



EUROPEAN COMMISSION  
EUROSTAT

 Ref. Ares(2015)1098873 - 12/03/2015

Directorate D: Government Finance Statistics (GFS) and quality  
**Unit D-3: Excessive deficit procedure (EDP) 2**

Luxembourg, 10 March 2015

# **FINAL FINDINGS**

## **EDP dialogue visit to Hungary**

**10-11 June 2014**

# **Eurostat dialogue visit to Hungary**

**10-11 June 2014**

## **Final findings**

### **Executive summary**

Eurostat carried out an EDP dialogue visit to Hungary on 10-11 June 2014. The previous Eurostat EDP dialogue visit to Hungary had taken place on 10-11 July 2012.

The objective of the June 2013 EDP dialogue visit was to review the implementation of ESA methodology and to ensure that the provisions of the Eurostat's Manual on Government Deficit and Debt, as well as Eurostat's decisions, are duly implemented in the Hungarian EDP and Government Finance Statistics (GFS) data. A significant amount of time was devoted to the issues of data sources and the delimitation of the general government sector under implementation of new ESA 2010 rules.

The discussions primarily focused on the implications for the Hungarian EDP data compilation arising from: 1) the forthcoming changeover to the new methodological framework ESA 2010, 2) the recent public sector accounting reform, 3) individual use of Local Government accounts and possible changes after a recent reform, 4) specific government transactions such as Takarékbank and Saving Cooperatives Integration Unit and 5) other relevant issues relating to EDP and GFS data reporting.

In particular, Eurostat reviewed with the Hungarian statistical authorities the existing institutional responsibilities as regards the compilation of EDP statistics and government accounts, the quality and exhaustiveness of primary data sources, and the sector classification of specific units under the new ESA 2010 rules, e.g. MFB (Hungarian Development Bank), Eximbank, Magyar Követeléskezelő Zrt., and Mifin Mikrofinanszírozó.

Eurostat very much appreciated the co-operation and transparency demonstrated by the Hungarian statistical authorities during the meeting and the documents provided before the dialogue visit.

## **Introduction**

In accordance with Council Regulation (EC) No 479/2009 of 25 May 2009 (as amended by Council Regulation (EC) No 679/2010) 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 10-11 June 2014.

Eurostat was represented by Mr John Verrinder (Head of Unit D3 "Excessive Deficit Procedure II"), Mr Luca Ascoli (Head of Unit D1 "Excessive Deficit Procedure and methodology"), Mr Denis Besnard (Unit D1) and Ms Milana Brkić (Desk Officer for Hungary). DG ECFIN and the European Central Bank (ECB) also participated in the meeting as observers.

Hungary was represented by the Hungarian Central Statistical Office (HCSO), the Central Bank of Hungary (MNB) and the Ministry for National Economy (MNE).

The previous Eurostat EDP dialogue visit to Hungary had taken place on 10-11 July 2012.

Eurostat carried out this EDP dialogue visit in order to review the implementation of ESA methodology and to ensure that provisions of the ESA Eurostat's Manual on Government Deficit and Debt, as well as Eurostat's decisions are duly implemented in the Hungarian EDP and Government Finance Statistics (GFS) data.

The main aim of the EDP dialogue visit was to review the implementation of ESA 1995 methodology and to ensure that the provisions of the Eurostat's Manual on Government Deficit and Debt, as well as Eurostat's decisions, are duly implemented in the Hungarian EDP and Government Finance Statistics (GFS) data. In addition, a significant amount of time was devoted to the issues of data sources and the delimitation of the general government sector under implementation of new ESA2010 rules.

With regard to procedural arrangements, the Main Conclusions and Action Points would be promptly sent to the Hungarian authorities for review. Then the Provisional Findings would be sent to the Hungarian authorities for review and comments. After this, Final Findings will be sent to the Hungarian authorities and to the Economic and Financial Committee (EFC) and published on the website of Eurostat.

## **1. Statistical institutional issues**

### **1.1. Institutional responsibilities in the framework of the reporting of data under the EDP and government finance statistics compilation**

#### 1.1.1. Institutional cooperation and EDP processes

##### *Introduction*

Three institutions - HCSO (Hungarian Central Statistical office), MNB (Central Bank of Hungary) and MNE (Ministry for National Economy) - are involved in the compilation of EDP notifications, but the final responsibility for EDP reporting is with HCSO. There is a permanent working group of the three institutions established in 2004 to discuss all methodological and classification issues. The working group has meetings regularly, once or twice in a quarter, which can be more often before or during preparation of the EDP Notifications. EDP tables are officially reported to Eurostat by HCSO. The statistical office compiles the EDP tables 2, the MNB compiles the EDP tables 3 and the MNE compiles forecast data.

Eurostat concluded at the 2012 EDP visit: "*Eurostat encourages the Hungarian statistical authorities to examine their cooperation agreement in line with the recommendations developed by Eurostat through the "Quality Management in GFS" Working Group (expected from the November 2012 meeting)*".

A cooperation agreement between the institutions HCSO, MNB and MNE - involved in preparation of the EDP Notification - was signed in 2004.

##### *Discussion*

Representatives from HCSO explained that there is a draft of a new version of the cooperation agreement, which is in the final phase of the preparation and all the three institutions are involved in the process. The new version of the agreement is based on the existing version of the agreement, and requirements from the working group on "*Quality Management in GFS*" will be included. It was envisaged for the cooperation agreement to be signed before the October 2014 notification.

Eurostat asked whether the Hungarian State Treasury will be introduced in the new cooperation agreement, since this institution processes and provides a lot of the data which are used for the compilation of EDP notifications. HCSO explained that it is not planned to include the State Treasury at the moment, because the Ministry for National Economy is responsible for annual budget execution and takes care of the quality of the data provided by the State Treasury. Data that are coming from the State Treasury are included in the official statistical data collection of the HCSO, which is prescribed by government decree. The obligation of transfer of the data from the State Treasury to MNB is also included by Governor's decree within the Central Bank. Hungary has a legally binding system on data sources which defines the responsibilities of data providers, which is reinforced with a cooperation agreement between the three institutions. There are also established working groups whose aim is to discuss methodological and other statistical issues.

Eurostat took the opportunity to thank the Hungarian statistical authorities for publishing a comprehensive EDP Inventory. The opportunity was also taken to remind the authorities that during the Financial Accounting Working Group in June 2014 there would be a discussion on the update of the EDP Inventories according to the new ESA 2010 rules.

## *Findings and conclusions*

**Action Point 1:** The Hungarian Statistical Office will send a copy of the updated signed inter-institutional cooperation agreement between the Hungarian Central Statistical Office, the Central Bank of Hungary and the Ministry for National Economy to Eurostat when it will be signed.

### 1.1.2. Quality management framework

#### *Introduction*

The Hungarian statistical authorities provided a flowchart of the EDP statistics production process in April 2013. The flowchart covers all the institutions, upstream providers and data sources involved in EDP process.

In the process of the production of EDP statistics, it is important to have a quality management framework put in place. A process of collecting the data from the upstream entities and written procedures for the responsibilities of the each institution for collecting the data from data providers should be established. Data transmission should be a formalized and standardized process.

#### *Discussion*

Eurostat asked whether the obligations of upstream entities, e.g. ministries, agencies, Extrabudgetary funds, reclassified public corporations, are the same or they have different obligations for providing the data to EDP statistics compilers.

A representative from HCSO explained that the Government decree on statistical data collection is on force for all data coming from the State Treasury. Data coming from that source are not exclusively prepared for the statistical purposes for HCSO, but these are standard budgetary information, which are adjusted later during the compilation of EDP statistics.

The Act on public finance defines that public finance information systems have to provide the information to the HCSO, for the purpose of compilation of national accounts. Based on the Act on public finances, article 102, HCSO can require information from all the relevant upstream bodies. Overall, it seems that there is no problem with HCSO receiving the data from the upstream entities, with the exception for the April notification, where some small delays could occur.

Representative from the Central Bank of Hungary explained that the State Treasury is the central system for providing the budgetary data, and the reports received from the State Treasury cover all budgetary units: Central Government units, Local Government units, Social Security funds, and Extrabudgetary funds. It was also explained that the existing reporting information system is already very detailed and adding additional information in the reports is not necessary. The annual individual data which are provided by the upstream bodies are detailed enough for EDP and national accounts purposes.

Currently, there are approximately 700 Central Government units and approximately 13.000 Local Government units whose data are collected. The annual reporting system for these units is very detailed; it contains around 5-6 million individual data points, which is more than enough for the purposes of national accounts. Together with the introduction of a new budgetary accounting system from the beginning of 2014, HCSO and MNB had a discussion with the

budgetary units to reduce the burden and to rationalize the annual reporting system for the purposes of the Statistical Office and the Central bank.

Eurostat asked whether there is a quality management policy introduced in the EDP process, or a quality department established within the institutions. HCSO explained that there is a unit at the Methodological department level dealing with quality management issues. Quality procedures are in place, and the quality assurance framework is currently being updated. There is a rolling programme established within the institution, where at some stage there is a review of all of the statistical areas. The HCSO is also establishing an audit framework in which each statistical domain would be a subject to an internal audit.

#### *Findings and conclusions*

No action points were identified.

### 1.1.3. Audit and internal control arrangements

#### *Introduction*

Arrangements for internal control and independent audit for public accounting system in General Government, pursuant to Art 3.1, Dir. 2011/85/EU, exist in Hungary.

HCSO signed a cooperation agreement with the State Audit Office at the end of 2012. The agreement envisages several steps and measures which should be taken concerning the strategic cooperation areas between the institutions, regarding the audit of data used in EDP Notifications that are provided by upstream entities. This includes the possibility of establishing working groups.

#### *Discussion*

Representatives from the HCSO explained that there is a cooperation agreement with the State Audit Office, signed in November 2012, and that cooperation started intensively at the end of 2013. The cooperation agreement covers many points on their cooperation, e.g. there is a working group established in order to facilitate the work of auditors in auditing the quality of data used in the compilation of EDP notifications. Such audits are performed from the bookkeeping point of view and from the legal point of view, and not from the statistical point of view.

As a result of the meetings with the State Audit Office, a working document has been produced, which describes how the audits of the budgetary units could facilitate for EDP reporting purposes.

Eurostat encouraged the discussion with the State Audit Office, and explained that it would be interesting to see the conclusions they have reached together at the end of the process, in order to share this experience with other Member States.

Eurostat also enquired about internal control arrangements within the State Treasury, in order to learn how the main data providers organise themselves to ensure the high quality of the inputs into the processes. The statistical authorities explained that a lot of areas are regulated by constitutional law, together with various different laws and regulations, and there are also internal controls in place. Heads of budgetary units are responsible for establishing internal control in areas under their responsibility. Each year, Heads of budgetary units approve an internal control plan, which is sent to the supervising ministry at the end of the year. Based on those plans, the supervisory ministry compiles an overall assessment of the implementation of internal control systems. The Ministry of National Economy has the final say on the assessment

of internal control systems in place. It was also mentioned that the State Audit Office is in a position to publish audit reports on its investigations into the implementation of internal controls.

### *Findings and conclusions*

**Action Point 2:** When the analysis is completed, the Hungarian Statistical Office will send to Eurostat a report on areas in which the State Audit Office can provide assistance to EDP and GFS work.

## **2. Review of key data sources**

### **2.1. Public sector accounting and accrual of expenditure/revenue**

#### *Introduction*

The public accounting system in Hungary has traditionally just covered the legal government sector, with other general government bodies using other accounting bases (e.g. private business standards or simplified public standards).

Budgetary units that are in the Hungarian legal government sector (State, Budgetary institutions, Budgetary funds, Social Security funds, Local Governments) are using a uniform accounting system that has changed significantly from 2014 onwards.

The previous system was a mixture of budgetary and business accounting, where the double-entry system integrated assets and liabilities, receivables and payables, but instead of accrued expenditures and revenues, cash expenditures and cash receipts were recorded.

The new accounting system has now clearly separated two accounting functions: budgetary accounting (cash flow principles) and business accounting which is based on general accounting principles, compiling a profit and loss statement as well. The transition and implementation of the new system is determined by a series of detailed instructions, and no separate unit-level accounting policy is allowed.

#### *Discussion*

The representative from the MNE explained that the changes of the accounting system which took place in the beginning of 2014 relate to the introduction of two separated accounting systems. The first accounting system is the traditional budgetary cash-accounting system, and the other one relates to the general business accounting system which follows general accounting rules for private and public units. The change which could be observed is that before the year 2012 there were non-cash items included in the working balance, but after 2012 onwards, those transactions are not included any more, which explains the reason for more adjustments in EDP table 2 for non-cash items.

The accounting standards are based on Hungarian GAAP standards. There has been no need to amend the business accounting framework to the public sector, and no changes had to be implemented. Each reporting entity (ministries, non-autonomous agencies, etc.) will publish a full set of the accounts each year (Balance sheet, Profit and loss account, Cash flow reconciliation statements) like any private business.

For statistical purposes, the new public accounting system offers a better insight into the data. Under the new accounting framework, no specific accounting corrections to the data would be needed, since the principles of accruals and measurements of key aggregates remain the same, and closing balance sheets for the past year will not differ from the opening balance sheets of the next year.

From the new accounting system it is expected to have a full set of the accounts from each ministry, harmonized, using Hungarian GAAP standards, with some changes to the data on taxes. Eurostat pointed out that for the statistical reporting purposes the time adjusted cash approach is the preferred reporting method.

When data for the year 2014 are available, the Hungarian statistical authorities plan to conduct an exercise on the comparison between the existing cash and other sources with the new accounting data. The aim of the exercise would be to implement any necessary decisions by the end of 2015 as to which data source to use for EDP purposes in case there are differences between the sources. However, the EDP notification in April 2015 will be based on traditional data sources. Eurostat pointed out that it would follow closely the progress of this exercise during the course of 2015.

### *Findings and conclusions*

**Action Point 3:** The Hungarian Statistical Office will update Eurostat, by end-2014, on the on-going work and future timetable for assessing the potential statistical impact of the new public accounting system, and will provide a complete feedback by end-September 2015.<sup>1</sup>

## **2.2. Local Government accounts**

### *Introduction*

An issue regarding the use of the individual data for Local Governments was raised in October 2013, since the working balance for Local Governments was considerably revised for 2012. At that time, Eurostat pointed out the importance of gaining access to the individual Local Government accounts, in order to better understand any significant revisions.

Individual Local Governments' data are used in the compilation of October EDP notifications, when the annual financial reports of the budgetary institutions are available at individual level. This individual data set is a part of the annual report from Local Government, and it contains the figures of expenditure and revenues.

The Hungarian statistical authorities informed Eurostat that it is planned to utilize the individual data from the March 2015 notification onwards, in order to analyze and understand better the figures and to monitor any revisions in October. Currently, there is a discussion between the HCSO and the Ministry for National Economy on getting access to these data earlier, to carry out all necessary statistical analyses on time. HCSO will compare the main expenditure and revenue figures of the large municipalities and other local institutions for the last two years, and the differences between the figures will be a good basis for the explanation of any revisions.

### *Discussion*

A representative from the HCSO explained that, in the past April notifications, there were only aggregated data available on the Local Government level while, for the October notifications, there were individual data on Local Government provided. In March 2014 for the first time the individual Local Government data were delivered, but HCSO explained that data were not used in the April notification due to the short time for the comparison of the changes in data between

---

<sup>1</sup> HCSO sent an update on 19 December 2014 informing Eurostat on the on-going work for assessing the potential statistical impact of new public accounting system.



2012 and 2013, and due to the fact that the recording of some transactions in public accounting was changed. From now onwards, the HCSO will receive individual data on Local Governments.

The HCSO will have the earlier access to the State Treasury and MNE data base through an electronic monitoring application. Eurostat pointed out that in this case it is important to have a careful communication about the vintage and maturity of the data between the institutions, because if the data are taken on too soon, there could be revisions of the data afterwards.

Eurostat noted that the Local Government is shrinking, as more units and functions are taken over by the Central Government, such as health care, education, and social protection. It could be also noted that there is a reduction in other accounts receivable, and if the impact of debt assumption and debt reduction approaches are taken out on the Local Government level, it is visible that revenues have converged towards expenditures.

It was also discussed whether specific government transactions on the Local Government level, such as EU flows, guarantees, debt assumptions, capital injections, dividends, financial derivatives, and PPPs could be tracked and followed. The Hungarian statistical authorities explained that many Local Government bodies are small but, if one of those bodies decides to something in any of these domains, this could be monitored in terms of individual transactions following the accounting scheme. The accounting system has separate rows for individual transactions (e.g. guarantees, debt assumptions, capital injections), so all the necessary information could be obtained. For the April EDP notifications, the statistical authorities now have more access to individual accounts, but these separate rows are not very detailed for the purpose of quarterly reporting.

Eurostat welcomed the progress made on the accounting reform, which now builds in incentives and sanctions for timely reporting, and also that individual accounts can now be used for the April notification, subject to finalization of database access.

Eurostat pointed out that it would be useful if the Hungarian statistical authorities could provide a short report on the analysis of revisions to Local Government data, with an explanation of where the main revisions arise, during the October 2014 notification.

#### *Findings and conclusions*

**Action Point 4:** The Hungarian Statistical Office will provide an analysis of revisions to Local Government source data for 2013, based on analysis of individual Local Government Accounts, by end-September 2014.<sup>2</sup>

### **3. Follow-up of the April 2014 EDP reporting – analysis of EDP tables**

#### *Introduction*

Eurostat took the opportunity to thank the Hungarian statistical authorities for completing and sending the EDP notification tables together with Questionnaire tables within the deadlines. It was underlined that Eurostat very much appreciates the Explanatory notes sent together with the notification.

#### *Discussion*

---

<sup>2</sup> Action point completed.

In table 2A, under the line “Other financial transaction” there is an advance payment of HUF 9 billion to Nemzeti Eszközkezelő Zrt.. This entity is part of the General Government sector. Eurostat asked whether this amount should be classified rather as a short term loan.

The Hungarian statistical authorities explained that this payment was an internal advance payment, which appears as cash expenditure in the working balance of Central Government. The amount has not yet been used and it has been kept on an account in the State Treasury. Nemzeti Eszközkezelő Zrt. will record neither revenue nor expenditures in its books, since it acts on behalf of government. The amount of expenditure of HUF 9 billion will have to be recorded as a capital expenditure at the time when it is actually spent, which means that the government balance should be impacted at that time.

Eurostat explained that it has to be assured that this transaction would appear in the working balance of Central Government if it is recorded in the property management company’s books as a capital expenditure. This issue should be checked by the Hungarian statistical authorities in more detail, because it could be the case that HUF 9 billion is recorded twice, in 2013 and in 2014, in the working balance, and therefore double-counted.

#### *Findings and conclusions*

**Action Point 5:** The Hungarian statistical authorities will confirm by end-September 2014 the budgetary recording of the expenditure of Nemzeti Eszközkezelő Zrt., and how this relates to the recording of the 2013 advance received from government.<sup>3</sup>

## **4. Methodological issues and recording of specific government transactions**

### **4.1. Delimitation of general government sector**

– General review of Local Government sub-sector after recent reforms

#### *Introduction*

There has been a transfer of public services from Local Government to Central Government which is on force from 1 January 2013.

Act CLXXXIX of 2011 on Hungary’s Local Governments lays down new principles of roles and responsibilities of municipalities and county governments. The restructuring process covers the transfer of public service provider budgetary institutions, trust funds and public non-profit corporations from the Local to Central Government level, involving a reallocation of assets, liabilities and employees, with the aim of harmonisation and increase in the quality of public services and to promote cost-effectiveness of public funds by elimination of fragmented organisational and management segments.

The main areas of restructuring were health care budgetary institutions managed by the city of Budapest, and 430 budgetary institutions (functions of education, social protection, health care, culture and fire-protection) established and managed by the county governments.

As a result of the restructuring of the roles and responsibilities of Local Governments, the working balances of Local Governments for the years 2011, 2012 and 2013 show surpluses, mainly due to budget transfers earmarked for the amortization of certain parts of Local Government debt.

As a result of the reorganization of roles and responsibilities of the Local Government in 2013, all of the hospitals which had the status of budgetary institutions controlled by the Local Government were transferred to the control of the Central Government. In addition, hospitals

---

<sup>3</sup> Action point completed.

operating in a non-profit corporation institutional form were also taken over by the Central Government; they were either converted into a budgetary institution legal form or merged with existing hospitals operating in a budgetary institution form.

### *Discussion*

Eurostat enquired if there were any outstanding statistical issues remaining after the reorganization of the Local Government. In the case when there is a substantial transfer of responsibilities from one government level to another, it could happen that there are parts of units which have to be split or separated and this could cause organisational reporting problems.

The HCSO explained that everything had settled down, because the transformation had started already in January 2013. There was a clear split between the units being transferred. Only whole budgetary bodies were transferred, including their assets, and not the separate activities of these bodies. In each case a technical unit was first established, which was then transferred to Central Government level.

It was possible that in some cases the Local Government decided to retain the asset, but the Central Government would continue to pay the related running costs (e.g. salaries), which would give Central Government control over the body, except for the assets. This justifies the figures in the table that was sent before the visit by the Hungarian authorities, where the biggest change in terms of expenditure for Local Government was in compensation of employees. The Central Government is now paying salaries to the employees, whereas the larger municipalities still retain responsibility for expenditure for running costs and capital costs.

As regards the healthcare system and the hospitals which had been run by Local Governments, Eurostat enquired about the situation for those hospitals after transfer from Local Government to Central Government, since that was one of the biggest changes that had occurred. There were also some non-profit hospitals that moved to the Central Government sub-sector. Eurostat examined how the financing structure of hospitals/healthcare system currently stood in Hungary. It seems that there is a social security fund which is paying bills based on a “DRG” type of the system, which is hospital payment system based on diagnosis-related groups.

Eurostat asked whether something changed in the financing of those hospitals which moved from Local Government control to Central Government, and whether there was any related reform of financing system.

The Hungarian authorities explained that there were no changes in financing of the hospitals relating to this reform. The Healthcare fund continues to finance the operational costs of the hospitals.

All public hospitals are now budgetary units, as well as the non-profit hospitals which were turned into budgetary units. All the capital expenditure for hospitals is now covered from the Central Government budget.

It seems that there are no longer any significant residual health responsibilities in the Local Government area. Hospitals at a local level are now financed by the central budget, with the exception of general practitioners services and ambulance services.

### *Findings and conclusions*

No action points were identified.

– Register of government controlled entities not classified to general government

### *Introduction*

The official register of general government units is managed by the Hungarian State Treasury, and HCSO receives an updated register of general government units on monthly basis.

The business register, managed by the HCSO, does not include information on the structure of ownership of institutional units. In order to decide whether a company belongs to the public sector or not, the composition of share capital by owners is analysed from balance-sheet information (breakdown of the subscribed capital by owner sectors) included in the annual corporate tax declarations reported by the National Tax and Customs Administration to the HCSO and MNB on an individual basis.

According to the current practice, enterprises with 50% or more government (Central or Local) ownership are regarded as public companies and are subject to the application of 50% rule. In addition, enterprises with indirect public ownership (cases where the enterprise is controlled by another enterprise with public ownership) are identified and a data cleaning process is used to identify incorrect records. The identification of corporations indirectly controlled by the government is carried out by reviewing annual reports of corporations with direct government ownership (where subsidiary companies are listed).

In general, new units are treated in the same way as existing units. All public corporations are subject to the market/non-market test based on the last three years of data available from tax declarations provided by the tax authority. However, when a large new public unit is established, the decision on its classification is taken immediately, based on its business plans and all other available information from government and other sources.

Classification of the units in general government is discussed by an EDP working group (HCSO, MNB, MNE) which ensures that all institutions involved in the national accounts and EDP statistics are treating GG sector exactly the same way. The list of non-budgetary units classified in the GG sector is published by MNB and MNE on their website.

### *Discussion*

Eurostat mentioned that the implementation of ESA 2010 was approaching, in September 2014. It was also explained that there is a need to raise the attention of Member States to consider the implementation of new ESA rules, and Eurostat expects that there would be a reclassification of units in many Member States due to the application of new rules on qualitative criteria, captive financial institutions, distinctions between head offices and holding companies, etc. Eurostat asked how the Hungarian statistical authorities had prepared themselves for the implementation of ESA 2010 rules.

The Hungarian statistical authorities explained that they had already started to examine the units, and in advance of the dialogue visit they had already sent a list of 88 units to Eurostat which would be reclassified according to the ESA 2010 rules, but the list was not yet final. Most of those units which would be reclassified to General Government sell their market output to the government. Eurostat was informed that work still continues on the reclassification of units and it was expected to complete this activity by the end of June 2014.

Eurostat asked about the reclassification of units which are no longer compliant with the 50% market test rule, due to the introduction of net interest charge in production costs. This refers especially to the units with a low market test ratio, which are borderline cases even without inclusion of interest charges, e.g. Pécsi Vizmű Zrt. and KEZMU Non-profit Kft.

A representative from HCSO replied that the new rules on the inclusion of net interest charge do not make any difference to the outcome of the test. Most of the units do not have debt on which they must pay interest. The Hungarian EDP Inventory explains that the consolidation for interest within the government is not an issue, because interest is not charged on intra-government loans, which means that those entities are borrowing at zero interest rates. Only the entities within the legal government sector can access zero interest rate loans.

The case of the unit MVM Magyar Villamos Művek Zrt. was taken as an example to explain the 50% market/non-market test. The HCSO had updated the test for ESA 2010 rules by adding the interest that the company pays on its debt to production costs. The results of the test showed that the percentage was still above 50%. This test was performed in 2013, but the Hungarian authorities explained that they planned to perform it again soon, since the deadline for submission of the 2013 financial statements was 31 May 2014.

It was concluded that it would be important for the Hungarian statistical authorities to check if the latest data delivered by the companies in their financial statements for the biggest units would have an impact on the results of the 50% test. It would be important to investigate whether some of the units have net interest, and include those in the calculation, especially for those units which are close to 50% (e.g. Pécsi Vizmű Zrt. and KEZMU Non-profit Kft.).

Eurostat provided a short summary of the new ESA2010 rules on captive financial institutions. Those could be the institutions which are classified in the financial corporations sector (S.12), and they could, for instance, provide loans in the context of a specific policy of the government, which could mean that they have a pre-determined field of intervention. Those institutions usually have some operational autonomy of decision, and can decide to whom to grant a loan to, but their independence is very limited because they conduct their activities within a narrow framework defined by government. The loans could be given at favourable interest rates, possibly guaranteed by the government, and government itself could provide all or part of the financing for the loan. In this context, the government would not be interested in a market rate of return.

Several entities on the *List of government controlled entities* in Hungary classified in sector S.12 were discussed. Eurostat wondered if any of them might fulfil the definition of a captive financial institution under ESA 2010. The Hungarian authorities replied that for the time being they had not identified any such entities.

Several specific institutions were further discussed:

1.) Hungarian Development Bank (MFB Zrt.)

MFB is a specialized credit institution, owned by government. It is on MFI list, and its banking activities are supervised by Hungarian financial supervisory authority. The bank does not receive support from government, but it borrows from the market with a government guarantee. MFB has three main activities; it is a development bank, it manages the equity portfolio of the government, on behalf of the government, and it manages the investments of the government.

The Hungarian authorities explained that the management of the equity portfolio of behalf of the government is not in the balance sheet of the bank, but it is a separate set of accounts. The government has to pay fees for the services of managing the government's investments, which is part of a budget heading in the state budget.

The Hungarian authorities agreed to review the bank's activities and to identify which of its activities should be rerouted through the general government sector.

2.) EXIMBANK Zrt.

EXIMBANK is an import-export financing institution. In the bank's annual report from 2012 it is mentioned that the role of the bank was extended not only to export insurance, but to the

preservation of jobs, increase of employment and promotion of economic policies. These kinds of activities could indicate that they are undertaken on the behalf of government in the context of implementation of economic and social policies. It would be important to confirm whether the institution has changed its own activities or taken over new activities from the year 2012, and whether those activities have been directed by the government or not.

### 3.) Széchenyi Tőkealap-kezelő Zrt.

Széchenyi Tőkealap-kezelő is a state-owned venture capital firm, investing in micro, small and medium size companies. Eurostat asked about this entity's autonomy of decision and independence from the government. The Hungarian statistical authorities agreed to provide feedback on how Széchenyi Tőkealap-kezelő is operating and whether there is any government influence on the decisions of this company.

### 4.) Mifin Mikrofinanszírozó

The Hungarian statistical authorities agreed to provide more information on the activities of this company, e.g. what is the level of influence of the government on its business decisions.

In all the four above mentioned cases it will remain to be determined whether any of the four units could be considered as a captive financial institution controlled by government.

The other issue that was raised by Eurostat was the question of head offices and holding companies under the new ESA 2010 rules. There are a number of units on the *List of government controlled entities* which fall into this category, e.g. KELER, with 1 employee. Several other companies (e.g. KELER KSZF Zrt., MVM BVMT Zrt., Széchenyi Tőkealap-kezelő Zrt., MVM Eszak-Budai Fűtőerőmu Kft., Homokhátsági Regionális Zrt., Csarnok Kft.) with a small number of employees would also be investigated to see whether they comply with the definition of holding companies.

There are several companies on the list of government controlled entities, which belong to the group MVM. In the context of the statistical definition of head offices, there was a discussion on the company MVM Magyar Villamos Művek Zrt. It was noted that all of the MVM subsidiaries comply with the 50% test.

The companies with real estate activities (Miskolci Ingatlan gazdálkodó Zrt., SZOVA Zrt., Cívis Ház Zrt., Homokhátsági Regionális Zrt.), which are classified to the Local Government were also discussed in the context of the definition of holding companies.

Malev Vagyonkezelő was discussed on the last EDP dialogue visit in 2012. Subsequently the Hungarian authorities provided an explanation that Malev was required by a court to go into liquidation. Eurostat asked if the same entity was that listed on the *List of government controlled entities*, because it has zero employees and considerable debt. It would be important to understand the status of this entity; whether it is actually in liquidation, what is the nature of its debt and if the entity still holds the assets which could service the debt.

The MÁV Group was also reviewed during the visit. One of the companies from the Group is classified inside general government, MÁV Start, which is the passenger company. MÁV Trakció was merged inside MÁV Start from January 2014, together with MÁV Gepeszett. The infrastructure is held by MÁV Co. The Hungarian authorities explained that the company is profitable and well above the 50% market test level, even if only sales without subsidies on products are taken into account.

The issue of the Budapest transport companies BKV and BKK was raised by Eurostat. Previously, 60% of BKV income came from fares and other sales, and 40% of income was from state subsidies. Subsidies are divided into non-repayable state subsidies and normative state subsidies. These subsidies are classified as subsidies on products as they are directly linked to the volume of activity.

From May 2012, the situation had changed. BKK took over part of the activities from BKV; BKK has signed a service contract with BKV for providing public transport services. Both companies were well above the 50% market test level. The companies are both owned by the Municipality of Budapest.

From May 2012 onwards, BKK has received subsidies and sales revenues, and it collects its own revenue, while BKV no longer receives subsidies. BKK pays BKV and other service providers based on their output.

Since the government is paying subsidies to the public corporation, Eurostat underlined that it would be important to check whether the subsidies, which are now received by BKK, are volume based. Eurostat explained that it would be also important to know whether there are any contractual clauses in the service contract between BKK and BKV which could stop BKK having to pay for buses or trams that do not run.

In this context it would be important to analyse the service contract. Firstly, there was a need to understand what provisions exist in the contract to ensure that BKV has to provide the output that it has been paid for. Secondly, the nature of the subsidies that government provides to BKK should be analysed, to determine if they are volume based. Thirdly, the Hungarian authorities should consider the autonomy of decision of BKV.

### *Findings and conclusions*

**Action Point 6:** The Hungarian Statistical Office will undertake the 50% test for classification of units under the ESA 2010 approach for all entities which are close to the 50% threshold under the ESA95 approach, and inform Eurostat by end-June 2014.<sup>4</sup>

**Action Point 7:** The Hungarian Statistical Office will analyse all public entities with non-negligible debt, not classified in general government, which have a very low number of employees, in order to determine if they should be considered as Head Offices, Holding Companies, or another type of entity under ESA 2010, and inform Eurostat by end-August 2014.<sup>5</sup>

**Action Point 8:** By end-August 2014 the Hungarian Statistical Office will provide Eurostat with a report on the sector classification under ESA 2010 of MFB, Eximbank Zrt., Széchenyi Tőkealap-kezelő Zrt., and Mifin Mikrofinanszírozó Zrt. The report will specifically analyse the level of independence from government, whether they have the nature of captive financial institutions, and will furthermore also consider if certain transactions and activities undertaken by these bodies should be subject to re-routing through government accounts because they were done on behalf of government. It should also be assessed whether other units classified in S.12, apart from the 4 above mentioned, might have the nature of captive financial institutions controlled by government.<sup>6</sup>

---

<sup>4</sup> Action point completed.

<sup>5</sup> Action point completed.

<sup>6</sup> Eurostat is currently analysing the issue.

**Action Point 9:** The Hungarian Statistical Office will confirm the status of Malev Vagyonkezelő, and its statistical classification under ESA 2010, by end-June 2014.<sup>7</sup>

**Action Point 10:** The Hungarian Statistical Office will examine the relationship between BKK and BKV in order to determine whether BKV can be considered as a separate institutional unit under ESA 2010. If it will not be considered as a separate unit, then the Hungarian Statistical Office will examine the nature of the government subsidies paid to BKK to determine if they are based on actual volumes of output, and will also look at the nature of similar subsidies paid to local transport companies in other cities. If it is considered a separate unit, then the Hungarian Statistical Office, apart from the above, will also provide to Eurostat a copy of the service agreement between BKK and BKV. The Hungarian Statistical Office will report on this to Eurostat by end-August 2014.<sup>8</sup>

## 4.2. Implementation of accrual principle

### 4.2.1. Taxes and social contributions

#### *Introduction*

In Hungary a time adjusted cash method is used to record taxes. Taxes paid with a regular time lag are adjusted, while taxes paid irregularly or taxes paid once a year are recorded on a cash basis. Data sources for such time-adjustment are monthly reports provided by the Hungarian State Treasury.

New taxes which were introduced since the 2012 dialogue visit were:

- Telephone taxes as single turnover tax connected to phone calls and SMS/MMS services (Act LVI of 2012) in force since July 2012 => TAC: 2 month adjustment, classification: D.214HB (NTL: S.1311, Telephone tax)
- Financial transaction fee (Act CXVI of 2012) in force since January 2013=> 1 month TAC, classification: D.214LH (NTL: S.1311, Financial transaction fee)
- Insurance Tax (Act CII of 2012) in force since January 2013=> 1 month TAC, classification: D.214GB (NTL: S.1311, Insurance tax)
- Taxation Methods elaborated to Small Enterprises, Small Taxpayers (Act CXLVII of 2012) in force since January 2013:
  - a) Itemized Tax of Small Taxpayers (KaTa) => 1 month TAC, classification: D.29CE (NTL: S.1311, Itemised tax of small enterprises, small taxpayers)
  - b) Tax of Small Enterprises (KIVA) => 1 month TAC, classification: D.51OE (NTL: S.1311, Tax of small enterprises)
  - c) TAC: for the interim advance payments - 1 month adjustment in case a) and b).
- Tax of public utility system (Act CLXVIII of 2012) in force since January 2013, => on cash basis, classification: D.29AD (NTL: S.1311, Tax of public utility system)
- Waste disposal contribution (Act CLXXXV of 2012) in force since January 2014 => 1 month TAC, classification: D.214HB (NTL: S.1311, Waste disposal contribution)

Taxes for financial institutions (called bank levies), based on 2009 indicators (Act LIX of 2006 to change) had been in force since September 27, 2010. A 2 month time adjusted cash method is

---

<sup>7</sup> Action point completed.

<sup>8</sup> Action point completed.



used. The Hungarian authorities classified this tax as D.91 (capital tax as one-off), although it is mentioned in the *Questionnaire on the recording of taxes imposed on financial institutions in the context of the crisis*, filled in by Hungarian authorities, that this tax is levied on regular basis.

Eurostat's GFS Task Force had addressed the issue of recording of bank levies and harmonization between the MS in its May 2014 meeting, indicating that a period up to three years could be seen as compliant with the periodicity criterion of capital taxes. It appeared that where the tax is levied solely on the net-worth-related elements of the banks' balance sheet (retained earnings), the tax should be recorded as other current taxes (D.59) if it is levied on regular basis.

If the tax is levied in respect of more broad or mixed balance sheet components of a bank, the link between the financial intermediation services and the financial assets and liabilities carried by a bank on its balance sheet can be established, and it appears to exist a relationship between the size and composition of the balance sheet and the risk the bank has assumed as a result of its production activities and the level of own-funds buffer established in this context. This consequently means that the levies should be recorded as other taxes on production D.29, irrespective of whether they are levied occasionally or they are recurrent.

### *Discussion*

A representative from HCSO explained that a new advertising tax is currently under discussion in the Parliament. Eurostat asked the Hungarian authorities to provide further information on its statistical treatment in due course.

The classification of taxes for financial institutions was extensively discussed. This issue is very important for determining taxes are recurrent or not recurrent. It was stressed that it would be also important – if necessary - to revise the whole time series to meet the needs of the users of the data.

Another issue which was discussed was the recording of 2013 data on the Financial transaction duty which is charged on financial transactions, and processed by the Treasury on behalf of other government bodies. Users had found these data to be higher than expected, by some 0.4 % of GDP. It seemed that these amounts entered twice as revenue and once as expenditure in the national accounts. On the revenue side it was counted as both an indirect tax and as sales revenue, and on the expenditure side as intermediate consumption.

The Hungarian statistical authorities explained that here are two components to the Financial transaction duty. First, a fee is paid by the budgetary institutions to the State Treasury services, which acts as a banking institution of the budgetary institution. After collecting the fees, the State Treasury moves the cash to another account called the tax account. A small amount of payments from the budgetary units to the Treasury had already started before the Financial transaction tax was introduced, and these were recorded as sales. After the introduction of Financial transaction tax, the service payments had been raised to absorb the tax.

Eurostat explained that there are two important issues which should be considered. First, in the national accounts system, tax revenues from the general government bodies should be recorded. In the sequence of accounts, if a government body has to pay the tax, this tax component should be recorded as tax revenue. Second, when one part of the government charges another part of the government, the question arises if it should be recorded gross or consolidated. Under statistical rules there are some transactions which are consolidated (e.g. interest, transfers), and some transactions not consolidated (e.g. sales, fees). If these transactions were considered to be the sale of services, they should not be consolidated.

### *Findings and conclusions*

**Action Point 11:** The Hungarian Statistical Office will provide further information to Eurostat on the advertising tax and on its proposed statistical treatment, by end-July 2014.<sup>9</sup>

**Action Point 12:** The Hungarian statistical authorities will re-classify the financial transactions tax revenues (bank levies) to D.29 (from D.91) at the time of the end-September 2014 transmission of GFS data to Eurostat.<sup>10</sup>

#### 4.2.2. Interest

##### *Introduction*

In advance of the dialogue visit, the Hungarian authorities had submitted tables *Annex D.41* on interest data, together with explanations of the tables. There is a difference between cash and accrual data in the EDP Table 2A and EDP Table 3B since in non-financial accounts the interest expenditure is adjusted for FISIM, while in the financial accounts FISIM is not deducted.

In EDP Table 3B the adjustment of interest revenue is not reported in the line Difference between interest (EDP D.41) accrued (-) and paid (4) (+), since it is included in the part Net acquisition (+) of financial assets.

In the explanatory note it was stated that neither the premium nor the discount on an accrual basis is known by statistical authorities, but the net accrued discount (discount minus premium) is known.

It was also mentioned that in the financial accounts the Hungarian statistical authorities do not deal with both cash and accrual interest data. Interest-related data (including the stock of accrued interest) both for financial and nonfinancial accounts are calculated by the Government Debt Management Agency consistently.

It was pointed out that the amount of total accrual adjustment in the submitted table *Annex D.41 EDP T 3B* differs from the figure reported in the line Difference between interest (EDP D.41) accrued (-) and paid (4) (+) in the EDP notification tables, because the latter contains interest on swaps. Swaps-related interest is artificially added to the change in stock of accrued interest, because swaps-related interest transactions in the financial accounts are recorded under a separate instrument (AF. 34) and has no impact on the change in accrued interest.

##### *Discussion*

Eurostat took the opportunity to thank the Hungarian statistical authorities for filling in the table on interest, which was sent prior to the dialogue visit.

The table submitted by the Hungarian authorities represents the comparison between the EDP Table 2A and EDP Table 3B, the difference between cash and accrual data, by instruments. The issue related to discount and premiums was discussed.

##### *Findings and conclusions*

**Action Point 13:** The Hungarian statistical authorities will explain, by end-September 2014, the significant negative accruals adjustment in 2013 for net discount on government bonds.<sup>11</sup>

---

<sup>9</sup> Action point completed.

<sup>10</sup> Action point completed.

During October 2014 notification, Eurostat has reviewed the explanation on recording of financial transaction tax revenue sent by Hungarian authorities and accepted that it should be recorded as D.29. The tax category mentioned in the relevant action point should therefore be D.29 instead of D.59.

**Action Point 14:** The Hungarian statistical authorities will investigate with the Debt Management Agency the provision of gross data on premiums and discounts on government bonds and will inform Eurostat by end-2014.<sup>12</sup>

### 4.3 Recording of specific government transactions

#### 4.3.1. Savings Cooperatives Integration Unit and Takarékbank

##### *Introduction*

Eurostat was informed recently about the recent establishment of the Savings Cooperatives Integration Unit and the related provision of a budgetary contribution by the government, in order to reorganize the savings cooperatives sector and boost its lending.

##### *Discussion*

Eurostat understood that the funds which went into the Integration unit were used to purchase securities, but some of the funds were used to purchase a 25% stake in Magyar Posta Zrt. Apart from this Eurostat asked whether was any other use of these funds recently. The Hungarian authorities confirmed that there was no use of the funds to date. Eurostat underlines that if the funds were to be used in future, a statistical analysis should be done and these amounts recorded as government expenditure if appropriate.

Furthermore, there was a discussion on the ownership of Magyar Posta Zrt., where 25% of shares were bought by the Integration unit. The Hungarian authorities confirmed that there is a cooperation between the Post office and Savings Cooperatives, where there was the intention to emphasize their cooperation by establishing mutual ownership rights; The Post office had bought the part of Takarékbank (that had then been sold), and the Integration unit bought shares in the Post office.

Eurostat asked Hungarian authorities to elaborate more on the sale of Takarékbank.

Initially, Eurostat had understood that the Hungarian government was trying to create a public savings cooperative network, where Takarékbank would be at the top of the structure, and underneath there would be Savings cooperatives with the Integration unit as an emergency fund. But Takarékbank had recently been sold. This had changed the operation towards a privately owned saving cooperatives network, with a State back-up fund.

Eurostat asked about control of the Savings cooperatives, since on one side there was the Integration unit and on the other side there was Takarékbank, which is majority privately owned after the sale to Magyar Takarékszövetkezeti Zrt. Eurostat advised the Hungarian authorities to reflect on this issue under ESA 2010 rules and to decide if the Savings cooperatives had a private or public nature.

##### *Findings and conclusions*

**Action Point 15:** The Hungarian Statistical Office will examine whether Savings Cooperatives are considered as publicly or privately controlled, and will report its findings to Eurostat by end-2014.<sup>13</sup>

---

<sup>11</sup> Action point completed.

<sup>12</sup> Action point completed.

#### 4.3.2. EU flows

- Statistical correction for EU flows in the new financial programming period

##### *Introduction*

During the dialogue visit in 2012 there was a discussion about the calculation of the adjustment of the timing of EU flows, where an action point was identified for the Hungarian authorities to investigate further the calculation of this adjustment.

The adjustment being made had led to significant backward revisions to the data. The Hungarian authorities had updated Eurostat twice on developments on this issue. First, there was a plan to place the management of EU funds with the National Development Agency. Later, there was a reorganisation of the handling of EU flows, the NDA was abolished, and the Prime Minister's Office took over responsibility as the managing authority. At the same time, the Office took over the electronic information system EMIR, which could provide statisticians with the necessary information on EU flows on a more detailed level.

In an update note provided in advance of the visit, it was mentioned that the required IT developments and specifications had been completed for the EMIR system update and that the HCSO has been provided with data for the first three months of the year, which were under evaluation to see how they could be used.

##### *Discussion*

It was explained by Hungarian statistical authorities that a meeting had been organized in order to reconcile the results which were provided by EMIR with the budgetary data on revenues and expenditures for the first quarter of 2014. There were still some issues pending, e.g. on timing differences, so further discussions and analysis were needed to ensure the quality of the data.

The agricultural and some other funds are adjusted for separately by statisticians.

It is always difficult to follow and match revenues, notably because projects may or may not be considered eligible, and this leads to revisions backwards. Eurostat asked whether this would continue under the new system, and a representative from the HCSO explained that the monthly based figures which would be received would show the expenditures on EU projects and revenues received related to EU projects on OP-s on a more detailed level and these information would decrease revisions.

Consistency over time was also discussed. Since the new data source had been adopted recently, there was still an existing data source for past years. Eurostat asked how the Hungarian statistical authorities would introduce the new data source and how they would ensure that it would be consistent with the recording for previous years. It was explained that for cross-checking of the consistency between the data, Hungarian authorities can make a comparison, on annual basis, to ensure that there is no significant double counting of data.

For the October 2014 notification, the old data system would be used, and from spring 2015 Hungarian authorities would have to decide which data system would be used for reporting on EU related flows.

##### *Findings and conclusions*

---

<sup>13</sup> Action point completed.

**Action Point 16:** The Hungarian Statistical Office will update Eurostat by end-September 2014 on its investigation of a new data source for EU-related flows.<sup>14</sup>

### 4.3.3. Guarantees

#### *Introduction*

In the discussion during the visit, Eurostat focused on the review of the case of early repayments of mortgage loans and its current status, since this issue had already been discussed during the dialogue visit in 2012.

A large share of Hungarian households took out housing loans denominated in Swiss francs. Due to the considerable shift in exchange rates, the cost of the loans increased considerably, and consequently many households had difficulties with their regular payments.

In order to help to reduce the financial burden of the households indebted in foreign currency, the government stepped in and introduced the scheme provided for the early final repayment of housing loans at preferential exchange rates.

Accordingly, banks were required to apply a preferential 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 Hungarian government agreed to share with the banks the financial burden arising from the early repayments of mortgage loans at preferential exchange rates by giving a guarantee on the value of the foreign currency-denominated loans.

As the Hungarian government had agreed to share with the banks the financial burden arising from the early repayments of mortgage loans at preferential exchange rates, Eurostat had advised the Hungarian statistical authorities to record capital transfers directly (30% of the total losses of the banks) from government to households, although government pays the cash to the banks under the label of a tax rebate. It was also advised to allocate the capital transfers between 2011 and 2012 following the accrual recording of the early repayments of the mortgage loans at preferential exchange rates.

#### *Discussion*

Eurostat was informed by Hungarian statistical authorities that the scheme of early repayments of mortgage loans has finished.

The Hungarian statistical authorities explained that the losses of the government amount to HUF 102 billion. Moreover, the mortgage relief scheme was purely a one-off support scheme with no guarantee elements, so there is no impact on the level of the government guarantees in public accounts, visible in EDP Questionnaire table 9.1, as the scheme has ended.

Currently, there are two other schemes running. The Housing purchase scheme, where HUF 9 billion has been paid to NET Zrt. but not yet used. The tracking of the flows involved in this scheme was discussed under agenda point 3 (Follow-up of the April 2014 EDP reporting – analysis of EDP tables).

The Exchange rate guarantee scheme the government and the banks share the burden for those households who are not able to service their debt. The government steps in and pays half of the

---

<sup>14</sup> Action point completed.

interest in cash for the relevant year, whereas the bank repays the half of it through a specific tax. There is no accumulation of arrears of the government in this scheme.

If the market rate is different from the artificial rate set in this scheme, the household would only pay the instalment based on the artificial rate. The rest of the interest due goes into an account which does not have to be paid now by the households, but only later.

At the time in which the government takes a commitment under the scheme, the full amount of the commitment is not known, because of the unknown future changes in the exchange rate. However, it seems that this is not an unlimited liability to government, as there is a capped amount mentioned in the relevant regulation. It was agreed that this part of the scheme represents a contingent liability for government.

Questionnaire table 9.1 records the first part of the Exchange rate guarantee scheme, containing the instalments up to HUF 550 million. That is included as a contingent liability as the government will eventually have pay something, if the banks cannot recover the instalments within five years.

The other part of the Exchange rate guarantee scheme is not included in the table on government guarantees, because it is paid regularly every year depending on the exchange rate, and the overall amount is not yet known, but it nevertheless represents a contingent liability.

Eurostat pointed out that the Hungarian statistical authorities should consider reporting the contingent liability for the interest part in the report on contingent liabilities and potential obligations under Directive 2011/85, due by the end of 2014, since part of the HUF 550 million is already included automatically in the report.

#### *Findings and conclusions*

No action points were identified.

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

##### *Introduction*

Together with the transfer of responsibilities from Local Government to Central Government, the debt of Local Government was assumed by Central Government.

Between 2006 and 2010 the debt level of Local Government rose dramatically. By the end of the year 2010, the stock of the Local Government debt reached 1247.5 billion HUF.

From 2011 onwards, Central Government gradually took over the majority of the Local Government debt.

##### *Discussion*

Whenever a Local Government wishes to borrow some funds, it has to receive approval from Central Government, but there is no obligation of Central Government to repay any of these debts.

In terms of the past, there have been a number of impacts arising from foreign claims. Eurostat was informed that there is no outstanding possible debt forgiveness. In Questionnaire table 8.1., Central Government had foreign claims in the amount of HUF 9.5 billion at the end of 2013, claims against public corporations amounted to HUF 81 billion, while other claims amounted to HUF 54 billion.

## *Findings and conclusions*

No action points were identified.

### 4.3.5. Capital injections in public corporations

#### *Introduction*

Prior to the dialogue visit in June 2014, the Hungarian authorities provided a note on several issues regarding capital injections in public corporation, which are under investigation at national level. Those cases, which were discussed during the mission, are described below.

#### *Discussion*

- Capital increase in EXIMBANK

There was an 18 billion HUF capital increase from budgetary sources in March 2014 in EXIMBANK, which is the Hungarian Export-Import Bank, a State-owned public corporation. The capital increase included two components: a) 13.8 billion HUF to fulfill the CRR/CRD IV requirement for capital adequacy in regulatory capital, and b) 4.2 billion HUF for increasing the Bank's activities. EXIMBANK achieved profits over 2009-2013 and expects a profit in 2014 as well. No business plan was yet available for 2015 onwards.

During the meeting it was discussed how to record the EXIMBANK capital injection according to the relevant MGDD rules.

The Hungarian statistical authorities proposed to make the following recording: 13.8 billion HUF as a financial transaction and 4.2 billion HUF as a capital transfer. Eurostat explained that it is not appropriate to split the capital injection in this way, since recording according to capital adequacy requirements is not part of the MGDD. The MGDD rules on capital injections say that if the government is expecting a market rate of return, the transaction should be classified as a financial transaction, provided that the entity has not made past losses. The key criterion is therefore to determine whether there would be market rate of return on the investment, which should be available in the business plan of the company.

Eurostat advised the Hungarian statistical authorities to gather the information in relation to the expected market rate of return on the injection that was made in March 2014 from the Bank's business plan, in order to correctly record this capital injection. It was also suggested by Eurostat to be prudent in the recording of the transaction in quarterly data for first quarter of 2014, until a business plan was made available to be analyzed. Eurostat expected that this issue would be resolved by the Spring 2015 EDP notification.

- Purchase of shares of FŐGÁZ

Eurostat was informed that the Shareholders' Meeting of MVM Hungarian Electricity Ltd. made a decision in December 2013 to purchase shares in FŐGÁZ, held by RWE Gas International B.V., for a value of HUF 41 billion. The transaction was completed on 15 April 2014. MNV (the Hungarian State Holding Company Ltd.) classified inside the general government sector, had undertaken to make available to the Company the funds required for financing all obligations binding upon MVM Ltd. as the buyer in connection with the transaction. The loan provided by MNV would be converted into equity. MVM took a 49.83% block of shares in Metropolitan Gasworks Ltd., including its assets and subsidiaries, such as FŐGÁZ Földgázelosztási Kft.

(FŐGÁZ Natural Gas Distribution LLC), which owns the gas network infrastructure and performs distribution.

It was concluded that this is a case of a capital injection undertaken by the government, for purchasing FŐGÁZ, even if undertaken via MVM.

The same analysis of the injection should therefore be made as for the case of EXIMBANK, in order to determine whether this would be financial or non-financial transaction.

- Purchase of shares of AVE Magyarország Hulladékgazdálkodási Kft. and its subsidiaries

Nemzeti Hulladékgazdálkodási Szolgáltató Kft., classified in the non-financial corporations sector (S.11), signed a contract in 2014 with AVE CEE Holding GmbH, to purchase the shares of AVE Magyarország Hulladékgazdálkodási Kft. (AVE) for 14 billion HUF. Government would increase the capital of NHSZ by 14 billion HUF, in order for NHSZ to finance the acquisition of shares, and thereby become the indirect owner of the AVE-Group.

In order to analyze this transaction, the Hungarian statistical authorities would look at the profitability of the combined group. Eurostat advised the authorities to obtain information on the business plan underlying the purchase.

- Purchase of shares of Antenna Hungaria

In 2014 the state owned NISZ (Nemzeti Infokommunikációs Szolgáltató Zrt., the state's ownership rights are exercised by MNV) signed a binding agreement with TDF S.A. for the acquisition of the shares of Antenna Hungária Magyar Műsorszóró és Rádióhírközlési Zrt, classified as a non-financial corporation (S.11). From a national accounts point of view, under ESA 2010, NISZ is a general government unit.

TDF launched a disposal process to sell 100% of the shares of Antenna Hungaria in 2013. The transaction was concluded at a value of 55.9 billion HUF. It included the purchase of the shares and the repayment of a loan provided by TDF to Antenna.

Since NISZ is classified inside the general government sector, and bought the private company Antenna, this is a clear case of nationalization. The only statistical issue which should be investigated is if, as the part of purchase, the government took over any other obligations, e.g. to repay the loan.

In terms of statistical recording, one possibility would be that government nationalized the company, which represents a straightforward acquisition of equity. Subsequently to that, the company would then repay the loan to creditor. The other possibility is that the government bought the company but at the same time, gave money to repay the loan. A further investigation would be needed to determine which of these recording options is the most suitable.

- Capital injection in Local Government

Eurostat asked whether the Hungarian authorities have full information on capital injections undertaken at the Local Government level. It was explained that 2013 was the first year where there was specific information on capital transfers and acquisition of equity at this level. The Hungarian authorities will examine the information available for Local Government capital injections in 2014.



### *Findings and conclusions*

**Action Point 17:** The Hungarian Statistical Office will examine the injections into Eximbank, MVM and Nemezti Hulladékgyártási to determine if the relevant business plans reveal that government is expecting a market rate of return. Eurostat will be informed on completion of the analyses and no later than end-2014.<sup>15</sup>

**Action Point 18:** The Hungarian Statistical Office will examine the injection into the company NISZ to determine if there was a separate payment made to cover the repayment of Antenna Hungaria's debts, and confirm it to Eurostat by end-September 2014.<sup>16</sup>

**Action Point 19:** The Hungarian Statistical Office will examine the information available for Local Government capital injections in 2014, and will update during 2015 its calculation of the split between capital transfers and acquisition of equity.

#### 4.3.6. Dividends, super dividends

##### *Discussion*

Eurostat asked whether there is full information available on the level of dividends received by Local Government and whether the statistical authorities perform a super-dividend test for those dividends. It was explained by the representative from the HCSO that when a corporation is non-profitable, there are no dividends, whereas when the corporation is profitable the assumption is that there are no super-dividends from these profitable corporations. The Hungarian statistical authorities explained that there is separate information on dividends for the Local Government level, where for the year 2013 the amount of dividends received by Local Government was HUF 9.8 billion.

Eurostat suggested to closely monitor the level of dividends received by Local Governments and to open an investigation if significant changes in the level of these dividends would be observed.

The dividend received by the Hungarian government from MOL Plc. was also discussed, but it was concluded that this is not relevant in the context of EDP.

##### *Findings and conclusions*

The Hungarian statistical authorities will regularly monitor the level of dividends received by Local Governments and will undertake a special investigation whenever the level of dividends changes significantly.

#### 4.3.7. Financial derivatives

##### *Discussion*

The Hungarian authorities confirmed there are also no swap cancellations in Hungary. At the level of Local Government there are no financial derivatives.

---

<sup>15</sup> Action point completed.

<sup>16</sup> Action point completed.

### *Findings and conclusions*

No action points were identified.

#### 4.3.8. PPPs

##### *Introduction*

No new PPP projects had commenced in Hungary since the last EDP dialogue visit in 2012. The HCSO explained that they are not aware of any new PPPs in the near future. The new government was expected to continue the policy in place from 2010 to 2014: maintaining only the existing large projects (M5 and M6 motorways, Szombathely and Tiszalök prisons, The Palace of Arts).

As it was explained in the last dialogue visit in 2012, an investigation of the State Audit Office had resulted in the reclassification of 13 PPP projects of higher education. The reason for the reclassification was that the government partner took back the operation of the project (which the HCSO interpreted as taking over as the availability risk).

The Government had also started a program of buying out some PPPs. Until the end of 2012, 17 sport projects (9 gymnastic halls and 8 swimming pools) were bought out. HCSO recorded this buy out as government expenditure (gross fixed capital formation).

##### *Discussion*

Eurostat asked whether there were any new buy-outs planned for 2014, since the government seemed to have a policy of buying out smaller projects, such as education and sports projects, at some stage. The Hungarian authorities were not aware of any planned.

Eurostat asked whether there has been any modification of the projects M5 and M6 over past years. Authorities confirmed that there has been no modification to the projects since 2000, when there were contractual extensions of a technical nature. In the annual data collection process on PPP projects, the HCSO regularly checks whether there has been any amendments or changes to the existing contracts.

In total, there are 51 PPP projects that are currently recorded off the balance sheet. They are in the following categories; motorways (2), prisons (2), higher education (30) and sports facilities (17). Since 2009, no new PPP contracts had been signed.

For reasons of cross-comparability of PPP projects across Member States, Eurostat asked the HCSO whether the model of the contracts in the same category of projects is similar. The Hungarian authorities recalled that there was a similar discussion during the dialogue visit in 2008, and that the copies of required PPP contracts were already submitted to Eurostat at that time.

### *Findings and conclusions*

**Action Point 20:** Eurostat will quickly check if it continues to hold copies of PPP contracts for prisons, educational establishments and sports facilities, and will contact the Hungarian Statistical Office if further information is needed.<sup>17</sup>

---

<sup>17</sup> Action point completed.

#### 4.3.9. Others: emission trading permits, privatization, sale and leaseback, securitisation

##### *Introduction*

Regarding emission trading permits, it had been reported in the media that Hungary had sold 2,588 million spot European Union carbon permits from the second phase of the EU's emissions trading scheme (2008-2012) in April 2013 at 2.76 Euros (\$3.60) a tonne each on the German bourse EEX.

For sale and leaseback securitisation, Questionnaire tables 12 and 13 are reported empty. The Hungarian authorities had informed Eurostat that there were no sale and leaseback and securitisation operations so far.

##### *Discussion*

Eurostat opened a discussion on recording of the emission trading permits in the EDP tables.

When the government sells the quotas, revenue is not recorded in the national accounts at the time of sale, but only later when the permits are surrendered.

Eurostat explained that MGDD has a formula to be used to record the tax revenues to the government arising from the sale of emission permits. It seems that Hungarian authorities are applying a more direct approach, because the individual permits surrendered to government could be identified.

At the time the permits are surrendered to the government, the value which is put to those permits is an estimated average price, which is calculated from previous auctions. Eurostat believed that this approach was not fully in line with MGDD recommendations, which is to take the accumulated auction proceeds which have not yet been recorded as tax revenues, and to divide by the total number of live permits issued to obtain an average price.

For sale and leaseback and securitisation operations, the Hungarian authorities re-confirmed that there have been no such cases in Hungary.

##### *Findings and conclusions*

**Action Point 21:** Eurostat will re-examine the description provided by the Hungarian statistical authorities of the statistical recording of emission trading permits.

#### - UMTS

##### *Introduction*

NMHH, the National Media and Infocommunications Authority, had published draft documentation for a tender relating to spectrum licenses for broadband services on 17 April 2014. The tender process was launched on 22 May 2014 and the deadline for application was 16 June 2014.

##### *Discussion*

The rules on statistical recording of sale of radio spectrum licences under ESA 2010 were discussed. There is a clear rule on recording of the sale of such licences; if the licence is transferable, it should be recorded as the sale of an asset at the time of sale, whereas if the licence is not transferable, it should be recorded as a rent spread over the duration of the contract.

The key issue to take into account is whether the government has the right to oppose the transfer of a licence to a third party for any reason.

Eurostat stressed that the Hungarian Mobile Telephone Licence contracts should be checked in order to understand whether specific authorisation is required from government in order to transfer the licence to a third party. There are three technical possibilities under which the licence is considered transferable: if government has a right to control the competence of a possible purchaser, if government has a right to control the solvency of a possible purchaser, and if the relevant competition rules are met.

If there is a clause foreseen in the contract under which government is not obliged to specify the reasons for any refusal of transfer, it is considered that the licence is not transferable. If it is specifically mentioned that the general authorisation of the government is needed, then it is considered that the government has a right to oppose the transfer for any reason. In both these cases, the sale of the licence should not be recorded as the sale of an asset, and payments to the government would be recorded as rents spread over the duration of the contract.

The Hungarian statistical authorities informed Eurostat that the Media Authority Decree defines the overall rules on transferability of the licences, so these provisions are not specified in the contract. Therefore, it is under the Media Authority's powers to authorize the transfer of the licences. The Hungarian authorities explained that it seems that no specific NMHH rights over transfer can be identified in the regulation or in the tender draft.

#### *Findings and conclusions*

**Action Point 22:** The Hungarian authorities will provide to Eurostat, by end-August 2014, a copy of the latest Mobile Telephone Licence contract and a copy of the relevant decree establishing powers of the Hungarian regulator over the transferability of the contract.<sup>18</sup>

### **4.4. Energy sector – implications for government accounts**

#### *Introduction*

In their background note prior to the visit, the Hungarian statistical authorities provided an overview on recent developments in the energy sector in Hungary. The government regulator is imposing cuts in energy prices, which would have a significant impact on the entities concerned, notably MVM. The government had made several recent acquisitions (nationalisations) in the energy sector, widening government control over oil and gas activities. The situation regarding MOL was described and the dividend arrangements reviewed.

The Hungarian electricity transmission grid has been allocated to MAVIR, which handles the dispatching of electricity and balancing of the grid, whereas MVM operates the grid itself.

#### *Discussion*

There was a discussion developed in the nuclear power station in Paks. Currently, there is one nuclear power station in Paks which should be upgraded, and at the same time MVM has founded a subsidiary, Paks II, to prepare a new generation of nuclear power facility. It appeared from media reports that Hungarian and Russian prime ministers had reached an agreement, whereby the Russian Federation would provide a loan which would be used, together with Hungarian financing, to finance a project to build two new nuclear units. The deal was still under preparation, and not much information was available at that stage.

---

<sup>18</sup> Action point completed.

In terms of the loan from the Russian Federation, the Hungarian statistical authorities explained that this loan would be a loan to the Hungarian government. The Russian nuclear state authority would be in charge of the implementation of the design and construction works. Formally, the loan would only be granted at the time when Paks II would be in a correct phase of construction and had therefore been delivered to specification.

It was concluded that at this point of time, there is no need to record anything in the relevant statistics, but that the project should be monitored.

#### *Findings and conclusions*

No action points were identified.

## **5. Implementation of ESA 2010**

### **5.1. General progress on implementation**

ESA 2010 will be implemented as from September 2014. From that date onwards the data transmission from Member States to Eurostat will follow ESA 2010 rules. In May 2014 the HCSO had sent to Eurostat an updated questionnaire on the impact on deficit and debt from ESA2010.

The Hungarian statistical authorities informed Eurostat that considerable efforts had been made during the preceding two months to review government controlled entities from a classification point of view. Individual analyses were made for 500 hundred public corporations and for 3000 public non-profit institutions, based on 2012 data, taking into account both qualitative and quantitative criteria from ESA 2010. As a result of the analysis, about 100 public units would be re-classified into the general government sector. In most of these cases, the reason for the reclassification was that the government is the only or the main user of these public units' activities. The impact of the reclassification of the units on the general government deficit would be rather small for the years 2010-2013, however the upward impact on the level of Maastricht debt would be about 0.1% of GDP in the same period.

Eurostat pointed out that during the October 2014 notification some statistical authorities were planning to take the opportunity to introduce additional revisions which are not related to the ESA 2010 changes. This could be viewed as an opportunity to benchmark the national accounts, to make revisions due to the new data sources, introduce methodological changes, etc. It seemed that in Hungary there would be only some minor revisions not related to ESA 2010, such elimination of errors, without any significant impact on the levels of deficit and debt.

### **5.2. Changes in classification of units under ESA 2010**

All discussion and action points related to the classification of units were covered under the agenda point **4. Methodological issues and recording of specific government transactions, Register of government controlled entities not classified to general government.**

### **5.3. Standardised guarantees**

#### *Introduction*

Given the rules which should be applied on standardised guarantees under ESA2010, the Hungarian authorities had investigated guarantees granted by the government. Three types of guarantees were investigated: student loans, export loans and housing loans. It appeared that only the guarantee schemes on housing loans correspond to the definition of standardised guarantees (“... issued in large number, usually for fairly small amount, among identical lines”).

There are four types of housing loan guarantee programmes:

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

### *Discussion*

Eurostat provided an overview on the new ESA 2010 rules applicable to the treatment of standardised guarantees. According to the description that was provided by the Hungarian statistical authorities, housing loan guarantee programs correspond to the definition of standardised guarantees. Eurostat noted that capital transfers (D.9), for which the counterpart is in the specific financial instrument for standardised guarantees (F.66), seems to be irregular from one year to another in Hungary. Under ESA 2010 rules, D.9 represents the expectation of a future guarantee call, which, when it happens, should be recorded as a financial transaction (F.66 balanced by a flow of currency and deposits). As soon as there is a loan on these 4 programs, a D.9 impact would be expected to be recorded, since there will be some calls of the guarantee in the future.

In a note sent prior to the visit, the Hungarian statistical authorities presented the impact of the new methodology on government net lending/net borrowing, according to the available data on housing loans (end-year stock of guaranteed debt, amount of calls, amount of recoveries, and guarantee fees) and calculated data on the change in stock of guaranteed debt, annual amount of net calls, rate of expected calls, and data on D.9 and F.66. It showed that the scheme has deficit-increasing impacted at the beginning, followed by deficit-reducing impacts in later years. This represents the impact of removing the cash expenditure from later years and recording expected calls in earlier years. The impact on the later years, since the scheme keeps running, is the net impact of both; Hungarian authorities are removing cash payments for the actual but are still adding the relevant capital transfers for any new loans.

### *Findings and conclusions*

No action points were identified.

## **5.4. Other specific issues**

- Change in the treatment of lump sum payment for pension schemes

### *Introduction*

Between 2009 and 2013, Hungarian private pension funds managing so-called second pillar schemes transferred most of their assets and obligations to the government. These transfers were recorded as government revenue at the time of the transfer, improving the government deficit, according to ESA 95 rules. However, under the new rules (ESA 2010), as of September 2014, there will be no direct impact on the deficit from lump sum transfers of pension obligations at

inception. The lump sum will be treated as a financial transaction, recorded as a financial advance (F.8), and thereafter recorded in future years as the receipt of miscellaneous current transfers (D.75) by government over time, in proportion to the related payments of pensions.

### *Discussion*

Eurostat stressed that under new ESA 2010 rules a spreading of the lump sum revenue is required.

The Hungarian statistical authorities explained that they intended to apply a progressive linear schedule model and record two imputations which should have a neutral impact on the government deficit. The liability in AF.8 arising from the lump sums is to be amortized in the form of imputed D.759, revenue, and interest expenditure would also be imputed on the stock of AF.8.

Since the most significant lump sum payments were transferred in 2011, the Hungarian authorities had decided that the year 2012 should be the first year for related benefits payments by government.

Regarding the duration of the linear imputation, it is decided that, due to the structure of the private pension funds, the extinction period would be 35 years. The agreed interest rate determines the annual nominal increase of D.759, and has been set at 3%.

### *Findings and conclusions*

No action points were identified.

## **6. Other issues**

### **6.1. ESA95 Transmission Programme (tables 2, 6, 7, 9, 11, 25, 27 and 28)**

Eurostat took this opportunity to thank the Hungarian statistical authorities for their cooperative approach in relation to the ESA95 Transmission Programme.

### **6.2. Any other business**

No action points were identified.

# **Eurostat EDP standard dialogue visit to Hungary**

**10-11 June 2014**

*Starting on 10 June 2014 at 13:00*

## **Draft Agenda**

### **1. Statistical institutional issues**

#### **1.1. Institutional responsibilities in the framework of the reporting of data under the EDP and government finance statistics compilation**

- 1.1.1. Institutional cooperation and EDP processes
- 1.1.2. Quality management framework
- 1.1.3. Audit and internal control arrangements

### **2. Review of key data sources**

#### **2.1. Public sector accounting and accrual of expenditure/revenue**

#### **2.2. Local Government accounts**

### **3. Follow-up of the April 2014 EDP reporting – analysis of EDP tables**

### **4. Methodological issues and recording of specific government transactions**

#### **4.1. Delimitation of general government sector**

- General review of Local Government sub-sector after recent reforms
- Register of government controlled entities not classified to general government

#### **4.2. Implementation of accrual principle**

- 4.2.1. Taxes and social contributions
- 4.2.2. Interest

#### **4.3. Recording of specific government transactions**

- 4.3.1. Savings Cooperatives Integration Unit and Takarékbank
- 4.3.2. EU flows
  - Statistical correction for EU flows in the new financial programming period
- 4.3.3. Guarantees
- 4.3.4. Debt assumptions, debt cancellations and debt write-offs
- 4.3.5. Capital injections in public corporations
- 4.3.6. Dividends, super dividends
- 4.3.7. Financial derivatives
- 4.3.8. PPPs
- 4.3.9. Others: emission trading permits, privatization, sale and leaseback, securitisation

#### **4.4. Energy sector – implications for government accounts**

### **5. Implementation of ESA 2010**

#### **5.1. General progress on implementation**

#### **5.2. Changes in classification of units under ESA 2010**

#### **5.3. Standardised guarantees**

#### **5.4. Other specific issues**



**6. Other issues**

**6.1. ESA95 Transmission Programme (tables 2, 6, 7, 9, 11, 25, 27 and 28)**

**6.2. Any other business**

## **List of participants in the EDP dialogue visit to Hungary on 10 – 11 June 2014**

### **Hungarian Central Statistical Office:**

Ms Vukovich Gabriella  
Mr Pozsonyi Pál  
Mr Bedekovics István  
Ms Németh Adrienn  
Mr Horváth Balázs  
Ms Lehmann Anna  
Ms Juhász Anita  
Mr Majdanics Bence  
Mr Lőrincz Zoltán  
Ms Emri Istvánné  
Ms Locherné Kelédi Ildikó

### **Central Bank of Hungary:**

Ms Tardos Ágnes  
Mr Simon Béla  
Ms Bablina Erzsébet  
Ms Nagy Zsuzsanna

### **Ministry for National Economy**

Ms Csonka Gizella  
Ms Surányiné Repa Ágota  
Ms Nagy Henrietta  
Ms Angyal Nikoletta  
Ms Birkás Petra

### **DG ECFIN**

Mr Csaba Iván  
Mr Jankovics Laszlo

### **ECB**

Ms Kezbere Linda

### **EUROSTAT**

Mr Verrinder John  
Mr Ascoli Luca  
Mr Besnard Denis  
Ms Brkic Milana