

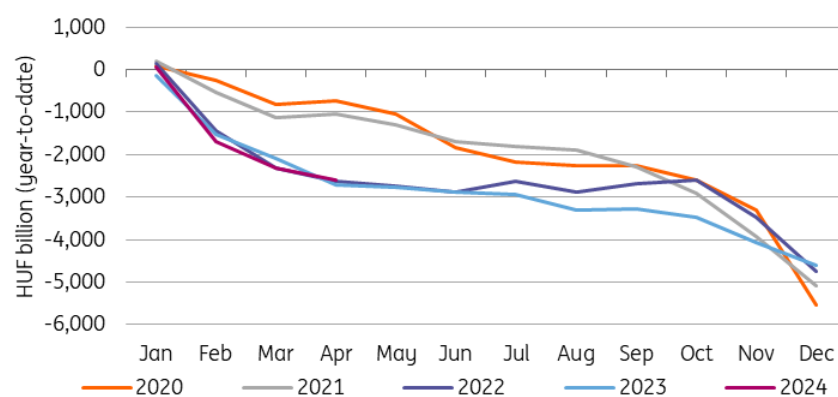
Hungary's monthly budget deficit improves

April brought another monthly budget deficit, but compared to our technical projection, the outcome is better. Nevertheless, we still see a risk of 0.3-0.8ppt of slippage even to the updated target of 4.5% of GDP



Hungary's monthly budget deficit was HUF276bn in April, bringing the year-to-date general government cash flow deficit to HUF2.59tr. This means that the budget has covered 65% of the Government Debt Management Agency's planned financing needs since the beginning of the year. April's deficit was the lowest monthly shortfall we've seen this year, and the good news is that it was better than our technical projection based on the previous year's budgetary trajectories.

Budget performance (year-to-date, HUFbn)



Source: Ministry of Finance, ING

The Ministry of Finance's statement provided some information on the specifics of the deficit structure. In this regard, interest expenditure was once again highlighted with an outflow of HUF1.5tr in coupon payments YTD. Based on our calculation, this means that coupon payments amounted to around HUF260bn only in April, which we believe is likely to be significantly skewed towards retail bond payments to households.

Expenditure on maintaining the regulated price system for households was also mentioned, as YTD expenditure amounted to HUF540bn. This means that around HUF80bn was spent on this government programme in April, which isn't surprising as the heating season is largely over.

Last but not least, the Ministry pointed out that tax and contribution revenues were 9.8% higher than in the base period, which means that the signs of economic recovery have started to be reflected in actual budgetary developments. However, it's still unclear whether this improvement concerns the entire revenue side or only a part of it.

Altogether, we label the April flash estimate as a positive development, as it came in better than our technical projection. However, this only means that our previously calculated slippage risk has been reduced somewhat. Before the April data, we had penciled in a 0.5-1.0ppt risk to the updated 4.5% of GDP target, but we now estimate this gap to be more likely in the range of 0.3-0.8ppt.

Overall, we still believe that the government will need to implement some additional measures to reach the updated 4.5% target, but now there is a greater chance that fewer and less impactful measures will be needed. This also increases the possibility of avoiding austerity measures, which would increase the tax burden on companies and therefore open the door to pro-inflationary effects. Still, we'd need to see the detailed budget report (due on 23 May) to make a thorough update to our fiscal forecast. Until then, our back-of-the-envelope calculation makes us slightly more optimistic than before.

Author

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.