

## The SAO summarised the budgetary processes of the epidemic in an analysis

**The coronavirus outbreak put an enormous pressure on the budget, too, not only on the population and companies, pointed out the analysis produced by the State Audit Office. The analysis produced for the Budget Council indicates the following: In the first half of 2020, the Hungarian budget - partly with the flexible reallocation of budgetary funds - spent more than HUF 1700 billion on the mitigation of the economic and social consequences of the epidemic, while no aids were received from the European Union in the first six months of the year for the protection against the epidemic. The analysis does not quantify the risks, as legal regulations stipulate that in the case of a drop in the real value of the GDP, there is no obligation to reduce the public debt indicator.**

The analysis by the State Audit Office gives a comprehensive picture on the budgetary processes in the first half of 2020, as well as on government decisions determining the processes and on macroeconomic conditions. In addition - based on the data already available in early September - the analysis shows the modifications in the status of the central budget in July and August.

In March 2020, the COVID-19 pandemic reached Hungary, too. This fact, together with the measures taken in connection with the epidemic (including restrictions introduced by other countries) triggered significant changes in the budgetary processes, too, as it was highlighted by the analysts of the SAO. They point out that economic recession and targeted taxation benefits has had a stronger income-reducing impact on the budget from May 2020, but this was partly compensated by extra revenues from special taxes introduced because of the emergency situation and by the centralisation of the full amount of vehicle taxes.

As a result of all that, the cash-flow shortage of the state budget's central subsystem turned out to be HUF 1 837.0 billion in the first half of 2020, and this was five times higher than the value set in the budget act. The deficit was caused by expenses that exceeded the time-proportionate expenses by 10.1 percentage points in the budget, and by the fact that the incomes of social insurance funds were 2.6 percentage points lower than they should have been in the proportion of the time, while expenses were 2.4 percentage points higher. The balance of the state budget's central subsystem in the first half of 2020 was made up by the HUF 1 534.3 billion deficit of the central budget, the HUF 11.2 billion surplus of the extra-budgetary funds, and by the HUF 313.9 billion deficit in the social insurance funds.

From the Pandemic Defense Fund, HUF 642.2 billion was paid out, which was HUF 216.0 billion higher than the incomes of the Fund. HUF 872.8 billion was paid out for economy protection expenses, which is HUF 69.6 billion less than the available limit. The HUF 206 billion expenses of the National Employment Fund that has become part of the Economy Protection Fund can be considered to be proportionate with the time. As no funds arrived from the European Union in the EU Funds to counter the epidemic, no expenses were paid from it, either, pointed out the analysts of the SAO.

In order to utilize the EU limits as much as possible, the EU development expenses of the central budget exceed the time-proportionate usage by almost HUF 250 billion. On the other hand, the incomes of EU programmes planned for this year were HUF 250 billion less than the time-proportionate performance. At the end of June 2020, the debt of the central budget was HUF 31 853,3 billion, which is 7.3% higher than it was at the end of 2019. The greatest increase (18.0%) took place in the foreign currency denominated bonds. HUF debts increased by 4.9%.

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*The State Audit Office of Hungary is the supreme financial and economic audit institution of the National Assembly. The SAO has been the guardian of public funds for 150 years and the financial guarantor of democracy for 30 years. Its mission is to support accountability of public funds and to contribute to good governance through its well-founded, value adding audits and comprehensive advisory and knowledge sharing activities. With its recommendations and conclusions the SAO facilitates the regular, economical, efficient and effective use of public money.*

In parallel with the reduction in the consumption expenses of households, retail savings increased. This created good conditions for the financing of the increasing public debt from mainly domestic sources. In Q2 of 2020, the net financial assets of the population increased by almost HUF 1500 billion.

### **Some features of the budgetary processes of July - August 2020**

In July and August 2020, the deficit of the budget continued to rise, but to a much less extent than in March, May and June. The growth of the deficit was mitigated by the fact that during these two months, EU incomes of almost HUF 300 billion arrived in the budget. The deficit of the central subsystem of the public budget was HUF 2165.0 billion at the end of July 2020, and reached HUF 2261.3 billion by the end of August. In spite of that, the debt of the central budget dropped in July, as the increase in foreign currency debts triggered by the weakening of the HUF rate earlier dropped to HUF 184.4 billion from 385.3 billion at the end of June. At the same time, the population's government paper portfolio continued to shrink, by 6.1 per cent compared to the end of the previous year, i.e. by HUF 608.4 billion, because of the reasons mentioned above.

In its communication of 24 August 2020, the Ministry of Finance announced that it increased its forecast about the shortage: the estimated annual cash-flow deficit of the central subsystem of the state budget increased by HUF 1 710 billion, from HUF 1 890 billion to HUF 3 600 billion. This is almost ten times higher than the original deficit target, and almost twice higher than the semi-annual deficit. This deficit allows for a room for manoeuvre to introduce further economic stimulus measures. The Public Debt Management Ltd. modified its financing plan for 2020 on 26 August 2020. Compared to the plan modified last time in May, gross output was increased by HUF 1856 billion, almost exclusively HUF output. An increase of over HUF 800 billion is planned in the issue of retail government papers compared to the plans in May. Considering the significant drop in this year in HUF bonds held by foreign investors, this means that the increased deficit will be mainly financed from domestic funds.

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