The Hungarian government continues to spend

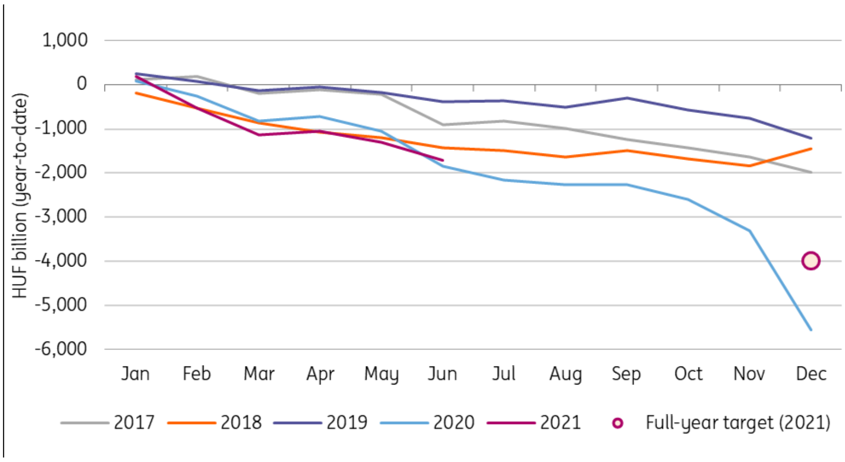
Extraordinary spending in Hungary pushed the budget deficit higher in June, but compared to the amended budget target, everything is in line with plans. We expect the lax fiscal stance to continue in 2022

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.

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