

Snap | 8 September 2021

Hungary's fiscal room seems plenty to give growth some boost

The August budget deficit in Hungary is usually moderate, and this didn't change in 2021. The budget remains in good shape in relation to the full-year target, suggesting that a spending frenzy could be imminent, just like in 2020



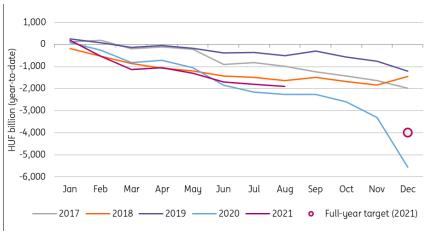
The National Bank of Hungary

The Hungarian budget posted a HUF97bn cash flow deficit in August 2021, which is roughly in line with the seasonal pattern.

With this muted August shortfall, the year-to-date budget deficit sits at HUF1,901bn. This equals only 48% of the amended full-year deficit plan after eight months. In this respect, the government is in a really comfortable position regarding a possible spending campaign close to year end.

Snap | 8 September 2021

The year-to-date budget balance of the government



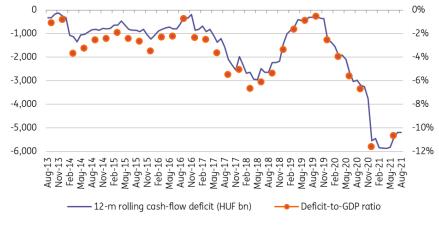
Source: Ministry of Finance, ING

The finance ministry's press statement didn't disclose anything about how the revenue side performed; however, as the Hungarian economy is running hot with high inflation and low unemployment, we can guess that the situation is much better than a year ago, despite the discretional tax cuts helping the economy to restart following the pandemic.

When it comes to the expenditure side of the budget, the ministry listed several investment programmes that are putting pressure on costs. These include cities, villages and infrastructure related spending by which the government expects to improve Hungary's competitiveness.

Given that August's deficit is almost equal to last year's performance, the 12-month rolling deficit of the central budget didn't change much. However, it still looks much better than in the first quarter of 2020. The only question is how long the improved situation will last, which will mainly come down to how much room is available for manoeuvre for the remainder of the year.

12-month rolling budget deficit



Source: Ministry of Finance, ING

The amended budget was planned under the assumptions of 4.3% GDP growth and 3% inflation.

Snap | 8 September 2021

Instead, we are now looking at 7.7% GDP growth combined with a 4.6% inflation print in 2021. This significant difference in the economic activity will boost the revenue side, and to some extent, decrease the expenditure side (eq., lower spending on unemployment benefits).

In our view, this will give a good opportunity for the government to go the extra mile by the year end without jeopardising this year's deficit and debt financing targets. In practice, this could mean boosting spending on EU projects and other public investments, which will probably help increase the chances of retaining power at next year's general election.

Author

Peter VirovaczSenior Economist, Hungary
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.

Snap | 8 September 2021