



Directorate C: National and European Accounts

Luxembourg, 20 September 2010

EDP dialogue visit to Hungary

6-7 July 2010

- FINAL FINDINGS -

Executive summary

An EDP dialogue visit to Hungary took place on 6-7 July 2010.

Eurostat carried out this EDP dialogue visit with the aim to analyse the April 2010 EDP notification, to review the sectorisation of some units, to ensure that the provisions from the ESA95 Manual on government deficit and debt (MGDD) and the recent Eurostat decisions are implemented and that specific government transactions are appropriately recorded in the Hungarian EDP notifications and national accounts.

First, Eurostat enquired about the changes concerning institutional arrangements and division of responsibilities with respect to the reporting of data under EDP. EDP tables are officially reported to Eurostat by the Central Statistical Office (KSH). There is no change in the responsibilities for compilation of EDP tables compared to previous years. Eurostat took note of the current organisation involving the statistical office (KSH), the Ministry for National Economy (MNE) and the Central Bank (MNB) and encouraged the development of a more detailed formal agreement between them.

Second, the data sources for the main sub-sectors were discussed. There are no significant changes compared to the previous dialogue visit. Eurostat took note of the reasonably good level of source data availability for GFS compilation in Hungary, with access of the statistical authorities to detailed cash flow reporting of budgetary units (and profit and loss accounts for their entrepreneurial activities) and to balance sheets. It was confirmed that the Hungarian state accounts are audited by the State Audit Office, and local government accounts are audited by independent professional auditors if they are large enough, or irrespective of their size if they borrow from banks or issue securities. Eurostat encouraged the NSI to prepare a revision analysis between the April/October EDP notifications and to send it to Eurostat.

Concerning the EDP tables, a few questions, mostly of presentational nature, were discussed. Regarding the frequent revision of the gross fixed capital formation data, it was explained that the NSI will further study the possibility of reconciliation between the available data sources. Eurostat appreciated the work undertaken by the National Bank to examine the possibility to compile government financial accounts from direct sources. It was agreed that the Hungarian authorities will further study the possibility of reducing statistical discrepancies between non-financial and financial accounts, especially concerning inconsistencies included in the direct sources (not clear or detailed enough classification of transactions), and different accrual corrections on the non-financial and financial side, and send a report to Eurostat on this by the next October 2010 EDP notification. Eurostat took note of the recording of central banks losses with the reinvested earnings approach in Hungarian financial accounts. Eurostat further took note of the recording of short term repurchase agreements classified as short-term loans in financial accounts in Hungary; the Hungarian authorities will report to Eurostat on the amounts involved in recent years.

Sector delimitation issues were also discussed. Eurostat welcomed the description of the Hungarian authorities of their approach and the financial statements provided. Eurostat encouraged the continued monitoring of the classification of MÁV, the VOLÁN companies and BKV ZRT with regard to their compliance with the market/non-market rules. The Hungarian authorities will report to Eurostat on how the insurance premia are calculated at the export-credit insurance (MEHIB) company. Concerning the Hungarian Development Bank that has been assigned new tasks, the Hungarian authorities will keep Eurostat informed on the details of the implementation of this action, and report to Eurostat on the classification of the associated unit by the end of the year. The

Hungarian authorities will also clarify the effect of this action on quarterly government accounts (Q3/2010).

Eurostat found good practices relating to the recording of accrued taxes and interest. Regarding the church compensation, Eurostat agreed on the recording approach implemented by the Hungarian authorities, noting that the compensations are recorded on an ongoing basis and only small amounts remain for future years.

Concerning the government interventions in the context of the financial turmoil during 2009, it was explained that three financial institutions have received government loans and one financial institution a capital injection. The capital injection was undertaken in the form of preference shares, and its contractually agreed return was in compliance with the State aid rules. In accordance with the Eurostat decision of 15 July 2009 this was recorded as an equity injection, and the loans provided to the three financial institutions were treated as financial transactions since there was no written or other irrefutable evidence that these loans would not be paid back. One financial institution had already redeemed its loan and the preference shares were also bought back. No interventions were yet undertaken in 2010 in the context of the financial turmoil.

As regards the recording of the loans to the Hungarian government from the IMF and the European Commission, it was confirmed that all tranches are recorded as part of the government debt, except for one tranche that was provided to the national bank.

Eurostat enquired on the capital injections into MALEV. The Hungarian authorities explained that MALEV was renationalised in February. The arrangement of this transaction is very complicated (there is a conversion of tax claims into equity and also providing of ownership loans by government) and the Hungarian authorities are still analysing the correct statistical recording. However, the relevant transactions during the first quarter are already included in first quarter government finance statistics (tax income, conversion of financial claims) and the first tranche of loan was provided in May. The Hungarian authorities will provide a note to Eurostat on the statistical implications of the renationalisation and the corresponding transactions of MALEV as soon as details are known.

Eurostat took note of the change in the organization of PPP projects, including the abolition of the PPP intradepartmental committee, the recording of government expenditure at the time of activation of the assets irrespective of the risk allocation, and the existence of artificial revenues in the budget to counterbalance unitary payments in the following years (the time-proportionate part of the PPP project's activation value to avoid double accounting of expenditure). The Hungarian authorities will keep Eurostat informed about the recording of PPPs in national accounts according to the new organization, and send a detailed explanation to Eurostat for the first case under these arrangements. Concerning risk allocation, Eurostat recognized that the Hungarian authorities investigate the most important issues.

The issue of guarantees was discussed. The Hungarian authorities will check whether the data on guarantees provided by local governments are reliable and the considerable proportion of calls reported, and will report the results to Eurostat. The local government guarantees will be included in the scope of table 9.1-9.3 of the Questionnaire relating to EDP tables. Moreover, the Hungarian authorities will show the amounts of fees collected for guarantees in table 9.3 of the Questionnaire relating to EDP tables. The Hungarian authorities will provide the description of the bodies of MEHIB and Garantiqua Hitelgarancia Zrt, describing their activities, their financing, their policy of calculating premia and their relation to the government.

Concerning the recording of EU flows, dividends and military expenditure, Eurostat found appropriate recording practices in Hungary.

Eurostat took note of the current recording of the sale of emission rights in the period of 2006-2009 in the Hungarian national accounts as revenues and encouraged the Hungarian authorities to follow the progress of the developing international guidance, to reclassify these if necessary.

Regarding the recording of swap transactions, Eurostat took note that there are no swap cancellations or any "exotic" swaps used, and that the Hungarian authorities use only cross-currency, FOREX and interest rate swaps, in order to set the foreign currency composition and to optimise the interest rate composition of foreign currency debt. Eurostat wondered if there are significant delays between the government security issued and the underlying swap written. The Hungarian authorities will report to Eurostat on this. The Hungarian authorities explained that they have not identified any swaps on local government level.

The meeting was constructive and Eurostat appreciated the explanations provided by the Hungarian authorities during the dialogue visit and the documentation provided prior to the visit.

Final findings

Introduction

In accordance with article 11 of Council Regulation (EC) No 479/2009 of 25 May 2009 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 in Hungary on 6-7 July 2010.

Eurostat was represented by Mr. John Verrinder, head of unit C.4 – Statistics for Excessive Deficit Procedure II, Ms Ágota Krénusz and Mr Gabe de Vries. The representatives of the Directorate General for Economic and Financial Affairs (DG ECFIN), the European Central Bank and the International Monetary Fund also participated in the meeting as observer.

Representatives of the Hungarian statistical office (KSH), the Ministry for National Economy (MNE), and the Hungarian National Bank (MNB) were present.

Eurostat carried out this EDP dialogue visit with the aim to assess the existing statistical capacity, to review the division of responsibilities concerning the compilation of EDP statistics and government accounts, to discuss the quality and exhaustiveness of primary data sources, to clarify the issues relating to EDP tables raised in the context of previous notifications, to review the progress achieved in implementing ESA 1995 methodology (sectorisation of units, accrual principles), to assure that the provisions from the ESA 1995 Manual on Debt and Deficit and recent Eurostat decisions are duly implemented, and that specific government transactions are properly recorded in the Hungarian EDP tables and national accounts.

In relation to procedural arrangements, Eurostat explained the procedure, in accordance with article 11 of Regulation 479/2009, indicating that the *Main conclusions and action points* would be sent within days to the Hungarian statistical authorities, who may provide comments. Within weeks, the *Provisional findings* would be sent to the Hungarian statistical authorities in draft form for their review. After adjustments, *Final Findings* will be sent to the Economic and Financial Committee (EFC) and published on the website of Eurostat.

The meeting was constructive and Eurostat appreciated the explanations provided by the Hungarian authorities during the dialogue visit. Eurostat thanked the Hungarian authorities for the information and for the documentation provided before and during the dialogue visit.

1. RECENT DEVELOPMENTS

Introduction

Eurostat enquired about the recent developments concerning organizational issues.

Discussion and methodological analysis

In April 2010 general elections took place in Hungary. Shortly after the new government was in place there were statements on the reliability of fiscal data from the Hungarian administration, which have been widely reported in the international press.

The newly appointed president of the Hungarian Central Statistical Office explained to Eurostat that the recent statements widely reported by the press have no implications for the reported statistics and that the statistical office will be continued to be managed in a professional and independent manner. The planned interventions (appointment of new Deputy Presidents and improvement of data access) in the current structure of the statistical office will be implemented in the short term.

Findings and conclusions

Eurostat took note of these explanations.

2. STATISTICAL CAPACITY ISSUES

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

Introduction

There are no changes in reporting tables to Eurostat. EDP tables are officially reported to Eurostat by KSH. The statistical office compiles EDP tables 2A-D actual data, and EDP table 1 deficit actual data, while the MNE compiles forecast data for EDP tables 2A-D and EDP table 1 for deficit and debt. The MNB compiles EDP tables 3 and the actual debt data in EDP table 1. Non-financial government ESA tables (ESA table 2, 9 and 25) are compiled by the statistical office, while ESA table 11 is compiled in cooperation with the MNE. ESA tables 6, 7 and 28 are compiled by the Central Bank.

Discussion and methodological analysis

Eurostat enquired whether there were any changes since the last dialogue visit. There were no changes, except for the merging of the Ministry of Finance into the Ministry for the National Economy. The tasks of the colleagues working in the same department, but under the new ministry, have not changed.

The scope of communication and cooperation between the three statistical authorities remains broad and intensive, the EDP working group meets often (in some cases even once a week). The enlargement of the field of cooperation is underway but was not formalized yet. Eurostat mentioned that in some other Member States the formalization of the cooperation is more detailed and

recommended the Hungarian authorities to amend the old agreement accordingly.

Concerning the publication of EDP tables, the Hungarian authorities explained that according to a recent court ruling, not only the final EDP tables but also the tables sent to Eurostat on 1 April/October have to be published on the KSH website. The underlying data are also published at the same time.

Findings and conclusions

Eurostat took note of these explanations, appreciated the ongoing cooperation between the statistical authorities, and encouraged a more detailed formal agreement.

2.2 Data sources, EDP inventory and revision policy

Introduction

Eurostat enquired whether there have been any changes in the data sources and also about the audit process. It was asked whether there is an update of the EDP inventory. Eurostat also enquired about the existence of a revision analysis.

Discussion and methodological analysis

Concerning the source data, there were no significant changes. It was mentioned by the KSH that for the central government revenues and expenditures the first data are available at the beginning of January from the Treasury but there is an update to these data at the end of January, which gives some more precise details to the first set of data. However, the first reporting is used for the April EDP notification. For the October EDP reporting, the data are already final in May and in August the Treasury accounts validated by the State Audit Office are available. Concerning the auditing of data, the Hungarian authorities explained that all central government data are audited by the State Audit Office, by the end of August of year $t+1$ and that these data are already included in the October EDP notification. The statistical authorities closely analyze the statements of the Audit Office.

Concerning local governments, an annual flash report on their revenues and expenditures are used for the April EDP notification and their annual budget reports are used for the October EDP notification. It was also explained that local government data are audited by independent professional auditors when they above a certain size, or irrespective of their size if a local government borrows from banks or issues securities.

For the social security entities – the Pension Fund and the Health Care Fund – their quarterly reports are used in the April EDP Notification, and the final reports in the October EDP notifications. These reports are presented in the budget, as a normal chapter.

Eurostat asked whether there were any changes to the EDP inventory, as the latest version is from 2007. The Hungarian authorities confirmed that there are changes and promised to send an updated version.

The revision policy for EDP data was discussed. The revisions are harmonized among the statistical authorities. Eurostat asked whether any revision analysis has been undertaken on EDP figures. Since no such analysis has been undertaken, Eurostat recommended preparing one even if there is

no clear trend in the revision of figures.

Findings and conclusions

The Hungarian authorities will send to Eurostat for publication on its website the updated EDP inventory by the October 2010 EDP notification. Eurostat encouraged the NSI to prepare a revision analysis between the April/October EDP notifications and send it to Eurostat as soon as possible.

3. FOLLOW-UP OF THE VISIT OF 10-11 JULY 2008

As regard the action points still outstanding from the previous dialogue visit, these were either discussed under the corresponding points or resolved by the transmission of documents by the Hungarian authorities, in preparation for the dialogue visit.

4. FOLLOW-UP OF THE APRIL 2010 EDP REPORTING – ANALYSIS OF EDP TABLES

Introduction

Some issues relating to the EDP tables were discussed. Eurostat appreciated the timeliness, completeness and consistency of the EDP tables with the ESA tables. Eurostat also acknowledged the completeness of the reporting in the Questionnaire relating to EDP tables.

During the meeting, the EDP notification tables from April 2010 were analysed.

4.1 EDP table 1

Discussion and methodological analysis

Concerning the revisions of Gross Fixed Capital Formation figures reported in EDP table 1, the Hungarian authorities explained that since there are two data sources (quarterly and annual reports) and they have some difficulties in the reconciliation of these figures for the April EDP notifications, revisions may appear up to a year later. There is more checking needed to ensure the consistency of the data.

Findings and conclusions

Eurostat encouraged the KSH to check the possibility of reconciliation of the sources.

4.2 EDP table 2

Discussion and methodological analysis

Eurostat enquired on the content of the line of "*Net borrowing (-) or net lending (+) of other central government bodies*", whether this line includes working balances or B.9 of the units. The Hungarian authorities confirmed that this line includes B.9 for institutional units. They also explained that the State Privatization Agency is no longer shown in this line as its revenues and expenditures relating to privatization are included in the budget, and the management of the government's equity portfolio has been transferred to the Hungarian Development Bank. In this line only the relevant office management revenues and expenditures are shown. Eurostat took note of these explanations.

The recent inclusion (for the April 2010 EDP notification) of non-profit institutions in the local government sector was discussed. These non-profit institutions are mainly hospitals, owned by local government, and which were considered as budgetary units before. Since they are controlled and financed by the government, even if they are non-profit institutions, they have to be classified into local government, which has been done.

Findings and conclusions

Eurostat took note of these explanations.

4.3 EDP table 3

Discussion and methodological analysis

The Hungarian Central Bank (MNB) introduced its analysis on the compilation of the financial accounts from direct (government) sources. They stated that their analysis was not yet final. It was mentioned that even if direct figures are of good quality, counterpart (indirect information) give a more detailed picture in order to compile higher quality financial accounts. The state of play is different for each sub-sector. Generally, the discrepancy is caused by three reasons: (1) inconsistencies included in the direct sources (not clear or detailed enough classification of transactions), (2) discrepancies due to indirect source data (small inconsistencies), and (3) different accrual corrections on the non-financial and financial side.

For central government, owing to the mentioned difficulties (classification problems, lack of detail on intra-governmental transactions), only well-defined parts of cash financing operations are continuously cross-checked with direct sources in financial accounts. Transactions in deposits, loans and securities are adjusted to Treasury cash-flows if needed. A part of the statistical discrepancy comes from differently applied accrual adjustments in financial and non-financial accounts.

For local governments, a complete set of cash-flow figures exists but the items for financing are not as detailed as for expenditures and revenues, and there are "other" non-classified items and different accrual adjustments between financial and financial accounts, and therefore a discrepancy persists.

Financial accounts of the social security sub-sector are based exclusively on government data sources. All the same, there is a continuing statistical discrepancy between financial and non-financial accounts. The sources of the discrepancy arise from differences in cash-flows and in the accrual adjustments. Eurostat enquired how it is possible that if only two funds exist, there are still differences in the adjustments. According to the Central Bank, there are items that are not included in the balance sheet (secondary activities), and for these no reliable data source exists, therefore the two statistical authorities (KSH and MNB) use different adjustments. Eurostat urged the cooperation of the two institutions to resolve this issue.

Eurostat took note of the recording of short term repurchase agreements classified as short-term loans in financial accounts in Hungary, and enquired on the amounts involved in recent years.

The Hungarian authorities continue to record Central Bank losses under the reinvested earnings approach in financial accounts. Eurostat took note of this.

Findings and conclusions

It was agreed that the Hungarian authorities will further study the inconsistencies present in the system of financial accounts and the possibility of reducing statistical discrepancies between non-financial and financial accounts, especially concerning the: inconsistencies included in the direct sources (not clear or detailed enough classification of transactions), and different accrual corrections on the non-financial and financial side, and send a report to Eurostat on this by the next October 2010 EDP notification. Eurostat took note of the recording of the Central Bank's losses with the reinvested earnings approach in Hungarian financial accounts. Eurostat took note of the recording of short term repurchase agreements classified as short-term loans in financial accounts in Hungary, and the Hungarian authorities will report to Eurostat on the amounts involved in recent years of these agreements.

5. METHODOLOGICAL ISSUES AND RECORDING OF SPECIFIC GOVERNMENT TRANSACTIONS

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

Introduction

The delimitation of general government was discussed. Eurostat found the practice of the Hungarian authorities prudent, by investigating each year the statistical classification of public companies. The statistical office has direct access to all company tax declarations, where they can also see the owners of the corporations and the classification of the owners (legal owners). The business register is not used for this work. There are only around 10 companies not providing such tax declarations and the NSI is aware of all these units. There are no quasi corporations nor Special Purpose Vehicles created by government. The classification of MÁV, VOLÁN group, BKV ZRt, and MEHIB and MFB was discussed.

Discussion and methodological analysis

According to the financial statements sent to Eurostat before the visit, MÁV group companies and also MÁV, the VOLÁN group companies and BKV ZRt should be recorded as market units. The KSH regularly checks their financial statements. Eurostat reminded the Hungarian authorities that for companies owning major infrastructure the calculation of the consumption of fixed capital according to national accounts and business accounts bookkeeping (on historical values) be significantly difference, therefore advised to check this issue more carefully when testing against the 50% rule.

The classification of the export credit insurance company (MEHIB) was briefly discussed. This unit is classified outside government, in the financial corporations sector. In the opinion of the Hungarian authorities the sector classification of this unit has not been a recent issue, because according to the Act XLII of 1994, the insurance claims paid by the institution must be reimbursed by the central budget in the same year. These payments are recorded in the national accounts as capital transfers (D.99) from the central government. Due to this regulation the company never makes losses and there are no debt liabilities in its balance sheet (the liabilities are composed of equity and insurance technical reserves). Eurostat asked the Hungarian authorities to check how the insurance premia are calculated at the export-credit insurance (MEHIB) company and report back.

The classification of the Hungarian Development Bank (MFB) was also discussed. The Hungarian

authorities explained that MFB is operating as a specialised credit institution and owned by the government. According to its financial statements the MFB is operating as a *profit-making credit institution* without any financial support from the government. Its activities are supervised by the Hungarian Financial Supervisory Authority. It is classified in the financial corporations sector. The Hungarian authorities explained that in future MFB's role will change due to recent modifications of some laws on state properties voted by the Parliament in June, by delegation of ownership rights of certain public corporations from MNV (Hungarian State Holding Co) to MFB acting on behalf of the State. Details are not yet known on the implementation of these changes, but it seems that a "unit B" will be constructed within the bank, which will have its own accounts, separately from the MFB's books, and in the same way as is currently the case for MNV. The Hungarian authorities shall keep Eurostat informed on the details of the implementation of the new task approved by the Parliament in June, and report to Eurostat on the classification of the associated units by the end of the year. The Hungarian authorities will also clarify the effect of this action on quarterly government accounts (Q3/2010).

Findings and conclusions

Eurostat encourages the continued monitoring of the classification of MÁV, VOLÁN companies and BKV ZRt against the market/non-market rule. The Hungarian authorities will report to Eurostat on how the insurance premia are calculated at the export-credit insurance (MEHIB) company. Concerning the MFB, the Hungarian authorities will keep Eurostat informed on the details of the implementation of the new task approved by the Hungarian Parliament in June, and report to Eurostat on the classification of the associated units by the end of the year. The Hungarian authorities will also clarify the effect of these changes on quarterly government accounts (Q3/2010).

5.2 Accrual recording

Introduction

The recording of taxes, interest and church compensation was reviewed.

Discussion and methodological analysis

Eurostat found good practices relating to the accrual recording of taxes and interest. Regarding church compensation, Eurostat agreed on the recording approach applied by the Hungarian authorities, noting that the compensations are recorded in an ongoing basis and only small amounts remain for future years.

Findings and conclusions

Eurostat took note of the current accrual recording of taxes, interest and church compensation.

5.3 Recording of specific government transactions

5.3.1 Specific government transactions in the context of the global economic crisis

Introduction

Eurostat enquired about the statistical recording of government interventions in the context of the financial turmoil.

Discussion and methodological analysis

The Deposit Guarantee Fund (OBA) was discussed. OBA is owned by its founding financial corporations, which pay a levy to this unit. OBA is statistically classified as financial auxiliary. Eurostat enquired on the existence of a specific government guarantee, as it explained that in some Member State there is an explicit government guarantee on these bodies. The Hungarian authorities will investigate this further.

Eurostat also requested information on the existence of any government guarantee on the lending activities of financial institutions in the context of the financial crisis. The Hungarian authorities explained that the Act on financial stability (approved by the Hungarian Parliament in December 2008) gave the possibility of such guarantees but no bank took this opportunity, and this possibility does not exist any longer.

Concerning government interventions in the context of the financial turmoil during 2009, the Hungarian authorities explained that three financial institutions have received government loans and one financial institution a capital injection. The capital injection was undertaken in the form of preference shares, and its contractually agreed rate of return was in compliance with the relevant EU State-aid rules. In accordance with the Eurostat decision on 15 July 2009 this was recorded as an equity injection, and the loans provided to the three financial institutions were treated as financial transactions, since there was no written or other irrefutable evidence that these loans would not be paid back. One financial institution had already redeemed its loan and the preference shares were also bought back.

No government interventions were as yet undertaken in 2010 in the context of the financial turmoil.

Concerning the recording of the loans to the Hungarian government from the IMF and the European Commission, it was confirmed that all tranches are recorded as part of the government debt, except for one tranche that was provided to the national bank.

Findings and conclusions

Eurostat took note of the explanations. The Hungarian authorities will investigate whether there is a formal government guarantee on the OBA's financing.

5.3.2 Capital injections

Introduction

Eurostat asked about recent changes in data sources for capital injections and about the specific issue of MALEV (Hungarian Airlines).

Discussion and methodological analysis

The data source for capital injections is from the successor of APV Zrt, the Hungarian State Holding Company (MNV Zrt), which manages the government's portfolio. This unit also provides data on the split of capital injections into equity injections and capital transfers but the NSI also reviews these. Since 2008 all capital injections are included in the state budget as well.

Data of local government capital injections are not available on corporation by corporation basis but injections are not significant. In aggregate the local government corporations are not loss-making,

except for BKV ZRt, but this unit is checked separately.

Eurostat enquired on the capital injections into MALEV. The Hungarian authorities explained that MALEV was renationalised in February. The arrangement of this transaction is very complicated (there is a conversion of tax claims into equity and also the provision of loans by government) and the Hungarian authorities are still analysing the correct statistical recording. However, the relevant transactions in the first quarter are already included in first quarter government finance statistics (tax income, conversion of financial claims) and the first tranche of the government loan was provided in May. The Hungarian authorities will provide a note to Eurostat on the statistical implications of the renationalisation and the corresponding transactions of MALEV as soon as details are known.

Findings and conclusions

Eurostat took note of these explanations and the Hungarian authorities will send a note on the transactions concerning MALEV as soon as details are known.

5.3.3 EU flows

Introduction

Eurostat thanked the Hungarian authorities for providing detailed information on the modification in adjustments for EU flows in EDP tables and asked about any current issues that might raise concern.

Discussion and methodological analysis

The Hungarian authorities apply the decisions taken during the previous EDP dialogue visit and the related chapter in the MGDD. They informed Eurostat that because of the postponement of deadline for closing programmes in the second Community Support Framework (2000-2006) until end June 2009, the EU reimbursement relating to the closing of these programmes will be made later than originally planned.

The Hungarian authorities also presented certain special cases. In the case of the M7 motorway project and the Metro 4 project the projected EU co-financing had to be partly removed because the EU did not reimburse some amounts, impacting the years 2009 and 2010. For the M43 motorway project, the European Commission had informed the Hungarian authorities that it would not finance VAT-part of the infrastructure expenditures, as VAT is covered by the users in the so-called vignette system. It was decided to exclude the VAT-part of EU co-financing (0.3bn HUF) from the government accounts in 2009, a revision compared to previous EDP Notification.

Findings and conclusions

Eurostat took note of the explanations provided.

5.3.4 Public Private Partnerships

Introduction

Due to the large number of PPP projects in Hungary Eurostat wanted to discuss the issue of recording of PPPs more thoroughly. The Hungarian authorities provided documentation about their statistical assessment of PPP projects and explained the changes foreseen in the near future.

Discussion and methodological analysis

In previous years an interdepartmental PPP committee monitored ongoing PPPs, and for each case the HCSO was consulted on their classification. During the meeting the Hungarian authorities informed Eurostat that the PPP Interdepartmental Committee was abolished by the 1161/2009 Government decision on 1 October 2009, because no new projects were planned and Parliament approved the Fiscal responsibility Act (Act LXXV of 2008) in December 2008 which accounts for all PPP projects as government expenditure at the time of activation of the asset, irrespective of the risk allocation. In the following years, unitary payments to the private partner will be counterbalanced by artificial revenues (the time-proportionate part of the PPP project's activation value to avoid double accounting of expenditure) in the budget. It was agreed that the Hungarian authorities will keep Eurostat informed on this new type of arrangements and as soon as a new project is known, will send to Eurostat a detailed explanation of its recording in national accounts.

The risk assessment of individual projects was discussed. Eurostat recognized that the Hungarian authorities investigate the most important issues concerning risk allocation (the existence of automatic penalties, the severity of penalties – "no performance no fee", and the existence of termination clause).

The Hungarian authorities informed Eurostat that currently there are no new PPPs planned.

Findings and conclusions

Eurostat took note of the change in the organization of PPP projects. The Hungarian authorities will keep Eurostat informed about the recording of PPPs in national accounts according to the new organizational arrangements, and will send a detailed explanation to Eurostat for the first case under these arrangements.

5.3.5 Guarantees, debt assumptions, debt cancellations and debt write-offs

Introduction

The recording of contingent liabilities was discussed. In the Hungarian public accounts a call of a guarantee is recorded as a budget expenditure (lending) and at the same time an acquisition of a claim in the public balance sheet. Guarantee fees are recorded as revenues. If later on a claim is cancelled, a transfer (an expenditure) to the original debtor is recorded and a revenue (as if the claim was repaid) from the debtor. *In national accounts* guarantees called are recorded as D.99 other capital transfers, increasing government expenditure. The guarantee repayments are also recorded as D.99, reducing the expenditure side (thus, not recorded in the revenue side).

Discussion and methodological analysis

The Hungarian authorities explained where the data in the questionnaire table 9 in Questionnaire relating to EDP tables come from, and explained to whom these guarantees are provided. The government can provide guarantee to both private and public units. There are several groups receiving government guarantees. The first group consists of individual guarantees (e.g. to public corporations), the second group is of "general" guarantees (e.g. to international organizations), the third group of guarantees is on MFB and MEHIB borrowings, on student loans, on civil servants, and on the loans of the agricultural loan guarantee fund. The last group comprises guarantees on special large exhibitions.

Local governments can also provide guarantees but there was no reporting for these in the past and the Hungarian authorities consider the new reporting arrangements not yet fully reliable, however they will complement the existing table with the figures reported by local governments.

Eurostat took note that in national accounts a repayment of a called guarantee claim is recorded as decrease in expenditure. The Hungarian authorities explained that the considerable increase in fees collected from 2007 on is due to compliance with EU State-aid rules.

With regard to export credit insurance, it was agreed that the Hungarian authorities will gather further information on the two bodies involved (MEHIB and Eximbank) and also provide information on the activity of Garantiqa Hitelgarancia Zrt.

Findings and conclusions

The Hungarian authorities will check whether the data on guarantees provided by local governments are reliable (notably the considerable proportion of calls reported) and will report the results to Eurostat. The local government guarantees will be included in the scope of table 9.1-9.3 of the Questionnaire relating to EDP tables. Moreover, the Hungarian authorities will show the amounts of fees collected for guarantees in table 9.3 of the Questionnaire relating to EDP tables.

The Hungarian authorities will provide a description of the bodies MEHIB, Eximbank and Garantiqa Hitelgarancia Zrt, describing their activities, their financing, their policy of calculating premia and their relation to the government. Eurostat will provide a document mentioned during the meeting on the classification of this kind of unit.

5.3.6 Privatizations, Dividends

Introduction

Eurostat enquired if there are any new privatizations and about the application of the interim dividend rules as foreseen in the updated ESA95 Manual on government deficit and debt.

Discussion and methodological analysis

The Hungarian authorities informed Eurostat that there are no ongoing nor planned privatizations. Eurostat shortly introduced the new rules on recording of interim dividends and asked the Hungarian authorities whether they apply them. The Hungarian authorities confirmed that they already apply the rules both on interim dividends and super-dividends.

Findings and conclusions

Eurostat took note of these explanations.

5.3.7 Military expenditure

Introduction

Eurostat wondered if there are any new acquisitions/deliveries of military equipment.

Discussion and methodological analysis

Eurostat took note of the current recording of the Gripen transactions. The Hungarian authorities confirmed that there are no major investments in new military equipment. For military equipment acquisitions the rule of payment on arrival is applied.

Findings and conclusions

Eurostat noted these explanations.

5.3.8 Emission trading permits

Introduction

Prior to the visit the Hungarian authorities provided information on their sales of emission trading permits. According to this, in 2006 and 2007 EUAs (EU Allowance Unit), while in years 2008 and 2009 AAUs (Assigned Amount Unit of Kyoto) were sold. All of these were recorded as revenues. The Hungarian authorities asked if there is already a decision on the recording of emission trading permits in national accounts.

Discussion and methodological analysis

Eurostat explained that there will probably be no guidance on the recording of sale of emission trading permits before the October 2010 EDP notification. Preliminary revenue from the sale of EUAs is to be treated as financial transactions but the sale of AAUs is to be recorded as sale of non-financial asset. The Hungarian authorities treated both as non-financial transactions but Eurostat agreed not to reclassify the amounts of sale of EAUs in 2006 and 2007 for the time being because the amounts are small and there is no concrete guidance yet.

Findings and conclusions

Eurostat took note of the current recording of the sale of emission rights in the period of 2006-2009 in the Hungarian national accounts as revenues and encouraged the Hungarian authorities to follow the progress on developing of international guidance, to reclassify these if necessary.

5.3.9 Recording of swap transactions

Introduction

Eurostat asked about the swap operations used in Hungary and their recording in national accounts.

Discussion and methodological analysis

The Hungarian authorities explained that in Hungary cross-currency, FOREX and interest rate swaps are used by the government, in order to set the foreign currency composition and to optimise the interest rate composition of foreign currency debt.

Eurostat took note that there are no swap cancellations or any other exotic swaps used. Eurostat wondered if there are significant delays between the government security issued and the underlying swap written. Eurostat also asked whether local governments are using swap operations. The Hungarian authorities explained that they have not identified any swaps on a local government

level.

Findings and conclusions

The Hungarian authorities will further enquire if there are significant delays between the government security issued and the underlying swap written and report this to Eurostat as soon as possible.

Annex : List of participants

	<i>Name</i>	<i>Institution</i>	
1.	<i>John Verrinder</i>	<i>Eurostat</i>	<i>Head of Unit C.4 - Unit C-4 Statistics for Excessive Deficit Procedure II</i>
2.	<i>Ágota Krénusz</i>	<i>Eurostat</i>	<i>Economist - Unit C.4 - Unit C-4 Statistics for Excessive Deficit Procedure II</i>
3.	<i>Gabe De Vries</i>	<i>Eurostat</i>	<i>Economist -Unit C.4 - Unit C-4 Statistics for Excessive Deficit Procedure II</i>
4.	<i>Zoltán Gyenes</i>	<i>DG ECFIN</i>	<i>Economist</i>
5.	<i>Christophe Duclos</i>	<i>ECB</i>	<i>Economist</i>
6.	<i>Miguel Alves</i>	<i>IMF</i>	
7.	<i>Gabriella Vukovich</i>	<i>KSH</i>	<i>President</i>
8.	<i>Pál Pozsonyi</i>	<i>KSH</i>	<i>Head of Sector Accounts</i>
9.	<i>István Bedekovics</i>	<i>KSH</i>	<i>Deputy Head of Sector Accounts</i>
10.	<i>Anna Lehmann</i>	<i>KSH</i>	<i>Senior Advisor</i>
11.	<i>Judit Lengyel</i>	<i>KSH</i>	<i>Senior Advisor</i>
12.	<i>Adrienn Németh</i>	<i>KSH</i>	<i>Advisor</i>
13.	<i>Ágnes Tardos</i>	<i>MNB</i>	<i>Head of Statistics Department</i>
14.	<i>Béla Simon</i>	<i>MNB</i>	<i>Head of Financial Accounts Division</i>

- | | | | |
|-----|---------------------------------|------------|---|
| 15. | <i>Erzsébet Bablina</i> | <i>MNB</i> | <i>Principal Economist</i> |
| 16. | <i>Gizella Csonka</i> | <i>MNE</i> | <i>Deputy Head of Budget Department</i> |
| 17. | <i>Ágota Surányiné
Repa</i> | <i>MNE</i> | <i>Senior Advisor</i> |
| 18. | <i>Gabriella Ocskai</i> | <i>MNE</i> | <i>Advisor</i> |
| 19. | <i>Erika Sudár</i> | <i>MNE</i> | <i>Advisor</i> |
| 20. | <i>Petra Birkás</i> | <i>MNE</i> | <i>Advisor</i> |
| 21. | <i>Ibolya Fülöp</i> | <i>MNE</i> | <i>Advisor</i> |
| 22. | <i>Péter Benő Banai</i> | <i>MNE</i> | <i>Head of Department for EU fiscal affairs</i> |

KSH – Központi Statisztikai Hivatal – Central Statistical Office

MNB – Magyar Nemzeti Bank – Central Bank of Hungary

MNE – Nemzetgazdasági Minisztérium – Ministry for National Economy