



EUROPEAN COMMISSION



EUROSTAT

Directorate C: National and European Accounts

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Ms Eszter Bagó  
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**Subject: Accounting treatment of claims towards third countries and privatization proceeds of Budapest Airport**  
**Ref: Your letter dated 3 February 2006**

Dear Ms Bagó ,

Eurostat acknowledges receipt of your request for advice on two methodological issues concerning the European System of Accounts (ESA 95). The first relates to the recording of government claims towards third countries and the second to the accounting treatment of Budapest Airport privatization proceeds.

*Government claims towards third countries*

According to the explanations previously provided by the Hungarian statistical authorities, the Hungarian government has claims towards third countries originating in the 70's and 80's of a mixed nature relating, among other things, to loans and export guarantees. Some of these claims were converted into an artificial currency, such as "transferable ruble" or "clearing dollar". Eurostat is asked about the accounting treatment of these claims, particularly in those cases where the claim is not accepted by the partner.

According to ESA 95 (par. 4.165, f) the counterpart transaction of cancellation of debts by mutual agreement is a capital transfer (D.99) from the creditor to the debtor equal to the value of the outstanding debt at the time of cancellation, whereas debt repudiation by the debtor is not recognized in the system. Thus, in all cases where the partner has refused to accept the entirety of a debt, a capital transfer equivalent to the full value of the relevant debts should be recorded in the year when the asset disappears from the government's balance sheet. It is assumed it is at the time when government actually abandons the aim to recover proceeds on the claims, and not earlier.

However, on the basis of the explanations provided we have understood that some of the existing disputes – i.e. the non acceptance by the partner - are due to valuation matters and not due to the non-recognition of the claims by the partner. In this case our advice is that whenever the value of a claim is eventually agreed after being disputed, an adjustment of the newly agreed amounts should be recorded as "other changes in volume", or alternatively as a revision in time series. The debt continues to be carried, at the new valuation, on the government's balance sheet until the time it is repaid or cancelled by mutual agreement.

*Privatisation proceeds of Budapest Airport*

According to explanations previously provided by the Hungarian statistical authorities, Budapest Airport (BA) was a 100% state owned company that had, up to now, managed the assets of the airport. The privatization undertaken in 2005 occurred under certain conditions. First, the private investor signed a 75 year contract with government and would pay an upfront "asset management fee". Second, the private

investor would pay to government annual amounts during the period of the contract – "ongoing asset management fee" (0.5% of its sales up to a certain limit). Third, the private investor bought "movable properties" to the government state agency. It is our understanding that government gave up control of this corporation on condition that the private investor entered into a specific contract, and therefore all these arrangements should be considered as a whole, and analysed in the context of this privatisation operation.

Eurostat understands that government decided to cancel the old contract which allowed BA to manage the airport assets for an unlimited period of time. This could be interpreted as if a partial liquidation of the corporation as its right to use the infrastructures was cancelled, an unusual circumstance in a privatization process.

The Hungarian government has decided to substitute part of the price obtained in the privatisation operation in exchange for a "management fee" paid up-front and for annual amounts to be paid for the right to use the assets. Without the right to use the assets, the value of BA would be extremely low. In this context, Eurostat believes that the upfront payment (HUF 389.5 bn) should be considered as an integral part of the proceeds obtained directly and indirectly by government in the privatisation process. As such, it will not constitute government revenue but a financial transaction (disposal of shares by government) in the context of a process of direct privatisation by government.

Concerning the classification of the ongoing annual payments, they may be considered as government revenue when not fixed in advance (notably in nominal value).

The documentation provided to Eurostat (page 7), provides an additional breakdown of the amounts to be recorded in the context of this privatisation. However, the content and nature of some of these elements is not clearly understandable to us and we kindly ask you to provide additional following information:

- Dividend referred to be paid in advance to the privatization agency, ÁPV Rt. We kindly ask you to provide us more details on the reasons why this is a payment made in advance, why it is referred as "to be funded by the bidder" and how you propose to record it in the national accounts.
- We have noted that besides the "asset management fee" and "ongoing asset management fee", the private investor will also pay to government a supervisory fee of HUF 25 per passenger. This fee is expected to increase from 2006 onwards and will be revised according to the annual rates of inflation. In this context, we kindly ask you to provide additional information on the content and nature of this "supervisory fee", and how you propose to record it in the national accounts.

I thank you for your cooperation and remain,

Yours sincerely,

On behalf of  
the Director

Laurs Nørlund  
Director

