

V. PUBLIC FINANCE

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The net general government borrowing requirement, calculated as the balance of revenue and expenditure, amounted to Ft 14.5 billion in April. The central government ran a surplus of Ft 4.9 billion. The social security funds and the local government authorities, respectively, incurred deficits of Ft 7.2 billion and Ft 12.2 billion. These compared with a central government surplus of Ft 8.6 billion, and Ft 14.7 billion and Ft 19.7 billion social security and local government authority deficits respectively a year earlier.

General government net lending (+) / net borrowing (-) position by sub-sector*					
	Ft billions				
	April 1999	2000		1999	2000
		March	April	January–April	
1 Central budget excluding extra-budgetary funds and ÁPV Rt***	13.1	-23.8	9.5	-160.9	-94.6
2 Extra-budgetary funds	-1.3	-1.8	-2.3	-25.4	2.0
3 ÁPV Rt.***	-3.2	-20.3	-2.3	-11.4	-29.5
4 Central government balance (4 = 1+2+3)	8.6	-45.9	4.9	-197.8	-122.1
5 Social security funds	-14.7	-10.5	-7.2	-68.3	-49.4
6 Local authorities****	-19.7	27.6	-12.2	15.5	16.3
7 Total general government (7 = 4+5+6)	-25.7	-28.8	-14.5	-250.6	-155.1

* Based on preliminary data.

** Including accruals-based interest on public sector debt.

*** Balance of transactions in assets and liabilities.

**** On a monthly basis. Bank estimates only of financing transactions are available in respect of local authorities.

The central government

The central budget deficit, calculated according to the GFS¹ accounting method, was Ft 115.8 billion in the first four months of 2000.² However, in order to create consistency with accounting on an SNA basis,³ transactions of ÁPV Rt have been treated as part of aggregates at central government level, and, for the purposes of applying the principles of accruals accounting, at least partially, a number of adjustments have been made.

The adjustments⁴ used in the calculations are the following:

Line (4) of the Table shows, on a consolidated basis, the difference between accounting for VAT revenue on cash and accruals bases, and adjustments relating to concession fee receipts. Tax revenue accounts for an important part of budgetary receipts. In the case of the latter, concession fee receipts are not treated as one-off revenue, but are distributed evenly over the years of lease.

– Depending on the length of interest periods, different amounts of interest accumulate on central government debt by the end of the accounting periods, so interest paid may diverge significantly from interest actually accumulating on debt. Consistent with the SNA framework of accrual accounting, in line (5) the balance has been adjusted by Ft 3.2 billion for April and by Ft 22.4 billion for the period January–April due to changes in the stock of cumulative interest.

– The GFS treats as expenditure loans extended by the state; and receipts of principal payments are treated as revenue. The SNA, in contrast, draws a sharp division line between expenditures/revenues and financing items. Consequently, the creation of a loan is not accounted for as expenditure, just as the recovery of a loan does not constitute a revenue. These adjustments are shown in line (6), increasing the central government borrowing requirement by Ft 1.5 billion in April. The January–April adjustment was Ft 7.0 billion.

– Provisions funded from non-social security sources are amounts which the central government or other units reimburse to the social security authorities. However, in certain months of the year the amounts disbursed to entitled persons are not equal to those the authorities receive under that title. In such cases, the central government either acquires a financial asset or liability. This adjusting item is shown in line (7) of the Table. The amount for January–April reduced the central government borrowing requirement by Ft 1.8 billion, but increased it by Ft 2.1 billion for April.

– The final adjusting item is shown in line (12) and relates to the residual balances of the extra-budgetary funds integrated into the chapters of central government in 1998. In the government accounting framework this item is treated as revenue. However, because the amount does not materially affect the net financial wealth of general government, it has been deduced from the entries adjusting the balance of extra-budgetary funds.

¹ Government Finance Statistics – the International Monetary Fund guidelines for collecting general government financial statistics.

² According to data reported by the Ministry of Finance.

³ System of National Accounts – the comprehensive accounting framework of compiling macroeconomic accounts.

⁴ The lines referred to are in 'Central government net lending (+) / net borrowing position (-)'.

Central government net lending (+) / net borrowing (–) position					
Ft billions					
	April 1999	2000		1999	2000
		March	April	January–April	
Central budget excluding extra-budgetary funds and ÁPV Rt					
1 Revenue	267.9	284.7	285.9	946.8	1,116.8
2 Expenditure	258.2	314.3	277.0	1165.4	1,232.6
3 Balance according to data reported by the Ministry of Finance (3=1–2)	9.7	–29.6	8.9	–218.6	–115.8
Other financial flows affecting balance					
4 Accruals-based adjustments to VAT and fee receipts	0.3	1.0	1.0	1.2	4.0
5 Difference between interest expenses on accrual and cash bases	3.6	9.3	3.2	49.6	22.4
6 Loan transactions affecting the balance in GFS accounting	–0.4	–2.8	–1.5	5.4	–7.0
7 Balance of provisions funded from non-social security sources	–0.2	–1.6	–2.1	1.5	1.8
8 Central budget excluding extra-budgetary funds and ÁPV Rt (8=3+4+5+6+7)	13.1	–23.8	9.5	–160.9	–94.6
Extra-budgetary funds					
9 Revenue	11.5	11.6	12.3	52.6	57.5
10 Expenditure	12.8	13.3	14.6	47.1	55.5
11 Balance (11=9–10)	–1.3	–1.8	–2.3	5.5	2.0
Data affecting changes in the balance of extra-budgetary funds					
12 Residual balance of funds integrated into budget	0.0	0.0	0.0	–30.9	0.0
13 Extra-budgetary funds (13=11+12)	–1.3	–1.8	–2.3	–25.4	2.0
ÁPV Rt					
14 Revenue	0.1	0.1	0.1	0.5	2.4
15 Expenditure	3.3	20.4	2.3	11.9	31.9
16 Balance (16=14–15)	–3.2	–20.3	–2.3	–11.4	–29.5
17 Net lending (+) / net borrowing (–) position (17=8+13+16)	8.6	–45.9	4.9	–197.8	–122.1
18 Central government accruals-based interest balance	–48.3	–63.1	–54.6	–249.0	–251.7
19 Transfers by NBH	8.6	1.7	1.7	0.4	6.7
20 Primary balance on SNA basis (20=17–18–19)	48.4	15.5	57.9	50.8	123.0

Central government cash balance					
Ft billions					
	April 1999	2000		1999	2000
		March	April	January–April	
Payments by economic organisations	27.0	25.7	31.3	119.9	130.7
Consumption-related taxes	143.6	136.5	147.9	419.3	521.5
Payments by households	36.8	56.9	47.0	188.0	229.0
Revenues of central government units	42.7	42.6	46.7	172.0	173.5
Other receipts	18.0	22.9	12.9	47.6	62.1
Total revenue	267.9	284.7	285.9	946.8	1,116.8
Consumer subsidies and investment outlay	14.1	14.4	12.2	64.4	64.9
Consumer subsidies and investment outlay	9.0	8.5	8.6	36.0	39.9
Guarantees and contribution to social security operations and provisions through social security	31.0	32.6	32.1	111.0	123.8
Expenditures of central government units	108.8	132.6	123.3	446.1	524.4
Subsidies to local authorities	33.7	36.5	35.0	163.0	161.2
Debt servicing and interest reimbursement	56.0	84.5	64.0	319.4	304.6
Other expenditures	5.6	5.2	1.8	25.6	13.8
Total expenditure	258.2	314.3	277.0	1,165.4	1,232.6
Balance	9.7	–29.6	8.9	–218.6	–115.8

Quantifying the above adjustment items and excluding interest payments and receipts as well as mutual assets and liabilities of the NBH and the central government, the primary surplus was Ft 57.9 billion in April. That was higher than in both the preceding month and April 1999. The central government primary surplus totalled Ft 123.0 billion in January–April 2000, in contrast with Ft 50.8 billion recorded in the same period a year earlier.

According to a report of the Hungarian State Treasury and using the GFS accounting method, revenue and expenditure of the central government amounted to Ft 1,116.8 billion (excluding privatisation proceeds) and Ft 1,232.6 billion respectively.

Central government receipts of payments by economic organisations amounted to Ft 130.7 billion in the first four months of 2000, meeting 27.7% of the official projection. At 45.5%, receipts of customs duties and import fees exceeded the projected amount. There were, however, substantial lags behind the time-proportionate targets in a number of areas, including receipts of corporation tax (21.2%), gambling tax (27.2%) and other payments by economic organisations (15.5%). Central government revenue in the period was equal in percentage terms to that recorded a year earlier, but its amount exceeded revenue for the same period of 1999 by 9%.

VAT revenue amounted to Ft 394.5 billion. Receipts of consumption tax and excise duties raised Ft 127.0 for the central government, surpassing consumption-related tax revenue in the comparable period of 1999 by 24.3%. Receipts of VAT, at Ft 54.7 billion, were 5.4% higher than the projection.

Central government revenue of personal income tax, which accounts for more than 91% of total payments by households, met the projection, raising Ft 394.5 billion for the central government, despite the amount in April being the lowest monthly receipt in the year to date.

Revenue of the central government institutions amounted to Ft 173.5 billion, meeting the official projection, but exceeded the outcome for the same period of 1999 only by Ft 1.5 billion.

At a total Ft 1,232.6 billion, central government expenditure met 32.5% of the target.

Transfers to economic organisations amounted to Ft 52.7 billion in January–April, meeting 37.4% of the annual target of Ft 168.7 billion. That broadly equalled the outcome for the comparable period of the previous year, although the target had been raised by Ft 4.9 billion by an amendment during the month.

Guarantees and contributions to the operation of the social security system as well as provisions disbursed through the social security authorities amounted to a total Ft 123.8 billion. This was slightly less than in the same period of the previous year, caused mainly by the government quarterly compensation for losses incurred

due to those who opted to switch into private pension funds.

Expenditures of the central government institutions, which account for nearly 46% of total central government expenditure, amounted to Ft 524.4 billion to the end of April, meeting 30.4% of the target for the period. So expenditure lagged behind, by some Ft 51.4 billion, the time-proportionate projection, as in the same period of the previous year. Here, the largest expenditure item, at Ft 309.3 billion, continued to be spending by the central government institutions funded from transfers.

Receipts of the local authorities from the central government amounted to Ft 161.2 billion, meeting 36.2% of the projection. Expenditures related to debt servicing and interest payments were Ft 304.6 billion, and exceeded the time-proportionate projection by 4.6%.

The extra-budgetary funds

Revenue and expenditure of the Labour Market Fund amounted to Ft 53.2 billion and Ft 55.0 billion in the first four months of 2000, with a resulting deficit of Ft 1.8 billion. As in March, expenditure exceeded revenue, so the deficit rose to Ft 2.9 billion in April. Contribution receipts from employers and employees, at Ft 7.3 billion and Ft 3.3 billion respectively, continued to account for the vast bulk of revenue, although they lagged somewhat behind the target for the period.

Spending on unemployment assistance, insurance and active policy tools, at Ft 24.0 billion, Ft 9.3 billion and Ft 9.5 billion respectively, accounted for a major part of the Fund's expenditure. Transfers under rehabilitation and unemployment allowance schemes by the Labour Market Fund to the central government amounted to Ft 6.6 billion in the first quarter. Including other expenditure, 35.2% of the target was met to the end of the period.

Cash balance of the extra-budgetary funds					
		2000		1999*	2000
	April 1999	March	April	January–April	
Labour Market Fund	–1.8	–2.4	–2.9	3.3	–1.8
Revenue	10.6	10.8	11.5	49.0	53.2
Expenditure	12.4	13.2	14.4	45.7	55.0
Central Nuclear Fund	0.5	0.6	0.6	2.2	3.8
Revenue	0.9	0.8	0.8	3.6	4.2
Expenditure	0.4	0.1	0.2	1.4	0.5
Cash balance	–1.3	–1.8	–2.3	–25.4	2.0

* Includes the 1998 residue balance of the terminated funds.

ÁPV Rt

The State Privatisation and Holding Company ended the first four months of 2000 with a deficit of Ft 29.5 billion, this amount barely changing in comparison with the first quarter's outcome. Continuing the trend of earlier months, dividend transfers accounted for the largest part of revenue, in contrast with revenue related to asset utilisation. Payments related to guarantee undertakings, at Ft 7.9 billion, and amounts spent on improving the financial situation of companies remaining permanently in state ownership, at Ft 18.0 billion, constituted the dominant part of expenditure. Including other items, total expenditure reached Ft 31.9 billion to the end of the period.

Operating revenue and expenditure of ÁPV Rt

Ft billions					
	April 1999	2000		1999	2000
		March	April	January–April	
Revenue	0.1	0.1	0.1	0.5	2.4
Expenditure	3.3	20.4	2.3	11.9	31.9
Cash balance	-3.2	-20.3	-2.3	-11.4	-29.5

The social security funds

The deficit of the social security authorities⁵ was Ft 49.4 billion in the first four months of 2000, reflecting Ft 533.9 billion revenue and Ft 583.2 billion expenditure. This meant the deficit increased further in April, although it was much lower than in the same period of 1999.

Social security contributions accounted for 91% of total revenue. Out of the total received, Ft 292.0 billion accrued to the Pension Insurance Fund and Ft 203.2 billion to the Health Insurance Fund. Down Ft 4.0 billion on the time-proportionate target, social security contributions totalled Ft 495.2 billion to the end of the January–April period.

Revenue related to asset management totalled Ft 8.4 billion in January–April, Ft 6.1 billion being accounted for by the Pension Insurance Fund and Ft 2.3 billion by the Health Insurance Fund. Contributions by the central government to the operations of social security, the second most important revenue item of the authorities,

amounted to Ft 34.6 billion, nearly 10.8% or Ft 16.4 billion more than the amount projected for the period.

The largest part of the Funds' expenditure, at Ft 363.4 billion, was accounted for by pension benefits. Cash and in-kind benefits amounted to Ft 21.4 billion and Ft 185.3 billion respectively. According to information available to the Bank, there was a substantial lag behind the target only in cash benefits disbursed by the health insurance authorities, as 22.2% of the annual target was met to the end of the period under review.

Total expenditure, in line with the time-proportionate fraction of the target met 33.2% of the annual projection in the first four months of 2000.

The cash-based balance of provisions funded from non-social security sources closed with a deficit of Ft 1.3 billion in April, in contrast with a Ft 0.6 billion surplus recorded a year earlier.

This deficit was accounted for by provisions funded from other, non-general government sources, with a resulting deficit of Ft 3.1 billion as a balance of Ft 7.6 billion expenditure and Ft 4.5 billion revenue.

The deficit of provisions funded by the central government, which includes items such as family allowance, child care and maternity benefits, child nursing aid, subsidised health provisions etc., amounted to

Cash balance of the social security authorities

Ft billions					
	April 1999	2000		1999*	2000
		March	April	January–April	
Revenue	119.2	134.5	135.1	475.6	533.9
Expenditure	133.9	145.0	142.3	543.9	583.2
Cash balance	-14.7	-10.5	-7.2	-68.3	-49.4

* Includes Ft 10.5 billion pharmaceuticals subsidy for 1999, disbursed in 1998.

Balance of provisions funded from non-social security sources

Ft billions					
	April 1999	2000		1999	2000
		March	April	January–April	
Pension Insurance Fund	-1.0	-0.2	-0.7	0.8	0.1
Health Insurance Fund	0.8	-1.4	-1.4	0.7	1.7
Cash balance of provisions funded by central government	-0.2	-1.6	-2.1	1.5	1.8
Pension Insurance Fund	0.3	-0.7	-0.9	-0.9	-3.1
Health Insurance Fund	0.0	0.0	0.0	0.0	0.0
Cash balance of provisions funded from other sources	0.3	-0.7	-0.9	-0.9	-3.1
Total	0.1	-2.4	-2.9	0.6	-1.3

⁵ The Pension Insurance Fund did not report on its revenues and expenditures for January–April, so the analysis continues to rely on the preliminary monthly report of the State Treasury.

Ft 1.8 billion. This reflected Ft 91.2 billion revenue and Ft 89.4 billion expenditure.

Changes in the financial assets and liabilities of general government and deficit financing

In April the gross debt of general government fell by Ft 23.8 billion to a total Ft 7,402. Net general government debt, i.e. the gross debt less public sector holdings of assets other than shares and miscellaneous equity securities, was Ft 6,513.9 billion at the end of the month. (Equity holdings of the sector is estimated at Ft 1,300 billion, at par value, the market value of which is probably several times higher than its face value. Taking this into account, net general government debt is estimated to be significantly lower than stated above.)

Claims of the central government, including the transactions of ÁPV Rt and the extra-budgetary funds, fell by Ft 10.4 billion. Liabilities of the sector were Ft 25.4 billion lower, so the one-month increase in net financial claims amounted to Ft 15.1 billion. Playing an important role in the favourable change in net claims was the repayment of debt outstanding to the central bank – following a drop of Ft 62.7 billion in March, the stock of debt fell by another Ft 19.3 billion in April.

That was not accompanied by new large-scale issues of government debt. Another factor contributing to the moderation in liabilities was the decrease in foreign debt. Since the start of 2000, financial liabilities assumed from the Hungarian railways have been recorded as part of foreign debt, in the amount of Ft 30.8 billion. Other financial liabilities of the central government include outstanding compensation vouchers, arrears in public service wages and the deferral of concession fee receipts. The outstanding amount of compensation vouchers is Ft 13 billion, which equals a financial liability of Ft 7.1 billion, valued at a current market price of Ft 538 per paper. Concession fee receipts in the amounts of Ft 26 billion in 1994, and of another Ft 35.3 billion in 1999, were evenly distributed throughout the period of lease.

The borrowing requirement of the social security authorities from the central government rose by Ft 6.5 billion in April. The sales of government equity reduced the social security authorities' net financial claims by Ft 2.4 billion, and advance payments related to provisions funded from non-social security sources increased it by Ft 0.9 billion. According to available information, the sub-sector's net financial assets fell by Ft 8 billion in the month.

Financial assets of the local authorities fell by Ft 11.5 billion, while liabilities rose by Ft 0.9 billion, so the change in the stock of net financial assets was a decrease

Changes in financial assets and liabilities of general government*

						Ft billions	
	Stock at 30 April 2000	Change in stock: April	Of which:		Change in stock: Jan.–April	Of which:	
			Transactions	Other changes in volume		Transactions	Other changes in volume
Central government, extra-budgetary funds and ÁPV Rt							
Assets	690.7	–10.4	–21.1	10.8	82.6	59.3	23.4
Liabilities	7,412.4	–25.4	–37.0	11.6	204.9	152.7	52.2
Net financial assets	–6,721.7	15.1	15.9	–0.9	–122.2	–93.4	–28.8
Social security funds							
Assets	3.1	–1.5	–1.5	0.0	–9.0	–9.0	0.0
Liabilities	100.3	6.5	6.5	0.0	43.6	43.6	0.0
Net financial assets	–97.2	–8.0	–8.0	0.0	–52.6	–52.6	0.0
Local authorities							
Assets	442.2	–11.5	–11.5	0.0	11.8	11.8	0.0
Liabilities	137.2	0.9	0.8	0.1	–1.3	–1.6	0.3
Net financial assets	305.0	–12.3	–12.2	–0.1	13.1	13.4	–0.3
General government, total							
Assets	888.1	–29.1	–39.9	10.8	21.0	–2.4	23.4
Liabilities	7,402.0	–23.8	–35.6	11.7	182.7	130.2	52.4
Net financial assets	–6,513.9	–5.2	–4.3	–0.9	–161.7	–132.6	–29.1

* Changes in the stock of assets and liabilities equal the total of transactions, revaluation and other volume changes. The difference between stock data, however, may not add up to the changes in stocks, as some flows in stocks of assets and liabilities of the sub-systems were not available. For a more detailed presentation, see Table V/5 of the Annex.

of Ft 12.3 billion. As regards assets, domestic currency deposits with credit institutions, down Ft 11 billion, fell the most strongly.

The change in general government net financial assets due to transactions, which shows general government debt in terms of deficit financing, was a fall of Ft 4.3 billion in April. The difference between the balance of reve-

nue and expenditure, and that calculated on the basis of the transactions, resulted from statistical error.

General government net financial assets fell by Ft 0.9 billion on account of other volume changes. That was the net effect of a Ft 0.7 billion upward valuation of foreign currency-denominated assets and liabilities, and of other volume changes in the amount of Ft –1.6 billion.