

## History repeats itself as Hungary's budget deficit soars

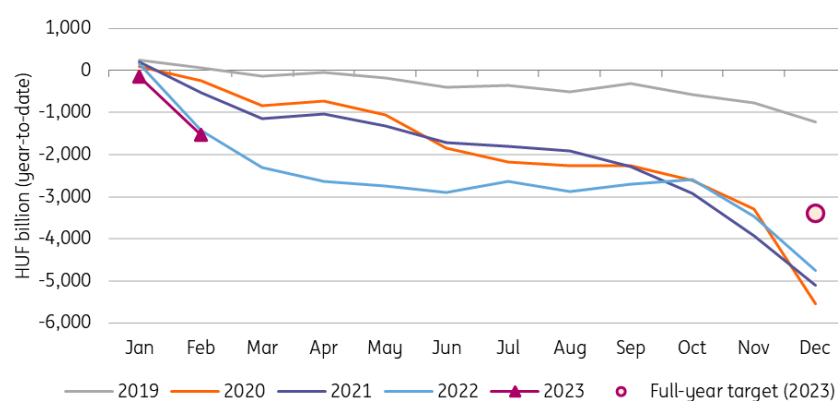
We are seeing a repeat of the February 2022 huge Hungarian budget deficit, when the upcoming general election led to a spending spree. It's not as clear why the budget deficit is so enormous this year



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.

## Author

### Peter Virovacz

Senior Economist, Hungary

[peter.virovacz@ing.com](mailto:peter.virovacz@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).