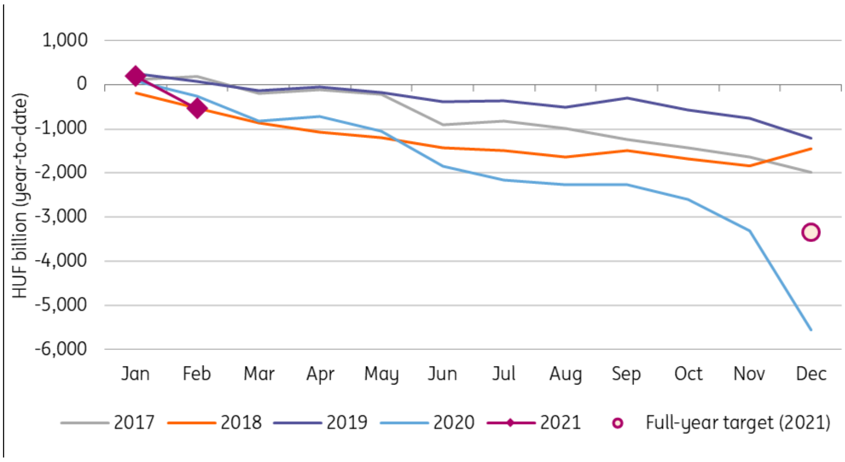
Hungary: Budget posts a record deficit in February

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

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