

**Hungary: Report on the Observance of Standards and Codes—Data and Fiscal  
Transparency Modules—Updates**

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**International Monetary Fund  
Washington, D.C.**

**REPORT ON THE OBSERVANCE OF STANDARDS AND CODES  
HUNGARY—DATA MODULE: AN UPDATE  
APRIL 2003**

*This note reports on developments in data compilation and dissemination in Hungary since the Report on the Observance of Standards and Codes (ROSC) was released in May 2001, and was subsequently updated in May 2002. For a full description of institutions and practices, and Fund staff recommendations, this note should be read in conjunction with the original report and its 2002 update.<sup>1</sup>*

**Hungary continues to observe the Special Data Dissemination Standards' (SDDS) specifications for the coverage, periodicity, and timeliness of all data categories, including the detailed template on international reserves and foreign currency liquidity, and for the dissemination of advance release calendars. The metadata and summary methodologies underlying the economic statistics are being regularly updated on the Dissemination Standards Bulletin Board (DSBB).**

Significant progress was made in a number of areas last year to address the remaining data quality issues identified in the original ROSC. Specifically:

#### **National Accounts**

- In June 2002, the Hungarian Central Statistical Office (HCSO) began publishing seasonally-adjusted quarterly GDP—on both the production and expenditure sides—starting with Q1 2002 with retrospective coverage from Q1 1995. These data have since been published regularly. The seasonal adjustment, using TRAMO/SEATS programs set up with the help of the Eurostat, is consistent with OECD and Eurostat guidelines.
- The HCSO continues to publish the discrepancy between the GDP by production activities and the GDP by expenditure components. It is published only for the final annual data (the latest is for 2000) but is available for both the current price and constant price series. Further statistical refinement of inventory data is expected to reduce the size of the discrepancy, which is currently about 2 percent of GDP on the basis of current price series.
- The HCSO estimates imputed owner-occupied rent based on 1993 benchmarks. The IMF Statistics Department (STA) had suggested updating the benchmarks to reflect the rapid changes in the Hungarian economy and the ownership structure during the transition period. However, based on the recommendation of the Eurostat, the HCSO

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<sup>1</sup> The original report and its 2002 update are entitled *Hungary—Report on the Observance of Standards and Codes—Data Module* are available on the IMF web site <http://www.imf.org>.

decided to shift to a cost-accounting basis, reasoning that the share of owner-occupied dwellings in Hungary was still less than 10 percent and that there was a large discrepancy between subsidized rents and market rents. A task force is currently working to fine-tune the methodology and publish the new series in 2003 beginning with the 2000 annual data. Shifting to cost-accounting is expected to raise the estimated imputed rent marginally—currently, it is equivalent to 5–6 percent of GDP.

- Quarterly national accounts are now systematically benchmarked to annual data. First annual estimates—published in March following the reference year—are the sum of estimates of the four quarters of the year. The second annual estimates—published in September—are based on independent and more detailed sources. The quarterly data are adjusted accordingly to the annual data. The final annual data and benchmarked quarterly data are available with a lag of 18 months after the reference year.

### **Monetary Statistics**

- STA had suggested excluding deposit liabilities of credit institutions under liquidation from the monetary aggregates by classifying them as “restricted deposits.” (There are currently three such institutions.) The Magyar Nemzeti Bank (MNB or the National Bank) has decided, as from 2003, that these credit institutions are no longer classified as Monetary Financial Institutions (depository corporations) and hence deposits held with them are excluded from the monetary aggregates. Moreover, deposits of these credit institutions held with the MNB and with other credit institutions have been reclassified as deposits of “non-financial enterprises.” This reclassification of deposits with the MNB excludes them from base money.
- STA had recommended basing the assets and liabilities of depository corporations on market valuation. Securities on the balance sheets of depository corporations are currently based on partial market valuation. The MNB intends to move to full market pricing of securities once the national accounting system adopts market valuation and once market information on security prices improves. Other balance sheet items are already in conformity with ECB guidelines: credit extended is on a gross basis (excluding interest accrued); fixed assets are at acquisition cost; deposits are at face value (without interest accrued); debt securities not reported at market value are recorded at face value, and zero coupon bonds at discounted value.

### **Balance of Payments Statistics**

- Progress is being made to bring Hungary’s cash-based balance of payments statistics in line with accrual-based accounting principles of the IMF’s *Balance of Payments Manual-Fifth Edition* (BPM5), starting with the 2003 annual data which will be published in early 2004. This is being done in several steps, and according to a clear work plan and timetable (posted on the MNB web site <https://www.mnb.hu>):

- As a first step, beginning with the 2002 annual data which were disseminated in February 2003, trade data on settlement basis were replaced with customs data. The use of customs data also addressed two other shortcomings identified by the original ROSC: (i) goods under processing and repair are now appropriately classified as goods, rather than services; and (ii) data on financial lease arrangements will reflect an imputed change of ownership and will be classified according to the BPM5 methodology. This modification also removed one of the inconsistencies between the balance of payments statistics and the national accounts.
- In the second stage, starting with the 2003 data, estimates of reinvested earnings—based on a 1999 survey covering enterprises that collectively account for 90 percent of the equity capital of all partly- or wholly- foreign-owned enterprises—will be included in the balance of payments data. The data reported by enterprises will be reflected in the annual balance of payments statistics, with the MNB making its own monthly and quarterly estimates based on the information on the seasonal investment patterns provided by the survey. The inclusion of reinvested earnings will raise the current account deficit (by perhaps 2–3 percent of GDP) with an offsetting impact on the financial accounts.
- Investment income will be recorded on an accrual basis from 2004, thus placing the entire balance of payments statistics on accrual accounting.
- There had been discrepancies between the balance of payments statistics and the national accounts with regard to travel receipts and payments. In 2002, the HCSO and MNB reconciled their data sources and methodologies and eliminated the discrepancy. From February 2003, the MNB began reporting travel data (for 2002 with retrospective coverage from 1995) based on a survey conducted in 2000. The revisions also affected income, current transfers and direct investment entries in the balance of payments.
- More generally, the cooperation between the HCSO and the MNB has been strengthened. The two institutions have agreed on a formal work plan to improve statistics and harmonize data sources in a number of areas affecting the national accounts and the balance of payments statistics.

### **Government Finance Statistics**

- Important progress was also made last year to improve fiscal statistics and transparency. These initiatives are explained in more detail in *Hungary—Report on Observance of Standards and Codes—Fiscal Transparency Module—2003 Update*. Briefly, these included: widening the coverage of the general government and eliminating some important quasi-fiscal activities of government institutions, notably those of the Hungarian Development Bank. Moreover, plans are under

implementation to bring the activities of many non-profit government institutions and public trust funds within the budget fold.

- However, there are still significant discrepancies between financing and deficit data. The Ministry of Finance, in cooperation with the Treasury and the Debt Management Office, is working to identify and eliminate these discrepancies. The Ministry of Finance is also working on shortening the lags (currently around six months) in the availability of government expenditure data by economic and functional classifications.

### **IMF Staff Commentary**

Hungary has made significant progress in addressing virtually all data quality issues identified by the original ROSC. Perhaps most importantly, by implementing a clear multistage work plan, by early 2004 the balance of payments statistics will shift to an accrual basis, consistent with the BPM5. This will also remove a major inconsistency between the balance of payments and the national accounts. The national accounts have also been improved in several areas in line with STA recommendations. Work is underway to bring the monetary statistics in line with ECB guidelines. Staff also welcome the publication of quarterly financial accounts, beginning in April 2003, which should facilitate the reconciliation of macroeconomic data sets. The coverage of government finance statistics has improved, but greater effort is needed to reconcile the monetary and fiscal accounts, and to provide more timely information on government expenditure by economic and functional classifications in order to facilitate analysis of recent fiscal developments. Finally, institutions' cooperation in the area of data compilation and harmonization has been strengthened through formal agreements between key national agencies.

**REPORT ON THE OBSERVANCE OF STANDARDS AND CODES  
HUNGARY—FISCAL TRANSPARENCY MODULE: AN UPDATE  
APRIL 2003**

*This note reports on developments in fiscal transparency in Hungary since the Report on the Observance of Standards and Codes (ROSC) was issued in April 2001, and was subsequently updated in May 2002. For a full description of institutions and practices, and Fund staff recommendations, this note should be read in conjunction with the original report and its first update.<sup>1</sup>*

The original ROSC concluded that Hungary met many of the requirements of the Code of Good Practices on Fiscal Transparency. At the same time, it also identified a number of areas where the transparency of government financial operations could be improved. The 2002 update reported further progress, but concluded that fiscal transparency still fell short of international best practice. Since the last update, important progress has been made on several fronts.

**A. Clarity of Roles and Responsibilities**

The original ROSC suggested that the fiscal coverage could be improved by bringing into the budget fold the activities of the Hungarian Privatization and Holding Company (APV Rt), the quasi-fiscal activities of the Hungarian Development Bank (MFB), as well as the activities of a large number of nonprofit organizations that perform government functions. It also suggested that arrangements between the central budget and the APV Rt be restructured and all spending from privatization proceeds be made subject to ex ante parliamentary approval. Consistent with these recommendations, the following actions were taken last year:

- The accounts of the APV Rt were consolidated with those of the general government on the basis of the European System of Accounts, 1995 (ESA-95). The APV Rt has, however, remained outside of the central government budget. APV Rt revenue and expenditure comprise a negligible share of total consolidated general government revenue and expenditure on ESA-95 basis.
- As regards the privatization funds, with effect from 2003, the government can no longer use APV Rt's privatization reserves for subsidizing government activities, injecting capital in state-owned companies, or undertaking other quasi-fiscal activities. Until 2003, privatization receipts were used entirely to retire government debt. However, from 2003, these receipts can be used to pre-finance already-budgeted infrastructure and human resource development projects related to Hungary's

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<sup>1</sup> The original report and its 2002 update are entitled *Hungary— Report on the Observance of Standards and Codes—Fiscal Transparency Module* are available on the IMF web site <http://www.imf.org>.

accession to the European Union (EU). The pre-financing is subject to reimbursement by the EU.

- All quasi-fiscal activities of the MFB were eliminated. In December 2002, the central government purchased three MFB subsidiaries—the Motorway Company (NA Rt), the State Motorway Management Company (AAK Rt), and the Student Credit Loan Center (DHK Rt) —took over their assets and assumed their debt. This involved a one-off increase in 2002 central government expenditure equivalent to 2.1 percent of GDP. On ESA-95 basis, the accounts of NA Rt are part of the central budget, but AAK Rt and DHK Rt are outside of the government sector.<sup>2</sup>
- The government decided to bring into the budget fold the activities of nonprofit institutions—some 50 trust funds and 100 service companies—which rely on budget support and essentially perform government functions. Their inclusion will be based on the share of own-revenue, with the threshold to be decided jointly by the Ministry of Finance and the Office of the Prime Minister by September 2003. Most of these institutions are expected to fall below the threshold and thus be subsumed in the government budget; many of the others will be privatized.

### **B. Public Availability of Information**

The original ROSC concluded that budget documents provide a comprehensive coverage and that the government adheres to its commitment to provide regular fiscal reports. At the same time, it recommended a more comprehensive reporting of quasi-fiscal activities of the government and tax expenditures; reconciliation of the monetary and fiscal accounts with regard to budget financing; a comprehensive analysis and reporting of fiscal risks; and market valuation of financial assets of the state. Last year, progress was made in these areas:

- The frequency and timeliness of data has improved. Specifically, the APV Rt is required to provide monthly data with sufficient details to permit consolidation with the general government accounts. NA Rt provides quarterly data following its absorption in the central government. Most of the other economic units are providing regular reports to the Ministry of Finance, thus allowing their integration in the statistical government sector. The general government accounts are currently consolidated and published only annually. From 2003, the Ministry of Finance is planning to consolidate the accounts on a quarterly basis for internal use. General government accounts according to economic and functional classifications continue to be published regularly, with a lag of about six months.

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<sup>2</sup> According to guidelines of the Council of Statistics, public entities and corporations which meet more than half of their expenditure from own revenue sources are excluded from the government sector.

- The consolidation of APV Rt in the general government accounts and the elimination of quasi-fiscal activities of the MFB removed some of the sources of discrepancy between the fiscal and monetary accounts with regard to budget financing. Nevertheless, a considerable discrepancy—attributed to differences in coverage and timing—still remains.<sup>3</sup>
- Hungary's 2002 Pre-accession Economic Program (PEP) submitted to the European Commission included an analysis of fiscal risks.
- The re-valuation of state financial assets to reflect market prices which started following a government decree (effective January 2002) continued, but progress has been slow.

### **C. Open Budget Preparation, Execution and Reporting**

The original ROSC concluded that the budget process is open and largely conforms to EU standards; that there are clear indications of the government's medium-term fiscal intentions; and that internal management controls are effective. In the past year, the budget framework and the reporting system have been modified to bring them more in line with EU norms and requirements. Specifically:

- The government began compiling fiscal data in line with the accrual-based ESA-95 in preparation for Hungary's EU membership.<sup>4</sup> The ESA-95 annual data, covering the 1998–2002 period, were first made public in April 2002 at the time of Hungary's first formal notification to the European Commission, together with an explanation of differences between these and national data. Work is underway to provide regular quarterly fiscal data to the Commission.
- The previous government had adopted a biennial budget framework for 2001–02 to match the political cycle. Beginning with the 2003 budget, the incoming government

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<sup>3</sup> The Ministry of Finance defines the general government on the basis of ESA-95, while the National Bank of Hungary, with the intention of measuring the impact on aggregate demand, defines the government as the non-corporate sector and measures its balance largely on a cash basis. Data issues are also discussed in *Hungary—Report on the Observance of Standards and Codes—Data Module—2003 Update*.

<sup>4</sup> There was, however, no change in the official presentation of the budget, which is based on the Hungarian accounting system and conforms with the IMF's cash-based Government Finance Statistics, 1986 (GFS-86). (EU members have also retained their national budget definitions, while reporting fiscal data to the Eurostat on the basis of ESA-95.) Budget information is available on the Ministry of Finance's web site: [www.pm.gov.hu](http://www.pm.gov.hu).



reverted to annual budgets within a medium-term framework (see below).<sup>5</sup> The decision was prompted by two considerations: (i) difficulties experienced in containing expenditures at the budget levels during the second year in the face of changing macroeconomic conditions; and (ii) the need to align the budget framework and financing with EU norms and practices in preparation for EU membership.

- The government began developing a rolling three-year fiscal program, initially covering the 2004–06 period, to serve as a basis for its medium-term budget planning, including the absorption of EU funds following Hungary’s accession in 2004. The framework—expected to be developed by September 2003—will establish expenditure targets on main budgetary chapters, complete with measures to achieve these targets. The 2004 budget will be cast within this framework.

### **IMF Staff Commentary**

Important progress was made last year to bring fiscal transparency in Hungary closer to international best practice. The relation between the activities of the APV Rt and the central budget was made more transparent; the discretionary use of privatization funds for supporting government activities was curtailed; and the reporting requirement was tightened. As a next step, consideration could be given to bringing all fiscal activities of the APV Rt within the central government budget, subject to the same control and oversight as other budget institutions. The absorption of quasi-fiscal activities of the MFB by the central budget has significantly reduced off-budget spending. Also encouraging efforts are being made to bring into the budget fold the activities of nonprofit institutions and funds that perform public services under contract to spending ministries. As recommended by the original ROSC, these institutions should either be privatized or be eliminated with their services outsourced to the private sector. A stronger effort should also be made to quantify and report other quasi-fiscal activities and tax expenditures. In other areas, the introduction of a rolling medium-term fiscal program with expenditure ceilings should strengthen fiscal planning and management. Within this framework, particular attention could be given to providing a comprehensive quantitative analysis of fiscal risks and moves toward performance-based budgeting (perhaps subject to ex post oversight by the State Audit Office). The remaining data quality issues should be addressed urgently and the consolidated general government accounts be made publicly available more frequently. Finally, more timely publication of general government accounts according to economic and functional classifications would further facilitate analysis of fiscal developments.

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<sup>5</sup> The Act on Public Finance (Article 52.1) allows the government to submit one or multiyear budgets to the parliament.