

Hungary: Budget posts a record deficit in February

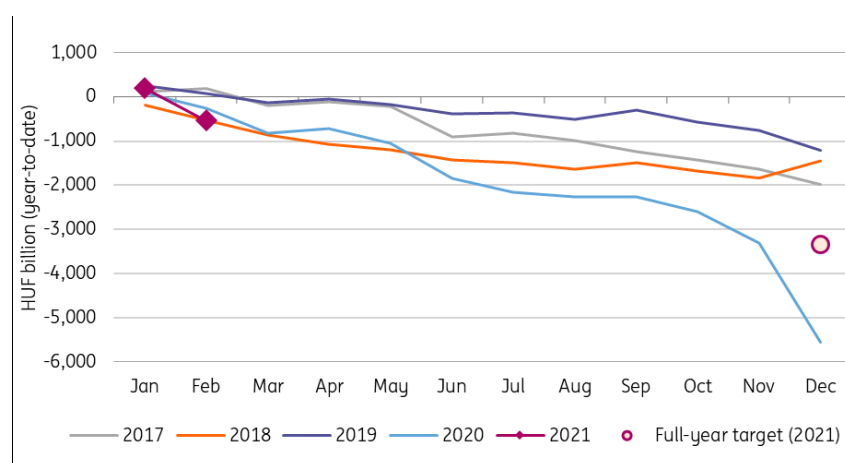
Everything has a price and it seems that the cost of fighting Covid-19 in 2021 has just become even bigger



People wearing face masks walk on a street in Budapest

The Hungarian budget posted a HUF 738.5bn deficit in February 2021, registering the biggest ever monthly shortfall during the second month. Despite starting the year with a surplus, the year-to-date fiscal deficit comes to HUF 539.7bn, sitting at 16% of this year's deficit goal after just two months. The government's accrual-based deficit goal is set at 6.5% of GDP in 2021 after a roughly 9% shortfall in 2020. When it comes to financing needs, the 2021 financing plan of the ÁKK (Government Debt Management Agency) sees a HUF 3,332bn cash-flow based deficit.

Cash-flow based year-to-date central budget balance



Source: Ministry of Finance, ING

The February budgetary figure contains the first set of financial impacts of the Economy Reopening Action Plan. This plan aims to jump-start the Hungarian economy by helping the micro, small, and medium-sized enterprises. It contains an interest-free credit pool (HUF 100bn financial framework), investment incentive programmes, tax reductions and payroll support.

For example, the government started to pay out the first part of the so-called thirteenth-month pension, which increased the expenditure side by HUF 70bn. On top of that, the reshaped wage support scheme also means higher spending in February and the increased wages in healthcare inflates the deficit still further. When it comes to investments, the government maintains its interest to pre-finance EU projects, giving a tailwind to the economy. In the first two months, Hungary received only HUF 129bn in transfers from Brussels. In contrast, the government has spent HUF 481bn so far on EU-related projects. This means that almost 48% of the year-to-date deficit is due to the pre-financing of the operative programmes.

As for risks, it is clear and obvious that the full(ish) lockdown from March will take its toll on the budget. On the one hand, falling economic activity will carve out a hole in the revenue side. On the other, the government is ramping up emergency spending due to the widespread closures. Wage subsidies and tax cuts introduced for the hospitality sector will be expanded for the period of the lockdown to all those forced to close by the new measures. In all, this will make it harder to meet the original deficit target, but as long as we see the re-opening coming during the second quarter (and we do), the economic rebound will make up for the losses generated in the budget during the first quarter.

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 www.ing.com.