

Hungary: Extraordinary budget spending

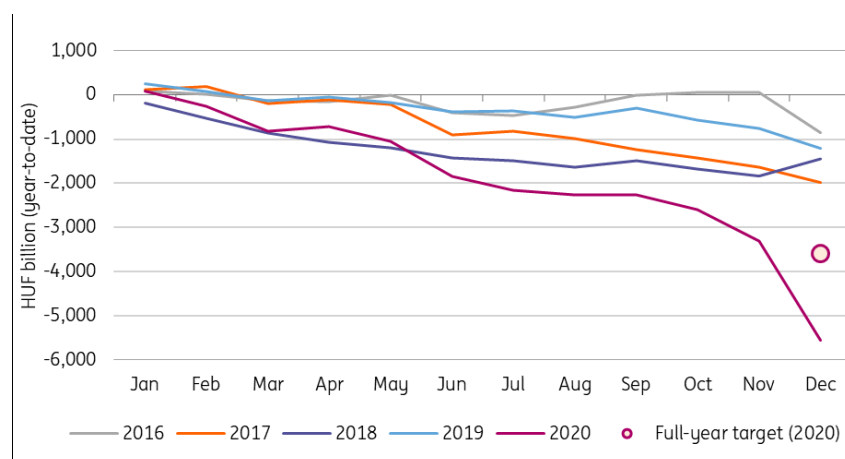
As the government saw real fiscal room by year-end compared to the deficit goal, it decided to open the money taps. And there was no modesty in this



Source: Shutterstock

The budget deficit increased by HUF 2.25 trillion in December, an unusual and extraordinary spending spree by the government. This resulted in a HUF 5.55tn accumulated cash-flow based deficit throughout 2020. Just as a reminder, the original deficit goal (pre-Covid) was HUF 0.4tn. This off-the-chart deficit likely comes as a surprise to those who weren't monitoring fiscal developments during the holiday season. The Hungarian government began spending big in mid-December and when it released its latest official macro projection on 31 December, we already knew that something extraordinary was coming.

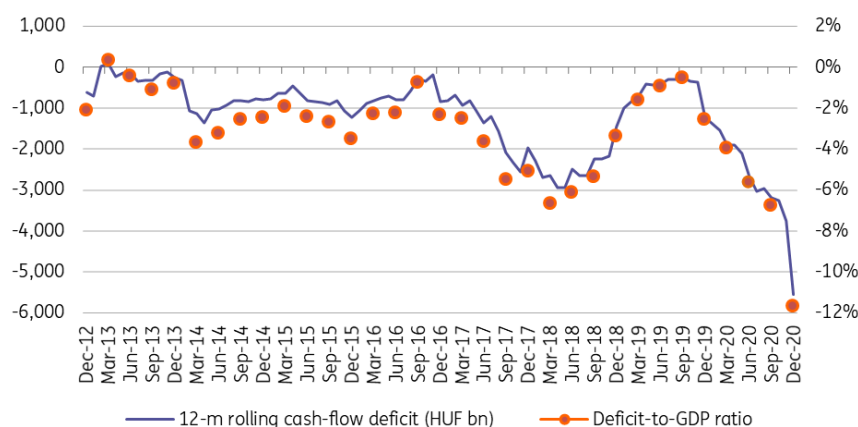
Cash-flow based year-to-date central budget balance



Source: Ministry of Finance, ING

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

The government's deficit goal was set at 9% of GDP, accrual based. Because the recent figures are based on cash-flow data, it is quite clear that there are several items which will only burden future years from an accrual perspective. As the government got more information close to year-end, it realised that the fiscal room for manoeuvre was still there. So it decided to add to the already massive 2020 cash-flow deficit. We have to wait a while to see whether the Ministry of Finance's calculations were correct. But what is (almost) sure is that the cash-flow based government deficit compared to the estimated 2020 GDP will come in at around 12%.



Source: Ministry of Finance, ING

Remark: 4Q20 data is based on ING's GDP forecast

This huge monthly deficit was accumulated despite a significant transfer from the EU. The budget got HUF 665bn transfers from Brussels just in December, raising the full-year amount to HUF 1.7tn. In the meantime, the government spent roughly HUF 2tn on EU projects. Against this backdrop, the vast majority of the deficit is not related to the programmes pre-financed by the government, as was the case in previous years. The 2020 deficit is purely a Covid-induced phenomenon.

With the prepaid expenses affecting 2020, the government created some (optical) breathing room

in 2021. Based on the year-end macro projection from the Ministry, the government is not ready to cut down the deficit and debt figures anytime soon. It will take three years – according to the plan – to see a 3% deficit figure again. A quite understandable decision from a political perspective, considering the coming general election in early 2022.

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>.