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Recommendation for a

COUNCIL DECISION

establishing that no effective action has been taken by Hungary in response to the Council Recommendation of 18 February 2025

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union (TFEU), and in particular Article 126(8) thereof,

Having regard to the recommendation from the European Commission,

Whereas:

(1) Article 126(1) of TFEU provides that Member States are to avoid excessive government deficits.

(2) The Stability and Growth Pact is based on the objective of sound government finances as a means of strengthening the conditions for price stability and for strong, sustainable and inclusive growth underpinned by financial stability, thereby supporting the achievement of the Union's objectives for sustainable growth and employment. The Stability and Growth Pact includes Council Regulation (EC) No 1467/97 of 7 July 1997 ([1]) on speeding up and clarifying the implementation of the excessive deficit procedure, which was adopted in order to further the prompt correction of excessive general government deficits.

(3) On 26 July 2024, the Council decided, in accordance with Article 126(6) TFEU, that an excessive deficit existed in Hungary. ([2])

(4) On 18 February 2025, the Council adopted a Recommendation under Article 126(7) TFEU ([3]) with a view to bringing an end to the situation of an excessive government deficit. The Council recommended a corrective net expenditure path for Hungary with the following maximum growth rates of net expenditure ([4]): 4.3% in 2025 and 4.0% in 2026. This corresponds to the maximum cumulative growth rates calculated with

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1 Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, ELI:

2 Council Decision (EU) 2024/2123 of 26 July 2024 on the existence of an excessive deficit in Hungary (OJ L 2024/2123, 1.8.2024, ELI: http://data.europa.eu/eli/dec/2024/2123/oj).

3 Council Recommendation with a view to bringing an end to the situation of an excessive deficit in Hungary, adopted 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

4 According to Article 2(2) of Regulation (EU) 2024/1263, 'net expenditure' means government expenditure net of interest expenditure, discretionary revenue measures, expenditure on programmes of the Union fully matched by revenue from Union funds, national expenditure on co-financing of programmes funded by the Union, cyclical elements of unemployment benefit expenditure, and one-offs and other temporary measures.

reference to 2023 of 9.1% in 2025 and 13.5% in 2026. These were the same annual and cumulative growth rates as set in the Recommendation endorsing the national medium-term fiscal-structural plan of Hungary ([5]). Based on the Commission Autumn 2024 Forecast, that served as basis for that recommendation, and on the Commission medium-term government debt projection framework, adherence to this corrective path was expected to lead to a deficit no longer exceeding the 3% of GDP reference value by 2026. The Council also established a deadline of 30 April 2025 for Hungary to take effective action and to present the necessary measures, and thereafter to report on progress made in the implementation of that recommendation at least every six months, until the excessive deficit had been corrected.

(5) On 8 July 2025, the Council activated the national escape clause for Hungary to facilitate an increase in defence expenditure ([6]) during the period 2025-2028 ([7]). The flexibility provided by the national escape clause should also be considered in the implementation of the excessive deficit procedure, and when assessing if Hungary has taken effective action.

(6) The Commission has regularly assessed the action taken in response to the Council recommendations under the excessive deficit procedure, specifically on 4 June 2025([8]), 25 November 2025 ([9]) and 3 June 2026 ([10]). Those assessments were carried out on the basis of outturn data from Eurostat, the Commission's latest forecasts, which take into account the information provided by Hungary, and other information available to the Commission. On that basis, the excessive deficit procedure had been held in abeyance. However, in its most recent two assessments the Commission had also identified risks of non-compliance, and then material non-compliance, in 2026.

(7) To date, Hungary has not submitted the report on action taken due by 30 October 2026 in response to the Council recommendation of 18 February 2025 with a view to bringing an end to the situation of an excessive deficit.

(8) Based on outturn data provided by Eurostat ([11]) and the Commission Autumn Forecast 2026, which in turn takes into account the Hungarian supplementary 2026 budget and draft 2027 budget, the assessment of action taken in response to the Council Recommendation of 18 February 2025 leads to the following conclusions:

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5 Council Recommendation of 18 February 2025 endorsing the national medium-term fiscal-structural plan of Hungary, (OJ C, C/2025/1707, 18.3.2025, ELI: http://data.europa.eu/eli/C/2025/1707/oj)

6 Nationally financed defence expenditure as defined in the Classification of the functions of government (COFOG) in the framework of the European System of National Accounts (ESA2010).

7 Council Recommendation of 8 July 2025 allowing Hungary to deviate from the maximum growth rate of net expenditure as set by the Council under Regulation (EU) 2024/1263 (Activation of the national escape clause), (OJ C, C/2025/3968, 20.8.2025, ELI: https://eur-lex.europa.eu/eli/C/2025/3968/oj)

8 Communication from the Commission to the European Parliament, the Council, the European Central Bank, "2025 European Semester - Spring package", 4.6.2025, COM(2025) 200 final.

9 Communication from the Commission to the European Parliament, the Council, the European Central Bank, "Reflecting the economic governance framework in national fiscal policy", 25.11.2025, COM(2025) 951 final.

10 Communication from the Commission to the European Parliament, the Council, the European Central Bank, "2026 European Semester - Spring package", 3.6.2026, COM(2026) 200 final.

11 Eurostat Euro Indicators published on 21 October 2026 https://ec.europa.eu/eurostat/en/web/products-euro-indicators/w/2-21102026-AP), in accordance with Article 14 of Council Regulation (EC) No 479/2009.

– Based on the Commission's calculations ([12]), net expenditure in Hungary grew by 9.4% in 2025. The net expenditure growth rate in 2025 is well above the recommended maximum growth rate, corresponding to a deviation of 2.0% of GDP in annual terms. Compared to the base year of 2023, the cumulative deviation is at 1.3% of GDP. After taking into account the flexibility for higher defence spending provided for by the national escape clause, the cumulative deviation is 0.3% of GDP. Hungary is therefore non-compliant with its corrective path for 2025.

– Based on the Commission's calculations, net expenditure in Hungary is projected to grow by 11.5% in 2026. The projected net expenditure growth rate in 2026 is well above the recommended maximum growth rate, corresponding to a deviation of 3.0% of GDP in annual terms. Compared to the base year of 2023, the projected cumulative deviation is at 4.2% of GDP. After taking into account the flexibility for higher defence spending provided for by the national escape clause, the projected cumulative deviation (based on current projections for defence spending) is 3.1% of GDP. This is a very large deviation ([13]). Hungary is therefore materially non-compliant with its corrective path for 2026.

– Hungary's general government deficit decreased to 4.7% of GDP in 2025, from 5.1% of GDP in 2024, mainly driven by lower interest expenditure, reflecting lower coupons on inflation-linked bonds, and cuts to public investment. The Commission Autumn 2026 Forecast projects the general government deficit to increase to 7.3% of GDP in 2026 and to decrease to 5.2% of GDP in 2027. On that basis, a correction of the excessive deficit by 2026, as expected within the Council Recommendation on 18 February 2025 (*see recital 4*), is not projected to be achieved. The increase in 2026 mainly reflects new personal income tax exemptions, the partial introduction of a so-called 14th-month pension, new housing subsidies, a one-time bonus paid to military and law enforcement, tax repayments related to court judgements, and investments financed by RRF loans. The improvement in 2027 is mainly driven by the expiry of temporary 2026 expenditure, planned expenditure cuts across all ministries and planned new revenue measures targeting households and corporations.

– The government debt-to-GDP ratio increased from 73.5% at the end of 2024 to 74.4% of GDP at the end of 2025 and is projected by the Commission to increase to 77.3% by the end of 2026, driven by high government deficits. The debt sustainability analysis indicates high risks over the medium term. ([14])

(9) In conclusion, the response of Hungary to the Council Recommendation of 18 February 2025 has been insufficient. Net expenditure in 2026 is projected to grow much faster than recommended by the Council, even after taking account of the flexibility of the national escape clause. This leads to a persistent high government

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12 Fiscal Statistical Tables providing background data relevant for the assessment of the budgetary policies of the Member States, SWD(2026) 1050 final, Brussels, 24.11.2026.

13 A deviation from the corrective path triggers an overall assessment, which considers the size of the deviation as well as mitigating and aggravating relevant factors. A deviation above one of the thresholds used for the control account (0.3% and 0.6% of GDP in annual and cumulated terms, respectively) entails a strong presumption of no effective action.

14 Debt Sustainability Monitor 2025 (*European Economy Institutional Paper 332, February 2026*) based on the Commission Autumn 2025 Forecast.

deficit, putting at risk a timely correction of the excessive deficit. There are no mitigating relevant factors to be considered in the excessive deficit procedure that change this assessment, while the high medium-term fiscal sustainability risks that Hungary faces and the size of the deviation in 2026 are aggravating relevant factors.

HAS ADOPTED THIS DECISION:

Article 1

Hungary has not taken effective action in response to the Council Recommendation of 18 February 2025.

Article 2

This Decision is addressed to Hungary.

Done at Brussels,

For the Council
The President