Hungary: The Good, the Bad and the Ugly

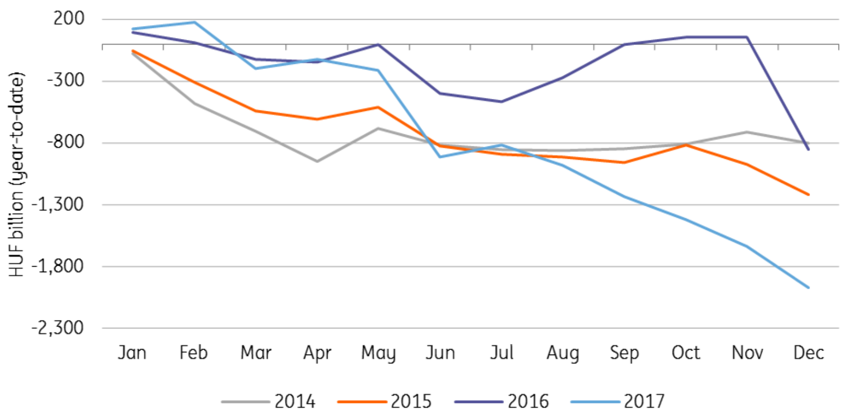
After the good retail and bad industry data, we had the ugly too: The general government closed the year at 169% of the originally planned cash-flow based deficit

Hungary's year-to-date budget deficit rose to 1.974 trillion Hungarian forints in December 2017, HUF1.1126 trillion higher than a year ago. On a monthly comparison, the budgetary situation worsened by HUF335bn in December.

Retail sector - The Good

Industry - The Bad

Budget balance (cash-flow based)



Source: Ministry for National Economy

Considering the officially planned cash flow-based target, the latest data stands at 169%, the highest year-end overspend ever. The significant deficit was probably due to the different approach of EU fund disbursements. In order to fulfil its own goals, the government is pre-financing projects from the budget, while the invoices and related payments are heavily back-loaded. The government exceeded the originally planned EU disbursement target (HUF2.064 trillion) by roughly HUF500bn (at HUF2.555tn) for this year. With only HUF1.015tn from the EU, the huge cash flow based deficit is not surprising.

Focusing on a more interesting story, the monthly deficit used to be around HUF100-200bn in December. Péter Benő Banai, State Secretary for Budgetary Affairs of the Ministry for National Economy said HUF633bn of the EU payments were transferred in December. Against this backdrop, the monthly balance would have been around HUF500bn in surplus, but according to the Ministry's figures, the deficit came in at HUF335bn in the last month of 2017. If we do the maths, it is quite obvious, that the government could spend HUF800-900bn (not calculating with the EU money) in December, thus roughly matching the unusual spending in December 2016.

Maastricht-based deficit could be better-than-planned

According to the Ministry, the deficit could come in around 2% of GDP, thus below the 2.4% accrual-based deficit target and close to last year's deficit of 1.9%. The situation is not as ugly as it seems at first sight. In fact, it looks like the government had extra money to spend at the end of the year and still undershot the planned accrual-based deficit.

Author

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

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