

Hungary

Viktor Orban boosts spending as Hungary's elections loom

Pension and tax handouts worth €5bn risk stoking inflation and eroding trade balance, economists warn



Hungary's consumers are expected to spend rather than save most of the government's tax and pensions handouts, potentially boosting inflation © Attila Kisbenedek/AFP/Getty

Marton Dunai in Budapest 10 HOURS AGO

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Hungary's conservative government is increasing a pre-election spending spree, paying out the country's largest pension bonus on Wednesday and giving families big tax rebates later this month.

The measures are part of handouts and tax cuts worth more than €5bn that Hungary's central bank and some economists have said could fuel inflation, prompt a short-term spike in consumption and hit the country's external trade balance by sparking an influx of imports.

They come ahead of a general election in April, when Prime Minister Viktor Orban is expected to face his toughest contest since taking office in 2010 after six opposition parties formed an [alliance](#) in an attempt to unseat him.

Most polls show the prime minister's rightwing populist Fidesz party [only slightly ahead](#), with many voters undecided.

Orban has previously run a tight fiscal ship. He steered the country away from the brink of default in the wake of the 2008 financial crisis through tough measures such as renationalising most private pension funds and extra taxes on large businesses in the financial, energy, retail and telecommunications sectors.

But his government has increased spending in recent years. The country's budget deficit ballooned to 8.1 per cent of gross domestic product in 2020 as the Covid-19 pandemic took hold. The government factored in a 7.5 per cent deficit for 2021 in its spending plans and forecasts a 5.9 per cent shortfall in 2022.

Additional spending announced since the 2022 budget was published last summer included a €550mn pension bonus in November to reflect higher growth and inflation. Other measures included a higher than expected annual increase in pension payments from January, at a total annual cost of €550mn, and a further €1bn bonus in February.

In a [video](#) posted on Orban's Facebook page on Monday, in which the prime minister showcased the pension boost in the home of an elderly Budapest resident, he said he was reinstating a bonus that was scrapped in 2009 by the then Socialist government in the midst of the financial crisis.

"Apart from the money making a difference, it tastes like satisfaction, doesn't it?" said Orban. "They took it away, we give it back."

Meanwhile, families with children will get a personal income tax rebate worth a total €1.7bn; members of the armed forces will receive an extra six months' pay at a cost of €500mn; and workers younger than 25 will no longer pay personal income tax — a move the finance ministry expects to cost an annual €400mn.

Last November, the finance ministry also announced a roughly €2bn cut in social security contributions and other taxes. The new rates took effect this year.

"The total picture shows a very large fiscal hole that will have to be financed somehow," said Andras Farkas, an independent retirement consultant. "This will be a particular task in 2022 but several of these measures are permanent, so will be there for subsequent governments to deal with."

Peter Virovacz, an economist at ING, said much of the extra income for households would probably be spent. "At least half of the benefits, but probably closer to 70 per cent, will feed through into consumption," he said. "Because all of the measures kick in at roughly the same time, an enormous amount of money will flood the economy."

The resulting "consumption shock" would exacerbate inflation, potentially pushing the annual rate close to 8 per cent, he said, compared with last December's year-on-year 7.4 per cent rate.

Opposition leader Peter Marki-Zay said inflation could erode the pensions boost. “A new government will not give one-off pension adjustments but create a sustainable pension system, reliable in the long term,” he wrote in a Facebook [post](#) on Tuesday.

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