PUBLIC FINANCE REPORT

2024

DECEMBER

“Intending to ensure the benefit of the general public ... and the good condition of the country by useful remedies...”

(from a charter of King Charles Robert - February 1318)

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Analysis of the 2025 Budget Bill

2024

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To support the fulfilment of its fundamental duties set forth in Act CXXXIX of 2013 on the Magyar Nemzeti Bank, in particular the tasks related to the determination and implementation of monetary policy, the Magyar Nemzeti Bank analyses developments in the budget deficit and debt, monitors the financing of the general government, analyses the impact of financing on monetary developments, capital markets and liquidity, and researches fiscal policy issues.

Pursuant to Act CXCIV of 2011 on the Economic Stability of Hungary, the Governor of the MNB is a member of the Fiscal Council (FC), and thus the professional expertise and accumulated information available in the MNB can indirectly support the work of the FC. The MNB prepares background analyses for the duties of the FC stipulated in the Stability Act and provides them to the FC.

The analyses in this Report were prepared under the general direction of Gergely Baksay, Executive Director for Economic and Fiscal Analysis and Statistics. This Report was prepared by the staff of the Directorate for Fiscal Analysis with the assistance of the staff of the Directorate for Economic Forecast and Analysis. It was approved for publication by Governor György Matolcsy.

The analysis is based on information available for the period ending on 21 November 2024.

Contents

1 Summary

The subject of this analysis is the bill on Hungary's 2025 central budget submitted to the Parliament on 11 November 2024, which we assess in the light of the MNB's fiscal forecast. As part of this analysis, we prepared our own projection for the 2025 budget balance and the government debt based on the available information, and this projection is compared with the appropriation in the bill.

According to the bill, the debt-to-GDP ratio is expected to decline by 0.6 percentage points in 2025, which ensures compliance with the government debt rule specified in the Fundamental Law and assessed with special attention by the Fiscal Council. Prior to the final vote on the budget bill, the focus of the Fiscal Council's assessment is compliance with the rule prescribed by the Fundamental Law that requires the reduction of government debt. The Fundamental Law and the Stability Act in force prescribe the reduction of the debt ratio by at least 0.1 percentage points, which is satisfied based on the bill. According to the bill, the gross debt-to-GDP ratio of the general government will decrease from 73.4 per cent at end-2023 to 73.2 per cent in 2024, followed by a decline to 72.6 per cent by the end of 2025. According to our forecast, the reduction of the debt-to-GDP ratio may be higher in 2025 – 0.8 percentage points – than the value stated in the bill. Although the 2024 debt ratio may be higher than projected in the bill, this in itself would not affect the reduction of the debt ratio next year, however, it may result in an elevated debt trajectory.

Based on the budget bill, in 2025 the accrual-based budget deficit target is 3.7 per cent of GDP, which can be achieved, according to our projection where deficit ranges between 3.4 and 4.2 per cent of GDP. The deficit target is consistent with the path set in the national medium-term fiscal-structural plan recently submitted to the European Union. The deficit envisaged in the bill for next year translates to a 0.8-percentage point decline compared to the 4.5 per cent deficit projected for 2024. The decline in the government deficit is supported by the moderation in interest expenditures, primarily owing to the repricing of inflation-linked government bonds; moreover, the recently announced tax measures also contribute to the reduction of the deficit.

The new revenue-increasing tax measures announced in the autumn entail a deficit reduction of 0.4 per cent of GDP. New measures include a one-off 8-per cent increase in tobacco excise duty, a one-off 20-per cent increase in company car tax and inflation-linked tax increases for the tax on domestically registered vehicles, the duty on title transfer and the excise duty (on fuel and alcohol); moreover, from 2026 an increase for the car registration tax, the company car tax and excise duty on tobacco. Other new measures include the changes in mining royalty rates and as a novelty, the introduction of the global minimum tax already affects 2025 in the form of advance payments. The retail tax will be adjusted, the carbon dioxide quota tax will be maintained, while the suspension of the advertising tax will remain in place next year and an aviation environment pollution tax will be introduced. At the same time, the programmes of the 21-point New Economic Action Plan announced in October may increase the deficit: under the Plan, the amounts of the family tax allowance will be raised by 50 per cent from July 2025, and the implementation of the Sándor Demján Programme, the Rural Home Renovation Programme and the Workers' Loan Scheme is envisaged.

According to our forecast, the cash-based deficit of the central sub-sector is expected to be somewhat higher than in the budget bill. Our projection indicates that the deficit of the central sub-sector may exceed the HUF 4,123 billion stated in the bill by around HUF 170 billion. Both the consolidated cash-based revenues and expenditures may fall short of the appropriations by around HUF 530 billion and HUF 360 billion, respectively. Among revenues, tax and contribution revenues may fall short of the budgeted figure by HUF 310 billion, primarily reflecting lower-than-expected revenues from VAT, owing to the lower base envisaged for this year. With regards to expenditures, it is primarily in the area of utility protection of households where we anticipate lower expenditures than stated in the bill. According to our forecast, EU revenues and EU expenditures may also fall short of the appropriations, largely due to the uncertainties surrounding the RRF payments.

According to the macroeconomic path of the budget bill, GDP may increase by 0.8 per cent in 2024 and 3.4 per cent in 2025. The MNB expects GDP growth to remain subdued this year, while domestic economic output is expected to grow by 2.7-3.7 per cent in 2025. In line with the budgetary forecast, GDP growth is mainly supported by gradually rising household consumption in the short term. From 2025, investment and export performance will also increase as external demand improves. The budget bill forecasts inflation of 3.2 per cent in 2025, broadly consistent with the range of 2.7-3.6 per cent stated in the MNB's September Inflation Report for next year. However, the combined impact of the data and information received in the meantime on next year's inflation is assessed in the December Inflation Report. Both the budget bill and the MNB forecast dynamic growth in the gross wage bill.

The government deficit target of 3.7 per cent of GDP is not consistent with the Maastricht fiscal criterion of 3 per cent prima facie, nor does it comply with the rule on the general government deficit in the Stability Act in force; however, the debt reduction stated in the bill is consistent with the relevant debt rules. The 3.7-per cent level of the envisaged deficit-to-GDP ratio is above the Maastricht reference value prima facie; however, the reduction of the deficit by 0.8 percentage points planned for 2025 may be consistent with future European Council recommendations, while also meeting the minimum annual reduction of 0.5 percentage points to be applied under the excessive deficit procedure. Under the Stability Act in force, the balance of the general government should be set with a view to ensuring that its deficit does not exceed 3 per cent of GDP; this criterion is unlikely to be met next year; however, the bill on laying the foundations for the 2025 central budget of Hungary is expected to amend this requirement before the Budget Act enters into force. According to the budget bill, the debt-to-GDP ratio will be reduced by 0.6 percentage points in 2025, which is consistent with the debt rules of the Fundamental Law and of the Stability Act. As of this year, instead of the former debt reduction benchmark (one-twentieth rule), the European debt reduction requirement and the debt-based excessive deficit procedure are linked to the net expenditure path stated in the national medium-term fiscal-structural plan. Looking ahead, the plan submitted by Hungary foresees a gradual reduction of the debt ratio, consistent with the 0.5-percentage point annual reduction prescribed by the debt sustainability safeguard that is required for setting the net expenditure path in the medium-term plan.

2 General government balance

The 2025 budget bill sets the accrual deficit-to-GDP ratio of the general government at 3.7 per cent of GDP for 2025, representing a decline of 0.8 percentage points relative to this year's target of 4.5 per cent. The decline in the accrual-based deficit is strongly supported by the fall in interest expenditure, mainly due to the repricing of inflation-linked government bonds to lower interest rate levels. In addition, the recently announced tax measures will also contribute to the reduction of the deficit. The general government deficit is mostly the result of the cash-based deficit of the central budgetary sub-sector, while the balance of the local government sub-sector may be essentially neutral in 2025 (Table 1). The statistical adjustment between cash-based and accrual-based accounting generates a substantial decline in the ESA deficit compared to the cash-based deficit, mainly owing to the different methodology concerning interest expenditures and tax revenues.

Table 1
ESA balance of the general government in 2025 (as a percentage of GDP)

	Statutory appropriation	MNB forecast	Difference
1. Balance of the central sub-sector	-4.7	(-5.3) - (-4.5)	(-0.6) - 0.2
2. Balance of local governments	-0.1	0.0	0.1
3. Cash-based balance of central sub-sector and local governments (1+2)	**-4.8**	**(-5.3) - (-4.5)**	**(-0.5) - 0.3**
4. GFS-ESA difference	1.1	1.1	0.0
5. ESA balance of the general government (3+4)	**-3.7**	**(-4.2) - (-3.4)**	**(-0.5) - 0.3**

Note: Differences may occur in the table due to rounding.
Source: 2025 budget bill, MNB forecast

The cash-based deficit of the central sub-sector may amount to HUF 4,123 billion based on the budget bill. According to the midpoint of our forecast band, the deficit of the central budgetary sub-sector is about HUF 170 billion higher than the deficit foreseen in the bill. Consolidated budgetary revenues may fall short of the appropriations by HUF 530 billion, primarily due to tax and contribution revenues that may turn out HUF 385 billion lower than expected. Risks to tax revenues mainly affect consumption taxes – in particular, VAT –, to a lesser extent payments by economic organisations, and in part, labour taxes and contributions. However, the shortfall from appropriations may be significantly smaller in 2025 than this year. Macroeconomic developments in the coming year may influence the evolution of tax and contribution revenues considerably, which will also have a significant impact on our revenue forecast. Consolidated government expenditures may fall short of the appropriations stated in the bill by HUF 360 billion. We identified a lower expenditure amount than that foreseen in the bill primarily for utility subsidies, in view of stabilising global energy prices. According to our forecast, EU revenues and EU expenditures may also fall short of the appropriations, largely due to the uncertainties surrounding RRF funds.

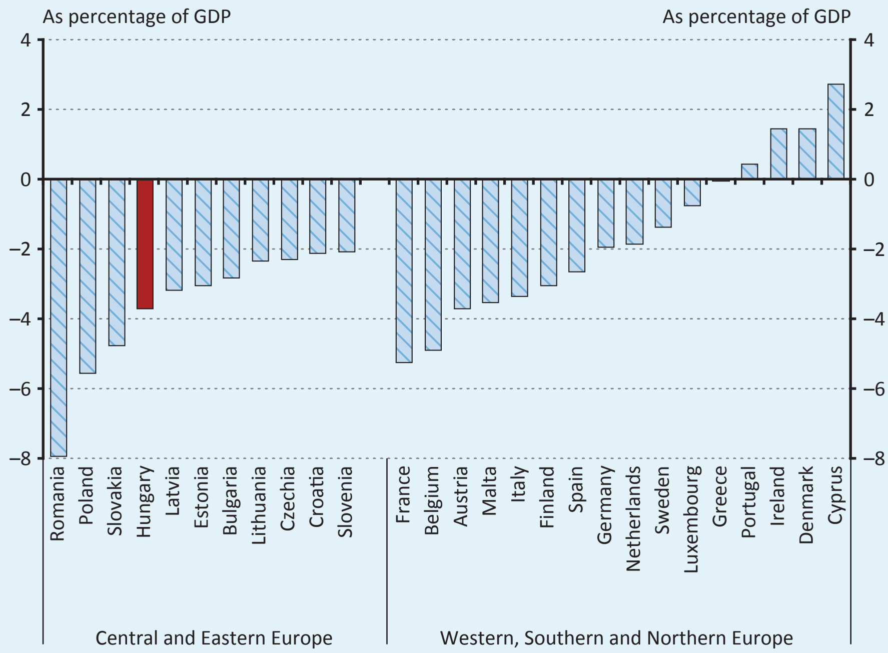
The cash-based balance of the local government sub-sector shows a deficit of 0.1 per cent of GDP in the budget bill. Our projection presumes a similar local government cash-based balance than that envisaged in the budget bill; in our opinion, the balance of the sub-sector may be close to neutral in 2025.

According to the budget bill, the ESA bridge, which comprises the accrual-based and other ESA adjustments, contains a deficit-reducing adjustment of HUF 937 billion for 2025. As in previous years, tax and tax-type revenues will improve the accrual-based balance of the budget by more than HUF 440 billion next year. The statistical adjustment related to interest revenues and interest expenditures may improve the balance of the general government by an exceptionally large amount of more than HUF 650 billion next year. Indeed, for a significant part of the inflation-linked government bonds the high interest expenditure resulting from inflation in 2023 has already been recognised in accrual accounting in 2024; consequently, a lower ESA interest payment is expected in 2025 as opposed to higher cash-based payments based on the higher inflation level in 2023. Transactions in financial operations may increase ESA adjustments by an additional HUF 184 billion. The adjustment for the accounting of private pension funds will improve the ESA balance by around HUF 44 billion next year, while the budget bill foresees a balance improvement of more than HUF 110 billion for other statistical corrections. The expected revenue of HUF 200 billion from the sale of carbon dioxide quotas is not ESA revenue; therefore, the statistical adjustment of this revenue will increase the ESA deficit by this amount.

In 2025, the total expenditure of the central budgetary reserves amounts to HUF 1,180 billion; however, the amount of free reserves is very low at HUF 100 billion. Within central reserves, the largest amounts are Provisions and the Utility Compensation for Institutions with a public service mission; these amounts are essentially earmarked for predetermined purposes. The Reserve for Extraordinary Government Measures has a budget of only HUF 100 billion, which is below the current rule of 0.5 per cent (HUF 220 billion) of the total expenditure. However, Bill T/10012 submitted to the Parliament is expected to amend this provision. The Utility Protection Fund and the Defence Fund have been removed from the 2025 budget bill.

Hungary's 2025 deficit target of 3.7 per cent of GDP is consistent with the average for the Central and Eastern European region next year, while it exceeds the EU average of less than 3 per cent (Chart 1).

Chart 1
Government deficit forecast for 2025 in the EU



Note: Hungarian data is in line with the government target announced in the 2025 budget bill.
Source: European Commission, 2025 budget bill

3 Expected developments of government debt

Based on the budget bill, the government debt-to-GDP ratio will decline to 72.6 per cent of GDP in 2025 from 73.2 per cent forecast in the bill for the end of 2024. According to the bill, the debt-to-GDP ratio is expected to decline by 0.6 percentage points in 2025.

According to our forecast, the gross debt ratio will decrease by 0.8 percentage points in 2025 (Table 2), supported by economic growth and a moderation of the government deficit. The MNB's forecast for the gross debt ratio expects a somewhat higher debt reduction in 2025 than stated in the budget bill due to higher nominal GDP growth expectations, which are partly offset by the MNB's forecast for the cash-based deficit, which is also somewhat higher. However, the decline in the debt-to-GDP ratio in 2024 is surrounded by risks due to a higher-than-expected cash deficit, a less favourable growth outlook for the real economy, the revaluation of foreign currency debt and uncertainties surrounding the level of non-central debt. The risk surrounding the decline of the rate in 2024 does not affect the reduction next year in and of itself, but it may result in a higher debt path.

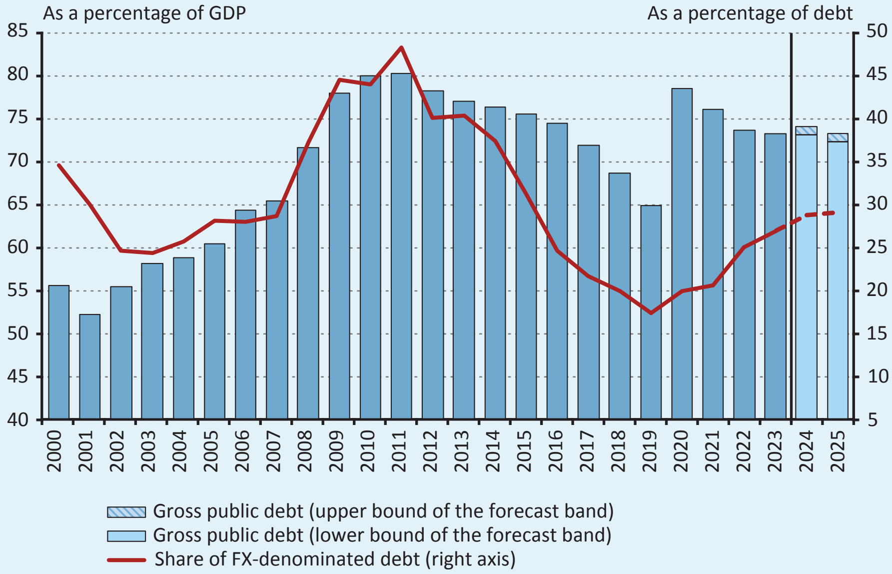
Table 2
Developments in government debt (as a percentage of GDP)

	Budget bill	MNB
1. 2024 initial government debt	73.2	73.2 - 74.2
2. 2025 cash-based deficit of the central budget	4.7	4.5 - 5.3
3. Other effects	-0.1	-0.1
4. 2025 expected government debt	72.6	72.4 - 73.4
5. Change in government debt-to-GDP ratio in 2025 (4-1)	-0.6	-0.8

Note: The MNB forecast and the budget bill calculate with different nominal GDP. The sum of partial data may differ from the aggregated values due to rounding.
Source: 2025 budget bill, MNB forecast

The foreign currency ratio of the central debt rose to 26.9 per cent by end-2023 owing to increasing foreign currency bond issuances, and based on our forecast, this ratio may increase further but remain below 30 per cent, in line with the debt management's target (Chart 2). The budget bill envisages positive net foreign currency bond issuance for both this year and next; consequently, the foreign currency ratio of the central debt may be above 29 per cent in both years.

Chart 2
Expected developments of government debt



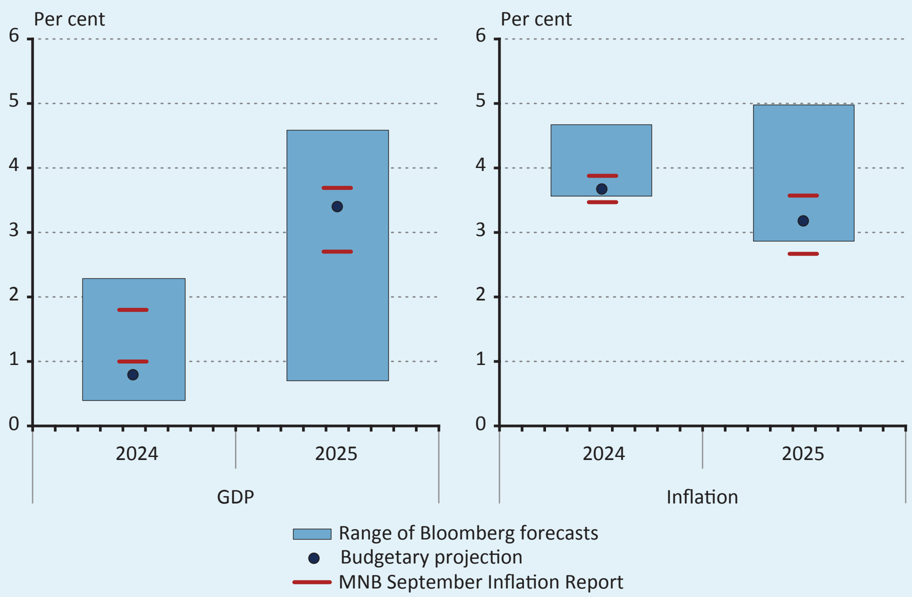
Note: The figure shows the MNB forecast for 2024 and 2025.

Source: MNB, GDMA

4 Evaluation of the macroeconomic assumptions underlying the bill

According to the macroeconomic path of the budget bill, GDP may increase by 0.8 per cent in 2024 and 3.4 per cent in 2025. The growth outlook is strongly influenced by the inflation path, developments in domestic demand and uncertainties surrounding the external environment. The high uncertainty surrounding GDP developments is indicated by the greater dispersion of market analysts' expectations for both this year and next (Chart 3).

Chart 3
Comparison of GDP and inflation forecasts



Source: 2025 budget bill, MNB Inflation Report (September 2024), Bloomberg (December 2024)

The MNB expects GDP growth to remain subdued this year, while domestic economic output is expected to grow by 2.7-3.7 per cent in 2025. In 2024 Q3, Hungary's gross domestic product decreased by 0.8 per cent, year-on-year. The deceleration was driven by a decline in the performance of industry, construction and agriculture, while the value added of services increased. Incoming data for the third quarter result in lower GDP growth for this year than forecast in the September Inflation Report. In line with the budgetary forecast, GDP growth in 2024 is mainly supported by gradually rising household consumption. Strong real wage growth and stable employment will continue to boost consumption in the second half of the year, as well. At the same time, public and corporate investment is expected to contract this year, while household investment may increase somewhat. Overall, the volume of investment is expected to moderate this year, slowing economic growth significantly. Underinvestment in the corporate sector will start to be partially offset by permanent improvement in demand from 2025 onwards. A subdued European economy will continue to hold back domestic exports in the short term. At the same time, with the recovery in consumption, ongoing and newly announced significant capacity-increasing foreign direct investment will boost exports in the coming years, which will also increase Hungary's export market share according to the MNB's forecast. Both exports and imports are expected to be lower in 2025 in the budget bill compared to the MNB's expectations.

Both the budget bill and the MNB forecast dynamic growth in the gross wage bill. Wage growth in the macroeconomic path of the budget bill is in the range projected by the MNB in 2024 and resides above the range next year. This year, employment is expected to stagnate, the bill expects a 0.1-per cent increase in employment for next year, which equals the midpoint of the MNB's forecast band.

According to the budget bill, inflation will be 3.7 per cent in 2024 and 3.2 per cent in 2025. The forecast of the budget bill is broadly consistent with the range of 3.5-3.9 per cent projected in the MNB's September Inflation Report for this year and the range of 2.7-3.6 per cent for next year. The combined impact of the data and information received in the meantime on next year's inflation is assessed in the December Inflation Report.

Table 3
Comparison of the macroeconomic forecasts (percentage change compared to the previous year)

	2023	2024		2025	
	Actual	Budget	MNB (September Inflation Report)	Budget	MNB (September Inflation Report)
GDP	**-0.9**	**0.8**	**1.0 - 1.8**	**3.4**	**2.7 - 3.7**
Consumption expenditure of households	-1.9	3.9	3.4 - 4.0	4.4	3.4 - 4.4
Public consumption*	3.9	-2.2	(-0.1) - 0.7	0.8	(-0.3) - 0.9
Gross fixed capital formation	-7.8	-9.9	(-7.2) - (-5.8)	5.1	1.5 - 4.5
Exports	1.5	-1.4	(-1.5) - (-0.3)	3.6	4.9 - 6.7
Imports	-3.8	-3.4	(-3.8) - (-2.6)	4.1	4.7 - 6.7
GDP deflator	14.6	8.0	7.7	4.0	4.8
Inflation	**17.6**	**3.7**	**3.5 - 3.9**	**3.2**	**2.7 - 3.6**
Gross wage bill*	**14.8**	**12.8**	**13.3 - 13.6**	**8.8**	**7.6 - 8.8**
Gross average earnings	14.2	12.9	12.8 - 13.2	8.7	7.5 - 8.6
Number of employees	0.6	0.4	0.4 - 0.5	0.1	(-0.3) - 0.4

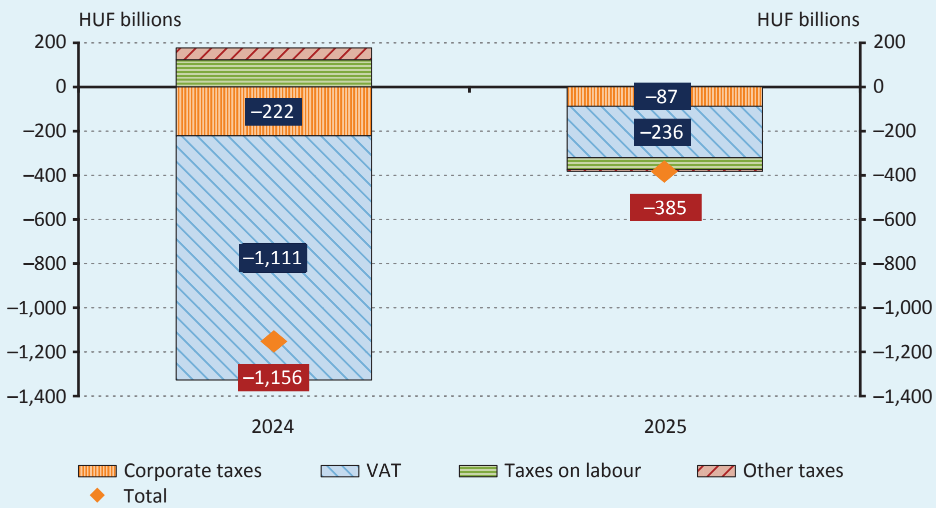
*Note: *Definition of public consumption and gross wage bill are different at the two institutions. In the case of MNB, public final consumption is included in the table.*
Source: 2025 budget bill, MNB Inflation Report (September 2024)

5 Detailed evaluation of the budget bill

5.1 PRIMARY REVENUES

According to our forecast, in 2025 the primary revenues of the central sub-sector of the budget may fall short of the appropriations stated in the budget bill by around HUF 530 billion (Table 4). The difference is largely due to lower expected tax and contribution revenues and, to a lesser degree, to the lagging of EU-related revenues. Based on our forecast, tax and contribution revenues may be HUF 385 billion lower than the appropriations in the bill, mainly due to lower-than-expected consumption tax revenues and, to a lesser extent, lower payments by economic organisations and lower labour tax revenues than the appropriations (Chart 4). The differences in revenues can be attributed to the lower base expected in 2024 for most tax categories, but the shortfall may be significantly lower this year. As regards EU revenues, the RRF funds remain unavailable; consequently, the realisation of RRF revenues in excess of HUF 600 billion is surrounded by risks.

Chart 4
Expected development of tax and contribution revenues compared to the appropriations



Source: 2024 Budget Act, 2025 budget bill

Payments by economic organisations may fall short of the appropriations for 2025 by HUF 87 billion. Again in 2025, the evolution of revenues will be significantly influenced by the budgetary consolidation steps in 2022-2025. Most of the windfall taxes were introduced during 2022. Some of them (such as the tax on pharmaceutical manufacturers or the tax on the net sales of petroleum products) are to be phased out by the end of 2024, but in numerous cases (with possible adjustments) they will remain in force in 2025.

Revenues from **the corporate income tax** may be HUF 74 billion lower than the appropriation. The difference can be attributed to macroeconomic developments: the tax base is expected to rise to a lower level in 2024 than presumed in the Budget Act, which will have a significant impact on the level of tax advances in 2025. Within the tax category, a tax advance will be introduced in the framework of the global minimum tax in relation to the 2024 tax year, such that the mandatory payment of the tax advance may fall in November 2025, bringing forward the bulk of the tax liability from 2026 (when the minimum tax return for 2024 is due) to one year earlier.

For the **special tax of financial institutions**, our forecast for 2025 is broadly consistent with the appropriation stated in the budget bill. The obligation to pay the windfall tax, which is part of this tax type, will be maintained in 2025. The tax base will become the adjusted pre-tax profit for 2023, with the tax rate lowered to 7 per cent for the part of the tax base not exceeding HUF 20 billion and to 18 per cent for the amount in excess of HUF 20 billion. As before, the rate of the windfall tax can be reduced by 10 per cent of the increase in banks' portfolios of government securities, up to a maximum of half of the tax payable.

Payments from the **mining royalty** may exceed the appropriation by HUF 8 billion. The autumn 2024 tax package submitted alongside the budget bill, will modify the royalty rules significantly. Progressivity has also increased for the two largest sources of revenue, oil and natural gas extraction. The former three-tier system will be replaced by a five-tier system, where the tax rate is not fixed but defined as a function of global market prices. The new system tracks changes in the market prices better than before through changes in the tax rates.

Revenues from the **income tax on energy providers** may fall short of the budgeted figure by HUF 18 billion in 2025. The appropriation is surrounded by uncertainties in several regards, such as energy providers' profits for 2024, changes in oil prices and the USD/HUF exchange rate for the tax on the profits from oil price differences, and the actual difference in oil prices in 2025. A number of measures have increased revenues between 2022 and 2024 regarding this tax type, two of which will remain in place in 2025: the tax rate, which was raised to 41 per cent and the tax on the oil price difference (tax on the profit from the difference between the prices of the Brent and Ural type crude oils). The rest of the measures (extension of the scope of taxpayers to bioethanol and biofuel producers, sunflower seed oil and starch producers and balancing power plants; the surtax for those leaving the KÁT/METAR system; the surtax payable by petroleum product producers based on net sales revenue) will be phased out by the end of 2024.

Revenues from the **company car tax** may exceed the appropriation by HUF 4 billion. Tax rates in this tax type will be raised by an average of 20 per cent from 1 January 2025. The measure will generate an additional HUF 16 billion in revenues in 2025.

Revenues from the **retail tax** may fall short of the appropriation by HUF 5 billion, mostly due to the base effect. The highest tax rate of this tax category was raised to 4.5 per cent in 2024, which will remain unchanged in 2025 based on the announcements. According to the tax package submitted alongside the budget bill, from 2025, the range of taxpayers will be extended to include non-resident or resident platform operators who provide a marketplace for retail sellers, and the tax will be determined on the basis of the combined amount of the revenues from retail sales abroad and in Hungary. At the same time, as before, the tax will not have to be paid on revenues from the sale of goods sold abroad.

Revenues from **the carbon dioxide quota tax** may fall short of the appropriation by HUF 3 billion, mostly due to the base effect. Since the tax was introduced in the summer of 2023 after the adoption of the 2024 budget, the 2025 budget is the first budget to include an appropriation for this tax type.

Due to the base effect, revenues from **road tolls** may fall short of the appropriation by HUF 14 billion, while **other centralised revenues** and the **other revenues of economic organisations** may exceed the amounts envisioned in the budget bill by HUF 10 billion and HUF 15 billion, respectively. For other tax types paid by economic organisations, the differences are due to the base effect and differences in the perception of macroeconomic developments.

Table 4
Revenues of the central sub-sector – comparison of the forecasts (HUF billions)

	Statutory appropriation	MNB forecast	Difference
TAX AND CONTRIBUTION REVENUES OF THE CENTRAL SUB-SECTOR	**29,467**	**29,082**	**-385**
Payments by economic organisations	**3,928**	**3,840**	**-87**
Corporate income tax	1,285	1,212	-74
Special tax of financial institutions	253	252	-2
Lump sum tax of small entrepreneurs	67	67	1
Tax of small enterprises	258	250	-8
Utility tax	0	1	1
Eco-tax	5	5	0
Mining royalty	129	137	8
Gambling tax	65	70	6
Other taxes and payments	41	55	15
Road toll	663	649	-14
Other centralised revenues	174	183	10
Income tax on energy providers	297	279	-18
Company car tax	94	99	4
Retail tax	295	290	-5
Tax on pharmaceutical manufacturers	3	0	-2
Rehabilitation contribution	205	199	-6
Carbon dioxide quota tax	75	72	-3
Aviation environment pollution tax	20	20	0
Consumption taxes	**10,953**	**10,704**	**-248**
Value added tax	8,277	8,041	-236
Excise duties	1,703	1,687	-16
Motor vehicle registration duty	26	26	0
Telecommunication tax	51	57	6
Financial transaction levy	589	595	6
Insurance tax	213	208	-5
Airline tax	3	3	0
Tourism development contribution	90	89	-2
Payments by households	**5,284**	**5,269**	**-14**
Personal income tax	4,905	4,888	-18
Duties, other taxes	275	278	3
Motor vehicle tax	103	103	0
Tax and contribution revenues of extra-budgetary funds	**624**	**627**	**3**
Tax and contribution revenues of social security funds	**8,680**	**8,642**	**-38**
Social contribution tax and contributions	8,387	8,352	-35
Other contributions and taxes	293	290	-3
EU RELATED REVENUES	**2,268**	**2,152**	**-116**
OTHER REVENUES	**1,663**	**1,631**	**-33**
Revenues related to public asset management	**754**	**754**	**0**
Other revenues of the central budget	**743**	**710**	**-33**
Other revenues of social security funds	**54**	**54**	**0**
Other revenues of extra-budgetary funds	**112**	**112**	**0**
TOTAL REVENUES	**33,398**	**32,865**	**-533**

Note: Partly consolidated data.
Source: 2025 budget bill, MNB

The budget expects to collect HUF 8,277 billion cash-based revenue from **value added tax** in 2025. The corresponding amount in our forecast is lower by HUF 236 billion: we forecast revenues of 8,041 billion. The difference is attributable to our different expectation for this year's base. In the first ten months of 2024, net revenues increased by 6.8 per cent and the turnover of online cash registers by 6.9 per cent, owing to subdued retail sales. Retail sales volume rose by 2.7 per cent and consumer prices by 3.7 per cent on average in the first nine months of 2024. Based on the budget bill, household consumption expenditure, which is the most influential factor in VAT revenues, may rise by 4.4 per cent next year compared to 3.9 per cent this year. In order to support construction companies and facilitate the creation of homes for families, the reduced VAT rate of 5 per cent on the sale of new residential property has been extended by two years until 31 December 2026. The amendment permits the application of the reduced rate up to 31 December 2030, subject to certain conditions.

The budget foresees revenues from **excise duties** amounting to HUF 1,703 billion in 2025; our projection falls short of this expectation by HUF 16 billion. The increase in revenues from 2024 to 2025 is driven by a tax raise in line with inflation from 2025. Next year, fuel and other excise duty rates will rise in line with inflation, while tobacco will see a one-off excise duty increase of 8 per cent. As for other products subject to the excise duty, the tax rate for tobacco products will increase in line with inflation from 2026 and will be determined each year by the change in the annual consumer price index for the month of July of the previous year, as published by the Hungarian Central Statistical Office.

The 2025 appropriation for **motor vehicle registration duty** is HUF 26 billion, HUF 8 billion higher than the budgeted figure in 2024, owing to the introduction of a higher tax rate for less environmentally friendly vehicles and the introduction of an annual inflation-linked tax increase from 2026.

The budget bill foresees revenues from the **telecommunication tax** to amount to HUF 51 billion next year; according to our forecast this value will be exceeded by around HUF 6 billion. The expected revenues in 2024 will be halved next year, as the windfall tax on telecommunications, which was applied from 2022, will be phased out next year.

The **financial transaction levy** is expected by the budget bill to amount to HUF 589 billion in 2025. Revenues from the financial transaction levy have more than doubled since 2020, and compared to 2024, revenues may increase by HUF 184 billion next year as a result of this year's measures. From 1 August 2024, the former financial transaction levy rates of 0.3 and 0.6 per cent were raised to 0.45 and 0.9 per cent, and the upper limit of the tax was raised to HUF 20,000 from HUF 10,000. For retail financial transfers, the exemption limit rose to HUF 50,000 from HUF 20,000. The annual fee for credit card purchases remained unchanged, and the exemp status for retail 'Qvik' (started with QR code and payment request) credit transfer services also remained in place. In addition, the *supplementary financial transaction levy on foreign exchange conversion operations* was introduced from 1 October this year, which may imply additional revenue of HUF 30 billion next year. The rate of the supplementary financial transaction levy is 0.45 per cent, capped at HUF 20,000. The additional levy is also payable on payment transactions made between accounts held with the same payment service provider even if the payer and the beneficiary are the same.

In 2025, the **insurance tax** is expected by the budget bill to raise HUF 213 billion, which exceeds our forecast by HUF 5 billion. The windfall tax on insurance will not be phased out next year, but its rate will change. The tax rate is 3 per cent for non-life insurance products up to HUF 48 billion income and 14 per cent above that, and 2 per cent for life insurance products up to HUF 48 billion income, and 6 per cent above that. While the tax is maintained, incentives to purchase government bonds are being introduced.

On a cash basis, the **airline tax** is expected to generate only HUF 3 billion in revenue, due to the phasing out of the tax in 2025. In January, revenue is expected from tax payments for December.

Box 1
Description of the revenue-increasing measures for 2025

Following the announcement of the measures in July 2024, the budget balance will be once again improved by additional revenue-increasing measures in 2025. Thanks to the consolidation measures announced in early July 2024, we expect an adjustment corresponding to 0.7 per cent of GDP in 2025. For the most part, the July measures included steps affecting the windfall taxes and other revenue-side measures for 2025; in addition, decisions curbing investment expenditures were announced for 2024. The changes involving the windfall taxes were amended in a government decree published on 21 November, which, as previously announced, includes the phasing out of the windfall taxes on pharmaceutical manufacturers, telecommunication, renewable energy producers and the taxpayers of the mining royalty; moreover, the surtaxes on banks, insurance companies and retailers were clarified.

The 2025 budget bill includes revenue-increasing measures equivalent to 0.4 per cent of GDP, in addition to the measures announced earlier in July. The recently announced new measures include a one-off 8-per cent increase in tobacco excise duty, a one-off 20 per cent increase in company car tax, and additionally, inflation-linked tax increases for the motor vehicle tax, the duty on title transfer and the excise duties (on fuel and alcohol); moreover, from 2026 an increase for the motor vehicle registration duty, company car tax and tobacco excise duty. Other new measures include the introduction of a global minimum tax in the form of a tax advance for the year 2025 and an increase in the number of tax rates for mining royalty. The retail tax will be adjusted, while the suspension of the advertising tax will remain in place next year and the aviation environment pollution tax will be introduced.

In addition to the revenue-increasing measures assessed in detail in this Box, the 21-point Economic Policy Action Plan announced in October includes stimulus measures that entail an increase in the budget deficit. The 21 points of the Action Plan are founded on three pillars: increasing the purchasing power of incomes; providing affordable housing; and the Sándor Demján Programme in support of SMEs. Measures intended to improve housing conditions in both Budapest and rural areas will include the development of a housing programme for young people, the launch of a Rural Home Renovation Programme and the maintenance of a reduced 5-per cent VAT rate on the sale of new residential property until the end of 2026. As part of the Sándor Demján Programme, a high-amount capital financing programme for SMEs – the SME Investment-stimulating Support Programme – and the exports promotion loan programme of Eximbank Zrt. will be re-launched.

The fiscal tax measures (Table 5) announced in parallel with the 2025 budget bill may improve the budget balance by 0.3 per cent of GDP next year. The fiscal impact of the revenue-increasing measures is 0.4 per cent of GDP, which is mitigated by the first step in the doubling of the family tax allowance by 0.1 per cent of GDP**.** The measures listed below will be introduced in 2025; draft of detailed rules for most of the measures are already available, while in some cases the rules are still being developed:

- **Doubling the family tax allowance:** Under the 21-point Economic Policy Action Plan announced in October, the family tax and contribution allowance will increase by 50 per cent from 1 July 2025, and then double from the beginning of 2026, increasing the income of families with children by HUF 80-85 billion next year and HUF 325 billion in 2026.

- **Excise duty:** From 2025, the excise duties (on fuel and alcohol) – and, from 2026, the excise duty on tobacco, as well – will increase each year in line with the change in the annual consumer price index for July of the previous year, as published by the Hungarian Central Statistical Office. For tobacco products, there will be a one-off increase of 8 per cent on average in 2025. The excise duty increases will raise HUF 80 billion in 2025.

- **Minimum tax advance:** In connection with the global minimum tax, a tax advance is envisaged for the 2024 tax year, generating HUF 75 billion in additional revenue in such a way that the mandatory payment of the tax advance will be required in November 2025 instead of 2026.

- **Maintaining the carbon dioxide quota tax:** The carbon dioxide quota tax will be extended in 2025, improving the balance by an estimated amount of HUF 72 billion.

- **Changing the rates of the mining royalty:** Depending on global oil and natural gas prices, the royalty system will be even more progressive, which may imply HUF 40 billion in additional revenue.

- **Increasing the itemised taxes on motor vehicles:** From 2025, the tax on motor vehicles, the duty of title transfer – and, from 2026, the motor vehicle registration duty and the company car tax, as well – will increase each year in line with the change in the annual consumer price index for July of the previous year, as published by the Hungarian Central Statistical Office. The rate of the company car tax will increase by 20 per cent on average in 2025. The increase in the itemised taxes on motor vehicles will have a budgetary impact of HUF 33 billion in 2025.

- **Aviation environment pollution tax:** The aviation environment pollution tax will be introduced as a new tax type, raising around HUF 20 billion for the budget.

- **Retail tax:** For the retail tax, the higher rate will be maintained in 2025 under the previous measures, while the autumn measure extends the scope of taxpayers to include non-resident or resident platform operators who provide a marketplace for retail sellers. The tax will be determined on the basis of the combined amount of the revenues from retail sales abroad and in Hungary. At the same time, as before, the tax will not have to be paid on revenues from the sale of goods transferred abroad.

- **Tax allowance for hybrid cars:** From September 2024, the possibility of free parking for hybrid cars was eliminated, while next year tax revenues will increase by HUF 12 billion due to the abolition of the exemption from the motor vehicle registration duty, motor vehicle tax, company car tax and duties for hybrid cars losing their green licence plates.

Table 5
Budgetary impact of recently announced tax measures

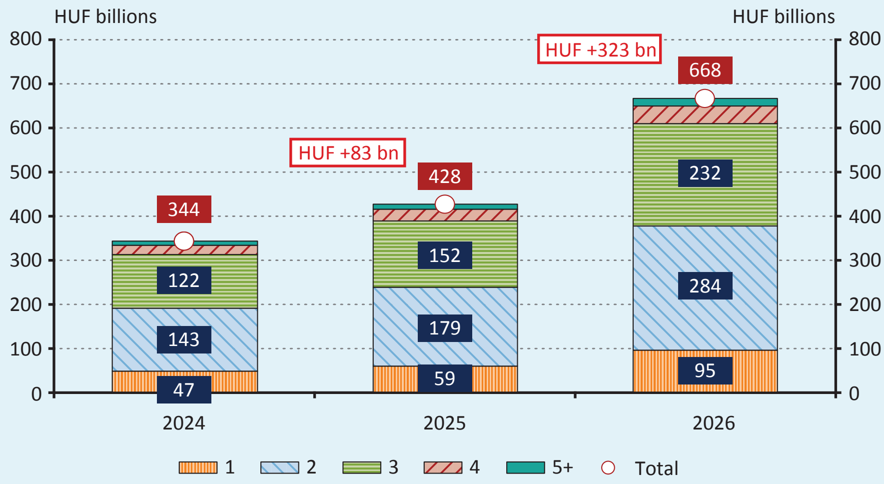
Tax/Benefit	Description of the measure	Budgetary impact in 2025 (HUF billions)
Family tax allowance	The family tax and contribution allowance will be increased by 50 percent from the second half of the year.	-83
Excise duties	An average increase of 8 percent for tobacco products, inflation-tracking valorisation for other excise tax categories.	80
Minimum tax advance	Introduction of a tax advance related to the global minimum tax for the tax year of 2024.	75
Carbon dioxide quota tax	Extension of the scope of the carbon dioxide quota tax.	72
Mining royalty	The annuity system will be even more progressive depending on global crude oil and natural gas prices.	40
Lump sum taxes of motor vehicles	An initial average increase of 20 percent for company car tax, automatic inflation-tracking valorisation for other types of taxes (motor vehicle tax, transfer tax).	33
Aviation environment pollution tax	The aviation environment pollution tax will be introduced as a new tax type.	20
Retail tax	The range of taxpayers will be expanded to include platform operators, and in the case of foreign companies, the total sales revenue from retail activities will form the base for banding.	15
Hybrid vehicle tax credits	The exemptions of hybrid and plug-in hybrid vehicles from registration tax, motor vehicle tax, company car tax and duties are to be abolished.	12
Total		**264**

Source: MNB estimate based on government announcements

Revenues from **the tourism development contribution** may amount to HUF 90 billion in 2025. 2024 is the first full year in which the relevant sectors are not exempted from the levy and accordingly, this year's appropriation of HUF 55 billion may be exceeded by around 55 per cent. In addition to food serving services, the 4 per cent tax was extended to accommodation services from 2020, while the VAT rate of the taxpayers was reduced to 5 per cent.

In the case of **personal income tax**, our revenue forecast is close to the HUF 4,905 billion envisaged in the bill, with a difference of only HUF 18 billion. From the second half of 2025, the amount of tax and contribution benefits of the family tax allowance will increase by 50 per cent. As a result, there may be a revenue shortfall of around HUF 80-85 billion (comprising around HUF 65 billion in personal income tax and around HUF 15-20 billion in social security contributions) or 0.1 per cent of GDP in the budget, with these amounts benefitting the families (Chart 5). Starting from the second half of the year, the benefit for parents with one child will increase from HUF 10,000 to HUF 15,000, the benefit for parents with two children will rise from HUF 20,000 to HUF 30,000 per child, while the benefit for parents with three or more children will increase from HUF 33,000 to HUF 49,500 per dependent until the end of the year.

Chart 5
Annual amount of family tax and contribution allowance by the number of children



Source: MNB calculation

Duty revenues may amount to HUF 275 billion next year, which is broadly consistent with our forecast. Around three quarters of the duty revenue is comprised by the tax paid on real estate purchases; consequently, developments in the housing market have a major impact on the evolution of this type of revenue. In the event of a housing market upswing, the additional revenue from duties appears with a lag due to the time profile of the purchase and sale transaction and the possibility of paying in instalments.

The revenue appropriation for the **motor vehicle tax** is HUF 103 billion, and for this tax type, an inflation-linked tax increase will be introduced.

The revenue appropriation for the **extra-budgetary funds** for 2025 is HUF 850 billion, which is only 0.4 per cent higher than the 2024 appropriation. Representing the largest weight, the *National Employment Fund* has a revenue appropriation of HUF 512 billion for 2025, up 9.8 per cent from 2024, mainly due to an increase in social security contribution revenues. In contrast, the revenue of the *Central Nuclear Financial Fund* may fall by 40.4 per cent to HUF 76 billion next year based on the budget bill, reflecting a decline in the subsidy from the central budget.

Our aggregate forecast for **tax and contribution revenues from social security and extra-budgetary funds** is close to the corresponding figure in the budget bill, which includes a revenue expectation higher by around HUF 35 billion. Our forecasts for revenues from *social security contributions* and from the *social contribution tax* are lower than the corresponding appropriations in the budget bill only by HUF 14 billion and by HUF 21 billion, respectively. In the case of the social contribution tax, the difference may reflect the fact that the budget bill envisages a revenue loss of HUF 60-70 billion in the case of the tax allowance of labour market entrants, while in our forecast this amount is around HUF 100 billion. The tax allowance for labour market entrants has changed since August 2024, with the measure tightening both the eligibility conditions and the availability period of the tax allowance.

The budgeted **revenue** associated with **EU funds** amounts to HUF 2,268 billion. The bulk of this, HUF 2,129 billion, represents funds for cohesion (HUF 1,300 billion), RRF (HUF 630 billion) and rural development (HUF 165 billion). Technical revenues (such as repayments from beneficiaries) amount to HUF 107 billion, while the budget foresees a reimbursement of HUF 31 billion for customs collection costs. Given that the RRF funds still remain unavailable, the realisation of RRF revenues in excess of HUF 600 billion are surrounded by significant risks.

The appropriation for **revenues related to public asset management** rose to HUF 754 billion, compared to HUF 384 billion in 2024. Revenues from public asset management are influenced by discretionary measures; therefore, in our projections we expect that the statutory appropriation will be met.

5.2 PRIMARY EXPENDITURES

According to our forecast, the primary expenditure of the central sub-sector of the budget may fall short of the appropriation in the budget bill by HUF 310 billion; moreover, net cash-based interest expenditures may also be HUF 50 billion lower than the appropriation (Table 7). Expenditures lower than expected in the bill can be identified mainly in the case of utility subsidies due to stabilising energy prices. As regards expenditures related to EU funds, in our view, it is mainly expenditures related to the RRF funds that may be lower than the appropriation. We only expect a significantly higher level of expenditure than in the bill for the net own expenditure of budgetary organisations, as in our forecast, we expect the expenditure overruns seen in recent years in top-up expenditures.

The total budget for **state transport and utility services** is HUF 2,474 billion. The budget for availability fees for *the maintenance and expansion of the motorway network* increases by HUF 172 billion to HUF 545 billion. The appropriation increases by HUF 153 billion compared to the expected expenditure in 2024, which represents an increase of 39 per cent. The high growth dynamic is due to the fact that next year the concession company will not only maintain the motorways, but also expand them. The *subsidy and reimbursement of the costs of public companies providing public transport services* rises by HUF 143 billion next year, an increase of 18.3 per cent. Compared to the 2024 value of our forecast, the 2025 budget bill's appropriation contains an expenditure surplus of only HUF 90 billion, an increase of 10.7 per cent compared to the expected expenditure of the base period. The appropriation for the *subsidy* of *utility services* includes HUF 880 billion for the household energy subsidy, HUF 37 billion less than in 2024. Our projection presumes a HUF 596 billion household utility subsidy based on current global energy prices and the expected energy consumption. From next year, the bill introduces a new expenditure heading: *Expenses of the Water Utility Development and Compensation Fund.*

The **Utility Protection Fund** will be eliminated from 2025, but curbing overhead costs will still require a considerable public contribution. According to the budget bill, the maintenance of utilities protection for households will be transferred to the Ministry of Energy, support for the energy cost of public transport services will be transferred to the Ministry of Construction and Transport, and the utility compensation for institutions performing public duties will be transferred to the Ministry of Finance, while local governments will not receive any subsidies next year (Table 6). Support to the private sector is the responsibility of the Ministry for National Economy, but there is no specific appropriation for utility protection and as such, this objective is likely to be mostly achieved through subsidised loan schemes. In addition, the *Water Utility Development and Compensation Fund*, which will be in force from 1 January 2024, also serves utility protection purposes and is included in the Ministry of Energy chapter. The total amount of the 2025 appropriations for the Utility Protection Fund is HUF 1,345 billion, which is roughly the same as the amount of the Utility Protection Fund's expenditure appropriations this year. The bulk of the budgeted expenditure in the coming year comprises, as last year, household utility protection, part of which may be potentially saved primarily based on energy market developments.

Table 6
The 2024 and 2025 appropriations for utility protection expenditures

	Purpose of use	Expenditure appropriation (HUF billions)		Will be included in this chapter in 2025
		2024	2025	
1.	Utility protection of households	917	880	Ministry of Energy
2.	Utility compensation for institutions performing public duties	253	253	Ministry of Finance
3.	Water Utility Development and Compensation Fund expenditures*	-	122	Ministry of Energy
4.	Compensation for electricity generation as a system security service*	35	53	Ministry of Energy
5.	Support for the energy cost of public transport services	-	37	Ministry of Construction and Transport
6.	Support of state-owned companies	50	-	-
7.	Compensation of municipalities	83	-	-
8.	Support of private companies	38	-	Ministry for National Economy
	Total	**1,376**	**1,345**	

Note: The Water Utility Development and Compensation Fund was not included in the 2024 Budget Act; however, the Ministry of Construction and Transport chapter includes HUF 55.8 billion in capital formation expenditure, while the Ministry of Energy chapter includes HUF 50 billion in operating expenditure for similar purposes.

**Expenditures related to the indicated purposes were not separately included in the appropriations of the Utility Protection Fund in 2024; however, a significant amount of resources were also reallocated from the Fund for these purposes.*

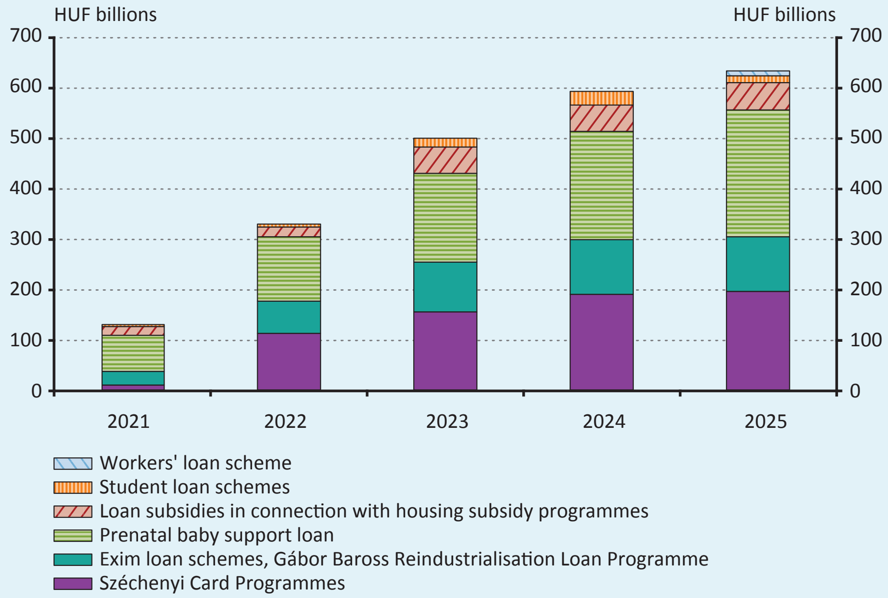
Source: 2024 Budget Act, 2025 budget bill

The 2024 appropriations for **housing subsidies** is HUF 257 billion, which is HUF 76 billion higher than the 2024 appropriation. The significant increase is mainly attributable to the impact of the *Rural Home Renovation Programme* to be launched next year. The new announcement of the enormously popular Home Renovation Programme, which ran between 2021 and 2022 and saw related housing subsidy spending in excess of HUF 770 billion, changed several detailed rules. This time, the maximum subsidy of HUF 3 million will only be available in settlements with a population of less than 5,000 and will be split equally between material and labour costs. Those who participated in the previous scheme will only be entitled to the difference between the HUF 3 million and the previous subsidy.

The **National Family and Social Policy Fund** has a budget of HUF 783 billion in 2025, more than HUF 10 billion higher than the expenditures planned for this year. Of the key items of the Fund, in the case of subsidies to families, the 2025 appropriation for *family allowance* is expected to be around HUF 305 billion, corresponding to the amount disbursed in 2024. As regards the remaining family allowance items, such as *income substitute and supplementary social benefits* and *reimbursements provided under various headings*, we also find the appropriations substantiated.

Based on the appropriations in the budget bill – and partly based on our own projections – the expenditures of **government-subsidised loan schemes** are expected to increase to 0.7 per cent of GDP, above HUF 630 billion in 2025 (Chart 6). The expected expenditure is split roughly equally between retail and corporate loan schemes.

Chart 6
Budgetary expenditures of government subsidised loans



Note: Data should be understood on a cash basis. In the case of programmes for households, the figure includes expenditure related to interest subsidies, and if the condition for having children is met, the reimbursement of the principal debt as well. For housing subsidies, the impact linked to the credit schemes is based on our forecast.

Source: Government's final budget accounts for 2021-2023, MNB projection for 2024, 2025 budget bill

The bulk of the expenditures for **household programmes** comprises the *prenatal baby support*; based on the budget bill, loan disbursements will continue in 2025. Under the government's measure, effective from 9 July 2024, the deadline for the birth of the first child for families taking out a baby loan between July 2019 and June 2021 is uniformly extended to 1 July 2026. The bill foresees an expenditure of HUF 251 billion for interest subsidies on prenatal baby support loans and partial or full waiver of the outstanding debt by the state if the conditions for having children are met, which is consistent with our forecast. The bill includes a total expenditure allocation of HUF 257 billion for the financing of *housing subsidies*, of which interest subsidies related to the various housing subsidy schemes are estimated to total HUF 55 billion in 2025. The bill contains an expenditure allocation of around HUF 12 billion to support *student loan* schemes, while the *workers' loan* scheme will become available to young people who are not eligible for student loans from 1 January 2025. The programme offers a free-use, interest-free, state-guaranteed loan of up to HUF 4 million to help young people aged between 17 and 25 start a career and to keep them in Hungary. The government's family policy aspirations also apply to the workers' loan, as after the loan has been taken out, the repayment obligation is suspended for two years after the birth of the first child. For two children, half of the outstanding debt is waived and there is another two-year moratorium, while for the third child the entire outstanding debt is waived. According to the budget bill, the cash-based interest subsidy expenditure linked to the new scheme may amount to HUF 11 billion in 2025, with the loan portfolio gradually building up in the first year.

Under the accrual accounting of the state waiver of outstanding debts related to the household programmes, the budget bill foresees the recognition of a accrual balance-deteriorating effect nearly HUF 44 billion lower in the case of prenatal baby support loans, and nearly HUF 33 billion and HUF 13 billion higher for the HPS Plus scheme and the Workers' Loan scheme, respectively, in 2025. This is because, according to the ESA methodology, in the case of loans disbursed in a given year that are expected to be waived in the future, the amount should be recognised as an expenditure at the time of disbursement, while subsequently, loans that are eventually waived on a cash basis in the future, should be removed from accrual-based expenditures.

Within **corporate credit schemes**, the largest expenditure item is related to the *Széchenyi Card Programmes*, under which the government expects the payment of HUF 195 billion in interest subsidies. HUF 110 billion is expected to be paid to Eximbank for the settlement of interests next year. Among others, this includes interest subsidies for the Gábor Baross Loan programme, which was ended in 2024, but the outstanding portfolio is still an expenditure for the budget.

The **net expenditures of budgetary organisations** were budgeted at around HUF 10,600 billion in the budget bill. Our projection is based on a higher expenditure than in the bill, as in our forecast, we expect the expenditure overruns seen in recent years in top-up expenditures. According to our current forecast, net expenditure is HUF 136 billion higher in 2025 compared to the budget bill. We have taken into consideration expenditure side measures in our forecast; however, a central reserve lower than this year's base period may carry the risk of a financing shortage at budgetary organisations.

Based on the envisaged structure of **expenditures related to EU transfers,** the budget expects more than HUF 1,600 billion to be paid in relation to 2021-2027 operational programmes and more than HUF 400 billion for RRF programmes. Given that barely a tenth of the 2024 RRF expenditure appropriation has been realised in the first nine months and that there is still no sign of significant progress in meeting the conditions for the release of funds, the 2025 budget related to the RRF funds is surrounded by significant risks.

The envisaged appropriation for **support to local governments** is HUF 1,267 billion. The proposed amount represents an 11.8-per cent increase in funding compared to the corresponding amount in the 2024 Budget Act. In addition to this amount, local governments will receive additional subsidies from the central reserves, for example, from the amount allocated to provisions for covering the 2025 wage measures. This year, we expect a disbursement of around HUF 1,270 billion in support; consequently, the amount of budgetary support planned for next year is essentially the same as the sum of payments in the base year.

In the 2025 budget bill, the total expenditure of **central reserves** amounts to HUF 1,180 billion, of which the amount of the reserve for *Extraordinary Government Measures* was reduced to HUF 100 billion for 2025 from HUF 220 billion this year, and the reserve allocated to the *Investment Fund* was reduced to HUF 150 billion for 2025 from HUF 245 billion in 2024. HUF 677 billion was earmarked for *Provisions*, and the 2025 budget bill no longer contains any expenditure appropriations for *pandemic control*. Provisions will cover, inter alia, the increase in teachers' wages, the budgetary compensation resulting from the increase in the minimum wage and the guaranteed minimum wage, the support for wage increases in universities of public foundations and other wage measures. The bill contains a reserve appropriation of HUF 253 billion for the utility compensation for budgetary institutions and institutions performing public duties.

The appropriation for **expenditures related to public asset management** is HUF 493 billion. According to our forecast, in 2024, expenditures related to public asset management may exceed HUF 960 billion. The HUF 470 billion decline in expenditure in 2025 compared to 2024 can be attributed to two factors: on the one hand, the purchase of several financial assets had to be covered this year, and on the other hand, the investment restraint imposed on state-owned enterprises also reduces public asset managementexpenditures. As these types of expenditures are predominantly related to the exercise of ownership over state-owned enterprises, discretionary government decisions are also a key determinant of total expenditure, and our forecast is therefore equal to the projections of the budget bill.

The expected direct expenditure of the **public investment chapter** is HUF 179 billion, and the bill also allocated the HUF 150 billion reserve of the *Investment Fund* to this chapter, bringing the total expenditure of the chapter to HUF 330 billion. The 2024 appropriation for public investment expenditure is HUF 263 billion, while our forecast calculates with HUF 494 billion, and expenditure may exceed the appropriation in 2025 as well.

Table 7
Expenditures of the central sub-sector – comparison of the forecasts (HUF billions)

	Statutory appropriation	MNB forecast	Difference
PRIMARY EXPENDITURES	**33,971**	**33,661**	**-310**
State transport and utility services in total	**2,474**	**2,190**	**-284**
Public service media service support in total	**132**	**132**	**-1**
Housing subsidies	**257**	**258**	**1**
National Family and Social Policy Fund	**783**	**779**	**-4**
Other family benefits (Prenatal baby support, Student loan)	**274**	**291**	**17**
Net own expenditures of central budgetary organisations and chapters	**10,599**	**10,735**	**136**
EU related expenditures	**3,023**	**2,850**	**-173**
Support to local governments	**1,267**	**1,267**	**0**
Contribution to the EU budget	**698**	**698**	**0**
Central reserves	**1,180**	**1,180**	**0**
Expenditures related to public asset management	**493**	**493**	**0**
Other expenditures	**889**	**889**	**0**
Expenditures of extra-budgetary funds	**724**	**724**	**0**
NEF - Passive allowances	197	197	0
NEF - Active allowances	141	141	0
Other expenditures	387	387	0
Expenditures of social security funds	**11,177**	**11,175**	**-2**
PIF - Pensions	6,546	6,555	9
HIF - Disability and rehabilitation benefits	404	418	13
HIF - Cash benefits	852	834	-19
HIF - Medical and preventive care	2,766	2,762	-4
HIF - Net expenditures of the drug budget	406	408	2
Other expenditures	203	199	-4
NET INTEREST EXPENDITURES	**3,549**	**3,497**	**-52**
TOTAL EXPENDITURES	**37,521**	**37,158**	**-362**
BALANCE	**-4,123**	**-4,293**	**-171**

Note: Partly consolidated data.
Source: 2025 budget bill, MNB

The 2025 appropriation for **extra-budgetary funds** amounts to HUF 757 billion, up 14.3 per cent year-on-year. Most of the increase in expenditure will be realised by the National Employment Fund, covering, in particular, job-seeking benefits (amounting to HUF 67 billion, representing more than 50 per cent) and the scheduled expenditure of the **Start Public Work Scheme**. For the Start Public Work Scheme, the budget bill envisages an expenditure of HUF 141 billion, which is consistent with our forecast. Compared to our expectation for 2024, the budgeted expenditure for 2025 represents an increase of around HUF 14 billion.

Our projection for the **expenditures of social security funds** is essentially the same as the appropriation in the bill for 2025. Based on our forecast, pension benefits are expected to exceed the appropriation in the budget bill by HUF 9 billion, while health insurance expenditures may fall short of it by HUF 11 billion.

A total expenditure of HUF 6,555 billion is envisioned in the budget bill at the **Pension Fund** in 2025, the vast majority of which comprises **pension benefits** amounting to HUF 6,546 billion. The main parameters of the macroeconomic forecast that are relevant for pension expenditure in the budget bill are broadly in line with the forecast presented in the MNB's September 2024 Inflation Report. Based on inflation expectations, a 3.2-per cent pension increase is envisioned in the bill, while no pension premium is expected to be paid in 2025 due to real growth projected to be below 3.5 per cent. The budgeted amount of pension benefits in 2025 may exceed the expected expenditure in 2024 by HUF 337 billion (5.4 per cent) and is broadly consistent with our expenditure expectations for next year. **Other expenditures** of the Pension Fund are budgeted at HUF 9 billion in the bill, which is also in line with our forecast.

Based on the 2025 budget bill, total appropriations for **pensions and pension-like benefits** thus amount to HUF 7,075 billion, which is broadly in line with our own forecast (Table 8).

Table 8
Comparison of the 2025 appropriation of the expenditures on pensions and pension-like benefits and the MNB forecast (HUF billions)

	Appropriation	MNB forecast	Difference
I. Pension expenditures	**6,546**	**6,555**	**9**
1. Old-age pensions	5,471	5,475	5
1.1. Old-age pensions over the retirement age	4,980	4,983	3
1.2. Early retirement benefit for women	491	493	2
2. Retirement provision to relatives	587	585	-2
2.1. Orphan care	53	51	-2
2.2. Widow's pension	535	534	0
3. One-off subsidy	1	1	0
4. Provision for pension premium	0	0	0
5. 13th-month pension	487	494	7
II. Early retirement benefits	**125**	**123**	**-3**
III. Disability and rehabilitation benefits	**404**	**418**	**13**
Total pension and pension-like benefits	**7,075**	**7,096**	**20**

Source: 2025 budget bill, MNB

The expenditure allocated to the **Health Insurance Fund** exceeds our forecast by nearly HUF 11 billion. The difference is due to lower utilisation of cash benefits, preventive care benefits and therapeutic equipment reimbursement assumed in our forecast, which is offset by the expected higher realisation of pharmaceutical subsidies and disability and rehabilitation benefits.

The appropriation for **medical and preventive care** is HUF 2,766 billion, which exceeds our forecast by HUF 4 billion. At the same time, an expenditure increase of HUF 213 billion is foreseen in the bill compared to the 2024 appropriation, due to the second stage of the two-stage wage development for health professionals and healthcare workers (from 1 March 2024) and due to the increase in operational support provided to institutions. At the same time, there is a risk of lower expenditure as, depending on adequate leeway, this expenditure could also be covered by the budget by way of reallocations across different appropriations.

The appropriation for the **gross expenditures of the drug budget** is HUF 535 billion in the 2025 budget bill, up HUF 35 billion compared to this year's allocation. According to our forecast, the expenditure on drug subsidies will be close to the appropriation.

Cash benefit appropriations amount to HUF 852 billion, which is almost HUF 19 billion higher than the value envisaged in our forecast. The appropriation for expenditures on **sick pay** is HUF 243 billion in 2025, HUF 5 billion lower than the 2024 appropriation. In our forecast, expenditure on sick pay is lower than the value in the budget bill by HUF 10 billion. The appropriation for **childcare and adoption allowances** is HUF 420 billion in 2025, which is more than HUF 27 billion higher than the expenditure level planned for 2024, largely explained by the increase in gross average earnings in recent years. In our projections, the expenditure on childcare fees is lower by HUF 7 billion. The expenditure allocated to the **infant care allowance** is HUF 177 billion in the budget bill, which exceeds the 2024 appropriation by HUF 5 billion.

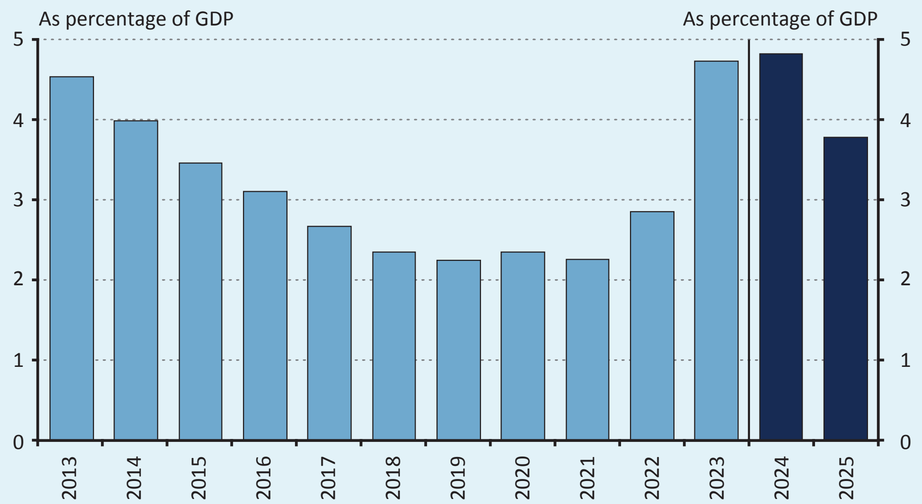
The appropriation for **disability and rehabilitation benefits** is HUF 404 billion in the budget bill, HUF 13 billion higher than the appropriation in 2024. Our forecast for 2025 is HUF 13 billion higher, presumably due to our different assumptions regarding the number of beneficiaries.

5.3 INTEREST BALANCE

The statutory appropriation for gross accrual-based interest expenditure as a percentage of GDP is broadly consistent with our expectation. Interest expenditure may amount to 3.8 per cent of GDP in 2025, both according to the statutory appropriation and our own forecast (Chart 7). Interest expenditure is thus reduced by around 1 percentage point compared to 2024, mainly due to the repricing of inflation-linked government bonds to lower interest rate.

The appropriation for **net cash-based interest expenditure** is HUF 52 billion higher than our projection. Our projection is higher than the appropriation both for gross interest expenditures and also for interest revenues. Besides the two distinct macroeconomic assumptions, the differences may be caused by differences in the projections of the underlying issuance structures.

Chart 7
Development of gross accrual interest expenditures (as a percentage of GDP)



Source: Eurostat, MNB forecast

6 Legal compliance of the bill

According to the budget bill and the MNB's projection, the gross public debt-to-GDP ratio is expected to decrease in 2025; accordingly, the bill complies with the requirement of the debt rule prescribed in the Fundamental Law. Pursuant to the Fundamental Law, as long as the debt ratio exceeds 50 per cent of GDP, the debt ratio must be reduced. This requirement is expected to be satisfied in 2025 based on the budget bill and also according to our projection. Based on the budget bill, the debt-to-GDP ratio will be reduced by 0.6 percentage points to 72.6 per cent next year from 73.2 per cent expected by the end of this year. According to the MNB's projection, the debt-to-GDP ratio may decrease by 0.8 percentage points in 2025. However, the state of danger introduced in view of the state of war in a neighbouring country permits exemption from compliance with this provision.

The debt-to-GDP ratio specified in the 2025 budget bill is consistent with the debt rule included in the Stability Act. According to the requirement, the end-of-year value of the government debt ratio should be set in such a way that the annual reduction in the debt-to-GDP ratio is at least 0.1 percentage point, in line with the European Union's rules on debt reduction. The reduction requirement is satisfied both in the budget bill and the MNB's projection. The existing European debt rule states that the Member States' government debt ratio must not exceed 60 per cent of GDP, or if it does, the debt ratio must be sufficiently diminishing at a satisfactory pace. The pace of debt ratio reduction had been previously defined by the debt reduction benchmark (one-twentieth debt rule), but the new fiscal framework links the debt-based EDP to the deviations in the control account. The control account registers the difference between the net expenditure path in the national medium-term fiscal-structural plan and the actual developments in the net expenditures of the Member State. The expenditure path and the resulting debt reduction in the submitted national medium-term fiscal-structural plan may comply with the new EU rules and the new debtsustainability safeguard, which prescribes an annual reduction of 0.5 percentage points for Hungary.

The government deficit target for 2025 does not comply with the current deficit criterion of the Stability Act, but this could be amended by another bill. Section 3/A (2) (b) of Act CXCIV of 2011 on the Economic Stability of Hungary stipulates that the balance of the general government shall be determined with a view to ensuring that its deficit does not exceed 3 per cent of GDP. According to the budget bill, the deficit-to-GDP ratio will be 3.7 per cent in 2025, which does not comply with the deficit target set in the current Stability Act, but this requirement is expected to be amended in the bill on laying the foundations for the 2025 central budget of Hungary before the Budget Act enters into force.

Compliance with the Hungarian rule on the medium-term budgetary objective cannot be verified. Article 3/A (2) (a) of the prevailing Act CXCIV of 2011 on the Economic Stability of Hungary stipulates that the balance of the general government shall be determined in a manner consistent with the achievement of the medium-term budgetary objective. The EU regulation requiring the preparation of a convergence programme with a medium-term budgetary objective has been repealed and accordingly, compliance with the rule cannot be verified. The relevant budgetary rule is expected to be amended in the bill on laying the foundations for the 2025 central budget of Hungary before the Budget Act enters into force, and the definition of the medium-term budgetary objective will be erased from the Stability Act.

The 3.7-per cent deficit in the 2025 budget bill does not, in itself, meet the 3-per cent Maastricht deficit criterion. The rule stipulates that Member States shall avoid excessive budget deficits of more than 3 per cent of GDP. While the 3.7-per cent deficit-to-GDP target in the budget bill does not comply with the criterion prima facie, the deficit reduction foreseen for next year may be in line with future European Council recommendations and may meet the minimum 0.5-percentage-points deficit reduction requirement under the excessive deficit procedure.

The reduction of the debt ratio next year is expected to be consistent with EU debt reduction requirements. The European debt rule states that the Member States' gross, consolidated, nominal government debt ratio must not exceed 60 per cent of GDP, or if it does, the debt ratio must be sufficiently diminishing at a satisfactory pace. In 2025 the Hungarian debt-to-GDP ratio may decline by 0.6 percentage points under the budget bill, and by 0.8 percentage points according to our forecast, meeting the 0.5-percentage point debt sustainability safeguard, while compliance with the net expenditure path will be assessed at a later date.

Charles Robert

(1308 – 1342)

King Charles I. was one the most significant rulers of Hungary. He eliminated the anarchy that came about at the end of the Arpadian age, restored the prestige of royal power and its real influence as well as managed to put the economy back on its feet again. King Charles could well be called the new founding father of Hungary, since he could make Hungary a unified and great economic power even in the state of feudal division. A Hungarian king of French ancestry, the descendant of the Capeting dynasty and member of the Anjou family with great influence in Europe, Charles could only take the throne after considerable struggle.

Charles laid royal power onto new foundations and introduced profound reforms. The old and rebellious nobility was replaced by noblemen loyal to him and seized lands were divided up among them, but only as an office fief for the time they held a royal office. The king became even stronger after establishing a new military organisation with the royal banderium, shire banderium and cuman light cavalry.

He pursued a peaceful foreign policy establishing dynastic ties with neighbouring states, which enabled his son to become heir to the Polish crown. At the congress of Visegrád in 1335 (which is also the basis of our current neighbourhood policy) with the Polish and Czech king present, among others decision was made to create a new trade route,

Charles strengthened royal power in terms of finances as well by filling up the treasury. Since Hungary was the primary source of gold and silver in Europe, Charles put mining and trading under close royal control. Charles shared a significant part of royal revenues from mining lease paid for mining precious metals with the owner of the land to facilitate the discovery of new mines. He forbade the export of precious metals; gold and silver had to be given to newly established minting chambers at a price set by the king.

Instead of numerous various currencies, he started minting the silver denarius with a permanent value, then coining golden florins modelled on the golden coins of Florence with the silver farthing becoming its change. Charles abolished the practice of former rulers to inflate money by occasionally reducing the precious metal content of minted coins.

He increased royal revenues by imposing a new tax. Gate tax was levied for each land that had a gate wide enough to let through a cart laden with hay. Customs duty was introduced set at 1/30 of the value of goods exported to or imported from the west or north and 1/20 of southbound goods. Relying on sound economic foundations, in the second part of Charles' reign numerous gothic buildings were constructed, e.g. the royal palace in Visegrád and the Diósgyőr Castle. However, only traces of many of these buildings were left to posterity due to the Turkish devastation.

A Hungarian king with a truly outstanding life, Charles passed away after his 40-year-long reign, and left a strong and rich kingdom to his son. The political ambitions of the Hungarian Anjou dynasty were embodied in Louis the Great, Sigismund and Matthias Corvinus who restored the bygone glory of royal power, but the first stones in this path were laid by Charles I.

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H-1013 BUDAPEST, KRISZTINA KÖRÚT 55.