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## **EDP dialogue visit to Hungary 14-15 February 2019**

### **Final findings**

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## Introduction

In accordance with Council Regulation (EC) No 479/2009 of 25 May 2009, as amended, 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 14-15 February 2019.

Eurostat was represented by Mr Luca Ascoli (acting director, Directorate D "Government Finance Statistics (GFS)"), Mr Jukka Jalava (head of unit, Unit D3 "Excessive Deficit Procedure 2"), Mr Thomas Forster (desk officer, unit D1), Mr Levente Szekely (desk officer for Hungary, Unit D3), Ms Anabela Nabais Rodrigues and Mr Didier Lebrun (desk officers in Unit D3). The European Central Bank (ECB) and DG ECFIN were also represented, as observers.

Hungary was represented by the Hungarian Central Statistical office (KSH), the National Bank of Hungary (MNB) and the Ministry of Finance (PM).

The previous Eurostat EDP dialogue visit to Hungary had taken place on 15-16 February 2016. In between the two dialogue visits, Eurostat visited the Hungarian Statistical Authorities twice (September of 2016 and of 2017), in the framework of ad-hoc visits.

The purpose of this EDP dialogue visit was mainly to review the EDP inventory and to ensure that the provisions of the European System of National and Regional Accounts (ESA 2010)<sup>1</sup>, of Eurostat's Manual on Government Deficit and Debt (MGDD 2016)<sup>2</sup>, as well as Eurostat's decisions, are duly implemented as regards the production of Hungarian EDP and Government Finance Statistics (GFS) data.

The visit aimed to review, in particular, the existing institutional responsibilities as regards the compilation of EDP and GFS data, to discuss the quality and exhaustiveness of primary data sources, to follow-up on the results of previous visits, to review in detail the adjustments performed to the working balance, to evaluate the steps followed in the sector classification process (50% test and criteria on control) and to assess the recording of new taxes, interest, EU flows, derivatives as well as other transactions.

With regard to procedural arrangements, the main conclusions and action points were promptly sent to Hungary for review. Afterwards, the provisional findings were sent to Hungary for review and comments. Hereby, the final findings are 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.

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<sup>1</sup> [Regulation \(EU\) No 549/2013](#) of the European Parliament and of the Council of 21 May 2013 on the European system of national and regional accounts in the European Union. Annex A of the regulation was published by Eurostat as a [manual](#).

<sup>2</sup> [Manual on Government Deficit and Debt – Implementation of ESA 2010 – 2016 edition](#)

## **1. Statistical capacity issues**

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

#### Introduction

EDP tables are officially reported to Eurostat by the Hungarian Central Statistical Office (KSH). The statistical office compiles the EDP tables 1 and 2, the National Bank of Hungary (MNB) compiles EDP tables 3 and the Ministry of Finance (PM) compiles forecast data.

Under this agenda point the general EDP data production arrangements, the cooperation between the three mentioned authorities, the quality management framework regarding EDP/GFS data, as well as public account audit and internal control systems were discussed.

#### Discussion

The KSH confirmed that no substantive changes happened since the last dialogue visit to the EDP data production process and the related institutional cooperation. It also reiterated that no such changes are planned for the near future. It mentioned that the Ministry of Finance changed its name mid-2018 (from Ministry of National Economy – NGM, to Ministry of Finance – PM).

As regards quality assurance, the KSH confirmed that there is an established quality assessment system, within the framework of which, part of the data is also being checked by the Hungarian Treasury (MAK) and the PM. While this quality assessment system was not certified by any organisation, the KSH mentioned that a new system was introduced that allows the KSH to audit the statistical activities of the other members of the national statistical system. As part of these powers, the KSH is visiting these other members (including the PM) and is checking their statistical activities, but these procedures are not specifically tailored to probe national accounting or EDP/GFS data production processes, they are rather more focused on checking to what extent these entities have implemented the statistical code of practice. As regards these powers, the KSH has a special agreement with the MNB in order to ensure the central bank's autonomy. The KSH also mentioned that it is close to finalize the first full cycle of their planned program to check all members of the national statistical system.

The KSH clarified that this checking does not apply to its own statistical data production processes and that it is currently focusing on developing quality indicators for its own IT systems so that each level of the data production process has specifically designed quality indicators. The KSH further indicated that these quality indicators are primarily related to the principles of the statistical code of practice rather than to specific EDP/GFS issues and as such focus, for example, on timeliness, coverage and response rate.

As regards action point (AP) 2016/3 on improving relations with the State Audit Office, the KSH informed that, thanks to new management arrangements, it would expect to being able to address the issues raised in the action point in full by the deadline of the April 2019 EDP notification. Eurostat decided to roll over the AP.

Eurostat also enquired whether there is any impact (other than statistical) on the units which are reclassified into the general government sector in Hungary, due to a decision of the Hungarian statistical authorities. The Hungarian authorities responded that such a reclassification usually triggers a different reporting regime, as well as debt monitoring by the state and, thus, the reclassified entities need to obtain permission from government to be able to increase their own debt. The KSH confirmed that no such reclassified unit took any of the Hungarian statistical authorities to court over the reclassification decision.

#### Findings and conclusions

##### ***Action point 2019/1***

*The Hungarian Statistical Authorities shall provide Eurostat with the formalized procedures that they use in performing the quality assurance process (referred to as "statistical auditing") and a list of entities that were subject to this process, to date. They shall also include a description of this process into the EDP inventory.*

##### ***Action point 2019/2***

*The Hungarian Statistical Authorities shall try to further enhance the cooperation on EDP- and GFS-related issues with the State Audit Office. Action point 2016/3 is hereby closed.*

## **1.2. Data sources and revision policy, EDP inventory**

### 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 general, public accounts represent the basic data source for GFS compilation, i.e. EDP tables, as well as annual and quarterly accounts for general government. Public accounts are used by legal government units and refer to accounting records and relating accounting outputs (e.g. financial statements) based on the accounting framework defined by national legislation (public finance act).

### Discussion

The KSH confirmed that there were no changes as regards data sources and data production process since the last dialogue visit (February 2016). Eurostat then asked the KSH to perform a complete review of the EDP inventory, with a particular focus on updating those parts that were mentioned under other agenda points during the meeting. (Please refer to action points 2019/ 1, 3, 6, 21 and 23, as well as to the other sections of this document where the EDP inventory is mentioned.)

#### Findings and conclusions

##### ***Action point 2019/3***

*The Hungarian Statistical Authorities shall perform a general review of the EDP inventory and update it where necessary and appropriate and, in particular, where this*

*was requested in other action points. The updated EDP inventory should be sent to Eurostat by the end of September 2019.*

## **2. Follow-up of previous EDP visits**

### **2.1. Overview and follow-up of last visits**

#### Introduction

Eurostat recalled that action points 2016/3 and 2016/6 (APs) were pending from the last dialogue visit (February 2016). While the status of AP 2016/3 relating to the State Audit Office was discussed in the previous agenda point, the status of action point 2016/6 in which the Hungarian statistical authorities were asked to “follow the issue of the classification of the entity MVM PAKS II involved in the construction of a nuclear power plant and report to Eurostat on any possible outstanding accounting issues, once they arise”, is discussed here.

#### Discussion

Eurostat mentioned that for the financing of the nuclear power plant construction project, the Hungarian Government signed a loan agreement in form of a revolving credit facility with the Russian Federation and that funds were reportedly drawn from it. The Hungarian authorities confirmed that some amounts were actually drawn from the loan but that these amounts were repaid soon afterwards (within the same quarter) due to the more favourable current market conditions (the loan terms allow such early repayment). Therefore, no amounts of the loan remained in the stock of general government debt liabilities at any recent year-end. The Hungarian authorities also confirmed that all public expenditure in connection with this project was included in the working balance of general government.

At Eurostat’s request, the KSH further clarified its intention (notified to Eurostat during the preparation phase of the dialogue visit) to reclassify past capital injections of the State into the entity (MVM PAKS II<sup>3</sup>) from capital transfers to equity acquisitions. It considered this treatment appropriate, in light of the financial analysis carried out by the European Commission with regard to the measure planned by Hungary to provide financial support for the development of this project.<sup>4</sup> According to the analysis of the Commission, the project has an internal rate of return of 7.35%, while the midpoint of the overall weighted average cost of capital (WACC) of the project is 7.89%. Based on this analysis, the Hungarian statistical authorities considered that the capital injections could be classified, under ESA 2010, as transactions in equity. This was followed by a lengthy discussion on the nature of the entity, whether its current sector classification (S.11) is appropriate, the further details of the Commission’s state aid case analysis, whether the entire project is expected to be profitable and the correct recording of the capital injections into the entity.

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<sup>3</sup> The current name of the entity (since October 2017) is Paks II. Atomerőmű Zrt.

<sup>4</sup> See Commission Decision [C\(2017\)2112](#) on state aid case SA.38454.  
([http://ec.europa.eu/competition/state\\_aid/cases/261529/261529\\_1932592\\_684\\_2.pdf](http://ec.europa.eu/competition/state_aid/cases/261529/261529_1932592_684_2.pdf))

As regards the sector classification of the entity, Eurostat considered that the sectorisation criteria should be applied carefully, given that the construction still did not substantially begin and that there is no past operational data to underpin a quantitative assessment. Concerning the capital injections, Eurostat summarized by observing that in this specific case the distinction of whether the capital injection constitutes a capital transfer or transaction in equity is blurred. Due to several complicating factors (government is the only direct financing source of the project; capital injections are ultimately used for construction, hence having some features of investment grants; the state aid element identified by the Commission) and considering the provisions of the MGDD 2016<sup>5</sup>, Eurostat considered that the more prudent accounting approach would be to continue recording the capital injections as capital transfers.

Eurostat recalled that in addition to the two APs discussed above, only one other action point (AP 2017/3 on the sector classification of the MNB's foundations and their subsidiaries) resulting from the ad-hoc visit carried out in September 2017 was still pending and suggested to address this AP, as planned, under agenda point 4.1 (see below).

### Findings and conclusions

#### ***Action point 2019/4***

*The Hungarian Statistical Authorities will follow the issue of the sector classification of the entities Paks II Atomeromu Zrt and Paksi Ipari Park Kft and report to Eurostat any possible accounting issues, once they arise. Eurostat considers that the capital injections into these entities could be close in their nature to investment grants. Action point 2016/6 is hereby closed.*

#### ***Action point 2019/5***

*In addition to Action Point 2019/4, the Hungarian Statistical Authorities shall also investigate the conditions under which the loan for the financing of the Paks II project was extended to the Hungarian State by the Russian Federation, whether any instalments were drawn and, if so, how they were recorded in national accounts and report back to Eurostat by the end of September 2019.<sup>6</sup>*

## **2.2. Overview of Eurostat reservations since the last dialogue visit**

Eurostat noted that Hungary had received a reservation on the quality of the reported data for each notification since the last dialogue visit.

The ECB inquired whether the Hungarian statistical authorities are still maintaining the compilation of two separate datasets for financial accounts: one for EDP/GFS purposes, where Eximbank is classified inside the general government sector and the other for

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<sup>5</sup> Reference is made, in particular, to section III.2 of the MGDD 2016 on capital injections into public corporations and to the summary presented in *Box 1 – Recording transactions: straightforward cases and difficult areas*, on pages 162-163.

<sup>6</sup> In its e-mail from 1 March 2019, Eurostat agreed to postpone the original deadline (end of March 2019) of this action point to the end of September 2019.

monetary and banking statistics, where Eximbank is still classified in the financial corporations sector and whether they plan to change this in the future. The Hungarian National Bank (MNB) confirmed this and explained that in its view it does not have any other choice: for monetary and banking statistics and for supervisory purposes, Eximbank would have to remain on the MFI list<sup>7</sup> and, thus, for those mentioned purposes, classified in the financial corporations sector. Eurostat reiterated, that in its view, the concepts underlying the MFI list are different from the ones defined in the ESA 2010 and that for the purposes of sector classification in national accounts, the concepts defined in the ESA 2010 are decisive.

Eurostat and the ECB took note that despite the opinion expressed by the Committee on Monetary Financial and Balance of Payments Statistics (CMFB) on the sector classification of Eximbank, the Hungarian National Bank (MNB) plans to maintain the two datasets, as explained above, and that it also intends to raise the more general issue of sector classification of financial entities with the CMFB.

### **3. Follow-up of the October 2018 EDP reporting – analysis of EDP tables and EDP questionnaire tables**

#### Introduction

Eurostat thanked the Hungarian statistical authorities for their consistency in the timely sending of the EDP data. It remarked that it also appreciates the continuous efforts of the Hungarian statistical authorities to ensure high levels of internal consistency in the transmitted EDP data.

#### Discussion

Eurostat then recalled that in the preparation phase of the dialogue visit it started discussions with the Hungarian statistical authorities regarding the accounting basis for the working balance of general government. It reiterated that each year, between the April and October notifications, sizeable revisions are done to the working balance, which always seem to have the same direction (upward). Given that, in line with the Hungarian EDP inventory, the working balance was always reported to be on cash basis, Eurostat asked for further clarifications regarding the nature of said revisions.

After a long discussion, the Hungarian statistical authorities clarified that due to the limited availability of data sources (only the Treasury banking accounts are available) for the April notification, the working balance needs to be adjusted to bring it in line with budgetary data (official balance published by the Ministry of Finance) against which it can then be checked. As a consequence, the working balance reported in April for EDP purposes is not anymore on a pure cash basis.

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<sup>7</sup> A [list](#) drawn-up, maintained and published by the European Central Bank, mainly to serve monetary statistical purposes, containing [monetary financial institutions](#), as they were defined in [Regulation ECB/2013/33](#) concerning the balance sheet of the monetary financial institutions sector.



## Findings and conclusions

### ***Action point 2019/6***<sup>8</sup>

*The Hungarian Statistical Authorities shall correct the EDP inventory and EDP table 2A, to reflect that the working balance of the central government sub-sector is not on cash basis. The EDP tables submitted for the April 2019 notification should already reflect this. The EDP inventory should include explanations for the adjustments made to the working balance, in order to improve understandability and verifiability.*

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

### **4.1. Delimitation of the general government sector, application of the 50% rule and the qualitative criteria in national accounts**

#### *4.1.1. Sector classification of units*

#### Introduction

After a brief introduction regarding the ESA 2010 sector classification criteria, Eurostat inquired about details on the application of the 50% test<sup>9</sup> and afterwards on determining control over entities.

#### Discussion

##### *50% test*

Given the provisions of the MGDD 2016 on the “sales” concept to be used for the application of the 50% test (see MGDD 2016 subchapter I.2.4.3 paragraph 31), Eurostat asked (1) why the Hungarian statistical authorities deduct from “sales” the purchase value of sold goods and services, (2) which data sources are used to obtain the data for taxes on production (which are not deducted from “sales”), (3) why some amounts that seem to be subsidies on production are included in “sales” and (4) how the Hungarian statistical authorities distinguish subsidies on production from subsidies on products.

The Hungarian statistical authorities explained that excluding from “sales” the purchase value of sold goods or transmitted services is performed in order to comply with the calculation mechanism prescribed in ESA 2010, which provides that, in essence, the “sales” figure (with some exceptions) corresponds to that of “output at basic prices”. They further explained, that they use tax declarations as the source to obtain “taxes on

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<sup>8</sup> The first part of this AP has been accomplished by the set deadline. The AP remains open until the EDP inventory is updated accordingly (foreseen by end of September 2019).

<sup>9</sup> A quantitative test, used for sector classification purposes under ESA 2010, which is usually decisive on whether an entity does or does not qualify as a market producer and as a consequence (if other conditions are also met) should not or should, respectively, be (re)classified into the general government sector.

production not deducted from sales” and they confirmed that this figure only contains those taxes on production that are not VAT.

The issue on subsidies generated a longer discussion. The Hungarian statistical authorities explained that, depending on availability, they are using different data sources for the calculation of the market test (either company accounts or budgetary data sources). As a concrete example, Eurostat presented the calculation steps of the 50% test and the categorisation of subsidies received by the state-owned Hungarian railway company (MAV Zrt.) which it considers to be subsidies on production, because, according to the asset (infrastructure) management contract between the Hungarian Government and MAV Zrt., they are granted to cover operating costs. The Hungarian statistical authorities said that these subsidies are currently recorded as subsidies on products, but agreed to investigate further. Eurostat recalled that, in the recent past, it presented the preliminary results of its comparative analysis regarding the sector classification of railway companies across the EU. Given that MAV Zrt. is the infrastructure owner and operator (and not the passenger service provider), it is more likely that the subsidies MAV Zrt. receives are subsidies on production, as it would likely be difficult to identify them by product. Therefore, Eurostat suggested that the Hungarian statistical authorities should increase their efforts to correctly distinguish subsidies on production from subsidies on products for the purposes of the 50% test.

As regards the 50% test, at Eurostat’s request, the Hungarian statistical authorities also:

- clarified that they exclude from the total personnel cost (from company accounts) some amounts representing other taxes on production (D.29, available from tax declarations or labour force survey replies) in order to obtain the “compensation of employees” figure;
- explained that, similarly to the “sales” figure, as above, they also exclude own account production from the “production costs” figure;
- confirmed that they are using tax declaration data to obtain the “consumption of fixed capital”, but that, in principle, this amount should be equal to the one reported by the entity in its annual accounts (financial statements);
- confirmed that, as opposed to current practice in some other Member States, in Hungary no coefficient is used to adjust the depreciation figures to obtain “consumption of fixed capital”;
- recalled that, in line with a completed action point from the previous dialogue visit (February 2016), they have found that the depreciation expense reported in business accounting was seen as an appropriate proxy to obtain “consumption of fixed capital” for purposes of national accounts (the ratio of consumption of fixed capital to fixed assets per NACE category was relatively close to the ratio of depreciation expense to fixed assets per entity allocated to that NACE category);
- agreed to further investigate, in particular for MAV Zrt., whether depreciation in excess over planned depreciation (usually reported as impairment cost, in line with business accounting) should also be included in the consumption of fixed capital for the purposes of the 50% test.

Eurostat agreed to further look into the definitions of “sales” and “production costs” to clarify whether the value of transmitted goods and services (bought and sold without modification) should be deducted from these figures when calculating them for the purposes of the 50% test.

Further to the application of the 50% test, the cases of the Budapest Transport Centre (BKK Zrt.) and National Waste Management Coordinating and Asset Managing cPlc. (NHKV Zrt.) were also briefly discussed.

Eurostat also inquired regarding the sector classification of Hungarian Gas Transit cPlc. (MGT Zrt.). It was clarified that this company is wholly owned by the Hungarian Government, it is currently constructing and will subsequently operate the main common transit line for natural gas between Hungary and Slovakia. The first year when revenues from operations are expected to be realised is 2021. Given that it is a long-run start-up and that based on the available information the unit seems to become profitable in the future, Eurostat agreed to its current sector classification (non-financial corporations sector), despite the fact that it fails the 50% test.

### *Control*

Eurostat briefly summarized the long-standing discussion with the Hungarian statistical authorities as regards control over the system of savings cooperatives in Hungary and the special status of the Savings Cooperatives Integration Unit (SZHISZ) in this context, while noting that, following an earlier advice letter of Eurostat, this unit was classified in the general government sector. After a lengthy discussion (including ownership structure, legal background, rights of some of the entities of the system over others, the many legal and organisational changes), the KSH repeated its view that the savings cooperatives system is not controlled by government and its earlier suggestion to continue monitoring the changes in the group structure and the legal framework. On the other hand, Eurostat reiterated its opinion that given the broad powers conferred by law to SZHISZ, as well as the complex and circular ownership structure of the entire system, the Hungarian system of savings cooperatives should be considered as government controlled and included in the public corporations questionnaire.

Eurostat also recalled the other long-standing issue regarding the sector classification of the MNB's foundations and their subsidiaries, because of which it expressed reservations on the quality of data reported by Hungary for EDP purposes. It also summarized the lengthy correspondence<sup>10</sup> it had with the Hungarian statistical authorities and it repeated its opinion, that these foundations and their subsidiaries should be classified inside the general government sector in order to ensure consistent treatment across the EU. Eurostat emphasized that in other Member States similar foundations of central banks were classified in the general government sector. Eurostat also stated that while it issued repeated reservations because of this case, it might consider other options it has at its disposal to remedy the situation.

The existence of government control over and the particular nature of the Central European Press and Media Foundation (KESMA) were also discussed. Eurostat presented its main observations regarding this case, i.e. the seemingly private ownership, the unprecedented move by several private owners of media businesses in Hungary (representing a large majority of the Hungarian media landscape) to donate their shares to KESMA and the decision of the Hungarian Government to declare KESMA an entity of national strategic importance, thereby avoiding a potential investigation by the Hungarian

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<sup>10</sup> The correspondence was published on Eurostat's website, under:  
<https://ec.europa.eu/eurostat/web/government-finance-statistics/methodology/advice-to-member-states>

Competition Authority. The Hungarian statistical authorities confirmed that they had internal discussions regarding KESMA, but that they made no assessment on it so far.

In addition to sector classification issues, the recurring case of the Hungarian National Infrastructure Development company (NIF Zrt., an entity classified inside general government) was briefly discussed. The Hungarian statistical authorities clarified that the payments this company receives from government in return for constructing fixed assets (infrastructure) are recorded as investment grants (D.92) and not as other accounts receivable (F.8), as suggested by Eurostat. This is because of the difficulties in establishing the precise timing and amounts when the fixed assets are transferred to government. However, since NIF is classified inside general government, these transactions will be subject to consolidation. It was further clarified that most of NIF's expenditure to entities outside general government (and, therefore, non-consolidating) is gross fixed capital formation (P.51g), as NIF subcontracts all its construction work.

### Findings and conclusions

#### ***Action point 2019/8<sup>11</sup>***

*Eurostat reiterates its position, that the MNB's foundations and their subsidiaries should be reclassified into the general government sector (S.13), to follow the treatment already applied across the EU for comparable cases of foundations established by central banks, having a non-negligible impact on government deficit and debt data.*

#### ***Action point 2019/9<sup>12</sup>***

*Eurostat takes note of the intention of the Hungarian Statistical Authorities to reclassify NHKV Zrt into the general government sector (S.13) from 2017 onwards, by the April 2019 EDP notification.*

#### ***Action point 2019/10***

*Eurostat considers it likely that the Savings Cooperatives Integration Unit (SZHISZ) is controlling the savings cooperatives system, due to the following: veto rights regarding the nomination of officials, regarding the increase of capital, regarding the issuance of securities (these being all criteria, based on which control should be assessed in national accounts); the circular nature of the ownership structure within the system; the broad supervisory powers given to the integration unit (SZHISZ); as well as the very detailed and pervasive nature of the underlying legal environment (ESA 2010 term regarding control via excessive legislation). The Hungarian Statistical Authorities might provide to Eurostat further information on some aspects of the law.*

#### ***Action point 2019/13<sup>13</sup>***

*The Hungarian Statistical Authorities shall send to Eurostat, by the end of March 2019, a note describing the way they distinguish subsidies on products and subsidies on production for the purposes of the 50% test and illustrate it with the cases of MAV Zrt and BKK Zrt.*

#### ***Action point 2019/14<sup>14</sup>***

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<sup>11</sup> Action point closed by the date of this document.

<sup>12</sup> Action point closed by the date of this document.

<sup>13</sup> Action point completed by the date of this document.

*The Hungarian Statistical Authorities shall investigate whether, for the purposes of the 50% test, impairment losses on fixed assets were included in consumption of fixed capital and report back to Eurostat by the end of March 2019.*

***Action point 2019/15<sup>15</sup>***

*The Hungarian Statistical Authorities shall investigate the exclusion of "transmitted services" from the sales and production costs figures of BKK Zrt, for the purposes of the 50% test and report back to Eurostat by the end of March 2019.*

***Action point 2019/16***

*The Hungarian Statistical Authorities shall investigate the nature of the Central European Press and Media Foundation (KESMA), while considering, in particular, that the Foundation received shares in many media corporations as donations from their private owners and that it was subsequently declared via legislation as being of strategic national importance in Hungary. By the end of September 2019, the Hungarian Statistical Authorities shall send to Eurostat a note containing this analysis, including a description of the services provided by the Foundation and the different types of cash in/outflows to/from it, an examination on who or what should be considered to be ultimately controlling it in substance, in line with related ESA 2010 provisions on control, and a proposal for the entity's sector classification in national accounts.*

***Action point 2019/17<sup>16</sup>***

*The Hungarian Statistical Authorities shall send to Eurostat, by the end of March 2019, the statute of the Central European Press and Media Foundation (KESMA).*

*4.1.2. Transactions rearranged through government accounts*

Introduction

Eurostat noted that currently two types of transactions are routinely rearranged through government accounts: (1) the second type of student loans extended by the Hungarian Student Loan Center (Diakhitel Kozpont Zrt, a subsidiary of the Hungarian Development Bank – MFB) and (2) capital injections made by public corporations on behalf of government.

Discussion

The Hungarian statistical authorities confirmed that the second student loan scheme is rearranged via government accounts showing a loan claim (AF.4) against the students and a related Maastricht debt liability (AF.4). They explained that the second scheme is different from the first one, since it contains an interest subsidy element (students are

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<sup>14</sup> Action point completed by the date of this document.

<sup>15</sup> Action point completed by the date of this document.

<sup>16</sup> Action point completed by the date of this document.

paying a fixed rate and government is paying the difference to the market rate) and since these loans are channelled via the higher education institutions to the students. The current stock of loans granted is around HUF 25 billion. It was also confirmed that the reimbursement rates of the first scheme are very high and that since the beginning of 2018, both schemes contain a contingency element (half of outstanding loan cancelled at birth of second child, all of it at birth of third), which was instituted by modifying Government Decree 1/2012<sup>17</sup>, as a non-reimbursable subsidy.

The systematic rearrangement of the hydrocarbons stockholding fee was also discussed. The Hungarian statistical authorities confirmed that the fee (which is the compulsory annual contribution of members to the Hungarian Association of Private Oil and Gas Producers – MSZKSZ) is rerouted through government accounts as a tax on products (D.21). Eurostat then also inquired on the nature of this entity (MSZKSZ) and it was clarified that it is an association (non-profit unit) created by legislation and it has the task to maintain the emergency stocks of crude oil and/or petroleum products to meet the requirements of the law transposing the EU's so-called Oil Stocks Directive<sup>18</sup> into national law. The entity is currently classified in the non-financial corporations sector, because the Hungarian statistical authorities considered it to be controlled by those private sector oil and gas producing/trading companies which are the members of this association (MSZKSZ). However, Eurostat stated that based on the information at its disposal (Law 23/2013<sup>19</sup>, financial statements and statute of MSZKSZ) the entity is rather more under government control and it is not very clear whether it should be considered a non-profit institution (NPI) (which it seems to formally be) or a corporation (which it seems to behave as, in substance).

#### Findings and conclusions

##### **Action point 2019/18**

*The Hungarian Statistical Authorities shall investigate the contingent elements of the second student loan scheme and, by the end of September 2019, report back to Eurostat on the appropriate recording for it in national accounts.*

##### **Action point 2019/12<sup>20</sup>**

*The Hungarian Statistical Authorities shall investigate the Magyar Szenhidrogen Keszletezo Szovetseg (MSZKSZ) and, in particular, the nature of the entity (whether it should be regarded as a corporation or an NPI), whether it is publicly controlled or not, its financing structure, any of its transactions being (in need to be) rerouted through government accounts and if its current sector classification (S.11) is still appropriate according to the relevant provisions of ESA 2010 and report back to Eurostat by the end of March 2019.*

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<sup>17</sup> Please refer to [Government Decree No.1 of 2012](#) on student loans. (in Hungarian language)

<sup>18</sup> Please refer to [Council Directive 2009/119/EC](#) of 14 September 2009 imposing an obligation on Member States to maintain minimum stocks of crude oil and/or petroleum products.

<sup>19</sup> Please refer to [Law No.23 of 2013](#) on the stockpiling of imported crude oil and petroleum products for security purposes. (in Hungarian language)

<sup>20</sup> Action point completed by the date of this document.

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

### *4.2.1. Taxes and social contributions*

#### Introduction

Eurostat thanked the Hungarian statistical authorities for the timely submission of the tax questionnaire. It then briefly recalled some of the recent developments regarding taxes and social contributions.

#### Discussion

In general, in Hungary the time adjusted cash method is used to record taxes. Taxes paid with a regular 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 national accounts on cash basis. Data sources for time adjustments are the monthly reports from the Hungarian State Treasury.

With regard to any significant changes to taxes, it was explained that two new ones, the tourism development contribution and the special tax on immigration were introduced since the last dialogue visit (February 2016). Two existing taxes were reclassified: the municipal tax is reclassified from D.29 (other taxes on production) to (partially): D.51 (taxes on income), D.29 (other taxes on production) and D.91 (capital taxes), whereas the concession fees of tobacco shops are reclassified from D.45 (rent) to D.29 (other taxes on production). Since the reclassification of the statutory protection funds into general government, the statutory protection fund levies are recorded as D.29 (other taxes on production).

The tourism development contribution is levied on the food and the locally made non-alcoholic drinks in commercial catering. The tax base is the amount of service (sales) without VAT and the tax rate is 4%. It is recorded as a tax on products (D.214H) and a one month time adjustment is applied. The special tax on immigration is levied on those entities that provide a transfer to any another institution which performs immigration assistance in Hungary. The tax base is the amount of the transfer provided, to which a tax rate of 25% is applied. This tax is recorded as a tax on income (D.51) and a one month time adjustment is applied. The Hungarian statistical authorities explained that because no entity in Hungary has declared to fall under this category (supporting immigration assistance activities), no such tax revenue was realised by the Hungarian Government.

As regards the growth-related corporate income tax credit scheme, since the initial cycle ran out and the entire scheme became negligible in its size, Eurostat stated that it would not monitor it any further.

#### Findings and conclusions

No action points identified.

#### 4.2.2. Interest

##### Introduction

Eurostat recalled some of the specificities in recording interest revenue and expenditure by Hungary for the purposes of EDP statistics.

##### Discussion

Given the multiple accounting bases for interest recording in Hungary (cash or accrual, depending on instrument and unit type) and time of recording (at issuance or redemption), Eurostat enquired whether, on a one-off basis, the Hungarian statistical authorities could compile EDP Table 3B1, including only legal central government units, in order to facilitate comparison with EDP Table 2A.

Some of the difficulties encountered by the Hungarian statistical authorities in filling out the supplementary table on interest recording were also discussed. Eurostat invited the Hungarian statistical authorities to report problems encountered in the provision of the interest table to Eurostat in order to improve the table.

##### Findings and conclusions

###### **Action point 2019/7**

*The Hungarian Statistical Authorities shall, by the end of September 2019, provide Eurostat with EDP table 3B1 covering only the legal central government entities.*

###### **Action point 2019/19**

*The Hungarian Statistical Authorities shall send to Eurostat a note regarding the methodological and practical difficulties in filling out the Excel table on interest recording (point 6 from the list of documents requested by Eurostat in the invitation letter to this dialogue visit).*

#### 4.2.3. EU flows

##### Introduction

Eurostat thanked the Hungarian statistical authorities for the useful and detailed note they prepared on the recording of the entire EU flow cycle. It would come back with any questions or comments later on. Eurostat proposed to incorporate the note into the EDP inventory.

##### Discussion

There was no discussion.

##### Findings and conclusions

###### **Action point 2019/20**

*The Hungarian Statistical Authorities shall enquire whether the Hungarian Treasury still prepares annual reports on EU flows, as it did before for the previous programming*



period (2007-2013, called *Nemzeti Stratégiai Referenciakeret – Eves Beszamolo*) and report back to Eurostat by the end of September 2019. In the affirmative case, they shall send the report prepared for 2018 to Eurostat by the same date.

**Action point 2019/25**

*The Hungarian Statistical Authorities shall incorporate the note on EU flows they have prepared for the 2019 dialogue visit into the EDP inventory.*

#### 4.2.4. Military expenditure

##### Introduction

Eurostat briefly summarized the main aspects of the recording of military expenditure in Hungary.

##### Discussion

The main issue discussed was the long-term lease agreement for the 14 Gripen fighter aircraft from an industrial supplier. The contract identified a 10-year rental period starting from the availability of the first reconstructed aircraft, which was actually in 2006 and 2007. In 2012 the rental period was extended until 2026. The reporting of data related to this contract and to other military expenditure in EDP questionnaire table 7.2 was discussed. The Hungarian statistical authorities explained that, due to data availability limitations (the data related to military expenditure is cash based and provided by the Ministry of Defence), it is not possible to split the data related to other accounts receivable/payable (F.8) into military and non-military categories. They further explained that pre- or post-payments may happen which are, however, not reported in EDP questionnaire table 7.2, but are instead captured as gross fixed capital formation (P.51g) and reported within “trade credits and advances” in EDP questionnaire tables 4.x. The Hungarian statistical authorities confirmed that the post-payments are short-term and that line 5 of EDP questionnaire table 7.1 is in fact equal to the sum of lines 13 and 14 of table 7.2 (containing only data that are related to the Gripen lease).

##### Findings and conclusions

**Action point 2019/21**

*The Hungarian Statistical Authorities shall update the section of the EDP inventory on military expenditure to reflect that they are, due to data source limitations, not able to split data regarding other accounts receivable/payable into military and non-military subheadings and to describe any plans to remedy the situation, if the case.*

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

#### 4.3.1. Government interventions to support financial institutions

Eurostat thanked the Hungarian statistical authorities for sending the data on interventions to support financial institutions. It remarked that the last such intervention

was reported for 2015 in connection to the acquisition and subsequent privatisation of the Hungarian Commercial Bank (MKB). The part related to guarantees of this questionnaire was then discussed. Eurostat clarified that the scope of this table (government interventions to support financial institutions) is no longer limited to the financial crisis; instead it includes any such intervention. At the request of the Hungarian statistical authorities, Eurostat agreed to investigate whether there is a need to amend the instructions for filling out the table (e.g. link to questionnaire table 9.1, treatment of institutional guarantee).

#### Findings and conclusions

No action points identified.

#### *4.3.2. Guarantees*

The Hungarian statistical authorities confirmed that there were no changes in either guarantee recording and reporting or in the recording/reporting of claims. They also confirmed that guarantee calls are always called in full (i.e. usually only the case when the asset has lost its value or the entity is bankrupt). It was also clarified that in Eurostat's press release related to guarantee reporting, the sentence "there is no data collection from reclassified small state-owned or local government-owned public corporations and non-profit institutions on guarantees provided" referring to guarantees reported by Hungary is mainly for reasons of completeness, given that there are several hundred reclassified non-budgetary units into general government, of which about 60 large ones are closely monitored, but several small ones are not asked to provide data (because it is likely that they would report negligible amounts).

#### Findings and conclusions

No action points identified.

#### *4.3.3. Debt assumptions, claims, debt cancellations and write-offs*

Eurostat briefly recalled the recording of debt assumptions, claims, debt cancellations and write-offs. The Hungarian statistical authorities confirmed that there were no changes in the recording and they have identified no specific issues to report; they were not aware of any future debt cancellations or write-offs being at risk of happening. It was further explained that the debt assumption against the social security funds (health insurance fund) by the central government is an intra-general government transaction that is subject to consolidation.

#### Findings and conclusions

No action points identified.

#### 4.3.4. *Capital injections into public corporations*

Eurostat recalled that it has asked the Hungarian statistical authorities to deliver, prior to the dialogue visit, a list of significant transactions and it stated that most of these large transactions were capital injections which have been checked and agreed by Eurostat during past EDP notifications. It was clarified that the large amount recorded under the transaction K.2 relating to land privatisation was mistakenly reported based on the ESA 95 transaction code and that, in fact, the recording is done correctly. It was also explained that the capital injection by government into the National Industrial Park Operation and Development Corporation (NIPUF Zrt.), which has been checked by Eurostat during previous EDP notifications, was indeed recorded on cash basis.

#### Findings and conclusions

No action points identified.

#### 4.3.5. *Dividends, super dividends*

Eurostat reminded that the data sources in Hungary for dividend reporting are budgetary reports and data received from the asset management companies of government. The Hungarian statistical authorities confirmed that there were no changes in recording of dividends since the last dialogue visit. However, they also confirmed that they have changed the super dividend test and instead of using business profit (unless the operating profit is lower, in which case the latter was used) they are now using an adjusted measure of operating profit to arrive at the distributable income of the entity, to perform the test. It was also explained that there were no super dividends identified for 2017 and that for large corporations the test is carried out at entity level.

#### Findings and conclusions

##### ***Action point 2019/22<sup>21</sup>***

*The Hungarian Statistical Authorities shall provide Eurostat with a note, with relevant examples, on how they perform the super-dividend test, by the end of March 2019.*

#### 4.3.6. *Leases, public-private partnerships (PPPs), concessions and energy performance contracts (EPCs)*

The Hungarian statistical authorities confirmed that there were no other significantly large leasing agreements signed by government, other than the one already discussed under military expenditure (see above, under point 4.2.4). They also confirmed that there are 31 public-private partnership (PPP) agreements signed earlier, the largest ones of which refer to infrastructure (road) development and will likely be allowed to run out to maturity; otherwise the government is continuing its policy to buy out the private partner in the smaller projects and it launched no new PPPs in the last few years.

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<sup>21</sup> Action point completed by the date of this document.

It was also confirmed that there were no new large concessions or energy performance contracts signed recently by government. The Hungarian statistical authorities reminded that the government created in 2014 the National Energy Management company (NEG Zrt.) in order to modernise industrial energy infrastructure, to spread the use of energy produced from renewable sources, to improve energy performance of state assets and to support small and medium-sized enterprises in their energy performance investments. Despite the various tasks of NEG, it was explained that the entity had only limited operations since its creation.

***Action point 2019/11***

*The Hungarian Statistical Authorities shall, by the end of September 2019, provide Eurostat with a note on the sector classification and activities to date of the Nemzeti Energiagazdalkodási Zrt (NEG).*

*4.3.7. Financial derivatives*

Introduction

Eurostat recalled that, in its understanding of the EDP inventory, the State Debt Management Agency (AKK) uses swap operations to set the foreign currency composition and to optimise the interest rate composition of foreign currency debt. Cross currency swaps (CCRS), interest rate swaps (IRS) and foreign currency (FX) swaps are used and there are no other types of derivatives. Derivatives issued by other levels of government are negligible. The AAK reports swap interest data on cash basis and the net stock of CCRS via its quarterly reports to the Hungarian statistical authorities. The Hungarian authorities confirmed that this is the case.

Discussion

The supplementary table on derivative reporting was discussed. Eurostat stated that it had difficulty in reconciling the data from this supplementary table with the data as reported in the usual EDP tables. The Hungarian statistical authorities explained some of the reporting steps and agreed to update the EDP inventory to better describe them.

Findings and conclusions

***Action point 2019/23***

*The Hungarian Statistical Authorities shall update the EDP inventory to improve the description of recording of swaps in EDP tables.*

***Action point 2019/24***

*The Hungarian Statistical Authorities shall, by the end of September 2019, provide Eurostat with a full breakdown by type of derivative of the entries in the lines related to financial derivatives (F.71 gross and net assets and liabilities) for 2017 in EDP tables 3 and with the impact of swap transactions on the revaluation of foreign currency debt.*

#### 4.3.8. Others (emission trading permits, privatization, sale and leaseback, etc.)

At Eurostat's request the Hungarian statistical authorities mentioned some of the large privatisation cases that were performed in the last few years or are planned to be performed in the near future (government selling its shares in Granit Bank, the sale of Budapest Bank).

##### Findings and conclusions

No action points identified.

## 5. Other issues

Eurostat thanked the Hungarian statistical authorities for the maturity breakdown of the year-end stocks other accounts receivable/payable. It was clarified that one of the large line items is related to the nationalisation of the second (mandatory private) pillar of the pension system.

Eurostat also asked the help of the Hungarian statistical authorities in obtaining unrestricted access to the online platform where all corporations submit their annual financial statements.

##### Findings and conclusions

No action points identified.

## 6. Pending action points from previous visits

After the closure of action points 2016/3 and 2016/6 (see above), in its email from 1 March 2019, Eurostat agreed to close the last action point pending from previous visits:

### ***Action Point 2017/3***

*The Hungarian Central Statistical Office (KSH) and the Hungarian National Bank (MNB) shall jointly provide Eurostat with the results of their reflection regarding: (1) the sector classification of the MNB's foundations and their subsidiaries, as well as (2) the appropriate recording of the initial endowment and/or the amounts of spending (or other transactions) that may need to be rerouted through government accounts, by 2 October 2017.*

## **7. Annex 1 – List of participants to the dialogue visit**

### KSH (Hungarian Statistical Office)

Mr Áron Kincses  
Mr György Sándor  
Ms Zsuzsanna Szőkéné Boros  
Mr Istvan Bedekovics  
Ms Anna Lehmann  
Mr Máté Simor  
Ms Istvánné Emri  
Mr Balázs Horváth  
Ms Péterné Szabari  
Ms Bernadett Szlovák

### PM (Ministry of Finance)

Ms Gizella Csonka  
Ms Ágota Surányiné Repa  
Ms Erika Sudár  
Mr Gábor Bella

### MNB (Hungarian National Bank)

Mr János Gerendás  
Mr Béla Simon  
Ms Erzsébet Bablina

### Eurostat

Mr Luca Ascoli  
Mr Jukka Jalava  
Mr Thomas Forster  
Mr Levente Szekely  
Ms Anabela Nabais Rodrigues  
Mr Didier Lebrun

### DG ECFIN

Mr Gabor Mark Pellenyi

### ECB

Mr Patrick Grussenmeyer

## **8. Annex 2 – Agenda of the dialogue visit**

### **1. Statistical capacity issues**

**1.1. Review of institutional responsibilities in the framework of the EDP data reporting and government finance statistics compilation**

**1.2. Data sources and revision policy, EDP inventory**

### **2. Follow-up of previous EDP visits**

**3. Follow-up of the October 2018 EDP reporting – analysis of EDP tables and EDP questionnaire tables**

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

**4.1. Delimitation of the general government sector, application of the 50% rule and the qualitative criteria in national accounts**

4.1.1. Sector classification of units

4.1.2. Transactions rearranged through government accounts

**4.2. Implementation of the accrual principle**

4.2.1. Taxes and social contributions

4.2.2. Interest

4.2.3. EU flows

4.2.4. Military expenditure

**4.3. Recording of specific government transactions**

4.3.1. Government interventions to support financial institutions

4.3.2. Guarantees

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

4.3.4. Capital injections into public corporations

4.3.5. Dividends, super dividends

4.3.6. Leases, public-private partnerships (PPPs), concessions and energy performance contracts (EPCs)

4.3.7. Financial derivatives

4.3.8. Others (emission trading permits, privatization, sale and leaseback, etc.)

### **5. Other issues**