

Hungary: Budget performance triggers new deficit goal

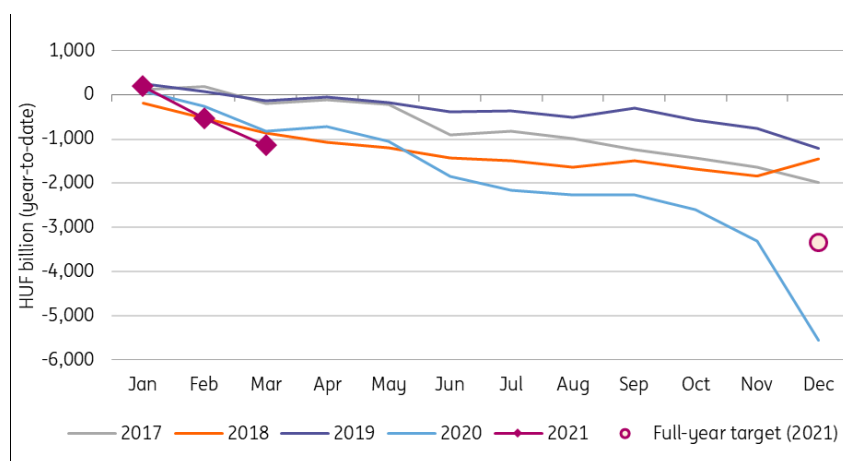
During the first quarter of 2021, Hungary accumulated a more than HUF 1.1tn budget deficit. Parliament will now adjust this year's budget, raising the deficit goal



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

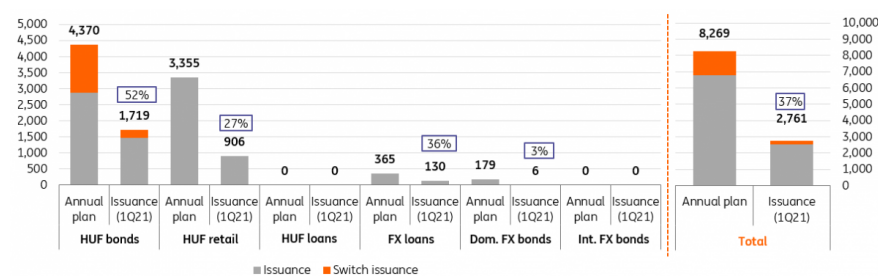


Source: Ministry of Finance, ING

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.

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>.