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Hungary economy briefing:
Economic stimulus program in Hungary

Csaba Moldicz

China-CEE Institute

Kiadó: Kína-KKE Intézet Nonprofit Kft.

Szerkesztésért felelős személy: Chen Xin

Kiadásért felelős személy: Huang Ping

1052 Budapest Petőfi Sándor utca 11.

+36 1 5858 690

office@china-cee.eu

china-cee.eu

Economic stimulus program in Hungary

The Hungarian economy is one of the most open economies in the world. Looking at the economic globalization indicators of the country, it is no surprise that the grinding world economy has made its impact on the Hungarian economy immediately. According to the Hungarian government's data, around 30,000 people lost their jobs since the coronavirus appeared in Hungary. Since April the 1st, every day around 4,000 people have become unemployed, the government told the media. At the same time, it was pointed out, that the number of vacant decant jobs decreased from 70,000 to 40-50,000. At this point, we don't have comprehensive economic data related to the period affected by the spread of the coronavirus in Hungary, however, several effects can be easily projected: tourism, entertainment industry, transport sector, automotive industry, and the financial sector are the sectors that are bearing the brunt of the economic crisis. Since economic trends cannot be predicted easily given the high uncertainties in the world economy, the forecasts regarding the Hungarian economy's growth vary between -10 and +3 percent. After looking at the forecasts, this briefing is to focus on the economic stimulus measures (the size and the structure of the program) adopted and implemented by the Hungarian government.

1. Economic forecasts

The GKI Research Institute provides us with two basic scenarios regarding the economic trends in Hungary[1]. In the first quarter, the economy is still to grow by 2-3 percent, however, it can plummet by around 20 percent in the second quarter, the GDK analysis maintains. The two scenarios differ in their assumption as to the time of stabilization. In the A version, the stabilization process starts in the 3rd quarter, thus the economy is expected to shrink by 3 percent in this version, while in the B version, the stabilization is predicted to continue in the 3rd and 4th quarter, thus leading to a 7 percent fall in the Hungarian GDP on a year on year basis.

The Kopint-Tárki issued a similar economic forecast, which expects the Hungarian GDP to fall by 5-10 percent. The analysis forecasts a lower fall of the GDP if the restrictions on the

[1] https://www.gki.hu/wp-content/uploads/2020/03/GKI_sajtoanyag_200324.pdf

movement of people are to be lifted in the summer, while a deeper decline is anticipated in case that the restriction on economic activities will be kept until the year's end. This analysis is in line with J. Morgan's forecast that predicts the GDP to decrease by 6.3 percent in Hungary. The analysis points out that the size of economic stimulus programs is impressive (around 20 percent of the GDP in Hungary and Czechia,10 percent in Poland), however, it is also underlined that credit guarantees and liquidity measure prevail in the programs. In other words, the direct fiscal effect of the measures is not necessarily significant, in the Hungarian case the analysis adds too that some fiscal measures do not mean plus resources in the budget, just the earmarking of financial resources for new purposes.

In contrast to the GKI Research Institute, and the Kopint-Tárki, the Századvég Research Group assumption is that the global pandemic is about to abate in a few months, thus the adverse effects of the coronavirus can be mitigated, and the economic impact will be milder. The analysis[2] also points out tourism and the automotive industry as sectors in the biggest trouble. The analysis concludes that the annual economic growth rate is expected to fall by 0.3 percent this year, while growth is about to bounce back next year, (2021: 3.4 percent). Based on the assessment of the Századvég Research Group, the budget deficit is forecast to be 3.0 percent in terms of GDP this year, while the expectation for the same figure is 2.0 percent as of GDP in 2021.

The Hungarian government measures to fight against the economic impact of the coronavirus are going to lead to a higher public budget deficit. When the government announced the next round of the economic policy measures this week, its forecast for the 2020 public budget deficit was 2.7 percent.

Table 1. GDP forecast for 2020

GKI Research Institute	From –3 to –6
Kopint-Tárki	From –5 to –10
J. P. Morgan	–6.3
Századvég Research Group	+0.3
MNB	+2-3
Source: own compilation based on the respective analyses	

[2] https://szazadveg.hu/hu/kutatasok/a-gazdasagkutato-kutatasai/elorejelzesek-kozlemenyek/a-koronavirus-miatt-iden-merseklodes-varhato-a-magyar-gazdasagban

After the first round of measures[3], the second round includes 5 larger areas (job protection, job creation, sectoral subsidies, more financing for enterprises and extra help for elderly retired persons.) According to the government plans, the economic rescue package's size – including three rounds of measures – will be circa 18-20 percent of the Hungarian GDP. The second round's measures are the following:

- Job protection: the state will finance 70 percent of the employees whose full-time jobs were transformed into part-time jobs due to the spread of the Covid-19. Many details are not clear yet, however we already know, that the support only applies to firms where the demand fell by 15-50 percent. People employed in research and development areas will get 40 percent extra salary support from the government for three months. In this case, full-time employees are also entitled to this support.
- Job creation: in order to create new jobs, the Hungarian government supports new investments, the estimated value of these investments is 450 Billion HUF.
- Sectoral subsidies: in the government communication, tourism, health care, food processing industry, agriculture, construction sector, transport sector, logistics, creative and film industry were mentioned as supported sectors, however, the details of the support are nor clear yet.
- Financing for enterprises: the value of favorable credit lines and guarantees is 2.000 Billion HUF.
- Income support will be provided for retirees. In 2021, the one-week extra pension will be paid out for the retirees. The extra allowance will be repeated in the ensuing four years, and thus the 13th-month pension will be restored.

The new portal Portfolio published a summarizing table of the known measures, though the article admits that the details are missing yet, thus the table's figures are a rough estimate.

[3] (a) Private persons and firms do not need to pay the interest rates and capital on their loans until the end of year. (b) Employers don't have to pay the social contributions in sectors such as tourism, catering industry, sport, culture sectors, passenger transport and the entertainment sector until the 30th of June 2020. (c) In these sectors, property lease agreements cannot be denounced, and prices cannot be increased. (d) The social contributions of employees will be cut significantly, and they don't need to pay their pension contributions, in addition health insurance fees will be reduced to the minimum specified by the law. (e) The interest rates of the consumer credits, granted after the 18th of March 2020, cannot be higher than 5 percentiles than the key interest rate of the central bank.

Table 2. Economic measures and their estimated costs			
	Billion HUF	In terms of GDP	Share
Moratorium on credit payments	3,000	6.7	35.1
Interest rates support, credit guarantees	2,000	4.4	23.4
Epidemic fund	630	1.4	7.4
Investment support	450	1.0	5.3
Tax and social contribution allowances	150	0.3	1.8
Not known support forms	2,770	6.0	31.6
Aggregate numbers	9,000	19,8	100.0
Source: https://www.portfolio.hu/gazdasag/20200406/szerintunk-igy-nez-ki-eddig-a-koronavirus-elleni-orban-csomag-424514?utm_source=index.hu&utm_medium=doboz&utm_campaign=link			

As pointed out last week, the Central Bank of Hungary (MNB) declared a moratorium on the installment payment of loans disbursed under the Funding for Growth Scheme (FGS), the MNB also decided to increase the scope of eligible collaterals with corporate loans. As a result of the measures, the value of eligible collaterals available for central bank operations grows by around 2,600 Billion HUF.

To sum it up, it can be argued that the Hungarian government and the MNB swiftly took the necessary economic measures to fight against the adverse economic effects of the Covid-19 endemic. The size of the economic measures seems to be appropriate at this point, however, we don't have reliable data after the imposition of the restrictions on the economy, so further measures might be needed later. The Hungarian government seems to be aware of the need for further steps since government communication always mentions three rounds of economic measures.

Critics of the program point out that the approach of the government to focus on active labor market policies[4] is not tenable during that crisis. Another point of criticism is that the measures don't support those who don't have any income at all. Critical voices arguing that the size of the stimulus program is not adequate, point out that the Hungarian economy is strongly embedded in the global supply chains, thus more government support would be necessary.

[4] Labor marker policies where the government intervenes to create job, in contrast to passive labor market policies, where the emphasis is set on maintaining income.

In our understanding, when more economic figures and data will be available in the coming weeks, the question of whether the structure and the size of the stimulus program are appropriate or not can be easier assessed and further measures can be implemented if necessary.