

## Hungary: Deficit at a level not seen in a long time

The sharp deterioration is due to the pre-financed EU projects, and is only in the cash-flow based data



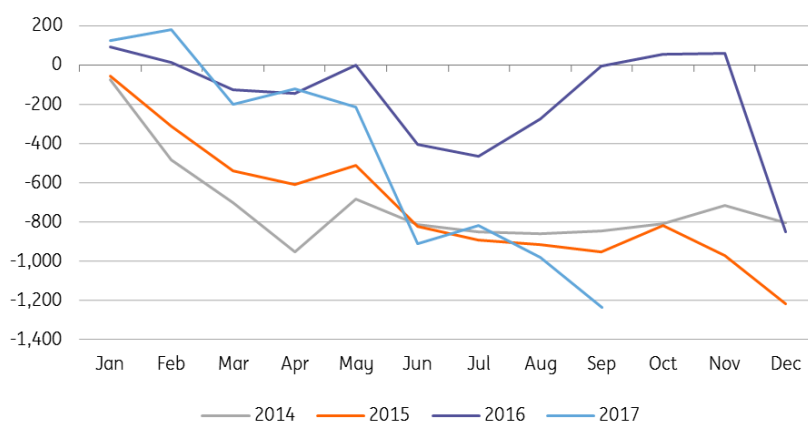
The remarkable deterioration in the cash-flow based deficit compared to the previous years is due to the different approach of EU fund disbursements. In 2017, the government is pre-financing the projects from the budget, while the accounts and payments related to these projects are in significant delays. Based on the data made available by the Ministry, Hungary has spent almost HUF1.5tr on EU projects, having only HUF0.3tr inflows from the EU so far in 2017. This difference roughly matches the YoY deterioration of the deficit figures.

Since the above-mentioned data is cash-flow based, we don't see this as a game changer related to the general stance of the budgetary situation. Moreover, as regards the accrual-based methodology, the balance of general government sector was +1.5% of GDP in 1H17, according to HCSO preliminary data, 1ppt higher as a proportion of GDP compared to the same period of 2016. It shows significant room for manoeuvre for the government even in late-2017 to roll out new measures helping them closing the 'never-started' debate on the outcome of next year's general election.

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On the details, the Ministry noted in its press release that revenues from both direct and indirect taxes are exceeding the appropriations, helped by the strong labour market and the retreat of the shadow economy. As far as the Maastricht-criteria related deficit are concerned, we (and the Ministry too) see the 2.4% deficit-to-GDP target to be within easy reach.

## Budget balance (YTD HUFbn)



Source: Ministry for National Economy

The YTD balance of the general government reached a HUF1236.3bn deficit in September 2017, HUF1234bn higher than a year ago, when Hungary posted a nearly balanced budget through the first 9 months of the year. On a monthly comparison, the budgetary situation worsened by HUF256bn in September 2017.

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