

## **Financial Transaction Tax in Hungary as a Tool to Consolidate Public Finances**

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The financial transaction tax (FTT) introduced in Hungary in 2013 emerged as a significant instrument for consolidating public finances in the aftermath of the global financial crisis. This article provides a comprehensive analysis of the implementation, revenue generation, economic impacts, legal challenges, and public perception of the FTT over the past decade. The tax was designed to target financial sector operations—primarily bank transfers and cash withdrawals—with a view to diversifying budget revenues without directly burdening households through traditional taxes. Despite initial expectations for annual revenues of HUF 130–150 billion, actual collections often surpassed HUF 200 billion, indicating a strong fiscal contribution. The article investigates the tax's effects on public finances consolidation. While the FTT provided stable revenue, it faced criticism for being regressive, distorting market behavior, and increasing administrative burdens on financial institutions. The public and media voiced dissatisfaction with the opaque nature of fee structures, and the financial sector highlighted the tax's negative impact on operational efficiency. The article concludes that although the FTT fulfilled short-term fiscal objectives, it also generated unintended consequences that limit its long-term viability. As Hungary considers future fiscal policy, the need for reform lies in balancing revenue goals with administrative simplicity, fairness, and economic competitiveness. Comparative insights with Slovakia suggest that a simplified tax architecture, coupled with greater stakeholder transparency, may improve the legitimacy and functionality of such financial instruments.

### **Introduction**

A financial transaction tax is a form of indirect taxation that aims to impose a certain percentage on financial or commercial transactions. This instrument has been introduced by several countries in recent years as a response to the need to consolidate public finances and find alternative sources of revenue for the state budget. A transaction tax can be applied in various forms – from taxing bank transfers, through stock market transactions to specific types of financial transactions.

In Hungary, a financial transaction tax was introduced in 2013 as part of broader fiscal measures to reduce the public finance deficit and ensure its long-term sustainability. The implementation of the tax focused mainly on the financial sector, with the government assuming that it would expand the tax base in this way without a significant impact on the population. The Hungarian model represents an interesting case of state intervention in financial flows with the aim of stabilizing the public budget.

The aim of this article is to analyze the effects of a transaction tax on public finances, using the examples of Hungary and Slovakia. At the same time, the article focuses on comparing the effectiveness of this instrument as a means of fiscal consolidation and assessing its impact on the financial sector and economic environment in both countries.

## Historical Background and Implementation

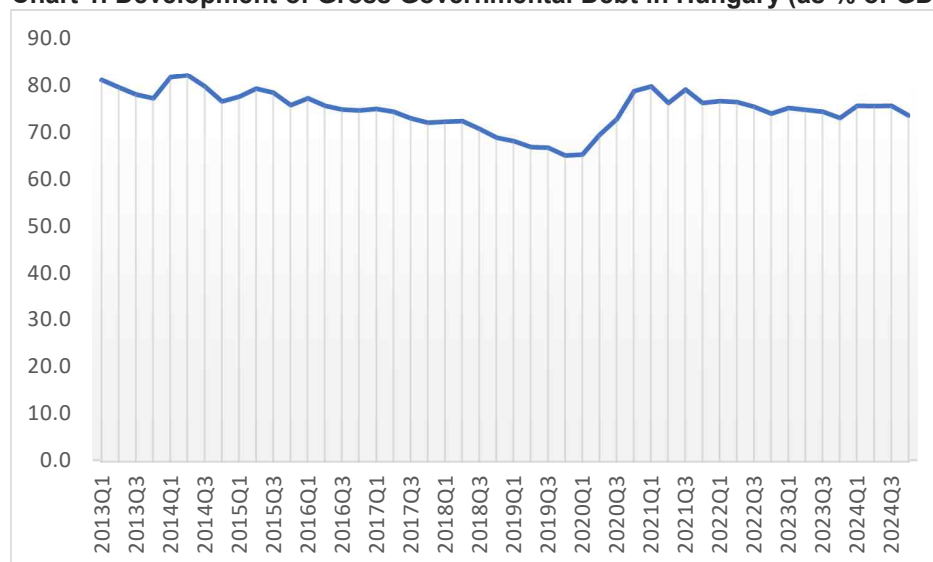
The transaction tax in Hungary was introduced as part of fiscal reforms in response to the consequences of the global financial crisis and the need to stabilize public finances. After the economic downturn and rising public debt in the period after 2008, the Hungarian government decided to diversify state budget revenues while reducing the deficit (Báger, 2021). The introduction of the transaction tax became a tool with which the government sought to increase revenues without having to increase the tax burden on the population through traditional forms of taxation, such as VAT or income tax (European Commission, 2024).

The transaction tax entered into force on 1 January 2013, and was primarily aimed at the financial sector. Financial operations such as bank transfers, cash withdrawals and other payment transactions are mainly subject to taxation. The original basic tax rate was set at 0.2% of the transaction value, with a higher rate of 0.3% applied to cash withdrawals (Ministry for National Economy, 2013). Over the following years, the rates were slightly adjusted and supplemented with various exceptions and specifications (Grant Thornton, 2024).

Exempt transactions include, for example, operations between accounts held within the same bank or transactions carried out by the central bank. The tax applies mainly to transactions of natural and legal persons carried out through banking institutions, with banks being obliged to pay this tax to the state (European Commission, 2024).

The primary objective of introducing the transaction tax was fiscal consolidation – reducing the budget deficit and ensuring the sustainability of public finances (see Chart 1).

**Chart 1. Development of Gross Governmental Debt in Hungary (as % of GDP from 2013 to 2024)**



Source: MNB (2025)

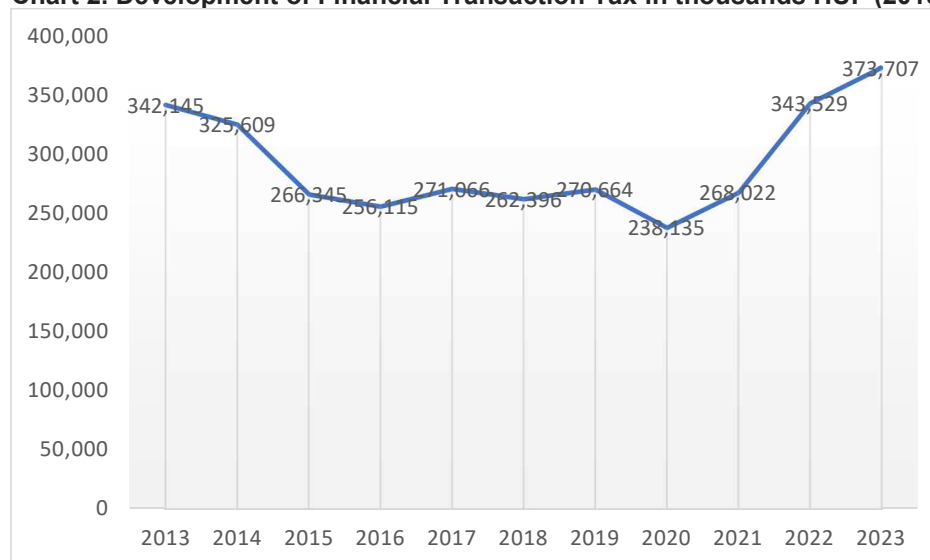
In addition, the tax was seen as a means of redistributing the burden of the financial crisis, especially towards strong financial institutions (Báger, 2021). A significant goal was also to create a stable source of revenue for the state that would be less susceptible to fluctuations in the business cycle. The government also expected the tax to have a regulatory effect – to slightly limit excessive speculative activity in financial markets and to encourage longer-term, more stable investment behavior (Hungarian Ministry for National Economy, 2013).

### Volume and Revenue Generation (2013-2023)

The Hungarian Financial Transaction Tax (FTT), introduced in 2013, has become an important tool for strengthening public finances. FTT revenues have ranged between HUF 170–230 billion per year. The data show that, despite some fluctuations, the tax has been a stable and reliable revenue generator. Initial assessments have not shown significant changes in the payment structure, suggesting that the introduction of the tax has not fundamentally discouraged users from electronic transactions (Ilyés, Takács & Varga, 2014).

The government’s original expectations were for revenues of around HUF 130–150 billion per year. However, reality has often exceeded these figures (See Chart 2). This was due to both the broadening of the tax base, for example to include cash withdrawals, and higher activity in the financial sector. According to the analyses, the costs of the tax were largely passed on to the clients, effectively increasing the final revenue for the state (Ilyés, Takács & Varga, 2014).

**Chart 2. Development of Financial Transaction Tax in thousands HUF (2013-2023)**

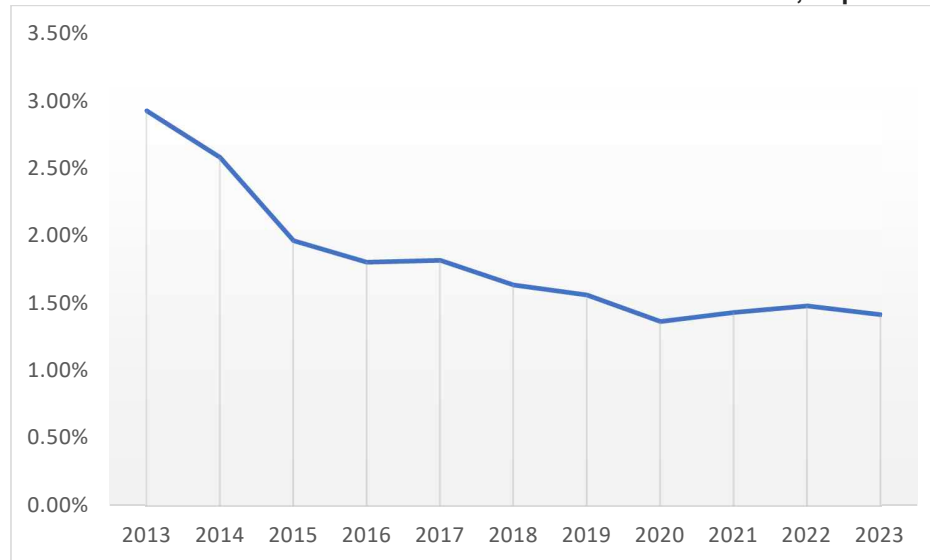


Source: Hungarian Central Statistical Office (2025)

Chart 3 shows the evolution of the share of the financial transaction tax (FTT) in total tax revenues in Hungary between 2013 and 2023. The data show that after the introduction of the tax in 2013, the FTT share increased rapidly and stabilised at around 1.5% of total tax revenues. This development reflects the FTT’s ability to generate stable and predictable revenues without significant fluctuations over time, confirming its role as a tool for fiscal consolidation. The highest share was recorded in 2014–2016, when the tax base was additionally broadened to include cash withdrawals and the rules for exemptions

were tightened. Compared to other tax revenues that are often sensitive to the economic cycle (e.g. VAT or income tax), the FTT remains relatively stable. This underlines its importance as an additional but sustainable source of budgetary revenues in the long term.

**Chart 3. Share of Financial Transaction Tax in Total Tax Income, in percentage**



*Source: own calculation according to Hungarian Central Statistical Office (2025)*

### **Impact on Transaction Costs and Investor Behavior**

The tax was largely passed on to bank customers, leading to an increase in service fees, especially for cash withdrawals and bank transfers. This change may have influenced consumer micro-behavior, but without a major impact on investment decisions (Ilyés, Takács & Varga, 2014).

While the FTT did not deter domestic investors to a large extent, it may pose a risk to competitiveness. Compared to Slovakia, which has a simpler and less administratively demanding tax system, some firms may consider relocating their operations abroad.

### **Public and Institutional Perceptions**

Although systematic public opinion surveys on the FTT are not publicly available, criticisms focused on the increase in costs for ordinary citizens and the lack of transparency in the calculation of fees dominated the media (Ilyés, Takács & Varga, 2014). The financial sector was largely negative towards the tax, arguing about increased costs and possible market distortions. Some businesses adapted their processes to minimize the impacts, while the public faced higher fees.

The intention of consolidating public finances was formally fulfilled, but the method and side effects caused considerable controversy and distrust of the state's tax policy (Deák, 2010).

### **Comparative Analysis with Slovakia**

The introduction of the Financial Transaction Tax (FTT) in Hungary in 2013 was a response to the fiscal challenges following the global economic crisis. The government's aim was to broaden the tax base, strengthen public revenues, and at the same time shift

the tax burden from the population to the financial sector. However, Slovakia decided to introduce this tax only in 2025 as a consolidation measure.

While the Hungarian FTT covers a wide range of transactions, including bank transfers, cash withdrawals, and other payment operations, the Slovak approach was more focused on simplicity – a lower rate, a broader base, and understandable rules. In Hungary, FTT revenues quickly became a significant and stable budgetary source. In some years, they even exceeded the HUF 200 billion mark, surpassing the original government estimates (Ilyés, Takács & Varga, 2014).

Market behavior is also an important aspect. In Hungary, banks have tried to transfer the tax burden to clients, which has been reflected in an increase in bank fees. This mechanism has had a regressive impact – it has affected households with lower incomes relatively more, which has provoked social and political criticism. In Slovakia, similar effects were not observed to the extent that can be attributed to a simpler and more predictable system.

In terms of the legislative and institutional environment, Hungary has faced criticism for the complexity of tax legislation and the high level of bureaucracy. These shortcomings reduce the efficiency of tax collection and contribute to a negative perception of tax policy among citizens and businesses (Hegedűs & Lentner, 2022). Slovakia, on the other hand, maintains a more favorable image thanks to a lower regulatory burden and efforts to digitize tax administration (PwC Slovakia, 2025).

Overall, the comparison shows that although the Hungarian FTT model has yielded higher short-term returns, it has come at the cost of higher costs, distortions and social tensions. While the Slovak system has not generated as much revenue from the FTT, its simpler and more efficient implementation has contributed to greater predictability and credibility of the tax system. These experiences can serve as valuable lessons for future financial taxation reform in Hungary and other countries.

## **Conclusion**

The financial transaction tax in Hungary has brought measurable revenues, but at the cost of increased costs for market participants and legal challenges. In the long term, its effectiveness will depend on the government's ability to ensure a simple, fair and efficient tax environment.

The Hungarian experience with the financial transaction tax over the period 2013–2023 provides a compelling case study in the use of non-traditional taxation tools for public finance consolidation. From the outset, the FTT was introduced not as a purely regulatory mechanism, but as a pragmatic response to fiscal strain, aimed at increasing revenues in the wake of post-crisis deficits and mounting public debt. The government succeeded in generating consistent revenue streams, often surpassing original projections, which speaks to the relative robustness of the tax base—especially in a country with a highly active banking sector.

However, this fiscal success came at a cost. A central issue was the high degree of cost pass-through, where banks, instead of absorbing the tax, transferred it almost entirely onto end-users through increased fees and service charges. This not only diluted the redistributive intent of the measure—shifting the burden from institutions to individuals—but also raised concerns about the transparency and fairness of the overall tax system. For low- and middle-income households, the compounded transaction costs acted

regressively, counteracting the government's original claim of limiting population-wide tax burdens.

Another significant challenge was administrative complexity. The Hungarian financial ecosystem, already encumbered by extensive regulatory requirements, faced an added compliance burden in tracking and reporting taxed transactions. The relatively opaque methodology for calculating the tax, especially in multi-step banking operations, led to disputes, inconsistencies, and an erosion of public trust. Financial institutions voiced repeated concerns about efficiency losses, as internal resources were reallocated to comply with evolving tax regulations.

From a market behavior standpoint, the FTT had a limited impact on core investment or payment patterns. Electronic transactions continued their upward trend, while speculative market behavior remained largely unaffected. This reinforces the conclusion that FTTs, unless designed with explicit deterrent features, are unlikely to serve as effective regulatory levers. On the positive side, this stability also suggests that the FTT did not significantly disrupt liquidity or drive capital flight—fears that are often associated with such instruments.

In international context, Hungary's approach stands in contrast to Slovakia's. The Slovak system remains more straightforward, with fewer special taxes and lower administrative costs, which makes it more attractive to cross-border businesses and investors. The comparative burden posed by Hungary's FTT has already driven some relocation of financial operations, especially by smaller firms sensitive to transaction costs and compliance complexity.

The legal and political landscape also contributed to the FTT's controversial legacy. Although no major court rulings invalidated the tax, it drew criticism from stakeholders across the political spectrum and within the EU for its distortionary structure. The tax's permanence—initially framed as temporary crisis response—has fueled perceptions of unpredictability in Hungary's fiscal environment, potentially weakening investor confidence.

Going forward, any reform of the FTT should aim to simplify its structure, improve transparency in cost pass-through mechanisms, and enhance alignment with broader fiscal policy goals. Policymakers might also consider alternative instruments, such as targeted levies on high-frequency trading or progressive capital gains taxation, which can fulfill similar revenue and regulatory functions with potentially fewer side effects.

In conclusion, the Hungarian financial transaction tax fulfilled its immediate fiscal function, but not without introducing significant economic, administrative, and reputational trade-offs. Its future utility will depend on whether policymakers can adapt it into a more equitable, transparent, and growth-compatible tool. As Hungary seeks to modernize its fiscal architecture, the lessons of the FTT provide valuable guidance for balancing budgetary stability with economic dynamism and public trust.

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