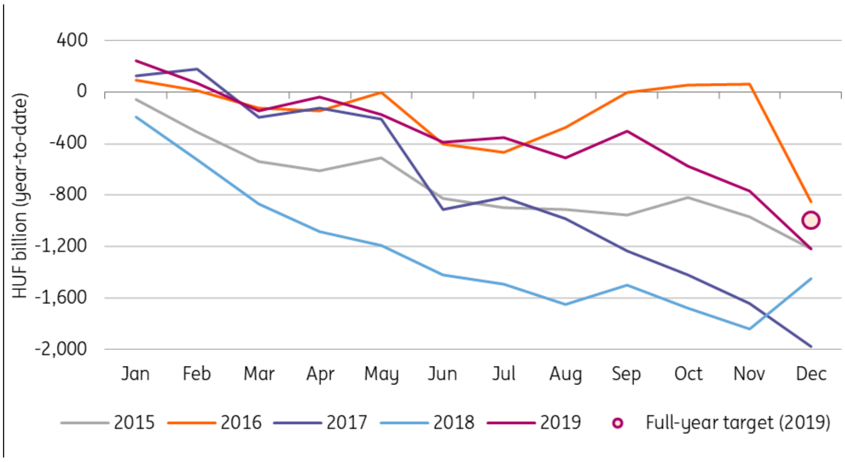
Hungary: Government opens its purse in December

After a remarkably careful budget management through eleven months, the government opened its purse and spent big time in the last month of the year, putting the 2019 cash-flow deficit above the target

Source: Shutterstock

The December year-to-date balance of the cash flow-based government budget showed a HUF 1219bn deficit, 122% of the full-year target. It comes as a huge surprise after the November figure was still at 77% of the target. It means that the monthly deficit came in at HUF 452.7bn, so the government spent big time in the last month of 2019 after an eleven-month careful navigation.

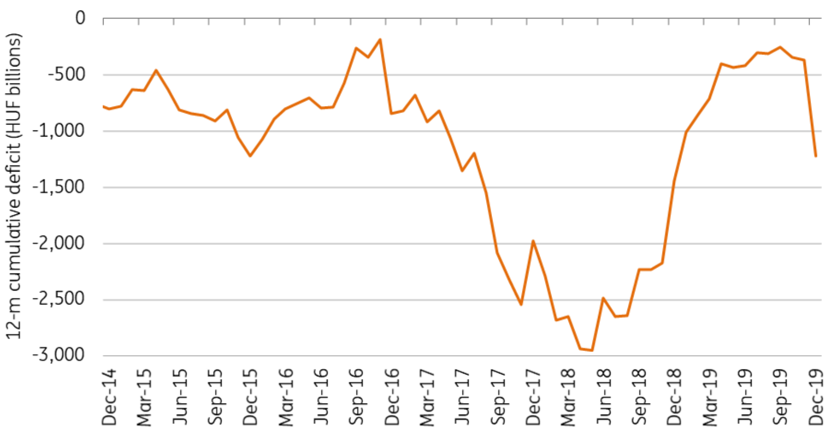
Cash-flow based year-to-date central budget balance



Source: Ministry of Finance, ING

The government closed the year almost in balance when it comes to the EU projects. After spending HUF 1.56tr from the budget on EU-related projects in 2019 as a whole, the inflow from Brussels reached HUF 1.47tr. These figures also mean that the net inflow was positive (HUF 97.1bn) in December, so the non-EU related spending is responsible for the significant jump in the year-end deficit figure. Unfortunately, the government did not share any details about the monthly figure, but in our view, the new family-related programmes (housing, car buying) might be responsible for one part. Other than that, one-off payments for armed forces and wage settlements in other sectors also played a major role, while the debt settlement of hospitals (around HUF 70bn) might also be responsible partially for the monthly deficit.

The 12-month rolling cash-flow deficit



Source: Ministry of Finance, ING

When it comes to the underlying processes, the budget performed extremely well in 2019 apart from the year-end closing. Revenues from personal income tax, payroll tax, value added tax all came in significantly higher than a year ago and above expectations. In our view, the government saw an opportunity to spend in the year-end due to the strong fundamentals, projecting the Maastricht-based deficit (targeting 1.8% of GDP) well in reach so having an opportunity to stretch the cash-flow deficit.

> Taking into consideration the government's track record in recent years, we can be almost sure that the 1.8% deficit-to-GDP target will be met despite the higher cash-flow deficit. The official balance according to the EU methodology will be released by the Statistical Office in March. But before this, we will have a preliminary data by the central bank on 17 February.

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