

Coronavirus widens Hungarian budget deficit further

The Hungarian central budget deficit increased further to HUF 1.05tr in the first five months of 2020. Most of the newly accumulated deficit is related to pandemic but not all. We expect the deficit-to-GDP ratio to reach the 4.5-6% area by the end of the year



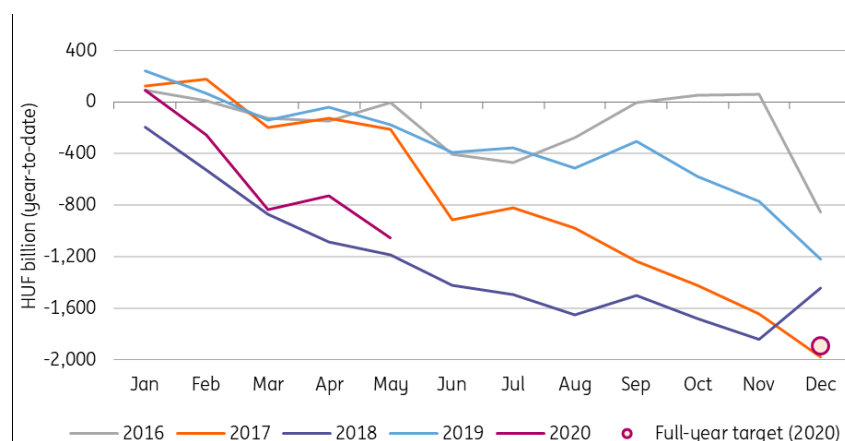
People on the Széchenyi Chain Bridge, Budapest

The Hungarian government's year-to-date budget deficit came in at HUF 1051.5bn in May 2020 which means an additional HUF 875.1bn of deficit compared to a year ago. In May alone, the government accumulated a shortfall of HUF 324.1bn.

Against this backdrop, it hardly comes as a surprise, that in May, the 2020 deficit target was revised to 3.8% of GDP, moving the cash-flow based nominal target to HUF 1.89tr. As the fight against the pandemic continues, we expect further downgrades in the coming months.

The revenue side is hit by the lockdown and curfew measures, eliminating consumption thus the tax income. On the other hand, the government has already taken decisions on HUF 590bn of procurements related to the pandemic by the end of May, but only HUF 450bn of that amount showed up in the May data.

The year-to-date budget balance of the government



Source: Ministry of Finance, ING

Government spending is expected to widen the deficit further in the coming months.

The economic protection program will necessitate further spending on labour market support programs and infrastructural developments. On the latter, the government has already paid out HUF 967.6bn related to EU projects, while the incoming money from Brussels only amounts to HUF 486.7bn. It also means that this transfer will eventually support the budget cash-flow, hopefully in the coming quarters.

We see the 2020 deficit-to-GDP reaching something around 4.5-6.0%

The government debt management agency is using its full arsenal to maintain the flow of debt financing.

Until the end of May, the actual Hungarian government-bond issuances reached only 38% of the revisited plan for the year. But recently, the agency had a successful green-bond issuance, increasing the FX reserves by HUF 1.5tr and it has more room (around HUF 0.5-1tr according to our view) to issue more FX denominated debt.

As we see it, the agency will need to use that room as well as increasing the supply of government bonds, which will be supported by the central bank's QE program.

The reason? We expect the deficit-to-GDP to reach the 4.5-6% area by the end of the year.

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