Hungary's budget posts surplus in January

The Hungarian budget posted a surplus in January. We see this as evidence of strong economic activity rather than a sign of early fiscal consolidation

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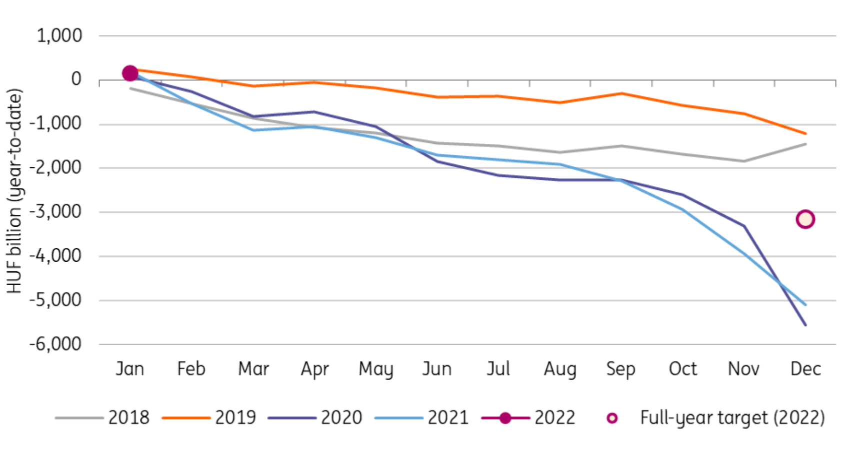
Hungary's budget posted a HUF 151.3bn surplus in January 2022. This looks like a promising figure, especially after the spending spree at the end of last year. However, we don't want to rush into any bold calls regarding the fiscal stance for this year. It is important to remember that the budget has often started the year with a surplus: January has seen a surplus every year since 2016, with the exception of 2018. So seasonality has more to do with this strong start than any assumed discretionary austerity measures.

Cash-flow based year-to-date central budget balance



Source: Ministry of Finance, ING

Moreover, anecdotal evidence in early 2022 and high-frequency data in late 2021 suggest that economic activity is picking up again. Stronger economic activity naturally boosts the revenue side of the budget while depleting the expenditure side to some extent (e.g., spending less on unemployment benefits).

When it comes to actual measures, the powerful ones will be rolled out by the government in February, with only a handful of changes affecting the budget in January, such as the tax exemption for Hungarians below the age of 25 as well as the reduced payroll tax (by 4ppt) and some increases in family benefits which are tied to the minimum wage (increased by roughly 20%).

After this (usual) good start, we see a significant deficit in February. The government will pay bonuses for the armed forces, spend extra cash on pensioners (13th month benefit) and the family tax refund. These measures amount to roughly HUF 1,200-1,300bn, in our view, hitting a major hole in the budget. However, these expenditures were prefinanced by the Government Debt Management Agency during late last year, thus the deposits of the central government were filled to match the financing needs.

Speaking of financing needs, the government's cash-flow based deficit goal is set at HUF 3.15tn in 2022, while the Maastricht-based deficit target was changed in December 2021 to 4.9% of GDP. When it comes to the risks, the revised deficit goal was planned based on the assumption of roughly 5% GDP growth in 2022 along with a 5% inflation rate.

We have yet to see the official 2021 GDP growth, but official commentaries are suggesting some 6.8-6.9%, which will provide a head start via the positive carry-over effect in 2022. Thus, we see upside risk to our 5.2% GDP growth forecast, which could mean a better-than-expected budget balance. But there is more: as we expect the inflation rate to be close to (or even at) 6% in 2022 on average, this means further upside risks for budget revenues. The only question that remains is what the government will do with this extra budgetary room. In such a high-flying inflation environment, and considering the government's pledge to consolidate the fiscal metrics (both deficit and debt ratios), we see the government using this extra money to reduce debt this time, rather than returning this to the economy as it used to do in the past.

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