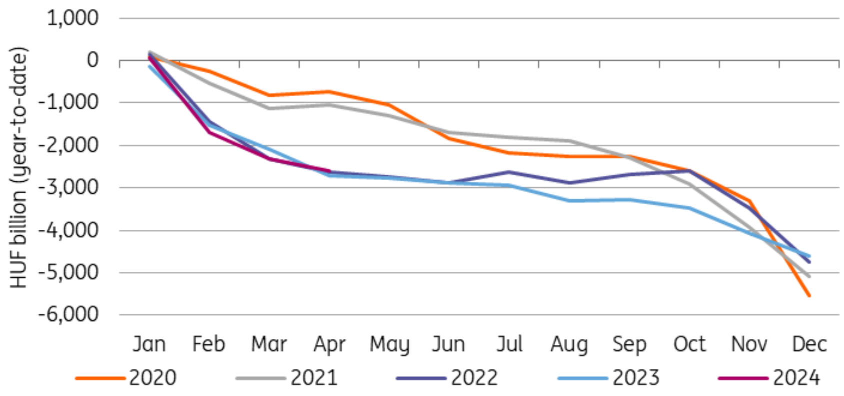
Hungary’s monthly budget deficit improves

April brought another monthly budget deficit, but compared to our technical projection, the outcome is better. Nevertheless, we still see a risk of 0.3-0.8ppt of slippage even to the updated target of 4.5% of GDP

Hungary's monthly budget deficit was HUF276bn in April, bringing the year-to-date general government cash flow deficit to HUF2.59tr. This means that the budget has covered 65% of the Government Debt Management Agency’s planned financing needs since the beginning of the year. April's deficit was the lowest monthly shortfall we've seen this year, and the good news is that it was better than our technical projection based on the previous year’s budgetary trajectories.

Budget performance (year-to-date, HUFbn)



Source: Ministry of Finance, ING

The Ministry of Finance's statement provided some information on the specifics of the deficit structure. In this regard, interest expenditure was once again highlighted with an outflow of HUF1.5tr in coupon payments YTD. Based on our calculation, this means that coupon payments amounted to around HUF260bn only in April, which we believe is likely to be significantly skewed towards retail bond payments to households.

Expenditure on maintaining the regulated price system for households was also mentioned, as YTD expenditure amounted to HUF540bn. This means that around HUF80bn was spent on this government programme in April, which isn't surprising as the heating season is largely over.

Last but not least, the Ministry pointed out that tax and contribution revenues were 9.8% higher than in the base period, which means that the signs of economic recovery have started to be reflected in actual budgetary developments. However, it's still unclear whether this improvement concerns the entire revenue side or only a part of it.

Altogether, we label the April flash estimate as a positive development, as it came in better than our technical projection. However, this only means that our previously calculated slippage risk has been reduced somewhat. Before the April data, we had penciled in a 0.5-1.0ppt risk to the updated 4.5% of GDP target, but we now estimate this gap to be more likely in the range of 0.3-0.8ppt.

Overall, we still believe that the government will need to implement some additional measures to reach the updated 4.5% target, but now there is a greater chance that fewer and less impactful measures will be needed. This also increases the possibility of avoiding austerity measures, which would increase the tax burden on companies and therefore open the door to pro-inflationary effects. Still, we'd need to see the detailed budget report (due on 23 May) to make a thorough update to our fiscal forecast. Until then, our back-of-the-envelope calculation makes us slightly more optimistic than before.

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