

Hungary: Budget looks even more ugly

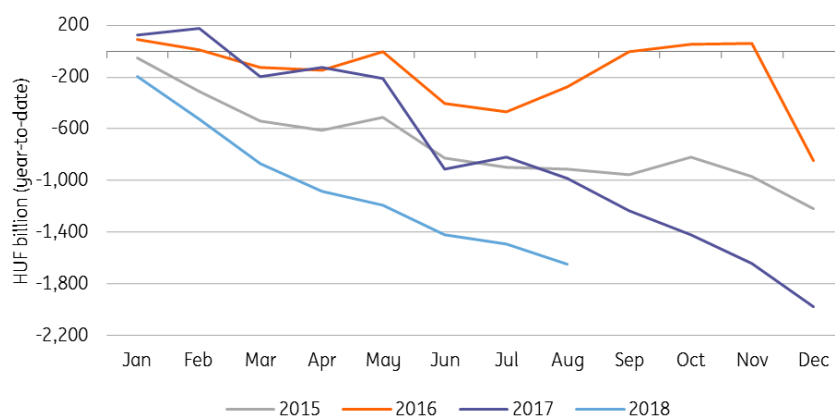
The story has hardly changed at all, as the government continues pre-financing EU projects, worsening the cash-flow based deficit even further



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The year-to-date cash-flow based general government balance deteriorated further in August, marking a deficit of HUF 1,646.2 billion. On a monthly comparison, the budget worsened by HUF 155.3 billion. The recently published number exceeds by 21% the originally planned cash-flow based target in 2018.

Cash-flow year-to-date deficit



Source: Ministry of Finance

The story has hardly changed at all. The gap between the amount of pre-financed EU projects and the actual inflow from Brussels has widened further in August. As the Ministry of Finance highlighted in its press release, the government has spent HUF 1388.5 billion on EU projects in 2018, having inflows of only HUF 183 billion so far. At least a small amount of money (HUF 21 billion) came from Brussels in August, but in net terms, the deficit still widened by HUF 58 billion. The presser also highlighted that the government decided to bring forward the payment of family subsidies (worsening the budget by HUF 30.7 billion in August) ahead of the school season. Road construction is still on the rise, financed purely by the central government, raising the deficit further.

On the revenue side, the big picture has remained rosy. The favourable labour market and generally macro developments are translating into higher direct tax collection (payroll, personal income taxes), while still strong consumption has helped to increase VAT revenue. In addition, the decreasing share of the shadow economy was also emphasised by the Ministry as a major contributor.

We don't see the Maastricht deficit target (2.4% of GDP) as being in jeopardy. Considering the underlying positive developments and expected 4.3% YoY GDP growth in 2018, we see a realistic chance that the final deficit figure could be lower than planned.

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