

A wind of change for Hungary

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Summary

- **Hungary's 12 April election delivered the country's most consequential result since 2010 and a decisive mandate for change.** Péter Magyar's Tisza secured a landslide victory, winning 53.5% of the vote and an estimated 138 of 199 parliamentary seats, comfortably above the 133 required for a two-thirds constitutional majority. Viktor Orbán's Fidesz fell to 38.0%. The result gives the incoming government the legislative room to pursue institutional reform, rebuild relations with Brussels and unlock around EUR18–19bn in frozen EU funds (~11% of GDP), while also improving the chances that Hungary's EUR16bn SAFE plan can move forward. With the end-2026 RRF deadline leaving little room for delay, the election removes the main political obstacle to EU re-engagement, though the key risk now shifts to implementation speed amid potential resistance from institutions still shaped by the Orbán era.
- **The proposed policy changes point to near-term fiscal expansion, with growth increasingly supported by announced tax cuts, social measures and renewed EU financing prospects.** Tisza's announced measures - lower labor taxes for low-income earners, VAT cuts, continued pension and household support - are clearly expansionary and should support household incomes and domestic demand. This comes on top of existing pressures from the Iran-driven energy shock, which is already increasing the fiscal cost of subsidies and could add up to 0.7pp of GDP to the deficit. At the same time, improved prospects for unlocking frozen EU funds would ease financing constraints, revive investment and support a more durable recovery, with GDP growth likely to recover to around +1.6% in 2026 from 0.4% in 2025, as the investment cycle begins to turn in H2. Inflation has fallen sharply, but the disinflation looks temporary, and energy prices and rising geopolitical risks should keep the NBH on hold in the next months at 6.25% as price pressures are likely to re-emerge.
- **The forint is where the election trades first and where the upside is largest.** The forint is the primary transmission channel for political repricing, appreciating more than 2% against the euro on Monday morning to its strongest level in around four years. Pre-election FX gains appear to have been driven by regional rather than Hungary-specific factors, suggesting limited election premium was priced in - leaving room for further appreciation if the political signal reasserts itself. The Poland 2023 precedent, where PLN gained 14.5% against CZK over the 12-month election window, illustrates the scale of upside. In local bonds, repricing is likely to be more muted: the Iran-driven sell-off pushed 10Y HGB yields from 6.47% to 7.55%, erasing any prior election premium, and any future constructive repricing would start from a higher-yield base.
- **Beyond Hungary, a political restart could ease EU decision-making and strengthen the EU's capacity to act collectively on strategic priorities.** Hungary accounts for 21 of the 48 publicly reported EU vetoes since 2011, with the pace of obstruction accelerating markedly since late 2023. In response, the EU has already shown greater ability to preserve policy continuity and act under pressure, including by using Article 122 TFEU in December 2025 to indefinitely freeze around EUR210bn in Russian central bank assets without unanimity. A more cooperative government in Budapest would likely reduce tactical veto use on Ukraine, sanctions and enlargement, lowering headline political risk and improving policy cohesion. More broadly, it would reinforce a recent trend toward stronger coordination and more effective collective action at EU level, particularly in areas such as Ukraine support, defense and common financing.

Hungary's new political era: A break from the past with a complex transition ahead

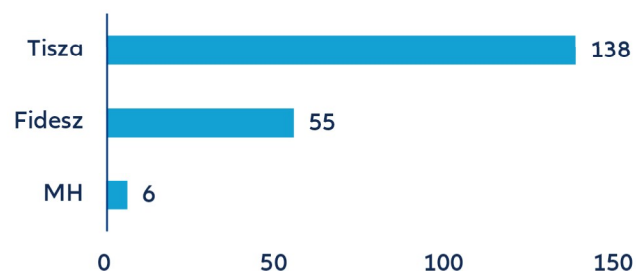
Hungary has voted decisively for political change, bringing an abrupt end to Viktor Orbán's 16-year domination of the country's political system. In a historic parliamentary election, Péter Magyar's Tisza secured a landslide victory that goes well beyond a routine alternation in power: it amounts to a clear popular mandate for a systemic political reset. With 98.72% of votes counted, Tisza won 53.48% of the vote and is estimated to secure 138 of the 199 seats in parliament, five above the 133 needed for a two-thirds constitutional majority. Orbán's Fidesz, by contrast, fell to 37.95%, trailing by more than 16pps and winning just 55 seats, while the far-right Mi Hazánk was the only other party to enter parliament, with 5.88% of the vote and six seats (Figure 1). The scale of the result was underpinned by exceptionally high political mobilization: turnout is estimated at around 80%, well above both the post-transition average of 63% and the previous record of 73.51% in 2022. This was not simply an opposition victory, but an unequivocal rejection of the Orbán system by an electorate voting in unusually large numbers.

Tisza's dominance in single-member constituencies was the key factor that transformed a strong electoral win into a constitutional supermajority. Before the vote, only one major poll, Median, had suggested that a two-thirds majority was even plausible, while a simple majority appeared the more likely outcome. But Hungary's mixed electoral system rewards not only vote share but also territorial concentration and constituency performance. Tisza won 93 of 106 single-member districts, allowing it to convert a decisive but not unprecedented vote lead into an unexpectedly large parliamentary majority.

The political implications are profound. Even a simple Tisza majority would have represented a meaningful break with the past and a positive signal for Hungary's relations with the EU. But a constitutional majority materially changes the scope for institutional reset. It gives the new government full control of the legislative process and the power, if needed, to amend the constitution, reducing the ability of Fidesz-era institutional appointees to obstruct reform. This matters especially in areas that have long been at the core of Hungary's disputes with Brussels, including judicial independence, electoral law, media governance and public procurement. In that sense, the result does not merely change the government; it creates the political conditions for a broader dismantling of the institutional architecture built under Orbán, with major implications for EU funds, domestic governance and the macro outlook.

Despite the scale of the electoral mandate, the transition is likely to be gradual rather than frictionless, with risks shifting from political continuity to implementation and institutional resistance. Policy discontinuity may prove more limited than headline results suggest: Péter Magyar is not a traditional opposition outsider, having served within Hungary's EU apparatus and maintained close ties to the Fidesz establishment, which may moderate the pace of divergence on sensitive issues such as migration, sovereignty rhetoric and the terms of EU re-engagement. More fundamentally, a two-thirds majority is necessary but not sufficient for institutional reset. After more than a decade of centralization, key institutions – including the judiciary, prosecution system and governance bodies – remain deeply influenced by Fidesz-era appointments, suggesting that reform implementation could be slow, contested and politically costly, as seen in Poland after 2023. While Viktor Orbán has accepted defeat, reducing the risk of immediate political disruption, the legal and institutional architecture built during his tenure, as well as his broader domestic and international networks, may continue to shape Hungary's policy trajectory and complicate the speed and depth of the transition.

Figure 1 : Number of seats in the parliament by party



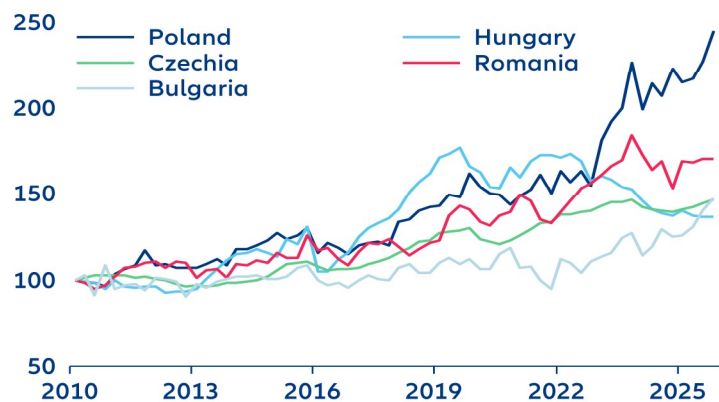
Sources: National Electoral Office, Allianz Research

The political change brings a macro reset: how much can change and how fast?

Hungary enters the election period with the weakest economic growth among the large CEE economies. Growth has stagnated, and the recovery remains narrow and unbalanced. GDP rose by just +0.3% in 2025, while the quarterly picture shows no meaningful momentum (+0.2% q/q in Q4 2025), leaving overall growth well below what would normally be consistent with Hungary's medium-term potential. The problem is not that demand has collapsed, but that it is recovering in an unhealthy way. Consumption has held up, supported by pre-election fiscal measures including tax relief, transfers and price controls. Private consumption rose by +4.8% q/q in Q4, while public consumption increased by +5.2%, buoyed by public wage hikes, food vouchers and bonus pension payments. However, this amounts to policy-driven support rather than evidence of a broad-based recovery in private-sector confidence.

Investment is the missing engine. Real gross fixed capital formation (GFCF) has fallen by a cumulative -21% from its mid-2022 peak, declining in almost every quarter since, with the latest Q4 2025 reading still contracting by -0.7% q/q. This is no longer a cyclical setback: Hungary is the only large CEE economy where investment remains materially below pre-pandemic levels. An economy can cushion growth through consumption for a time, but it cannot sustain convergence while investment remains this weak (Figure 2).

Figure 2: Investment for largest CEE economies, Index 2010=100



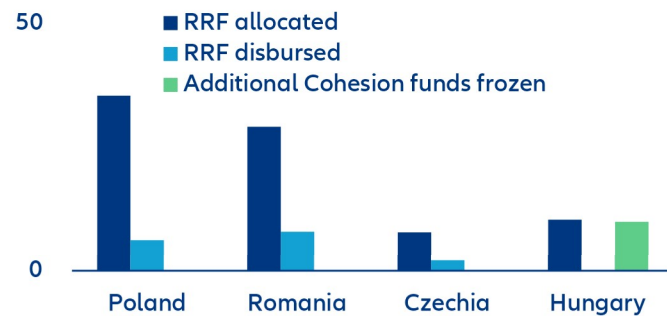
Sources: LSEG Datastream, Allianz Research

The collapse in investment has a clear explanation: Hungary's frozen EU funds. The freeze began in 2022, when the European Commission triggered the Conditionality Regulation against Hungary for the first time in the EU's history, leading to the suspension of EUR6.3bn in cohesion funding in December 2022. At the same time, approval of Hungary's Recovery and Resilience Facility (RRF) plan came with unusually strict conditions: the Council required Hungary to meet 27 so-called "super milestones" before any meaningful disbursement could take place, covering judicial independence, anti-corruption safeguards and audit and control systems. As of mid-2025, only 17 of the 27 milestones had been fully completed, while nine were only partially fulfilled and one remained unmet. Because all 27 must be satisfactorily implemented before payments can be approved, Hungary has remained effectively locked out of most of its EU recovery funding.

The amounts at stake are macroeconomically significant. Hungary's RRF envelope totals EUR10.4bn (EUR6.5bn in grants and EUR3.9bn in loans), yet only around EUR0.9bn in pre-financing has been disbursed so far – making Hungary the weakest absorber of RRF funds in the EU, with roughly 9% disbursed compared with an EU average of approximately 54%. In addition, around EUR8.4bn in cohesion funds remains frozen under the conditionality mechanism and related rule-of-law requirements (Figure 3). Hungary has already permanently lost EUR1bn because funds were not accessed within the required time window. In total, the blocked amount now stands at roughly EUR18-19bn, equivalent to around 11% of GDP. On top of this, Hungary also has around EUR16bn at stake under the SAFE defense facility. That would amount to roughly 7% of GDP, although it would come in the form of loans rather than non-repayable grants. The timing now matters as much as the amount. The RRF expires at end-

2026, with all milestones due by the end of August and all payment requests to be submitted by end-September. That leaves very little room for delay. Even under a change in government, the next administration would have only a few months to restore credibility with Brussels and satisfy the remaining conditions. This is why the election matters so much for the macro outlook: unlocking EU funds is not merely a political upside story but the key precondition for any meaningful recovery in investment.

Figure 3: NGEU funds, EUR bn



Sources: NGEU Tracker, Allianz Research

The election result materially changes Hungary's macro outlook. Tisza's landslide victory and, crucially, its two-thirds parliamentary majority significantly increase the probability of a reset in relations with Brussels and a faster effort to meet the remaining EU conditions. This does not imply an immediate economic step-change: The RRF timetable remains extremely tight, trust with the European Commission will need to be rebuilt and actual disbursements will still depend on concrete institutional reforms rather than political intent alone. But the result clearly improves the direction of travel. By removing uncertainty over the election outcome and reducing the risk of domestic political paralysis, it creates the conditions for confidence to recover and for the investment cycle to begin turning in H2 2026. Our baseline therefore remains that GDP growth can recover to around +1.6% in 2026, even amid the Iran-related energy shock. The key difference is that this recovery is now more credibly anchored in the prospect of institutional change and partial EU re-engagement. The main risk is no longer political continuity, but implementation: whether the new government can move quickly enough to deliver the reforms needed to unlock funds before the end-2026 deadline.

Tisza's party program provides some detail on policy direction, though the fiscal arithmetic remains ambitious. The platform commits to meeting the Maastricht criteria by 2030 and preparing euro adoption with a defined target date – both of which would require sustained fiscal consolidation and durable disinflation. At the same time, it pledges significant near-term spending increases: cutting the tax rate on the minimum wage from 15% to 9%, reducing VAT on prescription medicines to 0%, raising defense spending to NATO's 5% of GDP target by 2035, expanding the residential energy price cap system (*rezsicsökkentés*) and increasing healthcare spending by at least HUF 500bn per year. To fund this, the program relies on unlocking EU funds, anti-corruption savings, a 1% wealth tax on assets above HUF 1bn (~EUR2.5m) and the revenue gains from higher growth – estimating total additional fiscal room at 3.5–4.5% of GDP. Whether this arithmetic holds will depend heavily on the speed of EU fund disbursements and the pace of economic recovery, both of which remain uncertain.

Fiscal policy is likely to remain a near-term constraint even if the election result improves the medium-term outlook. Hungary entered 2026 with an already fragile budget position, after pre-election fiscal loosening and optimistic budget assumptions, and the Iran-related energy shock has made this more acute. Higher oil prices are feeding into inflation and, through a weaker forint, raising the fiscal cost of measures designed to suppress pass-through, including the reintroduction of fuel price caps, the HUF50bn heating support scheme and the broader *rezsicsökkentés* framework. We estimate these measures could add up to 0.7pp of GDP to the deficit, worsening an already weak starting point. At the same time, Tisza's campaign promises suggest that the near-term policy bias may still lean toward net easing, with tax cuts, higher defense spending, wage hikes and social support likely to offset part of any consolidation effort. This means that despite the political reset, 2026 is still likely to require a budget revision and tighter expenditure control to preserve fiscal credibility. Over the medium term, however, the

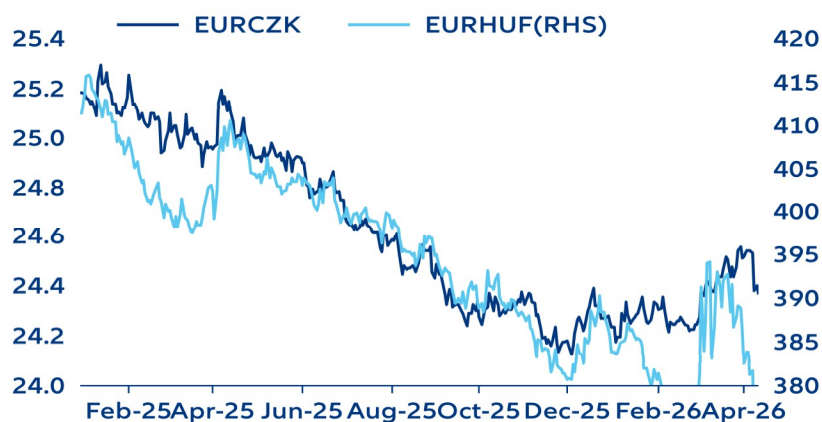
election result is clearly positive: A government with a strong mandate and better prospects for repairing relations with Brussels is more likely to unlock EU funds, reduce the need to finance investment through domestic borrowing and gradually improve the deficit and debt trajectory.

Hungary entered 2026 with much softer inflation than expected, with headline CPI falling to 1.4% y/y in February, well below the NBH’s 3% target. However, this disinflation is largely technical rather than structural. It reflects favorable base effects, temporary food price declines and administrative measures ahead of the election, rather than a durable easing in underlying price pressures. As these factors unwind – notably food margin caps and the planned fuel excise increase – inflation is set to rebound. An additional source of wage pressure may come from Tisza’s commitment to suspend all non-EU guest worker permits from 1 June 2026. With more than 120,000 non-EU workers currently employed in Hungary and annual quotas of around 35,000, a sudden halt to new permits could tighten labor supply in sectors that have become reliant on imported labor, adding to unit labor costs and reinforcing underlying inflation pressures at a time when the central bank has little room to respond.

The door to further easing has closed. The NBH delivered a final 25bps cut in February, bringing the policy rate to 6.25%, but the easing cycle has effectively stalled. The policy trade-off is stark: weak growth and depressed investment would normally justify further cuts, but rising energy prices, renewed inflation uncertainty and a vulnerable forint have sharply reduced room for maneuver. In Hungary, exchange-rate stability is the binding constraint as FX weakness feeds directly into inflation expectations. The Iran shock has therefore shifted the reaction function: not towards hikes, but towards a prolonged pause. Unlike other CEE economies, Hungary cannot afford to “look through” an energy shock, given its fragile inflation credibility and currency pressures. Fiscal policy is instead absorbing the first-round shock via subsidies, leaving an uncomfortable policy mix – a central bank forced to stay on hold while the government supports demand at the expense of fiscal sustainability.

The election repricing has started and FX is the clearest transmission channel. The forint is likely to be the fastest and most visible market channel through which the election outcome is expressed, and the early price action on Monday morning already points in that direction. Against the euro, the currency appreciated by more than 2%, reaching its strongest level in around four years. This is consistent with the view that FX reacts first to any repricing of Hungary’s political risk premium, the prospect of a reset in relations with the EU and the possibility of unlocking frozen EU funds. That is why the upside from a constructive political outcome is more visible in EUR/HUF than in local bonds. At the same time, the appreciation seen before the election, from 2025 into early 2026, should not be overinterpreted as evidence that markets had already priced this result. That earlier move appears to have been driven largely by broader regional macro forces rather than by a specifically Hungarian story. The close co-movement of EUR/HUF and EUR/CZK suggests that, until now, the forint had behaved more like a regional CEE currency than like an idiosyncratic election trade (Figure 4).

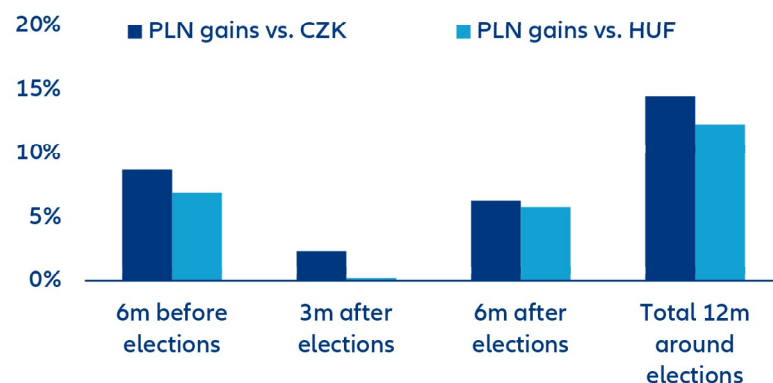
Figure 4: Czech koruna and Hungarian forint against the euro



Sources: LSEG Datastream, Allianz Research

The Iran shock has blurred what little election signal there was. HUF is among the most oil- and energy-sensitive currencies in the region, so as energy prices rose, the forint began trading much more in line with Hungary’s external vulnerability than with domestic political expectations, obscuring any early signs of constructive election repricing. The closest historical comparison is Poland in 2023, where the currency reaction was much cleaner and much more clearly country-specific. In the six months before the election, the zloty gained 8.7% against CZK and 6.9% against HUF, suggesting that markets were already pricing a Poland-specific political re-rating well ahead of the vote (Figure 5). The move did not stop there: even six months after the election, PLN was still 6.3% stronger against CZK and 5.8% stronger against HUF, leaving total gains over the 12-month election window at 14.5% and 12.3%, respectively. Hungary has not yet seen anything comparable. That is why the current set-up remains asymmetric: if the political signal starts to dominate after the results of this Monday, the appreciation potential for HUF could still be substantial even from a weaker starting point, precisely because so little election premium appears to have been priced in so far.

Figure 5: Polish zloty gains in election period against Hungarian forint and Czech koruna



Sources: LSEG Datastream, Allianz Research

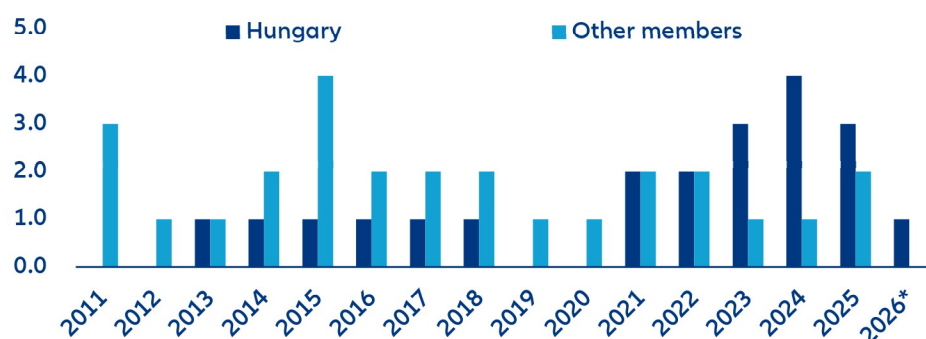
The 10Y local bond is likely the second Hungarian asset to respond to election pricing after FX, but the repricing should be more muted and less immediate. The experience of Poland in 2023 suggests that elections tend to show up much more clearly in the currency than in local bonds, where the political signal is diluted by inflation, fiscal dynamics and broader external rate moves. The same logic applies to Hungary. Earlier this year, part of a constructive election outcome had already started to enter bond pricing, with 10Y HGBs trading modestly rich to fair value, implying that some positive political premium was already embedded. Since the Iran shock, however, that limited election premium appears to have been largely erased: the sell-off in local rates pushed the 10Y yield from 6.47% on 27 February to a peak of 7.55% on 24 March (+108bp), before easing slightly to 7.25% by 31 March (+78bp vs 27 February), as markets refocused on Hungary’s exposure to higher energy prices, renewed inflation risks and a more constrained monetary outlook. Rather than pointing to a market that is already strongly pricing the political change, it suggests that 10Y yields have moved back toward – or above – levels justified by fundamentals, meaning that any future constructive election repricing in bonds would start from a higher-yield base and is likely to remain smaller and less clean than in FX.

Looking further ahead, euro adoption is likely to become part of the new government’s strategic policy agenda, made materially more feasible by Tisza’s two-thirds majority. Moving towards formal euro adoption has been one of the key longer-term objectives associated with the Tisza party, and the constitutional supermajority now gives the incoming government the political room to make any necessary constitutional changes should it decide to pursue that path seriously. However, important technical hurdles remain. First, fiscal and debt dynamics are still incompatible with the Maastricht criteria. Second, Hungary’s monetary framework is not yet aligned with eventual euro adoption: The NBH’s inflation target currently stands at 3% (±1pp), above the ECB’s 2% anchor, implying that any credible transition would require a gradual lowering of the target over time. In that sense, both fiscal consolidation and durable disinflation will be central to any meaningful accession strategy.

Beyond Hungary’s own convergence path, the election also carries broader institutional implications for the EU.

Hungary’s repeated use of veto power has evolved from isolated political episodes into a structural feature of EU governance, with implications that extend beyond individual policy delays. Hungary accounts for 21 of the 48 vetoes recorded since 2011 – 44% of the total, nearly double Poland’s seven – and the frequency has increased markedly since late 2023, with 11 vetoes occurring between 2023 and March 2026 (Figure 6). While these episodes have at times delayed decision-making, they have also prompted the EU to strengthen its capacity to act collectively in a more challenging geopolitical environment. In response, EU institutions and member states have demonstrated increasing flexibility in ensuring policy continuity, including by mobilizing alternative legal bases, expanding the use of qualified majority voting where possible and coordinating through coalitions when needed. In some cases, member states have proceeded effectively despite obstruction – most notably in December 2025, when Article 122 TFEU was used under QMV to freeze around EUR210bn in Russian central bank assets indefinitely, removing the biannual renewal risk and reinforcing the credibility of EU sanctions policy. Taken together, these developments point to a gradual strengthening of the EU’s ability to deliver outcomes even under institutional constraints, particularly in areas of strategic importance such as Ukraine support, sanctions and financial coordination. Looking ahead, this political shift in Hungary would likely reduce the use of tactical veto threats, easing negotiations and improving day-to-day policy coordination, while reinforcing a more unified EU stance externally. This would lower political uncertainty and strengthen perceptions of EU cohesion. At the same time, the progress made in recent years in enhancing policy coordination and responsiveness is likely to endure, supporting a more effective and resilient EU governance framework.

Figure 6: Reported vetoes in EU decisions requiring unanimity, 2011-2026



Sources: EU Vetoes Tracker, Allianz Research. Note: Vetoes are defined as any reported instance of a member state blocking joint EU action under a procedure requiring unanimous agreement, spanning European Council decisions, Council of the EU configurations and intergovernmental mechanisms such as the European Peace Facility.

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