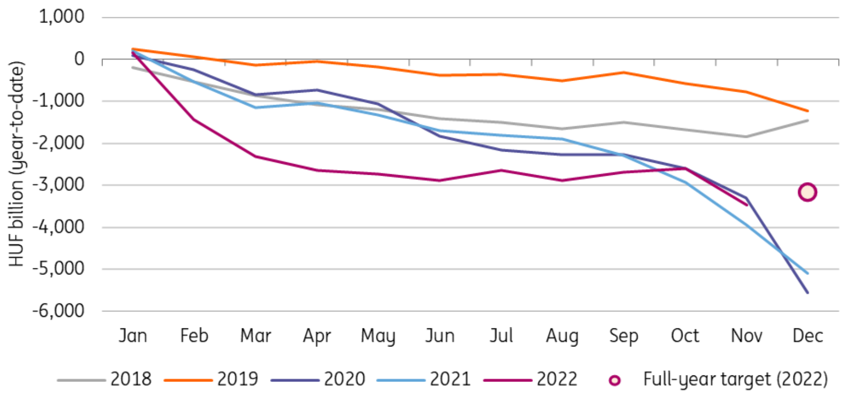
Hungary's budget deficit exceeds full-year target

Hungary's budget deficit exceeded the full-year cash flow target in November by almost 10%. Given the targeted windfall tax increase, we remain optimistic about the year-end outlook. Next year, however, could be trickier

Deficit widens as we approach year-end

The Hungarian budget posted a HUF 876bn deficit last month, the second-worst November figure of the last 20 years. December data will be crucial in achieving the full-year cash flow-based deficit target of HUF 3,152.7bn. At the end of November, the cash flow-based budget balance showed a HUF 3,466.4bn deficit. That means a surplus of HUF 313.7bn is needed in December for the budget to remain in line with the full-year target.

Cash flow-based year-to-date budget balance



Source: Ministry of Finance, ING

A December surplus is not implausible, since the monthly evolution of the 2022 budget profile resembles that of 2018's (see the chart above). Back then, the general government's balance closed the year with a surplus of HUF 397.3bn, eclipsing this year's HUF 313.7bn surplus need. However, in case a negative surprise arises regarding the year-end monthly budget data, the accrual-based (Maastricht-based) 6.1% deficit-to-GDP target will be met due to high nominal GDP growth.

Spillover effects from October's expenditure freeze

In late September, the government mandated a general "expenditure freeze" which lasted until the end of October. According to the Ministry of Finance, the temporary freeze alleviated some pressure on the October budget, but the invoices falling into that "frozen" category were eventually paid in November. This postponed expenditure amounts to HUF 300bn. Another significant item on the expenditure side was the 4.5% mandatory pension adjustment which totalled HUF 217bn, supplemented with pension top-ups linked to economic growth equalling HUF 23.5bn. Together, these items are responsible for 62% of the budget shortfall in November.

Recent windfall tax increase will certainly help the budget

Yesterday, the government announced an increase in the windfall tax levied on petroleum producers (targeting MOL, the Hungarian oil company) from 40% to 95%, which came into effect just after the fuel price cap was lifted. This windfall tax is applied to the revenue of petroleum producers that are directly derived from the spread between Ural and brent crude oils. Oil refining companies can purchase cheap Ural-type crude oil, refine it and sell for higher prices, hence the circa $25 spread per barrel that is taxed at an extraordinary 95% rate. Besides the increase in the windfall tax, rising inflation will play a huge role in navigating the year-end budget close to the deficit target. At the moment, there is no sign of easing inflationary pressures and by all means the inflation rate will further rise in December, boosting revenues from VAT.

Our view remains intact that fiscal consolidation will continue in 2023 via limited investment spending and temporary windfall tax revenues. However, meeting the original 3.5% deficit-to-GDP target next year (set in the summer of 2022) will be quite tricky. The severely dampened economic outlook compared to the summer macro outlook might provide some extra hurdles. The government will reveal the amended budget in late December where we still see the government keeping the original 3.5% deficit target, but probably deciding on some measures on both the revenue and expenditure sides.

More acceleration ahead in inflation due to the end of fuel price cap

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