



## HUNGARY: INVENTORY OF ESTIMATED BUDGETARY SUPPORT AND TAX EXPENDITURES FOR FOSSIL-FUELS

### Energy resources and market structure

Hungary has modest resources of oil and natural gas, but production has peaked and is expected to continue to decline. Well over 80% of the country's requirements of oil, and almost 80% of its natural gas, are imported, with virtually all of these imports coming from Russia. Almost 60% of the coal used in Hungary is produced indigenously, though coal accounts for only 11% of the country's total primary energy supply. Natural gas is the leading fuel in the energy mix, accounting for 38%, followed by oil (25%) and nuclear power (16%). Combustible renewables account for another 7%; modern renewable technologies, such as wind and solar energy, make a negligible contribution. Nuclear energy and natural gas each account for about a third of Hungary's electricity generation, and coal for another fifth. Over 15% of the country's electricity supply is imported, mainly from the Slovak Republic.

There is a mixture of public and private ownership of energy assets in Hungary. MOL, the former national oil company, which was privatised in the 1990s, dominates the upstream oil and gas industry and operates the national gas transmission system. Natural-gas sales to captive customers are undertaken by five regional monopolies, all of which are foreign-owned (by E.On, Gaz de France and Italgas). The municipality of Budapest owns half of the Budapest Supply Company, while the other half is owned by RWE.

MVM, a fully state-owned company, is the central institution in the Hungarian electricity market. It controls approximately 80% of electricity production and sales in Hungary, either directly or indirectly. It also holds 99.95% of Paks NPP, which operates the country's sole nuclear power plant; 99.7% of the former transmission system operator, National Powerline; 100% of the system operator and transmission network owner and operator, MAVIR; and 80% of the Vértes power plant, of which local authorities hold the remaining shares. MVM also owns 25% plus one share of all power-generating companies privatised in the mid-1990s; is the majority owner of several co-generation companies and, through a subsidiary, operates the reserve power plants that are meant to ensure reliable power supply. An MVM subsidiary is also one of the leading trading companies on the competitive power market.

The government has transposed all relevant EU directives on opening up electricity and gas markets to competition, but has done little to restrict the power of the incumbents. As a result, the development of effective competition in both sectors is below that which would be possible under the changed legislation.

### Prices, taxes and support mechanisms

Oil product and coal prices in Hungary are deregulated and are set by the market. The regulator, the Hungarian Energy Office, sets prices for transportation tariffs in electricity and natural-gas networks, regulated retail prices for electricity, gas and heat to households and small business consumers, and wholesale electricity prices paid to generators operating under a long-term power-purchase agreement or eligible for feed-in tariffs. Small consumers are allowed to move back and forth between the regulated and the open market. Regulated natural-gas end-user prices are the same throughout the country, regardless of distance from the main supply points. They are set according to a formula that takes account of import prices plus 8.5% for the operation of the

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system and other non-gas-supply costs. This effectively keeps regulated prices well below those in the open market.

All fuels and energy services are subject to the regular value-added tax (VAT) of 25%. Excise taxes are levied on sales to industry of transport fuels, natural gas and electricity; households pay excise taxes on transport fuels and LPG.

Gas and heat prices to end-users are subsidised both through the regulated pricing formula and through an explicit subsidy paid to public gas suppliers who must credit it explicitly on the bills to households they supply, or credit it to the account of district heat suppliers who supply heat to households, in proportion to the number of households served. The subsidy is paid on a per-household basis, with no consideration for the status of occupancy.

Since 2000, no direct government aid has been extended to coal production. However, indirect aid was given through a very favourable power-purchase agreement, under which the Oroszlány power station was operating. Until 2006, these subsidies were implicit in the power prices paid to the station's owner, which also operates the Márkushegy mine that supplies lignite coal to the station. In 2005, the European Commission authorized a restructuring package under which grants to coal mines were to be phased out by 2010. A direct support system for coal is now in operation, under which funds are paid by final electricity consumers through an electricity tariff, and through a levy modelled on the former German "Coal Penny" that was added to the transmission tariff on 6 January 2006. In addition, direct government assistance continues to be given to support mine closures and rehabilitate mining areas.

## **Data documentation**

### ***General notes***

The fiscal year in Hungary coincides with the calendar year.

### ***Producer Support Estimate***

#### ***Coal Penny (data for 2004- )***

This scheme consists of levies that are paid by final electricity consumers to finance purchases of high-cost, coal-generated power by electricity companies. The original aim of the coal penny (*szénfillér rendszer*) was to subsidise the unprofitable Márkushegy mine, which produces lignite for the Vértes power plant. The Márkushegy site is now the last underground mine still in activity in Hungary.

The provisions governing the coal penny are subject to EU rules on state aid to the coal sector, which require—among other things—aid to be “in connection with coal for the production of electricity” and to be part of plan for closing mines by 2018. Aid is therefore expected to continue in the coming years until the Márkushegy mine and the associated power plant stop operating.

The levy paid by final electricity consumers is currently HUF 0.23 per kWh, which corresponds to support worth about HUF 7 billion in 2011.

Sources: Government of Hungary [Government Decisions No. 3329/1990, 3530/1992, 3439/1993], Ministry of National Development.

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### ***Consumer Support Estimate***

#### *Fuel-Tax Refund for Railways (data for 2007- )*

Railways operating in Hungary are refunded the excise tax they pay on their purchases of diesel fuel. This scheme is administered by Hungary's National Tax and Customs Administration (NAV).

Sources: Ministry for National Economy (various years), National Tax and Customs Administration.

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#### *Fuel-Tax Refund for Agriculture (data for 1990- )*

The off-road use of diesel fuel in farming activities is subject to refunds for up to 70% of the excise tax normally levied on sales of petroleum products in Hungary.

Sources: Ministry for National Economy (various years), OECD.

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#### *Household Maintenance-Cost Subsidy (data for 2008- )*

This programme is now known as the "household maintenance-cost subsidy" (*lakásfenntartási támogatás*) though it was initially created in 2003 to subsidise the consumption of natural gas by low-income households. Since most district heating in Hungary makes an extensive use of natural gas, it was decided at the time that the programme would also cover the residential consumption of heat. Starting in 2010, support is now restricted to heat only. Payments are made to gas and heat suppliers who are then required to pass them on to final consumers.

Estimates for 2011 are for the period from January to August only. We allocate the measure entirely to natural gas in the years prior to 2010. Starting in 2010, we then use data from the IEA's Energy Balances on fuel use in the heat-generation sector to allocate the annual spending reported to the different types of fuel concerned (coal, natural gas, fuel oil, etc.).

Sources: Government of Hungary [Government Orders No. 113/2003, 289/2007, 238/2008], Hungarian Energy Office Order No. 238/2008, Ministry for National Economy (various years), IEA.

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#### *Reduced Rate of VAT for District Heating (data for 2009- )*

Sales of district heat in Hungary are subject to a preferential rate of VAT. Since about 98% of the country's heat is generated using fossil fuels, we consider this measure to be supporting the consumption of these fuels.

We allocate the reported amounts of revenue foregone to the different types of fuel concerned (coal, natural gas, fuel oil, etc.) on the basis of the IEA's Energy Balances for the heat-generation sector.

Sources: Ministry for National Economy, National Tax and Customs Administration, IEA.

Tag: HUN\_te\_03

## **General Services Support Estimate**

### *Support for Mine Decommissioning (data for 2011- )*

The Government of Hungary provides direct support for the decommissioning of certain state-owned coal mines. Budgetary transfers range between HUF 1 and 2 billion a year.

We allocate this measure to the GSSE since it does not support current production or consumption of coal. Estimates are only available starting in 2011. We use production data from the IEA's Energy Balances to allocate the annual amounts reported in budget documents to the various types of coal concerned (hard coal, sub-bituminous coal, lignite, etc.).

Sources: Government of Hungary (2011), Ministry for National Economy (various years), IEA.

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### *Early-Retirement Payments for Coal Miners (data for 2011- )*

This measure (*átmeneti bányászjárdék*) comprises a number of social transfers benefitting coal miners in Hungary. These include wage subsidies, early-retirement payments, and "coal emolument supplements." The transfers are meant to alleviate the social costs associated with the closure of several coal-mining sites.

We allocate this measure to the GSSE since it does not support current production or consumption of coal. Estimates are only available starting in 2011. We use production data from the IEA's Energy Balances to allocate the annual amounts reported in budget documents to the various types of coal concerned (hard coal, sub-bituminous coal, lignite, etc.).

Sources: Government of Hungary (2011), Ministry for National Economy (various years), IEA.

Tag: HUN\_dt\_04

## **Sources**

### **Policies or transfers**

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### **Energy statistics**

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