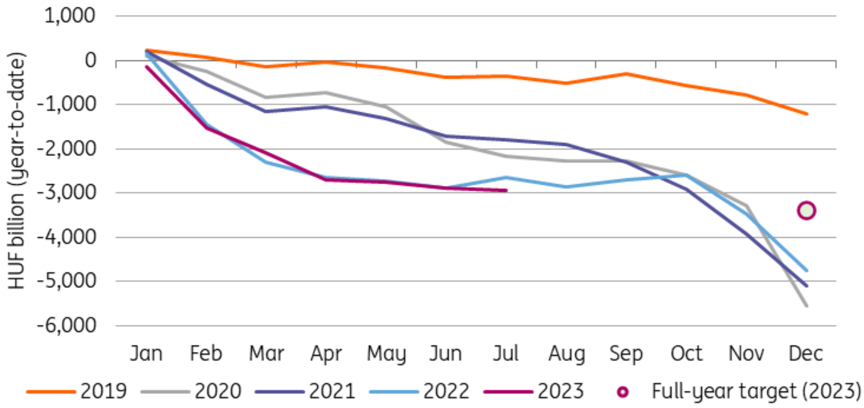
The Hungarian budget is bad, but stable

Hungary's fiscal situation remains challenging when looking at the budgetary developments of the first seven months of the year. However, recent months have shown that the government has been able to stabilise the situation, and with no funding issues, we are not overly worried

Source: Shutterstock

The monthly budget deficit generated in July equates to only HUF 44.3bn, the lowest seventh-month deficit in nine years. This is clearly positive news, especially if we consider the May and June developments as well. In the past three months, the government has been able to keep the budgetary situation under control. As a result, the year-to-date deficit is now sitting at HUF 2,940.3bn. This means that 86% of the full-year deficit target was met by July. So yes, we can be cheerful about the recent developments, but overall the budget is still in a bad, although at least stable, condition.

Budget performance (year-to-date, HUFbn)



Source: Ministry of Finance, ING

As we have come to expect, the Finance Ministry's statement was not very forthcoming with details and explanations. As the heating season has officially ended, significantly less money will be spent on the government's overhead protection scheme in the months ahead. In this respect, the budget can breathe a sigh of relief, as this had been one of the most expensive elements on the expenditure side, costing the budget HUF1078.6bn so far this year. Out of this, only HUF109.4bn was paid in July.

The Ministry also underlined that there has been a significant increase in expenditures related to the reimbursement of national and suburban public transport services. On top of that, the budget gap has widened on housing subsidies and maternity allowances. This hardly comes as a surprise as these are loans with subsidised interest rates and the rising interest rate environment is making these programmes more expensive than planned.

When it comes to the revenue side, the Ministry's press release leaves us without much information. In our view, the budget has been struggling with lower-than-expected tax revenues. The main issue relates to value-added tax, where (based on the first six months) revenues are higher by only 2.2% on a yearly basis, in comparison with the plus-20% inflation environment. In the wake of the planned 16.4% increase in VAT, it generates a roughly 1% of GDP extra gap.

Against this backdrop, it hardly comes as a surprise that the Finance Minister has been openly talking about the possibility of a revision to the budget in September. This is in tandem with the fact that the press release has recently been missing the optimistic closing sentence; that the government's deficit target looks feasible. Though it is not clear what a revision could mean in practice, we think it would be a combination of an upwardly revised target from the recent 3.9% of deficit-to-GDP and some extra measures to cut the shortfall.

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