Inflation boosts Hungary's budget revenues

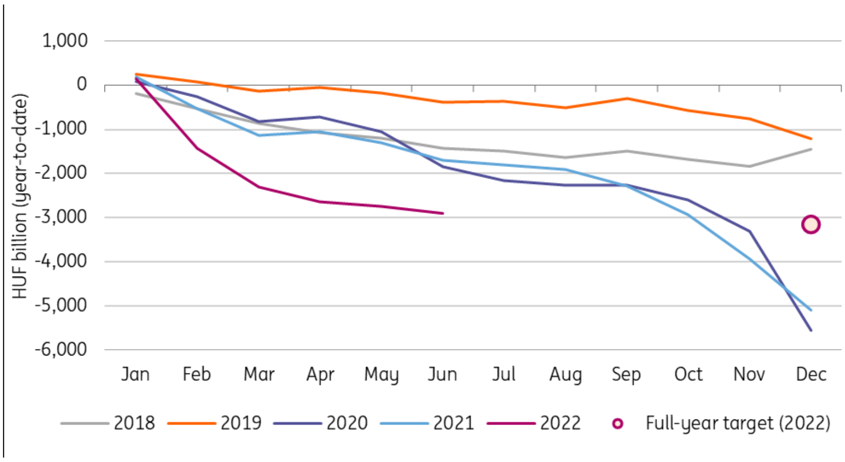
The budget posted a smaller-than-expected deficit in June, thanks to inflation which hit a 24-year high. Despite the ballooning energy bill, soaring revenues make it possible to meet the deficit target

The biggest risk to meeting Hungary's 4.9% of GDP deficit target is the country's rising energy bill

The Hungarian budget posted a HUF 155.3bn deficit in the month of June. This is the lowest monthly shortfall that the budget has seen in June since 2014. During the first half of this very difficult year, the budget accumulated a deficit of HUF 2,892bn, equalling 91.7% of the full-year cash-flow-based target.

Cash-flow-based central budget balance

Year-to-date



Source: Ministry of Finance, ING

Although this ratio looks alarming, the second half of the year will bring with it a lot of changes. On the expenditure side, the government decided to cut roughly HUF 1,200bn planned spending (cutting ministries' budget, freezing public investments). Accompanying this, revenues will be boosted during the next six months via excise duty and public health product tax hikes (roughly HUF 100bn) and levying HUF 800bn worth of special taxes ("windfall taxes") on specified sectors.

Considering the full adjustment, this roughly 3% of GDP fiscal adjustment gives more than enough room for manoeuvre in 2022. Moreover, based on the Finance Ministry's statement, by the end of June, tax and contribution revenues increased by 13.5% year-on-year. The ballooning revenue has a lot to do with the 9.4% average inflation reading during January and June, and the almost 20% increase in average wages also helps. Households were keen to spend the extra revenues they got from the government during the first quarter of 2022, reversing some of the expenditures to the revenue side via indirect taxes.

The biggest risk to meeting the 4.9% of GDP deficit target – even after the austerity package – is the country's rising energy bill. Energy prices have been rising rapidly (particularly gas), while the weakening forint also increases energy-related expenditures directly, and indirectly as well. The latter is related to the utility cost cut, which keeps the price of utilities unchanged (since 2013), while utility providers are paying market prices for inputs, generating massive losses month by month. As most of the utility sector is state-owned, this creates a budgetary issue at the end of the day. What is also making the situation more delicate is that as long as households (and roughly 100,000 micro-, small- and medium-sized enterprises) pay a capped price for utilities, and local car owners fill up gas tanks at a capped price, there is nothing to incentivise them to be more conscious about their consumption.

All in all, upside and downside risks are surrounding this year's budget development. Taking into consideration the Ministry's strong pledge to maintain its deficit target and continue the reduction of the public debt ratio, we rather expect the budget to meet its target after all. Although we have to admit that our base case scenario sees an agreement struck between Budapest and Brussels in the Rule of Law debate on time (probably around September) to open the gates to significant revenues in transfers from the EU.

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