

Hungary: Central budget back in deficit

Even though the government has reduced some taxes, revenues rose more than expected as Hungary's economic activity has remained sound

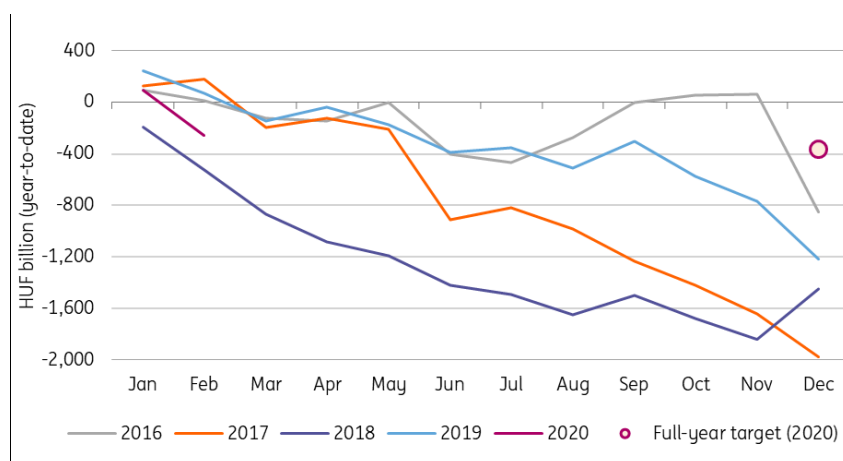


Hungary's parliament building in Budapest

The year-to-date deficit of the general government budget came in at HUF 254.6 billion in February. Considering the latest monthly figure, the cash-flow based budget posted a deficit of HUF 322bn mainly due to extra spending on infrastructure projects, investment incentives and car purchase support for large families.

Revenues are still soaring, as income from VAT reached 15% of the full-year plan. Revenues from personal income tax and payroll taxes were also better than expected, reaching 17.3 and 16.5% of the full-year target, respectively. These developments mainly stem from the tight labour market, which is driving wages higher, translating into a high consumption rate. However, we expect to see a drop in the growth rate of revenues (especially from VAT) after a strong February and March, as Covid-19 related panic buying is providing a temporary boost.

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



Source: Ministry of Finance, ING

As the press release of the Ministry of Finance pointed out, Brussels has transferred only HUF 61.2bn in 2020 so far, HUF 220bn lower than a year ago. In the meantime, as the government has ramped up pre-financing of EU projects again, the related expenditures reached HUF 569.4bn, meaning that the budget posted a huge deficit in the first two months of the year. It also means that the majority of the year-to-date deficit again stems from missing EU inflows rather than due to irresponsible management of the budget.

Looking forward, the recent budgetary developments are far from ideal, mainly due to the missing EU money, which creates uncertainty about the cash flow. Moreover, as revenues are probably boosted by extra consumption due to Covid-19 in the first quarter, we might see some significant deterioration compared to the plans. With uncertainty around the local growth outlook, it's not clear if the 1.0% deficit-to-GDP target will be met. In our view, any slippage will be overlooked as policymakers around the globe are preparing extra measures to save economies with a "whatever it takes" mentality.

Author

Peter Virovacz

Senior Economist, Hungary

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.