

## Hungarian budget makes do without EU transfers

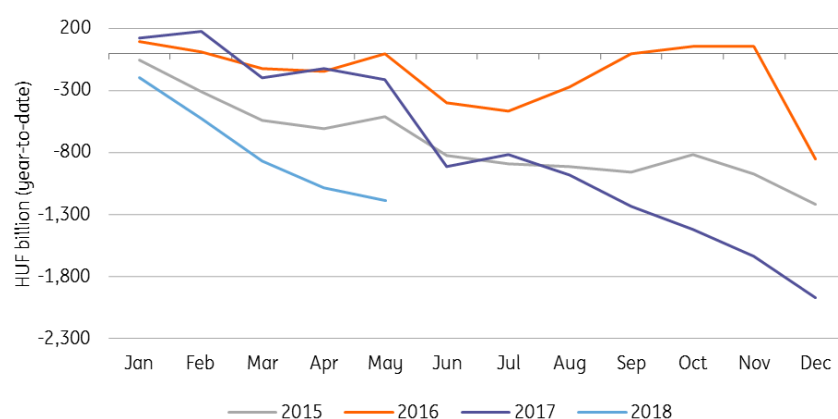
Despite the recent market risks, the government has continued to pre-finance EU projects, without inflows from the EU



Source: Shutterstock

The year-to-date cash-flow based general deficit deteriorated further in May, reaching HUF 1,187.5bn. Considering the monthly change, the budget worsened by HUF 106.1bn. When it comes to the officially planned cash flow-based target, May deficit reached 87% of it.

## The cash-flow based deficit



Source: Finance Ministry

The main driver behind the deterioration has remained the same, and the gap between the pre-financed EU projects and the actual inflow is still on the rise. As the Finance Ministry highlighted in the press release, Hungary has almost spent HUF 1,000bn, meanwhile having only HUF 63.9bn transfer by the EU.

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*This means that Hungary received no inflows from the EU in May*

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According to a popular business website in Hungary Portfolio.hu, the government sent out approximately EUR 300m (HUF 95bn) worth of invoices by the end of April. Based on rules, the EU is obligated to pay 90% of the invoices within 60 days, i.e. until end of June.

Considering the revenue side, the story has hardly changed. Since both the employment rate and real wages are rising, the revenue from both direct and indirect taxes are mounting and overperforming on a yearly basis. The 2.4% deficit goal in 2018 is still in safe in our view.

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*The 2018 budget is still okay from a structural point of view*

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In light of recent market risk, the minister of finance Mihály Varga said: "I think in these turbulent periods, we need wider budgetary space which means deficit cuts and strengthening of reserves."

The government plans 1.8% deficit-to-GDP and a roughly HUF 500bn (~1.15% of the 2019 GDP) budget reserve in 2019. Although, the main question remains whether this cautious approach will influence the government's policy-making even in the second-half of the year, for example cutting back the pre-financing of EU projects.

Nevertheless, the 2019 draft budget will be handed to the parliament next week and probably will be accepted by mid-July.

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