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FINAL FINDINGS

EDP DIALOGUE VISIT TO HUNGARY

15-16 February 2016

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Eurostat dialogue visit to Hungary 15-16 February 2016

Final findings

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 15-16 February 2016.

Eurostat was represented by Ms Madeleine Mahovsky (Head of Unit D3 "Excessive Deficit Procedure II"), Mr Luca Ascoli (Head of Unit D1 "Excessive Deficit Procedure and methodology"), Mr Philippe de Rougemont (unit D1), Ms Ágota Krénusz (unit D3), and Mr Georgios Papadopoulos (unit D3). The European Central Bank (ECB) also participated in the meeting, as observer.

Hungary was represented by the Hungarian Central Statistical office (HCSO), the National Bank of Hungary (NBH) and the Ministry for National Economy (MNE). The list of participants is provided in annex.

The previous Eurostat EDP dialogue visit to Hungary had taken place on 10-11 June 2014.

The purpose of this EDP dialogue visit was mainly to review the implementation of ESA2010 methodology and to ensure that the provisions of the Eurostat's Manual on Government Deficit and Debt (MGDD), as well as Eurostat's decisions, are duly implemented in the Hungarian EDP and Government Finance Statistics (GFS) data.

In particular, the visit aimed to review the existing institutional responsibilities as regards the compilation of EDP statistics and government accounts, discuss the quality and exhaustiveness of primary data sources, notably relating to the accounting reform in 2014, review in detail the recording of interest, EU grants and guarantees in government accounts and, among others, also to review the models applied for standardized guarantees and emission trading permits in government accounts.

Special attention was given to the statistical classification of the Hungarian Development Bank (MFB) and Eximbank. Eurostat appreciated the presence of representatives from the two institutions.

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

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

1. STATISTICAL INSTITUTIONAL ISSUES

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

1.1.1. Institutional cooperation and EDP processes

Introduction

EDP tables are officially reported to Eurostat by the Hungarian Central Statistical Office (HCSO). The statistical office compiles the EDP tables 1 and 2, the National Bank of Hungary (NBH) compiles EDP tables 3 and the Ministry for National Economy (MNE) compiles forecast data.

The cooperation of the three institutions involved in the EDP and GFS reporting – HCSO, NBH and MNE – was briefly discussed. Eurostat acknowledged the good and useful arrangements between the three institutions and, having read their updated ‘cooperation agreement’ (signed in 2015) in Hungarian, asked whether it could be received in English (for the sake of pointing out good practices for other Member States).

Also the publication of the ESA2010 EDP inventory was discussed.

Discussion

The cooperation agreement details the functioning of the cooperation group, and the responsibilities of the partners both in cases of EDP reporting and the EDP visits. The final responsibility of EDP reporting lies with the Central Statistical Office. This agreement is published on the HCSO’s website (in Hungarian). The Hungarian authorities promised to send Eurostat the English copy of the cooperation agreement.

The Hungarian authorities confirmed that there are no changes planned in the current institutional responsibilities.

The ESA2010 version of the EDP inventory was discussed. Eurostat received the latest version mid-January, and will come back to the Hungarian authorities with comments. When both parties are satisfied with the state of the inventory, it will be published on the Eurostat website. It was agreed that changes proposed to the inventory during this meeting would be implemented by the Hungarian authorities.

Findings and conclusions

The Hungarian statistical authorities will send to Eurostat a copy in English of the cooperation agreement between the Central Statistical Office, the National Bank of Hungary and the Ministry for National Economy by end June 2016 (*Action point 1*)¹.

¹ Action point completed by the date of this document.

The Hungarian authorities will update the text of the EDP inventory related to interest, EU flows (and once available, the arrangements concerning the financial instruments used in the new programming period), guarantees and standardized guarantees by 15 March 2016 (*Action point 2*).²

1.1.2. Quality management framework

Introduction

The Hungarian statistical authorities explained that the main source of data is the Hungarian State Treasury, acting as the most important upstream data source, while some other data are collected through HCSO surveys. In 2015 the statistical authorities decided to check all data from administrative sources, in order to ensure high quality. In this context, a new working group between the three statistical institutions and the Treasury was set up. This group meets 3 or 4 times a year and proposes action points for improving data quality.

Discussion

The statistical authorities explained that action points proposed by this working group were all accomplished. This not only ensured high quality data, but also the special section in the Treasury was introduced after the 2014 public accounting reform.

On the data provider level, under the new regime, a financial penalty system was introduced to both local government (in 2014) and central government units (introduced in 2015), which resulted in improved data quality and timeliness. The heads of the reporting units are also personally responsible for the data reported. In the Treasury, once the data has arrived, automatic built-in checks and manual checks are executed.

A second level of checks is performed by the statistical authorities, not only by the HCSO but also by the NBH and the MNE. All three statistical authorities have the right to propose penalties, in case deadlines are not respected or if data do not meet quality standards.

Findings and conclusions

The statistical authorities explained that due to these newly established quality checks the timeliness and quality of source data has improved considerably. Eurostat acknowledged the changes in ensuring the improvement of source data quality. There were no action points identified.

1.1.3. Audit and internal control arrangements

Introduction

The Hungarian authorities explained that the State Audit Office (SAO) conducts audits of central government fiscal units. It was not clear to Eurostat, however, how the audit of local government units is ensured. Eurostat also enquired on the cooperation between the HCSO and SAO.

² Action point completed by the date of this document.

Discussion

The Hungarian statistical authorities explained that mandatory transfers from the budget to local governments are audited each year by the SAO. Individual local governments' budgets, on the contrary, are not audited each year, but according to the plans of SAO.

Eurostat enquired on the cooperation of the HCSO with the SAO. During the last dialogue visit in 2014 it was pointed out that a cooperation agreement was signed between the two institutions in 2012 and that they have a two-way cooperation: not only the statistical authorities provide advice, in order to facilitate the work of auditors in auditing the quality of data used in the compilation of EDP notifications but also SAO can provide assistance to EDP and GFS work (by explaining the auditing of budgetary units).

The statistical authorities explained that the draft paper of 2015 describing these modalities was not finalized and that the cooperation has seemingly stalled at a lower level. Eurostat regretted these developments and encouraged the statistical authorities to pursue further the two way communication/activity.

Findings and conclusions

The Hungarian statistical office will endeavour to enhance the cooperation with the State Audit Office relating to EDP and GFS related issues (**Action point 3**)³.

³ Ongoing action point; last checked by Eurostat during the clarification rounds of the October 2016 EDP notification.

2. REVIEW OF KEY DATA SOURCES

Introduction

The government accounts data are based on public accounts, making the Hungarian State Treasury's public accounting system the main source of data for central as well as for local government.

In 2014 a new public accounting system was introduced in Hungary, aiming at ensuring a clear separation of budgetary accounting and general business type of accounting, while establishing more methodologically elaborated connection between the two kinds of reporting. Eurostat enquired about the experience of the last two years.

Discussion

The Hungarian authorities explained that the new system is backed by new data transmission and centralisation infrastructure, enhancing the capacity of the Hungarian State Treasury for collecting and checking the data (even collecting the general ledgers and scrutinising the consistency with the reports). The statistical authorities consider that 2014 and 2015 were transitional years and there is also a learning process for all actors involved in the new accounting system (both data providers as well as processors and users). They explained that more time is needed both for the improvement of the system (e.g. by issuing more guidance, more checking techniques or more experience by the data provider units) and for the statisticians to analyse the statistical compliance in practice. They also mentioned that a centralized software would be a big addition to the new system, which is in the pipeline in the Ministry for National Economy.

The new general business type accounting reports are based on the Hungarian private business accounting standards and not on IPSAS. There are no official comparisons of the Hungarian system with IPSAS, yet. There are some similarities but for instance the valuation is not based on the fair value method. All three business reports are prepared for the units: cash-flow reports are detailed and contain counterpart information; balance sheets are compiled on quarterly and annual basis; and the profit and loss accounts are available on an annual basis. The profit and loss accounts are not detailed enough though to compile accruals, due to aggregation. Only wages / salaries and interest are detailed enough to compile accrual adjustments from these source data. Balance sheet details include transactions, revaluations and stocks, while the old system only contained opening and closing stocks.

Findings and conclusions

No action points were identified.

3. FOLLOW-UP OF THE OCTOBER 2015 EDP REPORTING – ANALYSIS OF EDP TABLES

Introduction

Some issues concerning the October 2015 EDP notification were discussed. Eurostat acknowledged the cooperation of the Hungarian authorities, the timeliness and completeness of their notification and questionnaire tables, the supplementary information provided and their answers to the clarification questions.

Discussion

Eurostat enquired about the working balance for all subsectors of government, whether they are some sort of construct or can be found in some official document and if they are audited. The Hungarian authorities explained that the central government and the social security subsectors working balance lines appearing in the EDP notification tables 2A and 2D can be found in the law of implementation of the budget. Both figures are audited. For the local government subsector they mentioned that the working balance (together with a consistent table of budgetary revenue and expenditure) can also be found in the very same law, however not as a main figure, but as a ‘memo item’ – ‘memo’ meaning that there is no need to vote on these figures by the Parliament.

Eurostat described the main issues of the October 2015 EDP notification (revisions of accruals related to EU grants, the rerouting of purchase of FÖGÀZ shares by the government, recording of interest in EDP tables, recording of PPPs), but the details were discussed under other agenda points.

One issue emphasized was the appropriate recording stemming from the change in source data, as according to Eurostat these should generally be reflected as other change in volume rather than transaction. Indeed, in 2013, a change in source data created an apparent break in time series of 20.6bn HUF that was nonetheless recorded as a transaction (thus impacting B9). Based on an analysis of the pattern of quarterly profiles, the Hungarian statistical authorities stated that the change in source data likely implied a distortion in the Q4 preliminary data and argued that it was more plausible that the break in time series be a transaction. Eurostat understood the reasoning and agreed to rely on the best judgement of the Hungarian Statistical Authorities in this case.

Table 10.1 of the EDP related questionnaire was discussed, as this was obligatory for the first time in the October 2015 EDP notification. The Hungarian authorities explained that they had some difficulties filling in this table, however they found it more logical than the previous version. Eurostat asked the Hungarian authorities to completely fill out the table, including the voluntary items, such as line A_5.4a for transactions in equity. Regarding the negative amounts which appear in line A.1.1.1.3, the Hungarian authorities confirmed that these are consolidation amounts, to reflect injections into corporations classified inside government, included in the working balance. The Hungarian authorities will also investigate and report back to Eurostat on the negative amount in line A_4.1 for transactions in equity in 2014.

Findings and conclusions

The Hungarian authorities will fill out all the lines in the new table 10.1 of the EDP related questionnaire. The Hungarian authorities will also investigate and report back to Eurostat on the negative amount in line A_4.1 for transactions in equity in 2014.

4. METHODOLOGICAL ISSUES AND RECORDING OF SPECIFIC GOVERNMENT TRANSACTIONS

4.1. Delimitation of general government sector

4.1.1 General review

Introduction

The Hungarian State Treasury is keeping record of the legal government units, and all of them are classified inside general government in national accounts. The business register, managed by the HCSO, does not include information on the structure of ownership of institutional units. In order to decide whether a company belongs to the public sector or not, the composition of share capital by owners is used from the balance-sheet information (breakdown of the subscribed capital by owner sectors). The information is included in the annual corporate tax declarations transmitted by the National Tax and Customs Administration to the Hungarian Central Statistical Office and National Bank of Hungary on individual basis. In more difficult cases, the EDP working group discusses the classification.

Discussion

Eurostat enquired on the use of qualitative criteria when determining the control of the units as well as the non-market character. Concerning the control, the Hungarian authorities explained that they mainly examine whether government has the majority of voting rights in a company. Concerning the non-market criteria, they examine whether it has to compete with private producers, or whether it is a single supplier of a certain type of goods or services. Verification of the compliance with qualitative criteria in case of appearance of a new corporation is always carried out on individual basis. The data source is the annual business report of the company. Notes to the financial statements are a part of this report, which contains – besides other items – information about the owners, the share of voting rights and whether it sells products or provides services only to government. These informations are checked manually, one-by-one for every company. If a corporation meets one of the qualitative criteria it should be classified into the general government sector. When a large new public unit is established, a decision is made on the classification immediately based on business plans and all available information from government and other sources. On this basis 36 companies were reclassified with the introduction of ESA2010. Eurostat agreed with this practice and asked for the application of criteria other than ownership for determining control by government.

Concerning the quantitative market test, Eurostat enquired whether the introduction of the net interest charge made any difference to the results of the test. The Hungarian authorities saw no differences. Eurostat also asked about the use of national accounts valuation of consumption of fixed capital. The Hungarian authorities explained that they use the amortization in the business accounts and that they do not know whether there would be any difference if they used the national accounts measures. Eurostat encouraged the Hungarian authorities to look into this and report to Eurostat.

It was also explained that the Public corporation questionnaire is updated on an annual basis.

Findings and conclusions

The Hungarian statistical authorities will continue monitoring the applicability of criteria other than ownership for determining public control. A progress report on action taken and cases evaluated will be sent to Eurostat by end June 2016 (**Action point 4**)⁴.

The Hungarian authorities should aim at using where possible the national accounts valuation of consumption of fixed capital (instead of business accounting amortization) for the application of the market rule, at least for large units (infrastructure companies). A progress report with one concrete example will be sent to Eurostat by end June 2016 (**Action point 5**)⁵.

4.1.2. The classification of special ESA2010 units: Captives, SPEs, head offices, holding corporations

Introduction

During the last EDP dialogue visit in 2014 Eurostat initiated a discussion on the new rules in ESA2010, allowing for the classification of special units such as captive financial institutions, head offices, special purpose entities and holding corporations. As a follow-up to the visit, the Hungarian authorities examined several institutions on the public corporations list and sent a note to Eurostat with their results.

Eurostat also pointed out at that time that several entities on the *List of government controlled entities* in Hungary were classified in sector S.12 and wondered if any of them might fulfil the definition of a captive financial institution under ESA 2010. The Hungarian authorities replied that for the time being they had not identified any such entities. Nevertheless, Eurostat asked the Hungarian authorities to examine several cases, among them the Hungarian Development Bank (Magyar Fejlesztési Bank – MFB) and Eximbank. After several rounds of exchange of information, Eurostat wanted to discuss this issue in detail with the Hungarian statistical authorities. The Hungarian authorities also invited representatives from the two financial institutions.

Discussion

Eurostat recalled the rules on the classification of captive financial institutions, reminding the Hungarian authorities that besides ESA2010 also the rules in the MGDD chapter I.6. prevail, as these had been drafted with the approval of the majority of Member States. The Hungarian authorities accepted this and also emphasized that these rules have been applied in Hungary, for instance for units such as Corvinus Zrt, Malév Vagyonkezelő and Nemzeti Eszközkezelő, all of them being a captive of government, being on autopilot. According to them, the two financial institutions in question are however complex institutional units, also having relations with other market participants (like commercial banks), not being merely a shell of government, which – according to the Hungarian statistical authorities – raised an issue as to whether these entities meet the captive definition.

Eurostat appreciated the presence of high representatives from the two financial institutions and explained that in order to decide on their statistical classification further information is needed.

⁴ Action point completed by the date of this document.

⁵ Action point completed by the date of this document.

First, the *governance structures* of the two institutions were discussed. Both banks are owned 100% by the government. In both banks' boards voting is with simple majority, with no veto vote.

The *MFB*'s Board of Directors consist of 7 persons, 2 of them being lawyers, 2 internal members of the bank, 2 civil servants and the chair being delegated by the Minister for National Economy. In the Supervisory Board of 5 persons, there is one delegate from the government.

Eximbank's governance is very similar. In the Board of Directors there are 7 persons, 3 from investment agencies, 2 internal members of the bank and 2 civil servants. In the Supervisory Board of 5 persons, there is one delegate from the government.

The Hungarian authorities explained to Eurostat that government officials present in the Board of Directors or Supervisory Board are personally responsible for their actions, therefore they are not allowed to take orders from the government and they are not allowed to share information with government.

Eurostat enquired on the *decision making process* in the two banks. They both explained that the decision making body depends on the risk exposure of each project (measured on a group level). In *Eximbank* if the risk exposure is above 20bn HUF, the shareholder (the government) is taking the decision, between 5bn and 20bn HUF, the Board, and below 5bn the Credit committee, which consist of the risk manager and the relationship manager. In 2015 the proportions of lending were 0.3%, 9.9%, 89.8% (government, board, committee), in 2015: 0%, 10%, 90%. It was recalled that more than 80% of *Eximbank*'s client are small and medium sized enterprises.

For the *MFB* these limits are different, but in a similar way the decision-making process is defined by the threshold of the credit risk. Loans above 10bn HUF and below 35bn HUF of credit risk fall under the scope of the Board's approval. Under 10bn HUF but over 1bn HUF of credit risk the responsibility for approval falls under the scope of the Individual Loans Committee ("ILC"), under 1bn HUF of credit risk the right of approval belongs to the Loan Censorship Committee ("LCC"). Above 35bn HUF the shareholder (the government) is deciding. Concerning the proportions for new commitments in 2015: 19.5bn, 207bn, 6.2bn HUF (government, board, committee) were mentioned (approx. 8.5%, 89%, 2.7%)

Concerning the *liability side* of the balance sheets of the two banks, it was explained that both have government statutory guarantee for their borrowing, they issue bonds on the sub-sovereign market and pay 50-100 basis points premium compared the government. A guarantee fee is paid to government for these guarantees. In the law on the budget, a maximum amount of guarantee that government can provide to these two institutions is set rather high, in a manner that the utilisation rate of this framework is around 4-6%. *Eximbank* does not collect *deposits*. The representatives of *Eximbank* explained that deposits are short-term financing, while their business typically requires medium- and long-term financing. *MFB* receives deposits only from group members, and also from the borrowers who have to place an amount in the bank. Both banks have *refinancing activities with the Central Bank* and therefore also have an account there. *Eximbank* has HUF exposure only.

A significant part of *MFB* loans portfolio concerns either programme loans (38% end 2014) or operations carried on behalf of government (13%). Programme loans are conducted within an agreed framework often by other banks that merely refinance with *MFB*, which is then exposed to the banking risk only but not to the debit risk. Programme loans directly granted by *MFB* are a small fraction of the total. Individuals granted at the request of government are rerouted via government accounts in national accounts (i.e. entering the Maastricht debt).

MFB has hedging operations on the market and has a special *FX hedging arrangement* with government relating to the special government initiated loan schemes, such as Local government infrastructure development programme, Agriculture Europe Programme or the Student Loan Center III loan. In this case the government assumes the exchange rate risk and at the time of the closing the loan schemes and pays the calculated losses to MFB. In 2015 MFB received such a payment from government.

Concerning the *guarantees by government on the assets*, MFB explained that for some cases government provides a payment guarantee. These special cases must be included in government resolutions. A special case was the loan provided to Corvinus Zrt (classified inside government) for buying Budapest Bank. The representatives of Eximbank explained that 29% of its assets are guaranteed. These guarantees are provided by government, but also by credit guarantee institutions.

Concerning the *profitability* of the two banks, Eurostat understood this was not the aim of the two banks. The representatives of the financial institutions explained that even though it is not their most important task to make profit – because they are specialized financial institutions, providing services that a solely profit-seeking entity would not do – they have built-in incentives for making profits (for example bonuses, no profit- no bonus).

MFB went through a cleaning of its "legacy portfolio" between 2010 and 2012, mainly relating to project development lending between 2002 and 2010. In order to get rid of the bad assets a "*bad bank*" had been created (MKK – Magyar Követeléskezelő Zrt), which is 100% owned by MFB and is also consolidated in the statements. MFB on a group level is making profits in recent years.

Eximbank's profits have been constant in the last seven years – positive but limited in amount. The representatives of the bank explained that the reason for this is that Eximbank has a very easily calculable basic business which is granting loans with interest subsidy. This interest subsidy is an OECD regulated compensation, which is continuously reimbursed by the government. Assessment of the clients' entitlement and calculation of interest subsidy occurs on an individual and contractual basis, and the settlement with the state budget occurs with a quarterly frequency. It was mentioned that since 2012 the bank's activities became more business (commercial) oriented and were expanded to allow funding activities of resident suppliers, small and medium enterprises, export oriented investments in Hungary and investment abroad of Hungarian enterprises.

Eurostat referred to the papers sent before the mission explaining that Eximbank has derogations from the Hungarian Act on financial institutions. It was confirmed that both banks have derogations concerning the capital adequacy requirements and the size of large exposure. This was justified on the basis of the special role of these two institutions and their access to statutory government guarantees. The representative of MFB mentioned that they comply anyway with these requirements, as they are active in the international financial markets.

Eurostat appreciated the availability of the representatives of the two financial institutions and decided to analyse further the information provided and send its conclusions to the Hungarian authorities before the April 2016 EDP notification.

Findings and conclusions

The cases of MFB and Eximbank were discussed benefitting from the presence of high representatives of the two institutions. Eurostat will analyse the new information and send a note to

the Hungarian statistical authorities concerning the classification of these two entities before the April 2016 EDP notification (*Action point 7*)⁶.

The Hungarian authorities will send the English version of the statute of Eximbank to Eurostat as soon as possible, at the latest by end February 2016 (*Action point 8*)⁷.

4.2. Implementation of accrual principle

4.2.1. Taxes and social contributions

Introduction

In Hungary the time adjusted cash method is used to record taxes. Taxes paid regularly and with stable time lag are time adjusted, while taxes paid irregularly (e.g. duties on inheritances and gifts) or taxes paid once or twice a year, but before the end of the current year, are recorded in the accounts on cash basis. Data source for time adjustment are monthly reports of the Hungarian State Treasury. The Hungarian authorities did not send the tax questionnaire update end-2015, claiming there were no changes.

Discussion

Eurostat reminded the Hungarian authorities that the Landfill tax, introduced in 2014, was not included in the latest tax questionnaire, therefore the questionnaire has to be updated and sent to Eurostat.

The Hungarian authorities sent to Eurostat before the mission the list of taxes introduced since the last dialogue visit, containing the advertising tax, the food chain supervision fee and the hydrocarbons stockholding fee.

Concerning the *Food chain supervision fee*, it was explained that this fee was originally introduced as a supervision fee, partially covering expenses of the supervisory authority. It was explained that this was recorded in government accounts as a sale of service until 2015. In 2015, when the fee was increased considerably, not being proportionate to the services performed by the state, it was reclassified as a tax. In 2016, the rate was reduced back to its original level, and the fee will therefore be recorded as a sale of service again. Eurostat noted that according to ESA2010 par 4.23(e) such fees should be recorded as other taxes on production if the amounts charged are out of proportion to the costs of the supervisory work carried out by the entity. Eurostat mentioned that in order to avoid disturbance in the time series, the partitioning of the amount may also be acceptable, but the Hungarian authorities preferred their current recording. Eurostat accepted this.

Regarding the *hydrocarbons stockholding fee*, the Hungarian authorities explained that in Hungary the Association of Private oil and gas producers (Magyar Szénhidrogén Készletező Szövetség) is classified outside government, as it is partly controlled but not financed by the government. In accordance with the guidance note on these entities published by Eurostat, the Hungarian authorities decided that the compulsory annual contributions of the members should be rerouted through government accounts as D.21 tax income of the budget. Eurostat enquired about the classification of

⁶ Action point completed by the date of this document.

⁷ Action point completed by the date of this document.

this entity, and why the Hungarian authorities classified it outside government. The association apparently holds the oil inventories itself and incurs debt on the market (and not only from participants) to finance these, implying a significant debt and a potentially significant effect on Net Lending/Net Borrowing (B9). The Hungarian authorities noted that the association likely held both oil and gas inventories, with possibly significant differences in behavior between them: Hungary is an important Central European storage facility for gas, with accordingly large and lucrative seasonal movements. It was agreed that the Hungarian authorities will send further information on this association and its interactions with the government, such as loans or guarantees provided, the control exercised by government, etc.

The Hungarian authorities informed Eurostat about the introduction of a health contribution fee imposed on tobacco companies. It was explained that this tax was suspended by Hungary as the European Commission is investigating the possible distortion of the competition that this tax might cause (due to the steep progressivity of the rate depending on the sales of the companies). There was a considerable income in 2015 recorded as tax on products. The Hungarian authorities will inform Eurostat in case any new information is available concerning this tax.

Findings and conclusions

The Hungarian statistical authorities will complete and send to Eurostat the questionnaire on taxes and social contributions, to include missing elements, and make also corrections where necessary, by the April 2016 EDP notification (**Action point 9**)⁸.

The Hungarian authorities will provide Eurostat with a copy of the statute of the private association of oil and gas producers (Magyar Szénhidrogén Készletező Szövetség) that maintains the minimum stocks of crude oil and/or petroleum products according to Council Directive 2009/119/EC by the April 2016 EDP notification (**Action point 10**)⁹.

The Hungarian authorities will provide to Eurostat an explanation of the interactions between government and that private association of oil and gas producers, by the April 2016 EDP notification (**Action point 11**)¹⁰.

4.2.2. Interest

Introduction

Before the visit the Hungarian statistical authorities sent the tables on recording of interest in EDP tables and, for the first time, filled in a new template showing the stocks of and changes in coupons (accrued) separately from the stock of and changes in discounts and premia.

Discussion

Eurostat congratulated the Hungarian authorities for filling in the new table, also pointing out that the new table seems to be consistent with an "old" one on recording of interest. Unfortunately the "Amortization" line has been misunderstood by the Hungarian authorities because they interpreted this line as redemption, while Eurostat expected to see here the spreading of discounts and premia.

⁸ Action point completed by the date of this document.

⁹ Action point completed by the date of this document.

¹⁰ Action point completed by the date of this document.

As a result, the examination of the table needed to be postponed until the “Amortization” entry is changed.

The Hungarian authorities explained that the spreading of discounts/premia in EDP table 3 is included in the Difference between interest accrued (-) and paid (+) line. Eurostat enquired why there is no amount for the "Revaluation and other change in volume" line for discounts and premia. The Hungarian authorities explained that only HUF denominated bonds are issued with discounts and premia.

The Hungarian authorities explained that the "Redemptions of debt above/ below nominal value" line in EDP table 3 only includes amounts at redemption/repurchase of bonds. The line "Issuances above/below nominal value" captures only the discount/premia at issuance. All other transactions related to discounts/premia are recorded under the line "Difference between interest accrued and paid".

Findings and conclusions

Eurostat asked the Hungarian authorities to make the inventory text clearer, so as to understand the recording of interest, discounts and premia better. The Hungarian authorities will also update the table on interest, discounts and premia, showing the spreading of discounts and premia under the line “amortization”, by the April 2016 EDP notification (*Action point 12*)¹¹.

4.3. Recording of specific government transactions

4.3.1. EU flows

Introduction

Eurostat recalled the rules on the recording of EU grants in government and national accounts. When the beneficiaries are non-government units, the EU grants should be directly recorded in their accounts and the cash flows transiting in government accounts shall be exclusively recorded in the financial accounts (F.8) of government. When the beneficiaries are government units, the EU grants are to be recorded as revenue at the time when the expenditure itself incurred: the time difference with the cash actually received from the EU (either earlier, or later) enters the financial accounts. Eurostat enquired on the EU recording in the Hungarian government accounts in national accounts.

Discussion

The Hungarian authorities explained that in Hungary two forms of flows from the European Union go through the government. First, the subsidies related to agriculture and the related market interventions made on the behalf of the EU were mentioned. These are not channeled via the budget and managed by the Agricultural and Rural Development Agency (Mezőgazdasági és Vidékfejlesztési Hivatal – MVH a budgetary institution classified inside government) in special Treasury accounts. Monthly detailed monitoring reports are available covering all involved transactions, including EU reimbursements, disallowances. The agricultural interventions made on behalf of the EU are accounted in national accounts as financial transactions in government accounts.

¹¹ Action point completed by the date of this document.

Second, the EU grants related to the Structural Funds are channelled via the national budget and follow the general budgetary rules, including public accounting. The Prime Minister's Office, as a central budgetary institution is responsible for managing budgeted EU funds.

The advance payments at the beginning of a multiannual programming period are deposited with the Hungarian State Treasury, outside the national budget. EU advance payments kept at the Treasury are recorded as F.2 of central government, therefore are shown in EDP table 3B under "Currency and deposits" and at the same time under "Other financial liabilities".

In public accounts, once expenditure is made on behalf of the EU, government records revenue by transferring funds from the Treasury (from the separate account). When no money is available in the Treasury account, a receivable is recorded against the EU. In public accounts (at the Treasury) it is recorded as "to be financed", therefore the statistical authorities have the information in order to create a receivable against the EU in national accounts, which is later shown in EDP table 2A, under "Other accounts receivable". Since the time lag between the expenditure and the arrival of proceeds from the Treasury account is one month, another receivable might also arise in case the transfer does not arrive at the Treasury by the end of the year. Moreover, at the end of the programming period, the EU does not reimburse the last 5% of the programmes, until all programmes have been closed. These outstanding claims to the EU are also recorded under "Other accounts receivable" in government accounts.

Regarding data sources for the adjustment for EU grants, the statistical authorities explained that they receive data from both the managing authorities (the Prime Minister's Office) and the certifying authority (the Treasury). The survey introduced in 2014 delivered from the Prime Minister's office the necessary information on a more detailed level to HCSO for these purposes in the frame of two new surveys on EU-funds: one on monthly payments (monthly reporting), the other, twice a year, on detailed statement on grants received from EU and payments thereof.

The Hungarian authorities mentioned that they are currently discussing with the Prime Minister's Office about data for the new programming period and cooperation is progressing.

The Hungarian authorities also mentioned that they have "retrospective projects", where the EU allows for the inclusion of national projects already completed. Eurostat acknowledged this problem and referred the Hungarian authorities to the decision tree in the EU grants chapter of the MGDD for the correct time of recording of flows.

Eurostat enquired about the arrangement for the use of new 'financial instruments' in the context of the 2014-2020 programming period structural fund payments. The Hungarian authorities explained that there is the intention to use several different financing modes (like venture capital or own capital, loans, guarantees, interest rate and guarantee fee subsidies) but the detailed financial management procedures and reporting obligations are still under development.

Findings and conclusions

Eurostat took note of the explanations and asked the Hungarian authorities to update the part of the inventory on EU grants, including the arrangements on the new forms of financing in the 2014-2020 programming period, once more information is available.

4.3.2. Guarantees

Introduction

The general features of recording transactions related to guarantees were discussed. Eurostat also enquired on the status of mortgage relief schemes, as during the last visit one of the schemes was discussed in detail. The recording of standardized guarantees was also discussed.

Discussion

The Hungarian authorities explained that in case a new guarantee is provided, the likelihood of (non)payment is first examined and occasionally the amount of guarantee is imputed as expenditure, when it is most likely (based on their financial reports, plans) that the debtor will not be able to pay back the guaranteed debt. This was the case for instance for MÁV in 2011. Eurostat mentioned that this is good practice.

In case a guarantee is called, this is recorded as expenditure in national accounts. Eurostat asked the Hungarian authorities to correct the inventory, as it currently states that also a loan might be recorded.

The Hungarian authorities mentioned that, in the case of BKV, a primary guarantee was issued by Budapest municipality and the State provided a counter-guarantee for the case if Budapest municipality fails to pay. State counter-guarantees on BKV's borrowings were presented among central government guarantees, while Budapest municipality did not report guarantees on BKV's borrowings for the year 2011. Eurostat took note of this case. It mentioned however, that due to the counter-guarantee of central government this may have been included in the general government guarantee amount twice. Eurostat asked the Hungarian authorities that in such cases, where central government provides a counter guarantee on local government's guarantee, the reporting to Eurostat (for instance in EDP related questionnaire table 9.1) should avoid double counting. Eurostat also pointed out that in table 9.1 line 3, amounts of new guarantees provided, should not include negative amounts. The Hungarian authorities will correct this in the April 2016 EDP notification.

The Hungarian authorities raised an issue concerning the Contingent liabilities publication by Eurostat. They mentioned that the OECD added up liabilities of public corporations and guarantees of general government, while clearly these two cannot be added. Eurostat agreed and mentioned that, to avoid this, a specific warning on the non-additivity of these two items had been placed in the publication.

Eurostat enquired on the status of the mortgage relief schemes initiated by government in order to eliminate or decrease the financial risk taken by households, who took loans denominated in foreign currencies (in CHF, EUR and JPY). The Hungarian authorities explained that no further schemes are planned and that all loans have been converted to HUF. They will send Eurostat a note on these schemes and some details on the recording of related transactions in national (government) accounts.

Eurostat recalled the rules on standardized guarantees. Standardized guarantees are issued in large numbers, usually for fairly small amounts, along identical lines. Although it is not possible to establish the likelihood of any particular borrower defaulting, it is usually possible to estimate how many of the similar borrowers will default. When an institutional unit offers standardised guarantees, it charges fees and incurs liabilities to meet the call on guarantees. The value of the liabilities in the

accounts of the guarantor is equal to the present values of the expected calls under existing guarantees net of any recoveries the guarantor expects to receive. The liability is called provision for calls under standardized guarantees. The counterpart transaction is cash received. In case government provides a guarantee free of charge, it is as if government has given a "subsidy", therefore an expenditure must be recorded at time of granting of the guarantee, to counterbalance the creation of a liability.

The Hungarian authorities explained that these rules are applied in Hungary. According to their description only the housing loan guarantee program corresponds to the definition of standardised guarantees (export credit guarantees are provided by Eximbank and the Student Loan Center provides only loans, not guarantees). There had been a sequence of four schemes over time, starting in 1998, but there are no new guarantees provided anymore. Consequently, according to the model set up by the Hungarian authorities, since 1998 the liability of government has been built up gradually (as the guarantees were provided), counterbalanced by a government expenditure in national accounts and in recent years there were only small amounts of new guarantees provided. As no more new guarantees are provided, but calls are recorded as expenditure in public accounts (working balance), these have to be neutralized and therefore, in EDP table 2A, an adjustment line under other accounts payable is shown. Eurostat welcomed the clarification that the table of the explanatory note showed the correction to the working balances, and not the B9 impact of the scheme. Eurostat thus agreed with the current recording, but asked the Hungarian authorities to keep monitoring the possibility of larger calls than originally anticipated and correct the imputed expenditure in the past if necessary.

Findings and conclusions

Eurostat invited the Hungarian statistical authorities to avoid double counting of guarantees provided by two different levels of government for the same liabilities of the same units. Table 9.1 of the EDP related questionnaire will be amended accordingly in the April 2016 EDP notification (**Action point 13**)¹².

The Hungarian statistical authorities will send to Eurostat a note on the various relief schemes granted by government to households relating to the mortgage loans denominated in foreign currency and their recording in government accounts by April 2016 (**Action point 14**)¹³.

The Hungarian statistical authorities will correct in the April 2016 EDP notification line 3 in EDP related questionnaire table 9.1 to include only the new guarantees provided each year (**Action point 15**)¹⁴.

For standardized guarantees, the Hungarian statistical authorities are invited to monitor the amounts imputed as expenditure in the past (deriving from the current model applied) and correct the conditions of the model (ratios) when necessary (**Action point 16**)¹⁵.

¹² Action point completed by the date of this document.

¹³ Action point completed by the date of this document.

¹⁴ Action point completed by the date of this document.

¹⁵ Ongoing action point; last checked by Eurostat during the clarification rounds of the October 2016 EDP notification.

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

Introduction

Eurostat enquired if there were any changes in the recording of debt assumptions and if there were any substantial amounts of debt assumed by government since the last dialogue visit.

Discussion

The Hungarian authorities explained that, from 2014, with the introduction of the new public accounting system, claim cancellations are not automatically recorded as expenditure in public accounts and are therefore not included in the working balance in EDP tables. Consequently, in case government cancels a claim, a separate adjustment line should appear in EDP table 2A. Eurostat enquired if the Hungarian authorities have appropriate source data for this line. They explained that in the new public accounting system, they have access to the Treasury's data, which show such items under "to be financed" rows, so this information is available to them.

Findings and conclusions

Eurostat took note of these explanations.

4.3.4. Capital injections in public corporations

Introduction

Eurostat understood that data source for capital injections, including equity purchases, are good for central government, as the two asset management companies, MNV (Hungarian national Asset Management Company) and MFB (Hungarian Development Bank) manage capital injections on behalf of the State. Eurostat considered that for local government the situation is less desirable, as there is no individual data for capital injections. Eurostat also appreciated the note sent by the Hungarian authorities before the visit on the big injections since the last dialogue visit.

Discussion

The Hungarian authorities explained that in the new public accounting system, introduced in 2014, there is information available for capital injections of local governments, however not on an individual injection basis but on the level of individual local government. Therefore a ratio – that is calculated based on a yearly exercise using the Treasury information system – is used for determining the proportions of capital transfers and equity purchases within the total amount of capital injections. The HCSO explained that while local governments reporting a large amount are examined individually, for local governments reporting small amounts the ratio is used. Capital injections of local governments are in general small, for instance barely 4bn HUF in 2015.

For central government, the Hungarian statistical authorities explained that injections are included in a separated chapter of the budget, the MFB acting solely as an agent, when making a capital injection. Afterwards MFB, as an agent, manages the company, and receives a management fee for this from the government. However the number of companies in which MFB is investing is falling, and MNV is gradually taking over this role.

Concerning individual injections, the cases of MVM PAKS II, the acquisition of Budapest Bank, the capital increase in Eximbank and the purchase of Erste Bank shares were discussed.

MVM PAKS II – which received 14bn HUF injection in 2015 and is expected to receive 113bn HUF in 2016 – has been responsible for carrying out the project of the new nuclear power plant since its establishment on 26 July 2012 by MVM as a subsidiary. From end 2014 it is no longer a member of the MVM Group, and the shareholder's rights and obligations related to MVM Paks II are exercised and performed by the Prime Minister's Office from this date until 31 December 2026. The company does not have an independent source of revenue in the period of investment. The injection of 2015 constituting its registered capital serves the financing of preparatory explorations and research, and the licensing procedures. The company will receive further budgetary sources in the form of annual capital increase during the 2014-2026 period of the project for three main aims: covering a) the permanent operational costs, b) preparation costs, c) capital expenditures (gross fixed capital formation) of the establishment of the new nuclear power plant units. The Hungarian EDP Working Group classified *MVM PAKS II Ltd. in S.1311 Central Government subsector*, and reclassifies the formal (legal) capital increase as intra-governmental transfers, current and capital transfers depending on the actual composition. The Hungarian EDP working group expressed its view that since its decision on the classification of this unit was taken based only on information available at that time (the development of the nuclear power blocks started only in 2015), it may perform a reassessment when more complete information will become available. Eurostat agreed with the Hungarian authorities but asked them to be contacted, in case further information is available on the company.

The Hungarian government decided to purchase the shares of Budapest Bank from the General Electric Capital group; the transaction was actually carried by Corvinus Zrt. and was financed by borrowing from MFB Zrt (195748 million HUF) backed by state guarantee. The Hungarian EDP working group recognised Corvinus Zrt. as a property manager acting on behalf of the State and classified it as a government unit in S.1311 Central government subsector as a public holding company. Eurostat took note of these transactions. The MFB lending thus enters the Maastricht debt, with a counterpart in equity-asset.

The 2015 annual budget was amended to allocate budgetary appropriation for purchasing the minority 15 % shares of ERSTE Bank Hungary, in parallel with a same transaction by EBRD. Finally this appropriation was used for a formal capital increase in Corvinus Zrt, with the aim of completing the transaction on behalf of the State in 2016. The statistical recording is intra-governmental D.99 Capital transfers within the S.1311 Central government subsector. Purchase of the ERSTE Bank shares will be recorded as acquisition of F.5 Equities. Eurostat took note of this recording.

Enlarging the activities of the Eximbank, the Hungarian government decided to finance a capital injection from the 2015 annual budget appropriations amounting to 30.1bn HUF. The capital increase serves predominantly to enlarge its activities and a small part serves for capital adequacy purposes. No profit is expected in 2015 according to the modified business plan, thus the Hungarian EDP Working Group decided to record the capital injection as D.99 Capital transfer. Eurostat took note of this point.

Findings and conclusions

The Hungarian authorities will monitor the issue of the classification of the entity MVM PAKS II involved in the construction of a nuclear power plant and report to Eurostat possible outstanding accounting issues, once they arise (**Action point 6**)¹⁶.

4.3.5. Dividends, super dividends

Introduction

Eurostat enquired on the application of the super dividend test.

Discussion

The Hungarian authorities explained that the data source for dividends received by the government is the budget and the two asset management companies of government MNV (Hungarian national Asset Management Company) and MFB (Hungarian Development Bank). The super dividend test is applied by the HCSO. Eurostat enquired whether the Hungarian authorities use the business profit or the operating profit to conduct the super dividend test. The Hungarian authorities use currently the business profit, therefore Eurostat asked them to make a test exercise to see whether there is a big difference between these two amounts and its implications for the super dividend test.

Findings and conclusions

The Hungarian authorities will monitor cases with large distributions paid when business profits are materially higher than operating profits for the application of the super dividend test (**Action point 17**)¹⁷.

4.3.6. Financial derivatives

Introduction

In Hungary, financial derivatives are used to hedge the government debt denominated in foreign currency. Cross currency swaps (CCRS), interest rate swaps (IRS) and foreign currency (FX) swaps are applied. No other types of derivatives are used.

Discussion

Eurostat enquired whether there are any off-market swaps and also whether the State Debt Management Agency possesses any derivatives not related to debt hedging. There are no off-market swaps, but concerning the second question the Hungarian authorities will contact the Debt Management Agency and come back to Eurostat.

Eurostat thanked for the detailed information on swaps provided before the meeting. After careful examination, it concluded that amounts are not negligible but seem to be reasonable when compared to the level of debt. The table provided appeared compatible with the EDP table 3, the difference between the net interest flows on swaps calculable and the EDP table 3 reflecting the holding gains/losses on the swaps. The Hungarian authorities also explained that cross-currency swaps are

¹⁶ Ongoing action point; last checked by Eurostat during the clarification rounds of the October 2016 EDP notification.

¹⁷ Ongoing action point; last checked by Eurostat during the clarification rounds of the October 2016 EDP notification.

used exclusively to convert foreign currency debt to EUR and not to HUF, as it can be seen from the data provided.

It was also explained that in the public accounts, swap interest flows are recorded on a cash basis, and in EDP table 2 they are neutralized under the line "*of which: net settlements under swap contracts (+/-)*". In the financial accounts swap interest related flows are recorded on gross basis meaning they appear both on the asset and liability side depending on the balance sheet position of the contracts. Financial transactions are recorded on a gross basis but they are netted within each contract. According to this, transactions relating to swap operations can occur under financial assets (F.71) and under other adjustments (F.71) in EDP table 3A and 3B. It was also clarified that an artificial entry for holding gains and losses on derivatives used for hedging is recorded in the Appreciation/depreciation of foreign currency debt, at the time of unwinding of the hedge, in order for the flow of derivatives to be ESA2010-compatible. Eurostat took note of these explanations.

Findings and conclusions

The Hungarian statistical authorities will enquire from the Debt Management Agency, whether there are derivatives not relating to hedging of government debt before the April 2016 EDP notification (**Action point 18**)¹⁸.

4.3.7. PPPs

Introduction

Eurostat understood from the available information that, in Hungary, no more PPPs are planned. Instead, the government plans to buy out the small projects and keep the big ones running – particularly the road projects.

Discussion

The Hungarian authorities confirmed that from 2010, the Hungarian government started to revise all PPP projects, by trying to modify contracts and in some cases (where it can be economically more favourable) aiming at the outright purchase of the infrastructure. The government is expected to continue this policy by maintaining only the existing large projects (M5 and M6 motorways, Szombathely and Tiszalök prisons, The Palace of Arts), while buying out the other PPPs (mainly sport related PPPs of local governments and educational projects such as colleges).

Eurostat explained that the methodological guidance in the MGDD should be followed. In the case of PPPs, the rules of the chapter in MGDD applicable at the moment of the project signature are those that have to be applied.

The Hungarian authorities asked about the appropriate recording in case of the repurchase of a PPP assets by government. They explained that they currently record the acquisition of the Special Purpose Entities. The problem is that these SPEs are valued at a very high price, as their value is based on the present value of the future income of the project, whereas the price of the underlying asset may be smaller. Eurostat understood this problem and agreed with the general principle that the value of the underlying asset needed to be distinguished from the value of the contract, in concept. At the same time, in the absence of any reliable information on the difference, it seemed prudent to

¹⁸ Action point completed by the date of this document.

consider that the value of the contract is a plausible proxy for the value of the asset. Eurostat confirmed to the Hungarian authorities that this issue will be put on the agenda of the Task Force on EDP methodological issues.

Findings and conclusions

Concerning the appropriate recording of amounts paid by government at the termination of PPP contracts, this will be discussed in the next meeting of the Task Force on EDP methodological issues (**Action point 19**)¹⁹.

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

Introduction

The recording issues of emission trading allowances, mobile phone licences and military expenditure were discussed under this point.

Discussion

4.3.8.1 Emission trading allowances

Eurostat recalled the rules on the recording of the *emission trading allowances*. Payments for emission allowances (under the cap and trade schemes, such as the European Trading System) are recorded as other taxes on production (D.29), allowances issued for free do not give rise to entries in government accounts. The time of recording of income is the time the pollution occurs, estimated by the time of surrender of permits. In the absence of precise information on individual allowances, the level of tax revenue should be estimated using a formula described in the MGDD. The timing difference between the cash payment and the surrender of the permit should be recorded as other accounts payable.

According to the description provided by the Hungarian authorities, instead of using the formula of the MGDD, the Hungarian authorities use the hypothesis that all permits sold in the year t will be amongst the permits surrendered in year $t+1$, therefore the time adjustment applied for taxes is 1 year.

It was explained that the Hungarian authorities are not able to trace back when a permit is surrendered and whether the permit was given for free or was auctioned. It was also mentioned that permits given for free by the government might be auctioned in foreign markets, and then surrendered in another Member State, which makes it difficult to trace a permit. Eurostat advised that in this case an average price could be used, as information on the amount of the income and the time of the surrender is known by the Hungarian authorities. Eurostat, while accepting the current model for recording the tax income used by Hungary, requested the Hungarian authorities to analyse the applicability of the formula described in the MGDD and to provide Eurostat with the results entailed by the formula.

¹⁹ Action point completed by the date of this document.

4.3.8.2. UMTS

Eurostat summarized the ESA2010/MGDD rules on the recording of payments related to mobile phone licences.

During the last visit the issue was discussed and, as an action point to the previous visit, it was confirmed that the Hungarian licences were deemed transferable, given that the government had no right to oppose the transfer of a licence to a third party for any reason.

Eurostat, based on the example of another Member States, explained that the revenue can only be recorded when the licence is useable. So, for instance, in case the licence granted might be used only at a later stage, the revenue must also be recorded at or from that time. The Hungarian authorities mentioned that such an issue had not been identified so far and therefore has not been checked. For the latest allocation, which was the prolongation of a previous contract for ten more years, the contract was signed in 2014 and the licence was immediately (within the year) useable.

4.3.8.3. Privatizations / sale and lease-back / securitisation

The Hungarian authorities confirmed that there are no privatisations, no sale and lease-back operations and no securitisations in Hungary.

4.3.8.4. Military expenditure

Eurostat enquired about any changes to the model for accounting for the Gripen expenditure and thanked the Hungarian authorities for providing its calculations before the visit. The Hungarian authorities confirmed that there are no changes to the model applied since 2012, when the current model was introduced. Adjustments in EDP table 2A are the following: in the working balance, the annual payment is recorded; Under '*Loans, granted*' (within '*Financial transactions included in the working balance*'), the difference between the annual payment and the "equipment/service" is recorded, while under '*Other adjustments*' the adjustment for the imputed interest is recorded. Eurostat took note of these explanations.

Findings and conclusions

Concerning the recording of the emission trading permits, the Hungarian statistical authorities will analyse the applicability of the formula described in the MGDD, inform Eurostat on their findings and provide an estimate using the MGDD formula, for information, by the April 2016 EDP notification. (**Action point 20**)²⁰.

Eurostat took note on the explanations concerning the recording of revenue related to mobile phone licences. Eurostat reminded the Hungarian authorities to check each time not only the transferability but also the usability of the licence.

Eurostat took note of the explanations on the Gripen model.

²⁰ Action point completed by the date of this document.

5. IMPLEMENTATION OF ESA 2010

Introduction

Eurostat enquired whether there are any outstanding issues regarding the implementation of ESA2010.

Discussion

The Hungarian authorities requested clarification on the recording of decommissioning costs. They explained that from 1998 until 2030 there are regular payments from the company MVM Paksi Atomerőmű Zrt to a budgetary earmarked fund (Központi Nukleáris Pénzügyi Alap). This is recorded as government revenue, currently amounting to more than 300mn HUF. At the time the atomic reactor will stop working, the decommissioning will be financed from this amount, recorded as government expenditure. Eurostat took note of these explanations.

Findings and conclusions

No action point was identified.

6. OTHER ISSUES

6.1. ESA2010 Transmission Programme

Introduction

Eurostat acknowledged the work of the Hungarian authorities on government accounts and thanked them for their timely and detailed answers when commenting on ESA tables.

Discussion

Eurostat raised some issue concerning ESA 2010 tables, mainly relating to COFOG.

Findings and conclusions

Eurostat took note of the clarifications and promised to send the rest of the detailed questions in writing after the visit.

6.2. Any other business

Introduction

There were three issues sent by the Hungarian authorities for information to Eurostat, which were shortly discussed during the meeting: (1) payment to MFB relating to exchange rate guarantee scheme, (2) arbitral court decision in the case of cessation of EDFI contract and (3) the sale of land to farmers.

Discussion

Concerning the payment to MFB Zrt. relating to the exchange rate guarantee scheme (30.5bn HUF), it was explained that the Law XX of 2001 on the Hungarian Development Bank regulates that MFB and the State are allowed to contract exchange rate hedging arrangements related to Government-initiated loan schemes, by which the State assumes all exchange rate risks arising from those loans, and, at time of closing the loan schemes, the State pays the calculated losses to MFB. The amount of 30493.6mn HUF covers the payment obligations related to loan schemes of Local Government Infrastructure Development Programme, Agriculture Europe Programme and Student Loan Center III loan. The payment is treated as D.99 Capital transfer worsening the ESA-balance.

Concerning the Arbitral court decision in the case of cessation of EDFI contract, the Hungarian authorities explained that EDF International (French energy company) accused Hungary of violating the Energy Charta Treaty due to insufficient compensation paid to one energy company owned by EDFI after ceasing long-term electricity purchase contracts in 2008. As a result of negotiations, the parties agreed to bring the issue to an Arbitral Tribunal attached to UNCITRAL. The Arbitral award was issued in December 2014 establishing 107mn EUR (approx. 34bn HUF) payment obligation by Hungary, plus 2% interest until the day of actual payment and distributing the costs of the legal case between the parties. Hungary initiated a so-called „set-aside” procedure but was rejected on 13 October 2015 and was instructed to pay the compensation (and additional costs) to EDF and to the Arbitral Tribunal. As it is predicted by Hungarian authorities that the payment of this compensation would conflict with EU state aid rules (following early consultations with EU on the payable compensation at the time of ceasing the contracts), Hungary has not paid and consulted with EU

Competition DG. EU Competition DG wrote a supporting and reassurance letter dated 18 December, 2015.

Having no further information on the issue, the Hungarian EDP Working Group decided not to record anything in government accounts. The issue will be analysed again after the EU Commission (DG Competition) will have completed its investigation and the subsequent reaction of the Hungarian authorities. Eurostat agreed with the Hungarian authorities and advised not to record anything until the amount is certain and there is no more possibility for legal recourse.

Regarding the sale of state-owned land to farmers, it was explained that government decided to sell state owned land (managed by the National Land Fund) to farmers by publishing open auctions. The first auctions were organised in the last two months in 2015, and auctions were completed in January. Currently the compliance of the winners of the auctions is checked and contracts are being prepared. The Ministry of Agriculture calculated a total of 170bn HUF receipts from the sale of land. According to the detailed regulation for implementation, the actual payment of the sale price is a precondition for registering the change in ownership in the official land register. Accordingly, the EDP Working Group considers the time of cash payment as an appropriate time for recording transactions in AN.211 (-) Land. Eurostat agreed with this, stating that the transaction should be recorded at the time of the change of legal ownership. Therefore the registration data should be used, which can be assumed to happen for the payment of the price.

Findings and conclusions

Eurostat took note of these explanations and no action points were identified.

Annex 1: List of participants

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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

1.1.1. Institutional cooperation and EDP processes

1.1.2. Quality management framework

1.1.3. Audit and internal control arrangements

2. Review of key data sources

2.1. Public sector accounting and accrual of expenditure/revenue

2.2. Local Government accounts

3. Follow-up of the October 2015 EDP reporting – analysis of EDP tables

4. Methodological issues and recording of specific government transactions

4.1. Delimitation of general government sector

4.1.1 General review

4.1.2. The classification of special ESA2010 units: Captives, SPEs, head offices, holding corporations

4.2. Implementation of accrual principle

4.2.1. Taxes and social contributions

4.2.2. Interest

4.3. Recording of specific government transactions

4.3.1. EU flows

4.3.2. Guarantees

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

4.3.4. Capital injections in public corporations

4.3.5. Dividends, super dividends

4.3.6. Financial derivatives

4.3.7. PPPs

4.3.8. Others: emission trading permits, UMTS, privatization, sale and leaseback, securitisation, military equipment

5. Implementation of ESA 2010

6. Other issues

6.1. ESA2010 Transmission Programme

6.2. Any other business