

Hungary

The OECD Inventory of Support Measures for Fossil Fuels identifies, documents and estimates direct budgetary support and tax expenditures supporting the production or consumption of fossil fuels in OECD countries and eight large partner economies (Argentina, Brazil, the People's Republic of China, Colombia, India, Indonesia, the Russian Federation, and South Africa).

Energy resources and market structure

Hungary has limited fossil-fuel resources of its own, and its domestic production is declining. The country imports around 90% of its oil and natural gas, almost all of it from Russia. Some 90% of coal used is produced domestically. Electricity generation comes mostly from nuclear and coal, with natural gas contributing about a fifth to the total electricity generated in Hungary in 2016. Hungary also imports 55% of its electricity supply, mostly from the Slovak Republic.

Hungary's energy sector is characterised by a mix of private and publicly-owned companies.

MOL, a former state-owned company that was privatised in the 1990s, is the dominant player in the upstream oil and gas industry. Its subsidiary, FGSZ Ltd., operates the national gas transmission system. State owned MVM Ltd. has bought back from E.ON, its Hungarian gas trade and storage business, becoming one of the main players of the Hungarian gas market. By the end of 2016, universal service of natural gas will be provided to eligible (small) consumers by companies under the management of the First National Utility Provider (ENKSZ).

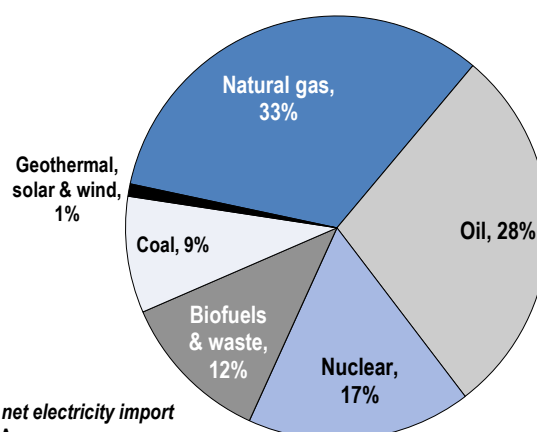
The electricity sector in Hungary is dominated by the state-owned MVM. MVM controls approximately 57% of electricity production in the country, either directly or indirectly. It also holds 100% of Paks NPP, the operator of the country's sole nuclear power plant; 100% of the former transmission system operator, National Powerline; 100% of the system operator and transmission network owner and operator, MAVIR; and 100% of the Vértess power plant. MVM is also 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.

Although the government has transposed EU directives regarding opening competition in the electricity and gas markets, it has failed to restrict the power of incumbents. The development of effective competition in these markets is therefore curtailed.

Energy prices and taxes

Prices of petroleum products and coal in Hungary are set freely by the market. The Hungarian Energy and Public Utility Regulatory Authority acts as the regulator and sets prices for transportation tariffs, retail, and wholesale sales in the electricity and natural gas sectors. Small consumers have the freedom to choose between the regulated and the open market. All fuels and energy services are

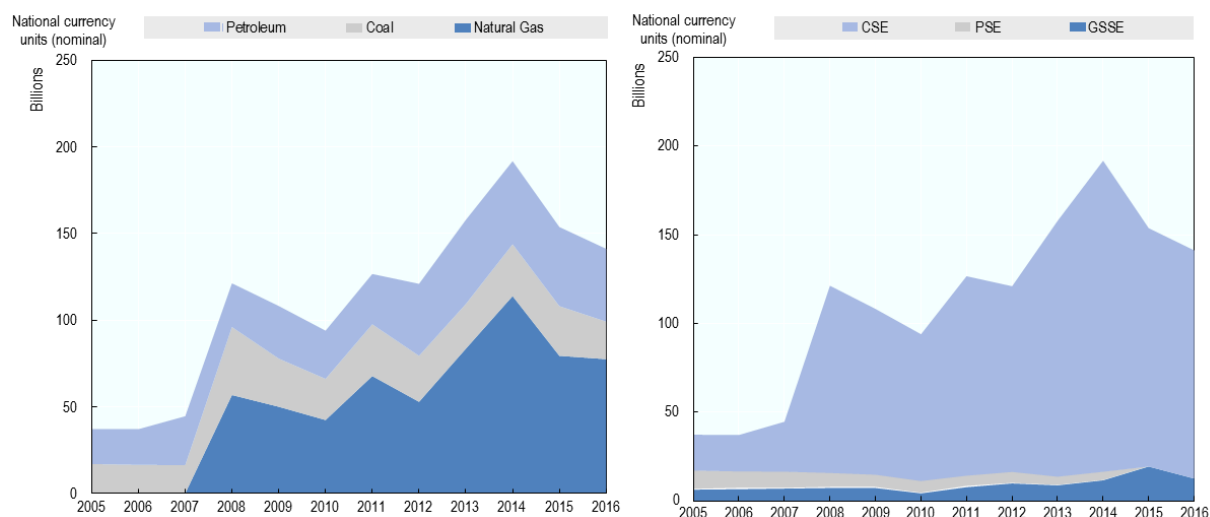
Total Primary Energy Supply* in 2016



*excluding net electricity import
Source: IEA

subject to the regular value-added tax (VAT) of 27%. Gas, electricity and heat prices to end-users are calculated through the regulated pricing formula.

Total support for fossil fuels in Hungary by support indicator (left) and fuel type (right)



Note: CSE=Consumer Support Estimate; PSE=Producer Support Estimate; GSSE=General Services Support Estimate

Recent developments and trends in support

Hungary stopped direct subsidies to coal production in 2000. Nonetheless, indirect aid was given through a very favourable power-purchase agreement for Oroszlány power station, which owner also operated the Márkushegy that provided the lignite on which the plant operated. In 2006, such indirect aid was remodelled after the German Coal Penny, with final non-residential consumer paying an additional fee added on the electricity tariff. Furthermore, in line with EU regulation on state support for uncompetitive coal mines, Vértés Power Plant Zrt. received financial assistance between 2011 and 2014 in order to cover operating losses, as well as between 2011 and 2018 to mitigate social and regional problems arising from mine closures. For example, Vértés Power Plant Zrt. closed the Márkushegy Mine at the end of 2014.

| Examples of measures | |
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| Reduced Rate of VAT for District Heating | Sales of district heat in Hungary are subject to a preferential VAT rate. About 83% of the country's heat is generated using fossil fuels. |
| Coal Penny (2016-) | This scheme consists of levies built in electricity tariffs that are paid by non-residential consumers. The levy paid by non-residential consumers is currently HUF 0.25 per kWh. |

