# Hungary: Budget deficit in line with new target

The central budget deficit increased further, to HUF 2.26 trillion, in the first eight months of 2020. This is in line with the Finance Ministry's latest 7-9% deficit-to-GDP target

Source: Shutterstock

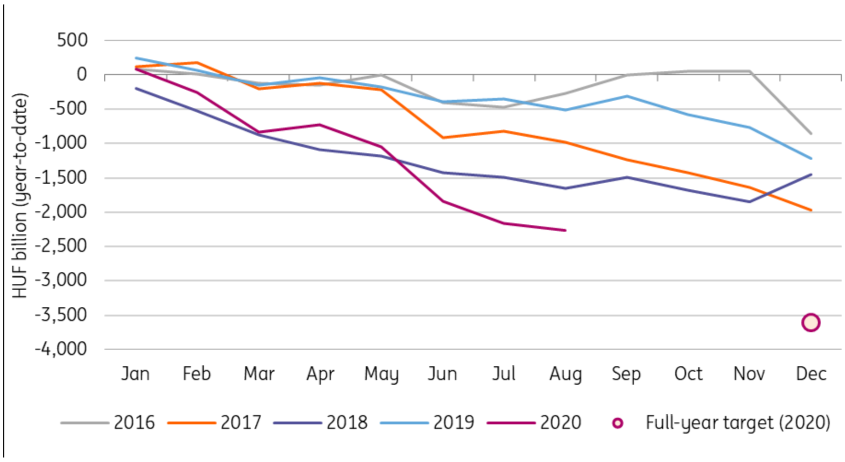
**6.4%** Deficit-to-GDP ratio in the past 12 months

ING estimate

The general government's budget shortfall came in at HUF 2.261 trillion in the January-August period of 2020. This is more than four times higher than the cash flow-based deficit in the same period of the previous year. The government accumulated only a HUF 96 billion deficit in August, the best monthly performance since April.

The updated deficit target was set as a range: 7-9% of GDP, so based on that, it is hard to guess where we currently stand. However, the Government Debt Management Agency's updated financing plan contains an exact figure which we can use as an implicit cash flow-based deficit target: HUF 3.600 trillion. Compared to that, the deficit in the first eight months sits at 63% of the new target.

## The year-to-date budget balance of the government




Source: Ministry of Finance, ING

On the revenue side, the economic implication of Covid-19 is quite visible. Revenue from value added tax (VAT) sits only at 56.6% of the yearly target, reflecting the drop in consumption. The government got HUF 283 billion from Brussels related to EU projects in August. This means that the year-to-date inflow sits at HUF 772.4bn. In contrast, EU related spending – due to the government's approach to pre-finance projects from the budget – reached HUF 1.374tn. So, roughly 27% of this year's cash-flow based deficit is coming from the EU related expenditures. Another 24% of the deficit (HUF 553bn) has come from expenditures related to Covid-19. The government has also spent a lot of money on infrastructure developments, like road building and maintenance.

> Checking the 12-month rolling monthly data, the HUF 2.969tn shortfall by August could mean a 6.4% deficit-to-GDP ratio (calculating with our monthly GDP forecast). So, based on our calculation, there could be some room for extra budgetary measures without jeopardising the upper level of the 7-9% of GDP target range. We expect a HUF 500bn package (somewhat higher than 1% of GDP) in 4Q20 and see the deficit at 8% by year-end.

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