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Mr Luca Ascoli
Acting Director

European Commission
Statistical Office of the European Communities
BECH Building – 5, rue Alphonse Weicker
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Subject: Statistical classification of the Hungarian Central Bank's foundations and their subsidiaries

Dear Mr. Ascoli,

Thank you for your letter of 22 March relating to the statistical classification of the above mentioned foundations. I would like to share with you supplementary information and comments concerning these units.

Regarding the procedure carried out by Eurostat we would like to express the following. Eurostat initiated a consultation on the Pallas Athena Foundations during the ad-hoc EDP visit held 8 days before the EDP notification of October 2016. Eurostat immediately issued a reservation on the Hungarian EDP data concerning some operations of the central bank which, according to Eurostat, should be rerouted via government accounts. Now, one and a half years afterwards, and 9 days before the April 2018 EDP notification we received an ex-ante advice on the sector classification of the Pallas Athena foundations and all their subsidiaries as well as on the imputation of a loan granted by the Central Bank to the government. We would like to underline that Eurostat could not express a clear and unambiguously reasoned view on the statistical classification of certain operations of the central bank during the last one and a half years but issued and maintained a reservation concerning the quality of our EDP data in this respect.

Regarding the content of the ex-ante (ex-post) advice we can agree with your assessment that the subsidiaries of the Pallas Athena foundations seem to be special purpose entities rather than separate institutional units and they should be consolidated with their parents. However, the consolidation changes the type of the units and brings forward the market nature of the activity. In contrary to your analysis, after the consolidation we have to examine whether the Pallas Athena foundations are market producers. The main activities of the group are property investment and property management which are market activities. Since many subsidiaries were created in 2016, it is premature to carry out a consolidated market test but it is obvious from the operational rules that the market revenues shall cover all of the operational expenses plus any other expenses as well.

Regarding the next steps of your assessment we have the following remarks. We agree with you that most of the legal entities must have controlling entities over them. In our view, control is not a one-off measure at a certain time point but an existing ability to determine the general policy or programme of an institutional unit. In case of the Pallas Athena foundations, the founder/creator determines the initial conditions of the unit, but according to the Hungarian Civil Code it loses the ability to influence them later, during the lifetime of the unit. The Pallas Athena foundations become self-managing bodies without ownership or managerial control (a legal control is exercised by the court). In ESA 2010 the notion of control over a non-profit institution is only examined in the context of direct government control. "NPIs that are non-market producers and are controlled by government units are units of the general government sector." (ESA 2010: 20.13.) The five criteria are only applicable among non-profit institutions and government units. In this case, Pallas Athena Foundations are completely independent from the general government. Government units do not appoint (are not able to appoint) the officers, do not create statutes, do not have contractual agreements with the foundations, do not finance them and do not bear any risks. Since the foundations are not under government control their reclassification into the general government sector cannot be justified.

Usually non-profit institutions created by non-government public units are located in the non-government sectors. Eurostat also explained that such institutions exist. However, the request for reclassification of the Pallas Athena Foundations and their subsidiaries into the general government sector is due to the size and number of the Pallas Athena foundations. We have to stress that the size and the number of units are not and have never been decisive factors in their statistical classification. Furthermore, the redistributive activity of the Pallas Athena foundations is not exceptionally high in comparison to other cases. They received an initial capital from the founder and only the income earned from the investment of this amount can be used for operational costs and transfers. Expenditures that can be attributed to redistributive activity amount to 0.01% of GDP annually. You state that the Pallas Athena foundations are "essentially redistributing national wealth and in doing so, they seem to be implementing exclusively policy usually reserved for units of general government." Redistribution of wealth in national accounts means giving capital transfers to the counterparts. The Pallas Athena foundations produce non-financial services and distribute social benefits to households rather than giving capital transfers.

Summarizing the above, we are sure that the Pallas Athena Foundations are not exceptional in the size of their redistributive activity which they have to finance from the income of the initial payment of the founder. Government control or influence does not exist in relation to the Pallas Athena foundations so we do not agree with the reclassification of the units into the general government sector. Furthermore we do not agree with the request for imputation of a non-removable loan granted by the Central Bank to the government. In the conclusion of your advice you require to carry out a set of artificial records in national accounts which is unprecedented and cannot be justified in legal or methodological terms. For this reason we are not in the position to follow this advice in the compilation of our statistics.

I kindly ask you to reconsider your proposal in the light of the information and explanations.

We do not have any objections if you release your letter together with our response – now or later in the course of the debate.

Kind regards,



Zsuzsanna Boros Szóké

Director