MAGYAR NEMZETI BANK

PUBLIC FINANCE REPORT

2025

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Analysis of the 2026 Budget Act

2025

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To support the fulfilment of its fundamental duties set forth in Act CXXXIX of 2013 on the Magyar Nemzeti Bank, in particular the tasks related to the determination and implementation of monetary policy, the Magyar Nemzeti Bank analyses developments in the budget deficit and debt, monitors the financing of the general government, analyses the impact of financing on monetary developments, capital markets and liquidity, and researches fiscal policy issues.

Pursuant to Act CXCIV of 2011 on the Economic Stability of Hungary, the Governor of the MNB is a member of the Fiscal Council (FC), and thus, the professional expertise and accumulated information available in the MNB can indirectly support the work of the FC. The MNB prepares background analyses for the duties of the FC stipulated in the Stability Act and provides them to the FC.

The analysis is based on information available for the period ending on 24 June 2025.

Contents

1 Summary

The subject of this analysis is the Act on Hungary's Central Budget for 2026, submitted to the Parliament on 6 May 2025 and adopted on 17 June, which we assess in the light of the MNB's fiscal forecast. As part of this analysis, we prepared our own projection for the 2026 budget balance and government debt based on the available information, and this projection is compared with the appropriations set out in the Budget Act.

According to the Budget Act, the debt-to-GDP ratio is expected to decline by 0.8 percentage point in 2026, ensuring compliance with the government debt rule specified in the Fundamental Law that is assessed with special attention by the Fiscal Council. Prior to the final vote on the budget bill, the focus of the Fiscal Council's assessment is compliance with the rule prescribed by the Fundamental Law that requires the reduction of government debt. The Fundamental Law and the Stability Act in force prescribe a reduction of the debt ratio, which is satisfied based on the Budget Act. Article 36 (6) of the Fundamental Law provides for derogation from the debt reduction requirement in times of special legal order, to the extent necessary to mitigate the consequences of the circumstances triggering the special legal order, or in the event of a significant and lasting national economic recession, to the extent necessary to restore the balance of the national economy. According to the Budget Act, the gross debt-to-GDP ratio of the general government will decrease from 73.5 percent at end-2024 to 73.1 percent in 2025, followed by a decline to 72.3 percent by the end of 2026. According to our forecast, in 2026 the reduction in the debt-to-GDP ratio may be slightly smaller – amounting to 0.7 percentage point – than the figure stated in the Act. Although the 2025 debt ratio may be higher than projected in the Budget Act, this in itself would not affect the reduction of the debt ratio next year; however, it may result in an elevated debt trajectory.

Based on the Budget Act, the accrual-based budget deficit target is 3.7 percent of GDP in 2026, which can be achieved with strict budgetary discipline, according to our projection, in which the deficit ranges between 3.7 percent and 4.0 percent of GDP. Based on our forecast band, a higher-than-targeted deficit could emerge in 2026, but the deficit target may be achieved with tight expenditure control. The deficit target is also higher than the figure of 2.5 percent set out in the national medium-term fiscal-structural plan submitted to the European Union and the target of 2.9 percent set in the 2025 Budget Act projection. The deficit envisaged for next year in the Act translates to a 0.4-percentage point decline compared to the 4.1-percent deficit projected for 2025. The decline in the general government deficit is supported by a pick-up in economic growth, lower interest expenditures, mainly due to the repricing of government securities to lower interest rates, and a decline in government gross fixed capital formation.

According to our forecast, the cash-based deficit of the central sub-sector is expected to be somewhat higher than in the Budget Act. Our projection indicates that the deficit of the central sub-sector may exceed the figure of HUF 4,219 billion stated in the Act by HUF 214 billion. According to our projection, both consolidated cash-based revenues and expenditures may fall short of the appropriations by HUF 258 billion and HUF 43 billion, respectively. Among revenues, tax and contribution revenues may fall short of the budgeted figure by around HUF 150 billion, primarily reflecting lower-than-expected revenues from VAT. According to our forecast, EU revenues and EU expenditures may also fall short of the appropriations, largely due to the uncertainties about RRF payments and risks caused by blocked EU funds. However, the forecast still assumes the receipt of the bulk of cohesion and RRF payments, which poses a risk to the cash balance.

The increase in the amount of the family tax allowance will continue at the beginning of next year, and from 2026, after mothers with four and three children, already tax exempt by then, mothers with two children under the age of 40 and mothers with one child under the age of 30 will also receive tax exemptions. In line with the tax cuts announced in the 2026 Budget Act, labour tax revenues may fall in the coming years. The impact of the tax cuts will be partly offset by a partial extension of windfall taxes in 2026. Tax relief for families and the extension of windfall taxes are addressed among the special topics.

The Budget Act applies a macroeconomic scenario that projects GDP growth of 2.5 percent for 2025 and 4.1 percent for 2026. The MNB's June Inflation Report indicates a GDP growth of 0.8 percent for 2025 and 2.8 percent for 2026.

Lower growth in 2025 also poses a risk to tax revenue performance for this year and, through the base effect, for the 2026 budget. Both the Budget Act and the MNB forecast dynamic gross wage growth. Over the forecast horizon, strong consumption dynamics will remain an important growth factor, supported by rising real wages and government tax cuts. In line with improving external economic activity and easing uncertainty, investment may support growth from 2026 onwards. Exports are set to expand more strongly next year, driven by European stimulus programmes and large domestic investments in production. The Budget Act forecasts inflation of 4.5 percent in 2025 and 3.6 percent in 2026, which is slightly lower than the MNB forecast.

The deficit target of 3.7 percent of GDP is higher than the 3-percent Maastricht criterion, but after activation of the national escape clause related to defence spending, the deficit and net expenditures may be in line with the expectations. The rate of debt reduction in the Budget Act is also in line with the relevant debt rules. While the envisaged deficit-to-GDP ratio of 3.7 percent is above the Maastricht reference value, the deficit may still meet the European Council's recommendations under the Excessive Deficit Procedure with the escape clause for defence spending and be consistent with the net expenditure path. The escape clause temporarily permits deviation from the net expenditure path in the national medium-term fiscal-structural plan. According to the Budget Act, the debt-to-GDP ratio will decline by 0.8 percentage point in 2026, which is consistent with the debt rules of the Fundamental Law and the Stability Act. However, according to Article 36 (6) of the Fundamental Law, the debt reduction requirement may be waived during the period of the special legal order currently in force. Instead of the former European debt reduction benchmark, the debt reduction requirement and the debt-based Excessive Deficit Procedure have been linked to the net expenditure path stated in the national medium-term fiscal-structural plan. Looking ahead, the plan submitted by Hungary foresees a gradual reduction in the debt ratio. The evolution of net primary expenditure is also in line with the expectations of the net expenditure path in the plan, with the national escape clause activated. Developments in the Excessive Deficit Procedure, net expenditures and the national escape clause are presented in more detail among the special topics.

2 General Government Balance

The 2026 Budget Act sets the accrual deficit-to-GDP ratio of the general government at 3.7 percent of GDP for 2026, representing an improvement of 0.4 percentage point relative to this year's projection of 4.1 percent. The decline in the accrual-based deficit is supported by a reduction in interest expenditures, mainly due to the repricing of government securities to lower interest rate levels. The general government deficit is mostly the result of the cash-based deficit of the central sub-sector, while the balance of the local government sub-sector may be essentially neutral in 2026 (Table 1). The statistical adjustment between the cash-based (GFS) and accrual-based (ESA) accounting causes the ESA deficit to decrease compared to the cash-based deficit, mainly owing to the different accounting methodology for tax-type revenues, the balance of corporations and other entities in the government sector and financial transactions.

Table 1
ESA balance of the general government in 2026 (as a percentage of GDP)

	2026		
	Budget Act	**MNB forecast**	**Difference**
1. Balance of the central sub-sector	-4.4	(-4.8) - (-4.5)	(-0.4) - (-0.1)
2. Balance of local governments	0,1	0,0	-0.1
3. Cash-based balance of the general government (1+2)	**-4.4**	**(-4.8) - (-4.5)**	**(-0.5) - (-0.2)**
4. GFS-ESA difference	0.6	0.8	0.2
5. ESA balance of the general government (3+4)	**-3.7**	**(-4.0) - (-3.7)**	**(-0.3) - 0.0**

Note: Differences may occur in the table due to rounding.
Source: 2026 Budget Act, MNB forecast

The cash-based deficit of the central sub-sector may amount to HUF 4,219 billion based on the Act. According to our forecast, the deficit of the central sub-sector is about HUF 214 billion higher than the deficit foreseen in the Act. Consolidated budgetary revenues may fall short of the appropriations by HUF 258 billion, half of which is due to the expectation that tax and contribution revenues will be HUF 153 billion lower. Risks to tax revenues mainly affect consumption taxes, in particular VAT. Our forecast for payments by economic organisations, and taxes and contributions on labour is broadly in line with the forecast. Macroeconomic developments this year and next year may strongly influence the evolution of tax and contribution revenues. There are risks related to the realisation of EU revenues, especially RRF revenues, and thus we expect EU revenues to fall short of the appropriation by HUF 90 billion. Consolidated government expenditures may fall short of the appropriations in the Budget Act by approximately HUF 43 billion. The lower expenditure amount compared to the Budget Act is mainly due to risks associated with the expenditures related to EU funds.

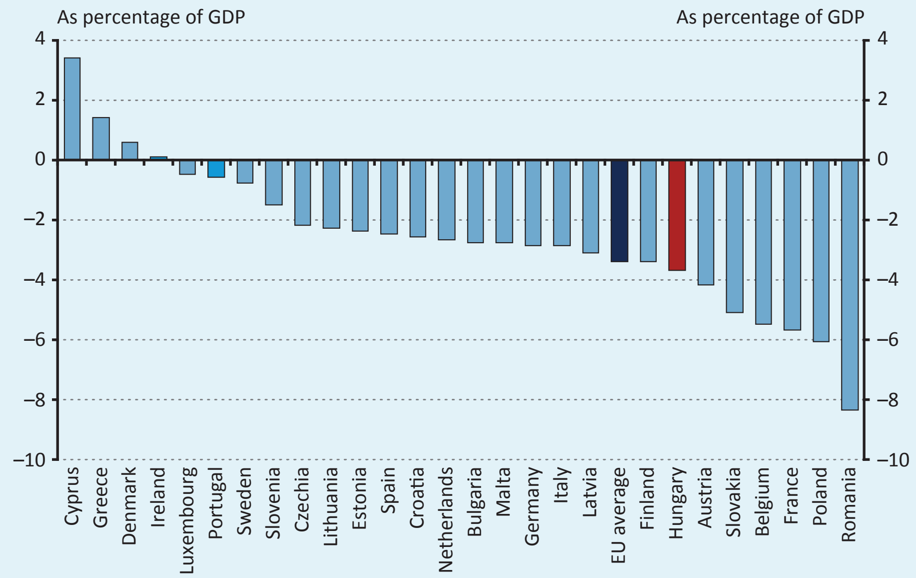
The local government balance sheet prepared for the submitted budget bill shows a surplus of 0.1 percent of GDP for 2026. Our forecast is 0.1 percentage point lower than the government's assumption, mainly due to the fact that in 2025 Q1, the wage growth index reached 17 percent compared to the same period of the previous year. The MNB expects local business tax revenues to rise by 9 percent, to HUF 1,590 billion. We expect the operating revenues of institutions run by local governments to increase by 6 percent.

The 2026 Budget Act applies a statistical adjustment of 0.6 percent of GDP to improve the cash-based balance. The larger adjustments to the balance of the ESA bridge (HUF 580 billion) are related to tax and tax-type revenues. The 2026 combined balance of business entities and other organisations in the public sector is expected to reduce the 2026 cash-based deficit, and financial transactions will also narrow the general government deficit overall. However, statistical adjustments related to EU funds and the accrual-based accounting of interest expenditures and interest revenues will increase the general government deficit.

The total expenditure of central budgetary reserves is forecast to be HUF 1,171 billion in 2026, of which HUF 192 billion is free reserves. Within the central reserves, the Investment Fund has been removed, decreasing the reserves by HUF 150 billion compared to 2025, while Provisions will increase the reserves by HUF 187 billion in 2026, mostly as a result of the reserve set aside for the 2026 salary increases which have already been decided. The Reserve for Extraordinary Government Measures is HUF 192 billion, which was raised by the government from the originally planned HUF 50 billion after a notification from the Fiscal Council.

The targeted 2026 deficit of 3.7 percent of GDP is in line with the expected average 2026 deficit for the CEE region, but is higher than the expected average EU deficit (Chart 1).

Chart 1
Government deficit forecast for 2026 in the EU



Note: The Hungarian data is in line with the government target announced in the 2026 Budget Act.
Source: European Commission, 2026 Budget Act

3 Expected Development of Government Debt

Based on the 2026 Budget Act, the government debt-to-GDP ratio will decline to 72.3 percent in 2026 from the 73.1 percent projected for year-end 2025. According to the Budget Act, the debt-to-GDP ratio will thus decrease by 0.8 percentage point in 2026.

According to our forecast, the gross debt-to-GDP ratio may decline by 0.7 percentage point in 2026 (Table 2), supported by the decreasing deficit and expected economic growth. The MNB's forecast for the gross government debt-to-GDP ratio is based on a slightly smaller decrease in government debt compared to the forecast in the Budget Act, as we expect lower nominal GDP growth and a higher cash-based deficit. However, the expected reduction in the government debt-to-GDP ratio for 2025 is subject to risks, mainly due to the higher-than-planned cash-based deficit, worse-than-expected real economic growth and uncertainties related to non-central government debt. The risks related to the decline in the government debt-to-GDP ratio in 2025 do not directly affect the forecasted 2026 decrease but may lead to a higher debt trajectory.

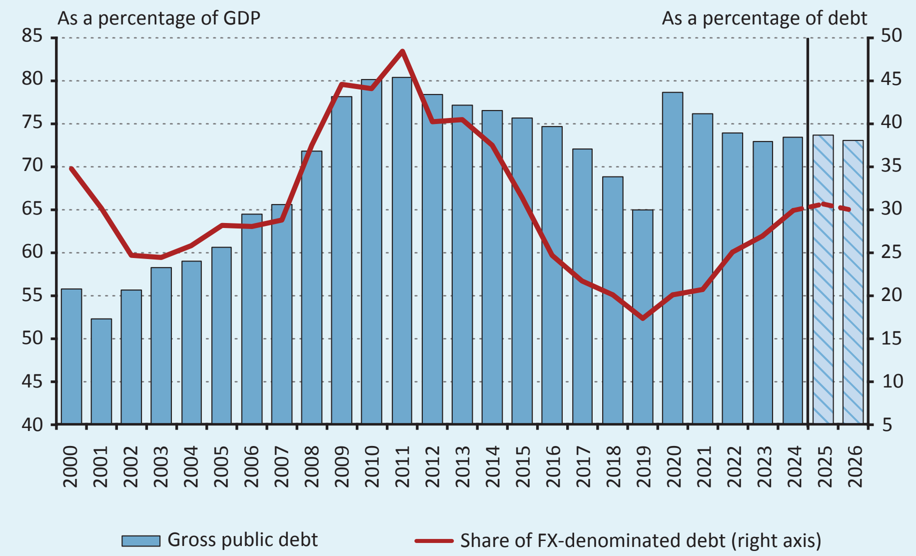
Table 2
Developments in government debt (as a percentage of GDP)

	Budget Act	MNB
1. 2025 initial government debt	73.1	73.7
2. 2026 cash-based deficit of the central budget	4.4	4.7
3. Other effects	0.8	0.1
4. 2026 expected government debt	72.3	73.0
5. Change in the government debt-to-GDP ratio in 2026 (4-1)	**-0.8**	**-0.7**

Note: The MNB forecast and the Budget Act calculate with different nominal GDP. The sum of partial data may differ from the aggregated values due to rounding.
Source: 2026 Budget Act, MNB forecast

By end-2024, the ratio of foreign currency debt to central government debt had increased to 29.8 percent, due to rising foreign currency bond issuance, and we forecast this ratio to be around 30 percent at the forecast horizon (Chart 2). The Budget Act indicates substantial net FX issuance for both 2025 and 2026, as a result of which the foreign currency ratio within the central government debt is expected to be over 30 percent in 2025 and then decline to slightly below 30 percent by the end of 2026.

Chart 2
Expected developments of government debt

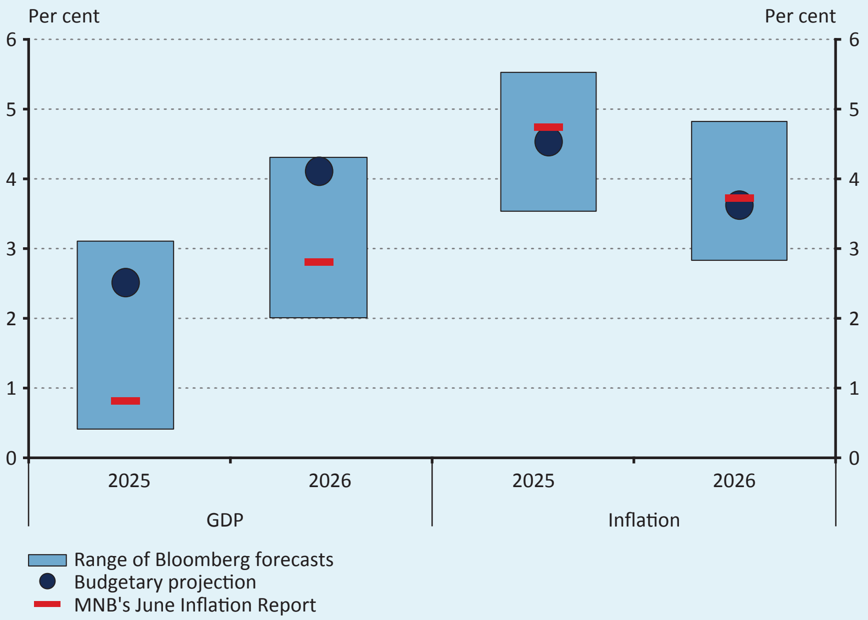


Note: The figure shows the MNB forecast for 2025 and 2026.
Source: MNB, GDMA

4 Evaluation of the Macroeconomic Assumptions Underlying the Budget Act

The Budget Act applies a macroeconomic scenario featuring GDP growth of 2.5 percent in 2025 and 4.1 percent in 2026. The growth outlook is significantly affected by uncertainties in the external economic environment. There is substantial uncertainty about GDP growth, as shown by the fact that the expectations of market analysts vary in a wide range for both 2025 and 2026 (Chart 3).

Chart 3
Comparison of GDP and inflation forecasts



Source: 2026 Budget Act, MNB Inflation Report (June 2025), Bloomberg (June 2025)

The MNB's June Inflation Report forecasts GDP growth of 0.8 percent in 2025 and 2.8 percent in 2026. In 2025 Q1, GDP stagnated in a year-on-year comparison. The Budget Act forecasts strong growth in household consumption in 2025. Over the entire forecast horizon, robust consumer spending remains an important factor for growth, supported by rising real wages and government tax cuts. Investments are likely to contract by 5.5 percent in 2025, due to elevated uncertainty and low capacity utilisation levels, but may then increase again in 2026, in line with improvement in the external economic environment and waning uncertainties. The Budget Act shows a 2.3-percent increase in investments in 2025. After a significant decline last year, domestic exports may show a modest increase of 0.5 percent in 2025. Due to the lack of demand, which has a stronger effect on domestic sectors, Hungary's export market share may shrink in 2025. However, from 2026 onwards, the negative impact of customs duty increases may be partially offset by accelerating growth in Hungary's export markets, driven by the European defence spending and fiscal stimulus programmes. The large-scale capacity expansion projects undertaken in recent years will also gradually enter the production phase. The growth contribution of net exports is nearly neutral in 2025 and amounts to +0.2 percentage point in 2026. In terms of export and import volumes, the Budget Act features a higher growth forecast for 2025 and 2026 compared to the MNB forecast.

Both the Budget Act and the MNB forecast dynamic gross wage growth. In the Budget Act, average wages are projected to rise by 8.6 percent in 2025, while the MNB expects a 9.2-percent increase, and for 2026 a 10.5-percent wage increase is forecast by both the Budget Act and the MNB. The Budget Act assumes a slight increase in the total number of people employed in both 2025 and 2026, while the MNB expects a 0.4-percent annual decrease in both years.

The Budget Act uses an inflation forecast of 4.5 percent for 2025 and 3.6 percent for 2026. The MNB's inflation forecast is 0.2 percentage point higher than the Budget Act forecast for 2025, and 0.1 percentage point higher for 2026. Inflation is expected to remain above the tolerance band for the remainder of 2025. The pace of price increases may slow down and remain consistently within the tolerance band at the beginning of 2026.

Table 3
Comparison of macroeconomic forecasts (percentage change compared to the previous year)

	2024	2025		2026	
	Actual	Budget	MNB	Budget	MNB
GDP	**0.5**	**2.5**	**0.8**	**4.1**	**2.8**
Consumption expenditure of households	5.1	4.1	3.9	5.2	4.2
Public consumption*	-3.7	0.4	0.7	0.5	0.6
Gross fixed capital formation	-11.1	2.3	-5.5	5.9	1.6
Exports	-3.0	3.0	0.5	6.4	4.5
Imports	-4.0	3.6	0.6	6.8	4.7
GDP deflator	7.3	5.2	6.8	4.7	5.3
Inflation	**3.7**	**4.5**	**4.7**	**3.6**	**3.7**
Gross wage bill*	**12.4**	**8.4**	**9.4**	**10.7**	**10.1**
Gross average earnings	13.2	8.6	9.2	10.5	10.5
Number of employees	0.0	0.1	-0.4	0.2	-0.4

*Note: * Definition of public consumption and gross wage bill are different at the two institutions. In the case of MNB, public final consumption is included in the table. In addition to public consumption, public final consumption also includes social benefits in kind received from the government and non-profit institutions.*

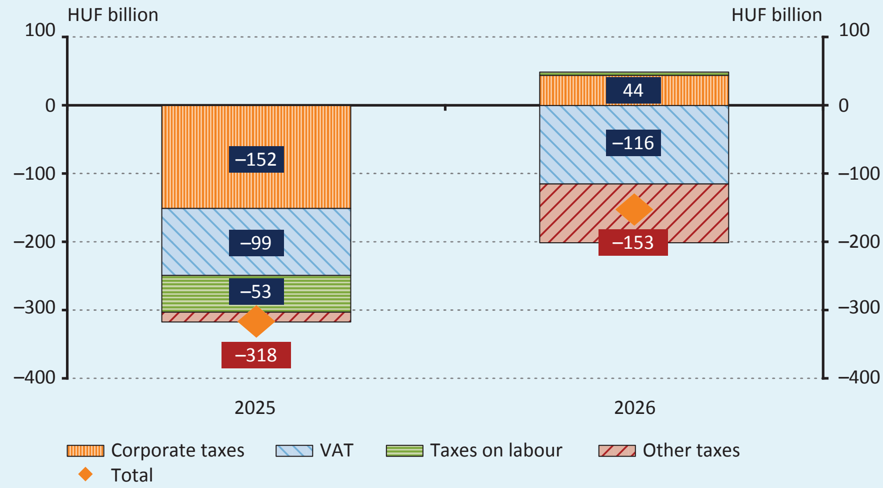
Source: 2026 Budget Act, MNB Inflation Report (June 2025)

5 Detailed Evaluation of the Budget Act

5.1 PRIMARY REVENUES

According to our calculations, the primary revenues of the central sub-sector may be HUF 258 billion lower than the Budget Act forecasts in 2026 (Table 4). Most of the difference is due to lower-than-expected tax and contribution revenues, while a HUF 90 billion difference is due to shortfalls in EU revenues. We forecast that tax and contribution revenues will be HUF 153 billion lower than the Budget Act forecast, mainly due to lower-than-expected consumption tax revenues (Chart 4). We forecast slightly higher payments by economic organisations, and our forecast for taxes and contributions on labour is in line with the Budget Act figures. Within EU revenues, recovery funds remain unavailable, and accordingly the realisation of RRF revenues is subject to risks.

Chart 4
Expected development of tax and contribution revenues compared to statutory appropriations



Source: 2025 Budget Act, 2026 Budget Act, MNB

Payments by economic organisations are expected to be HUF 44 billion higher than the 2026 appropriation. In 2026, revenues will continue to be significantly influenced by fiscal consolidation measuresof recent years. Most of the windfall taxes were introduced in 2022, a significant part of which will remain in force in 2026, with some changes (see Special topic 7.2). Nonetheless, the gradual phase-out of windfall taxes continues and the increased rate of income tax rate on energy providers will return to the pre-2023 level on 1 January 2026.

Corporate income tax revenues are expected to be HUF 12 billion lower than the appropriation. The new tax laws adopted simultaneously with the Budget Act include measures that have moderate impact on revenues (for example, the tax base allowance of employers in the micro-enterprise segment will increase from 100 percent to 150 percent, and the employee threshold will increase from 5 to 10). Corporate income tax revenue is subject to risks related to the macroeconomic environment, as the tax advances payable in 2026 H2 are determined on the basis of companies' 2025 profits.

Revenues from the **special tax of financial institutions** may be HUF 33 billion higher than the 2026 appropriation. The windfall tax payment obligation, which is part of this tax type, applies until the end of 2026. Taxpayers will have to pay a progressive windfall tax, based on their 2024 pre-tax profit. In 2026, the tax rate is 8 percent on the first HUF 20 billion of the tax base and 20 percent on the amount exceeding that. The tax liability is reduced by 10 percent of the increase in the portfolio of government securities held by credit institutions maturing after 1 January 2030, compared to the previous year; however, the amount of the tax relief may not exceed one-half of the tax liability. The deviation from the revenue appropriation is largely due to the different estimates of the 2026 tax relief amount. Another development in the special tax of financial institutions is, that 2026 will be the last time credit institutions are able to deduct from tax liabilities one-fifth of the pandemic contributions paid in 2020.

Revenues from the **tax of small enterprises** may exceed the Budget Act appropriation by HUF 21 billion. The entry thresholds for this tax will be doubled in 2026, according to the relevant chapter of the Budget Act. Due to the increase in the thresholds, the number of taxpayers under the tax type may increase significantly in 2026. The threshold for the average number of employees will increase to 100 people, and the thresholds for the company's tax year revenue and balance sheet total will increase to HUF 6 billion. The difference compared to the appropriation is due to the different assumptions regarding the increase in the number of taxpayers.

Revenues from the **mining royalty** may fall short of the appropriation by HUF 11 billion. The amount of revenues is significantly influenced by the development of global prices of crude oil and natural gas, as well as the EUR and USD exchange rates.

The **income tax on energy providers** may fall short of the budgeted figure by HUF 14 billion in 2026. The appropriation is surrounded by risks in several regards. On the one hand, risks owing to energy providers' profits for 2025, and on the other hand, regarding the tax on profits from the oil price differences, risks are associated with changes in oil prices and the USD/HUF exchange rate and the difference in particular oil prices in 2026. One of the windfall tax measures affecting energy suppliers will remain in force in 2026: the oil price differential tax (the tax on profits that arise from the difference between Brent and Urals crude oil prices). The tax rate, which was increased to 41 percent in 2023, will be reduced back to the previous 31 percent on 1 January 2026.

Revenues from the **retail tax** may exceed the appropriation by HUF 9 billion, mostly due to the base effect. The highest tax rate of this tax category, which was raised to 4.5 percent in 2024, will also remain unchanged in 2026 based on recent tax laws.

Our forecast for the **carbon dioxide quota tax** is the same as the appropriation. This tax type was introduced by the government by decree in the summer of 2023, after the adoption of the 2024 budget. The extension of this tax type to 2026 was enacted into law simultaneously with the submission of the Budget Bill. The transaction fee for companies benefitting from a significant amount of free emission allowances is also accounted for in this line item.

Due to the base effect, revenues from **road tolls** may fall short of the appropriation by HUF 8 billion, while **other centralised revenues** may exceed the appropriation by HUF 13 billion. For other tax types paid by economic organisations, the differences are due to the base effect and differences in the assessment of macroeconomic developments.

Table 4
Revenues of the central sub-sector – comparison of the forecasts (HUF billion)

	Statutory appropriation	MNB forecast	Difference
TAX AND CONTRIBUTION REVENUES OF THE CENTRAL SUB-SECTOR	**30,910**	**30,757**	**-153**
Payments by economic organisations	**3,968**	**4,012**	**44**
Corporate income tax	1,258	1,247	-12
Special tax of financial institutions	292	325	33
Lump sum tax of small entrepreneurs	72	70	-2
Tax of small enterprises	303	324	21
Eco-tax	5	5	0
Mining royalty	108	97	-11
Gambling tax	69	81	11
Other taxes and payments	61	65	4
Road toll	685	677	-8
Other centralised revenues	183	196	13
Income tax on energy providers	196	182	-14
Company car tax	103	103	0
Retail tax	329	339	9
Rehabilitation contribution	229	228	-1
Carbon dioxide quota tax	75	75	0
Consumption taxes	**11,592**	**11,413**	**-179**
Value added tax	8,793	8,677	-116
Excise duties	1,796	1,728	-69
Motor vehicle registration duty	22	26	4
Telecommunication tax	51	59	8
Financial transaction levy	606	604	-1
Insurance tax	220	223	2
Tourism development contribution	104	96	-7
Payments by households	**5,265**	**5,244**	**-21**
Personal income tax	4,837	4,839	2
Duties, other taxes	319	299	-20
Motor vehicle tax	108	106	-2
Tax and contribution revenues of extra-budgetary funds	**670**	**669**	**-2**
Tax and contribution revenues of social security funds	**9,415**	**9,419**	**4**
Social contribution tax and contributions	9,097	9,102	5
Other contributions and taxes	317	317	-1
EU RELATED REVENUES	**1,929**	**1,839**	**-90**
OTHER REVENUES	**1,330**	**1,315**	**-15**
Revenues related to public asset management	**664**	**649**	**-15**
Other revenues of the central budget	**494**	**494**	**0**
Other revenues of social security funds	**56**	**56**	**0**
Other revenues of extra-budgetary funds	**115**	**115**	**0**
TOTAL REVENUES	**34,168**	**33,911**	**-258**

Note: Partly consolidated data.
Source: 2026 Budget Act, MNB

The budget expects to collect HUF 8,793 billion cash-based revenue from **value added tax** in 2026. The corresponding amount in our forecast is HUF 116 billion lower, as we forecast revenues of HUF 8,677 billion. The difference arises from the fact that, compared to the government forecast, for this year and next year we expect more moderate growth in household consumption expenditures, which have the largest effect on VAT revenue developments. While the budget forecasts annual growth of 4.1 percent for this year, the MNB's expectation is 3.9 percent. The Budget Act forecasts growth of 5.2 percent for next year, which also exceeds the 4.2-percent expansion in the June Inflation Report. To support construction companies and facilitate the creation of homes for families, the reduced VAT rate of 5 percent on the sale of new residential property will remain in force until 31 December 2026, and under certain circumstances, up until 31 December 2030.

The 2026 budget target for **excise duties** revenues is HUF 1,796 billion, which is HUF 69 billion higher than our forecast and HUF 93 billion higher than the 2025 appropriation. The annual increase is due to the expected annual tax rate increase effective from 2025, driven by inflation-linked tax rate increases. For fuel and other products subject to excise duty, as well as for tobacco products, the tax rate will increase according to inflation, which is determined each year by the change in the annual consumer price index for the month of July of the previous year, as published by the Hungarian Central Statistical Office.

The budget bill foresees revenues from the **telecommunication tax** amounting to HUF 51 billion next year, which is more or less in accordance with our forecast.

In the budget, the **financial transaction levy** is expected to amount to HUF 606 billion in 2026, which essentially corresponds to our forecast. The financial transaction levy may generate HUF 14 billion more revenue next year compared to this year's appropriation. As a result of the measures taken in 2024, revenues rose significantly in 2025: From 1 August 2024, the previous financial transaction levy rates of 0.3 percent and 0.6 percent were raised to 0.45 percent and 0.9 percent, respectively, and the upper limit of the tax was raised to HUF 20,000 from HUF 10,000. For retail financial transfers, the exemption limit rose to HUF 50,000 from HUF 20,000. In addition, the supplementary financial transaction levy on foreign exchange conversions was introduced from 1 October 2024, and this year, the payment obligation was extended to issuers of electronic money. The rate of the supplementary financial transaction levy is 0.45 percent, capped at HUF 20,000. The total result of last year's and this year's measures may exceed HUF 220 billion for the year.

From the **insurance tax**, the budget expects HUF 220 billion in 2026, which is basically in line with our forecast. The insurance tax – with incentives for purchasing government securities – in the next year as well will be supplemented by the insurance surcharge tax obligation. The rules for tax relief for the purchase of government securities are changing: 60 percent of the increase in the stock of government bonds maturing after 1 January 2031 registered in the first eleven months of 2026 – compared to the average daily stock between 1 September and 30 November of the previous year – can be written off from the tax liability, instead of the previous 30 percent. The maximum amount of the benefit may be 100 percent of the tax payable on life insurance and 40 percent of the tax payable on other insurance. The additional tax obligation may generate a revenue of HUF 60 billion for the budget in 2026.

Revenues from **tourism development contribution** may amount to HUF 104 billion in 2026, in line with our forecast. In addition to food serving services, the 4-percent tax was extended to accommodation services from 2020, while the VAT rate was reduced to 5 percent. 69 percent of the 2024 revenues were generated from the latter, while 31 percent came from contributions from the hospitality sector.

For **personal income tax**, our revenue forecast is essentially the same as the HUF 4,837 billion envisaged in the Budget Act. From the beginning of next year, the amount of tax and contribution benefits of the family tax allowance will double, compared to the first half of this year. Starting from 1 January 2026, the benefit for parents with one child will increase to HUF 20,000, the benefit for parents with two children will rise to HUF 40,000 per child, while the benefit for parents with three or more children will increase to HUF 66,000 per dependent. From 2026, in addition to mothers with three and four children, who will be already tax-exempt by then, mothers under the age of 40 with two children and mothers under the age of 30 with one child will also be tax-exempt (see Special topic 7.3).

Duty revenues are forecast to reach HUF 319 billion next year, which is HUF 20 billion above our forecast and an increase of 15 percent compared to this year's target. Around three-quarters of the duty revenues are represented by the tax paid on real estate purchases; consequently, developments in the housing market have a significant impact on the evolution of this type of revenue. In the event of a housing market upswing, the additional revenue from duties appears with a lag due to the timeframe of the transaction and the possibility of paying in instalments.

The revenue appropriation for the **extra-budgetary funds** for 2026 is HUF 918 billion, up 8.5 percent compared to the 2025 appropriation. The National Employment Fund, which has the largest weight, has a revenue appropriation of HUF 552 billion for 2026, up 8.9 percent from 2025, mainly due to an increase in social security contribution revenues. The revenue of all the extra-budgetary funds will increase next year. Of these, the revenue of the Central Nuclear Financial Fund will increase next year the most, rising by 17.8 percent, based on the appropriation.

Our aggregate forecast for **tax and contribution revenues from social security and extra-budgetary funds** is close to the corresponding figure in the Budget Act, which contains a revenue projection that is only around HUF 3 billion lower. However, the structure of the revenues is somewhat different in the two forecasts. Our forecasts for revenues from *social security contributions* are HUF 36 billion lower, and *social contribution tax* revenues are HUF 38 billion higher than the corresponding appropriations in the Budget Act. For social contribution tax, the difference may be explained by the fact that in the case of tax benefits, the Budget Act projects a revenue loss more than HUF 30 billion higher than in our forecast.

The budgeted **revenues** associated with **EU funds** amount to HUF 1,929 billion. The bulk of this, HUF 1,790 billion, is primarily cohesion funds (HUF 1,013 billion), RRF (HUF 580 billion) and rural development subsidies (HUF 80 billion). Technical revenues (such as repayments by beneficiaries) amount to HUF 104 billion, while the budget foresees a reimbursement of nearly HUF 35 billion for customs collection costs. Given that the RRF funds still remain unavailable, the realisation of the RRF revenues of HUF 580 billion is surrounded by significant risks.

The appropriation for **revenues related to public asset management** has been reduced to HUF 664 billion, compared to the 2025 statutory appropriation of HUF 814 billion. As most of the revenue next year will continue to come from dividend income and income from the sale of emission units, these revenues will depend mostly on the performance of state-owned companies and the eventual prices of emission units. Revenues from public asset management are also influenced by discretionary measures; therefore, our forecast is close to the statutory appropriation.

5.2 PRIMARY EXPENDITURES

According to our forecast, the primary expenditures of the central sub-sector may fall short of the appropriation in the Budget Act by HUF 101 billion, while net cash-based interest expenditures may exceed the appropriation by HUF 58 billion. Consequently, total expenditures may fall short of the appropriation by approximately HUF 43 billion (Table 6). As regards expenditures related to EU funds, in our view, it is mainly RRF expenditures that may be lower than the appropriation. We expect a significantly higher level of expenditures than in the Budget Act in the case of the net own expenditures of budgetary institutions and in the case of benefits from the Health Insurance Fund, mainly due to the anticipated increase in disability and rehabilitation benefits, as well as higher medical and preventive care expenditures disbursed to institutions.

Within **state transport and utility services**, the appropriation for **the maintenance and expansion of the motorway network** has been reduced to HUF 390 billion, compared to HUF 545 billion in 2025. In 2026, the concessionaire will receive HUF 210 billion from the budget for the maintenance of the transferred motorway network and road network development. For the operation and maintenance of the M5 and M6 motorways, the budget provides HUF 180 billion to the concessionaire in compensation under the concession agreement.

The budgetary appropriation for **subsidy and reimbursement of the costs of public companies providing public transport services** amounts to HUF 1,038 billion, representing an 11.9-percent increase compared to the HUF 927 billion appropriated for 2025. Within this expenditure category, the state provides HUF 210 billion in subsidies for the maintenance of railway infrastructure, and the 2026 budget allocates a further HUF 307 billion for compensation of passenger rail services. The budget includes HUF 19 billion in compensation for supporting suburban transport (HÉV lines). The budgetary appropriations provide a total of HUF 318 billion in subsidies to public service providers for bus passenger transport services. The public service subsidies are supplemented by an additional HUF 34 billion appropriation for energy costs. The 2026 appropriation for social fare subsidies is HUF 150 billion; this appropriation reimburses public service companies for centrally mandated travel discounts. The above items together constitute the HUF 1,038 billion budget expenditure for these appropriation categories.

The **compensation for higher energy prices** provided to households and public service institutions continues to require substantial government involvement, with the 2026 Budget Act allocating a total of HUF 1,246 billion in expenditures for these purposes (Table 5). The bulk of the appropriated expenditures (nearly HUF 793 billion) is allocated to *household utility protection*, while the collateral of *utility compensation for public service institutions* is covered by a central reserve in the amount of HUF 253 billion, and HUF 34 billion is earmarked in the budget to support the *energy costs of public transport services*. The maintenance of utility protection for households will be transferred to the Ministry of Energy, support for the energy cost of public transport services will be transferred to the Ministry of Construction and Transport, while the costs of utility compensation for public service institutions are covered by a central reserve, the use of which is decided by the Ministry for National Economy. The transparency of utility protection expenditures is supported by the fact that the government will continue to decide on the use of these appropriations through individual resolutions. In addition, the *Water Utility Development and Compensation Fund*, amounting to HUF 156 billion and included in the Ministry of Energy's budget chapter, also serves utility protection purposes. Utility protection expenditures are partly offset by revenues of HUF 250 billion projected under the *energy sector dividend payment* line item, based on the 2025 results of the MVM Group.

Table 5
2025 and 2026 appropriations for utility protection expenditures (HUF billion)

	Purpose of use	Expenditure appropriation	
		2025	**2026**
1.	Utility protection of households	880	793
2.	Utility compensation for institutions performing public duties	253	228
3.	Water Utility Development and Compensation Fund expenditures	122	156
4.	Compensation for electricity generation as a system security service	38	36
5.	Support for the energy cost of public transport services	37	34
	Total	**1,330**	**1,246**

Source: 2025 Budget Act, 2026 Budget Act

The 2026 appropriations for **housing subsidies** total HUF 438 billion, which is HUF 181 billion higher than the 2025 appropriation. The significant increase is mainly attributable to the impact of the *Rural Home Renovation Programme* launched this year. In the new version of the Home Renovation Programme, which originally ran between 2021 and 2022 and the related housing subsidy spending was over HUF 770 billion, a number of detailed rules have been changed. Within the framework of the new programme, the maximum subsidy of HUF 3 million will only be available in settlements with a population of less than 5,000 and will be split equally between material and labour costs. Those who participated in the previous scheme will only be entitled to the difference between the HUF 3 million and the previous subsidy. The expenditures of the new programme are further increased by the extension of eligibility to pensioners.

The **National Family and Social Policy Fund** has a budget of HUF 805 billion in 2026, more than HUF 25 billion higher than the expenditures planned for this year. Of the key items of the Fund, in the case of subsidies for families, the 2026 appropriation for *family allowance* is expected to be around HUF 305 billion, corresponding to the amount disbursed in 2025. As regards the remaining family allowance items, such as *income substitute and supplementary social benefits* and *reimbursements provided under various headings*, our expectations are also in line with the appropriation.

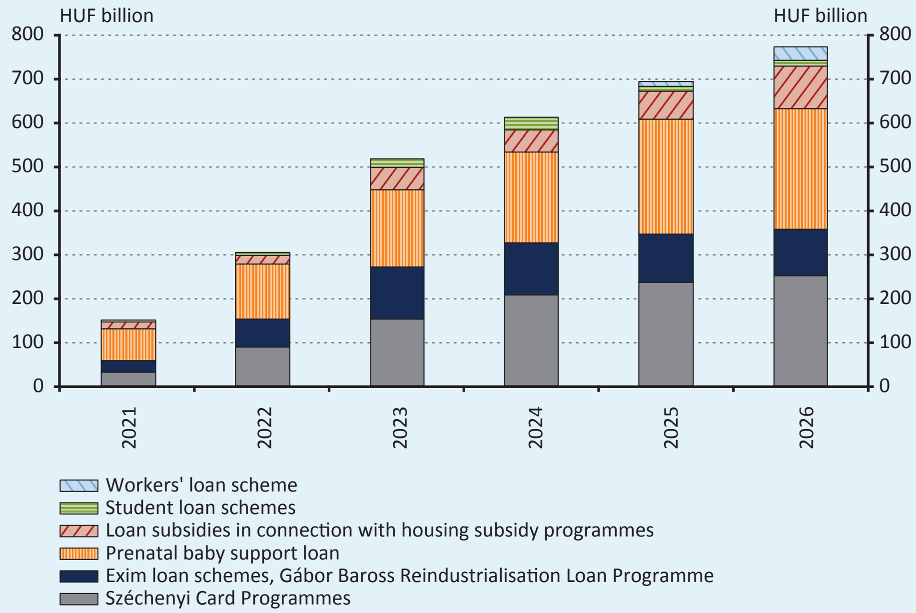
Based on the appropriations in the Budget Act, the budgetary impact of **government subsidised loan schemes** is expected to exceed HUF 778 billion (0.8 percent of GDP) in 2026 (Chart 5). The expected budgetary impact is split roughly equally between household and corporate loan schemes.

The bulk of the expenditures for **household programmes** comprises the *prenatal baby support*, with loan disbursements under this scheme expected to continue in 2026, according to the Budget Act. The budget foresees expenditures of HUF 277 billion for interest subsidies on prenatal baby support loans and partial or full waiver of the principal amount by the state if the childbearing conditions are met. Under the measure, effective from 9 July 2024, the deadline for the birth of the first child for families taking out a prenatal baby support loan between July 2019 and June 2021 has been uniformly extended to 1 July 2026. As a result of the measure, the affected households are exempt from repaying the interest subsidy, and the disbursement of state support will also continue until the extended deadline.

The Budget Act includes a total expenditure allocation of nearly HUF 438 billion for the financing of *housing subsidies*, of which spending on interest subsidies and childbearing support is expected, according to our calculations, to exceed HUF 98 billion in 2026. The bulk of the expenditures for interest-subsidised loan programmes related to housing subsidies is accounted for by the HPS Plus scheme and the supplementary schemes available alongside the previous HPS.

The Budget Act contains an expenditure allocation of around HUF 12 billion to support *student loan schemes*, while allocating HUF 33 billion in 2026 for the *workers' loan scheme* (targeted at young people not eligible for the former), in conjunction with a gradual expansion in loans outstanding. Similar to the prenatal baby support loans, both the student loan and the workers' loan schemes encourage childbearing through benefits involving the partial or full state repayment of outstanding debt.

Chart 5
Budgetary impacts of government subsidised loans



Note: Data in terms of cash flow. In the case of programs for households, the figure includes the amount of expenditures related to interest subsidies, and if the child-bearing condition is met, the repayment of the principal debt as well. In the case of the Széchenyi Card Programmes, the net budgetary impact is included in the chart. Impact of housing subsidies related to loan programmes is also partly based on our forecast for 2026.

Source: Government's final budget accounts for 2021- 2023; MNB estimate for 2024 and 2025; 2026 Budget Act

Under the **accrual accounting** of the state waiver of outstanding debts related to the household programmes, the Budget Act foresees the recognition of an accrual balance-deteriorating effect nearly HUF 70 billion lower in the case of prenatal baby supports, and more than HUF 26 billion higher for the HPS Plus scheme and nearly HUF 18 billion higher for the Workers' Loan scheme, compared to the cash-based approach in 2026. This is because, according to the ESA methodology, in the case of loans disbursed in a given year that are expected to be waived in the future, the amount should be recognised as an expenditure at the time of disbursement, while subsequently, loans that are eventually waived on a cash basis in the future, should be removed from accrual-based expenditures.

Within **corporate credit schemes**, the largest budgetary item is related to the *Széchenyi Card Programmes*, which, according to the Budget Act, may have a net budgetary impact of HUF 252 billion in 2026. Within this, the expenditure appropriation for the Széchenyi Card Programme is nearly HUF 325 billion, which is partly financed from an estimated HUF 93 billion in revolving funds from the 2014–2020 EU programming period's financial instruments, resulting in a net support appropriation of nearly HUF 232 billion in 2026. Support for the Agricultural Széchenyi Card schemes may represent a further expenditure of nearly HUF 21 billion. For *Eximbank interest equalisation*, the Budget Act allocates HUF 106 billion next year, which is slightly below this year's appropriation. Among others, this includes interest subsidies for the Gábor Baross Loan Programme, which was ended in 2024; the portfolio created under the programme is gradually declining, but it will continue to entail further budgetary expenditures.

The **net expenditures of budgetary organisations** amount to around HUF 11,090 billion in the Budget Act. Our projection is based on higher expenditures than this, as in our forecast, we expect the expenditure overruns seen in recent years in non-capped expenditures, as well as higher disbursements of EU advances expected in 2026. According to our current forecast, net expenditures are HUF 271 billion higher in 2026 compared to the BudgetAct. In our forecast, we have taken into account the expenditure-side measures; however, we do not account for the potential expenditure-increasing and budget deficit-increasing risks arising from the re-spending of appropriation surpluses paid into the Central Appropriation Settlement Fund.

The 2026 budget estimates **EU expenditure** at HUF 2,763 billion. Of this, more than HUF 1,800 billion is expected to be paid out in connection with cohesion funds programmes and HUF 340 billion for RRF programmes. The government plans to spend a total of HUF 550 billion on rural development programmes, but around 80 percent of this will be financed by own budgetary funds. The restriction of access to EU funds creates uncertainty in the case of EU expenditures as well, especially with regard to RRF funds.

The envisaged appropriation for **support to local governments** is HUF 1,419 billion. The proposed amount represents an 8.7-percent increase in funding compared to the corresponding amount in the 2025 Budget Act. In addition to this amount, local governments will receive additional subsidies from the central reserves, for example, from the amount allocated to provisions for covering the 2026 wage measures.

The expenditure appropriation for the **contribution to the EU budget** has been planned at HUF 789 billion. The budgeted expenditure is HUF 91 billion (13.1 percent) higher than the 2025 budget appropriation. The largest expenditure item is the GNI-based contribution to the EU budget. The actual payment obligation is to be determined based on a uniform rate that takes into account the total GNI of all Member States, while the GNI performance of each Member State is established in accordance with EU rules. Due to the applicable regulations, the actual payment obligation is established only during the execution of the budget for the current year. This procedure also applies to other payment obligations (VAT, customs duties, plastic packaging waste).

The appropriation for **central reserves** is HUF 1,171 billion, which is HUF 105 billion higher than the 2025 statutory appropriation. Comparability is hindered by changes in two factors: firstly, the termination of the Investment Fund will cause a decrease of HUF 150 billion next year compared to the 2025 appropriation. Secondly, the appropriation for provisions will be HUF 187 billion higher next year than the 2025 appropriation. The higher provisions allocation represents the reserve set aside for the 2026 wage measures; therefore, this reserve provides significantly less room for manoeuvre for the government compared to the reserve for extraordinary government measures. The reserve appropriation for extraordinary government measures increased from HUF 100 billion in the base year to HUF 192 billion: the Fiscal Council recommended that the government increase the level of reserves (see Special topic 7.4). The budget provides a reserve appropriation of HUF 228 billion to compensate public institutions for the increase in energy prices. This amount is HUF 25 billion lower than the allocation for the current year.

The appropriation for **expenditures related to public asset management** is HUF 352 billion, which represents a substantial decrease compared to the HUF 486 billion appropriated for 2025. The largest expenditure item related to public assets in next year's budget may be the capital increase of Paks II Zrt., for which HUF 95 billion is planned to be allocated in the budget. As these types of expenditures are predominantly related to the exercise of ownership over state-owned enterprises, discretionary government decisions are also a key determinant of total expenditure, and our forecast is therefore essentially in line with the projections of the statutory appropriation.

Table 6
Expenditures of the central sub-sector – comparison of the forecasts (HUF billion)

	Statutory appropriation	MNB forecast	Difference
PRIMARY EXPENDITURES	**35,372**	**35,271**	**-101**
State transport and utility services	**2,376**	**2,268**	**-108**
Public service media service support	**141**	**141**	**0**
Housing subsidies	**438**	**437**	**-1**
National Family and Social Policy Fund	**805**	**796**	**-9**
Other family benefits (Prenatal baby support, Student loans)	**322**	**334**	**13**
Net own expenditures of central budgetary organisations and chapters	**11,090**	**11,361**	**271**
EU-related expenditures	**2,763**	**2,470**	**-293**
Support to local governments	**1,419**	**1,419**	**0**
Contribution to the EU budget	**789**	**789**	**0**
Central reserves	**1,171**	**1,171**	**0**
Expenditures related to public asset management	**352**	**357**	**5**
Expenditures in investment chapter	**486**	**486**	**0**
Other expenditures	**608**	**607**	**-2**
Expenditures of extra-budgetary funds	**802**	**784**	**-18**
NEF – Passive allowances	223	223	0
NEF – Active allowances	156	138	-18
Other expenditures	424	424	0
Expenditures of social security funds	**11,809**	**11,851**	**42**
PIF – Pensions	6,987	6,977	-10
HIF – Disability and rehabilitation benefits	420	450	30
HIF – Cash benefits	919	917	-2
HIF – Medical and preventive care	2,887	2,897	10
HIF – Net expenditures of the drug budget	434	450	16
Other expenditures	162	159	-3
NET INTEREST EXPENDITURES	**3,015**	**3,073**	**58**
TOTAL EXPENDITURES	**38,387**	**38,343**	**-43**
BALANCE	**-4,219**	**-4,433**	**-214**

Note: Partly consolidated data.
Source: 2026 Budget Act, MNB

The 2026 expenditure appropriation for the **public investment chapter** amounts to HUF 486 billion, which is HUF 284 billion higher than the originally approved appropriation for 2025. In 2025, the Investment Fund was transferred to the public investment chapter; thus, the amount of the change decreased to HUF 134 billion compared to the revised budget appropriation. The change is primarily due to the increase in priority public road development projects, for which the public road development appropriations jointly provide funding for HUF 355 billion in investment expenditure. In the 2025 budget, HUF 89 billion is allocated for public road development purposes. The Investment Fund will be terminated next year, and the chapter's administrator will be able to spend HUF 33 billion more on specific building construction projects than in 2025.

The 2026 appropriation for **extra-budgetary funds** amounts to HUF 835 billion, up 10.2 percent versus the previous year. More than half of the expenditure increase will be realised by the National Employment Fund, with the appropriation for job-seeker benefits rising by 13 percent (HUF 26 billion), while the scheduled expenditures for the Start labour programme will increase by HUF 15 billion. Overall, in 2026, a surplus of HUF 83 billion may arise in the balance of extra-budgetary funds based on the appropriation, which roughly corresponds to the amount included in this year's appropriation.

Our **expenditure** forecast for **social security funds** is HUF 42 billion higher than the amount appropriated by the Budget Act for 2026. Based on our forecast, pension benefits will be HUF 10 billion lower, while health insurance expenditures may be HUF 51 billion higher than the Budget Act appropriations.

The Budget Act appropriates a total expenditure of HUF 6,996 billion charged to the **Pension Fund** for 2026, the vast majority of which comprises **pension expenditures** amounting to HUF 6,987 billion. Based on the inflation expectations published in the macroeconomic forecast underlying the Budget Act, the budget assumes a pension increase of 3.6 percent, which is close to the inflation forecast in the MNB's June 2025 Inflation Report. By contrast, according to the Inflation Report, the expected real growth of 2.8 percent falls short of the 3.5-percent rate required for the payment of the pension premium.

Expenditures related to **pensions** may fall short of the amounts appropriated by the law by nearly HUF 10 billion. This difference may primarily be explained by the potential shortfall of the pension premium, amounting to more than HUF 24 billion, due to lower economic growth, while expenditures for old-age pensions are estimated to be slightly higher, and the amount spent on retirement provisions to relatives is expected to be lower. **Other expenditures** of the Pension Fund are budgeted at HUF 9 billion in the bill, which is in line with the forecast prepared by the MNB.

Based on the 2026 Budget Act, total appropriations for **pensions and pension-like benefits** thus amount to around HUF 7,529 billion, for which our forecast expects total expenditures to be HUF 19 billion higher (Table 7).

Table 7
Comparison of the 2026 appropriation of the expenditures on pensions and pension-like benefits and the MNB forecast (HUF billion)

	Appropriation	MNB forecast	Difference
I. Pension expenditures	**6,987**	**6,977**	**-10**
1. Old-age pensions	5,820	5,857	36
1.1. Old-age pensions over the retirement age	5,282	5,349	68
1.2. Early retirement benefit for women	539	508	-31
2. Retirement provision to relatives	610	595	-16
2.1. Orphan care	53	50	-3
2.2. Widow's pension	557	544	-12
3. One-off subsidy	1	1	0
4. Provision for pension premium	24	0	-24
5. 13th-month pension	532	525	-6
II. Early retirement benefits	**122**	**121**	**-1**
III. Disability and rehabilitation benefits	**420**	**450**	**30**
Total pension and pension-like benefits	**7,529**	**7,548**	**19**

Source: 2026 Budget Act, MNB

The expenditure allocated to the **Health Insurance Fund** is HUF 51 billion lower than our forecast. The difference is due to our forecast assuming higher utilisation of disability and rehabilitation benefits, medical and preventive care and pharmaceutical subsidy expenditures, which is partly offset by the somewhat lower realisation of cash benefits.

The statutory appropriation for **disability and rehabilitation benefits** is nearly HUF 420 billion, HUF 16 billion higher than the appropriation in 2025, while our forecast anticipates HUF 30 billion higher expenditure in 2026.

Cash benefit appropriations amount to HUF 919 billion, which is almost HUF 2 billion higher than the value envisaged in our forecast. The appropriation for expenditures on **sick pay** is HUF 267 billion in 2026, HUF 24 billion higher than the 2025 appropriation. In the case of sick pay, we are assuming that the actual expenditure will be equal to the appropriation, and thus the amount in our forecast is almost identical to that in the budget. The appropriation for **childcare and adoption allowances** amounts to HUF 457 billion in 2026, which is more than HUF 37 billion higher than the expenditure level planned for 2025, largely explained by the increase in gross average earnings in recent years. In our projections, the expenditure on childcare fees is HUF 5 billion lower. The expenditure allocated to the **infant care allowance** is HUF 183 billion in the Budget Act, which exceeds the 2025 appropriation by more than HUF 5 billion. Our projection for infant care allowances is HUF 4 billion higher than the budget.

The appropriation for **medical and preventive care** is HUF 2,887 billion, which is HUF 10 billion lower than our forecast. The law anticipates an expenditure surplus of HUF 121 billion compared to the 2025 appropriation, which is linked to an increase in operational support provided to institutions.

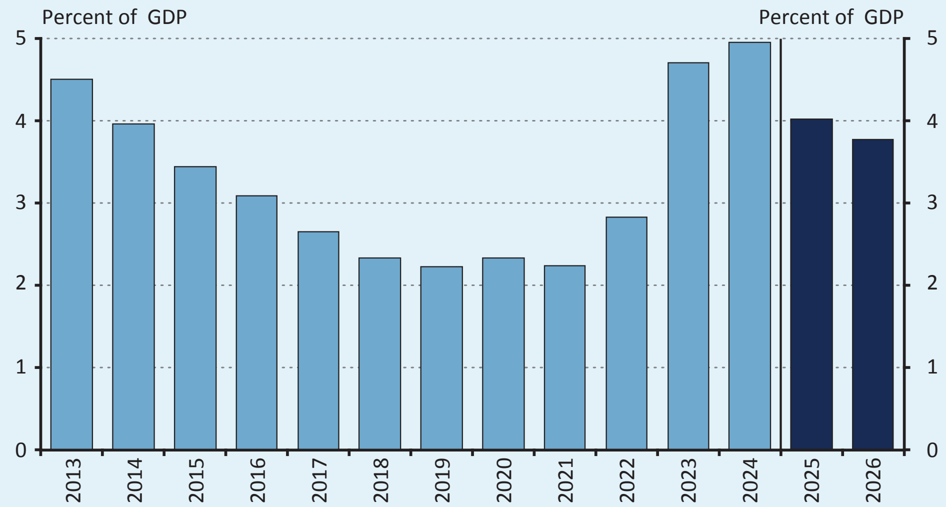
The appropriation for the **gross expenditures of the drug budget** is HUF 567 billion in the 2026 Budget Act, up HUF 32 billion compared to this year's allocation. According to our forecast, net expenditure on drug subsidies may be HUF 16 billion higher than the appropriation based on base year trends.

5.3 INTEREST BALANCE

The statutory appropriation for gross accrual-based interest expenditure as a percentage of GDP is broadly consistent with our expectations. Based on our forecast, interest expenditure as a percentage of GDP may reach 3.8 percent in 2026, which is 0.1 percentage point higher than the statutory appropriation (Chart 6). Interest expenditure as a percentage of GDP will thus decline by another 0.2 percentage point after the decline of 1 percentage point expected for this year, due to the ongoing repricing of government securities to lower interest rates.

The appropriation for **net cash-based interest expenditure** is HUF 47 billion lower than our projection. Our projection is higher than the appropriation, both for gross interest expenditures and interest revenues. Besides the diverging macroeconomic assumptions, the differences may be caused by differences in the projections of the underlying issuance structures.

Chart 6
Development of gross accrual interest expenditures (as a percentage of GDP)



Source: Eurostat, MNB forecast

6 Legal Compliance of the Budget Act

According to the Budget Act and the MNB's projection, the gross public debt-to-GDP ratio is expected to decrease in 2026, and accordingly, the Act complies with the requirement of the debt rule prescribed in the Fundamental Law. Pursuant to the Fundamental Law, as long as the debt ratio exceeds 50 percent of GDP, the debt ratio must be reduced. This requirement is expected to be satisfied in 2026 based on the Budget Act and also according to our projection. Based on the budget, the debt-to-GDP ratio will be reduced by 0.8 percentage point to 72.3 percent next year from 73.1 percent expected by the end of this year. According to the MNB's projection, the debt-to-GDP ratio may decrease by 0.7 percentage point in 2026. However, the state of danger introduced in view of the state of war in a neighbouring country permits exemption from compliance with this provision.

The debt-to-GDP ratio specified in the 2026 Budget Act is consistent with the debt rule included in the Stability Act. According to the requirement, the end-of-year value of the government debt ratio should be set in such a way that, if it must be reduced according to the Fundamental Law and the applicable EU legislation, it decreases relative to the reference year. The reduction requirement is satisfied both according to the Budget Act and the MNB's projection. The existing European debt rule states that the Member States' government debt ratio must not exceed 60 percent of GDP, or if it does, the debt ratio must be diminishing at a satisfactory pace. The pace of debt ratio reduction had been defined until the previous year by the debt reduction benchmark, but the new fiscal framework links the debt-based EDP to the deviations in the control account specified in relation to the net expenditure path. The control account registers the difference between the net expenditure path in the national medium-term fiscal-structural plan and the observed net expenditures of the Member State. The expenditure path and the resulting debt reduction in the submitted national medium-term fiscal-structural plan may, along with the activation of the national escape clause relating to defence spending, comply with the new EU rules (see Special topic 7.1).

The deficit of 3.7 percent in the 2026 Budget Act does not in its own right satisfy the 3-percent Maastricht deficit criterion; however, together with the activation of the national escape clause relating to defence spending, it may meet the EU requirements. The rule stipulates that Member States shall avoid excessive budget deficits of more than 3 percent of GDP.

The reduction of the debt ratio next year is expected to be consistent with EU debt reduction requirements. The European debt rule states that the Member States' gross, consolidated, nominal government debt ratio must not exceed 60 percent of GDP, or if it does, the debt ratio must be diminishing at a satisfactory pace. In 2026, the Hungarian debt-to-GDP ratio may decline by 0.8 percentage point according to the Budget Act, and by 0.7 percentage point according to our forecast, meeting the 0.5-percentage point debt sustainability safeguard, while the balance of the control account, which is of relevance to the debt-based excessive deficit procedure, may also be in line with the requirements, if the national escape clause is activated.

7 Special Topics

7.1 DEVELOPMENTS IN THE EXCESSIVE DEFICIT PROCEDURE AND NET EXPENDITURE RULE

In its spring package, which was published in early June, the European Commission declared that the excessive deficit procedure (EDP) for Hungary is held in abeyance, meaning that no further steps are currently needed to be taken. The spring package closes the first full year of the macroeconomic and budget surveillance under the revised economic governance framework. In the package, the Commission evaluated the execution of the adopted national medium-term fiscal-structural plans. EDPs are currently ongoing for eight Member States, in the case of six of which – including Hungary – no further steps are needed to be taken. The net primary expenditures are expected to exceed the amount stipulated in the net expenditure path in 2025; however, with the activation of the national escape clause (NEC) relating to defence spending, they are in line with the requirements.

Moreover, the Commission notified the European Council of requests for the activation of the national escape clause by 16 Member States, including Hungary. The escape clause temporarily permits deviation from the net expenditure path in the national medium-term fiscal-structural plan.

The net expenditure path sets the annual and cumulative threshold of the net primary budgetary expenditures specified in the adopted national medium-term fiscal-structural plan. The net expenditure path is the single most important indicator in the evaluation of compliance with the pre-determined expenditure path. Annual and cumulated deviations from the benchmarks are recorded in a control account, and the deviations registered on the account must be consistent with the pre-determined thresholds. Net primary expenditures are government expenditures net of interest expenditures, discretionary revenue measures, expenditure on EU programmes, cyclical elements of unemployment benefit expenditures, and one-offs and other temporary measures. The annual rate of increase of net expenditures may be 4.3 percent and 4.0 percent in 2025 and 2026, respectively (Table 8).

Table 8
Development of net primary expenditures

		2024	2025	2026
Recommended net expenditure growth	Percent	**4.6**	**4.3**	**4.0**
Outturn / forecast net expenditure growth	Percent	**2.3**	**6.1**	**6.0**
Annual balance	Percentage of GDP	**-0.9**	**0.7**	**0.8**
Cumulated balance	Percentage of GDP	**-0.9**	**-0.2**	**0.6**
Cumulated balance, after National Escape Clause	Percentage of GDP		**-1.0**	**-0.5**

Note: The maximum deviation in net expenditures from the net expenditure path as allowed by the fiscal framework is 0.3 percent of GDP annually and 0.6 percent of GDP in cumulative terms.
Source: European Commission

The net expenditures monitored in particular in the new EU budgetary framework may increase by 5.8 percent in 2026 in annual terms, exceeding the maximum rate of 4 percent set for the next year; however, upon the activation of the national escape clause for defence spending, the EU requirement can be met. The net expenditures grew by 2.3 percent in 2024, significantly below the 4.6 percent set out in the fiscal-structural plan. The lower rate of increase in 2024 provides a substantial reserve in terms of the cumulated increase in expenditures for the coming years. The annual deviation in 2026 as a percentage of GDP, which is of relevance to the rule, is 0.8 percent, while the cumulative deviation since 2024 may be 0.6 percent of GDP. These expected rates reach or even exceed the annual and the cumulative thresholds set at 0.3 percent and 0.6 percent of GDP, respectively.

The amount of deviation from the net expenditure path is the difference between the actual year 2021 governmental defence spending and the budgeted defence spending as a percentage of GDP, which is 0.9 percent of GDP in the case of Hungary, but potentially it may be up to 1.5 percent of GDP. The temporary deviation applies primarily to the years 2025–2028, but subsequent defence expenditures relating to contracts concluded before 2028 also fall under the escape clause. After activation of the clause, this year's cumulative deviation may be -0.6 percent of GDP, while next year it may still be only 0.1 percent of GDP, which does not exceed the threshold set at a maximum of 0.6 percent of GDP.

Having accepted the Fiscal Council's recommendation, the government added a new stipulation to the text of the budget bill, prescribing the government to review compliance with the net expenditure path undertaken by Hungary after the modification of the rules (but by 31 December 2025 at the latest), and, in case of non-compliance, to take the necessary steps to ensure compliance. The Fiscal Council argued that the budget deficit should be reduced to below 3 percent of GDP in compliance with the EU reference value and the recommendation made by the European Council in connection to the excessive deficit procedure. The medium-term fiscal structural plan submitted by Hungary and accepted by the European Commission and the Council of the European Union contains the government's undertaking to ensure that the deficit is gradually reduced in the medium term. The Council suggested that, after the amendment of the relevant EU legal regulation, the government should check whether the 2026 budget is in line with the EU rules and, to take steps, if necessary, to ensure that the requirement in Section 3/A of the Stability Act is met.

7.2 EXTENSION OF WINDFALL PROFIT TAX MEASURES

The windfall taxes, which will be extended among the special taxes, will generate budget revenues equalling 0.5 percent of GDP in 2026. According to the Budget Act, the windfall taxes in the following line items will continue to apply in 2026 as well: special tax of financial institutions, retail tax, carbon dioxide quota tax, insurance tax and the income tax on energy providers (Table 9).

Table 9
Fiscal impact of windfall tax measures in 2026

Windfall tax type	Budget forecast for 2026 (HUF billion)
Special tax of financial institutions	201
Retail tax	130
Carbon dioxide quota tax	75
Insurance tax	60
Income tax on energy providers	32
Total (HUF billion)	**498**
Total (percentage of GDP)	**0.5**

Source: 2026 Budget Act, MNB forecast

The windfall tax on banks, with incentives for purchasing government securities, will remain in place in 2026. In 2026, the tax will be based on the 2024 pre-tax profit. The windfall tax rates will change this year as well: 8 percent will apply on the part of the tax base up to HUF 20 billion and 20 percent on the part over that limit, in 2026. Without the allowance for government securities purchase, this would mean an extra revenue of HUF 360 billion. With the allowance, 10 percent of the increment registered in the first eleven months of 2026 in the government bond portfolio maturing after 1 January 2030, may be written off from the tax liability. The maximum amount of the allowance may equal 50 percent of the tax payable; therefore, if the possibility is made use of in full, the amount of the revenue from the windfall tax could be HUF 180 billion in 2026. Retail government securities will be removed from the types of government securities that can be taken into account for the purposes of the allowance in 2026.

The increased rate of the retail tax will remain in place without change in 2026. The progressive rates of this tax type increased in 2023: The rate remains 0 percent on a tax base not exceeding HUF 500 million. For the part of the tax base above that limit, but not exceeding HUF 30 billion, the rate will be 0.15 percent instead of 0.1 percent, while in the HUF 30-100 billion range, the rate will increase from 0.4 percent to 1.0 percent. The rate on the part of the tax base over HUF

100 billion has, since 2024, been 4.5 percent instead of the originally determined 2.7 percent. The prolongation of the measure will result in an additional revenue of HUF 130 billion for the budget in 2026.

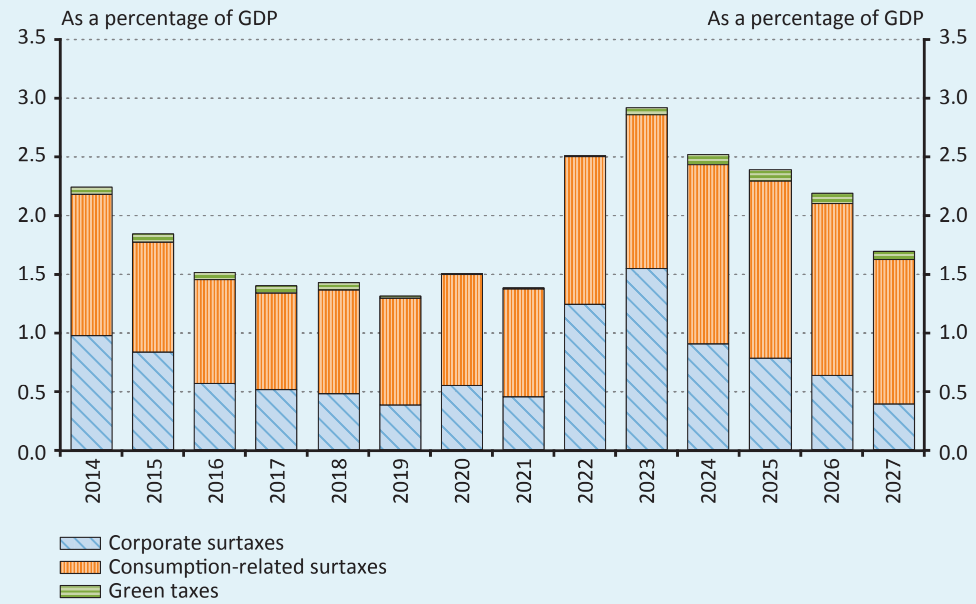
The transaction fee for companies benefitting from a significant amount of free emission allowances and the carbon dioxide quota tax may remain in place over a longer term. The transaction fee applies to transfers of emission units as well, at a rate of 15 percent of the transaction. The carbon dioxide quota tax is a tax charged on carbon dioxide emissions: taxpayers must pay tax on carbon dioxide emissions at a rate of 36 euros/tonne. By remaining in effect, the fee and the tax will generate an additional HUF 75 billion in revenues in 2026.

The insurance tax, with incentives for purchasing government securities, will be supplemented by an insurance surcharge tax obligation in 2026 as well. For life insurance services provided, taxpayers will pay a 2-percent tax on the portion of the tax base from these services not exceeding HUF 48 billion and a 6-percent tax on the amount above that. For other insurance services provided, taxpayers will pay a 3-percent tax on the portion of the tax base from these services not exceeding HUF 48 billion and a 14-percent tax on the amount above that. The rules for tax benefits linked to government bond purchases are changing: 60 percent of the increase in government bond holdings maturing after 1 January 2031, registered in the first eleven months of 2026 (compared to the average daily holdings between 1 September and 30 November of the previous year), can be deducted from the tax liability. The maximum amount of the benefit may be 100 percent of the tax payable on life insurance and 40 percent of the tax payable on other insurance. The additional tax payment obligation may generate HUF 60 billion in revenue for the budget in 2026.

The tax on profits arising from the price difference between Brent and Urals crude oil types on the global market will remain in place in 2026. The tax rate remains 95 percent of the difference exceeding USD 5 per barrel. The higher tax rate (41 percent) on the income tax on energy providers will revert to the original rate of 31 percent in 2026. The combined revenue-increasing effect of the two measures affecting payments from the energy sector may be HUF 32 billion next year. The extent of the impact is significantly influenced by the global market prices of crude oil types and the exchange rate of the US dollar.

Revenues from broadly defined special taxes may reach 2.2 percent of GDP in 2026. Special taxes have been introduced in several waves over the past decades, the latest being the imposition of windfall taxes starting from July 2022. Within special taxes, the larger share of revenue may come from consumption-related special taxes, which could reach 1.5 percent of GDP in 2026. With the expected phase-out of windfall taxes amounting to 0.5 percent of GDP, special tax revenues as a percentage of GDP may further decrease in 2027 (Chart 7).

Chart 7
Revenues from special taxes as a percentage of GDP



Source: Hungarian State Treasury, MNB estimate

7.3 IMPACT OF TAX MEASURES SUPPORTING FAMILIES

The tax system supporting families will expand further in 2025 and 2026 via an increase in the family tax allowance and a broader scope of personal income tax exemption beneficiaries. The amount of the family allowance will be doubled in two equal steps, effective from 1 July 2025 and 1 January 2026. From October 2025 mothers having ever raised three children and from 2026 mothers with two children –with a gradual phase-in by age – will become permanently exempt from personal income tax, while mothers under the age of 30 will gain this exemption starting in 2026. In addition, from July 2025 personal income tax exemption will be introduced for both the infant care allowance (CSED) and childcare benefits (GYED).

The newly introduced measures are estimated to provide families with additional financial funds, amounting to 0.2 percent, 0.7 percent and 0.9 percent of GDP in 2025, 2026 and 2027, respectively (Table 10). The full budgetary impact may materialise by 2029 alongside the gradual extension of the tax exemption for mothers with two children. The following measures will be introduced, for which the relevant legislation has been adopted:

- **Doubling the family tax allowance:** Doubling the family tax and contribution allowance will be implemented in two steps: From 1 July 2025 the allowance will increase by 50 percent and then from the beginning of 2026 it will double, compared to the previous amount. The measure will increase the income of families raising children by 0.1 percent of GDP in 2025 and by 0.3 percent of GDP from 2026 onwards.

- **Personal income tax exemption for mothers with three children: the introduction may affect 250,000 women, with a total budgetary impact reaching 0.2 percent of GDP.** Mothers having ever raised three children will be exempt from personal income tax for life starting from October 2025.

- **Personal income tax exemption for mothers with two children: full implementation of the measure may affect 700,000 women, with a total budgetary impact amounting to 0.6 percent of GDP by 2029.** The tax exemption may affect approximately 120,000 mothers under the age of 40 in 2026. As the next steps of the measure, from January 2027 mothers aged 40 to 50, from January 2028 mothers aged 50 to 60, and from January 2029 mothers over 60 will also become tax-exempt. The personal income tax exemption for mothers under 40 may result in a tax benefit equalling up to 0.1 percent of GDP in 2026. The budgetary impact is 0.3 percent of GDP in 2027, 0.5 percent in 2028 and 0.6 percent by 2029 following full implementation.

- **Personal income tax exemption for mothers under 30: the exemption will be extended to all mothers under age 30 from January 2026.** Furthermore, the upper limit of the tax exemption linked to the average wage will be abolished. The budgetary impact of the measure is 0.03 percent of GDP.

- **Tax exemption for infant care allowance (CSED) and childcare benefits (GYED): From 1 July 2025 personal income tax exemption will be introduced for infant care allowance, childcare benefits and adoption allowance payments.** The budgetary impact in 2025 is 0.01 percent of GDP, with the full annual effect from 2026 approaching 0.02 percent of GDP.

Table 10
Fiscal impact of the measures

Measure	Date of introduction	Number of beneficiaries	Fiscal impact (as a percentage of GDP)				
			2025	2026	2027	2028	2029
PIT exemption for mothers with three children	October 2025	250,000 mothers	0.1	0.2	0.2	0.2	0.2
PIT exemption for mothers with two children	Step-by-step - From 2026, women under 40 - From 2027, women under 50 - From 2028, women under 60 - From 2029, all women	Step-by-step - 120,000 mothers - 350,000 mothers - 580,000 mothers - 700,000 mothers	-	0.1	0.3	0.5	0.6
PIT exemption for mothers under 30 with one child	January 2026	60,000 mothers	-	0.03	0.03	0.03	0.03
PIT exemption for infant care allowance (CSED) and childcare fee (GYED)	July 2025	30,000-40,000 mothers	0.01	0.02	0.02	0.02	0.02
Doubling the family tax allowance	July 2025 – January 2026	1 million families	0.1	0.3	0.3	0.3	0.3
Total			**0.2**	**0.7**	**0.9**	**1.1**	**1.1**

Source: MNB calculation based on HCSO and NTCA data

Due to these measures, the tax burden on families with children may be among the lowest in Hungary compared to other EU countries. The family tax wedge, including transfers for children (e.g. family allowances), for households with two children earning the average wage may decrease by 7.7 percentage points to 28.5 percent in 2026 compared to 2023, making it one of the lowest among EU countries. In addition to the personal income tax exemption, the decrease is also supported by the doubling of the family tax and contribution allowance for children.

The average tax wedge may decrease more at lower income levels than around and above the average wage (Table 11). Among lower-income earners, the tax wedge reduction is primarily driven by the doubling of the family tax allowance, while among higher-income earners, the tax exemption for women has a stronger impact.

Table 11
Tax wedge decrease between 2023 and 2026 at different wage levels for a two-earner family with two or three children

Wage of two earners as a percentage of the average wage		2 children			3 children		
		2023	2026	Difference	2023	2026	Difference
50	50	31.3	22.5	-8.7	19.3	6.9	-12.5
67	67	33.8	25.6	-8.2	24.9	13.9	-11.0
100	67	35.2	28.6	-6.6	28.1	19.3	-8.8
100	100	36.2	28.5	-7.7	30.2	20.7	-9.6
150	150	37.9	30.5	-7.3	33.9	25.3	-8.6

Note: We calculated tax exemption for mothers with two children from 2026.
Source: MNB calculation

7.4 LEVEL OF BUDGETARY RESERVES FOR 2026

The total amount of the free reserve appropriation available for risk management in the 2026 Budget Act, under the government's decision-making authority, is HUF 192 billion, which is included in the Appropriation for Extraordinary Government Measures.

The appropriation for Extraordinary Government Measures originally featured a reserve of HUF 50 billion in the draft Budget Bill submitted to the Fiscal Council. Under the previous Public Finance Act, a reserve equal to 0.5 percent of the total expenditure had to be planned; however, this rule was abolished during the preparation of the 2025 Budget Bill, resulting in an appropriation of HUF 100 billion for 2025 (Chart 8). The draft 2026 Budget Bill submitted to the Fiscal Council originally planned an appropriation of HUF 50 billion, which was lower than that of 2025. In its opinion on the draft Budget Bill, the Council recommended a significant increase in the appropriation for Extraordinary Government Measures.

Based on the adopted Budget Act, the government, accepting the Fiscal Council's recommendation, increased the appropriation for Extraordinary Government Measures from HUF 50 billion to HUF 192 billion. In parallel with the increase, an equivalent expenditure reduction was implemented, primarily in investment spending, as well as in expenditures related to state asset management and in expenditures of central budgetary institutions, and accordingly the budget balance remained unchanged. Compliance with the lower appropriations may, in some cases, require specific measures.

Chart 8
Appropriation of reserves included in the budget

*Note: *Budget bill submitted to the Fiscal Council included HUF 50 billion.*

The chart includes the central reserve appropriations of Extraordinary Government Measures, the National Protection Fund, the Economic Relaunch Programs and Epidemic Protection Fund. Data are from the amended budget appropriations for 2013-2017 and 2021.

Source: Budget acts, Hungarian State Treasury, MNB compilation

In recent years, in addition to the reserve for Extraordinary Government Measures, additional free reserves have also been planned. Until 2020, the reserve of the National Protection Fund served the purpose of enabling the government to mitigate the deficit in the case of a risk of a larger-than-planned shortfall, by relying on this reserve. In 2021–2022, within the central reserves, appropriation reserves were established for pandemic response, economic protection, economic recovery and other development purposes.

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