Hungary: Second Covid wave puts another hole in the budget

November brought new containment measures and with that, the budget has suffered another huge hit. Moreover, the government has revisited its 2021 budget plan

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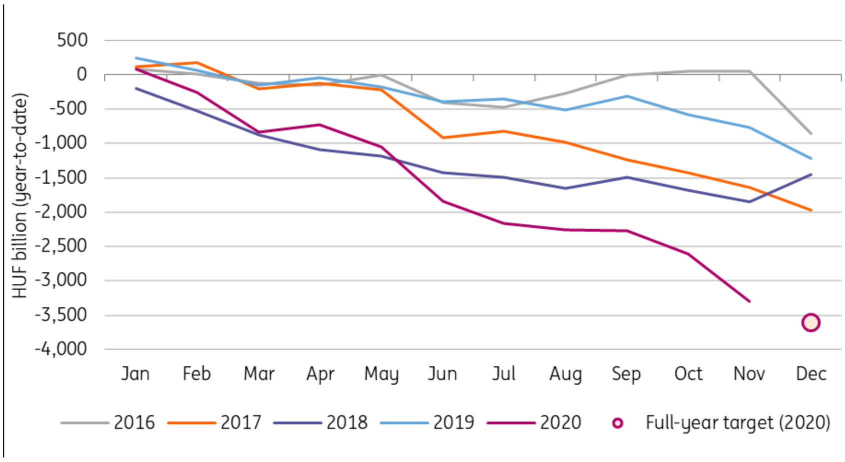
The general government's budget deficit increased by HUF 693.9 billion in November, the second biggest monthly shortfall in 2020. This resulted in a HUF 3.3 trillion accumulated cash-flow based deficit in the past 11 months. Compared to the same period of last year, it is 4.3 times higher - an extra shortfall of more than HUF 2.5 trillion. The January-November deficit sits at 92% of the plan for the whole year based on an 8% deficit-to-GDP ratio.

Year-to-date budget balance of the government



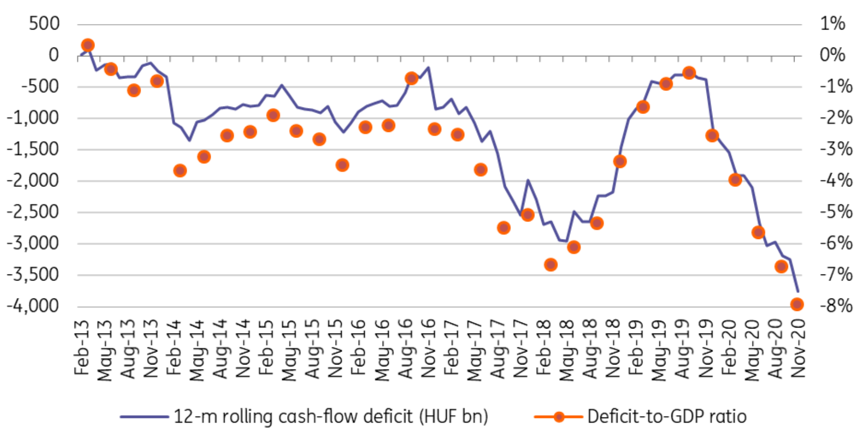
Source: Ministry of Finance, ING

The statement from the Ministry of Finance is practically a copy-paste from the previous months. The only change is the update in numbers. It hardly comes as a surprise that Brussels transferred only HUF 22.1bn related to EU projects in November. This puts the year-to-date inflow at around HUF 1.02 trillion. Meanwhile, as the government is still pre-financing EU projects, the related budgetary spending increased by HUF 162.5bn to HUF 1.80 trillion by the end of November. This means that roughly 24% of this year's cash-flow based deficit is coming from the EU related expenditures.

When it comes to direct costs related to Covid-19 defence, the Ministry's figures show almost HUF0.6tn in spending, another 18% of the deficit. The budget was also spent on several projects including tourism support, competitiveness programmes, infrastructure developments among many others.

Checking the 12-month rolling monthly data, the HUF 3.75tn shortfall by November could mean an 8.0% deficit-to-GDP ratio (calculating with our GDP forecast). Considering the impact of the second wave of Covid-19 both on the revenue and on the expenditure sides, we see the government ending up with an 8.5-9.0% deficit to GDP ratio in 2020.

12-month rolling budget deficit



Source: Ministry of Finance, ING

With the first 11 months of the year now over, the government has finally updated the long outdated 2021 budgetary plans. The Ministry of Finance changed the original 2.9% deficit ratio to a 6.5% of GDP goal. On one hand this is because of the new expenditure elements (updated family support, extra benefits for pensioners, salary increases in healthcare etc.). On the other hand, there is a significant change in the macro outlook. When the government drafted the 2021 budget, it forecast a 3% recession this year and 4.8% growth next year. As of now, both estimates look far too optimistic amid the second wave of the pandemic.

Based on this new projection, it seems that the government will spend the expected incoming EU transfers on the pre-financed projects rather than using it to decrease the cash-flow based deficit and debt levels.

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