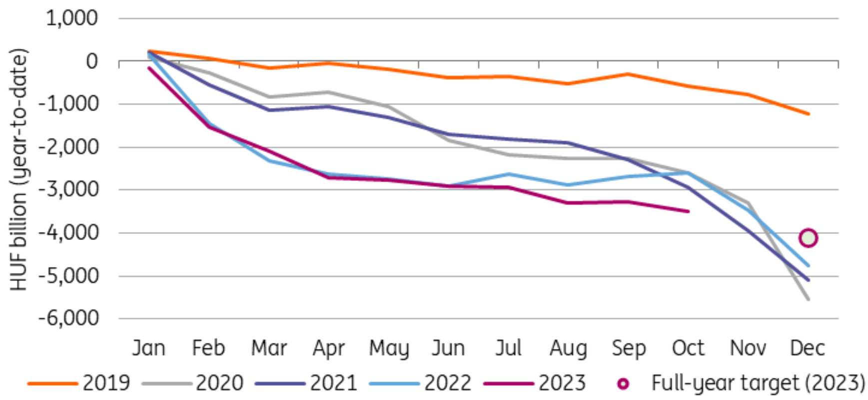
Hungary's budget posts monthly deficit at start of fourth quarter

After a surplus in September, the Hungarian budget again posted a monthly deficit. We can hardly call this shocking. The silver lining is that it's still possible the government won't have to adjust its financing needs again

Hungary's Ministry of Finance, Budapest

The monthly budget balance turned into a deficit in October, with a shortfall of HUF223bn. Although this is a significant deterioration compared to the small surplus in September, we can't call it a surprise. Some of the one-off revenues (e.g. windfall taxes) were paid into the budget in September, so the deterioration was somewhat seasonal. The year-to-date deficit now stands at HUF3,488bn. The government did not publish its revised official cash-flow-based target when it updated the Maastricht deficit target from 3.9% to 5.2%. However, based on history, we can find a really good proxy: the updated financing need figure of the Government Debt Management Agency (GDMA). The latest financing need was set at HUF4,113bn, and compared to that, the fulfilment of the target stands at 85%.

Budget performance (year-to-date, HUFbn)



Source: Ministry of Finance, ING

*The 2023 full-year target is based on the Debt Management Agency's updated financing plan in 2023

In its press release, the government drew attention to the fiscal burden associated with the Overhead Protection Scheme. In the first 10 months of this year, the money spent on this programme totalled HUF1,301.4bn. Of this, the monthly expenditure in October was HUF196bn, which means that the vast majority of the monthly deficit can be attributed to the loss compensation of utility providers.

The press release also highlights the problems related to EU funds, as the year-to-date gap between expenditure (pre-financing of projects) and revenue (from the previous programming period and Common Agricultural Policy funds) related to EU projects stands at HUF959.7bn. This is HUF128bn higher than in September, which means that the month of October was somewhat more burdened by this item. However, these expenditures could be related to projects already underway, while in the meantime the government has postponed almost all other projects scheduled to start in the near future and restructured these investments. This is a clear signal that the expenditure side of the budget is being tightly controlled.

So, to be fair, we can see some silver linings in the fiscal situation, and not just because of the freeze in public investment. In recent years, the budget has run into deep monthly deficits at the end of the year. But this was mostly due to one-off problems that hit the economy and the budget (e.g. Covid-related overspending, the energy crisis that forced a sudden filling of gas storage when prices peaked). This year is different in that we haven't seen such a black swan hit the economy. What is also different is that the government has already covered some of the recapitalisations and loss compensation during the year, rather than letting them put an extra burden on the budget at the end of the year. The budget will also receive some one-off revenues in the next two months.

In this regard, while the technical projection - based on the previous years' monthly budgetary performances up to the year-end - suggests that the deficit target is not realistic, we don't expect this heavily backloaded pattern to be repeated in 2023. But even if the Maastricht deficit target of 5.2% is not met, this won't create a financing problem. And that is what really matters.

The funding situation looks good. By the end of the third quarter, the GDMA had already covered

84% of the budgeted gross financing needs. In addition, there are some quasi-government institutions (e.g. Eximbank) that are doing some FX debt issuance, keeping the related funding needs away from the wholesale government bond market.

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