

## 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 Váci Utca, the main shopping street in Budapest, Hungary

Source: Shutterstock

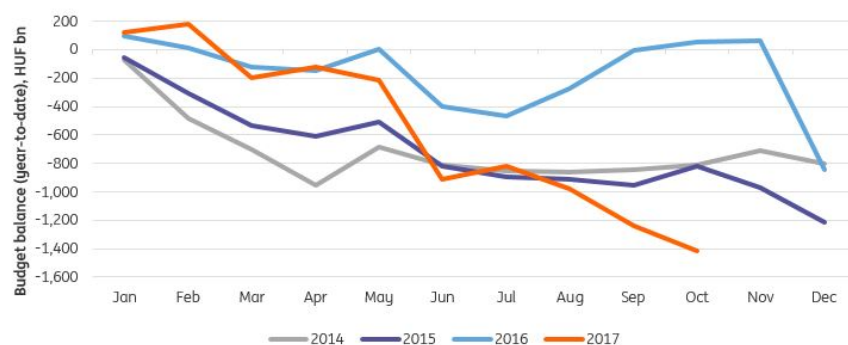
**122%** Deficit YTD relative to full-year target  
Cash-flow based

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.

## Author

**Peter Virovacz**

Senior Economist, Hungary

[peter.virovacz@ing.com](mailto: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](http://www.ing.com).