

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%

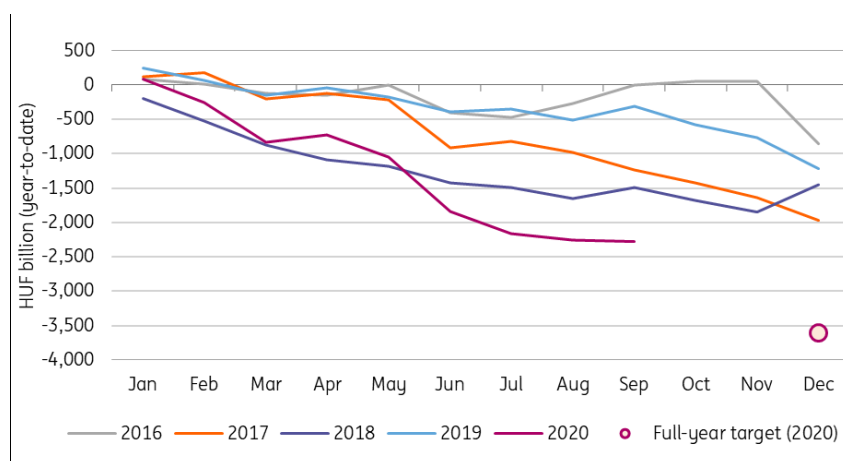
Deficit-to-GDP ratio in the past 12 months

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

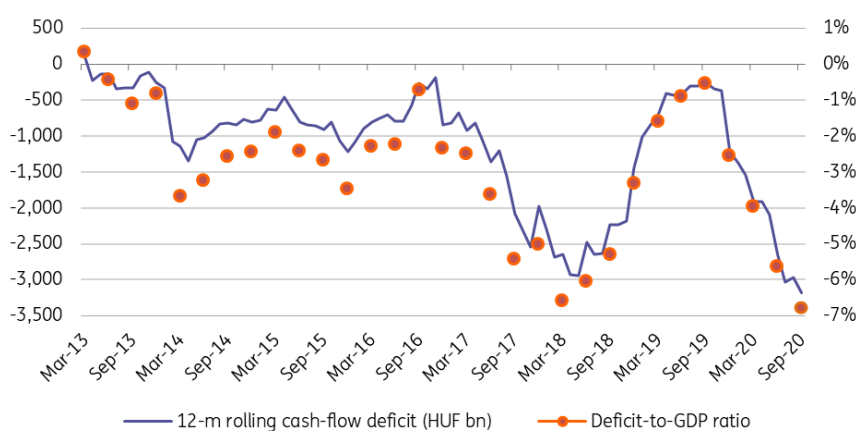
Unfortunately, neither the first release of the budgetary data nor the ministry's statement contained any specifics regarding the revenue side of the budget.

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.

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 www.ing.com.