

FLASH REPORT

6 June 2019

A surprisingly tight deficit target has been set for 2020. However, further whitening measures need to be specified.

On 4th July, the Government submitted the draft 2020 Budget Law to the Parliament. **The 1% of GDP ESA deficit target is 0.5 pp below the one submitted in the latest Convergence Programme, and 0.8 pp below this year's target. This has been a pleasant surprise for the market, as the very strong business cycle position would call for a build-up in reserves for weaker times. Even more, it is important, to clarify, that given the extra-large, 1% of GDP free reserve level, the budget was actually planned as fully balanced.** The Government envisaged four priorities: (i) supporting demography (ii) decreasing tax burden for corporates (iii) continuing the announced wage increases (iv) maintaining capital expenditure spending on priority areas in infrastructure and health care.

Nonetheless, the budget draft does not contain major new surprise measures to achieve the target. Previously announced measures in the form of the [New program on Demography](#) and the [Economy Protection Action Plan](#) contained rather loosening measures in the form of current and capital transfer spending and tax cuts. On the Government's side, better-than expected real economy data as well as the very successful whitening measures, mainly related to VAT, could form a solid base this year, around 0.2 pp. below the original 1.8% target. Furthermore, it seems that the Ministry is more cautious about expected capital spending for 2020 in the magnitude of another 0.2 pp. of GDP. **However, there is a remaining roughly 0.4-0.5 pp to be delivered**, as in our assessment, lower tax and EU related revenues (the former mostly due to the social security contributions cut and a slowing economy) and higher other expenditure are roughly balanced by less spending to GDP on intermediate consumption, financial transfers, interest rates and investment.

The draft Budget Law assumes a roughly unchanged macroeconomic outlook compared to 2019, better than our expectation. Additionally, it admits to reckon further whitening gains related to yet-to-be adopted measures in the field of enhancing electronic payments and the further utilization of online company data. **If the data outturn will be in line with the Ministry's macro projection, this together with further whitening measures, could cover the remaining 0.4-0.5 pp. GDP further revenues, ensuring the achievement of the 1% deficit target. In this baseline, we assume, that the 1% of GDP reserve level is spent on new measures, e.g. extra wage increases outside the health care sector and higher investments.**

Still, we also see some risks on the negative side. On the one hand, the Ministry is rather on the low side related to spending on the new Demographic Program. Furthermore, online news portals suggest, that EU related financial correction might come, which might need to be accounted in 2020. **Should these risks materialize, they might add up to 0.6% of GDP. However, assuming that it is not spent on new measures as in our baseline, the unusually high free reserve level could cover the potential extras in the risk scenario.**

Table 1: The 2020 ESA deficit forecast under different scenarios

	Baseline scenario		Risk scenario	
	Budget macro +whitening	OTP macro +no whitening	Budget macro +whitening	OTP macro +no whitening
1% of GDP free reserves not spent	0%	0.5%	0.6%	1.1%
1% of GDP free reserves spent	1%	1.5%	1.6%	2.1%

Source: MinFin and OTP research

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