



31 July 2020

Decision of Eurostat on government deficit and debt

The statistical classification of the Hungarian Export-Import Bank Plc (Eximbank)

1. Introduction

This note provides Eurostat's decision on the statistical classification of the Hungarian Export-Import Bank Plc, hereinafter referred to as Eximbank. The main issue to be determined is whether the entity should be classified in the general government sector (S.13) or in the financial corporations sector (S.12).

This decision is made in accordance with the process foreseen in Article 10.2 of Regulation 479/2009¹, as amended, and after consultation of the Committee for Monetary, Financial and Balance of Payments Statistics (CMFB). The related CMFB opinion is included in the annex.

2. The issue

Eximbank was established in 1994 according to the Act XLII of 1994 on Eximbank (amended several times since then). It is fully owned by the Hungarian State with ownership rights being exercised by the Minister of Foreign Affairs and Trade.

Eximbank's core activity is providing financial services to promote Hungarian exports, export-related investments, foreign aid and to improve the competitiveness of domestic corporations, mainly by granting subsidized loans and guarantees. Its main features are summarized hereafter:

- It is governed by the Board of Directors, composed of up to 7 members (currently 6) and by the Supervisory Board. All board members are appointed by the Ministry of Foreign Affairs and Trade for 5 years.
- It is subject to banking supervision as a credit institution and participates, as eligible counterparty, in different central bank operations.

¹ Council Regulation (EC) No 479/2009 of 25 May 2009 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community

- Its liabilities are explicitly guaranteed by the government, as stipulated in the Act on Eximbank. They consist mainly of debt securities issued on the market, as well as loans and deposits from other banks and insurance companies. Eximbank does not collect deposits from the public at large.
- The majority of Eximbank's assets are in the form of subsidized loans². For the financing of exports, Eximbank provides subsidized loans either to domestic export enterprises or indirectly to resident credit institutions (refinancing loans). These loans are provided at the rate set in the OECD "Arrangement of officially supported export credit", for which the government provides compensation as laid down in the Act on Eximbank. This compensation is based on the difference between the concessional lending rates and the sum of Eximbank's funding costs, operating expenses and the applicable risk premium. Most loans provided by the bank benefit from State interest subsidy, and without the interest equalisation system, Eximbank would make large losses. The main function of the Eximbank is to either distribute subsidies to exporters or to fund exporters at a loss. Eximbank does not have significant other sales through a genuine market type of activity.
- Eximbank also provides non-subsidized loans to domestic corporations which might not be related to exporting activity. It also provides tied-aid credit facilities to foreign counterparties, in the context of bilateral agreements signed with foreign countries.
- Guarantees provided by the bank itself benefit from first-loss government guarantee up to the amount defined in the annual budget act.

3. The decision

Based on the rationale provided below, **Eurostat has decided that Eximbank must be classified in the general government sector**. Eurostat's decision is based on ESA 2010 chapter 2 on the sector classification of institutional units and on section I.6.6 of the Manual on Government Deficit and Debt (MGDD), which includes a section on "entities having the features of captive financial institutions".

Eximbank is a public entity, as it is fully owned by government. On the hypothesis that Eximbank fulfils criteria of an institutional unit, it is relevant to establish whether its activity is essentially market or non-market. In case it would be considered a financial corporation, only four possible subsectors would in fact be applicable in this case: (1) deposit-taking corporations (S.122), (2) other financial intermediaries (S.125), (3) financial auxiliaries (S.126) or (4) captive financial institutions (S.127).

Eximbank cannot be classified as a financial intermediary, neither in subsector S.122 nor in subsector S.125, as it does not fulfil the requirement of ESA 2010 paragraph 2.57: "*a financial intermediary does not simply act as an agent for these other institutional units but places itself at risk by acquiring financial assets and incurring liabilities on its own account*". Indeed, government bears the risks and covers the losses resulting from the export public policy, through the subsidized interest rates (more than half of the interest income of

² Subsidized loans account for around 90% of the stock of assets and over 75% of the stock of loans.

Eximbank are government subsidies) and due to the fact that the liabilities of Eximbank are explicitly guaranteed by government, as stipulated in the Act on Eximbank.

Besides, as Eximbank does not collect deposits at large and is not actively seeking to collect deposits, it cannot be considered in any case a deposit-taking corporation and cannot be classified in subsector S.122.

The core business of Eximbank also precludes a classification as financial auxiliary (S.126), as the largest share of its income is represented by the government's subsidies. In addition, being a subsidy on production, it would fail the 50% market test, which is applicable to financial auxiliaries.

It follows from all the above, that Eximbank could only be classified into subsector S.127, as a captive financial institution. However, given that it is a public entity, it has to be classified in the general government sector (S.13).

This assessment is also underpinned by the fact that Eximbank meets the criteria of captive financial institutions, as elaborated in the MGDD:

1. It is carrying out a limited range of activities in narrow conditions set by government, as defined in the Act on Eximbank. It rather acts as a government agency, instead of acting like a fully autonomous financial intermediary that would compete on the market.
2. There are government-imposed constraints on both sides of its balance sheet: mainly indirectly, through the guarantees extended by government and through the legal limitations imposed on its operations, but also directly by government interference into some of its decisions (non-export promoting loans, tied-aid credit facilities).
3. It does not behave like a usual financial intermediary would; there is no expectation of a positive return on its operations. Most of the financing provided by Eximbank is heavily subsidized. Without the subsidy, however, Eximbank would make significant losses. Moreover, the government has repeatedly recapitalized it.

In conclusion, Eximbank is a government controlled (public) entity that does not comply with the criteria of financial intermediary, as defined in ESA 2010. It is wholly owned by the State and has a limited autonomy of decision regarding its main corporate policy; it is acting on behalf of the State for public policy purposes, mainly by financing export/import activities. Moreover, Eximbank has constraints on its assets and liabilities; and there is interference of government in its operations. Consequently, Eximbank has the features of a captive financial institution controlled by government, it is a non-market producer and should be classified into the general government sector (S.13).



CMFB Opinion
on the statistical sector classification of the Hungarian Export-Import Bank
(Eximbank)

1. At the request of the Hungarian statistical authorities, Központi Statisztikai Hivatal (the Hungarian NSI) and Magyar Nemzeti Bank (the Hungarian NCB), and in line with Article 9(1) of Regulation 549/2013 EU on the European system of national and regional accounts in the European Union (hereinafter ESA regulation), I as the CMFB Chair, with the assistance of the CMFB Executive Body, requested the CMFB Members on 8 June 2017 to express their opinion on the statistical sector classification of the Hungarian Export-Import Bank (Eximbank) The deadline for reply was 3 July 2017.
2. In the CMFB consultation, the respondents were provided with two options for the statistical classification of Eximbank.
3. According to option 1, Eximbank should be classified in the general government sector (S13). Under this view, Eximbank is a government controlled entity that does not comply with the criteria of financial intermediary as defined in ESA2010. The Bank, 100% owned by the state, has limited autonomy of decision in its main corporate policies, acting on behalf of the state for public policy purposes, mainly financing export-import activities. Eximbank is also constrained regarding its assets and liabilities. Consequently, Eximbank has the features of a captive financial institution controlled by government; it is a non-market producer and should therefore be classified in S13.
4. According to option 2, Eximbank should be classified in the financial corporations sector (S12). Under this view, while operating in a specialised area for public policy purposes, Eximbank has full autonomy of decision to exercise its main function. It complies with the criteria of financial intermediation specified in ESA2010. The explicit guarantee of the Hungarian State on its borrowing does not prevent Eximbank to act on its own risks. Under ESA 2010, the market/non-market test for a financial intermediary is not relevant. Being controlled by a public shareholder is not per se relevant for classification in S13 under ESA2010 as S12 does include publicly owned financial intermediaries. Eximbank is a public financial institution that should be classified in S12. A limited part of its activity should however be rerouted to S13.
5. A total of 55 institutions in the European Union provided their opinions. 27 national statistical institutes, 26 national central banks, Eurostat and the ECB Directorate General Statistics returned the questionnaire within the specified time.
6. A majority (25 respondents) supported option 1 while a minority (24 respondents) supported option 2. 6 respondents expressed no opinion.
7. Based on the outcome of this consultation, the CMFB advises to classify Eximbank in the General Government Sector (S13) as a unit having the features of a captive financial institution controlled by government.

8. In addition to the publication of this opinion, all the anonymised answers to the questionnaire will be transmitted to the CMFB Members and will be kept in the records of the CMFB secretariat.

(Signed)

Kirsten Wismer
CMFB Chair

Copenhagen, 13 July 2017