

Hungary

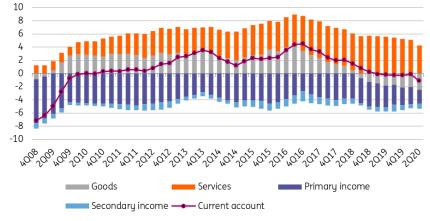
# Hungary: Current account deficit widens

The Hungarian current account balance caused an upside surprise in 2Q20, but still shows the widest deficit since end-2008. We see improvement ahead



Source: Shutterstock

According to the latest data release of the National Bank of Hungary, the current account balance has once again turned negative in 2Q20 after a relatively strong first quarter. The last time the current account posted such a high deficit was in the period of the global financial crisis in 2008. With this quarterly performance, the stabilisation / slight improvement in the current account balance in the past quarters has come to a sudden end. According to the four-quarter rolling data, the current account balance has fallen to -1.1% of GDP.

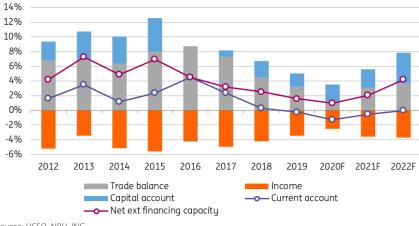


## Current account breakdown (% of GDP, four-quarter rolling)

Source: HCSO, NBH, ING

It's easy to find a reason behind this strong swing: coronavirus. With the Covid-19 causing significant shocks all across the trade channels, it hardly comes as a surprise that every aspect of the current account saw a deterioration. With supply chain and related export issues, the balance in goods remained in deficit. The previously strong supporter of the external balance, services took a hit via the zeroing tourism and transaction services. Both primary and secondary income improved slightly but did not prove to be a game changer compared to the developments in goods and services.

Looking forward, we expect the current account balance to improve somewhat in the second half of the year mainly on goods and incomes. On the other hand, the Covid-related travel restrictions will remain a significant drag on services. Against this backdrop, the 2020 current account balance could end up at -1.3% of GDP. As we see an economic rebound in 2021 with a vaccine to be ready to use, services (transport & tourism) can improve significantly supported by the strengthening in exports of goods again. The latter will be supported by the gradual increase in capacity utilisation of manufacturers with a rebound in global external demand.



## ING forecast - External balances (% of GDP)

Source: HCSO, NBH, ING

Further improvement is expected in 2022, when we see the current account reaching zero again. This will be supported by services, while the balance of goods will deteriorate again on the expected investment boom. The import share of investments in Hungary is high, so with new (mainly EU co-funded) projects set to start in the second half of 2021, the majority of the current account-related hit will spill over into the current account balance in 2022.

From an external vulnerability point of view, it is more important, that the net external financing capacity of Hungary will increase again from 1% of GDP in 2020 to 4.2% of GDP in 2022, mainly due to the incoming EU transfers related to the new 2021-2027 Multi-annual Financial Framework and to the Recovery Fund.

#### 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.