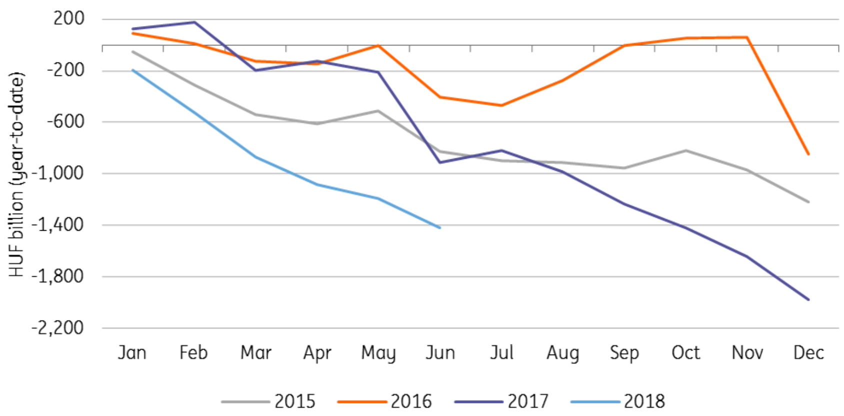
Hungary: Massive deficit

The government continued to pre-finance EU projects, which is why cash-flow based deficit widened further. Regarding revenues, the processes still look favourable

Source: Shutterstock

The year-to-date cash-flow based general deficit worsened further in June, reaching HUF 1420.5bn. On a monthly comparison, the budget deteriorated by HUF 233bn. Considering the planned cash-flow-based target by the year-end, 1H18 deficit exceeded it by 4.4%.

The cash-flow based deficit

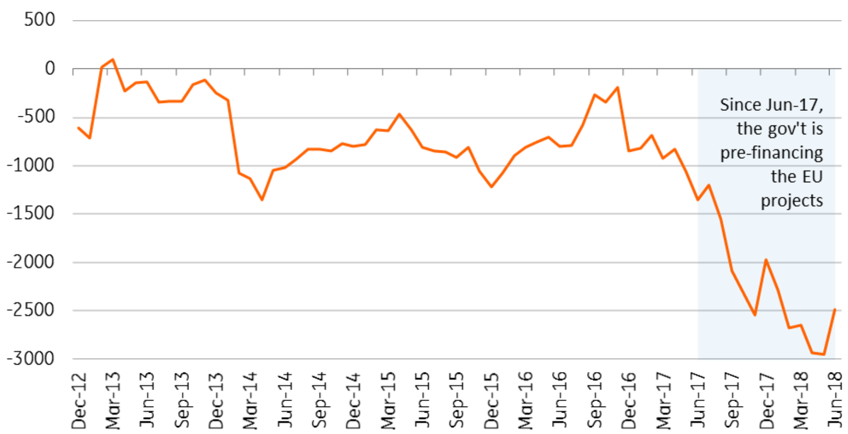


Source: Finance Ministry

As the details show, the story has hardly changed.

The gap between the amount spent on pre-financed EU projects and actual inflow from Brussels widened further in June. EU transferred roughly HUF 100bn in June, pushing the 1H18 inflow up to HUF 162bn. Meanwhile, the government has spent HUF 1118bn on EU projects in 2018 so far. Nevertheless, the debt service costs also increased in June because of substantial maturities, contributing further to the worsening budget deficit.

Twelve-month rolling deficit (cash-flow based, HUF bn)



Source: Bloomberg, ING

When it comes to the revenue side, we remain optimistic.

As the Ministry of Finance highlighted in the press release, both the VAT and personal income tax revenue increased significantly compared to a year ago, contributing to the structural improvement of the budget. In our view, this is fully in line with the favourable condition in the labour market and strengthening purchasing power: record low unemployment rate combined with double-digit wage growth.

Like everyone else, it is our view too that the money tied to EU projects will start to inflow in a bigger volume only in 4Q18. Thus we can see further pressure on the AKK and FinMin to finance the government's spending needs.

On the other hand, if we don't count the EU-money gap, the fundamentals of the budget are as strong as they were in 2016. Against this backdrop, we see the 2.4% deficit-to-GDP target in 2018 well within reach, or even better.

Author

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

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