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**Subject: Statistical recording of the early repayments of mortgage loans at preferential exchange rates and the related tax rebate**

**Ref: Your e-mail sent on 16 February 2012**

Dear Mr Szabó,

In reply to your request for advice, I am in a position to provide you with Eurostat's observations.

### **The accounting issue**

The statistical authorities of Hungary are asking for advice on the application of the national accounting rules to recording of the tax rebate related to early repayments of mortgage loans at preferential exchange rates.

### *Documentation provided*

The statistical authorities of Hungary provided a note "Statistical recording of the early repayments of mortgage loans at preferential exchange rates" on 16 February 2012.

### *Description of the case*

#### The early repayment scheme

An amendment to Act CXII of 1996 on Credit Institutions and Financial Enterprises, effective from 29 September 2011, provides for the early final repayment of housing loans at preferential exchange rates, thereby creating the possibility for households indebted in foreign currency – Swiss franc, euro or Japanese yen – to reduce their financial burdens. Accordingly, financial institutions are required to apply a CHF/HUF 180, a EUR/HUF 250 and a 200 HUF/100 JPY exchange rate to the lump sum repayment of foreign currency or foreign currency-denominated loans secured by a mortgage or state guarantee on residential property in the territory of Hungary. The final deadline for households to submit their application for early repayment was 31 December 2011; and they will be allowed to effect early repayment within 60 days after submission of the application.

According to data released by the Hungarian Financial Supervisory Authority, 94,337 loans were repaid in 2011 at preferential early repayment exchange rates: the customers repaid HUF 468 billion of the total amount of claims of HUF 642.1 billion recorded at current exchange rates (i.e. exchange rates used by data providers for the valuation of foreign currency assets and liabilities at the time of early repayment, as disclosed in their accounting policies).

## Rebate from the extraordinary financial tax

The extraordinary financial tax (in Hungarian: *Pénzügyi szervezetek különadója*), which was introduced in 2010, is based on 2009 balance sheet data of financial institutions, including commercial banks. The same base year (2009) was kept for the amounts collected in 2011.

Following the agreement between the Government and the Banking Association on 15 December 2011, the Parliament promulgated an amendment to Act LIX of 2006 on Special Taxes and Levies to Improve the Balance of the State Budget on 29 December 2011. Under the amendment, financial institutions are entitled to deduct up to 30% of their losses arising from early repayment from the extraordinary financial tax for the year 2011; however, such deduction may not exceed the amount of this special tax payable for the business year 2011. By the time the Act was adopted, financial institutions had already fulfilled their special tax obligations for 2011. The Act also provides that the tax refund or a part of it may be affected by transfer of government securities.

### **Methodological analysis by Eurostat**

After an examination of the provided documentation, Eurostat has reached the following provisional views.

#### *Applicable accounting rules*

The general principles of national accounting (characteristics of transactions, principles regarding accrual recording and features of distributive transactions, in particular the paragraphs on capital transfers) as specified in the ESA95 apply in this case.

#### *Availability of national accounting analysis*

The note "Statistical recording of the early repayments of mortgage loans at preferential exchange rates" submitted by the Hungarian statistical authorities on 16 February 2012 includes proposals about the statistical recording. The authorities expressed the following views:

- a) early repayment at fixed exchange rates means cancellation of part of a debt in an economic sense, which is recorded in the national accounts as a capital transfer to households at the time of early repayment;
- b) the loss resulting from early repayment is shared 70% by financial corporations and 30% by the general government, granting a capital transfer D.9 to the household sector;
- c) capital transfers from the general government and financial corporations to households for early repayments effected in 2011 will be recorded for 2011, while for those effected in 2012 such transfers will be recorded for 2012. The general government will have a liability AF.7 to financial corporations, as essentially financial corporations will provide an advance in 2011 for the transfer to be granted to households. The resulting liability AF.7 will be extinguished with the cash refund in the year 2012.
- d) the financial burden on the general government will not affect the amount of special tax payable for 2011 or 2012.

#### *Analysis*

Eurostat agrees with the Hungarian statistical authorities' proposal. As the Hungarian government agreed to share with the banks the financial burden arising from the early repayments of mortgage loans at preferential exchange rates, Eurostat considers it appropriate to record capital transfers directly from government to households, although government pays cash to the banks under the label of a tax

rebate. In Eurostat's view it is also appropriate to allocate the capital transfers between 2011 and 2012 following the accrual recording of the early repayments. An A.7 liability position will be recorded for amounts not settled in cash by end-2011.

### **Conclusion**

Eurostat agrees with the Hungarian statistical authorities' proposal that the capitals transfers (30% of the total losses of the banks) from government to households should be allocated between time periods following the accrual recording of the early repayments of the mortgage loans at preferential exchange rates and that it will not affect the amounts of the extraordinary financial tax payable by the banks to the government.

### **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 30 March 2012.

Yours faithfully,



François Lequiller  
Director