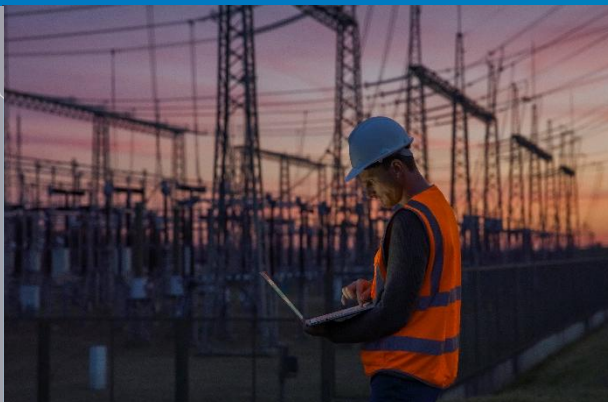




DRAFT Country Strategy for Hungary 2026-2031

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		SME	Small and Medium-Sized Enterprise
		SOE	State-Owned Enterprise
		TA	Technical Assistance
		TC	Technical Cooperation
		TEU	Treaty on European Union
		TFP	Trade Facilitation Programme
		TES	Total Energy Supply
		TMT	Telecommunications, Media and Technology
		VCIP	Venture Capital Investment Programme
		WB	World Bank
		M&A	Mergers and Acquisitions

¹ Only on page 13

Executive Summary

Hungary's commitment to the principles set out in Article 1 has continued over the period since the previous Country Strategy approval. Their application during the previous Country Strategy period, particularly in relation to the situation with the rule of law, was highlighted by EU institutions and relevant international organisations as a matter of concern. The political change following the outcome of the parliamentary elections in April 2026 has opened a path for addressing the existing challenges.

Hungary enters the new strategy period facing a complex macroeconomic and transition environment. Following several years of economic shocks, and delayed access to EU funds, economic growth has remained subdued and investment activity weakened. While inflation has moderated and macroeconomic stability was broadly preserved, significant fiscal constraints persist, and the pace of recovery remains highly contingent on tangible improvements in governance, policy predictability, and the implementation of key milestones which would allow the release of EU funds supporting public and private investment. The outcome of the parliamentary elections in April 2026 has created a window of opportunity to address these challenges, including re-starting the flow of EU funds, strengthening economic governance, and engaging in institutional reforms.

While Hungary is well-integrated into European and global markets, productivity gains and innovation need to extend beyond the export-oriented segment dominated by foreign-owned firms to domestic SMEs and corporates. Extensive past state intervention, regulatory volatility, and large support schemes have distorted competition and constrained private sector dynamism. Capital markets remain shallow, limiting access to long-term and risk-bearing finance, and slowing the reallocation of capital towards more productive firms and sectors. Recent political transition is expected to start addressing these issues, advancing economic reforms to remove market distortions, attract more investments in the private sector, and return the country on a robust growth path.

Rapid deployment of solar capacity has advanced the green transition, but further investments in grids, storage and system flexibility are required, alongside reform of price regulation and fossil-fuel subsidies to incentivise energy efficiency and decarbonisation. Reducing reliance on imported energy is also needed to mitigate Hungary's exposure to geopolitical and price risks. At the same time, skills mismatches, demographic pressures and persistent regional disparities continue to constrain productivity growth, labour supply and inclusive development, requiring expansion of human capital, including digital and green transition skills.

Building on re-invigorated reform efforts since the formation of the new government in May 2026, the Bank is well positioned to support Hungary's renewed transition to efficient and well-regulated markets by combining selective investments, capital market instruments, risk-sharing solutions, and targeted policy engagement. In close coordination with EU institutions, IFIs and other partners, and building on its comparative advantage in supporting the private sector and project implementation, the Bank will focus on crowding in private capital, strengthening governance and competitiveness, advancing green transition and resilience. Recognising that Hungary's economy is advanced in transition, the Management will provide an update to the Financial and Operations Policies Committee on the Bank's strategic directions for Hungary at the midpoint of the strategy period as part of the Country Strategy Delivery Review process. This review will inform any adjustments to the implementation of Bank's strategic objectives for the remainder of the strategy period, ensuring continued focus on areas where transition gaps remain evident and material.

In alignment with the country's reform agenda, the Bank will pursue the following strategic priority in Hungary in 2026-2031:

- Strengthen economic governance via stronger competitiveness and accelerated green transition

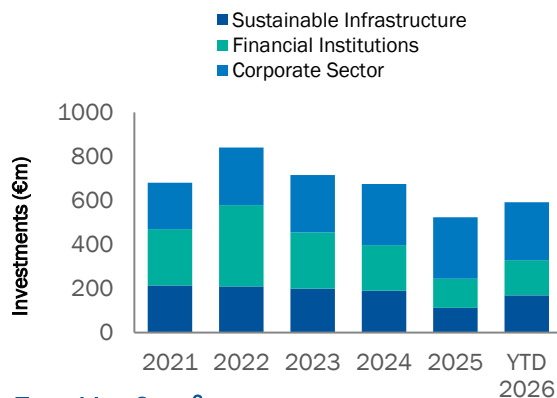
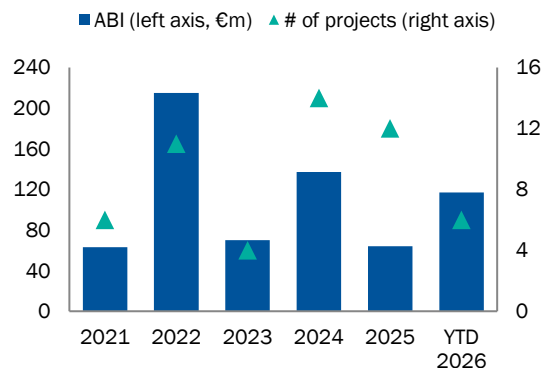
Hungary – EBRD Snapshot

EBRD investment activities in Hungary (as of July 2026)

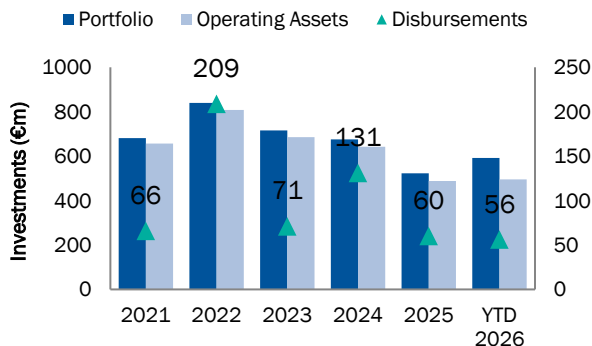
Portfolio	€592m	Active projects	63
Equity share	23%	Operating assets	€495m
Private Sector Share ¹	100%	Net cum. investment	€3,861m

ABI and operations

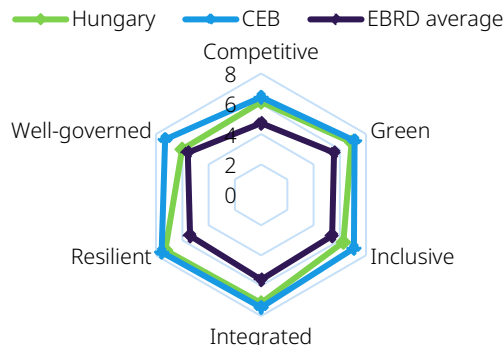
Portfolio composition



Portfolio dynamics



Transition Gaps²



Hungary context figures

	Hungary	Comparators
Population (million) ³ (2025)	9.6	Slovak Republic (5.4), Czech Republic (10.9)
GDP per capita (PPP, USD) ³ (2025)	48,157	Slovak Republic (47,597), Czech Republic (58,853)
New Business Density ⁴ (New registrations per 1,000 population, 2022)	4.3	Slovak Republic (5.5), Czech Republic (4.0)
Unemployment (%) ⁵ (2024)	4.5	Slovak Republic (5.3), Czech Republic (2.6)
Youth unemployment (%) ⁵ (2024)	14.2	Slovak Republic (18.4), Czech Republic (9.2)
Female labour force participation (%) ⁵ (2024)	55.3	Slovak Republic (56), Czech Republic (53.5)
Energy intensity TES/GDP (MJ/2021 PPP \$) ⁶ (2022)	2.74	Slovak Republic (3.4), Czech Republic (3.2)
Emission intensity/GDP (kgCO ₂ /2021 PPP \$) (2022) ⁶	0.11	Slovak Republic (0.22), Czech Republic (0.17)

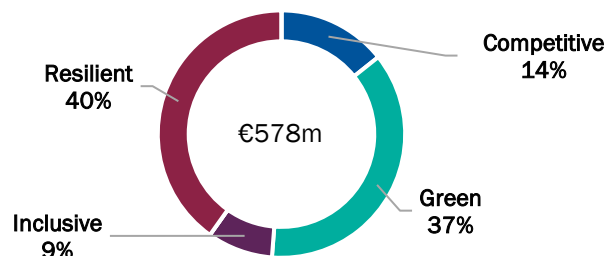
1 Cumulative Bank Investment: 5 year rolling basis on portfolio; 2 Cf. EBRD Transition Report 2025-2026; 3 IMF WEO; 4 WB Entrepreneurship Survey and database; 5 ILO; 6 IEA

1. Implementation of Previous Strategy (2021-2026)

1.1. Key Transition Results Achieved during Previous Strategy

Strategic alignment 2021-2026

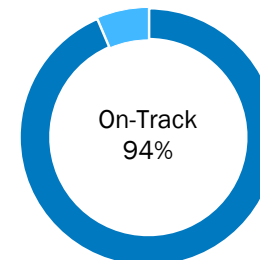
Cumulative Business Investment



Technical assistance and concessional finance¹



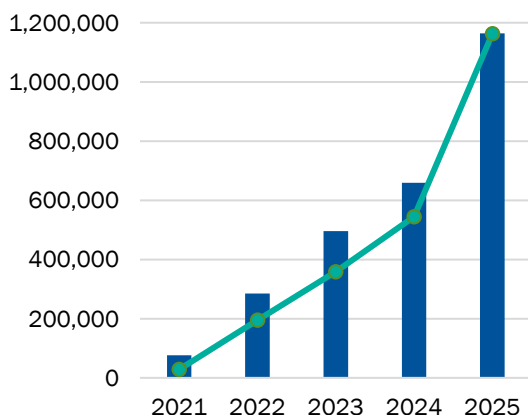
Transition impact performance²



Priority 1

Support Productivity Improvements through Innovative Financing and Green Investments

Key quantitative results



Energy saved (GJ/year, cum., LHS)

Renewable Energy capacity installed (MW, cum., RHS)

Key transition results

- Continued supporting development of capital markets with equity and quasi-equity financing, providing a total of €20.7m for regional funds with allocations to Hungary.
- Strengthened the venture ecosystem via the VCIP program, providing €3m debt to 3D CAD software company Shapr3D (follow-up to a previous €9m equity investment), €5m growth equity to security software developer Axoflow, and €8m to innovative document editor Craft.
- Participated in innovative financial products, including a €0.4m allocation to CVI Fund II, part of the Bank's first investment in a private debt fund.
- Catalysed development of green capital markets by investing €17m in logistic operator VGP's green bonds and via participations in renewable energy developer Photon Energy's green corporate bonds (€3m and €5m allocations, respectively).
- Advanced Hungary's green finance market via investments in senior preferred bonds and regional covered bonds issued by OTP (€36m), Erste (€52m), UniCredit (€46m), and Raiffeisen (€41m), with EBRD proceeds earmarked for green investments in renewable energy projects and/or in the residential building sector.
- Supported expansion of green real estate with €38m allocations to Hungary as part of a regional loan to CTP financing green logistics, and the €25m equity investment in Adventum Penta Co-Investment's commercial real estate operations.
- Enabled energy savings and emission reductions through investments in efficiency upgrades and low-carbon technologies, including a €25m senior loan to regional RES developer Renalfa Holding, and a €29m loan to tissue paper producer Sofidel.
- Supported circular economy business models by providing €24m capex financing for a battery foil plant by Volta Energy.
- Engaged with the Central Bank of Hungary (MNB) and EU DG Reform to develop recommendations for a Sustainable Capital Markets Development Strategy and Action Plan.
- Supported the green transition by developing a joint regional energy market post-trade framework.

1. Cumulative figure based on earmarks for 2021-2025. 2. Transition impact performance reflects how likely projects are to achieve the transition impact expected of them at signing. Calculated based on active mature (> 2 years) portfolio

1. Implementation of Previous Strategy (2021-2026)

1.2. Challenges to Implementation and Key Lessons

Context for implementation

Hungary has been marked by multiple growth headwinds during the 2021-2026 strategy period, including most importantly the impact of the war on Ukraine that derailed post-Covid recovery and increased EBRD's additionality, and very high inflation in 2022-23. Despite growth in employment and average incomes, there has been a loss in momentum in productivity gains, decelerated investment, labour-market tightness, and constrained public finances since 2022. Recovery and Resilience Plan Funds were not disbursed as milestones were not fulfilled. The Hungarian banking sector is in a strong financial position, but domestic capital markets remain shallow. Since the termination of the state bond-buying scheme in 2021, corporate bond issuance almost stopped. Progress has been made in the green transition via the rapid scale-up of solar capacity and electricity generation, however, reliance on energy imports from Russia remains a significant risk. The country seeks to become an electromobility hub, but uneven demand for electric vehicles has caused multiple foreign EV and batteries producers to scale down plans in 2025. Over the next strategy period, improving the economy's competitiveness and boosting labour productivity while balancing the state's role as a rule-settler and enabler will be central to Hungary's resilience.

Implementation challenges

- EU funds' distribution, rather than leveraging together with other grants, soft loans and equity programmes, limit the EBRD's competitiveness and additionality
- High concentration of ownership within a select group and complex ownership structure
- Lack of diversified investor base
- Delayed approvals of EU financing frameworks and ongoing EU conditionality procedures create uncertainty
- Regulatory volatility and state interventions undermine international developers' interest in renewables
- Challenging macroeconomics and financing conditions following the war in Ukraine

Key lessons & way forward

- Leverage multi-year lending capacity to facilitate regional transactions with large FDIs
- Strong focus on integrity checks required
- Renew focus on projects of mutual interest with international partners, particularly in green and capital markets development
- Collaborate with EIB and commercial banks to expand co-investment and risk-sharing solutions, including SME risk-sharing facilities
- Seek innovative opportunities, including support for emerging wind renewable projects and use of InvestEU guarantees to promote decarbonization
- Continue to coordinate with the authorities, donors and IFIs to mitigate war-related shocks

2. Mapping of International Partners' Complementarity in EBRD Business Areas

EBRD Business Areas

	Sectors										Cross-cutting Themes		
	Corporate Sector					Sustainable Infrastructure			FI		Strategic Initiatives		
	Agribusiness	M & S	Real Estate	TMT	Natural Resources	Energy	Transport	Infrastructure	Banking FIs	Non-Banking FIs	Green Economy	Economic Governance	Human Capital & Gender
AIIB								€	€				
CEB								€	€		€		€
EIB	€	€	€			€	€	€	€	€	€		€
EIF									€	€			
EU		€					€	€			€		€
EBRD	€	€	P€	€		€			€	P€	€	P€	€

€ Area of significant investments

P Policy engagement

● Focus mostly on private sector

○ Focus mostly on public sector

Note: Partner activity mapping (2021-2026) based on publicly available information. Symbols indicate whether an IFI was active in the sector during the period; they do not reflect the scale, value, or number of operations.

Areas of Cooperation



Green

- Seeking cooperation opportunities with partners on renewables, energy storage, and green transport, potentially leveraging InvestEU guarantees



Competitive

- Continuing to explore co-investment opportunities with EIB, including in PE funds and SMEs risk sharing facilities with the EU



Well-Governed

- Seeking further cooperation with IFI partners on improving firms' economic governance and ownership transparency

3. Economic Context

3.1. Macroeconomic Context and Outlook for Strategy Period

Hungary – Main Macroeconomic Indicators

	2022	2023	2024	2025
GDP growth (% y-o-y)	4.2	-0.8	0.7	0.5
CPI inflation (% avg.)	15.2	17.5	3.7	4.4
Government balance (% of GDP)	-6.2	-6.8	-5.0	-4.7
Current account balance (% of GDP)	-9.0	0.0	1.7	1.6
Net FDI (% of GDP) <i>[minus indicates inflow]</i>	-2.7	-0.3	0.0	-0.5
External debt (% of GDP)	94.2	86.4	88.9	85.4
Gross reserves (% of GDP)	23.0	21.0	21.7	22.9
General government gross debt (% of GDP)	74.1	73.2	73.5	74.6
Unemployment rate (%)	3.9	4.4	4.4	4.5
Nominal GDP (\$bn)	177.8	213.3	222.9	246.9

Source: National authorities, IMF

Hungary's economy has been near-stagnant since 2023, driven by subdued industrial activity, high inflation and weak investment. GDP grew by 0.5 per cent in 2025, a third consecutive year of near-stagnation, with a modest recovery under way in 2026 as output rose by around 1.7 per cent year on year in the first half. Industrial activity remained subdued, reflecting broader European manufacturing weakness, while household consumption expanded on rising real wages and government income support. Fixed investment fell again in 2025, extending a multi-year decline.

Inflation has fallen below the central bank's 3 per cent target, reaching 1.2 per cent in July 2026, and the policy rate has been cut to 5.75 per cent from 6.5 per cent in February 2026. Retail margin caps were made permanent in 2026 and are before the Court of Justice, while voluntary caps on bank fees, telecoms and pharmaceuticals remain in force.

Hungary enters the strategy period with a significant fiscal overhang. The 2025 pre-election package left the deficit at 4.7 per cent of GDP, one percentage point above target, with public debt at 74.6 per cent of GDP. The deficit is set to widen beyond 6 per cent of GDP in 2026, with the Ministry of Finance citing 7.5 per cent without corrective measures. Hungary remains under the Excessive Deficit Procedure.

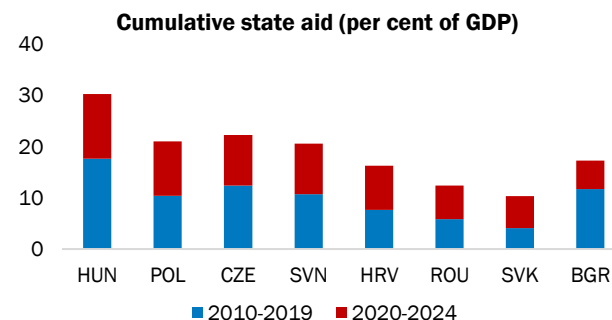
Growth is projected to recover gradually over the strategy period, to around 2 to 2.5 per cent a year, supported by private consumption and EU-funded investment. The 2026 agreement with the Commission unlocks €16.4 billion of previously blocked funds, with disbursement conditional on delivering the agreed governance reforms; this is the single largest upside for public investment. All three major rating agencies affirmed Hungary's investment-grade rating in 2026 while keeping a negative outlook. Risks are tilted to the downside: elevated energy prices, climate-related risks to domestic energy generation, and slippage in reform implementation.

3. Economic Context

3.2 Key Transition Challenges (I/II)

Competitive (6.1)

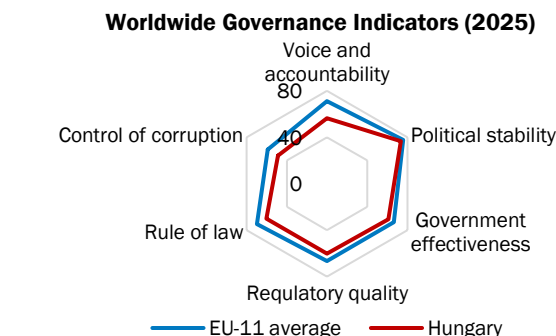
- **Hungary's growth model concentrates productivity in a narrow export core while domestic firms lag structurally.** SMEs employ most workers but generate disproportionately low value added, reflecting weak diffusion of technology and skills. State-linked entities have consolidated positions in banking, energy, construction and telecommunications.
- **Extensive state intervention blunts competition and misallocates capital.** High state aid, priority-investment regimes, windfall taxes and price controls tilted markets toward favoured firms, weakening entry and innovation. Some measures have since been found contrary to EU law. The new government has declined to support further phases of the largest battery project and is reviewing support granted to another.
- **Weak market institutions limit firm dynamism and resource reallocation.** Ineffective insolvency resolution and constrained access to market-based finance slow exit of unproductive firms and scaling of more productive ones. Meanwhile, start-ups lack scale-up capital despite public support.



Source: European Commission

Well-governed (6.0)

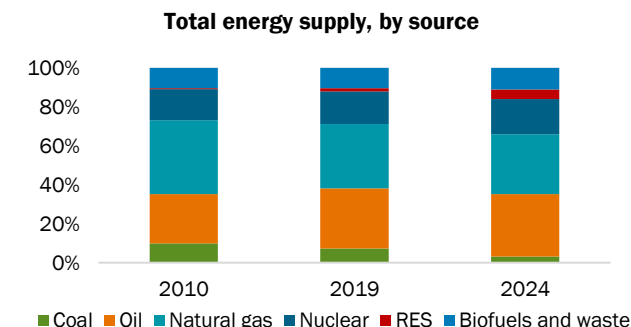
- **Institutional checks and regulatory predictability remain insufficient for a level playing field.** Besides weakening market institutions, contested judicial independence and limited ability to challenge regulations raise uncertainty and compliance costs for private investors and firms. This blocked EU funding absorption until the 2026 agreement with the Commission.
- **Public procurement has favoured state-linked actors.** Framework agreements (around three quarters concluded with a single bidder in 2025) and high single-bidding rates limited competition, with favouritism documented including in EU-financed procurement. Reforms adopted in 2026 strengthen transparency and oversight; a track record has yet to be established.
- **Integrity and transparency gaps undermine trust and competition.** Persistent concerns around corruption perception, media freedom and public procurement reduce effective competition and reinforce rent-seeking behaviour.



Source: World Bank

Green (6.9)

- **Decarbonisation has advanced via installed solar capacity but stalled at the system level.** Rapid solar expansion (28 per cent of electricity production in 2025) has been only partly matched by grid reinforcement, storage, or flexibility, creating bottlenecks for further renewable integration and electrification. Policy support changes for solar installations led to a weakening of the project pipeline from 2024, with a total increase of around 30 per cent still needed to meet the 2030 objective. Around two thirds of the overall energy mix is still sourced from oil and natural gas as electrification remains modest.
- **Distorted price signals slow energy efficiency and green investment.** Broad price caps and fossil-fuel subsidies (about 1 per cent of GDP) weakened incentives for households and firms to invest in efficiency, electrification and low-carbon technologies. Energy tariffs have been set disproportionately for different users, with household prices the lowest in the EU.



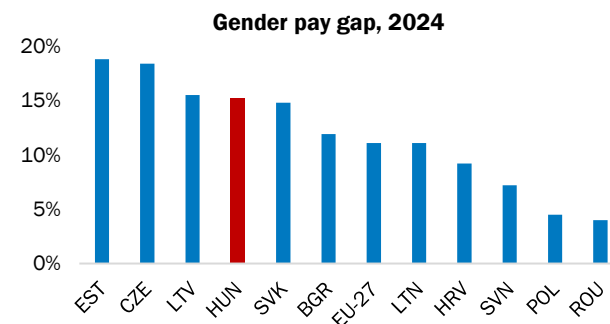
Source: IEA

3. Economic Context

3.2 Key Transition Challenges (II/II)

Inclusive (6.3)

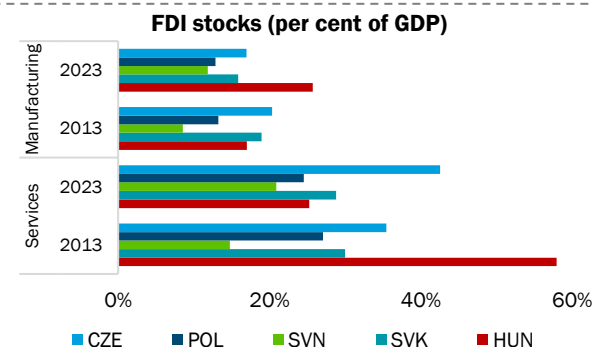
- **Skills mismatches continue to hinder the digital and green transition**, as the supply of technical specialists fails to keep pace with the technological upgrade of the more productive sectors. Skills gaps are present in battery production, as the large FDI will rely mostly on foreign specialists.
- **Persistent gender gaps and an aging workforce threaten labour supply**. Hungary ranked 26th in the EU on the 2025 Gender Equality Index, while the gender pay gap in the public sector was almost 20 per cent, above the EU average of 13 per cent. The old-age dependency ratio is climbing toward 34 per cent, amplifying the "motherhood penalty" in couples with children; and structural exclusion of the Roma population remains a major loss of human capital and cohesion risk.
- **Regional inequality remains notable, with divergence between the booming central-western corridors and the stagnant peripheries**. In 2024, the at-risk-of-poverty-or-social-exclusion rate (AROPE) was 26 per cent in rural areas, 11 p.p. higher than in urban areas. A rigid housing market, deteriorated healthcare infrastructure and weak rural finance access compound the divide.



Source: Eurostat

Integrated (7.1)

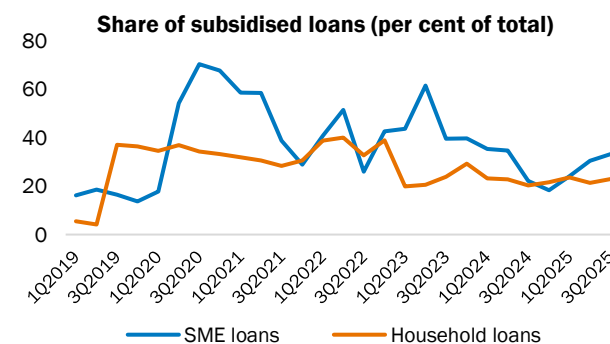
- **Export integration delivers scale but limited domestic upgrading**. Hungary is one of the most integrated economies in global value chains, but the domestic value-added content of automotive exports is only about 33 per cent, against around 50 per cent in Czechia, and it has not moved in a decade. Rising FDI from Asia has an even lower domestic content.
- **Domestic economic policy drove a significant drop in foreign investment in services**. Correlated with the policy to support "national champions", the share of FDI in services has significantly declined in recent years to levels comparable to regional peers.
- **Sectoral concentration and cross-border connectivity gaps limit regional integration**. The automotive/battery concentration heightens exposure to global EV demand, EU tariffs on Chinese EVs and an EC foreign-subsidy investigation into BYD, while non-road transport infrastructure and international connectivity remain under-developed relative to CEB peers.



Source: OECD, IMF

Resilient (7.3)

- **Public support schemes have significantly altered credit allocation, weakening market discipline**. Subsidised loans made up around a third of corporate lending at end-2025, and refinancing at market rates is a risk as these portfolios mature. Subsidised mortgages have pushed household credit and house prices up by over 15 per cent, with overvaluation estimated above 20 per cent. Contingent liabilities have more than doubled since 2019, the highest among EU-11 peers.
- **Hungary's financial system remains shallow beyond banking**. Stagnant capital markets, a narrow investor base and low non-bank financing limit long-term, risk-bearing capital for firms and infrastructure.
- **Energy security remains fragile**: Russia supplied ~74 per cent of gas and ~86 per cent of oil in 2024, deepened by the Russian-built Paks II project, while EU law ends Russian LNG imports in 2027 and pipeline gas in autumn 2027.
- **High climate risk exposure is affecting energy, infrastructure and agricultural systems**. As an example, the severe drought and high temperatures in summer 2026 exposed the vulnerability of the Paks nuclear plant to low water levels, contributing to higher electricity prices and imports. Transport infrastructure and logistics were disrupted, while agricultural output significantly declined.



Source: MNB

4. Government Priorities and Stakeholder Engagement

4.1 Government Reform Priorities

The reform priorities of the new government, based on “*The Foundations of a Functioning and Humane Hungary*” programme published in February 2026 ahead of the election in April 2026, is structured around four broad pillars:

- The “Prosperous and Successful Country” pillar prioritizes **SME development**, the reduction of administrative burdens, and a shift towards a more predictable and transparent business environment. Measures include tax reductions for lower-income earners, a wealth tax of 1%, cuts to distortionary subsidies for large corporates, and simplified tax regimes for SMEs.
- The “Peaceful and Orderly Country” pillar focuses on security, institutional stability, and **governance**. It also places emphasis on strengthening local government autonomy and decentralisation, with the objective of improving regional development and enhancing the responsiveness of public administration.
- The “Free and Happy Country” pillar prioritises investment in **healthcare, education, social services, and public transport**. Social measures include expanded support for single-child families, children with disabilities, as well as pledges to promote gender equality and Roma inclusion.
- The “Sustainable and Secure Country” pillar includes measures to **strengthen energy security** and **environmental sustainability**. The programme commits to phase out Russian energy imports by 2035, double the share of renewable energy by 2040, and review environmentally sensitive industrial investments. The government also plans to expand the utility price-cap scheme, introduce energy efficiency subsidies and reduce VAT on firewood.

Other commitments include recovering misappropriated public assets, improving judicial independence, and joining the European Public Prosecutor’s Office. The programme also emphasises improving Hungary’s positioning within the EU and NATO and pursuing a more predictable, pro-European policy stance, including economic policy priority of Eurozone entry.

4.2 EBRD Reform Areas Broadly Agreed with Authorities

- Facilitate the effective utilisation of EU funds with project implementation, as well as policy and technical support, including with other IFIs to support absorption and implementation.
- Promote human capital development through affordable housing, including via market-based solutions to support access to housing finance.
- Support the development of the local capital market with anchor investments and technical support for bond issuances and capital market integration.
- Advance improvements in energy efficiency, grid development, storage capacity and diversification of energy supply.
- Support regional connectivity and cross-border infrastructure to promote trade, integration and reduce regional disparities.

4.3 Key Messages from Civil Society to EBRD

- Civil society representatives highlighted the importance of advancing anti-corruption measures, improving transparency and integrity in public procurement, strengthening oversight mechanisms, and supporting reforms that enhance the rule of law, judicial independence and effective checks and balances. Participants encouraged the EBRD to promote meaningful stakeholder consultation, including engagement with civil society, in the design and implementation of reforms and investments.
- CSOs emphasised the need to strengthen social inclusion and address persistent inequalities, including gender disparities in employment, pay and decision-making, as well as discrimination affecting Roma communities and LGBTQI+ persons. Participants highlighted the importance of protecting civic space, ensuring an enabling environment for civil society organisations, and incorporating inclusive approaches into policies, programmes and investments.
- Civil society representatives stressed the need for ambitious climate action focused on energy efficiency, resource efficiency and sustainable energy solutions. The main suggestions from CSOs included improving the energy performance of buildings, supporting renewable energy diversification (including wind, geothermal and energy communities), strengthening electricity grids, promoting sustainable urban regeneration and social housing, and ensuring that industrial development—particularly in sectors such as battery manufacturing—is aligned with environmental safeguards and long-term climate objectives.

5. Defining Hungary Country Strategy Priorities

What needs to change? (Country Diagnostic)	Can it be changed? (Political Economy)	What can the Bank do? (Institutional Capabilities)	Strategic Priorities (2026-2031)	What We Want to see in 2031
• Hungary's decarbonisation remains unbalanced: rapid solar deployment is constrained by grid bottlenecks, limited storage, weak flexibility and regulatory uncertainty, slowing further electrification. • Distorted energy-price signals, continued fossil-fuel subsidies and regulated tariffs weaken incentives for energy efficiency, renewable heat and demand-side transition, while keeping gas dependence structurally high. • Heavy reliance on Russian oil, gas and nuclear supply exposes the economy to geopolitical shocks and delays regional energy integration. • Climate adaptation and system resilience (water, grids, heat) are insufficiently embedded in investment planning. • A three-layered private-sector structure limits spillovers: foreign-owned exporters generate limited domestic value added, state-influenced firms dominate strategic sectors, and SMEs lag in productivity, innovation and scale-up. • Underdeveloped capital markets and heavy reliance on bank-based and subsidised finance constrain long-term funding, risk sharing and refinancing, particularly for growing firms.	• April 2026 elections created a window of opportunity to pursue reforms aimed at restoring institutional credibility, improving the business environment, unlocking EU funding, and advancing convergence towards eventual euro adoption. • Energy price volatility and security concerns, and EU-level decarbonisation requirements create stronger incentives to rebalance the energy mix and strengthen system flexibility. • Solar leadership provides a foundation for scaling storage, grids and electrification if enabling frameworks improve. • Municipalities, utilities and private firms show readiness to invest in renewables and energy efficiency where bankable structures, long-term signals and risk-sharing are available. • Hungary retains strong institutional capacity in selected areas (courts, digital public services, financial supervision), which can support improvements in governance and implementation. • Private firms demonstrate appetite for innovation, digitalisation, and investments for modernisation and expansion where there is a clear market demand. • Regional integration and investor interest remain strong where credible frameworks are in place, providing scope for significant change.	• Scale investment in renewables beyond solar, including storage, grids, flexibility solutions and regional interconnectors, combining finance with targeted policy engagement and advisory, based on substantial EBRD's experience and expertise. • Support decarbonisation and resilience in energy-intensive sectors, buildings and district heating through investment, risk-sharing and advisory, aligned with SCF green-systems priorities. • Promote market-based green finance (green bonds, transition instruments, PFIs) to crowd in private capital and reduce reliance on administratively driven mechanisms. • Use high-impact private-sector investments to strengthen corporate governance, including through equity and capital-market instruments, building on EBRD's experience and expertise. • Support capital-market deepening and diversification to reduce reliance on subsidised credit and strengthen resilience. • Anchor policy engagement to transactions to promote more predictable regulation, competition-friendly frameworks and improved SOE governance where relevant. • Crowd-in private capital and participate with financing and TA for key infrastructure projects, including via PPPs and climate adaptation investments in water management and green transport. • Promote financial instruments blending with TA, capacity building and funding to increase SMEs' competitiveness, digitalization and energy efficiency across sectors. • Support corporate governance reforms that align the Gender Equality and Human Capital Strategy with long-term competitiveness and innovation objectives.	Strengthen economic governance via stronger competitiveness, and accelerated green transition	• Stronger economic governance through increased competitiveness, enabling sustainable private sector-led growth • Accelerating low-carbon growth, enhancing energy security and strengthening climate resilience

6. Activities and Results Framework

Priority : Strengthen economic governance via stronger competitiveness and accelerated green transition

Key Objectives	Activities	Tracking Indicators (Outcomes)
Stronger economic governance through increased competitiveness, enabling sustainable private sector-led growth	- Support economic governance and capacity building activities that improve transparency, competition, SOE governance (including support for listings (IPOs) on the Stock Exchange) and commercialization. - Promote transparent and competitive delivery models, support the use of rules-based mechanisms for allocating EU and public funding. Finance selectively key infrastructure projects, including TA and PPP advisory. - Mobilise private sector participation and investments into energy, transport, municipal infrastructure, housing and urban regeneration, including via financial instruments blending technical assistance, capacity building and funding, and via participation in PPPs. - Support capital market development including via investments in the issuance of capital market instruments (incl. labelled bonds) by corporates and financial institutions, and the introduction of innovative structured financial instruments. - Support the competitiveness and digitalization of the economy by investing in innovation, R&D, productivity upgrading, integration of local companies into international value chains, new technology and processes, workforce upskilling and digitalization (incl. e-commerce) across sectors, including via dedicated risk sharing facilities with PFIs and equity (direct or via PE Funds). - Leverage equity transactions to improve access to finance, strengthen corporate governance, and promote gender equality, including through equal pay, equal opportunities, and increased representation of women on boards and in management.	- Volume of bonds issued with EBRD's participation - No/volume of MSME beneficiary funding disbursed - No of people benefitting from new or improved infrastructure - Volume of FDIs supported - Number of clients with increased export sales - Outcome of infrastructure advisory assignments
Accelerated low-carbon growth, enhancing energy security and strengthening climate resilience	- Increase energy security and diversification, accelerate the energy transition and enhance system resilience through a combination of regulatory reform, competitive auction schemes, stronger grid and energy storage investment, mobilisation of private capital, and continued financing of energy storage and renewable-energy projects. Monitor developments in the nuclear sector, should any opportunities in line with the EBRD's Energy Sector Strategy emerge. - Facilitate corporate decarbonization, energy efficiency, circular economy, and resource efficiency with funding and TA. Support sustainable exploration and production of critical materials. - Finance green investments in transport (e.g., railways, electric rolling stock, e-mobility, and EV value chains) and municipal infrastructure, including funding of utilities companies. - Strengthen climate resilience through investments in sustainable water management and efficient irrigations systems, climate-resilient infrastructure and public transport networks, climate-smart agriculture technologies and energy efficient buildings.	- Energy saved (GJ/year) - CO2e emissions reduced (Ktonnes/year) - Renewable Energy capacity installed (MW)



7. Implementation Risks and Environmental and Social Implications

Risks to the strategy implementation	Probability	Effect	Environmental and social implications
Internal policy tensions due to the ruling party's broad and diverse support base could complicate policy prioritisation and cohesion			Assessment and Management of Environmental & Social (E&S) Impacts: Direct, indirect, transboundary and cumulative E&S impacts of projects must be appropriately assessed and mitigated in line with EBRD Environmental and Social Requirements (ESRs) and EU EIA Directive. In Hungary, clients should prioritise meeting requirements concerning disclosure (especially during permit procedures), stakeholder consultation and meaningful consideration of project alternatives.
Inefficient credit allocations to the private sector may constrain long-term growth			Labour and Working Conditions: Clients should ensure Human Resource policies and labour practices comply with ESR2, particularly regarding non-discrimination and freedom of association, labour standards for contracted workers and migrant workers, and worker grievance mechanisms and access to information. Clients' practices must be inclusive and promote equal opportunities, especially for women and marginalised groups. Clients must ensure that potential digital risks associated with projects are appropriately assessed and mitigated.
Continued reliance on Russian and oil gas increases exposure to geopolitical, transit, and price shocks			Resource Efficiency and Pollution Prevention and Control: Challenges persist in waste and wastewater collection and treatment in Hungary; therefore, these are priority issues for client compliance.
Limited presence of institutional investors may lead to underdeveloped capital markets			Health and Safety: Clients must meet occupational and community health and safety requirements, with a focus on improving road safety, preventing workplace accidents, and preventing gender-based violence and harassment. Land Acquisition, Involuntary Resettlement and Economic Displacement: Projects requiring land acquisition, either permanent or temporarily, must comply with the compensation and livelihood restoration requirements of the Bank; clients should pay particular attention to informal land users and Roma communities. Biodiversity Conservation and Sustainable Management of Living Natural Resources: Robust biodiversity assessments are required for projects in sensitive locations, to avoid the encroachment or fragmentation of sensitive habitats. In line with EBRD ESR6, projects must result in no net loss, or a net gain, when feasible, of priority biodiversity features and a net gain of critical habitat. Cultural Heritage: Clients must undertake appropriate assessments, mitigation plans and stakeholder engagement to protect tangible and intangible cultural heritage. Financial Intermediaries (FI): FI partners must have adequate E&S capacity and risk management procedures in place. Stakeholder Engagement: Clients must meet stakeholder engagement requirements; key priority issues for clients are stakeholder identification and information disclosure throughout the project lifecycle.

 High
  Medium
  Low

8. Donor Partnerships Assessment

Needs Assessment for the New Country Strategy Period

To achieve the goals of the new country strategy, donor funds are required to support several key activities:

- Technical cooperation (TC) to support the green transition and improve energy and resource efficiency, including renewable energy deployment (wind, solar, geothermal), energy storage, grid modernisation and digitalisation, decarbonisation of strategic sectors, and resource efficiency investments in transport, municipal infrastructure and the private sector.
- Support the use of rules-based mechanisms for allocating EU and public funding, including technical assistance and PPP advisory for project preparation and investments in key infrastructure projects and energy security & diversification.
- Advisory and technical assistance to facilitate private sector participation in regional projects and corporate transactions, including cooperation with foreign investors and workforce upskilling.
- Support for economic resilience and competitiveness, including capital market development, innovation, R&D, digitalisation and governance improvements in the private sector.

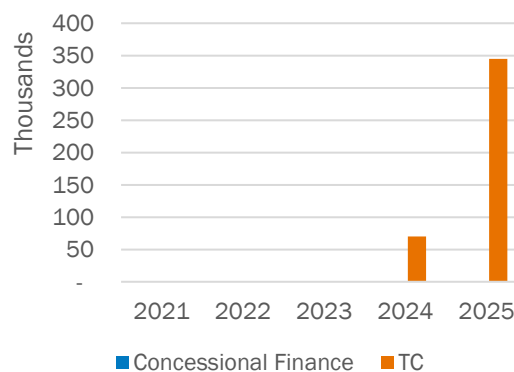
Potential Sources of Donor Funds

- The EU is anticipated to continue serving as the main provider of donor funding in Hungary via the InvestEU Programme, offering guarantees and technical cooperation to advance investment projects consistent with the Bank's priorities and InvestEU policy objectives. Further funding opportunities may be available through EU cohesion funds and other EU instruments.

Selected Affordability Indicators

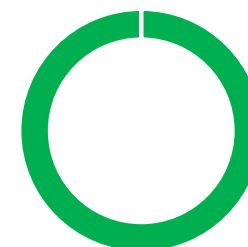
	EBRD regional percentile rank ¹	
GDP per capita (PPP, current. \$) ²	48,157	N/A
ODA Country	No	N/A
ODA as share of Gross National Income (%)	N/A	N/A
ODA per capita (\$ - current prices) ³	N/A	N/A

Donor finance 2021-2025 (€)³



Use of funds in 2021-2025⁴

TC Grants



1. Simple percentile rank reported as the share of EBRD economies represented below Hungary. 2. IMF WEO 3. 2021-2025 TC data is based on earmarks at the project level. Concessional finance grant amounts historically used to be based on client signings but have since changed to earmarks except for unfunded guarantees 4. Based on the primary Transition Quality of grants earmarked and client signings for unfunded guarantees.

Annex

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Annex 1 – Political Assessment in the Context of Article 1 (1/5)

Hungary's commitment to the principles set out in Article 1 has continued over the period since the previous Country Strategy approval. Their application during the previous Country Strategy period, particularly in relation to the situation with the rule of law, was highlighted by EU institutions and relevant international organisations as a matter of concern.

Hungary has been subject to an Article 7(1) TEU procedure since 2018, reflecting EU-level concerns about aspects of the country's rule of law and fundamental rights environment.¹ In parallel, in 2022 the European Commission (EC) activated the Rule of Law Conditionality Mechanism, a process ultimately adopted by the Council of the European Union, linking EU budget disbursements to respect of rule of law principles.² In May 2026, the new Hungarian government agreed with the EC on a path towards releasing previously blocked EU funds. During the previous Country Strategy period, the use of emergency powers through successive "states of danger" continued – initially due to Covid-19 pandemic restrictions and later in view of Russia's war of aggression against neighbouring Ukraine launched in 2022. The "state of danger" ended in May 2026.

The outcome of the parliamentary elections on 12 April 2026 has resulted in a major political shift. The new authorities have signalled their intention to restore the rule of law, strengthen the independence of public institutions and media, and address long-standing points of contention in relations with EU institutions. The conduct and outcome of the elections have reaffirmed Hungary's fundamentals as a multiparty democracy.

The constitutional and legislative framework for a pluralistic parliamentary democracy is in place. The guarantees for fundamental rights and for a meaningful role for civil society are largely in line with international and European standards. Hungary has been a member of the European Union (EU) since 2004.

1. European Parliament, Resolution on proposal calling on the Council to determine pursuant to Article 7(1) TEU, existence of clear risk of a serious breach by Hungary of the values on which the Union is founded, 2018.
2. Council of the European Union, Council Implementing Decision (EU) 2022/2506 on measures for the protection of the Union budget against breaches of the principles of the rule of law in Hungary, 2022.
3. OSCE/ODIHR, Election Observation Mission, Hungary: Parliamentary Elections 12 April 2026, Statement of Preliminary Findings and Conclusions.

Free Elections and Representative Government

Free, fair and competitive elections

The Hungarian legal framework provides a sound basis for democratic elections. The most recent general election was held in April 2026. In its preliminary statement, the OSCE Office for Democratic Institutions and Human Rights (ODIHR) concluded that elections featured high voter participation and genuine choice, but were not conducted on a level playing field, with the then-ruling party benefiting from systemic advantages such as media bias, misuse of state resources, and blurred boundaries between state and party. While election day itself was largely well administered and orderly, significant shortcomings in campaign conditions, legal safeguards, and dispute resolution undermined overall fairness, equality of opportunity, and public confidence in the process.³ The EC's rule of law assessment corroborates persistent gaps in political finance rules that affect electoral competitiveness.⁴

Separation of powers and effective checks and balances

Hungary is a parliamentary republic. The Constitution (Fundamental Law) provides for the separation of powers and institutional checks and balances within the political system. The National Assembly is the unicameral legislative body and has the power to pass laws and elect the President of the Republic for up to two five-year terms. The President plays a largely ceremonial role but has a power of suspensive veto on acts of parliament and may send laws to the Constitutional Court for control of constitutionality. The Prime Minister holds executive power and is elected by a majority of the National Assembly. During the previous Country Strategy period, the EC had highlighted Hungary's extensive reliance on emergency powers under successive "states of danger" as undermining checks and balances, noting that their prolonged use has shifted decision-making away from ordinary legislative scrutiny and weakened legal uncertainty.⁵

4. European Commission, 2025 Rule of Law Report, Country Chapter on the rule of law situation in Hungary, 8 July 2025.
5. *ibid*

Annex 1 – Political Assessment in the Context of Article 1 (2/5)

Effective power to govern of elected officials

Hungary has established institutional, legal, and financial arrangements for elected officials to exercise effective power to govern, which are not constrained by any non-democratic veto powers.

Civil Society, Media and Participation

Scale and independence of civil society

Hungary's civil society organisations (CSOs) sector is diverse and vibrant. There are approximately 61,000 CSOs in the country.⁶ The civil society space has been shaped by high political polarisation and increasing state scrutiny of organisations has been perceived as critical during the previous Country Strategy period. Since the repeal of the 2017 foreign-funded organisations law in 2021, the previous government introduced legislative measures affecting CSOs, particularly regarding foreign funding and oversight, which, according to the EC and other EU bodies, contributed to a deteriorating and legally uncertain environment for civic space. The EC's reporting in 2026 noted that the new government has made some progress in removing obstacles to civil society, but legislation restricting CSOs activity remains in force.⁷

A focal point in recent years has been the Sovereignty Protection Office (SPO), established under the "Protection of National Sovereignty" framework in late 2023. The EC has reported that the SPO initiated several investigations concerning CSOs, and that certain SPO reports labelled activities linked to EU programmes implementation as carrying a "serious sovereignty risk".⁸ The new Hungarian parliament abolished the SPO in June 2026. In 2025, the Council of Europe Commissioner for Human Rights characterised the civic space context as one in which constitutional and legislative changes "appear aimed at silencing civil society organisations" through restricting operating space.⁹

6. Hungarian Central Statistical Office (KSH).

7. European Commission, 2026 Rule of Law Report, Country Chapter on the rule of law situation in Hungary, 17 July 2026.

8. European Commission, 2025 Rule of Law Report, Country Chapter on the rule of law situation in Hungary, 8 July 2025.

9. Council of Europe, Statement by the Commissioner for Human Rights, 27 June 2025.

10. European Commission, 2025 Rule of Law Report, Country Chapter on the rule of law situation in Hungary, 8 July 2025; and Council of Europe, Memorandum on freedom of expression and media freedom in Hungary, 30 March 2021.

Independence and pluralism of media operating without censorship

The right to free speech is enshrined in the Constitution (the Fundamental Law). The legal framework for the media is largely in place and in line with international standards.

Since the last Country Strategy, Hungary's media environment has been assessed as shaped by regulatory centralisation, ownership concentration, and state-linked market influence, factors that affect pluralism.¹⁰ The EC notes some progress following reforms to the media regulator and public service media in June 2026, while concerns remain regarding media ownership transparency, state advertising and the working environment of journalists.¹¹ The creation of the Central European Press and Media Foundation (KESMA) in 2018, which consolidated hundreds of pro-government media outlets under a single umbrella, has been viewed as a development affecting negatively media pluralism.¹²

The role of Internet and social media as source of public information is constantly increasing.

Multiple channels of civic and political participation

Multiple channels of civic and political participation are in place. The system of public consultations is largely in place, although its rules are not always enforced. The EC further highlights that important legislative processes are sometimes not linked to public consultation requirements.¹³

Freedom to form political parties and existence of organised opposition

The freedom to form political parties is guaranteed by the Constitution and implemented in practice. The ability of opposition forces to campaign and compete effectively was underscored by the then-opposition TISZA party winning the 12 April 2026 parliamentary elections.

11. European Commission, 2026 Rule of Law Report, Country Chapter on the rule of law situation in Hungary, 17 July 2026.

12. European Commission, 2022 Rule of Law Report, Country Chapter on the rule of law situation in Hungary, 13 July 2022.

13. European Commission, 2026 Rule of Law Report, Country Chapter on the rule of law situation in Hungary, 17 July 2026.

Annex 1 – Political Assessment in the Context of Article 1 (3/5)

Rule of Law and Access to Justice

Supremacy of the law

Necessary legislative and institutional safeguards for the supremacy of the law are in place. Citizens are equal before the law, have the right to a free and fair trial, and are free from arbitrary arrest or detention.

Independence of the judiciary

The independence of the judiciary is guaranteed by the Fundamental Law and key safeguards are in place to ensure its impartiality. Judges can be removed only for reasons and through procedures prescribed by the law.

During the previous Country Strategy period, international organisations and EU bodies have raised concerns regarding the independence and effectiveness of the judiciary, including inconsistencies in judicial decision-making. The EC's assessments frame the judiciary as an area of both reform and continuing contestation, emphasising the institutional dynamics around judicial self-governance, appointments, and transparency of case allocation. Public and companies' perception of the independence of the judiciary has remained relatively low by EU standards in recent years.¹⁴ In 2023, Hungary adopted judicial reforms aimed at addressing concerns over judicial independence. The European Commission subsequently concluded that Hungary had met the judicial-independence requirements under the relevant horizontal enabling condition, unlocking access to part of previously suspended funds under cohesion policy. The European Parliament challenged the assessment before the Court of Justice of the European Union, with the case remaining pending.

Strengthening the independence of the judiciary and restoring the rule of law is a key priority of Hungary's new government, following the parliamentary elections on 12 April 2026.

Government and citizens equally subject to the law

The Fundamental Law guarantees the equality of all citizens before the law, and it is generally upheld in practice.

Effective policies and institutions to prevent corruption

Hungary is a signatory to the relevant multilateral anticorruption instruments, such as the United Nations Convention Against Corruption (UNCAC) and the Anti-Bribery Convention of the Organisation for Economic Co-operation and Development (OECD). Although the legal framework can be considered satisfactory, implementation could be further strengthened.

EU and Council of Europe bodies have remained critical of Hungary's anti-corruption framework during the previous Country Strategy period. The EC's 2025 rule of law report identified anti-corruption institutional developments but stressed limitations in operational effectiveness. It noted that the Integrity Authority continued to report obstacles in fulfilling its oversight tasks effectively, while key shortcomings persist in public procurement.¹⁵ Council of Europe's Group of States against Corruption (GRECO) has reported the absence of a code of conduct or ethical rules for top executive, while integrity measures tend to focus on lower and mid-level officials.¹⁶ In its Fourth Round compliance work, covering members of parliament, judges and prosecutors, GRECO noted that Hungary had implemented satisfactorily five out of eighteen recommendations.¹⁷

The latest (2025) Transparency International Corruption Perceptions Index (CPI) ranked Hungary 84th out of 182 countries and territories, with the country remaining in the lowest tier of the EU region.

15. European Commission, 2026 Rule of Law Report, Country Chapter on the rule of law situation in Hungary, 17 July 2026.

16. Council of Europe, GRECO, Fifth Evaluation Round report on Hungary, published on 9 June 2023.

17. Council of Europe, GRECO, Fourth Evaluation Round report on Hungary, published on 8 September 2022.

14. European Commission, Flash Eurobarometer surveys, 540/555.

Annex 1 – Political Assessment in the Context of Article 1 (4/5)

Civil and Political Rights

Freedom of speech, information, religion, conscience, movement, association, assembly and private property

Overall, civil and political rights are legally protected in Hungary. The Constitution contains a comprehensive catalogue of fundamental human rights. Hungary is a signatory to major international human rights instruments. Freedom of speech, information, religion and conscience, movement, association and assembly are therefore formally guaranteed. Property rights are generally respected and protected.

The last assessment of Hungary's track record in the area of human rights in the framework of the United Nations Universal Periodic Review (UPR) was conducted in November 2021 (3rd cycle). Hungary received 267 recommendations and supported 131 at the adoption of its UPR outcome. Supported recommendations focused on legal frameworks, civil and political rights, and women's rights.¹⁸

Political inclusiveness for women, ethnic and other minorities

The Constitution prohibits discrimination on the grounds of race, colour, gender, disability, language, religion, political or other views, national or social origins, or other circumstances. Legislation is in place to combat racial incitement and hate speech.

On average women in the country earn less than men with equal level of professional qualifications. According to Eurostat, as of 2024, in Hungary the gender pay gap stood at 16.9 per cent, with the EU average standing at 11.1 per cent.¹⁹

Political inclusion of women remains relatively low. According to the OSCE/ODIHR, in the 2026 general elections, women were underrepresented as candidates (less than 25 per cent), and there were no special legislative measures to promote women's political participation.²⁰ From the UN perspective, the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW) has expressed concerns about regression in the promotion of gender equality and has connected women's rights with broader rule of law features.²¹

The authorities have continued efforts to address the specific situation of Roma through legislation and targeted measures aimed at improving their socioeconomic conditions, while maintaining their commitment to eliminating discrimination against them. In its 2022 report, OSCE/ODIHR noted that the electoral framework provides special provisions to enable minority parliamentary representation. Nonetheless, it recommended further efforts to ensure the meaningful participation and genuine consultation with minorities to be sought.²² In 2026, the electoral campaign was marked by instances of derogatory rhetoric targeting Roma communities, raising concerns about the inclusiveness of political discourse.²³

In recent years, UN human rights bodies have raised concerns about legislative and policy developments in Hungary affecting LGBTQI+ individuals.²⁴ After the adoption of the so-called 'child protection' law in June 2021, the EC initiated a legal action against Hungary for violations of the fundamental rights of LGBTQI+ people.

18. United Nations, UPR Database and <https://www.ohchr.org/sites/default/files/2022-06/Infography-hungary.pdf>

19. European Commission, Eurostat, Gender pay gap statistics.

20. OSCE/ODIHR, Election Observation Mission, Hungary: Parliamentary Elections 12 April 2026, Statement of Preliminary Findings and Conclusions.

21. United Nations, Convention on the Elimination of All Forms of Discrimination against Women, Concluding observations on the ninth periodic report of Hungary, 2 March 2023.

22. OSCE/ODIHR, Election Observation Mission, Hungary: Parliamentary Elections and Referendum 3 April 2022, Final Report, 29 July 2022.

23. OSCE/ODIHR, Election Observation Mission, Hungary: Parliamentary Elections 12 April 2026, Statement of Preliminary Findings and Conclusions.

24. United Nations, Comment by UN Human Rights spokesperson, 21 March 2025; and United Nations, Letter by the UN Special Rapporteur on Human Rights Defenders to the Government of Hungary, 18 November 2025.

Annex 1 – Political Assessment in the Context of Article 1 (5/5)

Freedom from harassment, intimidation and torture

Constitutional guarantees against harassment, intimidation, and torture are in place and are largely upheld in practice. A report by the Council of Europe's European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment (CPT), following a visit in 2025, noted that while conditions and management in the examined prison facilities have improved in some respects, persistent allegations of ill-treatment remain a concern.²⁵

25. Council of Europe, Committee for the Prevention of Torture (CPT), Visit Report: Hungary, 16 December 2025.