

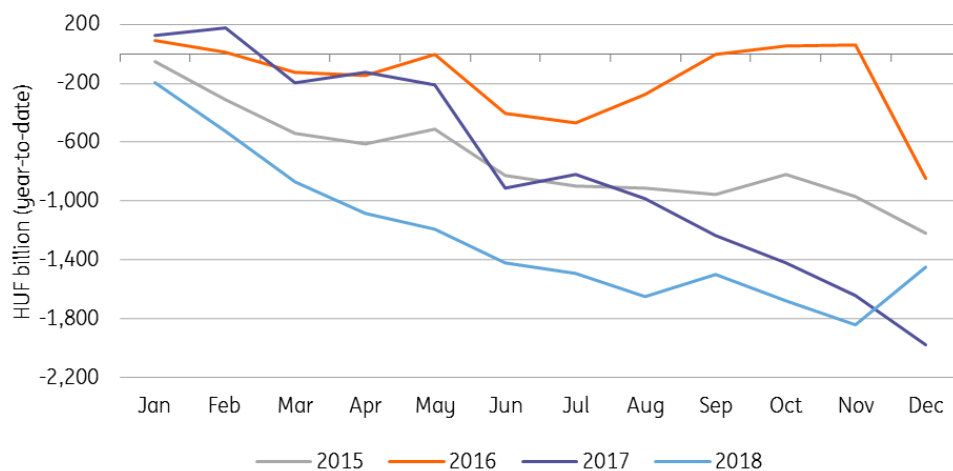
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Snap

Hungary: Budget started slow, finished strong

In line with the expectations, a huge amount of EU money arrived in December. It's almost certain that the final deficit figure will be better than originally planned

The year-to-date balance of the general government came in at HUF 1.445 trillion in December. Considering the latest figure, the cash flow based budget posted a surplus of HUF 397.3 billion. This is the highest 12-month surplus since 2010. The reading exceeds the originally planned deficit by 6.1%.

Cash-flow based year to date deficit



Source: Ministry of Finance

The remarkable improvement was caused by a significant money transfer from the EU. As Mihály Varga, the Minister of Finance, pointed out in a press conference, Brussels transferred HUF 890 billion in December, so the total income from the EU was HUF 1.43 trillion in 2018 as a whole. The MinFin also highlighted that the government has continued to pre-finance EU projects in order to maintain robust economic expansion. When it comes to the EU disbursements and the actual inflow in 2018, the gap explained a deficit of HUF 130 billion.

As for the revenue side, it did not surprise us at all. The favourable labour market conditions and household situation translated into a significant contribution to the budget improvement. Revenue from VAT, personal income and payroll taxes increased by HUF 1.016 billion compared to 2017.

According to the methodology of the EU, the accrual-based deficit could be around HUF 800-850 billion in 2018, roughly 2% of GDP. As the labour market is still on the rise and there are upside risks for 4Q18 GDP growth, the final deficit could be even lower than that. Looking forward, Prime Minister Viktor Orbán emphasised in his latest speech that the 4% year-on-year GDP growth should be maintained even with the deteriorating external environment. As we forecast 3.6% YoY GDP growth in 2019, we see further stimulus down the road in 2019. We even see a small chance that the government will alter its original

deficit plan of 1.8% of GDP. However, considering the better-than-expected budgetary situation in 2018, there might be enough room for manoeuvre without any change.

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