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EDP dialogue visit to Hungary
27-28 May 2021

Final findings

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Executive summary

Eurostat carried out an EDP dialogue visit to Hungary, through videoconference, on 27-28 May 2021. The purpose of the meeting was to review the existing institutional responsibilities as regards the compilation of EDP statistics and government accounts, to discuss the quality and exhaustiveness of primary data sources, to review the implementation of the accrual principle, to examine the sector classification of units and to review the recording of specific transactions, in particular in the context of the COVID-19 crisis.

First, Eurostat took note that there have been no substantial changes in the institutional responsibilities in the framework of the reporting of data under the EDP. The Hungarian statistical authorities informed Eurostat of major changes in the structure of the NCB since 2019, mainly in the Statistics Directorate. The responsibilities for the compilation of the EDP Questionnaire tables have also been discussed in detail.

Regarding data sources, a detailed discussion took place on the expanded data collection covering all Universities' foundations and Universities as well as new data collection on RRF.

As regards the follow-up of the April 2021 EDP reporting, Eurostat and the Hungarian statistical authorities provided more details on some implemented revisions. Eurostat and the Hungarian statistical authorities also discussed some of the amounts reported in a table on the detailed 2019-2020 revenue and expenditure items and financial transactions of other central government bodies (OCGB)/other local government bodies (OLGB). Eurostat asked the Hungarian statistical authorities to elaborate further and provide more details in the explanatory notes in future EDP notifications.

Regarding the delimitation of general government, a detailed discussion took place on the specific sector classification issues of Hungarian Central Bank (NCB) foundations and their subsidiaries and newly created NPIs holding universities. Eurostat and the Hungarian statistical authorities also reviewed an update on the recording of transactions of Paks II. Atomeromu Zrt., MÁV Zrt. and NHKV Zrt. In addition, the changes in sector classification since the latest EDP dialogue visit, *Questionnaire on government controlled units classified outside general government* and transactions rearranged through government accounts were discussed in more detail.

As regards taxes, Eurostat and the Hungarian statistical authorities discussed extensively the recording of two newly introduced taxes as well as the abolishment of December fill-up obligations of the corporate income tax (CIT), income tax on energy suppliers (energy tax) and innovation tax. It was agreed that the Hungarian statistical authorities would re-discuss internally the recording of the CIT method and would provide Eurostat with a note on their analysis.

As regards accrued interest, Eurostat and the Hungarian statistical authorities discussed some particular items and formulas in the supplementary table on interest recording. An agreement was reached to continue the discussions on a bilateral basis.

Next, the technical aspects on the recording of EU flows and the EU flat-rate correction in EDP table 2A and EDP Questionnaire table 6 were discussed. It was agreed that the Hungarian statistical authorities would adjust both tables taking into account all of Eurostat's comments. Also, the recording of EU financial instruments was discussed in more detail. Eurostat asked to provide the data on the stocks of F.4, F.5 and F.8 related to EU financial instruments and explain where and how they are reported in the EDP notification and Questionnaire tables 4 and 6.

Eurostat took note of the explanations on the recording of military expenditure and the upcoming high level meeting between the NSI and MoD in order to discuss the improvement in data collection.

Participants discussed the main COVID-19 measures undertaken by government and their recording in national accounts, in particular the impact on government deficit and debt. Eurostat raised concerns on some capital injections (F.5A), defined as COVID-19 measures and emphasised that there have been no similar COVID-19 measures reported in other Member States.

Next, the recording of guarantees, debt assumptions, claims, debt cancellations and write-offs were reviewed. In addition, capital injections were also discussed in more detail, mainly the large capital injection into the electricity company MVM Zrt. in S.1311 and the ratio used to split capital injections into F.5 and D.9 in S.1313.

Finally, standard items of EDP dialogue visits were included in the agenda, such as the recording of dividends and superdividends, PPPs, EPCs, emission permits and financial derivatives, among others.

Eurostat very much appreciated the good co-operation and transparency demonstrated by the Hungarian statistical authorities during the meeting and the quality of the documents provided beforehand.

Final findings

Introduction

In accordance with Council Regulation (EC) No 479/2009 of 25 May 2009, as amended, on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community, Eurostat carried out an EDP dialogue visit to Hungary on 27-28 May 2021. The meeting took place in a form of a videoconference.

The delegation of Eurostat was headed by Mr Luca Ascoli, (Director, Directorate D - Government Finance Statistics (GFS)). Eurostat was also represented Mr Jukka Jalava, Ms Rasa Jurkoniene, Mr Levente Szekely and Ms Vaida Savickaite. Representatives of the Directorate General for Economic and Financial Affairs (DG ECFIN) also participated in the meeting as observers. Hungary was represented by the Hungarian Central Statistical Office (NSI), the National Bank of Hungary (NCB) and the Ministry of Finance (MoF).

The previous Eurostat EDP dialogue visit to Hungary had taken place on 14-15 February 2019.

The overall purpose of this EDP dialogue visit was to ensure that the provisions of the European System of National and Regional Accounts (ESA 2010), of Eurostat's Manual on Government Deficit and Debt (MGDD 2019), as well as Eurostat's decisions, are duly implemented as regards the production of Hungarian EDP and Government Finance Statistics (GFS) data.

The main aims of the visit were to review the existing institutional responsibilities as regards the compilation of EDP statistics and government accounts, to discuss the quality and exhaustiveness of primary data sources, to review the sector classification of units, in particular Universities' foundations and NCB foundations, to discuss the recording of government measures undertaken in the context of the COVID-19 pandemic, as well as the new tax on credit institutions, capital injections, EU flows, corporate income tax (CIT) fill-up obligations, guarantees and other transactions.

With regard to the procedural arrangements, the *Main conclusions and action points* were sent to Hungary for review. Then, the *Provisional findings* were sent to Hungary for review and comments. Afterwards, *Final findings* will be sent to the Hungarian authorities and to the Economic and Financial Committee (EFC) and published on the website of Eurostat.

Eurostat greatly appreciated the co-operation and transparency demonstrated by the Hungarian statistical authorities during the meeting and the documents provided before the dialogue visit.

1. Statistical capacity issues

1.1. Review of institutional responsibilities in the framework of the EDP data reporting and government finance statistics compilation

Introduction

Eurostat reviewed the institutional responsibilities in the framework of the production and reporting of EDP and government finance statistics (GFS) data, the collaboration between the three institutions involved, the quality management framework regarding EDP/GFS data, as well as public account audit and internal control systems.

In Hungary there is no separate unit dedicated for EDP compilation. In the EDP notification three institutions are involved: the Hungarian Central Statistical Office (NSI), the National Bank of Hungary (NCB) and the Ministry of Finance (MoF). There is a cooperation agreement (and permanent EDP working group) between these institutions established in 2004 and renewed in 2015. Regular meetings are organised between the three institutions.

The NSI is responsible for the compilation of quarterly and annual non-financial accounts. The NCB compiles quarterly and annual financial accounts and Maastricht debt, while the MoF is responsible for the planned data.

The final responsibility for official EDP reporting to Eurostat rests with the NSI. The NSI is responsible for the compilation of EDP tables 1 and 2, the NCB compiles the EDP tables 3 and the MoF compiles forecast data. As regards EDP Questionnaire tables, the three institutions compile them jointly.

Discussion and methodological analysis

The Hungarian statistical authorities confirmed that no substantial changes happened, since the previous EDP dialogue visit, to the EDP data production process and the related institutional cooperation. They also did not expect any changes in the near future. The NSI informed Eurostat that a few new staff members joined the unit since the 2019 dialogue visit increasing EDP-staff to eight. Three staff members in the NCB and five staff members in the MoF are involved in the EDP data production process. The NSI also mentioned that they are expecting to recruit three more people soon. The Hungarian statistical authorities also informed that, in 2019, there was a sizable cut in the number of employees in the civil service, however this did not affect the staff working in the field of EDP and GFS statistics. The Hungarian statistical authorities confirmed that they have the necessary resources and capacities for the EDP and GFS data production process.

The NSI also reiterated that there is a cooperation agreement in place between the Hungarian Central Statistical Office (NSI), the National Bank of Hungary (NCB) and the Ministry of Finance (MoF), established first in 2004 and renewed in 2015, describing the main responsibilities among the three institutions.

The Hungarian statistical authorities informed Eurostat of major changes in the structure of the NCB since 2019, affecting mainly the Statistics Directorate. Previously there were six departments in this Directorate: four departments dealing with statistical methodological issues, one department with coordination related issues and one department with IT related issues. Currently there are four departments in the

Directorate. Financial accounts statistics, balance of payment statistics and monetary statistics departments were merged into one department while the methodological department and coordination department remained unchanged. Additionally, a new data management department has been set-up dealing with the IT and data management related issues.

Eurostat asked about the responsibilities for the compilation of the EDP Questionnaire tables. The NSI explained that the NCB is responsible for the tables related to the financial accounts and debt, the MoF is responsible for the tables on guarantees while some tables are prepared jointly by the NSI and the NCB. The NSI further detailed that EDP Questionnaire table 4 is prepared by both, the NSI (F.8 as reported in the EDP tables 2) and the NCB (F.8 relating to the EDP tables 3). EDP Questionnaire table 6 on EU Flows is currently prepared by the NCB, but the NSI plans to take over this task in the future. Table 8 on the claims is prepared by the NCB while table 9.1 on guarantees is prepared by the MoF. Tables 10.1 and 10.2 are prepared jointly by the NSI and the NCB.

Eurostat enquired whether the Hungarian statistical authorities are still maintaining the compilation of two separate datasets: one for EDP/GFS purposes, where Eximbank is classified inside general government and the other for monetary statistics, where Eximbank is still classified in the financial corporations sector and whether they plan to change this in the future. The Hungarian statistical authorities confirmed this and noted that no changes are foreseen in the future in this respect. Eurostat took note of the situation.

As regards data quality assurance, the NSI confirmed that there are no problems in receiving all necessary data for the EDP and GFS data compilation from the other state institutions or other data providers. Regarding the data from the Ministry of Defence (MoD), the NSI informed about an upcoming high-level meeting between the NSI and the MoD to discuss the exchange of information and the ways on how to further improve data sources. Eurostat took note of this information and asked the NSI to inform Eurostat on the outcome of the meeting.

Eurostat enquired if there were any changes in the memorandum of understanding between the Hungarian statistical authorities. The NSI explained that only minor changes might be introduced in the future (e.g. change of the name of the MoF in 2019), but the main points and the essence of the agreement should stay the same.

Eurostat also asked about the collection of new data needed for the newly introduced tables on COVID-19 measures and RRF financing and whether there is a need to update the memorandum of understanding in this respect. The NSI agreed that the agreement could be complemented. The Hungarian statistical authorities will reflect on an update of this agreement and will inform Eurostat of the outcome.

Regarding the quality assurance process (referred to as “statistical auditing”), Eurostat took note that a new system was introduced allowing the NSI to audit the statistical activities of the other members of the national statistical system and to give accreditation to the institutions who became members of the Official Statistical Service. The NSI briefly explained that this is an on-going procedure, repeated every three years. So far, no

major problems have been detected and all audited institutions have been accredited. The NSI will keep Eurostat informed on any news on this issue.

Eurostat also enquired about the possibility to receive the minutes of the latest meeting of the Hungarian EDP working group, which discusses all relevant methodological and compilation issues. The NSI explained that the minutes are prepared only for internal use and are not officially published. The NSI agreed to provide Eurostat with the agenda of the latest meeting of the inter-institutional Hungarian EDP working group.

Finally, Eurostat asked if there have been any improvements in the cooperation on EDP/GFS-related issues with the State Audit Office (SAO). The NSI explained that they had some very limited contacts with the SAO therefore no progress has been achieved. Eurostat recommended to follow the audit reports related to the EDP/GFS statistics published by SAO.

Findings and conclusions

Action point 2021/1¹

The Hungarian Statistical Authorities will provide Eurostat with the note on the major changes in the structure of the National Bank of Hungary (NCB) and the new entire organizational structure of the National Bank of Hungary (NCB).

Deadline: September 2021.

Action point 2021/2²

Eurostat took note of the upcoming high-level meeting between the Hungarian Central Statistical office and the Ministry of Defence to discuss the exchange of information and possible improvements of data sources. The Hungarian Statistical Authorities will inform Eurostat of the outcome of the meeting.

Deadline: September 2021.

Action point 2021/3³

The Hungarian Statistical Authorities will provide Eurostat with the agenda (if possible in English and Hungarian) of the latest meeting of the inter-institutional Hungarian EDP working group.

Deadline: September 2021.

1.2. Data sources and revision policy, EDP inventory

Introduction

The government accounts data are based on public accounts, making the Hungarian State Treasury's public accounting system the main source of data for central as well as for local government sub-sectors. In general, public accounts represent the basic data source

¹ Action point completed, the information was provided on 30 September 2021.

² Action point completed, the information was provided on 30 September 2021.

³ Action point completed, the information was provided on 30 September 2021.

for GFS and EDP compilation, i.e. EDP tables, as well as annual and quarterly accounts for general government. Public accounts are used by the fiscal sector (legal government sector) and refer to accounting records and relating accounting outputs (e.g. financial statements) based on the accounting framework defined by national legislation (public finance act⁴).

In the case of other units that are reclassified into general government:

- The MoF collects the data (balance sheet, profit/loss statement, cash flow statement, debt data) from the extra-budgetary public funds and the largest state-owned corporations and submit to the NSI and the NCB;
- The National Tax and Customs Administration of Hungary collects business accounting data (key aggregates from balance sheets and profit/loss statements) from all corporate income tax (CIT) payers as part of CIT declaration and submits the data to the NSI and the NCB;
- The NSI collects data from the non-profit institutions by statistical survey;
- The NCB collects data on balance sheet items on a quarterly basis from about 100 public corporations including those ones, which are classified in the general government sector.

The EDP Inventory has been updated in February 2020 and was published on the website of Eurostat in April 2020.

Prior to the dialogue visit, the Hungarian statistical authorities provided a note informing that data sources for quarterly non-financial accounts are improving from 2021. The quarterly data collection from reclassified non-budgetary units carried out by the MoF is expanding, covering all non-profit institutions (NPI's) holding universities. The NCB also plans to expand the data collection of the Pallas foundations and its subsidiaries to cover main expenditures and revenues, to facilitate the compilation of quarterly non-financial accounts of non-budgetary units.

Discussion and methodological analysis

Eurostat thanked the Hungarian statistical authorities for timely providing a note on recent changes as regards data sources. The NSI confirmed the improvements and explained that, since more and more universities in Hungary have been transferred (and could be transferred in the future) from budgetary units to non-profit institutions, the expanded data collection exercised by the MoF would cover all newly created asset managing foundations and universities. The MoF also explained that, in the new data sources, they would collect quarterly and annual balance sheet data, cash flow statements, revenue, expenditure and debt data, which means that some financial transactions would also be covered. The Hungarian statistical authorities emphasised that foundations and universities would be obliged to provide the data according to the Public Finance Law.

Eurostat asked about improvements in the quarterly financial accounts data collection. The NCB explained that, although the number of units included in the general government sector is increasing, the coverage for quarterly and annual financial accounts is more than sufficient, as existing data collections are extended to include new data

⁴ Government Decree 4 of 2013 (I. 11.) on accounting of fiscal sector (legal government units).

providers. However, the financial accounts strongly relate to the counterpart data, therefore there is a combination of direct and indirect data sources used in order to have a complete set of quarterly and annual financial accounts and government debt data. The NCB decides which direct sources could be used more intensively and when data from indirect data sources is better than direct data sources. Eurostat then asked, in case the unit would be reclassified into the general government sector, how fast it would be included in this indirect data source and whether in practice some long delays are observed. The NCB explained that there are some delays, but the list of all units included in the government sector is published on a monthly basis based on the Governor's decree and is compulsory for all data providers. It is controlled and monitored very closely, thus it is known in advance in which months the reclassifications would be done.

Regarding the new data collection on the RRF associated flows, the Hungarian statistical authorities explained that a central government body - the Prime Minister's office – would be nominated to manage and implement the RRF programs. All data would be collected centrally from all project managers, summarized and provided to the MoF. The NSI would also receive all the data needed, either directly from individual project managers or from the Prime Minister's office. Eurostat asked whether there could be some data collection or availability issues expected. The MoF explained that it would be difficult to assess at this stage, however, since the Hungarian RRF plan was finalised and submitted to the European Commission, there would be sufficient time to tackle the arising issues.

Eurostat enquired if Hungary included in the RRP any 2020 expenditure incurred on behalf of the RRF. The Hungarian statistical authorities were not in a position to provide the requested details. Eurostat reminded that the methodological principles concerning the treatment of RRF flows were in place and asked if Hungary would request RRF support also in a form of loans. The MoF explained that, so far, only non-repayable support (grants) were foreseen, but in the future loans could be also used, likely, in small amounts. Eurostat thanked for the information.

Action point 2021/4⁵

The Hungarian Statistical Authorities will provide Eurostat with a detailed note on the new statistical data collection carried out by the Ministry of Finance covering all Universities' foundations and Universities for the EDP and GFS purposes (how it will be organized, what data will be collected, periodicity etc.).

Deadline: September 2021.

2. Follow-up of the previous EDP dialogue visits

Eurostat noted that all Action Points (AP) from the 2019 EDP dialogue visit have been implemented. However, Eurostat reminded that there are two standing APs, issued during the rounds of EDP 2020 notifications which are continuous. AP 2020/1 regarding the NCB foundations has been renamed as AP 2021/6 (this issue was discussed separately under agenda item 4.1.1. – Sector classifications of units) while AP 2020/2 regarding the flat-rate EU financial correction has been renamed as AP 2021/18 (this issue was

⁵ Action point completed, the note was provided on 30 September 2021.

discussed under agenda item 4.2.3 – EU flows). Eurostat expects to receive an input on their status with each EDP notification reporting.

3. Follow-up of the April 2021 EDP reporting – analysis of EDP tables and EDP Questionnaire tables

Introduction

In the explanatory note sent to Eurostat before the April 2021 EDP notification, the Hungarian statistical authorities provided information on the main data sources used for the compilation of EDP data as well as the list of corporations and non-profit institutions reclassified into the general government sector from 2019 onwards. Eurostat thanked the Hungarian statistical authorities for their consistency in the timely sending of the EDP data as well as of data on COVID-19 measures. Eurostat also appreciates the continuous efforts of the Hungarian statistical authorities to ensure high level of internal consistency in the transmitted EDP data.

Discussion and methodological analysis

Eurostat enquired about the revisions in the working balance (WB) for 2018, as it was previously reported as final. The NSI explained that it was a correction of a technical error that occurred in the October 2020 EDP notification, one small item was not included in the WB in October 2020.

Regarding the upward revision by 0.1% of GDP in debt in 2019, the Hungarian statistical authorities confirmed that it was due to sector reclassifications, which have been performed from 2019 onwards and have not affected previous years. Loans of reclassified companies VOLÁNBUSZ Zrt. and VOLÁN Buszpark Kft. caused the biggest impact.

As regards the revision of deposit liabilities in 2019, the Hungarian statistical authorities explained that these are the deposit liabilities of the Treasury, because corporations and non-profit units have deposits in the Treasury accounts. Two years ago, the new quarterly data collection system on a unit-by-unit basis was introduced in order to split the deposit liabilities of the Treasury between the units inside and outside the general government sector. Thus, the deposits of the units classified in the government sector in 2019 have been consolidated.

Eurostat made a general comment that it would be beneficial for both sides – Eurostat and Hungarian statistical authorities – to expand the explanatory note provided together with each EDP notification, giving more details about the revisions, reclassifications, and impact on B.9 and ESA 2010 items affected. Eurostat also explained that, for the April EDP notification, the focus of the note could be more on the specific government transactions/new operations (undertaken in the year t-1) while for the October EDP notification the focus should be more on the revisions between April and October.

The Hungarian statistical authorities agreed to provide more detailed explanatory notes in future EDP notifications.

Further, Eurostat thanked the Hungarian statistical authorities for providing for the first time Annex 1, a table on the detailed 2019-2020 revenue and expenditure items and

financial transactions of other central government bodies (OCGB)/other local government bodies (OLGB). The non-financial side has been prepared by the NSI while the financial side by the NCB. Eurostat asked for some additional details on the particular split of the units/ groupings of units provided in the table. The NSI explained that they have decided to include the biggest ones (with sizable impact on B.9) and to group the rest together. For the annual non-financial accounts, the NSI have a full set of accounts for each of the corporations classified in general government. As regards quarterly non-financial accounts and the April notification, only partial data are available for around the 50 largest corporations. In the case of the other corporations, only data on transfers from general government and on their deposit balance in the Treasury account are available. Expenditures and other revenues are estimated based on their previous year data. For the financial side, accounts on a unit-by-unit basis are not produced.

The Hungarian statistical authorities explained that it was difficult to fill in this table, because it does not strictly follow ESA 2010 codes, e.g. there is interest on the expenditure side, but not on the revenue side. Eurostat explained that the table follows the logic of the annual and quarterly GFS publications, but there is flexibility in the reporting, insofar as Member States are allowed to adapt this table as they wish and to provide all the information available. Eurostat also asked if the NSI also produces some simplified financial accounts together with non-financial accounts, just to check the discrepancies or identify the mistakes. The NSI explained that it does not make any simplified financial accounts. The comparison of non-financial and financial accounts is done for the entire group of units, there is a regular exchange of information and discussions (especially about the large corporations) between the NSI, NCB and MoF and in case significant discrepancies occur, the NSI and the NCB performs checks and analysis on a unit-by-unit basis manually.

Finally, Eurostat and the Hungarian statistical authorities discussed some of the amounts reported in Annex 1.

Findings and conclusions

Action point 2021/5⁶

The Hungarian Statistical Authorities will provide to Eurostat an expanded and more detailed explanatory note before every April and October EDP notification. In particular, in the April t+1 EDP notification describing in detail specific sizeable operations that took place in the year t and in the October notifications highlighting the main changes from the previous EDP notification/s and quantifying the impact (if any) of the revisions/changes in the classification of units inside/outside government sector on government deficit and debt.

Deadline: continuous, starting September 2021.

⁶ Continuous action point, an explanatory note was provided for the October 2021 EDP notification.

4. Methodological issues and recording of specific government transactions

4.1. Delimitation of the general government sector, application of the 50% rule and the qualitative criteria in national accounts

4.1.1. Sector classification of units

Introduction

General rules governing the classification of units have not changed in the last few years, ESA 2010 and MGDD rules are applied. The qualitative criteria became the primary criteria for the sector classification of public entities. The market/non-market test is the secondary criterion and net interest charge was added to the cost elements of the formula.

The Treasury manages an official register of legal government units. The NSI receives an updated report of general government units on a monthly basis. For the time being all legal government sector units are classified in S.13 in national accounts.

To decide if a company belongs to the public sector or not, the composition of share capital by owners is used from the balance-sheet information (breakdown of the subscribed capital by owner sectors) included in the annual corporate tax declarations reported by the Tax Authority to the NSI and NCB on a case-by-case basis.

The classification of units in the general government sector is decided by the Hungarian EDP Working Group, which ensures that all institutions involved in the national accounts and EDP statistics are treating the entire general government sector exactly in the same way. The NCB and MoF publish the list of non-budgetary units classified in general government on their website. The NSI publishes the list as an annex of the EDP Inventory.

Specific classification issues

Hungarian Central Bank (NCB) foundations and their subsidiaries

Introduction

The issue regarding the sector classification of the Hungarian Central Bank (NCB's) foundations and their subsidiaries is a long-standing one, due to which Eurostat expressed reservations in the past on the quality of data reported by Hungary for EDP purposes.

At the end of 2013 and during 2014, the NCB established six foundations, with separate legal personality, endowing the foundations with a significant amount of funds. Later, in two waves (mid-2015 and mid-2016), the foundations have established under their (in some cases joint) control five limited liability companies and one of those, another five, under its own. In the subsequent years, three pairs of the six foundations have merged, with three foundations remaining. Some of the subsidiaries have acquired and/or absorbed additional entities.

After two ad-hoc visits in September 2016 and 2017 and after a prolonged bilateral exchange between Eurostat and the Hungarian statistical authorities, each step of which

is published on Eurostat's website, the Hungarian statistical authorities agreed to reclassify the NCB's foundations and their subsidiaries into the general government sector (S.13) from the reference year 2013 onwards.

The Hungarian statistical authorities also informed Eurostat about their plan to start the process of termination of the foundations and their subsidiaries and finalise it by the end of 2020, at which time the assets and liabilities of the foundations and of their subsidiaries should have been incorporated into the balance sheet of the NCB.

Discussion and methodological analysis

Eurostat enquired about the current number of the foundations and their subsidiaries. Eurostat recalled that, prior to the 2021 EDP dialogue visit, the Hungarian statistical authorities informed that the closure of the foundations and their subsidiaries was still not carried out by the end of 2020 due to the pandemic situation and thus the liquidation of the group would be postponed until mid-2023.

Eurostat also recalled the continuous action point AP 2020/1 (renamed later as AP 2021/6) which asked the Hungarian statistical authorities to provide, for each EDP notification, the t-accounts of the NCB's foundations, their subsidiaries and their legal successors, until their complete winding down.

The Hungarian statistical authorities explained that, currently, there is only one foundation controlling more than twenty subsidiaries and that their number slightly diminished during the last few years. They also confirmed that they plan to liquidate the foundations and their subsidiaries by the end of 2022 or in the first quarter of 2023. After liquidation, legal changes would have to be introduced so that all remaining financial assets of the foundations and subsidiaries could be transferred to the NCB.

As regards the T accounts of the foundations and their subsidiaries, Eurostat asked about the disposal of the fixed assets in 2019 and 2020 and the use of the revenue received. The Hungarian statistical authorities explained that the proceeds have been invested in financial assets, mainly equities and investment fund shares.

Findings and conclusions

Action point 2021/6⁷

The Hungarian Statistical Authorities shall send to Eurostat, for each EDP notification, the t-accounts on the recording in Hungarian national accounts, for the last two reference years, of all transactions involving the NCB foundations, their subsidiaries and their legal successors, until their complete winding down.

Deadline: continuous, starting September 2021.

Newly created NPIs holding universities

Introduction

⁷ Renamed action point, previously 2020/1. The t-accounts were provided on 30 September 2021.

At Eurostat's request, in April 2019, the Hungarian statistical authorities informed Eurostat about the changes in controlling, supervising and financing systems of the Corvinus University of Budapest. A new foundation, called *Maecenas Universitatis Corvini* Foundation has been set up by law and the University was no longer operating as budgetary institution of S.1311, but was controlled, supervised and financed by the Foundation. Following this model, more and more Hungarian universities have been transferred out from budgetary units. During the April 2021 EDP notification, the Hungarian statistical authorities informed that seven universities have been transferred from budgetary units to foundation-controlled entities and later on reclassified to general government sector from 2020Q3 onwards. Hungary also provided a table with income and expenditure and recording in EDP tables. Overall, eight universities have been transformed from budgetary units to foundation controlled entities starting from 2019.

Prior to the 2021 EDP dialogue visit, the Hungarian statistical authorities provided a note on the analysis regarding control over newly created NPIs holding universities.

The Hungarian statistical authorities explained that every foundation was set up by laws of the Parliament. In the case of most foundations, the chairperson and the members of the board are directly appointed by the Minister. The financing is widely based on S.13 transfers. The government transferred, to foundations, buildings and other real estate assets connected to universities, free of charge. Pannon University foundation also received shares of two corporations. In some cases buildings are prohibited to be sold. In all other cases if the foundation decides to sell buildings, sales revenue can be used for investment only, and operating expenditures could not be financed from sales. For the shares received by Pannon University foundation, government has the right to purchase back the shares on a pre-fixed market price if the foundation decides to sell them. Therefore, according to Hungary, ESA paragraph 20.15 points a), b) and d) are fulfilled concerning government control.

Discussion and methodological analysis

Eurostat thanked the Hungarian statistical authorities for providing a detailed analysis on whether or not government retains the control over these NPIs holding universities and universities themselves as described in ESA paragraph 20.15 points a), b) and d). In particular, Eurostat enquired about the control of *Maecenas Universitatis Corvini* Foundation, which received, after its creation, a large portfolio of equity in two very large corporations in Hungary in order to be able to finance the university later on. Since then the law, through which this Foundation was created, has been amended several times. In this context, Eurostat asked if ESA paragraph 20.15 point a) on the appointment of officers, would still be fulfilled, i.e. if government did not relinquish power to nominate the board of this Foundation.

The Hungarian statistical authorities explained that government nominated the board of Corvini Foundation in 2019. In April 2020 the legislation changed and the existing board nominated a new board for the next period so it means the board re-elected themselves and the members of the board are the same, which were initially nominated by government. Thus, even if the legislation has changed, the Hungarian statistical authorities were of the opinion that ESA paragraph 20.15 point a) is still fulfilled and the pattern will be the same for other Foundations as well. Moreover, the members of the board are usually government officials or even ministers, thus it is under government control.

Since more and more universities have been (and probably would be) transferred out from budgetary units, Eurostat asked the Hungarian statistical authorities for their assessment taking into account all the sub-points of ESA 2010 paragraph 20.15. The Hungarian statistical authorities explained that, according to their assessment, ESA 2010 paragraphs a) the appointment of officers and d) degree of financing are valid in all cases. Eurostat took note of the explanation.

Findings and conclusions

Action point 2021/7

The Hungarian Statistical Authorities will continue to monitor and inform Eurostat on whether the control criteria in ESA 2010 and MGDD 2019 are satisfied for the newly created NPIs holding universities.

Deadline: March 2022.

Update on the recording of transactions of following entities, discussed also during previous EDP dialogue visits

Paks II. Atomeromu Zrt.

Introduction

The issue has been discussed during previous EDP dialogue visits. Paks II. Atomeromu Zrt. is a company involved in the construction of a nuclear power plant and classified in the S.11 sector. During the 2019 EDP dialogue visit there was a discussion concerning capital injections, that Eurostat summarized by observing that, in this specific case, the distinction of whether the capital injection constitutes a capital transfer or a transaction in equity was rather blurred. Due to several complicating factors (government is the only direct financing source of the project; capital injections are ultimately used for construction, hence having some features of investment grants; the state aid element identified by the Commission) and considering the provisions of the MGDD, Eurostat considered that a more prudent accounting approach would be to continue recording the capital injections as capital transfers.

Several Action points have been opened on investigating the financing arrangements of the Paks II nuclear power plant construction project. The Hungarian statistical authorities informed that the loans provided by the Russian partner are recorded by the Hungarian Debt Management Agency (AKK) and are included both in the official government debt data published by the Agency and in the Maastricht debt. The capital injections are treated as expenditure (D.9) of general government following the discussion in the previous EDP dialogue visit in February 2019.

Discussion and methodological analysis

The Hungarian statistical authorities briefly recalled the situation and confirmed that there are no changes in financing the nuclear reactor investment. However, they were not fully convinced of Eurostat's arguments of the treatment of capital injections and asked if Eurostat could give examples of the same treatment of similar projects in other Member States.

Eurostat repeated that, having in mind significant doubts on the rate of return of this project in the future, the more prudent accounting approach, in line with ESA 2010 and MGDD, would be to record the capital injections as capital transfers. Eurostat also gave a brief overview on the nuclear power plant infrastructure projects in a number of other Member States. Although the financing models are different in other countries, there is one country with a similar financing model as in Hungary (via capital injections from general government) and the capital injection was fully recorded as capital expenditure at the request of Eurostat.

MÁV Zrt.

Introduction

The application of the 50% test on the distinction between subsidies on products (D.31) and subsidies on production (D.39) had been discussed in details in the previous 2019 EDP dialogue visit. Eurostat recalled that, in the recent past, it presented the preliminary results of its comparative analysis regarding the sector classification of railway companies across the EU. Given that MÁV Zrt. is the infrastructure owner and operator (and not the passenger service provider), it is more likely that the subsidies that MÁV Zrt. receives are subsidies on production (D.39), as it would likely be difficult to identify them by product. Therefore, Eurostat suggested that the Hungarian statistical authorities should increase their efforts to correctly distinguish between D.31 and D.39 for the purposes of the 50% test.

Prior to the 2021 EDP dialogue visit the Hungarian statistical authorities provided an updated note and table on the recording of transactions of MÁV Zrt. for 2019. They informed Eurostat that, after the 2019 EDP dialogue visit, the nature of the subsidy was reconsidered and excluded from the 50% test calculation. The new calculations for its market tests for the period 2017-2019 gave 52% (2017), 50% (2018) and 47% (2019). The Hungarian statistical authorities informed that they would continuously monitor the operations of MÁV Zrt. in the future.

Discussion and methodological analysis

Eurostat thanked the Hungarian statistical authorities for re-performing the market/non-market test and for excluding subsidies on production (D.39) previously recorded as subsidies on products (D.31). However, Eurostat emphasized that, based on the latest 50% test results, MÁV Zrt. does not meet the 50% criteria in the last year anymore, and since the trend is declining a sector reclassification should be reconsidered.

The Hungarian statistical authorities confirmed that they closely monitor the operations of MÁV Zrt. and agree that the trend is declining and that the reclassification of MÁV Zrt. into the general government sector is just a question of time. The year 2020 was an exceptional year due to the COVID-19 pandemic and the 50% criterion would possibly not be met. They also made a point that if, for example, they would reclassify MÁV Zrt. into general government from the year 2019, it would improve government deficit by 0.4% points of GDP, but the impact on government debt would be small. However, the Hungarian statistical authorities informed that they would like to wait and see the results of the year 2020 first and then discuss the possible reclassification of MÁV Zrt. into the general government sector.

Eurostat agreed that the year 2020 was indeed exceptional due to the pandemic for all the countries and proposed to come back to this question later on, when more information will be available.

Findings and conclusions

Action point 2021/8

The Hungarian Statistical Authorities will continue to closely monitor the results of the 50% test of the Hungarian railway infrastructure company MAV Zrt. with a view of a possible reclassification into the general government sector (S.13). The detailed 50% test results for the years 2019-2021 will be provided to Eurostat.

Deadline: September 2022.

NHKV Zrt.

Introduction

The sector classification issue has been briefly discussed in the 2019 EDP dialogue visit. The NHKV Zrt. or National Waste Management Coordinating and Asset Managing cPlc. is an entity that was set up by the Hungarian Government at the beginning of 2016, with the purpose of implementing State tasks related to waste management. In essence, it is a unit that collects fees on behalf of government and which has a public mandate related to waste management. During the October 2018 EDP notification Eurostat asked the Hungarian statistical authorities whether the entity should not already be reclassified to S.13, because it did not comply with the 50% test. After discussions, the Hungarian statistical authorities reclassified NHKV Zrt. into the general government sector from 2017 onwards, by the April 2019 EDP notification. However, after the reclassification, the sales and output of NHKV Zrt. turned negative due to a “net” recording, i.e. the deduction of sold (transmitted) services from sales.

Discussion and methodological analysis

Eurostat thanked the Hungarian statistical authorities for providing a table on the recording of transactions of NHKV Zrt. for 2019. Eurostat pointed out that the issue is not related to the sector classification of the unit but rather to the negative sales and output of the unit. Eurostat asked if the Hungarian statistical authorities would agree on a “gross” recording, i.e. not deducting sold (transmitted) services from sales so that the output would not be negative in the accounts anymore.

The Hungarian statistical authorities agreed to change the recording from “net” to “gross” basis, i.e. not deducting sold (transmitted) services from sales, to avoid negative sales and output in the general government sector.

Findings and conclusions

Action point 2021/9⁸

The Hungarian Statistical Authorities will consider showing the results of the National Waste Management Coordinating and Asset Managing Plc. (NHKV Zrt.) on a gross basis

⁸ Action point completed, the recording was implemented in ESA tables in September 2021.

(from 2017 onwards), i.e. not deducting sold (transmitted) services from sales, to avoid negative sales and output in S.13.

Deadline: September 2021.

4.1.2. Changes in sector classification since the 2019 EDP dialogue visit

Introduction

Prior to the 2021 EDP dialogue visit, the Hungarian statistical authorities provided an Excel file with an updated list of corporations and NPIs reclassified in and out of the general government sector since the 2019 EDP dialogue visit. There were 82 entities reclassified into the general government sector and 3 corporations out of the general government sector since the previous EDP dialogue visit. 70 of them have been reclassified into the central government subsector and 12 into the local government subsector. The biggest corporations reclassified into the central government subsector were VOLÁNBUSZ Zrt. and VOLÁN Buszpark Kft. The main activity is public transport, and also operation of international and domestic coaches.

Discussion and methodological analysis

Eurostat thanked the Hungarian statistical authorities for providing the detailed list of the reclassified units and asked for details on the reasons for reclassifying *Optimum-Béta Ingatlanbefektetési Kft.* (one of the NCB foundation's subsidiaries) outside the general government sector. The Hungarian statistical authorities explained that this company has been sold to a private corporation.

Eurostat made a general comment that, as regards the list of reclassified units, it would be good to have the description of the reason for the reclassification, e.g. if the unit fails the 50% test, any of the qualitative tests, or some other reasons. As regards the time of reclassification, it would be useful to know from which year the unit has been reclassified.

The Hungarian statistical authorities agreed to provide this information to Eurostat. They also made a comment that most of the reclassifications are based on the market/non-market test, however, when it is known from the very beginning at the moment of creation of a corporation that it will have a relation only with government, such a corporation is immediately classified in the general government sector.

Eurostat enquired if there would be more sector reclassifications for the October 2021 EDP notification. The Hungarian statistical authorities confirmed this and explained that more and more universities' foundations are being created for which legislation is approved by the Parliament, usually at the end of April, so reclassifications should be expected for October. Eurostat asked to receive the list of newly reclassified units in the explanatory note of the October 2021 EDP notification. The Hungarian statistical authorities agreed to provide this information.

Eurostat also raised a question about the reclassification of the rail and infrastructure company GYSEV Zrt., for which the market test was below 50% for three consecutive years in a row. Eurostat briefly recalled that it is a Hungarian-Austrian rail and infrastructure company with its own rail network located on the territories of both

countries. The company is a joint-stock enterprise, owned by Hungary (65.64%), Austria (28.24%) and a holding belonging to Austrian STRABAG SE (6.12%).

The Hungarian statistical authorities agreed that this would be a difficult case, because this company is owned by Hungary and Austria and it operates in both countries. The issue has been discussed in the Hungarian EDP working group regarding the possibility to split the activities of the company into two parts, however there was not enough information to do so. According to the Hungarian statistical authorities, this company is considered as a joint venture.

Eurostat recalled that, in the case of a joint venture, the ownership structure of the company would be shared equally between parties, however, this is not the case as the majority belongs to the Hungarian government. The Hungarian statistical authorities informed that they will discuss it again in the Hungarian EDP working group.

Eurostat also enquired why in the *Questionnaire on government controlled units classified outside general government* there are some companies in the NACE 84 category “Public administration and defence; compulsory social security”, as such units should be included in the general government sector. The Hungarian statistical authorities agreed to check the *Questionnaire on government controlled units classified outside general government* and will resend the Questionnaire if needed.

Finally, Eurostat enquired on the sector reclassification/revision policy and whether the units failing the 50% test for three consecutive years in a row were reclassified from the first year when they fail the test. The Hungarian statistical authorities explained that usually they reclassify the unit from the third year onwards.

Eurostat emphasised that the current Hungarian reclassification practice is not adhering to the national accounts sectorisation principles, and is not in line with the sectorisation policy followed by other EU Member States. When a corporation fails the 50 % test three years in a row, it means that it becomes a non-market unit in the first year and, thus, the reclassification in government should be undertaken in the year when the unit fails the 50 % criterion for the first time. Eurostat also asked the Hungarian statistical authorities to update the description on their reclassification practice in the EDP Inventory accordingly.

The Hungarian statistical authorities made a general comment that, according to them, too many revisions might have an impact on the reliability of the data. Eurostat took note.

Findings and conclusions

Action point 2021/10⁹

The Hungarian Statistical Authorities, for the October 2021 EDP notification, will provide Eurostat with a detailed list of reclassified units to and out of general government (by sub-sector). The following information will be included: the year from which the reclassification was made and the main reasons for the reclassifications (e.g. failing the 50% test, qualitative criteria, unit ceased to exist, merger of units).

⁹ Action point completed, a detailed list was provided on 30 September 2021.

Deadline: September 2021.

Action point 2021/11¹⁰

The Hungarian Statistical Authorities will re-assess the sector classification of the Hungarian-Austrian rail and infrastructure company GYSEV Zrt., for which the market test is below 50% for three years in a row. The Hungarian Statistical Authorities will come back to Eurostat with the results of their analysis.

Deadline: September 2021.

Action point 2021/12¹¹

The Hungarian Statistical Authorities will check the Questionnaire on government controlled units classified outside general government in order to see whether the identified NACE 84 category is correct and will resend the Questionnaire if needed.

Deadline: September 2021.

Action point 2021/13¹²

The Hungarian Statistical Authorities will reconsider their current revision (reclassification) practises and will start to reclassify units from the first year in which the unit fails the 50% test. The Hungarian Statistical Authorities will also update the description in the EDP Inventory accordingly.

Deadline: September 2021.

4.1.3. Transactions rearranged through government accounts

Introduction

Prior to the EDP dialogue visit, the Hungarian statistical authorities provided a note describing the rerouting of significant transactions through government accounts, impacting government deficit and debt.

In 2017-2020, there was a rerouting of MAVIR Zrt. (Hungarian Independent Transmission Operator Company Ltd.) revenues and expenditures, which are connected with the redistribution of national wealth. MAVIR provides subsidies (recorded as D.31, D.39, D.63) according to the electricity law which stems from compulsory payments (recorded as D.214) and are accounted on MAVIR's separate account. As the revenues collected do not match the expenditures of the entity, the difference is recorded as AF.89 asset /liability in the government's financial accounts. Regarding the data source used, the Hungarian statistical authorities explained during the October 2019 EDP notification that the NSI signed a cooperation agreement with MAVIR. Under the agreement, according to the Law on official statistics, MAVIR sends the detailed data to the NSI on a quarterly basis.

¹⁰ Action point completed, GYSEV Zrt. was reclassified to S.1311 from 2017 onwards in the October 2021 EDP notification.

¹¹ Action point completed, an updated table was provided on 30 September 2021.

¹² Action point completed on 30 September 2021.

In 2018, expenditure (energy bill compensation) financed by a public corporation was rerouted via government accounts. According to the government decree no. 37/2018 (III. 8.), a one-off reduction of the gas bills of every gas-consuming household was financed by the deferred revenues of Magyar Földgázkereskedő Zrt., (Hungarian Gas Trading Ltd.). This was a public company, and part of the MVM group, and the main gas-trading operator in the country. The deferred revenues originate from the years 2016 and 2017, when the import price of the gas was lower than the regulated price for domestic households. The transaction was counterbalanced by equity withdrawal from MVM Zrt. in the financial accounts. Hungary informed that in late 2019 the Hungarian government sold the company to a MOL subsidiary (FGSZ Földgázszállító Zrt.) and therefore it is not a public entity anymore.

In 2018 and 2019, two corporations raised equity in their subsidiaries which are classified in S.13. MVM Zrt. raised equity in E-Mobi Nonprofit Kft, while MAV Zrt. raised equity in MÁV-START Zrt. Both transactions were rerouted through government accounts by recording F.5 equity withdrawal and D.99 capital transfer expenditure.

There are two student loan schemes in Hungary: SL1 since 2001 (available for every student in higher education) and SL2 since 2012 (available for students, but only for financing higher education cost (tuition fee)). Both are provided by the Hungarian Student Loan Center (Diakhitel Központ Zrt, a subsidiary of the Hungarian Development Bank (MFB)). SL1 is market scheme. The second type (SL2) of student loans is rearranged via government accounts, because according to the NSI most of the risks are transferred to the government. It is recorded as a loan claim (AF.4A) against the students and as a Maastricht debt liability (AF.4L). This issue has been discussed during the 2019 EDP dialogue visit.

Discussion and methodological analysis

Eurostat thanked the Hungarian statistical authorities for providing the note prior to the visit and asked to briefly recall the existing system put in place in order to identify the transactions, which could be rearranged through government accounts.

The Hungarian statistical authorities explained that they regularly check the transactions of large public corporations in order to identify if there were some activities carried out which would not be related to their main activity. This would be more a feature of national wealth redistribution, and thus rerouted through government accounts.

Eurostat commented that the rerouted amounts impacting government deficit or debt could be seen in EDP Questionnaire table 13 and in addition asked if there were any other rerouted transactions which do not have an impact on deficit or debt, e.g. tax/subsidy schemes. The Hungarian statistical authorities agreed to check if such schemes exist.

Eurostat also enquired if the Hungarian statistical authorities identified any transactions or loans undertaken in the context of the COVID-19 pandemic that should have been rearranged through government accounts, in particular loans provided to the corporations by the Hungarian Development Bank (MFB Zrt.).

The Hungarian statistical authorities explained that they have not identified any transactions that could be rearranged in the context of the pandemic, because they have provided direct support in the form of subsidies and transfers and these amounts have been included in government expenditure. As regards the loans provided by Eximbank, there was no need for rearrangement, because Eximbank is part of the general government sector. The Hungarian statistical authorities agreed to check and inform Eurostat regarding the loans provided by MFB Zrt.

Findings and conclusions

Action point 2021/14¹³

The Hungarian Statistical Authorities will check and inform Eurostat whether there is any scheme aimed at supporting green energy producers in Hungary, that should be rearranged through government accounts as tax/subsidy schemes.

Deadline: December 2021.

Action point 2021/15¹⁴

The Hungarian Statistical Authorities will check and inform Eurostat on whether there are any transactions undertaken by the Hungarian Development Bank (MFB Zrt.) in the context of the COVID-19 pandemic, which should be rerouted through government accounts.

Deadline: September 2021.

4.2. Implementation of accrual principle

4.2.1. Accrual taxes and social contributions

Introduction

In Hungary, taxes and social contributions are recorded using the time-adjusted cash (TAC) method. Taxes paid with a regular time lag are time-adjusted, while taxes paid irregularly (e.g. duties on inheritances and gifts) or taxes paid once or twice a year, but before the end of the current year, are recorded in accounts on a cash basis. Data sources for time adjustments are the monthly reports from the Hungarian State Treasury.

Prior to the EDP dialogue visit, the Hungarian statistical authorities provided a note explaining the recent changes in the recording of taxes and social contributions. In 2020, two new taxes have been introduced due to the COVID-19 pandemic in order to contribute to the Fund for Combating the Pandemic, the special retail tax and the special tax on credit institutions. Some smaller taxes have been abolished, suspended or merged. Also, due to the changes in taxation rules, accrual adjustments were applied for the corporate income tax (CIT), the income tax on energy suppliers and the innovation tax, from 2019 onwards. The year-end fill-up obligation was cancelled for these types of taxes. In case of the local tax on company sales, the fill-up obligation was abolished from 2020.

¹³ Action point completed. The requested information was provided on 22 December 2021.

¹⁴ The requested information was provided on 30 September 2021, the issue is under the evaluation.

Discussion and methodological analysis

Eurostat thanked the Hungarian statistical authorities for providing a note prior to the visit and asked them to give more details on the two new special taxes introduced in order to mitigate the negative budgetary effect of the pandemic.

The Hungarian statistical authorities explained that the special tax on retailers, having annual revenues of over 500 HUF million, was introduced in May 2020. The tax base is net turnover. This tax would be permanent, paid monthly with a proportion 1/12 of net turnover of previous year t , with a final settlement in May $t+1$ and would be recorded on cash basis.

As regards the special tax on credit institutions, the Hungarian statistical authorities recalled that it was a one-off tax established by a new Government Decree 108/2020 (IV. 14.) The taxable entities are credit institutions with a balance sheet value above 50 HUF billion as a tax base and a tax rate of 0.19%. This tax would be recorded on a cash basis with no time adjustment. The newly introduced special tax would be deductible from the tax liability of the existing special tax on financial institutions, over the next 5 years (a non-payable tax credit).

Eurostat recalled that this new tax was already discussed during the April 2021 EDP notification. At that time Eurostat raised questions on whether this new tax essentially equates to a one-time advance payment of the existing tax on financial institutions and, as such, should be recorded as an advance payment (F.89L) rather than tax revenue in 2020. The Hungarian statistical authorities reasoned that the tax is levied only to credit institutions (a sub-group of financial institutions), that the tax has a different tax base (it is levied on a balance value exceeding 50 bill HUF, whereas the tax on credit institutions is levied on the total balance sheet value) and that the applicable tax rate is different (a unique rate of 0.19%, whereas there is a differentiated rate foreseen for the tax on financial institutions). Consequently, it cannot be assimilated to an advance on the existing tax. Based on the above explanations, the Hungarian statistical authorities recorded the newly introduced special tax on credit institutions as tax revenue in 2020 (0.1% of GDP).

The Hungarian statistical authorities explained that, in relation to the newly introduced tax on credit institutions, government modified the existing regulation (Act LIX 2006, paragraph 4A section 20-21) on the special tax on financial institutions, introducing a non-payable tax credit for 2021-2025. According to the law, a reduction may be applied by a credit institution for the 5 tax years following the tax year 2020, up to a maximum of 20 % of the liability of the special epidemiological tax liability of credit institutions for the tax year 2020. According to the assessment of the Hungarian statistical authorities, this is a wastable, non-payable tax credit, there is a high probability that the tax reduction will be applied, but there is no guarantee set in the law. If something would happen at the level of the balance sheets of the credit institutions, then entities would not get this reduction.

The 2019 accrued amounts of the corporate income tax (CIT), the income tax on energy suppliers (energy tax) and the innovation tax fill-up obligations were discussed extensively. An account of the discussions in the recent EDP notifications was undertaken. During the October 2019 EDP notification the Hungarian statistical authorities informed Eurostat that there was a change in the tax payments and that the

2019 December CIT, the energy tax and the innovation tax fill-up obligations had been abandoned. This resulted in much higher tax settlements in May 2020. There were transitional rules for the year 2019, as corporations had the option to follow the previous payment pattern (pay in December 2019) or choose the new option (pay in May 2020 at the time of tax declaration). During the October 2019 EDP notification, the Hungarian statistical authorities provided a table showing the estimated amounts for 2019 and 2020.

Discussions continued during the October 2020 EDP notification. Due to the COVID-19 pandemic, the deadline for the 2019 CIT and for the energy and innovation tax declarations was postponed to 30 September 2020, thus the amount recorded in EDP Questionnaire table 5 in F.89 related to D.5 was still an estimate. The Hungarian statistical authorities confirmed this and explained that audited and corrected tax declaration data would be available only at the end of 2020.

During the April 2021 EDP notification this issue was revisited. Eurostat asked to receive the final adjustments of CIT, and of the energy and innovation tax fill-up obligations. The Hungarian statistical authorities replied that they would have final adjustment data in the October 2021 EDP notification and also explained that the balance sheet closing date of some (mostly multinational) companies is not on January 1, but – in most common cases – March 31 or September 30, as their fiscal year does not coincide with the calendar year. Based on the available data, the Hungarian statistical authorities did not see any evidence that would justify a significant adjustment of their current estimates.

Eurostat asked to explain what method was used before the removal of a fill-up obligation for the recording of CIT and of the energy and innovation taxes. The Hungarian statistical authorities explained that, until 2018, they used the cash method and that they would record it on a cash basis again from 2020 onwards, because cash data is a good proxy for accrual recording and it is easier and faster to be collected. 2019 was a transitional year, as in that year a change occurred. Although the tax fill-up obligation in December of the year t has been abolished, the final tax settlement date has not changed and would be May of year $t+1$.

Eurostat took note of the changes in the tax system and of the preference to record CIT on a cash basis from 2020 onwards. However, Eurostat stressed that the correct recording must be assured in the transitional years, i.e. the amounts belonging to 2019 should be removed from 2020 and recorded as a decrease in receivables (F.8), so that the 2020 tax revenue would not be overestimated. The Hungarian statistical authorities explained that, as regards the affected tax categories, the accrued 2020 tax revenue is not overestimated, but the issue is that the 2019 revenue was too low. The Hungarian statistical authorities explained that the F.8 claim created in 2019 would remain unchanged until the next change in the corporate income tax system. It can be interpreted, in a way, as if the settlement of the tax liability, takes place on the 31st of May every year, and a new liability in the same amount would emerge by the end of each year.

The Hungarian statistical authorities finally suggested that they would discuss once more the recording of the CIT method and would provide Eurostat with a note on their analysis.

Findings and conclusions

Action point 2021/16¹⁵

The Hungarian Statistical Authorities will provide to Eurostat, before the October 2021 EDP notification, a note on the current and future recording of Corporate income tax and Energy tax, before and after the abolishment of their December fill-up obligations, and will quantify the amounts for the period 2019-2021.

Deadline: September 2021.

4.2.2. Accrued interest

Introduction

In Hungary, interest expenditure is recorded on a cash basis in the working balance. It covers all interest expenditures of legal central government. Flows associated to discounts and premiums are included in the working balance. For the main units of S.1311, the Debt Management Agency (AKK) calculates accrual data on interest expenditure. Regarding securities other than shares, data for the main unit of S.1311 are available to the NSI and the NCB on a security-by-security basis. However, the calculation of accrual data is implemented by the AKK using the method developed by the statistical authorities.

For units reclassified into S.1311, interest expenditure data is on an accrual basis. For corporations, the data source is the income statements, while for non-profit institutions, the annual survey on NPIs. S.1313 interest is available on a cash basis, both for the main units and the other budgetary institutions. Accrual adjustment is made by the NCB using securities statistics and banking reports. Interest of units reclassified into S.1313 are on an accrual basis. S.1314 interest data is available on a cash basis.

Prior to the EDP dialogue visit, the Hungarian statistical authorities provided a supplementary table on interest recording for 2017-2020.

Discussion and methodological analysis

Eurostat thanked the Hungarian statistical authorities for providing the supplementary table and enquired on which institution has compiled it. The Hungarian statistical authorities explained that it was compiled by the NCB and it covered the consolidated central government sub-sector data and all instruments, i.e. securities and loans. For the stock of coupons a revaluation effect was recorded (item 2). Eurostat asked why the revaluation and OVC in discounts and premium (item 16) was not reported. The NCB explained that they could not split the revaluation between the coupon part and the discount/premium part. The NCB made a general comment on the difficulties to fill in this table.

Eurostat and the NCB further discussed some particular items and formulas in the table. The NCB mentioned that there was a lengthy discussion a few years ago on the recording of interest and that Eurostat agreed with their method used. The Hungarian statistical authorities confirmed that interest recording is described in the EDP Inventory.

¹⁵ Action point completed, the recording issues were solved during the October 2021 EDP notification.

Eurostat wanted to clarify where the amounts of coupons sold (item 5) were reported in EDP tables. The NCB explained that all items are included in the lines “The difference between interest paid (+) and accrued (D.41)”. Eurostat also took note that there is no capitalisation on indexed securities in Hungary.

Eurostat asked for further clarifications on the reported stocks of discounts/premiums (item 7) and on the amortisation of discounts premiums (item 12). Both items are reported net, without splitting further between premiums and discounts. The stock position sign suggests that premiums are observed, and therefore one would expect amortisation of premium to be recorded with a “+” sign. However, in 2020 the amortisation turned negative and it could be understood as an amortisation of a discount. It was noted that the sign convention in the template might not be always obvious.

Eurostat and the Hungarian statistical authorities agreed to further discuss the recording of interest on a bilateral basis.

Findings and conclusions

Action point 2021/17¹⁶

The Hungarian Statistical Authorities and Eurostat will continue discussing on a bilateral basis the recording of interest. Annex 2, the table on interest recording will be updated.

Deadline: September 2021.

4.2.3. EU flows

Introduction

EU funds are recorded as imputed budgetary receipts (in the WB) based on cash expenditure. Expenditures related to final use by budgetary units or transfers to non-fiscal units include a national co-financing part as well. Detailed economically classified expenditure data are available to make the distinction between final use by fiscal unit or transfer to non-fiscal non-government units.

For the 2019 EDP dialogue visit, the Hungarian statistical authorities had prepared a detailed note on the recording of the entire EU flow cycle (with a particular focus on data sources used and examples in recording) and incorporated it into the EDP Inventory.

Prior to the 2021 EDP dialogue visit, the Hungarian statistical authorities provided a table on EU flows for 2017-2020 as well as a note on the recording of EU financial instruments, describing the schemes, the recording in NA and EDP tables, the managing units and their sector classification.

Discussion and methodological analysis

Eurostat thanked the Hungarian statistical authorities for providing the table on EU flows for 2017-2020, Annex 3. Eurostat noted that in this table there are some amounts

¹⁶ The relevant information was provided on 30 September 2021.

recorded in the local government subsector S.1313 that are not reported in EDP Questionnaire table 6. The Hungarian statistical authorities agreed to adjust the EDP Questionnaire table 6 and include the missing amounts.

Eurostat also enquired about the amounts in Annex 3 related to other central government bodies. The amounts have been reported in 2017-2019, however in April 2020 it was reported as “M” or “not applicable”. The Hungarian statistical authorities explained that annual data were not yet available and could be provided only in October. Eurostat then suggested recording it as “L” or “not available”.

Next, the discussion continued on some technical aspects on the recording of EU flows and on the EU flat-rate correction in EDP Questionnaire table 6 as well as on the correction of some differences in the formulas within the table.

Regarding the inconsistency between the variation of stock and transaction due to revaluations, Eurostat asked to include the explanation in the comments. Eurostat also took note of the suggestion from the NCB to update EDP Questionnaire table 6 and to include the revaluations in the table.

Regarding the EU flat-rate correction, Eurostat briefly recalled the open AP 2020/2 that is continuous until the complete settlement of the EU financial correction. Eurostat asked the Hungarian statistical authorities if it would be possible to record this adjustment in separate lines in both EDP table 2A and EDP Questionnaire table 6 and not together with “other accounts receivable relates to EU transfers”.

The Hungarian statistical authorities agreed to adjust both the EDP table 2A and EDP Questionnaire table 6 taking into account all Eurostat comments.

Later on, discussions continued regarding the recording of EU financial instruments. Eurostat thanked for the note provided prior to the visit. It was explained in the note that the managing unit is central government, which disburses money via the Hungarian Development Bank (MFB Zrt.), however all the transactions and assets are recorded in the central government’s WB and balance sheet. The Fund of Funds has been created in 2016. The EU financial instruments are mainly loans and equity.

As regards the recording in EDP tables, the Hungarian statistical authorities confirmed that there are no amounts included in EDP table 2 related to EU financial instruments; amounts are recorded in EDP table 3. Eurostat then asked if the loans related to financial instruments are also included in EDP Questionnaire table 8.1 and under which item. The Hungarian statistical authorities explained that the stock of loans is included in EDP Questionnaire table 8.1 under the item “Claims against public corporations”.

Eurostat recalled that, according to the rules, the cash received by the Fund of Funds from the EU should be recorded as a payable (F.89) of central government against the EU. However, in EDP Questionnaire table 6, the line “Stocks of payables of general government against the EU” decreased significantly in the year 2020. Eurostat asked if the EU financial instruments are reported in this line and, if yes, then why the amount is so small. The Hungarian statistical authorities informed that they would check the amounts and come back to Eurostat.

Finally, Eurostat enquired if there have been any loan cancellations which would lead to a decrease in payables (F.89) against the EU. The Hungarian statistical authorities explained that did not observe loan cancellations.

Findings and conclusions

Action point 2021/18¹⁷

The Hungarian Statistical Authorities shall send to Eurostat, for each upcoming EDP notification, until the complete settlement of the flat-rate EU financial corrections discussed during the April 2020 EDP notification, a detailed table which should contain, in addition to any information they deem appropriate, at least the following information in relation to the EU flows affected by said corrections, each broken down per year, audit engagement and operational programme:

- *amount of EU financing spent and reimbursed;*
- *amount of EU financing spent and requested for reimbursement, but not yet reimbursed;*
- *amount of EU financing spent but not yet asked for reimbursement;*
- *amount of EU financing available but not yet spent;*
- *amount of EU correction executed (notified and accepted) and its breakdown per the bullet points above;*
- *the amount of EU correction recorded in national accounts, by indicating the affected ESA accounts and the specific lines in the EDP and EDP Questionnaire tables where these were presented.*

Deadline: until complete settlement of EU financial correction.

Action point 2021/19¹⁸

The Hungarian Statistical Authorities will update the EDP Questionnaire table 6:

- *Line 27, Transactions in Currency and deposits (F.2) relating to the EU, should be reported so that line 32, Check, is zero.*
- *The explanation on the inconsistency between the variation of stocks and transactions due to revaluations should be included in the comments.*
- *The amounts reported in S.1313 in Annex 3, Table on EU flows, should be also reported in EDP Questionnaire table 6, under line 20.*
- *The adjustment for the EU flat-rate correction should be reported in a separate line both in EDP table 2A and in EDP Questionnaire table 6.*

Deadline: September 2021.

Action point 2021/20¹⁹

The Hungarian Statistical Authorities will provide to Eurostat the data on the stocks of F.4, F.5 and F.8 related to EU financial instruments and will explain where and how they are reported in the EDP notification and Questionnaire tables 4 and 6.

Deadline: September 2021.

¹⁷ Renamed action point, previously 2020/2. The table was provided on 30 September 2021.

¹⁸ Action point implemented in the context of the October 2021 EDP notification.

¹⁹ Action point implemented in the context of the October 2021 EDP notification.

4.2.4. Military expenditure

Introduction

Data sources for military equipment in Hungary are budgetary accounts of the Ministry of Defense (MoD) and the investment survey is run by the NSI. In national accounts, the acquisition of military equipment is recorded using cash based data, corrected for payables and receivables. During the 2019 EDP dialogue visit, the Hungarian statistical authorities explained that, due to data availability limitations (the data related to military expenditure is cash based) it is not possible to split the data related to other accounts receivable/payable (F.8) into military and non-military categories.

Concerning long-term rental agreements, the Gripen contract is an operating lease of 14 military aircraft from an industrial supplier. The contract identified a 10-year rental period starting from the availability of the first reconstructed aircraft, which was actually in 2006 and 2007. From 2012, the rental period was extended until 2026. The expenditure in connection with the Gripen contract and the GFCF of the MoD are recorded on accrual basis.

A special model has been worked out for the reclassification of the operating lease into a financial lease. Adjustments in EDP table 2A are the following: the annual payment is recorded in the WB, the difference between the annual payment and the equipment service is recorded under *Loans, granted* (within *Financial transactions included in the working balance*), while the adjustment for the imputed interest is recorded under *Other adjustments*. Since the payments and the imputed loan are denominated in a foreign currency (SEK), as per the contractual terms, the revaluation is calculated due to exchange rate movements.

Discussion and methodological analysis

Eurostat asked to clarify again what kind of data sources are used for the recording of military expenditure in EDP Questionnaire table 7.1 and whether it is on a cash or an accrual basis. The Hungarian statistical authorities explained that they have data collection program from the MoD about gross fixed capital formation (GFCF) and inventories, military equipment, the Gripen contract and the annual report of the MoD. The NSI further explained that the annual reports of government institutions are on a cash basis, but an accrual adjustment is made for GFCF based on the balance sheet and the statistical data collection, which collects GFCF data on accrual data.

Eurostat also enquired about the new large military upgrading programme Zrínyi 2026 and whether new data sources are available or current data sources are used. The NSI explained that this programme is covered by the statistical data collection on GFCF as well as by a special data collection on military equipment from the MoD. Nevertheless, sometimes it is difficult to define what is to be seen as military equipment. The Hungarian statistical authorities recalled the upcoming high level meeting between the NSI and MoD in order to discuss the improvement in data collection and the need to use the ESA 2010 definition for military equipment. For the time being, the data collection is on an annual basis, but the NSI would like to move to a quarterly data collection basis. Eurostat took note of the explanations.

Findings and conclusions

No action points identified (see Action point 2021/2 above).

4.3. Recording of specific government transactions

4.3.1. Recording of government measures undertaken in the context of COVID-19

Introduction

The Hungarian statistical authorities explained in the note provided together with the April 2021 EDP notification that government has implemented a series of measures to alleviate the impact of the pandemic on the economy and to stimulate the economic recovery. Two funds were set up to finance the related expenditures, the Epidemic Prevention Fund to finance health-related expenditures, and the Economic Recovery Fund to restart and stimulate the economy. There were two taxes introduced in 2020 in order to contribute to the Fund for Combating Pandemic with a positive impact on 2020 revenue.

The supplementary table for reporting measures taken in the context of the COVID-19 pandemic (Annex 8) was transmitted to Eurostat for the first time in April 2021 with detailed annual revenue and expenditure measures.

Discussion and methodological analysis

Eurostat thanked the Hungarian statistical authorities for providing the table on COVID-19 measures (Annex 8) and enquired if there have been any tax deferral schemes introduced due to the pandemic.

The Hungarian statistical authorities explained that, in addition to the two newly created funds, discretionary tax measures were introduced. VAT refunds have been sped up, so tax deferral schemes have been introduced within the same year (from May to September 2020) for annual tax returns, but this had no impact on annual accrual data. Some minor family support measures were also introduced, but they were small in quantitative terms.

As regards the COVID-19 measures related to taxes and social contributions, the Hungarian statistical authorities confirmed that there have been no postponements and all the suspended, abolished or exempted taxes and social contributions have been treated as foregone revenue in 2020 (with negative impact on B.9) and will never be collected.

Regarding the COVID-19 expenditure measures, Eurostat noted that it is not immediately clear why some measures are related to the COVID-19 pandemic, e.g. spending on security and defence. The Hungarian statistical authorities explained that, when filling in the Annex 8, they have followed the principle that all the expenditure made from the Epidemic Prevention Fund or the Economic Recovery Fund are treated as COVID-19 measures. Since the measure “spending on security and defence” have been financed from the Economic Recovery Fund, it has been recorded in Annex 8 as a COVID-19 measure.

Eurostat took note of the explanation but repeated that it is still not immediately clear why such measures as “support of agricultural sector”, “spending on security and

defence”, “urban and rural infrastructure development”, “investment programmes in different sectors (housing, energy, info-communication)” and similar items are treated as COVID-19 measures and recorded as government expenditure. In addition, there are even some measures recorded as capital injections (F.5A).

Eurostat asked the Hungarian statistical authorities to explain why the very large capital injection into the energy company MVM Zrt. (207.4 HUF billion) was considered to be a COVID-19 measure. The Hungarian statistical authorities repeated that it was financed from the two newly created funds and thus recorded as COVID-19 measure. The Hungarian government made a clear decision to support the private sector and wanted to increase activities in the defence and energy sectors. Eurostat took note of the explanations.

Eurostat further enquired about the time of recording of COVID-19 related subsidies. In particular, on whether companies have to apply to get the subsidies and whether it is likely that a claim would not be approved. Depending on the nature of the administrative procedures in place, the time of recording could be at the time of submission of claim, at the time the claim is validated or accrual could be proxied by cash. The Hungarian statistical authorities explained that subsidies are granted quasi automatically and that the time lag between the validation of claim and the cash payment is very short, therefore cash is a good proxy for accrual.

As regards the loans provided in the context of COVID-19 (working capital loan for companies to ensure liquidity and Eximbank loans) Eurostat asked if the Hungarian statistical authorities have analysed if there are any conditions allowing these loans not to be repaid later on, thus some amounts to be booked as capital expenditure (D.9) at inception. The Hungarian statistical authorities explained that these loans are true loans, and should be repaid. Eurostat recalled that, as in national accounts the principle of substance over legal form applies, the loans should be analysed taking this into account.

Finally, Eurostat pointed out that in a potential future publication of a comparative analysis of all the COVID-19 measures undertaken by governments across the Member States, there might be an issue regarding Hungarian COVID-19 measures. It would be difficult to justify the current classification of some measures as Covid related, as they, in Eurostat’s view, could be seen only as indirectly linked to COVID-19. Eurostat emphasised that there have been no similar COVID-19 measures reported in other Member States and concluded that it should be treated as an open issue in this respect.

Findings and conclusions

Action point 2021/21²⁰

Regarding government measures undertaken in the context of the COVID pandemic, Eurostat stressed the importance of comparability of data across the Member States. Eurostat noted that the discussions will continue on a number of COVID-19 measures, undertaken by the Hungarian government (such as, capital injections (F.5) in security and defence sectors, venture capital funds, public corporations), especially given that, it is not immediately clear how these measures are linked directly to the COVID-19

²⁰ The relevant information was provided on 30 September 2021.

pandemic. Moreover, similar items as those included by the Hungarian authorities do not seem to have been included as government measures in any other Member States.

Deadline: Reassessment of the measures, before September 2021.

4.3.2. Guarantees

Introduction

In Hungary, central government extends the most sizeable government guarantees while local government could also provide some small ones as well. The beneficiaries are financial and non-financial corporations, households and S.13 itself (local government, non-financial corporations and non-profit institutions reclassified into S.13). There are three types of guarantees in legal terms: individual guarantees on borrowing, guarantees based on a legal act (one part of that is guarantees on borrowing, the other part is guarantees on assets) and guarantees backed by a government guarantee (these are all guarantees on assets).

Data related to stocks of guarantees are available for statisticians. The availability of details depends on the type of the guarantee. Data related to guarantees based on a legal act are by institutions (who is the provider of the guarantees) and, as for the case of individual guarantees by corporations (who is the receiver of the guarantee), available. Depending on the type of the government guarantee, there are individual data available or just aggregated data. Calls on government guarantees enter the WB and are accounted for as expenditure. At the local level, calls on guarantees enter the WB as expenditure as well. However, individual data on stocks of guarantees and the related flows are not available, but only aggregated data.

Guarantee calls are in all cases recorded as capital expenditure (D.9) in NA similarly to public accounts. A debt assumption is recorded when there is an explicit decision made by government. Repayments are recorded as revenues in NA.

Standardised guarantees are recognised and recorded in Hungarian national accounts. They cover two groups of household liabilities: housing loans and the pre-natal funding to young married couples. The latter was introduced in 2019. There had been a sequence of four schemes of housing loans over time, starting in 1998. According to the model set up by Hungary, since 1998 the liability of government has been built up gradually (as the guarantees were provided), counterbalanced by a government expenditure in NA. Calls are recorded as expenditure in the WB, these have to be neutralized and therefore, in EDP table 2A, an adjustment line under “*other accounts payable*” is shown.

Prior to the dialogue visit, the Hungarian statistical authorities provided Annex 4, a list of new guarantees, guarantees called, repayments and stocks by central government for 2017-2020.

Discussion and methodological analysis

Eurostat thanked the Hungarian statistical authorities for providing the table on guarantees (Annex 4) and discussed some differences between the total stock of

guarantees reported in EDP Questionnaire table 9.1 and this table. Eurostat also pointed out that the year 2017 was missing for guarantee cash calls and repayments. The Hungarian statistical authorities agreed to update the table and provide it to Eurostat. They also promised to check if there have been any guarantees provided by the local government subsector and come back to Eurostat.

Eurostat asked for explanations on why in EDP Questionnaire table 8.1, item 5a) “claims from guarantees” are reported as zero while in EDP Questionnaire table 9.1, item 14 “Repayments by the original debtor recorded as repayment of claim” some amount is reported in 2019. Eurostat also asked to recall to which call of guarantee these claims are related. The Hungarian statistical authorities explained that this is a very old issue and it relates to the special bond issued by the BTA Bank in Kazakhstan. It was a claim which has been repaid with a bond. This bond was an asset of the Hungarian government, it was sold and revenue has been recorded as financial transaction and therefore included in EDP Questionnaire table 9.1 under line 14.

Eurostat asked if there are other claims from guarantees and if the Hungarian statistical authorities could provide the outstanding stock of claims from guarantees for the year 2020. The Hungarian statistical authorities explained that they do not record government claims related to guarantees, the issue discussed was a special case, and that guarantee calls are always recorded as capital expenditure (D.9). Eurostat took note that the issue of BTA bank was a one-off event and that there is no general practise in Hungary of recording guarantee calls as claims.

As regards new guarantees and taking into account that there is a law for each government guarantee in Hungary, Eurostat asked to explain why in EDP Questionnaire table 9.1, item 3 “Amounts of new guarantees provided” is reported as “L” or “not available”. The Hungarian statistical authorities explained that they do not have direct data sources, and that the data collection on new guarantees relies on the stocks and not on the flows.

Eurostat further enquired why in the in EDP Questionnaire table 9.1, item 2 “Stock of provisions” is reported as “M” or “not applicable” although all the entities providing the guarantees make some estimations on guarantee calls. The Hungarian statistical authorities promised to check and come back with the answer to Eurostat.

As regards the standardised guarantees, Eurostat briefly recalled that there was a new large “Pre-natal funding to young married couples” standardised guarantee scheme introduced in Hungary in 2019 as part of the “Family Support Package”. The scheme includes loans with subsidised interest rates, which could be forgiven under certain conditions. The expected losses of the Pre-natal funding scheme have been calculated and included in government accounts as capital expenditure (D.9).

Eurostat asked the Hungarian statistical authorities to provide a note detailing any updates to the underlying assumptions on the expected losses of the Family Support package, however it was explained that the assumptions have not changed. The Hungarian statistical authorities also explained that it is too early to make any changes in

the assumptions. Since the scheme started in 2019, it is better to wait until the end of 2021, to have longer time series and then review the assumptions for the estimations. No changes are expected before the April 2022 notification.

Eurostat enquired if any other standardised guarantee schemes other than the Family Support Package, are included in EDP Questionnaire table 9.4. The Hungarian statistical authorities explained that standardised guarantees on housing loans are included as well.

The Hungarian statistical authorities further explained that the transactions in guarantee calls relate to the housing scheme reported in EDP Questionnaire table 9.4. Eurostat noted that the capital expenditure (D.9) related to standardised guarantees is not reported in EDP Questionnaire table 9.3, under line 3d. The Hungarian statistical authorities agreed to check and update the Questionnaire tables.

Finally, Eurostat asked the Hungarian statistical authorities if there have been any new standardised guarantee schemes introduced as COVID-19 measure in Hungary. The Hungarian statistical authorities confirmed there no such scheme was set up. As regards the Eximbank guarantee program, it is treated as a one-off guarantee scheme.

Findings and conclusions

Action point 2021/22²¹

The Hungarian Statistical Authorities will reconcile the stocks of government guarantees, guarantee cash calls and repayments on guarantees reported prior to the visit in the Annex 4 and the reporting in EDP Questionnaire table 9.1.

Deadline: September 2021.

Action point 2021/23²²

The Hungarian Statistical Authorities will consider updating the EDP Questionnaire table 9.1 by including the stock of provisions, available in public accounts, in item 2 of the table.

Deadline: September 2021.

Action point 2021/24²³

The Hungarian Statistical Authorities will update the EDP Questionnaire table 9.3 and include capital transfer expenditure relating to provisions on standardised guarantees, which are also reported in EDP Questionnaire table 9.4, under line 3d.

Deadline: September 2021.

Action point 2021/25²⁴

²¹ Action point implemented in the context of the October 2021 EDP notification.

²² Action point implemented on 30 September 2021.

²³ Action point implemented in the context of the October 2021 EDP notification.

²⁴ Action point implemented in the context of the October 2021 EDP notification.

The Hungarian Statistical Authorities will provide Eurostat with the amounts of guarantees extended by the local government subsector (S.1313) for the period 2017-2020.

Deadline: September 2021.

4.3.3. Debt assumptions, claims, debt cancellations and debt write-offs

Introduction

In Hungary, claim cancellations do occur and these cases are reported in EDP tables. This is the case also for claims on loans to foreign government. There are also specific provisions for write-off of very small amounts of claims, related to payments for services, administrative fees, penalties, but not to claims on loans. Write-offs on loans can be accounted only for cases where the counterpart does not exist anymore, thus in most cases after liquidation of the counterpart. Cancellation of claims can be made only upon specific authorization of a law within the boundary of central level of legal government. The same applies for local governments, where these kinds of specific provisions can be set by local government decree.

From 2014, with the introduction of the new public accounting system in Hungary, claim cancellations are not automatically recorded as expenditure in public accounts and are therefore not included in the WB in EDP tables. Consequently, in case government cancels a claim, a separate adjustment line appears in EDP table 2A. Regarding government claims against public corporations, source data come from the balance sheets of central government bodies collected and transmitted by the Treasury. At time of the April EDP notification, only preliminary data are available.

Claims against other government subsectors mainly include short-term loans to S.1314.

Discussion and methodological analysis

Eurostat enquired if there have been any issues regarding the recording of debt assumptions, claims, debt cancellations or write-offs. The Hungarian statistical authorities confirmed that there were no changes in the recording and they have identified no specific issues to report. As regards claim cancellation against the social security funds (health insurance fund), amounts are recorded both in EDP table 2A and 2D under line *Other adjustments (+/-)* and are consolidated between subsectors.

Eurostat further asked what the increase in foreign claims reported in EDP Questionnaire table 8.1 refers to. The Hungarian statistical authorities explained that it relates to the loans granted by the Eximbank to foreign partners.

Although EDP Questionnaire table 8.1 is filled by the NCB, Eurostat asked about the loans given by the budgetary units and whether the MoF keeps any loan register, and monitors the repayments, interest payments, etc. The NCB explained that, from their side, they use balance sheets of general government units. Loans granted by the budgetary units are summed up and claims are recorded in table 8.1, and they are not analysed on item by item basis. The MoF added that they have an accounting framework for the budgetary institutions and budgetary chapters reporting the transactions. Loans

provided by authorised budgetary institutions appear in the balance sheet of government. These loans have a special code, so the MoF can identify and analyse these transactions.

Eurostat further asked if there are any loans extended directly by the Treasury. The Hungarian statistical authorities explained that the Treasury, as an institutional unit itself, does not grant loans to the partners outside government.

Findings and conclusions

Action point 2021/26²⁵

The Hungarian Statistical Authorities will perform a one-off exercise and provide Eurostat with the split of central government claims, reported in EDP Questionnaire table 8.1, by main lending units.

Deadline: September 2021.

Action point 2021/27²⁶

The Hungarian Statistical Authorities will update the section of the EDP Inventory on debt assumptions, claims, debt cancellations and write-offs, noting the change in the presentation in EDP table 2A, in particular, that the amounts of debt cancellations are not recorded anymore in the working balance. More details will be included on the central government claim cancellations against Health Insurance Fund (S.1314).

Deadline: December 2021.

4.3.4. Capital injections in public corporations, dividends, superdividends

Capital injections

Introduction

In Hungary, capital injections and purchases of equities in cash are part of the working balance of central government in EDP table 2A. Amounts related to equity transactions in statistics are neutralised in the line *Equities* under *Financial transactions included in the working balance*. Capital injections in kind, if there are any and if an adjustment is needed, are recorded under the item *Other adjustments*.

MNV Zrt. (Hungarian National Asset Management) is the main assigned institution for managing state-owned corporations and privatisation. It belongs to the State, its balance sheet is integrated into the government's balance sheet and its transactions are part of a dedicated state property management chapter of the national budget from 2008. Beginning with 2011, MFB Zrt. (the Hungarian Development Bank) also became an entity (in addition to its banking business) managing public corporations in a similar way as MNV Zrt. Similarly, the National Land Fund also has the same asset-manager status, by law, with respect to arable land.

The capital injection test is jointly performed by the NSI and NCB. For S.1311, individual data (by beneficiary) is available on a monthly basis, for any capital injections

²⁵ Action point completed. The requested information was provided on 30 September 2021.

²⁶ Action point completed. The requested information was provided on 22 December 2021.

made by MNV Zrt. or MFB Zrt. Based on these data, there is the possibility to examine the beneficiary on a case by case basis, and to evaluate whether it is profit or loss-making, what is the expected rate of return, etc. Besides the activity of MNV and MFB, expenditure related to capital injections may be included under other budgetary chapters, too (for example, in the chapter on expenditure related to the MoF). In the latter case there are monthly reports available, which may contain detailed information related to the transaction or, alternatively, the annual reports can be used.

As regards S.1313, transactions of purchases of shares and capital injections in cash are part of the budget, thus they are part of the working balance in EDP table 2C. However, individual data on local government's capital injections are not available, therefore a ratio is used to separate capital transfers and equity injections. Data of year 2010 were examined, the capital injection test was made and the split between injection into loss making and profitable corporations was 37-63%.

Discussion and methodological analysis

Eurostat thanked the Hungarian statistical authorities for providing a list of capital injections for the period 2017-2020 by beneficiary, by treatment in national accounts, and by sub-sectors.

Eurostat enquired if the “Autoipari Probapalya Zala” and “Zalazone” is the same company. The Hungarian statistical authorities explained these are different units, the first one is developing a full range of testing infrastructure and service portfolio for autonomous (self-driving) or network-linked vehicles. The second one relates to a military project, it would produce military equipment and would develop some testing infrastructure to test tanks and other military equipment.

Eurostat asked to explain the reasons for splitting the capital injection between equity (F.5) and capital transfer (D.9) of this military project. The Hungarian statistical authorities explained that it is a capital injection by “Zalazone” into a new Hungarian-German joint venture company. Part of the capital injection was recorded as F.5 (exactly the same amount for both partners), while another part was a capital injection by the Hungarian government into this new joint venture and was recorded as capital transfer (D.9). Eurostat thanked for the explanations.

Eurostat further questioned the large (0.5% of GDP) capital injection into the electricity company MVM Zrt. and why it was recorded as F.5 for its full amount. The Hungarian statistical authorities explained that the purpose of this capital injection was to finance the purchase of equities of two energy companies: 25% of shares of E.ON Hungária Zrt. and 100% of shares of ÉMÁSZ Hálózati Kft. Eurostat asked if a sufficient return is expected in the future, especially given the size of this capital injection. The Hungarian statistical authorities explained that MVM Zrt. is a profitable company, it does not have accumulated losses, pays regularly dividends and there would be a sufficient rate of return on this investment. Eurostat took note of the explanations.

Next, Eurostat enquired about the capital injections recorded as F.5 into “Széchenyi Tőkealapkezelő”, which is classified in the financial corporations sector (S.12). The Hungarian statistical authorities explained that “Széchenyi Tőkealapkezelő” manages EU funds, it is like a Fund of Funds creates financial assets via capital programs and expects

significant returns on venture capital investments. Eurostat then asked if any transactions related to these funds are rerouted via government accounts. The Hungarian statistical authorities explained they do not reroute any amounts, furthermore they do not consider that they should be rerouted. The money comes through the government, all the loans and equity are recorded on the asset side of the government and liabilities are recorded vis-à-vis the EU so these amounts cannot be rerouted again through the government accounts. Eurostat noted that there are aspects that are not clear and that it might come back to this issue in the future.

As regards capital injections in S.1313, Eurostat recalled that the 2010 ratio has been used to split F.5 and D.9 until now and asked if there are plans to examine more recent years for capital injections in S.1313. The Hungarian statistical authorities agreed to re-examine and make corrections in the ratio if needed.

Eurostat and the Hungarian statistical authorities also discussed in detail the differences between the list of capital injections provided prior to the meeting and the amounts reported in different EDP Questionnaire tables 2.1, 2.2 and 10.1A. After some clarifications, the Hungarian statistical authorities agreed to provide an updated capital injection list and to further work on reconciling the amounts between EDP Questionnaire tables.

Dividends, superdividends

Introduction

In Hungary, the data sources for dividends are budgetary reports and data received from the asset management companies of government. The superdividend test is applied by the NSI and the results are approved by the Hungarian EDP working group. Applying the superdividend test means to compare the dividend paid in the year t to profit after income tax of year $t-1$.

In rare cases, government receives interim dividends, which are also subject to the superdividend test. In this case, the advance payment is compared to the profit reported in the interim financial statement of the company. If the dividend exceeds the half-year profit, the excess is recorded as advance payment in national accounts.

In the previous EDP dialogue visit in 2019, the Hungarian statistical authorities confirmed they have changed the superdividend test and instead of using business profit (unless the operating profit is lower, in which case the latter was used) they are now using an adjusted measure of operating profit to arrive at the distributable income of the entity, to perform the test. For large corporations the test is carried out at entity level.

Discussion and methodological analysis

Eurostat briefly recalled that the large dividends paid by the NCB in 2020 have been discussed and clarified during the April 2021 EDP notification. The dividend paid by the NCB was 250 HUF billion, of which 48.1 HUF billion was recorded as property income (D.42) of S.13 and 201.9 HUF billion as withdrawal of equity (F.5).

Eurostat asked about the reasons due to which, in the EDP Questionnaire table 10.2, “Distributions by large operations”, for the line “*Other distributions*” in some years negative amounts are reported. The Hungarian statistical authorities explained that private corporations pay some dividends as well while the total amount includes only dividends paid by the public corporations. In order to have consistent amounts both in EDP Questionnaire table 10.1 and 10.2, the difference is recorded as a negative amount. Eurostat took note.

Eurostat asked to recall what happens at the local government level and if dividends are small and whether they were checked or not. The Hungarian statistical authorities explained that amounts are small and that the superdividend test was not applied.

Findings and conclusions

Action point 2021/28²⁷

The Hungarian Statistical Authorities will provide Eurostat with an explanation of the differences between the capital injections reported prior to the visit and those reported in EDP Questionnaire tables 2.1 and 10.1A.

Deadline: September 2021.

Action point 2021/29²⁸

The Hungarian Statistical Authorities will, on the basis of the recent data, reassess whether the 2010 ratio used to distinguish capital transfers and equity injections in the local government subsector (S.1313) is still applicable, and if not, introduce relevant changes.

Deadline: September 2021.

Action point 2021/30²⁹

Eurostat takes note that the Hungarian Statistical Authorities do not perform the superdividend test for local government (S.1313). The Hungarian Statistical Authorities should analyse the situation on the basis of the present data and propose a way forward, possibly by using a coefficient to be applied in EDP notifications following an ad-hoc exercise.

Deadline: Report on their findings, December 2021.

4.3.5. *Leases, public-private partnerships (PPPs), concessions and energy performance contracts (EPCs)*

Introduction

In Hungary, all budgetary units have to report the outstanding amounts of PPP obligations, the amounts of new contracts and the PPP payments in the current year. The

²⁷ This action point remains open as further bilateral discussions are needed.

²⁸ The requested information was provided on 30 September 2021, the issue was further discussed during October 2021 EDP notification.

²⁹ Action point completed. The requested information was provided on 22 December 2021.

NSI was informed of planned new projects since inception. Different documents have been provided to the NSI in order to decide on the sector classification of the PPP assets, according to rules in force.

From 2010 the Hungarian government started to revise all PPP projects, by trying to modify contracts and in smaller cases (where it can be economically more favourable) aiming at the purchase of the infrastructure. The government is expected to continue this policy by maintaining only the existing large projects, while buying out the other PPPs (mainly sport related PPPs of local governments and educational projects, such as colleges). All local government sport projects were bought out, while the acquisition of educational PPP assets at universities is in progress.

As regards EPC contracts, the government created in 2014 the National Energy Management Company (NEG Zrt.) in order to modernise the industrial energy infrastructure, to spread the use of energy produced from renewable sources, to improve energy performance of state assets and to support small and medium enterprises in their energy performance investments. So far, NEG Zrt. had only limited operations since its creation.

Discussion and methodological analysis

Prior to the visit, the Hungarian statistical authorities confirmed that there were no new PPP projects since the last EDP Dialogue visit in 2019. The government maintains the operating of large projects (M5 and M6 motorways, Szombathely and Tiszalök prisons, the Palace of Arts), while acquiring the other PPPs. The acquisition of educational PPPs, as universities, is in progress. 24 educational projects were terminated out of 45 till the end of 2020. Such transactions are recorded as P.51g and included in the working balance.

Eurostat wanted to clarify if the government has to pay any penalty because it decides to stop the PPP project before the end of it and repurchases back the assets. Eurostat recalled that, in case of PPPs, usually there is a contract between government and a private party with usually precise legal clauses that regulates the situation where the project is suspended or interrupted. The Hungarian statistical authorities explained that there are no penalties foreseen in the contracts, because the government buys back the assets at the market price. The price is negotiated and agreed with the private partner and also checked by an independent body.

Eurostat also enquired if there have been any large EPCs signed recently or foreseen for the near future. The Hungarian statistical authorities confirmed that there were no new EPCs signed recently by government. They also recalled that NEG Zrt. was reclassified into S.13 starting from the reference year 2018 in the non-financial accounts and from its establishment in the financial accounts.

Findings and conclusions

Action point 2021/31³⁰

Regarding the PPP contracts in the area of education, that are being gradually terminated, the Hungarian Statistical Authorities will check the existing conditions under

³⁰ Action point implemented, a note was provided on 30 September 2021.

which PPP assets are bought back by government, notably whether there are any compensations foreseen for the private parties.

Deadline: September 2021.

4.3.6. Others (emission trading permits, financial derivatives, privatization, sale and leaseback, etc.)

Introduction

In Hungary, the emission trading permits are identified as negotiable property rights and they are part of the national property, the Ministry for Innovation and Technology is entitled for selling quotas that are not distributed free of charge. The proceeds of the sale are recorded as government revenue in the public accounts.

In the national accounts, the sale of the permits is recorded in the year of the transaction as prepayment of taxes (AF.8) in the financial accounts. The proceeds become tax revenue (D.29 other taxes on production) after the emissions occur and the permits are surrendered. Usually the permits sold are surrendered the following year. Consequently, the year's cash revenue is recorded the following year as tax revenue in the national accounts and EDP.

As regards financial derivatives, the State Debt Management Agency (AKK) uses swap operations to set the foreign currency composition and to optimize the interest rate composition of foreign currency debt. Cross currency swaps (CCRS), interest rate swaps (IRS) and foreign currency (FX) swaps are deployed. No other types of derivatives are used. Derivatives issued by other levels of government are negligible.

Discussion and methodological analysis

Eurostat thanked the Hungarian statistical authorities for providing a detailed explanation on the recording of emission trading permits in every EDP notification. The “fif” method is applied and the formula used is “*D.29_ETS in year T+1 = F.2_ETS in year T*”.

Regarding financial derivatives, Eurostat enquired if there were any off-market swaps in which the government would be engaged, and who is checking if there is an off-market swap component. The Hungarian statistical authorities confirmed that government does not have off-market swaps. Only the State Debt Management Agency (AKK) may have derivatives so data sources are provided by the AKK. Some counterpart information is also used, the NCB and AKK know all the contracts and details and can make the assessment. From the non-budgetary side only Eximbank may have smaller contracts, but Eximbank is included in S.13 and very detailed data sources are available. The Hungarian statistical authorities also informed Eurostat that there are no derivatives at local government level in Hungary.

Findings and conclusions

No action points identified.

5. Other issues

5.1.1. ESA 2010 Transmission Programme

Eurostat thanked the Hungarian statistical authorities for the alignment of P.31/P.32 in ESA tables 2, 25 and 11 for the period 2017-2020 due to the MAV Start Zrt. recording of subsidies and asked if they also plan to revise the time series. The Hungarian statistical authorities confirmed they would revise the whole time series in September 2021.

5.1.2. Any other business

No other issues.

6. List of participants to the dialogue visit

Participants from NSI:

Ms Zsuzsanna Szőkéné Boros

Mr István Bedekovics

Mr Balázs Horváth

Ms Bernadett Szlovák

Ms Sara Antal

Mr Denes Hamori

Ms Viktoria Horvath

Mr Gyorgy Sandor

Participants from MoF:

Mr Szilard Kondora

Ms Henrietta Nagy

Ms Zsafia Varga

Ms Erika Sudár

Ms Ildiko Haydl

Ms Nikoletta Kreisz-Angyal

Participants from NCB:

Mr Béla Simon

Mr Gabor Huszar

Ms Erzsébet Bablina

Mr Janos Gerendas

Ms Zsuzsanna Nagy

Eurostat

Mr Luca Ascoli

Mr Jukka Jalava

Ms Rasa Jurkoniene

Ms Vaida Savickaite

Mr Levente Szekely

DG ECFIN

Mr Gabor Mark Pellenyi

Mr Robert Markiewicz

7. Agenda of the dialogue visit

1. Statistical capacity issues

1.1. Review of institutional responsibilities in the framework of the EDP data reporting and government finance statistics compilation

1.2. Data sources and revision policy, EDP inventory

2. Follow-up of the previous EDP dialogue visits

3. Follow-up of the April 2021 EDP reporting – analysis of EDP tables and EDP Questionnaire tables

4. Methodological issues and recording of specific government transactions

4.1. Delimitation of the general government sector, application of the 50% rule and the qualitative criteria in national accounts

4.1.1. Sector classification of units

4.1.2. Changes in sector classification since the 2019 EDP dialogue visit

4.1.3. Transactions rearranged through government accounts

4.2. Implementation of the accrual principle

4.2.1. Accrual taxes and social contributions

4.2.2. Accrued interest

4.2.3. EU flows

4.2.4. Military expenditure

4.3. Recording of specific government transactions

4.3.1. Recording of government measures undertaken in the context of Covid-19

4.3.2. Guarantees

4.3.3. Debt assumptions, claims, debt cancellations and debt write-offs

4.3.4. Capital injections into public corporations, dividends, superdividends

4.3.5. Leases, public-private partnerships (PPPs), concessions and energy performance contracts (EPCs)

4.3.6. Others (emission trading permits, financial derivatives, privatization, sale and leaseback, etc.)

5. Other issues

5.1.1. ESA 2010 Transmission Programme

5.1.2. Any other business