

## The Hungarian government continues to spend

Extraordinary spending in Hungary pushed the budget deficit higher in June, but compared to the amended budget target, everything is in line with plans. We expect the lax fiscal stance to continue in 2022

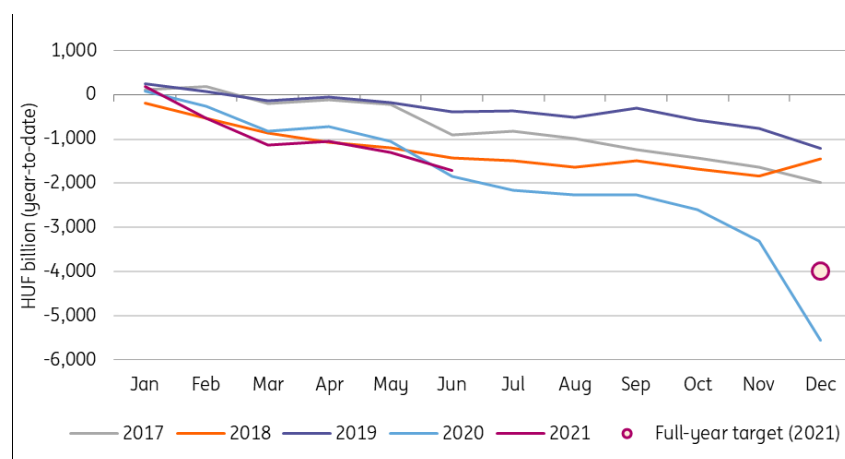


Hungary's parliament building in Budapest

The Hungarian budget posted a deficit of HUF 392bn in June 2021, which is one of the highest monthly deficits compared to previous years.

With the June shortfall, the year-to-date budget for the first half of 2021 sits at HUF 1 704.6bn, reaching 43% of the amended deficit plan, according to our calculations. However, the mounting deficit doesn't jeopardise the full-year shortfall figure.

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



Source: Ministry of Finance, ING

Although the finance ministry didn't reveal too much, we think the reopening helped push revenues higher, especially when it comes to VAT and personal income tax. On the other hand, due to some pandemic related temporary relief, social security taxes are lagging last year's figures.

On the expenditure side, the ministry highlighted that due to its higher annual inflation forecast, there was a further increase in pensions from June with a retroactive effect until January. Furthermore, an additional increase in spending was related to the so-called 13th-month pension. Other than that, we also believe that the government continued pre-financing infrastructure projects related to EU programs.

In the meantime, there is an ongoing debate between the finance ministry and the central bank regarding the stance of fiscal policy. Taking into consideration the amended budget for this year and the six-month performance, it seems that the government prioritises the economic impulse over quick budget consolidation. The room is clearly there as long as the European Commission keeps the Maastricht criteria suspended.

Probably this was the main reason behind next year's deficit goal which was set at 5.9% of GDP. Due to inflationary reasons, the central bank urges the Ministry to start consolidation as soon as possible. In our view, next year's deficit goal is likely to remain unchanged, which will keep the central bank on its hawkish path for a while.

### 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).