EUROPEAN COMMISSION
EUROSTAT

Directorate C: National and European Accounts
Unit C-3: Public finance

Luxembourg, 25 January 2007

- FINAL FINDINGS -

EDP Dialogue Visit to Hungary

20 – 21 July 2006

EDP dialogue visit to Hungary 20-21 July 2006

Final findings

Executive summary

The motorway construction projects were analysed in detail during this EDP dialogue visit, and in particular the role of the State Motorway Management Company (SMMC), a public corporation. At the time the EDP dialogue visit took place two contracts ("operation and maintenance agreement" and "vignette agreement") had been signed between government (Road Management and Co-Ordination Directorate) and SMMC, in May and March 2006 respectively, while a third contract ("Programme road service agreement") was still to be signed.

Based on the detailed analysis of the various contracts, Eurostat held the view that SMMC cannot be considered as a market institutional unit, at least from 2006 onwards, as its revenues are mainly cost related. Until 2005, most of SMMC revenues came from the collection of vignette payments. On the contrary, it was expected that from 2006 this would change with government receiving the vignette payments and paying separately to SMMC the fees resulting from the contracts undertaken between government and SMMC.

Eurostat opinion is that the main revenues of SMMC originate from the Operation and Management Contract, which is clearly a fixed fee contract based on the past costs of SMMC. This is also the case for the PPP contract. Only the fee which SMMC receives from government for the collection of the vignette can be considered as market (representing the sale of a service) but this fee is marginal compared to the total amount of payments received from government.

Notwithstanding the sector classification of SMMC, Eurostat noted that the analysis of the PPP contract led in any case to a preliminary conclusion that the assets built (the motorways) should still be recorded in the balance sheet of government rather than in the balance sheet of the partner, owing to an insufficient transfer of availability risks (and potentially of construction risks).

The debt assumption and privatisation plans regarding MÁV (railways) were also discussed during the meeting. The Hungarian Railways (MÁV) plans to privatise one of their affiliates, MÁV Cargo – a profitable corporation – and to use the privatisation proceeds to pay off MÁV debt. Due to the uncertainty of future events at this stage, Eurostat requested the Hungarian Statistical Authorities to describe how the restructuring will be achieved and to look carefully at the accounting treatment.

Among the other issues discussed were the analysis of EDP notification tables and the recording of some specific government transactions, such as debt assumptions and debt cancellations, leases of military equipment, capital injections in public corporations and guarantees. The Hungarian Development Bank financing activities were also discussed, as well as the accounting treatment of the capital injections undertaken by government into the Hungarian Central Bank.

Provisional findings

Introduction

In accordance with article 8d of Council Regulation (EC) No 2103/2005 of 12 December 2005 amending Council Regulation (EC) No 3605/93 as regards the quality of statistical data in the context of the excessive deficit procedure, Eurostat carried out an EDP dialogue visit in Hungary on 20-21 July 2006. The delegation of Eurostat was headed by Mr. Norlund, director of National and European Accounts. The Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) participated also in the meeting as observers. The Hungarian Statistical Authorities were represented by the Hungarian Central Statistical Office (HCSO), the Central Bank and the Ministry of Finance.

The main aim of this EDP dialogue visit was to analyse in detail the accounting implications of the Motorway construction projects, including the sectorization of the State Motorway Management Company (SMMC). Among the other issues analysed were the debt assumptions and privatisation plans regarding MÁV (railways), the follow-up on the financing activities of the Hungarian Development Bank as well as the analysis of the Excessive Deficit Procedure (EDP) reporting tables and of the recording on specific government transactions.

1. Motorway construction projects

Introduction

Eurostat examined in depth, together with the Hungarian Statistical Authorities, the features of the existing and planned motorway contracts between government and a public corporation: the State Motorway Management Company (SMMC). Two contracts ("operation and maintenance agreement" and "vignette agreement") were signed between government (Road Management and Co-Ordination Directorate) and the SMMC, in May and March 2006 respectively, while a third contract ("Programme road service agreement") was expected to be signed in the near future. Copies of the contracts were provided to Eurostat a few days prior to the meeting.

During this EDP dialogue visit a considerable amount of time was devoted to analysing in detail the features of the contracts, and identifying the stream of payments between SMMC and the government. The aim was to conclude on their accounting implications as well as on the nature of, and activities undertaken by SMMC.

Discussion and methodological analysis

Description of SMMC activities and contracts

SMMC is a 100% government-owned unit, whose current main activities comprise, from 1 January 2006 onwards, an operation and management contract (OMC) with the government for the operation and upkeep of roads ("Non-Programme roads"), as well as a service contract with the government for the collection of payments for the vignette. A third contract concerns a Public Private Partnership (PPP) between government and SMMC ("Programme road service agreement") comprising both the unfinished roads and those yet to be constructed, that constitute together the so-called Programme Roads. The latter establishes that the government will pay an availability fee to SMMC, with the related formula principally based on motorway construction costs.

The purchase of a vignette gives the possibility for car and truck owners to use all highways: those governed by the two contracts (Non- Programme Roads: for the OMC and Programme Roads: for the PPP contract) covering the finished and unfinished roads, but also two other roads (M5 and M6) operated under concession by private entities.

Fees to be paid by the government to SMMC under the OMC will be mainly based on SMMC's past costs. The OMC has two parts: operation and maintenance (O&M) and reconstruction and overhaul (R&O). The fees to be paid by the government to SMMC under the O&M part were negotiated on SMMC's past costs which were fixed in advance for the whole period, but applying a specific mechanism for non-performance. Fees under the R&O part are to be paid based on the actual costs of SMMC.

In contrast, the "vignette agreement" fee is composed of fixed (82%) and variable (18%) components. At the end of January 2006, the government transferred to SMMC at zero cost the work in progress relating to the roads under construction (previously contracted by the National Motorway Company).

According to Hungarian Law, infrastructure assets must remain property of the government and only the management rights can be transferred. Eurostat observed in a few instances assets entering in companies' own balance sheets relating to such rights, together with corresponding liabilities. The recording of the infrastructure assets under recognized accounting standards, such as International Financial Reporting Standard (IFRS) was discussed.

Until 2005, SMMC revenues derived from the collection of vignette payments. From 2006 the situation changed: from now on, government will receive these payments, and pay separately to SMMC the fees resulting from the contracts referred above (operation and maintenance, vignette and availability fee). It is worth noting that, reflecting the new arrangement, the asset representing the right to exploit those roads under the OMC arrangement was removed from the balance sheet of SMMC at the end of 2005, together with the associated liability.

The OMC contract foresees the reimbursement of heavy maintenance by the government, outside of the fee structure, and also annual renegotiations of fees.

Extensive discussion took place on the specific features of the PPP designed to transfer risks. A clause of "unavoidable costs" allows the SMMC to recover some of its costs (mainly, but not exclusively, relating to maintenance). Another "excess costs" clause foresees changing the fee structure upon changes in the costs of operations. In both cases, the costs in question are confirmed by an "independent engineer".

SMMC as institutional unit

SMMC has a full set of accounts and seems to have autonomy of decision in many respects. It can hold assets and incur liabilities on its own account. It was however noted that SMMC was encumbered with an unusually large amount of restrictions, such as not being free to exchange ownership on most of its assets, nor to subcontract, due to restrictive conditions imposed by Hungarian Law. In addition, a contract clause foresees the automatic transfer of personnel and office buildings to government if the vignette agreement is ended. Another contract clause requires an obligation to fulfil government orders.

According to the Hungarian Ministry of Finance, it is important to state that there are no specific restrictive conditions imposed by the Hungarian Law in relation to the ownership of roads by SMMC. The roads are the property of the Treasury similarly to what happens in relation to other public assets, and therefore according to the Hungarian Statistical Authorities this feature should play a minor role for deciding on the SMMC autonomy of decision.

Sectorization of SMMC[1]

In relation to the market criteria in national accounts, it was noted that the main revenues of SMMC mostly relate to the costs of SMMC and are not based on market considerations relating to the volume of output provided. The ESA95 manual on government deficit and debt (section I.1) on the implementation of the 50% rule, specifies that payments from general government are not to be treated as sales when they are linked to costs. In this circumstance, prices are not economically significant, and therefore the 50% rule (whereby 50% of the costs of a market unit should be covered by sales) is not complied with.

Eurostat observed that the main revenues of SMMC originate from the OMC, which is clearly a fixed fee based on the past costs of SMMC. This is also the case for the PPP contract. Only the fee which SMMC receives from government for the collection of the vignette can be considered as market (representing the sale of a service) but this fee is marginal compared to the total amount of payments received from government.

Moreover, the fees (and other reimbursements) under both OMC and PPP will be subject to changes mainly reflecting observed costs, notably by way of an evaluation carried out by an independent engineer.

In addition, a special Law gives to SMMC the status of "Public Road Manager". This creates special obligations to SMMC (as the organisation is obliged to ensure the accessibility of roads even in the absence of a contract for doing so) to assume activities that are clearly part of public service. There are only three units in Hungary which have the same status, the other two units classified in general government. It is worth noting in this

---

[1] The Hungarian Statistical Authorities suggested the following text for the first three paragraphs of this section: "*In relation to the market criteria in national accounts, it was noted that some revenues of SMMC relate to the costs of SMMC and are not based on market considerations relating to the volume of output provided. The ESA95 manual on government deficit and debt (section I.1) on the implementation of the 50% rule, specifies that payments from general government are not to be treated as sales when they are linked to costs, namely the general government tends anyway to cover the remaining deficit of the company.*

In this circumstance, prices are not economically significant, and therefore the 50% rule (whereby 50% of the costs of a market unit should be covered by sales) is not complied with.

Eurostat observed that in 2006 the main revenues of SMMC originate from the OMC, which is clearly a fixed fee based on the past costs of SMMC. This is also the case for the PPP contract, ***which is not yet signed****, so it does not influence the sector classification of SMMC in 2006. The fee which SMMC receives from government for the collection of the vignette can be considered as market (representing the sale of a service) but this fee is marginal compared to the total amount of payments received from government.*

Some parts of the fees (and other reimbursements) under both OMC and PPP will be subject to changes reflecting observed costs, notably by way of an evaluation carried out by an independent engineer."

context that the SMMC does not support heavy maintenance risk under the OMC contract (but it does so in the PPP contract) and that the SMMC is merely carrying out regular maintenance functions.

In addition, the availability fee in forint (the part related to maintenance) in the context of the PPP contract, as well as the fee of the OMC (to be paid from government to SMMC), are subject to deductions if work is not undertaken, but these deductions are capped at a maximum monthly amount (10%). When further deductions can ultimately be recoverable by government, those claims are noticeably less senior.

It should be noted that according to the Hungarian Ministry of Finance the existence of performance mechanisms are to be considered crucial elements in this analysis. In their opinion the majority of SMMC's revenue is not based on costs, implying that deductions are to be made whenever quality is not ensured. The Ministry of Finance stressed that only the HUF element (for operation and maintenance) of the fee is capped by the 10% limit, while the EUR element could be deducted by 100% in case of unavailability.

Recording of PPP assets

In relation to the classification of PPP motorway assets on the balance sheet of SMMC or on that of government, it was noted that payments from government (in the context of an availability fee mechanism) are mostly based on reimbursement of costs of SMMC and not on the volume of services provided. Moreover they are devised in order to ensure that SMMC can meet its debt service and other financing costs.

The system put in place (capping of deductions, unavoidable costs and excess costs mechanism) clearly limits the risk transfer for the partner, and indirectly for the holders of SMMC issued bonds, and conversely gives government an indirect share of the profits of SMMC operations.

Payments by government will constitute the predominant part of SMMC revenue. This is an additional factor, in the context of Eurostat's PPP rules, which would suggest that the assets to be built should be included in the balance sheet of government. The Manual on Government Deficit and Debt indicates that special care must be taken when the PPP partner is a public corporation, particularly if 100% owned. The chapter on long-term contracts between government units and non-government partners (public-private partnerships, section 2.1) states that: "(…) in cases where payments by government under this contract are a predominant part of the partner's revenue, such that for this public corporation this contract alone results in a significant change in the size or nature of its activities, this corporation could be reclassified as a government unit". The absence of any private investor creates a difficulty when judging the extent of the risk transfer as well as the pricing of the contract on a commercial basis.

Conclusion

After having analysed SMMC activities and contracts, the autonomy of decision of SMMC was discussed. While noting that SMMC was under a series of unusual operational constraints that, taken together, might raise questions as to its genuine autonomy of decision, Eurostat felt that, on balance, it was appropriate to view the SMMC as an institutional unit, as recommended by the Hungarian Statistical Authorities. Eurostat provisionally concluded that SMMC cannot be considered as a market institutional unit, from 2006 onwards, as its revenues are mainly cost related. This view was not shared by the Hungarian Ministry of Finance which thinks that the part of the fee under the operation and management contract is to be classified as a sale in national accounts. The Hungarian Statistical Authorities were asked to examine SMMC's sectorization for past years.

Notwithstanding the sector classification of SMMC, Eurostat noted that the analysis of the PPP contract led in any case to the conclusion that the assets built (the motorways) should still be recorded in the balance sheet of government rather than in the balance sheet of the partner, owing to an insufficient transfer of availability risks (and potentially of construction risks).

2. Debt assumptions and privatisation plans regarding MÁV (railways)

Introduction

The Hungarian Railways (MÁV) plan to privatise one of their affiliates, MÁV Cargo, for an amount of between HuF 80 bn and HuF 100 bn (around 0.4% of GDP) and to use the privatisation proceeds to pay off MÁV debt. Although MÁV Cargo is said to be a profitable corporation, MÁV is a loss-making corporation.

Discussion and methodological analysis

During the discussion held in the meeting it was noted that a significant part (2/3) of MÁV debt (HuF 390 bn) is state-guaranteed with nearly half (40%) consisting of long-term project loans, and that, in the past, from time to time, government assumed the debt of this 100% owned public corporation. The last formal debt assumption occurred in 2002 and it was recorded as a capital transfer in national accounts. Following ESA95, par. 4.165, f), an other capital transfer is "the counterpart transaction of cancellation of debts by agreement between institutional units belonging to different sectors".

This issue had previously been discussed during the April 2005 EDP mission and it was possible to conclude that although MÁV was a loss-making corporation, its own funds were still positive. It would be difficult and in any case premature now to record a capital transfer as if the guarantee had been called, an accounting option that is currently under examination by a Eurostat Task Force. At time, the corporation was expected to be restructured in a near future. This restructuring is now expected to take place in 2007, but no decision has been taken yet.

Eurostat wondered whether the Hungarian Statistical Authorities had been considering a rerouting of the privatization operation via government accounts.

Conclusion

Eurostat requested the Hungarian Statistical Authorities to explain in a written form how the restructuring will be achieved, specifying which are the units to be created, and advised the Hungarian Statistical Authorities to look carefully to the accounting treatment. Eurostat noted that if doubts remain after a consultation at national level, advice about the accounting treatment could be sought from Eurostat.

3. Actual data

3.1. Follow-up of the March 2006 EDP reporting – analysis of EDP tables and questionnaires

Introduction

The April 2006 EDP notification tables were analysed following the bilateral clarifications provided by the Hungarian Statistical Authorities during the EDP assessment period. No major changes are to be expected to the deficit and debt levels in the next EDP reporting round. No significant change was observed between the reporting of August 2005 and of April 2006. Changes in taxation and other government measures will affect figures of the October 2006 EDP notification. Gross Domestic Product (GDP) is expected to be revised for the next EDP reporting round, mainly due to the recording of changes in inventories, and in the context of the quality assessment of GDP figures. Time-series of Consumption of Fixed Capital are also expected to be revised.

Discussion and methodological analysis

During the meeting, several remarks were made in relation to the publication of the EDP reporting tables. Eurostat noted that although the EDP tables are not published at national level, Eurostat makes available all the reported EDP tables on its dedicated website. The Hungarian Statistical Authorities publish at present the Hungarian translation of the Eurostat Press Release on deficit and debt figures. Eurostat was also informed about the intention of the Hungarian Statistical Authorities to publish the consolidated version of the EDP inventories on sources and methods that is under preparation and that is expected to be finalized by mid September 2006. These EDP inventories on sources and methods will also be made public on the Eurostat website.

The Hungarian Ministry of Finance compiles annually an explanation on the difference between the official Hungarian and the Maastricht deficit and debt figures, and includes this documentation in national publications such as the *"Annual Budget"* submitted to Parliament. For the first time, the publication of the *"Final Accounts of 2005"* will include a summary table with the main aggregates of ESA 1995 revenue and expenditure for general government excluding the amounts related with the private pension schemes. The *Annual Budget/Final Accounts* can be consulted at the MoF’s website.

Eurostat stressed during this meeting that in the April 2007 EDP notification the transitional period on the classification of contribution-defined funded schemes organized in the context of social security will end, and these will have to be classified outside general government. The Hungarian Statistical Authorities should report EDP figures accordingly.

The EDP notification tables 2 changed between the two last reporting rounds mainly due to the recording of other accounts payable, incorporating final adjustments for the accrual recording of agricultural subsidies in both 2003 and 2004. An accrual recording approach was adopted for all subsidies, such as subsidies on housing loans, for which there were some payment delays. This treatment did not have an impact on the figures reported in the context of EDP but only on the figures reported under the ESA95 Transmission Programme, particularly for quarterly figures of general government (table 25). It was also noted that there are no longer problems for the recording of taxes and social contributions (particularly VAT), and that the Tax Authorities provide detailed information on VAT reimbursements in a form of a matrix linking amounts due to actual repayments, allowing the National Statistical Institute and the Central Bank to compile accurate figures, complying with the statistical reporting obligations under this item. This issue had been raised in the past and discussed with the Hungarian Statistical Authorities following the withholding of VAT refunds in 2003, which led the Tax Office to delay the tax refunds by several months. The Hungarian Statistical Authorities provided during the current meeting an update of the list of national taxes specifying the time lag adjustment applied for each type of tax and social contribution, which was found good practice by Eurostat.

The recording of *repos* (repurchase agreements) in the EDP notification tables was further clarified: they are all classified as loans, following the treatment in Hungarian annual financial accounts.

When analysing the recording in EDP notification tables 3, the recording of EU funds was further discussed. Eurostat took note of the corrections already implemented in the financial accounts (2004-2005), which aimed to be aligned with the recording in non-financial accounts. The same corrections will be soon implemented for the years 2002-2003. The budget recording practice is to record an EU revenue in the working balances (Table 2A) only when the money is handed out to beneficiaries/contractors. Thus, the Hungarian Statistical Authorities consider that they comply with Eurostat guidance on the recording of EU transactions.

The use of data sources for compiling government debt was also discussed, particularly in local government. At present, counterpart information is used by the Central Bank to compile government debt because it is considered as being more accurate. Comparisons are nonetheless made regularly with the Ministry of Finance's various statements.

It was observed that the statistical discrepancies have been reduced over time and especially during the last few years. The Hungarian Statistical Authorities indicated that this progress reflected the outcome of the discussions held within the formal working group composed of the three institutions, which meets frequently.

Conclusion

After having further analysed the EDP reporting tables, it was possible to conclude that the issues related with the recording of VAT have been solved; that the accounting treatment of *repos* as loans is similar both in annual financial accounts and in EDP tables and that corrections were made in financial accounts due to the recording of EU grants. The Hungarian Statistical authorities say to comply with Eurostat ruling in this domain.

3.2. Recording of specific government transactions:

- Debt assumptions, debt cancellations and debt write-offs
- Military equipment expenditure
- Capital injections in public corporations, dividends and privatizations
- Guarantees
- EU flows
- Other (swaps, securitisation, UMTS, etc.).

Introduction

The recording of specific transactions was discussed focusing on the information provided in the EDP related questionnaires, which are delivered to Eurostat together with the EDP notification.

Discussion and methodological analysis

Eurostat requested details about the cancellation of Iraqi debt[2]. According to the press, Hungary cancelled a total amount of HuF 38 bn but this cancellation was broken down into different amounts. The first two apparently took place on 1 January and 23 December 2005, and the last cancellation is apparently related to the completion of a three-year International Monetary Fund Programme. The Hungarian Statistical Authorities were not sure about the exact timing of the recording, and Eurostat asked to receive further details on the issue specifying the amounts, the year the cancellation occurred and whether there were any conditionality features.

The recording of guarantees was also discussed and the Hungarian Statistical Authorities requested clarifications. Following specific instructions provided for in the Hungarian law, the calls are shown as expenditure whenever a guarantee that is called is deemed to be irrecoverable. When it is expected to be repaid, the call is recorded as an acquisition of a claim. Both are recorded in public accounts (working balances).

It was noted that the outstanding amount of government guarantees was significant. However they are likely to reflect, apart from export guarantee schemes, guarantees given to MÁV, to Hungarian Development Bank, to National Motorway Company and to MALÉV (airlines), which are closely monitored. Eurostat asked to be informed of the stock of claims of government arising from guarantees called, and the statistical recording in the case of an unexpected write-off of such claims. Eurostat also asked the Hungarian Statistical Authorities to deliver the missing tables of the questionnaire (tables IIIb and IIIc) by the next EDP reporting.

When analysing capital injections undertaken by government in public corporations, Eurostat asked the Hungarian Statistical Authorities if the test of capital injections was being applied following the present rules in national accounts. There are several capital injections classified as transactions in equity undertaken by government into (among others) regional public transportation, water power station, post office, and MALÉV (airlines). The Hungarian Statistical Authorities said that they apply the capital injection test by analysing the accounts of these public corporations and Eurostat requested further details on the transaction involving MALÉV. The Hungarian Statistical Authorities emphasized that this transaction was an actual purchase of shares in MALÉV from a consortia of banks and not a capital injection undertaken by government.

Eurostat also asked the Hungarian Statistical Authorities to further complete the missing parts of the relevant EDP-related questionnaire table, such as distributions by large operations and large losses. When discussing this issue, the Central Bank mentioned that it

[2] The Hungarian Statistical Authorities sent a description note on this issue by 15 August 2006. In national accounts, an amount corresponding to 29 HuF bn was recorded as capital transfer in 2006 corresponding to 2*30% of the claim cancellation.

will be useful to stabilize the reporting requirements in the context of the EDP reporting due to the level of detail requested for some of the reported information.

The specific case of Mol Rt. (Hungarian Oil and Gas Company) was further discussed during the meeting following the bilateral clarifications held during the EDP assessment period. Mol Rt. was partially privatized in 2003, and in 2005 it bought gas reserves[3] (*pillow or a corresponding minimum amount for maintaining the storage of gas)* from government for an amount of HuF 60 bn. In national accounts, this amount was spread over time and recorded as rents. Eurostat asked if the purchase made by Mol related to extracted gas (inventories) or gas in the subsoil to be extracted (subsoil asset). It was confirmed that the purchase was related to a subsoil asset, as the gas in question remained in its natural habitat and as extraction would destroy it.

Regarding the recording of military expenditure, it was confirmed that the acquisition of the Gripen aeroplanes (lease) will impact the accounts of 2006 and 2007 by HuF 82 bn and HuF 71 bn respectively.

There are no securitisation arrangements in Hungary. In relation to UMTS, the third generation of licences was sold in 2004 for HuF 52 bn. The adjustment is made in EDP table 2, for an amount of HuF 17.5 bn a year up to 2007.

Conclusion

The accounting treatment of specific transactions such as capital injections undertaken into public corporations was analysed, with Eurostat stressing the importance of applying the test of capital injections following national accounts rules. The acquisition of a *pillow* gas by Mol Rt. (the recently privatized Hungarian Oil and gas Company) has been recorded as rents and accrued over the time. It was confirmed that the acquisition of military expenditures is made according to Eurostat ruling on leases, recording an acquisition of military equipment at time of delivery which impacts mostly the years of 2006 and 2007.

3.3. Hungarian Development Bank financing activities

Introduction

The aim was to conclude whether the Hungarian Development Bank could be undertaking quasi-fiscal activities similarly to what happened in the past. This issue was included in the agenda due to a recent report from the Hungarian Court of Auditors that referred that "tax receivables" were being managed by the one of the corporations owned by the Hungarian Development Bank. According to the Hungarian Statistical Authorities, the present activity of the Bank does not reflect this kind of activity and there are no reasons for supposing that this financial corporation may be acting on behalf of the government. Its activity is regulated by a supervisory authority and it is classified in national accounts in other monetary institutions sub-sector (S.122).

[3] More precisely, Mol Rt. bought the technologically necessary quantity of gas to maintain the gas-storage which can be called "*pillow*".

Discussion and methodological analysis

Eurostat drew the attention of Hungarian Statistical Authorities to the recent report from the Hungarian Court of Auditors. According to this report, the Hungarian Receivables Management Rt. is a financial corporation that "manages receivables" belonging to the Development Bank, on behalf of the State Tax Authority and banks. It had losses in 2002 and 2004. The losses are due to revaluation of claims on taxes against various corporations under liquidation. The owner (the Hungarian Development Bank) has recently increased the share capital of the Hungarian Receivables Management Rt. (HuF 1 to 4 billion from 2002 to 2004). The holding loss from revaluation appears as a consequence of legal changes during the liquidation process - and in most of the court cases, tax claims can not be enforced on the owner of the unit under liquidation.

Eurostat asked the Hungarian Statistical Authorities to examine whether a capital transfer would need to be rerouted through the government accounts as a result of these transactions.

According to the Hungarian Statistical Authorities the present recording in national accounts is accurate and there is no need to reroute these amounts through government.

Conclusion

The issue will be further examined at a later stage by Eurostat, especially in case of new developments or availability of new information on this issue.

3.4. Analysis of the accounts of the Hungarian Central Bank (follow-up of the April 2005 EDP mission)

Introduction

This item of the agenda was a follow-up issue of the April 2005 EDP mission. The Hungarian Central Bank (NBH) calculates, for the purpose of the annual financial accounts, the statistical loss/gain of the NBH, which excludes revaluation (i.e., holding losses/gains). The value of estimated statistical losses were the following: 2001: HuF -39.6 bn; 2002: HuF -1.8 bn; 2003: HuF -7 bn; 2004: HuF -67.3 bn; and 2005: HuF -45.3 bn.

At the same time, in 2002 a large injection by government took place (to replenish part of the own capital related to the foreign exchange revaluation reserve), as according to the Law if such a foreign exchange revaluation reserve at the Hungarian National Bank becomes negative, it is up to government to replenish it.

According to the descriptions provided by the Hungarian Statistical Authorities during the meeting, the transfer from government is dedicated to compensate revaluation losses, while in case of revaluation gains, no transfer to government is required. These rules are in line with the accounting guidelines of the European Central Bank. The issue was whether this amount would need to be recorded as a capital transfer, rather than a transaction in equity (as is currently the case). During the April 2005 EDP mission, Eurostat concluded that it was of extreme importance to be sure that the financing from central government is not to cover any losses of the NBH that had a subsidizing scheme character (quasi-fiscal operations). The accounts of the Central Bank were to be analysed again in the following year (2006). Prior to this meeting, Eurostat had requested the balance sheet and profit and loss accounts of the Hungarian Central Bank for 2005.

Discussion and methodological analysis

The Hungarian Statistical Authorities indicated that in 2006, the government undertook another capital injection of HuF 14.8 bn. The time of recording of this injection, treated as a transaction in equity, had been in 2005, with a counterpart transaction as other accounts payable by government (F.7) in 2005.

The Hungarian Statistical Authorities highlighted that the Central Bank losses did not cover quasi-fiscal operations, and instead resulted from the current monetary policy mix, in the context of an appreciating forint. Furthermore, it was underlined that the capital injection undertaken by government was strictly related to cover foreign exchange holding losses by filling up the foreign exchange revaluation reserve – which is an accounting item in the balance sheet.

Conclusion

Eurostat concluded that the current recording was appropriate pending a wider consultation between Eurostat and interested parties[4].

3.5. Other issues

The Hungarian Statistical Authorities had requested some other items to be discussed. These concerned the accounting issues relating to PPPs, the accounting implications of compensatory measures decided by the Court in relation to Budapest Airport, of collateral loans and of transfer of claims to third parties, and the recording of carbon trading rights in national accounts.

The accounting issues relating to PPPs were discussed and some clarifications on the appropriate accounting treatment in national accounts were provided by Eurostat. The Hungarian Statistical Authorities asked whether examples of *off-balance sheet PPPs* existing in other Member States could be provided by Eurostat. Eurostat stated that that it would not be appropriate to do so as its role was only to assess specific transactions on the basis of the documentation provided by countries and in the context of "ex-ante" advice published rules.

For the remaining two specific issues – the accounting implications of compensatory measures decided by the Court in relation to Budapest Airport and the recording of carbon trading rights in national accounts – Eurostat will provide a written answer by the end of August and will request additional information, if necessary. The other issue regarding factoring, collateral loans and transfers of claims to third parties will need to be further specified by the Hungarian Statistical Authorities for an answer to be provided by Eurostat.

[4] According to the Hungarian Statistical Authorities this issue is not pending anymore.