Hungary: Central budget back in deficit

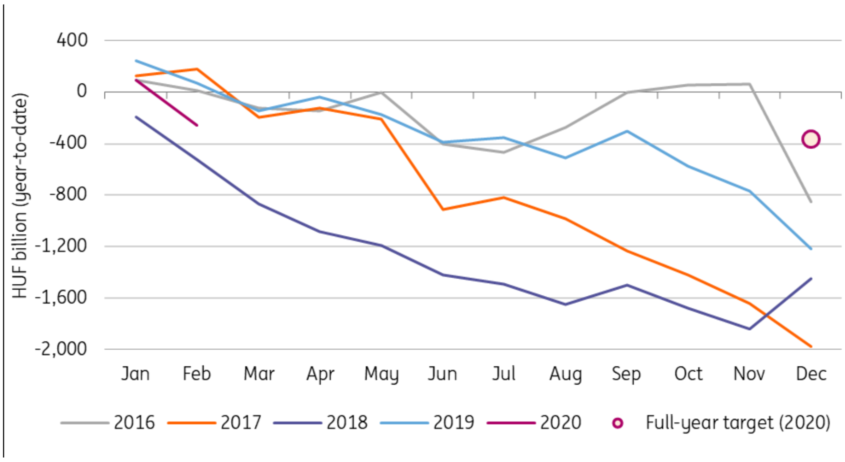
Even though the government has reduced some taxes, revenues rose more than expected as Hungary's economic activity has remained sound

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.

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