Opinion of the Fiscal Council

on the implementation of the Act on the 2024 Central Budget of Hungary and the development of public debt

I.

Background, legal basis and publicity of the preparation of the Opinion

The Fiscal Council (hereinafter referred to as the Council, Fiscal Council) shall issue an opinion on the state of implementation of the Central Budget Act and the expected development of public debt on a semi-annual basis, pursuant to Article 23 Section (1) (c) of Act CXCIV of 2011 on the Economic Stability of Hungary (hereinafter referred to as the Stability Act, Stab. Act).

On this basis, the Council has reviewed the full-year implementation of Act LV of 2023 on Hungary's 2024 Central Budget Act (hereinafter: the 2024 Budget Act) for the year 2024 and the development of the public debt.

In its Opinion on this matter, the Fiscal Council, following its practice and working method, took note of the following background in the preparation of the 2024 Central Budget Law .[1]

- The Council in its opinion on **the draft bill on the 2024 central budget of** Hungary **Resolution No. 4/2023.05.23** noted that the draft bill foresees economic growth of 4.0 percent in 2024, higher than the average of the known projections, and that although it considers that this projection could be achieved if external and internal conditions are favorable, it is subject to a number of risks (the Russian-Ukrainian war and related sanctions, EU energy security problems and uncertainties regarding the disbursement of EU funds to Hungary).

  As regards the government sector's deficit on an accrual basis (ESA), the Council welcomed the fact that the draft bill set it below the Maastricht criterion at 2.9 percent. However, it pointed out that this target is also subject to risks: lower than expected realization of economic growth, underperformance of some revenues, mainly related to consumption, and a year-on-year decrease in the appropriations of several institutions under the government's control. In the latter context, the Council indicated that there is a risk that maintaining the viability of the budgetary bodies will require large unplanned expenditures in 2024.

[1] The full text of each Opinion is available in English and Hungarian on the Council's website.

The Council welcomed that the downward trend in the government debt ratio will continue according to the draft bill, decreasing from 69.7 percent at the end of 2023 to 66.7 percent at the end of 2024. In view of the planned 3 percentage point reduction, the Council considered the reduction of the debt ratio to be achievable, despite the macroeconomic and budgetary risks described above, and on this basis concluded that the draft 2024 budget bill complies with the debt rule of the Fundamental Law and the provision of Article 4 Section (2a) of the Stab. Act.

The Council objected that the draft bill does not include the expected necessary loss compensation of the Magyar Nemzeti Bank and is therefore not in line with Article 166 Section (3) of Act CXXXIX of 2013 on the Magyar Nemzeti Bank. Therefore, it indicated that the Council considers it necessary that the bill should also take into account the expected statutory obligation so that the deficit target and the debt rule continue to be met.

- **In its Decision No 5/2023.07.06.,** the FC, **giving its preliminary consent to the final vote on the 2024 central budget bill**, noted that the value of the public debt indicator calculated for the end of 2024 in the bill is 3 percentage points lower than the value of the indicator expected for the end of 2023, thus fulfilling the requirement of Article 36 Section (5) of the Fundamental Law.

  However, the Council maintained the bulk of its comments on the draft Budget Law, given that neither economic conditions nor the Budget Law have changed to such an extent that the risks indicated have been eliminated.

  In addition, the Fiscal Council noted that the Government has initiated an amendment to the Law on the Magyar Nemzeti Bank in 2023, according to which the MNB should only be required to ensure, on the basis of the opinion of the Fiscal Council, that it has at least the amount of capital corresponding to the level of subscribed capital at its disposal, if the capital is below the level of subscribed capital for a longer period of time. Thus, with the adoption of the amendment, the budget will no longer be obliged to reimburse the MNB when the Budget Law 2024 enters into force. In its decision, the Fiscal Council indicated that the budget takes into account the cohesion and reconstruction funds for the EU budget cycle 2021-2027, so that the implementation of the budget is conditional on their receipt on time and in the amounts foreseen. Against this background, the Council assessed that the planned 3 percentage point reduction in the government debt ratio provides a significant margin to ensure that risks do not fundamentally compromise the reduction of the government debt ratio and gave its consent to the final vote on the unified budget bill T/4181/471.

- **In its Opinion No 5/2024.09.26 on the mid-year state of implementation of the 2024 Hungarian Central Budget Act and the expected evolution of public debt,** the Council noted that, due to adverse external factors, economic output expanded by 1.3% in the first half of 2024 compared to the first half of 2023, so that real economic growth in 2024 will be significantly lower than the 4% planned in the Budget Act.

  The Council assessed budgetary developments in the light of the Government's increase in the ESA-based deficit target for 2024 to 4.5 percent of GDP from 2.9 percent in the Budget Law, but as the increased deficit target was not transposed into the Budget Law, the Council could only assess the implementation of individual appropriations against the original revenue and expenditure appropriations, which did not reflect this increased deficit target.

  The Council considered that the risks it had identified in its opinion on the 2024 budget planning had materialized. The deficit of the central sub-system of general government in the first half of the year amounted to HUF 2,656.4 billion, 105.6 percent of the annual appropriations set in the Budget Law. This is two-thirds of the general government cash deficit target of HUF 3,982 billion, which was increased in proportion to the revised ESA deficit. With a high cash deficit concentrated in the first half of the year, the accrual deficit in the first half of 2024 amounted to 3.9 percent of half-year GDP, according to the MNB's preliminary financial accounts. While on the revenue side, mainly the payments of the general sales tax, excise tax and energy sector were lower than expected, on the expenditure side, interest payments related to the financing of public debt, budgetary bodies and professional headings, expenditure on public assets and payments related to pension benefits were higher than expected. At the same time, budget receipts from the EU were almost HUF 370 billion below the expenditure on EU programmes.

  According to the Council, the fiscal measures announced in April and early July 2024 support the achievement of the new deficit target, but this will require consistent implementation of the measures and close monitoring and control of public spending towards the end of the year.

  The Council took note of the decision of the Council of the European Union to open an excessive deficit procedure for Hungary in July 2024, following a proposal from the European Commission, as a consequence of a budget deficit above 3% of GDP.

The Council noted that the government debt-to-GDP ratio increased from 73.5 percent at the end of 2023 to 76.1 percent at the end of the first half of the year, due to a high cash deficit and the completion of a large part of the government debt issuance that financed the full-year deficit. The planned 3 percentage point decline in the debt ratio is significantly moderated by the increased ESA deficit target for the cash deficit and lower-than-planned nominal GDP growth. This year's lower-than-expected debt reduction in the budget law is also reflected in the government's end-year debt indicator of 73.2 percent set in the EDP notification. The projected slight decline in this indicator will necessarily require the achievement of the revised accrual and cash deficit below the deficit target, as well as a subdued second half of the year in central and extra-central debt issuance.

- The Fiscal Council **adopted its Three-Year Outlook on** macroeconomic and budgetary developments **by Resolution No. 2/2024.01.05.** In this document, the Council considered that, on the basis of the still only slight growth in the second half of 2023, the 4 percent growth in 2024 assumed by the Convergence Programme will only be achieved under very favorable conditions, with a more realistic GDP growth of around 3 percent. [2]

  Regarding the fulfilment of the public debt rule, the Council noted that the fulfilment of the public debt rule would require significant real GDP growth and/or a significant reduction in the government sector deficit-to-GDP ratio.

  In order to achieve the latter, the Council considers that a significant improvement in the primary balance to a positive primary balance is needed. This is because government sector interest expenditure as a share of GDP is projected to rise to 4.1 percent of GDP in 2024 according to the Convergence Programme 2023-2027[3] , so a primary surplus of 1.2 percent of GDP is needed to achieve the planned deficit target of 2.9 percent of GDP in 2024.

The Council based its assessment of the implementation of the 2024 budget on the written analyses of the State Audit Office of Hungary and the National Bank of Hungary on the 2024 budget process, the information provided by the Ministry of Finance, the Ministry of National Economy and the Central Statistical Office on the year-end situation of the economy and the

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[2] The Three-Year Outlook has taken into account the Convergence Programme 2023-2027. Since then, the Convergence Programme for 2024-2028 has been published, projecting economic growth of 2.5% in 2024.

[3] Here again, the Three-Year Outlook was based on the Convergence Programme 2023-2027. In the newer Convergence Programme for 2024-2028, interest expenditure as a share of GDP is projected to rise from 4.7 per cent in 2023 to 4.9 per cent in 2024, while the ESA deficit is planned to fall from 6.7 per cent in 2023 to 4.5 per cent in 2024. On this basis, the expectation for 2024 is for a positive primary balance of 0.4 percent, a smaller share than previously calculated.

central government subsystem, as well as on the economic analyses and assessments of domestic research and analytical institutes, some major international organizations (OECD, IMF, World Bank, European Commission) and other domestic market analysts commissioned by the Secretariat of the Fiscal Council.

In addition to the above, the Council also took into account the "Medium-Term Fiscal-Structural Plan of Hungary 2024-2028" prepared by the Government and amended in consultation with the Commission of the European Union and the "European Commission's assessment of Hungary's medium-term fiscal-structural plan 2024" published by the European Commission on 16 January 2025.

The Council will inform the President of Parliament and the Government of its Opinion and publish its assessment on its website.

II.

Council Opinion

At its meeting on 17 April 2025, the Council reviewed the main processes and background of the implementation of Act LV of 2023 on the 2024 Central Budget of Hungary and formulated the following Opinion on the basis of Article 23 Section (1) (c) of the Stability Act.

1) In 2024, the domestic economic output expanded by 0.5 percent, significantly below the 4 percent projection underlying the budget planning. Although global energy prices were more moderate than in previous years, uncertainty over the Middle East and the Russian-Ukrainian conflicts continued to generate considerable volatility. Despite the difficulties, global economic growth in 2024 was in line with the historical average, but the EU economy barely recovered. In Hungary, economic growth resumed in the fourth quarter of last year after two consecutive quarters of decline in GDP. Dynamic household consumption growth was supported by high employment and strong wage dynamics. Domestic gross fixed capital formation and industrial production fell last year.

2) The ESA deficit in 2024 was 4.9 percent of GDP, according to the April 2025 EDP report. Gross interest expenditure as a share of GDP was 5 percent, leaving the primary balance excluding interest expenditure in surplus by 0.1 percent in 2024. The deficit in 2024 was higher than the 2.9 percent planned in the 2024 Budget Law and 0.4 percentage point above the government's increased deficit target of 4.5 percent, while the fiscal balance improved by 1.8 percentage points compared to the previous year's 6.7 percent.

3) The budget cash deficit was HUF 4,095.8 billion in 2024, below the increased deficit target of HUF 4,790 billion in the Autumn 2024 EDP notification, but substantially above the target of HUF 2,514.8 billion. On the expenditure side, interest payments related to the financing of public debt were the main items above the target, as well as appropriations for budgetary bodies and professional headings, expenditure on public assets (notably related to the acquisition of Budapest Airport Zrt.) and payments related to pension benefits. On the revenue side, tax revenue, in particular the lower-than-estimated execution of general sales tax and EU revenue, were the main reasons for the higher cash deficit. The lower-than-forecasted outturn for tax revenues in 2024 was significantly contributed by the fact that the actual outturn for consumption-related tax

revenues in 2023 was significantly lower than the amounts forecasted in the 2024 budget planning.

4) EU revenues and expenditure in 2024 were significantly below the forecast. In 2024, revenues related to EU programmes were HUF 1 221 billion lower than the forecast amount. EU spending in 2024 closed at HUF 1,516 billion, some HUF 2,000 billion below the target. Hungary will have access to a total of €12.2 billion from the 2021-2027 Cohesion envelope, which is being absorbed at a pace above the EU average, according to December 2024 figures. The Hungarian absorption rate at the end of December was 8.3 percent, compared to the EU average of 6.4 percent. However, the constraints on the availability of EU funds remain an uncertainty for the budgetary process. No agreement has yet been reached with the European Commission on the resources for the Recovery and Resilience Fund (RRF).

5) As Hungary's ESA-based projected budget deficit exceeded the deficit criterion of up to 3% of GDP set by EU rules, the Council of the European Union opened the excessive deficit procedure for Hungary in July 2024, following the expiry of the escape clause in force in recent years. In accordance with Regulation (EU) 2024/1263 of the European Parliament and of the Council, Hungary is required to implement a four-year medium-term fiscal structural plan with an appropriate pace of deficit reduction and a maximum increase in net government expenditure. Accordingly, Hungary's medium-term budgetary structural plan was prepared in November 2024 and, due to objections from the European Commission and the need for bilateral discussions, finally adopted by the Commission on 16 January 2025 and by the European Council on 18 February 2025. For 2024, compliance with the net expenditure path, and thus consistency with the expenditure rule, cannot be examined, and the previous rules (old expenditure rule and one-twentieth debt rule) are no longer in force.

6) According to the April 2025 EDP report, the debt ratio stood at 73.5 percent at the end of 2024, an increase of 0.5 percentage points compared to the end of 2023 and 6.8 percentage points higher than the 66.7 percent projected in the 2024 Budget Law. The higher-than-targeted end-2024 debt ratio is due to a combination of a higher-than-expected end-2023 debt ratio, a higher-than-targeted 2024 cash deficit, lower-than-expected GDP growth and a revaluation of foreign currency debt. The increase in the debt indicator in 2024 does not violate the debt rule of the Constitution, given that the

absence of compliance with the debt reduction obligation in the event of a special legal emergency is not contrary to the Constitution.

7) The Council authorizes its the Chairman to publish and represent the Opinion.

III.

Justification

1) Evolution of macroeconomic conditions

At the time of the 2024 budget planning, expectations for domestic growth in 2023 were higher than the subsequent actual GDP developments. The 2024 Budget Act projected growth of 1.5 percent for 2023, but GDP declined by 0.8 percent on an annual average basis, providing a less favourable macroeconomic base for 2024 than expected.

In 2024, the generally tense geopolitical environment played a significant role in the evolution of the global economy. Although global energy prices were more moderate than in previous years, uncertainty over the Middle East and the Russian-Ukrainian conflicts continued to generate significant volatility. A small increase in global merchandise trade volumes supported the economy, but international trade tensions increased significantly towards the end of the year.

Despite the difficulties, global economic growth in 2024 was in line with the historical average, but the EU economy barely recovered. In the United States, GDP grew by 2.8 percent in 2024, supported mainly by a dynamic expansion in household consumption. In China, annual growth averaged 5.0 percent, with net exports contributing most to economic growth. In the euro area, which is of particular importance for Hungary, GDP grew by 0.9 per cent in 2024, while in the EU it grew by 1.0 per cent. Last year's annual growth in the EU was mainly supported by household consumption, while investment held back significantly. On the production side, in line with subdued external demand, growth was held back mainly by weak industrial performance in Europe, which also affected domestic sectors. The economic crisis in Germany, our main trading partner, has dragged on: after 2023, its GDP volume contracted again in 2024 on an annual average basis, including in the last quarter of 2024. Among the countries in the region, GDP also grew in the Czech Republic (+1.1%), Slovakia (+2.0%) and Poland (+2.9%) in 2024.

In Hungary, GDP expanded by 0.5 per cent overall in 2024 (Figure 1). After two consecutive quarters of decline in GDP levels, economic growth resumed in the fourth quarter of last year, with GDP rising by 0.6 per cent quarter-on-quarter in the last quarter of 2024 and expanding by

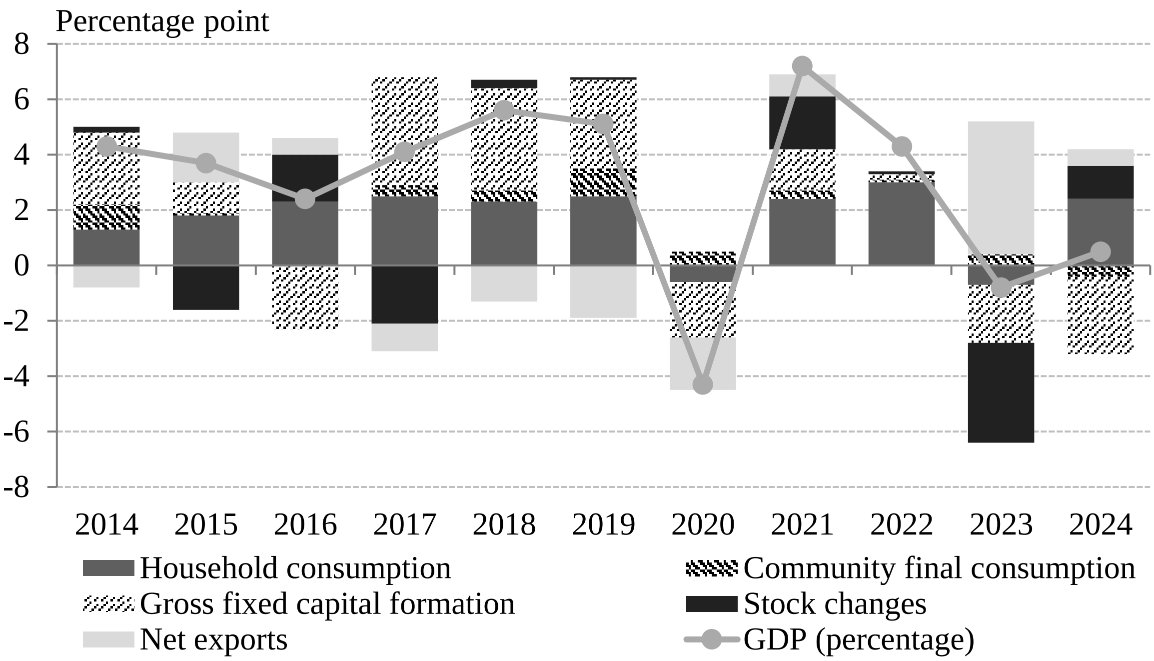
0.4 per cent on an annual basis. Growth was mainly supported by household consumption and changes in inventories, while investment and net exports held back growth.

Looking at GDP trends for the year as a whole, it appears that consumption proved to be the driving force of growth in 2024, with household consumption expenditure expanding by 5.1 percent year-on-year, driven by favorable wage and income developments. Durables increased by 7.4 percent, semi-durables by 3.2 percent, non-durables by 4.3 percent and services by 4.7 percent. The volume of retail sales increased by 2.6 percent year-on-year in 2024. Sales increased in most product groups; however, food retail sales decreased by 3.8 percent and gasoline station sales decreased by 0.8 percent on an annual basis in 2024.

The expansion in domestic consumption is in line with trends in the region, with household consumption growing substantially in all Visegrad countries over the past year. The highest growth was recorded in Hungary, while the Czech Republic (+2.1%) recorded the lowest consumption growth in the region. The growth in consumption also supported the rise in VAT receipts, with nominal consumption exceeding HUF 39184 billion in 2024, an increase of 10.5 percent compared to the previous year. As consumption recovered last year, households' net financial savings fell. The moderation was also reflected in lower accumulation of financial assets and an increase in net borrowing, mainly related to loans for house purchase. Among the main financial assets held by households, investment certificates and foreign assets increased the most, but there was also a smaller increase in government securities and deposit-type savings. The improvement in domestic consumer confidence, as measured by the household sentiment indices, continued in the first half of the year, but slowed in the second half.

Overall, gross fixed capital formation contracted by 11.1 percent in 2024, putting a 2.8 percentage point drag on economic growth. According to the HCSO's investment statistics, investment in manufacturing declined throughout the year, but the annual rate of decline slowed down after the trough in the second quarter. Investment activity by companies producing for the external market was significantly curbed by weak external demand and the unfavorable outlook for industrial growth in Europe. Low business confidence, as measured by the business confidence indices for 2024, also had a negative impact on investment. On average, investment by government entities fell by almost 29 percent in 2024, with a decline of 26.2 percent in the fourth quarter. Over the year, investment in construction fell by 14.6 percent and investment in machinery and equipment by 13 percent.

Figure 1: Contribution of the main consumption items to the annual change in GDP



Source: HCSO, MNB
Note: Community final consumption includes social benefits in kind from non-profit institutions and government.

Housing construction activity was also subdued, with a total of 13 295 new dwellings built over the year as a whole, 28.7% lower than in the previous year. The number of housing construction permits issued last year was 20 494, down 4.7 per cent year-on-year.

The volume of domestic industrial production fell by 4.3 per cent last year, including a 4.9 per cent decline in manufacturing. The performance of domestic industrial production, which is highly embedded in European production chains, was held back by a 2.4 percent decline in industrial production volume in the EU as a whole in 2024 and a 4.6 percent decline in Germany (based on calendar-adjusted data). Output in the largest domestic sub-sector, transport equipment, fell by 9.0 percent, while the manufacture of electrical equipment, including batteries, declined by 13.6 percent. This is explained by the decline in the export market share of European car manufacturers, as well as the modest growth in new car sales in the EU last year (+0.8%) and the decline in demand for electric cars (-5.1%). Industrial export sales showed volatility over the year, expanding by 3.9 percent on an annual basis overall, outpacing the 2.7 percent increase in domestic sales. Order books were subdued, with new domestic orders falling by 5.6 per cent and export orders by 2.6 per cent over the year.

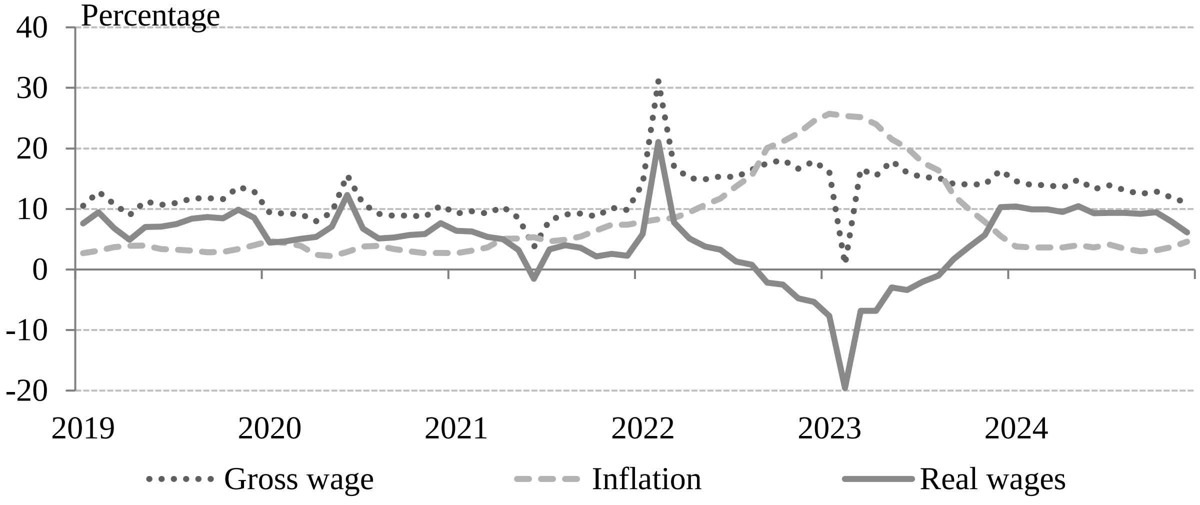
Over the year as a whole, exports (-3.0 per cent) declined slightly relative to imports (-4.0 per cent), resulting in an overall positive contribution to net export growth (+0.6 percentage points) over the year. Exports of goods fell by 4.1 percent, partly offset by a 1.1 percent increase in exports of services.

Hungary's current account balance continued to rise over 2024, recording an annual surplus of 2.2 percent of GDP, above the level in the region. Contributing to the improving external balance were a lower energy deficit, lower imports related to declining investment and an improvement in the income balance.

Dynamic household consumption growth was also supported by high employment and strong wage dynamics. Although wage dynamics slowed down during 2024, gross wages in the economy as a whole still rose by 13.2 percent on an annual basis over the year. The lower wage dynamics in December were also influenced by the base effect of the 2023 year-end minimum wage increase. Last year, the wage bill for the national economy as a whole rose by 12.8 percent, implying that the tax base, which is important for fiscal revenues, also increased. For 2024 as a whole, real wages in the national economy rose by 9.2 percent (Figure 2). Our country's wage dynamics were among the best in the region last year, with the second-highest growth in average gross national income in 2024, behind Romania. Real wages rose in all countries in the region last year, with Hungary and Romania recording the highest increases.

The labour market remained stable despite a weaker economic performance in the first half of the year, with employment remaining at historically high levels. The adjustment to the economic slowdown was reflected in an easing of labour market tensions, a reduction in the number of vacancies advertised and a decline in hours worked. The unemployment rate was 4.5% in 2024, remaining low by EU standards.

Figure 2: Wage dynamics in the national economy (annual change)

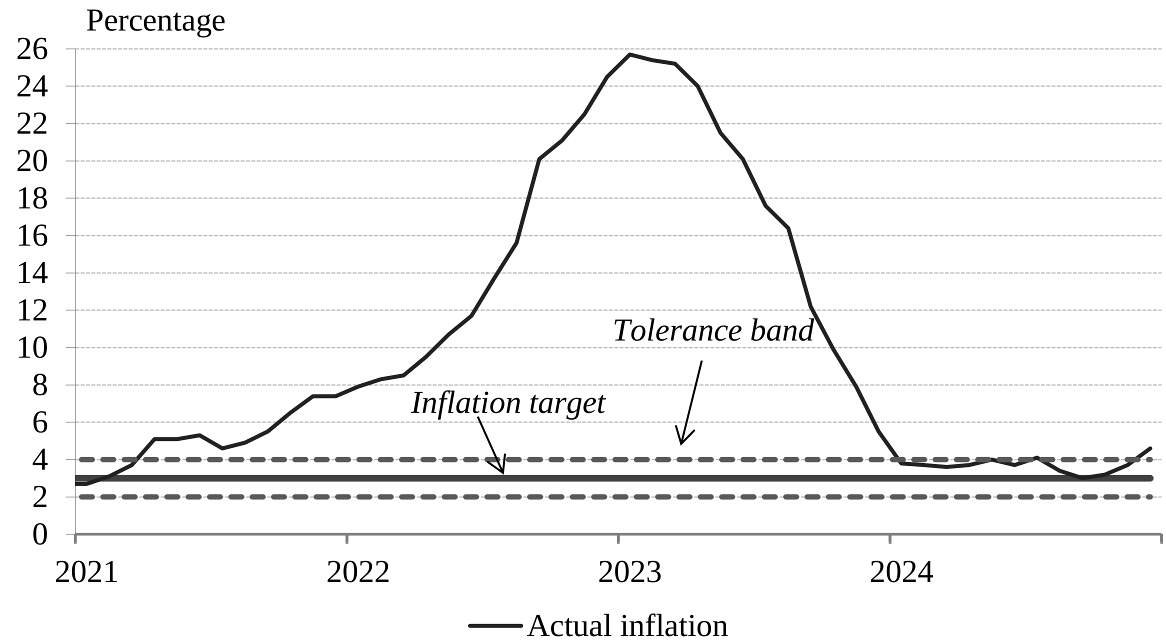


Source: HSCO, MNB.

After the global disinflation that started in 2023, inflationary trends started to emerge again in the second half of 2024 in a number of countries, but at a much lower rate than the previous inflationary wave. Inflation in 2024 was higher than the European average in the countries of the region. In the region, the Harmonized Index of Consumer Prices was highest in Romania (5.8 percent), while both Hungary and Poland had average rates of increase of 3.7 percent, 3.2 percent in Slovakia and 2.7 percent in the Czech Republic in 2024. In contrast, prices in the EU as a whole rose by 2.6 percent on average.

In Hungary as a whole, inflation averaged 3.7 percent in 2024. The rate of price increases remained within the central bank's tolerance band of between 2 and 4 percent for most of the year, and only moved outside it in July before December. By December 2024, inflation had risen to 4.6 percent (Figure 3). The year-end increase was driven by accelerating fuel and food price rises. The combined impact of rising global commodity prices and movements in the forint market quickly fed through to the prices of imported goods. Household inflation expectations also rose in the second half of the year. The high spring repricing of market services played a key role in the high spring repricing of services, mainly in the banking and telecommunications sectors, indexed to the previous year's inflation.

Figure 3: Inflation developments



Source: HCSO, MNB

2) Budget deficit developments and reasons for deviation from the deficit target

In 2024, the cash deficit of the central government sub-system amounted to HUF 4,095.8 billion, exceeding the target of HUF 2,514.8 billion set in the Budget Law by HUF 1,581 billion (162.9 percent of the target). Within this, the central budget recorded a deficit of HUF 4003.9 billion (148.3 percent of the estimate), the state budget showed a surplus of HUF 138.2 billion (74.7 percent of the estimate) and the social security funds a deficit of HUF 230.1 billion.

Table 1: Evolution of the main cash flow figures of the central government sub-system in 2023 and 2024 in HUF billion and in percentage terms

Description	Total outturn in 2023 (HUF bn)	Amount of appropriations in 2024 (HUF bn)	Amount of outturn 2024 (Ft billion)	Implementation as a percentage of appropriations	2024 execution / 2023 execution (%)
Central budget balance	**-4 132,1**	**-2 699,7**	**-4 003,9**	**148,3%**	**96,9%**
revenue:	26 588,9	26 949,6	26 655,6	98,9%	100,3%
expenditure:	30 721,0	29 649,3	30 659,5	103,4%	99,8%
Balance of segregated public funds	**112,3**	**184,9**	**138,2**	**74,7%**	**123,1%**
revenue:	777,8	846,9	856,5	101,1%	110,1%
expenditure:	665,6	662,0	718,3	108,5%	107,9%
Balance of social security funds	**-415,8**	**0,0**	**-230,1**	**n.a.**	**55,4%**
revenue:	9 465,1	10 443,9	10 526,1	100,8%	111,2%
expenditure:	9 880,9	10 443,9	10 756,2	103,0%	108,9%
Total balance	**-4 435,5**	**-2 514,8**	**-4 095,8**	**162,9%**	**92,3%**
Revenue:	36 831,9	38 240,3	38 038,1	99,5%	103,3%
expenditure:	41 267,4	40 755,1	42 134,0	103,4%	102,1%

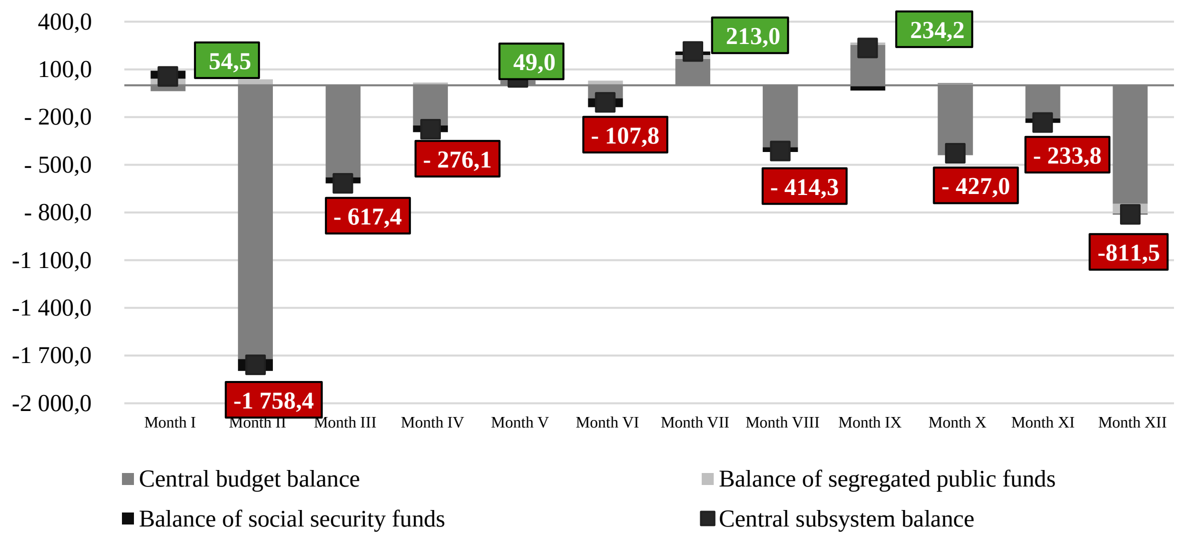
Source: Total based on Ztv. and MÁK ÁHT 2024.12. month, SAO edit

Total central subsystem expenditure in 2024 was 3.4% (HUF 1,378.9 billion) higher than the estimate, while total central subsystem revenue was 0.5% (HUF 202.2 billion) lower than the estimate.

Almost two-thirds (64.9 percent) of the deficit of the central subsystem in 2024 was incurred in the first half of the year. Of this, 57 percent also occurred in the first quarter (February, March), mainly due to the interest payments on the Premium Hungarian Government Bond (PMÁP) in February and March, which charged interest expenditure on the financing of public debt, and to the effect of resource allocations not foreseen in the Budget Law, which increased expenditure on public assets granted to companies under the ownership of the Ministry of National Economy (NGM) (which were used to finance Budapest Airport Zrt. and the 13-month pension paid in February. At the same time, the deficit for the first half of the year was reduced by the one-off (larger) payment of several tax revenues in the April-May period due to tax payment rules.

In line with the pattern of recent years, the budget deficit did not increase in the third quarter, while the annual deficit increased in the last quarter (especially in December by HUF 811.5 bn) (Chart 4). Expenditure was mainly driven by higher-than-planned expenditure related to the public investment heading (mainly related to public road investments), large interest payments in October (HUF 587.0 billion) and large year-end expenditure on budgetary bodies and professional headings.

Figure 4: Monthly evolution of the balance of the central subsystem (months I to XII 2024, in billion HUF)



Source: Total MÁK VAT based on 12.12.2024 SSA edited (figures show the balance of the central subsystem)

On the revenue side, it should be highlighted that in 2024, tax revenue in the central budget was HUF 1,380.1 billion less than planned. The underperformance of the general sales tax by HUF 1 197.8 billion compared to the target is noteworthy, mainly due to the significant difference between the expected base in 2023 (HUF 819.5 billion) and the actual VAT revenue in 2023 (HUF 819.5 billion).

Importantly for the revenue outturn, payments related to state assets in the central subsystem were HUF 272.7 billion higher than planned (quota sales, dividend payments, capital withdrawals). It should also be highlighted that interest receipts related to the financing of government debt were 88.3% (HUF 351.6 billion) higher than planned, mainly due to the repurchase of government bonds by the State Debt Management Centre from the National Bank of Hungary (MNB) in December 2024 for a total amount of HUF 1 077.0 billion, which generated a total cash interest revenue of HUF 322.0 billion.

At the beginning of October 2024, the government raised the budget deficit target to HUF 4,790 billion, which was not, however, transposed into the Budget Law, so the appropriations are still indicative of the original deficit target. Compared to the revised deficit target, the budget cash deficit was HUF 694.2 billion, 16.9 percent lower.

The fiscal measures announced in April and July 2024 to reduce the deficit supported the deficit target, but they were not reflected in the appropriations of the Budget Law.

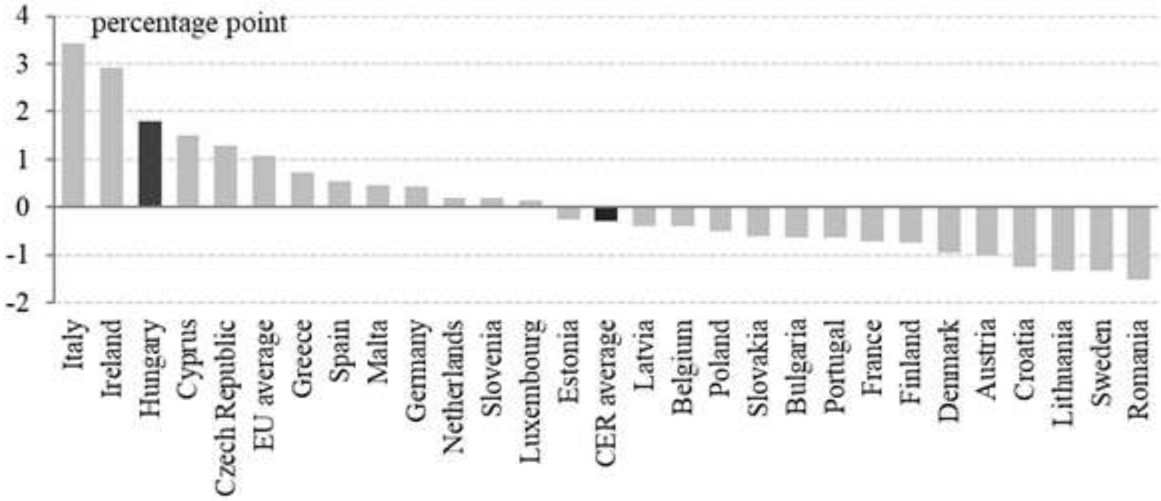
To limit the increase in the deficit, the government decided in April to reschedule public investment worth HUF 675 billion and additional balance improvement measures were announced in July 2024. Most of the measures were on the revenue side, with the key rates of the financial transaction levy and the ceilings of the levy and the retail exemption from the levy being increased from 1 August 2024. Also from 1 August, tax and administrative fines have been increased, the conditions for the tax relief for the purchase of government securities have been tightened for the bank tax, and the relief for the extra profit tax on oil price differentials (Brent-Ural) for the income tax on energy suppliers has been reduced. An additional transaction tax on currency conversion operations was introduced from 1 October. In the context of an expenditure-saving measure, direct investment and capital expenditure were transferred to the Central Residual Settlement Fund.

The ESA deficit target for 2024, calculated according to the EU methodology, was set in the explanatory memorandum of the Decree as the ratio of the planned deficit of the general government sector of HUF 2,474.2 billion to the planned deficit of nominal GDP of HUF 85,255.4 billion, i.e. 2.9% of GDP. Macroeconomic developments that are significantly less favorable than the government forecast for 2023 and 2024, on which the 2024 budget bill is based, have necessitated a revision of the budget deficit target. The deficit target was set by the Government in the April 2024 Convergence Programme as the ratio of the planned government sector deficit of HUF 3,649.4 billion to the planned nominal GDP of HUF 8,069.7 billion, at 4.5 percent of GDP.

The ESA deficit on accrual basis according to the EU methodology exceeded the planned deficit in 2024, as for the cash flow, and was 4.9 percent of GDP according to the EDP report.[4] With an ESA deficit of 4.9 percent of GDP, government interest expenditure amounted to 5 percent of GDP in 2024, i.e. the primary balance excluding interest expenditure showed a surplus of 0.1 percent, following a continuous improvement since 2020. This is a significant reduction compared to the 6.7 percent deficit in 2023, but still below the 3 percent target expected in the EU. However, the balance was HUF 1,097 billion better than in 2023, improving by almost 1.8 percentage points of GDP.

Based on the projections, Hungary recorded the third largest year-on-year improvement in its fiscal balance among EU Member States (Figure 5). According to the projections and preliminary data, only Italy and Ireland recorded larger improvements in their balances over the past year. The 2024 budget balance data will be published by Eurostat at the end of April.

Figure 5: Change in ESA general government balance as a share of GDP between 2023 and 2024



Source: AMECO, preliminary data for Hungary and Italy for 2024.
Note: The CER average is the unweighted average of the data for Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia, Poland, Romania and Slovakia.

[4] The deficit (Maastricht deficit) according to the EU methodology expresses the deficit of the general government as a whole (central and local government subsystems) and of other entities in the government sector on an accrual basis.

The accrual ESA deficit in 2024 according to the EU methodology, like the cash flow, exceeded the planned one, with a deficit-to-GDP ratio of 4.9% of GDP according to preliminary figures.[5] The reduction compared to the 6.7 percent deficit in 2023 is among the largest in the EU, but the deficit level is nevertheless below the 3 percent target expected in the EU and above the EU average.

Hungary's ESA-based expected budget deficit exceeded the domestic 3 percent deficit criterion and the 3 percent of GDP maximum deficit criterion set by EU rules. In July 2024, the Council of the European Union opened the excessive deficit procedure for Hungary, following the phasing out of the escape clause in 2024, which has been in place for the last few years. In accordance with Regulation (EU) 2024/1263 of the European Parliament and of the Council, Hungary is required to implement a four-year deficit reduction programme (medium-term fiscal structural plan), with a sufficient reduction in the deficit at an appropriate pace and a maximum increase in net government expenditure within a specified limit. Accordingly, Hungary's medium-term fiscal structural plan was prepared in November 2024 and, due to objections from the Commission and the need for bilateral consultations, finally adopted by the Commission on 16 January 2025 and by the Council of the European Union on 18 February 2025.

In summary, the higher-than-expected deficit in 2024 is the result of a combination of factors. On the revenue side, tax revenues (in particular VAT) and the under-execution of EU funds were the primary causes. On the expenditure side, the main factors were higher-than-expected interest expenditure related to the financing of government debt, as well as higher-than-expected appropriations for budgetary bodies and professional headings, higher-than-expected expenditure on government assets in cash terms (notably related to the acquisition of Budapest Airport Zrt.) and higher-than-expected payments related to pension benefits.

3) Evolution of government debt

Maastricht gross public debt-to-GDP ratio was 73.5 percent at end-2024 according to the April EDP report[6] . This represents an increase of 0.5 percentage points compared to the end-2023 government debt indicator of 73.0 percent and is above the 66.7 percent planned in the Budget Law for end-2024. In nominal terms, the public debt increased by 8.6 percent from HUF

[5] The deficit (Maastricht deficit) according to the EU methodology expresses the deficit of the general government as a whole (central and local government subsystems) and of other government sector units on an accrual basis.

[6] Based on the April 2025 EDP report published by the HCSO.

55 139.8 billion at the end of 2023 to HUF 59 875.2 billion (HUF 4735.5 billion) at the end of December 2024.

In the previous years, the debt-to-GDP ratio evolved as follows: 78.7 percent at the end of 2020, 76.2 percent at the end of 2021, 73.9 percent at the end of 2022 and 73.0 percent at the end of 2023. This was the second year since 2011 that the debt-to-GDP ratio has broken a sustained downward trend, after 2020 (see Figure 6).

The higher-than-targeted debt ratio at the end of 2024 was due to a combination of a higher-than-expected debt ratio at the end of 2023, a higher-than-targeted cash deficit in 2024, lower-than-expected GDP growth and a revaluation of foreign currency debt.

The increase in the debt indicator at the end of 2024 does not violate the debt rule of the Fundamental Law, as it allows for an increase in the debt indicator during the special legal regime. According to Article 36 (6) of the Fundamental Law, in the implementation of the central budget, only during a special legal order or in the event of a sustained and significant downturn in the national economy may a loan be taken out which would result in an increase (or not decrease) in the debt ratio compared to the previous year. In view of the armed conflict in the neighboring country, the Government, on the basis of the authorization of the National Assembly, has introduced a state of emergency, which is a special legal order and thus provides an exemption from the debt rule of the Fundamental Law.

The increase of the public debt indicator in 2024 is neither in conflict with the conditions of the Stability Law. According to the Stability Act, if the debt indicator would increase (or not decrease) during the budget implementation solely due to the combined effect of the factors mentioned in § 6, the calculation of the debt indicator would not have to take into account, inter alia, the surplus of public debt resulting from the time requirement for the subsequent reimbursement of EU funds not accounted for in the budget or from the exchange rate changes in foreign currency debt transactions (see § 2 and § 6 of the Stability Act).

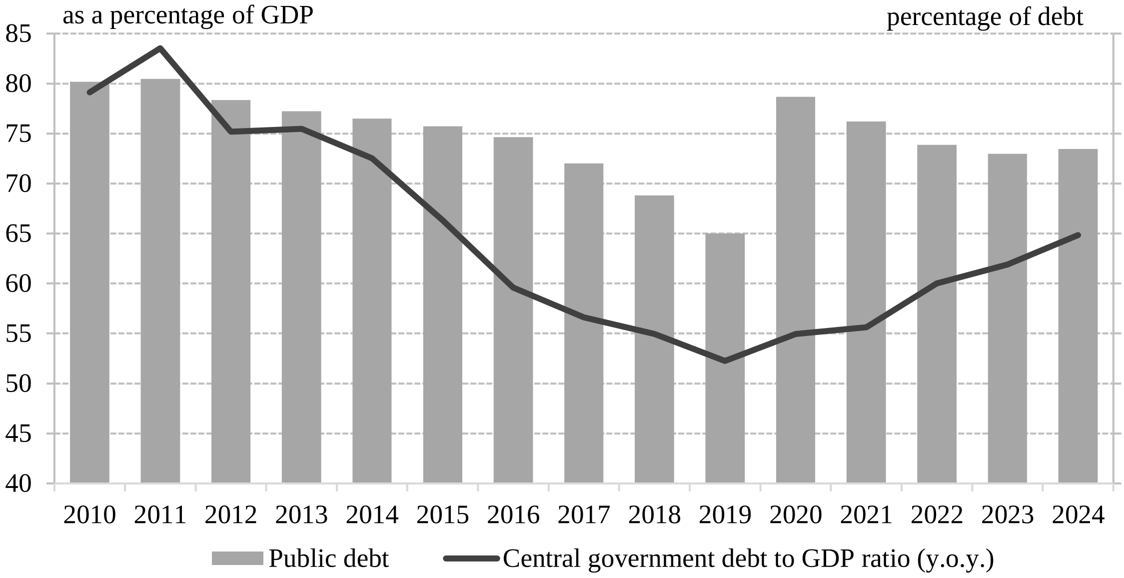
The share of foreign currency in central government debt increased to 29.8 percent by the end of 2024 from 26.9 percent a year earlier due to significant foreign currency bond issuance. [7]

[7] Source: January 2025 release of the CPI

Evolution of government debt at end-2024

According to the April 2025 EDP report released by the HCSO, the gross public debt-to-GDP ratio rose to 73.5 percent at the end of 2024, 0.5 percentage points higher than the end-2023 debt indicator.

Figure 6: Evolution of government debt



Source: SAI, MNB

The end-2024 value of the debt indicator was strongly influenced by the repurchase of HUF 1 077 billion in nominal value of government securities by the State Debt Management Centre Zrt. from the Magyar Nemzeti Bank in two steps during December. The repurchase helped to reduce government debt, thereby strengthening Hungary's risk perception and reducing financial vulnerabilities.

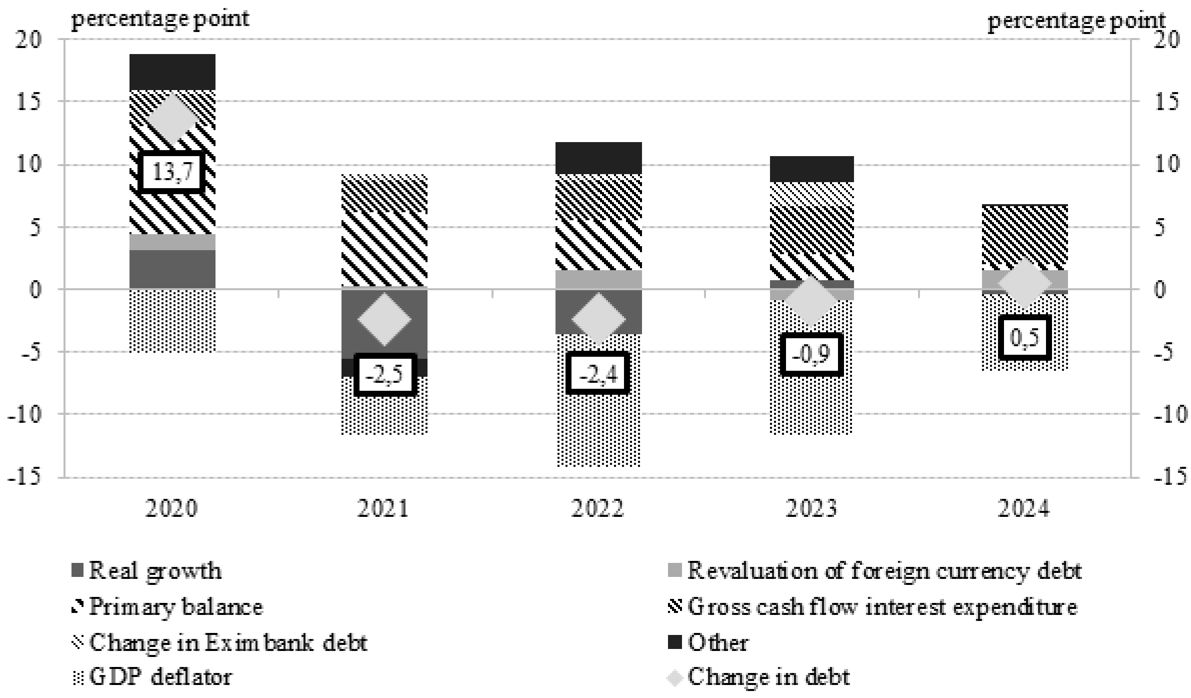
The 2024 budget law included a 3-percentage point debt reduction for 2024 compared to the 2023 debt ratio. The EDP report submitted to Eurostat in the spring lowered the expectation for the debt reduction in 2024 to 0.3 percentage point. The autumn EDP report expected a debt reduction of 0.2 percentage point compared to the revised figure of 73.4 percent at the end of 2023.

The 3-percentage point reduction in the debt-to-GDP ratio in 2024 projected in the budget law was not achieved due to a higher cash budget deficit, lower-than-expected GDP growth and a revaluation of foreign currency debt. The 2024 budget law, adopted in 2023, projected a cash deficit of 2 515 billion forints, a GDP growth of 4 percent and an exchange rate of 385.5

forints/euro. A higher-than-planned cash deficit of nearly HUF 1 500 billion[8] and a 0.5 percent (0.6 percent based on seasonally and calendar-adjusted data) annual GDP growth below plan significantly increased the year-end value of the debt indicator. In addition, the HUF/EUR exchange rate of 410.1 at end-2024 also contributed to the higher debt indicator through the revaluation of foreign currency debt compared to the original legal expectation. The share of foreign currency debt in central government debt was 29.8[9] percent, so a 10 forint change in the forint/euro exchange rate changes the debt-to-GDP ratio by nearly 0.6 percentage points.

The increase in the debt-to-GDP ratio in 2024 is mainly due to a combination of a higher-than-planned 2024 cash deficit, lower-than-expected GDP growth and the revaluation of foreign currency debt. In 2024, gross interest payments on cash flow increased government debt by 4.5 percentage points, while the revaluation of foreign currency debt caused a 1.6 percentage point increase in debt, which was further increased by 0.5 percentage point by the primary cash deficit. These were partly offset by a combined debt-reducing effect of 5.9 percentage points from the GDP deflator and real economic growth, and 0.5 percentage point from the reduction in Eximbank's liabilities classified as government debt (Figure 7).

Figure 7: Factors driving the change in the public debt ratio in 2020-2024



Source: ÁKK, HCSO, MNB based on own calculation

[8] Based on the April 2025 EDP report published by the HCSO 04 April 2025.
[9] ÁKK

4) **Revenue of the central subsystem**

The central sub-system of general government received **-** in total - **revenue of** HUF 38 038.1 billion, which is 99.5 percent of the target.

Within revenue, the **central budget** received **-** in total - HUF 26 655.6 billion, which is 98.9% of the estimate. Within this, **budget payments** from **economic operators** were 92.6 percent of the target, with the major tax categories being as follows.

Corporate tax receipts were 87.4% of the target, at HUF 1 007.9 billion. One reason for this is that the tax liability on the 2023 unfavorable results was settled in 2024, which also determined the tax advance to be paid in 2024. Revenues were also reduced by the fact that TAO refunds increased more than payments (by 20.7 percent) compared to the previous year (by 3 percent). The tax credit claimed in 2024 after 2023 amounted to HUF 71.1 billion, short of the planned HUF 123.7 billion.

Payments by financial institutions amounted to HUF 265.9 billion by the end of the year, 104.9 percent of the legal target. The appropriation includes the four quarterly instalments levied under the law on the special tax and annuities to improve the balance of public finances and the instalments due in June and December under the extra-profit tax decree. From the extra profit tax payment due in December, credit institutions were allowed to take into account as a tax base reduction item the purchase of government securities maturing after 1 January 2027, resulting in a payment of HUF 77.6 billion (45.2 percent) less in the second half of 2024 than in the first half.

Small business tax (KIVA) receipts of HUF 215.6 billion in 2024 were 94.7 percent. The number of taxpayers increased by 8.8 percent to 98.49 thousand enterprises by the end of the year under review. In addition, the evolution of the small business tax is influenced by the increase in average gross earnings paid, which exceeded the projected level in 2024.

As of the end of December, revenue from the **mining levy** appropriation amounted to HUF 121.4 billion, 63.2 percent of the statutory appropriation. This means that revenues are HUF 70.6 billion (36.8 percent) below the estimate in the Act. The shortfall is due to a change in legislation, which will enter into force in September 2023, granting tax relief to taxpayers who have an extraction obligation under an official contract. A change in the legislation on the payment of mining royalties, which will enter into force after the adoption of the 2024 Mining Act, has affected the full year's execution.

Toll revenues (HUF 596.9 billion) were 8.7% above plan. The higher execution is mainly due to changes in traffic data and the legal framework for tolling systems, in particular the introduction of the external-cost charge.

Payments in the energy sector were 54.3 percent of the budgeted amount, amounting to HUF 279.1 billion. In total, it was the second most under-performing tax revenue after the general sales tax. The under-execution is mainly due to the change in world market conditions, which could not be forecasted in advance, as the tax base for the Ural/Brent differential tax, which is part of the appropriation, decreased due to the fact that the world market price of Brent crude oil from the North Sea was no longer significantly higher than Ural oil from the Russian Federation.

Retail sales tax revenues in 2024 were 106.1 percent of the forecast, amounting to HUF 265.0 billion. Planning was based on real growth in household consumption expenditure, which was 5.0 percent instead of 3.2 percent as planned. The retail sales volume index was 102.6 percent in 2024, but dynamic real wage growth and low inflation would have allowed for higher growth.

The pharmaceutical tax was 168.6 percent of the annual target of HUF 28.7 billion. This is 68.5 percent lower than in the previous year, due to the possibility for taxpayers to reduce their tax base in 2024 through the acquisition of fixed assets and R&D costs. Overall, the over-performance is explained by a change in legislation.

Revenues from **rehabilitation contributions** were at 106.9% of plan, at HUF 185.8 billion. One of the reasons for this is the increase in the minimum wage by 15 percent from 1 December 2023 (thus increasing the revenue already from January 2024), which is higher than anticipated in the planning. As a result, the basis for calculating the rehabilitation contribution increased more than planned in 2024.

After 2022, the tax system has seen an increase in the **rate of special taxes**, mainly due to a surge in energy prices as a consequence of the Russian-Ukrainian war, which has generated significant revenue in some sectors but a huge increase in costs in others. The government introduced, extended or increased a number of special taxes by Government Decree 197/2022 (4.VI.) on extra-profit taxes, increasing the number of special taxes to 26 in 2023. Nevertheless, in 2024, most of the special taxes remained in place, but the legislator reduced the rates of some sectoral special taxes or made it possible to claim significant tax base relief from them. During 2024, special taxes accounted for 7.7% of central budget revenues, or 5.4% of total revenues, with cumulative revenues of HUF 2 064.2 billion.

Within **central budget** revenues, **consumption-related taxes accounted** for 90.0 percent of the target. Among the major tax items:

> **VAT receipts** amounted to HUF 7 376.2 billion and were 86.0 percent of the annual target. The shortfall from the target is thus HUF 1 197.8 billion. This is mainly due to the lower than expected revenue outturn in 2023 (HUF 1 004 billion), which was the basis for the 2024 plan, and to lower GFCF and lower community consumption. Household consumption expenditure, which accounts for 84.3 percent of final VAT receipts, increased more than planned. The amount of VAT receipts was also affected by lower-than-planned inflation, while the much more dynamic growth of consumption could not offset the negative effects. In the period under review, both domestic payments and VAT receipts on tobacco products increased, while VAT receipts on imports decreased compared to the previous year. Net revenue was boosted by a lower share of intra-year allocations in 2024 (42.7 percent of gross VAT receipts), following 45.5 percent in 2023. Due to the decrease in allocations, gross VAT receipts stagnated, but net VAT receipts increased by 5.7 percent compared to the base.
>
> Revenue from **excise duties** was 96.3 percent of the target (HUF 1 615.2 billion). The shortfall against the target was HUF 62.5 billion. This was due to a decrease in the volume of excise goods released for consumption in 2024, reflecting the January tax rate increases and the increase in stocks before the July change in the tobacco legislation. Excise tax revenue on fuels accounted for 56.3 percent of excise tax revenue, which was 98.9 percent of the total. The volume of gasoline released for consumption was 100.8 percent of the previous year's level, while gasoline was 98.0 percent of the previous year's level. Excise tax revenue on tobacco products was 92.8 percent and excise tax revenue on alcohol products was 93.7 percent. In volume terms, the largest increases in excisable products were for smokeless tobacco (64.4 percent increase over the base) and heated products (23.8 percent increase).
>
> **Telecommunication tax** was 115.9 percent of the annual appropriation of HUF 110.8 billion, which is HUF 15.2 billion higher than the appropriation of the Tele**communication** Tax Act. In addition to smaller monthly payments, a larger

payment was received in May under the government decree on extra-profit taxes. The surplus was due to the fact that such a rise in the tax base had not yet been taken into account and anticipated in the planning.

Financial transaction tax receipts were 118.8 percent of the total, amounting to HUF 413.8 billion. The significant increase is due to the one and a half times higher levy rate from 1 August 2024 and the additional levy introduced from October.

Within **central budget** revenue, **payments from the general public** were 100.1 percent of the target. Within this, the major tax items are:

Personal Income Tax (**PIT**) revenues in 2024 were at 100.6 percent of the annual appropriation at HUF 4 503.5 billion. This is the result of a number of factors, including a better-than-planned increase in average gross earnings. On the other hand, the annual increase in the minimum wage in 2024 was already implemented on 1 December 2023, so its impact on the tax system was already felt in January.

Revenue from levies was 93.4% of the forecast in 2024, amounting to HUF 261.5 billion. 74.1 percent of the levies are property transfer duties on real estate, with 79.8 percent of the levies collected. The number of housing transactions in the first three quarters of 2024 was 10 percent below the long-term average.

Within **central budget** revenues, **revenues from budget bodies and headings** were 172.4 percent of the estimate. This includes:

Central **government** revenue was budgeted at HUF 1 618.8 billion, which was fulfilled at 160.5 percent, amounting to HUF 2 597.4 billion. The most significant part of this, HUF 1 453.2 billion, was the funding allocated by the National Health Insurance Fund Management Agency to health care institutions.

The revenue from **professional appropriations under headings** was 232.1 percent of the target, or HUF 749.8 billion in nominal terms. The largest amounts of non-Union revenue in the professional headings were received on the statutory headings "Fund of funds GINOP financial instruments" and "Fund of funds GINOP Plus financial instruments".

Within **central government** revenue, **payments** from **subsystems of general government** accounted for 112.6 percent of the appropriations, amounting to HUF 1 883.1 billion. Within this:

Revenues from the Budgetary Support of the Resistance Fund, **Revenues from the Central Support of the Defense Fund** and **Payments from the Separate State Treasury Funds** were all met at 100.0 percent of the budget.

Payments from central budgetary bodies amounting to HUF 38.0 billion were executed at 117.5% of the draft.

Payments from **local governments** were budgeted to receive a total of HUF 307.6 billion. Revenue was collected at 111.6% of the forecast, amounting to HUF 343.2 billion. The revenue from the municipal solidarity contribution introduced by the 2017 Budget Law, which is paid by municipalities with a high per capita tax capacity, will be directly entered in the chapter of subsidies to local governments from 2023 onwards.

Within **central budget** revenue**, payments related to State property** were 171.1 percent of the estimate, amounting to HUF 656.2 billion.

One of the reasons for the high execution is that in December an unplanned revenue of HUF 124.0 billion was collected on the appropriation for other revenue related to the exercise of property rights by the MoF. A capital withdrawal in two tranches was made from the share capital of CORVINUS International Investment Ltd, a 100% state-owned company. The value of the capital withdrawals is equal to the amount allocated as share capital increase in February 2024.

In the budget, revenues related to the exercise of ownership rights were at 202.9 percent of the statutory appropriation of HUF 445.8 billion. By the end of the year, the planned quota transfers under the headings Revenues from the sale of allowances related to industrial activities and Revenues from the sale of aviation allowances were 144.4 percent of the statutory appropriations. The revenue from quota allocations is determined by the stock exchange price of allowances, which was in a higher price range than the annual average on most trading days in the second half of the year.

33.1 percent of the revenue (HUF 107.5 billion) planned in the chapter of revenue and expenditure related to the national land fund was achieved, amounting to HUF 35.6 billion, which is also related to the fact that the National Land Centre ceased to exist on 31 May 2024 and its general successor is the Ministry of Agriculture. The financial execution of the tenders for the sale of almost 20,000 hectares of agricultural land started only in the second half of the year.

Interest receipts were 88.3% higher than planned at HUF 351.6 billion. In December 2024, the Public Debt Management Centre repurchased a total of HUF 1 077.0 billion of government bonds from the National Bank of Hungary (MNB), which generated a total of HUF 322.0 billion in cash interest income.

Overall, **the receipts from EU programmes** were 51.1% of the target, amounting to HUF 1 267.3 billion. This includes **EU revenue from EU programmes** and **other** revenue **from EU programmes**.

> Of this amount, the **EU revenue from EU programmes accounted** for 32.4% of the appropriations, amounting to HUF 775.0 billion. The largest part of these items is related to the resources available under the multiannual financial framework 2021-2027 and the resources for the mitigation of the effects of the coronavirus (Recovery and Resilience Facility, RRF).
>
> The under-execution was mainly due to the under-execution of the Cohesion Policy Operational Programmes and the RRF. For the former, the revenue shortfall amounted to HUF 351.3 billion. This is HUF 740.3 billion below the budgeted amount, i.e. 32.2 percent of the budget execution. For the latter, HUF 53.2 billion of the planned HUF 767.1 billion was disbursed, which represents a total of 6.9 percent of the expected RRF receipts.

For more detailed information on the evolution of the EU programmes' revenues in 2024, see the table below.

Table 2: Evolution of the main cash data of the central government sub-system in 2023 and 2024 in HUF billion and in percentage terms

Name	Amount of outturn in 2023 (HUF billion)	2024 General budget (HUF billion)	Amount of outturn 2024 (HUF billion)	Implementation as a percentage of the appropriations in the draft general budget	2024 outturn / 2023 outturn
(1) Union revenue from Union programmes (Chapter XLII, Title 6, of which:	1 972,6	2 393,2	775,1	32,4%	39,3%
Cohesion Operational Programmes 2014-2020	*1 316,5*	*178,7*	*16,1*	9,0%	1,2%
Rural Development Programme	*325,2*	*190,0*	*113,8*	59,9%	35,0%
Recovery and Resilience Facility (RRF)	*0,0*	*767,1*	*53,2*	6,9%	-
Cohesion Operational Programmes 2021-2027	*270,2*	*1 091,7*	*351,3*	32,2%	130,0%
(2) Other revenue from EU programmes, of which:	256,6	86,7	492,2	567,7%	191,8%
EU development (Chapter XIX, Title 3)	253,7	86,5	487,1	563,1%	192,0%
Other	2,9	0,2	5,12	2562,2%	176,6%
Revenue from EU programmes = (1) + (2)	**2 229,2**	**2 479,8**	**1 267,3**	**51,1%**	**56,8%**

Source: based on NGM data, SAO calculation and editing. Note: Based on preliminary accounts data. Within the revenues of EU programmes, 78.1 billion forints were outstanding at the end of 2024.

Hungary was eligible for a total of €21.7 billion of EU funds in the 2021-2027 budget period until the end of 2024. However, the European Commission is withholding part of the funds due to Hungary. The main reasons for withholding (blocking) funds are twofold: the partial non-fulfilment of the so-called eligibility criteria (which are horizontal and thematic eligibility criteria) and the conditionality (rule of law) procedure.

The continued failure to adopt certain elements of one horizontal condition (effective application and implementation of the EU Charter of Fundamental Rights) and five thematic eligibility criteria in 2024 meant that Hungary did not have access to part of the EU budget (€4.6 billion), mainly for the EROP Plus, GINOP Plus and DIMOP Plus.

Following a Commission proposal, the Council of the European Union adopted an implementing decision in December 2022 on measures to protect the EU budget against breaches of the rule of law in Hungary. Under the decision, 55 percent of the budget commitments for three operational programmes in the area of cohesion policy (KEHOP Plus, IKOP Plus, TOP Plus) have to be suspended, i.e. until the end of the procedure, the Commission will pay up to 45 percent of the commitments related to these programmes. This meant a blocking of around €6.3 billion for the three operational programmes. The funds withheld under the rule of law procedure are subject to the so-called N+2 rule, which allows them to be used for two years from the year of availability. In the case of Hungary, this deadline expired in 2024 for some €1.1 billion of funds, but had no impact on the evolution of the budget deficit.

Furthermore, in December 2020, the Court of Justice of the European Union (CJEU) ruled that Hungary had not respected EU law, including in the area of procedures for granting international protection and returning illegally staying third-country nationals. On this basis, the CJEU's judgment of 13 June 2024 requires Hungary to pay a one-off lump sum of €200 million and, from 13 June 2024, an additional daily penalty payment of €1 million per day in cases relating to the reception of asylum seekers. This infringement and fine are still in place. The cumulative amount of the daily fine of €1 million reached €201 million by the end of the year and €401 million including the lump sum. The lump sum and the daily fine have been accounted for in the 2024 ESA budget deficit.

In addition, the access to certain EU funds is subject to the full compliance with the 27-point so-called 'super milestones' (a set of conditions linked to the protection of the EU's financial interests and the strengthening of the independence of the judiciary). For example, only the RePowerEU advance of HUF 53.2 billion from the available RRF envelope was budgeted in 2024, while the other funds are subject to compliance with the super-milestones.

A significant amount of HUF 492.3 billion was spent in 2024 on the **other revenue of EU programmes**, which represents 568.1 percent of the appropriations. Around half of this is due to the repayment by beneficiaries of previously paid but recovered OP Plus advances for Territorial and Urban Development. In addition, unforeseen revenue from cancellations, irregularities or voluntary repayments by beneficiaries has been booked to this appropriation.

Overall, **the revenue from the differentiated state funds** was 101.1 percent of the target, amounting to HUF 856.5 billion. Within this, revenue from the **National Research, Development and Innovation Fund** amounted to HUF 161.5 billion, representing 94.5% of the estimate. The **National Employment Fund'**s revenue of HUF 425.3 billion represented 91.2 percent of the implementation of the estimate. The **Bethlen Gábor Fund**, the **Central Nuclear Fund** and the **National Fund for Culture** showed significant revenue over-execution.

Overall, **the revenue of the social security financial funds** was 100.8 percent of the target at HUF 10 526.0 billion. Within this:

Pension Insurance Fund revenues were 100.1 percent of the statutory appropriation, of which the Fund received budgetary support of HUF 449.0 billion in February to support the rebuilding of the 13th month pension. The 2024 revenues of the Pension Insurance Fund exceeded the previous year's revenues by 10.8 percent, mainly due to a 17.51 percentage point increase in the social contribution tax sharing rate and a favorable change in contributory income.

Social contribution tax revenue was 1.7 percentage points below the annual estimate. This was also due to the fact that, as of 2024, due to a change in legislation, social contribution tax revenue on fringe benefits and certain other benefits, which were previously due monthly, became quarterly, so that no two months of tax revenue on these incomes will flow into the fund in 2024.

The Health Insurance Fund's revenue for 2024 amounts to HUF 4 501.8 billion, 1.8 percent above the draft. This was 11.8 percent higher than the same period last year, at HUF 474.5 billion, due to a combination of a favorable increase in taxable income and a 17.51 percentage point decrease in the social contribution tax sharing rate, which was unfavorable for the Health Insurance Fund.

5) Expenditure of the central subsystem

In 2024, the central subsystem shows an overall expenditure of HUF 42 134.0 billion, 3.4 percent (HUF 1 378.9 billion) higher than the estimate and HUF 866.6 billion (2.1 percent) above the 2023 expenditure level.

The largest overruns were in expenditure by budgetary bodies, interest expenditure on the financing of public debt, expenditure on public property and payments related to pensions.

Payments in **the central budget** amounted to HUF 30 659.5 billion, 103.4% of the appropriations, down HUF 61.5 billion on the previous year. Within this, the main expenditure items were as follows.

Expenditure on **public transport and utilities** amounted to HUF 2 310.3 billion, 111.4% of the appropriation, 9.4% less than in the base period. Within this, payments for road network availability charges (107.1 per cent), as well as for public transport reimbursements and subsidies (111.0 per cent) and subsidies for public utility services (113.5 per cent) were all higher than appropriations. The latter includes expenditures for residential energy rationing service, residential electricity system usage charge subsidy, and rationing stock service and compensation for district heating providers. The higher-than-planned outturn is mainly due to the payment of subsidies for the protection of public utilities, with a new element of HUF 24.8 billion for the Water Utilities Development and Compensation Fund.

Expenditure **on housing subsidies** amounted to 91.9 percent of the estimate, or HUF 167.0 billion. This is HUF 277.6 billion less compared to the same period in 2023, in line with the end of the Home Renovation Subsidy and the related loan at the end of 2022 (with a carry-over effect to 2023) and the launch of the Family Home Building Allowance (CSOK) with new conditions from 1 January 2024. The change in the conditions of the CSOK has had the effect of reducing the amount of housing subsidies compared to 2023.

For family and normative support, payments were close to the amount foreseen in the appropriations: HUF 1 004.8 billion, 97.9% of the appropriations.

Of this, the largest item was the **National Family and Social Policy Fund**, with an expenditure of HUF 777.7 billion, 3.0 percent more than in 2023, or 100.8 percent of the appropriation. Within the Fund's appropriations, the main item is the Family Allowances appropriation (HUF 408.5 billion), which represents 52.9 percent of the total National Family and Social Policy Fund appropriations. This was spent in 2024 at HUF 406.2 billion, or 99.4 percent of the annual appropriation. Of this, HUF 304.1 billion - a proportionately somewhat lower amount (HUF -3.5 billion) compared to the base period 2023 due to a decrease in live births in 2024 of about 8.8 percent - was used for family allowances, which accounted for 99.0 percent of the appropriation. The additional family allowances were for various child-rearing, childcare and life-starting purposes.

The 2024 appropriation for **Baby Allowances** was budgeted at HUF 227.0 billion, which was 28.2 percent higher than the 2023 outturn. Payments against the appropriation in 2024 were HUF 208.3 billion, or 91.8 percent of the appropriation. The implementation of the appropriation was slightly lower than planned, likely due to lower borrowing in the context of a lower birth rate than planned and lower spending on the assumption of debts by the state linked to the fulfilment of the condition of having children.

The 2024 appropriation for **Student Loan Scheme Subsidies** was planned at HUF 27.9 billion, 45.7 percent higher than the 2023 outturn. The 2024 outturn was HUF 18.9 billion, which is only 67.8 percent of the appropriation.

Expenditure **by central government bodies and headings** - HUF 13 952.3 billion - accounted for 45.5 percent of central budget expenditure. The bulk of this was used **for expenditure by government bodies,** which accounted for 64.7% of the total appropriations, or 9 022.3 billion forints, up 13.6% on the previous year. The year-end 2024 outturn for some of the priority appropriations of the central budget chapters was above the statutory appropriation. Of this expenditure, HUF 4 880.5 billion was spent on staff benefits and contributions, up by 14.6 percent on the previous year due to the impact of wage-increasing measures. At the same time, the share of expenditure on materials increased by 14.7% compared to 2023, while other capital expenditure decreased by 21.4%. The nominal expenditure of budgetary bodies exceeded the original legal appropriation by HUF 1 780 billion, an amount more than HUF 560 billion higher than the main amount of the available central reserve appropriations. Expenditure was boosted by the fact that the Government provided health service providers and clinical centres with a total of some HUF 143.9 billion in subsidies to settle their debts. Investments were minimally above the target by 3.9 percentage points. The minimum level of investment expenditure above the initial estimate is in line with the Government Decision 1291/2024 (19.IX.) to curb development.[10]

[10] In Government Decision 1291/2024 (19.IX.) on the revision of government decisions, the Government decided to reallocate, reschedule or cancel 130 items of various investments and renovations.

Table 3: Outturn of expenditure on each priority appropriation of the central budget headings I-XII 2024 (HUF billion)

Title	Total outturn for 2023 (HUF bn)	Amount of appropriations in 2024 (HUF bn)	Amount of implement. in 2024 (HUF bn)	Implementation as a percentage of appropriations in the draft budget	2024 outturn / 2023 outturn
Personal allowances and contributions	4 257,6	4 531,4	4 880,5	107,7%	114,6%
Material expenditure	2 298,2	2 068,7	2 636,3	127,4%	114,7%
Other operating expenditure	3 519,4	2 455,3	3 977,4	162,0%	113,0%
Investments	726,9	847,2	880,3	103,9%	121,1%
Renovations	89,3	28,8	68,8	238,9%	77,0%
Other administrative expenditure	1 566,4	1 084,2	1 231,6	113,6%	78,6%
Total:[11]	**12 457,8**	**11 015,6**	**13 674,9**	**124,1%**	**109,8%**

Source: MÁK budget bodies, chapters based on month of 12.12.2023, 12.12.2024, SAO editing

The expenditure execution of the **professional headed appropriations** amounted to HUF 4 929.9 billion, which was HUF 795.4 billion higher than the statutory appropriations, but slightly lower than the base period, i.e. 1.8%. Most of the payments were made for the normative financing of various public and non-public human services (human services and operating aid for public education, faith and morals education and textbook subsidies, and social, child protection, child welfare and equal opportunities for disabled persons), HUF 944.2 billion), economic development programmes (HUF 310.2 billion), support for non-state higher education institutions (HUF 570 billion), regional development tasks, tourism programmes, investment promotion and cultural heritage investments. Here again, there was a tendency for the expenditure to be overshadowed by the accumulation objectives, as part of this type of expenditure was accounted for under the balance sheet heading "Expenditure under the public investment heading" from 2024

Subsidies to subsystems of general government amounted to HUF 5 158.6 billion, 2.8% above the annual appropriations. As part of this, **expenditure on central support to the Resistance Fund** and the **Defense Fund** was exactly in line with the target, amounting to HUF

[11] For methodological reasons, the total expenditure data for certain priority appropriations of the central budget chapters from the database of budgetary bodies and chapters of the Ministry of Finance differs from the total expenditure data of the combined appropriations of budgetary bodies and professional headings of the table of the 12.12.2024 PYP of the table of the 12.12.2024 sent by the Ministry of Finance.

483.0 billion and HUF 822.0 billion respectively. In terms of size, the two largest expenditure items are **Guarantees and contributions to social security benefits** (HUF 2 396.5 billion, 99.2 per cent of the appropriations) and **Subsidies to local governments** (HUF 1 250.2 billion, 110.4 per cent of the appropriations).

For the support of local governments, the 2024 Budget Law included HUF 1 132.7 billion in state aid (consisting of grants to local governments, HUF 1 949.7 billion, and the Compensation of Local Governments from the Resistance Fund, HUF 83.0 billion). The amount planned under the heading of grants to local governments exceeded the 2024 year-end execution by HUF 207.4 billion (19.8 percent). This represents an increase of HUF 72.1 billion (6.1 percent) compared to the previous year. The bulk of the funding (91.4 percent) was normative contributions for general operations and sectoral tasks (certain public education, social, child welfare, child care and culture), and partly related to support for the increase in the minimum wage and guaranteed minimum wage, and to the increase in teachers' salaries.

In line with the extremely slow receipt of revenues from EU programmes, the **implementation of EU programmes** continued at a subdued **pace.** In 2024, a total of HUF 1,516.1 billion of expenditure was spent, which represents 42.0 percent of the statutory appropriation (HUF 3 605.8 billion). Almost all appropriations are under-implemented, with the largest under-implementation in the Operational Programmes for Cohesion Policy 2021-2027 (30.7 percent) and the Recovery and Resilience Instrument (RRF) (15.1 percent).

Within the Cohesion Operational Programmes 2021-2027, the highest disbursement was made by the Human Resources Development Operational Programme (EFOP) Plus (HUF 254.5 billion, 69.9 percent of the allocation). The high disbursement is mainly linked to the Teacher Career Model Programme, which accounts for the bulk of the funding for the teacher pay rise. In addition, the under-implementation is mainly due to the fact that fewer calls for proposals and fewer grant contracts were concluded than planned due to delays in negotiations with the European Commission, which also caused delays and a reduction in volume, resulting in significantly less expenditure than planned.

The delay in the RRF line can be attributed to several reasons (calls for proposals not yet published or grant contracts not yet signed, payments not made or payments postponed to 2025). Under the RRF Regulation, (EU) payments are conditional on the closure of projects by 31 August 2026.

Table 4: Expenditure trends for EU programmes, 2024 (in billion HUF and percentage)

Name	**Total for 2023 (HUF billion)**	**Estimates for 2024 (HUF bn)**	**Total implementation in 2024 (HUF bn)**	**Implementation as a percentage of the appropriation in the draft budget**	**2024 outturn / 2023 outturn**
(3) Chapter XIX Union developments, Title 3 Of which:	2 774,4	3 562,2	1 485,8	41,7%	53,5%
Cohesion policy operational programmes 2014-2020	*1 366,7*	*205,0*	*182,0*	88,8%	13,3%
Rural development and fisheries programmes	*758,6*	*656,5*	*592,9*	90,3%	78,2%
Recovery and Resilience Facility (RRF)	*270,5*	*766,8*	*115,8*	15,1%	42,8%
Operational programmes for cohesion policy 2021-2027	*364,0*	*1 824,4*	*560,5*	30,7%	154,0%
(4) Other expenditure for EU programmes	37,9	43,6	30,3	69,5%	79,9%
Expenditure on EU programmes = (3) + (4)	**2 812,2**	**3 605,8**	**1 516,1**	**42,0%**	**53,9%**

Source: based on NGM data, SAO calculation and editing
Note: Based on preliminary accounts data.

The outturn for the expenditure line **Contribution to the EU budget** was 89.1% of the estimate, at HUF 616.8 billion. The savings are due to lower than projected economic growth in 2023 as a result of the calculation method.

Interest expenditure amounted to HUF 3 613.1 billion, 116.4 percent of the forecast. Interest expenditure increased by 30.7 percent in nominal terms from HUF 2 764.2 billion in 2023. The overperformance is mainly related to three items - interest payments on foreign currency bonds, government bonds and treasury bills. Compared to previous years, interest payments were mainly high in the first three months of the year, mainly related to the interest payments on the Premium Hungarian Government Bond (PMÁP) in February and March, which is linked to the financing of government debt. The increase in interest expenditure was mainly due to the impact of high inflation in 2022 on interest payments in 2024, as the reduction in inflation for inflation-linked government bonds subscribed by the public will be felt in cash interest expenditure after two years. Nevertheless, an increasing share of the interest paid has gone to the public. In addition to the above factors, the rise in interest expenditure has been driven by changes in the structure of government debt, the rising interest cost of the larger stock of government bonds held by the general public, including the rising share of long-dated, inflation-linked, higher-interest government bonds held by the general public.

Table 5: Use of central reserves, 2024 (HUF billion, percent)

Description	Use in 2023 (HUF bn)	Estimates in 2024 (HUF bn)	Use in 2024 (HUF bn)	Utilization as a percentage of the appropriation	Consumption in 2024 / Consumption in 2023
XV. MINISTRY OF FINANCE					
Provisions (Chapter XV, Title 26, Chapter 2), of which	466,7	743,1	815,8	109,8%	174,8%
Teachers' Salary Increase Fund	-	340,0	339,8	99,9%	-
Other provisions	-	403,1	476,0	118,1%	-
Epidemiological expenditure	0,3	7,7	0,0	0,0%	-
Exceptional government measures	253,9	220,0	215,4	97,9%	84,8%

Source: 2024 Budget Act, Treasury Central subsystem revenue and expenditure details (2023, 2024) and PM reserves data (month 12.12.2024), SAO ed.

From the provisions, i.e. the amount allocated to the teachers' salary increase and other provisions together, including the replenishment of the provisions, HUF 809.7 billion was used in 2024. The actual utilization of provisions exceeded the statutory appropriation by 9.0 percent (HUF 66.6 billion).

45.8 per cent of the appropriations for provisions was earmarked for the increase in teachers' salaries, which covered the increase in the salaries of teachers and other staff with a teaching qualification who directly support teachers (32.2 per cent on average) from 1 January 2024. The use of Other provisions (HUF 476.0 billion) was 18.1 percent higher than planned. The appropriation was used to cover the increase in the minimum wage and the guaranteed minimum wage for the 18 chapters concerned (HUF 111.8 billion), other wage and salary increases and new job surpluses, and the salary adjustment for employees of the public interest trusts (KEKVA) (HUF 49.6 billion).

97.9 percent of the annual appropriations, HUF 215.4 billion, were transferred to Exceptional government measures (of which HUF 84.5 billion in the first half of the year and HUF 130.9 billion in the second half). [12(.)]Among the expenditure of in the second half of the year, some HUF 29.8 billion was reallocated to public investments and HUF 16.1 billion was spent on the infrastructure development of the Debrecen Southern Economic Area.

Expenditure on state property amounted to HUF 962.3 billion, or 180.2 percent of the estimate, but 10.3 percent lower than in the base period. Most of the amount was spent on capital increases in majority-owned state-owned companies, and 112.2 billion forints was spent

[12] Act CXCV of 2011 on Public Finances, § 21 (3). The Parliament's approval is required for any use exceeding this amount.

on state real estate and movable property. The largest share of the expenditure relates to the first quarter's allocation of resources to companies under the ownership of the NGM, not planned in the budget, for the purchase of the Budapest Airport.

Expenditure under the public investment heading amounted to HUF 645.0 billion, or 245.3 percent of the appropriations. Expenditure was boosted in the second half of the year by higher-than-planned expenditure related to the public investment chapter. Most of the payments were related to transport investments (HUF 163.1 billion), EU-funded investments (HUF 155.4 billion) and specific building investments (HUF 149.7 billion).

Expenditure on **earmarked public funds** amounted to HUF 718.3 billion, 8.5% more than the estimate, but 7.9% more than the previous year. Most of this, HUF 422.0 billion, was spent on the **National Employment Fund.** Of this, HUF 176.9 billion was spent on passive expenditure, job-search allowances, 36.0% more than the estimate. There was also significant spending on the **National Research, Development and Innovation Fund** (HUF 155.3 billion, 100.7 percent of the estimate) and the **Bethlen Gábor Fund** (HUF 101.1 billion, 150.5 percent of the estimate).

Expenditure **on social security funds** amounted to HUF 10 756.2 billion, 8.9 percent above the previous year's amount and 3.0 percentage points above the target.

Within the social security funds, the **Pension Insurance Fund** stands out in terms of size, with a total of HUF 6 217.9 billion, 3.3 percent above the target and 7.8 percent above the 2023 level. The Pension Insurance Fund has a deficit of HUF 193.6 billion by the end of 2024. This is mainly due to the fact that the Fund's budget for 2024 did not provide for the additional pension increase of November 2023 and its impact in 2024. Another consequence of this was that by the end of the year, expenditure on the 13th monthly pension (HUF 471.9 billion) exceeded the allocated subsidy (HUF 449.0 billion) by 5.1 percent. Another factor contributing to the increase in the deficit was that the revenue from the social contribution tax was 1.7 percentage points below the annual appropriation.

The over-expenditure of the Pension Insurance Fund (3.3 percent) is linked to the carry-over effect of the November 2023 supplementary pension increase, which included the 13th month pension and was not yet covered by the appropriations of the budget law adopted in summer 2023. Payments for pension benefits amounted to HUF 6 209.6 billion. The outturn **for pension benefits** in 2024 exceeded the annual target by 3.3 percent, i.e. HUF 199.1 billion, as the Fund's budget for 2024, adopted in July 2023, did not take into account the need to implement an additional pension increase (3.1 percent) in November 2023. In its proposal for the 2025 Decree-Law, the Government estimated the increase in gross domestic product at constant prices - expected in 2024 - at 0.8 per cent (the actual, adjusted increase was 0.6 per cent), i.e. the 3.5 per cent increase in GDP required as a condition for the payment of the **pension premium** was not achieved, so the related **appropriation** (HUF 20.5 billion) **was saved.**

From the Health Insurance Fund, HUF 4 538.3 billion was used, 2.6 percent above the annual appropriation, 10.3 percent more than the previous year, due to the higher than legally foreseen outturn for Preventive Medical Benefits and Medicines Subsidies, only partially offset by a 4.2 percent saving in expenditure on cash benefits compared to the legal appropriation. Expenditure on cash benefits accounted for 25.7 per cent of Health Insurance Fund expenditure, expenditure on preventive curative benefits for 59.1 per cent and expenditure on drug benefits for 12.1 per cent in 2024.

The Health Insurance Fund **deficit at the end of 2024 was HUF 36.5 billion**. The increase in the deficit was mainly due to the large operating subsidy payments (HUF 63.4 billion in April, HUF 41.0 billion in June and HUF 39.5 billion in November) made during the year to settle supplier debts in excess of the initial appropriations, and to the expenditure of HUF 68.9 billion in 2024, which exceeded the initial appropriations for the financing of high-value pharmaceuticals. The additional expenditure was not offset by an increase in the Health Insurance Fund's tax and contribution revenues.

Spending on preventive medical care, which accounts for the largest share of 2 684.1 billion HUF, was higher both compared to 2023 (by 11.4 percent) and compared to the estimate (by 5.1 percent) . The increase compared to the previous year is mainly related to the increase in the salaries of health professionals and health care workers, which started on 1 July 2023 and continued on 1 March 2024. Expenditure also includes a HUF 63.4 billion subsidy to publicly funded state, municipal and church-owned health care providers providing outpatient and inpatient care, as well as to clinical centres of medical universities to finance their outstanding debt stock, which was granted until end-April 2024, and an additional HUF 41.0 billion subsidy transferred until end-June 2024, as well as a larger operating subsidy payment (HUF 39.5 billion) in November. A total of HUF 549.9 billion was spent **on pharmaceutical subsidies**, 9.9 percent more than the estimate (HUF 49.6 billion) and 8.7 percent more than in 2023. This was covered by an increase of HUF 54.0 billion in appropriations under Government Decision 1391/2024 (12/12/12). The additional expenditure compared to the initial appropriations is due to the natural increase in consumption, similar to previous years, and to the continued increase in the share of newer, innovative and higher cost products. 153.1% of the legal appropriation for **high-value pharmaceutical financing** has been used up to the end of 2024. In addition to the underutilization of the 2024 appropriation, the increase in the number of patients in need due to the emergence of new free formulations and screening tests contributed to the over-utilization.

25.7 percent of total expenditure of the Health Insurance Fund, 9.3 percent more than a year earlier, 95.8 percent of the annual allocation of HUF 1 164.4 billion, was used **for cash benefits.**

Budapest, 17 April 2025.

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