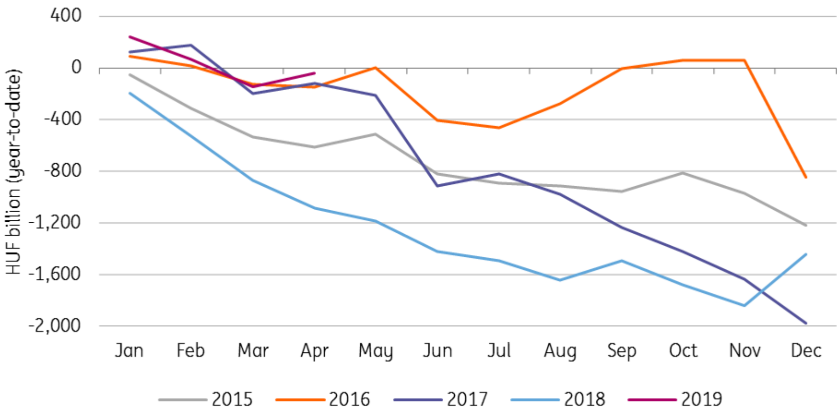
Hungary: Higher revenues support low deficit

The central budget posted a strong surplus in April, lowering the year-to-date deficit to HUF 39 billion. With rising tax revenues, the 1.8% to GDP deficit goal seems more than achievable

Shoppers in Budapest

The April cash flow based balance of the central budget showed a HUF 102.9 billion surplus, the highest April reading since 2012. The year-to-date deficit came in at HUF 39 billion, an all-time low. This favourable result arises mainly from the revenue side. Double-digit wage growth coupled with rising employment has raised direct tax revenues. Also, VAT revenues increased by almost 32% in the first four months of the year on a yearly basis. This was mainly driven by the strong rise in consumption and the retreat of the shadow economy. Revenues from payroll taxes and excise duties rose significantly as well.

Cash flow based year-to-date central budget balance



Source: Ministry of Finance

As for the EU funds balance, the budget booked only HUF 22.2 billion income in April, while the year-to-date balance was at HUF 305.9 billion. At the same time, the government continued to pre-finance EU projects. Related expenditures reached HUF 145 billion in April, increasing the overall spending to HUF 489.3 billion in 2019. This means that the rise in tax revenues sufficiently counterbalanced the loss in the EU funds balance. The government can also rely on additional EU transfer inflows throughout the year.

Looking forward, the strong momentum of the Hungarian economy, with improving retail sales and industrial production as well as a retreat of the shadow economy, should continue to contribute favourably to the budget. According to the Minister of Finance, the 1.8% to GDP budgetary deficit will be reached and the public debt to GDP may also shrink under 70% this year, down from 70.8% in 2018. If budgetary developments continue this way, we can easily see even better outcomes in both fiscal measures.

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