Hungary: Central budget holds up well

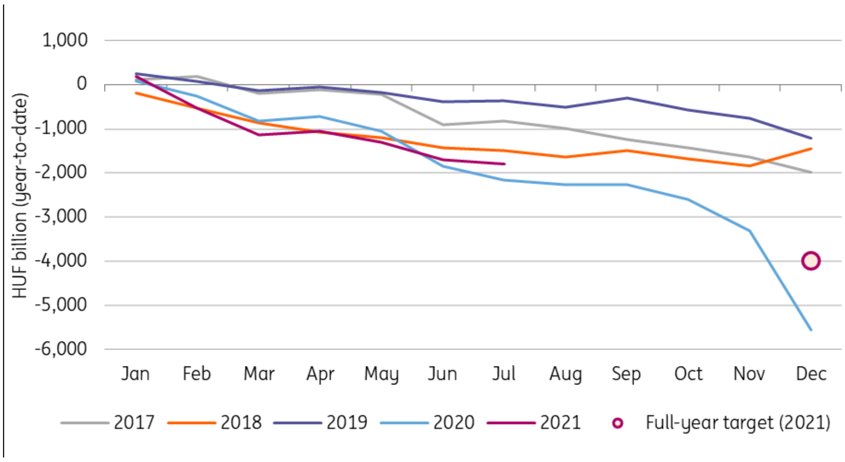
As usual, the July monthly deficit was relatively low and with that, the full-year budget goal is well within striking distance. Against this backdrop, we see higher discretional spending later in the year

Source: Shutterstock

The Hungarian budget posted a HUF 99bn cash-flow based deficit in July 2021, which is more or less in line with the seasonal pattern. With the small July shortfall, the year-to-date budget deficit came in at HUF 1.804 tn, standing at only 45% of the amended deficit plan, according to our calculations. In all, the government has put itself in a really good position to be able to cover the missing EU transfers without jeopardising its fiscal goal.

The Ministry of Finance's press statement was short on detail as usual, so we have to wait for the detailed data release. What we do know is that the government is set to continue its measures to support investment, job creation and families, so the expenditure side of the budget will expand further during the rest of the year, especially if economic activity is much better than the macro projection, which was behind the new budget plan.

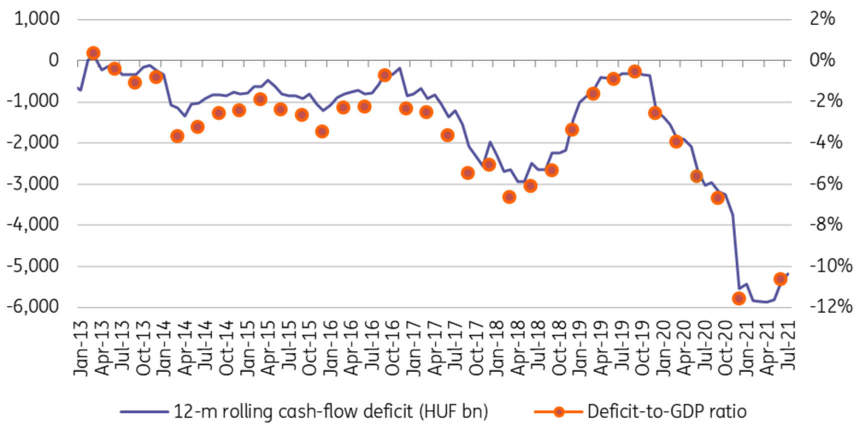
Cash-flow based year-to-date central budget balance



Source: Ministry of Finance, ING

When it comes to the revenue side, the press release highlights that the most important revenue lines (corporate tax, VAT, personal income tax and social security contributions) have performed much better on a yearly basis during the first seven months of the year. This hardly comes as a surprise with the gradual reopening starting in April, and an almost fully open economy by June. Thanks to that turnaround on the revenue side, the 12-month rolling deficit of the central budget has shown a continuous improvement since May, the first series of declining cumulated shortfalls since the outbreak of the crisis.

12-month rolling deficit (cash-flow based, HUF bn)



Source: Ministry of Finance, ING

Given the amended budget for this year and based on the seven-month performance, it seems that the government has more than enough room to counterbalance the impact of the missing EU funds using only budgetary sources. The budget was planned under the assumption of 4.3% GDP growth and 3% inflation. Instead, we look for 7.4% GDP growth combined with 4.5% inflation in 2021. This significant difference in economic activity will boost the revenue side and, to some extent, decrease the expenditure side (e.g. lower spending on unemployment benefits).

In our view, the government will remain committed to going the extra mile, financing EU projects from domestic sources and ramping up discretional spending on public investment. Yet it will still be able to meet the 7.5% deficit-to-GDP goal this year. We see no need for any significant restructuring in this year's financing plan either.

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