Hungary: EU payments make budget worse than it is

The general government year-to-date deficit came in at HUF 1.4tr in October and the significant deterioration is due to EU payments

Shoppers on Vaci Utca, the main shopping street in Budapest, Hungary

Source: Shutterstock

122%

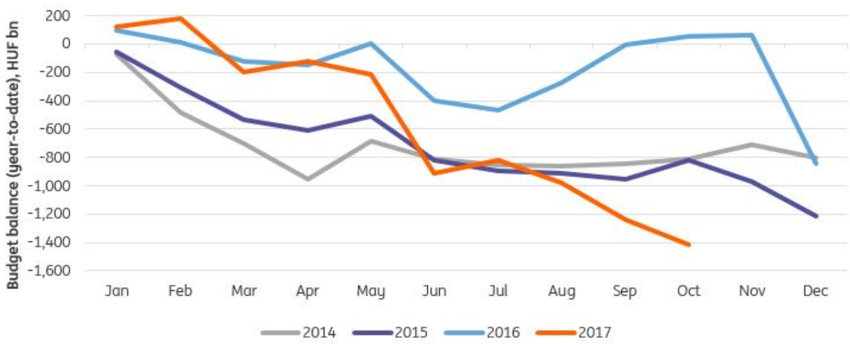
Deficit YTD relative to full-year target

Cash-flow based

The year-to-date balance of the general government reached a HUF1,418.2bn deficit in October, HUF1,475bn higher than a year ago. On a monthly comparison, the budgetary situation worsened by HUF181.9bn in Oct-17, which is quite unusual as the budget used to close this month in surplus. However, EU payments in October increasing by HUF218bn YoY help to explain this.

The remarkable deterioration in the cash-flow based deficit compared to previous years is partly explained by the different approach to EU fund disbursements. In 2017, the government is pre-financing the projects from the budget, while the accounts and payments related to these projects face significant delays. Based on the data made available by the Ministry in its press release, Hungary has spent almost HUF1.7tr on EU projects, despite having only HUF326bn in inflows from the EU so far in 2017. This difference roughly matches the YoY deterioration in the deficit figures.

Deficit at a level not seen in a long time



Source: Ministry for National Economy

Since this data is cash-flow based, we don't see this as a game changer for the general budgetary situation. On the other hand, as the budget deficit now stands at 122% of the full-year cash-flow target, it is not surprising that the government debt management agency has agreed to increased issuance of government bills and bonds recently.

On the details, the Ministry noted in its press release that revenues from both direct and indirect taxes are exceeding last year's figures - not because it has increased taxes, but due to the strong labour market. The Ministry also emphasised that its fiscal stance is stable and the deficit target is not in jeopardy. As far as the Maastricht-criteria related deficit are concerned, we also see the 2.4% deficit-to-GDP target to be within easy reach.

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