Hungary: A new financing plan for 2021

The Debt Management Agency adjusted the 2021 financing plan according to the latest deficit expectation of 6.5% of GDP. The majority of the funding comes from the retail sector and from forint wholesale bonds

Hungary's parliament building in Budapest

The updated financing plan

Despite the early resistance, the Ministry of Finance has finally moved the official deficit target in 2021. Next year's budget was drafted and accepted this past summer, which means it is well outdated by now. Until early December, the Ministry of Finance hoped that it did not need to change the 2.9% of GDP deficit goal, but it was rather just a wishful thinking. The reality has finally won, and the official target was changed to 6.8% of GDP. So far, we haven't gotten any detailed update on the budget itself, but at least the Government Debt Management Agency presented the new and updated financing plan for 2021 tailored for the new deficit goal.

The original financing plan was calculated with a HUF1,491.2bn cash-flow based deficit. The recent update inflated this net financing need to HUF3,332bn. It is less than HUF300bn lower in nominal terms than the planned deficit in 2020.

The government chooses to support the economy over debt *repayment*

It is significantly above our forecast regarding the budgetary situation in 2021 as we calculated with a 4.5% deficit. As we see this, the difference stems from the differing ideas on how to use the EU money inflow related to the 2014-2020 financing period. The government is prefinancing these projects, which means that from a cash-flow deficit and a debt perspective, this spending is done and dusted. Meanwhile, the incoming EU transfers will increase the budget's cash-flow revenues which can be either spent in the economy (fiscal stimulus) or used for debt repayment (buy-backs). Based on the deficit goal and the financing plan, it seems the government prefers to support the economy.

Sources of the unusually high funding

The 2020 buyback is sitting at HUF285bn when it comes to Hungarian Government Bonds (HGBs). In 2021, the new financing plan calculates a HUF556bn buyback, but it includes HGBs and FX debt too. According to our calculations based on the figures in the agency's presentation, this will be split in to a 40:60 ratio favouring FX debt buybacks.

The financing plan includes HUF544bn gross FX debt issuance, but according to our belief it is rather coming from new FX loans for certain projects as well as euro-denominated retail bond issuance and buybacks. The 2021 REPHUN maturity has already been covered by the extra FX debt issuance in 2020.

Retail and HUF wholesale bonds to finance the majority of the deficit

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Speaking of the retail bond market, the Debt Management Agency's plan contains a HUF1tn net issuance, so roughly one-third of the 2021 financing need will be covered by the households. Another HUF732bn will be covered from the government's liquidity reserves which was fulfilled by extra HGB and Eurobond supplies in late 2020. That leaves us with only a HUF1,600bn net issuance in the Hungarian Government Bond market. This is a huge decrease compared to this year's net issuance, which will be above HUF4tn.

So, despite the budget's financing need in both percentage of GDP and nominal terms seeming to be quite high, the wholesale bond issuance will be significantly lower than in 2020. On top of that, the National Bank of Hungary is expected to continue its QE programme focusing on the long end of the yield curve. The agency will also favour the long end based on the financing plan, as there won't be new 3yr bond issuance and 52% of the 2021 HGB supply will come in 10yr bonds. The NBH will make its next strategic review of its QE when its programme reaches the HUF2tn threshold. We are only halfway there at the moment, so in theory 62.5% of next year's net wholesale forint bond issuance could be bought by the central bank via its asset purchase programme.

In all, despite an unusually high budget deficit in 2021, there seems to be no problem with its funding.

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