

## Hungary's deficit target set for an official update

We continue to see the current official 2.9% ESA-based deficit target for 2024 as unrealistic. The Minister for National Economy recently mentioned a 4.5% target, more in line with what we have been looking for



Workers at a construction site in Budapest, Hungary

2023 was very similar to 2022 in terms of the frequency with which the deficit target was revised. Back in July 2022, when the 2023 budget was adopted by Parliament in its first form, the deficit target was 3.5% of GDP. Fast forward to March 2023, when Parliament amended the 2023 budget, and the new deficit target was raised to 3.9% of GDP.

Throughout the year we repeatedly pointed out that, based on the latest fiscal dynamics, even this updated target was unrealistic. When the EDP report was published in October 2023, the new full-year target was raised to 5.2% of GDP, but the story does not end there. At the end of December 2023, the government published its latest macroeconomic projections, in which it again raised the 2023 deficit target - to 5.9% of GDP. With these three additional changes to the goal, it appears that the budget will close 2023 with a deficit of around 5.9% of GDP.

As for 2024, the latest official full-year deficit target is 2.9% of GDP, as published by the Ministry of

Finance in its macroeconomic and budgetary projections for 2023-2027 at the end of 2023. This steep reduction in the budget deficit - from 5.9% to 2.9% of GDP - would imply very harsh austerity measures, which is why we have consistently stated that we do not consider the 2024 target to be realistic.

Let's start with the main macroeconomic assumptions and projections underlying the 2024 budget. This year's budget is based on projections that GDP growth in 2023 will be 1.5% and average CPI will be 15%. In reality, however, the economy fell into a full-year recession, with full-year GDP growth of around -0.5% year-on-year. Consumer prices increased by 17.6% on average compared to 2022, meaning that the two most important macro projections did not materialise in the end.

As far as the projections for 2024 are concerned, the government expects GDP growth to reach 4%, while the average inflation rate for the whole year is expected to reach 6%. We see downside risks to both these projections, as we are currently forecasting GDP growth of around 3% and average inflation in the 4.0-4.5% range in 2024. All these differences compared to actual data (2023) and compared to our forecasts (2024) lead us to believe that there has been a significant deterioration in the underlying macroeconomic path, necessitating an update of the 2024 deficit target.

In light of this, it was little surprise when Minister for National Economy Nagy Márton said in an interview on 4 February that this year's budget deficit could be 4.5% of GDP. This is in line with our previous forecast of 4.4%. In the same interview the Minister outlined his plan for the optimal pace of deficit reduction, which targets the primary balance rather than the overall budget balance. In his view, the primary balance (excluding interest payments) should be 0% of GDP - in order to maintain both fiscal balance and economic growth.

We are waiting for an official update of the full-year ESA-based deficit target for 2024 - from 2.9% to 4.5% of GDP. This would also imply a change in the cash-flow-based deficit target. In this context, an upward revision of this year's financing needs would also change the financing landscape, which we discussed in our [Hungary-specific financing article](#).

The monthly budget balance came in with a surplus of HUF 54.4bn in January, a good start to the year. It seems that the inflow of EU funds has helped a lot, - January 2023 payments stood at HUF 34.6 bn, rising to HUF 226bn in January 2024, a 6 to 7-fold increase. The expected upward revision of the full-year target somewhat reduces the significance of the January budget data.

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