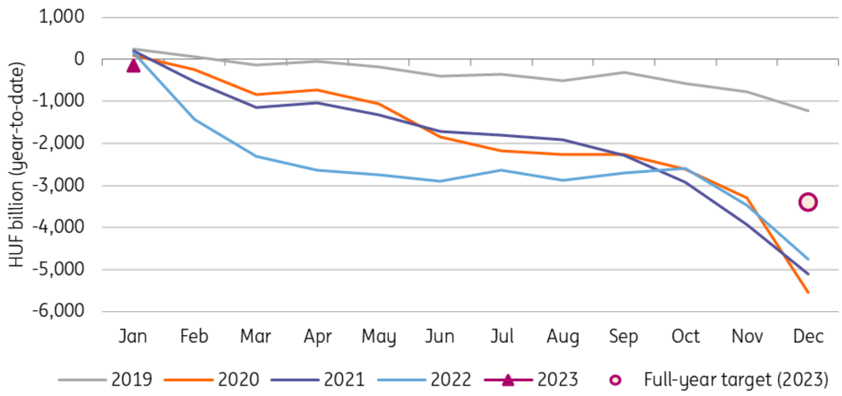
Hungary's budget starts 2023 in deficit

Hungary's budget posted a deficit in January, breaking a four-year streak of surpluses. Nevertheless, we remain optimistic about the full-year outlook

Since 2016 (excluding 2018) Hungary has always started the year with a budget surplus. This year, however, the tradition was broken, although this does not mean that the full-year 3.9% deficit-to-GDP target cannot be met, or that fiscal consolidation will not happen in 2023. January's deficit amounts to HUF 143,6bn, which according to the Ministry of Finance's short commentary was mainly driven by higher pension expenditures.

Budget performance (year-to-date, HUFbn)



Source: Ministry of Finance, ING

At first glance, it seems that while high inflation did help the revenue side, this put serious pressure on the expenditure side as well. In general, this tilted the balance into negative territory in January. We also assume that there was an extra one-off burden on the expenditure side, as the government made a deal to purchase the Hungarian unit of British telecom group Vodafone.

Looking ahead, next month's pension expenditure will balloon even more as the ordinary monthly pension payment will be supplemented with an additional "13th month pension" top-up. This will boost the pension-related monthly expenditure into the range of HUF 900bn in February. Due to this, we expect the Hungarian budget data in February to follow January's performance and post a deficit. Starting in March, we expect some moderation in the budget balance as revenues from windfall taxes will boost the overall balance.

Moreover, as the government was able to purchase natural gas on the gas exchange at one of the lowest prices of the past year, and fix it for six months, this hedge could bring significant relief to the budget from March through September. This natural gas will be provided to governmental bodies, municipalities, state-owned institutions (among others) and with that, this will put a cap on quite a big share of the public energy bill.

In our view, this move makes the achievement of this year's deficit target more realistic. The government is calculating a deficit totalling 3.9% of GDP, with the Overheads Protection Fund (HUF 2,610bn) and debt servicing (HUF 2,074bn) being one of the costliest components. On the revenue side, EU transfers are planned at 2.9% of GDP, signalling confidence in a deal with the EU. However, the planned 1.5% GDP growth is higher than our current 0.7% estimate, which poses some negative risk to the budget.

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