

## Hungary

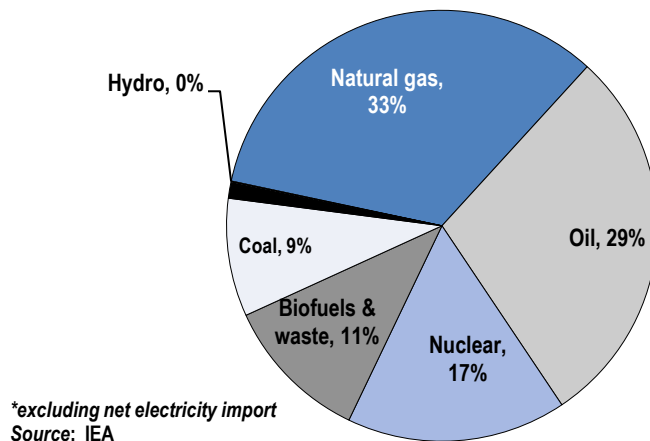
The OECD Inventory of Support Measures for Fossil Fuels identifies, documents and estimates direct budgetary support and tax expenditures supporting the production or consumption of fossil fuels in OECD countries and eight partner economies (Argentina, Brazil, the People's Republic of China, Colombia, 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 and 2017. Hungary's electricity generation mix in 2017 is as follows: coal 15.5%; oil 0.3%; natural gas 23.8%; nuclear 49.1%; hydro 0.7%; geothermal, solar, tide etc. 3.7% and; biofuels and waste 7.1%.

Total Primary Energy Supply\* in 2017



Hungary also imports 55% of its electricity supply, mostly from the Slovak Republic. In 2017, 1 332 MWh of electricity was imported from Slovakia, 932 MWh from Ukraine, 137 MWh from Romania, 827 MWh from Austria, with 271 MWh exported to Serbia and 820 MWh to Croatia.

Hungary's energy sector is characterised by a mix of private and publicly-owned companies. Hungarian Oil and Gas Public Limited Company (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 Hungarian Electricity Ltd. has bought back from E.ON, a Hungarian gas trade and storage company, 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 Hungarian natural gas trade sector is liberalised, but the MVM Group remains a dominant player with 60% of market share. The sector has seen major reforms being put in place since 2013. As part of these reforms, the government started reducing end-user prices to reduce the cost of living for households. The first year, prices were reduced by 10% and then 25% within the two subsequent years. Several service providers – such as FŐZÁG Zrt., E.ON Energiaszolgáltató Kft., GDG SUEZ Energia Magyarország Kft., TIGÁZ Tiszántúli Gázszolgáltató Zrt., az ISD Power Kft., OERG Kft. – incurred operational losses and the handed back their licences to the national regulator. As a result, FŐZÁG Zrt. became the sole service provider and now operates under a new company name: NKM Földgázszolgáltató Zrt.

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 Vértes power plant. MVM is also the majority owner of several co-

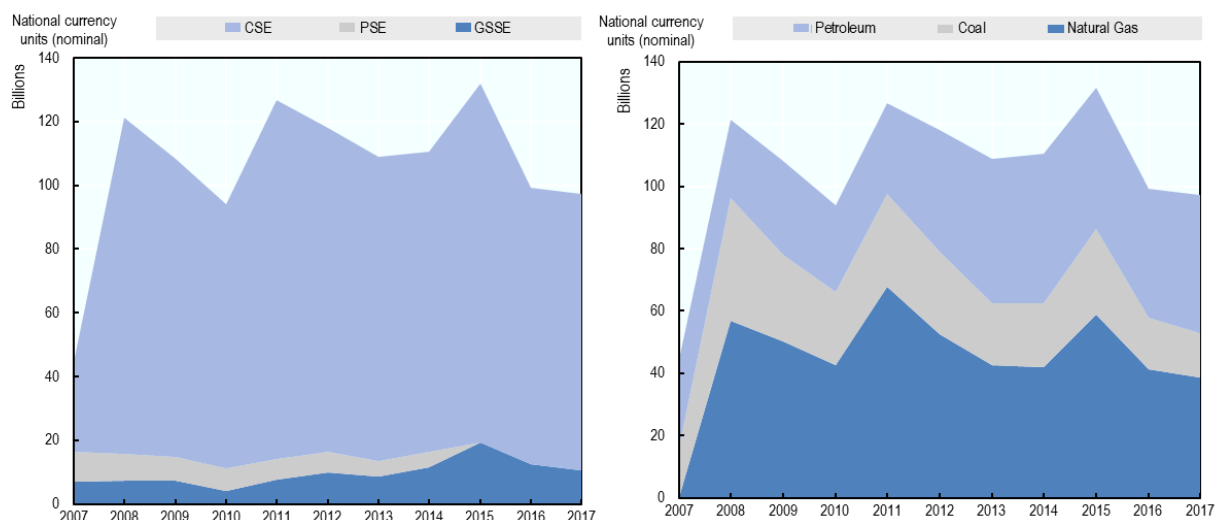
generation companies and, through a subsidiary, operates the reserve power plants that are meant to ensure reliable power supply. An MVM subsidiary is also one of the leading trading companies on the competitive power market.

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 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. Service providers and institutions of district heating are exempted from the high level of VAT (27%). Their services are subject to a lower VAT rate of 5%, as per the Act CXXVII of 2007 on Value Added Tax.

**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, whose owner also operated the Márkushegy that provided the lignite used at the plant. In 2006, such indirect aid was remodelled after the German Coal Penny, with final non-residential consumers paying an additional fee added on the electricity tariff. Furthermore, in line with EU regulation on state support for uncompetitive coal mines, Vértes 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, Vértes Power Plant Zrt. closed the Márkushegy Mine at the end of 2014.

Recent decreases in support can be traced to changes in the administration of a preferential VAT rate for sales of district heating, where the central government no longer provides direct energy-related support. This has since shifted to the local governments as part of their social support programmes but at a much lower amount.

## Examples of measures

### **Subsidies from Local Governments for District Heating and Household Energy Bill**

From 2011, the central government stopped providing energy-price related subsidies directly to the population. However, this support is still ensured by local governments through social subsidies. Households with more than 2 children are eligible for receiving these subsidies

### **Coal Penny (2016-)**

This scheme consists of levies built in electricity tariffs that are paid by non-residential consumers. From 2019 the levy reduced from HUF 0.05 per kWh HUF 0 per kWh.