

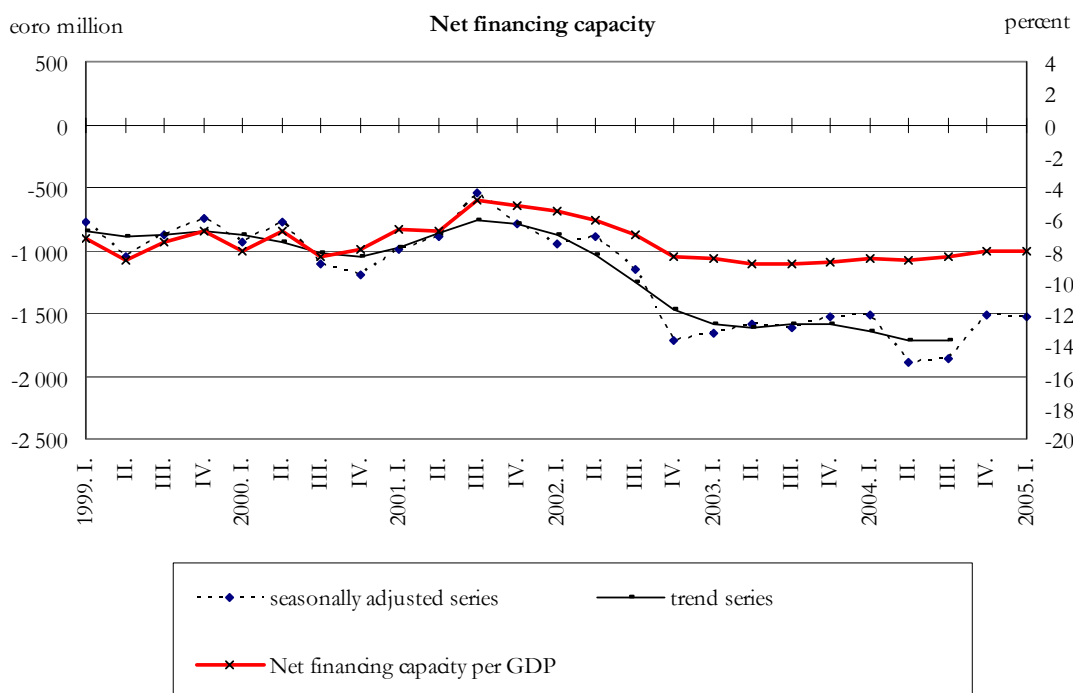
PRESS RELEASE

Hungary's balance of payments: 2005 Q1

- In compliance with its proclaimed method of releasing and revising balance of payments data, on 30 June 2005, the Bank is publishing statistical data for 2005 Q1 for the first time, while simultaneously releasing revised 2004 Q2–Q3 data.

Based on the quarterly data, Hungary's net external financing requirement¹ (i.e. its combined current and capital account deficit) amounted to EUR 1,326 million in 2005 Q1. EUR 218 million non-debt financing was recorded vis-à-vis the external borrowing requirement. Hungary's seasonally adjusted net external financing requirement has remained broadly unchanged: as a proportion of GDP it has been the same for successive periods for a longer time. In 2005 Q1 it amounted to 8.1 per cent of GDP (Chart 1).

Chart 1



¹ As accession to the European Union increases the significance of both current and capital transfers, recorded in the current and the capital account, respectively, the balance on these two accounts, i.e. the country's net external financing capacity, will have a more important role in the analyses of external developments than earlier. (For more details, see the box at the end of the September 2004 press release.) Due to the break caused by the EU-transfers, current transfers and the capital balance cannot be seasonally adjusted in the time series.

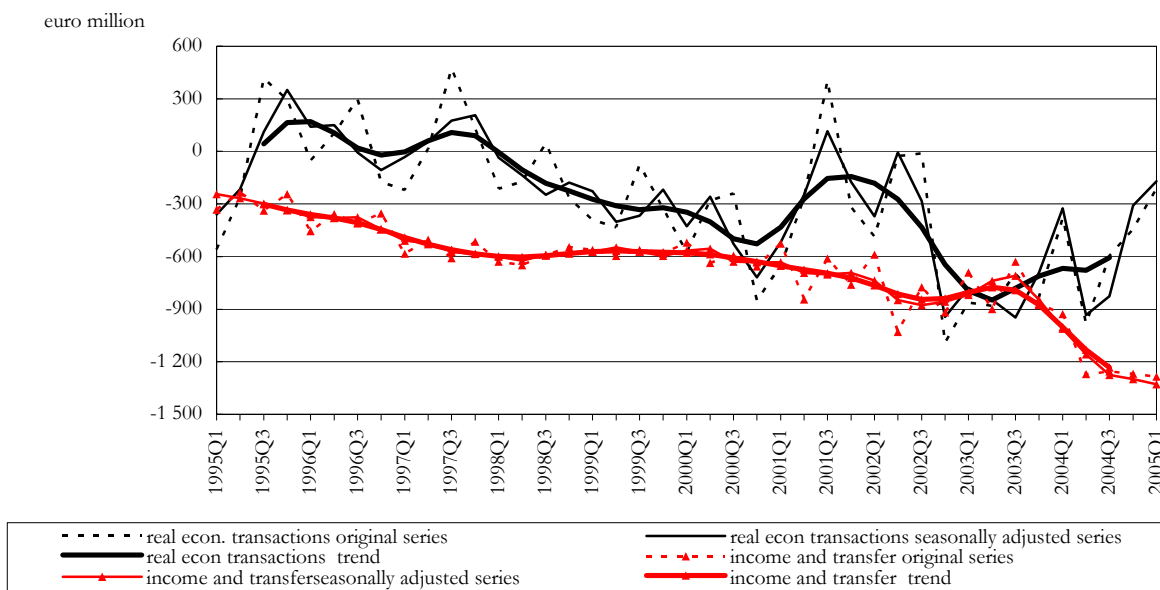
In 2005 Q1, the current account deficit was EUR 1,497 million, in slight excess of the corresponding value recorded in the previous quarter, if seasonally adjusted.

Real economic transactions (in goods and services) prevailed in the changes in the current account deficit relative to the previous quarter (Chart 2).

Developments in income and current transfers show rising deficits. This results partly from the higher costs of debt servicing related to the increase in Hungary's debt, and partly from the fact that liabilities related to EU membership are treated as current transfers (Chart 2).

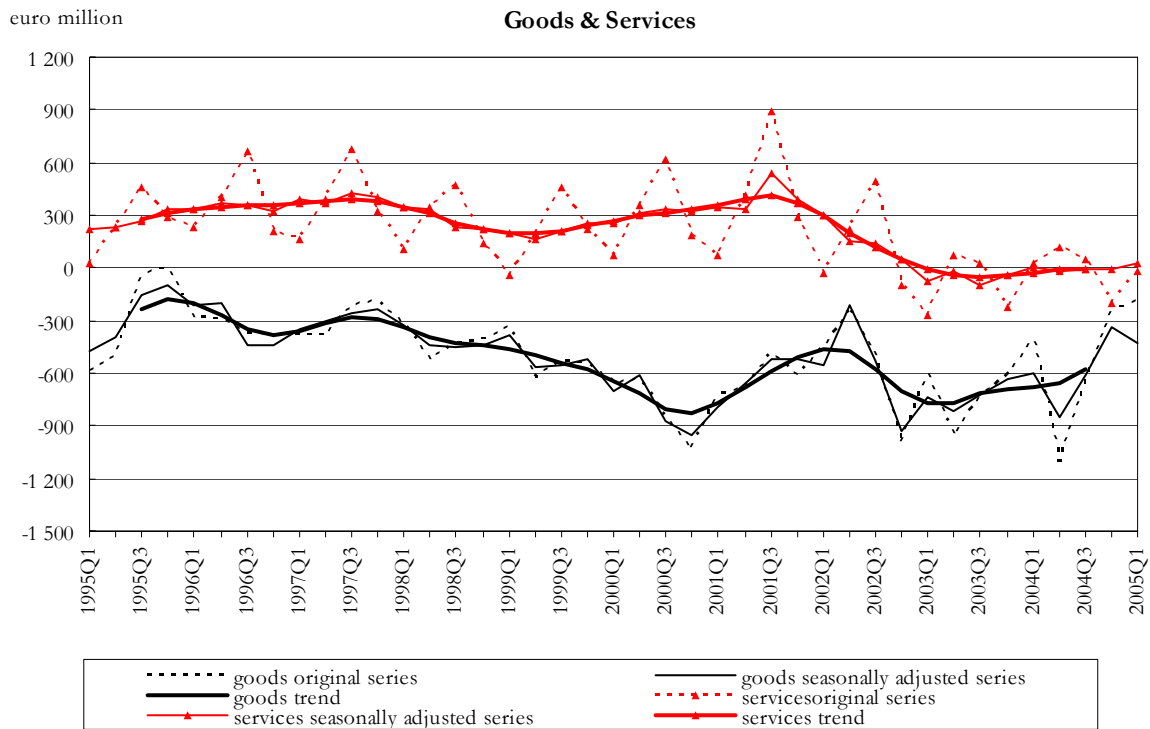
Chart 2

Real economic transactions & Income and transfer balance



In comparison to the previous quarter, lasting improvement in the goods and services deficits contributed to the decline in the trend of balance on real economic transactions (Chart 3).

Chart 3



Goods exports rise at constant pace, while imports have been unchanged for three successive quarters. (Chart 4)

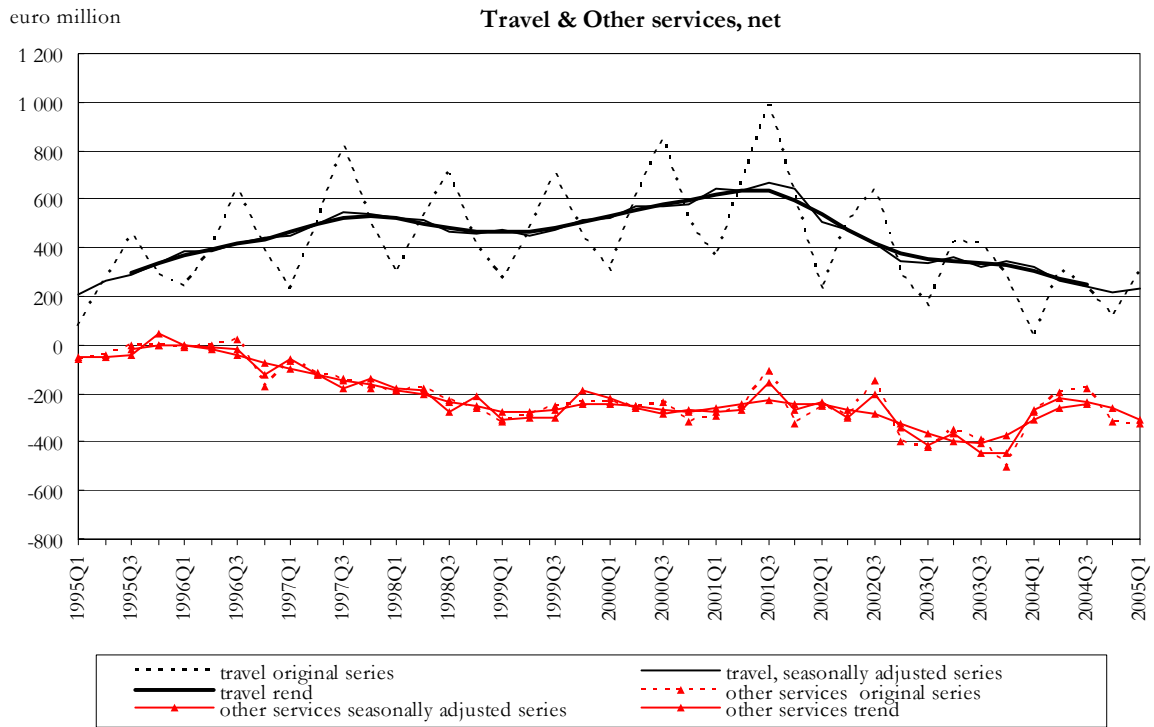
Chart 4



Within services, 2005 Q1 saw decline in the balances on travel and other services, unbroken since September 2001, stop². In other services the position is more unfavourable than in the previous quarter: deficit has grown (Chart 5).

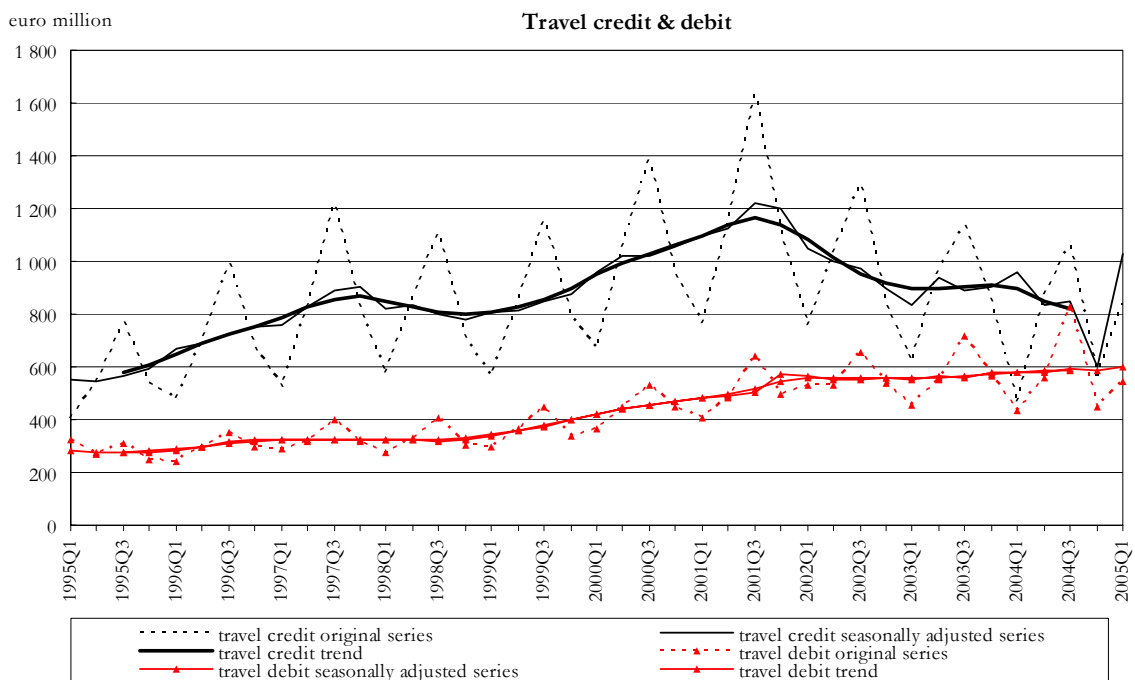
² Since 2004 travel revenues and expenditures have been calculated on the basis of demand by non-residents in Hungary and Hungarians abroad. For the purposes of seasonal adjustment, the seasonal factor is defined with a view to earlier payments-based data.

Chart 5



2005. In 2005 Q1, travel revenues rapidly increased. Expenditures rose at a slowing pace, around levels seen in the preceding quarters (Chart 6).

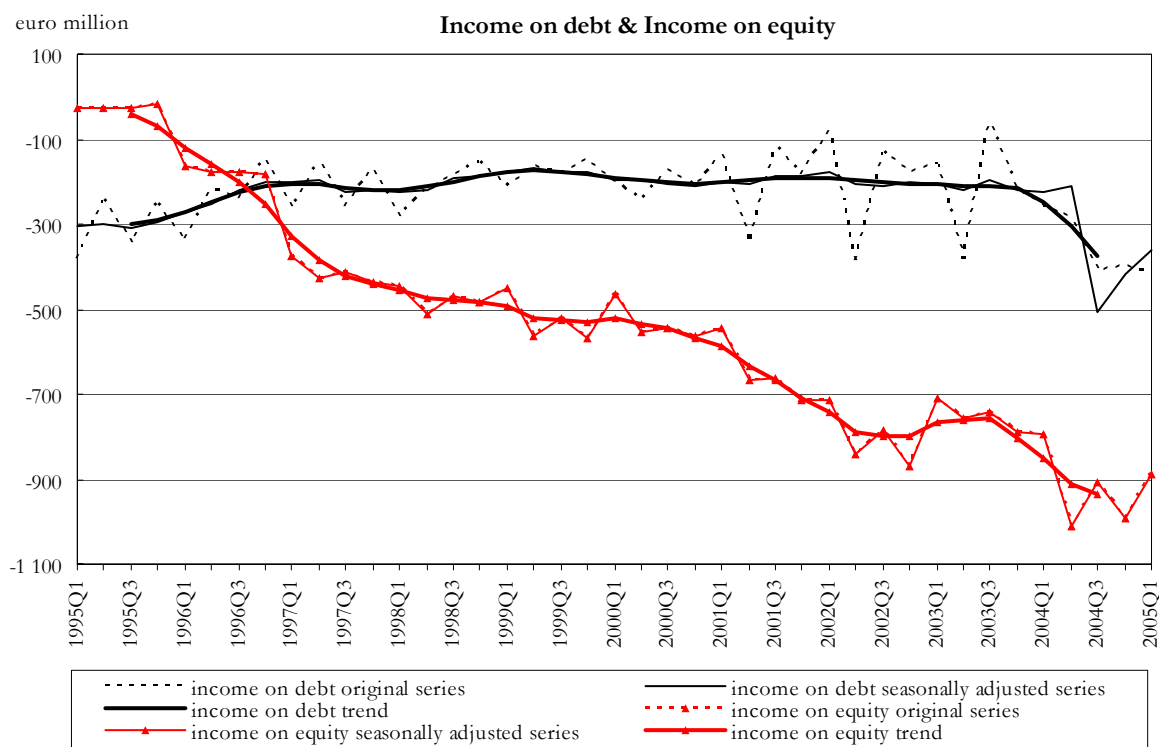
Chart 6



Developments in the balance of the income and transfer accounts depend on movements in incomes on debt and equity. Deficits on incomes have been increasing: on debt since 2004 Q3 and on equity

since 2004 Q2. Rise in the deficit on income on debt was caused by an increase in non-residents' holdings of forint-denominated government securities in 2004 Q2 (Chart 7).

Chart 7



In 2005 Q1, 59 per cent of the general government sector³ deficit resulting from Hungary's contribution to the Community budget was financed from revenues received from diverse EU institutions and treated as current transfers. (Including capital transfers, in 2005 Q1, Hungary registered a surplus of nearly EUR 50 million on transfers with the EU.) On the whole, the 2005 Q1 deficit on current transfers was EUR 8 million. As a combined effect, the balance on the income and transfer accounts continued to deteriorate in 2005 Q1 (Chart 2).

2005. The balance on non-debt capital transactions showed a net inflow of EUR 218 million in 2005 Q1. The value of direct investment in equity capital (including reinvested earnings) was the balance of transactions by Hungarian residents abroad in the amount of EUR 489 million and non-residents in Hungary in the amount of EUR 881 million. Portfolio investment transactions in equity securities showed a net outflow of EUR 175 million.

2005. Central bank foreign exchange reserves amounted to EUR 13.4 billion at end-March 2005. Whole-economy gross foreign debt was EUR 3.4 billion higher than at the end of the previous quarter. Hungary's net foreign debt increased by EUR 0.3 billion. Non-residents' holdings of forint-denominated government securities amounted to EUR 10.2 billion at end-March 2005, EUR 0.3 billion higher than at the end of the previous quarter.

³ For lack of accurate data, prior to the publication of the annual statistics (i.e. the end of the September immediately following the year reviewed), all EU transfers are included in the general government sector in the balance of payment statistics. Upon publication of the annual data, however, EU transfers appear in the institutional sector of the known beneficiary, as required by the system of national accounts.

Table 1
Stock of Foreign debt of Hungary as of end of period

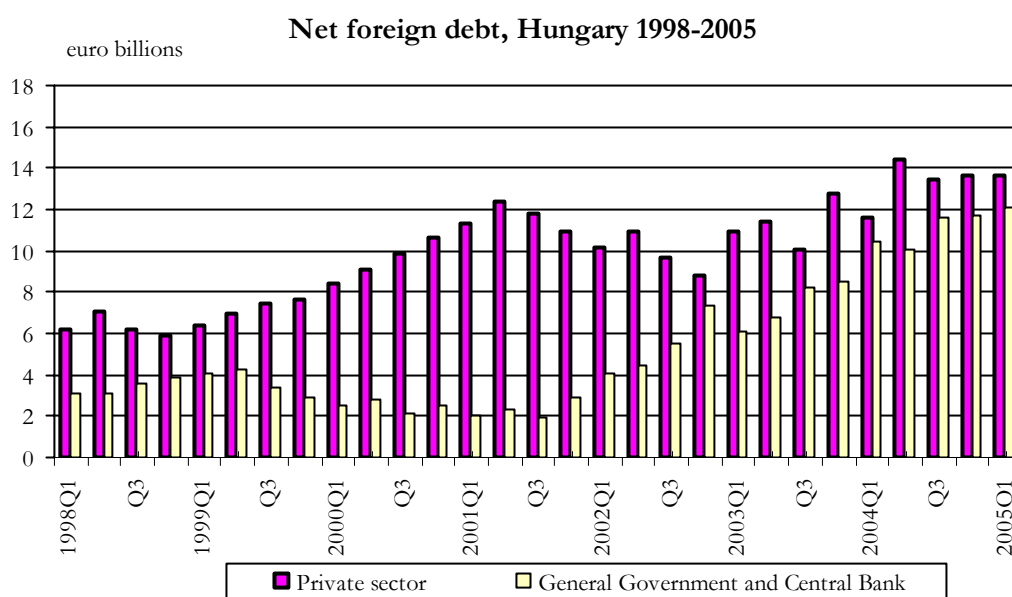
	2003	2004	Euro billion
			2005 Q1
I. Gross foreign debt, Total Economy (S.1) (A+B)	47,6	56,8	60,2
A: General government and Central bank (S.13+S.121)	20,1	24,0	26,2
A.1. o/w.:debt denominated in HUF ^{/1}	8,9	11,0	11,4
B. Private sector (S.1-S.13-S.121)	27,6	32,9	34,1
II. Net foreign debt, Total Economy (S.1) (A+B)	21,3	25,4	25,7
A: General government and Central bank (S.13+S.121)	8,5	11,7	12,1
A.1. o/w.:debt denominated in HUF ^{/1}	8,7	10,8	11,1
B. Private sector (S.1-S.13-S.121)	12,8	13,7	13,6

/ * FDI including other capital

/ 1 security + other

N.B.: Due to rounding, partial totals may differ from grand totals.

Chart 8



2005. In terms of net debts, at end-March 2005 the general government and the MNB exceeded, while the private sector remained below the corresponding data on a quarter earlier. Whole-economy net debt was EUR 25.7 billion at end-March 2005, and total net external liabilities to non-residents, which also include equity capital, amounted to EUR 71.2 billion.

Table 2
Balance of payments, Hungary

euro million

	2003					2004					2005
	Q1	Q2	Q3	Q4	2003	Q1	Q2	Q3	Q4	Q1-Q3	Q1
1. Goods, net	-599	-957	-732	-610	-2898	-402	-1098	-648	-243	-2391	-189
1.1. Exports	8994	9277	9542	10564	38377	10277	11156	10897	12185	44516	11425
1.2. Imports	9593	10233	10274	11174	41274	10679	12254	11545	12428	46907	11614
2. Services and income, net	-1102	-1025	-743	-1190	-4060	-999	-1151	-1230	-1553	-4933	-1300
2.1. Services [*] , net	-264	75	32	-221	-378	22	116	53	-197	-6	-22
2.1.1. Exports	1606	1914	2145	2001	7666	1874	2061	2291	1903	8129	2035
2.1.2. Imports	1870	1838	2113	2222	8043	1852	1945	2238	2099	8134	2058
2.2. Income, net	-838	-1101	-775	-969	-3682	-1021	-1267	-1284	-1356	-4928	-1278
2.2.1. Income on debt, net	-161	-380	-61	-222	-823	-257	-287	-406	-397	-1347	-412
2.2.2. Income on equity, net	-707	-757	-743	-790	-2998	-795	-1011	-907	-993	-3706	-889
2.2.3. Compensation of employees, net	30	36	30	43	139	31	31	30	35	126	23
3. Current transfers	147	202	145	100	594	93	-4	28	89	206	-8
4. Current account balance	-1554	-1780	-1329	-1701	-6364	-1308	-2253	-1850	-1707	-7118	-1497
5. Capital account balance	-91	9	12	38	-32	-63	81	170	134	322	171
6. Net external financing capacity (4+5)	-1645	-1771	-1317	-1663	-6396	-1371	-2172	-1680	-1573	-6796	-1326
7. Non debt creating financing, net	298	-203	1470	-1571	-7	814	-97	1392	1275	3383	218
7.1. Abroad, net	-389	-122	-43	-809	-1363	-210	-116	42	-114	-398	-489
7.1.1. Equity capital	-369	-115	-16	-781	-1281	-215	-181	59	-96	-433	-479
7.1.2. Reinvested earnings	-21	-7	-26	-28	-82	5	65	-17	-18	35	-9
7.2. In Hungary, net	479	-120	1364	-589	1133	698	-79	1251	1075	2945	881
7.2.1. Equity capital	-1	151	596	-1410	-664	237	490	323	55	1105	318
7.2.2. Reinvested earnings	480	-272	768	821	1797	461	-569	928	1020	1840	563
7.3. Portfolio investment, equity securities, net	208	39	148	-173	223	326	98	99	314	837	-175
*- o/w: Travel, net	160	423	422	283	1288	300	315	232	116	962	299
credit	618	972	1138	849	3577	767	874	1061	562	3265	844
debit	457	550	716	565	2288	468	560	829	446	2302	545

N.B.: Due to rounding, partial totals may differ from grand totals.

Table 3
Balance of payments, Hungary (seasonally adjusted data) ^{a)}

euro million

	2003				2004				2005
	Q. I.	Q. II.	Q. III.	Q. IV.	Q. I.	Q. II.	Q. III.	Q. IV.	Q. I.
1. Goods, net	-729	-806	-725	-667	-627	-764	-593	-418	-479
1.1. Exports	9288	9234	9818	10010	10612	11104	11213	11547	11798
1.2. Imports	9896	10071	10607	10684	11017	12059	11919	11883	11982
2. Services and income, net	-1015	-952	-964	-1002	-1102	-1159	-1316	-1351	-1359
2.1. Services	-74	-20	-102	-42	4	-19	-1		
2.1.1. Travel, net	339	358	321	342	319	261	238	220	236
credit	834	941	890	905	957	837	846	598	1030
debit	555	563	559	576	578	582	595	586	599
2.1.2. Other services, net	-411	-364	-444	-446	-264	-216	-234	-258	-307
credit	1015	958	1021	1093	1136	1204	1243	1282	1223
debit	1358	1373	1473	1475	1503	1483	1541	1549	1519
2.2. Income, net	-941	-933	-862	-961	-1105	-1139	-1315		
2.2.1. Income on debt, net	-205	-218	-198	-221	-224	-209	-508	-416	-362
2.2.2. Income on equity, net	-707	-757	-743	-790	-795	-1011	-907	-993	-889
2.2.3. Compensation of employees, net	32	34	34	37	34	32	31	29	27
3. Current transfers	142	175	150	126	90	-31	32	115	-11
4. Current account balance	-1626	-1578	-1599	-1555	-1503	-1954	-2011	-1641	-1740
5. Capital account	-91	9	12	38	-63	81	170	130	171
6. Net external financing capacity	-1659	-1584	-1611	-1534	-1508	-1891	-1866	-1514	-1533

* * * * *

The MNB will release data on Hungary's balance of payments and international investment position for 2005 Q2 on 30 September 2005. The annual 2004 statistics, which rely on the preliminary data on reinvested income, drawn from corporate reports, rather than the currently applied estimates, as well as the final 2003 balance of payments and IIP statistics will also be published on the above date.

* * * * *

a) Methodological remarks on seasonal adjustment

The following method are used to seasonally adjust the components of the current account:

- 1) In line with the recommendations of Eurostat, the components of the current account are seasonally adjusted using the SEATS TRAMO software of the Demetra interface.
- 2) The impacts of *holidays* are eliminated using a built-in variable designed for holidays in Hungary; while the *working-day effect* is eliminated with the help of two regression variables.

- 3) The programme identifies an additive outlier affecting a single period as well as transitory changes affecting several periods.
- 4) As consistent data are available from 1995, the Bank adjusts time series from that year. In order to minimise revisions, the model setting is left unchanged for a 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 ($Y_t = 1/9 * X_{t-2} + 2/9 * X_{t-1} + 3/9 * X_t + 2/9 * X_{t+1} + 1/9 * X_{t+2}$), instead of the trend calculated by the programme.
- 5) Balances are seasonally adjusted using the direct method. This means that seasonal effects are eliminated directly from balances and aggregates rather than generating balances and aggregates from seasonally adjusted components. Consequently, no seasonally adjusted current account balances can be reproduced from the seasonally adjusted data of the sub-accounts.

Notes to this press release and the tables:

- 1) The codes attached to sector and sub-sector names (e.g. S.121) refer to the corresponding groups of the classification generally used in international practice. Definitions of the individual sectors can be found on the MNB's web site (www.mnb.hu) at Financial Data...Statistical Releases, *Sector classification in the MNB's statistical press releases from June 2001*.
- 2) In order to comply with the SDDS data dissemination standards of the IMF, since the release of the 2003 Q2 data, the MNB has been publishing data on external debt in a new composition among the statistical time series on its website. The difference between the earlier-published gross foreign debt and the new category of debt is that the latter does not identify liabilities arising from financial derivatives as debt components. Henceforth, both data will be published on the Bank's website, accompanied by references to the relevant types of debt.

MAGYAR NEMZETI BANK
STATISTICS DEPARTMENT