Hungary's deficit target rises to 4.5%

March brought another monthly budget deficit for Hungary, while the government's updated official deficit target is 4.5% of GDP. Nevertheless, we see upside risks to even this target of around 1-1.5ppt

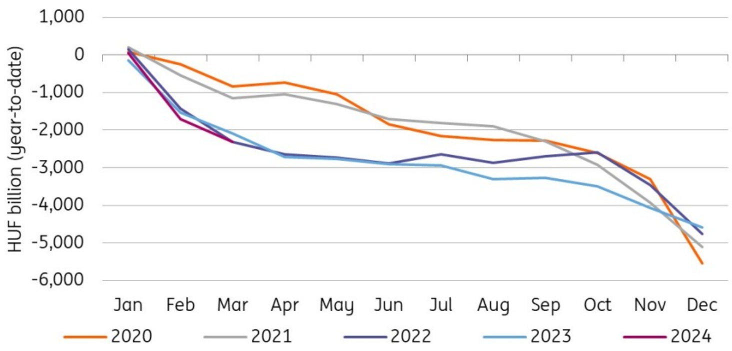
Budapest, Hungary

Hungary's monthly budget deficit was HUF617bn in March, bringing the year-to-date general government cash flow deficit to HUF2.32tr at the end of the first quarter. The deficit in the third month showed a significant improvement compared to the extreme deficit in February. As the improvement was widely expected, we can't call it a significant positive surprise.

The Ministry of Finance's statement provided little information on the specifics of the structure of the deficit, as it mainly highlighted the cumulative changes during the first quarter of this year. However, we can also extract some interesting information from the February report. Interest expenditure remains a major factor in the widening of the deficit. In March, there was another substantial payment on retail government securities. Around HUF385bn was paid out in March alone, so around half of the monthly deficit was linked to this. In the first quarter of 2024, interest payments reached HUF1.24tr.

The budget law still in force targets a deficit of HUF2.51tr, and in the first quarter we achieved more than 92% of this target. However, the Government Debt Management Agency changed its financing plan in early April, increasing this year's financing needs by HUF1.46tr to HUF3.98tr. If we adjust the official cash-flow-based deficit target for the newly added financing needs, the estimated shortfall is HUF4.0tr. So, the budget has covered 58% of the financing needs since the beginning of the year.

Budget performance (year-to-date, HUFbn)



Source: Ministry of Finance, ING

At the same time, the Ministry of Finance is talking about an updated deficit of 4.5% of GDP, although the new budget law hasn't been formed and voted yet. So, we don't know the updated nominal revenue, expenditure and deficit figures (cash flow and accrual based), and we therefore use the new financing plan as a proxy for the nominal deficit.

In our view, based on the detailed February data, even the 4.5% of GDP deficit target is out of reach. We calculate an additional gap of 1.0-1.5% of GDP that needs to be covered if the government is serious about meeting the new target. Without knowing the details behind the March deficit, we are unable to update our technical projection, so we maintain this range as the slippage. However, Minister of National Development Márton Nagy announced that the government plans to postpone some investments and reduce spending in this year's budget. This is an earlier-than-expected admission that the budget will have to face some austerity measures in order to meet the new deficit target. This is clearly a positive development, as we had expected such an announcement only after the EP and local elections in June.

The exact size of the expected spending freeze remains to be seen, but our technical projection and the fact that the 2024 budget trajectory has so far followed the 2022-2023 path suggest that around HUF1.25tr will have to be cut from the expenditure side to reach the 4.5% target.

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