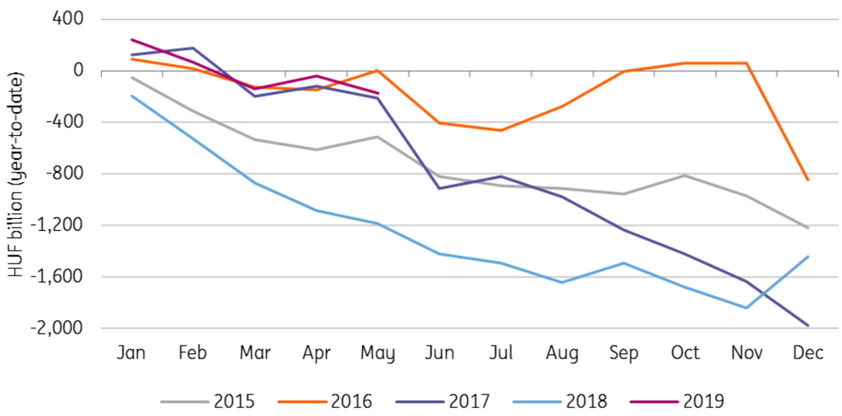
Hungary: Budget deficit remains low

The central budget showed a HUF 176.4 billion year-to-date deficit in May. With tax revenues rising more than expenditures, the 1.8% of GDP deficit goal can easily be achieved

Source: Shutterstock

The May cash flow based balance of the central budget showed a HUF 137.4 billion deficit, slightly better than our expectations and the government plan. The year-to-date deficit came in at HUF 176.4bn, much lower than in 2018. This favourable result came mainly from the revenue side. Strong wage growth, coupled with high employment levels, raised direct tax revenues. Also, VAT revenues increased by around 30% in the first five months of 2019 compared to that of 2018. This was mainly driven by the strong rise in consumption and the curtailment of the shadow economy. Revenues from payroll taxes and excise duties rose considerably as well.

Cash flow based year-to-date central budget balance



Source: Ministry of Finance

As for the EU funds balance, no inflowing money was booked in May, so the year-to-date balance remained at HUF 305.9bn. At the same time, the government continued to pre-finance EU projects. Related expenditures reached HUF 118.8bn in May, increasing the overall spending to HUF 608.1bn so far in 2019. This means the government might rely on significant additional EU transfer inflows in the second half of the year, if the ongoing debate between the EU and Hungary regarding irregularities on EU projects is resolved.

Hungary's economy seems to have strong momentum in 2019. Improving retail sales and industrial production, as well as the retreat of the shadow economy, are expected to contribute further to the favourable budget outcome. According to the Minister of Finance, the budget deficit is likely to reach 1.8% of GDP and the public debt to GDP could go under 70% this year, down from 70.8% in 2018. In our view, if budgetary developments continue this way, we could easily see even better outcomes in both fiscal measures.

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