

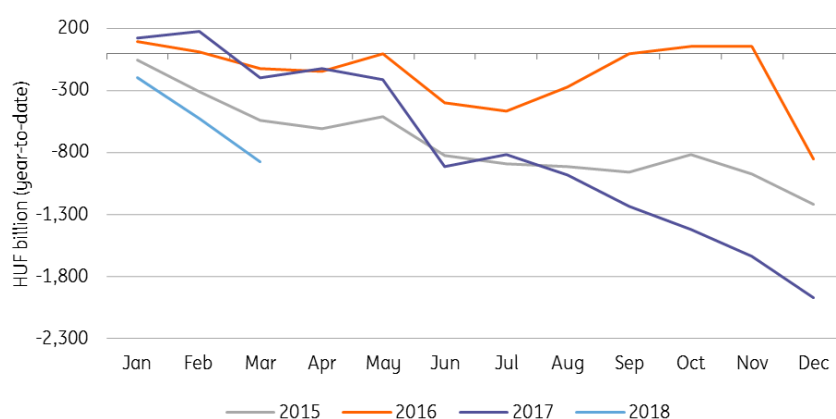
## Hungary: Deficit widens further to a new record

As the government is pre-financing the EU projects, the year-to-date deficit has reached a never-seen high level in 1Q18



The March cash-flow based general government deficit came in at HUF871.9bn. On a monthly and a yearly comparison, the budgetary situation worsened by HUF345bn and HUF674bn, respectively. This has been the highest deficit ever measured in the first quarter since the availability of the data in 1997.

## Budget balance (cash-flow based)



Source: Ministry for National Economy

In the details, the story has hardly changed. The government is pre-financing the EU projects from the budget. The payments reached almost HUF652bn in January-March, meanwhile the EU transferred only HUF61bn to the government. It is a 1.55% financing need proportionate to the GDP coming only from the EU projects. The Ministry also highlighted that extra disbursements (gift vouchers to pensioners) deteriorated the budget by HUF27.7bn.

Considering the revenue side, VAT, personal income taxes, and also social and labour market contributions exceeded the previous year's figures. This is mainly due to the still booming labour market: record low unemployment rate combined with double-digit wage growth.

According to the Ministry, in light of the current budgetary situation, the budget deficit could come in at 2.4% of GDP. As regards the GDP growth, the government sees an above 4% economic activity in 2018. We can agree with the first statement and slightly disagree with the latter as our GDP forecast sits at 3.9% for the time being.

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