Surprise surplus in Hungary's budget

The recent budgetary performance has been volatile from month to month. This time, we saw a positive surprise. We see further improvement in the short run but growing challenges in the long run

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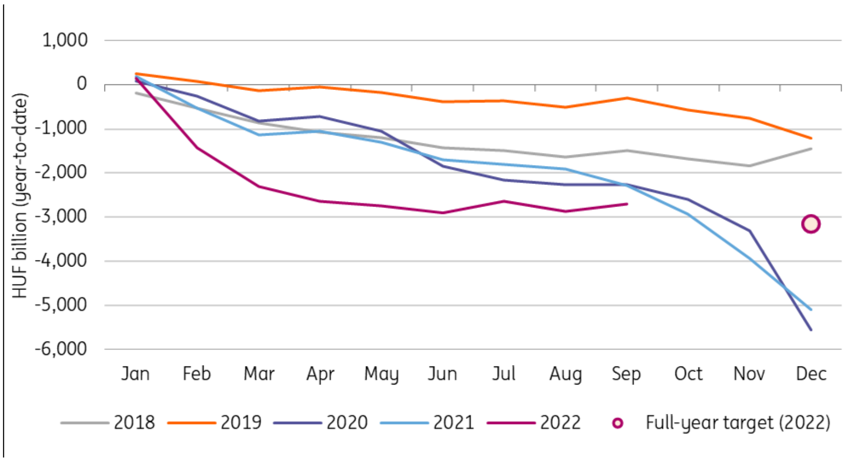
Budget deficit improves in September

The Hungarian budget posted a HUF 181bn surplus in the month of September, after posting a deficit in August and a surplus in July. This is quite a surprise, especially considering the historic budgetary performances in September. After the good result last month, the cash flow-based year-to-date budget balance shows a HUF 2,691.7bn deficit, which amounts to 85.4% of the full-year target.

The main reason for the improvement is the revenue side of the budget. The press release from the Ministry of Finance highlighted that tax- and excise duty-related income increased by almost 16% compared to a year ago. This outcome hardly comes as a surprise with the still positive real GDP growth and surging inflation, which boosts revenues.

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



Source: Ministry of Finance, ING

When it comes to the expenditure side, the press release did not reveal any new information about the budgetary developments. The latest information related to spending is that the government mandated a general "expenditure freeze" in late September. This takes us back to summer when the government ordered budgetary institutions to cut expenditures. It looks as though some of these institutions failed to meet their targets, and the government has now reacted. In practice, this "expenditure freeze" means that the finance minister will oversee all the invoices on spending. In our view, this decision is more of a political and management issue than a financing matter.

2022 deficit target increase is formally announced

The Finance Ministry also announced – formally for the first time – that it increased the accrual-based (Maastricht) deficit-to-GDP target. The 1.2ppt increase to 6.1% is due to the accelerated accumulation of natural gas reserves by the Hungarian Hydrocarbon Stockpiling Association (HUSA), which covers roughly HUF 740bn worth of gas purchases. As Eurostat has counted HUSA as part of the public sector since 2019, its gas purchases increase the Maastricht deficit, while the debt taken by the association increases the public debt. However, since the extra purchases were sourced from a syndicated loan with a state guarantee, this did not generate a debt financing requirement. To put it more simply, the deficit from a cash-flow perspective was not affected by this, so the higher deficit target is purely a technical change.

Steps might be needed to meet the 2023 deficit target

Looking forward, we expect a significant improvement in the budgetary figures as the latest tax measures (e.g. windfall tax-related payments) will start to boost revenues alongside rising inflation. On the other hand, due to higher inflation, the government needed to adjust the pension expenditure to preserve its purchasing power at a real value, fulfilling a legal requirement. This, with an extra one-off pension bonus (due to the expected +3.5% real GDP growth in 2022), will create an extra budgetary burden of roughly HUF 200bn in November.

But even with that, we expect the government to be in line with this year's cash flow and accrual-based deficit targets. Next year, however, could be trickier as the 2023 budget included a 3.5% deficit target. The severely dampened economic outlook compared to the summer outlook might provide some extra hurdles. The government will reveal the amended budget in late December when we still see the government keeping the original 3.5% deficit target, but probably deciding on some measures on both the revenue and the expenditure sides.

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