

Hungary: Budget performance triggers new deficit goal

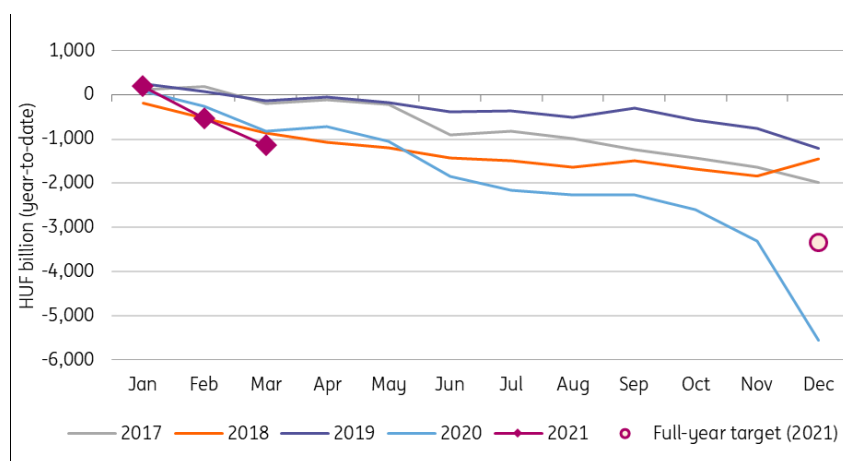
During the first quarter of 2021, Hungary accumulated a more than HUF 1.1tn budget deficit. Parliament will now adjust this year's budget, raising the deficit goal



Source: Shutterstock

The Hungarian budget posted a HUF 604.4bn deficit in March 2021 after registering a roughly HUF 740bn monthly deficit in February. This is the worst two-month budgetary performance in the last decade. The year-to-date fiscal deficit amounts to HUF 1144.1bn, or 34% of this year's deficit goal. Although this looks time proportionate, this ratio used to sit at around 25-30%.

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

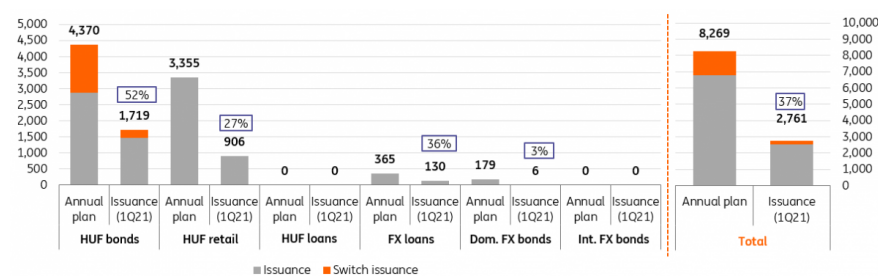


Source: Ministry of Finance, ING

The government sees the coming months as being difficult, especially due to the continued lockdown impacting the real economy and support measures affecting both the revenue and the expenditure sides. The March deficit already included the newly introduced employer benefits, reduction of the social contribution tax and higher public wages (mainly due to the increased wages in healthcare). As these will continue to affect the budget, the government sees the 6.5% deficit goal as being in jeopardy and parliament will debate and rewrite the 2021 budget, moving the deficit goal to 7.5% of GDP, according to Minister of Finance Mihály Varga.

On top of the Covid-19 related extraordinary measures, the government has continued with EU projects, financing these in advance. During the first three months of 2021, the government accumulated a HUF 465bn shortfall as revenues from Brussels (HUF 150.6bn) are well below the EU projects related budgetary spending (HUF 615.6bn). With a partial economic reopening in April and the earlier-than-usual transfer of family allowances (transferred late March due to the Easter holiday), we expect the budget to improve somewhat.

Financing plan 2021 and its fulfillment (as of end-March)



Source: Government Debt Management Agency, ING

When it comes to the risks, the soon-to-be raised deficit goal seems to be achievable, especially given that the government's GDP and inflation projection is well below the market consensus, which poses a positive risk to budget execution. When it comes to deficit financing, the Debt Management Agency's (ÁKK) statement said that it is somewhat ahead of the issuance plan (37% executed in 1Q21), while the liquidity reserves of the government amount to approximately 5.5%

of GDP at the end of first quarter, which puts ÁKK in a comfortable position for the rest of the year.

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