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

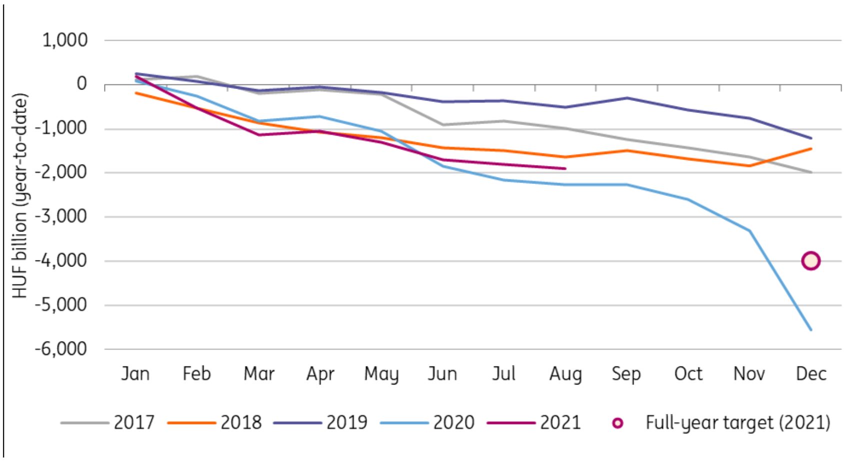
The August budget deficit in Hungary is usually moderate, and this didn't change in 2021. The budget remains in good shape in relation to the full-year target, suggesting that a spending frenzy could be imminent, just like in 2020

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.

The year-to-date budget balance of the government



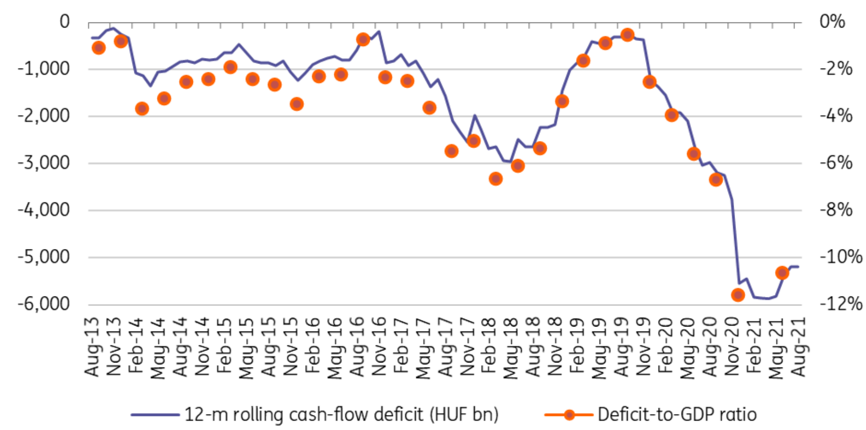
Source: Ministry of Finance, ING

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.

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 (eg, 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.

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