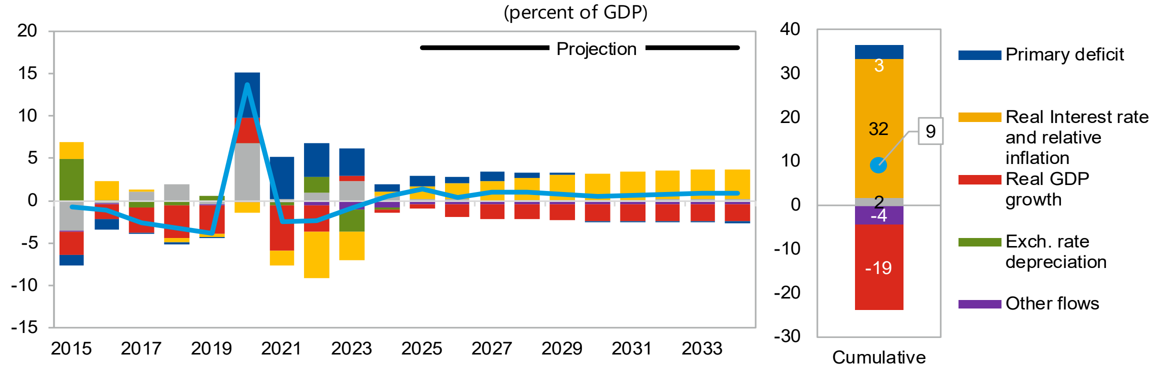
## Annex VI. Table 4. Hungary: Baseline Scenario

(Percent of GDP Unless Indicated Otherwise)

| | Actual | Medium-term projection | | | | | | Extended projection | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 |
| Public debt | 73.5 | 74.8 | 75.3 | 76.3 | 77.3 | 78.0 | 78.6 | 79.2 | 80.0 | 80.9 | 81.8 |
| Change in public debt | 0.5 | 1.4 | 0.4 | 1.1 | 1.0 | 0.8 | 0.5 | 0.7 | 0.8 | 0.9 | 0.9 |
| Contribution of identified flows | -0.1 | 1.8 | 0.7 | 1.4 | 1.1 | 0.9 | 0.6 | 0.7 | 0.8 | 0.9 | 1.0 |
| Primary deficit | 0.8 | 1.2 | 0.8 | 1.1 | 0.7 | 0.3 | -0.2 | -0.2 | -0.2 | -0.2 | -0.2 |
| Noninterest revenues | 41.1 | 42.4 | 42.2 | 42.3 | 42.5 | 42.8 | 42.8 | 42.8 | 42.8 | 42.8 | 42.8 |
| Noninterest expenditures | 41.9 | 43.6 | 43.0 | 43.4 | 43.2 | 43.1 | 42.7 | 42.7 | 42.7 | 42.7 | 42.7 |
| Automatic debt dynamics | 0.0 | 1.0 | 0.3 | 0.7 | 0.9 | 1.0 | 1.1 | 1.3 | 1.4 | 1.5 | 1.6 |
| Real interest rate and relative inflatic | 0.6 | 1.6 | 1.8 | 2.3 | 2.7 | 2.9 | 3.1 | 3.3 | 3.4 | 3.5 | 3.6 |
| Real interest rate | -0.3 | 0.8 | 1.5 | 2.1 | 2.4 | 2.7 | 2.9 | 3.1 | 3.2 | 3.3 | 3.4 |
| Relative inflation | 0.9 | 0.7 | 0.4 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Real growth rate | -0.4 | -0.5 | -1.5 | -1.6 | -1.8 | -1.9 | -2.0 . | -2.0 | -2.0 | -2.0 | -2.0 |
| Real exchange rate | -0.2 | … | … | … | … | … | … . | … | … | … | … |
| Other identified flows | -0.8 | -0.4 | -0.4 | -0.4 | -0.4 | -0.4 | -0.4 | -0.4 | -0.4 | -0.4 | -0.4 |
| Contingent liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| (minus) Interest Revenues | -0.8 | -0.4 | -0.4 | -0.4 | -0.4 | -0.4 | -0.4 | -0.4 | -0.4 | -0.4 | -0.4 |
| Other transactions | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Contribution of residual | 0.6 | 0.2 | 0.2 | -0.1 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.1 |
| Gross financing needs | 14.6 | 21.6 | 16.7 | 16.2 | 14.9 | 16.8 | 13.9 | 13.2 | 15.9 | 15.4 | 16.4 |
| of which: debt service | 14.7 | 20.8 | 16.3 | 15.5 | 14.6 | 17.0 | 14.5 | 13.8 | 16.4 | 16.0 | 17.0 |
| Local currency | 11.2 | 17.9 | 12.9 | 11.3 | 11.0 | 13.1 | 11.6 | 10.4 | 13.2 | 12.7 | 11.3 |
| Foreign currency | 3.5 | 2.9 | 3.2 | 3.8 | 3.0 | 3.2 | 2.2 | 2.7 | 2.5 | 2.5 | 2.5 |
| Memo: | | | | | | | | | | | |
| Real GDP growth (percent) | 0.5 | 0.7 | 2.0 | 2.2 | 2.4 | 2.5 | 2.6 . | 2.6 | 2.6 | 2.6 | 2.6 |
| Inflation (GDP deflator; percent) | 7.3 | 5.3 | 3.5 | 3.0 | 2.8 | 2.8 | 2.8 . | 2.8 | 2.8 | 2.8 | 2.8 |
| Nominal GDP growth (percent) | 7.9 | 6.1 | 5.6 | 5.3 | 5.3 | 5.4 | 5.5 | 5.5 | 5.5 | 5.5 | 5.5 |
| Effective interest rate (percent) | 6.9 | 6.5 | 5.6 | 5.9 | 6.2 | 6.5 | 6.7 | 6.9 | 7.0 | 7.1 | 7.2 |

### Contribution to Change in Public Debt

(percent of GDP)



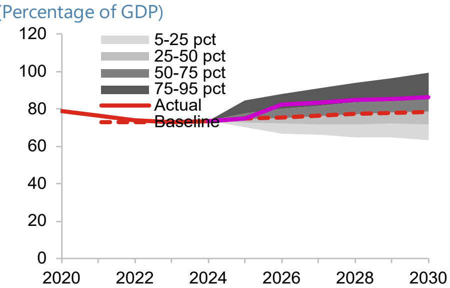

The public debt ratio will increase over the medium-term reflecting unfavorable debt dynamics and only modest fiscal consolidation. GFNs are expected to jump to 22 percent of GDP in 2025 given higher than anticipated redemptions of retail bonds and issuance of short-term debt, and to remain elevated, averaging around 17 percent through 2030. The inflation-linked portion of public debt is a risk factor that could add to servicing costs if inflation rises or to financing needs if redemptions increase. The debt ratio will increase through the medium-term and remain well above the EU target of 60 percent and above Hungary's own 50 percent target through the entire projection period.

## Annex VI. Table 5. Hungary: Medium-Term Risk Assessment

| | Value | Contrib [1/] | Percentile in peer group [2/] |
|---|---|---|---|

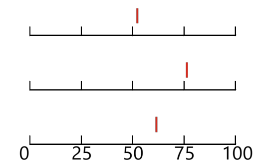
**Final Fanchart**

(Percentage of GDP)



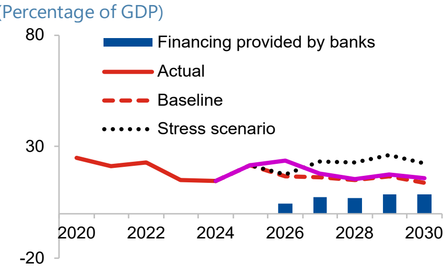

**Debt fanchart module**

| | Value | Contrib [1/] |
|---|---|---|
| Fanchart width *(percent of GDP)* | 36.2 | 0.5 |
| Probability of debt non-stabilization *(percent)* | 74.6 | 0.6 |
| Terminal debt-to-GDP x institutions index | 35.0 | 0.8 |
| **Debt fanchart index (DFI)** | | 1.9 |
| **Risk signal:** [3/] | | **Moderate** |



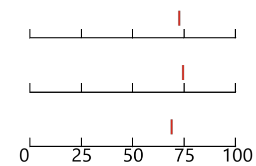

**Gross Financing Needs**

(Percentage of GDP)




**Gross financing needs (GFN) module**

| | Value | Contrib [1/] |
|---|---|---|
| Average baseline GFN *(percent of GDP)* | 16.7 | 5.7 |
| Initial Banks' claims on th gen. govt *(pct bank assets)* | 15.6 | 5.0 |
| Chg. In banks' claims in stress *(pct banks' assets)* | 15.3 | 5.1 |
| **GFN financeability index (GFI)** | | 15.9 |
| **Risk signal:** [4/] | | **Moderate** |

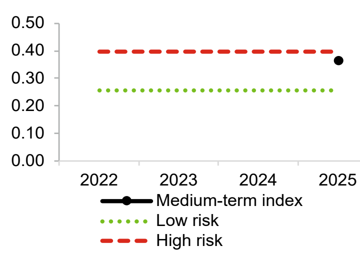



Triggered stress tests (stress tests not activated in gray)

| Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster |
|---|---|---|---|---|

**Medium-Term Index**

(Index Number)




Medium-term risk analysis

| | Value | Value (normaliz | Weight | Contribution |
|---|---|---|---|---|
| Debt fanchart index | 1.9 | 0.4 | 0.5 | 0.2 |
| GFN finaceability index | 15.9 | 0.3 | 0.5 | 0.2 |
| **Medium-term index** | | 0.4 | | |
| **Risk signal: 5/** | | **Moderate** | | |
| **Final assessment:** | | **Moderate** | | |

Prob. of missed crisis, 2025-2030, if stress not predicted: 27.3 pct.
Prob. of false alarms, 2025-2030, if stress predicted: 17.0 pct.

The assessment suggests a moderate degree of risk over the medium-term. The debt ratio is expected to increase and remain elevated through the medium-term while GFNs will remain above the median relative to peers. Bank claims on the government are comparatively high and as such their capacity to absorb more debt in a shock scenario may be limited. Large maturities of inflation-linked retail bonds are expected through the medium-term raising refinancing risk as investors may redeem bonds en masse in anticipation of coupons being reset to less attractive rates. The rapid increase in the liabilities of state-owned enterprises and related government guarantees, and the persistently large negative net worth of such SOEs, also underscores the potential risk of contingent liabilities and related fiscal liabilities for the state. In an illustrative growth shock scenario leading to a deterioration of SOE performance, we assume that half of the 14 percent of GDP in government guarantees for SOE borrowing are called. This results in an increase in debt to GDP in 2026 to 82.4 percent from 75.3 percent in the baseline, and a continuation of debt ratios in excess of 86 percent through the medium-term. GFNs increase to 23.7 percent of GDP in 2026 vs 16.7 percent in the baseline but return thereafter to the baseline trend.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.

2/ The comparison group is emerging markets, non-commodity exporter, surveillance.

3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.

4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.

5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

# Annex VI. Table 6. Hungary: Realism of Baseline Assumptions

| Forecast Track Record 1/ | t+1 | t+3 | t+5 |
|---|---|---|---|
| Public debt to GDP | | | |
| Primary deficit | | | |
| r - g | | | |
| Exchange rate depreciation | | | |
| SFA | | | |
| | real-time | t+3 | t+5 |
| Historical Output Gap Revisions 2/ | | | |

**Comparator Group:**

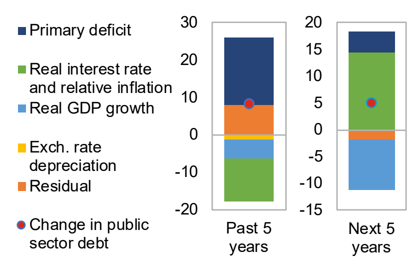
Emerging Markets, Non-Commodity Exporter, Surveillance

**Color Code:**

| | |
|---|---|
| Optimistic | > 75th percentile |
| | 50-75th percentile |
| Pessimistic | 25-50th percentile |
| | < 25th percentile |

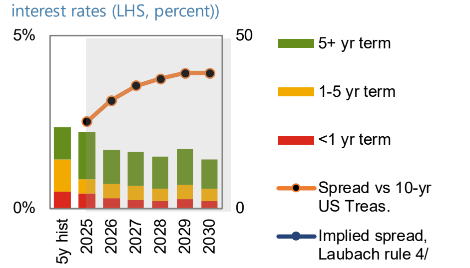
### Public Debt Creating Flows

(Percent of GDP)



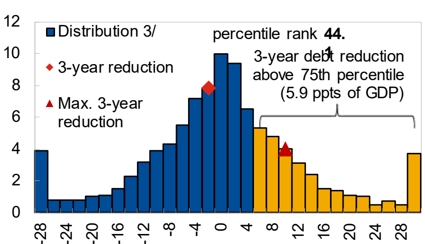

### Bond Issuances

(Bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent))



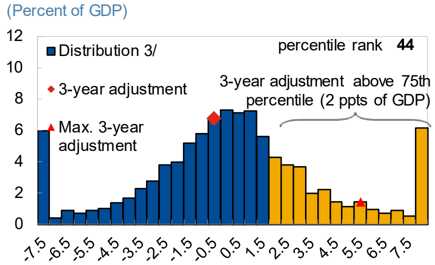

### 3-Year Debt Reduction

(Percent of GDP)



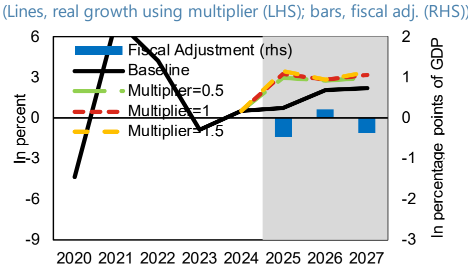

### 3-Year Adjustment in Cyclically-Adjusted Primary Balance

(Percent of GDP)



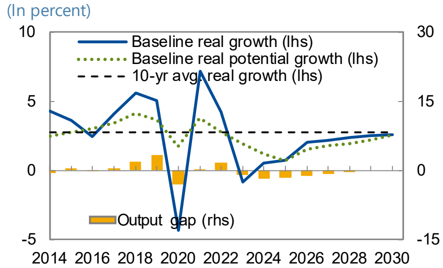

### Fiscal Adjustment and Possible Growth Paths

(Lines, real growth using multiplier (LHS); bars, fiscal adj. (RHS))




### Real GDP Growth

(In percent)




The 3-year debt reduction assessment and adjustment in the cyclically-adjusted primary balance are slightly below the median largely as a result of an expansionary fiscal policy and lack of consolidation. The historical output gap revisions indicate an optimism bias in the medium term while the increase in spreads vs. the 10-year U.S. treasury over the medium-term will raise borrowing costs and interest expenditures. With respect to debt creating flows, though real GDP growth is expected to pick up modestly over the next five years, compared to the past five years which were marked by the COVID pandemic, Russia's invasion of Ukraine, and period of negative and low growth in 2023 and 2024, real interest rates will turn increasingly positive with the decline in inflation, leading to further accretion of debt.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

3/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

## Annex VI. Table 7. Hungary: Triggered Modules

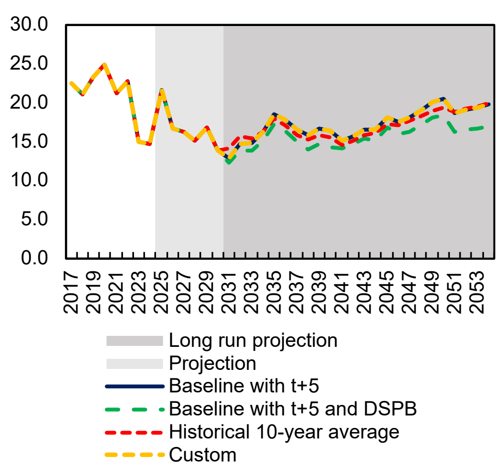
| | | | |
|---|---|---|---|
| Large amortizations | Pensions | Climate change: Adaptation | Natural Resources |
| | **Health** | Climate change: Mitigation | |

## Annex VI. Table 8. Hungary: Long-Term Risk Assessment: Large Amortization Incl. Custom Scenario

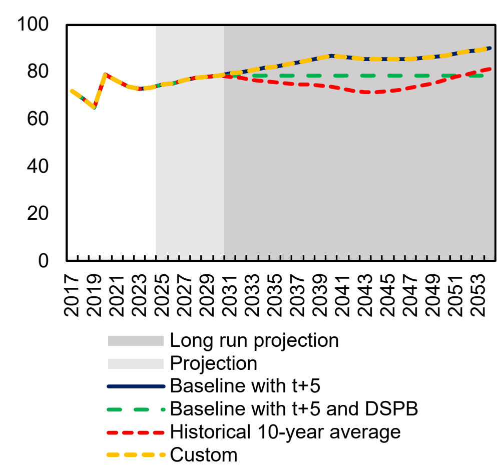
| Projection | Variable | Risk Indication |
|---|---|---|
| Medium-term extrapolation | GFN-to-GDP ratio | |
| | Amortization-to-GDP ratio | |
| | Amortization | |
| Medium-term extrapolation with debt stabilizing primary balance | GFN-to-GDP ratio | |
| | Amortization-to-GDP ratio | |
| | Amortization | |
| Historical average assumptions | GFN-to-GDP ratio | |
| | Amortization-to-GDP ratio | |
| | Amortization | |
| Overall Risk Indication | | |

| Variable | 2030 | 2034 to 2038 average | Custom Scenario |
|---|---|---|---|
| Real GDP growth | 2.6% | 2.6% | 2.6% |
| Primary Balance-to-GDP ratio | 0.2% | 0.2% | 0.2% |
| Real depreciation | -2.8% | -2.7% | -2.7% |
| Inflation (GDP deflator) | 2.8% | 2.8% | 2.8% |

**GFN-to-GDP Ratio**

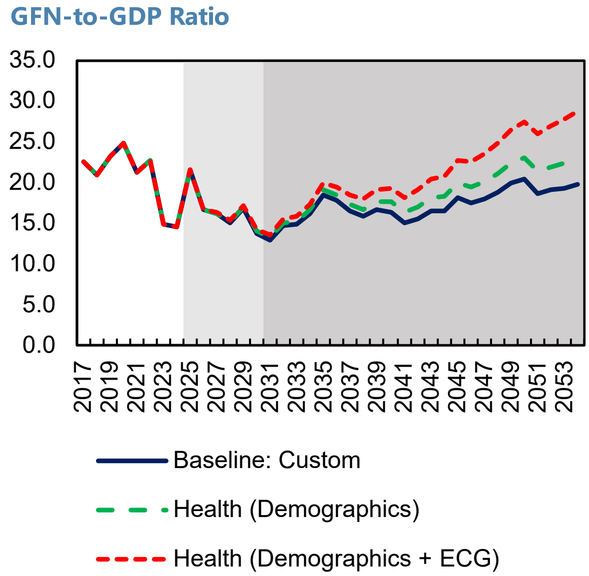


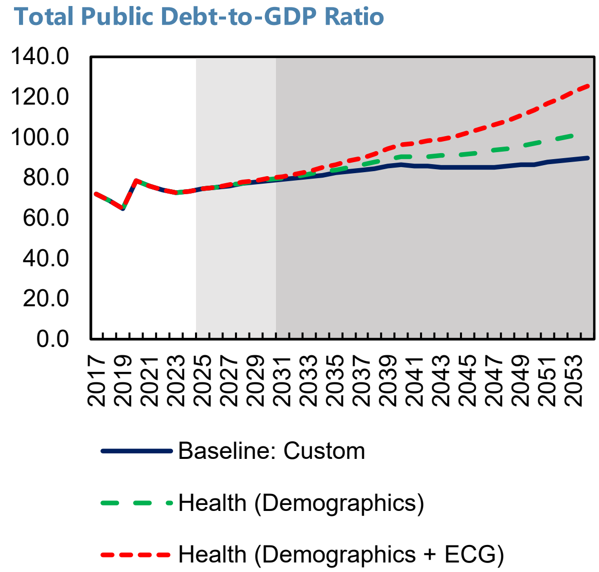

**Total Public Debt-to-GDP Ratio**




The debt ratio is expected to increase through the medium-term as debt dynamics become increasingly less favorable with servicing of higher interest debt. The baseline primary deficit at the end of the projection period is slightly below the debt stabilizing primary deficit. The 10-year average debt-to-GDP reduction is above the baseline suggesting an additional adjustment will be needed to stabilize debt, while high amortization levels are expected under all three projection scenarios.

## Annex VI. Table 9. Hungary: Demographics: Health



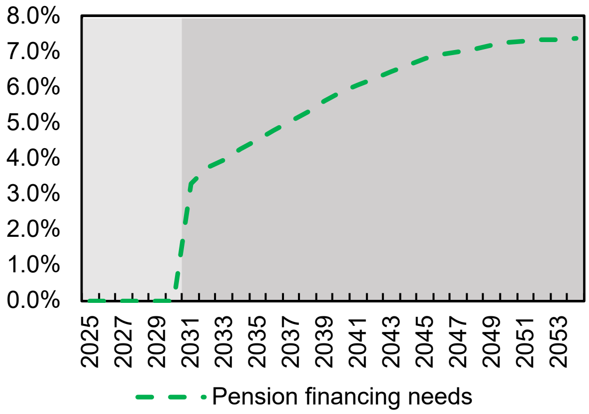




Hungary's aging population is expected to have a negative impact on debt sustainability. The effect of aging demographics, estimated via a comparison of the ratio of health expenditure per demographic group and growth rates of spending, is projected to add 3 percent of GDP to GFNs and 13 percent of GDP to the debt ratio by 2054 relative to the baseline. The demographics + ECG (Excess Cost Growth of Health) scenario refers to the number of percentage points by which the growth of annual health care spending per beneficiary is assumed to exceed the growth of nominal gross domestic product per capita and shows an even more pronounced increase relative to the baseline with GFNs to GDP 9 percentage points higher and debt to GDP 36 percentage points higher in 2054 vs. the baseline.

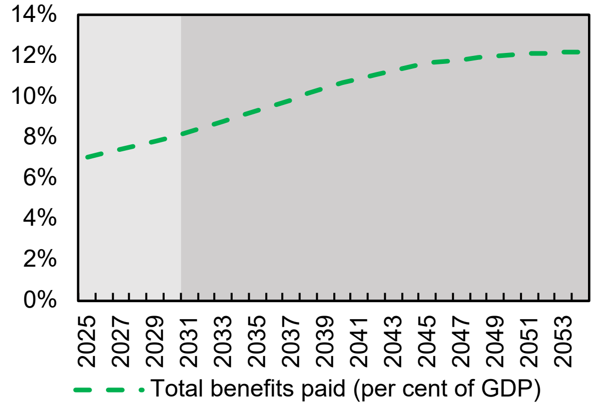
## Annex VI. Table 10. Hungary: Demographics: Pensions

| Permanent adjustment needed in the pension system to keep pension assets positive for: | 30 years | 50 years | Until 2100 |
|---|---|---|---|
| (pp of GDP per year) | 4.7% | 5.8% | 6.2% |

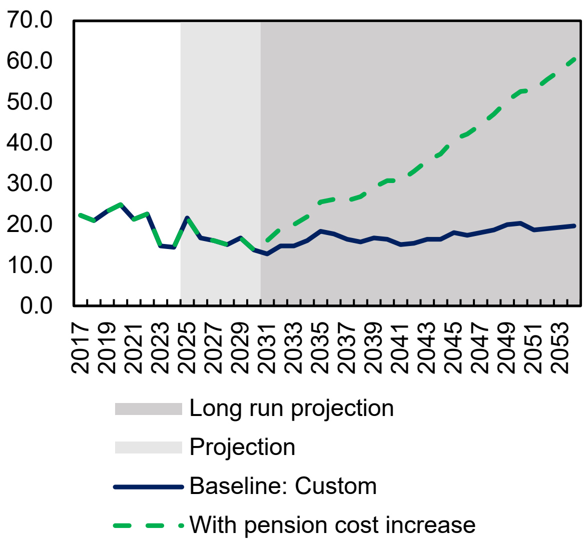
**Pension Financing Needs**



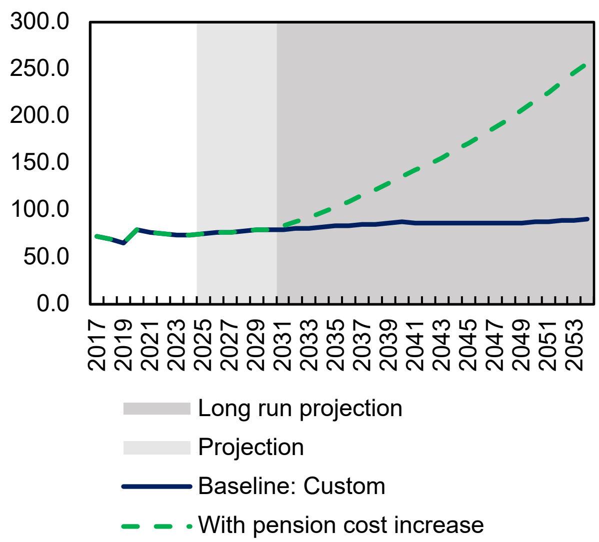

**Total Benefits Paid**




**GFN-to-GDP Ratio**




**Total Public Debt-to-GDP Ratio**



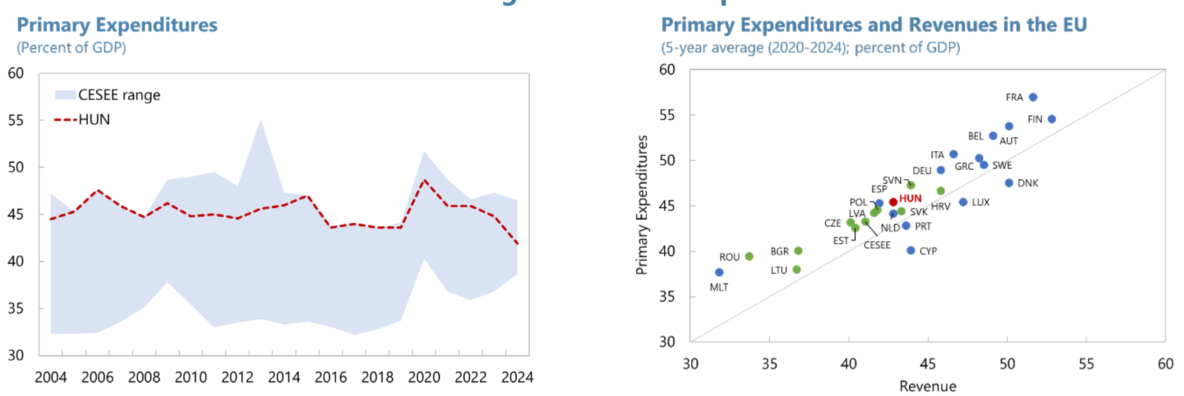

Hungary's ageing population is expected to underpin an increasing gap between benefits paid and expected contributions to the system over the long-term. The additional financing needed to maintain system solvency is substantial and would lead to explosive growth of GFNs and public debt to GDP. Without policy reforms such as increasing the social security contribution rate, tightening eligibility, and/or making benefits less generous, the GFN and debt would increase to 60 percent and 255 percent, respectively, by 2054.

# Annex VII. Public Expenditures in Hungary[1]

*Public expenditures in Hungary are large relative to peers and current revenue mobilization capacity. A significant part of expenditures goes to subsidies, administration and SOEs, leaving less room for health, education and social protection. Energy subsidies should be gradually phased out, while reforms of the procurement system and public administration are needed given high spending in those areas. A comprehensive SOE strategy should limit the direct costs and fiscal risks arising from SOEs. All public spending should be consolidated in the budget to enable an accurate assessment of the fiscal position and stance. Spending reviews can be a useful tool if they are subject to strong ownership, an explicit fiscal consolidation objective and a comprehensive and medium-term perspective.*

1. **Historically, Hungary's primary expenditures have been among the highest in CESEE, indicating room for rationalization**. Since 2020, primary expenditures in Hungary averaged 45 percent of GDP, above CESEE countries and closer to EU countries with higher revenue mobilization capacity. Institutional differences across countries and the role of the state in key sectors in the economy such as health and education influence the level of total expenditures. Nevertheless, high expenditures in international comparisons with peers often highlight opportunities for savings and for enhancing the effectiveness and efficiency of public spending.

**Annex VII. Figure 1. Public Expenditures**




Sources: Eurostat; and IMF staff calculations.

Sources: Eurostat; and IMF staff calculations.

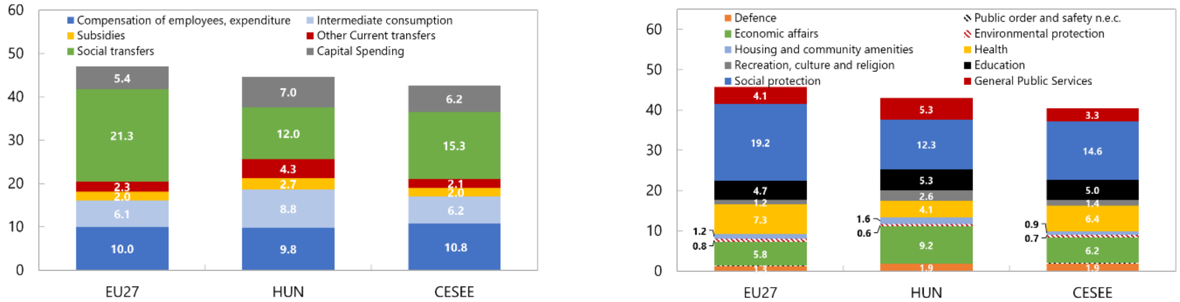
2. **Hungary's expenditure composition differs from the rest of CESEE and the EU offering scope for reprioritization.** Hungary outspends peers on goods and services, subsidies and current transfers and underspends on social transfers. From a functional perspective, economic affairs, public services, and recreation and culture take up a larger share of expenditures in Hungary. This crowds out public spending on health, social protection and primary education where expenditure levels are below EU and CESEE averages. This compositional difference presents an opportunity to rebalance expenditure away from regressive and inefficient spending toward more productive uses.

[1] Prepared by Moheb Malak.

## Annex VII. Figure 2. Expenditure Composition

**Expenditure Composition by National Accounts Classification, 2023**
(Percent of GDP)

**Expenditure Composition by Functional Classification, 2023**
(Percent of GDP)

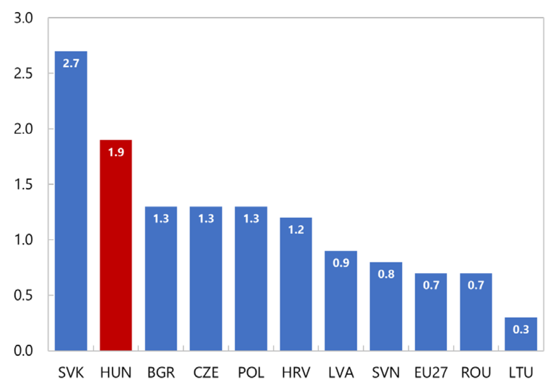



Source: Eurostat.

Source: Eurostat.

**3. Fuel and energy subsidies are weighing on public finances and should be gradually phased out.** General government expenditures for 2023 included 1.9 percent of GDP in explicit energy subsidies (IMF 2024 Article IV Consultation for Hungary). The scheme subsidizes household energy consumption up to the national average subject to a price cap significantly below market prices. Energy subsidies distort price signals critical for economic efficiency and the energy transition and do not effectively target the most vulnerable. The subsidy scheme should be gradually phased out by lowering the threshold for subsidized consumption and increasing the price caps until they converge to market prices.

## Annex VII. Figure 3. Energy Subsidies, 2023
(Percent of GDP)



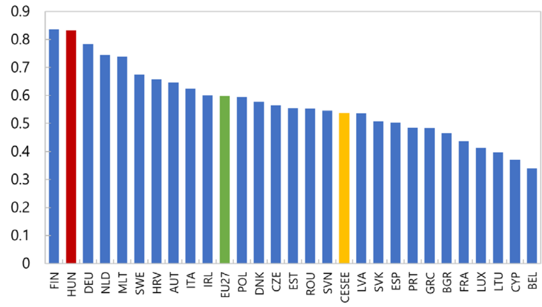

Source: Eurostat.

**4. Significantly higher spending on goods and services compared to peers warrants review and reform of procurement practices.** Goods and services spending averaged 8.6 percent of GDP over the past five years in Hungary compared to 6.2 percent in the EU and 6 percent in CESEE. Relative to compensation of employees, goods and services spending was the second highest among all EU countries. Goods and services spending is particularly large in the administrative and regulatory functions of government and in education. A thorough review of the public procurement system is needed to identify sources of inefficiency and design targeted reform measures to enhance transparency, competition and accountability across all stages of procurement.

## Annex VII. Figure 4. Intermediate Consumption

**Ratio of Intermediate Consumption to Compensation of Employees**

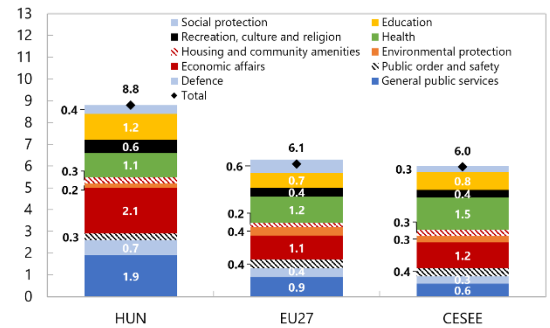
(5-year average (2020-2024))




Sources: Eurostat; and IMF staff calculations.

**Intermediate Consumption by Function, 2023**

(Percent of GDP)



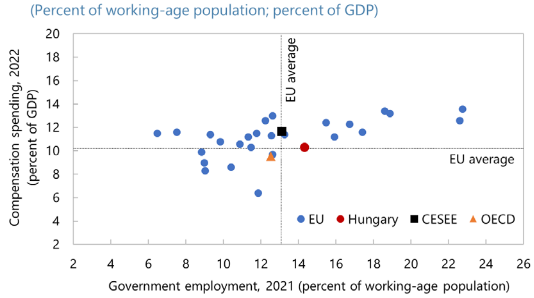

Source: Eurostat.

5. **While the wage bill appears moderate, there is scope for savings.** The size of the overall general government wage bill in 2024, at 10.3 percent of GDP, was broadly in line with the EU average and below the CESEE average. However, general government employment as a share of the working-age population is above EU and CESEE averages. And wage bill spending is highly concentrated in the administrative and regulatory functions of government where Hungary outspends the EU average by almost 1 percent of GDP. Moreover, a significant component of the sizable transfers to SOEs and other public organizations, which perform public non-market functions, likely goes to covering wages of employees. The central administration and regulatory agencies should be a priority target of spending reviews with a focus on balancing the public value generated by those entities with their fiscal cost. Based on recommendations of such reviews, a plan to right-size those functions should be incorporated into medium-term fiscal planning. In the interim, a hiring freeze, attrition and reduction of temporary and contractual employment in areas of overemployment can contain the size of the administration, while increased reliance on digitalization can preserve and enhance productivity. Wage increases should remain moderate to avoid exacerbating fiscal pressures.

## Annex VII. Figure 5. Wage bill

**Government Compensation Spending and Employment, Latest Value Available**

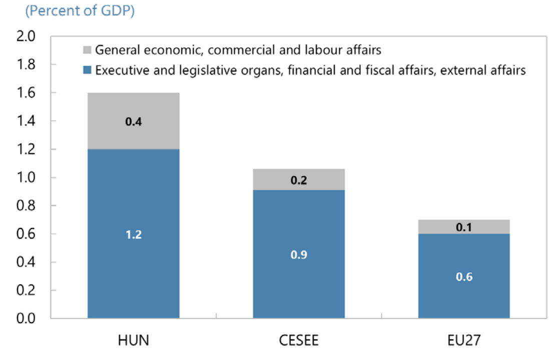
(Percent of working-age population; percent of GDP)




Sources: IMF FAD Expenditure Assessment Tool (EAT); IMF FAD Government Compensation Spending and Employment Dataset; and World Bank.
Note: Dashlines are the average for countries in the regional benchmark group.

**Compensation of Employees for Select Functions, 2023**

(Percent of GDP)



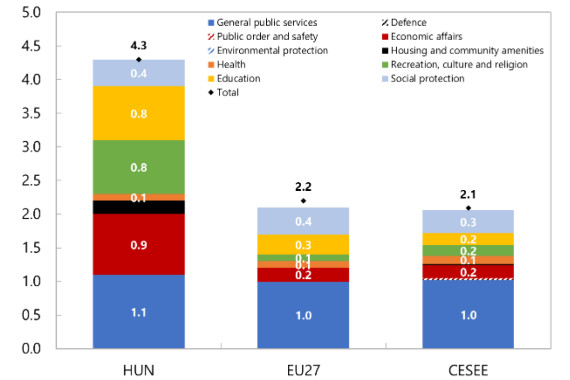

Source: Eurostat.

6. **Low public spending on primary education, health and social protection weighs on social outcomes.** Public spending on primary education is lower than in peers, and public health

expenditures are the lowest in the EU. Low public spending in those areas is partially compensated by private resources: a fifth of primary students are enrolled in private institutions, while out-of-pocket spending on health is significantly higher than in peers. However, reliance on private resources disadvantages the most vulnerable, particularly amid low spending on social protection. As a result, education and health outcomes still lag the rest of Europe with elevated lower secondary school drop-out rates and diminished health-adjusted life expectancy.

**7. A comprehensive SOE strategy is needed to contain the large direct fiscal cost of supporting SOEs and other public organizations.** There are over 200 SOEs and other public organizations in Hungary with hundreds of subsidiaries spread across various economic sectors. Many of these are requiring fiscal support from the government to cover costs reflected in outsized current transfers by the general government which spent an average of 3.9 percent of GDP on other current transfers over the past 5 years compared to 2.4 percent in the EU and 2.2 in CESEE. Areas where Hungary significantly outspends the EU and CESEE averages are those typically associated with SOEs and other public organizations such as secondary and tertiary educational institutions, economic affairs, recreational and sporting services and religious and cultural institutions. A comprehensive SOE strategy is needed that should take stock of all government owned SOEs, consider privatizing those enterprises that can be more efficiently run by the market or where there is an absence of an obvious market failure and focus on enhancing the governance and productivity of retained SOEs, while upgrading the monitoring and management of related fiscal risks.

**Annex VII. Figure 6. Other Current Transfers by Function, 2023** (Percent of GDP)




Source: Eurostat.

**8. Off-budget spending complicates the fiscal picture and exacerbates fiscal risks.** Numerous public programs and functions are taking place beyond budgetary expenditures through public asset management vehicles and public funds channeled to private equity. The proliferation and dispersion of such programs across various institutions obfuscates the fiscal stance, impedes fiscal management, undermines fiscal transparency and accountability and complicates the consolidation of public spending on different areas. In addition, tax exemptions, which reduce revenues, act as either subsidies for certain goods and services or transfers to sub-groups of the population and should be assessed as such in terms of fiscal cost and targeting efficiency.

**9. Spending reviews can be a useful public financial management tool to rein in high baseline expenditures.** As part of its RRP, Hungary established a framework for expenditure reviews including a department at the MNE, and a working group involving external experts and representatives from line ministries. Targeted reviews of health as well as family and housing allowances were undertaken in 2023, while education and public investments were reviewed in 2024.

However, these efforts were scaled back more recently. Other countries' experience shows that the value and effectiveness of spending reviews can be maximized through the following:

- *Ensuring strong ownership and political commitment:* Successful spending reviews require that they have the full-backing and authorization of the Cabinet. The MNE should play a leading role in coordinating the process with strong ownership and buy-in from other ministries and agencies.

- *Setting ambitious pre-defined targets for spending reviews*: Targets are crucial to setting the level of ambition for reviews and clarifying trade-offs between different policy options. They can guide and incentivize line ministries and agencies to identify high-quality saving measures and low-priority areas of spending.[2]

- *Undertaking comprehensive spending reviews*: While targeted reviews are appropriate for piloting the spending review process due to being simpler, Hungary would benefit from more comprehensive spending reviews. These should not be limited to a pre-defined review area and enable the government to evaluate expenditure-wide trade-offs, hence being a better fit for fiscal consolidation purposes.

- *Adopting a medium-term perspective*: Spending review recommendations should be rooted in a medium-term assessment to prioritize measures that generate savings over the medium term over those that show savings in the near term at the expense of high costs later. For example, cutting capital expenditure may appear cost saving in the near term but could jeopardize productivity or growth in the future.

- *Incorporating reviews in the budget process*: Spending reviews are most effective as a regular and integrated part of the annual budget process. Review objectives should align with the government's medium-term fiscal plan and their recommendations should be reflected in expenditure ceilings. Line ministries and agencies are held accountable for implementation.

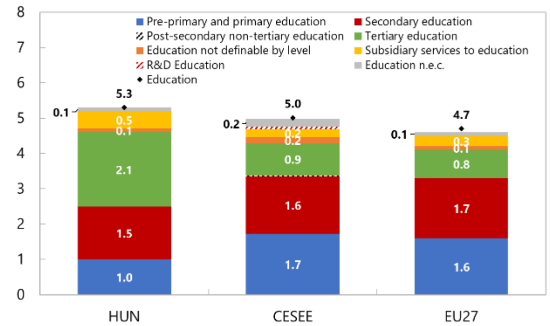
- *Focusing on implementation:* Line ministries and agencies are responsible for implementation, while the MNE has a role to play in providing practical implementation plans and guidelines, and monitoring progress.

- *Promoting transparency:* Reports of reviews and implementation follow-ups should be made available to the public to enhance accountability. The fiscal council and relevant Parliamentary committees can also play a monitoring role.

[2] Doherty, L, Sayegh, A; "How to Design and Institutionalize Spending Reviews", FAD, September 2022

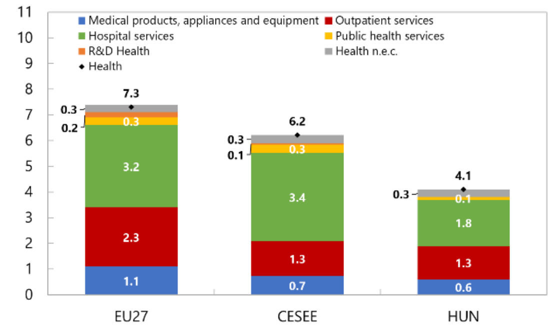
## Annex VII. Figure 7. Education and Health

### Education Expenditures, 2023
(Percent of GDP)



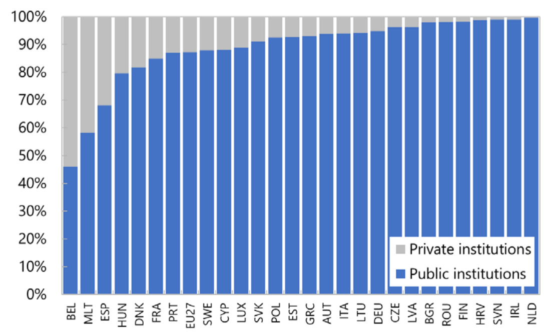

Source: Eurostat.

### Health Expenditures, 2023
(Percent of GDP)



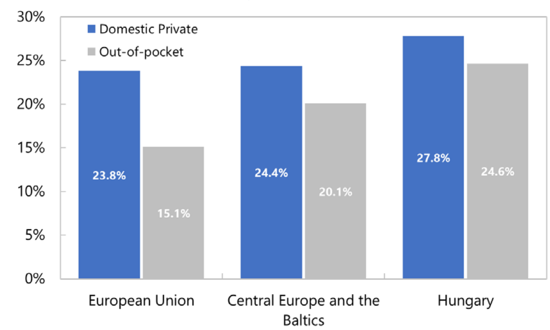

Source: Eurostat.

### Students in Primary Education by Type of Institution, 2022
(Percent of total)



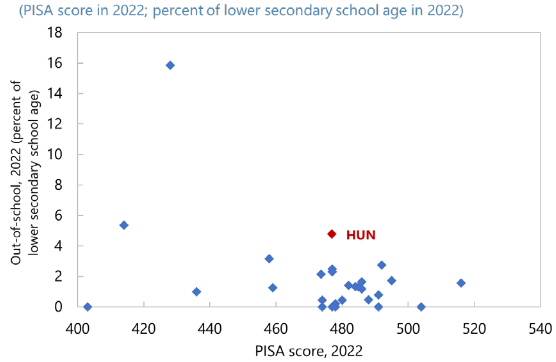

Source: Eurostat.

### Private and Out-of-Pocket Health Expenditures, 2021
(Percent of total current Health expenditures)



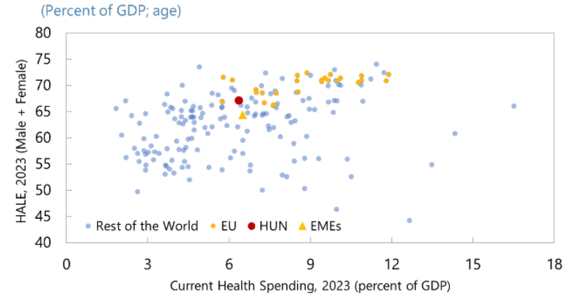

Source: World Bank Development Indicators.

### PISA Scores and Out-of-School in Lower Secondary School
(PISA score in 2022; percent of lower secondary school age in 2022)




Sources: OECD; and Eurostat.

### Health-Adjusted Life Expectancy and Current Health Spending
(Percent of GDP; age)




Sources: IMF Health Assessment Tool (HAT); WHO Global Health Expenditure Database (GHED); and WHO Global Health Observatory (GHO).
Note: HALE=Healthy Life Expectancy at birth.

# Annex VIII. Data Issues

## Annex VIII. Table 1. Hungary: Data Adequacy Assessment for Surveillance

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Data Adequacy Assessment Rating 1/ | | | | | | | |
| B | | | | | | | |
| Questionnaire Results 2/ | | | | | | | |
| **Assessment** | National Accounts | Prices | Government Finance Statistics | External Sector Statistics | Monetary and Financial Statistics | Inter-sectoral Consistency | Median Rating |
| | A | B | B | B | A | A | B |
| Detailed Questionnaire Results | | | | | | | |
| **Data Quality Characteristics** | | | | | | | |
| Coverage | A | B | B | B | B | | |
| Granularity 3/ | A | | C | C | A | | |
| | | | B | | A | | |
| Consistency | | | C | B | | A | |
| Frequency and Timeliness | A | B | B | B | A | | |

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.

1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.

2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance* , January 2024, Appendix I).

3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

| | |
|---|---|
| A | The data provided to the Fund are adequate for surveillance. |
| B | The data provided to the Fund have some shortcomings but are broadly adequate for surveillance. |
| C | The data provided to the Fund have some shortcomings that somewhat hamper surveillance. |
| D | The data provided to the Fund have serious shortcomings that significantly hamper surveillance. |

**Rationale for staff assessment**. Overall, the data provided to the Fund is broadly adequate for surveillance. For fiscal data, monthly cash data has sufficient granularity and is reported in a timely fashion but is not consistent with the Maastricht accrual standard and uses different revenue and expenditure categories. Quarterly accrual data is published with a 3-month lag; revenue and expenditure categories are not easily comparable between annual and quarterly data and generally incompatible with monthly data. EU funds flows are not reported with sufficient disaggregation. Central government debt stock and flow data is available on a quarterly basis. General government debt data is available on a similar schedule but with much less granularity and lacks a breakdown of LCY vs FCY debt, and scheduled amortization and interest payments. In the past, data on central government revenue and expenditure arrears as well as that on local government revenues and expenditures was provided to the mission team by the authorities upon request, but provision of this data on an automatic basis would facilitate the monitoring of obligations on an accrual basis and allow for closer regular monitoring. For the external sector, quarterly data is published with a 2–3-month lag but preliminary monthly data is available a few days after the end of the month through the Central Statistical Office, though it is not BPM6-compliant. Quarterly goods trade data is not disaggregated to enable an analysis of individual goods' performance. Preliminary data is often issued with large E&Os. For the financial sector, 15 core and 5 additional Financial Soundness Indicators for deposit takers as well as two additional FSIs for real estate markets are reported on a quarterly basis. An additional core indicator, net open position in foreign exchange, is only available up to 2019Q3.

**Changes since the last Article IV consultation**. No changes

**Corrective actions and capacity development priorities**. Greater consistency between monthly, annual and quarterly fiscal data; automatic provision of arrears and local government fiscal data; and disaggregation of goods trade data.

**Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff.** Staff does not use any data and/or estimates in the staff report in lieu of official statistics.

**Other data gaps**. Foreign exchange intervention data is not made available.

## Annex VIII. Table 2. Hungary: Data Standards Initiatives

Hungary adheres to the Special Data Dissemination Standard (SDDS) Plus since July 2022 and publishes the data on its National Summary Data Page. The latest SDDS Plus Annual Observance Report is available on the Dissemination Standards Bulletin Board (https://dsbb.imf.org/).

## Annex VIII. Table 3. Hungary: Table of Common Indicators Required for Surveillance

As of July 16, 2025

| | Data Provision to the Fund | | | | Publication under the Data Standards Initiatives through the National Summary Data Page | | | |
|---|---|---|---|---|---|---|---|---|
| | Date of Latest Observation | Date Received | Frequency of Data[6] | Frequency of Reporting[6] | Expected Frequency[6,7] | Hungary[8] | Expected Timeliness[6,7] | Hungary[8] |
| Exchange Rates | 15-Jul-25 | 16-Jul-25 | D | D | D | ... | ... | ... |
| International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1] | May-25 | Jun-25 | M | M | M | M | 1W | NLT 20D |
| Reserve/Base Money | Jun-25 | Jul-25 | M | M | M | M | 2W | 12D |
| Broad Money | Jun-25 | Jul-25 | M | M | M | M | 1M | 1M |
| Central Bank Balance Sheet | Jun-25 | Jul-25 | M | M | M | M | 2W | 12D |
| Consolidated Balance Sheet of the Banking System | Apr-25 | Jul-25 | M | M | M | M | 1M | 1M |
| Interest Rates[2] | 15-Jul-25 | 16-Jul-25 | D | D | D | ... | ... | ... |
| Consumer Price Index | Jun-25 | Jul-25 | M | M | M | M | 1M | 11D |
| Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4] | 2025Q1 | Jul-25 | Q | Q | A/Q | ... | 2Q/12M | ... |
| Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government | 2025Q1 | Jun-25 | Q | Q | M | M | 1M | 1M |
| Stocks of Central Government and Central Government-Guaranteed Debt[5] | 2025Q1 | Jun-25 | Q | Q | Q | Q | 1Q | NLT 30D |
| External Current Account Balance | 2025Q1 | Jun-25 | Q | Q | Q | Q | 1Q | 1Q |
| Exports and Imports of Goods and Services | 2025Q1 | Jun-25 | M | M | M | M | 8W | 40D |
| GDP/GNP | 2025Q1 | Jun-25 | Q | Q | Q | Q | 1Q | 45D |
| Gross External Debt | 2025Q1 | Jun-25 | Q | Q | Q | Q | 1Q | NLT 1Q |
| International Investment Position | 2025Q1 | Jun-25 | Q | Q | Q | Q | 1Q | NLT 1Q |

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

INTERNATIONAL MONETARY FUND

# HUNGARY

July 25, 2025

## STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX


Prepared By

European Department
In Consultation with Other Departments


## CONTENTS

# FUND RELATIONS

(As of June 30, 2025)

**Membership Status:** Joined on May 6, 1982; Article VIII.

**General Resources Account:**

| | SDR Million | Percent Quota |
|---|---|---|
| Quota | 1,940.00 | 100.00 |
| Fund holdings of currency (Holdings Rate) | 1,640.76 | 84.58 |
| Reserve tranche position | 301.18 | 15.52 |

**SDR Department:**

| | SDR Million | Percent Allocation |
|---|---|---|
| Net cumulative allocation | 2,850.45 | 100.00 |
| Holdings | 1,635.27 | 57.37 |

**Outstanding Purchases and Loans**: None

**Latest Financial Arrangements:**

| Type | Date of Arrangement | Expiration Date | Amount Approved (SDR Million) | Amount Drawn (SDR Million) |
|---|---|---|---|---|
| Stand-By | Nov 6, 2008 | Oct 5, 2010 | 10,537.50 | 7,637.00 |
| Stand-By | Mar 15, 1996 | Feb 14, 1998 | 264.18 | 0.00 |
| Stand-By | Sep 15, 1993 | Dec 14, 1994 | 340.00 | 56.70 |

**Projected Payments to Fund:**

(SDR million; based on existing use of resources and present holdings of SDRs)

| | | ***Forthcoming*** | | | |
|---|---|---|---|---|---|
| | **2025** | **2026** | **2027** | **2028** | **2029** |
| Principal | | | | | |
| Charges/Interest | 18.04 | 35.55 | 35.55 | 35.56 | 35.53 |
| Total | 18.04 | 35.55 | 35.55 | 35.56 | 35.53 |

**Current Status of Safeguards Assessment:**

The safeguards assessment of the Magyar Nemzeti Bank (MNB) was finalized on January 28, 2009. The assessment found that the central bank had a relatively strong safeguards framework in place.

The MNB's control environment was well established, and the audit and financial reporting practices adhered to international standards. The assessment recommended measures to improve the process of program data reporting to the Fund and to strengthen audit oversight, especially over the central bank's basic tasks. Going forward, it is critical to avoid undue changes to the MNB's legal framework and to ensure that the law continues to support MNB's operational and legal independence.

**Exchange Rate Arrangements:**

Hungary's de jure exchange rate arrangement is free floating, and the de facto exchange rate arrangement is classified as floating. Hungary has accepted the obligations of Article VIII, Sections 2(a), 3, and 4 of the IMF's Articles of Agreement and maintains an exchange rate system free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions except for those maintained solely for the preservation of national or international security and that have been notified to the Fund pursuant to Executive Board Decision No. 144-(52/51).

**Article IV Consultation:**

Hungary is on a 12-month consultation cycle. The 2024 Article IV consultation was concluded on August 2, 2024. The associated staff report is available at https://www.imf.org/en/Publications/CR/Issues/2024/08/02/Hungary-2024-Article-IV-Consultation-Press-Release-and-Staff-Report-553126

**Financial Sector Assessment Program (FSAP)**

The latest update of the Financial Sector Assessment Program was performed in February/March 2005. The findings were presented to the Executive Board and concluded on June 15, 2005 (IMF Country Report No. 05/212). Continued progress has been made to develop the prudential framework and strengthen bank supervision in line with the 2005 FSAP recommendations. The next assessment is scheduled to take place throughout 2026.

**Technical Assistance:** See the table below.

**Table 1. Hungary: Technical Assistance from the Fund, FY2010–2024**

| Department | Purpose | Date |
|---|---|---|
| MCM | Banking Supervision | June 2009 |
| LEG | Bank Resolution Framework | September 2009 |
| FAD | Expenditure Policy | October 2009 |
| MCM | Monetary Policy | February 2010 |
| FAD | Expenditure Policy | June 2010 |
| MCM | Financial Stability | July 2010 |
| FAD | Tax Policy | September 2010 |
| MCM | Financial Stability | November 2010 |
| MCM | Monetary and Foreign Exchange Policy | June 2011 |
| FAD | Fiscal Federalism | October 2011 |

**Table 1. Hungary: Technical Assistance from the Fund, FY2010–2024** (Concluded)

| Department | Purpose | Date |
|---|---|---|
| MCM | Monetary and Foreign Exchange Policy | November 2011 |
| LEG | VAT Fraud and Anti-Money Laundering Activities | January 2013 |
| LEG | Bank Resolution and Crisis Management | November 2013 |
| MCM | Operational Aspects of Establishing an Asset Management Company | January 2015 and June 2015 |
| FAD | Workshop on Revenue Forecasting and Micro-simulation Analysis | January 2016 |
| FAD | PIT and CIT Micro-Simulation | January 2018 |
| FAD | VAT Gap Analysis | February 2018 |
| FAD | Revenue Administration | January 2020 and February 2020 |

**Statement by Mr. Palotai and Mr. Meizer on Hungary - 2025 Article IV Consultation**
**August 29, 2025**

The Hungarian authorities express their gratitude to the mission team, led by Ms. Anke Weber, for their constructive approach and insightful discussions during the Article IV consultations, and for especially paying particular attention to the challenges stemming from adverse external conditions. In the face of multiple headwinds, the Hungarian policymakers have prioritized safeguarding the fundamentals of the economy and bolstering macrofinancial stability, an approach that proved effective and resulted in notable improvements in key stability indicators over the past years. The authorities are resolved to further underpin these positive developments, while also stimulating economic activity through targeted policy measures. Overall, while the authorities are in broad agreement with staff on the state of the economy, they have greater confidence in the anchoring role of stability-oriented policies as well as in governmental measures to yield a more dynamic economic performance in the period ahead.

*Macrofinancial developments*

**The Hungarian economy has been navigating through a challenging external context.** As a small and highly open economy, Hungary`s economic performance is susceptible to the shifts in the external environment, and thus, the series of shocks experienced in recent years has adversely affected its post-pandemic recovery. The repercussions of Russia`s war in Ukraine continue to reverberate throughout the Central and Eastern European region, including the high degree of uncertainty but also the lingering costs of the European energy crisis and ongoing restrictive economic measures, and these developments required adaptation from the Hungarian economy as well. Moreover, geoeconomic fragmentation and the economic slowdown among some of Hungary's major trading partners have further added to the challenges the country faces, given its deep integration into global value chains. The Government therefore fully supports multilateral initiatives aimed at addressing these multilayered tensions, including the renewed impetus on this front, while continuing to see open dialogue as essential to revitalizing the multilateral trading system.

**Despite the headwinds, the Hungarian economy has shown a degree of resilience thanks to its solid foundation and determined policies principally focused on promoting macrofinancial stability.** After a confluence of factors drove up inflation in the post-pandemic era, Hungary achieved a remarkable pace of disinflation by 2024, and policies remain set to fully restore price stability, as defined by the central bank's 3-percent inflation target. Meanwhile, preserving the high level of employment and pro-family measures also remain at the forefront of governmental policies, as a result of which negative effects deriving from external shocks could also be ameliorated and economic fundamentals remain largely intact. Amid heightened uncertainty, the authorities fully recognized the need to boost resilience, and accordingly, stability-enhancing measures were greatly prioritized. At the same time, the Government also took decisive, yet targeted actions to support domestic demand, leveraging its available policy space. The authorities' careful approach is evident in the fact that all of this took place alongside substantial fiscal consolidation last year. It is also notable that the external balance improved markedly by

2024, even by European comparison, which was largely supported by necessary economic adjustments as well as structural factors.

**The current set of policies is expected to bring inflation back into the central bank`s tolerance band by early next year, after which it is projected to gradually return to the 3-percent target.** After headline inflation reached the point target last September, underlying developments and specific drivers, such as food price increases and external factors, put an upward pressure on it. Against this background, policymakers redoubled their efforts to firmly steer inflation to the target, and in this regard, anchoring of inflation expectations has been given priority. Alongside the long-standing contribution of tight monetary conditions to disinflation, the Government also adopted a new set of administrative measures from the beginning of the year, which were designed to support the reduction of inflation in well-defined subsectors experiencing higher inflationary pressures. Price restriction measures, partly mandatory and partly voluntary, have exerted a considerable disinflationary effect over the past months, and consequently, headline inflation has ranged between 4.2 percent and 4.6 percent since April. Nevertheless, the authorities remain attentive to the developments in underlying inflationary pressures, which, as currently observed, may ease further during next year.

**There are well-founded expectations that economic activity will pick up in the second half of 2025 and gain further steam afterwards.** After expanding by 0.5 percent in 2024, the Hungarian economy has experienced dampened growth momentum due to external adverse effects. This was particularly reflected in the performance of the industry, which, despite being well diversified, has been impacted by declining manufacturing production and sluggish demand in key European markets. The authorities expect industrial production to have bottomed out and the momentum that can be observed in some subsectors to take further roots, which also be backed by those major manufacturing investments which will turn into production in Hungary starting at the end of this year. Meanwhile, domestic consumption has continued to propel economic activity, largely benefiting from rising real wages and measures taken by the Government. At the same time, as unfavorable weather conditions negatively affected domestic crops, agriculture is seen to have negative contributions to the GDP this year. By all accounts, in the second quarter of 2025, the GDP increased by 0.4 percent compared to the previous quarter, which is a favorable performance in European comparison. Based on current assessment, annual real GDP growth may still exceed last year's figure. Further expansion of economic activity is projected in 2026, with GDP growth approaching 3 percent, owing to the solidification of domestic trends and the ongoing recovery in external markets.

*Fiscal policy*

**Fiscal policy has effectively promoted economic resilience, while also begun rebuilding buffers aimed at buttressing debt sustainability.** In an unfavorable international environment, macro-stabilization required both structural adjustments and policy actions to safeguard domestic demand. In an effort to strike a delicate balance, the Government implemented a series of targeted measures, an approach that yields positive results from the budgetary point of view too. Also supported by expenditure rationalization and efficiency gains, the fiscal deficit thus decreased by 1.8 percentage points to 4.9 percent in 2024, ensuring a primary surplus of 0.1 percentage points. The authorities welcome staff`s acknowledgement of the significant fiscal adjustments that have been made in recent years, and they believe that this serves as strong evidence for their ability to act to secure debt sustainability. Maintaining a balanced primary balance has also become an essential driver of budget planning for the coming years, and with the acceleration of economic growth, the public debt ratio can be continuously reduced again.

**With the overarching objective of delivering sound macroeconomic fundamentals and building a solid foundation for dynamic economic growth, economic policy continues to be actively formulated.** Three specific goals have consequently been accorded with a prominent role in this year's economic policy emphasis: (i) improving households` income position, (ii) addressing housing challenges, and (iii) aiding small and medium enterprises (SMEs). Additionally, containing inflationary pressures and anchoring inflation expectations in some sectors also proved to be a key consideration for policymakers, and to that end, in addition to the general commitment to keeping the fiscal stance neutral for the entire economy, the focused and time-bound use of regulatory tools has been maintained. Households are poised to benefit from a broad set of new government measures, including the doubling of family income tax allowances, gradual introduction of income tax exemptions for mothers of two or more children, a multi-year minimum wage increase scheme, interest-free loans for young workers, financial support for pensioners and wage adjustments in the public sector. In parallel, affordable housing is also promoted through various measures, including a home renovation program offering a 50 percent non-refundable subsidy and a 3 percent subsidized interest rate on mortgages for first-time homebuyers, both with caps, and the use of voluntary pension savings for housing purposes, among other things. To counterbalance the increasing demand, a HUF 300 billion housing development program helps to expand the housing supply. Third, the Government introduced a comprehensive scheme to support SMEs by enhancing their competitiveness and to promote export activities which includes a number of subprograms and is also backed by various financing options such as non-refundable grants, low-interest rate loans, capital support, and export support. Although the labor market is strong, the Government also initiated consultations with strategically important corporates and interest groups to fend off possible market disruptions emerging from geoeconomic fragmentation and increasing protectionism. In overall terms, while these measures span a variety of policy areas, the authorities calibrated them carefully, also considering their budgetary effects.

**The Government maintains its commitment to gradually reducing the fiscal deficit and keeping public finances on a sound footing.** Although this year's more moderate-than-expected economic growth also impacts on the budget, budgetary targets had to be adjusted only moderately. This is because the consumption-based budget still benefits from rising domestic consumption, and thus, revenue developments have shown relatively strong performance in the first half of the year, in line with previous expectations. The authorities consider the tax system to be fundamentally well-calibrated and competitive, a view that is also confirmed by international rankings. Nevertheless, among other things, the government continues to plan on gradually reducing reliance on sectoral taxes, in line with the normalization of windfall profits. Along with its sustained commitment to fiscal discipline, the Government aims for a 4.1 percent fiscal deficit in 2025, and a further declining deficit trajectory next year. In addition to the general undertaking to ensure a zero primary balance, the increased incorporated budget reserve, which cannot be spent on general purposes anymore, will also provide some buffers in 2026. While public investment rationalization has been a widely used adjustment tool in past years, its ratio as a percentage of GDP is still above the EU average and thus, these activities continue to provide sufficient backing for the national economy. While the authorities appreciate staff’s spending review, they emphasize that such exercises are also embedded in the fiscal planning and monitoring to the necessary extent, as well as possible efficiency gains need to be thoroughly evaluated in the context of national economic considerations and policy tradeoffs. Overall, the authorities are more confident than staff that the targeted fiscal consolidation can be achieved with current policies, but they stay ready to adjust if it is required by future developments.

**Debt management is pursued in a prudent and proactive manner, with results showing high stability.** Even though some revisions to the annual financing plan have become necessary, thanks to the stability of all major financing channels, increased financing needs can be smoothly met and with favorable pricing. In June, Hungary issued USD 4 billion of forex bonds amid strong investor demand, which shows that investor confidence in Hungary remains on a solid base. In the face of external headwinds, raising liquid reserves was also among the policy consideration for the authorities and thus, the issuance brought more flexibility into the debt management framework. Despite significant shifts in the retail securities portfolio, gross issuance exceeds the time-proportionate plan, and the demand for wholesale bonds was also strong thus far.

**In accordance with the EU`s new economic governance framework, the Government has developed a credible Medium-Term Fiscal Structural Plan (MTFSP).** The plan, which was endorsed by the Council of the EU, ensures that at the end of the adjustment period, general government debt is on a plausibly downward trajectory and that the government deficit is maintained below the reference value of 3 percent. The European Commission has recently also assessed the actions taken in response to the Council recommendations under the Excessive Deficit Procedure and decided to hold the procedure in abeyance for Hungary, whereas it has taken overall effective measures for fiscal consolidation. Like many other EU countries Hungary also requested the activation of the National Escape Clause that allows for somewhat greater budgetary flexibility for defense spending; yet the Government's general commitment to substantially strengthen the fiscal and debt position over the medium term remained unchanged.

*Monetary policy*

**The Magyar Nemzeti Bank (MNB) demonstrated unwavering dedication to underpin disinflation by maintaining restrictive monetary policy conditions for an extended period.** The Monetary Council only began reducing the base rate in October 2023, after being convinced of the strength and pervasiveness of that year`s disinflationary processes, and even then, it took a gradual approach to the easing cycle, which resulted in a base rate of 6.5 percent by September 2024. Although headline inflation had gotten in line with the central bank target by then, due to the aforementioned underlying developments and risks emerging from geopolitical developments, the Monetary Council decided to keep the base rate afterwards, which continued to ensure an outstanding positive real interest rate in the European context.

**With its new management having taken office this year, the MNB has reaffirmed its commitment to stability-oriented central banking policies and in order to fully restore price stability, it pursues a carefully and cautiously calibrated monetary policy.** Consequently, the base rate has been kept at 6.5 percent for 11 months now, ensuring a lasting positive real interest rate, and anchoring inflation expectations remains also as a central point of policy attention. At its most recent meeting of August, the Council also expressed its continued determination to achieve the inflation target in a sustainable manner. According to the Council`s assessment, a careful and patient approach to monetary policy remains necessary due to risks to the inflation environment as well as trade policy and geopolitical tensions.

**While pursuing its primary objective, the MNB continues to preserve financial stability and supports the Government's economic policy, as well as its policy on environmental sustainability, as outlined in the Central Bank Act, and it accomplishes all this by focusing on its core mandates.** The MNB has consistently communicated that its most effective contribution to sustainable economic growth is achieved through price stability and financial sector stability. While financial stability is fundamentally buttressed by a complex set of policies, restrictive monetary policies have also contributed to this along with their anchoring effects. In addition, MNB continues to shape financial sector policies in a thorough and proactive manner, by upholding high standards, while its integrated supervision functions also play a crucial role in monitoring and safeguarding the financial sector`s health. It is also worth noting that the MNB's green program is being developed in a targeted manner and continues to support the achievement of other central bank goals.

*Financial sector developments*

**The Hungarian banking system is characterized by strong capital position, high profitability and abundant liquidity, and consequently, the sector`s shock resilience remains outstanding. This resilience is assessed to be persistent even under stress-test scenarios.** With the banking sector's record profit in 2024 providing further backing, the consolidated capital adequacy ratio ascended to 20.5 percent. Although rolling profitability indicators show some signs of decrease this year, this is still a standout area when compared internationally. The ratio of non-performing loans remains historically low, at 2 percent for households and 3.7 percent for corporations. Even so, with due attention to heightened global uncertainties, the MNB thoroughly evaluated the sector's ability to withstand stress, even under severe negative economic scenarios involving growing geopolitical tensions and risk aversion in emerging markets. This exercise found that the banking sector`s shock resilience would remain strong even in the event of much less favorable-than-expected scenarios. Additionally, the liquidity stress test confirmed that the sector`s liquidity surplus would adequately cover regulatory requirements even in the event of severe shock.

**The lending developments in Hungary have been shaped by dual trends, namely dynamic growth in household loans and more restrained corporate lending. At the same time, the latter may also experience gradual growth as economic activity is picking up.** Continued improvement in the household income situation and the availability of subsidized loans have propelled household lending, resulting in an annual growth of over 10 percent in the loan portfolio this year. Despite the substantial expansion in lending, neither new housing loans nor new personal loans indicate a build-up of systemic risks. Furthermore, at around 15 percent of GDP, the stock of household debt is still lower than the average of peer countries. Simultaneously, growth in corporate lending has been largely held back by low demand for investment loans. The ratio of foreign currency loans rose above pre-pandemic level, but this sub-portfolio is typically tied to companies with natural coverage. Although low corporate credit dynamics are mostly caused by demand-related factors, it was found that the availability of corporate loans can also be improved. The government-backed corporate credit programs thus have been given an important role in alleviating these constraints. Furthermore, in close cooperation with the banking association, the MNB has just introduced a qualified corporate loan rating system to promote competition in the sector. The program aims to bring more investment loans to the market with uniform and transparent terms, accessible to a wide range of SMEs, and offered by simple and fast administration and favorable pricing. As corporate investments are expected to stabilize in the period ahead, a greater demand for investment loans may also gradually appear.

**While the meticulously designed micro- and macroprudential regulations keep financial risks at check, the MNB continues to closely monitor the financial sector and proactively strengthen its resilience.** Overall, the macroprudential framework remains sufficiently strict and to be predominantly driven by financial stability objectives. In 2024, the MNB decided to adopt a positive neutral countercyclical capital buffer, setting the rate at 1 percent from 2025 July, which allows building up more buffers even in a neutral risk environment that is not characterized by domestic cyclical systemic risks. For over a decade, the MNB has been successfully using borrower-based measures, and as a result, household over-indebtedness cannot be identified. The slight differentiation of these measures, including the relaxed limits for first-time homebuyers and green real estate, is consistent with the more favorable risk profile of relevant borrowers. Concurrently, the authorities also maintain robust supervisory vigilance. While closely monitoring systemic risks, including in the areas highlighted by staff, the authorities consider that the bank`s sovereign and FX exposures are not outlining in an international context and are sufficiently contained by current banking regulations. Due to their systemic importance, the MNB also keeps a close eye on real estate developments.

*Structural policies*

**The Government is dedicated to promoting structural reforms to accelerate growth, with a particular focus on enhancing productivity.** The authorities clearly see the importance of fostering firm dynamism and are comprehensively engaging in that direction. Accordingly, the newly introduced corporate support programs also go beyond the expansion of financing options, and an integral part of them is to improve the productivity and competitiveness of SMEs. In the meantime, state presence remains focused on the strategically important sectors, the management and development of which are guided by thorough regulations. Industrial policies in Hungary are used with a proper strategical view, narrowly targeted to specific objectives and thus, they do not substitute horizontal structural reforms. For instance, industrial policies have played a key role in steering investments into green technologies (including electric vehicle and battery factories) and provided a supportive ecosystem for the automotive industry in Hungary, traditionally heavily weighted in the economy, to keep up with the transformative changes of the sector. While the authorities appreciate staff`s work to assess the effectiveness of industrial policies on the basis of firm-level data, it is important to note that in several key areas, investments will only turn into production in the next year, albeit it is already evident that high-value-added research and development activities will also be built on these. The authorities also recognize the important role of education in fostering competitiveness, and to that end, they have already strengthened vocational training and the position of universities as educational and developmental centers, also encouraging them to engage in greater market cooperation, and initiated a long-awaited multi-year wage enhancement program for teachers.

**Energy policies are driven by the multifaceted objectives of securing energy security and affordability, while also facilitating energy transition.** As a landlocked country, Hungary has more limited energy supply options than many other European countries. Nevertheless, the authorities have made significant strides in strengthening the country`s energy resilience, and expanding solar capacity has played a central role in these efforts. Hungary now has one of the highest shares of solar energy in its electricity mix in Europe, yet relying more heavily on intermittent solar energy also requires grid developments, which is a clear priority for the authorities. Also considering the fact that electrification is taking center stage, a dedicated government program has been launched to significantly expand energy storage capacity, which is set to multiply this capacity, already within the next year. At the same time, when it comes to the availability of fossil fuels, opportunities for reaching new markets are still largely constrained. Over the past decade, the Hungarian government has taken important steps to expand their cross-border capacities and stepped up its diversification efforts, but access to new energy sources in the necessary amounts still largely depends on developments in neighboring countries. Given that there were reasonable arguments in favor of previously exempting Hungary and some other Central European countries from EU sanctions on imports of Russian fossil fuels, and accordingly, the Government still cannot agree to such newly emerging proposals that would jeopardize Hungary`s energy supply. From another angle, it is also important to note that the government has launched several energy efficiency programs that simultaneously help reduce dependence on fossil fuels.

**In past years, the authorities have invested considerable time and energy in strengthening the governance framework in specific areas, and they are confident that, based on an objective assessment, these are in line with the EU average in the necessary dimensions.** Although negotiations with the EU have their own fora, it is important to note that the authorities consider an objective assessment of the rule of law and the adequacy of governance frameworks to be key. The authorities maintain that they are fully entitled to access EU funding and that the EU's suspension of access to certain funds is unfounded. Nevertheless, the authorities have demonstrated their readiness and completed most of the "super milestones" designated to unlock the respective funds, from judicial reforms to setting up an integrity authority. Meanwhile, Hungary prudently and gradually utilizes the already available EU funds, and the authorities are also reviewing how to swiftly implement the main elements of the structural transformation program that was developed for the EU Recovery and Resilience Facility, by transferring them into other operational programs and also exploring financing alternatives. The authorities expect that the drive of governance reforms is also conducive to the business environment.