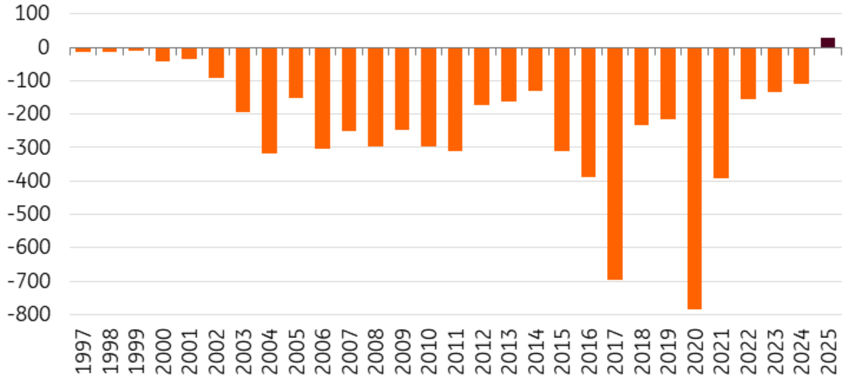
The Hungarian budget has a unique June, but the devil is in the details

The Hungarian budget saw its best balance for June in the 21st century, thanks to dividend payments and a technical coincidence. Therefore, the recent monthly surpluses are somewhat misleading in our view

The Hungarian budget was in surplus in June, but largely due to one-off dividend income and the shift of corporate tax payments from May to June

The monthly budget surplus was HUF27.4bn in June, bringing the year-to-date (YTD) general government cash-flow deficit to HUF2.77tr. This is equivalent to 58% of the updated full-year plan for 2025. While the monthly data is positive for the second consecutive month, it is premature to suggest that this marks the beginning of a trend.

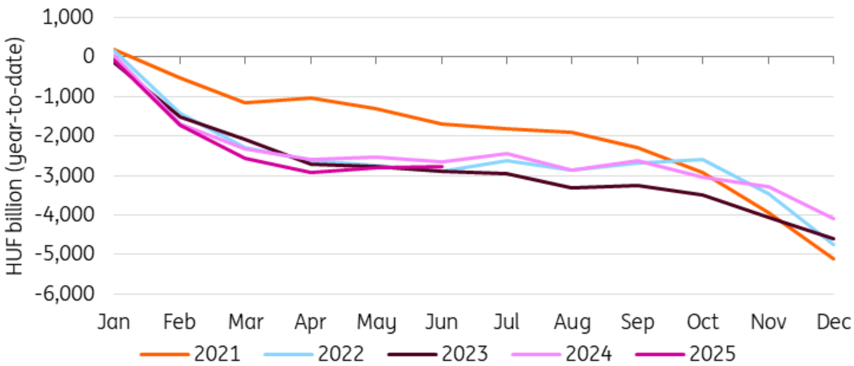
The monthly general government balance in June (cash-flow, HUFbn)



Source: Ministry for National Economy, ING

Just as we pointed out earlier, the budget's performance in the first quarter could be deceptively worrying. Similarly, the developments in the second quarter (especially the data from May and June) could also be artificially reassuring. Nevertheless, we maintain our view that the government's deficit target of 4.1% is achievable with considerable effort. The detailed data to be released soon will provide a more nuanced picture on which to base an updated forecast, but for now, we expect this year's budget deficit to be around 4.6% of GDP — 0.5 percentage points higher than the latest official budget target.

Budget performance (year-to-date, HUFbn)



Source: Ministry for National Economy, ING

According to a statement by the Ministry for National Economy, the increase in expenditure in the first half of the year was partly due to significant interest payments, which exceeded the previous year's level by more than HUF484bn. This is hardly surprising, given the front-loaded nature of this year's debt-related expenditure (especially considering the substantial retail bond-related payments).

The cash-flow boost to revenue in June was caused by two main factors. Firstly, the budget received approximately HUF200bn in dividend income in June, according to the Ministry. Secondly, as the last day of May fell on a weekend this year, the deadline for corporate tax payments was moved to 2 June, shifting the recognition of this source of revenue to June instead of the usual May tax collection date. Actual corporate tax receipts totalled HUF100.6bn in June. Overall, given these one-off developments, it is hardly surprising that the Hungarian budget saw its best results in June of the 21st century.

At first glance, the latest figures look extremely positive. However, if we consider how the June budget would have turned out had the tax deadline not been moved to the same month, it's clear that the results are not as impressive as they seem. We can easily exclude the impact of the calendar by comparing the year-to-date cash flow deficits for 2024 and 2025. In this regard, the first half of this year shows an extra shortfall of HUF117.2bn year-on-year. However, the real difference maker is the dividends. In May and June, the government collected around HUF300bn in dividend payments from state-owned companies. Without this, the budget situation would look much worse in a year-on-year comparison.

This is one reason why this year's budget performance appears better than the underlying situation suggests. Furthermore, we see more risks to the budget from economic activity, especially given disappointing May activity data. Last but not least, if the pre-election political situation heats up for the incumbent party, there could be an even larger slippage than we currently anticipate, and the budget deficit could deteriorate further due to more targeted measures. Nevertheless, we think it is highly likely that the government will ensure the deficit is lower than last year's 4.9% of GDP.

Author

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Disclaimer