

Snap | 8 February 2021

HUNGARY

## Hungarian budget starts the year with a surplus

The Hungarian budget posted a surplus in January, but this is hardly a game-changer in 2021 as we've become fairly accustomed to good starts in the last few years



Hungary's parliament building in Budapest

The Hungarian budget posted a surplus of HUF 198.8bn in January 2021, which looks like a promising figure, especially after the spending spree in December. However, it is too early to reach any conclusions.

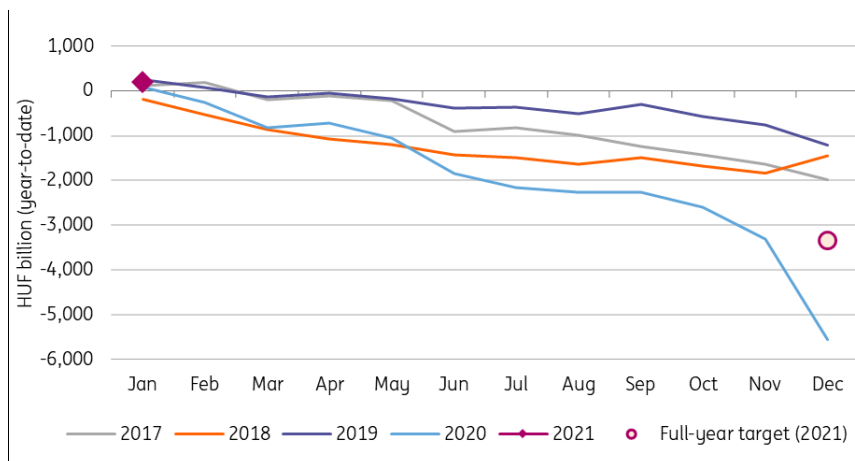
The government has started the year with a budget surplus every year since 2016 except for 2018 and we have seen a wide variety of deficit data by the end of the year. The finance ministry also highlighted this seasonality in its statement.

The government's accrual-based deficit goal is 6.5% of GDP for 2021 after an approximately 9% shortfall in 2020. When it comes to financing requirements, the 2021 financing plan of the government's debt management agency sees a HUF 3,332bn cash-flow based deficit. This target hasn't changed despite the record spending in December, as this extra expenditure was financed from previously raised bond supply and government reserves.

Overall, this year's deficit figures will continue to be impacted by the pandemic and economic

relief efforts.

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



Source: Ministry of Finance, ING

Remark: The full-year target refers to the latest figure in the debt financing plan.

The January figure doesn't reflect the financial impact of the latest announcement.

The Economy Reopening Action plan targets to jump-start the Hungarian economy helping micro, small, and medium-sized enterprises. The program contains interest-free credit pool (HUF 100bn financial framework), investment incentive programmes, tax reductions and payroll supports.

This new action plan should be in line with the official deficit goals, so we don't see a slippage due to this new package. In all, we see the 6.5% accrual-based deficit plausible, which gives a lot of flexibility to the government to support the economy in 2021, just a year ahead of the elections.

When it comes to risks, the deficit was planned with a cautious approach regarding the macroeconomic environment.

It was based on moderate 3.5% GDP growth and 3% inflation. We see both figures coming in higher in 2021, as we expect a 4.3% economic activity with a 3.3% average inflation, both forecasts surrounded by upside risks.

But even if the budget performs better-than-expected, we see the government using the extra room to spend more (eventually matching the deficit target).

The reasoning is simple: economic support tends to pay better in votes than a smaller

deficit.

## Author

### Peter Virovacz

Chief Economist, Hungary

[peter.virovacz@ing.com](mailto: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](http://www.ing.com).