

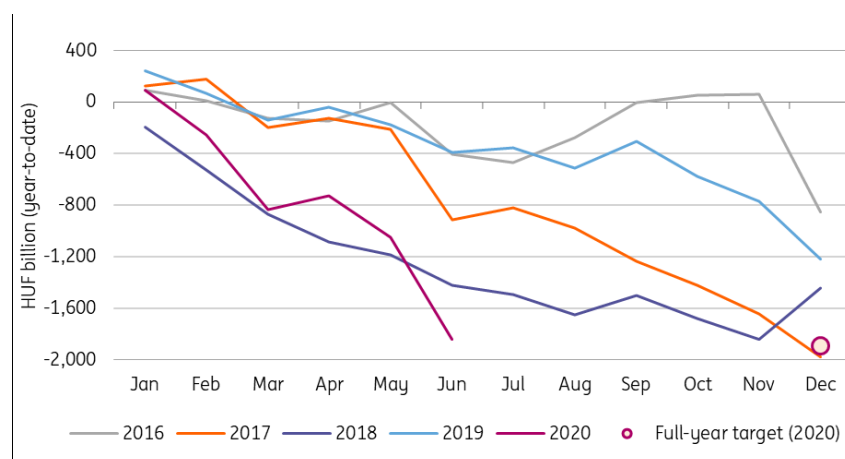
Hungary: A historical deficit accumulation

The central budget deficit increased further to HUF1.84tr in the first half of 2020. The official 3.8% deficit-to-GDP target for this year seems unattainable



The general government budget deficit came in at HUF1,837bn in 1H20. This is almost five-times higher than the cash-flow based deficit in the same period of the previous year. The government accumulated a HUF785.5bn shortfall in June alone. This is the second-highest monthly deficit of all time. The record sits at HUF907.6bn in December 2016, when the budget started pre-financing the EU projects.

The year-to-date budget balance of the government

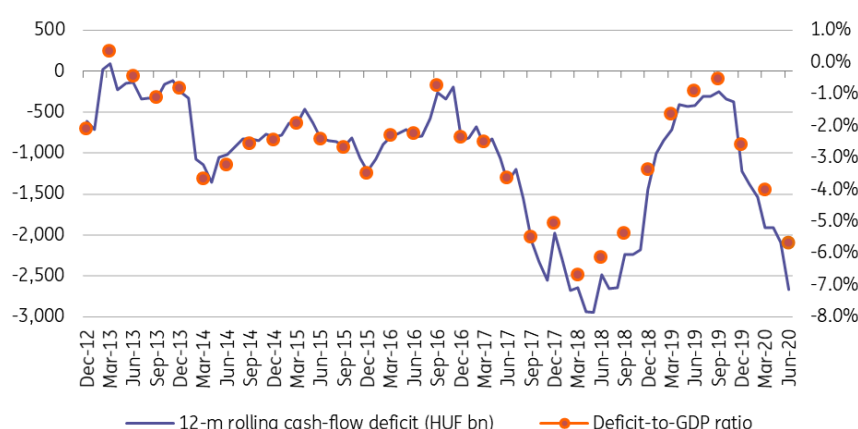


Source: Ministry of Finance, ING

Against this backdrop, it is really hard to imagine, that the (several times changed) official 3.8% deficit-to-GDP target is attainable. First of all, the full-year cash-flow deficit target is HUF1890bn and just in 1H20 we are at 97%. Even if we know that revenues and expenditures are not proportional during the year, it's still alarming.

Checking the 12-month rolling monthly data, the HUF2,666bn shortfall by June could mean a 5.7% deficit-to-GDP ratio (calculated with our -7.2% year-on-year 2Q20 GDP forecast). So even if we assume that the second half of 2020 would be the same as the second part of the last year, which would be overly optimistic, the government's deficit target is well out of reach. Moreover, we expect a recession in the coming quarters, meaning a further drop in budget revenues and mounting expenses on economy protection programmes and expanding expenditures related to Covid-19. All in all, the 2020 deficit could easily end up even higher than 6% of GDP.

Twelve-month rolling deficit



Source: Ministry of Finance, HCSO, ING

The 2Q20 deficit-to-GDP ratio based on ING's GDP forecast

This means that sooner rather than later the Ministry of Finance will revise its deficit target

again and the Debt Management Agency will update its financing plan. This would mean inflated supply of Hungarian government bonds in the second half of the year, possibly involving the National Bank of Hungary's government bond buying programme, which has been put on pause lately.

Author

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.