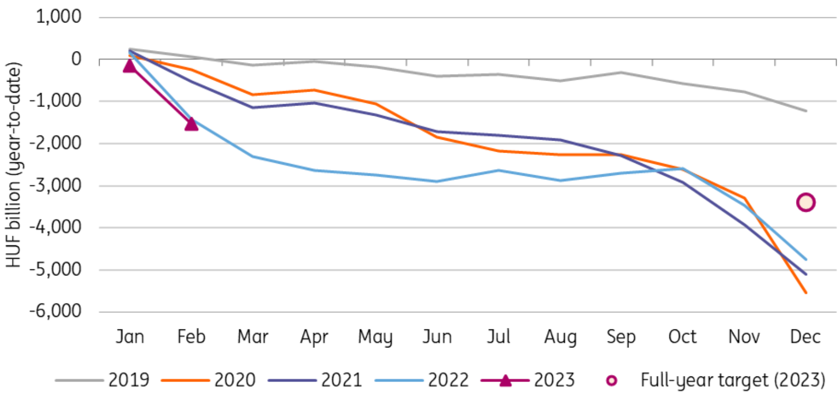
History repeats itself as Hungary's budget deficit soars

We are seeing a repeat of the February 2022 huge Hungarian budget deficit, when the upcoming general election led to a spending spree. It's not as clear why the budget deficit is so enormous this year

Hungary's Ministry of Finance, Budapest

Despite the January deficit, we were hopeful that history wouldn't repeat itself this year and that the Hungarian government's spending in February wouldn't be as bad as it was in February of last year. However, data show that the monthly deficit generated in the budget last month amounted to HUF 1381,5bn, pushing the year-to-date shortfall to above HUF 1.5tr. This equals 48% of the full-year deficit target.

Budget performance (year-to-date, HUFbn)



Source: Ministry of Finance, ING

The Ministry of Finance has been extremely tight-lipped about the developments regarding this enormous monthly deficit. Its statement, however, noted that pension expenditures increased significantly in February compared to last year – though this only explains HUF 275bn of extra expenditure compared to a year ago. This development is roughly in line with what we suggested in our note assessing the January budgetary situation.

As we also mentioned in that note, the government made a deal to purchase British telecom group Vodafone's Hungarian unit. It is highly likely that the cash flow related to the deal hit February's budget. As news was swirling about a HUF 660bn purchase price, this explains yet another large chunk of the monthly deficit.

The remaining shortfall might be a result of some mixture of recapitalisation of state-owned companies (e.g. energy suppliers), and additional gas purchases at fixed prices to bring some relief to the state's energy bill going forward. On top of that, new lending programmes might result in some extra burden in addition to the increased expenditure (in the form of interest rate subsidies and lump sum payments) on the Family Housing Support Program and Home Renovation Program-related spending.

Starting in March, we expect some moderation in the budget balance as revenues from windfall taxes will boost the overall balance. Apropos of which, Finance Minister Mihaly Varga announced recently that windfall taxes will be reduced and phased out only sequentially, in contrast with the original announcement that these will be discontinued from 2024.

Coming back to this year's deficit target, the government is calculating a deficit totalling 3.9% of GDP. In our view, the target is still within reach. The biggest risk is on the revenue side, namely the income from EU transfers. This item is planned at 2.9% of GDP, which could be in jeopardy if the debate between Budapest and Brussels drags on for longer than expected.

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