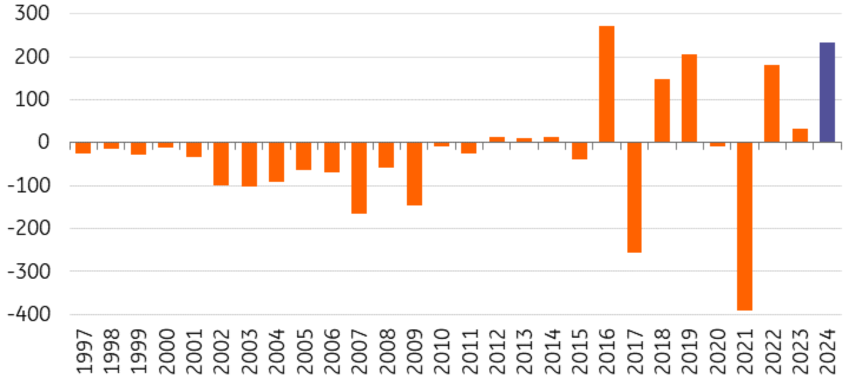
Significant Hungarian budget surplus in September

The overall fiscal position has improved, with September posting the second largest monthly surplus on record. However, this has more to do with the monthly EU money balance than with underlying economic developments. Hence we maintain our deficit forecast of 4.5-5.0% of GDP for 2024

Budapest, Hungary with the Parliament building in the background

The monthly budget surplus was HUF234.2bn in September, bringing the year-to-date (YTD) general government cash flow deficit to HUF2.62tr. This is 55% of the newly announced cash flow deficit plan for 2024. The latest Excessive Deficit Procedure (EDP) report of the Hungarian Central Statistical Office (HCSO) sheds light on this new figure, which stands at HUF4.79tr or 5.87% of GDP. The roughly 1.4ppt European System of Accounts (ESA) gap between the unchanged Maastricht deficit target of 4.5% and the general government cash flow plan is the result of EU funds accounting, the BUD airport purchase and may also be related to the coupon payments on inflation-linked retail bonds.

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

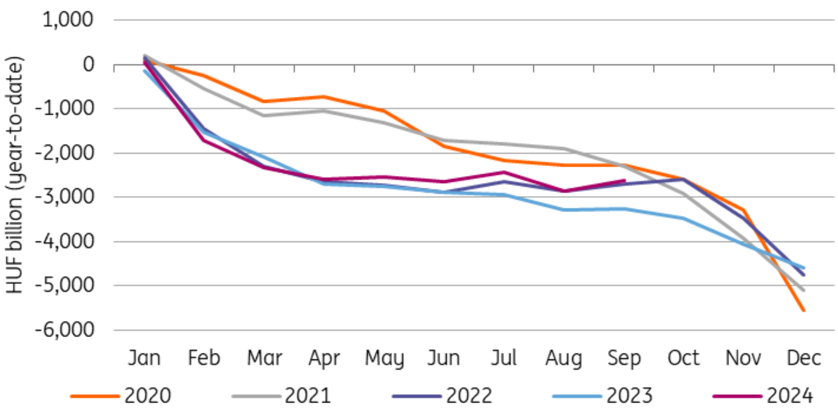


Source: Ministry of Finance, ING

The September budget deficit was in surplus last year and in 2022, so the positive monthly balance itself is not a surprising phenomenon. But this September's data was the second largest monthly surplus ever recorded in that month. All in all, this result shows that the budget is under tight control.

Moreover, the budget's performance since the beginning of the year puts the 4.5% deficit target within reach. According to the Ministry of Finance's statement, "with the measures taken this year, the government has improved the budget's room for manoeuvre by more than HUF1,000 billion". It is important to note, however, that this is the result of the HUF675bn investment postponement and the tax increases.

Budget performance (year-to-date, HUFbn)



Source: Ministry of Finance, ING

The Ministry of Finance's statement provided little clarity on the recent positive development. However, if we try to read in between the lines, we can find some explanation. On the expenditure side, the government highlights debt servicing costs as a major item in the year-to-date deficit, but this hardly explains the high surplus in September. On a monthly basis, interest payments amounted to HUF200bn, about the same as in July and August. Payments for pensions and health care are also, unsurprisingly, in the same order of magnitude on a monthly basis in September as in the previous months. The really interesting part, however, is the expenditure on EU projects. In September, these costs amounted to only HUF66bn.

Moving quickly to the revenue side, the monthly income from the EU amounted to HUF243bn. Thus, the monthly EU balance (+HUF178bn) explains 75% of the total surplus in September. Although tax and social security contribution revenue was also highlighted in a positive manner, this figure should be taken with a pinch of salt. The year-to-date figure is up by 9.7% year-on-year in September, according to the press release. Without knowing the previous figures, this looks like a pretty positive story. However, in both May and July (when the government announced this information), the year-to-date growth rate of this revenue was 9.9%.

In previous months, we have argued that there is a slippage risk in the 2024 budget, which we previously calculated at around 0.0-0.5ppt of GDP, but this month's data help the outlook. Nevertheless, the disappointing second quarter GDP data and the mixed but rather weak high frequency activity data signal that the economic environment remains challenging from a budgetary perspective. As a result, there is still a downside risk to the inflow of indirect tax revenue, which is the main pillar on which the revenue side of the budget rests.

On the other hand, the September surplus is a positive surprise, mainly due to the still tightly controlled expenditure side. However, recent budgetary developments show similarities with 2022, when the budget deficit deteriorated significantly in the fourth quarter. Assuming the same trajectory, we maintain our call for a deficit in the range of 4.5-5.0% of GDP in 2024, despite today's positive headline figure.

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