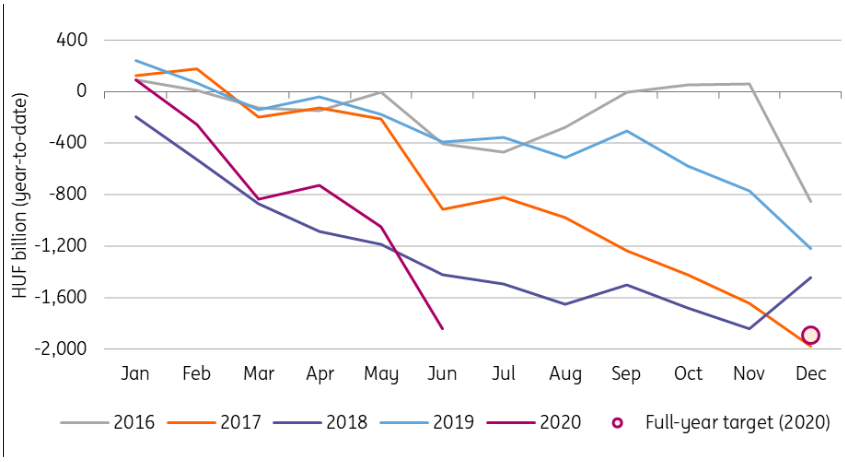
Hungary: A historical deficit accumulation

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

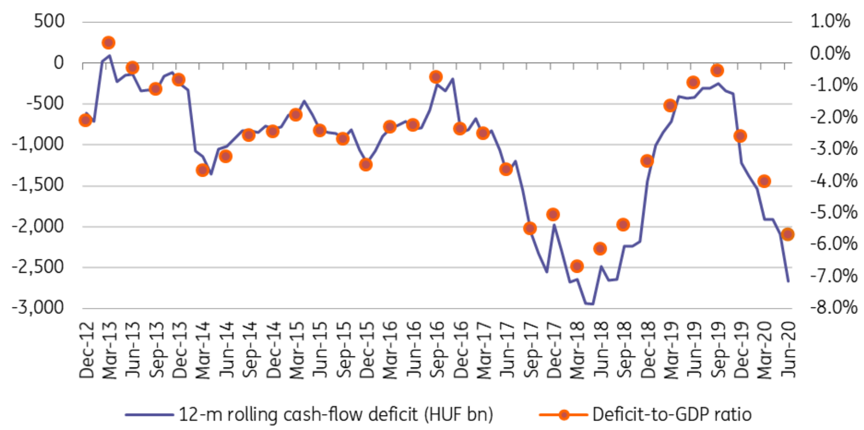


Source: Ministry of Finance, ING

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.

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