

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



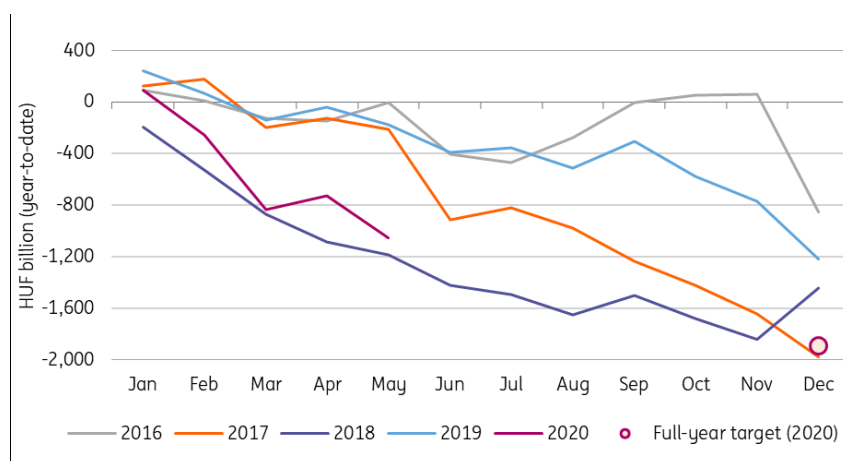
People on the Széchenyi Chain Bridge, Budapest

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.

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 <http://www.ing.com>.