

V. PUBLIC FINANCE

The net general government borrowing requirement, calculated as the balance of revenue and expenditure, amounted to Ft 58.1 billion in June. The central government, the social security funds and the local government authorities, respectively, incurred deficits of Ft 42.1 billion, Ft 2.0 billion and Ft 13.9 billion. These compared with Ft 65.0 billion and Ft 4.9 billion central government and social security deficits as well as a local government authority surplus of Ft 18.3 billion a year earlier.

General government net lending (+) / net borrowing (–) by sub-sector*					
	1999. June	2000		1999	2000
		May	June	January–June	
1 Central budget excluding extra-budgetary funds and ÁPV Rt**	–50.8	–20.0	–45.0	–262.2	–150.6
2 Extra-budgetary funds	–1.1	–0.6	0.4	–27.7	1.8
3. ÁPV Rt***	–13.1	1.8	2.4	–25.5	–25.3
4 Central government balance (4 = 1+2+3)	–65.0	–18.9	–42.1	–315.5	–174.1
5 Social security funds	18.3	–13.0	–2.0	–86.9	–51.3
6 Local authorities****	–4.9	–2.6	–13.9	26.0	1.9
7 Total general government (7 = 4+5+6)	–51.5	–34.5	–58.1	–376.4	–223.5

* 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 GFS accounting method,¹ was Ft 160.1 billion in 2000 H1.² 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.

After adjusting the central government balance for the effects discussed above, the primary surplus of central government in June, excluding interest payments and receipts as well as mutual assets and liabilities of the NBH and the central government, was Ft 24.1 billion. On the basis of information received from the Hungarian State Treasury, in the first half of 2000 the central government had revenues of Ft 1,689.3 billion, excluding proceeds from privatisation, and expenditures of Ft 1,894.4 billion.

On the revenue side, the trend observable since the early months of the year, whereby revenue of the most important items exceeded the time-proportionate fraction of the official annual projection, continued in the month under review. Accordingly, surpluses accumulated in revenues of consumption-related tax, receipts of the central government units and in debt-related revenue. Central government receipts of transfers by economic organisations provided the only exception. (The bulk of refunds on receipts of corporation tax fell due in the course of June, so total transfers of Ft 23.5 billion by economic organisations compared with refunds to the amount of Ft 15.7 billion.)

On the expenditure side, the actual numbers were lower as regards expenditures of the central budgetary institutions, provisions disbursed with the assistance of the social security authorities and dwelling subsidies. Transfers to economic organisations and the local government authorities, consumer price subsidies, debt servicing and interest reimbursement exceeded the projections in the period. The total amount of these expenditure overruns, however, was more modest compared with the combined effect of revenue shortfalls. Owing to this, actual expenditure, at 49.8%, was slightly less to the end of the first half than the official target.

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.

Central government net lending (+) / net borrowing (–)*					
		Ft billions			
	1999 June	2000		1999	2000
		May	June	January–June	
Central budget excluding extra-budgetary funds and ÁPV Rt					
1 Revenue	274.0	295.1	277.5	1,416.6	1,689.3
2 Expenditure	304.2	298.0	318.9	1,717.0	1,849.4
3 Balance according to data reported by the Ministry of Finance (3=1–2)	–30.2	–2.9	–41.3	–300.3	–160.1
Other financial flows affecting balance					
4 Accruals-based adjustments to VAT and fee receipts	0.3	1.0	1.0	1.9	6.0
5 Difference between interest expenses on accrual and cash bases	–2.9	–13.2	0.0	26.2	22.4
6 Loan transactions affecting the balance in GFS accounting	–2.7	–2.6	–4.5	2.3	–14.2
7 Balance of provisions funded from non-social security sources	–15.3	–2.3	–0.1	7.7	–4.8
8 Central budget excluding extra-budgetary funds and ÁPV Rt (8=3+4+5+6+7)	–50.8	–20.0	–45.0	–262.2	–150.6
Extra-budgetary funds					
9 Revenue	11.2	12.3	12.8	74.9	82.6
10 Expenditure	12.3	12.9	12.4	71.7	80.8
11 Balance (11=9–10)	–1.1	–0.6	0.4	3.2	1.8
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)	–1.1	–0.6	0.4	–27.7	1.8
ÁPV Rt					
14 Revenue	3.4	2.2	6.0	4.0	10.6
15 Expenditure	16.5	0.5	3.6	29.5	35.9
16 Expenditure (16=14–15)	–13.1	1.8	2.4	–25.5	–25.3
17 Net lending (+) / net borrowing (–) position (17 = 8+13+16)	–65.0	–18.9	–42.1	–315.5	–174.1
18 Central government accruals-based interest balance	–77.7	–60.3	–67.9	–398.4	–366.8
19 Transfers by NBH	22.7	1.7	1.7	13.4	10.1
20 Primary balance on SNA basis (20 = 17–18–19)	–9.9	39.8	24.1	69.5	182.7

* The explanations for the adjusting entries in the Table are in the 'Methodological notes' attached to this Report.

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Central government balance on a cash basis							
	1999 June	2000		1999	2000		
		May	June	January–June	January–June		
	Ft billions				% *	Ft billions	% *
Payments by economic organisations	26.2	33.1	20.7	173.6	37.1	184.5	39.1
Consumption-related taxes	118.2	144.4	134.7	628.4	43.9	800.6	52.8
Payments by households	52.6	57.4	62.4	286.8	48.9	348.8	50.0
Revenues of central government units	34.1	45.6	44.3	240.5	59.2	263.5	56.9
Other receipts	42.8	14.5	15.3	87.2	35.7	91.9	37.7
Total revenue	274.0	295.1	277.5	1,416.6	45.2	1,689.3	49.8
Consumer subsidies and investment outlay	15.4	16.9	17.8	95.1	57.3	99.5	57.3
Consumer subsidies and investment outlay	8.9	10.7	9.4	53.9	40.3	60.0	34.5
Guarantees and contribution to social security operations and provisions through social security	39.0	27.7	39.2	176.2	42.9	190.6	45.0
Expenditures of central government units	123.5	158.2	145.5	676.9	46.0	828.1	47.8
Subsidies to local authorities	32.4	28.9	30.0	228.7	51.9	220.1	50.3
Debt servicing and interest reimbursement	81.6	52.3	74.9	453.1	57.8	431.8	53.7
Other expenditures	3.4	3.3	2.2	33.1	30.0	19.3	27.4
Total expenditure	304.2	298.0	318.9	1,717.0	48.8	1,849.4	48.8
Balance	–30.2	–2.9	–41.3	–300.3		–160.1	

* According to the target.

The extra-budgetary funds

The Labour Market Fund posted a deficit of Ft 3.2 billion in 2000 H1, despite the fact that contribution receipts, accounting for the vast majority of the Fund's receipts, were Ft 6.9 billion more than in the comparable period of the previous year. An explanation for this deficit is to be found in the most important items on the expenditure side being higher relative to the same period of 1999, although it was only unemployment insurance and assistance which were in excess of the time-proportionate fraction of the budget.

Balance of the extra-budgetary funds on a cash basis

	1999 June	2000		1999*		2000	
		May	June	January-June			
		Ft billions			%**	Ft bil- lions	%**
Labour Market Fund	-1.7	-1.2	-0.2	-0.2		-3.2	
Employers' contribu- tion	6.8	7.5	7.8	43.0	50.3	45.9	47.3
Employees' contribu- tion	3.1	3.4	3.6	18.5	48.9	20.9	48.4
Contributions to reha- bilitation and voca- tional training	0.3	0.4	0.6	6.0	50.3	7.6	67.8
Other revenue	0.3	0.2	0.1	2.2	105.1	2.4	181.3
Total revenue	10.4	11.5	12.0	69.7	50.7	76.8	50.3
Job incentives and expenditure on voca- tional training	2.7	2.9	2.6	12.6	29.8	16.3	38.9
Unemployment insu- rance and assis- tance	7.5	7.1	6.8	45.8	52.5	47.1	59.6
Transfers to central government and other social provi- sions	0.9	1.7	1.8	5.3	43.0	10.2	45.4
Other expenditure	1.0	1.0	1.1	6.2	48.9	6.3	49.5
Total expenditure	12.1	12.8	12.2	69.9	45.2	80.0	51.1
Central Nuclear Fund	0.6	0.6	0.6	3.5		5.0	
Revenue	0.8	0.8	0.8	5.2	56.3	5.8	57.5
Expenditure	0.2	0.1	0.2	1.7	28.4	0.8	25.6
Cash balance	-1.1	-0.6	0.4	3.2		1.8	

* Includes the 1998 residue balance of the terminated funds.

** According to the target.

ÁPV Rt

The State Privatisation and Holding Company ran a deficit of Ft 25.3 billion in the first half of 2000. June's balance was the most favourable since February, explained by Ft 6.0 billion surplus revenue. Payments related to guarantee undertakings, amounts spent on im-

Operating revenue and expenditure of ÁPV Rt

Ft billions					
	1999 June	2000		1999	2000
		May	June	January–June	
Revenue	3.4	2.2	6.0	4.0	10.6
Expenditure	16.5	0.5	3.6	29.5	35.9
Cash balance	-13.1	1.8	2.4	-25.5	-25.3

proving the financial situation of companies remaining permanently in state ownership and expenses related to privatisation and reorganisation accounted for the largest part of the company's expenditure.

The social security funds

Excluding revenue related to asset utilisation and the effect of borrowing and lending transactions, the deficit of the social security authorities⁴ was Ft 51.3 billion in the first half of 2000.

Contributions raised Ft 764.1 billion revenue for the social security authorities in the first half, which meant an increase of Ft 99.2 billion in comparison with the same period of 1999. Transfers by the central government amounted to Ft 55.6 billion to the end of the period under review, meeting 36.4% of the annual projection. Continued lags in child-care benefit and in compensation for revenue shortfalls owing to the switch into pri-

Balance of the social security authorities on a cash basis

	1999 June	2000		1999*	2000		
		May	June	January-June			
	Ft billions				%**	Ft bil- lions	%**
Pension Insur- ance Fund	9.3	-6.7	9.9	-42.9		-17.6	
Revenue	85.2	76.1	92.5	412.0	47.0	478.2	48.6
Expenditure	75.9	82.8	82.6	454.9	49.7	495.9	50.0
Health Insurance Fund	9.0	-6.3	-11.9	-43.9		-33.7	
Revenue	70.3	58.5	56.2	300.7	47.0	349.5	48.5
Expenditure	61.2	64.8	68.2	344.7	50.4	383.2	50.0
Cash balance	18.3	-13.0	-2.0	-86.9		-51.3	

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

** According to the target.

⁴ Based on data reported by the social security authorities.

vate pension funds were the main caused of the shortfall. On the expenditure side, in the coming months the repayment of advances for continuous operation may reduce, in excess of the time-proportionate fraction, the effect of payments in relation to medical-preventive care.

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

In June the gross debt of general government moderated by Ft 1.7 billion to Ft 7,449.2 billion. Net general government debt, i.e. the gross debt less public sector holdings of assets other than shares and miscellaneous equity securities, rose to Ft 6,623.5 billion to the end of the month. (Equity holdings of the sector are estimated at Ft 1,300 billion, at par value, the market value of which is probably several times higher than their par value. Taking this into account, net general government debt is estimated to be significantly lower than stated above.)

Assets of the central government, including the transactions of ÁPV Rt and the extra-budgetary funds, fell by Ft 59.1 billion, liabilities rising by Ft 4.2 billion, so the one-month increase in net financial liabilities amounted

to Ft 54.8 billion. Playing an important role in the change in assets was the Ft 51.8 billion drop in domestic currency deposits with the central bank. 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 sector include outstanding compensation vouchers, arrears in public service wages and the deferral of concession fee receipts. The outstanding amount of compensation vouchers is Ft 12 billion, at face value, which equals a financial liability of Ft 7.5 billion. 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 a modest Ft 1.2 billion in June. Taking into view advance payments related to provisions funded from non-social security sources, net assets of the sub-sector fell by Ft 1.1 billion. The short-term borrowing requirement of the social security authorities continued to be much lower than in the same period of the previous year.

Financial assets of the local authorities fell by Ft 10.9 billion and liabilities rose by Ft 2.3 billion in the month under review, so the change in the stock of net financial assets was a decrease of Ft 13.2 billion.

In June the change in general government net financial assets due to transactions, which shows general

Changes in financial assets and liabilities of general government*

Ft billions

	Stock at, 30 June 2000	Change in stock: June	Of which:		Change in stock: Jan.–June	Of which:	
			Transactions	Other changes in volume		Transactions	Other changes in volume változás
Central government, extra-budgetary funds and ÁPV Rt							
Assets	664.8	–59.1	–52.7	–6.4	48.8	36.2	12.6
Liabilities	7,462.6	–4.2	–16.5	12.3	255.1	183.3	71.8
Net financial assets	–6,797.9	–54.8	–36.2	–18.7	–206.3	–147.1	–59.3
Social security funds							
Assets	5.5	–0.5	–0.5	0.0	–7.9	–7.9	0.0
Liabilities	105.1	0.7	0.7	0.0	48.4	48.4	0.0
Net financial assets	–99.6	–1.1	–1.1	0.0	–56.3	–56.3	0.0
Local authorities							
Assets	412.2	–10.9	–10.9	0.0	–5.3	–5.3	0.0
Liabilities	138.2	2.3	2.2	0.1	–2.0	–2.4	0.4
Net financial assets	274.0	–13.2	–13.1	–0.1	–3.3	–2.9	–0.4
General government, total							
Assets	825.9	–70.9	–64.5	–6.4	–37.5	–50.1	12.6
Liabilities	7,449.4	–1.7	–14.1	12.4	228.4	156.2	72.2
Net financial assets	–6,623.5	–69.2	–50.4	–18.8	–265.9	–206.3	–59.7

* 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.

government debt in terms of deficit financing, was a fall of Ft 50.4 billion. The difference between the balance of revenue and expenditure, and that calculated on the basis of the transactions, resulted from statistical error.

General government net financial assets fell by Ft 18.8 billion. This was the net effect of valuation changes in holdings of exchange-traded instruments and of exchange rate movements affecting assets and liabilities denominated in foreign currencies.