Hungary: Current account temporarily returns into surplus

The Hungarian current account balance came in at €98.6 million in 2020 after the fourth quarter data and downward revisions. This small surplus will be erased by the reopening-induced growth of domestic demand

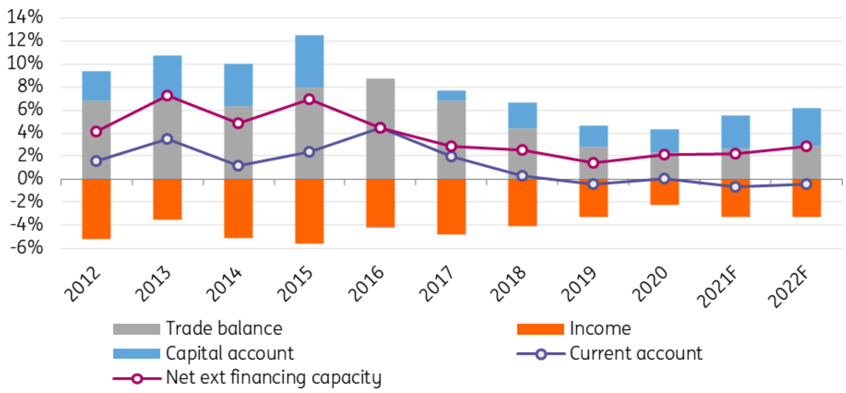
Source: Shutterstock

According to the latest data release of the National Bank of Hungary, the current account (C/A) balance came in at €185m in 4Q20, significantly lower than the preliminary monthly data suggested. The central bank revised down the third quarter surplus and made revisions from 2017 too. The common denominator is the downward revision.

After the great recession, the Hungarian C/A balance turned to surplus and remained there until 2019. The latest revision shows that the first deficit in almost a decade was deeper than previously reported, showing a 0.5% of GDP shortfall. While the pandemic repainted this picture in 2020, we see this change as a one-off.

Hungary ended up with a current account surplus last year, although lower than the quarterly data suggested before. The official data shows a surplus amounting to 0.1% of GDP. The significant improvement mainly came from the income side. Primary income improved roughly €1.7m, while secondary incomes added €0.1m on top of that. With this, both balances remained in deficit, but the weak economic activity impacted the C/A balance mainly via the investment income channel. Although the significant drop in domestic demand cut back the import needs of the economy, improving the goods balance (from €-3m in 2019 to € -0.9m in 2020), this was counterbalanced by missing tourism which cut the services balance by almost 45% (€3.2m) to €4m last year.

Current account breakdown (EUR bn)



Source: National Bank of Hungary, ING

Looking forward, we see the C/A surplus in 2020 as an outlier caused by Covid-19. As soon as we get back to normal business life, we will see domestic demand skyrocket. Pent-up demand of households and accelerated public and private investment will boost import activity, worsening the goods balance. An improvement in the balance of services will be slower, in our view, as tourism will require several years to rebound and continue its pre-crisis upward trend. With good years to come, we see incomes deepening the deficit, but incoming FDI will improve the picture in the next couple of years. In all, we expect the current account to register a deficit of 0.7% of GDP in 2021, followed by a 0.4% of GDP shortfall next year. The net external financing capacity of Hungary will be boosted by EU transfers related to the Multiannual Financial Framework (EU budget) and the Recovery and Resilience Facility.

Author

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com