

**Inventory of the methods, procedures and sources  
used for the compilation of deficit and debt data and  
the underlying government sector accounts  
according to ESA2010**

*Hungary*

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## **Background**

Compilation and publishing of the Inventory of the methods, procedures and sources used to compile actual deficit and debt data is foreseen by Council Regulation 479/2009, as amended.

According to Article 8.1: "*The Commission (Eurostat) shall regularly assess the quality both of actual data reported by Member States and of the underlying government sector accounts compiled according to ESA 95.... Quality of actual data means compliance with accounting rules, completeness, reliability, timeliness, and consistency of the statistical data. The assessment will focus on areas specified in the inventories of Member States such as the delimitation of the government sector, the classification of government transactions and liabilities, and the time of recording.*"

In line with the provisions of the Regulation set up in Article 9, "*Member States shall provide the Commission (Eurostat) with a detailed inventory of the methods, procedures and sources used to compile actual deficit and debt data and the underlying government accounts. The inventories shall be prepared in accordance with guidelines adopted by the Commission (Eurostat) after consultation of CMFB. The inventories shall be updated following revisions in the methods, procedures and sources adopted by Member States to compile their statistical data*".

The content of the Inventory and the related guidelines have been endorsed by the Committee on Monetary, Financial and Balance of Payments statistics in June 2012 and are followed by all EU Member States. This version introduces references to the ESA2010 as well as some updates of the relevant topics mirroring the changes introduced by the ESA2010.

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Institutional arrangements, sources, procedures and methods used for the calculation of deficit and debt data EDP tables and data sources - Central Government sub-sector, EDP table 2A and 3B

## A. Institutional arrangements, sources, procedures and methods used for the calculation of deficit and debt data

This chapter provides a summary description on the general government sector components and specifies institutional responsibilities and basic data sources used for EDP tables and for the compilation of general government national accounts. Special attention is given to EDP tables: detailed description of components of the working balance and the transition into B.9 (net lending/net borrowing); compilation of Maastricht debt and of stock-flow adjustments; explanation of the link between EDP table 2 and 3, balancing process and statistical discrepancies.

### 1. General Government

This section describes the coverage of the General Government sector and the sub-sectors for Hungary.

The general government sector is composed by 3 sub-sectors: S.1311, S.1313 and S.1314.

#### 1.1. Central government subsector (S.1311)

**Central government subsector covers the following units:**

| Type of units  | Function   | Number of units<br>( 31 Dec 2018) |
|--|--|-----------------------------------|
| a) core government unit: "State"   | directly and centrally managed budget appropriations: such as taxes and tax-type revenues, subsidies, social transfers, international cooperation, debt management, asset management   | 1                                 |
| b) Central Budgetary Institutions (CBIs)   | ministries and other nation-wide authorities with the function of supervision of a "budgetary chapter", plus supervised budgetary institutions engaged in the entire spectrum of government functions: public administration, defence, public order and safety, economic affairs, environment protection, housing, health, recreation, culture and religion, education, social protection, social security | 710                               |
| c) programs and earmarked budgetary appropriations such as "technical budgetary institutions": one per budgetary chapter | these appropriations are managed by ministries and other nation-wide authorities with the function of supervision of a "budgetary chapter", they can be characterised as mainly budgetary current and capital transfers to outside the legal Government Sector   | 27                                |

Institutional arrangements, sources, procedures and methods used for the calculation of deficit and debt data EDP tables and data sources - Central Government sub-sector, EDP table 2A and 3B

| Type of units  | Function  | Number of units<br>( 31 Dec 2018) |
|--|---|-----------------------------------|
| d) budgetary funds   | separated funds within the Budget for earmarked purposes with a cross-financing nature, financed from earmarked or assigned/divided taxes; such as Labour Market Fund, National Cultural Fund | 5                                 |
| e) state-owned public corporations and non-profit corporations                     | asset management, debt management, public transport, cultural services, social services, infrastructure maintenance, etc.   | 147                               |
| f) non-profit institutions founded and mainly financed by central government units | public foundations created mostly for cultural, educational, social purposes  | 24                                |
| g) other organisations and funds   | statutory funds, resolution funds, savings cooperatives integration unit, media fund, hydrocarbon stockpiling association   | 12                                |

Units under types of a)-d) form the central level of legal government sector ("fiscal" sector) as defined by the Public Finance Law. Concerning the economic autonomy, autonomous and non-autonomous budgetary institutions are distinguished. The accounting data of the latter ones are integrated into data of assigned autonomous units, thus reports from autonomous units are used for statistical purposes. Official register of these units are managed by the Hungarian State Treasury, on-line information can be available in Hungarian. All these units maintain uniform double-accounting and financial reporting with the necessary specialities and extras depending on the type of the unit. Both annual and intra-annual financial data are the main data sources for compilation statistics. Investment survey data are used as supplementary information.

Units under types of e)-g) are out of the national concept of fiscal sector. These units conceptually follow the business accounting rules with the necessary specialities. The numbers include the foundations created by the National Bank of Hungary and its subsidiaries. A notional unit was created to reroute the non-financial transactions of these units through general government. Beside the set of business documents (balance sheet, profit/loss statement, cash flow statement), tax declaration with memo items, investment and non-profit survey data are also used for compilation government sector national accounts data.

Budgetary chapters are available in Annex I.

## 1.2. State government subsector (S.1312)

Not applicable for Hungary.

Institutional arrangements, sources, procedures and methods used for the calculation of deficit and debt data EDP tables and data sources - Central Government sub-sector, EDP table 2A and 3B

### 1.3. Local government subsector (S.1313)

**Local government subsector covers the following units:**

| Type of units  | Function   | Number of units<br>31 Dec 2018 |
|--|--|--------------------------------|
| h) local governments   | local settlement governments: capital districts, towns, municipalities, and territorial governments: Budapest capital, counties                        | 3197                           |
| i) local minority governments  | self-governments of minorities on local level  | 2101                           |
| j) associations of local governments with legal personality, multifunctional local partnerships as budgetary units | associations and partnerships for implementation territorial development projects and joint operation of units engaged in provision of public services | 984                            |
| k) territorial development councils  | public bodies engaged in organisation territorial development projects   | 9                              |
| l) local and local minority budgetary institutions   | budgetary institutions providing public services with a collective or individual nature  | 5637                           |
| m) local government owned public corporations and non-profit corporations  | asset management, cultural services, sport services, local media, infrastructure maintenance, etc.   | 271                            |
| n) non-profit institutions founded and mainly financed by local government units                                   | public foundations created mostly for cultural, educational, social purposes   | 8                              |

**Units under types of j)-l)** form to local level of legal government sector ("fiscal" sector) as defined by the Public Finance Law. Concerning the economic autonomy, autonomous and non-autonomous budgetary institutions are distinguished. The accounting data of the latter ones are integrated into data of assigned autonomous units, thus reports from autonomous units are used for statistical purposes. The [official register](#) of these units is managed by the Hungarian State Treasury, [on-line information](#) is available in Hungarian. All these units maintain uniform double-accounting and financial reporting with the necessary specialities and extras depending on the type of the unit. Both annual and intra-annual financial data are the main data sources for compilation statistics. Investment survey data is used as supplementary information.

**Units under types of m)-n)** are outside the national concept of fiscal sector. These units conceptually follow the business accounting rules with the necessary specificities. Beside the set of business documents (balance sheet, profit/loss statement, cash flow statement), tax declaration with memo items, investment and non-profit survey data are also used for compilation government sector national accounts data.

### 1.4. Social security funds subsector (S.1314)

Institutional arrangements, sources, procedures and methods used for the calculation of deficit and debt data EDP tables and data sources - Central Government sub-sector, EDP table 2A and 3B

Social Security Funds subsector covers the following units:

| Type of units                                       | Function   | Number of units<br>(31.12.2018) |
|---|--|---------------------------------|
| o) social security funds                            | separated funds within the Budget for compulsory social security system of pension /SS Pension Fund/ and health care /SS Health Care Fund/ | 2                               |
| p) budgetary institutions that operates the SS fund | social security administration, pension registration and payment   | 1                               |

Although **units under types of o)-p)** belong to central level of legal government sector ("fiscal" sector) as defined by the Public Finance Law and form two budgetary chapters in the national budgetary presentation, in ESA they form S.1314 Social Security subsector.

The [official register](#) of these units is managed by the Hungarian State Treasury, [on-line information](#) is available in Hungarian. All these units maintain uniform double-accounting and financial reporting with the necessary specialities and extras depending on the type of the unit. Both annual and intra-annual financial data are the main data sources for compilation statistics. Investment survey data are also used.

Budgetary chapters are available in Annex I.

Further details relating to practical aspects of sector classification for individual units into general government sector could be found in Chapter B, section 1.

## 2. Institutional arrangements

This section provides general information on institutional arrangements relating to the production and dissemination of government deficit and debt statistics:

- responsibility of national authorities for compilation of individual EDP tables and underlying government national accounts, as defined by ESA2010 Transmission Programme;
- institutional arrangements relating to public accounts which are used by statistical authorities for compilation of government national accounts and EDP tables;
- general overview about bookkeeping system used by public units, internal quality checks and external auditing;
- communication between individual national authorities involved in EDP;
- publishing of deficit and debt statistics.

### Legal basis for the compilation of GFS and EDP data

**Collection and compilation of fiscal data is based on the following regulations:**

- a) Act CXCV of 2011 on Public Finances,
- b) Government Decree 368 of 2011 (XII.31.) on implementation the Law on Public Finances,
- c) Government Decree 4 of 2013 (I. 11.) on accounting of fiscal sector (legal government units)

#### Annual Budget:

- a) Act C of 2017 on 2018 Budget of Hungary
- b) Act LXXIX of 2019 on implementation the 2018 Budget of Hungary

Article 102 of Act CXCV of 2011 on Public Finances includes the following paragraph:

“(1) Public finance information system has to be elaborated so that it can support planning government finance processes – in an eligible manner for analysis and assessment, calculating annual estimates, implementing and auditing annual budget.

(2) Public finance information system has to be reconciled with statistical and international government finance statistical obligations in data provision, and with the system of national accounts as well.”

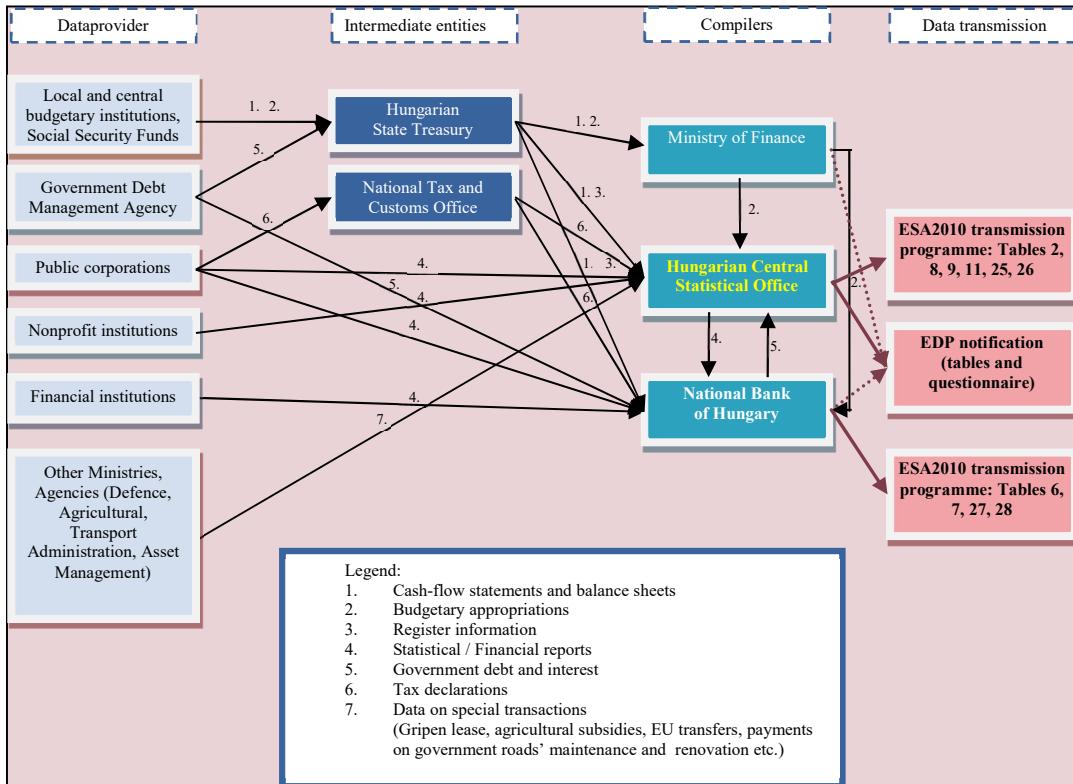
New accounting rules from 2014: Government Decree 4 of 2013 (I. 11.) on accounting of fiscal sector (legal government units) were introduced. The objective of the accounting reform was to clearly separate the two accounting systems at unit-level, which were mixed before:

- a) the budgetary accounting, which remains cash accounting, in line with national budget presentation,
- b) general ledger accounting, which turns into something similar to modified accrual accounting, but in a simplified way. The aim was to obtain harmonised stock and flow data on accrual basis.

### 2.1. Institutional responsibilities for the compilation of general government deficit and debt data

Institutional arrangements, sources, procedures and methods used for the calculation of deficit and debt data EDP tables and data sources - Central Government sub-sector, EDP table 2A and 3B

This section describes institutional responsibilities for compilation of Government Finance Statistics (national accounts for general government and EDP tables). Further related information is described in section 2.3 Communication.



*Flowchart of institutions and data sources involved in EDP data compilation*

Local and central budgetary institutions provide 1-2 report to supervisory chapters and local governments for approval before providing data to the Treasury. Data processing in the Treasury is fully automatic they do automatic checking of data before final processing.

**Table 1 - Institutional responsibilities for the compilation of general government national accounts and EDP tables**

Institutional arrangements, sources, procedures and methods used for the calculation of deficit and debt data EDP tables and data sources - Central Government sub-sector, EDP table 2A and 3B

| <b>Institutional responsibilities</b><br><i>(the appropriate cells are crossed)</i> |                          | HCSO            | MoF | NBH                       | Other |
|---|--------------------------|-----------------|-----|---------------------------|-------|
| <b>Compilation of national accounts for General Government:</b>                     |                          |                 |     |                           |       |
| Nonfinancial accounts   | annual                   | X               |     |                           |       |
|   | quarterly                | X               |     |                           |       |
| Financial accounts  | annual                   |                 |     | X                         |       |
|   | quarterly                |                 |     | X                         |       |
| Maastricht debt   | quarterly                |                 |     | X                         |       |
| <b>Compilation of EDP Tables:</b>   |                          |                 |     |                           |       |
| EDP table 1   | actual data              | deficit/surplus | X   |                           |       |
|   |                          | Debt            |     |                           | X     |
|   |                          | other variables | X   |                           |       |
|   | planned data             | deficit/surplus |     | X                         |       |
|   |                          | Debt            |     | X                         |       |
|   |                          | other variables |     | X                         |       |
| EDP table 2<br>(actual data)  | 2A central government    |                 | X   |                           |       |
|   | 2B state government      |                 |     | Not applicable in Hungary |       |
|   | 2C local government      | X               |     |                           |       |
|   | 2D social security funds | X               |     |                           |       |
| EDP table 2<br>(planned data)   | 2A central government    |                 |     | X                         |       |
|   | 2B state government      |                 |     | Not applicable in Hungary |       |
|   | 2C local government      |                 | X   |                           |       |
|   | 2D social security funds |                 |     | X                         |       |
| EDP table 3<br>(actual data)  | 3A general government    |                 |     |                           | X     |
|   | 3B central government    |                 |     |                           | X     |
|   | 3C state government      |                 |     | Not applicable in Hungary |       |
|   | 3D local government      |                 |     |                           | X     |
|   | 3E social security funds |                 |     |                           | X     |
| EDP table 4 (actual data)   |                          | X               |     | X                         |       |
| EDP table 4 (planned data)  |                          |                 | X   |                           |       |

HCSO – Hungarian Central Statistical Office

MoF – Ministry of Finance

NBH – National Bank of Hungary

Other – other national body, to be specified in comments

### Responsibilities in providing national accounts data to Eurostat:

Table 2 – Main aggregates of general government (annual data) – HCSO

Table 6 – Financial accounts by sector (annual data) - NBH

Table 7 – Balance Sheets for financial assets and liabilities (annual data) – NBH

Table 801 – Non-financial accounts by sector (quarterly) - HCSO

Table 9 – Detailed Tax and Social Contribution Receipts by Type of Tax or Social Contribution and Receiving Sub-sector including the list of taxes and social contributions according to national classification (annual data) - HCSO

Table 11 – Expenditure of General Government by function (annual data) - HCSO, MoF

Table 25 – Quarterly Non-financial Accounts of General Government - HCSO

Table 26 – Balance sheets for non-financial assets (annual data) - HCSO

Table 27 – Quarterly Financial Accounts of General Government - NBH

Table 28 – Quarterly Government Debt (Maastricht Debt) for General Government NBH

Institutional arrangements, sources, procedures and methods used for the calculation of deficit and debt data EDP tables and data sources - Central Government sub-sector, EDP table 2A and 3B

1) The Hungarian Central Statistical Office – (HCSO) Központi Statisztikai Hivatal  
**National Accounts Department**

Nemzeti számlák főosztály

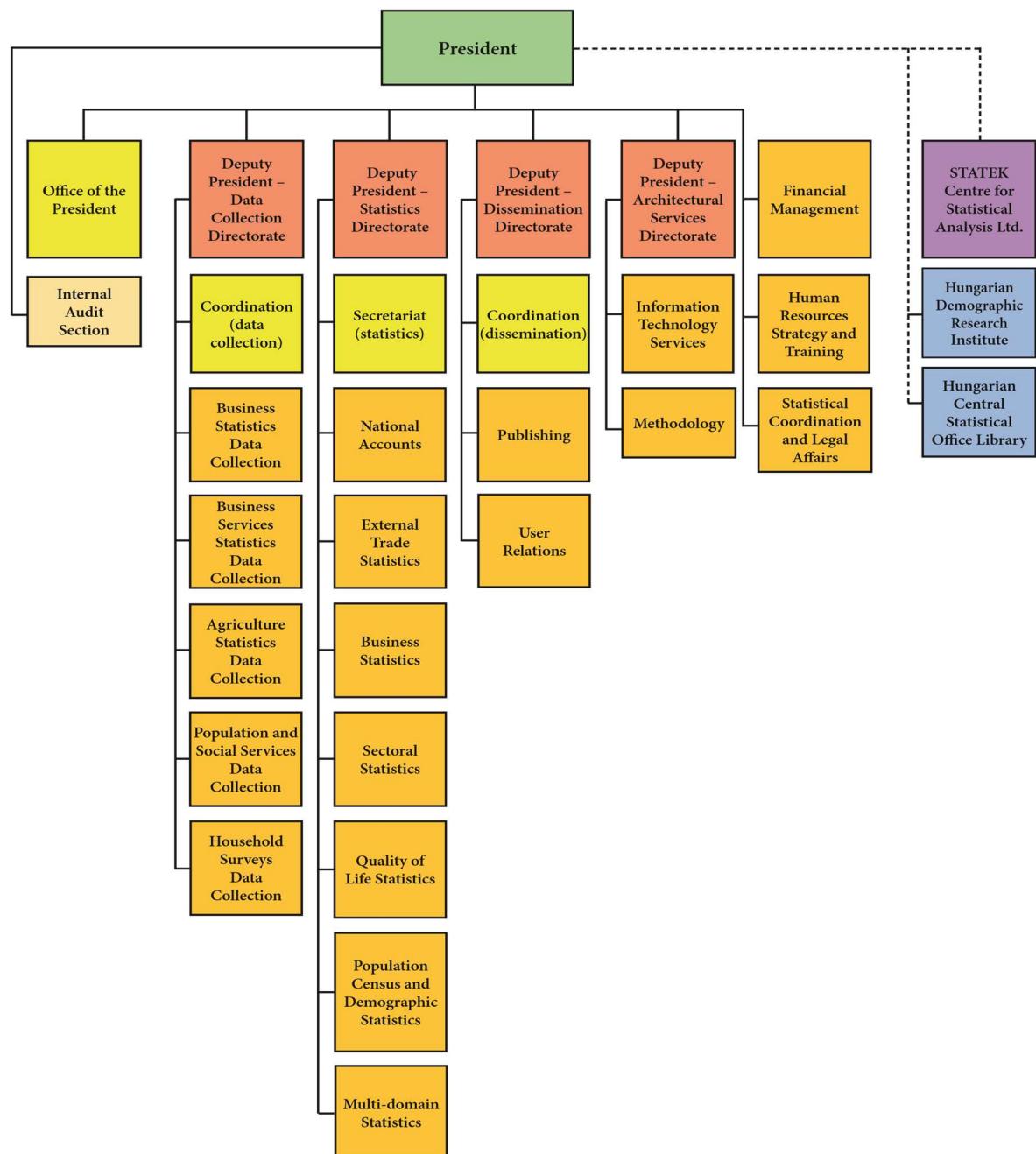
**Government and non-profit sector accounts unit**

Kormányzati- és nonprofitszektor-számlák osztálya

HCSO is responsible for the compilation of non-financial accounts of the government sector in national accounts and provides government deficit data for years n-1 – n-3 in the EDP notification. The same unit provides data for both notifications from different data sources. The HCSO is responsible for integrated data compiled by other organisations in the notification report and submits the notification to Eurostat. The National Accounts Department is reporting to the Deputy President responsible for Statistics Directorate, but the EDP notification is supervised by the president of HCSO directly.

Organisation chart of HCSO (February 2020)

Institutional arrangements, sources, procedures and methods used for the calculation of deficit and debt data EDP tables and data sources - Central Government sub-sector, EDP table 2A and 3B



Institutional arrangements, sources, procedures and methods used for the calculation of deficit and debt data EDP tables and data sources - Central Government sub-sector, EDP table 2A and 3B

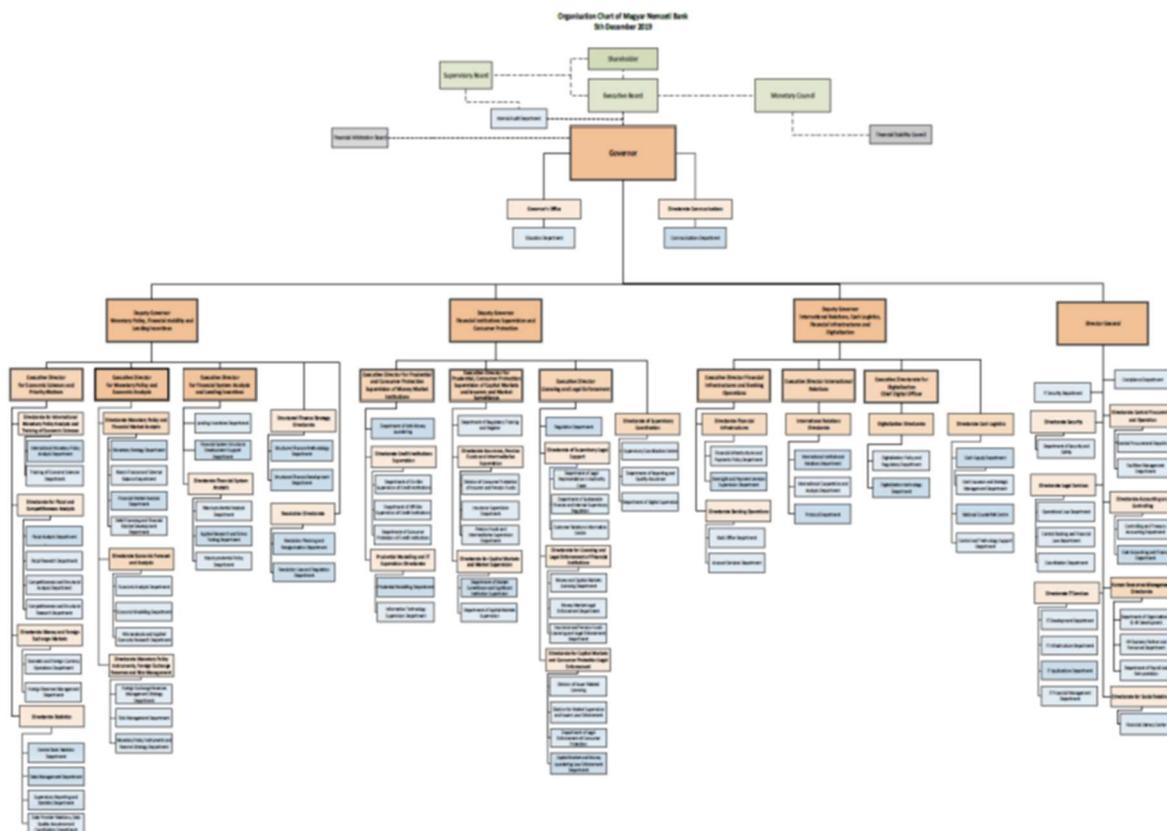
## 2) National Bank of Hungary (NBH)

Magyar Nemzeti Bank

**Statistics Department**

Statisztikai Igazgatóság

The NBH is responsible for financial accounts of the government sector in national accounts and provides government debt data for years n-1 – n-3 in the EDP notification. The same unit provides data for both notifications.



## 3) Ministry of Finance (MoF), exercising the role of MoF:

Pénzügyminisztérium

**Budget Department**

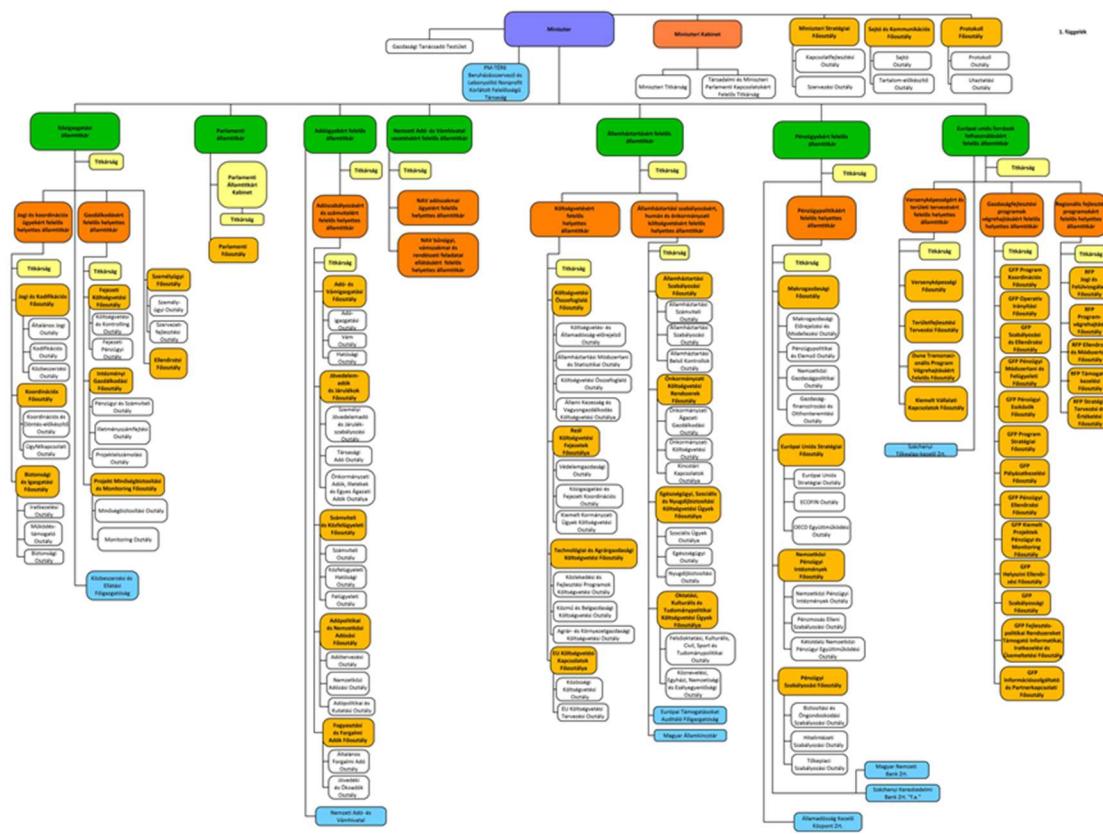
Költségvetési Összefoglaló Főosztály

**Government Finance Statistics and Methodology Division**

Államháztartási Módszertani és Statisztikai Osztály

The MoF is responsible for planned data in EDP tables. The budgetary projection according to national budgetary cash concept, called staff-projection, is approved by the Minister. ESA/EDP projections for planned data are compiled by the staff of the Budget Department from projections of different sectoral departments and the methodology is supported by the Government Finance Statistics and Methodology Division to meet ESA accounting criteria and to keep consistency between actual and planned data. Formally, the State Secretary for Public Finances approves planned data in EDP notification.

Institutional arrangements, sources, procedures and methods used for the calculation of deficit and debt data EDP tables and data sources - Central Government sub-sector, EDP table 2A and 3B



### **2.1.1 Existence of an EDP unit/department**

There is no separate unit dedicated for EDP notification. See institutional responsibilities in compilation of EDP tables above in section 2.1.

The EDP notification is compiled by the three organisations (HCSO, NBH, MoF) under the main responsibility of HCSO. The three institutions made a cooperation agreement in 2004 which was renewed in 2015. The agreement describes the main responsibilities and the division of labour among the three institutions. There is an EDP working group which compiles EDP figures and tables and there is a high level committee which makes decisions in methodological questions and approves EDP Notification before submitting to Eurostat.

See the agreement in Annex II.

### **2.1.2 Availability of resources for the compilation of GFS data**

See sections 2.1 and 2.1.1.

In the Central Statistical Office, the unit compiling general government (GG) national accounts data and EDP tables has a staff of 8 professionals.

In the **National Bank of Hungary**, the unit compiling GG financial accounts data and EDP tables has a staff of 3 professionals.

In **the Ministry of Finance** the unit compiling forecast data in EDP tables has a staff of 5 professionals. Hungary uses the Eurostat option for converting ESA2010 data into IMF2014

Institutional arrangements, sources, procedures and methods used for the calculation of deficit and debt data EDP tables and data sources - Central Government sub-sector, EDP table 2A and 3B

data. Additional details and corrections are added by the Ministry of Finance concerning non-financial data and by the National Bank of Hungary concerning financial data. Tax experts of Ministry of Finance submit OECD revenue statistics by using fiscal data and ESA tax data.

## **2.2. Institutional arrangements relating to public accounts**

Generally, “public accounts” are basic source data for GFS compilation, i.e. EDP tables as well as annual and quarterly accounts for general government. Public accounts are used by public units and refer to accounting records and relating accounting outputs (e.g. financial statements) based on the accounting framework defined by a national legislation. This section provides a general overview on institutional responsibilities relating to public accounts. Further details on public accounts for individual government subsectors are described under relevant sections on data sources and EDP tables.

### **2.2.1 Legal / institutional framework**

In Hungary there is no differentiation based on public/private ownership in accounting and financial reporting, such kind of split does not exist. Deviation and specification mainly relate to legal organisation forms.

Act C of 2000 on Accounting is the basic source for economic units and there is a set of government decrees which specify the accounting and financial reporting of different areas:

**Fiscal sector** (legal government sector as defined by Public Finance Law):

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

**Non-fiscal sector specifications relevant to units reclassified as government unit:**

- Act C 2000 on Accounting,
- Government Decree 479/2016. (XII.28.) on preparation of financial statements and accounting of “other entities” as defined by Act on Accounting (extra-budgetary public funds, non-profit institutions), see points e-g, m-n) listed in point 1.

**There is no standard setting body** in charge of Act on Accounting and the Government Decrees. A national committee (National Accounting Committee) functions as adviser and initiator for developing implementation rules (called national standards) within the frame of Act on Accounting and not beyond.

The Ministry of Finance is responsible for regulating accounting (Law on Accounting, government decrees for implementing the Law for certain groups of units), with support of standard setting committees for elaborating accounting standards when necessary. Its responsibility in the area of fiscal sector includes the dissemination of the chart of accounts and specific instructions, designing presentation of the unit-level budget and implementation of it, timing and procedure of intra-annual and annual reporting. The Hungarian State Treasury is responsible for accounting transactions of the core government unit: the “State”, and of all other units of central level of fiscal sector (legal government sector) via recording all cash-flow transactions as it provides banking services. Ministry of Finance operates the legal government financial information system via Treasury. Treasury collects and processes data by having territorial branch offices.

Institutional arrangements, sources, procedures and methods used for the calculation of deficit and debt data EDP tables and data sources - Central Government sub-sector, EDP table 2A and 3B

Reporting units themselves and their supervisor ministries, other organs, local governments are responsible for comprehensiveness, compliance with accounting rules and reliability. Treasury provides consistency checks and built-in rules by its information technology.

In case of non-fiscal sector units that are reclassified into the government sector:

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

## 2.2.2 Auditing of public accounts

### 2.2.2.1 General government units

#### 2.2.2.1.1 Audit for fiscal sector units:

- a) Core government unit: the State and all central level of government units that belong to the legal government sector are audited by the State Audit Office (these are the units under points a-d, o-p) in point 1.)
- b) Local level of government units that belong to legal government sector are audited by the State Audit Office. (these are the units under points h-l) in point 1.).

#### **State Audit Office**: (Állami Számvevőszék)

The State Audit Office of Hungary (SAO) is the supreme financial and economic audit organisation of the National Assembly. Its primary objective is that with its findings and recommendations to assist the regular, economical, effective and efficient management of public funds and property and contribute to the establishment of a well-managed state, to good governance. In recent years SAO established a new audit-planning system, in which more emphasis was given to the selection of topics to be included in the audit plan, as well as to the substantiation of on-site audits. Now the assignment of audit tasks is preceded by a multi-step preparation and approval procedure, while the efficiency of audits is ensured by rolling planning. Meanwhile, by means of a complex risk analysis system, auditors carry out audits where it is most needed.

#### Fundamental Law Act LXVI of 2011 on the SAO

SAO budgetary audit takes place from the beginning of the subsequent year and focuses on fiscal data and balance sheet data. Other thematic or chapter-oriented audits may also relate to fiscal and accounting data. Audit reports are published on the SAO's website. SAO's audits may generate compulsory compilation of so-called action plans that are regularly monitored by government. SAO budgetary audit is a yearly regular audit at the central level of government, and often includes risk assessment on claims and payment obligation, on government guarantees. As institutional coverage of S13 General Government sector is published, an auditor is aware of using audited financial reports for compilation EDP/GFS statistics. Capital expenditure statistical surveys are quite often part of auditing. SAO budgetary audit report is

Institutional arrangements, sources, procedures and methods used for the calculation of deficit and debt data EDP tables and data sources - Central Government sub-sector, EDP table 2A and 3B

discussed by the Parliament and its committee together with the Final Accounts of implementation of the Budget.

SAO audits local governments as well, based on risk assessment, but entitlements for normative budgetary transfers are annually validated. Until the end of 2012 local governments with higher than 300 million HUF budget total had to ask for independent audit. This was also the case for local governments having debt liabilities or with the intention of borrowing until the end of debt amortisation period.

In cases where thematic or chapter-oriented audit provides relevant information for fiscal affairs and statistics, consultations may occur. The Budget Department of the Ministry of Finance is the contact unit with SAO in budgetary audit. HCSO signed a cooperation agreement with SAO.

#### **2.2.2.1.2. Audit for non-fiscal sector units:**

Independent audit is compulsory by the Law on Accounting for all units maintaining double-entry bookkeeping system and having more than 200 million HUF net sales revenue and more than 50 employees in the previous two years. Auditor's reports have to be submitted with financial statements to a dedicated business register and database operated under so-called "[electronic business procedure](#)" for official publication. This "[e-beszámoló](#)" (electronic financial statement) service is maintained by the Ministry of Public Administration and Justice. Individual business financial statements and audit reports can be available.

SAO is entitled to investigate non-fiscal units with tight budgetary relationships (subsidies, regular transfers), mainly public corporations both central and local level of government. These types of audits are occasional. The same relates to public non-profit institutions that are out of obligation of independent audit, due to their size (see above the criteria of compulsory independent auditing).

These general rules are relevant for the units listed in e-g), m-n) points in point 1. Financial statements of public trust funds have to be published by themselves; these reports are not subjects of electronic business procedure.

#### **2.2.2.2        *Public units, not part of general government***

Independent audit is compulsory by the Law on Accounting for all units maintaining double-entry bookkeeping system and having more than 200 million HUF net sales revenue and more than 50 employees in the previous two years. Annual financial statements have to be audited by the end of May. Independent audit is comprehensive. Auditor's reports have to be submitted with financial statements to a dedicated business register and database operated under so-called "[electronic business procedure](#)" for official publication. This "[e-beszámoló](#)" (electronic financial statement) service is maintained by the Ministry of Public Administration and Justice. Individual business financial statements and audit reports are available.

SAO is entitled to investigate non-fiscal units with tight budgetary relationships (subsidies, regular transfers), mainly public corporations both central and local level of government. These types of audits are occasional. The same relates to public non-profit institutions that have no obligation to have their annual accounts audited, due to their size (see above the criteria of compulsory independent auditing).

Institutional arrangements, sources, procedures and methods used for the calculation of deficit and debt data EDP tables and data sources - Central Government sub-sector, EDP table 2A and 3B

The Ministry of Finance is responsible for professional regulation and maintaining official register of [independent auditors](#).

### **Statistical Auditing**

Performing the accrediting process at the members of the Official Statistical Service was regulated by Act CLV of 2016 on Official Statistics. Accrediting process aims at the disclosure of their statistical activity, monitoring of its running, collecting best practices, compensating deficiencies with developing immature competencies and the standardisation of certain processes, if possible.

The universal purpose is to get a comprehensive view from the members of the Official Statistical Service and their level of compliance towards the principles of the National Statistical Code of Practice.

After investigating members' official statistical activities, accrediting reports were compiled by the committees. Recommendations in these reports aim at the reconciliation of statistical activity with standards laid down in the National Statistical Code of Practice. The ultimate goal is the joint elaboration of processes and practices in accordance with the Code, appointing and later performing development directions, and the collection (or copy) of best practices and methods, as well. Development measures aim at enhancing the quality of members' official statistical activity, and efficiency in implementing statistical tasks, respectively.

The following organisations were investigated from 2017, in the frames of the quality assurance process:

- Ministry of Agriculture
- Ministry of Interior
- Ministry of Human Capacities
- Ministry of Justice
- Ministry for Innovation and Technology
- Ministry of Foreign Affairs and Trade
- General Prosecutor's Office
- Hungarian Energy and Public Utility Regulatory Authority
- Prime Minister's Office
- National Agricultural Research and Innovation Centre
- National Office for the Judiciary
- Ministry of Finance
- National Bank of Hungary

Before starting the auditing procedure HCSO trained the members of the auditing team delegated by government institutions. The procedure started with a self-assessed questionnaire prepared by the institutions subject to auditing on their statistical activity. Afterwards, the auditing team studied them and all other documents provided by the audited institution. Next step was a visit of the auditing team in the institution to assess its statistical activity. At the end of the procedure the auditing team prepared an accreditation report with notes and recommendations. The report was consulted after that with the audited institution and the final version of the report was submitted to the president of the HCSO who gave the accreditation to the institution who became member of the Official Statistical Service.

Further information is available on the website of HCSO:

[http://www.ksh.hu/hssz\\_akkreditacio](http://www.ksh.hu/hssz_akkreditacio)

Institutional arrangements, sources, procedures and methods used for the calculation of deficit and debt data EDP tables and data sources - Central Government sub-sector, EDP table 2A and 3B

## 2.3. Communication

### 2.3.1 Communication between actors involved in EDP

#### 2.3.1.1 *Agreement on co-operation*

There is a cooperation agreement between HCSO, NBH and MoF signed in 2015. This agreement was the renewal of the one signed in 2004 taking into account the minimum requirement elaborated by Eurostat in the frame of quality management of GG in 2012.

See agreement in Annex II.

The EDP working group usually has a meeting in every month; in EDP compilation periods meetings are more frequent. The working group discusses all relevant methodological issues in concern and large individual transactions as well (e.g. classification of units in S.13 sector, classification of taxes, complex transactions, Eurostat questionnaires, application of new methodological guidelines, etc.). In cases when the EDP working group comes to unanimous opinion, decision is taken with the approval of the high level supervisors. When there is no unanimous view in the group, the issue is discussed in the high level committee and decision is taken at that level. If there are still doubts on accounting issues, the committee makes the decision to seek advice of Eurostat on borderline cases. A report is prepared of every meeting.

Besides meetings, members of the working group are in contact on a daily basis either on phone or email to sort out urgent and/or minor cases.

#### 2.3.1.2 *Access to data sources based on public accounts*

The Hungarian Central Statistical Office has cooperation agreement with the Ministry of Finance, the Hungarian State Treasury, the National Tax and Customs Administration based on the regulation of the Law on Statistics. The statistical law regulates the use of administrative data for statistical purposes. Based on that the CSO has access to all data sources base on public accounts. The cooperation agreements updated an annual basis.

## 2.3.2 Publication of deficit and debt statistics

### 2.3.2.1 *Publication of EDP data*

All EDP tables are published by HCSO on its [website](#) on the same day when the Notification is transmitted to Eurostat, with a preliminary flag. Second publication takes place on the same day when Eurostat's press release is published. In the second publication, in addition to all EDP tables, the Eurostat press release, the historical EDP tables and the EDP Inventory are also published.

The MoF also [publishes](#) the final version of the latest EDP notification and makes reference to the HCSO website, after Eurostat and HCSO publication.

The documentation regarding the [Bill on Final Accounts of Implementation of the budget](#) of a specific year includes:

- a) a specific chapter dedicated to explaining the difference between the national fiscal and EDP spring data (figures and key methodological differences) as part of the [general explanation of the bill](#).

Institutional arrangements, sources, procedures and methods used for the calculation of deficit and debt data EDP tables and data sources - Central Government sub-sector, EDP table 2A and 3B

- b) a [presentation of HU GDP percent data among EU-members and EU aggregates](#) (B.9, key revenue and expenditure aggregated, debt, expenditures by function), based on EDP spring data and underlying ESA figures.

#### 2.3.2.2 *Publication of underlying government ESA2010 accounts*

ESA2010 accounts for general government are published by HCSO in national accounts publications. A short publication with aggregated data is published at the end of September. .  
ESA table 2, table 9 and national tax list are published in October at the same time as final EDP publication.

[http://www.ksh.hu/stadat\\_annual\\_3\\_1](http://www.ksh.hu/stadat_annual_3_1)

Metadata for national accounts available on the following link (Hungarian only)

[http://www.ksh.hu/nemzeti\\_szamlak\\_gdp](http://www.ksh.hu/nemzeti_szamlak_gdp)

Financial accounts and debt data are published on the NBH webpage:

<https://www.mnb.hu/en/statistics/statistical-data-and-information/statistical-time-series/xii-financial-accounts-financial-assets-and-liabilities-of-institutional-sectors>

### 3. EDP tables and data sources

This section reports on availability and use of basic data sources for the compilation of national accounts and EDP tables, by general government subsectors and main units/groups of units. It also aims at describing adjustments to basic data source in order to compile ESA2010 based deficit/surplus; EDP tables compilation techniques, balancing practices; link between EDP table 2 and 3.

#### 3.1. EDP table 1

EDP table 1 provides the core, summary information for the reporting period, as requested by the related EU legislation<sup>1</sup>: net borrowing(-)/net lending(+) (B.9) for general government sector and its subsectors, outstanding amount of Maastricht debt by instruments, Gross Domestic Product (GDP), gross fixed capital formation (GFCF) for GG sector and data on interest expenditure (D.41).

This section focuses on Maastricht debt only. A detailed description of B.9 calculation and data sources for individual subsectors is covered under section 3.2.

##### 3.1.1 Compilation of Maastricht debt

###### 3.1.1.1 Specification of debt instruments

Maastricht debt instruments are the following:

- AF.2 Currency and deposits
- AF.31 Short-term debt securities
- AF.32 Long-term debt securities
- AF.41 Short-term loans
- AF.42 Long-term loans

In EDP table 1 debt data are consolidated, valued at face value. Foreign currency debt is converted into national currency at the central bank official exchange rate. Debt exchanged through swap contracts to other currency is converted to the other foreign currency at the rate agreed upon in the contract and converted into national currency according to the general rule.

###### AF.2 Currency and deposits

In Hungary, national currency is issued exclusively by the Central Bank. Deposits are recorded in national accounts as liability of the State Treasury which maintains the accounts of budgetary institutions and certain other units.

AF.2 data in Maastricht debt cover deposits held by other (non-government) sectors with the Treasury. Two sectors are involved. Financial corporations sector is represented by the public corporation Student Loan Co. Households keep special deposit in the Treasury a kind of family allowance provided by the central budget (családtámogatási babakötvény). Households may have securities accounts with the Treasury as well. The interest and capital of government

<sup>1</sup> <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2014:069:0101:0101:EN:PDF>

Institutional arrangements, sources, procedures and methods used for the calculation of deficit and debt data EDP tables and data sources - Central Government sub-sector, EDP table 2A and 3B

bonds redeemed but not yet collected by households is also kept in a Treasury account. Data are provided by the Treasury.

AF.31: This item covers short-term treasury bills (including zero coupon treasury bills) of central government. The classification of securities is carried out according to their original maturity (up to 1 year).

AF.32: The item is composed of central government and local government securities. Central government data include long-term government bonds denominated in domestic and foreign currencies and long-term treasury bills. Foreign currency bonds issued by State Privatisation and Holding Company (ÁPV Zrt.) in 2004 and 2009 are also included since ÁPV Zrt and its successor Hungarian National Asset Management Inc. (MNV Zrt.) are reclassified into the general government sector.

Long term securities issued by the local government subsector are also included.

AF.41-AF.42: Short-term and long-term loans: these items include central budget loans, loans issued by public companies and public non-profit institutions reclassified into GG and local governments' loans. Special items are:

- Other financial claims on government refinanced by factoring operations.
- M2M deposits received by the Debt Management Agency (margin payments relating to swaps).
- Government liability due to the military equipment (Gripen) contract (financial lease).
- Government liability due to PPP contracts classified into government sector.
- Government liability due to repurchase agreements (repo operations).

### 3.1.1.2 *Data sources used for the compilation of Maastricht debt*

All data related to debt of the general government sector are derived from the system built up for compilation of financial accounts. The system contains all debt instruments at market value, face value and at issue price as well. All instruments in financial accounts are available by counterpart sector breakdown therefore consolidation can easily be performed.

#### Data sources

##### Central government

The main data sources for the main unit of central government are the Debt Management Agency (ÁKK Zrt.) reports: monthly report on the debt and the debt transactions on an aggregate level and monthly and quarterly report on the interest which also covers the stock of debt. This latter includes government securities at individual level. This information is cross-checked and compared to the results of securities statistics of the Central Bank on a security-by-security basis. The holder sector breakdown of securities comes from the securities statistics; the results are cross-checked by direct (balance sheet) sources.

Repo and M2M stocks are also included in the ÁKK report.

For calculating AF.2 (deposits with the Treasury) component of the main units' debt, the daily Treasury report is used.

Institutional arrangements, sources, procedures and methods used for the calculation of deficit and debt data EDP tables and data sources - Central Government sub-sector, EDP table 2A and 3B

Central government budgetary institutions and extra-budgetary funds report quarterly balance sheets. Corporations included in the general government sector have regular (monthly, quarterly) statistical reporting obligations including balance sheets and information on securities and cross-border operations.

For units classified into the central government subsector the main data sources are the money and banking statistics (monthly), the balance of payments statistics (monthly/quarterly) and the securities statistics (monthly) of the Central Bank. Data are cross-checked with balance sheet information.

Special items – debt (long term loan) originated from Gripen contract and from reclassified PPP contracts – are calculated by the Hungarian EDP working group. Calculations are based on a model which is regularly verified by the group. The verification is based on flow data. Annual flow data are available from the final accounts of central government. Quarterly data calculations are based on the same model.

#### Local government

Local government securities data are taken from the securities statistics maintained by the Central Bank. Beside custodians and different holders of securities, all resident units issuing securities (including all government units) are data suppliers of the securities statistics. Aggregated figures are cross-checked with balance sheets. For loans the basic data sources are the money and banking statistics, which includes non-bank financial intermediaries as well (monthly/quarterly), and the balance of payments statistics (monthly/quarterly). These data are cross-checked and compared to the quarterly balance sheets of local government units. The balance sheets are collected and verified by the Treasury.

For units reclassified into the local government subsector the data sources are also the banking statistics.

Social Security funds: the funds incur liabilities – loans - from the central government only. The data source is the daily Treasury report. This item is consolidated in EDP table 1.

All data are available by the first notification. For the second notification final accounts and annual balance sheet data – which are mostly used for verification and cross-checking – are available. The revision of the general government debt between the two notifications is negligible. Revisions mainly occur due to the reclassification of units with a backward effect.

#### 3.1.1.3 *Amendments to basic data sources*

General government gross debt data are valued at face value. Change in nominal debt is due basically to transaction or revaluation of foreign currency. In the Hungarian practice, other volume changes of debt occur when reclassification takes place or a reclassified unit merges with another unit classified outside general government. In this case, the individual debt data of the concerned units' balance sheet are used for adjustment.

Debt statistics heavily rely on counterparty data. For central government securities counterparty data is taken from securities statistics, but in case of (small) differences usually securities statistics are adjusted. In the case of local government securities and loans, the counterparty data – securities statistics and other banking statistics – are taken as primary data source and are compared to local government balance sheet data. This choice is justified by the fact that in the balance sheet the border between the securities and the loans is less reliable. It is very rare that adjustment should be made to the primary sources.

Institutional arrangements, sources, procedures and methods used for the calculation of deficit and debt data EDP tables and data sources - Central Government sub-sector, EDP table 2A and 3B

For AF.2 deposits the basic data source is the Treasury

Amendments for methodological reasons made to stock of debt data are relatively rare, because data sources usually include the debt instrument. For example, debt assumption in legal terms does not need adjustment to the stock because ÁKK report covers the assumed instrument from the date of assumption. Similarly, factoring transactions of counterparty sectors does not need adjustment to the stock, because financial institutions report this instrument as a government loan. The statistical data suppliers have to use the list of government units published with a monthly frequency for the sectorisation of counterpart units.

Adjustments to the stock occurred in the Hungarian practice in the following cases:

- Debt assumption not in legal but in statistical terms (ÁAK Rt. 1999-2002).
- Leasing contract recognised as financial leasing (Gripen contract 2006- ).
- PPP contracts reclassified in government (2006- ).
- Rerouting of issuance of debt instrument using statistical sources (MÁV Zrt. 2011-2013).
- Adjustment due to repo operations based on statistical data collection (2004- ).
- Rerouting Student loan II scheme (2005- )

The connection between financial accounts balance sheet and debt statistics is very close in the Hungarian accounts. Debt data are derived from the system of financial accounts. In this system, debt instruments are registered not only at market value but at face value and at issue price as well. Accrued interests are recorded separately as well (but included in the gross market value of instruments in financial accounts). Similarly, revaluation data are split into revaluation due to currency and market price changes. This practice ensures that the same instruments figure in financial accounts and in debt statistics and the transactions in debt instruments can be derived at market value and at nominal value as well.

### 3.1.1.4 *Consolidation of Maastricht debt*

In table 1 debt data are consolidated. Consolidation concerns the following debt instruments:

Within subsectors:

Central government:

Cash and deposit (AF.2): Intra flows and positions – central government budgetary institutions deposits in Treasury (Treasury accounts) – are not recorded in the statistical system.

Securities other than shares (AF.3): Some central government institutions hold government bonds and treasury bills. The data source for consolidation is the securities statistics. Data at nominal value are available in the statistics.

Loans (AF.4): Loans arise mainly from advance payments made by the Treasury to budgetary institutions for earlier disbursement of wages and salaries; the figures are available at nominal value from the report of the State Treasury. Quarterly balance sheets of budgetary government institutions also contain a breakdown of loans by counterparty sector.

Local government:

Institutional arrangements, sources, procedures and methods used for the calculation of deficit and debt data EDP tables and data sources - Central Government sub-sector, EDP table 2A and 3B

Cash and deposit (AF.2): Not relevant.

Securities other than shares (AF.3): Inter-flows and positions do not exist. The securities statistics contain information on holding sectors (sub-sectors) of different securities on security-by-security basis.

Loans (AF.4): Data on loans between local government units are available at nominal value in the quarterly balance sheet.

Social security funds:

Inter flows and positions do not exist.

Between subsectors:

Cash and deposit (AF.2): Local governments' and social security funds' Treasury accounts are consolidated. Data are available from the daily Treasury report at nominal value.

Securities other than shares (AF.3): Local government units hold government bonds and treasury bills. The data source for consolidation is the securities statistics. Data at nominal value are available.

Loans (AF.4): Treasury is financing advance payments of wages and salaries of local governments and social security funds. In addition, during the year social security funds deficit is also financed by the Treasury. All these flows and stocks are recorded in financial accounts as short term loans and are consolidated at general government level. Figures are available at nominal value in the daily Treasury report.

No amendments to the consolidation data are applied.

Institutional arrangements, sources, procedures and methods used for the calculation of deficit and debt data EDP tables and data sources - Central Government sub-sector, EDP table 2A and 3B

### **3.2. Central Government sub-sector, EDP table 2A and 3B**

Information provided in this section refers to data sources available for the Central Government (S.1311), indicates what sources are used for compilation of non-financial and financial accounts and EDP tables for S.1311, and explains the adjustments made in order to comply with ESA2010.

#### **3.2.1 Data sources for main Central Government unit: “The State”**

This section describes data sources available and used for compilation of national accounts and EDP tables for the main Central Government unit:

- Basic data sources
- Complementary data sources used for the purpose of special ESA2010 adjustments (e.g. accrual adjustments, recording of specific government transactions, etc.).

The main Central Government units are the followings:

- core government unit: State;
- central budgetary institutions;
- programs and earmarked budgetary appropriations (technical budgetary institutions);
- budgetary funds.

Basic data sources are the budgetary reports, sent by the Hungarian State Treasury. Working balance comes from these reports.

Complementary data source is used for the calculation of GFCF, which comes from statistical surveys.

B.9 is calculated from working balance.

**Table 2 – Availability and use of basic source data for the main central government unit**

| Available source data    |                       |  |              | Source Data Accounting                          | Source data used for compilation of |           |           |  |
|--------------------------|-----------------------|--|--------------|---|-------------------------------------|-----------|-----------|--|
| Accounting basis (C/A/M) | Periodicity (M/Q/A/O) | Time of availability of annual results for T-1 |              |   | WB                                  | B.9 (NFA) | B.9f (FA) |  |
|                          |                       | First results                                  | Final data   |   | WB                                  | B.9 (NFA) | B.9f (FA) |  |
| 1                        | 2                     | 3  | 4            | 5   | 6                                   | 7         | 8         |  |
|                          |                       | $T + days$                                     | $T + months$ |   | cross appropriate cells             |           |           |  |
|                          |                       |  |              | Budget Reporting                                |                                     |           |           |  |
|                          |                       |  |              | (1) Current revenue and expenditure             |                                     |           |           |  |
|                          |                       |  |              | (2) Current and capital revenue and expenditure |                                     |           |           |  |
| M                        | M/A                   | T+10   | T+5          | (3) Current and capital revenue and             | x                                   | x         | x         |  |

Institutional arrangements, sources, procedures and methods used for the calculation of deficit and debt data EDP tables and data sources - Central Government sub-sector, EDP table 2A and 3B

|   |     |      |     |   |  |   |   |
|---|-----|------|-----|---|--|---|---|
|   |     |      |     | expenditure and financial transactions                                  |  |   |   |
| A | Q/A | T+45 | T+5 | (4) Balance sheets  |  |   | x |
|   |     |      |     | <b>Financial Statements</b>   |  |   |   |
|   |     |      |     | (5) Profit and loss accounts  |  |   |   |
| A | A   |      | T+5 | (6) Balance sheets  |  | x | x |
|   |     |      |     | (7) Cash flow statement   |  |   |   |
|   |     |      |     | <b>Other Reporting</b>  |  |   |   |
| A | Q/A | T+60 | T+8 | (8) GFCF survey   |  | x |   |
| C | A/Q | T+30 | T+8 | (9) Data on payments of EU-grants                                       |  | x |   |
| M | M   | T+40 | T+3 | (10) Balance of Payments & International Investment Position statistics |  |   | x |
| A | M   | T+35 |     | (11) Securities statistics  |  |   | x |
| A | M   | T+40 |     | (12) Monetary and banking statistics                                    |  |   | x |

*Accounting basis (column 1): C- cash, A- accrual, M-mixed*

*Periodicity (column 2); M - monthly, Q - quarterly, A - accrual, O - other, to be specified.*

*Time of availability (column 4): availability of annual results for T-1 = number of months and days after the reporting period.*

*Column 6, 7 and 8 – those cells are crossed which refer to data sources used for compilation of the WB, B.9 (non-financial accounts) and B.9f (financial accounts), respectively.*

*Empty cells in column 1, 2, 3 and 4 mean that the data source does not exist.*

The accounting basis of budgetary source data for “Current and capital revenue and expenditure and financial transactions” can be characterized as „mixed”, including cash data plus non-cash reconciliation for received and granted advance payments. Treasury source data for the first EDP Notification of each year includes the net balance of advances received on the revenue side and the net balance of advances granted on the expenditure side. The data sources for the second notification are the annual financial reports of budgetary units, and these reports are cleaned up by the net balances of advance payments, thus only final revenues are recorded as revenues from sales and non-market services, while final expenditures are accounted as purchase of goods and services and gross fixed capital formation-type expenditures.

### 3.2.1.1           *Details of the basic data sources*

#### ***Data sources used for compilation of national accounts***

Central government includes central budgetary institutions, programs and earmarked budgetary appropriations and budgetary funds (see chapter 1 for description of central government)

Data are available by unit, and by category of transaction/instrument.

Institutional arrangements, sources, procedures and methods used for the calculation of deficit and debt data EDP tables and data sources - Central Government sub-sector, EDP table 2A and 3B

For the April t+1 EDP notification, the following data sources are used:

- Monthly reports on the revenue and expenditure of the central budgetary institutions, chapter-managed appropriations and budgetary funds. These data are available at t+10 days by category of transactions aggregated for the whole subsector and prepared by the Hungarian State Treasury from its own accounting system.
- Monthly reports on the directly and centrally managed revenue and expenditure on central budget which data are not belong to budgetary institutions. These data are available at t+10 days by chapters of the budget and prepared by the Hungarian State Treasury.
- Quarterly balance sheet data, prepared by the institutions and aggregated for the whole subsector by the Hungarian State Treasury at t+45 days.

For the October t+1 and subsequent EDP notifications the main data sources are annual financial reports and final accounts.

#### Annual financial reports:

In case of central government, decree 4/2013 on accounting of public finances regulates the filling of annual institutional reports.

Annual financial reports include tables about expenditures and revenues of the institutions. In the government decree there is a detailed instruction how to fill in the annual financial reports. Every table is available on the website <http://www.allamkincstar.gov.hu/en/> from which institutions can fill in the tables.

The heads of budgetary institutions are responsible for the fulfilment of the annual financial reporting obligation. Annual financial reports are signed by the leader and CFO of institutions.

Budgetary institutions have to send their annual financial reports to head of their supervisory institutions by t+2 months. The supervisory institution approves the annual financial report by the signature of the person who performs the supervision and returns back the annual financial report to the budgetary institution.

Budgetary institutions have to send the annual financial report to the Hungarian State Treasury. The Treasury accepts the annual financial reports only in case the institutions fulfil the form and content requirements prescribed in Government decree 4/2013 on accounting of public finances. From 2014 this process has been organised via centralised data transmission infrastructure of the Treasury without physical transmission of data.

The Treasury sends the accepted annual financial reports to the State Audit Office.

Part of the annual financial reports:

- Cover page: it includes the identifiers of the institutions, the signatures of directors of institutions and name and telephone number of persons who prepared the report or can give information in connection with it
- Tables: the heading of the tables include the identification number of the institutions, the year, the number of table and other identifier data (e.g. chapter in final account of state, county code). Tables itself include the costs, revenues, supports, etc. data of institutions. Data are in thousands forints.
- About 15 tables are filled in by the central government institutions.

The main tables are the following:

- Budgetary expenditures

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- Budgetary revenues
- Financing expenses
- Financing revenues
- Tables about staff
- Balance sheet
- Profit and loss account

Data processing and technical checking of data takes place in the Hungarian State Treasury.

The Treasury sends to HCSO annual data in frame of National Statistical Data Collection Program (Hungarian abbreviation OSAP) within t+150 days (usually it means the end of May). Data is provided in electronic format (Excel).

The institutional data is filled into an Oracle Database.

Some checking is done in HCSO, as well. There are some data which appear in several tables and for these, consistency checks are performed. Tables have to be filled in thousand forints. Some data are compared with the data of the previous years. If growth or decrease is substantial, it must be checked as well.

#### Final accounts:

The Ministry of Finance sends to HCSO final accounts in frame of OSAP officially by t+8 months, in August. In July both the HCSO and the State Audit Office of Hungary receive a version accepted by the government of the final accounts. Data processing is started from this version. Final accounts are built according to chapters of the budget; it contains expenditures and revenues. It has to contain data which are in the annual financial reports, but it is more aggregated. It contains not only numerical data but there are descriptions, analyses to all chapters about more transactions, as well.

#### ***Working balance (WB)***

The above mentioned [data sources](#) are the basis of the Working Balance and used for calculation of B.9 and national accounts.

##### **3.2.1.2            *Statistical surveys used as a basic data source***

###### **- Data on payments of EU-grants**

Two new surveys on EU-funds were introduced in 2014 in the frame of the National Statistical Data Collection Programme (OSAP):

1. *Quarterly data on payments of EU-grants*
2. *Detailed statement on the grants received from the European Union and the payments thereof - by priorities*

See description under section 6.2.

##### **3.2.1.3            *Supplementary data sources and analytical information***

This section describes supplementary data sources used to amend basic data sources when compiling national accounts. In order to meet ESA2010 requirements, supplementary data

Institutional arrangements, sources, procedures and methods used for the calculation of deficit and debt data EDP tables and data sources - Central Government sub-sector, EDP table 2A and 3B

could be used for e.g. for accrual adjustments, reclassification of specific transactions, consolidation, amendments of revenue and expenditure structure, amendments of structure of assets and liabilities, identification of a counterpart sector, etc.

### 3.2.1.3.1 Supplementary data sources used for the compilation of non-financial accounts

A GFCF survey is used for estimating GFCF data in general government. The survey covers all government units classified in GG. Data in annual survey (available next year August) is cross-checked with the budget report of government institutions at individual level; missing data in the survey is imputed from the budget report. For the April notification, GFCF data for year n-1 is taken from budget reports, quarterly survey data is used just for cross-checking. At spring no individual budgetary data is available therefore cross checking is possible only at aggregated subsector level.

VAT reimbursement data are available on a quarterly basis from the National Tax and Customs Administration of Hungary. They are used for the calculation of VAT accrual adjustments.

Accrual interest data are available on a quarterly basis from the Debt Management Agency.

In the calculation of accrual adjustments in the quarterly and annual accounts for EU grants, twice each month the report of the Hungarian State Treasury on the change of the outstanding claims against the EU is used as a supplementary data source. This data source is useful to monitor the cash revenues of the State Budget, especially for the periods when the financing of some operational programs has been suspended.

### 3.2.1.3.2 Supplementary data sources used for the compilation of financial accounts

In financial accounts not only budgetary data are considered as basic data sources, but balance of payments, money and banking statistics and securities statistics are, as well.

Data are considered being extracted from supplementary data sources, if they are:

- provided by entities outside the government and are not covered by the central bank statistics listed above, or
- they are produced by government institutions but only for national accounts purposes.

In central government subsector they are the following:

- Balance sheet of student loan scheme II. Loans provided by this scheme are rerouted via government. It has an impact on the government debt.
- Detailed quarterly VAT reimbursement data from the National Tax and Customs Administration of Hungary. It is used by non-financial accounts for calculation of VAT accruals, and by financial accounts for calculation of VAT liabilities of government. It has an impact on deficit.
- Monthly report of Agricultural and Rural Development Agency: it is used for splitting government claims between the European Union (prepayment of agricultural subsidies on behalf of EU (AF.7)) and the notional unit managing the agricultural intervention (AF.4). Both claims are financed from a separated treasury account outside the government budget. The splitting has no impact on either debt or deficit.
- Quarterly report of the Debt Management Agency on interest and nominal debt: it is used for calculating the corrections to the securities statistics. It has an impact on deficit and debt.

Institutional arrangements, sources, procedures and methods used for the calculation of deficit and debt data EDP tables and data sources - Central Government sub-sector, EDP table 2A and 3B

### 3.2.1.4 *Extra-budgetary accounts (EBA)*

Usually, not all flows of a non-financial nature are recorded in the so called budgetary accounts which enter the WB, as reported in the first line of EDP table 2. Some funds could be put aside as reserves, special purpose funds and are booked in so called “extra-budgetary accounts” - EBA. In some cases, according to national legislation, transactions which are not scrutinized by budgetary rules can be booked in EBA and not in ordinary budgetary accounts. It is very important that all non-financial flows of the main entity, including those entering EBA, are appropriately incorporated into calculations of deficit.

#### *Non-financial flows recorded in EBA*

Former “Extra-budgetary Funds”, funds with tax-type regular revenues and targeted expenditures are fully integrated in the budgetary accounts and in the budgetary process; they form budgetary chapters in the Annual Budget.

The Pension Reform and Debt Reduction Fund as a non-budgetary fund having a whole set of accounts, was classified as government unit and was included under “other central government units” until 2014. It ceased on January 2015.

Non-financial flows are identified in very rare cases that are related to use of special deposit treasury accounts. (An example: depositing revenues from sale of UMTS licences after the Supreme Court (Kúria) suspended the enforcement of the judgement of the Court of Budapest.) These kinds of special deposit accounts are clearly monitored, reported and audited by the State Audit Office.

#### *Financial flows recorded in EBA*

Financial transactions on the asset side, except for currency and deposits, are included in the WB. Deposit data and loans from the Treasury are recorded in public accounts as financing items. They are reported in the daily Treasury reports. Extra-budgetary funds are not allowed to issue other liabilities than Treasury loans. There is no need for supplementary data sources.

### 3.2.2 **Data sources for other Central Government units**

This section describes data sources available and used for compilation of national accounts and EDP tables for other Central Government units (those not reported in the working balance in EDP T2A).

The following other central government units are classified here:

- Corporations classified in Central Government;
- Non-profit institutions classified in Central Government;
- Other organisations classified in Central Government.

**Table 3 – Availability and use of basic source data for other central government units:**

Institutional arrangements, sources, procedures and methods used for the calculation of deficit and debt data EDP tables and data sources - Central Government sub-sector, EDP table 2A and 3B

| Available source data    |                       |  |              | Source Data Accounting   | Source data used for compilation of |           |
|--------------------------|-----------------------|--|--------------|--|-------------------------------------|-----------|
| Accounting basis (C/A/M) | Periodicity (M/Q/A/O) | Time of availability of annual results for T-1 |              |  | B.9 (NFA)                           | B.9f (FA) |
|                          |                       | First results                                  | Final data   | 5  | 7                                   | 8         |
| 1                        | 2                     | 3  | 4            | 5  | 7                                   | 8         |
|                          |                       | $T + days$                                     | $T + months$ |  |                                     |           |
|                          |                       |  |              | <b>Budget Reporting</b>  |                                     |           |
|                          |                       |  |              | (1) Current revenue and expenditure  |                                     |           |
|                          |                       |  |              | (2) Current and capital revenue and expenditure                            |                                     |           |
| M                        | M/A                   | T+10/T+45                                      | T+5          | (3) Current and capital revenue and expenditure and financial transactions | x                                   |           |
| A                        | A/Q                   | T+45   | T+4          | (4) Balance sheets   |                                     | x         |
|                          |                       |  |              | <b>Financial Statements</b>  |                                     |           |
| A                        | A/Q                   | T+45   | T+6          | (5) Profit and loss accounts   | x                                   |           |
| A                        | A/Q                   | T+45   | T+6          | (6) Balance sheets   | x                                   |           |
| A                        | A                     |  | T+6          | (7) Notes to the financial statement                                       | x                                   |           |
|                          |                       |  |              | (8) Cash flow statement  |                                     |           |
|                          |                       |  |              | <b>Other Reporting</b>   |                                     |           |
| C                        | A                     | T+220  | T+13         | (9) Statistical survey on non-profit institutions                          | x                                   |           |
| A                        | Q/A                   | T+60   | T+8          | (10) Statistical surveys on GFCF   | x                                   |           |
| A                        | A                     |  | T+8          | (11) Tax declaration data  | x                                   |           |
| C                        | Q/A                   | T+30   | T+8          | (12) Data on payments of EU-grants   | x                                   |           |
| M                        | M                     | T+40   | T+3          | (13) Balance of Payments & International Investment Position statistics    |                                     | x         |
| A                        | M                     | T+35   |              | (14) Securities statistics   |                                     | x         |
| A                        | M                     | T+40   |              | (15) Monetary and banking statistics                                       |                                     | x         |

See notes to table 2, on the used abbreviations.

### 3.2.2.1 Details of the basic data sources

For the April t+1 EDP notification in the case of the largest corporations classified into central government, we use quarterly preliminary balance sheets and profit and loss accounts, provided by the corporations to the Ministry of Finance. For smaller entities, we use t-1 year's data for estimation, as financial statements of corporations classified into local government sector are available only at t+6 months.

Institutional arrangements, sources, procedures and methods used for the calculation of deficit and debt data EDP tables and data sources - Central Government sub-sector, EDP table 2A and 3B

For the October t+1 and subsequent EDP notifications, the main data sources are the following ones:

- For corporations classified into Central Government annual financial statements - including balance sheets, profit and loss accounts and supplements - serve as basic data sources. Corporations' annual financial statements data are available in the database provided by the Ministry of Justice at t+7 months, and they are also included in corporate tax declaration data provided by the National Tax and Customs Authority, available at t+8 months. Supplements can be downloaded from a website operated by the Ministry of Justice.
- In case of other organisations classified into Central Government, such as the public media and the entities listed under 5.2.9, they send their reports to the Ministry of Finance or the HCSO.
- For NPIs classified into Central Government, see below.

### **3.2.2.2           *Statistical surveys used as a basic data source***

Survey on NPIs:

Statistical survey on the activity of non-profit institutions

The Quality of Life Statistics Department of the HCSO is conducting the annual non-profit survey. The survey is an important data source in the national accounting process, as accounting and financial reporting regulations are highly simplified for certain types of NPIs, due to which the administrative sources are of rather limited use to compile the accounts as requested by ESA.

The survey results serve also as a basis to compile the indicators describing the Hungarian non-profit sector as a whole, as well as the non-profit sector serving households in national accounts.

The main variables collected are the following:

- foundation information, legal form, public benefit status, main activity;
- members, employees, volunteers;
- data on revenues: subsidies, donations by sources; VAT-refunds; membership fees; revenues from sales and from service fees for non-profit activity; business revenues; revenues from financial transactions
- data on expenses: grants and subsidies provided; main balance sheet items; production costs and expenditures; financial and capital expenditures;
- changes in inventories of fixed capital.

Overall survey response rate for the non-profit sector is usually about 80%. For the purpose of making the data comprehensive, the Quality of Life Statistics Department developed a so-called donor-finder method. The principle of this method is that the missing statistical data of all non-respondent organisations are taken from another respondent organisation that is similar in terms of its major characteristics, known from the register. However, the Department of National Accounts provides the list of the NPIs reclassified in the GG sector in order to ensure that the response rate of this group is near 100% each year. In case of non-responding units we use the administrative resources to complement the survey data.

### **3.2.2.3           *Supplementary data sources and analytical information***

This section describes supplementary data sources which are used to amend basic data sources while compiling national accounts. In order to meet ESA2010 requirements, supplementary data could be used for, e.g., accrual adjustments, reclassification of specific transactions,

Institutional arrangements, sources, procedures and methods used for the calculation of deficit and debt data EDP tables and data sources - Central Government sub-sector, EDP table 2A and 3B

consolidation, amendments of revenue and expenditure structure, amendments of structure of assets and liabilities, identification of a counterpart sector, etc.

### 3.2.2.3.1 Supplementary data sources used for the compilation of non-financial accounts

The GFCF survey is used for calculating GFCF data for non-budgetary organisations classified into the government sector, as well. In case of corporations that are not responding to the survey, their GFCF data are estimated based on their balance sheet's data.

Tax declaration data are used to complement financial statement data where the latter is not detailed enough. These data serve mainly to calculate data on other taxes on production payable.

Data on payments of EU-grants is used to account for current and capital transfers receivable. For details see section 6.2.

We also use data from budget reports as counterparty information related to current and capital transfers.

### 3.2.2.3.2 Supplementary data sources used for the compilation of financial accounts

No supplementary data sources are used.

## 3.2.3 EDP table 2A

This section provides detailed information on individual lines reported in EDP T2A.

### 3.2.3.1 *Working balance - use for the compilation of national accounts*

See section 3.2.1.1.

### 3.2.3.2 *Legal basis of the working balance*

See section 2.2.1.

### 3.2.3.3 *Coverage of units in the working balance*

Two adjustment lines due to sector delimitation appear in EDP T2. The purpose of the first adjustment is to exclude flows relating to units which do not belong to the government sector (or to the particular subsector) according to ESA2010 definition. The second adjustment refers to B.9 of other units which are classified within the particular government subsector, but related inflows/outflows are not included in the working balance.

#### 3.2.3.3.1 Units to be classified outside the subsector, but reported in the WB

There are no such kind of units.

#### 3.2.3.3.2 Units to be classified inside the subsector, but not reported in the WB

All units classified in central government but not reported in the WB are reported in table 2 on accrual basis, in line net borrowing/net lending of other central government bodies. The full sequence of ESA 2010 accounts are compiled separately for these units.

### 3.2.3.4 *Accounting basis of the working balance*

#### 3.2.3.4.1 Accrual adjustment relating to interest D.41, as reported in EDP T2

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In the working balance, interest expenditure is recorded on cash basis. It covers all interest expenditures of legal central government. The discount of securities issued by small discount is included in the interest data at issuance, while that of the discount treasury bills is recorded at redemption. Inflows of premiums are recorded as interest revenue at the time of issuance.

On the line *Difference between interest paid and accrued* of EDP table 2 both adjustments to interest expenditure and interest revenue are recorded.

The adjustment includes:

- the difference between interest paid and accrued in the case of coupon interest of both sides;
- the difference between discount/premium paid and accrued (smoothed during the lifetime of the liability);
- the difference between redemption value and nominal value. This item is included in working balance (usually as revenue) and it is eliminated from accruals. It is treated in financial accounts as revaluation.

The line does not include corrections made for swap interest, because swap interest eliminated from the working balance under the line "Financial transactions included in the working balance, of which: net settlements under swap contracts (+/-)"

This line does not include interest imputed on the Gripen contract (military expenditure), because this item is reported as other adjustment in table 2.

#### 3.2.3.4.2 Accrual adjustments reported under other accounts receivable/payable F.8 in EDP T2

The following non-financial transactions are adjusted to accrual basis via receivables F.8:

- P.131 Payments for other non-market output (see section 6.5);
- D.2 Taxes on production and imports except for VAT reimbursement (see section 6.1.1);
- D.45 Rents;
- D.5 Current taxes on income, wealth etc. (see section 6.1.1);
- D.613 Households' actual social contributions (see section 6.1.2);
- D.7, D.9 related to EU transfers (see section 6.2.1).

The following non-financial transactions are adjusted to accrual basis via payables F.8:

- P.2 Intermediate consumption (see section 6.5);
- D.1 Compensation of employees (see section 6.5);
- D.211 VAT reimbursement (see section 6.1.1);
- D.3 Subsidies (see section 6.5);
- standardised guarantees (see section 7.1.3)
- D.7, D.9 related to EU transfers (see section 6.2.1).

These accrual adjustments in EDP table 2 are fully consistent with F.8 reported in EDP T3 and financial accounts.

Institutional arrangements, sources, procedures and methods used for the calculation of deficit and debt data EDP tables and data sources - Central Government sub-sector, EDP table 2A and 3B

### 3.2.3.4.3 Other accrual adjustments in EDP T2

- D.7, D.9 related to timing issue of inter-government transactions (consolidation);
- P.51 Gross fixed capital formation (see section 6.5).

### 3.2.3.5 *Completeness of non-financial flows covered in the working balance*

Working balance covers all non-financial transactions.

### 3.2.3.6 *Financial transactions included in the working balance*

The following financial transactions are included in the working balance:

- Loans, granted: budgetary institutions record their grant and redemption of loans in the public account in a separate line.
  - o In connection with Gripen lease the annual payment is recorded in the public account as material costs (P.2). Part of the payments is reclassified as redemption of loans and recorded as financial transaction.
  - o Some PPP projects were reclassified into the government sector. A simple model was compiled to split availability fee into components: repayment of loan, interest and purchase of service.
- Loans, repayments: budgetary institutions record their repayments of loans in the public account in a separate line.
- Equities, acquisition: capital injection into international organisations, into non-financial and financial corporations, acquisition of shares, which are included in the working balance (in line with the capital injection test).
- Equities, sales: withdrawal of equity.
- Other financial transactions: the main item is the correction made to the interest payment, under the line “net settlements under swap contracts (+/-)”. The losses and gains on foreign exchange, which are included in the working balance are also reported here.

### 3.2.3.7 *Other adjustments reported in EDP T2*

See other adjustments in section 3.6.5.

### 3.2.3.8 *Net lending/net borrowing of central government*

B.9 Net lending/net borrowing, as reported in the last line in EDP T2A, is derived from the same source data used when calculating the Working Balance.

## 3.2.4 EDP table 3B

### 3.2.4.1 *Transactions in financial assets and liabilities*

**Table 4. Data used for compilation of transactions and of stocks of financial assets and liabilities**

|  | <b>Assets</b> | <b>Liabilities</b> |
|--|---------------|--------------------|
|--|---------------|--------------------|

Institutional arrangements, sources, procedures and methods used for the calculation of deficit and debt data EDP tables and data sources - Central Government sub-sector, EDP table 2A and 3B

| Source Data                                      | F.2 | F.3 | F.4 | F.5 | F.6 | F.7 | F.8 | F.2 | F.3 | F.4 | F.5 | F.6 | F.7 | F.8 |
|--|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| <b>Calculation of transactions</b>               |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| Transaction data (integrated in public accounts) |     |     | x   | x   |     |     | x   |     |     |     |     |     | x   | x   |
| Other transaction data                           |     |     |     |     |     | x   | x   |     |     |     |     | x   | x   | x   |
| Stock data                                       | x   | x   | x   | x   | x   | x   | x   | x   | x   | x   | -   |     |     | x   |
| <b>Calculation of stocks</b>                     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| Transaction data                                 |     |     |     |     |     |     | x   |     |     |     |     |     | x   | x   |
| Stock data                                       | x   | x   | x   | x   | x   | x   | x   | x   | x   | x   | -   | x   | x   | x   |

## **Assets**

### **Currency and deposits (F.2)**

F.2 data are based on counterparty sector data:

- Money and banking statistics data based on CB and MFI monthly reports;
- Balance of payments data based on report of the Government Debt Management Agency (ÁKK) and other government units.

The data sources are exhaustive. Transactions are calculated from the stock data. Holding gains and losses are calculated by currency using daily or monthly stock data. By nature, cash and deposit transaction data cannot be integrated in the public account. Data calculated for financial accounts are compared with the quarterly and annual central budget's balance sheet data, but basic data are usually not amended in the light of balance sheet data because they are correct and reliable. Consolidation issue is not raised in S.1311 subsector. Budgetary institutions and extra-budgetary funds keep their accounts at Treasury, but these assets are neglected in the system. In the case of cash and deposit the time of recording is always when the transaction takes place. Accrued interest is included based on the banking statistics. AF.2 data are always on nominal value including accrued interest. AF.2 also covers M2M transfers paid by ÁKK to non-residents.

### **Securities other than shares (F.3)**

AF.3 data on debt securities are taken from securities statistics of the Central Bank. Securities statistics collects data at face value and calculates market value on an individual basis by using market prices. Accrued interests are included. Supplementary data sources are public accounts - in which the transactions are integrated - and balance sheets (state, budgetary institutions, extra-budgetary fund, Pension Reform Fund, corporations). Transactions are calculated from the stocks. Supplementary data are compared to basic data. High differences are investigated and the misreporting is corrected. Consolidation of data is made also on the basis of securities statistics data.

### **Loans (F.4)**

Main data sources are balance sheets of the state, the budgetary institutions, the extra-budgetary funds and corporations included in the sub-sector and the daily report of the Treasury. Data on cross-border lending are taken from the balance of payments statistics. Supplementary data sources are the cash-flow statements of the budgetary institutions. Transactions are mainly calculated from the stocks. Transactions are integrated into the public

Institutional arrangements, sources, procedures and methods used for the calculation of deficit and debt data EDP tables and data sources - Central Government sub-sector, EDP table 2A and 3B

account. AF.4 also includes a type of student loan provided by a non-government unit (Diákhitel Központ) rerouted via central government.

#### Shares and other equities (F.5)

- Quoted shares and mutual fund shares – data sources are the securities statistics. Stock data on face value and market price information are collected; the stock on market price is calculated on an individual basis. Transactions are calculated from average price and volume data on monthly basis. Transactions are adjusted using individual budgetary cash-flow information included in cash-flow statements (public accounts, monthly report of the public holding companies).
- Unquoted shares – stock data are available from the annex of the annual tax declaration and from the quarterly report of large public companies. Transaction data are taken from two direct sources: from the public account and the monthly report of the two public holding, the Hungarian National Asset Management Inc. and the Hungarian Development Bank.

#### Insurance, pension and standardised guarantee schemes (F.6)

Data sources are the quarterly balance sheets of the insurance companies. The item covers the prepayments of insurance premiums and reserves for outstanding claims (F.62). By nature, this item cannot be included in public accounts. In the balance sheet of insurance companies, data are available for the whole government sector and the proportion of the different subsectors is estimated. The item both for central government subsector and the whole GG is negligible.

#### Financial derivatives and employee stock options (F.7)

In the public account, cash (transaction) data are available in the daily Treasury report. They are not used in the compilation.

The financial accounts rely on specific questionnaires.

- For the ROW sector monthly questionnaire – reported by ÁKK – relates to the stocks and the transactions. Revaluation is calculated.
- For monetary institutions (S.122) quarterly questionnaire, relates also to the stocks and transactions. Revaluation is calculated.
- For central bank the central bank's monthly report includes stock and revaluation figures. Transactions are calculated.

#### Other accounts receivable (F.8)

The item covers trade credit and advances (F.81), and other financial claims due to timing differences between (financial and non-financial) transactions and the corresponding payments (F.89). The most important items of F.89 are tax receivables and claims on EU.

In the case of trade credits for legal central government and corporations classified into central government, the data sources are the quarterly and annual balance sheets. For reclassified non-profit institutions, quarterly balance sheet is not available, trade credits are estimated. The estimation takes into account the purchase of goods and services compared to that of reclassified corporations. F.81 is reconciled between financial and non-financial accounts. In financial accounts trade credits are consolidated. In the case of budgetary institutions, consolidation is based on asset side balance sheet information. Consolidation also takes place between legal central government and reclassified units: if the sales revenue of the unit overwhelmingly comes from central budget, its receivables are consolidated.

Transactions are calculated as change in stocks taking into account other volume changes when relevant (e.g. sector reclassification).

Institutional arrangements, sources, procedures and methods used for the calculation of deficit and debt data EDP tables and data sources - Central Government sub-sector, EDP table 2A and 3B

In the case of tax receivables stocks are calculated from transactions. Transactions are derived from time adjustment for taxes calculated in non-financial accounts, hereby the reconciliation between financial and non-financial accounts is perfect. In non-financial accounts time adjustments are calculated from monthly tax data from Treasury. Tax receivables are not consolidated.

EU transfer receivables consist of two types of transfers: EU agricultural subsidy prepayments by central government and time adjustment to non-agricultural EU transfers. Agricultural EU subsidies are not integrated in the public account – they are transferred by a specific Treasury account. The stock data are available in the daily Treasury report, transactions are calculated. Other EU transfers are channelled via central budget. Time lags between revenue and expenditure of flows constitutes the time adjustment in non-financial account. This equals to the transaction figure in financial accounts; hereby the reconciliation between the two sets of accounts is complete. Stocks are calculated from transaction data.

In addition to the above mentioned items, other financial claims also cover temporary, irregular time lags. Examples are claims originated from sales of licences when payments are spread over the lifetime of the contract or the transfer of pension obligation when the economic event took place earlier than the transfer of financial assets.

## **Liabilities**

### **Currency and deposits (F.2)**

The item covers the deposits kept by other sectors and subsectors in Treasury accounts. Data source is the daily Treasury report. Local government, social security funds, a public financial corporation and households are involved. Stocks and flows are available in the same report. Consolidation takes place based on the same data.

### **Securities other than shares (F.3)**

Legal central government's data is taken from two sources. ÁKK reports the individual data on monthly/quarterly basis. The report contains the face value, the difference between face value and issue price, the cash and accrual transactions, and the stock of accrued interests. This source is integrated in the securities statistics of the Central Bank. The split between counterparty sectors is provided by securities statistics which calculates the stocks on market value, as well. Transactions are calculated from stocks taking into account the price changes and the exchange rate movements if relevant.

F.3 contains securities issued by the Hungarian National Asset Management Inc. because this entity is classified into central government. AF.3 is regularly adjusted for repurchase agreements: securities lent or temporary sold are deducted from the stock. Government securities temporary rebought by ÁKK are added to the stock of AF.3.

### **Loans (F.4)**

Central budget's loans are reported by ÁKK quarterly. Budgetary institutions' and extra budgetary funds' loans provided by the Treasury are covered by the daily Treasury report. The latter data are used for consolidation purpose as well. Loans issued by entities reclassified into the central government subsector are covered by the money and banking and balance of payments statistics. Stocks are cross-checked with balance sheet information. Loans are recorded at face value and include interest accrued but not paid. Transactions are calculated from the stocks; in the case of foreign exchange loans the exchange rate movements are taken into account. F.4 also covers imputed loans against non-financial corporations due to PPP contracts, when the PPP assets are classified into central government. Payables related to a long term military contract (Gripen) are reclassified as loan and are covered by AF.4. One type

Institutional arrangements, sources, procedures and methods used for the calculation of deficit and debt data EDP tables and data sources - Central Government sub-sector, EDP table 2A and 3B

of student loans provided by Student Loan Centre is rerouted via central government and included in AF.4 both on the asset and liability side. AF.4 also includes M2M transfers (margin payments relating to swaps) received by ÁKK.

### **Insurance, pension and standardised guarantee schemes (F.6)**

This item includes only the provisions for calls under standardised guarantees (F.66). It includes housing loans and from 2019 the pre-natal funding to young married couples. Recently four types of housing guarantees exist in Hungary:

- Guarantee program on housing loans to civil servants launched in 2002;
- Guarantee program on housing loans to young people for acquiring first and relatively cheap flat or house ("nest building") launched in 2005;
- Guarantee program on swing line loans to mortgagors launched in 2009;
- Guarantee program on the delayed amortization of foreign exchange loans launched in 2013.

As the Hungarian government units do not record provision for these guarantees in their books, for national accounts purposes statisticians have to calculate the provision (AF. 66) and the corresponding flows.

The following data is available:

- end of year stock of guaranteed debt (off balance sheet item);
- the amount of calls (on cash basis from the public account);
- the amount of recoveries (on cash basis from the public account);
- guarantee fees (negligible, but included in the public account).

The following data is calculated:

- change in stock of guaranteed debt;
- annual amount of calls net of recovery;
- rate of expected calls: comparison of the total amount of net calls to the total amount of decrease of guaranteed debt; in both cases only the years when the stock is decreasing are taken into account.
- calculation of D.9 and F.66: the increase of the stocks is multiplied by the rate of expected calls.

We recognized that not only the economic circumstances but also the sociological features of the groups of beneficiaries have an impact on the rate of expected calls. The rates of expected calls are very different in the different programs:

- Civil servants: 10%;
- "Nest building": 48%;
- Swing line loans: 11%.
- Foreign exchange loans (estimated): 15%.
- Concerning the pre-natal funding to young married couples the data source for the loans provided by the banks to the households is the monetary statistics. The rate of expected calls is based on an analytical demographic model that relies on detailed demographic data from the Statistical Office.

### **Other accounts payable (F.8)**

Institutional arrangements, sources, procedures and methods used for the calculation of deficit and debt data EDP tables and data sources - Central Government sub-sector, EDP table 2A and 3B

Other accounts payable cover trade credits and advances (F.81) and other financial liabilities (F.89). In the case of trade credits for legal central government and corporations classified into central government, the data sources are the quarterly and annual balance sheets. For reclassified non-profit institutions, quarterly balance sheet is not available, trade credits are estimated. F.81 is reconciled between financial and non-financial accounts. In financial accounts trade credits are consolidated. In the case of budgetary institutions consolidation is based on asset side balance sheet information. Consolidation between legal central government and reclassified units is based on the asset side information provided by the reclassified corporations' quarterly report.

F.89 includes payables on compensation of employees. The entry in financial account is reconciled with the one-month time adjustment applied in non-financial accounts. The data source is the Treasury monthly report. The stocks are calculated from the transactions.

Tax payables by central budget include two items: income-type taxes of corporations (interim adjustments) and VAT payables. Both are reconciled with non-financial accounts accrual adjustments. In both cases stocks are calculated from transactions.

In the case of subsidies, financial transactions are equal to accrual adjustments applied by non-financial accounts. Stocks are calculated from transactions.

EU transfer payables cover the EU transfer prepayments kept on the Treasury accounts. The data source is the daily Treasury report for deposits denominated in HUF and a monthly Treasury report for deposits denominated in EUR. Transactions are calculated from stocks (revaluation is estimated).

In 2011 the government took over the pension obligation of private pension fund. Since then a new liability is recorded as part of F.89: prepayment of social contribution. This imputed liability is recorded according to a model worked out by the Hungarian EDP working group. The initial liability is equal to the value of the financial assets taken over from the private pension funds. This is increased every quarter by an imputed interest charge (3%) and decreased by the transfers recorded in non-financial accounts as government revenue. The life span of the liability is 35 years.

In addition to the above mentioned items, other financial claims also cover temporary, irregular time lags. Examples are dividend prepayments, sales revenue of CO2 licences, time lags between court decisions and the related payments and so on.

### 3.2.4.2            *Other stock-flow adjustments*

Other stock flow adjustments cover all the necessary corrections made to financial accounts transactions in order to obtain change in debt data at nominal value.

As debt is measured at nominal (face) value, the issuance and the redemption should be recorded at nominal value as well, meaning that the difference between the issuance price and the nominal value should be eliminated. In practice, this item is obtained the following way: at issuance ÁKK calculates the difference between the issuance value and face value of every government security. This is the opening stock of the issuance above/below nominal value. During the lifetime of the security this stock may change due to interim redemptions and new issuance. The value of stock becomes zero when the redemption of the last piece of security takes place. On table 3B always the change in this stock is recorded.

There is a need for an adjustment called *Difference between interests accrued and paid*, because accrued interest is included in the deficit, but it is not included in debt. Accrued interest does not need to be financed (it should be eliminated), on the contrary, it is the interest paid which needs financing (it should be added).

Accrued interest is composed of two components:

Institutional arrangements, sources, procedures and methods used for the calculation of deficit and debt data EDP tables and data sources - Central Government sub-sector, EDP table 2A and 3B

- the coupon interest accrued on deposits, loans and securities;
- the discount/premium at issuance on securities spread out during the lifetime of the asset.

In table 3B the line *Difference between interests accrued and paid* is calculated as change in the stock of interest accrued not paid (excluded revaluation). The stock is built up the following way:

$$\text{closing stock} = \text{opening stock} + \text{interest accrued} - \text{interest paid} - \text{change in stock of issuance above/below line} - \text{revaluation}$$

*Difference between interests accrued and paid* = interest accrued – interest paid – change in stock of issuance above/below the line – revaluation

Data under the line *Redemptions of debt above/below nominal value* are recorded only when redemption takes place before the maturity of the security. In this case in the financial accounts a revaluation is recorded. In Table 3 the whole difference between the nominal value and the redemption price is recorded in this line. In the Hungarian practice ÁKK reports the revaluation due to the early redemption of debt securities.

*Appreciation/depreciation of foreign currency debt* can also all be derived from the financial accounts system of the Central Bank. Foreign debt liabilities are converted into national currency at end-of-year exchange rate of the Central Bank. In the case of loans, the appreciation/depreciation is calculated from the average stocks and the exchange rate changes. In the case of securities, it is calculated as a difference between the change in stock and transaction data. The item includes the revaluation of cross currency swaps, as well.

Items are reported under *Changes in sector classifications* in years when sector reclassifications occur.

The line *Other volume changes in financial liabilities* of Table 3 is not used in the Hungarian practice.

### 3.2.4.3 *Balancing of non-financial and financial accounts, transactions in F.8*

This section aims at describing of techniques and methods for balancing non-financial and financial accounts applied generally for the whole general government sector.

#### Allocation of discrepancy B.9 vs B.9f

In the Hungarian national accounts huge efforts are made to decrease the difference between the balancing items of financial and non-financial accounts (B.9f and B.9). The reconciliation between the methods and the common adjustments is systematically applied. During the compilation process of financial accounts, data are always compared to the available secondary source information and the differences are investigated, source data are corrected if it is deemed to be justified. Other measures are not used for decreasing the discrepancy. Neither is non-financial data ever touched, nor any discrepancy allocated in F.7. Statistical discrepancy between financial and non-financial accounts is always presented in the table.

#### Changes to intermediate data

Non-financial accounts data are based on administrative data; no counterparty information is used to overwrite the primary source data. On the contrary, financial accounts use diverse data sources, several times that of counterparty sub-sectors or financial intermediaries. It occurs that data sources contradict each other (for example monetary statistics and security statistics). In such cases, after an investigation, the source data are corrected having an impact on B.9f.

Institutional arrangements, sources, procedures and methods used for the calculation of deficit and debt data EDP tables and data sources - Central Government sub-sector, EDP table 2A and 3B

At the final stage, discrepancy is never allocated to financial or non-financial instruments.

#### Complementary elements on stocks

As no discrepancy is allocated to financial transactions there is no need for complementary elements in stocks.

#### Accruals

In the administrative data one can observe timing problems in the case of recording wages and salaries. Part of the December wages are paid at the end of December and are recorded in January of the following year. In order to avoid discrepancy due to this timing problem, different time adjustments are applied in FA and NFA. Otherwise, all the time adjustments are reconciled between the two sets of accounts. Statistical discrepancy occurs mainly due to time of recording problems but these are generated mainly by the cash-flow statements themselves and not by the accrual adjustments applied.

#### Ex-post monitoring

For reducing the significant discrepancy, Hungarian statisticians launched a systematic inquiry in 2010 and 2012 to detect the source of differences. Already the first one reduced the discrepancy successfully. Due to these results recently there was no need to apply ex-post monitoring.

### **3.3. State government sub-sector, EDP table 2B and 3C**

This section is not applicable for Hungary

### 3.4. Local government sub-sector, EDP table 2C and 3D

#### 3.4.1 Data sources for Local Government main unit: local governments and national minority local governments

**Table 5 – Availability and use of basic source data for main local government units:**

| Available source data       |                          |  |            | Source Data<br>Accounting  | Source data used for compilation of |              |              |  |
|-----------------------------|--------------------------|--|------------|--|-------------------------------------|--------------|--------------|--|
| Accounting basis<br>(C/A/M) | Periodicity<br>(M/Q/A/O) | Time of availability of annual results for T-1 |            |  | WB                                  | B.9<br>(NFA) | B.9f<br>(FA) |  |
|                             |                          | First results                                  | Final data |  |                                     |              |              |  |
| 1                           | 2                        | 3  | 4          | 5  | 6                                   | 7            | 8            |  |
|                             |                          | $T + days$                                     | $T+months$ |  | cross appropriate cells             |              |              |  |
|                             |                          |  |            | <b>Budget Reporting</b>  |                                     |              |              |  |
|                             |                          |  |            | (1) Current revenue and expenditure  |                                     |              |              |  |
|                             |                          |  |            | (2) Current and capital revenue and expenditure                            |                                     |              |              |  |
| C                           | Q/A                      | T+45   | T+5        | (3) Current and capital revenue and expenditure and financial transactions | x                                   | x            | x            |  |
| A                           | Q/A                      | T+45   | T+5        | (4) Balance sheets   |                                     |              | x            |  |
|                             |                          |  |            | <b>Financial Statements</b>  |                                     |              |              |  |
|                             |                          |  |            | (5) Profit and loss accounts   |                                     |              |              |  |
| A                           | A                        |  | T+5        | (6) Balance sheets   |                                     | x            | x            |  |
|                             |                          |  |            | (7) Cash flow statement  |                                     |              |              |  |
|                             |                          |  |            | <b>Other Reporting</b>   |                                     |              |              |  |
| A                           | Q/A                      | T+60   | T+8        | (8) Statistical surveys  |                                     | x            |              |  |
| M                           | M                        | T+40   | T+3        | (9) Balance of Payments & International Investment Position statistics     |                                     |              | x            |  |
| A                           | M                        | T+35   |            | (10) Securities statistics   |                                     |              | x            |  |
| A                           | M                        | T+40   |            | (11) Monetary and banking statistics                                       |                                     |              | x            |  |
| C                           | Q/A                      | T+30   | T+8        | (12) Data on payments of EU-grants   | x                                   |              |              |  |

Accounting basis (column 1): C- cash, A- accrual, M-mixed

Periodicity (column 2); M - monthly, Q - quarterly, A - accrual, O - other, to be specified.

Time of availability (column 4): availability of annual results for T-1 = number of months and days after the reporting period.

## EDP tables and data sources - Local government sub-sector, EDP table 2C and 3D

*Column 6, 7 and 8 – those cells are crossed which refer to data sources used for compilation of the WB, B.9 (non-financial accounts) and B.9f (financial accounts), respectively.*

*Empty cells in column 1, 2, 3 and 4 mean that the data source does not exist.*

### 3.4.1.1 Details of the basic data sources

For the April EDP notification the following data sources are used:

- Quarterly reports on the revenue and expenditure of the local government institutions. These data are available at t+45 days by category of transactions aggregated for the whole subsector. Each local government compiles this report and sends it to the Hungarian State Treasury who aggregates and controls the data. HCSO receives the report from Treasury.
- Quarterly balance sheet data, prepared by the institutions and aggregated for the whole subsector by the Hungarian State Treasury at t+45 days.

Basic data sources for the October and later EDP notifications for local government units are annual financial reports.

In case of local government the Government decree 4/2013 on accounting of public finances regulates the filling of annual institutional reports.

Annual financial reports include tables about expenditures and revenues of the institutions. In the government decree there is a detailed instruction on how to fill in the annual financial reports. Every table is available on the website <http://allamkincstar.gov.hu/> from which institutions can fill in the tables.

The heads of budgetary institutions are responsible for the fulfilment of the annual financial reporting obligation. Annual financial reports are signed by the leader and CFO of institutions.

Local government institutions have to send their annual financial reports to the head of their supervisory institutions by t+2 months. The supervisory institution approves the annual financial report by the signature of the person who performs the supervision and returns back the annual financial report to the local government institution.

Local government institutions have to send the annual financial report to the Hungarian State Treasury. The Treasury accepts the annual financial reports only in case the institutions fulfil the form and content requirements prescribed in Government decree 4/2013 on accounting of public finances. The Treasury sends the accepted annual financial reports to the State Audit Office.

Part of the annual financial reports:

- Cover page: it includes the identifiers of the institutions, the signatures of directors of institutions and name and telephone number of persons who prepared the report or can give information in connection with it
- Tables: the heading of the tables include the identification number of the institutions, the year, the number of table and other identifier data (e.g. chapter in final account of state, county code). Tables itself include the costs, revenues, supports etc. data of institutions. Data are in thousands forints.
- About 15 tables are filled in by the local government institutions.

Main tables are the following:

- Budgetary expenditures
- Budgetary revenues
- Financing expenses
- Financing revenues
- Tables about staff
- Balance sheet
- Profit and loss account

Data processing and technical checking of data takes place in the Hungarian State Treasury.

The Treasury sends to HCSO annual data in frame of the National Statistical Data Collection Program (Hungarian abbreviation OSAP) by t+150 days; it usually means the end of May. Data is provided in electronic format (Excel).

Institutional data is filled into an Oracle Database.

Some checking is done in HCSO, as well. There are some data which appear in several tables and it is checked whether the same values are in the different tables. Tables have to be filled in thousand forints. Some data are compared with the data of the previous years. If growth or decrease is substantial, it must be checked as well.

#### **3.4.1.2           *Statistical surveys used as a basic data source***

No statistical survey used as a basic data source.

#### **3.4.1.3           *Supplementary data sources and analytical information***

##### **3.4.1.3.1       Supplementary data sources used for the compilation of non-financial accounts**

A GFCF survey is used for estimating GFCF data in general government. The survey covers all government units classified in GG. Data in annual survey (available in August) are cross checked with the budget report of government institutions at individual level; missing data in the survey are imputed from budget report. In April notification GFCF data for year n-1 are taken from budget reports, quarterly survey data is used just for cross checking.

Monthly reports on wages and salaries by the Hungarian Treasury used for the accrual adjustment of compensation of employees.

In case of EU grants, see section 3.2.1.3.1.

##### **3.4.1.3.2       Supplementary data sources used for the compilation of financial accounts**

Monthly reports on the wages and salaries by the Hungarian Treasury: it is used for the calculation of local government liabilities against households for the compensation of employees.

#### **3.4.2   Data sources for other Local Government units**

The following other local government units are classified here:

- Corporations classified into LG;
- Non-profit institutions classified into LG.

**Table 6 – Availability and use of basic source data for other local government unit**

| Available source data          |                          |  |               | Source Data<br>Accounting | Source data used for<br>compilation of |              |              |  |
|--------------------------------|--------------------------|--|---------------|---------------------------|--|--------------|--------------|--|
| Accounting<br>basis<br>(C/A/M) | Periodicity<br>(M/Q/A/O) | Time of availability<br>of annual results<br>for T-1 |               |                           | WB                                     | B.9<br>(NFA) | B.9f<br>(FA) |  |
|                                |                          | First<br>results                                     | Final<br>data |                           |  |              |              |  |
| 1                              | 2                        | 3  | 4             | 5                         | 6                                      | 7            | 8            |  |

## EDP tables and data sources - Local government sub-sector, EDP table 2C and 3D

|   |     | <i>T + days</i> | <i>T+months</i> |  | <i>cross appropriate cells</i> |   |   |
|---|-----|-----------------|-----------------|--|--------------------------------|---|---|
|   |     |                 |                 | <b>Budget Reporting</b>  |                                |   |   |
|   |     |                 |                 | (1) Current revenue and expenditure  |                                |   |   |
|   |     |                 |                 | (2) Current and capital revenue and expenditure                            |                                |   |   |
|   |     |                 |                 | (3) Current and capital revenue and expenditure and financial transactions |                                |   |   |
|   |     |                 |                 | (4) Balance sheets   |                                |   |   |
|   |     |                 |                 | <b>Financial Statements</b>  |                                |   |   |
| A | A   |                 | T+6             | (5) Profit and loss accounts   |                                | x |   |
| A | A   |                 | T+6             | (6) Balance sheets   |                                | x |   |
| A | A   |                 | T+6             | (7) Notes to the financial statement                                       |                                | x |   |
|   |     |                 |                 | (8) Cash flow statement  |                                |   |   |
|   |     |                 |                 | <b>Other Reporting</b>   |                                |   |   |
| C | A   | T+220           | T+13            | (9) Statistical surveys Survey on non-profit institutions                  |                                | x | x |
| A | Q/A | T+60            | T+8             | (10) Statistical surveys on GFCF   | x                              |   |   |
| A | A   |                 | T+8             | (11) Tax declaration data  | x                              |   |   |
| C | Q/A | T+30            | T+8             | (12) Data on payments of EU-grants   | x                              |   |   |
| M | M   | T+40            | T+3             | (13) Balance of Payments & International Investment Position statistics    |                                |   | x |
| A | M   | T+35            |                 | (14) Securities statistics   |                                |   | x |
| A | M   | T+40            |                 | (15) Monetary and banking statistics                                       |                                |   | x |

Accounting basis (column 1): C- cash, A- accrual, M-mixed

Periodicity (column 2); M - monthly, Q - quarterly, A - accrual, O - other, to be specified.

Time of availability (column 4): availability of annual results for T-1 = number of months and days after the reporting period.

Column 6, 7 and 8 – those cells are crossed which refer to data sources used for compilation of the WB, B.9 (non-financial accounts) and B.9f (financial accounts), respectively.

Empty cells in column 1, 2, 3 and 4 mean that the data source does not exist.

### 3.4.2.1 Details of the basic data sources

For the April t+1 EDP notification we use t-1 year's data for estimation, as financial statements of corporations classified into local government sector are available only at t+6 months.

For the October t+1 EDP notification, see section 3.2.2.1.

### 3.4.2.2 Statistical surveys used as a basic data source

See section 3.2.2.2.

**3.4.2.3                  *Supplementary data sources and analytical information***

See section 3.2.2.3.

**3.4.3                  *EDP table 2C***

**3.4.3.1                  *Working balance - use for the compilation of national accounts***

See section 3.4.1.1.

**3.4.3.2                  *Legal basis of the working balance***

See section 2.2.1

**3.4.3.3                  *Coverage of units in the working balance***

**3.4.3.3.1      Units to be classified outside the subsector, but reported in the WB**

There is no such kind of unit.

**3.4.3.3.2      Units to be classified inside the subsector, but not reported in the WB**

All units classified in local government but not reported in the WB are reported in table 2 on accrual basis on the line *Net borrowing/net lending of other local government bodies*. The full sequence of ESA2010 accounts is compiled separately for these units.

**3.4.3.4                  *Accounting basis of the working balance***

**3.4.3.4.1      Accrual adjustments relating to interest D.41, as reported in EDP T2C**

There is no accrual adjustment on on EDP T2C table.

**3.4.3.4.2      Accrual adjustments reported under other accounts receivable/payable F.8 in EDP T2C**

The following non-financial transactions are adjusted to an accrual basis via receivables F.8:

- P.131 Payments for other non-market output (see section 6.5);

The following non-financial transactions are adjusted on an accrual basis via payables F.8:

- P.2 Intermediate consumption (see section 6.5);
- D.1 Compensation of employees (see section 6.5);
- D.62 Social benefits other than social transfers in kind (see section 6.5).

These accrual adjustments in EDP table 2 are fully consistent with F.8 reported in EDP T3 and financial accounts.

**3.4.3.4.3      Other accrual adjustments in EDP T2C**

- D.7, D.9 related to timing issue of inter-government transactions (consolidation);
- P.51 Gross fixed capital formation (see section 6.5).

**3.4.3.5                  *Completeness of non-financial flows covered in the working balance***

Working balance covers all non-financial transactions.

**3.4.3.6                  *Financial transactions included in the working balance***

The following financial transactions are included in the working balance:

- Loans, granted: local government units record their grant and redemption of loans in the public account on a separate line.

- Loans, repayments: local government units record their repayments of loans in the public account on a separate line.
- Equities, acquisition: data of capital injection into corporations and acquisition of shares are included in the working balance on a separate line. Data of year 2010 were examined, capital injection test was made and the split between injection into loss making and profitable corporation was 37-63 %. In almost every following year in case of large acquisitions data are examined individually. For the rest an estimation is made to split acquisitions between D.99 and F.5.
- Equities, sales: withdrawal of equity.
- Other financial transactions: the main item is the losses and gains on foreign-exchange which is included in the working balance. This is relevant for the second Notification, while advances received and paid are also included among financial transactions in the first Notification.

#### 3.4.3.7 *Other adjustments reported in EDP T2C*

- Imputed dwelling privatisation financed by loan: related to subsidized purchase of flats by households previously owned by local governments.
- Debt assumption by the State (not included in the Working Balance of local units).

#### 3.4.3.8 *Net lending/net borrowing of local government*

B.9 Net lending/net borrowing, as reported in the last line in EDP T2C, is derived from the same source data which is used when calculating the Working Balance.

### 3.4.4 EDP table 3D

#### 3.4.4.1 *Transactions in financial assets and liabilities*

**Table 7. Data used for compilation of transactions and of stocks of financial assets and liabilities**

| Source Data                                      | Assets |     |     |     |     |     |     | Liabilities |     |     |     |     |     |     |
|--|--------|-----|-----|-----|-----|-----|-----|-------------|-----|-----|-----|-----|-----|-----|
|  | F.2    | F.3 | F.4 | F.5 | F.6 | F.7 | F.8 | F.2         | F.3 | F.4 | F.5 | F.6 | F.7 | F.8 |
| <b>Calculation of transactions</b>               |        |     |     |     |     |     |     |             |     |     |     |     |     |     |
| Transaction data (integrated in public accounts) |        |     | x   | x   |     |     | x   |             |     |     |     |     |     | x   |
| Other transaction data                           |        |     |     |     |     |     | x   |             |     |     |     |     |     | x   |
| Stock data                                       | x      | x   | x   | x   | x   | -   | x   | -           | x   | x   | -   | -   | -   | x   |
| <b>Calculation of stocks</b>                     |        |     |     |     |     |     |     |             |     |     |     |     |     |     |
| Transaction data                                 |        |     |     |     |     |     | x   |             |     |     |     |     |     | x   |
| Stock data                                       | x      | x   | x   | x   | x   | -   | x   | -           | x   | x   | -   | -   | -   | x   |

#### **Assets**

##### Currency and deposits (F.2)

F.2 data are based on counterparty sector data:

- Money and banking statistics data based on MFI monthly reports;
- Treasury report.

The data sources are exhaustive. Transactions are calculated from the stock data. By nature, cash and deposit transaction data cannot be integrated in the public account. Data calculated for financial accounts are compared with the quarterly and annual local government's balance sheet data, and basic data are amended if it is necessary. Consolidation issue is not raised in S.1313 subsector. In the case of cash and deposit, the time of recording is always when the transaction takes place. Accrued interest is included based on the banking statistics. AF.2 data are always on nominal value including accrued interest.

#### Securities other than shares (F.3)

AF.3 data on debt securities are taken from securities statistics of the Central Bank. See section 3.2.4.1.

#### Loans (F.4)

Main data sources are balance sheets of local governments and corporations included in the sub-sector. Supplementary data sources are the cash-flow statements of the local governments. Transactions are mainly calculated from the stocks. Transactions are integrated into the public account.

See section 3.2.4.1.

#### Insurance technical reserves (F.6)

See section 3.2.4.1.

#### Other accounts receivable (F.8)

The item covers trade credit and advances (F.81), and other financial claims due to timing differences between (financial and non-financial) transactions and the corresponding payments (F.89). The most important items of F.89 are tax receivables.

In the case of trade credits for legal local government and corporations classified into local government the data sources are the quarterly and annual balance sheets. For reclassified non-profit institutions quarterly balance sheet is not available, trade credits are estimated. The estimation takes into account the purchase of goods and services compared to that of reclassified corporations. F.81 is reconciled between financial and non-financial accounts. In financial accounts trade credits are consolidated. Consolidation is based on asset side balance sheet information.

Transactions are calculated as change in stocks taking into account other volume changes, when relevant (e.g. sector reclassification).

In the case of tax receivables stocks are calculated from transactions. Transactions are derived from time adjustment for taxes calculated in non-financial accounts hereby the reconciliation between financial and non-financial accounts is perfect.

## **Liabilities**

#### Securities other than shares (F.3)

Local governments' data are taken from the securities statistics of the Central Bank. See section 3.2.4.1. Data calculated for financial accounts are compared with the quarterly and annual local government's balance sheet data, and cash flow statements for local governments. The split between counterparty sectors is provided by securities statistics and it is the appropriate data source for consolidation, as well. Transactions are calculated from stocks taking into account the price changes and the exchange rate movements, if relevant.

#### Loans (F.4)

Local governments' loans are taken from four sources:

- MFI reports;
- Local government balance sheet (loans provided to local governments, asset side);
- Treasury report;
- Balance of Payments.

Local governments' balance sheets and Treasury reports are used for consolidation purposes, as well. Loans issued by entities reclassified into central government subsector are covered by the money and banking statistics. Stocks are cross-checked with local government's balance sheet information. Loans are recorded at face value and include interest accrued but not paid. Transactions are calculated from the stocks, in the case of foreign exchange loans the exchange rate movements are taken into account.

#### Other accounts payables (F.8)

Other accounts payable cover trade credits and advances (F.81) and other financial liabilities. In the case of trade credits for legal local government and corporations classified into local government the data sources are the quarterly and annual balance sheets. For reclassified non-profit institutions quarterly balance sheet is not available, trade credits are estimated. F.81 is reconciled between financial and non-financial accounts. In financial accounts trade credits are consolidated.

F.89 includes payables on compensation of employees. The entry in financial account is reconciled with the one month time adjustments applied in non-financial accounts, and are adjusted further by advance payments not recorded in the cash-flow statements of the institutions. The data source is the survey on wages and salaries of local units. The stocks are calculated from the transactions.

Besides the above mentioned items other financial claims also cover pending and transitional items.

#### **3.4.4.2                  *Other stock-flow adjustments***

Except for net acquisition of financial assets and net incurrence of other liabilities (F.8) there were three other stock flow adjustments in local government subsector: accrual adjustment to interest, appreciation/depreciation of foreign currency debt and changes in sector classification.

### 3.5. Social security sub-sector, EDP table 2D and 3E

#### 3.5.1 Data sources for Social Security Funds main unit:

Pension Fund, Healthcare Fund and budgetary institutions that operate them.

**Table 8 – Availability and use of basic source data for social security funds**

| Available source data       |                       |  |            | Source Data Accounting   | Source data used for compilation of |           |           |  |
|-----------------------------|-----------------------|--|------------|--|-------------------------------------|-----------|-----------|--|
| Accounting basis (C/A/M)    | Periodicity (M/Q/A/O) | Time of availability of annual results for T-1 |            |  | WB                                  | B.9 (NFA) | B.9f (FA) |  |
|                             |                       | First results                                  | Final data |  | WB                                  | B.9 (NFA) | B.9f (FA) |  |
| 1                           | 2                     | 3  | 4          | 5  | 6                                   | 7         | 8         |  |
|                             |                       | $T + days$                                     | $T+months$ |  | cross appropriate cells             |           |           |  |
| <b>Budget Reporting</b>     |                       |  |            |  |                                     |           |           |  |
|                             |                       |  |            | (1) Current revenue and expenditure  |                                     |           |           |  |
|                             |                       |  |            | (2) Current and capital revenue and expenditure                            |                                     |           |           |  |
| C                           | Q/A                   | T+45   | T+5        | (3) Current and capital revenue and expenditure and financial transactions | x                                   | x         | x         |  |
| A                           | A                     |  | T+5        | (4) Balance sheets   |                                     |           | x         |  |
| <b>Financial Statements</b> |                       |  |            |  |                                     |           |           |  |
|                             |                       |  |            | (5) Profit and loss accounts   |                                     |           |           |  |
| A                           | A                     |  | T+5        | (6) Balance sheets   |                                     | x         | x         |  |
|                             |                       |  |            | (7) Cash flow statement  |                                     |           |           |  |
| <b>Other Reporting</b>      |                       |  |            |  |                                     |           |           |  |
| A                           | Q/A                   | T+60   | T+8        | (8) Statistical surveys GFCF survey  |                                     | x         |           |  |
| M                           | M                     | T+40   | T+3        | (9) Balance of Payments & International Investment Position statistics     |                                     |           | x         |  |
| A                           | M                     | T+35   |            | (10) Securities statistics   |                                     |           | x         |  |
| A                           | M                     | T+40   |            | (11) Monetary and banking statistics                                       |                                     |           | x         |  |

Accounting basis (column 1): C- cash, A- accrual, M-mixed

Periodicity (column 2); M - monthly, Q - quarterly, A - accrual, O - other, to be specified.

Time of availability (column 4): availability of annual results for T-1 = number of months and days after the reporting period.

Column 6,7 and 8 – those cells are crossed which refer to data sources used for compilation of the WB, B.9 (non-financial accounts) and B.9f (financial accounts), respectively.

Empty cells in column 1, 2, 3 and 4 mean that the data source does not exist.

#### 3.5.1.1 Details of the basic data sources

For the April EDP notification the following data sources are used:

## EDP tables and data sources - Social security sub-sector, EDP table 2D and 3E

- Monthly reports on the revenue and expenditure of the social security funds. These data are available at t+45 days from the Hungarian State Treasury. Social security funds are the part of central government subsector from 2011 in the budgetary presentation.

Data source for the October t+1 and subsequent EDP notifications are the annual financial reports.

In case of social security funds the decree 4/2013 on accounting of public finances regulates the filling of annual institutional reports.

Annual financial reports include tables about expenditures and revenues of the institutions. In the government decree there is a detailed instruction on how to fill in the annual financial reports. Every table is available on the website <http://allamkincstar.gov.hu/> from which institutions can fill in the tables.

The heads of budgetary institutions are responsible for the fulfilment of annual financial reporting obligations. Annual financial reports are signed by the leader and CFO of institutions.

Budgetary institutions have to send their annual financial reports to the head of their supervisory institutions by t+2 months. The supervisory institution approves the annual financial report by the signature of the person who performs the supervision and returns back the annual financial report to the budgetary institution.

Budgetary institutions have to send the annual financial report to the Hungarian State Treasury. The Treasury accepts the annual financial reports only in case the institutions fulfil the form and content requirements prescribed in Government decree 4/2013 on accounting of public finances. The Treasury sends the accepted annual financial reports to the State Audit Office.

Part of the annual financial reports:

- Cover page: it includes the identifiers of the institutions, the signatures of directors of institutions and name and telephone number of persons who prepared the report or can give information in connection with it
- Tables: the heading of the tables include the identification number of the institutions, the year, the number of table and other identifier data (e.g. chapter in final account of state, county code). Tables itself include the costs, revenues, supports etc. data of institutions. Data are in thousands forints.
- About 15 tables are filled in by the budgetary institutions of social security funds subsector.

Main tables are the following:

- Budgetary expenditures
- Budgetary revenues
- Financing expenses
- Financing revenues
- Tables about staff
- Balance sheet
- Profit and loss account

Data processing and technical checking of data takes places in the Hungarian State Treasury.

The Treasury sends to HCSO annual data in frame of the National Statistical Data Collection Program (Hungarian abbreviation OSAP) by t+150 days; it usually means the end of May. Data is given in electronic format (Excel).

Institutional data is filled into an Oracle Database.

Some checking is done in HCSO, as well. There are some data which appear in several tables and are checked whether the same values are in the different tables. Tables have to be filled

in thousand forints. Some data are compared with the data of the previous years. If growth or decrease is substantial, it must be checked as well.

**3.5.1.2 Statistical surveys used as a basic data source**

Not relevant for Hungary.

**3.5.1.3 Supplementary data sources and analytical information**

Not relevant for Hungary.

**3.5.2 Data sources for other Social Security units**

No other units are classified in the social security sub-sector.

**3.5.3 EDP table 2D**

**3.5.3.1 Working balance - use for national accounts compilation**

See section 3.2.1.1.

**3.5.3.2 Legal basis of the working balance**

See section 2.2.1.

**3.5.3.3 Coverage of units in the working balance**

**3.5.3.3.1 Units to be classified outside the subsector, but reported in the WB**

There are no such kind of units.

**3.5.3.3.2 Units to be classified inside the subsector, but not reported in the WB**

There are no such kind of units.

**3.5.3.4 Accounting basis of the working balance**

**3.5.3.4.1 Accrual adjustments relating to interest D.41, as reported in EP T2D**

There are no accrual adjustments relating to interest D.41 at the social security funds.

**3.5.3.4.2 Accrual adjustments reported under other accounts receivable/payable F.8 in EDP T2D**

The following non-financial transactions are amended on an accrual basis via receivables F.8:

- P.131 Payments for other non-market output (see section 6.5);
- D.2 Turnover taxes on medical products adjusted with tree months, public health product tax and tax on collision insurance are adjusted with one month. Tax on sales after representative employees of medical corporations is adjusted with three months.
- D.611/D.613 Actual social contributions (see section 6.1.2).

The following non-financial transactions are adjusted on an accrual basis via payables F.8:

- P.2 Intermediate consumption (see section 6.5);
- D.1 Compensation of employees (see section 6.5);
- D.63 Social transfers in kind related to expenditure on products supplied to households via market producers (see section 6.5);

## EDP tables and data sources - Social security sub-sector, EDP table 2D and 3E

These accrual adjustments in EDP table 2 are fully consistent with F.8 reported in EDP T3 and financial accounts.

### 3.5.3.4.3 Other accrual adjustments in EDP T2D

- D.7, D.9 related to timing issue of inter-government transactions (consolidation).

### 3.5.3.5 *Completeness of non-financial flows covered in the working balance*

Working balance covers all non-financial transactions.

### 3.5.3.6 *Financial transactions included in the working balance*

There are no significant figures.

### 3.5.3.7 *Other adjustments reported in EDP T2D*

Claim cancellation against Social Security funds: according to the law on final accounts in every year the previous year's outstanding debt of Social Security and Healthcare Pension Fund is cancelled by the central government.

### 3.5.3.8 *Net lending/net borrowing of social security funds*

B.9 Net lending/net borrowing, as reported in the last line in EDP T2D, is derived from the same source data used when calculating the Working Balance.

## 3.5.4 EDP table 3E

### 3.5.4.1 *Transactions in financial assets and liabilities*

**Table 9. Data used for compilation of transactions and of stocks of financial assets and liabilities**

| Source Data   | Assets |     |     |     |     |     |     | Liabilities |     |     |     |     |     |     |
|---|--------|-----|-----|-----|-----|-----|-----|-------------|-----|-----|-----|-----|-----|-----|
|   | F.2    | F.3 | F.4 | F.5 | F.6 | F.7 | F.8 | F.2         | F.3 | F.4 | F.5 | F.6 | F.7 | F.8 |
| <b>Calculation of transactions</b>                  |        |     |     |     |     |     |     |             |     |     |     |     |     |     |
| Transaction data<br>(integrated in public accounts) |        |     | x   | x   |     |     | x   |             |     |     |     |     |     | x   |
| Other transaction data                              |        |     |     |     |     |     | x   |             |     |     |     |     |     | x   |
| Stock data  | x      | x   | x   | x   | -   | -   | x   | -           | -   | x   | -   | -   | -   | x   |
| <b>Calculation of stocks</b>                        |        |     |     |     |     |     |     |             |     |     |     |     |     |     |
| Transaction data                                    |        |     |     |     |     |     | x   |             |     |     |     |     |     | x   |
| Stock data  | x      | x   | x   | x   | -   | -   | x   | -           | -   | x   | -   | -   | -   | x   |

## **Assets**

### Currency and deposits (F.2)

F.2 data are based on counterparty sector data, the Treasury daily report. This is used for consolidation purposes, as well.

This data source is exhaustive because the funds keep their accounts at Treasury. Transactions are calculated from the stock data.

Securities data (F.3), if any, are taken from the security statistics.

### Loans: (F.4)

Data source is the balance sheet of social security entities. Transactions are calculated from the stocks.

### Other accounts receivable (F.8)

The item covers trade credit and advances (F.81) and other financial claims due to timing differences between (financial and non-financial) transactions and the corresponding payments (F.89). The most important items of F.89 are tax and social contribution receivables.

In the case of trade credits the data sources are the quarterly and annual balance sheets. F.81 is reconciled between financial and non-financial accounts. In financial accounts trade credits are consolidated. The consolidation is based on asset side balance sheet information. Transactions are calculated as change in stocks.

In the case of tax and social contribution receivables stocks are calculated from transactions. Transactions are derived from time adjustment for taxes and social contributions calculated in non-financial accounts hereby the reconciliation between financial and non-financial accounts is perfect. In non-financial accounts time adjustments are calculated from monthly data from Treasury. Tax and social contribution receivables are not consolidated.

## **Liabilities**

### Loans (F.4)

Data source is the daily Treasury report. This source is exhaustive because the funds are not allowed to borrow in the market. The same data are used for consolidation purposes, as well. Transactions are calculated from stock data.

### Other accounts payables (F.8)

Other accounts payable cover trade credits and advances (F.81). In the case of trade credits the data sources are the quarterly and annual balance sheets.

#### **3.5.4.2            Other stock-flow adjustments**

Except for change in financial assets and financial liabilities (F.8), there is no more adjustment recorded in table 3E.

The lack of different financial assets and liabilities is due to the exclusive financial link of the sub-sector to the State Treasury through deposits and loans.

### **3.6. Link between EDP T2 and related EDP T3**

The monitoring of the link between the individual adjustments in EDP T2 and the related transactions reported in EDP T3 is important for the assessment of GFS data quality.

It is not expected that the adjustments from EDP T2 would be clearly identified in EDT3.

- First, this is due to different coverage of units, because the adjustments in EDP T2 should refer only to the main entity reported in the WB, while transactions in EDP T3 reflect the whole subsector.
- Second, due to the accounting basis and coverage of transactions reported in the WB. For the former, if the WB is on accrual basis, theoretically there is no need for adjustments in other accounts receivable/payable F.8 in EDP T2, but it should be ensured that the accrual recordings in non-financial accounts are linked to transactions in F.8 reported in EDP T3 and in financial accounts. For the latter (coverage of transactions), the WB balance as reported in EDP T2 typically does not cover all financial flows, since some are booked in the so called extra-budgetary accounts of the main entity.
- Third, adjustments/transactions reported in EDP T2A are non-consolidated, since they refer to the main entity only, as recorded in the working balance (e.g. loans, other accounts receivable/payable, etc.), while financial transactions recorded in EDP T3 refer to the whole subsector and they are consolidated.

As far as specific imputations are concerned, such as debt cancellation, debt assumption etc., which are reported in EDP T2, these should be reflected also in financial accounts and EDP T3 under the related financial instrument.

Therefore, in order to ensure consistency between non-financial and financial accounts and quality of GFS data, statisticians are to be able to explain and to quantify a link between flows reported in EDP T2 and EDP T3.

#### **3.6.1 Coverage of units**

Sector delimitation in financial and non-financial accounts is the same, because the Hungarian Central Statistical Office and the Central Bank use the same sector classifications and the same register. In the case of Eximbank there is a difference in the presentation of the data. The Hungarian Central Statistical Office compiles only one version of Government accounts which includes Eximbank. The Central Bank compiles two versions of financial accounts, with and without Eximbank, the first one for EDP purposes, the latter for domestic and other international publication purposes. Naturally the domestic users are also informed about the General Government data that include Eximbank as well.

Administrative data are compiled by the Treasury (for example in the case of the state or the interim data of central budgetary institutions) or collected and aggregated by the Treasury (for example in the case of local government data or quarterly balance sheet of the subsectors). Before aggregating the data, the Treasury verifies the entirety of reports.

Central Bank uses data sources other than administrative data, as well (mainly statistical data collections). When data providers (banks and other financial institutions, non-financial corporations and government units) report data to the central bank by counterparty sectors, basically they rely on the coding by economic form (GFO) published by HCSO. In addition, the Central Bank publishes the list of reclassified units and data providers are requested to use strictly this list for sector classification.

Temporary deviations may occur when a new reclassification takes place. Decision on the reclassification of a unit in GG sector in year t is usually made one year later. It means there is one year interim period when data providers report the data of the unit in the former sector. In this period there is a need to make adjustment to data of the two sectors involved. This adjustment is an estimation based on the balance sheet data of the reclassified unit.

### 3.6.2 Financial transactions

Traditionally, public accounts include asset-side financial transactions – except for cash and deposit of government as revenue or expenditure. These transactions are eliminated in table 2 of the notification (on line *Financial transactions included in the working balance*). These transactions appear on table 3 under the line *Net acquisition of financial assets*.

Reconciliation of the two groups of transactions should take into account the following specificities:

- First of all the general rule that asset-side financial transactions are recorded above the line does not concern every financial asset of government. The treatment may vary by sub-sector, as well.
- Secondly the line *Financial transactions included in the working balance* in table 2 covers only the transactions of government in legal terms (budgetary general government). Financial transactions of budgetary funds, extra-budgetary accounts and reclassified units are not recorded here. On the contrary, the relevant lines of table 3 cover the financial transactions of the whole sector in national accounts terms.
- Thirdly, data in table 2 are unconsolidated, while in table 3 are consolidated.

#### Central government financial transactions

F.3: This item is not reported separately in table 2A; it is included in the line *Other financial transactions*. Since 2011, large F.3 transactions are executed by Pension Reform and Debt Reduction Fund which entity is not part of central government in legal terms.

F.4: Advance payments to local government are not recorded in public account as expenditure; they are recorded by Treasury under the line as items to be financed. In financial accounts these items are treated as short-term loans. The deficit of social security funds is financed from the treasury account during the year. It is also considered as short-term loan in financial accounts. Larger loans – as the loan to financial institutions during the financing crisis – were also recorded below the line in the public accounts. F.4 transactions in table 3 cover repo transactions which are not included in the working balance. Budgetary funds and reclassified units also have F.4 transactions which are not included in the working balance of the legal central government.

F.5: Privatisation proceeds are not recorded as revenue, they are financing items in the public accounts. Since 2011, F.5 transactions of the Pension Reform and Debt Reduction Fund (not included in the public accounts) make an additional difference between table 2A and table 3B figures.

#### Local government financial transactions

F.3: These transactions are recorded in public accounts of local government below the line as financing item.

F.4: In the financial accounts not only the F.4 transactions included in the working balance are recorded, but the adjustments made to repo transactions are, as well. Consolidation also makes difference between table 2C and table 3D.

F.5: Transactions in shares and mutual fund shares are recorded in public accounts under the line as financing items (below the line).

#### Social security funds financial transactions

F.3: Not relevant.

F.4: Only the consolidation makes difference.

F.5: Not relevant since 2009.

### **3.6.3    Adjustments for accrued interest D.41**

Adjustment for accrued interest is calculated in table 2 and table 3 differs for four reasons:

- In table 2, the adjustment concerns only the sub-sectors in legal terms (budgetary government), while in table 3 the subsectors are conceived in national accounts terms. Due to this difference in coverage, consolidation also differs.
- In table 2, both interest revenue and expenditure is adjusted, while in table 3 only interest expenditure adjustments are reported (adjustment of revenues is included in the underlying financial asset as accrued interest).
- While coupon cash interest figures are identical in both sets of tables, cash interest in form of discount/premium – except for deep discount bills – may differ. In the public accounts these are recorded at issuance, while in reality and in financial accounts they are paid at redemption (included in the nominal value). That is why the line *Issuances above/below par* in table 3 should be taken into account when the accrual interest adjustment is compared between the two table sets.
- In the case of redemptions below/above par, in public account interest revenue/expenditure is recorded, and this is included in the table 2 adjustment. It is missing from the accrual adjustment in table 3. That is why the line *Redemption below/above* in table 3 also should be taken into account when comparing the accrual adjustment.

#### Central government

Comparing the interest adjustments, the following items should be taken account:

*Difference between interest paid and accrued in table 2*

=

- + *Difference between interest paid and accrued in table 3*
- + *Issuance above/below par* except for deep discount bills (therefore not identical with the line *Issuance above/below par*)
- + *Redemption below/above par*
- accrual adjustment to interest receivable
- adjustment to interest payable/receivable to other government bodies.

#### Local government

In table 2, usually there is no accrual adjustment made to interest of budgetary local government. In table 3D a small amount is recorded using counterparty sources. It may cause discrepancy between financial and non-financial accounts.

#### Social security funds

There is no interest-bearing debt in this sub-sector. (Liability of the sub-sector is composed of interest-free liquidity loan from the Treasury.)

### 3.6.4 Other accounts receivable/payable F.8

Comparing other accounts receivable/payable in table 2 and other financial assets in table 3 four reasons for differences can be detected:

- The adjustment on table 2 covers the main unit, on table 3 covers the entire subsector.
- Other adjustment in table 2 may concern other financial assets/liabilities, as well. In this case they are included in table 3 on the relevant line.
- There are accrual adjustments made to financial transactions in table 3 (due to acquisition or sale of financial assets) which are not to be recorded in table 2.
- Table 3 is consolidated, table 2 is not.

The comparison is difficult because there is no straightforward relation between *accounts receivable - other financial assets* on one side and *accounts payable - other financial liabilities* on the other side. The relationship can be the opposite between the financial non-financial accounts flows.

#### Receivables

Trade credits: Accrual adjustment for output is fully reconciled. In table 3 other financial assets include advance payments which are financial transactions that is why they do not figure in table 2. The coverage of units also differs in the two sets of accounts.

Taxes except for VAT payables: The items are reconciled, only the institutional coverage differs: budgetary funds' tax receipts are included in this line only in table 3.

Dividends: Accrual adjustment made to advance payments. The adjustments are reconciled, but as they are negative receivables, they figure on the liability side in financial accounts.

Rents: Concessions, they are reconciled, but in case they are negative receivables in the financial accounts, they are recorded on the liability side.

Advance payments to EU: Agricultural advance payments are recorded only in financial accounts because they are paid from a separate Treasury account. Non-agricultural advance payments are fully reconciled.

Timing issue of inter-government transactions (consolidation): only the non-financial accounts treat this item.

#### Payables

Intermediate consumption: reconciled, but consolidation and institutional coverage differ.

Wages and salaries: in central government they are fully reconciled. In local government advance payments before the end of the year are not recorded in public account as expenditure. This amount appears in the accrual adjustment in non-financial accounts. In financial accounts this item is missing from other financial liabilities because it is paid by end of year.

VAT payables: fully reconciled.

Subsidies: fully reconciled.

Gross fixed capital formation: adjustment in non-financial accounts is taken from investment statistics, in financial accounts it is a balance sheet item. There is difference in coverage and in consolidation as well. Data sources are regularly cross-checked.

Pending and transit items in Treasury accounts: only the financial accounts treat this item.

### **3.6.5 Other adjustments/imputations**

Reconciliation of other adjustments in table 2 and their financial account counterpart are as follows.

#### Central government

For other adjustments before 2010, please see the previous version of EDP Inventory.

Acquisition of Gripen aircrafts, reclassification from operative lease to financial lease (2006-): An uniform model has been worked out for recording the transaction in balance of payments, financial and non-financial accounts. In 2001-2005 the payments were reclassified as financial transactions, advance payments. The delivery of assets took place in 2006-2007 increasing the immediate consumption in non-financial accounts. In financial accounts, in these two years, the loans granted were decreased to zero and loans issued increased. Since then part of the payments is reclassified as financial transaction (amortization of debt). Interest payments are recorded as other adjustment. In the financial accounts the decrease of loans is imputed.

PPP assets reclassification (2006-2009): PPP assets formerly classified in the non-financial corporation sector were reclassified as government assets as the conditions defined in the contracts had changed. In the year of reclassification (2006-2009) gross fix capital formation was recorded in non-financial accounts and the same amount was imputed in financial accounts as government loan. Since then parts of the regular payments are reclassified as financial transaction (amortization of debt) both in financial and non-financial accounts.

VAT reimbursement adjustment due to European Court decision (2009-2010): On the basis of EU Court decision VAT reimbursement was recorded in 2009 on an accrual basis. The accrual adjustment was counterbalanced by other financial liability (AF.7) imputed in the same amount.

Reduction of EU transfer revenue related to court decision of VAT (2009, 2012, and 2014): EU court decided that VAT part of capital expenditures cannot be financed from EU funds in some projects. This amount was accounted in 2012 as a one-off expenditure (transfer to EU) on an accrual basis. It was counterbalanced in financial accounts with an imputed other financial liability. This liability was extinguished in 2014 when the transfer was recorded in the public account.

Transactions related to a call on a government guarantee (BTA) (2010): The transaction was recorded on a gross basis: the call on government guarantee on a Kazakh bank (BTA) liability was recorded as capital transfer payable to rest of world; the financial assets received by the government were recorded as capital transfers received by government. The data sources were the final report and Ministry of Finance communication. The recording of transaction was reconciled between balance of payments, financial and non-financial accounts.

Owners' loan provided to MALÉV Plc. and neutralization of expenditure of 2010 (2010-2011): All the capital injections and ownership loans provided to MALÉV in 2010-2011 were recorded in non-financial accounts as capital transfers. The other adjustment in 2010 related to an ownership loan included in public account in 2011 but recorded already in national accounts in 2010. In 2011 the other adjustment was composed of the neutralization of this public account entry and a newly issued ownership loan to MALÉV. There was no need to make adjustments in financial accounts because all transactions were recorded above the line.

Subsidy to MÁV Zrt. financed by issuance of guaranteed securities (2011): MÁV Zrt. is entitled to receive regular subsidy from government. In 2011 instead of paying subsidy government authorized the public company to issue securities. In non-financial accounts the subsidy was imputed. In financial accounts the securities issued by the company were reclassified into the central government (government debt).

Imputed transfer to households related to early repayment of mortgage loans and Imputed taxes connected with early repayments of mortgage loans (2011-2012 and 2012-2013):

Government contributed to the repayment of households' mortgage loans. The contribution took place in the form of reimbursement of special taxes on financial institutions mostly in 2012. In the non-financial account transaction was recorded in a gross and accrual basis: an imputed capital transfer was recorded to households at time of the repayment of loans and imputed special tax revenue at time the tax accrued. In the financial account other financial liability was created reflecting the time differences between the two events.

Debt assumption from local governments (2013-2014): The transaction was recorded as capital transfer in financial accounts. In financial accounts both data sources used – ÁKK report on government debt and monthly report of financial institutions – reflected the transaction. There was no need for imputation.

Imputed mobile phone concession fee (2012-2013): The proceeds of the annulled tender were not recorded in public account as government revenue; instead they were presented in a special Treasury account as a financing item. In the non-financial accounts revenue was imputed and in financial accounts the other financial liability of government was cancelled. Originally the data source for the other financial liability was the Treasury daily report.

Financial corrections related to EU transfers (decision in 2013 adjustments 2013 and 2014). The financial correction was recorded in an accrual basis in the year of the EU decision. In the financial accounts other financial liability was created. Next year when the cash settlement occurred, the financial liability was removed. In the year of the EU decision the amount was accounted as a one-off expenditure (transfer to EU) on an accrual basis. It was counterbalanced in financial accounts with an imputed other financial liability. This liability was extinguished in 2014 when the cash settlement occurred.

Change from public cost (PC) method to total cost (TC) method related to EU transfers (2013 and 2014): The impact of the change-over from "public cost" to "total cost" in EU financing was recorded on an accrual basis. It was counterbalanced by other financial liability.

Capital injection to public corporations (2013, 2015) Hungarian Development Bank gave a capital injection to Garantiqua Rt. and Pápai Hús Rt in 2013 and to other public corporations in 2015. The transaction was recorded as capital transfer (D.99) and was rerouted through the central government. The counterpart transaction was equity withdrawal from the Hungarian Development Bank by the central government.

Financial corrections (decision in 2014) and other adjustments related to EU transfers (2014-2015): the corrections were recorded on an accrual basis, the counterpart transactions are other financial liabilities.

Capital transfer in kind to public corporations (2014): The transaction is counterbalanced by GFCF in the non-financial accounts; there is no need for entries in the financial accounts.

Rerouting of MAVIR (Hungarian Independent Transmission Operator Company Ltd.) revenues and expenditures (2011-), 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 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 financial balance sheet.

Imputed revenue from transfer of pension obligations (2012-2046) The obligations are recorded in the Government balance sheet as AF.89 liabilities. Two imputations are implemented in non-financial accounts: AF.8 liability is amortized in the form of D.75 imputed revenue and on AF.8 liability interest expenditure is imputed.

Debt assumption from BKV Zrt. (2015) is recorded as D.99 in non-financial accounts. The corresponding debt is reported by ÁKK Zrt to the financial accounts.

Debt assumption from MÁV Zrt. (2015) is recorded as D.99 in non-financial accounts. The corresponding debt is reported by ÁKK Zrt to the financial accounts.

## EDP tables and data sources - Link between EDP T2 and related EDP T3

Debt assumption from MTVA. (2015) is recorded as D.99 in non-financial accounts. The corresponding debt is reported by ÁKK Zrt to the financial accounts.

Payment related to exchange rate compensation to MFB (2015-2018) is treated as D.99 capital transfer. It is counterbalanced by the decrease in AF.2 in the financial accounts. The background is the Law XX of 2001 on Hungarian Development Bank regulates that MFB and the State are allowed to contract exchange rate hedging transactions related to the Government-initiated loan schemes, by which the State assumes exchange rate risk and at time of closing the loan schemes the State pays the calculated losses to MFB.

Energy bill compensation is rerouted via government accounts (2018), which was financed partly by the budget and on the other hand by a public corporation. The transaction was counterbalanced by equity withdrawal from MVM in the financial accounts.

Dividend used directly for debt reduction (2016-) is recorded as D.42 revenue which derives from dividends received as for equities of Pension Reform and Debt Reduction Fund.

### **3.7. General comments on data sources**

**Fiscal data:** Uniform fiscal data are available for all subsectors of fiscal sector due to uniform accounting and reporting and budgetary presentation (economic and activity classification).

### **3.8. EDP table 4**

Table 4 – The statements on the provision of additional data contained in the Council minutes of 23/11/1993 request the submission of trade credits and advances, amounts outstanding in the government debt from the financing of public undertakings, differences between the face value and the present value of government debt and GNI at market prices.

#### **3.8.1 Trade credits and advances**

Trade credits and advances (AF.81 L) are taken from the financial accounts balance sheet.

In the financial accounts the data sources are the balance sheets of government units:

- Central government institutions;
- Intra-government funds;
- Social security funds;
- Local government units;
- Entities classified into the government sector.

For budgetary government institutions and corporations classified into the general government sector, quarterly balance sheets are available. The coverage is full.

As the data are directly taken from financial accounts, they are fully consistent with the line *Net incurrence of other accounts payable (F.8)* in table 3A. In table 3A the coverage is broader because the data include *Other accounts receivable/payable, excluding trade credits and advances (F.89)*, as well.

#### **3.8.2 Amount outstanding in the government debt from the financing of public undertakings**

This item is not relevant in the Hungarian practice.

## 4. Revision policy used for annual GFS

This section relates to the revision policy concerning annual non-financial and financial government accounts. It describes the country policy for revisions with and without impact on the deficit (non-financial accounts for general government) and debt (financial accounts for general government).

### 4.1. Existence of a revision policy in your country

#### 4.1.1 Relating to deficit and non-financial accounts

There is no separate revision policy for EDP data and GG national accounts data. There is a revision policy of HCSO on national accounts and this refers to GG data, as well.

##### Revision policy

###### Regular revisions

Data of quarterly and annual national accounts are revised and published according to the following plan:

###### Regular revisions

| Subject  | Deadline      | Notes  |
|--|---------------|--|
| Quarterly and annual flash estimates (GDP index)                     | T+45 days     |  |
| First preliminary data of quarterly and annual GDP                   | T+60 days     | Annual data of the previous year, the sum of the four quarters |
| Quarterly sector accounts (government and rest of the world sectors) | T+90 days     |  |
| Annual National Accounts, second preliminary data                    | T+9 months    |  |
| First revision of quarterly GDP based on annual (T+9) data           | T+9 months    | Published together with annual data                            |
| Preliminary regional GDP   | T+16.5 months |  |
| Annual NA revision, regional GDP                                     | T+21 months   | Based on preliminary SUT                                       |
| Second revision of quarterly GDP based on annual (T+21) data         | T+21 months   | Published together with annual data                            |
| Optional revision of annual NA                                       | T+33 months   | Based on final SUT   |
| Optional third revision of quarterly GDP based on annual (T+33) data | T+33 months   | Published together with annual data                            |

The publication dates of revisions and revised estimates are adjusted to EU requirements, Hungarian user needs, and the dates of generation of more accurate basic data and more detailed new information. Accordingly, the first flash estimate is published t+45 days and is followed by a further three, more detailed and accurate estimates. The new revision policy of Regional Accounts came into effect in 2010 and that of the SUT-based final data in 2011. Currently SUT is published T+36 months.

The latest major revision was carried out in September 2014 when ESA 2010 was implemented in national accounts.

#### **4.1.2 Relating to debt and financial accounts**

Preliminary quarterly financial accounts are published by t+46 days, while final data are published by t+92 days.

When preliminary accounts are compiled backward data are not modified.

Revisions during the compilation of final quarterly accounts:

- Quarter I: three years data can be revised (normal revision), and exceptional revision to previous periods is also allowed.
- Quarter II: one year data can be revised, no exceptional revision to previous periods.
- Quarter III: three years data can be revised (normal revision), and exceptional revision to previous periods is also allowed.
- Quarter IV: only data of the previous quarter of the same year “can be revised, no exceptional revision to previous periods.

The same revision policy applies to the government debt as well.

The Hungarian National Bank publishes in every quarter the impact of the revisions made in the same quarter on the net lending/net borrowing of the different institutional sectors.

#### **4.2. Reasons for other-than-ordinary revisions**

In recent years several occasional revisions took place due to methodological reasons, mostly stemming from GNI requirements and SUT integration in national accounts. In these cases, all years are revised when methodological changes are relevant.

Some examples from recent years:

According to ESA, fines and penalties must be accounted as D.7, but in annual financial reports of budgetary institutions they are included into operating revenues. That is why in national accounts they were accounted for as P.131, but they were corrected and reclassified into D.7, mainly due to SUT integration.

13 off-balance sheet PPP assets connected with higher education were reclassified into the central government subsector from 2007. The reason of reclassification that government partner took back the operation of the project (as well as availability risk). Due to the reclassification and a model for share of interests and repayments of PPPs P.2, D.41, K.1 and F.4 data were changed.

#### **4.3. Timetable for finalising and revising the accounts**

For details, please see EDP Cooperation Agreement (Annex II). Regarding revision policy, see section 4.1.1.

## 7. Specific government transactions - 7.10. Sale and leaseback operations

### B. Methodological issues

#### 5. Sector delimitation – practical aspects

##### 5.1. Sector classification of units

General government is defined by ESA2010 §2.111 as "... institutional units which are non-market producers whose output is intended for individual and collective consumption, and are financed by compulsory payments made by units belonging to other sectors, and institutional units principally engaged in the redistribution of national income and wealth". Moreover, §20.05 specifies that the general government sector "consists of all government units and all non-market non-profits institutions (NPIs) that are controlled by government units. It also comprises other non-market producers as identified in paragraphs 20.18 to 20.39".

In reference year 2020, all budgetary units are classified in general government sector in national accounts. The [official register](#) of budgetary units is managed by the Hungarian State Treasury. The Hungarian Central Statistical Office receives the updated register on a monthly basis.

To decide about the non-market nature of an economic entity, it is necessary to determine if it is:

1. an institutional unit (ESA2010 §2.12 describes the rules according to which an entity can be considered as an institutional unit.);
2. a public institutional unit (ESA2010 §20.18 and MGDD 1.2.3 define the notion of control by the government over an entity as "the ability to determine the general policy or programme of that entity". The criteria of control are listed in ESA2010 §20.309 and MGDD 1.2.3.);
3. a non-market public institutional unit (ESA2010 §20.19 to §20.28 and MGDD 1.2.4 describe the "Market-non-market delineation").

The introduction of ESA 2010 changed the criteria for sector classification of general government. Qualitative criteria were introduced to determine the market nature of public corporations' activity. This became the primary criteria for sector classification of public entities. The market test became the secondary criterion and net interest charge was added to cost elements of the formula.

In order to decide whether 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.

Based on this data, enterprises with 50% or more public (central or local government) ownership are regarded as public companies and are subject to the application of the classification criteria. In addition, enterprises with indirect public ownership (cases where the enterprise is controlled by another enterprise with public ownership) are classified as public and a data cleaning process is used to identify incorrect records. The identification of corporations indirectly controlled by the government is carried out by reviewing annual reports of corporations with direct government ownership (where subsidiary companies are listed). Other criteria of control listed in ESA 2010, such as special shares or excessive regulation are checked on a case by case basis when viewed as necessary.

To apply the qualitative criteria, Hungarian Central Statistical Office examines whether government is the main source of sales of a public corporation, and whether it has to compete with private producers or it is a single supplier in a certain type of goods or services.

Verification of the compliance with qualitative criteria is carried out on an individual basis. In the case of non-profit corporations, the non-profit survey contains data on the source of its sales. In addition, and in the case of corporations, notes to the annual business report contains information about whether it sells products or provides services only to government.

For the purposes of the 50% test, data compilation uses the same data sources and methods as the ones used in producing EDP data for reclassified corporations. Reclassification is based on 3 years data and if the corporation is failed the market test in 3 consecutive years reclassification is applied from the first year.

Classification of NPIs is based on the results of the full coverage non-profit surveys of several consecutive years. To determine the rate of public financing we have the exact information from the non-profit comprehensive survey and we apply the 50-percent rule. We cross-check the collected data for these GG payments: subsidies, sales and other subsidies on production from the budgetary sources on individual basis.

The subsector classification of a reclassified entity depends on whether a central government body or a municipality owns – partly or entirely – the company.

### **5.1.1 Criteria used for sector classification of new units**

Generally, new units are treated in the same way as existing units.

In addition to the above mentioned assessment process, when a large new public unit is established, we assess its classification immediately, based on business plans and all available information from government and other sources.

### **5.1.2 Updating of the register of government-controlled entities**

The first public register containing all corporations directly or indirectly controlled by general government units was compiled at the beginning of 2012 for the reference year of 2010. It is updated every year after annual reports and tax declarations are available from the tax office. The compilation of the public register including subsidiary companies as well and the detailed assessment of the units is completed by the end of the year T+1.

### **5.1.3 Consistency between different data sources concerning classification of units**

Classification of units in general government is decided by the EDP working group (Hungarian Central Statistical Office, National Bank of Hungary, Ministry of Finance) which ensures that all institutions involved in national accounts and EDP statistics treat general government sector exactly the same way. The list of non-budgetary units classified in general government sector is published by the National Bank of Hungary and the Ministry of Finance on their websites. Hungarian Central Statistical Office publishes the list as an annex of the EDP Inventory, also available [on its website](#).

## 5.2. Existence and classification of specific units

### 5.2.1. Non-profit institutions

Since reference year 2017, non-profit corporations are not treated as NPIs but as corporations. Therefore, the principal data source for recording and classifying them is the same that is used for corporations, their annual business report data, that is. Data from the non-profit survey is used as a complementary data source.

For reference year 2018, 26 non-profit institutions are reclassified into the Central Government subsector (including the foundations of the National Bank of Hungary), and 8 non-profit institutions are reclassified into the Local Government subsector.

In 2019, a notional entity was created to reroute the non-financial transactions of the foundations created by the National Bank of Hungary, and of the subsidiaries of these foundations. Three foundations and twenty corporations are parts of this notional entity in reference year 2018.

### 5.2.2 Quasi-corporations

All budgetary institutions are recorded in the general government sector in Hungary.

### 5.2.3 Infrastructure companies

For infrastructure companies, consumption of fixed capital is an important element in calculating their production costs. As a proxy, we use the amount of depreciation from its financial statement. According to an in-depth analysis did in 2016, this is a good estimate for the value which would be calculated using the PIM method prescribed by ESA2010.

Government-controlled public utility companies are examined regularly, just like the other public enterprises. We follow the related ESA2010 paragraphs (3.32-34) to determine their sales and production costs and compare them. According to the result of this comparison – taking into account the last three consecutive years – these companies do not show less than 50 % ratio of sales divided by production costs. So these public utility companies are considered to be market producers and classified into the S.11 non-financial corporations sector.

The company MÁV-START (passenger railway company) is classified in general government. Its owner MÁV Zrt. and the other subsidiaries of MÁV Zrt. are considered to be market producers based on their market test. Sales revenue of MÁV Zrt. mainly consists of fees collected for operating the railway infrastructure, paid by MÁV-START and Rail Cargo Hungary.

NIF Zrt. (National Infrastructure Development), NÚSZ Zrt. (National Toll Payment Services) and Magyar Közút Nonprofit Zrt. (Hungarian Public Roads) are classified into general government sector. Their classification is based on the fact that these companies are controlled and mainly financed by the government.

The public transport system of Budapest is managed by BKK Zrt. (Budapest Transport Center). BKK collects transport fees, defines the services and buys them from providers. The largest provider is BKV Zrt. (Budapest Transport Company), another corporation owned by the municipality of Budapest. According to their cost-sale ratios, both are market producers.

### 5.2.4 Universities, schools

All public schools and universities are classified in general government. They are budgetary institutions with one exception: in 2019 Corvinus University of Budapest came under the

## Sector delimitation – practical aspects - Sector classification of units

management of a public foundation. We classified both the foundation and the university in general government.

### **5.2.5 Public television and radio**

They are classified in general government, as they are non-market producers.

### **5.2.6 Public hospitals**

All public hospitals are classified in general government as financing by social security fund is treated as transfers rather than sales of services.

### **5.2.7 SPVs**

Not relevant in Hungary.

### **5.2.8 Specific public units involved in financial activities**

Eximbank is treated as captive financial institution and classified into the Central Government from 1995.

Országos Betébtbiztosítási Alap (OBA – Deposit Insurance) was classified into the Central Government from 1995. OBA's contribution revenues are recorded as D.29 taxes in Central Government, counterbalanced by D.99 transfers paid by Government to OBA. This way all revenues and expenditures are accounted in the reclassified financial corporations.

Befektető-védelmi Alap (BEVA – Investor Protection Fund) was classified into the Central Government from 1997. BEVA's contribution revenues are recorded as D.29 taxes in Central Government counterbalanced by D.99 transfers paid by Government to BEVA. This way all revenues and expenditures are accounted in the reclassified financial corporations.

Pénztárak Garancia Alapja (PGA – Guarantee Fund) was classified into the Central Government from 1998. In 2011 was ceased. In these years Guarantee Fund's contribution revenues were recorded as D.29 taxes in Central Government counterbalanced by D.99 transfers paid by Government to Guarantee Fund. This way all revenues and expenditures were accounted in the reclassified financial corporations.

Szövetkezeti Hitelintézetek Tőkefedeletei Közös Alapja (SZHTKA) was classified into the Central Government from 2013. The SZHTKA's contribution revenues were recorded as D.29 taxes in Central Government counterbalanced by D.99 transfers paid by Government to SZHTKA. This way all revenues and expenditures were accounted in the reclassified financial corporation.

Szövetkezeti Hitelintézetek Integrációs Szervezete (SZHISZ) was classified into the Central Government from 2013. Revenues and expenditures are accounted in the reclassified corporations.

Szanálási Alap (Resolution Fund) was classified to the corporations in Central Government from 2014. The Fund's connection fee revenues are recorded as D.29 taxes in Government counterbalanced by D.99 transfers paid by Government to the Fund. This way all revenues and expenditures are accounted in the reclassified corporations.

Kárrendezési Alap was classified into Central Government from 2015. Revenues and expenditures are accounted in the corporations

### **5.2.9 Other specific units**

Magyar Szénhidrogén Készletező Szövetség (MSZKSZ) was classified in Central Government from 1995. Its membership fees are recorded as D.214 at the central government, which are then transferred to MSZKSZ as D.99.

## Sector delimitation – practical aspects - Sector classification of units

Corporations owned by the Pallas Athene foundations are classified into Central government since their creation between 2015-2018: OPTIMA Befektetési Zrt, Kasselik-Ház Zrt, Vízház Zrt, FERIDA Zrt and Kecskeméti Duális Oktatás Zrt., IMMKER Kft, ARI Kft, Seven House Kft, FULVENA Kft, Optima Befektetési Zrt, Kasselik-Ház Zrt, Vízház Zrt, FERIDA Zrt, Kecskeméti Duális Oktatás Zrt, Optimum-Alfa Ingatlanbefektetési Kft, Optimum-Béta Ingatlanbefektetési Kft, Optimum-Delta Ingatlanbefektetési Kft, Optimum-Omega Ingatlanbefektetési Kft, Optimum-Penta Ingatlanbefektetési Kft, Optimum-Gamma Ingatlanbefektetési Kft, OPTIMA Befektetési Alapkezelő Zrt, Pallas Aténé Könyvkiadó Kft, Optimum Úri 72. Kft, Optimum-Kappa Kft, Vízház Gasztronómia Zrt.

## 6. Time of recording

This section describes the time of recording for taxes and social contributions, EU flows, military expenditure, interest and other transactions (subsidies, current and capital transfers and financial transactions).

The time of recording is defined in ESA2010 §1.101. It is the accrual basis, meaning when economic value is created, transformed or extinguished, or when claims and obligations arise, are transformed or are cancelled.

### 6.1. Taxes and social contributions

Council Regulation 2516/2000 amended the Regulation on European system of national and regional accounts in the Community (ESA) 95 as concerns taxes and social contributions and clarified the rules concerning both the time of recording and the amounts to be recorded.

#### 6.1.1 Taxes

This section describes the methods of recording of taxes on an accrual basis. The time of recording of taxes is defined in ESA2010 §4.26 and §4.82 as the time "...when the activities, transactions or other events occur which create the liabilities to pay taxes".

In Hungary the time adjusted cash (TAC) method is used to record taxes. 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 our accounts on cash basis. Data source for time adjustment: monthly reports of the Hungarian State Treasury.

Cash data are received from monthly reports of the Hungarian State Treasury for the first EDP notification, while we get data from final accounts of State Budget for the October notification. Final accounts are sent by t+7 months.

Accrual adjustment of some tax types:

##### Taxes on products:

In case of VAT, tax payments are time adjusted with one month. VAT reimbursement is recorded on accrual basis based on a special data compilation of National Tax and Customs Administration of Hungary.

Excise duties, cultural contribution, gambling tax, contribution to tourism and innovation contribution are time adjusted with one month. Surtaxes for financial institutions are adjusted with two months, while turnover taxes of medical products with three months. Tax revenue of SS funds has increased from the year of 2012 with public health product tax and tax on collision insurance. These are adjusted with one month.

Import duties, alcohol production duty, duty on acquisition of property, contribution to forest maintenance, contribution to Nuclear Fund, environment protection fee and environment pollution fee are recorded on cash basis in our accounts, as well as simplified corporation tax and sectoral surtaxes.

Local tax on company sales: advances are recorded on cash basis, considering payments twice a year and fill-up obligation by the end of the tax-year. Final tax liability is recorded on due for payment basis (in May of year t+1).

## Time of recording – Taxes and social contributions

### Other taxes on production

Training contribution and rehabilitation contributions are time adjusted with one month.

Land protection levy, concession fees on gambling and local taxes are recorded on cash basis.

Tax on sales after representative employees of medical corporations is adjusted with three months.

### Current taxes on income and wealth

Personal income tax advances are time adjusted with one month, while the final tax liability is recorded on due for payment basis (in May of year t+1).

Corporate income tax advances were recorded on cash basis until 2018 with respect to system of monthly advance-payment and fill-up obligation by the end of the tax-year. The fill-up obligation dropped in 2019 (became optional) therefore a TAC method is applied since 2019 onwards.

Corporate income tax advances were recorded on cash basis until 2018. Until this date the corporate tax system consisted of monthly advance-payment and fill-up obligation by the end of the tax-year. The fill-up obligation was dropped in 2019 (became optional). In national accounts for 2019 TAC method was applied. Since 2020 onward the cash method has been reintroduced based on the flexibility principle offered by the ESA10 paragraph 4.82. 2019 is seen as a transition year.

In the financial accounts a claim arose at the end of 2019. This claim remains unchanged until the next change in the corporate income tax system.

In the case of CIT taxpayer can offer a part of their tax to support popular team sports (basketball, football, handball, water polo, hockey, volleyball) or film production. The tax offer may be charged to the corporate tax advance and the annual tax liability. A tax offer can be made on a separate form issued by the state tax and customs authority, by means of an electronic declaration or in the tax return. If the legal conditions are met, the state tax and customs authority will ensure the transfer of the offered amounts within 15 working days to the beneficiary.

Only the net amount of tax revenue is shown as cash flow in the state accounts, the CIT offering reduces tax revenues. In national accounts, the tax offer is treated as a D.75 current transfer expenditure and not as a negative revenue, we record it on a gross basis.

The final tax liability is recorded on due for payment basis (in May of year t+1).

Stamp duties are recorded on cash basis.

### Capital taxes

Duty on inheritance and gifts is recorded on cash basis.

Interests on late payments and fines are recorded on cash basis as D.75 for all types of taxes.

Data for year t become available after approving annual act on final accounts (in period t+7 months).

### **6.1.2 Social contributions**

The time of recording of social contributions is defined in ESA2010 §4.94 as "... the time when the work that gives rise to the liability to pay the contribution is carried out..." for employers

## Time of recording – Taxes and social contributions

and employees social contributions, and as "... when the liabilities to pay are created" for self-employed and non-employed persons.

Similarly to taxes, in Hungary the time adjusted cash method is used for recording social contributions.

Cash data for social security funds are calculated from monthly reports of the Hungarian State Treasury.

The first EDP notification is based on quarterly accounts, while the October notification on annual accounts.

In the non-financial parts, quarterly and annual accounts are compiled separately, they are based on different data sources: practically in this field there are no common data sources for the preliminary and finalised data.

Monthly Treasury accounts are used for accrual adjustment of SS contributions at HCSO.

SS contributions paid to Labour Market Fund are time adjusted with one month. Data source for time adjustment: Hungarian State Treasury's monthly reports.

Social contribution tax (Act CLVI of 2011) was introduced in 2012. The social contribution tax is a compulsory payment imposed on the employers based on the granted wages. The social security contribution has been ceased at the same time. Tax rate is 17.5% of income from July 2019 onwards. Due date is the 12th day of the following month. This tax type is time adjusted with one month.

## 6.2. EU flows

The issue of recording EU flows is important for national accounts, especially government accounts, because – due to the institutional arrangements – in general all amounts transit via government accounts. In order to avoid potential effects on the level of government deficits, countries have to eliminate these flows from public accounts. Eurostat, after the consultation with Member States, released a decision in February 2005. The ESA2010 Manual on government deficit and debt Chapter II. 6 "*Grants from the EU budget*" provide further details concerning the recording of these flows.

### 6.2.1 General questions

General rules of procedures, rules and presentation of EU-funds in Hungary are the following.

The basic concept of channelling EU-funds via the national budget or not is based on whether national authorities prepare the programmes and make effective decision on beneficiaries and on the amount, whether the programme requires national co-financing:

- a) **if national authorities act on behalf of EU** and its role is mainly checking the entitlements (mainly direct subsidies: e.g. SAPS), EU-funds are managed out of the budget via assigned authority (Mezőgazdasági és Vidékfejlesztési Hivatal (MVH), Agricultural and Rural Development Agency). Monthly detailed monitoring report is available covering all involved transactions, including EU reimbursements, disallowances. This report provides source for recording agricultural interventions made on behalf of EU and accounted in national accounts following the concept of "shell" classified in S.11 Non-financial corporation sector;
- b) **if no national authorities are involved at all** due to direct link between EU budget organs and the beneficiary (direct application to EU and direct financing from EU), EU-funds are managed by the beneficiary, and if it is a legal government unit, it reports data on availability and use of EU-funds in its financial report;

- c) **in all other cases, national authorities elaborate, present and negotiate programs with EU and make individual decision on projects and amounts by beneficiaries,** EU funds are channelled via the national budget, and follow the general budgetary rules, including public accounting. Prime Minister's Office as a central budgetary institution is responsible for managing budgeted EU-funds. Prime Minister's Office is responsible inter alia for the following: co-ordination of the operational program's planning; monitoring of their implementation; finalization of the calls for applications; selection of the developments, investments to be awarded support; operation of the related system of institutions; administration of the necessary EU consultations and preparation of the prescribed documents.

**In case of type a),** the Hungarian State Treasury (on behalf of the State) makes an advance payment to MVH to finance the subsidies outside the national budget (an internal loan within the Central Government, theoretically included but not reflected in consolidation in Table 3B *Currency and deposits (F.2)* and *Loans (F.4)*). MVH maintains special treasury banking accounts for EU reimbursement as well, from which source it repays the advance. Any EU refusals due to disallowances are covered from a dedicated national budget appropriation, and revaluation gains and losses related to advance payment by the Treasury are also accounted in this budgetary line item. As this budgetary line item appears in the working balance of the central government in EDP Table 2A, the effects of revaluation gain or loss are neutralised among exclusion of financial transactions included in the working balance (under the item of *Other financial transactions (+/-)*).

**In case of type c),** the advance payments at the beginning of a multiannual programming period from the EU are deposited with the Hungarian State Treasury, outside the national budget (in EDP Table 3B). EU advance payments kept at the Treasury are recorded as F.2 of central government, therefore are shown in EDP table 3B under *Currency and deposits (F.2)* and at the same time under *Other financial liabilities (F.8)*.

EU funds are recorded as budgetary receipts on expenditure basis. In public accounts, once budgetary expenditure is made, government records budgetary revenue by transferring funds from the Treasury account to the State Budget. Expenditures related to final use by budgetary units or transfers to non-fiscal units include national co-financing part, as well. Detailed economically classified expenditure data are available to make distinction between final use by fiscal unit or transfer to non-fiscal non-government units.

When no money is available at the Treasury account, a receivable is recorded against the EU. In public accounts (at the Treasury) it is recorded as "to be financed", therefore the statistical authorities have the information in order to create a receivable against the EU in national accounts, which is later shown in EDP table 2A, under *Other accounts receivable (F.8)*. Since the time lag between the expenditure and the arrival of revenue from the Treasury account is one month, another receivable might also arise, in case the transfer from the Treasury does not arrive by the end of the year. Moreover, at the end of the programming period, the EU does not reimburse the last 5% of the programmes, until all projects have been closed. These outstanding claims against the EU are also recorded under other accounts receivable in government accounts. In the final phase of projects, the national budget covers the expenditures in 100 %. In EDP Table2A, the adjustment to the differences between the expenditures recorded in the budget and not yet received from EU-budget is recorded under the line item *Other accounts receivable, relates to "EU transfers"*.

Local governments are dominantly involved by Prime Minister's Office-organised EU-projects; they receive EU-funds plus national contribution via the general Prime Minister's Office budgetary scheme (**type c)**.

Two new surveys on EU-funds which were introduced in 2014 in the frame of the National Statistical Data Collection Programme (OSAP) provide more data for the accounting of EU flows. The Prime Minister's Office, responsible for conducting and handling the electronic information system (EMIR) on EU-funds, as data-provider, forwards the necessary information

## Time of recording - EU flows

on a more detailed level to HCSO for the cross-checking of budget data and accrual adjustment purposes.

The main variables collected are the following:

- Concerning incomes and expenditures accounted as other current transfers and capital transfers separately;
- EU-transfers credited in the month on Use of EU-funds budgetary account, of which:
  - o the sum for settlement of advances;
  - o the sum for settlement of interim and final payments;
- Year and month of the payments these credits connected to;
- Clearing of reimbursements of EU-funds in the month;
- Cumulated EU-transfers credited on Use of EU-funds budgetary account of the programming period, of which:
  - o advances to the final beneficiaries transferred but not settled in cost statements yet;
- The amounts of the EU-funds and the national funds according to the funding contracts updated;
- Cumulated remittances from Use of EU-funds budgetary account of the programming period;
- Paid transfers grouped by final beneficiaries and programming priorities: amounts of the national funds and the EU-funds separately;
- Sums of contractor-advances, funding contract prepayments and reverse VAT-advances paid in the month on cash basis;
- Cash accounting data of interim or final payments which are settled and invoiced;
- Amount of the prepaid EU-funds' final instalment of the transfers paid;
- Sum of national advance payments on behalf of the EU due to insufficient funds on EU-funding program accounts;
- Payments not certified as being accountable as EU-financed: year and month of the payments.

## **Special section on data compilation process for EU flows**

The following section is the detailed note on the entire data compilation cycle for the data reported under EDP Questionnaire Table 6 regarding EU flows (data sources, treatment, production, reporting, anticipated losses in EU funding, T-account or similar examples: from advance payment to closure, with special focus on data source availability and use).

### **1. Data sources (for EDP 1st and 2nd notification):**

EU flows include six different programs. The following table shows the availability of data sources for each program during the notification periods:

Time of recording - EU flows

|  | 1.<br>Széchenyi<br>2020<br>programs<br>(2014-2020)  | 2.<br>National<br>Strategic<br>Reference<br>Framework<br>(2007-2013)   | 3.<br>Rural<br>Develop-<br>ment Pro-<br>gramme  | 4.<br>European<br>Territorial<br>Coopera-<br>tion  | 5.<br>Other<br>programs<br>(mainly<br>Connecting<br>Europe<br>Facility)   | 6.<br>Pre-<br>accession<br>funds   |
|--|---|--|---|--|---|--|
| <b>1<sup>st</sup><br/>EDP<br/>notifi-<br/>cation<br/>perio<br/>d</b> | -Query of the FAIR database from the Ministry for Innovation and Technology<br><br>-Monthly report of the Hungarian State Treasury  | -Query of the EMIR database from the Ministry for Innovation and Technology<br><br>-Monthly report of the Hungarian State Treasury<br><br>-Data of the Chapter 42 of the Budget (which contains the last 5% revenue from the EU grants)  | -Monthly report of the Hungarian State Treasury<br><br>-Monthly report of the former Agricultural and Rural Development Office  | -Monthly report of the Hungarian State Treasury  | -Monthly report of the Hungarian State Treasury<br><br>-Report of the corporations reclassified into the general government sector  | -Monthly report of the Hungarian State Treasury  |
| <b>2<sup>nd</sup><br/>EDP<br/>notifi-<br/>cation<br/>perio<br/>d</b> | -Final Accounts of Implementation of the Budget<br><br>-Appendix of the Final Accounts of Implementation of the Budget (which includes the Detailed statement on the grants received from the European Union and the payments thereof - by priorities)<br><br>-Updated query of the FAIR database from the Ministry for Innovation and Technology | -Final Accounts of Implementation of the Budget<br><br>-Appendix of the Final Accounts of Implementation of the Budget<br><br>-Query of the EMIR database from the Ministry for Innovation and Technology<br><br>-Data of the Chapter 42 of the Budget (which contains the last 5% revenue of the EU grants) | -Final Accounts of Implementation of the Budget<br><br>-Appendix of the Final Accounts of Implementation of the Budget<br><br>-Monthly report of the former Agricultural and Rural Development Office | -Final Accounts of Implementation of the Budget<br><br>-Appendix of the Final Accounts of Implementation of the Budget | -Final Accounts of Implementation of the Budget<br><br>-Appendix of the Final Accounts of Implementation of the Budget<br><br>-Report of the corporations reclassified into the general government sector | -Final Accounts of Implementation of the Budget<br><br>-Appendix of the Final Accounts of Implementation of the Budget |

**The main information available from these data sources is:**

- payment date;
- expenditure made on behalf of the EU;
- the purpose: current transfer or investment grant;
- the paid amount: advance payment or payment based on reimbursement claims;
- the beneficiary sector: central or local government institutions, corporations and non-profit institutions reclassified into the general government sector and institutions which are outside the central and local government subsector;
- date and amount of the accounted advance payments by each priority;
- revenue received from the EU by each type of grant (from the reimbursement of expenditure);
- expenditure to corporations and non-profit institutions reclassified into the general government sector.

Consequently – concerning the EU flows – for the data compilation of the 1<sup>st</sup> EDP notification, the query of the FAIR and EMIR database, as well as the Monthly report of the Hungarian State Treasury are the main data sources. In the case of the 2<sup>nd</sup> EDP notification, these data sources play supplementary roles to the data obtained from the Final Accounts of Implementation of the Budget. The following table shows the relationship between the available information during the notification periods. The numbers indicate which grants (as described in the previous table) are available in the notification periods.

| Information from the data sources   | 1st notification                    |                                | 2nd notification  |
|---|-------------------------------------|--------------------------------|---|
|   | Query of the FAIR and EMIR database | Monthly report of the Treasury | Final Accounts of Implementation of the Budget and its appendix |
| Total expenditure (government-and EU-financed altogether)   | 1, 2                                | all                            | all   |
| Expenditure made on behalf of the EU  | 1, 2                                | 3                              | all   |
| The amount of advance payment and reimbursement claims by priorities  | 1, 2                                | -                              | (1,2 – the queries from the 1st notification are used)          |
| Date and amount of the accounted advance payments by priorities   | 1, 2                                | -                              | (1,2 – the queries from the 1st notification are used)          |
| Current transfer or investment grant  | 1, 2                                | -                              | all   |
| The beneficiary sector  | 1, 2                                | -                              | all   |
| Expenditure to the corporations and non-profit institutions reclassified into the general government sector | 1, 5                                | -                              | (1,2 – the queries from the 1st notification are used)          |
| Revenue received from the EU at the level of operational programs   | -                                   | all                            | all   |
| Revenue received from the EU at the level of priorities   | -                                   | -                              | all   |

This table shows that during the 2<sup>nd</sup> EDP notification period more detailed information is available due to the Final Accounts of Implementation of the Budget and its appendix.

## 2. Treatment and production

In order for the EU flows not to have an effect on the government deficit, the EU-financed government expenditure must be equal to the revenue from the EU. To determine the amount of the imputed revenue the following steps are required (according to each column of the next table):

## Time of recording - EU flows

### 1. Expenditure made on behalf of the EU

The EU-financed part of the expenditures at each sub-sector are determined according to the purpose of the payment: whether it is designated to cover operating costs or accumulation costs. This column includes both advance payments and reimbursement claims.

### 2. Revenue received from the EU

The revenue from the EU are distributed according to the rate of the EU-financed expenditure by each sector.

### 3. Expenditure surplus

In this case the EU-financed expenditure is bigger than the revenue from the EU. Currently this is usual at the Széchenyi 2020 programs. In order for the EU financed expenditure to be equal to the revenue from the EU, we have to impute this expenditure surplus to the cash revenue.

### 4. Revenue surplus

In this case the revenue from the EU is bigger than the EU-financed expenditure. These can be revenues which relate to previous years' expenses. This is the reason why these amounts have to be subtracted from the actual revenue.

### 5. The amount of advance payments

From the EU-financed expenses the amount of the advance payments must be determined at each sub-sector.

### 6. The amount of accounted advance payments

At the time when the beneficiaries account for the advances, these amounts are also recorded in the table for each sub-sector.

### 7. Balance of the paid and accounted advances

This column shows the difference of the previous two columns. It shows the balance of the paid and accounted EU-financed advance payments during the examined period.

It is made for the six different grants, and the imputed revenue can be calculated from the sum of the six tables. For this the expenditure surplus and the revenue surplus have to be summarized and the balance of the paid and accounted advances in the case of the central or local government beneficiaries must be subtracted from it as well as the revenue of the 42. chapter from the Budget. (About the imputation more detail in the example part).

| Data in million HUF  | Expen-diture made on behalf of the EU | Revenue received from the EU | Expen-diture surplus | Revenue surplus | The amount of advance pay-ments | The amount of accounted advance pay-ments | Balance of the paid and accounted advance pay-ments |
|--|---------------------------------------|------------------------------|----------------------|-----------------|---------------------------------|---|---|
| Central government institutions  |                                       |                              |                      |                 |                                 |   |   |
| Local government institutions  |                                       |                              |                      |                 |                                 |   |   |
| Corporations and non-profit institutions reclassified into the general government sector |                                       |                              |                      |                 |                                 |   |   |

## Time of recording - EU flows

|  |  |  |  |  |  |  |
|--|--|--|--|--|--|--|
| Outside the general government sector  |  |  |  |  |  |  |
| <b>Sum of the grants provided for the purpose of operation</b>                           |  |  |  |  |  |  |
| Central government institutions  |  |  |  |  |  |  |
| Local government institutions  |  |  |  |  |  |  |
| Corporations and non-profit institutions reclassified into the general government sector |  |  |  |  |  |  |
| Outside the general government sector  |  |  |  |  |  |  |
| <b>Sum of the grants provided for the purpose of accumulation</b>                        |  |  |  |  |  |  |
| <b>Sum of grants</b>   |  |  |  |  |  |  |
| <b>Sum of grants within the general government sector</b>                                |  |  |  |  |  |  |

### 3. Example for the entire data compilation cycle and anticipated losses in EU funding

To demonstrate the data compilation cycle, a simplified data table is shown, where only one sector receives EU grants without the examination of the purpose of the payment (current transfer or investment grant). This sector can be the central government or the local government, because in their case we pay attention to the balance of the paid and accounted advances (in other cases, therefore outside the general government sector and for corporations and non-profit institutions reclassified into the general government sector, the calculation is a little different, which will be mentioned later).

The example introduces the process of an expenditure and its reimbursement.

To determine the imputed revenue we need these two formulas:

$$\begin{aligned} \text{EU financed expenditure} = & + \text{revenue from the EU} \\ & + \text{expenditure surplus} \\ & - \text{revenue surplus} \end{aligned}$$

$$\begin{aligned} \text{Imputed revenue} = & + \text{expenditure surplus} \\ & + \text{revenue surplus} \\ & - \text{balance of the paid and accounted advances (in case of central- or local government units)} \end{aligned}$$

The steps in case of an EU financed expenditure to determine the amount of the imputed revenue are the following (at central- and local government sub-sector):

In case of institutions of the general government:

Time of recording - EU flows

|  | <b>Expenditure made on behalf of the EU</b> | <b>Revenue received from the EU</b> | <b>Expenditure surplus</b> | <b>Revenue surplus (with negative sign)</b> | <b>The amount of advance payments</b> | <b>The amount of accounted advance payments</b> | <b>Balance of the paid and accounted advance payments</b> | <b>Imputed revenue at the current period decreased with the balance of the paid and accounted advance payments</b> | <b>Sum of the revenues from the EU</b> |
|--|---|-------------------------------------|----------------------------|---|---------------------------------------|---|---|--|--|
| 1. Expenditure made on behalf of the EU              | <b>100</b>                                  | 0                                   | 100                        | 0   | 50                                    | 0   | 50  | 50   | 0                                      |
| 2. Revenue from the EU                               | 0   | 50                                  | 0                          | -50   | 0                                     | 0   | 0   | -50  | 50                                     |
| 3. Accounting for advance payments                   | 0   | 0                                   | 0                          | 0   | 0                                     | 50  | -50   | 50   | 50                                     |
| 4. Last revenue from the EU (but it is not complete) | 0   | 40                                  | 0                          | -40   | 0                                     | 0   | 0   | -40  | <b>90</b>                              |

**1. step: Expenditure made on behalf of the EU (100 million HUF in this example), from which 50 million is advance payment, the other half is reimbursement of expenditure.**

- Expenditure made on behalf of the EU: 100 (as can be seen in the table)
- Revenue received from the EU: has not arrived yet

Since the expenditure > revenue => there is expenditure surplus in this case.

- Expenditure surplus (expenditure made on behalf of the EU – revenue from the EU) =  $100 - 0 = 100$
- Revenue surplus: 0
- The amount of advance payments: 50
- The amount of accounted advance payments: In this period the beneficiary has not accounted for the advance payments yet, therefore these are 0.
- Balance of the paid and accounted advances (the amount of advance payment - the amount of accounted advance payments):  $50 - 0 = 50$ .

This is the amount of the expenditure which decreases the imputed revenue, because the beneficiary has not accounted for it yet. This revenue from the EU cannot be expected.

- Imputed revenue for the current period (expenditure surplus + revenue surplus - balance of the paid and accounted advance payments) =  $100 + 0 - 50 = 50$
- Sum of the revenues from the EU: revenue from the EU has not arrived yet, therefore it is 0.

**2. step: Revenue from the EU after the reimbursement of expenditure**

- Expenditure made on behalf of the EU: 0
- Revenue received from the EU: 50

Since expenditure < revenue => there is revenue surplus in this case.

- Expenditure surplus: 0

## Time of recording - EU flows

- Revenue surplus (expenditure made on behalf of the EU – revenue from the EU):  $0 - 50 = -50$  (this amount belongs to the previous period's expenditure).
- The amount of advance payments: 0
- The amount of accounted advance payments: 0
- Balance of the paid and accounted advances (the amount of advance payment - the amount of the accounted advance payments): 0
- Imputed revenue for the current period (expenditure surplus + revenue surplus - balance of the paid and accounted advance payments) =  $0 + (-50) - 0 = -50$

This amount must be subtracted from the revenue from EU of the current period, because it belongs to the previous period's expenditure, and in that period it was calculated as imputed revenue.

- Sum of the revenues from the EU: 50

## 3. step: The beneficiary has accounted for the advance payments

- Expenditure made on behalf of the EU: 0
- Revenue received from the EU: 0

Since the expenditure = revenue => there is no revenue or expenditure surplus in this case.

- Expenditure surplus: 0
- Revenue surplus: 0
- The amount of advance payments: 0
- The amount of accounted advance payments: 50
- Balance of the paid and accounted advances (the amount of advance payment - the amount of the accounted advance payments):  $0 - 50 = -50$
- Imputed revenue for the current period (expenditure surplus + revenue surplus - balance of the paid and accounted advance payments) =  $0 + 0 - (-50) = 50$

Since the beneficiary has accounted for the advance payments, therefore imputed revenue can be calculated from this amount.

- Sum of the revenues from the EU: 50 (it is still the revenue from the previous period).

## 4. step: Revenue from the EU

The receipts from the EU have arrived into the state budget from the reimbursed advance payments. However it is not the whole, expected amount. 10 million is missing from the 50 million, due to not accepted settlement of accounts.

- Expenditure made on behalf of the EU: 0
- Revenue received from the EU: 40

Since expenditure < revenue => there is revenue surplus in this case.

- Expenditure surplus: 0
- Revenue surplus (expenditure made on behalf of the EU – revenue from the EU):  $0 - 40 = -40$
- The amount of advance payments: 0
- The amount of accounted advance payments: 0

## Time of recording - EU flows

- Balance of the paid and accounted advances: 0
- Imputed revenue for the current period (expenditure surplus + revenue surplus - balance of the paid and accounted advances) = 0 + (-40) + 0 = -40

This amount must be subtracted from the revenue for EU of the current period, because it belongs to the previous period's expenditure, and in that period it was calculated as imputed revenue, as part of the 50 million which the beneficiary has accounted.

- Sum of the revenues from the EU:  $50 + 40 = 90$  (that is the whole return from EU revenues after the end of all the periods).

The loss can be calculated, because the expenditure made on behalf of the EU was 100 million, but the actual sum of the revenues from the EU after the last step was 90. The loss therefore is 10 million in this case. The losses can be calculated after the end of the last period, during the payment period it is not settled.

The four steps are illustrated in the following tables as well. There are 3 types of tables, the first one shows the compilation cycle when the beneficiary is within the general government sector, the second table shows the calculation when the beneficiary is outside the general government sector and the third shows how the calculation is made when the beneficiary is reclassified into the general government sector.

The difference between the first two tables is that, as opposed to the general government sector's case, the advances are not considered separately, the whole expenditure made on behalf of the EU is calculated into the imputed revenue.

### In case of institutions outside the general government:

|  | <b>Expenditure made on behalf of the EU</b> | <b>Revenue received from the EU</b> | <b>Expenditure surplus</b> | <b>Revenue surplus (with negative sign)</b> | <i>The amount of advance payments</i> | <i>The amount of accounted advance payments</i> | <i>Balance of the paid and accounted advance payments</i> | <b>Imputed revenue at the current period decreased with the balance of the paid and accounted advance payments</b> | <b>Sum of the revenues from the EU</b> |
|--|---|-------------------------------------|----------------------------|---|---------------------------------------|---|---|--|--|
| 1. Expenditure made on behalf of the EU              | <b>100</b>                                  | 0                                   | 100                        | 0   | 50                                    | 0   | 50  | 100  | 0                                      |
| 2. Revenue from the EU                               | 0   | 50                                  | 0                          | -50   | 0                                     | 0   | 0   | -50  | 50                                     |
| 3. Accounting for advance payments                   | 0   | 0                                   | 0                          | 0   | 0                                     | 50  | -50   | 0  | 50                                     |
| 4. Last revenue from the EU (but it is not complete) | 0   | 40                                  | 0                          | -40   | 0                                     | 0   | 0   | -40  | <b>90</b>                              |

### In case of corporations and non-profit institutions reclassified into the general government sector:

The difference from the institutions outside the general government is that the balance of the paid and accounted advances is subtracted from the expenditure made on behalf of the EU, as well as from the revenue received from the EU. Since in the first step there is no revenue received from EU after reimbursement of expenditure, the sum of the revenues from the EU

## Time of recording - EU flows

shows -50, but it is presented in the Table 6 of the EDP questionnaire as it is financed from advance payments from the EU.

|  | <b>Expenditure made on behalf of the EU</b> | <b>Revenue received from the EU</b> | <b>Expenditure surplus</b> | <b>Revenue surplus (with negative sign)</b> | <i>The amount of advance payments</i> | <i>The amount of accounted advance payments</i> | <i>Balance of the paid and accounted advance payments</i> | <b>Imputed revenue at the current period decreased with the balance of the paid and accounted advance payments</b> | <b>Sum of the revenues from the EU</b> |
|--|---|-------------------------------------|----------------------------|---|---------------------------------------|---|---|--|--|
| 1. Expenditure made on behalf of the EU              | <b>50</b>                                   | -50                                 | 100                        | 0   | 50                                    | 0   | 50  | 100  | -50                                    |
| 2. Revenue from the EU                               | 0   | 50                                  | 0                          | -50   | 0                                     | 0   | 0   | -50  | 0                                      |
| 3. Accounting for advance payments                   | 0   | 0                                   | 0                          | 0   | 0                                     | 50  | -50   | 0  | 50                                     |
| 4. Last revenue from the EU (but it is not complete) | 0   | 40                                  | 0                          | -40   | 0                                     | 0   | 0   | -40  | <b>90</b>                              |

The sum of the three tables give the imputed revenue of the current period after we decreased it with the revenue of the Chapter 42 of the Budget. This value can be seen in the EDP table 2A and the EDP questionnaire table 6, as well.

## 4. Reporting

Reporting of the EU flows is performed quarterly for National Accounts and twice a year during the EDP notification periods in EDP table 2A and in EDP questionnaire table 6.

In summary, the different data sources can be seen in the draft version of the EDP questionnaire table 6:

|                             |  | <b>Data source</b>   |
|-----------------------------|--|--|
| <b>EDP Table 2</b>          |  |  |
|                             | <b>Amounts included in the working balance of EDP table 2A</b> | Sum of revenues and outflows lines   |
|                             | <b>Revenues, of which:</b>                                     | Sum of the next two lines  |
|                             | Advance payments   | Expenditures from the Fund of Funds to the beneficiaries<br>and the balance of the paid and accounted advances in the case of the corporations and non-profit institutions reclassified into the general government sector   |
|                             | Reimbursement of expenditure                                   | Revenue from the EU decreased with the amounts of the previous line  |
|                             | <b>Outflows (negative sign), of which:</b>                     | Sum of the next two lines  |
| I. EDP Table 2A - EU grants | Expenditure made on behalf of the EU                           | The formula is the following:<br>+ Revenue from the EU<br>+ Imputed revenue (decreased with the balance of the paid and accounted advances in the case of the central and local government sector)<br>- The expenditures from the Fund of Funds to the beneficiaries<br>- The balance of the paid and accounted advances in the case of the corporations and non-profit institutions reclassified into the general government sector |
|                             | Expenditure financed from advance payments                     | Expenditures from the Fund of Funds to the beneficiaries and the balance of the paid and accounted   |

## Time of recording - EU flows

|                            |   |  |
|----------------------------|---|--|
|                            |   | advances in the case of the corporations and non-profit institutions reclassified into the general government sector (with negative sign). |
| II. EDP Table 2A contrib.  | <b>Adjustments for contributions made to the EU</b>                   | Same as amounts in the line „other accounts payable”   |
|                            | Amounts in the line "Other accounts payable"                          | Data from the Ministry of Finance  |
| III. EDP T2 other adjustm. | <b>Other adjustments relating to penalties, etc.</b>                  | Data from the Ministry of Finance  |
| <b>EDP Table 3</b>         |   |  |
| V. EDP T3A                 | <b>Transactions in Currency and deposits (F.2) relating to the EU</b> | Data from the National Bank of Hungary   |
|                            | <b>Adjustments in other accounts receivable/payable , of which:</b>   | Sum of the next three lines  |
|                            | Amounts in the line "Other accounts receivable (F.8)"                 | Data from the National Bank of Hungary   |
|                            | Amounts in the line "Net incurrence of other accounts payable (F.8)"  | Data from the National Bank of Hungary   |
|                            | of which: Advance payments from the EU                                | Data from the National Bank of Hungary   |
| <b>STOCKS</b>              |   |  |
| VI. AF.8 stocks            | <b>Stocks of receivables of general government against the EU</b>     | Data from the National Bank of Hungary   |
|                            | <b>Stocks of payables of general government against the EU</b>        | Data from the National Bank of Hungary   |

### 6.2.2 Cash and Schengen facility

The time of recording of payments received by the beneficiary Member States through Schengen and Transitional Facilities would be accounted according to the Eurostat decision on EU flows, while the time of recording of Cash-flow Facility is when the transfers are to be made by the Commission. In practice, in this particular case, the amounts would be recorded as revenue in the years in which they were received by the beneficiary countries.

Cash-flow, Schengen and Transitional facilities were part of EU funds that are channelled via State Budget and operated under general budgetary rules. Payments received in cash were part of the Working balance of Central Government.

Cash-flow facilities were received between 2004 and 2007, and were treated in the same year in EDP and general government accounts as the cash, coded D.74 Current international transfer. No adjustment was needed in EDP Table 2A.

Schengen facilities were available between 2005 and 2007. The general rules established by Hungarian statisticians were applied for Schengen facility, as well. As the budgetary rules required to record EU funds and use EU funds at the same time with short time-leg, no accrual adjustments were needed. Project revenues and expenditures of Schengen facilities funds were part of the working balance of the Central Government in Table 2A.

PHARE and Transitional (successor of PHARE) facilities were available between 2000 and 2010. The general rules established by Hungarian statisticians were applied for PHARE and Transitional facility as well. As the budgetary rules required to record EU funds and use EU funds at the same time with short time-leg, no accrual adjustments were needed. Project revenues and expenditures of PHARE and Transitional facilities funds were part of the working balance of the Central Government in Table 2A.

### **6.2.3 Jeremie/Jessica**

The European Commission and the European Investment Bank Group and other International Financial Institutions on financial engineering in cohesion policy, the European Commission drew up new initiatives for improving access to finance of European corporations. These initiatives require the involvement of EU governments (as in the case for other cohesion and structural policy instruments). EU Member States implement the JEREMIE and JESSICA initiatives by establishing a Holding Fund funded through their Structural Fund receipts from the European Commission and national contributions. The Holding Fund (HF) can be managed either by the EIF or by other financial institutions, according to the EU Structural Funds legislation applicable. In this context, the "Managing Authorities" can award management either directly to the EIF or any national institution which benefits from public procurement exemption under national law through a grant agreement, or indirectly by way of tender to a financial institution through a service contract. Holding Funds can be set up either as "ring-fenced blocks of finance" or as bank accounts managed by the Holding Fund manager on behalf of and in the name of the Managing Authority, or as an independent legal entity (Special Purpose Vehicle – SPV).

Hungary is involved in Jeremie programmes. Following the concept of centralised budget implementation system, Jeremie programmes are organised in the same way as other EU-funds channelled via the State Budget. No holding fund was established. EU funds are kept at Treasury Accounts until their transfer to final beneficiaries. Magyar Vállalkozásfinanszírozási (MV) Zrt. (Venture Finance Hungary Private Limited Company, a public corporation, member of MFB-Group, classified as S.12 Financial corporation) was entitled for managing the funds making payments from the relevant treasury accounts by acting on behalf of Prime Minister's Office in the period 2007-2015 up to mid-2015. MV Zrt. received service charges and guarantee fees. MV Zrt. were integrated into the organisation of Magyar Fejlesztési Bank Zrt. (MFB) on 30 June 2015. In the future MFB itself organises Jeremie-programmes.

Financial intermediaries are chosen by competition procedure. Transfer of money – via the State Budget – to final beneficiaries is paid when the financial intermediaries made decision on the beneficiaries and the amount. Jeremie-1 programmes now result in some repayments from final beneficiaries after 3-5 year use. This repayment appears among the budget receipts in national budgetary presentation and can be used for new payments to beneficiaries.

### **6.2.4 Market Regulatory Agencies**

Market regulatory agencies are bodies whose intervention activities are mostly characterised by buying and selling products, often on behalf of the EU, with an aim to stabilize prices and to maintain purchasing prices to farmers at a sufficiently high level: they offer buying agricultural products from domestic producers at a predetermined price (often higher than "market" prices) and reselling them usually at a lower price later on and occasionally arranging for giving them away free of charge. These agencies can be involved in storing agricultural inventories, or in arranging for storage, as well as in distributing subsidies.

The question is whether the principle of re-arranging EU transactions would also apply to the recording of changes in inventories (P.52) arising from the interventions of agricultural market regulatory agencies in the market. According to the guidance, in those circumstances where a market regulatory agency acting on behalf of the EU is classified inside general government, the creation of a unit in S.11 is recommended in order to capture the changes in agricultural inventories, and to avoid that such changes in inventories are recorded in national government accounts (as changes in government inventories, with an impact on the government deficit/surplus) or in the rest of the world accounts (as exports and imports). The unit to be

## Time of recording - EU flows

created to capture these changes in inventories is a quasi-corporation, rather than a notional unit, in order to ensure an equality of treatment with cases where market regulatory agencies are classified outside government. This is also appropriate because any temporary difference in value arising from changes in market value of these inventories not yet covered by subsidies is likely to be small and on average zero.

In Hungary the Mezőgazdasági és Vidékfejlesztési Hivatal (MVH) (Agricultural and Rural Development Agency), a central budgetary institution (under the supervision of the Ministry of Rural Development) exercises the role of market regulatory agency, besides its main task: being the sole paying agency of EU direct subsidies in Hungary. It implements the aid instruments financed from European Agricultural and Rural Development Funds, both EAGF (European Agricultural Guarantee Fund) and EAFRD (European Agricultural Fund for Rural Development) and in addition, MVH also implements national schemes. MVH as an office is classified into the S.1311 Central Government sub-sector.

MVH reports the stocks and transactions on interventions on quarterly basis. These reports are used for creating a notional unit and recording the stocks and flows of the market regulatory notional unit, which is classified into S.1311 Central Government subsector in statistics.

### **6.3 Military expenditure**

The ESA2010 principle on accrual recording, when applied to military expenditure, is generally the time when the economic ownership of the good occurs, which is usually when delivered. ESA 2010 paragraphs 20.190-20.192 define the rules for the statistical recording of military equipment. Chapter II.5 in Part II of the ESA 2010 MGDD details the rules concerning the recording of military expenditure.

Data sources for military equipment in Hungary are budgetary accounts of Ministry of Defence and investment survey by HCSO.

#### **6.3.1 Types of contracts used by military forces for the procurement of military equipment**

In Hungary there are arrangements within the government sector (manufacturing by government units) and no sales agreed in advance with industrial suppliers, either with or without government pre-financing, exist.

Concerning long-term rental contracts, the Gripen contract, an operative leasing of 14 military aircraft from an industrial Supplier, exists. Existing aircrafts had to be reconstructed to meet NATO compatibility criteria, the crew and subsidiary staff had to be trained, ground-control and other facilities for navigation and communication had to be placed in Hungary. The contract identified a 10-year rental period starting from the availability of the first reconstructed aircraft, which was in 2006 and 2007. From 2012 the rental period was extended till 2026. The Gripen transactions are recorded as a financial lease, following the Eurostat guidelines.

Trade credits (payments after delivery) occasionally occur. In recent years their amount was 3-10 billion HUF per year.

There are only a few cases of purchasing through an international special agency. There was one case in 2009 and one in 2011 (through NATO agencies, or in the framework of the NATO Security Investment Program (NSIP)).

#### **6.3.2 Borderline cases**

No cases. The classification is made by the Ministry of Defence.

#### **6.3.3 Recording in national accounts**

Acquisition of military equipment is recorded using cash-based data, corrected for information of payables and receivables.

In the case of the Gripen contract, a special model has been worked out for proper transformation of budgetary information into national accounts records. This model delivers consistent data for BoP/IIP statistics and national accounts. This model aims the reclassification of the cash payments relating to the operating lease recorded in budgetary accounts into financial lease to be recorded in national accounts. The contract can be divided into 2 parts: a pre-payment period and a rental period.

In the pre-payment period, between 2001 and 2005, the budgetary payments were reclassified as financial transactions, loans to the RoW. The delivery of assets took place in 2006-2007, increasing the gross fixed capital formation in non-financial accounts. In financial accounts, in these two years, the loans granted were decreased to zero and loans issued by the central government increased. Since then, part of the payments is reclassified as financial transaction (amortization of debt). Interest payments are recorded as other adjustment. The regular cash payments also cover additional services provided by the RoW (training, maintenance). In the financial accounts the decrease of loans is imputed. Since the contract, the payments and the

## Time of recording - Military expenditure

imputed loan take place in foreign currency, revaluation is calculated due to exchange movements as well.

The expenditures in connection with the Gripen contract and the gross fixed capital formation of the Ministry of Defence are recorded on accrual basis. These figures are in line with ESA 2010 and the MGDD 2019.

## 6.4 Interest

This part aims at describing accrual adjustment for interest.

ESA2010 paragraph 20.178 reads: "*In the system, interest is recorded on an accrual basis, i.e. interest is recorded as accruing continuously over time to the creditor on the amount of principal outstanding*".

ESA2010 MGDD part II, chapter II.4 is dealing with some practical aspects of the recording of interest.

### 6.4.1 Interest expenditure

**Table 10 Availability and accounting basis of data on interest**

| Instrument                              | S.1311                  |                        | S.1312    |      | S.1313      |                        | S.1314      |             |
|---|-------------------------|------------------------|-----------|------|-------------|------------------------|-------------|-------------|
|   | State                   | OCGB                   | Main unit | OSGB | Main unit   | OLGB                   | Main unit   | OSSB        |
| <b>Deposits (AF.2)</b>                  | <i>cash and accrual</i> | M                      | M         | M    | M           | M                      | M           | M           |
| <b>Debt Securities (AF.3)</b>           | <i>cash and accrual</i> | <i>cash or accrual</i> | M         | M    | <i>cash</i> | <i>cash or accrual</i> | M           | M           |
| <b>Loans (AF.4)</b>                     | <i>cash and accrual</i> | <i>cash or accrual</i> | M         | M    | <i>cash</i> | <i>cash or accrual</i> | <i>cash</i> | <i>cash</i> |
| <b>Other accounts receivable (AF.8)</b> | M                       | M                      | M         | M    | M           | M                      | M           | M           |

*Cash/accrual, M (not applicable) or L (not available)*

For the whole legal general government budgetary data on interest expenditure are available. Budgetary data are on cash basis according to the special rules on budgetary accounting.

In addition, for the main unit of central government accrual data on interest expenditure are calculated by the Debt Management Agency Ltd. (ÅKK Rt.). Regarding securities other than shares, data for the main unit of central government are available on security by security basis for HCSO and NBH. However, the calculation of accrual data is implemented by ÅKK using the method developed by the statistical authorities.

Data on other budgetary institutions are available on cash basis.

Regarding units reclassified into the central government subsector, interest expenditure data are on accrual basis. For corporations the income statements, for non-profit institutions the annual survey on NPIs is the data sources.

Local government interest is available on cash basis both for the main units and the other budgetary institutions. Accrual adjustment is made by the NBH using securities statistics and banking reports.

## Time of recording - Military expenditure

Interests of units reclassified into the local government are on accrual basis.

Social security interest data are available on cash basis.

In the financial accounts, the accrued interest is recorded under the appropriate instrument.

In the EDP notification tables, accrual adjustments are reported both in tables 2 and 3 in the lines *Difference between interest paid (+) and accrued (EDP D.41) (-)*. It is a complex task to reconcile the items in the two table sets, because they reflect the different approaches of non-financial and financial accounts. The adjustments are different for four reasons:

1. In tables 2, adjustments made both to interest expenditures and revenues are included in this item. In tables 3, only the adjustment made to expenditure is presented in this line.
2. In public accounts and in table 2, discounts and premiums at issuance of interest bearing (coupon) securities are included in cash interest expenditure and revenue at time of issuance. In tables 3, these items are included in the cash interest at redemption. The difference of the two approaches is reflected on the line *Issuances above (-)/below (+) par*. When comparing the accrual adjustment of the two table sets, this item also should be taken into account.
3. In public accounts and in tables 2, the difference between the nominal and redemption value is also included in the cash interest. In table 3 it is recorded under *Redemptions of debt above (+)/below (-) par*. This item also should be considered for the comparison.
4. Accrual adjustments in tables 2 include only the legal government subsectors, accrual adjustments in tables 3 include reclassified units, too.

In tables 3 the three lines concerning interest are filled in the following way:

- *Issuances above (-)/below (+) nominal value*: change in stock of discounts/premia, consolidated. It means that on this line not only the issuance but also the redemption of discounts/premia are recorded.
- *Difference between interest (D.41) accrued (-) and paid (4) (+)*: with negative sign the change in stock of accrued interest due to transactions is recorded = with negative sign the change in stock of accrued interest minus revaluation of accrued interest. Stock of accrued interest includes accrued coupon interest and accrued interest calculated from discounts/premia.
- *Redemptions/repurchase of debt above (+)/below (-) nominal value*: difference between the repurchase price and the nominal value in the case of early redemption.

### 6.4.2 Interest Revenue

Interest revenue data on cash basis are available for the whole legal general government sector. Reclassified units have accrual source data.

Debt Management Agency Ltd. (ÁKK Rt.) calculates accrual interest revenue data for the main unit of central government. Accrual adjustment of other parts of general government (if relevant) is calculated by the NBH using securities statistics and banking sources.

In the EDP notification in tables 2 the related accrual adjustments are reported under the line *Difference between interest paid (+) and accrued (D.41) (-)*. In tables 3 they are reported in different lines of *Net acquisition (+) of financial assets*.

### 6.4.3 Consolidation

Consolidation of interest between subsectors is based on the estimations worked out in the interest income matrix.

Interest income matrix is compiled for the whole economy. Its source data are taken from the monetary and securities statistics, balance of payments and different budgetary and corporate

## Time of recording - Military expenditure

reports. (In the case of central government assets and liabilities, accruals worked out by the Debt Management Agency are built in the interest income matrix.) If data are not available from these sources (for example in the case of loans provided by government subsectors) it uses estimation based on stock and interest rate data.

Interest income has the same structure in the matrix as the underlying financial instruments broken down by issuer and holder (sub)sectors. Consolidation is made inside the central and local government subsectors and between these subsectors. Social security subsector has no interest revenue at all and it does not pay interest on the loans borrowed from central government; there is no consolidation issue for this subsector.

Consolidation generally has a negative impact on the local government net lending/net borrowing, and with the same amount improves the central government B.9.

### 6.4.4 Recording of discounts and premiums on government securities

In the public accounts, premiums and discounts on interest bearing (coupon) government securities are recorded as a lump sum at issuance as interest revenue and expenditure. The discounts on zero coupon bills enter into the working balance at redemption.

In the national accounts premiums and discounts (including the discount on zero coupon bills) are spread over the lifetime of the assets. In tables 2 of EDP notification the adjustment is included in the line *Difference between interest paid (+) and accrued (D.41) (-)*. The adjustment means the elimination of the lump sum amount of the public account and the inclusion of the spread amount which is considered as accrued interest.

Entities reported under *Other government bodies* in table 2 do not issue securities above/below par. However, corporations and non-profit institutions included in the government sector report true accrual figures for interest income.

While in the public accounts premiums are recorded as interest revenue, in the national accounts spread premiums are treated as negative interest expenditure.

The repayment of discount is identifiable from the redemption of the security. By that time the stock of accrued interest of premium/discount must be equal to the amount of premium/discount at issuance. If the security is repurchased before the deadline the stock of accrued interest is lower than the initial amount. In this case the rest is recorded as holding gain or loss.

## 6.5 Time of recording of other transactions

### 6.5 Time of recording of other transactions

Transactions are recorded on accrual basis according to ESA2010 rules. Cash data sources are used in case of budgetary institutions, and accrual data sources are used in case of entities classified into the general government.

Accrual non-financial flows in most cases are consistent with other accounts receivable/payable (F.8) recorded in financial accounts. The accrual adjustment is the same in the non-financial accounts as it is recorded in financial accounts on F.8 with the following exceptions:

- gross fixed capital formation: different data sources are used in the non-financial and financial accounts. In the non-financial accounts GFCF is recorded according to the accrual data from the HCSO gross fixed capital formation survey. It means that cash data from the public accounts are changed for this accrual data. In the financial accounts balance sheet data are used as accounts payable for investments minus advance payments.
- wages and salaries: in the non-financial accounts monthly budgetary cash-flow statements (for central government) and supplementary tables (for local government) from the Treasury are used for 1-month time adjustment of wages and salaries. In financial accounts the same method and sources are applied but an additional adjustment is recorded in the case of advance payment. It means that wages paid out at the end of December from advances granted by the Treasury appear in the budgetary statements only in January next year however the true cash-flows occur in December.

Time of recording of the following transactions:

- Subsidies payable: agricultural subsidies (D.31 and D.39), in the case of SAPS and national top-up subsidies are recorded on accrual basis, the exact data come from the satellite agricultural accounts. Further items are recorded on cash basis. Data sources are the reports of the Agricultural Agency and the final accounts chapter for Ministry of Rural Development. Subsidies for public transport to railway and bus companies (D.31) are recorded on time adjusted cash basis with one-month delay. Basic data source is the budget reporting.
- Current and capital transfers payable are recorded when they are paid. Basic data source is the budget reporting.
- Gross fixed capital formation is recorded according to the accrual data from the HCSO gross fixed capital formation survey.
- Dividends (and interim dividends) receivable are recorded at the time they are due to be paid and examined by the super-dividend test regarding the year concerned. Interim dividends are also examined and compared to the entrepreneurial income of the corporation. If the income is higher than the amount distributed, it is recorded as a dividend. Basic data sources are the budget reporting and the profit and loss accounts of corporations.
- Social benefits payable are recorded when they are paid.
- Intermediate consumption: cash data are adjusted with the delays in payments according to the changes in stock of payables for goods and services. Basic data sources are the budget reporting; supplementary data sources are the balance sheets of budgetary institutions.
- Compensation of employees is recorded on time adjusted cash basis with one-month delay. Basic data source is the budget reporting and for the local government the Treasury statements.

## 6.5 Time of recording of other transactions

- Payments for other non-market output: cash data is adjusted with the change in stock of receivables. Basic data source is the budget reporting; supplementary data sources are the balance sheets of budgetary institutions.
- Social transfers in kind related to expenditure on products supplied to households via market producers: cash data are adjusted with the change in stock of payables relates to the subsidies on medicament, therapeutical devices and purchase of health services by the Health fund.

## **7. Specific government transactions -**

### **Claims, debt cancellations and debt write-offs**

## **7. Specific government transactions**

Methodological rules applicable for recording of specific government transactions are set up in the Manual on Government Deficit and Debt (implementation of ESA2010), 2013 edition<sup>2</sup>.

### **7.1. Guarantees, debt assumptions**

Generally, government guarantees are recorded off-balance sheet in government accounts (contingent liability), and neither government debt nor deficit is impacted. However, when a guarantee is activated (called), the payment made by government on behalf of the debtor is normally recorded as government expenditure. In case of repeated guarantee calls, the whole outstanding amount of the guaranteed debt should be assumed by government. The latter leads to a one-off increase of government debt as well as of deficit. The accounting rules are explained in the Chapter VII.4 on Government guarantees of the ESA2010 Manual on government deficit and debt. This chapter describes also specific cases and related treatment in national accounts.

#### **7.1.1    Guarantees on borrowing**

##### **7.1.1.1              New guarantees provided**

###### **Recording in public accounts**

Government guarantees are provided by the central government and by local government subsectors. The beneficiaries are financial and non-financial corporations, households and government sector units (local government, non-financial corporations and non-profits reclassified into the GG). Guarantees on assets and on borrowings exist as well. The following description contains information only on government guarantees provided by the central government.

**In Hungary there are 3 types of guarantees in legal terms:**

1. **Individual guarantees (These are all guarantees on borrowing.):** Government guarantees based on published Government decree and provided by the Minister for National Economy. In most of the cases it is provided to loans for development or investment. The guarantee is provided when the Minister for National Economy on behalf of the Government signs the contract on the guarantee. Issuing a government guarantee is forbidden if there is a probability of non-payment or there is no collateral. In case of a call on the guarantee, there is no automatic debt assumption but the government provides a liquidity-type loan and the National Tax and Customs Administration has a legal authorisation to execute government claim if the beneficiary does not make repayment of this loan.
2. **Guarantees based on a legal act (One part of that is guarantees on borrowing, the other part is guarantees on assets.):** if conditions – laid down in a legal act – are met, government guarantees are provided automatically. These are provided to some public financial institutions transactions (Hungarian Development Bank Ltd Pte Co. (MFB Zrt), Hungarian Export-Import Bank Ltd Pte Co. (Eximbank Zrt.), Hungarian

<sup>2</sup> [http://epp.eurostat.ec.europa.eu/cache/ITY\\_OFFPUB/KS-GQ-13-006/EN/KS-GQ-13-006-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-GQ-13-006/EN/KS-GQ-13-006-EN.PDF)

## 7. Specific government transactions -

### Claims, debt cancellations and debt write-offs

Export Credit Insurance Pte Ltd. (MEHIB Zrt.) or to financial institutions transactions provided to a large part of the society (housing loan, agricultural loan). It has to be decided in a legal act, some details could be determined in a government regulation. The financial institution has to order collateral in an amount of 50% of the loan. In case of a call on the guarantee, there is no automatic debt assumption, but the government provides a liquidity-type loan and the National Tax and Customs Administration has a legal authorisation to execute the government claim if the beneficiary does not make repayment of this loan. The expected call on guarantees has to be forecasted in the budget as expenditure.

3. **Guarantees backed by a government guarantee (These are all guarantees on assets.):** based on a legal act and in a proportion set in that legal act, the Government provides a guarantee for some specialised institutions (Garantiqa Hitelgarancia Zrt., Agrárvállalkozási Hitelgarancia Alapítvány). It is automatically provided if the legal conditions are met. The institutions that provided the guarantee which is backed by the government guarantee have to be prudent in their transactions. In case of a call on a guarantee the Treasury pays, the execution of the government's claim is the task of the institution that gave the original guarantee. The expected call on guarantees has to be forecasted in the budget as expenditure.

The related accounting records on government guarantees are kept exclusively in government public accounts.

Information on government guarantees are made public. Government decrees and the Budget Law sets the limit of the new guarantees provided and there is a table on government guarantees in the Final accounts presented to the Parliament. [This table](#) contains the stock of guarantees annually (year end data) by types or by institutions and for the time period of Q4 (t-1)-Q4 (t) (quarterly data).

#### Types of guarantees on borrowing:

- Individual guarantees,
- Guarantees related to loans provided by International Financial Institutions/Multilateral Development Banks,
- Guarantees on borrowing of MFB Zrt. (Hungarian Development Bank),
- Guarantees on borrowing of Eximbank (Hungarian Export-Import Bank Private Limited Company),
- Guarantees on agricultural loans,
- Guarantees on borrowing of Diákhitel Központ (Student Loan Company),
- Guarantees on housing loans,
- Guarantees on vocational retraining loans.

Granted guarantees are not recorded in the public accounts, they are treated as contingent liabilities. Therefore, only the calls and the repayments of guarantees are recorded as expenditures and revenues.

There are no cases of debt assumption at inception. Debt assumption is only recorded when there is an explicit decision on debt assumption.

There is a special case of a government guarantee to MAV Zrt., when the guarantee is issued substituting a certain part of normal payment for public services based on public service agreement (as in 2011 in an amount of HUF 35 billion.) (In this case the financing of the non paid normal payment for public services is financed from the market and backed by a government guarantee.) The interest payment of that government guaranteed debt is treated as a justified cost not covered by income, therefore has to be paid by the government. (The

## **7. Specific government transactions -**

### **Claims, debt cancellations and debt write-offs**

redemption has to be also covered by the government of that kind of government guaranteed debt to MAV Zrt.)

#### **Recording in national accounts**

There are data related to stocks of guarantees available for statisticians. 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 individual guarantees by corporations (who is the receiver of the guarantee) available.

Guarantees in case of calls and when it is certain that the guarantee will be called (according to the financial situation of the beneficiary of the guarantee) are recorded as expenditure in national accounts.

#### **7.1.1.2 Treatment of guarantees called**

#### **Recording in public accounts**

Guarantee calls are recorded as expenditure in public accounts. There is no automatic debt assumption but the government provides a liquidity-type loan and the National Tax and Customs Administration has a legal authorisation to execute the government claim if the beneficiary does not make repayment of this loan.

Recoverability (repayment) is assessed and calculated for the Budget Law and accounted for as revenue in the budget.

According to the previous Public Finance Law (the organic budget law) transactions of debt assumption, claim cancellation and conversion of repayable policy loans for non-repayable transfer had to be appropriated and accounted as budgetary expenditures in public accounts between 1996 and 2011. From 2012 the new Public Finance Law does not qualify these transactions as budgetary expenditures in public accounts.

#### **Recording in national accounts**

Guarantee calls are in all cases recorded as expenditure in national accounts similarly to public accounts. Debt assumption is recorded when there is a decision made by government.

#### **7.1.1.3 Treatment of repayments related to guarantees called**

#### **Recording in public accounts**

Repayments by the original debtor are treated as revenues and at the same time as the reimbursement of the liquidity type of loan that was created when the guarantee was called.

#### **Recording in national accounts**

Repayments are recorded as revenues in the national accounts.

#### **7.1.1.4 Treatment of write-offs by government in public accounts of government assets that arose from calls, if any**

#### **Recording in national accounts**

Not relevant for Hungary.

#### **7.1.1.5 Data sources**

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Depending on the type of the government guarantee, there are individual data available or just aggregated data.

Calls on government guarantees enter the working balance and are accounted for as expenditure.

At the local level, calls on guarantees enter the working balance as expenditure, as well. However, we do not have individual data on stocks of guarantees and the related flows, but only aggregated data.

#### **7.1.2 Guarantees on assets**

##### **7.1.2.1 New guarantees provided**

###### **Recording in public accounts**

Government guarantees are provided by the central government and by local government subsectors. The beneficiaries are financial and non-financial corporations, households and government sector (local government, non-financial corporations and non-profits reclassified into the GG). Guarantees on assets and on borrowings exist, as well. The following description contains information only on government guarantees provided by the central government.

In Hungary there are 3 types of guarantees in legal terms (see section 7.1.1.1 above).

The related accounting records on government guarantees are kept exclusively in government public accounts.

Information on government guarantees are made public. Government decrees and the Budget Law sets the limit of the new guarantees provided and there is a table on government guarantees in the Final accounts. This table contains the stock of guarantees annually (year end data) by types or by institutions and for the time period of Q4 (t-1)-Q4 (t)(quarterly data).

###### **Types of guarantees on assets:**

- Loans and guarantees provided by the Hungarian Development Bank and guaranteed by the government,
- Guarantees provided by Eximbank (Hungarian Export-Import Bank Private Limited Company) and backed by government guarantee,
- Insurances provided by MEHIB (Hungarian Export Credit Insurance Pte. Ltd.) and backed by government guarantee,
- Guarantees by Garantiqa Hitelgarancia Zrt. (Garantiqa Creditguarantee Co. Ltd.) and backed by government guarantee
- Guarantees provided by Agrárvállalkozási Hitelgarancia Alapítvány (Rural Credit Guarantee Foundation) and backed by government guarantee

Granted guarantees are not recorded in the public accounts, they are treated as contingent liabilities. Therefore, only the calls and the repayments of guarantees are recorded as expenditures and revenues.

There are no cases of debt assumption at inception. Debt assumption is only recorded when there is an explicit decision on debt assumption.

There are no cases among guarantees on assets when since inception government pays regularly interest.

###### **Recording in national accounts**

There are data related to stocks of guarantees available for statisticians. Availability of details depends on the type of the guarantee. Data related to guarantees based on a legal act are by

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institutions (who is the provider of the guarantees) and as for individual guarantees by corporations (who is the receiver of the guarantee) available.

Guarantees in case of calls and when it is certain that the guarantee will be called (according to the financial situation of the beneficiary of the guarantee) are recorded as expenditure in national accounts.

#### **7.1.2.2 Treatment of guarantees called**

##### **Recording in public accounts**

Guarantee calls are recorded as expenditure in public accounts. There is no automatic debt assumption but the government provides a liquidity-type loan and the National Tax and Customs Administration has a legal authorisation to execute the government claim if the beneficiary does not make repayment of this loan.

Recoverability (repayment) is assessed and calculated for the Budget Law and accounted as revenue in the budget.

There were no debt cancellations among guarantees on assets.

There was no assumption of the outstanding amount of debt in case of guarantees on assets.

##### **Recording in national accounts**

Guarantee calls are in all cases recorded as expenditure in national accounts similarly to public accounts. Debt assumption is recorded when there is a decision made by government.

#### *7.1.2.3 Treatment of repayments related to guarantees called*

##### **Recording in public accounts**

Repayments by the original debtor are treated as revenues and at the same time as the reimbursement of the liquidity type of loan that was created when the guarantee was called.

##### **Recording in national accounts**

Repayments are recorded as revenues in the national accounts.

#### *7.1.2.4 Treatment of write-offs by government in public accounts of government assets that arose from calls, if any*

Not relevant for Hungary.

#### *7.1.2.5 Data sources*

Depending on the type of the government guarantee, there are individual data available or just aggregated data.

Calls on government guarantees enter the working balance and are accounted as expenditure.

At the local level calls on guarantees enter the working balance as expenditure, as well. However, we don't have individual data on stocks of guarantees and the related flows, but only aggregated data.

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### **Claims, debt cancellations and debt write-offs**

#### **7.1.3. Standardized Guarantees**

Standardized guarantees cover two groups of household liabilities: housing loans and the prenatal funding to young married couples. The latter was introduced in 2019. Recently, four types of housing guarantees exist in Hungary. All are identified as standardised guarantees.

- Guarantee program on housing loans to civil servants launched in 2002;
- Guarantee program on housing loans to young people for acquiring first and relatively cheap flat or house ("nest building") launched in 2005;
- Guarantee program on swing line loans to mortgagors launched in 2009;
- Guarantee program on the delayed amortization of foreign exchange loans launched in 2013.

As the Hungarian government units do not record provisions for these guarantees in public books, for the national account purposes statisticians have to calculate the provision (AF. 66) and the corresponding flows.

The following data is available:

- End of year stock of guaranteed debt (off balance sheet item);
- The amount of calls (on cash basis from the public account);
- The amount of recoveries (on cash basis from the public account);
- Guarantee fees (negligible, but included in the public account).

The following data is calculated:

- Change in stock of guaranteed debt;
- Annual amount of calls net of recovery;
- Rate of expected calls: comparison of the total amount of net calls to the total amount of decrease of guaranteed debt;
- Calculation of D.9 and increase of F.66: the increase of the stocks is multiplied by the rate of expected calls.
- Decrease of F.66: equals to the cash calls.

The rate of the expected calls was easy to calculate in the first three cases: the guarantee schemes existed for several years in 2014 when we introduced the new method for calculating AF.66. Under the circumstances we were able to calculate a rate of calls (see above). Only the "guarantee program on the delayed amortization of foreign exchange loans" was a new scheme in 2014. While estimating the rate of expected calls we relied on the experiences of the older schemes.

The "nest building" scheme was very unsuccessful, because in this case the loans were provided to low income social groups with low level of savings and initial payments.

The "civil servants" scheme was also special, because the group of the beneficiaries homogeneous (the lower middle class and the middle class) but very high sense of duty and willingness to pay.

In the case the "swing line loans" the beneficiaries presumably belonged to a socio-culturally heterogeneous but otherwise a well-doing group – the rate of the calls are not much higher than in the previous case.

The "guarantee program on the delayed amortization of foreign exchange loans" was offered to an even more heterogeneous group, because the original foreign exchange loans were

## 7. Specific government transactions -

### Claims, debt cancellations and debt write-offs

taken by broad social groups of Hungary. The debtors took the original loans a long time ago, and lots of them were not able to pay. It follows the creditors who were creditable in 2013-2014 already repaid significant part of the original debt and proved to be good debtors with high willingness to pay.

The rates of expected calls are the following in the programs:

- Civil servants: 10%;
- "Nest building": 48%;
- Swing line loans: 11%.
- Foreign exchange loans (estimated): 15%.

In national accounts, the part of the guarantees which are expected to be called in the future are recorded as capital transfer (D.9) at the time of the issuance of the guarantee. The transfer is counterbalanced by an increase in the insurance, pension and standardized guarantee schemes (AF.66) in the financial accounts against households.

When the guarantee is called, no transfer is recorded anymore, but there is a decrease recorded in the stock of AF.66.

The standardised guarantees increase the government deficit in the years of the issuance and has not impact on it in the years of the guarantee calls.

D.9 transfers recorded in the non-financial accounts:

| HUF billion                    | 2002       | 2003       | 2004       | 2005       | 2006        | 2007       | 2008       | 2009       | 2010       | 2011       | 2012       | 2013       | 2014       | 2015       | 2016       | 2017       | 2018       |
|--------------------------------|------------|------------|------------|------------|-------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| <b>Total</b>                   | <b>1,6</b> | <b>3,4</b> | <b>1,0</b> | <b>7,9</b> | <b>16,1</b> | <b>9,7</b> | <b>2,0</b> | <b>1,6</b> | <b>0,4</b> | <b>1,7</b> | <b>0,0</b> | <b>0,1</b> | <b>0,1</b> | <b>0,0</b> | <b>0,0</b> | <b>0,0</b> | <b>0,0</b> |
| Civil servants                 | 1,6        | 3,4        | 1,0        | 0,7        | 1,1         | 0,0        | 0,0        | 0,0        | 0,0        | 0,0        | 0,0        | 0,0        | 0,0        | 0,0        | 0,0        | 0,0        | 0,0        |
| "Nest building" (young people) | 0,0        | 0,0        | 0,0        | 7,2        | 15,0        | 9,7        | 2,0        | 1,6        | 0,3        | 1,7        | 0,0        | 0,0        | 0,0        | 0,0        | 0,0        | 0,0        | 0,0        |
| Swing line loans               | 0,0        | 0,0        | 0,0        | 0,0        | 0,0         | 0,0        | 0,0        | 0,0        | 0,1        | 0,1        | 0,0        | 0,0        | 0,0        | 0,0        | 0,0        | 0,0        | 0,0        |
| Foreign exchange loans         | 0,0        | 0,0        | 0,0        | 0,0        | 0,0         | 0,0        | 0,0        | 0,0        | 0,0        | 0,0        | 0,0        | 0,1        | 0,1        | 0,0        | 0,0        | 0,0        | 0,0        |

Stock of A.66 Insurance, pension and standardized guarantee schemes in the financial accounts:

| HUF million                    | 2002       | 2003       | 2004       | 2005        | 2006        | 2007        | 2008        | 2009        | 2010        | 2011        | 2012        | 2013        | 2014        | 2015        | 2016        | 2017        | 2018        |
|--------------------------------|------------|------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>Total</b>                   | <b>1,6</b> | <b>5,0</b> | <b>6,0</b> | <b>13,9</b> | <b>30,0</b> | <b>39,4</b> | <b>40,4</b> | <b>40,4</b> | <b>33,9</b> | <b>32,9</b> | <b>29,7</b> | <b>22,7</b> | <b>20,9</b> | <b>20,4</b> | <b>19,5</b> | <b>19,4</b> | <b>19,9</b> |
| Civil servants                 | 1,6        | 5,0        | 6,0        | 6,6         | 7,7         | 7,6         | 7,0         | 6,7         | 5,9         | 5,6         | 5,4         | 4,9         | 4,8         | 4,7         | 4,7         | 4,7         | 4,8         |
| "Nest building" (young people) | 0,0        | 0,0        | 0,0        | 7,2         | 22,3        | 31,9        | 33,4        | 33,7        | 27,9        | 27,1        | 24,1        | 17,7        | 16,0        | 15,5        | 14,6        | 14,5        | 14,8        |
| Swing line loans               | 0,0        | 0,0        | 0,0        | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         | 0,1         | 0,2         | 0,1         | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         |
| Foreign exchange loans         | 0,0        | 0,0        | 0,0        | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         | 0,1         | 0,2         | 0,2         | 0,2         | 0,2         | 0,2         |

These data do not include the standardized guarantee on pre-natal funding to young married couples because it was launched only in 2019.

## **7. Specific government transactions - 7.3. Capital injections in public corporations**

### **7.2 Claims, debt cancellations and debt write-offs**

Providing loan capital is generally a financial transaction not impacting the net borrowing/net lending (B.9). Government, as a lender, is expecting that the debtor will be in a position to repay the loans, according to a schedule agreed at inception. However, if the loan is non-recoverable, the recording of government expenditure might be considered. The related accounting rules are set up in ESA2010 and further clarified in the Chapter III.2 on Capital injections and Chapter VII.2 on Debt assumption and cancellation of the ESA2010 Manual on government deficit and debt.

Claim cancellations do occur, these cases are reported in EDP Tables. This is the case also for claims on loans to foreign government.

There are specific provisions for write-off de minimis amounts of claims, the limit is 100.000 HUF (350 euro), that is more related to payment for services, administrative fees, reimbursements or penalties, and not to claims on loans.

#### **7.2.1 New lending**

Government can provide owner's loan to government owned companies, loans to financial institutions according to the Stability Act and liquidity type of loan and advances to government institutions.

Recoverability of owner's loan and loans to financial institutions according to the Stability Act is assessed when it is granted.

#### **7.2.2 Debt cancellations**

CXCV(2011) New Act on Public Finances sets the general rule, that cancellation of claims can be made only based on specific authorisation of a law within the boundary of central level of legal government. This was also the rule in the previous Law from 2008. The same is relevant for local governments, where these kinds of specific provisions can be set by local government decree. A debt cancellation was recorded as expenditure in the public accounts and in the working balance until 2012. From 2012 it is not recorded as an expenditure anymore.

#### **7.2.3 Repayments of claims**

Part of the provision of loans are reclassified as D.99 transfers. Specific information on receipts from repayments of claims which were previously reclassified as transfers is not available. It follows, it can occur that the repayments of claims which are not recorded in the ESA balance sheet are recorded as financial transactions.

#### **7.2.4 Debt write-offs**

Write-offs can be accounted only for cases where the counterparty does not exist anymore, thus write-off of claims on loans can be accounted in most cases after liquidation of the counterparty.

Unilateral write-offs (with an entry in other change in volume) as it is defined in the MGDD related to any claims occur in small amounts in practice. The so-called balance report includes the elements of changes between opening and closing stock: a) cash transactions, b) non-cash transactions, c) other volume change, d) revaluation. Other change covers plus and

## **7. Specific government transactions - 7.3. Capital injections in public corporations**

minus items, the net amount is reported. No detailed data on write-offs are available from central budgetary institutions and local governments, only for the State, Budgeted Funds and Social Security Funds from their supplementary information attached to the annual financial report.

### **7.2.5 Sale of claims**

No transaction was recorded in recent years.

## **7.3. Capital injections in public corporations**

Government capital injections are transactions which occur when governments provide assets (in cash or in kind) to public corporations (or assume liabilities), in their capacity of owner / shareholder, with an aim to capitalize or recapitalize them. The accounting rules are set out in ESA2010 paragraphs 20.197-20.203 and clarified in the Chapter III.2 on Capital injections of the ESA2010 Manual on government deficit and debt. These chapters devote considerable space to set the operational rules for the recording of capital injections in national accounts either as transactions in equity (financial transaction = financing = “below-the-line”), or as capital transfers (non-financial transaction = expenditure = “above-the-line”).

It is recalled that the MGDD also indicates that payments by government to public units, structured in the legal form of a loan or a bond, might be considered in specific circumstances as capital injections, and to be classified in certain cases as a non-financial transaction (predominantly capital transfer D.9); cf. MGDD III.2.3.2.2.

At the central level of government there has always been separate institutional unit for managing state property classified into S.1311 central government subsector, either in a form of budgetary institution or in a form of public corporation.

According to the Act CVI of 2007 on state property, Magyar Nemzeti Vagyonkezelő (MNV) Zrt. (Hungarian National Asset Management Inc.) is the main assigned institution of managing state-owned corporations and privatisation. Its predecessors were also public corporations and wore similar name (Állami Vagyonügynökség, Állami Privatizációs és Vagyonkezelő Rt.). Property-managing entity of MNV (beside its own account office-type activity) belongs to the State, its balance sheet is integrated in the government balance sheet, and its transactions are part of a dedicated State Property Management Chapter in the State Budget from 2008. From 2011 Magyar Fejlesztési Bank (MFB) Zrt. (Hungarian National Development Bank Plc.) also became an entity (beside its banking entity) who manages public corporations similar way as MNV by modification of the law. (Note: National Land Fund also has the same asset-manager status by law in respect to arable land.)

MNV- and MFB-managed capital injections in cash on behalf of the State are made from the dedicated budgetary chapter when appropriated. In kind transactions, such as transfers of shares or securities have to be reported in their monthly report and annual financial report.

Although the national concept of budgetary revenues and expenditures in the State budget includes only cash transactions, accounting rules oblige the above-mentioned property managing entities to record non-cash transactions, such as capital injection in kind, as well. Information is available from monthly and annual report of these units.

Capital injections and purchase 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 line of *Equities* under *Financial transactions included in the working balance*.

## **7. Specific government transactions - 7.3. Capital injections in public corporations**

Capital injections in kind, if any and in need for adjustment, are recorded under *Other adjustments*.

The capital injection test is made by HCSO and NBH together. In case of central government individual data (by beneficiaries) are available on monthly basis for capital injections made by Hungarian National Asset Management Inc. (MNV Zrt.) and Hungarian National Development Bank Plc. (MFB Zrt.). Based on these data we have the possibility to examine the beneficiary case-by-case if it is profit-, or loss-making, what is the expected rate of return etc. Besides the activity of MNV and MFB Zrt., expenditures related to capital injections may be accounted for in other budgetary chapter as well, for example in chapter of Ministry of Finance. In the latter case there are monthly reports which may contain detailed information related to the transaction or in the supplementary annexes of the annual report there is detailed information to be found and based on them a decision can be made.

The local governments are the autonomous owners of their property, no central control or inspection exists. According to national concept of budgetary revenues and expenditures, transactions of purchase of shares and capital injections in cash are part of the budget of the local governments, thus they are part of the working balance of the local governments in EDP table 2C. No data on individual transactions are collected.

The database on local government includes individual financial reports in which there is a separate line for equities acquisition. For 2010 some local governments which recorded large values on this line were asked about the beneficiaries they injected capital. Possessing this information capital injections tests could be carried out and according to the results 37% of the total capital injections were recorded as capital transfers and 63% as equities acquisitions. This ratio was used until 2013. In almost every following year in case of large acquisitions data are examined individually. For the rest an estimation is made to split acquisitions between D.99 and F.5. We repeated the capital injection test for 2019 using local government special report on their corporations. Capital injections above 10 million HUF were checked one by one, as this amount accounts for nearly 98% of total injections. According to the capital injections tests, 48% of it were recorded as capital transfers and 52% as equities acquisitions. We will apply this ratio from 2020 onwards.

## **7. Specific government transactions - 7.4. Dividends - 7.5. Privatization**

### **7.4. Dividends**

The accounting rules are set out in ESA2010 paragraphs 20.205-20.207. It is recalled, that the ESA2010 Manual on Government Deficit and Debt chapter III.5 indicates that large and exceptional payments out of reserves which significantly reduce the own funds of the corporation should be treated as superdividends, i.e. transaction in shares and other equity (a capital withdrawal). It also sets out that the resource available for distribution by a unit (a corporation) is the *distributable income* of the unit, as defined in the ESA2010, paragraph 4.55. Total distributions could therefore comprise one part recorded as distributed income of corporations, D.42, and another recorded as transactions in equity, F.5. The former data is reported to Eurostat in ESA2010 table 2 and table 8 within “other property income” category, and the latter is included within transactions in equity in financial accounts. Within the latter, for the benefit of analysis, one should also distinguish between amounts received from the National Central Bank, and amounts received from other public corporations.

For measuring dividends, there are two basic data sources, and for applying the superdividend test the financial statements of the public corporations are also available on an individual basis.

- 1) The first data source is the budget reporting for central and local government. Not only the aggregated dividend revenue data is available, but in the budget execution report the public companies paying the largest dividends into the central budget are also listed.
- 2) The second data source is the quarterly report by the two holding companies, the Hungarian National Asset Management Company (MNV Zrt.) and the Hungarian Development Bank. The most important public corporations are controlled by these institutions. The report contains the list of public companies paying dividends and the amount of dividend paid. For these companies the superdividend test is applied by HCSO and the results are approved by the EDP working group. Applying the super- dividend test means comparing dividend paid in the year t to profit after income tax of year t-1. HCSO monitors cases with large distributions if the business profit is higher than operating profit. For the application of the superdividend test in these cases the operating profit is used.

Applying the superdividend test means comparing the dividend of the year to the previous year's business profit. Both data are available in the financial statements of the companies.

In rare cases government receives interim dividends. Interim dividends 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 the national accounts.

### **7.5. Privatization**

The accounting rules are set out in ESA2010 paragraphs 20.210-20.213. The proceeds collected by government when disposing of shares in public corporations are often called privatization proceeds. The counterpart entity (i.e. the acquirer of shares) is the private sector. Privatization can be indirect when the proceeds are forwarded to government after the sale of a subsidiary. The MGDD chapter V.2 indicates that such indirect privatization proceeds are not government revenue. MGDD chapters V.3 and chapters V.4, respectively, provide the guidance on the treatment of privatisation proceeds from public corporations and restitution and use of vouchers for privatisation.

## 7. Specific government transactions - 7.4. Dividends - 7.5. Privatization

Specifically, chapter V.3.1 of the ESA2010 Manual on government deficit and debt mentions that in some EU Member States, holding companies have been set- up by the government to restructure the public sector with the aim of making the enterprises more competitive and profitable and, in the long run, disengaging the government. Often their main activity is to organise the privatisation efficiently and transfer the proceeds of the sale of shares to other public corporations (owned by the holding company or not), through grants, loans or capital injections.

The main issue is: what is the relevant sector classification of this sort of unit managing privatisation and possibly making grants to other enterprises? Should this activity been considered as taking place on behalf of the government?

**In Hungary, at the central level of government** there has always been separate institutional unit for managing state property and privatisation and classified into general government sector (S.1311 Central Government sub-sector), either in a form of budgetary institution or in a form of public corporation. Due to importance and size of privatisation receipts, documentation of the Final Accounts on implementation the Budget presented to the Parliament includes information on privatisation receipts, irrespectively on recording them in or out of the State Budget in different periods. Between 1996 and 2007 the amount of privatisation receipts to be transferred in the State Budget and the aim of the use of the rest (operation and direct costs of preparation for privatisation) were determined by the Annual Budget Law in advance, so parts of the privatisation receipts were included in the working balance of the central government subsector. Between 2008 and 2011 these receipts were collected and used up out of the State Budget, thus were not parts of the working balance.

From 2012 onwards privatisation receipts are again part of the State Budget's revenues.

According to Preamble of the Act CVI of 2007 on state property, the period of "institutionalised privatisation" has ended. Magyar Nemzeti Vagyonkezelő (MNV) Zrt. (Hungarian National Asset Management Inc.) is currently the main assigned institution of managing state-owned corporations and privatisation. Its predecessors were also public corporations and wore similar name (Állami Vagyonügynökség, Állami Privatizációs és Vagyonkezelő Rt.). The property-managing entity MNV (beside its own account office-type activity) belongs to the State, its balance sheet is integrated in the government balance sheet, and its transactions are part of a dedicated State Property Management Chapter in the State Budget from 2008. From 2011 Magyar Fejlesztési Bank (MFB) Zrt. (Hungarian National Development Bank Plc.) also become an entity (beside its banking entity) who manages public corporations similar way as MNV by modification of the law. (Note: National Land Fund also has the same asset-manager status by law in respect to arable land.)

Receipts from sale of equities that are part of the Working balance (1996-2007) were neutralised in block of financial transactions, on line *Equity sales* in EDP table 2A.

In other years, when privatisation receipts were directly paid in the Treasury Single account (off-budget transactions) between 2003-2007, the transfer was accounted as expenditure of MNV thus part of MNV balance, on the line of *Net borrowing (-) or net lending (+) other central government bodies*, and were neutralised under the line *Other adjustments* in EDP table 2A.

Annual reports of the above-mentioned state property managers, and Government annual report on state property management to Parliament provides details of transactions; cases of full privatisation or of sale of shares can be separated.

## **7. Specific government transactions - 7.4. Dividends - 7.5. Privatization**

**At the local level of government**, the local governments are the autonomous owners of their property, no central control or inspection exists. As receipts from sale of shares are parts of the local governments' budget and may have significant impact on budgetary sources, the financial information system always collects data on purchase and sale of equities embedding in the intra-annual and annual budget reporting. Privatisation receipts are part of the working balance of the local governments in EDP table 2C. There is no data on each transaction, only cash-flow aggregates are available on sale of equities + withdrawal from equities, held long-term (for policy purpose) or short-term (for liquidity purpose). There is no information whether the receipts relate to full or partial privatisation.

From 2013 onwards separate data is available for sale of equities and for withdrawal from equities.

## 7. Specific government transactions - 7.6. Public Private Partnerships

### 7.6. Public Private Partnerships

The term “Public-Private Partnerships” (PPPs) is widely used for many different types of long-term contracts between government and corporations for the provision of public infrastructure. In these partnerships, government agrees to buy services from a non-government unit over a long period of time, resulting from the use of specific “dedicated assets”, such that the non-government unit builds a specifically designed asset to supply the service. The accounting rules are set out in ESA2010 paragraphs 20.276-20.282 and clarified in the Chapter VI.4 of the ESA2010 Manual on government deficit and debt.

The key statistical issue is the classification of the assets involved in the PPP contract – either as government assets (thereby immediately influencing government deficit and debt) or as the partner’s assets (spreading the impact on government deficit over the duration of the contract). This is an issue similar to the one of distinguishing between operating leases and finance leases, which is explained in Chapter 15 of ESA2010.

As a result of the methodological approach followed, in national accounts the assets involved in a PPP can be considered as non-government assets only if there is strong evidence that the partner is bearing most of the risk attached to the asset of the specific partnership. In this context, it was agreed among European statistical experts that, for the interpretation of risk assessment, guidance should focus on three main categories of risk: “construction risk” (covering events like late delivery, respect of specifications and additional costs), “availability risk” (covering volume and quality of output) and “demand risk” (covering variability of demand).

PPP assets are classified in the partner's balance sheet if both of the following conditions are met: the partner bears the construction risks and the partner bears at least one of either availability or demand risk, as designed in the contract.

If the conditions are not met, or *if government assumes the risks through another mechanism*, (e.g. guarantees, government financing) then the assets are to be recorded in the government's balance sheet. The treatment is in this case similar to the treatment of a financial lease in national accounts requiring the recording of government capital expenditure and borrowing. In borderline cases it is appropriate to consider other criteria, notably what happens to the asset at the end of the PPP contract.

In Hungary, there are several PPP projects in various fields: motorways, prisons, higher education infrastructure and a concert hall. The public partner can be a ministry, or a university. 39 projects are registered at the end of 2018. Most PPPs started to work during the 2002-2010 period and will last for 15 to 30 years.

| <b>Project types</b>    | <b>off-<br/>balance</b> | <b>on-<br/>balance</b> | <b>total</b> |
|-------------------------|-------------------------|------------------------|--------------|
| <i>Highway</i>          | 5                       |                        | 5            |
| <i>Higher education</i> | 24                      | 7                      | 31           |
| <i>Prison</i>           | 2                       |                        | 2            |
| <i>Concert hall</i>     |                         | 1                      | 1            |
| <b>Total</b>            | 31                      | 8                      | 39           |

Two highway lines (M5 and M6) were carried out in five sections. Two types of higher education buildings were implemented in the frames of a ministerial programme: construction and reconstruction of educational buildings and student hostels.

## **7. Specific government transactions - 7.6. Public Private Partnerships**

HCSO was informed of the planned new projects from the very beginning. Different documents (drafts of government decrees concerning the PPP projects of the ministries, documents for public procurement or the drafts of the contracts) were also submitted to HCSO. HCSO scrutinised these documents in order to decide on the sector classification of the PPP assets, according to effective rules.

From 2010, government started to revise all PPP projects. Government tries to modify contracts, and in smaller cases (where it can be economically more favourable) aims at the purchase of the infrastructure. There were no new projects during the last years.

Within the frames of Government Office of the Prime Minister, the Major Government Contracts Department deals with public-private partnerships.

Until 2017, all local government PPP sport projects have been bought out with government financing. The acquisition of higher educational PPPs is in progress: 14 projects out of former 45 are not PPPs anymore.

From 2013, within the frames of National Statistical Data Collection Program (OSAP), a short questionnaire provides HCSO regularly main PPP data (e.g. annual service fees, amendments of contracts). This is an annual, full coverage data collection. Information can be also acquired from the relevant department of the Government Office of the PM, from the ministries involved and from the Treasury. The registration of the PPP projects is the task of the Treasury.

In Hungary the expression “PPP-contract” is exclusively used for the purchase of public services by general government units on the basis of dedicated assets in the framework of a long term contract. Frequently these contracts are also referred to as “concessions”.

The first contract from 1994 defined M5 highway project as a concession. Later, when the construction of the second stage was commenced, HCSO reclassified that to a PPP project.

In Hungary there are limited government guarantees in the fields of PPP, set out in EDP Questionnaire table 11.1(m). Government wasn't in any other way involved in the financing of the project during the construction phase.

## **7. Specific government transactions – 7.7. Financial derivatives**

### **7.7. Financial derivatives**

This part describes the use of financial derivatives and the recording of derivative related flows in EDP tables and national accounts.

Regulation (EU) No 549/2013 of the European Parliament and of the Council of 21 May 2013 on the European system of national and regional accounts in the European Union does not distinguish between the ESA and EDP definition of interest. The Regulation No 549/2013 paragraph 4.47 reads: *Payment resulting from any kind of swap arrangement is recorded as a transaction in financial derivatives in the financial account, and not as interest recorded as property income. Transactions under forward rate agreements are recorded as transactions in financial derivatives in the financial account, and not recorded as property income.*

ESA2010 paragraph 20.133 specifies the treatment of so called of market swaps: “*Lump sums exchanged at inception on off-market swaps are classified as loans (AF.4) when the lump sum is received by government. Off-market swaps are partitioned in the balance sheet into a loan component and a regular, 'at-the-money' swap component.*”

#### **7.7.1 Types of derivatives used**

In accordance with its strategy and benchmark, the State Debt Management Agency (ÁKK) uses swap operations to set the foreign currency composition and to optimise the interest rate composition of foreign currency debt. Cross currency swap (CCRS), interest rate swaps (IRS) and foreign currency (FX) swaps are applied. No other types of derivatives are used by ÁKK. Compared to ÁKK's derivatives small amount of financial derivatives are issued by corporations classified into general government (including Eximbank).

#### **7.7.2 Data sources**

Government Debt Management Agency (ÁKK Zrt.) reports swap interest data on cash and accrual basis and the net stock of CCRS in its quarterly report to HCSO and to NBH.

As the public account contains swap interest on a cash basis HCSO compiling national accounts uses the cash data of this report for eliminating swap interest from the non-financial transactions. Accruals are not used.

NBH has four other data sources:

- ÁKK quarterly report on the stocks of derivative assets, liabilities, revaluations and transactions (including swap interests) vis-a-vis rest of the world;
- central bank's quarterly report on the stocks of derivative assets, liabilities, revaluations and transactions (including swap interests) vis-a-vis ÁKK.
- financial corporations' monthly report on the stock of derivative assets, liabilities, transactions (including swap interest) vis-a-vis the central government (including corporations classified into central government)
- monthly report of Eximbank on the stock and transaction of its financial derivatives.

These four data sources cover all the derivative transactions in the financial accounts. AF.71 financial derivative instruments are recorded as assets or liabilities depending on the direction of the expected future flows (financial revenue or expenditure).

In tables 3A and 3B of EDP notification the swap correction is implemented as in EDP table 2A.

## **7. Specific government transactions – 7.7. Financial derivatives**

In line with the definition government debt at nominal value presented in the EDP-reporting is an "after swaps" debt.

### **7.7.3 Recording**

In the Hungarian practice swap or FRA cancellations never occurred. No off-market swaps have been used. Data used are complete; no threshold is used in the calculations.

In the public account swap interest flows are recorded on cash basis. In EDP table 2 they are neutralized under the line *of which: net settlements under swap contracts (+/-)*.

In the financial accounts swap interest related flows are recorded on gross basis meaning they appear either under asset and liability side depending on the balance sheet position of the contracts. Financial transactions are recorded on gross basis but they are netted on contract level.

Concerning EDP table 3A and 3B, item *Financial derivatives (F.71) under Net acquisition (+) of financial assets* includes transactions of financial derivatives that come from the asset side of financial accounts of general and central government. The item *Net incurrence (-) of liabilities in financial derivatives (F.71)* includes transactions of financial derivatives that come from the liability side of financial accounts of general and central government. Item *Appreciation(+) / depreciation(-) of foreign-currency debt* includes the change in stock (revaluation and transaction) of swaps that are part of the gross debt at nominal value.

## **7. Specific government transactions – 7.8. Payments for the use of roads - 7.9. Emission permits**

### **7.8. Payments for the use of roads**

The main issue is whether payments for road, both in the case of tolls and vignettes, should be considered as sale of services or as a tax, when the infrastructures are owned by public units. The issue is important also because the classification of payments made for the usage of roads, either as sales or taxes, influences the assessment of the 50% criterion, which is fundamental for the purpose of assessing whether a given institutional unit (in some cases, a government-controlled entity receiving the payment of the toll or vignette) is a market or a non-market producer.

Payments for the use of roads will generally be classified as a sale of a service in the case of tolls. They will also be classified as a sale of a service in the case of vignettes whenever users have sufficient choice both in terms of selecting specific roads and of choosing a determined length of time for the vignette.

Eurostat released a guidance note concerning the classification of payments for the use of roads on the 13th of March 2008. There are two major ways: it can be road fee (in proportion to the use of roads) or vignette for a selected period. These can be recorded as services provided or taxes. The latter is a compulsory, unrequited payment.

An important aspect to be considered is the proportion of the amount of payment and the provided service, and costs. It is also important to provide an alternative route. Otherwise the user doesn't have a choice and the price doesn't influence demand so the transaction cannot be considered as market output.

In Hungary all roads and motorways are state property, but the construction of certain parts of roads were done under PPP contracts, like M5 and M6-M60. Users of roads are allowed to pay by time-restricted vignette valid for the whole country (annual, monthly, weekly) or by annual vignette valid for territory (valid in a specific county). For vehicles above the weight of 3.5 tons an e-fee was introduced from the 1st of July 2013, which refers to the motorways and main roads, and means a payment in proportion to the performed distance.

In Hungary the two different payment schemes for the use of roads cannot be separated on the basis of the construction of the road (PPPs and other roads), not even the payments can be easily divided to fee and tax.

Payments for the use of roads are considered as services in general, and recorded as P.1 Output on government balance sheet. Drivers are not obliged to use toll roads; they have a choice. The fees are in proportion with the service, as well.

## **7. Specific government transactions - 7.10. Sale and leaseback operations - 7.11. Securitisation**

### **7.9. Emission permits**

There are two main trading systems, where European Union Member States can participate:

The Kyoto Protocol is a 1997 international treaty which came into force in 2005. In the treaty, most developed nations agreed to legally binding targets for their emissions of the six major greenhouse gases.[33] Emission quotas (known as "Assigned amounts", AAUs) were agreed by each participating 'Annex 1' country,

The European Union Emission Trading Scheme (or EU ETS) is the largest multi-national, greenhouse gas emissions trading scheme in the world. It is one of the EU's central policy instruments to meet their cap set in the Kyoto Protocol. The so-called EU emission Allowance (EUA) is traded.

The ESA2010 MGDD part VI, chapter VI.5 is dealing with the statistical recording of the emission trading allowances.

Emission permits are identified as negotiable property rights and they are part of the national property, Ministry of National Development 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 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. Part of the proceeds become tax revenue (D.29 other taxes on production) after the emissions occur and the permits are surrendered. On average 82% of the permits sold are surrendered the following year. Consequently, on average 82% of the year's cash revenue is recorded the following year as tax revenue in the national accounts and EDP.

### **7.10. Sale and leaseback operations**

Government sells an asset and immediately leases it back from the purchaser. The issue is whether the sale is to be considered as a "true sale" (transaction in GFCF improving B.9) or the transaction is to be treated differently and an asset should remain on government's balance sheet.

MGDD part VI, chapter VI.2 is dealing with sale and lease back operations.

There is no sale and lease-back transactions in the Hungarian General Government sector until 2018.

In case of central level of legal government sector units, all assets of the units form part of the national property and in case of selling assets; one can have permission from the National Property Management Co. in advance or has to transfer the asset to the National Property Management Co. for selling.

As a new rule, Law CXCV of 2011 on economic Stability of Hungary regulates that all units that are classified into General Government sector in ESA-statistics have to ask permission for contracting repos and financial lease in advance. No application has been known under this regulation.

## **7. Specific government transactions - 7.14. Lump sum pension payments**

A new public corporation, namely National Asset Management Co. (classified into the central government sector) was established with a specific social protection function: buying real estates from those individuals whose loan become non-performing due to revaluation of foreign currency based debt. The specific scheme allows re-renting the real estate by the original owners for a social-type rental fee. The scheme provides a possibility for the tenant to buy back the real estate if his financial position allows a within some years. Statisticians investigated the scheme and agreed that these transactions wholly transfer of the economic ownership of the real estate, so the scheme is a real sale.

### **7.11. Securitisation**

Securitisation is when a government unit transfers the ownership rights over financial or nonfinancial assets, or the right to receive specific future cash flows, to a special-purpose vehicle (SPV) which in exchange pays the government unit by way of financing itself by issuing, on its own account, asset backed bonds.

The classification of the proceeds received by government as disposal of an asset may lead to an impact on the government deficit, when the asset is a nonfinancial asset or if it is determined that a revenue should accrue. All securitisation of fiscal claims should be treated as borrowing, as well as all securitisation with a deferred purchase price clause and all securitisation with a clause in the contract referring to the possibility of substitution of assets. Also if the government compensates the SPV ex-post, although this was not required according to the contract, the operation should be reclassified as government borrowing.

ESA2010 paragraphs 20.260-20.271 establish securitisation operations accounting rules. The MGDD part V, chapter V.5 and the Eurostat decision of 25 June 2007, "[Securitisation operations undertaken by general government](#)" are dealing with securitisation operations.

Securitisation as such is regulated by the Law on credit institutions and financial entrepreneurs, it relates only financial corporations.

The legal government sector (fiscal sector) units are not allowed to issue securities by Law on Public Finances, only local governments and only debt-type securities with approval of Government.

Public corporations and non-profit institutions reclassified in General Government sector also have to ask permission from the Minister for National Economy to issue debt-type securities in advance.

## 7. Specific government transactions - 7.12. UMTS licenses

### 7.12. UMTS licenses

Under ESA 2010, the radio spectrum is identified as a natural resource. Permits for the use of a non-produced asset (natural resource) for a limited time have to be recorded as D.45 rent. Thus, sale proceeds have no effect on B.9 in the year when the license is allocated, the impact on government B.9 is spread over the lifetime of the licence. The ESA2010 MGDD chapter 6.1 is dealing with the sale of UMTS licenses.

The first UMTS tender took place in 2004. The concession fee was composed of three parts: 16 billion HUF payments in 2004, 19 billion HUF in 2005 and a series of annual payments. The latter was based on the corporations expected proceeds; the estimated amount was 17 billion HUF.

The second sale of licence occurred in 2007; the proceeds amounted to 20 billion HUF.

The third tender was announced in 2012, cash receipts from the three competitors arrived only in 2013.

A set of new tenders resulted 130,8 billion HUF in 2014 as receipt from sale of the use of the frequencies.

In 2019 the government prolonged the first UMTS contract (starting in 2004) by 7,5 years, the tender resulted 32,5 bn HUF cash receipts.

The following table shows the tenders mentioned above, the period of licence contracts, the partners, and the time of recording of D.45 revenue in GG accounts.

| Date of contract | 2004                          | 2007            | 2013             | 2013       | 2014                                | 2019                  |        |                 |
|------------------|-------------------------------|-----------------|------------------|------------|-------------------------------------|-----------------------|--------|-----------------|
| Operator         | Pannon, T-Mobile,<br>Vodafone | Pannon, Telekom | Telekom, Telenor | Vodafone   | Telekom, Telenor,<br>Vodafone, DIGI |                       |        |                 |
| Licence duration | 15 years                      | 7,5 years       | 8,5 years        | 7,5 years  | 15 years                            | 7,5 years             |        |                 |
| Revenue          | 44 000                        | 20 000          | 76 409           | 34 493     | 130 800                             | 32 500                |        |                 |
| 2004             |                               |                 |                  |            |                                     |                       |        |                 |
| 2005             | 1 2 933                       |                 |                  |            |                                     |                       |        |                 |
| 2006             | 1 2 933                       |                 |                  |            |                                     |                       |        |                 |
| 2007             | 1 2 933                       |                 |                  |            |                                     |                       |        |                 |
| 2008             | 1 2 933                       |                 |                  |            |                                     |                       |        |                 |
| 2009             | 1 2 933                       | 1 2 667         |                  |            |                                     |                       |        |                 |
| 2010             | 1 2 933                       | 1 2 667         |                  |            |                                     |                       |        |                 |
| 2011             | 1 2 933                       | 1 2 667         |                  |            |                                     |                       |        |                 |
| 2012             | 1 2 933                       | 1 2 667         |                  |            |                                     |                       |        |                 |
| 2013             | 1 2 933                       | 1 2 667         | 0,25             | 2 247      |                                     |                       |        |                 |
| 2014             | 1 2 933                       | 1 2 667         | 1 8 989          | 0,25       | 1 150                               | 0,5 4 360             |        |                 |
| 2015             | 1 2 933                       | 1 2 667         | 1 8 989          | 1          | 4 599                               | 1 8 720               |        |                 |
| 2016             | 1 2 933                       | 0,5             | 1 333            | 1 8 989    | 1                                   | 4 599 1 8 720         |        |                 |
| 2017             | 1 2 933                       |                 |                  | 1 8 989    | 1                                   | 4 599 1 8 720         |        |                 |
| 2018             | 1 2 933                       |                 |                  | 1 8 989    | 1                                   | 4 599 1 8 720         |        |                 |
| 2019             | 1 2 933                       |                 |                  | 1 8 989    | 1                                   | 4 599 1 8 720         |        |                 |
| 2020             |                               |                 |                  | 1 8 989    | 1                                   | 4 599 1 8 720 1 4 333 |        |                 |
| 2021             |                               |                 |                  | 1 8 989    | 1                                   | 4 599 1 8 720 1 4 333 |        |                 |
| 2022             |                               |                 |                  | 0,25       | 2 247                               | 0,25                  | 1 150  | 1 8 720 1 4 333 |
| 2023             |                               |                 |                  |            |                                     | 1                     | 8 720  | 1 4 333         |
| 2024             |                               |                 |                  |            |                                     | 1                     | 8 720  | 1 4 333         |
| 2025             |                               |                 |                  |            |                                     | 1                     | 8 720  | 1 4 333         |
| 2026             |                               |                 |                  |            |                                     | 1                     | 8 720  | 1 4 333         |
| 2027             |                               |                 |                  |            |                                     | 1                     | 8 720  | 0,5 2 167       |
| 2028             |                               |                 |                  |            |                                     | 1                     | 8 720  |                 |
| 2029             |                               |                 |                  |            |                                     | 0,5                   | 4 360  |                 |
|                  | 15 44 000                     | 7,5 20 000      | 8,5 76 409       | 7,5 34 493 | 15 130 800                          | 7,5                   | 32 500 |                 |

## **7. Specific government transactions - 7.13. Transactions with the Central Bank**

### **7.13. Transactions with the Central Bank**

The management of asset portfolios and interventions in foreign exchange markets for monetary policy purposes, may generate capital gains for central banks which are liable to be distributed to general government. The amounts involved may sometimes be very large. Capital gains are not income in national accounts and therefore payments to government financed out of capital gains cannot be recorded as property income but have to be recorded as financial transactions.

It also proposes to apply the rules on capital injections when government makes a payment to the Central Bank. Such payments by government may be made to cover losses made by the Central Bank. Capital losses may occur due to foreign exchange holding losses. Operational losses may occur due to the fact that interest and other operational income do not cover operational costs made by the central bank. Capital losses can not be recorded as equity injection, therefore capital gains and losses are somehow not treated symmetrically. This asymmetrical treatment is nevertheless justified for the purpose of appropriately measuring government deficit.

When central bank pays dividend to the central government, the amount of dividend is compared to the operating profit of the previous year. If the dividend is higher than the previous year operating profit, the excess is recorded as financial transaction, withdrawal of equity (F.5). Operating profit equals to the net interest income and other operating income minus operating cost. This is the maximum amount that can be recorded as property income, D. 42.

Concerning payments to central bank the Act on Magyar Nemzeti Bank (NBH) regulates the reimbursement obligation by central government. The government under definite circumstances is obliged to cover losses measured in the profit and loss accounts and the negative balance of revaluation reserves. Revaluation reserves include unrealised foreign exchange holding gains and losses and changes in the market value of foreign currency securities.

The recently effective Act CCVIII of 2013 on Magyar Nemzeti Bank (NBH) laid down the following obligations of central budget: central government has to give a capital injection into the bank the following year

- if the balance of the revaluation reserves and the sum of profit reserves and the profit of the year are negative, or
- if the negative balance of the revaluation reserves is higher than the positive sum of profit reserve and the profit of the year.

Any capital injection should always be recorded in the business accounts as an increase in the accumulated profit reserve.

Transfers covering the losses are recorded in national accounts as capital transfers (D.9), while transfers covering the unrealised holding losses in the revaluation reserves are treated as financial transaction, acquisition of equity (F.5). This practice is in line with Eurostat advice of 19 January 2012 (Hungary - Methodological treatment of government injection in the revaluation reserves of the Magyar Nemzeti Bank).  
[http://epp.eurostat.ec.europa.eu/portal/page/portal/government\\_finance\\_statistics/documents/HUNGARY-Methodological\\_treatment\\_of\\_government\\_injection.pdf](http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/documents/HUNGARY-Methodological_treatment_of_government_injection.pdf)

## 7. Specific government transactions - 7.14. Lump sum pension payments

### 7.14. Lump sum pension payments

ESA2010 paragraphs 20.273-20.275 define the accounting rules for recording of the lump sum pension payments. The related accounting rules are further described in the ESA2010 MGDD and debt Part III.6 Impact on government accounts of transfer of pension obligations.

Concerning the legal background of such cases, two main types of payments to government from transfer of pension obligations can be identified:

- a) Law LXXXII of 1997 on private pensions and private pension funds (compulsory second pillar of pension scheme) provided some possibilities for limited groups of second pillar pension fund members to come back to the Social Security scheme (age or occupation criteria) between 2000-2010. The lump sum payments were received by the Pension Fund of Social Security (classified in S.1313 Social Security subsector).
- b) General possibility for anyone to choose Social Security scheme in 2011, and a second option in 2012. The lump sum payments were received by a dedicated new off-budget fund called Pension Reform and Debt Reduction Fund (classified in S.1311 Central Government subsector).

Between 2009 and 2013 Hungarian private pension funds transferred most of their assets and obligations to government. In 2014, there was no transfer. Fund ceased in 2015. The implementation of the rule will have the following impact on the past time series:

|  | 2009 | 2010 | 2011  | 2012 | 2013 |
|--|------|------|-------|------|------|
| Impact on net lending/net borrowing of GG<br>(HUF billion) | -26  | -65  | -2700 | -55  | -10  |
| In percent of GDP  | -0,1 | -0,2 | -9,8  | -0,2 | 0,0  |

Chapter III.6 of MGDD (Impact on government accounts of transfer of pension obligations) specifies the treatment of transactions after the years of the transfer. Two imputations should be implemented:

- Liability A.F8 is to be amortized in the form of a D.759 imputed revenue. (III.6.2.3.15) "*This progressive extinction might follow the planned schedule for benefits payments or, for practical reasons, take the form of a linear imputation on a given period (such as 20-25 years).*"
- On AF.8 liability interest expenditure should be imputed. "*In this regard, the rate of discount used for the estimation of the pension obligations at the time of their transfer to government could be used or, as a second best, a government benchmark long term interest rate.*" (III.6.2.3.16)

As the most significant lump sum payments were transferred in 2011 we chose 2012 as the first year of the schedule. We took into account the specificities of private pension funds (the young age structure of the beneficiaries) and chose a longer extinction period than is offered by MGDD: 35 five years. As we chose the progressive linear schedule for the amortization of AF.8 the interest rate chosen determines the annual nominal increase of D.759. The interest rate is decided in 3%. It is lower than the recent government benchmark long term interest rate but the model is set up for 35 years and the Hungarian economic indicators are converging to the European average. On the other hand the rate also should reflect the prospective increase of the nominal pension payments.

## 7. Specific government transactions - 7.14. Lump sum pension payments

The results of the model are the following:

| HUF million                          | 2011 | 2012 | 2013 | 2014 | 2020 | 2030 | 2040  | 2045 | 2046 |
|--------------------------------------|------|------|------|------|------|------|-------|------|------|
| AF.8 stock                           | 2791 | 2846 | 2855 | 2851 | 2766 | 2286 | 1 150 | 218  | 0    |
| F.8 (Transfer of pension obligation) | 2700 | 55   | 10   |      |      |      |       |      |      |
| D. 759 receivable                    |      | 84   | 87   | 89   | 106  | 143  | 192   | 223  | 225  |
| D.41 payable                         |      | 84   | 85   | 86   | 84   | 71   | 39    | 13   | 7    |
| Impact on B.9                        |      | 0    | 1    | 4    | 23   | 72   | 153   | 210  | 218  |

## 7. Specific government transactions - 7.15. Pension schemes

### 7.15. Pension schemes

#### 7.15.1 Defining pensions

In Hungary the definition of pension has changed from 2012. Earlier, pension schemes covered all of the seven categories mentioned below

- |  |                |
|--|----------------|
| 1) disability pensions                                       | (disability)   |
| 2) early retirement benefits due to reduced capacity to work | (disability)   |
| 3) old age pensions  | (old age)      |
| 4) anticipated old age pensions                              | (old age)      |
| 5) partial pensions  | (old age)      |
| 6) survivors' pensions                                       | (survivors)    |
| 7) early retirement benefits for labour market reasons       | (unemployment) |

Now, pensions cover old age pensions and survivors' pensions and are financed from Social Security Pension Fund. The remaining categories are not included as pensions but as social benefits and are financed from the Central Budget.

#### 7.15.2 Classification of pension schemes

In Hungary the compulsory social security scheme called "pension fund" is classified as a general government unit.

**Until 2011**, even in the case one entered the private pension funds (see below), there was a compulsory contribution to a minor extent to the state unfunded pension scheme.

Certain groups of employees were obliged to participate in these schemes, for example young people entering to work for the first time. Others had got the right to decide and choose one or the other scheme (on the basis of their own calculations). These private pension funds are classified in financial corporation sector (NACE 65.30).

There are also voluntary pension funds, participants of the "pension fund" have the right to pay additional amounts to these units and receive supplementary pension from them in the future. These voluntary pension funds are also classified in financial corporation sector (NACE 65.30).

**In 2011** two elements of changes have been introduced:

- Employees' social contributions earlier paid into compulsory second pillar private pension fund have to be transferred into Social Security Pension Fund from November 2010 to December 2011
- Option for employees to return back from the compulsory private pension funds to the Social Security Pension Fund until the end of January 2011.

Members of private pension funds had to provide a statement declaring their intention to maintain their membership in the private pension system. Membership of those persons who did not declared, automatically terminated and returned back to the SS Pension Fund. It concerned 3 million members out of 3,1 million.

For this reason, a special unit, called Pension Reform and Debt Reduction Fund was established which kept and sold the asset portfolio was taken over from the private pension funds (2678 billion HUF). Its aim was to reduce government debt and finance pension-related expenditures in the state budget and in the SS Pension Fund. Government securities (as parts

## **7. Specific government transactions - 7.15. Pension schemes**

of the portfolio) were transferred to State Debt Management Office (ÁKK) and annulled immediately. This Fund was ceased on January 2015.

**From 2012**, according to the law, all employees'social contributions have to be transferred to the SS Fund. Paying member fee to the private pension funds is not compulsory any more.

Additional option for members of the private pension funds to return back to SS Pension Fund until the end of March 2012.

### **7.15.3 Classification of social insurance pension schemes**

In Hungary there are participants who pay the contributions for themselves and also their employers pay contributions on behalf of them. Self-employed are also participants. In some cases the contribution is paid by the Government on behalf of the future beneficiary person (mothers receiving childcare allowance, other people receiving unemployment benefit). Non-employed persons are allowed to participate in the social insurance pension scheme.

### **7.15.4 Definition of social security schemes**

In Hungary there is a compulsory scheme imposed, controlled and financed by the general government. The participation in this scheme was compulsory until 1998 for all the employees. Since that time private pension funds were established and until 2011 the obligation is, that an employee must participate either in the social security scheme or in a private pension fund. Since 2012 the obligation to participate in private pension funds has ceased.

Private funded pension funds administered by insurance companies or autonomous pension funds do not receive capital transfers from the general government. General Government has no obligation in financing private pension funds and provides no guarantee for minimum return from investment.

### **7.15.6 Classification of institutional units supporting pension schemes. Borderline cases**

Social security schemes are classified to sub-sector S.1314. All private funded pension schemes administered by insurance companies or autonomous pension funds are classified to sub-sector S.129.

## **7. Specific government transactions - 7.15. Pension schemes**

### **Annex I**

Budgetary chapters in 2018.

|         |  |
|---------|--|
| I.      | PARLIAMENT   |
| II.     | PRESIDENCY   |
| III.    | CONSTITUTIONAL COURT   |
| IV.     | OFFICE OF THE COMMISSIONER FOR FUNDAMENTAL RIGHTS              |
| V.      | STATE AUDIT OFFICE   |
| VI.     | COURTS   |
| VIII.   | PROSECUTION SERVICE  |
| X.      | MINISTRY OF PUBLIC ADMINISTRATION AND JUSTICE                  |
| XI.     | PRIME MINISTER'S OFFICE  |
| XII.    | MINISTRY OF AGRICULTURE  |
| XIII.   | MINISTRY OF DEFENCE  |
| XIV.    | MINISTRY OF INTERIOR   |
| XV.     | MINISTRY OF FINANCE  |
| XVI.    | NATIONAL TAX AND CUSTOM OFFICE                                 |
| XVII.   | MINISTRY OF INNOVATION AND TECHNOLOGY                          |
| XVIII.  | MINISTRY OF FOREIGN AFFAIRS                                    |
| XIX.    | EU-FINANCED DEVELOPMENTS                                       |
| XX.     | MINISTRY OF HUMAN RESOURCES                                    |
| XXI.    | CABINET OFFICE OF THE PRIME MINISTER                           |
| XXII.   | GOVERNMENT OFFICE OF THE PRIME MINISTER                        |
| XXX.    | HUNGARIAN COMPETITION AUTHORITY                                |
| XXXI.   | HUNGARIAN CENTRAL STATISTICAL OFFICE                           |
| XXXIII. | HUNGARIAN ACADEMY OF SCIENCES                                  |
| XXXIV.  | HUNGARIAN ACADEMY OF ARTS                                      |
| XXXV.   | NATIONAL RESEARCH, DEVELOPMENT AND INNOVATION OFFICE           |
| XLI.    | REPAYMENTS OF LENDING AND BORROWING COST OF THE CENTRAL BUDGET |
| XLII.   | MAIN REVENUES AND EXPENDITURES OF THE CENTRAL BUDGET           |
| XLIII.  | REVENUES AND EXPENDITURES RELATED TO STATE PROPERTY            |
| XLIV.   | REVENUES AND EXPENDITURES OF NATIONAL LAND FUND                |
| LXII.   | NATIONAL RESEARCH, DEVELOPMENT AND INNOVATION FUND             |
| LXIII.  | NATIONAL EMPLOYMENT FUND                                       |
| LXV.    | BETHLEN GÁBOR FUND   |
| LXVI.   | CENTRAL NUCLEAR FUND   |
| LXVII.  | NATIONAL CULTURAL FUND   |
| LXXI.   | PENSION SECURITY FUND  |
| LXXII.  | HEALTH SECURITY FUND   |