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FINAL FINDINGS

EDP Dialogue Visit to Hungary
10-11 July 2012

EXECUTIVE SUMMARY

Eurostat carried out an EDP dialogue visit to Hungary on 10-11 July 2012, accompanied by observers from the Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB). Hungary was represented by the Hungarian Central Statistical Office (HCSO), the Ministry for National Economy (MNE) and the Central Bank of Hungary (please see the list of participants in annex 1).

Eurostat carried out this EDP dialogue visit in order to review the implementation of ESA95 methodology and to ensure that the provisions of the ESA95 Eurostat Manual on Government Deficit and Debt (MGDD) and Eurostat decisions are duly implemented in the Hungarian EDP and Government Finance Statistics (GFS) data.

The main aims of the visit were to assess the institutional arrangements of the EDP compilation; to clarify the issues relating to EDP tables raised in the context of the last EDP notification; to revisit the use of indirect data sources for financial accounts; to analyse sectorisation practices; to review the time adjustment and classification of new taxes and social contributions; to review the classification of capital injections in the Hungarian Development Bank (MFB) and the treatment of debt assumption of the railway company MÁV Zrt; to check the capital injection and super dividend tests at the local government level and to analyse government transactions with the former national airline MALÉV. Please see the agenda in annex 2.

As regards institutional issues, 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).

Eurostat welcomed the work done by the Hungarian statistical authorities on reconciliation of data from direct and indirect sources and recalled that use of direct sources should be normally preferred. Eurostat also underlined the importance of timely Treasury data being available to the statistical authorities. The Hungarian statistical authorities agreed to cross-check the relationship between the balance sheet and "other financing items" to ensure that there is correct recording in non-financial accounts and coherence between financial and non-financial accounts. The participants also agreed that statistical authorities should be involved during any future government accounting reform.

For military expenditure, the Hungarian statistical authorities agreed to inform Eurostat of the changes to the Gripen recording model to take account of the extension of the contract.

Concerning the register of government controlled units, Eurostat understands that the information from the taxation system on ownership of corporations is vital to ensure the identification of publically controlled corporations, in the absence of information from the commercial register, and therefore it must be retained.

For the recording of social contributions, the ESA classification of the social contribution tax, which replaced the previous social security contribution, should be decided in the near future.

As regards the specific government transactions in the context of the financial crisis, the Hungarian statistical authorities confirmed that there are no new government interventions decided.

Eurostat asked the Hungarian statistical authorities to confirm if the government instructed MFB to acquire shares in Takarékbank and the valuation basis for the acquisition.

The participants agreed that possible improvements to the current simplified EU flows time adjustment method should be implemented from the start of the next Structural Funds programming period.

The participants also agreed that the 2011 state guarantee on the state railway company MÁV Zrt bond issues will be recorded as the raising of government debt and as a subsidy from government to MÁV Zrt, following the recognition of principal party. The Hungarian statistical authorities also agreed to check if there is double-counting of guarantees related to export credit insurance in Hungary.

The Hungarian statistical authorities agreed to make consistency checks of loans data between the EDP questionnaire table 8 and EDP tables, checks between EDP questionnaire tables 8 and data on claim cancelations in the working balance, and comparisons of data on debt write-offs and data in EDP questionnaire table 8.1 for other changes in volume.

For the capital injections made by government in the Hungarian Development Bank (MFB) in 2011, the participants shared the view that the investments in non-profitable areas should be recorded as capital transfers and the expected return on investments in profitable areas should be compared with an equivalent rate of return for the Hungarian banking sector.

Concerning data availability at the local government level, the Hungarian statistical authorities agreed to check with a number of municipalities the breakdown of reported acquisition of equity, and dividends, by corporation, and cross-check with profits data for these corporations.

Eurostat welcomed the recent PPPs monitoring exercise and the new annual data collection on PPPs from 2013 onwards.

For the issues surrounding the national airline MALÉV, the Hungarian statistical authorities agreed to inform Eurostat on the latest situation on possible compensation to the Budapest Airport operator, and also describe any contractual amendments which may have an impact on government finances.

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 July 2012.

The delegation of Eurostat was headed by Mr John Verrinder, Head of Unit D-3: Statistics for Excessive Deficit Procedure (EDP 2). Eurostat was also represented by Mr Norbert Gáspár, Ms Viera Karolova and Mr Peeter Leetmaa. Representatives of the Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) also participated in the meetings as observers (please see the list of participants in annex 1).

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

Eurostat carried out this EDP dialogue visit in order to review the implementation of ESA95 methodology and to ensure that the provisions of the ESA95 Eurostat Manual on Government Deficit and Debt (MGDD) and Eurostat decisions are duly implemented in the Hungarian EDP and Government Finance Statistics (GFS) data.

The main aims of the visit were to assess the institutional arrangements of the EDP compilation; to clarify the issues relating to EDP tables raised in the context of the last EDP notification; to revisit the use of indirect data sources for financial accounts; to analyse sectorisation practices; to review the time adjustment and classification of new taxes and social contributions; to review the classification of capital injections in the Hungarian Development Bank (MFB) and the treatment of debt assumption of the railway company MÁV Zrt; to check the capital injection and super dividend tests at the local government level and to analyse government transactions with the former national airline MALÉV.

With regard to procedural arrangements, the Main Conclusions and Action Points would be sent to Hungary for review. Then, within weeks, the Provisional Findings would be sent to Hungary for review. After this, Final Findings will be sent to Hungary and 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

Background

Three institutions – the HCSO, the Central Bank of Hungary and the MNE – are involved in preparation and reporting of EDP notifications whereas the final responsibility is with the HCSO. A permanent working group of the three institutions, established in 2004 and formalised in a cooperation agreement, discuss all methodological and classification issues.

Discussion

The Hungarian statistical authorities described the data flows in the EDP data compilation and the supervisory and control systems of the HCSO. All data used for the EDP purposes are checked by producing institutions before EDP data are compiled. However, the HCSO unit responsible for EDP data makes additional checks on datasets. The authorities presented the new Oracle database used for cross checking of upstream financial data, which includes central and local government data for 12 years. Possible errors in the accounting system are corrected in the Oracle database by statisticians and are also communicated to the MNE. The national accounts compilation is made in Excel.

Concerning the GFS Formal Operational Arrangements, Eurostat explained that it will analyse the cooperation agreements before the November 2012 Working Group "Quality Management in GFS" and would make a detailed proposal at the meeting.

Eurostat also pointed out that the EDP inventory according to the new structure is to be published by end-2013. The Hungarian statistical authorities will agree with Eurostat's country desk officer in which order the inventory parts will be prepared.

Conclusions

Action point 1: 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).

Action point 2: The Hungarian statistical authorities will lightly update the EDP inventory before mid-October 2012 where necessary, notably for pensions after the recent reforms.¹

1.2. Data sources

Background

The Hungarian financial accounts use mainly counterpart sector data instead of direct government sources. According to the authorities the use of counterpart sector statistical surveys results in more precise market valuation, accrual accounting and counterpart sector breakdown. Direct government source data is generally only used for cross-checking purposes.

¹ The Hungarian authorities provided the updated inventory on 18th October 2012.

Discussion

Eurostat stressed that it has always recommended the use of direct government data sources. The Hungarian statistical authorities explained that the discrepancies would nevertheless not be lower if direct sources were used.

The authorities also explained that government accounting systems will be changed in the coming years, which may lead to increased use of direct data sources. The participants agreed that the statistical authorities should be involved in the preparation of the new accounting system.

The Hungarian statistical authorities informed Eurostat about a 150 bn HUF unexplained residual in the Treasury's financing report in 2009 and Eurostat asked to clarify the issue. The authorities also provided information on issues related to the "other financing items". These mainly refer to advances paid for wages and salaries and for purchased goods and services. It was questioned whether these flows are consistently recorded in non-financial and financial accounts and whether all related transactions are correctly reflected in net lending / net borrowing (B.9) derived from non-financial accounts.

Conclusions

Eurostat welcomed the work done by Hungarian statistical authorities on the reconciliation of data from direct and indirect sources and recalled that use of direct sources should normally be preferred, unless there is a proof that reliability of direct data is not sufficient. Eurostat also underlined the importance of timely Treasury data being available to the statistical authorities.

Action point 3: The Hungarian statistical authorities will cross-check the relationship between the balance sheet and "other financing items" to ensure that there is correct recording in non-financial accounts and coherence between financial and non-financial accounts, reporting to Eurostat by the end-September 2012 EDP notification.²

Action point 4: The Hungarian statistical authorities will assess what possibilities exist in the short term for improving the collection and use of budgetary data for resolving statistical discrepancies, and will undertake checking on quarterly data discrepancies for Local Government. A report will be provided to Eurostat by end-2012.

Action point 5: The Hungarian authorities will ensure that during any future government accounting reform, statisticians are included in the process from the start, and statistical requirements are built into the system.

Action point 6: The Hungarian statistical authorities will clarify the HUF 150 billion unexplained residual in treasury's financing report in 2009, reporting to Eurostat by the end-September 2012 EDP notification.

1.2.1. Changes in data sources

There were no changes in data sources for non-financial and financial accounts since the 2010 EDP dialogue visit.

² Action points 3 and 6 were completed by the October 2012 EDP notification.

1.2.2. Other accounts receivable / payable (F.7)

Background

EDP tables 2A and 2C present breakdown of other accounts payable as "memorandum items", which do not add up to the total other accounts payable in these tables. The amounts of the unexplained residual have sometimes been quite large (e.g. 0.2% of 2009 GDP in EDP table 2A reported in April 2010).

The HCSO submitted a EDP revisions report in September 2011, which shows that a major part of the revisions was explained by updates in other accounts receivable / payable of central government (CG) and local government (LG).

Discussion

Eurostat welcomed the submission of the EDP revisions report by the HCSO.

The Hungarian statistical authorities explained that there are consolidation problems in other accounts receivable / payable within central government and between central and local government units, mainly before 2010. In case of consolidation problem between CG and LG, the CG figures are preferred and used in both subsectors. F.7 on the receivable side is adjusted to match consolidation. Classification problems of revenue and expenditure are clarified, but timing issues remain.

In addition to revisions in F.7 data, the Hungarian statistical authorities also provided information on the revision of gross fixed capital formation data. There have been issues related to ID codes of units and previously LG partnerships were also missing from the statistical survey. Consequently, revisions to 2011 data are still expected in the October 2012 EDP notification. However, this information will now be included in the survey from 2012 onwards and, as a result of this work, less revisions are expected to take place in the future in this respect.

Conclusions

Eurostat welcomed the reduction in the size of the residuals, which are between the sum of memorandum items and the total other accounts payable in EDP tables 2. The participants agreed that Hungarian statistical authorities will show the residual items with additional rows in EDP tables 2 as "Timing issue of inter-government transactions (consolidation)".

*Action point 7: The Hungarian statistical authorities will ensure that other accounts payable data in EDP tables are fully accounted for by memorandum items, by adding an additional row, for the end-September 2012 EDP notification.*³

³ The Hungarian authorities provided the split of the memorandum item to Eurostat.

2. FOLLOW-UP OF THE APRIL 2012 EDP REPORTING – ANALYSIS OF EDP TABLES

Discussion

The content of the working balance (WB) reported in EDP T2 was discussed. In principle, cash accounting basis is used for reporting of flows in the WB in EDP T2A/C. However, some non-monetary flows are also included there and therefore it was recently agreed with the Hungarian authorities a "mixed" basis of the WB will be indicated in EDP tables 2A and 2C.

The Hungarian statistical authorities informed Eurostat about the principles of reporting of non-cash items in the CG and LG WB. The authorities explained that so far the WB has included non-cash items such as claim cancellations and debt assumptions, except the other adjustment "Claim cancellation against Social Security funds", which has exceptionally been included as a separate adjustment. The authorities also explained that, in addition to claim cancellations and debt assumptions, the WB is not "true cash" because it also constitutes fulfilment of budgetary appropriations, notably for wages and salaries (e.g. such cash payments made in December appear in the following year's budget).

From 2012 onwards the non-cash items will be excluded from the WB, but privatisation revenues will be included. Also, the WB of EDP table 2C will include the 196 bn HUF⁴ debt assumption by the State from the October 2012 EDP notification onwards.

When analysing the table provided by the Hungarian authorities on non-monetary flows included in the WB in EDP T2A, Eurostat asked why the overall impact of the inflows/outflows is neutral for 2008-2010. The MNE explained that the adjustment referring to the cancellations of claims (outflow) is neutralised in the WB via the imputed repayment of the claims for the same amount (inflow). The latter imputed inflow is excluded in EDP T2A as a "financial transaction" (loans, repayment) and consequently, the impact on net lending / net borrowing (B.9) is negative due to the debt cancellation, which is correct. It was understood that the inflow imputed in the WB (repayment of the claim) does not refer to a real financial transaction and so it should not be recorded in financial accounts. Therefore the figures on financial transactions reported in EDP T2A are not completely comparable with financial accounts and EDP T3B.

The participants also discussed the recording of military expenditures and the respective reporting in the EDP questionnaire table 7, in particular related to extension of the Gripen contract.

Eurostat suggested replacing "L"-s by zeroes for "transactions in debt liabilities" in EDP tables 2A and 2C, since the Hungarian statistical authorities that such transactions do not appear in the WB.

Conclusions

Action point 8: The Hungarian statistical authorities will inform Eurostat by mid-September 2012 of changes to the Gripen recording model to take account of the extension of the contract, will confirm if there are military settlements in kind, and will ensure no discrepancy

⁴Due to bookkeeping rules, 137bn HUF was included in the working balance, and 59bn HUF was entered as an other adjustment in EDP table 2C in the October 2012 EDP notification.

*and completed qualitative information in the relevant EDP questionnaire table by the end-September 2012 notification.*⁵

⁵ The Hungarian statistical authorities have completed this action point.

3. METHODOLOGICAL ISSUES AND RECORDING OF SPECIFIC GOVERNMENT TRANSACTIONS

3.1. Delimitation of general government, application of 50% rule in national accounts

Discussion

Concerning the register of government controlled units, the HCSO had lately made progress in identification of direct and indirect government ownership of corporations. Direct government ownership information is based on tax declarations and indirect government ownership information is based on annual reports of corporations. According to the Hungarian statistical authorities there have been signs that the information from tax declarations may be discontinued in future.

The authorities confirmed that the Budapest transport company BKV Zrt remains classified outside the government sector as its sales to costs ratio has grown during recent years, staying above 60%. Subsidies related to volume of sales are included in the sales of BKV. It was also confirmed that non-financial assets used by BKV are recorded in the balance sheet of the company and the related depreciation is included in the 50% test calculation (it was not always the case for some companies in other Member States).

All public utility companies remain classified outside the government sector with ratios of around 90-110%. Eurostat also enquired about the large number of public corporations in real estate activities, which are all classified in non-financial corporations' sector (S.11).

The Hungarian statistical authorities confirmed that railway infrastructure is on the balance sheet of MÁV Zrt and that MÁV Start Zrt is charged for its use. The HCSO has monitored the charges, which have been among the highest in Europe.

The Hungarian statistical authorities explained that part of the Hungarian Development Bank (MFB) is clearly separated from the company under central government budget chapter (XCIII), which also includes a service fee to MFB for the management of government assets.

The new student loan scheme (SL-2), to be introduced from September 2012 as a part of an existing institutional unit which is classified outside general government, was discussed. Compared to the existing SL-1 scheme, which provides "any-purpose loans", the new scheme is directly linked to financing of higher education costs. In the SL-2, the interest payment obligation for students is fixed at 2% and all other parts of the interest – calculated in similar way as in the SL-1 – are going to be paid from the State Budget to the Student Loan Centre. The Hungarian statistical authorities consider that most of the risks are transferred to government in the SL-2 scheme and made a decision to classify the SL-2 scheme into central government by creating a notional unit (while the related institutional unit will remain outside government).

Conclusions

Eurostat understands that the information from the taxation system on ownership of corporations is vital to ensure the identification of publically controlled corporations, in the absence of information from the commercial register, and therefore it must be retained.

Following Eurostat's proposal, the classification of the Student Loan Centre Zrt remains to be checked against the practice in other Member States.

Action point 9: The Hungarian statistical authorities will provide Eurostat with a description of the public real estate corporations, notably the type of activities they undertake and what resources they receive from government, by end-2012.

Action point 10: Eurostat will check the classification of student loan organisations/schemes in Member States and report back to the Hungarian statistical authorities by end-2012.

3.2. Implementation of accrual principle

3.2.1. Taxes and social contributions

Background

Several new taxes (taxes for financial institutions, sectoral taxes, public health product tax etc.) have been introduced since the 2010 EDP dialogue visit and the social security contribution has been replaced with a social contribution tax from January 2012.

Discussion

The participants reviewed the time adjustment for each new tax.

The Hungarian statistical authorities explained that the social contributions paid by employers had been replaced by a social contribution tax paid by individuals. The authorities were wondering if the social contribution tax should be recorded under taxes or social contributions.

Conclusions

The Hungarian statistical authorities will check if a 1 month time adjustment cash method is to be applied to the Accident Tax on Insurance and the Phone Call Tax, instead of a cash based recording.

The ESA classification of the social contribution tax, which replaced the previous social security contribution, should be decided in the near future (currently classified as D.6111 Employers' actual social contributions).

Action point 11: The Hungarian statistical authorities will inform Eurostat by end-2012 about the planned classification and the time of recording of the financial transactions tax and insurance premiums tax.

Action point 12: Eurostat will provide the Hungarian statistical authorities with information on the recording of social contributions in other Member States as soon as possible⁶.

3.2.2. Interest

Discussion

The Hungarian statistical authorities confirmed that there were no changes in the recording of interest since the 2010 EDP dialogue visit. The authorities also confirmed that the impact of the FISIM adjustment is neutral on the government deficit.

⁶ Eurostat provided on 18.07.2012 information on two Member States, where most welfare spending is financed out of general taxation or where the actual benefits and the administrative costs of some schemes are paid for by central government out of general taxation revenue. The revenue used to finance these schemes (or certain costs of the schemes) is recorded as taxes in national accounts of these Member States.

The special table submitted for this visit (Cash and accrual flows of interest expenditure and revenue by instrument for 2008-2011) was discussed. Eurostat enquired about the recording of "issuance above/below nominal value" and of the related flows under "difference between interest accrued and paid" in EDP T3. The Hungarian authorities explained that the change in stocks of discounts is calculated and reported in EDP T3 under "difference between interest accrued and paid". It was not clear whether the applied treatment is correct since this entry should normally reflect only accrued interest linked to discounts and the related cash payment should not be included there.

Conclusions

*Action point 13: The Hungarian statistical authorities will inform Eurostat by end-September 2012 of the treatment of net discounts on securities in EDP table 3, both on a cash and accruals basis.*⁷

3.3 Recording of specific government transactions

3.3.1. Specific government transactions in the context of the financial crisis

Background

In March-April 2009 the government signed 3 contracts with financial institutions to provide loans and in return they were required to maintain or increase their own supply of loans. A total amount of 690 bn HUF was provided to OTP Bank, FHB Jelzálogbank and Magyar Fejlesztési Bank (MFB – the Hungarian Development Bank). In the same period a 30 bn HUF capital injection was made in FHB Jelzálogbank, which was undertaken in the form of preference shares. The financing was provided from IMF and EU loans, which increased Maastricht debt, and the transactions were recorded in financial accounts. Most of the loans have been redeemed, and the outstanding amount of loans granted to banks was 157 bn HUF at the end of 2011.

The preference shares were bought back from government by FHB Jelzálogbank in February 2010. This was earlier than the annual general meeting of the bank's shareholders and therefore the government did not have the legal right to receive any dividend. The Financial Stability Act was amended and as a result the government received compensation in the form of a time-proportionate fee and default interest in 2010 and 2011.

Discussion

The acquisition by MFB of shares of Takarékbank from DZ Bank was discussed. Eurostat enquired if the government instructed MFB to acquire the Takarékbank shares and what was the valuation basis for the acquisition. The redirection of ownership of EXIMBANK and MEHIB to the Ministry for National Economy (MNE) was also discussed.

Conclusions

The Hungarian statistical authorities confirmed that there are no new government interventions decided in the context of the financial crisis. They also confirmed that the redirection of ownership of EXIMBANK and MEHIB to the MNE will be recorded as a

⁷ The Hungarian statistical authorities informed Eurostat about the treatment of net discounts on securities in EDP table 3 by the given deadline.

withdrawal of equity from the MFB by government in government sector accounts (the redirection will cause 12 billion HUF loss for MFB in 2012).

Action point 14: The Hungarian statistical authorities will confirm if the government instructed MFB to acquire shares in Takarékbank, and the valuation basis for the acquisition, whether market price-based or other, when the transaction takes place. Eurostat will reflect on whether or not this transaction should be included in the financial crisis supplementary table.

3.3.2. EU flows

Background

The administrative recording of EU flows in their WB is in fact very similar to the neutralisation principle of national accounts. EU advances are not entered into the WB, but are recorded in a separate Treasury suspense account – the cash flows related to the EU transit via a suspense account and do not immediately enter the working balance. The expenditures are matched by revenue from the suspense account when the expenditures are made. Payments of government on behalf of the EU are excluded from expenditures and revenues in national accounts.

However, in certain cases and periods there could be a time lag between accounting of expenditures and revenues. To eliminate this effect, the Hungarian authorities, after consultation with Eurostat, amended their method in 2010 for the adjustment of the EU flows when the revenue received from the EU is higher than the expenditure in a given project. The excess of revenue is recorded as an accrual adjustment in the previous year. Special accrual adjustments (expert estimates) are also made for large projects and closing of programmes.

Discussion

The Hungarian statistical authorities explained that this simplified method can be continued with the current administrative data availability, but better use of NFÜ (National Development Agency) data could be made. Eurostat has observed in several Member States that agency data can be taken as a basis for recording. Eurostat also sought clarification on the January 2012 "excess" EU revenues.

Conclusions

The participants agreed that the possible improvements to the current simplified EU flows time adjustment method should be implemented from the start of the next Structural Funds programming period.

Action point 15: The Hungarian statistical authorities will examine the January 2012 excess EU revenues to see if they should be recorded in 2011, by the end-September 2012 EDP notification.⁸

Action point 16: Eurostat will quickly check the European Commission's source of information on the excess EU revenues, and inform the Hungarian statistical authorities⁹.

⁸ Action point 15 was completed.

⁹ Eurostat sent the information to the Hungarian statistical authorities on 12.07.2012.

Action point 17: Eurostat will provide the Hungarian statistical authorities with information from the EU budget system on structural fund transactions with Hungary by end-October 2012.

Action point 18: The Hungarian statistical authorities will contact the Agency dealing with EU projects to cross-check budgetary figures relating to the EU and draw up a proposal for correction of EU flows from the start of the next Structural Funds programming period. A report will be provided to Eurostat by end-March 2013.

3.3.3. Guarantees

Discussion

The Hungarian statistical authorities informed Eurostat that the state railway company MÁV Zrt issued in 2011 bonds for the amount of 35 bn HUF, which are guaranteed by the state. The 2011 figures (adjustment line in EDP table 2A) include a 35 billion HUF other subsidy on products (D.319) to MÁV Zrt and government debt was increased by the same amount in 2011. As these bonds were issued explicitly to cover the loss of the company, Eurostat believed it should be recorded as a subsidy on production (D.39).¹⁰

The participants also discussed the possible double counting of guarantees related to export credit insurance. The Hungarian statistical authorities confirmed that the coverage of guarantees in the EDP questionnaire table 9.1 is complete for local government.

Conclusions

The Hungarian statistical authorities will insert "L"-s in the lines 19 and 20 of the EDP questionnaire table 9.1 instead of zeros in the October 2012 EDP notification.

Action point 19: The Hungarian statistical authorities will record the 2011 state guarantee on MÁV Zrt bond issues as the raising of government debt and as a subsidy from government to MÁV Zrt, following the recognition of principal party.

Action point 20: The Hungarian statistical authorities will provide a split of the stocks of government guarantees, and calls/repayment on those guarantees, for 2008-2011 by large public corporation to Eurostat by end-September 2012.¹¹

Action point 21: Eurostat will include a paragraph in the guidance notes for the EDP questionnaire table on guarantees, relating to possible double-counting of guarantees, by end-2012, and the Hungarian statistical authorities will reflect if there is such double-counting to be addressed in Hungary.

Action point 22: The Hungarian statistical authorities will record repayment of guarantee calls on a gross basis (revenue) rather than netting off expenditure, in the end-September 2012 EDP reporting.

¹⁰ The exact nature of the subsidy is currently under discussion.

¹¹ Action points 20 and 22 were accomplished by the October 2012 EDP notification.

3.3.4. Debt assumptions, debt cancellations and debt write-offs

Discussion

Eurostat drew attention to the inconsistency between the transactions in loans reported in EDP questionnaire table 8.1 and the loans data reported in EDP table 3B. Concerning the other changes reported in table 8.1, the Hungarian statistical authorities explained that the reporting units make a distinction between revaluations and other changes in volume (write offs, i.e. the cases where the partner no longer exists).

Conclusions

Action point 23: The Hungarian statistical authorities will check the consistency

(1) between EDP questionnaire table 8.1 and EDP table 3B (loans),

(2) between EDP questionnaire tables 8 and data on claim cancelations in the working balance, and

(3) between data on debt write-offs and data in EDP questionnaire table 8.1 for other changes in volume.

Eurostat will be informed by end-September 2012.¹²

3.3.5. Capital injections in public corporations

Background

Individual data are available about the equity operations of the Hungarian State Holding Company MNV Zrt and of central government. Injections in equity capital of a loss-making company are always recorded as capital transfers (D.99). There are small amounts of equity acquisition reported by central budgetary institutions, where the beneficiary is not identified. These small amounts are recorded as acquisition of equity (F.5). In fact, a large majority of capital injections in public corporations are recorded as expenditure of government in 2008-2011.

In the case of local government the beneficiaries cannot be identified and the whole amount is recorded as F.5. In April 2012 the HCSO explained that more than 500 local government units report their acquisitions of shares in profitable enterprises and the amounts are mainly below 100 million HUF. Also, sufficiently detailed information is not available on dividends paid to local government.

The Hungarian statistical authorities informed Eurostat in April 2012 that during 2011 the Hungarian government made capital injections in Hungarian Development Bank (MFB) for a total amount of 130 bn HUF. The bank made profits until 2009, but made losses in 2010 and in 2011 (19.6 and 38.6 bn HUF respectively). The 20 bn HUF capital injection made in 2010 covered the losses of 2010, treated as capital transfer in 2010. MFB's updated and approved business plan was not available in April 2012. Based on the available information from the bank, approved by the Ministry for National Development, 40.6 bn HUF (38.6 bn HUF loss generated in 2011 plus 2 bn HUF planned increase of capital in loss making subsidiaries) was accounted as a capital transfer. The remainder (89.4 bn HUF) was recorded as an increase in shares and other equity in 2011, based on the information on the planned capital increase in

¹² Action point 23 was completed.

profitable subsidiaries, acquisition of corporations and further investments for enlarging the bank's lending activities.

Discussion

The participants discussed the availability of capital injections and dividends data at the LG level and the equity injections made by government in the MFB in 2011. The Hungarian statistical authorities submitted the MFB business plans before the EDP dialogue visit, which confirmed the information provided in April 2012. The redirection of ownership of EXIMBANK and MEHIB (see part 3.3.1 above) was decided by government after April 2012.

Conclusions

The participants shared the view that the investments in non-profitable areas (2 bn HUF) should be recorded as capital transfers and the expected return on investments in profitable areas should be compared with an equivalent rate of return for the Hungarian banking sector.

Action point 24: The Hungarian statistical authorities will check with a number of municipalities the breakdown of reported acquisition of equity, and dividends, by corporation, and cross-check with profits data for these corporations, reporting back to Eurostat by end-2012. In the medium term, the Hungarian statistical authorities will look into a cross-check between data available in public corporation balance sheets.

Action point 25: The Hungarian statistical authorities will prepare an updated MFB injection analysis and send it to Eurostat by 10 September 2012. This analysis will look at the robustness of the business plan, and compare the rate of return on the aggregate of profitable MFB business areas with an equivalent rate of return for the Hungarian banking sector.¹³

Action point 26: Eurostat will check for recent cases of capital injections by other Member States in national development banks, and inform the Hungarian statistical authorities as soon as possible¹⁴.

3.3.6. Dividends, super dividends

See part 3.3.5 and action point 24.

3.3.7. Financial derivatives

The Hungarian statistical authorities confirmed that the government does not undertake swap cancellations.

3.3.8. PPPs

Background

Until March 2012 there was only one PPP project (Művészetek Palotája – The Palace of Arts) classified on government balance sheet (the contractual capital value is 29.3 bn HUF).

¹³ The Hungarian statistical authorities provided the analysis to Eurostat in September 2012 to Eurostat.

¹⁴ Eurostat sent the information to the Hungarian statistical authorities at end-August 2012.

During 2011 the State Audit Office carried out investigations on PPP projects of higher education. Based on this information 13 projects were reclassified into general government. Risk allocation was seriously biased in these projects as the private partner subcontracted the operation of the PPP to a company owned by the university. Gross fixed capital formation and debt data were revised accordingly in the April 2012 EDP notification.

Discussion

The Hungarian statistical authorities explained that, learning from these experiences and taking into account the amended MGDD chapter on PPPs, the HCSO recently carried out a monitoring exercise on all PPP projects in Hungary. In the course of the exercise, service contracts were analysed and questions on projects and special questions on construction and operational periods were asked in a special questionnaire.

88 projects of 57 institutions (ministries, universities, colleges, prison service, local governments) were examined. 80 answers were received; a few local governments did not respond. 51 projects had been (mostly slightly) amended. The exercise confirmed the reclassification of the 13 educational projects. In a few other cases (LG projects, overall investment value is 3-4 bn HUF) there were signs that could lead to reclassification, but further information is needed. Final decisions will be made by the EDP notification in September.

From 2013, within the scope of National Statistical Data Collection Programme (OSAP), an annual questionnaire will provide the HCSO with the main data on all PPP projects.

The Hungarian statistical authorities also informed Eurostat that, following the government decision made in June 2012, central government will acquire assets in local government PPP projects for about 15 bn HUF.

Conclusions

Eurostat welcomed the recent monitoring exercise and the new annual data collection on PPPs from 2013 onwards.

*Action point 27: The Hungarian statistical authorities will provide Eurostat as soon as possible with a copy of the government decision/law which implements a government buy-out of local government PPP assets.*¹⁵

3.3.9. MALÉV

Background

Government transactions with MALÉV – including equity injection in cash, ownership loans, debt-to-equity conversion and transactions made by the State on behalf of MALÉV – are included in the net lending / net borrowing (B.9) of central government as expenditure (40.1 bn HUF in 2010 and 26.5 bn HUF in 2011) or as tax revenues (16.8 bn HUF in 2010) due to debt-to-equity conversion related to tax arrears.

After the Commission's decision on the recovery of state aid at the end of January 2012, MALÉV was declared by the state an “organization of prime strategic importance” and the company asked for bankruptcy protection. On 3 February MALÉV announced that it was

¹⁵ The Hungarian statistical authorities provided Eurostat with the government decree in the October 2012 EDP notification exercise.

ceasing operations, as its finances were no longer sustainable. On 14 February the Metropolitan Court of Budapest declared MALÉV insolvent and ordered the liquidation of the company.

Discussion

The Hungarian statistical authorities were unaware of any obligations of MALÉV to be taken over by the government. Eurostat also enquired about possible government compensation to the Budapest Airport operator, but this information was also not available.

Conclusions

Action point 28: The Hungarian statistical authorities will inform Eurostat as soon as possible on the latest situation on possible compensation to the Budapest Airport operator, and also describe any contractual amendments which may have an impact on government finances.

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

The Hungarian statistical authorities informed Eurostat that there were small amounts (total 6 bn HUF) of new emission trading permits sold after 2009.

4. OTHER ISSUES

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

Eurostat asked the Hungarian statistical authorities to check the discrepancies in net incurrence of liabilities in the historical series between ESA table 27 and EDP tables.

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ANNEX 2. 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

1.2. Data sources

1.2.1. Changes in data sources

1.2.2. Other accounts receivable / payable

2. Follow-up of the April 2012 EDP reporting – analysis of EDP tables

3. Methodological issues and recording of specific government transactions

3.1. Delimitation of general government, application of 50% rule in national accounts

– Public infrastructure companies (railway, motorway, transport, airports...)

– Public hospitals

– Public utility companies; other public companies

– Register of Government-controlled units

3.2. Implementation of accrual principle

3.2.1. Taxes and social contributions

3.2.2. Interest

3.3 Recording of specific government transactions

3.3.1. Specific government transactions in the context of the financial crisis

3.3.2. EU flows

3.3.3. Guarantees

3.3.4. Debt assumptions, debt cancellations and debt write-offs

3.3.5. Capital injections in public corporations

3.3.5.1 Hungarian Development Bank (MFB)

3.3.5.2 Other

3.3.6. Dividends, super dividends

3.3.7. Financial derivatives

3.3.8. PPPs

3.3.9. MALÉV

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

4. Other issues

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

4.2. Any other business