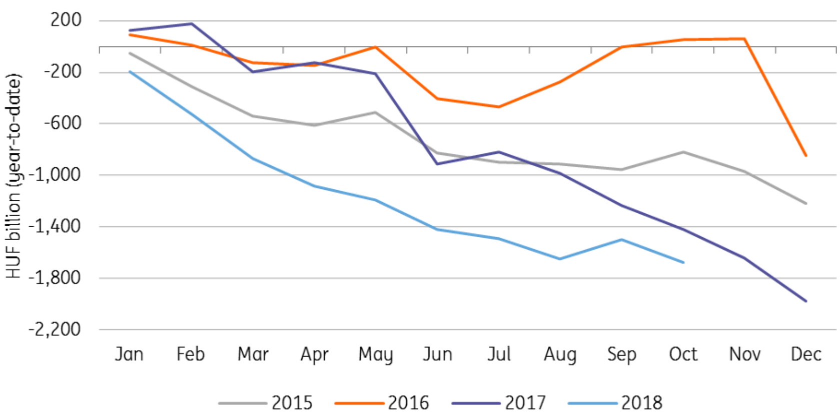
Hungary: Budget worsens due to one-offs

The cash-flow based budget deficit deteriorated mainly due to one-offs including public sector wages and family allowances in October, while revenue from Brussels continue to increase

After last month's improvement, the cash-flow based deficit returned to the deteriorating trend in October, posting a deficit of HUF 1,678 billion. On a monthly basis, the budget worsened by HUF 181.6bn, and if we compare it to the original target, the latest figures surpass it by 24%.

Cash-flow based year to date deficit



Source: Ministry of Finance

The details show the deterioration was mainly related to one-off disbursements and the continuation of pre-financed EU projects.

The government paid the public sector wages and the family allowances earlier than usual (in late

October instead of early November) due to the four-day-long weekend at the start of November and are partly behind the HUF 130 billion deficit.

As for the EU projects, the government has continued to pre-finance them, although the exact amount is unknown as the government has stopped sharing information in the preliminary release.

> *What we do know is that HUF 131 billion of came from Brussels, translating into a total inflow of HUF 472 billion inflow in 2018 so far*

Considering the inflow target by the government, it wants to see another HUF 500bn transferred before the remained of the year. The Ministry emphasised that revenues from Brussels “could rise significantly by year-end”.

Regarding the revenue side, the favourable underlying tendencies have remained with us. Compared to the same period last year, the robust labour market helped increase revenue from personal income and payroll taxes. Meanwhile, the even more significant household consumption led to higher VAT revenue. Looking forward, we do not see any factor to break the positive momentum.

Excluding the one-offs from the overall picture, the latest budget data was more or less in line with our expectations. As a larger amount of EU money might come in 4Q18, the pressure could weaken on the ÁKK to finance the government’s needs. Considering the strong economic activity and underlying budgetary situation, the 2.4% deficit-to-GDP target is still realistic.

Author

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“**ING**”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.