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**H-1024 Budapest**

**Subject: Statistical classification of the newly established Savings Cooperatives Integration Unit and statistical treatment of the related budgetary contribution**

**Ref: Your letters sent on 31 October 2013 and 21 January 2014**

Dear Ms Vukovich,

Thank you for your answers to our letter including further questions relating to the classification of the newly established Savings Cooperatives Integration Unit and the statistical treatment of the related budgetary contribution. We have examined the information you provided and we have reached the following conclusions.

#### **The accounting issue**

The statistical authorities of Hungary informed Eurostat about the recent establishment of the Savings Cooperatives Integration Unit (Integration Unit) and the related provision of budgetary contribution by the government in order to reorganize the savings cooperatives sector.

The Hungarian authorities asked Eurostat to provide its opinion about the classification of the newly established Integration Unit and the related budgetary contribution.

#### *Documentation provided*

The Hungarian statistical authorities provided their analysis in their first letter. In their second letter, further questions were clarified concerning the government's participation.

#### *Description of the case*

In order to boost the granting of loans and attract more clients, the Hungarian government decided to set up an integration body, the Savings Cooperatives Integration Unit (Integration Unit) and provided a budgetary contribution to reorganize the savings cooperatives sector.

The Integration Unit is an obligatory protection institution but its tasks are more widespread: while exercising a regulatory function, it also drives the modernization and unification of banking operations, contributes to own funds of the group as whole, monitors solvency and capital adequacy on an individual basis and provides temporary capital to savings

cooperatives in need. While it is a legal entity, it has no “owners”, but has “members”, namely the Savings Cooperatives, Takarékbank, and MFB, the Hungarian National Development Bank. Members (except for MFB) contribute by paying an annual fee. Members are represented in the General Assembly and their voting rights are proportionate to their contribution to the Integration Unit.

The MFB contributed 1bn HUF. The Hungarian government made a budgetary contribution of 135bn HUF through an extra-budgetary fund, the Savings Cooperatives Integration Fund.

The savings cooperatives’ contributions will be composed of two sources:

- 1) The contributions paid earlier to the now dissolved voluntary institution protection units
- 2) Membership contributions to the Integration Unit

The Hungarian authorities mention, that even if the proportion of contributions and therefore also the voting rights will change in the future due to the contributions paid by the savings cooperatives, this will amount only to 1-1.5bn HUF a year, therefore the current voting right of government, amounting to 95% will not change considerably in the coming years (will not fall below 90%).

### *Analysis*

There are three outstanding questions: the classification of the Savings Cooperatives Integration Fund, the Integration Unit and the statistical treatment of the budgetary contribution.

Concerning the ***classification of the new extra-budgetary fund***, the Savings Cooperatives Integration Fund, through which the budgetary contribution is provided to the Integration Unit, Eurostat believes it should be classified to central government.

Regarding the ***classification of the Integration Unit***, it seems from the currently available information that the government has the majority of voting rights (95% and not falling below 90% in the next years), and therefore it controls the unit. ESA95 paragraph 2.26 establishes that a single institutional unit secures control over a corporation by owning more than half the voting shares.

Moreover, comparing the government’s budgetary contribution with the contributions to be provided by savings cooperatives, the Integration Unit is not only controlled but also mainly financed by government.

It is also evident that the Integration Unit functions as an obligatory protection institution and is required to temporary recapitalise saving cooperatives in case of need.

These qualities lead to the conclusion that the Integration Unit should be classified to the general government sector (S.13), more precisely in the central government sub-sector, S.1311.

Regarding the ***classification of the budgetary contribution to the Integration Unit***, based on the above view on the classification of the Integration Unit, this would be a transfer between two central government entities which will not appear in the consolidated accounts for the sector as a whole, and would have no effect on government net lending/net borrowing.

Eurostat would like to emphasize that in the future, whenever the Integration Unit conducts a bail-out of a failing cooperative bank (by providing a temporary capital injection), the statistical authorities should apply the statistical capital injection test to classify this injection, either as a capital transfer or as an acquisition of equity.

Eurostat also would like to point out that in the new system, Takarékbank has been given further substantial influence over the savings cooperatives, such as removal of executives of savings cooperatives, and providing guidelines for most of their business policies. These stronger powers can be assimilated to the ESA95 criteria for control over a unit. In this context, Eurostat believes that these savings cooperatives would have to be considered as controlled by government and therefore reported in the Questionnaire on government controlled units classified outside general government.

## **Conclusions**

Eurostat believes that the new extra-budgetary fund, the Savings Cooperatives Integration Fund, through which the budgetary contribution is provided to the Integration Unit, should be classified to the central government.

Eurostat believes that the Savings Cooperatives Integration Unit should be classified in the general government sector, since it is controlled and mainly financed by the government. The budgetary contribution of 135bn HUF would therefore be classified as an other capital transfer, due to consolidation however not impacting the general government balance. Eurostat expects that in the future when the Integration Unit provides capital injection to savings cooperatives in need, the capital injection test is applied by the CSO for each individual case.

Eurostat also would like to confirm with the statistical office, that due to the strengthened control of Takarékbank (a public bank) over savings cooperatives, these latter would have to be included in the Questionnaire on government controlled units classified outside general government.

These conclusions are the same under ESA95 and ESA 2010.

## **Procedure**

This preliminary view of Eurostat is based on the information provided by the country authorities. If this information turns out to be incomplete, or the implementation of the operation differs in some way from the information presented, Eurostat reserves the right to reconsider its view.

In this context, we would like to remind you that Eurostat is committed to adopt a fully transparent framework for its decisions on debt and deficit matters in line with Council Regulation 479/2009, as amended, and the note on ex-ante advice, which has been presented to the CMFB and cleared by the Commission and the EFC. Eurostat is therefore publishing all official methodological advice (ex-ante and ex-post) given to Member States on the Eurostat website. In case you have objections concerning this specific case, we would appreciate if you let us know before **24 February 2014**.

Yours Sincerely,

(eSigned)  
Laurs Norlund  
Director