

Hungary's budget ended 2024 on a positive note

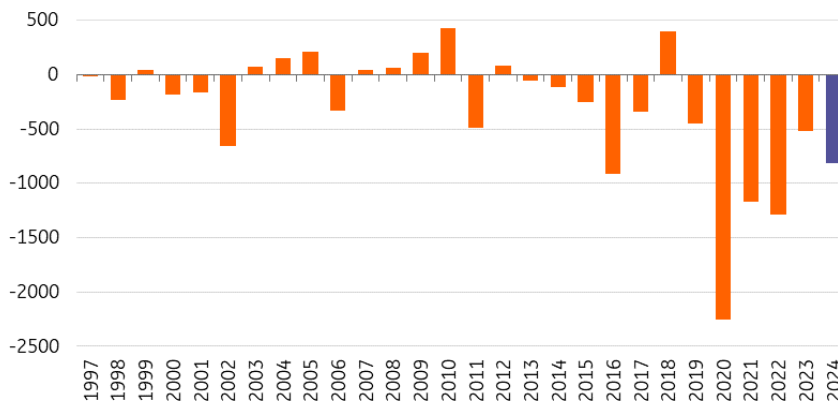
The December budget shortfall was lower than usual, leading to a better-than-expected outcome compared to the plan. However, the accrual-based deficit was higher than targeted, making the 2025 plan even more difficult to achieve



Hungary's budget deficit improved at the end of 2024

The monthly budget deficit was HUF811bn in December, bringing the year-to-date (YTD) general government cash flow deficit to HUF4.1tr, which is also the whole year's data for 2024. The monthly data is lower than usual, compared to the December data in recent years, which is probably due to the tight control of the expenditure side, in our view. Although the cash flow deficit turned out better than planned, the accrual-based deficit was 4.8% of the GDP, which is above the 4.5% planned deficit target.

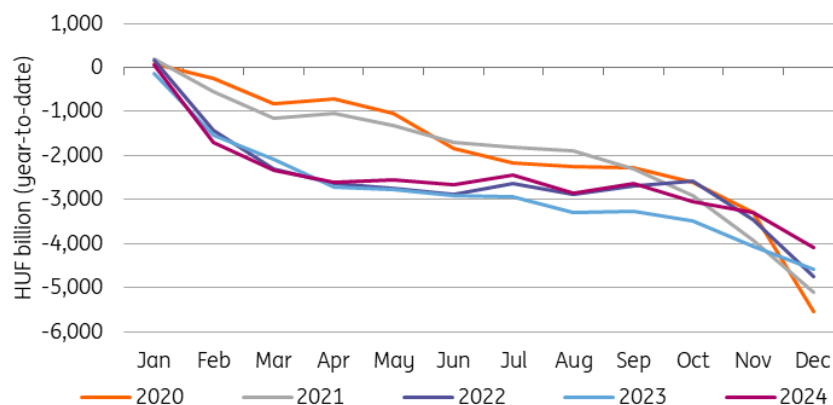
The monthly general government balance in December (cash flow, HUFbn)



Source: Ministry of Finance, ING

The detailed data will be released on 22 January, but we can find some important information in the preliminary statement as well. An interesting point is that there is no mention of EU-related revenues and expenditures. This could be even positive, because the overall picture is better, anyhow, what is more likely, is that expenditures came in well below expectations when it comes to the full year. The detailed data will shed light on this. Tax and contribution revenue of the central subsystem was 8.7% higher in 2024 as a whole than in the previous year. The interesting part is that this rate was sitting at 9.7% in September. This could mean that the fourth quarter was worse than expected on the revenue side, which may be due to the weaker economic performance.

Budget performance (year-to-date, HUFbn)



Source: Ministry of Finance, ING

On the expenditure side, we got some details, even though we are waiting for some more information. Payments for pensions and health care were HUF6,853.9bn for the whole year, which is higher than the year before with HUF 474.2bn. Payments in the health sector for curative and preventive care in 2024 were also higher than in the previous year, with HUF274bn, bringing the

whole year number to HUF2,684.1bn, including the additional expenditure on the pay rise for nurses from March 2024.

However, without seeing the details, it is really difficult to draw structural conclusions that can help forecast the budget development in 2025. In principle, however, it can be said that the government has consistently miscalculated the projected budget deficit in recent years. For the record, the deficit target at the beginning of 2025 is 3.7% of GDP, but we think there is a non-negligible chance of slippage. Due to the different macroeconomic outlook, our deficit forecast is 4% of GDP and we think it is more likely that the deficit will be even higher than the target of 3.7%.

To achieve this target, the government would need to find ways to cut the budget shortfall by more than 1% of GDP in a year leading up to the 2026 general election. With the economic outlook likely to deteriorate rather than improve going forward, this improvement will fall mainly on the expenditure side. The good news, however, is that with the repricing of the inflation-linked retail bonds, the naturally declining interest expenditure will do the heavy lifting throughout the year, while we expect the government to use every available forint to stimulate economic activity. In practice, this means that the government's main deficit target could be a primary balance close to zero.

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