Monthly budget balance back in deficit in Hungary

The budget posted a deficit in August, despite skyrocketing inflation which boosts revenues. To reduce spending, the government has announced energy-saving measures and debt financing with the help of a new retail bond

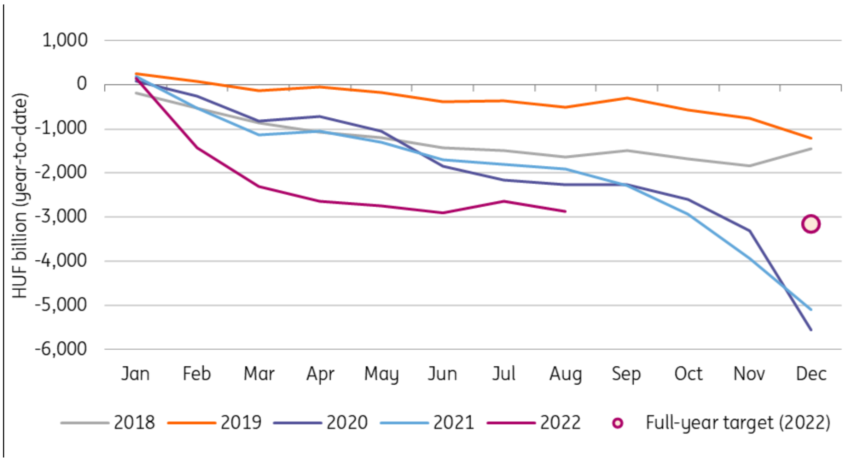
Source: Shutterstock

Budget deficit is close to the full-year target

Alongside the latest budgetary data, representatives of the Hungarian government made several announcements which have some implications on the budget and debt financing.

First, let's look at the facts and figures. The Hungarian budget posted a HUF 236.2bn deficit in the month of August, after a surplus in the previous month. A month ago we expected that this could be a trend change, but with the latest data it seems it was a one-off positive surprise. After the August deficit, the cash flow-based year-to-date budget balance shows a HUF 2,872.7bn shortfall, which equals 91.1% of the full-year target.

Cash flow-based year-to-date central budget balance



Source: Ministry of Finance, ING

We see improvement in the budgetary situation

The main reason behind the deterioration comes from the expenditure side. The press release highlighted several areas where spending significantly increased over a year. Investments (related to EU projects), housing subsidies, pension and healthcare-related expenditures are top of the list. Somewhat surprisingly, the Ministry of Finance did not share any details about the revenue side of the budget, which we expect to perform significantly better on a yearly basis due to the much higher nominal GDP growth (driven mainly by rising prices).

Looking ahead, we expect significant improvement in the budgetary figures as the latest tax measures will start to boost revenues alongside rising inflation. On the other hand, the government has already announced some spending cuts, but also highlighted new measures to help reduce expenditures.

State-owned companies instructed to cut gas consumption

The government announced that it had ordered state institutions and state-owned companies to reduce their gas consumption by 25%. This doesn't include hospitals or social institutions. In this regard, Hungary is following other countries in trying to cut energy bills. To achieve this quite ambitious goal, the maximum temperature in public institutions will be set at 18 degrees Celsius.

With these adjustments, we see the government achieving this year's deficit target and overachieving debt reduction. However, the latter will be rather fuelled by the higher-than-expected nominal GDP, which will shave off significant percentage points from the debt-to-GDP ratio. On the other hand, the government and the Debt Management Agency has decided to introduce some pre-emptive measures regarding debt financing.

Debt financing to get a boost from new retail bond

The government has announced a new retail bond in a bid to reshape the debt financing strategy. The details are yet to be shared, but a new government bond will be supplied from September with an initial interest rate of 11%, probably to boost households' savings and a desire for debt financing. We already considered this year's debt financing to be in a good position, but if this new bond boosts interest in retail bonds, it could leave more room for manoeuvre in the wholesale bond market for 2022-23.

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