C/2026/3930

1.9.2026

COUNCIL RECOMMENDATION

of 10 July 2026

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

(C/2026/3930)

THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97 ([1]), and in particular Article 3(3) thereof,

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

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) Regulation (EU) 2024/1263 specifies the objectives of the economic governance framework, which aims at promoting sound and sustainable public finances, sustainable and inclusive growth and resilience through reforms and investments, as well as preventing excessive government deficits. The Regulation stipulates that the Council and the Commission conduct multilateral surveillance in the context of the European Semester in accordance with the objectives and requirements set out in the Treaty on the Functioning of the European Union (TFEU). The European Semester includes, in particular, the formulation, and the surveillance of the implementation, of country-specific recommendations.

(2) On 25 November 2025, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the 2026 Alert Mechanism Report, in which it identified Hungary as one of the Member States for which an in-depth review would be needed. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, a recommendation for a Council recommendation on human capital in the European Union, and a proposal for the 2026 Joint Employment Report, which analyses the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights. The Council adopted the Recommendation on the economic policy of the euro area ([3]) on 21 April 2026 and the Joint Employment Report, and the Recommendation on human capital on 9 March 2026.

([1]) Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97 (OJ L, 2024/1263, 30 April 2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj).

([2]) Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances (OJ L 306, 23.11.2011, p. 25 ELI: http://data.europa.eu/eli/reg/2011/1176/oj).

([3]) OJ C, C/2026/2434, 28 April 2026, ELI: http://data.europa.eu/eli/C/2026/2434/oj.

(3) On 29 January 2025, the Commission published the Competitiveness Compass, a strategic framework that aims to boost the Union's global competitiveness over the next five years. It identifies the three transformational imperatives of innovation, decarbonisation and competitiveness, and security as critical pillars for sustainable economic growth. Since its publication, the Competitiveness Compass has informed the work of the European Semester, ensuring that Member States' economic policies are consistent with the EU's strategic objectives, creating a unified approach to economic governance that fosters sustainable growth, innovation and resilience across the Union.

(4) In 2026, the European Semester for economic policy coordination continues to develop alongside the final stage of the Recovery and Resilience Facility (RRF) implementation ([4]). Recovery and resilience plans (RRPs), along with cohesion policy funding, have been essential for delivering on the policy priorities under the European Semester, as the plans were required to effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations issued in recent cycles, and programmes funded by the European cohesion policy were required to take country-specific recommendations into account. As the RRF approaches the end of its lifetime, it remains essential to sustain and build on the reforms and investments supported and implemented under the RRF, in particular those that contribute to addressing challenges identified in the country-specific recommendations.

(5) On 3 June 2026, the Commission published the 2026 country report for Hungary. It assessed Hungary's progress in addressing the 2025 country-specific recommendations and took stock of Hungary's implementation of the RRP. On the basis of that analysis, the country report identified the most pressing challenges Hungary is facing. It also assessed Hungary's progress in implementing the European Pillar of Social Rights and in achieving the Union headline targets on employment, skills and poverty and social exclusion reduction, as well as progress in achieving the United Nations Sustainable Development Goals.

(6) The Commission carried out an in-depth review under Article 5 of Regulation (EU) No 1176/2011 for Hungary. The main findings of the Commission's staff assessment of macroeconomic vulnerabilities for Hungary for the purposes of that Regulation were published on 20 May 2026 ([5]). On 3 June 2026, the Commission concluded that Hungary is experiencing macroeconomic imbalances. In particular, vulnerabilities related to competitiveness, government financing needs, and house prices persist, and policies have continued compounding those vulnerabilities. Inflation and unit labour costs growth have been among the highest in the EU despite stagnating economic activity. Price and cost pressures are expected to ease only gradually, while remaining much higher than in the euro area and EU. The government deficit has been elevated in the past years and is forecast to remain above 5 % of GDP in 2027. Government financing needs and debt servicing costs remain high, although the government debt-to-GDP ratio has risen only marginally thanks to the high nominal GDP growth in the context of still elevated inflation. Banks continue to hold large sovereign exposures, partly reflecting tax incentives. House prices have continued to increase strongly and risks of overvaluation have risen. The current account has remained in surplus, but Hungary's high reliance on energy imports makes it vulnerable to higher and more volatile energy prices. Policies have not improved and have compounded some of the vulnerabilities. Untargeted subsidies that add to price pressures and compound fiscal challenges have even been stepped up, while extensive government subsidised lending strain public finances and limit the effectiveness of monetary policy. Looking ahead, effectively overcoming those policies would reduce vulnerabilities.

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

([5]) SWD(2026) 138 final.

(7) On 18 February 2025, the Council, upon the assessment and recommendation of the Commission, adopted a Recommendation endorsing the national medium-term fiscal-structural plan of Hungary ([6]). The plan covers the period from 2025 until 2028 and presents a fiscal adjustment spread over four years. The Council recommended the following maximum growth rates of net expenditure: 4,3 % in 2025, 4,0 % in 2026, 3,9 % in 2027 and 3,7 % in 2028, which correspond to the maximum cumulative growth rates calculated by reference to the base year of 2023 of 9,1 % in 2025, 13,5 % in 2026, 17,9 % in 2027 and 22,2 % in 2028. For the years 2025-2026, these maximum growth rates of net expenditure coincide with the corrective path, as recommended by the Council under Article 126(7) TFEU on 18 February 2025, with a view to bringing an end to the situation of an excessive deficit in Hungary ([7]). Based on the Commission's assessment on effective action of 3 June 2026 ([8]), the excessive deficit procedure for Hungary is held in abeyance.

(8) Russia's war of aggression against Ukraine and its repercussions constitute an existential challenge for the European Union. The Commission has invited Member States to request the activation of the national escape clause of the Stability and Growth Pact in a coordinated manner to support the EU efforts to achieve a rapid and significant increase in defence spending ([9]) and this proposal was welcomed by the European Council of 6 March 2025. Following the request of Hungary, on 8 July 2025 the Council, upon a recommendation from the Commission, adopted a Recommendation allowing Hungary to deviate from the recommended maximum growth rates of net expenditure ([10]). The period when the national escape clause is activated (2025-2028) allows Hungary to reprioritise government expenditure or increase government revenue so that lastingly higher defence expenditure would not endanger fiscal sustainability in the medium term.

(9) As of the date of adoption of this Recommendation, Hungary has not submitted its 2026 Annual Progress Report on adherence to the recommended maximum growth rates of net expenditure. Hungary has also not submitted the report on action taken under the excessive deficit procedure, which would otherwise be integrated in the Annual Progress Report.

(10) Real GDP growth in 2025 was 0,5 % and HICP inflation stood at 4,4 %. The Commission Spring 2026 Forecast projects real GDP to grow by 1,8 % in 2026 and 2,1 % in 2027, and HICP inflation to stand at 3,2 % in 2026 and 3,1 % in 2027.

(11) Based on data provided by Eurostat ([11]), Hungary's general government deficit decreased from 5,1 % of GDP in 2024 to 4,7 % of GDP in 2025. The decrease in the deficit in 2025 mainly reflects lower interest expenditure and cuts to public investment. Based on policy measures known by the cut-off date of the forecast, the Commission Spring 2026 Forecast projects a deficit of 6,2 % of GDP in 2026 and 5,8 % of GDP in 2027. The increase in 2026 mainly reflects measures targeting households, including the further phasing in of the personal income tax exemption for mothers, the family tax allowance increase, the 14th month pension, housing supports and a bonus for military and law enforcement employees, as well as expenditure slippages.

([6]) Council Recommendation of 18 February 2025 endorsing the national medium-term fiscal-structural plan of Hungary (OJ C, C/2025/1707, 18 March 2025, ELI: http://data.europa.eu/eli/C/2025/1707/oj).

([7]) Council Recommendation with a view to bringing an end to the situation of an excessive deficit in Hungary, adopted on 18 February 2025. All documents related to the excessive deficit procedure of Hungary can be found at: https://economy-finance.ec.europa.eu/economic-governance-framework/stability-and-growth-pact/corrective-arm-excessive-deficit-procedure/excessive-deficit-procedures-overview/Hungary_en.

([8]) Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee, the Committee of Regions and the European Investment Bank, 2026 European Semester – Spring Package, COM(2026) 200 final.

([9]) Communication from the Commission, 'Accommodating increased defence expenditure within the Stability and Growth Pact', Brussels, 19 March 2025, C(2025) 2000 final.

([10]) Council Recommendation of 8 July 2025 allowing Hungary to deviate from the maximum growth rates of net expenditure as set by the Council under Regulation (EU) 2024/1263 (activation of the national escape clause) (OJ C, C/2025/3968, 20 August 2025, ELI: http://data.europa.eu/eli/C/2025/3968/oj).

([11]) Eurostat-Euro Indicators, 22 April 2026.

(12) Based on the Commission's estimates, the fiscal stance ([12]), which includes both nationally and EU financed expenditure, was expansionary, by 0,4 % of GDP, in 2025. It is projected to be expansionary, by 1,7 % of GDP, in 2026, and broadly neutral in 2027.

(13) Based on data provided by Eurostat ([13]), Hungary's general government debt increased from 73,5 % of GDP at the end of 2024 to 74,6 % of GDP at the end of 2025. The increase in the debt ratio in 2025 mainly reflects elevated interest expenditure and lower nominal GDP growth. Based on policy measures known at the cut-off date of the forecast, the Commission Spring 2026 Forecast projects the debt-to-GDP ratio to increase to 75,1 % by the end of 2026 and to further increase to 76,8 % by the end of 2027. The increase in 2026 and 2027 mainly reflects elevated interest expenditure and the primary deficit, which are tempered by strong currency appreciation in 2026.

(14) Based on Eurostat data ([14]), total general government defence expenditure in Hungary amounted to 1,8 % of GDP in 2025, corresponding to an increase of 0,8 percentage points of GDP compared to the reference year 2021. According to the Commission Spring 2026 Forecast, it is projected at 2,1 % of GDP in 2026, corresponding to an increase of 1,1 percentage points of GDP compared to 2021 ([15]).

(15) The Union continues to face risks of energy supply disruptions and elevated price volatility, exacerbated by geopolitical tensions which affect global oil and gas markets. Experience from the 2022–2023 energy crisis has shown that broad and untargeted measures entail large fiscal costs and are socially and economically inefficient. Since the outbreak of the war in the Middle East in February 2026, Hungary has adopted fiscal policy measures to mitigate the impact of high energy prices on households and firms ([16]), namely an untargeted reduction in excise duties for diesel and petrol of 19 HUF per litre, with expiry date on 1 May 2026. According to the Commission Spring 2026 Forecast, the fiscal cost of this measure is projected to amount to less than 0,1 % of GDP in 2026. ([17]) According to Commission estimates, if this measure were to remain in force until end-2026, its fiscal cost would amount to 0,1 % of GDP in 2026.

(16) Based on the Commission's calculations, net expenditure in Hungary grew by 8,1 % in 2025 and 11,2 % cumulatively over 2024 and 2025. The net expenditure growth in 2025 is above the recommended maximum growth rate, corresponding to a deviation of 1,5 % of GDP in annual terms. When considering 2024 and 2025 together, the cumulative growth rate of net expenditure is also above the recommended maximum growth rate, corresponding to a deviation of 0,8 % of GDP in cumulative terms. However, the deviation is within the flexibility of the national escape clause, taking into account the increase in defence spending.

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

([13]) Eurostat-Euro Indicators, 22 April 2026.

([14]) Eurostat, government expenditure by classification of functions of government (COFOG).

([15]) The NATO defence spending definition differs from the COFOG defence definition. Furthermore, there could be differences due to the time of recording of expenditure, in particular military equipment, as the NATO reporting does not follow national accounts rules for the time of recording.

([16]) This reflects the situation at the cut-off date of the Commission's Spring 2026 Forecast (4 May 2026).

([17]) After the cut-off date of the Commission Spring 2026 Forecast, the measure was prolonged indefinitely.

(17) Based on the Commission's calculations, net expenditure in Hungary is projected to grow by 9,7 % in 2026, and 22,0 % cumulatively over 2024, 2025 and 2026. The projected net expenditure growth in 2026 is above the recommended maximum growth rate, corresponding to a deviation of 2,3 % of GDP in annual terms. When considering 2024, 2025 and 2026 together, the projected cumulative growth rate of net expenditure is also above the recommended maximum growth rate, corresponding to a deviation of 3,0 % of GDP in cumulative terms. Taking into account the flexibility for higher defence spending provided for by the national escape clause, considering 2024, 2025 and 2026 together, the projected cumulative deviation of net expenditure amounts to 1,9 % of GDP.

(18) Some practices distort the functioning of the financial and retail market, which may also limit the effectiveness of monetary policy. While caps on bank-deposit and corporate-lending rates were phased out in 2024, the government kept the interest rate of retail mortgage loans frozen at their October 2021 level. To boost domestic demand, there is a widespread use of broadly targeted subsidised loans to households and corporations. The proportion of subsidised loans remains high compared to pre-COVID-19 levels, which leads to suboptimal capital allocation by financing projects with low returns and limited productivity gains. In 2025 the government capped the difference between the retail purchase price and the sales price of a wide range of food products and non-durable industrial goods. Additionally motor fuel prices were capped in March 2026.

(19) The national fiscal framework offers only limited incentives for fiscal sustainability. The 'state of danger' in force from 2020 until 14 May 2026 lifted the requirement to publish a multiannual budgetary plan which limited the ability of the fiscal framework to ensure a medium-term orientation and accountability. The practice of early budget adoption and frequent revisions reduces the credibility of targets. The national debt rule that requires the government to ensure the public debt ratio is reduced each year was not met in 2024 or 2025 and in good times it tends to have a procyclical impact exacerbating imbalances. The mandate and operational capacities of the Hungarian Fiscal Council remain limited. Moreover, public fund management structures created by the government, such as public interest trusts, weaken budgetary oversight as they seem to operate without effective control mechanisms. While Hungary conducted spending reviews in 2023-2024, the results were not published or reflected in budgetary planning.

(20) With an ageing population, Hungary is facing one of the largest increases in pension spending as a share of GDP in the EU between 2025 and 2070 (4,1pps). This is expected to weigh on the long-term sustainability of the public finances. According to the Commission's debt sustainability analysis, Hungary's risks to fiscal sustainability are overall high in both the medium and long term. Moreover, the gradual decline in pension adequacy for low-income earners and increasing expenditure on pensions for high-income individuals have widened inequalities among pensioners. In addition a 14th month pension benefit has been introduced which is expected to raise average pension levels, but it is non-targeted, it will further impact on inequalities and will add to the projected spending pressures weighing on long-term fiscal sustainability.

(21) The systematic, meaningful and timely involvement of local and regional authorities, social partners, civil society and other relevant stakeholders remains essential in order to ensure broad ownership for the successful implementation of the Union's funding instruments, as well as in the context of the European Semester.

(22) The implementation of cohesion policy programmes, which encompass support from the European Regional Development Fund (ERDF), the Just Transition Fund (JTF), the European Social Fund Plus (ESF+) and the Cohesion Fund (CF) in Hungary, remains below EU average, both in terms of project selection and payments. It is important to step up and accelerate efforts to ensure the swift delivery of investments, while maximising their impact on the ground. Hungary is already taking action under its cohesion policy programmes to boost competitiveness and growth. However, Hungary continues to face challenges, including those relating to deficiencies in the management and control system, overly complex and restrictive public procurement procedures, and the low take-up of financing-not-linked-to-cost schemes in the ERDF. Further issues are the absence of predictable planning and coordination of calls across several programmes and of mature project pipelines, weak territorial cooperation and partnership mechanisms, insufficient professional and financial capacity at subnational level, limited use of evaluations, and redundant administrative and legal arrangements such as the rules governing public investments (Act LXIX of 2023) or the system of investments of major importance to the national economy. There is also scope for Hungary to ensure the sustainability of key public policy projects supported by ESF+, including through policy mainstreaming. At the same time, Hungary needs to accelerate implementation of the JTF, as resources are due for disbursement by the end of 2026. It is essential to ensure that the new investments identified by Hungary in its mid-term review of the cohesion policy funds, notably those linked to the five priorities identified in the Mid-Term Review Regulation ([18]), are deployed rapidly and effectively.

(23) Hungary's eastern border regions face additional challenges hindering their prospects for economic and social development as existing structural challenges are exacerbated. Impact from Russia's war of aggression against Ukraine increases security pressures, disrupts cross-border economic activities and decreases investment attractiveness.

(24) Hungary faces several challenges related to the business environment, quality of legislation, public procurement, anti-corruption framework, access to finance, innovation, taxation, reliance on Russian fossil fuels, fossil-fuel subsidies, balancing of the electricity network, water management, circular economy, transport, education, skills levels and integration of disadvantaged groups into the job market, social assistance, social dialogue, healthcare and housing.

(25) The weak business environment is a major barrier to productivity growth. According to competitiveness indicators, Hungary was among the worst performers in the EU in 2025. Business dynamics is low as stringent regulations hold back business creations. High prevalence of subsidy schemes keeps less productive firms on the market. Product Market Regulation is one of the strictest among the OECD EU countries, in particular in subcategories on distortion induced by state involvement. The lack of equal treatment of companies limits competition. The market structure is concentrated and only a few firms compete in specific markets. Several services are entrusted to state-owned or private firms that operate without competition. The retail sector, in particular, operates in an unstable business environment. Retailers are also affected by administrative interventions, such as retail price caps, limits on sales margins, prohibition of selling food products 48 hours before their expiry date and mandatory online price reporting. Policy measures and high taxes decrease the competitiveness of retailers. The State is active in business transactions and crowds out private actors by purchasing or facilitating the purchase of several large companies. Various state interventions have been used to force – mostly foreign – owners to sell their firms, facilitating the creation of public or government-connected national champions. Firms are forced to operate at a loss due to a supplementary mining tax, a CO2 quota tax, price-margin caps in retail and export restrictions on construction materials. These are not consistent with single market rules. Businesses increasingly face problems with late payments. Business to business and public sector payment gaps are both on the increase and above the EU average. The increasing presence of private equity funds creates new challenges. This company structure is used, in particular, by individuals with links to the government as it ensures anonymity. Private equity funds have increased significantly in number and size in recent years. Private equity funds are increasingly investing in companies winning public procurements and securing high-value concessions, and have a strong presence in business transactions with the State. The weak business environment contributed to the erosion of competitiveness and holds back investments, and ultimately leads to higher inflation and slow economic recovery as shown by the in-depth review on Hungary under the macroeconomic imbalance procedure.

([18]) Regulation (EU) 2025/1914 of the European Parliament and of the Council of 18 September 2025 amending Regulations (EU) 2021/1058 and (EU) 2021/1056 as regards specific measures to address strategic challenges in the context of the mid-term review.

(26) Businesses continue to face a highly volatile and unpredictable regulatory environment, characterised by frequent amendments, extensive use of emergency measures and limited preparation time for economically significant regulatory changes. The sustained reliance on decree-based regulation under the emergency regime limits parliamentary scrutiny and contributes to compliance uncertainty and elevated regulatory risk for businesses. Stakeholder involvement and the application of better regulation tools remain limited in practice. Stakeholder engagement in developing primary laws between 2021–24 was among the lowest in the EU. Consultation is not required in the early phases of rulemaking and ex post evaluation, while legally mandated, is not conducted systematically. Important draft laws continue to be tabled by individual members of Parliament, formally exempting them from standard consultation and impact assessment requirements. There is no independent oversight body responsible for ensuring the quality of regulatory impact analysis or the breadth of stakeholder consultation. Even when consultation is conducted, stakeholder input does not necessarily lead to substantive adjustments.

(27) The procurement market remains vulnerable to anticompetitive practices and corruption risks. The number of public procurement review decisions relative to calls for competition is among the highest in the EU. The perceived independence of the Public Procurement Arbitration Board remains low among businesses. Structural factors continue to hinder effective competition in procurement procedures, particularly in infrastructure, defence and centralised procurement sectors. High market concentration, including among companies with the same ownership structure, remains a persistent concern. Companies affiliated with politically connected economic actors are significantly more likely to win public procurement contracts, including in EU-funded tenders. The extensive use of framework agreements may further limit competition by locking in certain firms and reinforcing market concentration, with limited transparency in second-stage call-off procedures. While the transparency of the public procurement system is in general good, in practice concerns remain for the lack of transparency of certain public procurement data and the application of conflict-of-interest rules.

(27) Corruption remains an area of strong concern as systemic weaknesses of the anti-corruption framework persist. The perception of widespread corruption remains very high, and it continues to increasingly be perceived as an obstacle to businesses. While some steps have been taken to address corruption in general, high-level corruption remains a problem and the anti-corruption framework requires further strengthening. The asset declaration system still does not fulfil its role, conflict of interest rules remain fragmented and their supervision is lacking effectiveness. Similarly, the post-employment limitations applicable to high-level government officials are inadequate and ineffectively enforced. The proliferation of new types of public money management structures – in particular public interest asset management foundations and private equity funds – lack transparency and pose corruption risks. This is coupled by increasing limitations to access to public information and worsening level of media freedom which also limit independent public oversight and control on the government and contribute to lowering the effectiveness of the anti-corruption framework altogether.

(28) Capital markets as channels to finance start-ups and highly innovative small to medium-sized enterprises are underdeveloped in Hungary. The government policies, in particular through taxation, divert savings rather towards government bonds and housing than capital markets which would finance productive investments. Recent policy measures have further obstructed the development of capital markets, such as tax-free long-term bonds for retail investors, financial transaction tax on securities, high presence of subsidy schemes for SMEs and tax incentives for housing investment.

(29) Public R&D spending, including in universities, is one of the lowest in the EU, which holds back scientific excellence. The continued reorganisation of public research sector, as well as unclear evaluation mechanisms of research institutes, contribute to uncertain working conditions for researchers. Science-business linkages remain underexploited, and innovation activities continue to be concentrated in a small group of foreign-owned firms, limiting the development of a broader domestic innovation base in particular of SMEs. Only a few, mainly large, companies benefit from the various subsidies due to the heavy administrative burden and not always clear eligibility rules on innovation expenditure. Regions have difficulty putting in place strategic R&D and innovation frameworks for boosting regional competitiveness effectively considering the region's specific needs and competitive advantages.

(30) The high number of tax exemptions, tax incentives and sector-specific taxes make the tax system complex. The increasing use of sector-specific taxes disproportionately impacts larger, often foreign-owned firms. Revenues from sector-specific taxes accounts more than 2 % of GDP. The sectors most affected include banking, energy, retail, construction materials, insurance and telecommunication. Large number of small taxes raise compliance costs, in particular for smaller firms. The tax burden on labour has decreased but remains high for low-income earners. Hungary relies on consumption taxes, which inherently place a higher burden on low-income earners.

(31) Hungary remained highly dependent on Russian energy sources and steps to diversify brought marginal results. The share of imports from Russia increased in 2025 to more than 90 % in the case of oil and in the case of gas Hungary imported volumes of Russian gas well above its 4,5 bcm long-term contract. Despite steps taken to diversify nuclear fuel supply in the future, Hungary will remain dependent on Russian nuclear fuel for its existing reactors until at least 2028. It is also important for Hungary to develop a comprehensive national plan with clear timelines and regulatory measures to fully phase out its dependence on Russian nuclear fuel. Energy imports remain substantial, making the external balance vulnerable to increases in energy prices, which is a challenge identified under the macroeconomic imbalance procedure.

(32) Hungary records sizeable relevant fossil-fuel subsidies without a planned phase-out before 2030. In particular, fossil-fuel subsidies that address neither energy poverty in a targeted way nor genuine energy security concerns, hinder electrification and are not crucial for industrial competitiveness could be considered a phase-out priority. In Hungary, fossil-fuel subsidies – such as the utility cost reduction programme, a value added tax reduction for district heating using natural gas, and excise tax refunds for agricultural use of diesel – are economically inefficient, perpetuate reliance on fossil fuels and do not incentivise electrification. The objectives served by these fossil-fuel subsidies can be achieved through alternative forms of support that do not generate harmful environmental externalities.

(33) Hungary continues to face high price spikes during peak-demand hours due to limited non-fossil flexibility and persistent reliance on fossil fuels for marginal electricity generation. Hence, accelerating the roll-out of renewable energy sources, in particular wind, is vital. However, the grid has remained under strain and requires significant investment as connection queues also slow the uptake of renewables. Hungary is yet to join PICASSO and MARI limiting its ability to fully integrate into the internal electricity market and benefit from cross-border balancing mechanisms. Demand-side response is hampered by household's limited access to dynamic pricing, energy price caps for households, the slow rollout of smart meters and the marginal role of aggregators and energy communities. As a result of low competition between suppliers, burdensome regulations and taxes in the sector and high network transmission fees, electricity prices for corporates remained far above the EU average, hampering competitiveness.

(34) Hungary faces significant climate risks, necessitating action to improve climate resilience by updating the related adaptation strategy and action plan, setting up a monitoring and evaluation system, and ensuring adequate funding of adaptation measures, also in view of the uneven climate vulnerability across regions. Water scarcity is a particularly significant climate risk, evidenced by the droughts it experienced in recent years, which led to significant losses in the agricultural sector. Insufficient green infrastructure undermines Hungary's overall water resilience, and in particular its natural water retention capacity. Furthermore, the successful implementation of sustainable water management practices is impeded by the green skill gap at the policy and implementation levels. Water quality is a major concern due to pollution from agriculture, industry and human settlements, compounded by insufficient investments in water utilities.

(35) Hungary's circular economy transition is not progressing, and its resource productivity is well below the EU average. With insufficient emphasis on reuse, repair and recycling, landfilling represents 53 % of municipal waste in 2024, more than double the EU average (22 % in 2023). Scarce resource allocation, low competition and insufficient monitoring and treatment capacities in the waste management sector have resulted in relatively low recycling rates and an over-reliance on landfilling.

(36) Decarbonising transport remains a major challenge in Hungary, as the sector contributes significantly to the high emission levels and persistent air quality issues. Transport is the second-largest consumer of final energy, accounting for 26 % of the country's total energy use. Hungary lags behind in rail network quality, including its climate resilience, and the share of inland freight transported by rail has fallen rather than increased, undermining efforts to achieve a modal shift away from road transport. In road transport, mandated electric recharging infrastructure is lagging behind 2030 targets for cars and for trucks, charging infrastructure is largely missing. Insufficient funding and planning of comprehensive public transport infrastructure hinders the development of less developed and peripheral areas and equal access to quality public transport services.

(37) In light of the crucial role of human capital in enhancing the Union's competitiveness and strategic autonomy, in 2026 the Council recommended that Member States take action to urgently address human capital-related structural challenges in the areas of skills, education and training, which hamper competitiveness. The 2026 country-specific recommendations addressed to Hungary can contribute to the implementation of the Council Recommendation on human capital in the Union.

(38) Large inequalities in educational outcomes limit Hungary's competitiveness and innovation potential. Socio-economic background remains a strong predictor of basic skills, early school leaving and educational attainment, with children of low-skilled parents, Roma and persons with special educational needs or disabilities being particularly affected. Educational segregation reinforces these inequalities through early tracking and multiple school types, with Roma being exposed to the highest levels of segregation. Existing measures are insufficient to ensure the full participation of disadvantaged groups in quality mainstream education. Vocational education and training programmes allocate insufficient time to basic skills that are essential for further learning and adapting to labour market transitions. Lack of permeable vocational education and training pathways also hampers progression to further education. Limited school institutional autonomy impedes pedagogical innovation and efficiency of resource use, and the attractiveness of the teaching profession remains low. While teacher salaries have been recently increased, teachers' motivation to stay in the profession is compromised by heavy workload and lack of systemic support for novice teachers. Despite economic demand for tertiary graduated workforce, the student support system is ineffective at improving young people's access to tertiary studies, especially among those from disadvantaged backgrounds. While publicly funded study places have recently increased, their growth does not fully match the rising applications to higher education. Enrolment in science, technology, engineering and mathematics programmes remains below the EU average, constraining Hungary's innovation potential in key strategic sectors.

(39) The employment rate remains high, but access to jobs is uneven. People with low education, Roma, persons with disabilities, and young people face difficulties finding and keeping stable employment, alongside significant regional disparities in labour market outcomes. Despite a relatively low unemployment rate, long-term unemployment is rising, with one in three registered unemployed remaining jobless for 12 months or more. A fragmented institutional framework hinders effective coordination of measures addressing long-term unemployment, limiting relevant support for those most in need. Disadvantaged groups lack access to effective re- and upskilling measures, including for basic and digital skills, and comprehensive targeted mental, social, health and job seeking support. The Public Employment Service (PES) lacks staff and capacity to consistently provide quality training and career counselling to the unemployed, with no regular monitoring and assessment of services. Sustainable national funding for PES is key, while prioritising measures targeting long-term employability. There is further potential for the PES to coordinate the different bodies responsible for active labour market policies, skills forecasting and training design at national and county level.

(40) The effectiveness of social dialogue and the involvement of social partners in policy-making remain limited - especially in the public sector. There is a legal framework for the tripartite forum of the private sector, which is involved in setting the minimum wage, and some working groups were set up on key topics. Nevertheless, the transparency of its working methods and outcomes could be improved, and should be used for effective cooperation between the government, employers and trade unions. Collective bargaining coverage and trade union density are among the lowest in the EU. Collective bargaining is prohibited in healthcare and public administration and hampered by recent changes in the status of some public sector workers. There is scope for further capacity building support for social partners as well as a reform of the Labour Law to improve the effectiveness of social dialogue, and measures to support workers' rights in the public sector.

(41) Progress in reducing poverty and social exclusion has been uneven, with rising inequalities across the country. The severe material and social deprivation rate has improved, but it remains one of the highest in the EU. Children, Roma, persons with disability and those with a low level of education are particularly vulnerable. Over three quarters of children with low educated parents were at risk of poverty of social exclusion in 2025. Rising poverty rates have led to more children entering state child protection services, while the number of foster families is insufficient and declining. Social transfers and the tax-benefit system are not effective in reducing poverty and income inequality. The adequacy of the minimum income benefit is one of the lowest in the EU, and it lacks any periodic adjustment. Indexing the minimum income and social benefits to living costs as well as targeted support measures could contribute to raising people out of poverty. The three-month limit on unemployment benefits constrains skills development or finding a relevant and stable job, increasing the risk of poverty among jobseekers. Vulnerable groups, especially in rural areas, face challenges in accessing essential and social services, such as childcare, schools, healthcare and social and long-term care services at least partially due to financial constraints and reduced fiscal autonomy of municipalities. Residential and educational segregation of Roma is still high, with recent 'local identity protection' decrees risking further marginalization. The EU funded programme targeting the 300 most disadvantaged municipalities is a positive initiative, but more efforts are needed to sustainably invest into mainstream essential (digital, transport, water and energy) and social (health, education and care) services, including services targeting children.

(42) Life expectancy is one of the lowest while preventable and treatable mortality in Hungary is among the highest in the EU. Persistent staff shortages, low health spending, inefficient resource allocation and regional disparities hinder equal access to healthcare services. The healthcare profession, including doctors, nurses and other healthcare workers, has low attractiveness among young people. Recruitment, retention and geographical distribution of staff are a challenge. Prevention and primary care are not sufficiently developed, and receive low public funding, impacting population health and productivity. Healthy, independent living for older people, especially in rural areas, is increasingly difficult due to underdeveloped home and community-based services. High out-of-pocket costs limit access for vulnerable groups, while staff shortages shift care burdens onto healthcare systems and families, reducing care quality and women's labour market participation.

(43) Hungarian households need to save more than 15 years of income to buy a 100 sqm flat, which is one of the highest in the EU and almost the double of the EU average. House prices have increased faster than in any other EU country and rents have also risen sharply, outpacing wage growth over the last decade. Rising housing costs put more pressure on household income, especially for those at risk of poverty or social exclusion and tenants. More children are placed in temporary accommodations due to families' financial difficulties, and homelessness has increased. At the same time, municipals' social housing stocks, already limited, are further decreasing, and there are no targeted, means-tested housing support measures, including rental, for low-income groups. In the absence of effective urban and rural social cohesion policies, residential segregation remains an issue. Generous and untargeted housing subsidies and restricted housing supply contributed to house price increases, reducing affordability, which is a challenge identified under the macroeconomic imbalance procedure.

(44) In light of the Commission's in-depth review and conclusions on the existence of imbalances, recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendations (1), (2), (3), (4) and (6). Policies referred to in recommendation (1), (2), (3) and (4) help to address vulnerabilities linked to public finances. Policies referred to in recommendations (3) and (4) help to address vulnerabilities linked to cost competitiveness. Policies referred to in recommendation (6) help to address vulnerabilities linked to housing.

HEREBY RECOMMENDS that Hungary take action in 2026 and 2027 to:

1. Take action to control net expenditure so that it respects the corrective path recommended by the Council on 18 February 2025 given the material deviation projected for 2026 by the Commission vis-à-vis the recommended net expenditure ceiling, while making use of the flexibility under the national escape clause activated by the Council. Reinforce overall defence and security spending and readiness, while ensuring debt sustainability and spending efficiency, as well as gradually adapting the budget to sustain structurally higher defence spending. Ensure that measures taken to mitigate the impact of the hike in energy prices are temporary, targeted at protecting vulnerable households or at addressing the needs of energy-intensive firms, preserve incentives for energy savings and that their fiscal cost is compatible with the commitments under the EU fiscal framework. Pursue effective coordination and clear demarcation of macroeconomic policies to ensure fiscal and external sustainability. Phase out price and interest-rate caps, and equivalent measures, to reduce distortive effects and facilitate the smooth transmission of monetary policy. Strengthen the medium-term budgetary framework. Improve the long-term sustainability of the pension system, while preserving adequacy.

2. Ensure continuity of reforms and investments implemented under the Recovery and Resilience Facility. Accelerate significantly efforts to implement cohesion policy programmes, building, where appropriate, on the reallocation to strategic priorities and flexibilities agreed in the context of the mid-term review of the cohesion policy framework. Address the unique socio-economic, security and civil preparedness challenges affecting regions on the EU's external eastern border, including the need to invest in dual-use infrastructure.

3. Improve the regulatory framework and enhance competition in product markets and services, in particular in retail, in line with the principles of the Single Market and the rule of law. Improve the quality and transparency of the decision-making process, including through effective engagement with stakeholders and regular impact assessments. Reinforce the anti-corruption framework, including by improving prosecutorial efforts and access to public information. Eliminate practices that restrict competition in public procurement. Stimulate the development of capital markets by increasing tax and regulatory incentives. Strengthen the innovation framework for the public sector and businesses by improving the predictability of public R&D spending and better targeting existing measures towards SMEs, also taking into account regional competitive advantages and needs. Simplify the tax system including by phasing out distortive taxes imposed on specific sectors and increasing its fairness.

4. Accelerate the diversification of energy supply to phase out dependence on Russian sources and take concrete steps to phase out fossil-fuel subsidies, in particular those related to excise duties on diesel and those hindering electrification in the residential sector. Improve flexibility and competition in the electricity sector, by strengthening the balancing market, demand response and grid infrastructure as well as by increasing the deployment of renewables. Improve climate and water resilience including through natural water retention and addressing green skill gaps, and improve circularity, in particular by strengthening waste treatment capacities. Promote clean transport, including by accelerating the investment into electrification and affordable public transport.

5. Improve education outcomes and tertiary attainment rate and increase the participation of disadvantaged groups, in quality mainstream education by further increasing the attractiveness of the teaching profession.

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

Done at Brussels, 10 July 2026.

For the Council

The President

S. HARRIS