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Recommendation for a

COUNCIL RECOMMENDATION

endorsing the national medium-term fiscal-structural plan of Hungary

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 121 thereof,

Having regard to Regulation (EU) 2024/1263, and in particular Article 17 thereof,

Having regard to the recommendation from the Commission,

Whereas:

GENERAL CONSIDERATIONS

(1) A reformed EU economic governance framework entered into force on 30 April 2024. Regulation (EU) 2024/1263 of the European Parliament and of the Council on the effective coordination of economic policies and on multilateral budgetary surveillance,[1] together with the amended Regulation (EC) No 1467/97 on the implementation of the excessive deficit procedure,[2] and the amended Council Directive 2011/85/EU on the budgetary frameworks of Member States[3] are the core elements of the reformed EU economic governance framework. The framework aims at promoting sound and sustainable public finances, and sustainable and inclusive growth and resilience through reforms and investments, and preventing excessive deficits. It also promotes national ownership and has a greater medium-term focus, combined with more effective and coherent enforcement of the rules.

(2) The national medium-term fiscal-structural plans that Member States submit to the Council and to the Commission are at the centre of the new economic governance framework. The plans are to deliver on two objectives: i) ensuring that, inter alia by the end of the adjustment period, general government debt is on a plausibly downward trajectory, or stays at prudent levels, and that the government deficit is brought and maintained below the reference value of 3% of GDP over the medium-term, and ii) ensuring the delivery of reforms and investments responding to the main challenges identified in the context of the European Semester and addressing the common priorities of the EU. To that end, each plan is to present a medium-term commitment

[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, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj).

[2] Council Regulation (EU) 2024/1264 of 29 April 2024 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L, 2024/1264, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1264/oj).

[3] Council Directive (EU) 2024/1265 of 29 April 2024 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States (OJ L, 2024/1265, 30.4.2024, ELI: http://data.europa.eu/eli/dir/2024/1265/oj).

to a net expenditure[4] path, which effectively establishes a budgetary constraint for the duration of the plan, covering four or five years (depending on the regular term of legislature in a Member State). In addition, the plan is to explain how the Member State will ensure the delivery of reforms and investments responding to the main challenges identified in the context of the European Semester, in particular in the country-specific recommendations (CSRs, including those pertaining to the macroeconomic imbalances procedure (MIP), if applicable), and how the Member State will address the common priorities of the Union. The period for fiscal adjustment covers a period of four years, which may be extended by up to three years if the Member State commits to delivering a set of relevant reforms and investments that satisfies the criteria set out in Regulation (EU) 2024/1263.

(3) Following the submission of the plan, the Commission is to assess whether it complies with the requirements of Regulation (EU) 2024/1263.

(4) Upon a recommendation from the Commission, the Council is to then adopt a recommendation to set the net expenditure path of the Member State concerned and, where applicable, endorses the set of reform and investment commitments underpinning an extension of the fiscal adjustment period.

CONSIDERATIONS CONCERNING THE NATIONAL MEDIUM-TERM FISCAL-STRUCTURAL PLAN OF HUNGARY

(5) On 4 November 2024, Hungary submitted its national medium-term fiscal-structural plan to the Council and to the Commission. The submission took place following an extension of the deadline set out in Article 36 of Regulation (EU) 2024/1263, as agreed with the Commission. The reason for the delayed submission was to ensure that the plan presents an accurate picture of Hungary's budgetary processes and commitments, in line with the 2025 budget planning. On 20 December 2024, Hungary submitted an addendum to the plan reflecting more recent data, with a revised net expenditure path to ensure that the government deficit is brought below 3% of GDP and that the projected general government debt is put and kept on a plausibly downward path by the end of the adjustment period.

Process prior to the submission of the plan

(6) To frame the dialogue leading to the submission of national medium-term fiscal-structural plans, on 21 June 2024 the Commission sent, according to Article 9 of Regulation (EU) 2024/1263, the reference trajectory[5] to Hungary. The Commission

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

[5] Prior guidance transmitted to the Member States and Economic and Financial Committee includes trajectories with and without an extension of the adjustment period (covering 4 and 7 years, respectively). It also includes the main initial conditions and underlying assumptions used in the Commission's medium-term government debt projection framework. The reference trajectory was calculated on the basis of the methodology described in the Commission's Debt Sustainability Monitor 2023 (https://economy-finance.ec.europa.eu/publications/debt-sustainability-monitor-2023_en). It is based on the European Commission Spring 2024 Forecast and its medium-term extension up to 2033, and long-term GDP growth and ageing costs are in line with the joint Commission-Council 2024 Ageing Report (https://economy-finance.ec.europa.eu/publications/2024-ageing-report-economic-and-budgetary-projections-eu-member-states-2022-2070_en).

published the reference trajectory on 4 November 2024[6]. The reference trajectory is risk-based and ensures that, by the end of the fiscal adjustment period and in the absence of further budgetary measures beyond the adjustment period, general government debt is on a plausibly downward trajectory or stays at prudent levels over the medium term, and the general government deficit is brought below 3% of GDP over the adjustment period and maintained below that reference value over the medium term. The medium term is defined as the ten-year period after the end of the adjustment period. In accordance with Article 6, point (d), 7 and 8 of Regulation (EU) 2024/1263, the reference trajectory is also consistent with the deficit benchmark, the debt sustainability safeguard and the deficit resilience safeguard. The reference trajectory of Hungary sets out that, based on the Commission's assumptions underpinning the prior guidance transmitted in June 2024 and assuming a 4-year adjustment period, net expenditure should not grow by more than the values provided in Table 1. This corresponds to average net expenditure growth of 4.4% over the adjustment period (2025-2028).

Table 1: Reference trajectory provided by the Commission to Hungary on 21 June 2024

	2025	2026	2027	2028	Average 2025-2028
Maximum net expenditure growth (annual, %)	4.4	4.8	4.5	4.3	4.4

Source: Commission's calculations.

(7) In line with Article 12 of Regulation (EU) 2024/1263, Hungary and the Commission engaged in a technical dialogue in July and September 2024. The dialogue centred on the net expenditure path envisaged by Hungary and its underlying assumptions, as well as the envisaged delivery of reforms and investments responding to the main challenges identified in the context of the European Semester and the common priorities of the Union in fair green and digital transition, social and economic resilience, energy security and the build-up of defence capabilities.

(8) The plan submitted by Hungary does not report on a consultation process with domestic relevant national stakeholders (including social partners) prior to submission. According to the information provided in the plan, the parliament can be consulted on the plan after the submission by the government of the 2025 draft budget to the parliament.

Other related processes

(9) On 26 July 2024, the Council established the existence of an excessive deficit in Hungary due to non-compliance with the deficit criterion.

(10) On 26 November 2024, the Commission recommended a Council Recommendation under Article 126(7) TFEU with a view to bringing an end to the situation of an excessive deficit in Hungary[7]. In the absence of a national medium-term fiscal-

6 https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/national-medium-term-fiscal-structural-plans_en#hungary

7 Recommendation for a Council Recommendation with a view to bringing an end to the situation of an excessive deficit in Hungary, 26.11.2024, COM(2024)953 final.

structural plan endorsed by the Council, the recommended corrective net expenditure path reflected the reference trajectory with a fiscal adjustment of four years updated based on more recent data, including the Commission Autumn 2024 Forecast (Table 2). On 16 January 2025, the Commission adopted an amended Recommendation for a Council Recommendation under Article 126(7) TFEU to Hungary following its assessment of the national medium-term fiscal-structural plan of Hungary. The present Recommendation coincides with the Council Recommendation under Article 126(7) TFEU with a view to bringing an end to the situation of an excessive government deficit in Hungary. The simultaneous adoption of those recommendations, which is tailored to and justified by the transition to the new economic governance framework, ensures consistency between the recommended adjustment paths.

Table 2: Reference trajectory updated based on more recent data

Years		2025	2026	2027	2028	Average 2025-2028
Growth rates (%)	Annual	3.9	3.3	3.3	3.1	3.4
	Cumulative (*)	7.6	11.1	14.7	18.3	n.a.

(*) The cumulative growth rates are calculated by reference to the base year of 2023.

(11) On 19 June 2024, the Commission concluded that Hungary is experiencing macroeconomic imbalances. In particular, Hungary faces vulnerabilities related to price pressures and external and government financing needs, which remain relevant, although an improving external environment has mitigated some short-term risks [8].

(12) On 21 October 2024, the Council addressed to Hungary a series of country-specific recommendations (CSRs) in the context of the European Semester[9].

SUMMARY OF THE PLAN AND THE COMMISSION'S ASSESSMENT THEREOF

(13) In line with Article 16 of Regulation (EU) 2024/1263, the Commission assessed the plan as follows:

Context: macroeconomic and fiscal situation and outlook

(14) Hungary's GDP declined by 0.9% in 2023, driven by weak domestic and external demand. According to the Commission Autumn 2024 Forecast, GDP growth is expected to pick up to 0.6% in 2024 driven primarily by private consumption and a positive contribution of net exports. In 2025, real GDP is set to increase by 1.8%, supported by consumption and a moderate rebound in investment. In 2026, real GDP growth is forecast to increase by 3.1%, driven by domestic demand and a recovery of exports. Potential GDP in Hungary is expected to pick up from 1.4% in 2024 to 1.7% by 2026, driven by investments and increasing productivity. The unemployment rate stood at 4.1% in 2023, and is projected by the Commission to increase somewhat to

[8] Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank', COM (2024) 600 final, Appendix 4

[9] Council Recommendation of 21 October 2024 on economic, budgetary, employment and structural policies of Hungary.

4.5% in 2024 before decreasing to 4.3% in 2025 and 4.1% in 2026. Inflation (GDP deflator) is projected to decrease from 14.6% in 2023 to 7.2% in 2024, and to reach 4.1% in 2025 and 3.3% in 2026.

(15) In 2023 Hungary's general government deficit amounted to 6.7% of GDP. According to the Commission Autumn 2024 Forecast on a no-policy change basis, it is set to reach 5.4% of GDP in 2024 and to decline to 4.6% and to 4.1% of GDP in 2025 and 2026 respectively. The Commission forecast does not incorporate Hungary's budget for 2025 adopted by the national parliament in December 2024. The general government debt was 73.4% of GDP at end-2023 and is expected to increase to 74.5% of GDP at end-2024. It is projected to stabilise at 74.5% of GDP at end-2025 and decline to 73.8% at end-2026. The fiscal forecast by the Commission incorporates only credibly announced and sufficiently specified policy commitments and does not include all the measures put forward by Hungary in the plan.

Net expenditure path and main macroeconomic assumptions in the plan

(16) Hungary's national medium-term fiscal-structural plan covers the period 2025-2028 and presents a fiscal adjustment over four years.

(17) The plan contains all information required by Article 13 of Regulation (EU) 2024/1263.

(18) The plan, as complemented by the addendum, commits to the net expenditure path indicated in Table 3, corresponding to average net expenditure growth of 4.0% over the years 2025-2028. The average net expenditure growth reported in the plan over the adjustment period (2025-2028) is lower than the reference trajectory transmitted by the Commission on 21 June 2024, but higher than the reference trajectory updated based on more recent data. The plan assumes potential GDP growth to increase to 1.5% in 2025 (from 1.4% in 2024), before increasing to 1.7% in 2028. In addition, the plan expects the growth rate of the GDP deflator to decrease to 4.1% in 2025 (from 7.2% in 2024), before decreasing to 3.4% in 2028.

Table 3: Net expenditure path and main assumptions in Hungary's plan

	2024	2025	2026	2027	2028	Average over the period of validity of the plan 2025-2028
Net expenditure growth (annual, %)	4.6	4.3	4.0	3.9	3.7	4.0
Net expenditure growth (cumulative, from base year 2023, %)	4.6	9.1	13.5	17.9	22.2	n.a.
Potential GDP growth (%)	1.4	1.5	1.7	1.7	1.6	1.6
Inflation (GDP deflator growth) (%)	7.2	4.1	3.5	3.4	3.4	3.6

Source: Medium-term fiscal-structural plan of Hungary and Commission calculations.

Implications of the plan's net expenditure commitments for general government debt

(19) If the net expenditure path committed to in the plan and the underlying assumptions materialise, general government debt would, according to the plan, decrease gradually from 74.0% in 2024 to 68.2% of GDP at the end of the adjustment period (2028), as per the following table. After the adjustment period, over the medium term (i.e. until 2038), the debt ratio is expected to continue to decrease according to the plan, to 54.5% of GDP by 2038. Thus, according to the plan, general government debt would be brought below the Treaty reference value of 60% of GDP over the medium term. This is plausible based on the plan's assumptions, as debt would be projected to stand below 60% of GDP by 2038 under all deterministic stress tests of the Commission's Debt Sustainability Analysis. Therefore, based on the plan's policy commitments and macroeconomic assumptions, the net expenditure path put forward in the plan is consistent with the requirement for debt as set out in Articles 6, point (a), and 16(2) of Regulation (EU) 2024/1263.

Table 4: General government debt and balance developments in Hungary's plan

	2023	2024	2025	2026	2027	2028	2038
Government debt (% of GDP)	73.4	74.0	73.5	71.3	69.9	68.2	54.5
Government balance (% of GDP)	-6.7	-4.9	-3.6	-2.5	-2.0	-1.5	-2.2

Source: Medium-term fiscal-structural plan of Hungary

Implications of the plan's net expenditure commitments for the general government balance

(20) Based on the plan's net expenditure path and assumptions, the general government deficit would decline from 4.9% of GDP in 2024 to 2.5% of GDP by 2026 and to 1.5% of GDP in 2028. Thus, according to the plan, the general government balance would not exceed the 3% of GDP reference value at the end of the adjustment period (2028). In addition, in the ten years following the adjustment period (i.e. until 2038), the government deficit would not exceed 3% of GDP. Therefore, based on the plan's policy commitments and macroeconomic assumptions, the net expenditure path put forward in the plan is consistent with the requirement for the deficit as set out in Articles 6, point (b), and 16(2) of Regulation (EU) 2024/1263.

Time profile of the fiscal adjustment

(21) The time profile of the fiscal adjustment, measured as the change in the structural primary balance, as described in the plan, is linear, as required by Article 6, point (c), of Regulation (EU) 2024/1263. Therefore, based on the plan's policy commitments and macroeconomic assumptions, the net expenditure path put forward in the plan is consistent with the no-backloading safeguard clause set out in Article 6, point (c) of Regulation (EU) 2024/1263.

Table 5: Structural primary balance developments in Hungary's plan

	2023	2024	2025	2026	2027	2028
Structural primary balance	-1.7	0.6	1.2	1.7	2.3	2.8

(% of GDP)						
Change in structural primary balance (pps.)	na.	2.3	0.5	0.5	0.5	0.5

Source: Medium-term fiscal-structural plan of Hungary

Consistency of the plan with the excessive deficit procedure

(22) The net expenditure path set out in the plan is in line with the requirements under the excessive deficit procedure (in particular with the minimum annual structural adjustment established in Article 3(4), third subparagraph of Council Regulation (EC) 1467/97).

Consistency of the plan with the deficit resilience safeguard

(23) The requirement of the preventive arm set out in Article 8 of Regulation (EU) 2024/1263 regarding the deficit resilience safeguard, which aims to provide a common margin relative to the deficit reference value of 3% of GDP, applies to Hungary as of 2027, as the deficit is planned to be below 3% of GDP as of 2026. In the years 2027 and 2028, in accordance with Article 8 of Regulation (EU) 2024/1263, the annual adjustment in the structural primary balance should not be less than 0.4 percentage points if the structural deficit remained above 1.5% of GDP in the preceding year, to achieve a common resilience margin in structural terms of 1.5% of GDP. The fiscal adjustment that results from the plan's policy commitments and macroeconomic assumptions is 0.5% of GDP in both 2027 and 2028. Therefore, based on the plan's policy commitments and macroeconomic assumptions, the net expenditure path put forward in the plan is consistent with the deficit resilience safeguard.

Consistency of the plan with the debt sustainability safeguard

(24) In accordance with Article 7 of Regulation (EU) 2024/1263, as general government debt will be between 60% and 90% of GDP over the adjustment period according to the plan, the debt ratio is required to decline by at least 0.5 percentage points on average per year until it falls below 60%. This decline is calculated over the period 2027-2028, i.e. starting in the year in which the excessive deficit procedure would be abrogated according to the plan, and amounts to 1.7 percentage points. Therefore, based on the plan's policy commitments and macroeconomic assumptions, the net expenditure path put forward in the plan is consistent with the debt sustainability safeguard.

Macroeconomic assumptions of the plan

(25) The plan is based on a set of assumptions which is consistent with those underpinning the reference trajectory updated based on more recent data (including the Commission 2024 Autumn Forecast) in Table 2 except for two variables, namely the starting point (structural primary balance for 2024) and GDP deflator growth for 2026. A careful assessment of these differences in assumptions is necessary to ensure they are underpinned by sound and data-driven economic arguments. An assessment of these differences in assumptions is provided below, together with an assessment of each difference considered in isolation.

- The plan assumes a more favourable initial fiscal position, assuming a structural primary balance of 0.6% of GDP compared to 0.2% in the Commission's Autumn 2024 Forecast. The higher structural primary balance in the plan reflects a better-than-expected budgetary outcome for January-November 2024, in particular higher-than-expected non-tax revenue and slightly lower-than-expected expenditure. Consequently, this assumption is deemed to be justified and contributes to a higher average net expenditure growth over the adjustment period.

- The plan assumes inflation (GDP deflator) of 3.5% for 2026 compared to 3.3% in the Commission’s Autumn 2024 Forecast. The plan explains this difference by higher wage increases in 2026 given the three-year wage agreement signed on 25 November 2024 between business and labour associations in Hungary. Accordingly, the minimum wage will grow by 9% in 2025, which is in line with the Commission’s Autumn 2024 Forecast. In 2026, the agreement sets minimum wage growth at 13%, which implies higher wage growth and inflation than the projection of the Commission’s Autumn 2024 Forecast. This assumption is deemed to be justified and contributes to higher average net expenditure growth over the adjustment period in the plan.

Overall, the difference between the net expenditure path in the plan and the reference trajectory updated based on more recent data is explained by differences in assumptions that are duly justified, in line with Article 13(b) of Regulation (EU) 2024/1263. Overall, all the differences in assumptions taken together lead to an average net expenditure growth in the plan that is higher than the reference trajectory updated based on more recent data. Based on this assessment, the plan fulfils the requirement under Article 13(b) of Regulation (EU) 2024/1263.

The Commission will take into account the above assessment of the plan’s assumptions in future assessments of compliance with the net expenditure path.

Fiscal strategy in the plan

(26) The plan does not include a fully-fledged and quantified fiscal strategy. The precise specification of the relevant policy measures is to be confirmed or adjusted and quantified in the annual budgets. The adopted budget for 2025 specifies the policy measures through which the government plans to achieve the net expenditure commitment for 2025. The plan further includes a number of unquantified deficit-increasing measures across different areas, which may affect the fiscal outcomes in the medium term. Further fiscal measures may thus be needed to achieve the commitments in the plan.

Reform and investment intentions in the plan responding to the main challenges identified in the context of the European Semester and addressing the common priorities of the Union

(27) The plan describes policy intentions concerning reforms and investments to respond to the main challenges identified in the context of the European Semester, especially the CSRs, including those pertaining to the MIP, and to address the common priorities of the EU. The plan includes about 132 reforms and investments intending to address the common priorities of the EU, of which 41 are financially supported by the Recovery and Resilience Facility and 29 by the cohesion policy funds.

(28) Concerning the common priority of a fair green and digital transition, including the climate objectives set out in Regulation (EU) 2021/1119, the plan includes more than 40 reforms and investments. Several reforms and investments on the green transition feature as measures in the Hungarian Recovery and Resilience Plan (RRP), including

the REPowerEU chapter, or are supported by cohesion policy funds. The plan includes measures to support the transition to climate neutrality and green transport, specifically by increasing the rollout of electric cars, developing railways, charging networks and biking paths. Other reforms and investments aim to improve the country's waste management and support the circular economy in particular, for instance by devising a waste management plan and deploying smart waste infrastructure. The plan also includes measures aimed at supporting environmentally-friendly manufacturing processes and strengthening green skills. Other measures aim to improve the water infrastructure, accelerate climate adaptation in water management, deliver nature conservation investments and introduce a CO2 quota tax. Several reforms and investments also aim to contribute towards Hungary's digital transition by offering digital solutions in tax reporting and monitoring (eVAT, eReceipt and eCashier), developing digital skills, reforming the single national tariff and passenger information system, and improving the digital readiness of businesses and public services, energy system and waste management. The measures related to the common priority of a fair green and digital transition aim to address (2019, 2020, 2022 and 2023) CSRs on sustainable transport, waste and water management, energy transition, tax simplification, quality of decision-making, digitalisation of businesses and labour market. The plan does not include measures related to the 2023 and 2024 CSR on phasing out fossil fuel subsidies.

(29) Concerning the common priority of social and economic resilience, including the European Pillar of Social Rights, the plan includes about 80 reforms and investments that Hungary expects will contribute to strengthening the country's social and economic resilience. Several reforms and investments targeting social and economic resilience feature as measures in the Hungarian RRP, including the REPowerEU chapter, or are supported by cohesion policy funds. The plan includes measures to improve the labour market access to some vulnerable groups (for example, by creating new creche places) including the young and the elderly, housing (including the development of new social houses as part of the Catching-up Settlements Programme and various Home-Creation programmes), education (including by increasing teachers' wages), and healthcare (for example, the development of primary care and hospitals). The plan also includes measures to promote social cohesion, the digital and infrastructural development in public and higher education as well as in vocational training and education. There are several measures on improving employability with reskilling, and to support the development of enterprises. Measures such as preferential loans for small and medium-sized enterprises aim to improve the export capacities of firms. In the field of research and innovation, the plan lists measures such as the establishment of national laboratories which aims to foster innovation. Furthermore, the plan includes reforms and investments that aim to modernise the public administration and taxation. The plan includes measures to implement the adopted national anti-corruption strategy and action plan and to carry out spending reviews on a regular basis. The reforms and investments contained in the plan intend to address the 2019, 2020, 2022, 2023 and 2024 CSRs on education, research and development, social policy, business environment, budgetary framework, taxation, anti-corruption, judicial independence, labour market and healthcare. The plan does not include measures intended to address the 2022 CSR on long-term sustainability of the pension system as, according to the plan, the government does not plan any changes to the pension system in the near future. It also does not include measures to address the 2023 and 2024 MIP-related CSRs on effective coordination of macroeconomic policies and phasing out interest and price caps to reduce their

distortive effect. The plan does not include measures to address the 2019, 2020, 2022, 2023 and 2024 CSRs on the adequacy of unemployment benefit as the plan informs that the government does not intend to modify the duration of unemployment benefit. The plan does not include measures intended to address the 2023 and 2024 CSRs on social dialogue. Finally, the plan does not include measures which would intend to address the 2020, 2023 and 2024 CSRs on the limited use of emergency measures in line with the principle of single market and the rule of law.

(30) Concerning the common priority of energy security, the plan includes reforms and investments that Hungary expects will contribute towards strengthening the country's energy security. Several of these reforms and investments are included in the Hungarian RRP, including the REPowerEU chapter, or are supported by cohesion policy funds. The plan includes measures aimed at supporting the deployment of wind power plants, increasing the energy efficiency of dwellings, supporting the installation of residential solar panels and electrifying heating systems. Other reforms in the plan aim to deploy alternative renewable energy, modernise public buildings (such as hospitals, education institutions) and improve the energy efficiency of the industry and companies. The plan also includes measures aimed to develop energy networks and increase energy storage capacities. The measures in the plan related to the common priority of energy security aim to address (2022, 2023 and 2024) CSRs on energy.

(31) Concerning the common priority of defence capabilities, the plan does not include any measures. The plan assumes that the level of defence spending will be maintained at a level of 2% of GDP over the time horizon of the plan.

(32) The plan provides information on the consistency and, where appropriate, complementarity, with the Cohesion policy funds and Hungary's RRP. The reform and investment chapter of the plan explicitly mentions whether a measure is included in the RRP or in the cohesion policy programmes. In addition, Table 9 in the plan provides a comprehensive overview of the measures and their linkage with the RRP, cohesion policy programmes and common priorities. The plan explains that the government does not agree with the policy measures to reform the pension system as proposed by the independent expert in relation to the reform envisaged in the RRP. The plan also mentions that the government will phase out some windfall profit and sectoral taxes later than committed under the respective measure of the RRP, while others are not planned to be phased out.

(33) The plan provides an overview of the public investment needs of Hungary related to the common priorities of the EU with the exception of the 4th priority related to defence capability building. Regarding the common priority of a fair green and digital transition, including the climate objectives, investment needs in the plan include more investment in the green and digital transition of businesses, and the digitalisation of public administration. New investments aim to equip the education system with digital tools and related infrastructure. As for the common priority of social and economic resilience, the plan includes investment needs for businesses to improve their export and innovation capacities. According to the plan there are investments needs to develop active labour market policies, in particular through re- and upskilling programmes and to support the poorest households. In healthcare, investments to digitise healthcare processes aim to facilitate access to health services and improve the quality of care. Public investment in the renovation of railway lines and digitalisation contributes to making the transport sector more sustainable. Concerning the common priority of energy security, the plan includes investment needs on renewable energy generation, improvement of energy efficiency in residential houses and public

buildings as well as electricity network developments and electromobility, including the related infrastructure.

Conclusion of the Commission's assessment

(34) Overall, the Commission is of the view that Hungary's plan fulfils the requirements of Regulation (EU) 2024/1263.

OVERALL CONCLUSION

(35) In accordance with Article 17 of Regulation (EU) 2024/1263, the net expenditure path as set in the plan should be recommended by the Council to Hungary.

HEREBY RECOMMENDS that Hungary:

(1) Ensure that net expenditure growth does not exceed the maxima established in Annex I to this Recommendation.

In addition, the Council invites Hungary to ensure the delivery of reforms and investments responding to the main challenges identified in the context of the European Semester, in particular in the country-specific recommendations, and addressing the common priorities of the Union.

ANNEX I

Maximum growth rates of net expenditure
(annual and cumulative growth rates, in nominal terms)

Hungary

Years		2025	2026	2027	2028
Growth rates (%)	Annual	4.3	4.0	3.9	3.7
	Cumulative (*)	9.1	13.5	17.9	22.2

(*) The cumulative growth rates are calculated by reference to the base year of 2023. The cumulative growth rates are used in the annual monitoring of ex-post compliance in the control account.

Done at Brussels,

For the Council
The President