

31 March 2004

## PRESS RELEASE

### Hungary's balance of payments: 2003 Q4

*Introducing the method of accrual-based accounting for reinvested earnings, the Bank has eliminated the most important difference between Hungarian and international statistical standards. In this press release, the Bank is releasing balance of payments and stock data, compiled using reinvested earnings data, for the first time. Interest, recorded on an accrual basis, will be first released on 30 June 2004.*

*The inclusion of reinvested earnings data makes it possible to record the total income earned by the enterprise sector in the balance of payments and in the related stock data. Compared with the earlier method recording dividends paid, the amounts of income accruing to non-resident owners' and the stock of direct investment capital will be higher after recording reinvested earnings. From 2004, interest income on financial assets will be recorded on a continuous basis in the quarterly current account, consistent with the accrual principle, replacing of the earlier practice of recording the actual payments.*

*Also from 2004, the Bank will change its method of monitoring (relying on the CSO's corporate data collection relating to business services) and publishing (distinguishing 11 service categories instead of 7) services data as well as its method of recording data on a partial area (re-exports).*

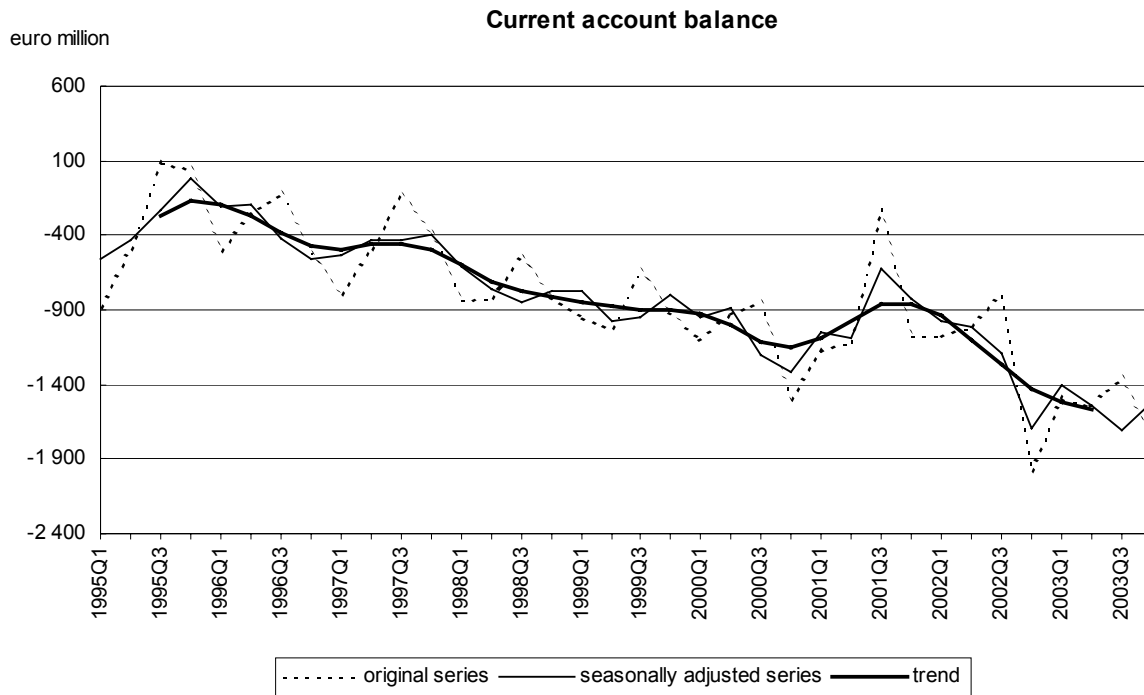
*Consistent with the methodological change, the Bank has recalculated the time series going back to 1995. As an effect of recording reinvested earnings, the changed data have been recalculated going back to 1995, and the adjusted re-export data going back to 1998.*

*The Bank has conducted a standard revision of balance of payments data going back two years, simultaneously with the extraordinary, retroactive data revision conducted due to the reasons discussed above.*

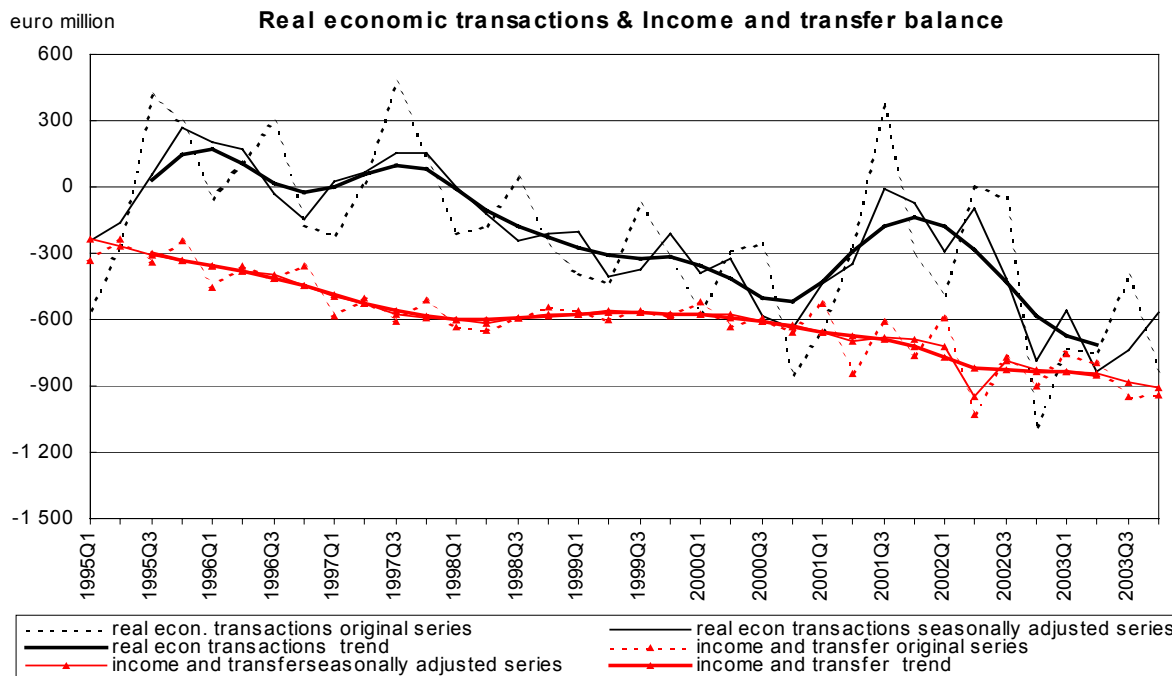
*The Statistics Department staff have prepared two descriptions of the methodological changes: the document summarising the changes [[LINK 1](#)] and that providing a detailed description of the method of recording reinvested earnings [[LINK 2](#)] are available on the Bank's website.*

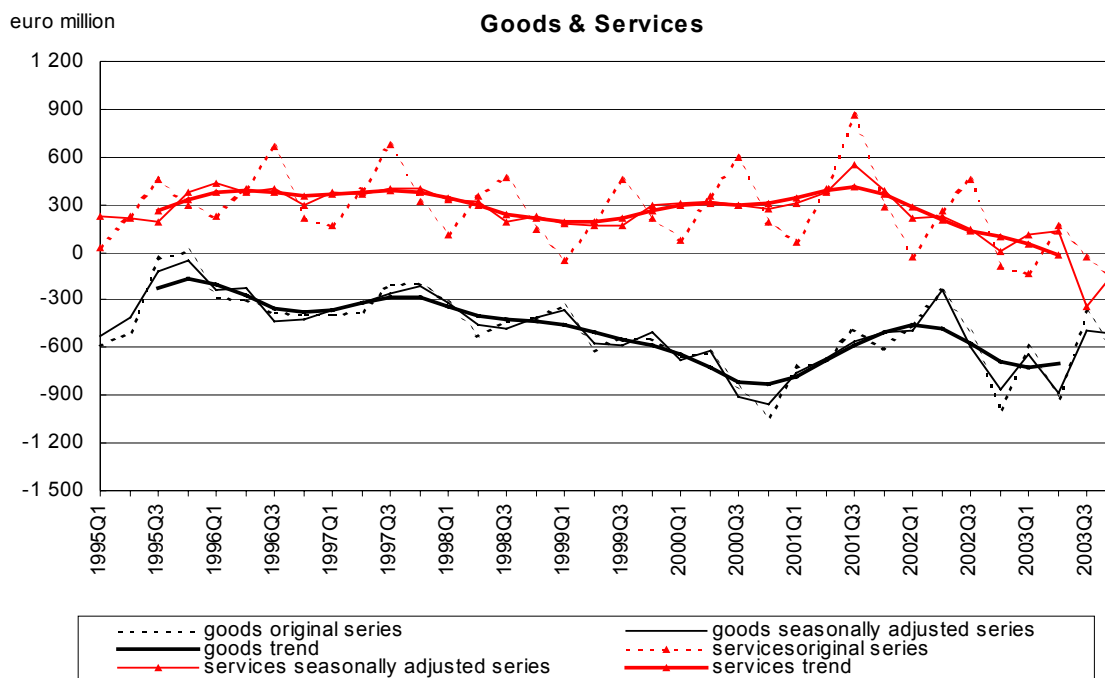
*The balance of payments includes the latest customs statistical data released by the CSO in early February 2004.*

*Based on the data compiled on the basis of the new method, Hungary's current account registered a EUR 6,488 million deficit in 2003. That compared with a current account deficit of EUR 4,900 in 2002. The deficit on real economic transactions was dominant in the change. In comparison with 2002, there was only a slight increase in the deficit on the income and transfer accounts which also include reinvested earnings. After eliminating the seasonal effects, the current account deficit remained broadly unchanged in the period from 2002 Q4. As a result of the methodological change, net inflows of non-debt capital also changed significantly (the higher current account deficit, reflecting the effect of recording reinvested earnings, is automatically financed by non-debt inflows.), which amounted to EUR 2,330 million in 2003. This was the balance of EUR 1,332 million direct investment by Hungarian residents abroad and EUR 3,439 million direct investment by non-residents in Hungary.*

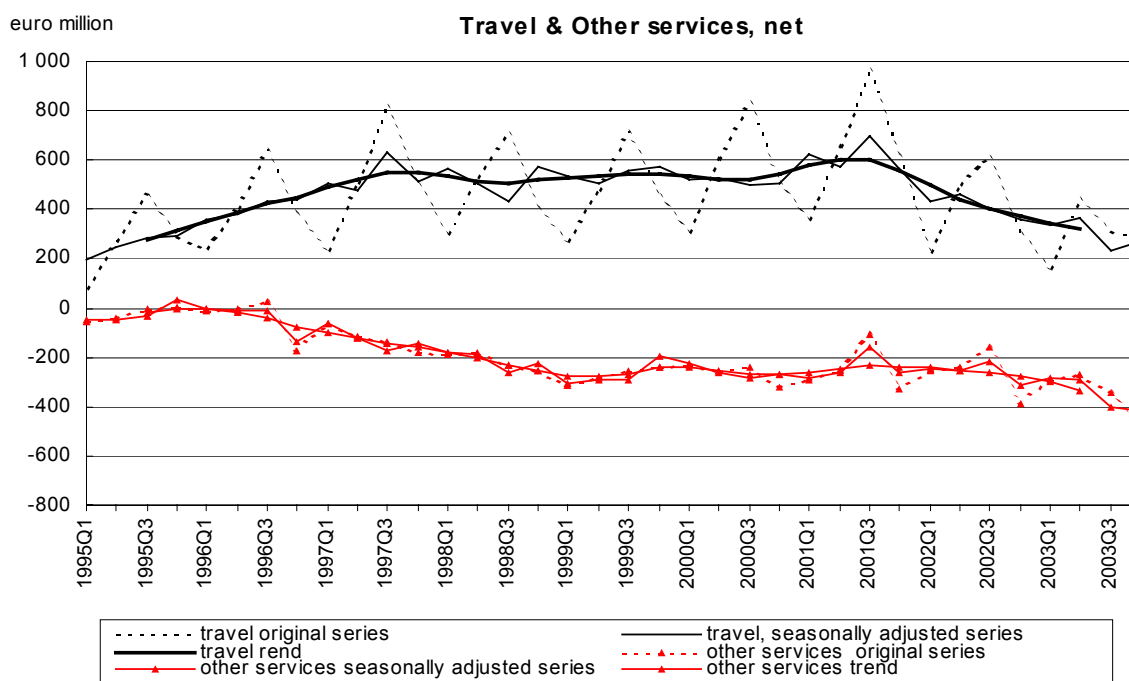


The goods deficit, at EUR 2,971 million, was the balance of EUR 38,161 million exports and EUR 41,132 million imports. Exports and imports were EUR 1,340 million and 2,108 million higher respectively than in the previous year. The seasonally adjusted time series of the current account balance has been fluctuating in a narrow range since end-2002.



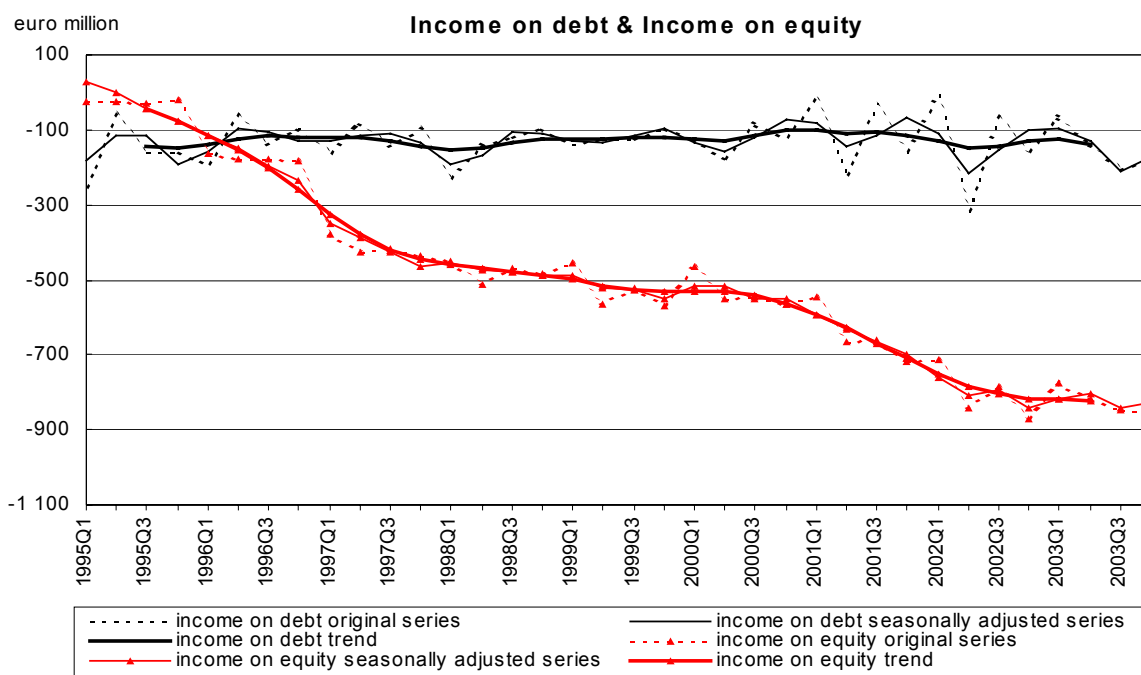


In 2003, travel revenue, at EUR 3,029 million, was EUR 419 million lower than in the previous year, travel expenditure, at EUR 1,788, being EUR 31 million lower. The seasonally adjusted data provide evidence that the decline in the travel surplus in 2003 was due to lower revenues. Net expenditure on other services<sup>1</sup> amounted to EUR 1,411 million, down EUR 373 million on the previous year. Based on the seasonally adjusted time series, the rising deficit was caused by an increase in expenditures.



<sup>1</sup> Re-exports were recorded on a gross basis up to 2003 (the purchase and selling prices of goods were treated as services). From 2004, only the difference between the purchase and selling prices of goods will be treated as services (the time services have been adjusted retrospectively, going back to 1998). Although this methodological change has reduced inward and outward flows, its effect is neutral over the longer term.

Net outflows of investment income, at EUR 3,930 million, were EUR 95 million higher than in 2002. The outflows of investment income on equity and investment income on debt increased nearly identically, by EUR 40 million and EUR 43 million respectively. According to the seasonally adjusted data, the deficits on both investment income on equity and investment income on debt rose slightly in 2003. Although the effect of recording reinvested earnings<sup>2</sup> added to the size of deficit relative to that calculated according to the old method, the higher deficit was financed automatically by direct investment and, consequently, international reserves did not fall and the net debt did not increase with the change in methodology. The surplus recorded on compensation of employees was EUR 12 million lower than in 2002.



The surplus on current transfers, at EUR 583 million in 2003, was EUR 36 million higher than in the previous year.

Inward and outward non-debt capital transactions showed a net inflow of EUR 2,330 million in 2003. The value of direct investment in equity capital (which also includes reinvested earnings) was the balance of transactions by non-residents in Hungary and by Hungarian residents abroad, in the amounts of EUR 3,439 million and EUR 1,332 million respectively. Portfolio investment transactions in equity securities showed a net inflow of EUR 224 million in the year under review.

Central bank foreign exchange reserves amounted to EUR 10.1 billion at end-December 2003. Whole-economy gross foreign debt was EUR 6.7 billion higher than at the end of 2002. Transactions, and price and exchange rate movements as well as other volume changes increased the gross foreign debt by EUR 5.8 billion and EUR 0.9 billion respectively. Hungary's net debt increased by EUR 3 billion. Transactions contributed EUR 3.8 billion to the increase in net debt, the downward effect of other factors being EUR 0.8 billion. The outstanding total of forint-denominated government and central bank securities was EUR 8.9 billion at end-December 2003, EUR 1 billion higher than at the end of the previous year.

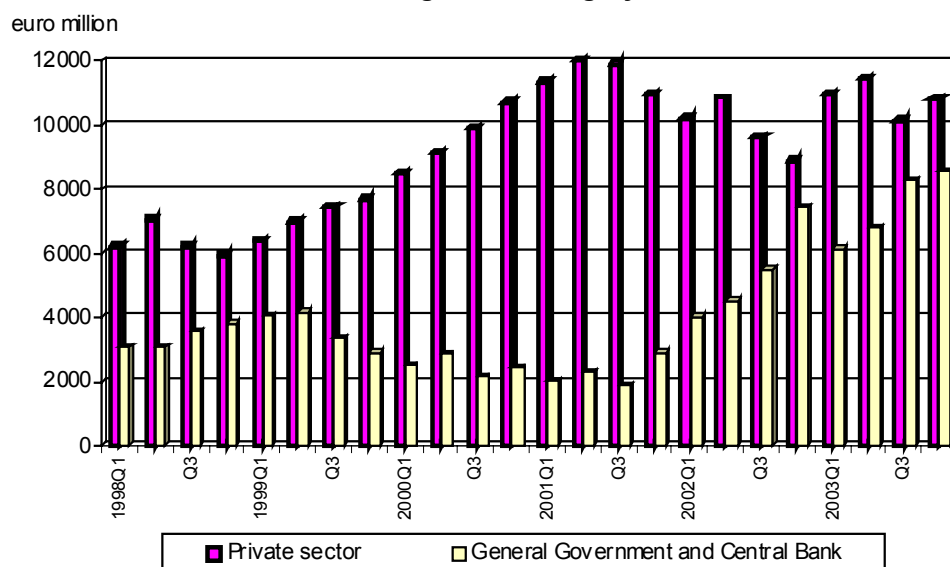
<sup>2</sup> The data on reinvested earnings in 2003 is an MNB estimate. By contrast, the 2002 figures are preliminary actual data based on investment capital questionnaires which may change as an effect of information on corporate tax returns.

### Stock of Foreign debt of Hungary

Euro million

	2002	2003
	Dec.	Dec.
<b>I. Gross foreign debt, Total Economy (S.1) ( A+B)</b>	<b>39.0</b>	<b>45.7</b>
A: General government and Central bank (S.13+S.121)	18.4	20.1
A.1. o/w.:debt denominated in HUF	7.9	8.9
B: Private sector (S.1-S.13-S.121)	20.6	25.6
B.1. o/w.:debt denominated in HUF	2.8	4.9
B.2. o/w.:Intercompany loans	6.6	6.8
<b>II. Net foreign debt, Total Economy (S.1) ( A+B)</b>	<b>16.3</b>	<b>19.3</b>
A: General government and Central bank (S.13+S.121)	7.4	8.6
A.1. o/w.:debt denominated in HUF	7.4	8.7
B: Private sector (S.1-S.13-S.121)	8.9	10.8
B.1. o/w.:debt denominated in HUF	0.1	0.8
B.2. o/w.:Intercompany loans	4.4	2.7

### Net foreign debt, Hungary 1998-2003



The increase in net debt of general government and the MNB relative to end-2002 was due to an increase in forint-denominated debt. Explanation for the increase in the private sector's net debt was an increase in other liabilities of credit institutions and the corporate sector.

**Balance of payments, Hungary**

euro million

	2002					2003				
	Q1	Q2	Q3	Q4	2002	Q1	Q2	Q3	Q4	2003
<b>1. Goods, net</b>	<b>-458</b>	<b>-247</b>	<b>-505</b>	<b>-994</b>	<b>-2203</b>	<b>-599</b>	<b>-974</b>	<b>-760</b>	<b>-638</b>	<b>-2971</b>
1.1. Exports	8991	9587	8841	9401	36821	8947	9216	9486	10511	38161
1.2. Imports	9449	9834	9346	10395	39024	9547	10190	10246	11149	41132
<b>2. Services and income, net</b>	<b>-780</b>	<b>-928</b>	<b>-436</b>	<b>-1100</b>	<b>-3244</b>	<b>-1036</b>	<b>-1024</b>	<b>-800</b>	<b>-1240</b>	<b>-4100</b>
2.1. Services*, net	-32	257	456	-90	591	-132	136	31	-206	-170
2.1.1. Exports	1551	1870	2051	1795	7268	1541	1766	1913	1816	7036
2.1.2. Imports	1584	1613	1595	1885	6677	1674	1629	1882	2022	7207
2.2. Income, net	-748	-1185	-892	-1010	-3835	-904	-1161	-831	-1034	-3930
2.2.1. Income on debt, net	-79	-391	-132	-176	-777	-162	-376	-63	-220	-820
2.2.2. Income on equity, net	-713	-840	-786	-869	-3209	-773	-821	-798	-857	-3249
2.2.3. Compensation of employees, net	44	46	25	35	151	30	36	30	43	139
<b>3. Current transfers</b>	<b>159</b>	<b>156</b>	<b>123</b>	<b>109</b>	<b>547</b>	<b>148</b>	<b>201</b>	<b>142</b>	<b>92</b>	<b>583</b>
<b>4. Current account balance</b>	<b>-1079</b>	<b>-1019</b>	<b>-818</b>	<b>-1984</b>	<b>-4900</b>	<b>-1488</b>	<b>-1797</b>	<b>-1418</b>	<b>-1786</b>	<b>-6488</b>
<b>5. Non debt creating financing, net</b>	<b>801</b>	<b>-68</b>	<b>1105</b>	<b>831</b>	<b>2669</b>	<b>467</b>	<b>-143</b>	<b>1510</b>	<b>496</b>	<b>2330</b>
5.1. Abroad, net	-44	-2	-101	-71	-218	-377	-132	-41	-782	-1332
5.1.1. Equity capital	-36	-5	-89	-59	-190	-368	-137	-26	-766	-1297
5.1.2. Reinvested earnings	-8	4	-12	-12	-28	-9	5	-15	-16	-35
5.2. In Hungary, net	732	-6	1329	1014	3068	632	-49	1405	1451	3439
5.2.1. Equity capital	260	236	531	131	1158	98	172	594	571	1436
5.2.2. Reinvested earnings	472	-242	798	883	1910	534	-221	810	880	2003
5.3. Portfolio investment, equity securities, net	113	-80	-123	-112	-181	212	38	147	-172	224
*- o/w: Travel, net	223	498	611	297	1629	160	411	386	284	1241
credit	666	915	1125	741	3448	526	832	942	729	3029
debit	444	417	514	443	1819	365	422	556	445	1788

**Balance of payments, Hungary (seasonally adjusted data) <sup>a)</sup>**

Euro million

	2002				2003			
	Q. I.	Q. II.	Q. III.	Q. IV.	Q. I.	Q. II.	Q. III.	Q. IV.
<b>1. Goods, net</b>	<b>-496</b>	<b>-242</b>	<b>-597</b>	<b>-866</b>	<b>-645</b>	<b>-889</b>	<b>-489</b>	<b>-512</b>
1.1. Exports	9136	9353	8912	9270	9318	9426	10370	10287
1.2. Imports	9797	9797	9526	9899	9919	10135	11466	10628
<b>2. Services and income, net</b>								
2.1. Services	212	226	146	8	112	135	-336	
2.1.1. Travel, net	434	462	399	358	335	366	233	273
credit	960	870	831	786	805	780	689	681
debit	480	419	456	464	401	486	401	466
2.1.2. Other services, net	-247	-257	-214	-316	-287	-293	-400	-415
credit	901	974	938	1006	1031	998	1047	1045
debit	1175	1128	1158	1268	1264	1304	1481	1438
2.2. Income, net	-852	-1111	-909	-960	-963	-974		
2.2.1. Income on debt, net	-110	-216	-153	-100	-98	-128	-209	-174
2.2.2. Income on equity, net	-759	-809	-792	-840	-819	-804	-842	-828
2.2.3. Compensation of employees, net	42	42	31	34	32	33	39	39
<b>3. Current transfers</b>	<b>150</b>	<b>135</b>	<b>132</b>	<b>132</b>	<b>138</b>	<b>152</b>	<b>117</b>	<b>116</b>
<b>4. Current account balance</b>	<b>-973</b>	<b>-1008</b>	<b>-1195</b>	<b>-1698</b>	<b>-1409</b>	<b>-1544</b>	<b>-1707</b>	<b>-1512</b>

\* \* \* \* \*

The time series for 1995–2003, required to analyse the effect of changes due to the recording of reinvested earnings, continue to be available on the Bank's website for a definite period.

Simultaneously with the methodological change, the Bank recalculates balance of payments data for January, released earlier. The time series on the Bank's website include data adjusted to include net reinvested earnings and re-export data.

Based on the Monetary Council's decision of 15 December, the Bank's data release and revision policy will change after Hungary's joining the European Union. For a detailed description, see the press release 'Changes to the compilation and publication method and to the revision policy of the balance of payments statistics' on the Bank's website at:

[http://www.mnb.hu/dokumentumok/sajtokozl0105\\_en.pdf](http://www.mnb.hu/dokumentumok/sajtokozl0105_en.pdf).

At the end of December 2003, the exchange rates of the euro and the US dollar were HUF 262.23 and HUF 207.92 respectively.

The release of the February 2004 balance of payments is scheduled for 13 April 2004. From July 2004, the Bank will not publish monthly data, due to the unavailability of accrual-based monthly data. Consequently, a monthly balance of payments will be released last on 14 April, which will be followed by quarterly releases.

a) Methodological notes to seasonal adjustment:

The method used to seasonally adjust the sub-components of the current account in 2002 is as follows:

- 1 The components of the current account are seasonally adjusted using the SEATS TRAMO software, within the Demetra interface, in line with the recommendations of Eurostat.
- 2 The effects of *holidays* are eliminated using a built-in variable designed for holidays in Hungary; the *working-day effect* is eliminated using two regression variables.
- 3 *Outliers* are identified according to the basic setting, allowing the identification of all three types of outlier.
- 4 Consistent data are available from 1995. The Bank, therefore, revises data for the period beginning with that year. In order to minimise revisions, the same model setting is being used for one year. The press releases include a five-month moving average of the seasonally smoothed data, with diminishing weights proceeding symmetrically on both sides of the centre ( $y_t = 1/9x_{t-2} + 2/9x_{t-1} + 3/9x_t + 2/9x_{t+1} + 1/9x_{t+2}$ ), instead of the trend calculated by the programme.
- 5 The sub-balance outcomes are directly seasonally adjusted. This means that the sub-accounts, derived from the not adjusted data, are directly seasonally adjusted. Consequently, the seasonally adjusted current account balance outcome cannot be reproduced from the seasonally adjusted data of the sub-accounts.

Notes to the press release and the tables:

- 1 The codes attached to the names of the sectors and sub-sectors (e.g. S.121) refer to the corresponding groups of the classification generally used in international practice. The definitions of the individual sectors can be found on the Bank's web site at Financial Data...Statistical Releases, 'Sector classification in the MNB's statistical press releases from June 2001'.