Hungary: Central budget turns to deficit

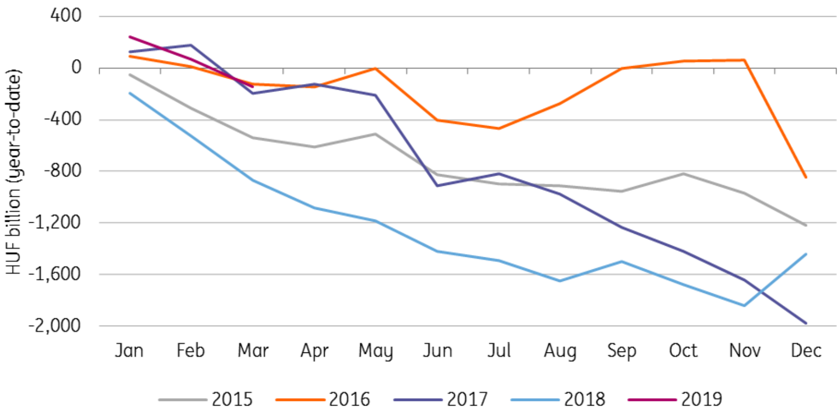
The central budget turned to deficit in March, yet much smaller than in 2018, as the government keeps on pre-financing EU projects and the funds will come later

Source: Shutterstock

The year-to-date balance of the general government budget came in at HUF-141.9bn in March, which is about one-sixth compared to the figure in March 2018. As for the monthly cash flow based budget balance, it showed a HUF209.3bn deficit, mainly owing to the financing of social programmes and infrastructural investments, while EU transfers dropped. However, this figure was the lowest March deficit since 2015, which is quite favourable, and at the same time absolutely in line with the plans of the Ministry of Finance.

The revenue side of the budget is still on the rise, mainly due to the double-digit wage growth stemming from the tight labour market conditions. The growing wages are also driving consumption, which further raises budget revenues. The government realised HUF305.4bn extra revenue from VAT in the first quarter compared to that of last year. Also, revenues from personal income tax, payroll taxes and excise duties rose significantly.

Cash flow based year-to-date central budget balance



Source: Ministry of Finance

As the press release of the Ministry of Finance pointed out, Brussels has transferred HUF283.7bn in 2019 so far, yet only HUF2.3bn in March. At the same time, the government continued to pre-finance EU projects. Related expenditures reached HUF144.1bn only in March, increasing overall spending to HUF344.3bn in 2019. So the deficit in March can be explained mainly by the difference in EU funds inflow and the EU project expenses.

Looking forward, the strong momentum of the Hungarian economy, as high retail sales and industrial production growth show, as well as the withdrawal of the shadow economy is expected to contribute to the increase in budget revenues, which probably provides enough space for the government's newly announced programmes. The extra income can be used to further decrease public debt and stimulate the economy to preserve its strong growth pace. All things considered, we expect that the government won't face too many difficulties in order to fulfil the 1.8% of GDP Maastricht deficit target criteria in 2019.

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