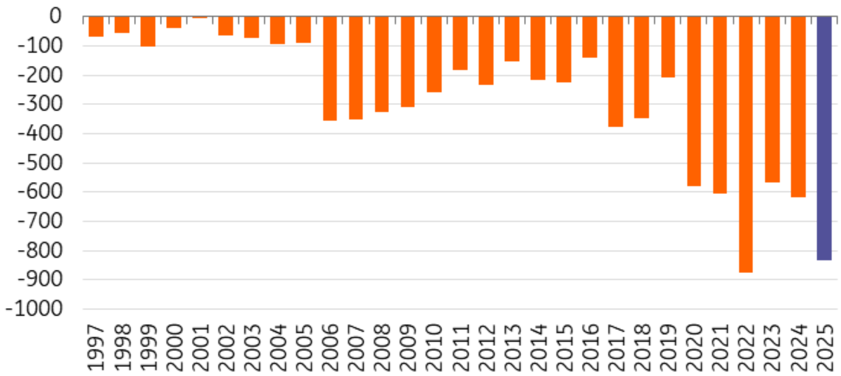
Significant Hungarian budget deficit in March

After the first quarter of 2025, the budget balance looks a little worse than we expected. The frontloading is driven by debt service costs, while the revenue side looks healthier than last year. We expect the deficit to be around 4% of GDP, with risks on the upside

Hungary's budget deficit in March was significant but we still see the deficit at around 4% of GDP for this year

The monthly budget deficit was HUF831.2bn in March, bringing the year-to-date (YTD) general government cash flow deficit to HUF2.55tr. This is equivalent to 61% of the full-year plan for 2025. While this is a higher ratio for the first quarter than in recent years, this frontloading was widely expected given the structure of this year's expenditures.

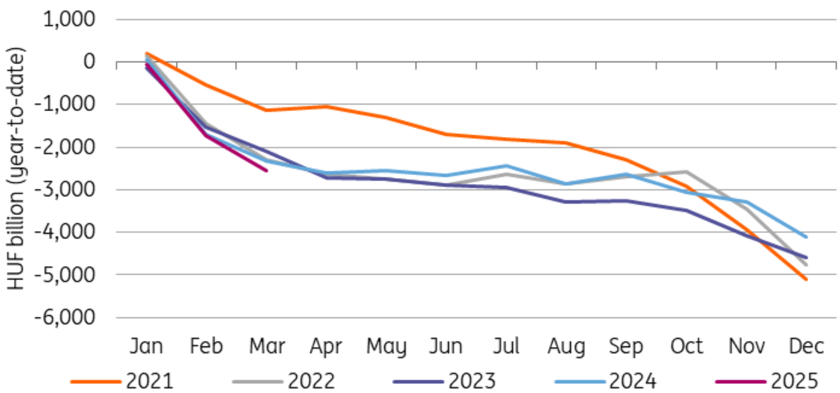
The monthly general government balance in March (cash-flow, HUFbn)



Source: Ministry for National Economy, ING

Nevertheless, the budgetary situation is not as worrying as it appears at first glance. If we exclude retail bond payments, the expenditure trend is in line with previous years (except for 2022, when the energy crisis hit the budget). Taking this into account, we believe that the government's deficit target of 3.7% of GDP is still within reach if it wants to meet it. The soon-to-be-released detailed data will give us a more nuanced picture for a forecast update, but for now we expect this year's budget deficit to be around 4% of GDP.

Budget performance (year-to-date, HUFbn)



Source: Ministry for National Economy, ING

On the expenditure side, the main reason for the high deficit is payments for public services and support for the regulated price system for utilities for the period covering the winter months. Interest payments up to the end of March amounted to HUF1,553.7bn, HUF312.4bn higher than in the same period of the previous year, mainly due to the interest payment dates of certain series of Premium Hungarian Government Bonds (retail bonds) and dollar-denominated foreign exchange bonds.

On the revenue side, the central budget's tax and contribution revenues increased by 11.6% year-on-year. The most notable increase was in general sales tax revenues (HUF265.6bn in nominal terms on an annual basis). This indicates a much better revenue performance than in previous years, when revenues from indirect taxes were significantly lower than budgeted.

All in all, with the March data showing a bit higher deficit than we had forecast, we think the slippage is now larger than expected and the outlook for the budget is slightly worse, but still not entirely bad. Larger deficits at the beginning of the year are due to seasonal patterns, and the differences between this year's and previous years' budget developments are mainly due to retail bond payments.

However, there could be some risks. If economic activity is weaker than expected (which could be the case given the recent global turmoil over tariffs), or if the pre-election political situation heats up for the incumbent party, then there could be a larger slippage (perhaps an additional 0.5% of GDP) and the budget deficit could deteriorate on some more targeted measures. Nevertheless, we think it is highly likely that the government will ensure that the deficit is significantly lower than last year's 4.9% of GDP.

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