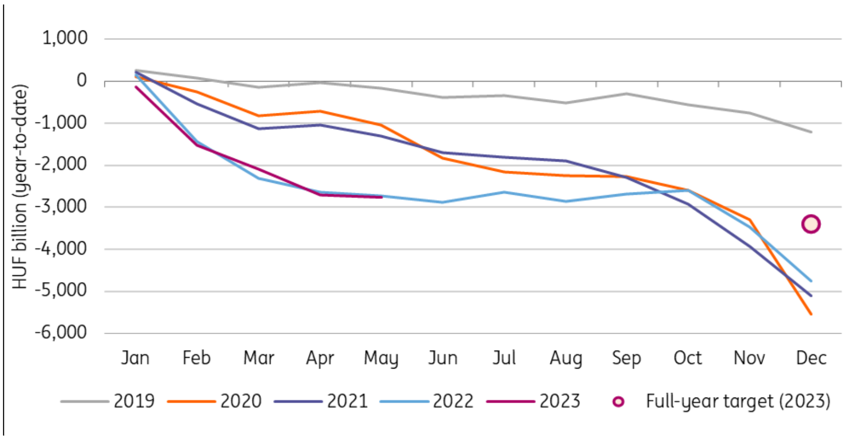
Hungarian budget posts lowest May deficit in years

Hungary's budget has followed last year's trajectory so far, with April's surprisingly bad release being followed by surprisingly good deficit data in May

Source: Shutterstock

April's budget data raised some eyebrows given that it showed the highest fourth-month deficit on record, but the overall picture has got a little brighter. With the monthly deficit in May amounting to only HUF 53.6bn, we have now seen the lowest fifth-month deficit in seven years, as the Ministry of Finance touted in its press release. The year-to-date deficit accumulation now sits at HUF 2,763.3bn. This means that 81% of the full-year deficit target was already met by May. However, with the vast majority of tax receipts still to come, we believe that the full year cash flow-based target is achievable. This also tends to be a positive signal in terms of the overall budgetary trajectory; last year's path seems like the closest proxy for what is going to happen this year. And if we clear out the year-end one-off spending related to the energy crisis, the situation looks much more comfortable.

Budget performance (year-to-date, HUFbn)



Source: Ministry of Finance, ING

As we pointed out in our previous note, the budget has been struggling with lower-than-expected tax revenues and ballooning costs on the expenditure side. This time, the Ministry of Finance noted in the press release that the deficit was higher and grew faster in the first half of the year due to "known developments" and one-off expenditures. In this context, housing benefit expenditure is highlighted, which increased by more than HUF 95.7 bn compared to the first five months of last year.

As the heating season officially ended, significantly less money will be spent on the government's overhead protection scheme in the coming months. 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 HUF 894.6bn so far this year.

In addition to these items, the Ministry of Finance noted that pension expenditure has also increased due to higher inflation this year. However, the government still expects average inflation of 15% in 2023, which we believe will be closer to 18%. We therefore expect an additional pension adjustment of HUF 150-200bn, which is automatically triggered by law.

Going forward, as last year's budget seems like the closest proxy, we expect the pace of deficit growth to significantly moderate in the coming months. However, barring a major spike in global energy prices we expect the year-end performance to differ from that of last year's. As expenditures are always front-loaded with revenues being back-loaded we expect increasing tax inflow month-by-month, which significantly alleviates the pressure on the budget. Furthermore, the expected inflow of EU funds in the third (or fourth) quarter of this year will help a lot from a cash-flow perspective, with HUF 500-600bn worth of inflows being tied to the 2021-27 Multiannual Financial Framework in this year's budget plan.

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