

## Hungarian budget posts lowest May deficit in years

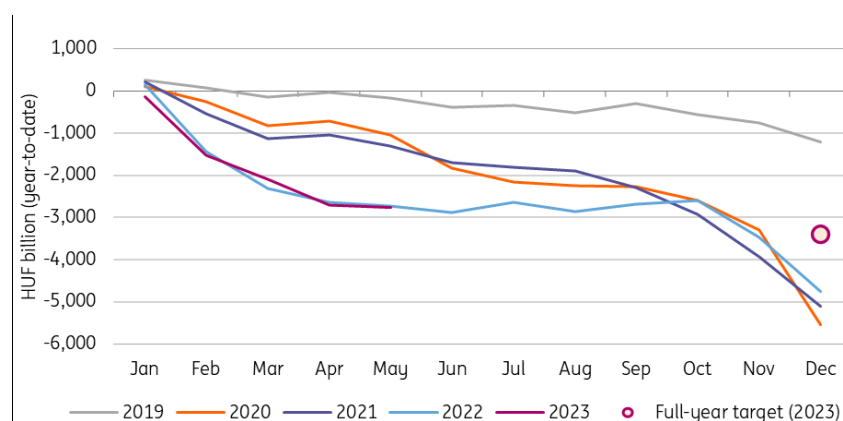
Hungary's budget has followed last year's trajectory so far, with April's surprisingly bad release being followed by surprisingly good deficit data in May



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.

### Author

#### Peter Virovacz

Senior Economist, Hungary

[peter.virovacz@ing.com](mailto:peter.virovacz@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).