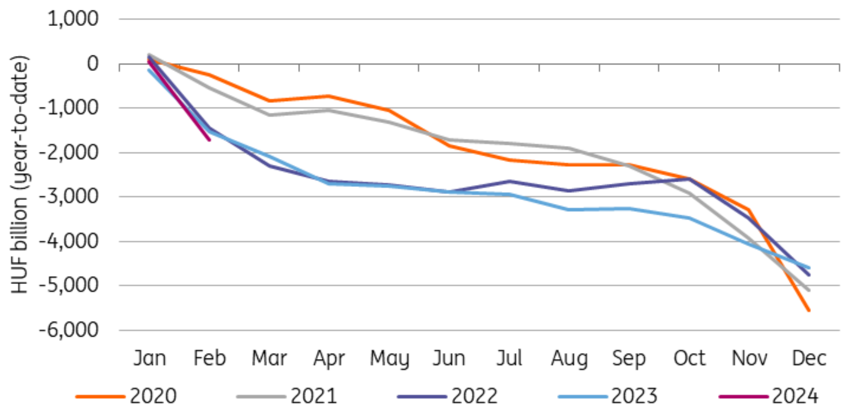
Hungary sees an extreme monthly deficit in February

February's budget data delivered a huge downside surprise, with the monthly deficit coming in at a record level. Nevertheless, we're still waiting for an official update to this year's deficit target, which makes contextualisation difficult

Budapest, Hungary

Hungary's monthly budget deficit reached HUF 1.76tr in February, the second largest monthly deficit ever recorded in Hungary. The largest was in December 2020, when Covid hit the economy. This comes after a surprise surplus in January, but at the time, we had cautioned against speculating from one month's data.

Budget performance (year-to-date, HUFbn)



Source: Ministry of Finance

The Ministry of Finance highlighted three main reasons for the record monthly deficit. These included VAT seasonality, large pension outflows and retail coupon payments. Regarding VAT seasonality, VAT-refunds carried over from the fourth quarter of last year always act as a burden on February's data. On top of this, we suspect that VAT revenues were once again very weak and may have shown negative year-on-year growth. However, only the detailed data due in two weeks' time will confirm or refute our prediction. Nevertheless, we have already seen VAT revenue growth turn negative on an annual basis in January, so this could easily have been the case in February as well.

With regard to the large pension outflows – totalling HUF 1.4tr – the so-called 13th month pension payment is accounted for in the month of February, which may explain the larger pension outflow compared to other months. With regard to the Premium Hungarian Government Bond (PMÁP), a total of HUF 855.4bn of coupon payments were sent to retail investors. Based on the weekly retail bond auctions, we estimate the gross demand in the Hungarian retail bond market in February at around HUF 420bn. In our view, most of the coupon payments were channelled into new retail bonds, while the remaining parts may have been invested in other instruments or channelled into the real economy. This makes the retail sales data for February interesting to anticipate.

Currently, the year-to-date deficit stands at HUF 1.7tr, which means that 68% of the (still official) deficit target for the year as a whole was met in February. We have already anticipated that budget spending will be front-loaded, but this seems to be another level. In the absence of an updated deficit target, it is very hard to contextualise February's monthly deficit. We are still waiting for an official update of the full-year ESA-based deficit target for 2024 from 2.9% to 4.5% of GDP, which would also imply a change in the cash flow-based deficit target.

As the latest official budget was based on 4% GDP growth and 6% inflation this year, we see significant risks from a macro perspective. We see 2.1% GDP growth and 4.4% inflation in 2024. Moreover, the 2024 budget was drafted on the assumption that the 2023 budget deficit would be 3.9% of GDP. Instead, based on preliminary data, it ended up at 5.9%, with a further upward revision possible based on the latest official government account statistics from the National Bank of Hungary. Against this backdrop, we see a significant risk to this year's budget execution. The latest risk could be around 1.0-1.5% of GDP as a rough estimate based on the technical projection.

What is even more interesting is that the government has already started laying the groundwork for another (much too early) draft budget, trying to prepare the budget figures for 2025 in April 2024. Such an exercise makes less and less sense based on the lessons of the past few years.

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