

The Hungarian budget finally sees an improvement

Developments related to EU funds are finally becoming beneficial as the budget posted a surplus in September, alleviating the deterioration we've seen since January



The fiscal situation in Hungary finally improved in September, after being on a downward slope since January.

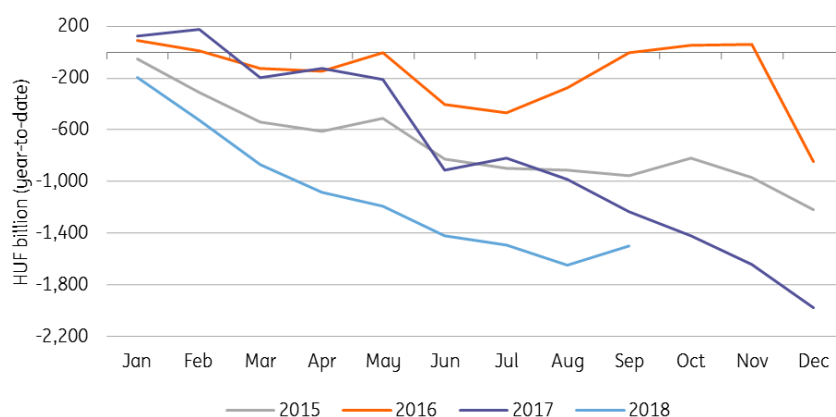
The year-to-date cash-flow based general government deficit came in at HUF 1,496.5 billion, as the budget posted a HUF 149.7 billion surplus in September. Considering the originally planned cash-flow-based target in 2018, the latest deficit still exceeds it by 9.9%.

The details show we finally see positive developments regarding the missing EU money, as the financial gap between the amount of pre-financed EU projects and the actual inflow from Brussels narrowed in September. Despite the Ministry of Finance not mentioning anything about where the budget sits with the overall spending on pre-financed projects, we think the government probably reduced the payments.

According to our estimates, the government probably spent about HUF 100 billion on pre-financed EU projects in September, half the monthly average this year. In the meantime, Brussels

transferred HUF 158bn, pushing up the EU-money counter to a total HUF 341bn in 2018.

Cash-flow based year to date deficit



Source: Ministry of Finance

Regarding the revenue side, we don't see any major change, so the underlying momentum is still positive. Revenue from VAT, payroll and personal income taxes significantly exceeded last years figures and are expected to remain on the rise in line with the tight labour market and robust economic activity.

The latest deficit reading was roughly in line with the government and our expectations.

The Finance Ministry didn't forget to highlight that it is counting on "several hundred billion forints" in further inflows from EU by year-end. In our view, this won't reach the ideal HUF 990bn total inflows in 2018 set up by the government in a recent decree, but we have a realistic shot at an additional HUF 350-400bn inflow in 4Q18.

Author

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

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