The Hungarian budget deficit rises incrementally

The central budget deficit increased incrementally to HUF2.27 trillion in September. According to our calculation, this equates to a GDP shortfall of 6.8%

Source: Shutterstock

6.8%

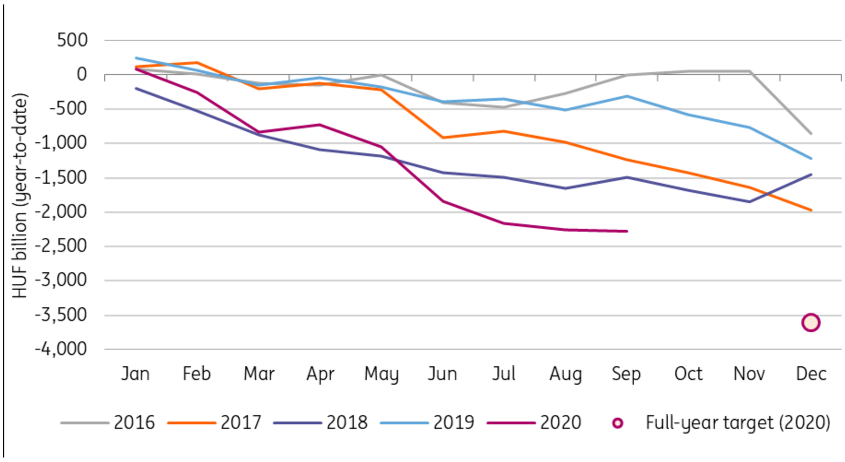
Deficit-to-GDP ratio in the past 12 months

ING estimate

The government's budget deficit increased only by HUF9bn in September, which means that the accumulated shortfall stands at HUF2,270bn at the end of 3Q20.

It looks like a small win that the deficit has stabilised. On the other hand, the budget previously tended to register a surplus in September. The cash-flow based deficit for January-September 2020 is now 7.5 times higher than the shortfall accumulated in the same period of the previous year.

The year-to-date budget balance of the government



Source: Ministry of Finance, ING

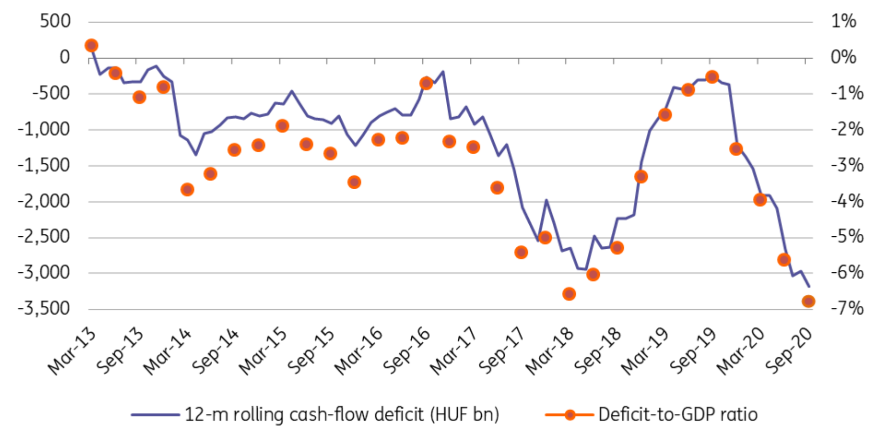
Unfortunately, neither the first release of the budgetary data nor the ministry's statement contained any specifics regarding the revenue side of the budget.

The only information we received was that Brussels has transferred HUF136.9bn to the Hungarian government related to EU projects. This means, that the year-to-date inflow sits at HUF909.4bn. By contrast, the EU-related spending – due to the government's approach to pre-finance the projects from the budget – reached HUF1,500.8bn.

So, roughly 26% of this year's cash-flow based deficit is from EU-related expenditure. Another 26% of the deficit (HUF581.4bn) is accumulated due to expenditures related to Covid-19. Compared to the August data, it means that the government spent only HUF28.4bn on expenditures related to the pandemic in September.

The government has also spent a great deal of money on infrastructure developments, supporting tourism and competitiveness-booster programmes.

12-month rolling budget deficit



Source: Ministry of Finance, HCSO, ING

Checking the 12-month rolling monthly data, the HUF3,185.4bn shortfall to September could mean a 6.8% deficit-to-GDP ratio (based on our 3Q20 GDP forecast).

So, based on our figure, there could be room for extra expenditures without jeopardising the upper level of the 7-9% of GDP target range. A new announcement will use some of that room, as the government moves the VAT rate to 5% (after it was reverted to 27% at the start of 2020) on home building carried out before the end of 2022.

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