



EUROPEAN COMMISSION
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Directorate D – Government finance statistics (GFS)
D.3 – Excessive deficit procedure (EDP) 2

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FINAL FINDINGS

EDP Dialogue Visit to Hungary

19 – 20 June 2023

EXECUTIVE SUMMARY

Eurostat carried out an EDP dialogue visit to Hungary on 19-20 June 2023. The purpose of the visit was to review the existing institutional responsibilities as regards the compilation of EDP statistics and government accounts, to discuss the quality and exhaustiveness of primary data sources, to review the sector classification of units, to discuss the recording of government measures to mitigate the impact of high energy prices in the economy, as well as of transactions rearranged through government accounts, new taxes introduced, accrued interest, capital injections, acquisition of shares, EU flows, Recovery and Resilience Facility-related transactions, guarantees, financial derivatives and other transactions.

First, Eurostat took note that there have been no substantial changes in the institutional responsibilities in the framework of the reporting of data under the EDP. The responsibilities for the compilation of the EDP Questionnaire tables as well as annexes have been discussed in detail. The Hungarian Central Statistical Office (NSI) informed Eurostat about the appointment of a new director general from 11 June 2023, as the previous director general had retired.

Regarding quality management framework and internal control arrangements, a discussion took place on the new data warehousing system recently deployed by the Hungarian Treasury and any effect it might have on EDP and GFS data compilation and reporting. Eurostat also took note on the changes in the financing of social security subsector (S.1314).

As regards data sources, a detailed discussion took place on the data sources available and used/not used for the compilation of EDP and GFS data as described in EDP Inventory. Regarding the revision policy, Eurostat took note that the next benchmark revision will take place in 2024.

Eurostat and the Hungarian statistical authorities discussed the implementation of the new 2022 MGDD provisions. Eurostat informed about the new updated EDP Inventory template following the release of the new MGDD 2022.

As regards the follow-up of the April 2023 EDP reporting, Eurostat and the Hungarian statistical authorities discussed some of the amounts reported in a table on the detailed 2021-2022 revenue and expenditure items and financial transactions of other central government bodies (OCGB). The reconciliation between state direct debt, Maastricht debt and debt at nominal value for 2019-2022 and the acquisition of debt securities (F.3) by the Savings Cooperatives Integration Unit (SZHISZ) have been also discussed.

Regarding the delimitation of general government, a detailed discussion took place on the application of market/non-market test and formula used. Eurostat and the Hungarian statistical authorities also reviewed specific sector classification issues of Hungarian Central Bank (NCB) foundations and their subsidiaries and newly created NPIs holding universities as well as some transactions between the central government and the Hungarian Development Bank (MFB Zrt.). In addition, the changes in sector classification since the previous EDP dialogue visit, questionnaire on government controlled units classified outside general government and transactions rearranged through government accounts were discussed in more detail.

As regards the implementation of accrual principle, Eurostat and the Hungarian statistical authorities discussed extensively the recording of new taxes and tax changes introduced in 2022. Regarding accrued interest, Eurostat and the Hungarian statistical authorities discussed in detail some particular items recorded in the supplementary table on interest as well as in the EDP tables 2 and 3.

Next, some particular items of the EU flows recorded in the EDP questionnaire table 6 were discussed. Eurostat took a note that the last payment of the EU flat-rate correction will be recorded in 2023. Particular attention during the discussion was also given to the recording of Recovery and Resilience Facility (RRF) flows/grants.

In relation to military expenditure, Eurostat reviewed the recording of military advances and liabilities related to the Gripen contract in the EDP questionnaire table 7.1. Eurostat took note of the new upcoming high-level meeting between the Hungarian Central Statistical Office and the Ministry of Defence to discuss the exchange of information and possible improvements of data sources, especially as regards quarterly data.

On the specific government transactions, the recording of government measures to mitigate the impact of high-energy prices, the recording of guarantees, debt assumptions, claims, debt cancellations and write-offs were reviewed. In addition, capital injections were also discussed in more detail, mainly the acquisition of shares of Vodafone Magyarország Zrt., Magyar Posta subsidiaries - Magyar Posta Biztosító Zrt. (non-life insurance company) and Magyar Posta Életbiztosító Zrt. (life insurance company) by Corvinus Zrt.

Eurostat and the Hungarian statistical authorities also discussed in detail some particular items and the link between the amounts reported in the different blocks of the derivative table.

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

Eurostat very much appreciated the good co-operation and transparency demonstrated by the Hungarian statistical authorities during the meeting and the quality of the documents provided beforehand, for the clarity of their explanations and their contribution to the discussion.

FINAL FINDINGS

Introduction

In accordance with Council Regulation (EC) No 479/2009 of 25 May 2009 (the EDP Regulation) on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community, Eurostat carried out an EDP dialogue visit to Hungary on 19-20 June 2023.

The delegation of Eurostat was headed by Ms Rasa Jurkoniene, Deputy Director, Directorate D ‘Government Finance Statistics (GFS)’. A representative of DG ECFIN participated in the meeting as observer. The Hungarian authorities were represented by the Hungarian Central Statistical Office (NSI), the Ministry of Finance (MoF) and the Central Bank (NCB).

The previous Eurostat EDP dialogue visit to Hungary took place on 27-28 May 2021.

Eurostat carried out this EDP dialogue visit in order to review the existing institutional responsibilities as regards the compilation of EDP statistics and government accounts, to discuss the quality and exhaustiveness of primary data sources, to review the sector classification of units, in particular Universities’ foundations and MNB foundations, to discuss the recording of government measures to mitigate the impact of high energy prices in the economy, as well as of transactions rearranged through government accounts. Time was devoted to review the new taxes introduced, the statistical recording of accrued interest, capital injections and acquisition of shares, EU flows, Recovery and Resilience Facility-related flows, guarantees, financial derivatives and other transactions.

With regard to procedural arrangements, the *Main conclusions and action points* were sent to Hungary for review. Then, the *Provisional findings* were sent to Hungary for review. After this, in accordance with Article 13 of the EDP Regulation, the *Final Findings* will be sent to Hungary and the Economic and Financial Committee (EFC) as well as published on the website of Eurostat.

Eurostat appreciated the relevant background material provided by the Hungarian statistical authorities prior the EDP standard dialogue visit. Eurostat also thanked the Hungarian statistical authorities for their good co-operation and productive discussions during the EDP dialogue visit.

1. STATISTICAL CAPACITY ISSUES

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

Introduction

Eurostat reviewed the institutional responsibilities in the framework of the production and reporting of EDP and government finance statistics (GFS) data and the collaboration between the three institutions involved.

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

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

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

Discussion

The Hungarian statistical authorities confirmed that no substantial changes happened, since the previous EDP dialogue visit, to the EDP data production process and the related institutional cooperation arrangements. Within the NSI, nine staff members are involved in the EDP data compilation process, with one post remaining empty. In the NCB, out of five staff members dealing with financial accounts, two are dealing with the EDP data, while in the MoF, five staff members are involved in the EDP data production process.

The Hungarian statistical authorities confirmed that, despite the increased turnover of the staff in the last two years, they have the necessary resources and capacities for the EDP and GFS data production process.

Eurostat asked if the Hungarian statistical authorities are planning to update the cooperation agreement taking into account newly introduced tables on COVID-19 measures, RRF financing and energy measures. The NSI explained that they do not have plans for update as these measures are temporary. Moreover, they explained that when the new tables and additional annexes have to be compiled and provided to Eurostat, the Hungarian statistical authorities discuss the responsibilities and informal agreements are reached.

Eurostat then asked the Hungarian statistical authorities about the work of the permanent EDP working group and if there were any changes since the last EDP dialogue visit. The NSI confirmed that there were no significant changes, with regular meetings still being a

staple of their collaboration. During the EDP compilation process, the permanent EDP working group meets at least 2-3 times, while outside this period the frequency of meetings depends on the issues to be discussed. Nevertheless, the group meets at least once every quarter.

Eurostat enquired if the provisions of the new Manual on Government Deficit and Debt (MGDD 2022) and their implementation have been already discussed in the EDP working group. The Hungarian statistical authorities clarified that they are planning to have this discussion later this year and added that some provisions have already been implemented while the rest will be implemented in the 2024 April EDP notification.

Eurostat enquired further on the composition of the Hungarian EDP working group, i.e., number of members from each institution. The NSI explained that it depends on the issues to be discussed, but experts of all three institutions are represented. The NSI also explained that, besides the EDP working group, there is also a high-level working group (also called high-level supervisors/committee), represented by the president or deputy president of the NSI, the deputy governor or head of Statistics Directorate of the NCB and a State Secretary of the MoF. This high-level working group usually meets one week before the EDP notification where the final EDP data are presented by the NSI and the working group takes note of the results.

Eurostat also enquired who is taking the final decision if there are some disagreements on the accounting, sector classification or methodological issues between the working group members. The Hungarian statistical authorities explained that the final decision is with the NSI, but emphasized that it happens very rarely that all three institutions would not come to the same conclusions. The discussions then continue until the agreement is reached.

As regards the EDP notification period, Eurostat enquired if the requests for clarification, received by the NSI from Eurostat, are distributed to all members of the Hungarian EDP working group. The NSI confirmed that they are circulated to everybody involved in the EDP compilation process and the responsibilities for each question are specified. Eurostat took note.

Next, Eurostat asked if there has been any cooperation agreement signed after the 2021 high-level meeting between the NSI and the Ministry of Defence (MoD) as regards the exchange of information and possible improvements of data sources. The NSI informed that no such cooperation agreement has been signed so far and that a new high-level meeting is planned in the near future. However, the NSI explained that they have a separate data collection from the MoD on military equipment where MoD provides annual data for the previous year and provisional data for the current year, two times per year – early March and early September. As regards the provision of quarterly data, the NSI explained that the agreement was not yet reached. The NSI also informed that recently the Hungarian Government signed long-term contracts for the delivery of military assets. In order to ensure the correct recording of military advance payments and deliveries in EDP tables, this and other issues (Gripen contract extension, quarterly data reporting), will be further discussed in the upcoming high-level meeting.

Finally, Eurostat asked about the responsibilities for the compilation of some EDP questionnaire tables. The NSI explained that EDP questionnaire table 6 on EU Flows is prepared by the NSI since last year, with some data still being provided by the NCB. Table 8 on government claims is prepared by the NCB, while tables 10.1 and 10.2 on

capital injections, superdividends and privatizations are prepared jointly by the NSI and the NCB. Annex 9, the table for reporting of expenditure and other costs of the general government (S.13) financed by the Recovery and Resilience Facility (RRF) and Annex 10, the supplementary table for reporting government interventions to mitigate the impact of high energy prices are compiled by the MoF. Eurostat took note of the explanations.

Findings and conclusions

Action point 1 ⁽¹⁾: The Hungarian statistical authorities will provide Eurostat with a detailed note on the existing Hungarian EDP Working Group and high-level supervisors/committee, describing their composition (the members from each institution), periodicity of the meetings, decision-taking process, reporting, etc. In case of need, the description in the EDP Inventory should be updated with this information.

Deadline: 31 January 2024.

Action point 2 ⁽²⁾: Eurostat took note of the new upcoming high-level meeting between the Hungarian Central Statistical Office and the Ministry of Defence to discuss the exchange of information and possible improvements of data sources, especially as regards quarterly data. The Hungarian statistical authorities will inform Eurostat of the outcome of the meeting.

Deadline: within one month after the meeting.

1.2. Quality management framework, public account audit and internal control arrangements

Introduction

Eurostat reviewed the quality management framework, public accounts audit and internal control arrangements.

In Hungary, the Act on Public Finance (from 2011) defines that public finance information systems have to provide data to the NSI for the purpose of compilation of national accounts. Based on this law, the NSI can require information from all the relevant upstream bodies. In addition, on the data provider level, a financial penalty system was introduced to both central and local government units, which resulted in improved data quality and timeliness.

The NSI has other cooperation agreements with the MoF, the State Treasury and the National Tax Authority based on the Law on Statistics. This law regulates the use of administrative data for statistical purposes. Based on that, the NSI has access to all data sources based on public accounts.

Regarding quality assurance, there are formalized procedures that the NSI uses in performing the quality assurance process (referred to as “statistical auditing”). A new system was introduced allowing the NSI to audit the statistical activities of the other

⁽¹⁾ The deadline was agreed bilaterally and extended to 29 February 2024. Action point completed, the information was provided on 29 February 2024.

⁽²⁾ Action point completed, the requested information was provided on 29 February 2024.

members of the national statistical system and to give accreditation to the institutions who became members of the Official Statistical Service. However, these procedures are not specifically tailored to probe national accounting or EDP/GFS data production processes, they are rather more focused on checking to what extent these entities have implemented the statistical code of practice. So far, no major problems have been detected and all audited institutions have been accredited.

The public account audit is performed by the State Audit Office of Hungary (SAO). SAO performs audits of the legal central government and legal local government (fiscal sector). As regards the non-fiscal sector, independent audits are compulsory by the Law on Accounting for all units maintaining a 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. Audit reports have to be submitted to a dedicated business register and database (electronic) operated by the Ministry of Public Administration and Justice, where individual business financial statements and audit reports are available.

Discussion

As regards the quality management framework, public account audit and internal control arrangements, the NSI confirmed that there have been no substantial changes since the last EDP dialogue visit.

The NSI also confirmed that there are no problems in receiving all necessary data for the EDP and GFS data compilation from the other state institutions or other data providers. The NSI explained that most data concerning budgetary institutions are provided by the Treasury.

The Hungarian statistical authorities informed Eurostat that in 2022 a new data warehousing system was set up at the Treasury. The NSI, NCB and the Treasury have recently started discussions on how they could obtain and use these data, as it would be more timely and detailed (at transaction level) than data used in the past. They have also discussed the detail of the reports they would like to receive from the new system or the possibility for them to obtain direct access to it.

Eurostat asked if this database is already introduced in the Treasury and if it replaces the previous database. The Hungarian statistical authorities explained that traditional reports would be kept, but the newly developed data warehouse system would provide additional or more detailed data needed for GFS and EDP purposes. Further, they explained that the Treasury has implemented a new accounting system for the treasury accounts and also a new reporting system for the budgetary units, while units reclassified to general government sector would not be covered. They clarified that the reporting rules themselves have not changed, as only the infrastructure has changed inside the Treasury and that this would further improve quarterly GFS data, as well as data on transfers between budgetary units and units reclassified into S.13.

Eurostat enquired if there have been any formal agreements signed or planned to be signed in this respect. The NSI and NCB explained that they already have formal agreements with the Treasury, which could be complemented taking into account the new data warehousing system. Regarding other agreements between institutions, the NSI explained that they have a special agreement with the NCB, renewed every year. It includes very detailed annexes on data exchange and cooperation between the two

institutions and covers all official statistics and not only government finance statistics. There is also a formal cooperation agreement between the NSI and the National Tax Authority, revised each year. Eurostat took note of the explanations and requested a note analysing the implications of the new system in the EDP/GFS compilation process.

Eurostat further enquired about the quality assurance process (referred to as “statistical auditing”) and if there have been any changes recently. The Hungarian statistical authorities confirmed that there were no changes and briefly explained that this is an on-going procedure, repeated every five years and it should be performed for the second time later during 2023. Eurostat took note.

Next, Eurostat asked if there have been any improvements in the cooperation with the State Audit Office (SAO). The NSI explained that they have very limited cooperation with the SAO, usually before the preparation of the audit of the State budget execution, when they ask the NSI for information on the EDP tables or other details provided to Eurostat, which they use for their auditing procedures. Eurostat then enquired if the NSI uses any audit reports (e.g., on EU funds, public entities, subsidies programs, etc.) published by SAO for the GFS and EDP compilation process. The NSI explained that those reports usually contain information which is already known from other data sources.

Finally, Eurostat asked the Hungarian statistical authorities to provide more details on the amendments to the Government Decree on the financing of the social security subsector (S.1314). The MoF explained that until 1 January 2022, the central government subsector financed the social security subsector via short-term bridging loans paid in advance, so as to always keep a net positive cash balance of the social security subsector. The details of these transactions (granting/repayment of the loans) were indicated in the treasury accounts and reported in EDP questionnaire table 8 on government claims. From 1 January 2022 onwards, the financing method has changed; the Treasury became the sole financier of the social security subsector, adopting the same principles used for budgetary appropriations are financed, i.e. on a net financing basis. Thus, the social security subsector is since then temporarily allowed to have negative cash balances against the central government subsector, which are recorded as intra-government loans in national accounts. Due to this new financing arrangement, however, the previously reported split between loans granted and loans repaid is no longer available.

Findings and conclusions

Action point 3 ⁽³⁾: The Hungarian statistical authorities shall provide to Eurostat a note describing the new data warehousing system recently deployed by the Hungarian Treasury, as well as any effects this system will or is expected to have on their own statistical data compilation and reporting systems for EDP and GFS purposes, including any formal/informal agreements reached between the statistical authorities and the Treasury in this regard.

Deadline: 30 November 2023.

⁽³⁾ Action point completed, the requested information was provided on 30 November 2023.

1.3. Data sources and revision policy

Introduction

The Hungarian State Treasury's public accounting system is the main source of data for central and local government sub-sectors. In general, public accounts represent the basic data source for GFS and EDP compilation, i.e., EDP tables, as well as annual and quarterly accounts for general government. Public accounts are used by the fiscal sector (legal government sector) and refer to accounting records and relating accounting outputs (e.g., financial statements) based on the accounting framework defined by national legislation (public finance act ⁽⁴⁾).

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

- The MoF collects the data (balance sheet, profit/loss statement, cash flow statement, debt data) from the extra-budgetary public funds and the largest state-owned corporations and submit it to the NSI and the NCB;
- The National Tax and Customs Administration of Hungary collects business accounting data (key aggregates from balance sheets and profit/loss statements) from all corporate income tax (CIT) payers as part of CIT declarations and submits the data to the NSI and the NCB;
- The NSI collects data from the non-profit institutions by statistical survey;
- The NCB collects data on balance sheet items on a quarterly basis from about 130 public corporations and non-profit organisations classified in the general government sector.

Data sources for quarterly non-financial accounts improved since 2021 as MoF expanded the quarterly data collection covering all universities and all relevant non-profit institutions (NPI's) holding universities reclassified to the general government sector.

The NCB also expanded the data collection of the Pallas foundation and its subsidiaries to cover main expenditures and revenues, to facilitate the compilation of quarterly non-financial accounts of non-budgetary units.

Discussion

Prior to the dialogue visit the Hungarian statistical authorities confirmed that quarterly data sources for reclassified entities were extended to newly reclassified university-owning NPIs. The MoF collects their quarterly financial statements, i.e., balance sheet data, profit and loss statements, cash flow statements.

Regarding the main data sources used for the October EDP notifications for the main central government units, as described in the EDP Inventory, Eurostat asked to what "budgetary revenues" and "budgetary expenditures" relate, and if the difference between them yields the working balance (WB). The Hungarian statistical authorities confirmed Eurostat's understanding. Eurostat then asked if loans granted/loans repaid are included in the WB. The Hungarian statistical authorities explained that if such transactions are related to public policy lending, then they are included in the WB and the appropriate adjustments are made in EDP table 2A.

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

Further, Eurostat asked to what exactly “financing expenses” and “financing revenues” relate. The Hungarian statistical authorities explained that “financing expenses” and “financing revenues” are mostly related to debt operations. All debt instruments are recorded at face value. The part which is issued or redeemed above/below face value is included in the interest-type budgetary revenues or budgetary expenditures and affects the WB. Thus, “financing expenses” and “financing revenues” are only the transactions at face value of the debt instruments. Eurostat thanked for the clarification and noted that it would be better to reword “financing expenses” and “financing revenues” as “financial outflows” and “financial inflows”. The Hungarian statistical authorities agreed to update the EDP Inventory accordingly.

Further, Eurostat enquired if the profit and loss statements of the units included in the State are used for calculating GFS/EDP data. The NSI explained that it uses cash data and then makes accrual adjustments. It further clarified that it has access to a lot of different source data, i.e. cash-flow statements compiled by the Treasury and by the budgetary units, as well as profit and loss accounts compiled by the budgetary units. Some of the data, e.g. profit and loss accounts, are less detailed than traditional cash-flow-type revenue and expenditure.

Eurostat thanked for the explanation and noted that the Hungarian statistical authorities should update the EDP Inventory *Table 2 – Availability and use of basic source data for the main government unit* and to reflect that the profit and loss account (item 5) exists as source data, but it is not used for the compilation of GFS/EDP statistics.

Eurostat further asked if the balance sheets in the budget reporting (item 4) and balance sheets in the financial statements (item 6) are the same. The Hungarian statistical authorities explained that they have quarterly budgetary balance sheets and annual balance sheets from annual accounts, which slightly differ in structure, although the total amounts are the same. The NCB explained that for financial accounts it uses quarterly budgetary balance sheets, while the NSI does not use the separate statements produced by the units themselves. The NCB also added that it calculates accrual adjustments for non-financial accounts using quarterly budgetary balance sheets and shares it with the NSI. Moreover, there is an on-going exchange of information between the NSI and the NCB for various adjustments, e.g., taxes and EU flows, where an adjustment (F.8) is calculated by the NSI and then shared with the NCB.

Eurostat then asked if the Hungarian statistical authorities believe that the quarterly budgetary balance sheet is a good and reliable data source. The NCB explained that it is a very detailed source, showing around 20 lines on the asset side and 20 lines on the liabilities side as regards receivables/payables (5 items on trade credits/advances, 10 items on vendors (creditors), other additional items on other receivables/payables). Eurostat thanked for the information and asked to receive a template of quarterly balance sheet of budgetary units. The Hungarian statistical authorities added that these are available on the Treasury website and they consist of 261 lines of stocks of assets and liabilities, used to calculate the transactions. The only exception are corporations classified inside general government that have transactions with non-residents, in which case, these transactions, collected from Balance of Payments statistics, are removed from the changes in stocks, in order to obtain the total transactions with resident units.

Eurostat summarized that the NCB could perform an analysis comparing budgetary units’ annual aggregated balance sheets with the aggregated quarterly balance sheets derived

from budgetary reporting, e.g., comparing the aggregated stocks, transactions, revaluations and other changes in volume, if applicable.

As regards the profit and loss accounts, which are currently not used to compile GFS/EDP data, Eurostat asked the NSI to perform a reconciliation exercise and to compare e.g., intermediate consumption (P.2), gross fixed capital formation (P.51) and compensation of employees (D.1) reported in profit and loss accounts and in budgetary reporting (adjusted for payables/receivables). The NSI agreed to perform such an exercise.

Further, Eurostat enquired about the investment survey data mentioned in the EDP Inventory. The Hungarian statistical authorities explained that initially the survey was conducted by the NSI to collect GFCF data on accrual basis. However, when comparing GFCF data from the survey with the data from budgetary cash reports, there were always substantial differences and cash data were always showing larger figures than accrual data. Thus, this survey is not used anymore as a primary data source. Instead, annual budgetary cash reports are used by the NSI, with the NCB providing accrual adjustments derived from the balance sheets of budgetary units. The Hungarian statistical authorities acknowledged that the description in the EDP Inventory should be updated accordingly. Eurostat took note of the explanation.

Regarding the revision policy, in Hungary there is no separate revision policy for EDP data. There is a revision policy of the NSI on national accounts and this refers to general government data as well. The Hungarian statistical authorities confirmed that the next benchmark revision will take place in 2024 and revised data will be reported to Eurostat in September 2024. Eurostat took note.

Findings and conclusions

Action point 4 ⁽⁵⁾: The Hungarian statistical authorities will provide to Eurostat the quarterly balance sheet of budgetary units and the link to the Hungarian State Treasury website.

Deadline: 15 September 2023.

Action point 5 ⁽⁶⁾: The Hungarian Central Bank shall provide Eurostat with an analysis comparing budgetary units balance sheets and quarterly balance sheets derived from budgetary reporting. The analysis should compare the aggregated stocks (and transactions, revaluations and other changes in volume if applicable), for the most recent reference year available, with a breakdown they consider appropriate.

Deadline: 15 November 2023.

Action point 6 ⁽⁷⁾: The Hungarian Central Statistical Office shall provide Eurostat with the results of a reconciliation exercise, showing a comparison between data reported in profit and loss statements and in budgetary reporting (adjusted for payables/receivables), for groups of units or on an aggregated level (e.g., budgetary central government) for

⁽⁵⁾ Action point completed, the information was provided on 15 September 2023.

⁽⁶⁾ The requested information was provided on 15 November 2023. Action point is under the evaluation.

⁽⁷⁾ The requested information was provided on 15 November 2023. Action point is under the evaluation.

selected ESA transactions: e.g., intermediate consumption (P.2), gross fixed capital formation (P.51) and compensation of employees (D.1).

Deadline: 15 November 2023.

1.4. EDP inventory

Introduction

The EDP Inventory is an important tool for checking the quality of EDP data and it is also a very useful source of information for data users. It is therefore important that the information in the EDP Inventory is timely, follows the recent template and covers the issues further developed/ clarified in the 2022 edition of the Manual on Government Deficit and Debt.

The Hungarian statistical authorities update the EDP Inventory regularly. The latest updated version of the EDP Inventory (ESA 2010) was published on Eurostat's website in July 2022.

Discussion

Eurostat thanked the Hungarian statistical authorities for the regular update of the EDP Inventory and informed about the new EDP Inventory template following the release of the Manual on Government Deficit and Debt (MGDD 2022), which should be used for the upcoming revisions of the Inventory text. It was agreed that Eurostat will collect and provide its comments on the EDP Inventory and the Hungarian statistical authorities will update the EDP Inventory (using the new template) to reflect the information provided during the meeting, as well as with the information mentioned in other action points.

Regarding the implementation of the new MGDD 2022 provisions, this issue was shortly discussed under item 3.2.

Findings and conclusions

Action point 7 ⁽⁸⁾: Using the new template (established following the release of the 2022 edition of the MGDD), the Hungarian statistical authorities will update the EDP inventory, in particular the following sections, to reflect the information provided during the meeting, among others:

- In Table 2 – *Availability and use of basic source data for the main central government unit*, the availability of item 5 (profit and loss accounts) will be shown, indicating nevertheless that it is not used.
- In the section reporting the details of the basic data sources, the references to “financing expenditures and revenues” will be reworded as “financing outflows and inflows”.
- In the section disclosing the supplementary data sources used for the compilation of non-financial accounts, the reference to the GFCF survey will be modified, as

⁽⁸⁾ The deadline was agreed bilaterally and extended to 29 February 2024. The EDP Inventory was provided on 29 February 2024 and is under the evaluation.

it is no longer used. That section should be updated to describe the data sources used in the compilation of GFCF.

- In the section dedicated to the calculation of the super-dividend test, an explanation will be added on the analysis done for in-kind transactions, such as transfers of shares.
- In the section dedicated to the sector classification of units, a description will be added on the automation of the 50% test and the existence of the SQL data base on public corporations.
- In the section dedicated to the EDP table 2A, a detailed description will be added on how interest and associated flows are reported in the budget (working balance) as well as adjusted in the EDP table 2A.
- In the sections dedicated to the Social Security Funds, a detailed description will be added on the changed method of the financing of S.1314 subsector from the Treasury accounts.

The Hungarian statistical authorities are also invited to further update the EDP inventory with the information mentioned in other action points.

Deadline: 31 January 2024.

1.5. Compliance with Council Directive 2011/85/EU

Introduction

In Hungary, data in the context of the Council Directive 2011/85/EU are published on the Hungarian State Treasury website ⁽⁹⁾. Data includes detailed monthly and quarterly fiscal data, government guarantees, liabilities of public corporations, off-balance sheet PPPs, non-performing loans and government participation in the capital of corporations.

Eurostat checked the consistency of the data published on the Hungarian State Treasury website with the data provided to Eurostat in the supplement on contingent liabilities and potential obligations to the EDP related questionnaire and in the public corporations questionnaire. Data were consistent with nationally reported data.

Discussion

There were no issues raised under this point.

Findings and conclusions

There were no action points identified.

2. FOLLOW-UP OF THE PREVIOUS EDP DIALOGUE VISIT OF 27-28 MAY 2021

Introduction

The previous EDP dialogue visit to Hungary took place on 27-28 May 2021. The main issues discussed were the sector classification of the Hungarian Central Bank's (NCB) foundations and their subsidiaries and newly created NPIs holding universities; the recording of two newly introduced taxes as well as the abolishment of December fill-up

⁽⁹⁾ [Disclosures under Council Directive 2011/85 - Hungarian State Treasury \(gov.hu\)](#)

obligations of the corporate income tax (CIT), income tax on energy suppliers (energy tax) and innovation tax; the main COVID-19 measures undertaken by government and their recording in national accounts.

The EDP dialogue visit resulted in 31 action points. The Hungarian statistical authorities provided all the required information within the agreed deadlines.

Discussion

Eurostat noted that most Action Points (APs) from the 2021 EDP dialogue visit were implemented and closed. However, Eurostat reminded that there are two continuous APs (AP 2021/6 on MNB foundations and AP 2021/18 on the EU flat-rate correction), issued during the rounds of EDP notifications in 2020. Eurostat expects to receive an input on their status with each EDP notification reporting. Standing AP 2021/17 on the recording of interest was discussed separately under agenda item 4.2.2.

Findings and conclusions

Eurostat closed AP 2021/5 during the meeting, but encouraged the Hungarian statistical authorities to continue providing Eurostat with an expanded and more detailed explanatory note before every April and October EDP notifications.

3. FOLLOW-UP OF THE APRIL 2023 EDP REPORTING

3.1. Analysis of EDP tables and EDP questionnaire tables

Introduction

Hungary transmitted the EDP notification tables, the questionnaire related to the EDP tables, the supplementary table on government intervention to support financial institutions, Annex 8, the Covid-19 supplementary table, Annex 10, the energy prices supplementary table and the Recovery and Resilience Facility (RRF) table on time on 31 March 2023.

The statistical authorities also provided an explanatory note with the comments on the 2023 EDP notification tables, information on the main data sources used for the compilation of EDP data as well as the list of corporations and non-profit institutions reclassified into the general government sector, notes on AP 2021/6 (MNB foundations) and AP 2021/18 (EU flat-rate correction). The Hungarian statistical authorities also provided Eurostat with an information about the most significant government measures to mitigate high energy prices as well as information on a motorway concession contract.

There were two rounds of clarification questions, no major issues identified.

Eurostat thanked the Hungarian statistical authorities for their consistency in the timely sending of the EDP data. Eurostat also appreciated the continuous efforts of the Hungarian statistical authorities to ensure a high level of internal consistency in the transmitted EDP and GFS data.

Prior to the EDP dialogue visit, the Hungarian statistical authorities provided two tables - Annex 1 - a table on main revenue and expenditure items and financial transactions of

other central government bodies (OCGB) for 2021 and 2022 and Annex 2 - reconciliation between state direct debt, Maastricht debt of central government and debt at nominal value for 2019-2022.

Discussion

Eurostat thanked the Hungarian statistical authorities for providing for the first time Annex 2 - reconciliation between national debt, Maastricht debt and debt at nominal value. The Hungarian statistical authorities added that the table was compiled by the NCB.

Eurostat enquired about the currency and deposits (AF.2) reported in Annex 2 and asked to clarify whether it is included in the National debt published nationally. The NCB explained that National debt, published by the Debt Management Agency (ÁKK) includes only debt securities (AF.3) and loans (AF.4) while AF.2 (Treasury deposits of OCGB classified in S.13, later consolidated) were included only for completing this table. Eurostat explained that as National debt of Hungary does not contain AF.2, starting line of the table, i.e. National debt should correspond to the officially published debt. The NCB agreed to update the table and remove AF.2 from National debt.

Eurostat further enquired about the symmetrical adjustment for *repos* in debt securities (AF.3) and loans (AF.4) for the same amount. The NCB explained that it is cash received by the Treasury under debt securities instrument and for the correct recording in GFS/EDP statistics reclassified to the loans instrument. Eurostat took note.

Eurostat then asked about the line *correction of issue price of discount T-bills to face value* under debt securities instrument and why there was a significant jump in the difference between issue and face value from 2021 to 2022. The NCB explained that in National debt, the discounted T-bills are reported at issue value and not at redemption value like required in Maastricht debt, thus the correction is needed. Other debt instruments (bonds, loans) are reported at face value in National debt. Regarding the significant increase between the issue and redemption value, the NCB explained that it was mainly due to the very big jump in the interest rates from 3% in 2021 to 10% in 2022, but also due to the volume of T-bills, which increased significantly in 2022. Eurostat took note of the explanation.

Eurostat and the Hungarian statistical authorities discussed some other particular adjustment lines reported in Annex 2, such as the *deposits of Eximbank, debt on PPPs, factoring without recourse, foreign loan liabilities due to long term lease of Gripen airplanes*.

Finally, Eurostat asked if Hungary has a debt vis-à-vis the EU. The Hungarian statistical authorities explained that EU flows are treated as advance payments and recorded as other accounts payable (F.8) and not as currency and deposits (F.2) and, thus, are not part of national debt. Furthermore, the NCB explained that EU flows are received in EUR to the single euro account at the NCB (suspense account), then are transferred to the Treasury in HUF and the EU has no control on this account, i.e. money cannot be withdrawn by the EU. Eurostat took note of the explanation.

The Hungarian statistical authorities added that a similar, but simplified table on reconciliation between national debt, Maastricht debt and debt at nominal value is published by the NCB and shared the link with Eurostat ⁽¹⁰⁾.

Discussions further continued on Annex 1 - a table on main revenue and expenditure items and financial transactions of OCGB for 2021 and 2022. The non-financial side was prepared by the NSI while the financial side by the NCB. Eurostat asked for some additional details on the particular split of the units/ groupings of units provided in the table. The NSI explained that it decided to include the biggest ones (with sizeable B.9) and to group the rest together.

Eurostat asked some details about the company NÚSZ Zrt. (national toll payment services), i.e., about the negative capital revenue for 2022. The Hungarian statistical authorities agreed to verify and provide the explanation to Eurostat.

Next, Eurostat asked about the loan of 111.8 HUF billion, provided by the company NÚSZ Zrt. to one of its subsidiaries in 2021. The Hungarian statistical authorities explained that an ownership loan was granted for the implementation of a multi-lane toll system project in Indonesia. The project is expected to be profitable and the ownership loan will be repaid. Eurostat then asked if the subsidiary would collect tolls directly from the users in Indonesia. The Hungarian statistical authorities explained that the subsidiary is a Hungarian company and it is responsible only for developing the IT system (cameras, etc.) while Indonesia would collect tolls from the users. Moreover, the Hungarian statistical authorities explained that such toll system is already developed in Hungary and run by NÚSZ Zrt., thus such a system would be also developed in Indonesia. Eurostat noted that if a government unit has a project abroad, reinvested earnings on foreign direct investments should be applied and D.43 recorded in government accounts. Moreover, Eurostat mentioned that the nature of the injection, i.e., loan (F.4) or equity (F.5), should be questioned. The NCB agreed that there could be an equity investment component, but the meaning of the loan is to show that it is a repayable instrument which has interest, principal and should be repaid. The loan maturity date is year 2031, with no interest payments in the first and a half year. Eurostat summarized that the Hungarian statistical authorities should reflect on the loan/equity recording and to apply D.43 (in this case there is no need to do a capital injection test).

Eurostat enquired about the larger capital transfer of 91.6 HUF billion, provided by the tourism development company Kisfaludy2030 Turisztikai Fejlesztő Nonprofit Zrt. in 2022. The Hungarian statistical authorities explained that the capital transfer was provided to the household sector to finance the renovation of tourism facilities by small scale individual entrepreneurs. Eurostat took note.

Eurostat also asked about the very large intermediate consumption (P.2) reported by the National Waste Management Coordinating and Asset Managing Plc. (NHKV Zrt.) in 2021 and 2022 (147.2 HUF billion and 170.1 HUF billion respectively). The Hungarian statistical authorities explained that P.2 is recorded on a “gross” basis, i.e. not deducting sold (transmitted) services from sales, to avoid negative sales and output in the general government sector. NHKV Zrt. collects fees from the households (which are very low) but pays a market price to the companies that actually collect the waste. Eurostat noted the explanation.

⁽¹⁰⁾ <https://statisztika.mnb.hu/timeseries/data-7621>

Finally, Eurostat and the Hungarian statistical authorities discussed in detail the acquisition of debt securities (F.3) by the Savings Cooperatives Integration Unit (SZHISZ). The Hungarian statistical authorities explained that SZHISZ (classified in general government sector) had a deposit in one of the three banks that merged during 2022 to constitute the holding Magyar Bankholding Zrt. As part of the merger, SZHISZ used the deposit to acquire bonds issued by the holding.

Eurostat emphasized that it was a significant amount and asked further if SZHISZ bought those bonds on the market (i.e., bonds were tradable, had ISIN code) or from the Magyar Bankholding Zrt., also whether there were other participants or the operation was involving only government. The Hungarian statistical authorities explained that bonds were issued by the Magyar Bankholding Zrt., they had ISIN code and the whole amount was bought by SZHISZ. Eurostat questioned if in such a case the transaction should be recorded as a loan (F.4), rather as debt securities (F.3).

Eurostat further asked details about the deposit SZHISZ had in one of the three banks and where did the financing come from. The NCB explained that it was a transfer from government. SZHISZ was established by government in 2013 as a guarantee scheme for the saving cooperatives. Later, saving cooperatives were merged into one entity, the Savings Cooperative Bank, where SZHISZ deposited a significant amount. After that, this bank merged with two other banks (Budapest Bank and MKB) to constitute the holding Magyar Bankholding Zrt.

Eurostat noted that this SZHISZ deposit may have had the characteristics of a loan from government to the Savings Cooperative Bank from the beginning, thus an F.4 recording would be a better presentation. The Hungarian statistical authorities added that government plans to liquidate SZHISZ as there is no reason for the existence of this unit. Eurostat took note.

Eurostat took note of the explanations provided that this operation was not intended to cover any losses of the bank, as the latter had been profitable, and that the resulting holding has positive equity. However, certain questions on the nature of the securities acquisition (as well as of the preceding “deposit”) needed to be answered.

Findings and conclusions

Action point 8 ⁽¹¹⁾: The Hungarian statistical authorities will update the table reconciling the state direct debt, the Maastricht debt of central government and the debt at nominal value, in order to disclose as starting line, the state direct debt data as is published nationally (i.e., removing the deposits, AF.2, currently reported in the table).

Deadline: 8 September 2023.

Action point 9 ⁽¹²⁾: In relation to the revenue and expenditure data provided for the unit NÚSZ Zrt. (national toll payment services, classified in S.13), the Hungarian statistical authorities will explain why the capital revenue for 2022 is negative. The Hungarian statistical authorities will follow-up, also in relation with this unit, the status of the project for the implementation of a multi-lane toll system in Indonesia and reflect on the nature of the injection (F.4 or F.5) that this unit reportedly made into one of its

⁽¹¹⁾ Action point completed, the updated table was provided on 8 September 2023.

⁽¹²⁾ Action point completed, the requested information was provided on 29 September 2023.

subsidiaries, classified outside general government. The reflection should also consider how future transactions will be recorded in national accounts, e.g., whether the recording of reinvested earnings on foreign direct investments (D.43) is applicable.

Deadline: 30 September 2023.

Action point 10 ⁽¹³⁾: The Hungarian statistical authorities will analyse further the Magyar Bankholding Zrt. creation and the role the SZHISZ played in it. The Hungarian statistical authorities will investigate whether it would be more appropriate to record the instrument as a loan (F.4), rather as debt securities (F.3).

Deadline: 30 September 2023.

3.2. Implementation of the provisions of the new 2022 MGDD (2022 edition)

Introduction

During the April 2023 EDP notification Eurostat asked all countries to inform whether they have already implemented the provisions of the 2022 MGDD and, if so, what was the impact on government net lending/net borrowing (B.9) and gross debt (significant, marginal or no impact).

The Hungarian statistical authorities provided the table on the state of the implementation of the new 2022 MGDD provisions, which were also discussed during the April 2023 EDP notification.

Discussion

Eurostat and the Hungarian statistical authorities reviewed the table, item by item. The NSI explained that there would be no significant impact of the new 2022 MGDD provisions, except for the implementation of sub-section 2.6.4 *Statistical recording of the EU Recovery and Resilience Facility (RRF) associated flows* in 2022.

Eurostat asked about the B.9 impact on the implementation of the section on tax deferrals and whether there have been any tax deferrals during the COVID-19 pandemic. The Hungarian statistical authorities explained that there have been no tax deferrals in Hungary, only some postponements of tax declarations from May to September, i.e., within the same year. Eurostat suggested to put a comment as “not relevant in Hungary”.

Eurostat further noted that the provisions related to the SURE instrument are reported as “not implemented” although Hungary has SURE loans and guarantees and in recording them follows the MGDD rules, thus it should be reported as “fully implemented” with a “marginal impact” on B.9 and gross debt. For the provisions related to the capital injections into foreign direct investment, Eurostat suggested to put a comment, that D.43 is recorded in the Hungarian government accounts. On the financial bailouts and defeasance and on securitization of NPLs – to put a comment “not relevant in Hungary”.

Finally, Eurostat and the Hungarian statistical authorities agreed on other updates of the table related to the 2022 MGDD provisions.

⁽¹³⁾ The requested information was provided on 29 September 2023, the issue is under the evaluation.

Findings and conclusions

Action point 11 ⁽¹⁴⁾: The Hungarian statistical authorities will provide Eurostat with an updated table on the implemented provisions of the new 2022 MGDD chapters, sections and sub-sections.

Deadline: October 2023 EDP notification.

4. METHODOLOGICAL ISSUES AND RECORDING OF SPECIFIC GOVERNMENT TRANSACTIONS

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

4.1.1. Application of the qualitative and quantitative criteria

Introduction

In Hungary, ESA 2010 and MGDD rules are applied for the classification of units. The qualitative criteria are the primary ones for the sector classification of public entities while the market/non-market test is the secondary criterion.

The Treasury manages an official register of legal government units ⁽¹⁵⁾. The NSI receives an updated report of general government units on a monthly basis. For the time being all legal government sector units are classified in the general government sector in national accounts.

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

Generally, new units are treated in the same way as existing units. When a large new public unit is established, a first decision is made on its classification based on business plans and all available information from government and other sources.

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

Discussion

Eurostat and the Hungarian statistical authorities first discussed the application of the qualitative criteria for the sector classification of public units. Eurostat enquired if there are systematic checks performed to establish government control. The Hungarian statistical authorities explained that if government owns 50% of shares or more, it is

⁽¹⁴⁾ Action point completed, updated table was provided during October 2023 EDP notification.

⁽¹⁵⁾ Government Decree 4 of 2013 (I. 11.) on accounting of fiscal sector (legal government units).

automatically deemed as controlled by the government. In questionable situations where government has a minority of shares, but has a majority in the decision making (e.g., when in order to pass major decisions, government agreement is a prerequisite), the Hungarian statistical authorities search for additional, publicly available information. When a new public corporation is established, the Hungarian statistical authorities assess its classification at the very beginning, looking at the purpose and role of the new corporation. In case it is established that a company is created to implement government policy, the new public corporation is included in the general government sector from the moment of its establishment.

Eurostat then asked how the control of non-profit institutions (NPI) is determined. The Hungarian statistical authorities explained that they have a questionnaire where information on the source of revenue and financing is available and verified. Additionally, they check who has established the NPI. The Hungarian statistical authorities added that only those NPIs, exceeding a threshold of expenditure of 100 HUF million are being verified. Eurostat took note on the explanation.

As regards the quantitative market/non-market test, the Hungarian statistical authorities explained that the test is performed every October and November. Currently this is a manual process, but they are working on the development of procedures in order to have the calculation of the market/non-market test automated in the nearest future. The NSI is responsible for the market/non-market test, gathering data from their own database using SQL data mining. After obtaining the market/non-market test results, they discuss and take a decision in the Hungarian EDP WG on the reclassification of the units concerned. The Hungarian statistical authorities mentioned that usually the decision on any reclassification is taken in January, in order to obtain the data of reclassified corporations in due time for the April EDP notification.

Eurostat further enquired what the main data source is for the figures of “sales” or “production costs” in the database of the NSI that is used in the market/non-market test calculation. The Hungarian statistical authorities explained that they use annual corporate tax declarations collected by the Tax Authority and annual financial statements collected by the Ministry of Justice from around 2000 public corporations. Final data from the Ministry of Justice are available in June while that from the Tax authority, in December. Regarding the public corporations questionnaire, 99% of the data are taken from the Ministry of Justice final reports and if any are missing, data is supplemented from the Tax Authority reports. Thus, by default, the Ministry of Justice final reports are used.

Eurostat then enquired if the Hungarian Accounting Law prescribes the reporting also for public corporations. The Hungarian statistical authorities explained that according to the Law, there are mandatory types of reports and the structure of these reports is fixed. The units may choose simplified or detailed reporting formats and both reports would give the same results, but most corporations use the detailed reporting format - the total cost approach. Eurostat noted that regarding the total cost approach, the treatment of changes in inventories as well as of own capital formation is important for the market/non-market test formula.

Finally, Eurostat and the Hungarian statistical authorities discussed in detail the profit and loss account of one particular public corporation in order to verify if the market/non-market test formula is correct and includes changes in inventories and capitalised value of self-produced assets. Eurostat asked the Hungarian statistical authorities to send the exact formula used for applying the market/non-market test.

Findings and conclusions

Action point 12 ⁽¹⁶⁾: The Hungarian statistical authorities will provide Eurostat with the detailed formula used in the calculation of the quantitative market/non-market test, including the internal mapping procedures applied to the source data (from annual corporate tax declarations as well as from the annual financial statements collected by the Ministry of Justice occasionally used). They will notably detail/confirm the treatment of changes in inventories in the formula, as well as of own capital formation.

Deadline: 15 September 2023.

4.1.2. Sector classification of units

Hungarian Central Bank (NCB) foundations and their subsidiaries

Introduction

The issue regarding the sector classification of the Hungarian Central Bank's (NCB) foundations and their subsidiaries is a long-standing one, discussed in previous EDP dialogue visits and two ad-hoc visits.

Eurostat and the Hungarian statistical authorities re-discussed the sector classification of these foundations in the light of the previously declared intention to close them down, at which time the assets and liabilities of the foundations and of their subsidiaries would have been incorporated into the balance sheet of the NCB.

Discussion

Eurostat enquired about the current number of NCB foundations and their subsidiaries. The Hungarian statistical authorities explained that there is still one foundation controlling around fifteen subsidiaries. Eurostat took note.

As regards the T-accounts of the foundation and its subsidiaries, Eurostat further enquired if there are still fixed assets left owned by them. The NCB explained that there are mostly financial assets remaining, mainly deposits, mutual fund shares and debt securities, while the total value of fixed assets is marginal. The size of the assets is roughly 280 HUF billion. On the liability side, the most important position is the equity, i.e., the funds that the NCB provided when establishing the foundations in 2013 and 2014.

Eurostat recalled that during the previous 2021 EDP dialogue visit the Hungarian statistical authorities confirmed that they planned to liquidate the foundations and their subsidiaries by the end of 2022 or in the first quarter of 2023. Eurostat asked what are the current intentions and whether the termination process has already started. The Hungarian statistical authorities explained that last plans were to liquidate the foundation by mid-2023, however there is no decision taken so far. Eurostat took note on the information provided and noted that the continuous action point AP 2021/6 (renamed later as Action Point 13) would remain open.

⁽¹⁶⁾ The requested information was provided on 15 September 2023. Action point is under the evaluation.

Findings and conclusions

Action point 13 ⁽¹⁷⁾: The Hungarian statistical authorities shall send to Eurostat, for each EDP notification, the T-accounts presenting the recording in Hungarian national accounts, for the last two reference years, of all transactions involving the NCB foundations, their subsidiaries and their legal successors, until their complete winding down.

Deadline: continuous, starting September 2023.

Newly created NPIs holding universities

Introduction

During the last EDP dialogue visit in 2021, there was extensive discussion regarding the newly created NPIs that hold universities and their classification.

In Hungary, starting from 2019, more and more universities have been transferred from budgetary units to foundation-controlled entities. Every foundation was set up by a law adopted in the Parliament. In the case of most foundations, the chairperson and the members of the board were directly appointed by the members of the Hungarian Government. In several cases, the members of the board were themselves government officials (ministers, state secretaries, etc.), thus they were under government control. The financing was widely based on S.13 transfers. The legal status of these universities was non-profit institutions while these foundations were asset management foundations.

All NPIs holding universities are included in the general government sector. From 2021 onwards these universities were included in quarterly data collection of MoF as well as covered by the non-profit institutions survey.

Prior to the visit the Hungarian statistical authorities provided an updated note regarding the current situation on control over NPIs holding universities.

Discussion

Eurostat thanked the Hungarian statistical authorities for providing updated information and asked about the current situation on control over NPIs holding universities in the context of the rule of law conditionality, where following Council Implementing Decision (EU) 2022/2506, access to Erasmus+ and Horizon Europe funds for Hungarian higher education institutions overseen by public trust foundations was frozen. The Hungarian statistical authorities explained that some laws were changed so that government officials and politicians could not participate in certain decision making processes. Thus, several ministers and government officials resigned from the boards of NPIs holding universities. However the majority of members of the boards are still appointed by the government, as established in the law, thus the NPIs remain controlled by government. The Hungarian statistical authorities informed Eurostat that they will revisit the issue of control when disputes are settled with the European Commission. Eurostat took note of the explanation.

⁽¹⁷⁾ Action point rolled over; previously 2021/6.

The Hungarian statistical authorities also informed that so far 21 universities have been transferred from budgetary units to foundation-controlled entities while 5 universities remained as budgetary units.

Findings and conclusions

Action point 14 ⁽¹⁸⁾: The Hungarian Statistical Authorities will continue to monitor the situation on the control of the newly created NPIs holding universities taking into account the recent EC rule of law conditionality.

Deadline: 30 April 2024.

Hungarian Development Bank (MFB Zrt.)

Introduction

The Hungarian Development Bank (MFB) is a limited corporation fully owned by the Hungarian State and licensed to conduct specialized banking activities, classified in the financial corporations (S.12) sector of the Hungarian economy. The MFB is responsible for providing the necessary development resources to achieve the economic development objectives set out in the Hungarian Government's medium and long-term economic strategy, partly independently and partly in cooperation with other domestic and international organizations. The Bank's core activities include the provision of preferential loans for domestic businesses and private individuals. As a development bank, its priority is to provide funding opportunities in areas where commercial banks cannot provide loans efficiently.

MFB benefits from the Foreign Exchange Guarantee Framework Agreement with the Hungarian State that allows the bank to manage foreign exchange risk. In principle, the bank's exchange rate risks are assumed by the central government's budget up to a threshold, via hedging agreements with the Ministry of Finance based on the forint equivalent of the euro funds. The state's budget reimburses MFB for losses incurred in converting loans or funds into euros; foreign exchange gains are passed on to the state budget, if any.

Discussion

Eurostat noted that, following the Foreign Exchange Guarantee Framework Agreement, MFB was, for several years, reporting in its annual financial statements a large claim against government and asked how the corresponding liability was recorded in the budgetary/public accounts. The Hungarian statistical authorities explained that there is no specific counterpart recorded in budgetary/public accounts, because it is treated as a financial derivative type of instrument. However, the Hungarian statistical authorities further explained that in the financial accounts of S.13 this liability is captured through the effect that the unrealised losses impacting MFB's equity (the accumulated unrealised losses are treated in S.13 accounts as equity withdrawal). Realised losses are recorded as capital transfer expenditure (D.9) from government to the MFB. Eurostat then enquired if there have been any realised losses paid/capital expenditure paid in the last 4 years. The Hungarian statistical authorities explained there have been no payments, however agreed

⁽¹⁸⁾ Action point completed, the requested information was provided on 29 April 2024.

to verify and report. Eurostat asked the Hungarian statistical authorities to provide a copy of the agreement as well as the amounts of realised and unrealised foreign exchange losses.

Action point 15 ⁽¹⁹⁾: The Hungarian statistical authorities will provide Eurostat with a copy of the Foreign Exchange Guarantee Framework Agreement with the Hungarian Development Bank (MFB), signed by the Hungarian Ministry of Finance originally in 2004 and later modified in 2014.

Deadline: 15 September 2023.

Action point 16 ⁽²⁰⁾: In relation to the Foreign Exchange Guarantee Framework Agreement, the Hungarian statistical authorities will provide to Eurostat information on the nature of the claim against government recorded in the Hungarian Development Bank (MFB) balance sheet and will quantify the amounts of realised and unrealised foreign exchange losses associated to derivatives.

Deadline: 15 September 2023.

4.1.3. Changes in sector classification since the previous EDP dialogue visit in 2021

Introduction

Prior to the EDP dialogue visit, the Hungarian statistical authorities provided an excel file with the updated list of corporations and non-profit institutions reclassified in and out of the general government sector since the 2021 EDP dialogue visit.

There were 84 entities reclassified into general government and 31 corporations outside of the general government sector since the last EDP dialogue visit. The largest corporation reclassified into the central government subsector was the Hungarian railway infrastructure company, MAV Zrt.

Discussion

Eurostat thanked the Hungarian statistical authorities for providing the detailed list of the reclassified units including descriptions of the reasons for these reclassifications, information on the year of reclassification and the previous sector. Eurostat asked the Hungarian statistical authorities to provide a link to the published list of units, so that Eurostat could publish it on Eurostat's website as an Annex to the Hungarian EDP Inventory.

Findings and conclusions

Action point 17 ⁽²¹⁾: The Hungarian statistical authorities will provide a link to the published list of units included in the general government sector so that Eurostat could publish the latest version on Eurostat's website as an Annex 2 to the EDP Inventory.

⁽¹⁹⁾ Action point completed, the requested information was provided on 15 September 2023.

⁽²⁰⁾ Action point completed, the requested information was provided on 15 September 2023.

⁽²¹⁾ The requested information was provided on 29 September 2023. Updated information was provided on 15 December 2023, action point completed.

Deadline: 30 September 2023.

4.1.4. Transactions rearranged through government accounts

Introduction

During the 2021 EDP dialogue visit the Hungarian statistical authorities explained to Eurostat that they regularly check the transactions of large public corporations in order to identify if there were some activities carried out which would not be related to their main activity. This may signal the existence of transactions with features of national wealth redistribution, and thus indicate the need of rerouting them through government accounts.

Prior to the EDP dialogue visit, the Hungarian statistical authorities provided a note describing the rerouting of significant transactions through government accounts impacting government deficit and debt. Since the 2021 EDP visit the only rerouted transactions are from the units: MAVIR Zrt. (Hungarian Independent Transmission Operator Company Ltd.), MSZKSZ (Hungarian Hydrocarbon Stockpiling Association) and Student Loan II (Diákhitel II, DHK).

Discussion

Eurostat and the Hungarian statistical authorities discussed some transactions rearranged through government accounts. As regards MSZKSZ (membership fees), the Hungarian statistical authorities recalled that, since 2019, when MSZKSZ was classified in S.13, amounts are not rerouted anymore.

Regarding MAVIR Zrt., the Hungarian statistical authorities recalled that it is an electricity transmission operator, classified in sector S.11, responsible for the operation of the Hungarian electricity system and security of supply. It also runs a tax and subsidy scheme. MAVIR Zrt. has a special separate account, which is not on its balance sheet, where it collects revenues from electricity traders and pays subsidies to district heating providers, according to the Hungarian Electricity Law. These amounts are rerouted through government accounts, as it amounts to a redistribution of national wealth. The NSI added that in the past MAVIR Zrt. was running a balanced scheme, i.e., the revenue collected was enough to cover the scheme subsidies. The situation changed in 2022, when the revenue collected did not cover the subsidies paid, thus the government made a transfer of 323,8 HUF billion to MAVIR Zrt. from the central budget. This amount was included in the supplementary table for reporting government interventions to mitigate the impact of high energy prices which was provided to Eurostat with the April 2023 EDP notification. Eurostat took note of the explanation.

Eurostat further asked what system in general is put in place by the Hungarian statistical authorities to identify transactions which have to be rerouted via government accounts. The NSI explained that it receives some information from the MoF, for example on the expenditure (energy bill compensation) made in 2018 from the reserve held by Magyar Földgázkereskedő Zrt. (Hungarian Gas Trading Ltd.).

Finally, Eurostat enquired about the very large issuances of foreign currency bonds by two state-owned companies (MVM Zrt. and MFB Zrt.) in the first half of 2023, notably whether there was any implicit or explicit guarantee from the government and if the Hungarian statistical authorities analysed a possible rerouting of these transactions

through government accounts. The Hungarian statistical authorities explained that there was no government guarantee provided and that it is a normal event, as both corporations regularly issue bonds. MVM Zrt. is a very large corporation, having 4-5 trillion HUF revenue each year and being active on different markets. Considering the significance of the issuances, Eurostat requested the Hungarian statistical authorities to further analyse these transactions, notably whether they were totally or partially earmarked to the financing of policy-oriented operations.

Eurostat further asked if the Hungarian statistical authorities were aware of any government schemes funded by MVM Zrt. The Hungarian statistical authorities explained that MVM Zrt. finances its own activities and is active on gas and electricity markets. Eurostat then recalled that the Hungarian government purchased natural gas for 822.3 HUF billion to create a special reserve and asked whether it was MVM Zrt. who sold the gas to government. The Hungarian statistical authorities explained that the additional volume of gas was bought from a different entity and stored in Hungary by MSZKSZ (Hungarian Hydrocarbon Stockholding Association). Eurostat took note.

Findings and conclusions

Action point 18 ⁽²²⁾: The Hungarian statistical authorities will analyse the very large issuances of bonds observed in the first half of 2023 by two public corporations MVM Zrt. and MFB Zrt. and consider whether there are any factors that could indicate the public policy orientation of these transactions as well as any other elements that would be pointing to a possible rerouting of these transactions through government accounts. The Hungarian statistical authorities will report back to Eurostat on the results of their findings.

Deadline: 15 December 2023.

4.1.5. Government controlled entities classified outside general government (public corporations)

Introduction

The Hungarian statistical authorities provide a list of corporations and non-profit institutions reclassified to the general government sector every April EDP notification. In Hungary, the list of government-controlled units classified outside general government counts around 1,950 units. 18 of them are classified in the financial corporations sector (S.12), of which 7 are large ones. The market/non-market test results were reported for the 56 units having total liabilities larger than 0.01% of GDP.

Discussion

Eurostat and the Hungarian statistical authorities discussed some of the units included in the questionnaire on government-controlled units classified outside general government. In particular, discussions focused on those public corporations for which the result of the quantitative market/non-market test was below 50% or even negative, or the number of employees was zero or one.

⁽²²⁾ Action point completed, the requested information was provided on 15 December 2023.

Eurostat also enquired about some incorrect NACE codes assigned to units, that should be changed. The Hungarian statistical authorities explained that NACE categories come from the business register, thus Eurostat suggested that NACE codes should be considered in the register as well. Regarding some ancillary units reported in the questionnaire and having their market/non-market test ratio below 50%, Eurostat asked the Hungarian statistical authorities to indicate to which market producers they are attached.

Eurostat also noted that the Hungarian statistical authorities should closely monitor the results of the market/non-market test of the public transport company of Debrecen (DKV Zrt.), as the test's results were below 50% for two consecutive years.

Findings and conclusions

Action point 19 ⁽²³⁾: In relation to the public corporations questionnaire, the Hungarian statistical authorities will indicate:

- for the units forming part of the group, the market producer they are associated to, e.g., by indicating the relevant identification code of the latter.
- the appropriateness of some NACE codes discussed during the meeting (e.g., RÁBA Nyrt.) shall be checked and corrected, when applicable.

Deadline: December 2023, the next sending of the public corporations questionnaire.

Action point 20 ⁽²⁴⁾: The Hungarian statistical authorities will continue to closely monitor the results of the 50% test of the public transport company of Debrecen (DKV Zrt.), with a view of a possible reclassification into the general government sector (S.13), as the results of the market/non-market test was below 50% for two consecutive years.

Deadline: 15 March 2024.

4.2. Implementation of the accrual principle

4.2.1. Accrual taxes and social contributions

Introduction

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

Regarding taxes, cash data is received from monthly reports of the Hungarian State Treasury for the April EDP notification, while data from final accounts of the State Budget is available for the October EDP notification at t+7 months.

⁽²³⁾ Public corporations questionnaire was provided on 29 December 2023. An updated questionnaire was provided on 22 January 2024, action point completed.

⁽²⁴⁾ The requested information was provided on 14 March 2024. Action point completed, DKV Zrt. was reclassified into general government sector from 2020 onwards.

Regarding social contributions, cash data is received from monthly reports of the Hungarian State Treasury.

Prior to the EDP dialogue visit, the Hungarian statistical authorities provided a list of new taxes and tax changes introduced in 2022. Government Decree 197/2022. (VI. 4.) on extra-profit taxes regulated these changes. The regulations are in force from 1 July 2022.

Discussion

Eurostat thanked the Hungarian statistical authorities for providing detailed information on new taxes and tax changes and noted that some new taxes have been already discussed during the April 2023 EDP notification.

The Hungarian statistical authorities informed that with the issuance of Government Decree 582/2022. (XII. 23.), a new windfall tax on pharmaceutical companies was introduced in December 2022. The Hungarian statistical authorities explained that the taxable entities are the producers of pharmaceutical raw materials and products, the tax base is net (of VAT) sales revenue of the preceding tax year and the tax is recorded in government accounts as a tax on products (D.214I).

The Hungarian statistical authorities further explained that this tax refers to years 2022 and 2023, but according to the regulation it has to be paid in two instalments in 2023, i.e., in May 2023 (tax base is year 2022) and November 2023 (tax advance, tax base will be an estimate of net sales revenue of year 2023). Eurostat took note of the explanations, but stressed that in national accounts it would not be appropriate to record this tax twice in the same year, thus a time adjustment should be considered.

Eurostat further asked in which year, (2022 or 2023), the pharmaceutical companies recorded this windfall tax in their profit and loss accounts. The Hungarian statistical authorities agreed to verify this information and to come back to Eurostat.

Regarding the questionnaire on taxes and social contributions, which is provided every December, Eurostat reminded that the questionnaire primarily describes the sources and methods used for the recording of taxes and social contributions and is not aimed at collecting the tax amounts. Thus, all new taxes or all changes to the existing taxes should be described in the questionnaire and discussed with Eurostat. The Hungarian statistical authorities agreed to update the questionnaire accordingly.

Findings and conclusions

Action point 21 ⁽²⁵⁾: The Hungarian statistical authorities will update parts 1-3 of the questionnaire on taxes and social contributions, including all newly introduced taxes and their recording in government accounts. For the future, the statistical authorities are invited to fill out the questionnaire in a prospective way (i.e., with the information referring to year t, or possibly t+1, rather than year t-1, as currently done).

Deadline: December 2023, the next sending of the questionnaire on taxes and social contributions

⁽²⁵⁾ Action point completed, the updated questionnaire on taxes and social contributions was provided on 21 December 2023.

Action point 22 ⁽²⁶⁾: Eurostat took note that the current intention of the Hungarian statistical authorities is to record the tax as revenue of 2023. The Hungarian statistical authorities will provide an analysis of the different aspects of this tax, relevant for its time of recording in national accounts; to this effect, they will in particular identify how the tax was recorded by the pharmaceutical companies in their financial statements.

Deadline: 8 September 2023.

4.2.2. Accrued interest

Introduction

In Hungary, interest expenditure is recorded on cash basis in the WB. It covers all interest expenditures of legal central government. Flows associated to discounts and premiums are included in the WB. For the State, the Debt Management Agency (ÁKK) calculates accrual data on interest expenditure. Regarding securities other than shares, data for the main unit of S.1311 are available to the NSI and the NCB on a security-by-security basis.

For units reclassified into S.1311, interest expenditure data is available on accrual basis. S.1313 interest is available on cash basis, and the accrual adjustment is made by the NCB using securities statistics and banking reports. Interest of units reclassified into S.1313 are on accrual basis. S.1314 interest data is available on cash basis.

The recording of interest has been discussed during the previous 2021 EDP dialogue visit. The recording of interest in EDP table 2A and table 3B have been also discussed during the 2022 and 2023 EDP notifications.

The Hungarian statistical authorities provided Annex 3, a supplementary table on the interest recording for 2019-2022, requested by Eurostat prior to the visit.

Discussion

Eurostat thanked the Hungarian statistical authorities for providing the table on interest. The aim of this table is to facilitate the monitoring of adjustments for the interest in EDP tables 3 and their consistency with the interest recorded in ESA table 2. The table also aims to facilitate the reconciliation of the valuation of the Maastricht debt instruments (at face value) with the valuation of the debt at nominal value.

The main debt instrument type, accounting for about 49% of the stock of debt, are Government Bonds (MÁK), with maturities at inception from 3 to 20 years, usually with a fixed rate annual coupon. In 2021, the Treasury issued for the first time green bonds with a fixed rate coupon, maturing after 10 or 30 years. Inflation-linked Premium Government Bonds (PMÁK) with different maturities represent about 9% of the debt, while Government Paper Plus (MÁP Plusz), issued with a maturity of 5 years, at fixed interest rates, represents around 5% of debt. Discount Treasury Bills (DKJ) issued with maturities of 3, 6 and 12 months represent around 5%, while loans and deposits represent around 7% of debt. Foreign government bonds are issued in four currencies (EUR, USD, CNY and JPY) representing around 20% of debt.

⁽²⁶⁾ Action point completed, the recording issues were solved during the October 2023 EDP notification.

Regarding MÁP Plusz securities, Eurostat asked the Hungarian statistical authorities to elaborate on how the interest is paid. The authorities explained that in the first year the interest is paid semi-annually and then annually, either to the bank account or to the Treasury account held by the holder. The holder of the instrument can choose between receiving interest payments in cash, or in the form of new securities. In the latter case, the interest is technically not considered as capitalised interest, in the sense that interest is deemed to be paid and immediately reinvested in the same securities. For other type of securities (e.g., PMÁK), interest received could be reinvested in other debt securities, such as retail bonds, treasury bonds or treasury bills. The impact on the debt is nevertheless the same as for capitalised interest as the stock of the securities held by the creditor will increase with the reinvested interest, which in turn generates interest. The Hungarian statistical authorities added that when the ÁKK issues debt securities, the Treasury keeps some in their own stock/technical account to facilitate trade in the secondary market, which are excluded from the consolidated gross debt. As the table on interest is presented on a consolidated basis, it only includes debt which is not held by the Treasury.

Regarding inflation-linked debt securities (PMÁK), the Hungarian statistical authorities explained that the annual interest rate is calculated as the previous year's average CPI plus a premium that varies across different series. PMÁK are retail bonds with a market value set by the Treasury, not traded on the stock exchange. Eurostat noted that since they cannot be traded, they could be closer in their economic nature to deposits than to debt securities.

Next, Eurostat and the Hungarian statistical authorities discussed Annex 3, the table on interest. The Hungarian statistical authorities explained that the table was compiled by the NCB and it includes debt instruments and loans. As regards debt instruments, NCB's securities register is the main source data, which is based on ISIN codes with no details on specific tranches. The register contains all the securities issued in Hungary by residents. From 2023 onwards, securities dealers have to report data on a client-by-client basis, per institutional sectors to avoid classification errors that may affect D.41 recording following the sector reclassification of entities. Such information allows to calculate the Maastricht debt at face value, to produce the market value figures for financial accounts, to calculate the accrued interest expenditure and accrual interest income for the national accounts. As regards loans, there is a separate database with more aggregated data. Counterparty information from the financial corporations, as well as the credit register allow to cross-check debt of individual units reclassified to S.13.

The accrued interest is calculated by the ÁKK, for each ISIN code, on a monthly basis. The ÁKK provides information to the NCB following the statistical data collection agreement prescribed in an NCB Governor's decree, thus making it possible to cross-check information using both – the NCB register and the ÁKK data.

In the budgetary accounts, interest is recorded on gross cash basis, i.e., premiums and discounts at issuance are included in cash revenue and expenditure. Swap interest is included in cash expenditure as well.

Eurostat asked about the significant amounts of coupons bought back reported in the table on interest, line 6, and whether the Treasury operates on the market to repurchase debt. The NCB explained that not only the Treasury, but also the ÁKK buy-back debt securities. Eurostat then asked about the approximate volume of debt securities bought back. The NCB explained that it is around 600-800 HUF billion each year and in many

cases it relates to debt securities which are near to their maturity (1 or 2 years). Eurostat asked if the coupon bought back corresponds to the coupon accrued on those buy-backs, or if it includes something else as in Eurostat's view the amount reported in 2022, on line 6, is higher than expected. Eurostat asked the Hungarian statistical authorities to provide the amounts of bonds bought back for the period 2019-2022, to verify the plausibility of bought-back coupon amounts.

Further, Eurostat asked whether the amounts of premiums/discounts repurchased that should be reported under line 15 are included within line 6 (coupons bought back) or elsewhere in the interest table. The Hungarian statistical authorities agreed to verify.

As regards data reported in EDP table 3, under line "redemptions/repurchases of debt above(+)/below(-) nominal value", Eurostat asked what the statistical authorities were reporting here and whether the accrued coupon bought back was included in this line. The NCB explained that it includes here the difference between redemption value and face value plus accrued interest while the coupon bought back is recorded under line "difference between interest (D.41) accrued (-) and paid (+)". Eurostat asked the authorities to verify the amounts reported within this line.

Eurostat also noted that Hungary is one of the very few countries which do not provide the split of premium and discount amortized in lines 12a and 12b. The NCB explained that this is due to the non-availability of tranche-by-tranche information in its securities register. Eurostat further enquired if the stock of premiums could be provided separately in line 7a, as such information would help to understand the compilation practice and the amortization of premiums and discounts. Eurostat noted that there are some limitations on the NCB's register, as tranche-by-tranche information is not available and, thus, the table on interest cannot be filled in completely. However, since such information is available at ÁKK, the NCB could ask the ÁKK to provide data on discounts, premiums, stocks and amortization. The Hungarian statistical authorities agreed to complement the table on interest using available data from ÁKK.

Finally, Eurostat and the Hungarian statistical authorities discussed interest revenue and expenditure included in the WB and the reconciliation of interest (D.41) items as reported in EDP tables 2 and 3. During the April 2023 EDP notification, the Hungarian statistical authorities provided details of the amounts included in the figure of interest expenditure in public accounts. Eurostat asked why the amount of the discount at issuance (HUF 646,478 million) reported in public accounts differs from the amount reported in the table on interest (HUF 830,915 million). In Eurostat's view, the latter figure is reported on a net basis (including premiums issued under certain ISIN codes), therefore, the fact that it is larger than the amount included in the interest expenditure in public accounts needs verification.

Eurostat further enquired about interest at maturity on zero-coupon bonds (HUF 114,120 million). The NCB explained that these are resident bonds issued 6 years ago that matured in 2022 and that the interest has been recorded as interest expenditure in the WB, while in EDP table 3 it was reported on line "difference between interest (D.41) accrued (-) and paid (+)".

Next, Eurostat asked where the coupon bought back is reported in the figure of interest expenditure in public accounts. The NCB explained that it is included in the coupon interest (HUF 1,326,506 million). Eurostat asked the NCB to verify this information.

Eurostat and the Hungarian statistical authorities also discussed in detail the amount of compensation of revaluation (which reportedly included the effect of foreign currency revaluation plus the difference between the redemption value and nominal value in case of early repurchase (HUF 13,473)). As it was a very technical discussion, the NCB suggested to continue the discussion in written.

Findings and conclusions

Action point 23 ⁽²⁷⁾: Eurostat took note that the source data for filling the table on the recording of interest (NCB's securities register) is based on ISIN codes, with no detail on specific tranches. In order to further verify the interest recording in Hungary, it was agreed that the Hungarian statistical authorities will:

- Provide to Eurostat with the amounts of bonds bought back for the period 2019-2022.
- Liaise with the Debt Management Agency and provide the split of the figures reported in line 12, amortisation of premiums and amortisation of discounts, as well as for item 7 on stock of premiums/discounts. If information on a tranche-by-tranche basis cannot be obtained, the split may be at least done at the level of ISIN code.
- Clarify whether the amounts that should be reported under line 15 (premiums/discounts repurchased) are included within line 6 (coupons bought back) or elsewhere.
- Clarify what is included under EDP Table 3 "redemptions/repurchase of debt above(+)/below(-) nominal value", notably whether it includes the difference between the market value (redemption/repurchase value, preferably without coupons bought back) and the EDP nominal value (as it should), or something else.
- Analyse the possibilities for using data from the Debt Management Agency to complement/provide more granularity to the interest table, and report back to Eurostat (with an updated table).

Deadline: 30 September 2023.

Action point 24 ⁽²⁸⁾: In relation to the detail provided in the April 2023 EDP notification of the different concepts that are included in the figure of interest expenditure in public accounts for 2022, the Hungarian statistical authorities will clarify the following:

- The difference between the discounts at issuance reported in the detail (HUF 646,478 million) and those reported in the interest table (HUF 830,915 million). Eurostat understands that the latter figure is reported on a net basis (including premiums issued under certain ISIN codes), therefore, the fact that it is larger than the amount included in the interest expenditure in public accounts needs further explanation.
- Whether the figure of coupon interest (HUF 1,326,506 million) includes coupons bought back.

Deadline: 30 September 2023.

⁽²⁷⁾ Action point completed, the requested information was provided on 29 September 2023.

⁽²⁸⁾ The requested information was provided on 29 September 2023. Action point is under the evaluation.

4.2.3. *EU flows*

Introduction

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

EU financial instruments are managed by a unit in central government, which disburses money via MFB Zrt., and all the transactions and assets are recorded in the central government's WB and balance sheet.

As regards the EU flat-rate correction, the action point 26 (previously AP 2021/18) remains still open until the complete settlement of the EU financial correction.

Prior to the EDP dialogue visit, the Hungarian statistical authorities provided a table on EU flows for 2019-2022. During the meeting, the Hungarian statistical authorities gave a presentation on the recording of EU transfers in government accounts. They also agreed to share the presentation with Eurostat via email.

Discussion

Eurostat thanked the Hungarian statistical authorities for providing a good and comprehensive table on EU flows, with just a few inconsistencies with EDP questionnaire table 6 for the other accounts receivables (F.8) and cash inflows (F.2) in 2021 and 2022. The Hungarian statistical authorities clarified that the differences are due to the RRF. Eurostat took a note of the explanation.

Eurostat also enquired about the large amount (574.6 HUF billion) of other accounts payable (F.8) reported for 2022. The Hungarian statistical authorities explained that this amount relates to the advance payment from the EU concerning the new programming period, which was received at the very end of 2022 and could not be used. Eurostat then asked if this advance payment from the EU entered the working balance, because in EDP questionnaire table 6, line 3 (advance payments) is reported as zero for all years. The Hungarian statistical authorities explained that payments from the EU enter a suspense account held at the Treasury and will appear in the WB when an expenditure is made, i.e., any cash flow that enters the WB from the suspense account is reported in EDP questionnaire table 6, line 4 (reimbursement of expenditure).

Eurostat further asked about the EU flows reported in EDP questionnaire table 6 and why the entry in line 17 (adjustments for contributions made to the EU) did not lead to an entry in line 36 (of which: payables relating to contributions to EU budget), which is reported empty for all years. Eurostat added that since there are flows reported in line 17, there should be also stocks reported in line 36. The Hungarian statistical authorities agreed to verify and correct the EDP questionnaire table 6.

As regards the EU flat-rate correction, the Hungarian statistical authorities confirmed to Eurostat that the last payment of the EU financial correction (40 HUF billion) will be recorded in 2023. Eurostat noted that the continuous action point will be closed as soon as the settlement of the EU financial correction is completed.

Findings and conclusions

Action point 25 ⁽²⁹⁾: Regarding EDP questionnaire table 6 (recording of EU flows in EDP tables), the Hungarian statistical authorities will clarify why the entry in line 17 (*adjustments for contributions made to the EU*) do not lead to an entry in line 36 (*of which: payables relating to contributions to EU budget*), which is empty. In general, line 36 should reflect the accumulation of transactions reported in line 17, plus or minus revaluations. It was also agreed that the Hungarian statistical authorities will share with Eurostat the interesting presentation made during the meeting clarifying the accounting treatment of EU flows.

Deadline: 30 September 2023.

Action point 26 ⁽³⁰⁾: The Hungarian statistical authorities shall send to Eurostat a detailed table, for each upcoming EDP notification until the complete settlement of the flat-rate EU financial corrections discussed during the April 2020 EDP notification. This table should include, in addition to any information they deem appropriate, the following information pertaining to the EU flows impacted by the mentioned corrections, categorized by year, audit engagement, and operational program:

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

Deadline: until complete settlement of the EU financial correction.

4.2.4. Recovery and Resilience Facility

Introduction

Hungary provided the Recovery and Resilience Facility (RRF) table for the first time in the October 2021 EDP notification, however, at that time, the Hungarian Recovery and Resilience Plan (RRP) was not yet approved. The approval of the Council took place on 15 December 2022.

In the April 2023 EDP notification Hungary provided the RRF table with significant amounts for 2022 (150 HUF billion). So far, only non-repayable grants have been recorded and no loans. Cash is planned to be received from 2023.

As regards the application of a coefficient for 2021 and 2022 due to the recalculation of RRF grants, the Hungarian statistical authorities explained that the Hungarian RRP budget was reduced from 2,511.4 HUF billion to 2,324.5 HUF billion, and there is no need for further revisions, as the plan documentation was already submitted to the

⁽²⁹⁾ Action point completed, the requested information was provided on 29 September 2023.

⁽³⁰⁾ Action point rolled over; previously 2021/18.

Commission with the reduced budget amount. They also confirmed that in the RRP there is no revenue reduction or financial transaction foreseen that would be financed from the RRF.

RRF projects are administered in the same IT system as the operational programs of the multiannual financial framework (EUPR FAIR).

Discussion

Eurostat thanked the Hungarian statistical authorities for providing the RRF table at every EDP notification since 2021 and enquired if there have been any cash received in 2022. The Hungarian statistical authorities explained that so far there was no cash received, but it is planned to be received in 3rd or 4th quarter of 2023. As regards the RePower EU instrument/plan, Hungary will apply for the loan, but not for the entire amount. This loan will be used to finance energy related investments.

As regards the data sources, Eurostat asked if it will be possible to separate RRF grants and loans as the recording rules are different in the government accounts. The Hungarian statistical authorities confirmed it will be possible, although so far only RRF grants are considered to be used and government is considered as the final beneficiary.

Eurostat also recalled that as the maximum financial contribution for non-repayable financial support of each Member State was updated in 2022, provided no revision of the RRP in this respect is foreseen, a coefficient should be applied to proportionally decrease expenditure financed from RRF grants. The Hungarian statistical authorities explained that the Hungarian RRP has been approved only in December 2022 and confirmed that the reduced RRF grants have been already included in the RRP. Eurostat thanked for the clarification.

Findings and conclusions

There were no action points identified.

4.2.5. Military expenditure

Introduction

For the recording of military expenditure in EDP Questionnaire table 7.1 the Hungarian statistical authorities have a special data collection program from the Ministry of Defence (MoD) about gross fixed capital formation (GFCF) and inventories, military equipment, the Gripen contract and the annual report of the MoD. For the time being, the data collection is on an annual basis, but the NSI would like to move to a quarterly data collection basis.

The annual reports of government institutions are on a cash basis, but an accrual adjustment is made for GFCF based on the balance sheet and the statistical data collection, which collects GFCF data on accrual basis.

Concerning long-term rental agreements, the Gripen contract is an operating lease of 14 military aircraft from an industrial supplier. The contract specifies a 10-year rental period starting from the availability of the first reconstructed aircraft, which was in 2006. From 2012, the rental period was extended until 2026. In national accounts, the Gripen contract

was reclassified from operating lease into a financial lease. Corresponding adjustments were recorded in EDP table 2A.

Discussion

Eurostat noted that in EDP questionnaire table 7.1 the military advances are classified as trade credits, while they are long-term advances and according to the MGDD should be reported under long-term loans (AF.42 assets).

Eurostat further enquired why there was such a sudden fall in 2020 in the stock of long-term loans AF.42 (liabilities) related to the Gripen contract, as reported in EDP questionnaire table 7.1, line 12. The Hungarian statistical authorities agreed to check this issue together with the MoD and to report back to Eurostat.

Findings and conclusions

Action point 27 ⁽³¹⁾: The Hungarian statistical authorities will amend EDP questionnaire table 7.1 (military equipment: deliveries and cash measures) and will reclassify the stock of trade credits and advances AF.81 (assets) reported in line 9 to stock of long-term loans F.42 (assets) in line 10.

Deadline: 30 September 2023.

Action point 28 ⁽³²⁾: The Hungarian statistical authorities shall report back to Eurostat about the sudden fall in the Gripen lease-related debt in year 2020, as reported in EDP questionnaire table 7.1, line 12.

Deadline: 30 September 2023.

4.3. Recording of specific government transactions

4.3.1. Government measures in response to the COVID-19 crisis and of Russia's invasion of Ukraine

Introduction

Government measures undertaken in the context of the COVID-19 pandemic have been discussed in detail during the previous EDP dialogue visit in 2021. The measures have been also provided for each EDP notification since April 2021 until October 2023. Starting with the April 2024 EDP notification, the reporting of the Supplementary table of the measures taken by the Member States due to the COVID-19 will be discontinued.

Prior to the visit, the Hungarian statistical authorities also provided a short note on the current and foreseen government operations relating to Russia's invasion of Ukraine.

Discussion

⁽³¹⁾ The requested information was provided on 29 September 2023. Action point remains open as it will be implemented in benchmark revision.

⁽³²⁾ Action point completed, the requested information was provided on 29 September 2023.

There were no issues raised under this point.

Findings and conclusions

There were no action points identified.

4.3.2. Government measures to mitigate the impact of high-energy prices in the economy

Introduction

Hungary provided Annex 10, a new supplementary table on energy measures, in the April 2023 EDP notification with the most significant government measures in 2022 related to the elevated prices on global energy markets.

Prior to the visit, the Hungarian statistical authorities provided an updated Annex 10, including the estimated amounts for year 2023.

Discussion

Eurostat thanked the Hungarian statistical authorities for providing the most recent figures for 2023 on the government measures to mitigate the impact of high-energy prices. Eurostat also recalled that government measures reported in 2022 have been discussed during the April 2023 EDP notification.

Eurostat and the Hungarian statistical authorities further discussed in detail the government measures presented in Annex 10.

As regards the universal gas and electricity subsidy scheme, the Hungarian statistical authorities recalled that in 2022, based on the relevant government decree, the government subsidized energy service providers with 375 HUF billion in cash, of which 335 HUF billion was accounted for in 2022 on accrual basis. They further detailed that since 2013, gas and electricity have been sold to the households at a fixed price. Starting from 2021, the difference between the market price and the fixed price increased significantly, generating a significant loss for the service provider. The loss for 2021 (and partially for 2022) was compensated through a 200 HUF billion capital injection by government to the service provider (MVM Zrt.). From August 2022, based on a government decree, the compensation scheme slightly changed and the loss was compensated through the government subsidy to the service provider. Eurostat asked about the difference between the cash and accrual amounts. The Hungarian statistical authorities explained that there was a slight overcompensation in cash, due to which they recorded an accrual adjustment.

Regarding the subsidy for the district heating scheme, it was explained that it is similar to the universal gas and electricity subsidy scheme. The price of district heating for households is fixed. In order to compensate for the loss, the amount above the fixed price was reimbursed to district heating providers from budgetary sources with the cooperation of the Hungarian Electricity Industry Transmission System Authority (MAVIR). The amount in 2022 was 324 HUF billion. Eurostat took note of the explanations.

As regards the purchase of the natural gas reserve stock, the Hungarian statistical authorities recalled that, in 2022, the special natural gas reserve was created by a government decree. The Hungarian Hydrocarbon Stockholding Association (MSZKSZ) was appointed to build up, store and sell the natural gas stocks. For this purpose, MSZKSZ contracted a state-guaranteed loan. The special natural gas stock was purchased for 822 HUF billion and was not sold until the end of 2022.

On the surtaxes payable by energy suppliers, the Hungarian statistical authorities explained that there were 3 specific taxes introduced. First, a tax on producers of petroleum products, which mainly relates to the private oil and gas company MOL Nyrt. The surtax base is the margin realized by the petroleum product producer from the difference between the low purchase price of Russian crude oil and the market (Brent) price. Initially the tax rate was 25% and since August 2022 it increased to 95%.

The second surtax is levied on certain renewable energy producers who were eligible to participate in the state support schemes. Under such state subsidized schemes, anyone investing in renewable energy could sign a contract with MVM Zrt. to sell the electricity at a pre-agreed price. When market prices increased significantly and exceeded the pre-agreed price, renewable energy producers started leaving the subsidized scheme and started selling electricity on the market. Thus, energy producers exiting the state subsidy scheme in 2022 and 2023 and those that started their commercial activities in these two tax years (but did not conclude the agreement required to receive subsidies) were required to pay additional taxes. The tax base is the difference between the mandatory purchase price and the actual market price. Tax rate is 65%.

The third tax is levied on companies that provide balancing capacity (i.e., a service designed to balance current electricity supply and demand) to the transmission system operator MAVIR. The tax base is net sales revenue, with tax rates of 13% in 2022 and 10% in 2023.

Eurostat thanked for the detailed explanations and asked if any of these surtaxes were introduced following Council Regulation (EU) 2022/1854 of 6 October 2022 on an emergency intervention to address high energy prices. The Hungarian statistical authorities could not confirm it, but added that income tax on energy suppliers has increased from 31% to 41%, so it might be related to the EU regulation, as this is a permanent tax, while new surtaxes are temporary ones. Eurostat took note.

As regards gas, electricity and district heating subsidy schemes, Eurostat noted that in the 2022 MVM annual financial statements, the most significant item among the grants is the subsidy for protecting utility payments, amounting to HUF 476,096 million, and reportedly referring to Government Decree 289/2022. MVM also reports universal service provider sales revenue amounting to HUF 45,029 million. There are also a number of other subsidies received by MVM, thus it is important to have a clear understanding of the different measures implemented by MVM following government decrees, as well as how they are financed. In Eurostat's view the measures reported in the energy table should be reconciled with the measures reported in the MVM business accounts.

Eurostat asked the Hungarian statistical authorities to update Annex 10 and to add to each scheme a reference to the relevant legislative source as it would help to better understand the measures implemented and their impact on government deficit and debt.

Findings and conclusions

Action point 29 ⁽³³⁾: The Hungarian statistical authorities will update Annex 10 (the supplementary table on energy measures) by adding to each scheme a reference to the relevant legislative source. Eurostat indicated that this would facilitate its global understanding of the measures, including of those that are implemented through public corporations, as well as their impact in government deficit and debt.

Deadline: 30 September 2023.

4.3.3. Guarantees

Introduction

In Hungary, the most significant and sizeable guarantees are provided by central government while local government also provide some small ones. The beneficiaries are financial and non-financial corporations, households and government units. There are three types of guarantees in legal terms: individual guarantees on borrowing, mixed guarantees on borrowing and assets and guarantees on assets, the latter being backed by a government guarantee.

The accounting records on government guarantees are kept exclusively in government public accounts. As regards data sources, stocks of guarantees are available depending on the type of government guarantee, either at individual or aggregated level. Guarantee cash calls enter the WB as expenditure for both central and local governments. A debt assumption is recorded when there is an explicit decision made by government. Guarantee fees and repayments of government claims are recorded as revenues in government accounts.

There is also a significant amount of standardised guarantees extended, which mainly relates to the pre-natal funding scheme to young married couples, introduced in 2019.

Prior to the dialogue visit, the Hungarian statistical authorities provided Annex 5, a table with government guarantees on borrowing and on assets, guarantees called, repayments and stocks by central and local government for 2019-2022.

Discussion

Eurostat thanked the Hungarian statistical authorities for providing the detailed table on government guarantees and asked to confirm the zero amounts reported in 2019-2022 on guarantee cash calls related to the guarantees on borrowing. The Hungarian statistical authorities confirmed that there were no cash calls in relation to guarantees on borrowing. Eurostat then asked why in EDP questionnaire Table 9.1 line 3, the “Amounts of new guarantees provided” are reported as “not available” or “L”. The Hungarian statistical authorities explained they have data on stocks of guarantees at the end of the period, but the amounts of new guarantees cannot be separated, only the change in the stock is known. Eurostat took note.

⁽³³⁾ Action point completed, updated table was provided during October 2023 EDP notification.

As regards MFB and Student Loan Center fund-raising, the Hungarian statistical authorities clarified that these are guarantees on borrowing, i.e., on loans and bonds issued for the purpose of raising funds. Eurostat took note.

As regards guarantees on assets, Eurostat enquired about the guarantees on loans given by the MFB, the beneficiaries of these loans and guarantees and whether they have any features of standardised guarantees. The Hungarian statistical authorities explained that the beneficiaries are the clients of the MFB, they apply for a loan and the decision is made by the MFB on a case-by-case basis, thus it is treated as a one-off guarantee. The legal guarantee beneficiaries are the borrowers, paying guarantee fees to the guarantor, i.e., government. Eurostat then asked if the collected guarantee fees, recorded in EDP questionnaire table 9.1, correspond only to the MFB scheme or if there are some other guarantee fees from other schemes included. The Hungarian statistical authorities explained that these guarantee fees include all central government guarantee schemes.

Eurostat and the Hungarian statistical authorities further discussed the guarantees given by the public corporation Garantiqua Hitelgarancia Zrt. This entity provides guarantees to clients borrowing from commercial banks and receives counter guarantees from the government (If a client fails to repay the loan, the loan-originating commercial bank is repaid by Garantiqua Hitelgarancia Zrt., whereas Garantiqua Hitelgarancia Zrt. is compensated by government). Eurostat further noted that guarantee fees collected during a year are much lower than cash calls, implying that this may be a non-commercial scheme, run by Garantiqua Hitelgarancia Zrt. on behalf of government, in addition the scheme might be having features of a standardised guarantee scheme. The Hungarian statistical authorities will analyse the case.

Findings and conclusions

Action point 30 ⁽³⁴⁾: In relation to the guarantees provided by government to the unit Garantiqua Hitelgarancia Zrt., the Hungarian statistical authorities will report back to Eurostat on the following aspects:

- Whether some of the guarantee schemes implemented by Garantiqua Hitelgarancia Zrt. should in fact be considered government schemes since they are non-commercial in nature. This analysis should in particular consider whether the unit charges market fees for the services it provides.
- Whether some of these non-commercial schemes have the nature of standardised guarantees.

Deadline: 15 November 2023.

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

Introduction

In Hungary, cancellation of claims can be made only based on the specific authorization of a law within the boundary of the central level of legal government. The same is valid for local governments, where these kinds of specific provisions can be set by local government decree.

⁽³⁴⁾ The requested information was provided on 15 November 2023. Action point is under the evaluation.

Claim cancellations are not automatically recorded as expenditure in public accounts and are therefore not included in the WB in EDP tables. Consequently, in case government cancels a claim, a separate adjustment line appears in EDP table 2A. Regarding government claims against public corporations, source data come from the balance sheets of central government bodies collected and transmitted by the Treasury. At time of the April EDP notifications, only preliminary data are available for the previous year, which are becoming final in May. Foreign claims usually relate to the loans granted by Eximbank to foreign partners.

Regarding claim cancellations against S.1314, from 1 January 2022 onwards, the financing method has changed and the entire social security subsector is financed only by the Treasury, according to the same financing principles than the budgetary appropriations, i.e. on a net financing basis.

Prior to the visit, The Hungarian statistical authorities provided the requested information on the list of government claims for 2019-2022, by companies and amounts.

Discussion

Eurostat noted that the new net financing method of the S.1314 has been discussed and clarified earlier in this meeting, under agenda item 1.2. Quality management framework, public account audit and internal control arrangements.

As regards the list of government claims, Eurostat enquired about the significant increase recorded in 2021 under line *Loans granted by companies reclassified into S.1311 to other private/public entities*. The Hungarian statistical authorities explained that this refers to the company NÚSZ Zrt. (national toll payment services). Eurostat took note.

Findings and conclusions

There were no action points identified.

4.3.5. Capital injections in public corporations, dividends, superdividends

Introduction

In Hungary, the capital injection test is jointly performed by the NSI and the NCB.

As regards S.1311, capital injections and purchases of equities in cash are part of the WB of central government in EDP table 2A. Amounts related to equity transactions are neutralised in the line *Equities* under *Financial transactions included in the working balance*. Capital injections in kind, if there are any and if an adjustment is needed, are recorded under the item *Other adjustments*.

As regards S.1313, transactions of purchases of shares and capital injections in cash are part of the WB in EDP table 2C. However, individual data on local government's capital injections are not available, therefore a ratio is used to separate capital transfers and equity injections. The Hungarian statistical authorities performed the capital injection test for 2019 using a local government special report on their corporations. Capital injections above 10 HUF million were checked one by one. According to the test results, 48% were

recorded as a capital transfer and 52% as acquisition of equity. This ratio is being applied from 2020 onwards.

Prior to the visit, the Hungarian statistical authorities provided a list of capital injections and acquisition of shares for the period 2019-2022 by beneficiary and treatment in national accounts, by sub-sectors.

Discussion

Eurostat recalled that the recording of capital injections and acquisitions of shares have been discussed in detail in the previous EDP dialogue visit as well as during the 2021 October and 2022 April EDP notifications.

Eurostat and the Hungarian statistical authorities further discussed some differences between the acquisition of shares (F.5) reported in EDP questionnaire table 2.1 and those reported in EDP questionnaire tables 10.1A and 10.1B. The NCB assured that the total amount of F.5 in government accounts is reported correctly, just the split provided in EDP questionnaire tables is different. After some clarifications, Eurostat and the Hungarian statistical authorities agreed to continue bilateral discussions in order to fully reconcile the amounts between the EDP questionnaire tables.

Next, Eurostat noted that in Hungary there are many transactions in F.5 which are treated as acquisitions of shares and not as capital injections. These concerns acquisition of shares from the third parties. Eurostat emphasized that it is very important to look at the nature of such corporations and to verify if the price paid is really consistent with the market price and that there is no benefit conveyed. The fact that it is an acquisition of shares from a third party should not be a decisive factor to record it as F.5 and not as expenditure (D.9). Thus, the Hungarian statistical authorities should establish appropriate procedures to verify government purchases of shares from third parties, including if and how these operations are considered in the capital injection test.

Eurostat and the Hungarian statistical authorities also discussed a large government transaction in the first quarter of 2023, where Corvinus Zrt. (classified in S.13) received a HUF 360.2 billion capital injection to acquire shares of a subsidiary of Vodafone Magyarország Zrt., and shares of Magyar Posta subsidiaries: Magyar Posta Biztosító Zrt. (non-life insurance company) and Magyar Posta Életbiztosító Zrt. (life insurance company). For the latter, Eurostat enquired from whom the shares have been acquired. The Hungarian statistical authorities explained that Magyar Posta created subsidiaries in 2007 with foreign partners and now these foreign-owned shares have been bought by Corvinus Zrt. Eurostat took note of the explanation.

Eurostat enquired if there is some threshold above which the capital injections are checked manually and what exactly is being checked (i.e., value, price paid, etc.). The Hungarian statistical authorities explained that all capital injections by S.1311 units are checked, but the value of the transaction is not always verified, as companies usually do not have market valuation in their accounting system. Eurostat stressed the importance to verify the valuation of transactions, especially for large ones, in order to correctly reflect any potential benefit conveyed or retained above or below the applicable market price, respectively. In this context, Eurostat asked the Hungarian statistical authorities to establish appropriate procedures to verify large or otherwise significant transactions to ensure that such benefits above or below market price are appropriately recorded in national accounts. Such analysis could be done, for example, by comparing the

transaction value to the net worth of the entity to be acquired or that the price-to-net-worth ratio does not significantly deviate from rates that would be typical for the industry or market the acquired entity is operating in.

Next, Eurostat and the Hungarian statistical authorities discussed dividends paid to government in 2019-2022 and the results of the super-dividend test. Eurostat took note that dividends paid by private companies are not included anymore in the EDP questionnaire tables, as it is not required according to the instructions. Eurostat then enquired if all dividends received by government are included in the budget. The Hungarian statistical authorities clarified that dividends received by reclassified corporations are not included. Eurostat suggested that the EDP inventory could be expanded with more detailed explanations on what is included in the budget and what is not.

Finally, Eurostat and the Hungarian statistical authorities discussed and verified the formula used in the super-dividend test. Eurostat noted that the entrepreneurial income used in the formula by Hungary is before tax. In fact, the test should be made using the distributable income concept (which implies after tax figures), therefore the Hungarian statistical authorities were asked to use net income after taxes as the appropriate proxy for distributable income and to amend the formula accordingly.

Findings and conclusions

Action point 31 ⁽³⁵⁾: In the context of analysing capital injections, the Hungarian statistical authorities will provide Eurostat with a note describing the reporting criteria for government purchases of shares from third parties, including if and how these operations are considered in the capital injection test. This is notably applicable to the Vodafone transaction, half being purchased by government. In respect to this transaction, the Hungarian statistical authorities will also enquire on the possible rerouting of the Hungarian Development Bank (MFB) loan to the entity that is purchasing the other half of Vodafone (given the risk exposure of the bank).

Deadline: 15 November 2023.

Action point 32 ⁽³⁶⁾: The Hungarian statistical authorities shall establish a procedure to verify significant transactions in acquisitions of shares, in order to ensure that there is no capital injection or gift component behind, and that government is paying the market price and therefore there is no benefit provided to the company or to third parties. Such procedure may contain a comparison of the transaction price to the value of the corresponding proportion of the entity's net worth so acquired, could require checking that the price-to-earnings ratio does not significantly deviate from the ratios of similar transactions observable on the market, or might indicate the partitioning of the initial transaction into a share increase (to be capital injection tested) and a capital transfer component, as appropriate. The Hungarian statistical authorities shall send to Eurostat a note on this procedure and its intended implementation. The EDP inventory should be updated with the text regarding this procedure, once agreed.

Deadline: 15 November 2023.

⁽³⁵⁾ The requested information was provided on 15 November 2023. Action point completed, MFB Zrt. loan was rerouted through government accounts.

⁽³⁶⁾ Action point completed, the requested information was provided on 15 November 2023.

Action point 33 ⁽³⁷⁾: The Hungarian statistical authorities will amend the formula for calculating a superdividend test and will use net income after taxes as the appropriate proxy for distributable income (to compare with the distributed dividend). The EDP inventory shall be amended accordingly.

Deadline: 30 September 2023.

4.3.6. Financial derivatives

Introduction

In Hungary, the State Debt Management Agency (ÁKK) uses swap operations to hedge its foreign currency position and to optimize the interest rate composition of foreign currency debt. Cross currency swaps (CCRS), interest rate swaps (IRS) and foreign currency (FX) swaps are used. No other types of derivatives are used. The amounts of derivatives issued by corporations classified in the government sector (i.e., Eximbank) are negligible. There are no derivatives at local government level.

ÁKK reports quarterly to the NSI and the NCB swap interest data on cash and accrual basis and net stocks of CCRS. As the public accounts contain swap interest on cash basis, the NSI uses ÁKK cash data to eliminate swap interest from general government non-financial transactions. Other data sources are also used by the NSI to cover all derivative transactions.

Prior to the EDP dialogue visit, the Hungarian statistical authorities provided a table on financial derivatives for 2019-2022.

Discussion

Eurostat thanked the Hungarian statistical authorities for providing the table on financial derivatives. Eurostat summarized that in Hungary, as reported in the derivatives table, around 5 trillion HUF of government debt is hedged into foreign currency, i.e., into euro. The Hungarian statistical authorities added that there is no hedging from euro to forint. They further explained that ÁKK has some benchmark objectives that all foreign currency (other than euro) debt securities issued by ÁKK should be swapped into euro. The Hungarian statistical authorities informed Eurostat that the debt management strategy and benchmarks are published on the ÁKK website and have sent to Eurostat an email providing useful links and other information ⁽³⁸⁾.

Eurostat and the Hungarian statistical authorities continued discussions on some particular items and the link between the amounts reported in the different blocks of the derivatives table. Regarding Block 1 on the stocks of swaps by instrument, there are interest rate swaps and currency swaps reported, the latter being more significant. The table also includes the derivatives contracts of Eximbank. Eurostat thanked the Hungarian statistical authorities for providing such a detailed information and added that it is very useful in order to reconcile the reported data with the stocks and flows reported in ESA Table 27. In order to further improve the data reported in the table, Eurostat suggested to provide in Block 1 the breakdown of the transactions between the streams of

⁽³⁷⁾ Action point completed, implemented during October 2023 EDP notification.

⁽³⁸⁾ <https://www.akk.hu/content/path=debt-management-outlook-publications>

interest payments (line 29) and the lump sum at termination of the contract, either due to the cancellation of the contract or the unwinding of hedging swaps (line 30).

As regards Block 2 on the notional value of derivative contracts, Eurostat emphasized the usefulness of splitting the notional value and showing the information on whether the derivative is an asset or a liability.

Regarding Block 4, streams of interest payments are reported as entering WB in EDP Table 2A. Eurostat noted that for years 2019-2022, the amounts in the table are reported with a negative sign, meaning that there were cash inflows in the WB. As interest rates increase a lot in 2023, Eurostat suppose that the negative entries will turn positive thus there will be cash outflows from the WB.

Regarding Block 5, Eurostat underlined that the table could be complemented by splitting the appreciation/depreciation of foreign currency debt (line 33) into gain/loss of debt denominated in foreign currency, after hedge (line 33a) and gain/loss at the time of unwinding the hedging derivatives (FX effect) (line 33b). Such a split would also facilitate verification of the amounts reported in EDP table 3B, under line *Appreciation (+)/depreciation(-) of foreign currency debt*.

Finally, the Hungarian statistical authorities made a general comment on the difficulties to fill in this table, as it required detailed information. They explained that the table was prepared together with the ÁKK. Eurostat emphasized that this table is very important to monitor the inflows and outflows related to financial derivatives. Eurostat also noted that all Members States are asked to fill in this table before EDP dialogue visits.

Findings and conclusions

Action point 34 ⁽³⁹⁾: Eurostat congratulated the Hungarian statistical authorities for the work performed in relation to the table on the recording of financial derivatives. The figures reported are consistent and provide a very good overview of the different instruments used in the hedging of debt and the associated recording in national accounts.

In order to further improve the data reported, it was agreed that the Hungarian statistical authorities will:

- Disclose the figures to be reported in lines 29 (streams of interest payments) and 30 (cancellation payments). Eurostat clarified that the latter corresponds to both cancellation payments and unwinding of derivatives (it was confirmed that in Hungary there were no cancellation payments for the years reported in the table).
- Split the figures reported in line 33 of Bloc 5 (*appreciation/depreciation of foreign currency debt*) into lines 33a (*gain/loss of debt denominated in foreign currency, after hedge*) and 33b (*gain/loss at the time of unwinding the hedging derivatives (FX effect)*).

Deadline: 29 February 2024.

⁽³⁹⁾ The requested information was provided on 29 February 2024. Action point is under the evaluation.

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

Introduction

As regards PPP contracts, the Hungarian government maintains those referred to large operating projects (M5 and M6 motorways, Szombathely prison, The Palace of Arts), while it has opted to buy out the private parties of the other PPPs. The acquisition of PPPs in the area of education is in progress. 36 out of 45 educational projects were bought back till the end of 2021, and the Tiszalök prison was acquired in May 2021. Government buys back the assets at market price, which is negotiated and agreed with the private partner and also checked by an independent body. Such transactions are recorded as gross fixed capital formation (P.51g) and included in the WB.

Before the visit, the Hungarian statistical authorities provided the list of all ongoing PPPs, as well as one new contract, a 35-year concession on a highway construction project. The contract was signed in May 2022, but the classification was not yet decided, as the financial close was not reached.

During the October 2022 EDP notification the Hungarian statistical authorities informed Eurostat that for 2019-2021, they updated the PPP financing model, which was compiled by the NSI to split the availability fee into loan repayment, interest and the purchase of service. Specifically, projects that had been bought out were removed from the model. This caused the decrease of the debt level by some small amounts (this change did not affect the deficit.)

Regarding concession contracts, the Hungarian statistical authorities provided a list of such contracts undertaken by government in 2019-2023. The list predominantly includes concessions for mining, frequency use and gambling.

As regards lease contracts, the only significant one is regarding the Gripen fighter aircraft (discussed under agenda item 4.2.5 on military expenditure).

Discussion

Eurostat enquired if there have been any recent developments regarding the concession contract on the highway construction and if the Hungarian statistical authorities analysed the costs involved and its possible classification, on or off balance sheet of government. The Hungarian statistical authorities explained that they performed a preliminary assessment and stressed that it is going to be a rather complex project including PPP elements (new motorways to be built and current ones to be expanded) and operating/maintenance part on current motorways. They further explained that the financial close was first expected to be reached in May 2023, but the contract was amended and the expected financial close was delayed until May 2025.

The Hungarian statistical authorities explained that they have all the documentation of the contract, including the amended one, and the whole contract amounts to around 35 EUR billion. However, more amendments to the financing arrangements of the contract are expected. As soon as the financial close is known, the Hungarian statistical authorities will reperform their assessment of the contract and consult with Eurostat on the recording.

Eurostat further asked if there has been any financing already provided. The Hungarian statistical authorities explained that service fees for the operating and maintenance of current motorways have been paid since September 2022, while the construction of new motorways will not start before 2025.

Eurostat emphasized that, as it might have a sizable impact on government accounts, the Hungarian statistical authorities should regularly monitor and inform Eurostat on the developments of the contract.

Next, Eurostat enquired about the on-balance PPPs bought back by government and how the difference between the purchase value and the remaining debt is recorded, as the payment corresponds to redemption of debt. Eurostat further elaborated that if the payments are bigger than the remaining debt, there could be a grant component, thus the difference should be recorded as expenditure, even if the amounts are small.

Finally, Eurostat and the Hungarian statistical authorities have discussed the Waste Management Concession, covering municipal waste management services, signed with the MOL Group (Hungarian oil and gas company) for 35 years. Eurostat took note that there is no government role foreseen in this concession.

Findings and conclusions

Action point 35: The Hungarian Statistical Authorities will regularly monitor and inform Eurostat on the developments of the concession contract on the highway construction project signed for 35 years in May 2022, as it might have a sizable impact on government accounts.

Deadline: continuous.

Action point 36 ⁽⁴⁰⁾: The Hungarian statistical authorities will analyse the on-balance sheet PPP contracts where the private partner was bought out recently by government, in order to ensure that, for those cases where the payment exceeded the remaining debt, an expenditure was recorded for the difference.

Deadline: 15 November 2023.

4.3.8. Others (e.g., Emission Trading Permits, privatization, sale and leaseback, mobile phone licences, etc.)

The Hungarian statistical authorities confirmed that there were no privatizations or sale and leaseback operations in Hungary. As regards emission trading permits, the Hungarian statistical authorities confirmed they use time-adjusted cash (TAC) of minus 12 months.

⁽⁴⁰⁾ The requested information was provided on 15 November 2023. Action point is under the evaluation.

EDP dialogue visit to Hungary

19-20 June 2023

Agenda

1. Statistical capacity issues
 - 1.1. Review of institutional responsibilities in the framework of the EDP data reporting and government finance statistics compilation
 - 1.2. Quality management framework, public account audit and internal control arrangements
 - 1.3. Data sources and revision policy
 - 1.4. EDP inventory
 - 1.5. Compliance with Council Directive 2011/85/EU
2. Follow-up of the previous EDP dialogue visit of 27-28 May 2021
3. Follow-up of the April 2023 EDP reporting
 - 3.1. Analysis of EDP tables and EDP questionnaire tables
 - 3.2. Implementation of the provisions of the new 2022 MGDD (2022 edition)
4. Methodological issues and recording of specific government transactions
 - 4.1. Delimitation of the general government sector, application of the 50% rule and the qualitative criteria in national accounts
 - 4.1.1. Application of the qualitative and quantitative criteria
 - 4.1.2. Sector classification of units
 - 4.1.3. Changes in sector classification since the previous EDP dialogue visit in 2021
 - 4.1.4. Transactions rearranged through government accounts
 - 4.1.5. Government controlled entities classified outside general government (public corporations)
 - 4.2. Implementation of the accrual principle
 - 4.2.1. Accrual taxes and social contributions
 - 4.2.2. Accrued interest
 - 4.2.3. EU flows
 - 4.2.4. Recovery and Resilience Facility
 - 4.2.5. Military expenditure
 - 4.3. Recording of specific government transactions
 - 4.3.1. Government measures in response to the COVID-19 crisis and of Russia's invasion of Ukraine
 - 4.3.2. Government measures to mitigate the impact of high-energy prices in the economy
 - 4.3.3. Government guarantees

- 4.3.4. Debt assumptions, claims, debt cancellations and write-offs
 - 4.3.5. Capital injections into public corporations, dividends, superdividends
 - 4.3.6. Financial derivatives
 - 4.3.7. Leases, public-private partnerships (PPPs), concessions and energy performance contracts (EPCs)
 - 4.3.8. Others (e.g., Emission Trading Permits, privatization, sale and leaseback, mobile phone licences, etc.)
5. Other issues
- 5.1. ESA 2010 Transmission Programme and GFS related matters
 - 5.2. Any other issues

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