

## Another unpleasant budget figure for Hungary

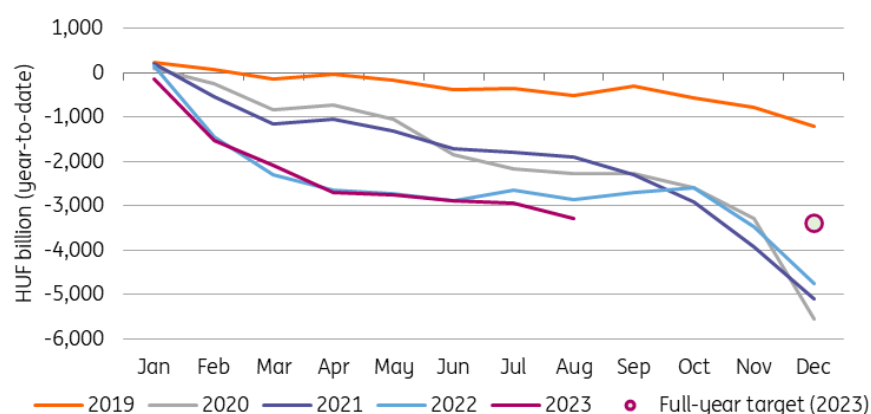
Contrary to our expectations, the budget didn't benefit from the World Athletics Championships. The deficit widened further, confirming our suspicion that the deficit target will have to be revised soon



The monthly budget deficit reached HUF 358.4bn in August, the highest eight-month deficit on record. This is clearly negative news, especially considering the developments of the previous months. In May, June and July, the government was able to keep the fiscal situation under control, but something changed in August. As a result, the year-to-date deficit now stands at HUF 3.299tn. This means that 97% of the (still official) deficit target for the year as a whole was met in August.

However, as the Government Debt Management Agency changed its financing plan earlier this week, raising this year's financing needs by HUF 704bn to HUF 4.113tn, this may be a precursor to a looming change in the official fiscal targets as well. If we adjust the official cash-flow-based deficit target by the newly-added financing needs, we end up with a deficit target fulfilled by 80%, year-to-date.

## Budget performance (year-to-date, HUFbn)



Source: Ministry of Finance, ING

Unfortunately, the Ministry of Finance's statement did not provide any useful information on the drivers of this huge monthly deficit. Although we expected some good revenues from the World Athletics Championships in Budapest to reduce the deficit, it seems that we were too optimistic. Our explanation is that the slump in domestic demand has continued, generating much lower-than-expected revenues.

On the expenditure side, the government drew attention to the fiscal burden associated with the Overhead Protection Scheme. In the first eight months of this year, the money spent on this programme totalled HUF 1.0851tn. However, if we check the previous statement, we can see that in August the monthly expenditure was only HUF 6.5bn, which hardly explains anything.

The press release also highlights the problems related to EU funds, as the year-to-date gap between expenditure (pre-financing of projects) and revenue (from the previous programming period and the Common Agricultural Policy funds) related to EU projects stands at HUF 773bn. Although this financing gap explains much of the year-to-date budget performance, it does little to help us understand the August gap itself. Especially in view of the fact that the budget saw a net EU transfer inflow of HUF 62.9bn in August. Nor do we see excessive monthly spending on pensions and health care, with August spending in line with what we have seen in previous months.

Against this backdrop, it is hardly surprising that there is much talk of a possible revision of the budget in September. After the changes in this year's financing plan, this has become almost a certainty. This goes hand in hand with the fact that the recent press release lacks the optimistic closing sentence that the government's deficit target looks achievable, which is also important. Although it is not clear what a revision could mean in practice, we think it would be a combination of an upwardly revised target from the recent 3.9% of GDP deficit to around 4.5% and some additional measures to reduce the remaining gap.

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