

Hungary: Rising budget deficit

The year-to-date government deficit came in at 77% of the year-end target in November. On the back of rising tax revenues and incoming EU transfers, the government has plenty of room to spend in December, without going over the 1.8% deficit to GDP target

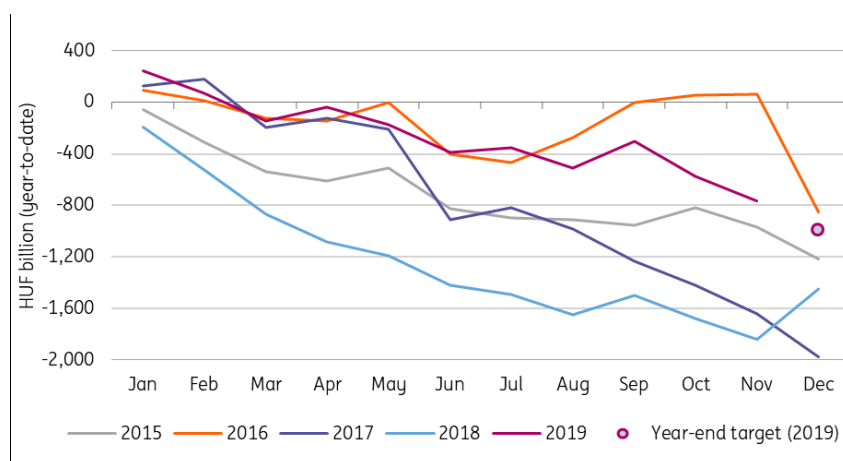


Source: Shutterstock

The November year-to-date balance of the cash flow-based government budget showed a HUF 766.3 deficit, 76.8% of the year-end target. This deficit measure is significantly lower than that of last years, however, it has been increasing rapidly since September.

The monthly deficit came in at HUF 191bn, while the net inflow of EU money was positive (HUF 121bn). Thus, the government seems to have spent more on the non-EU project, rather than just the pre-financing, while a huge amount of EU funds came in from Brussels. Also, spending related to the Economic Protection Action Plan and the one-off premium payment for pensioners, worth HUF 77bn, also deteriorated the monthly balance.

Cash flow based year-to-date central budget balance



Source: Ministry of Finance, ING

The revenues are still driven by the tight labour market, high wage growth, elevated consumption and the retreat of the shadow economy.

Until November, the collection of most taxes and contributions has reached around 89-96% of the year-end target, according to the Ministry of Finance. It is much higher than the average of the last four years and is expected to overachieve in the year. Also, the government can count on a significant EU transfer inflow, approximately HUF 600bn next month, according to the preliminary plans.

As a result, the government will probably have considerable fiscal space to boost spendings in December. Even if the government decides to raise expenditures (which is quite likely, according to our estimation), the 1.8% deficit to GDP target can easily be achieved in 2019.

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