



31 March 2008

## PRESS RELEASE

### Hungary's balance of payments: 2007 Q4

- Consistent with its method of releasing and revising statistical data, on 31 March 2008 the MNB is publishing 2007 Q4 balance of payments data for the first time, together with revised data for 2007 Q2 and Q3. Including 2007 Q4 figures, statistics for each individual quarter of 2007 are now available; however, in the Bank's treatment the individual quarterly figures are not equal to the annual data, as direct investment income data are based on estimates. Accordingly, on the MNB's website the 2007 data are only included in the quarterly series. The Bank will release annual 2007 balance of payments data in September 2008, consistent with its data release scheme.
- Direct investment and income data for 2006 have also been updated, as information derived from corporate questionnaires on direct investment in 2006 are now available. Continuing the practice of previous years, the Bank is also releasing 2006 direct investment data in a breakdown by country and sector.
- The data related to direct investment in the balance of payments and external balance sheet statistics calculated with the exclusion of special purpose entities (SPEs), which are interpretable in economic terms, changed also due to the fact that based on the information about companies' activities the MNB, together with the CSO, has revised the register of special purpose entities for 2006. As a result of this harmonisation, some corporations have been reclassified from normal companies to special purpose entities with retroactive effect as from January 2006. Of course, the reclassification does not affect the complete (SPE + non-SPE) data.
- In this press release, Hungary's balance of payments is presented excluding data on special purpose entities, in accordance with past practice. However, Hungary's balance of payments and external balance sheet are available on the Bank's website both excluding and including SPE data. From 2006 Q1, the file of quarterly time series continues with data excluding those of special purpose entities.<sup>1</sup>

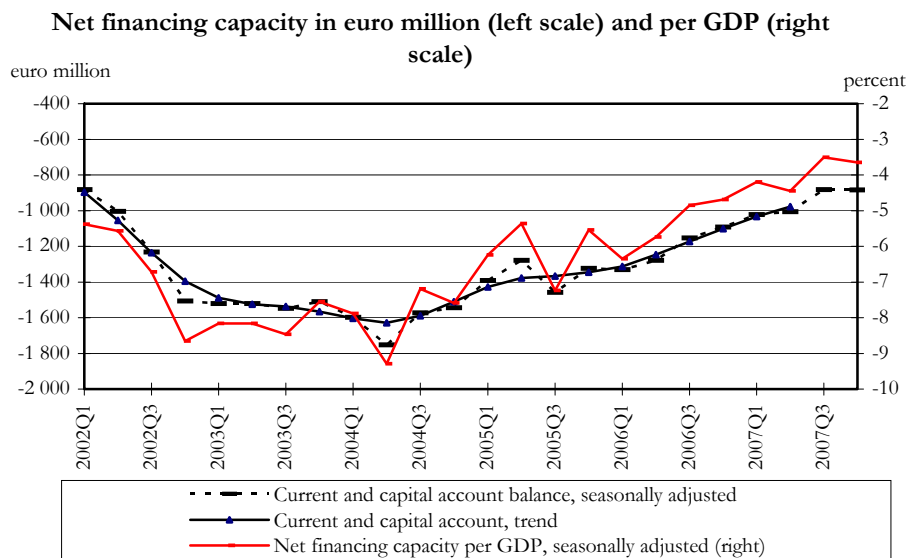
*According to quarterly data, in 2007 Q4 Hungary's net financing requirement (i.e. the deficit on its combined current and capital accounts) increased compared to the previous quarter. It amounted to EUR 765 million (i.e. HUF 193 billion calculated in forints), and it was EUR 885 million, or 3.7% of GDP, after adjusting for seasonal effects. In Q4, the net financing requirement, derived as the combined current and capital account balance using the bottom-up method,*

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<sup>1</sup> For a more detailed description of recording SPEs in the balance of payments, see the MNB's balance of payments press release for 2006 Q1 and the methodological notes on the Bank's website.

was EUR 1,365 million, and EUR 1,564 million seasonally adjusted. This was the equivalent of 6% of GDP.<sup>2</sup> (Chart 1)

Chart 1

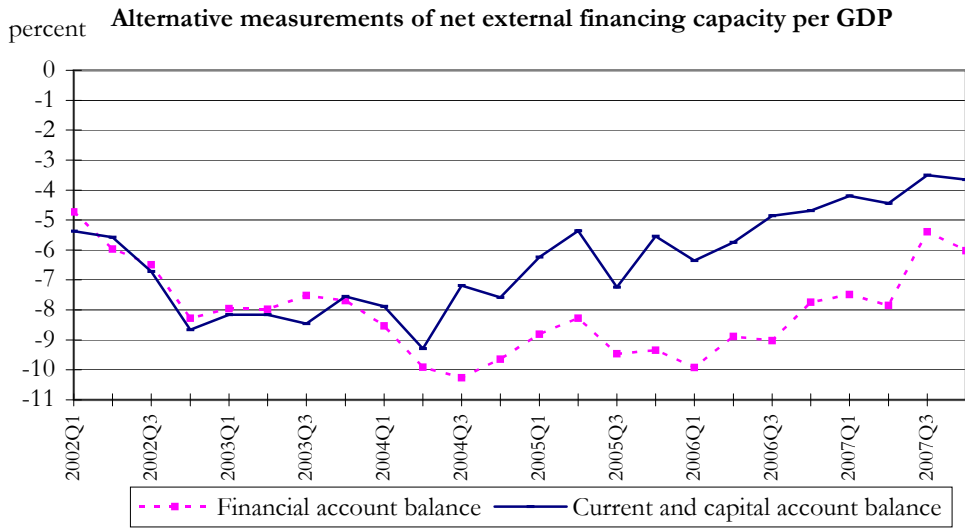


### The current account

In 2007 Q4, the current account deficit amounted to EUR 1,113 million, and EUR 1,116 million seasonally adjusted. Excluding seasonal effects, the deficit continued to decline compared to the previous quarter. The underlying reason for this decline is the improvement in the combined income and transfer account, which is primarily explained by an increase in EU transfers.

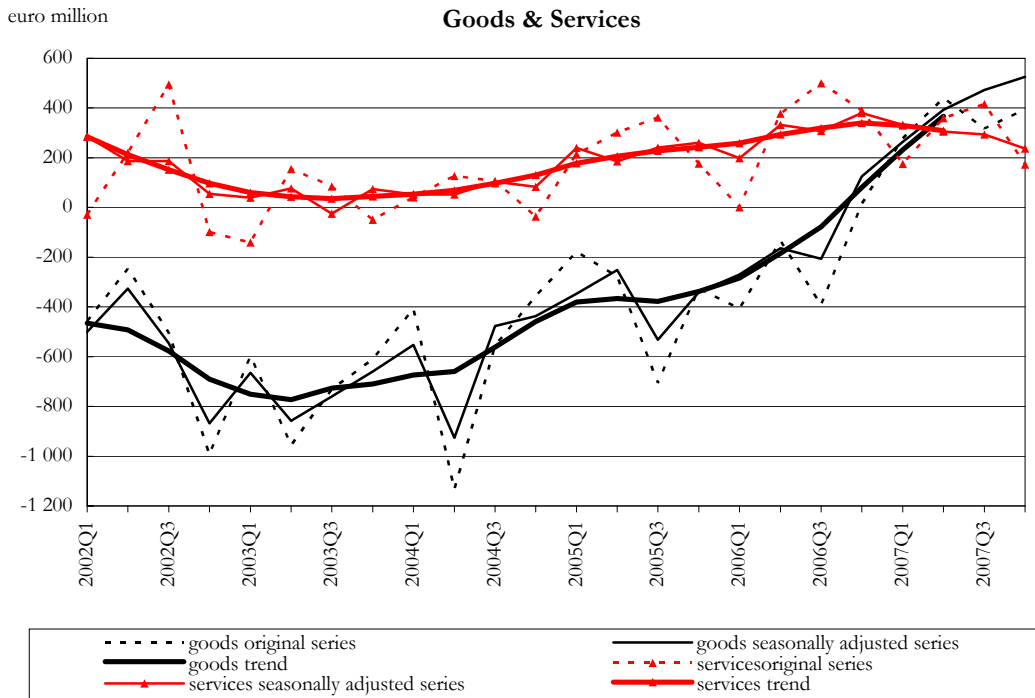
<sup>2</sup> The difference between the two figures, calculated using the two methods, is shown in errors and omissions in the balance of payments. For the reasons for the differences, see the MNB's balance of payments press release of September 2005.

Chart 2



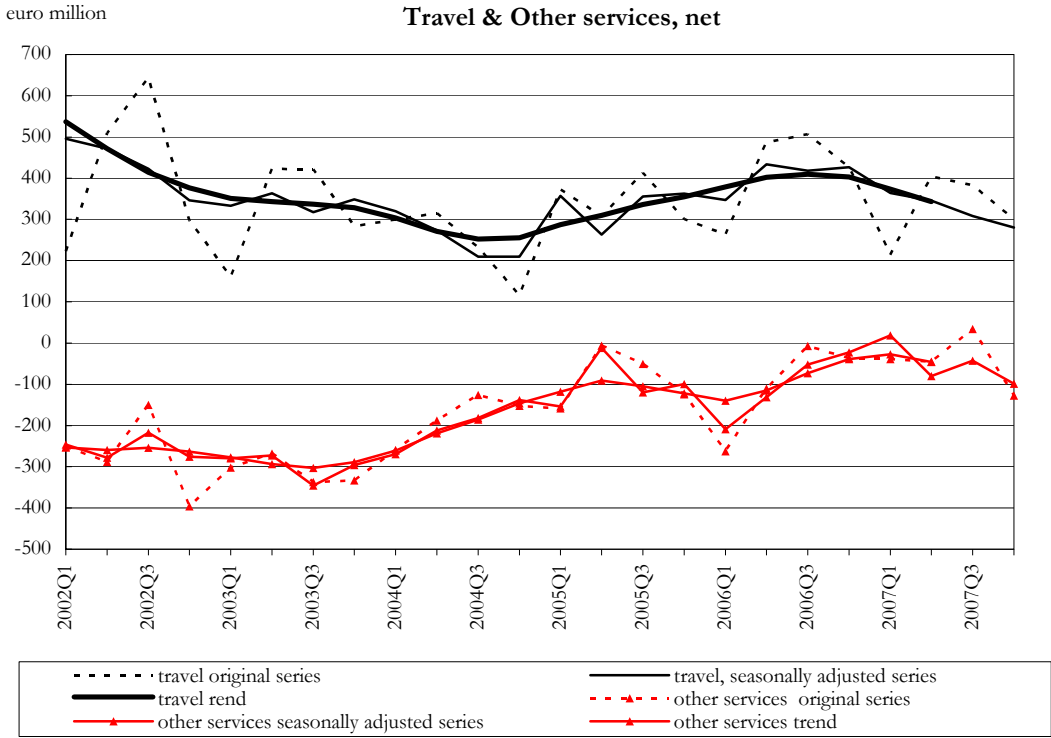
Within real economic developments, the trade in goods registered a surplus, reaching EUR 526 million seasonally adjusted, and EUR 395 million not seasonally adjusted. In seasonally adjusted terms the surplus on services amounted to EUR 237 million, and EUR 173 not seasonally adjusted. (Chart 3) In Q4, based on seasonally adjusted data, the balance of trade in goods improved, while the balance of services fell compared to the previous quarter.

Chart 3



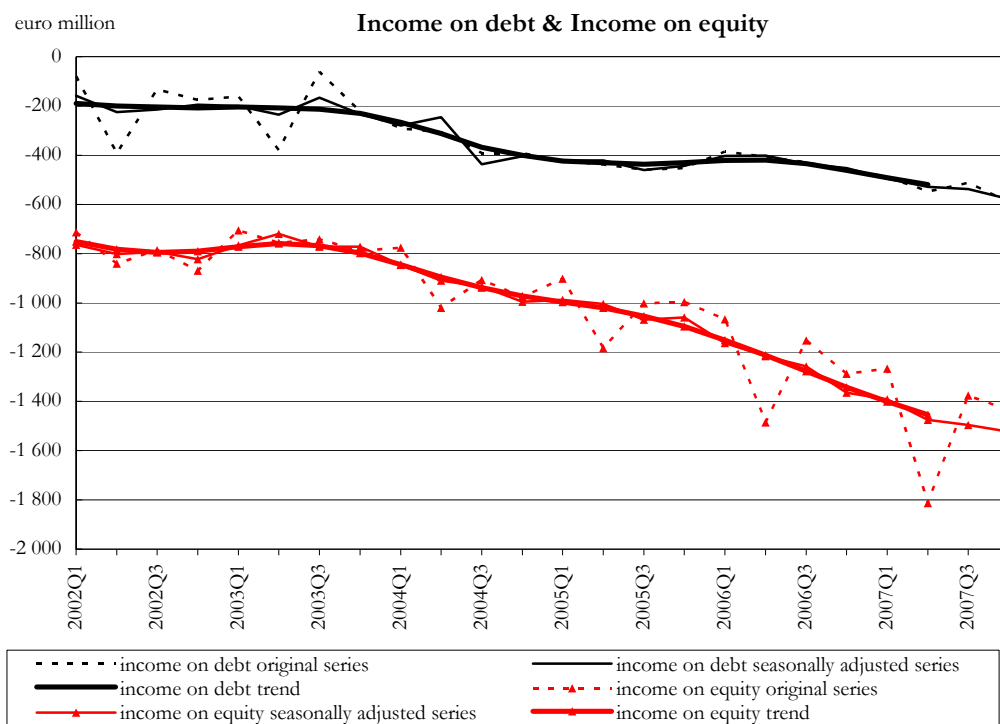
Within services, the seasonally adjusted travel surplus amounted to EUR 280 million in Q4. After adjusting for seasonal effects, other services recorded a deficit of EUR 99 million in Q4 again. (Chart 4)

**Chart 4**



Of the components of the income and transfer accounts (Chart 5) the seasonally adjusted deficit on income on debt amounted to EUR 578 million, while the deficit on equity was EUR 1,523 million. An increase in the deficit can be observed in case of both income types, as a result of the steadily increasing magnitude of reinvested earnings on the one hand, and the increasing interest expenditure on the other hand.

Chart 5



The surplus on current transfers amounted to EUR 313 million in 2007 Q4.

Looking at fourth-quarter transactions with the European Union,<sup>3</sup> the balance of current transfers showed a surplus of EUR 232 million, and the amount of transactions recorded as capital transfers showed a surplus of EUR 403 million. Consequently, a total surplus of EUR 635 million was recorded in Q4.

### Financing

Inward and outward non-debt capital transactions showed a total net inflow of funds amounting to EUR 588 million in 2007 Q4. Hungarian residents' direct investments abroad in the form of equity capital amounted to EUR 642 million, while reinvested earnings equalled to EUR 300 million. Non-residents' investment in equity capital and reinvested earnings reached EUR 700 million and EUR 1,764 million, respectively. Portfolio investment transactions in equity securities showed an outflow of EUR 934 million, of which Hungarian investors' stock purchases abroad amounted to EUR 356 million, while Hungarian stocks owned by foreigners were sold to Hungarian investors in a value of EUR 579 million.

<sup>3</sup> Differently from the Hungarian practice of compiling the financial accounts, intervention purchases of agricultural products are not recorded as transactions with non-residents, and the related claims as assets vis-à-vis the EU. This approach is consistent with the approach used by Eurostat in compiling the balance of payments of EU institutions.

The dates of actually drawing on EU funds explain the quarterly differences between the amounts recorded in the balance of payments. However, Hungary's GNI-proportionate contribution to the EU budget is recorded in equal amounts.

In Q4, the balance of debt generating financing amounted to EUR 777 million, of which in other capital movements related to direct investment an outflow of EUR 184 million was related to Hungarian residents' direct investments abroad, and an outflow of EUR 704 million was related to non-residents' investments in Hungary.

**Table 1**  
**Foreign direct investment flows<sup>4</sup>**

euro million

	2006					2007				
	Q1	Q2	Q3	Q4	Q1-Q4	Q1	Q2	Q3	Q4	Q1-Q4
<b>Abroad*</b>	-579	-279	-280	-1 785	-2 923	-567	-792	-520	-1 126	-3 004
Equity capital	-143	-192	-207	-1 375	-1 917	-347	-661	-152	-642	-1 801
Reinvested earnings	-195	-30	-229	-243	-697	-234	-34	-301	-300	-869
Other capital	-241	-58	156	-166	-309	14	-97	-67	-184	-334
<b>In Hungary</b>	2 332	411	1 460	1 225	5 428	719	-205	1 774	1 760	4 049
Equity capital	894	243	688	-490	1 335	383	-719	1 067	700	1 431
Reinvested earnings	447	-1 719	1 297	1 440	1 465	709	-1 424	1 691	1 764	2 739
Other capital	991	1 887	-525	275	2 628	-372	1 939	-984	-704	-121

The data in the table follow the sign conventions used in balance of payments statistics.

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<sup>4</sup> Reinvested earnings are the difference between after-tax profit and declared dividends. For 2006 the after-tax component of direct investments already represents reported data based on corporate questionnaires, and so do reinvested earnings. After-tax profits for 2007 are still estimates. Consequently, despite the fact that dividends are based on already reported data, reinvested earnings are also only estimates. Annual data derived from the questionnaires and the estimates are nearly evenly distributed over quarters, in the ratio of the seasonal factors of GDP. Given that dividends as income are based on the owner's decision, their statistical recording is consistent with the time they are declared: 20% of the annual dividend data are accounted for Q1 and 80% for Q2. Consequently, the value of reinvested earnings is always negative in Q2.

Chart 6

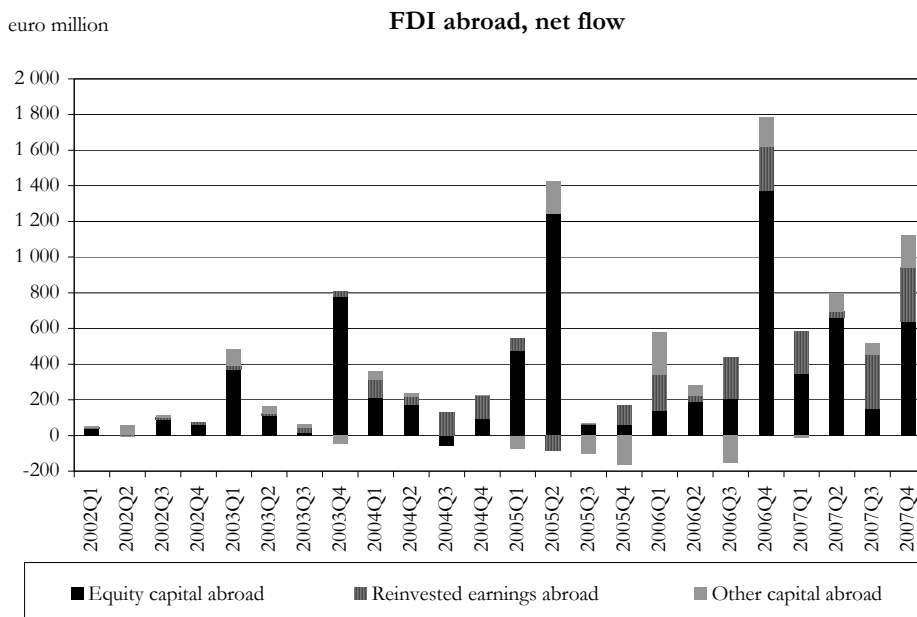
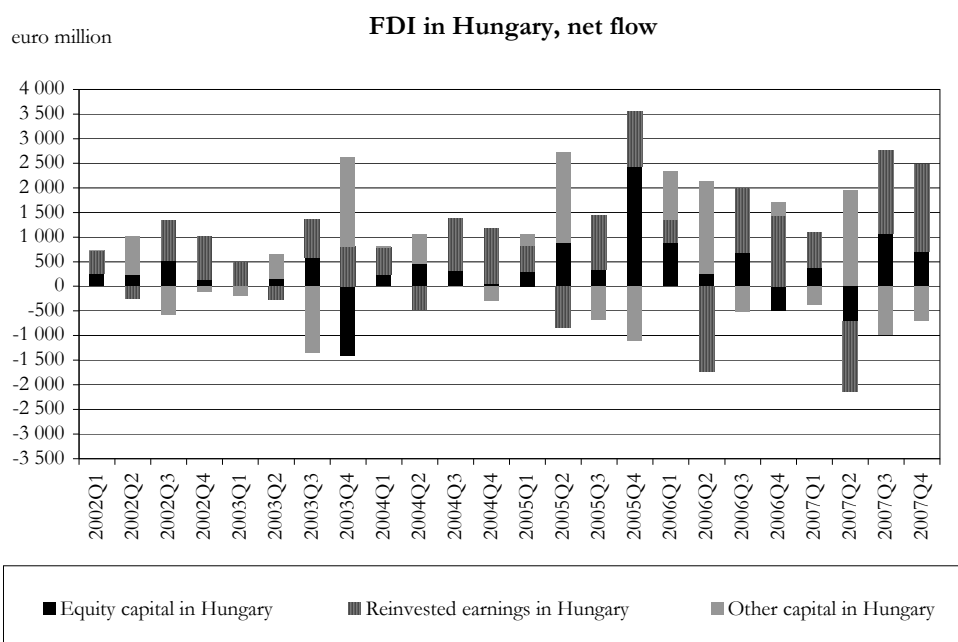


Chart 7



## Reserves and debt

Central bank foreign exchange reserves amounted to EUR 16.4 billion at end-December 2007. Whole-economy gross foreign debt was EUR 2.1 billion higher than at the end of the previous quarter. Gross foreign debt, including other investment capital recorded within direct investment, rose by EUR 4.4 billion in Q4. Hungary's net foreign debt rose by EUR 1.4 billion, while the increase was EUR 0.5 billion taking also into account other investment capital recorded within direct investment. Non-

residents' holdings of forint-denominated government securities amounted to EUR 12.9 billion at end-December 2007, up EUR 0.2 billion on the end of the previous quarter.

**Table 2**

**Stock of Foreign debt of Hungary as of end of period**

euro billion

	2006	2007			
		Q1	Q2	Q3	Q4
<b>III. Gross foreign debt, Total Economy (S.1) /1</b>	<b>68.4</b>	<b>72.6</b>	<b>77.6</b>	<b>79.2</b>	<b>81.3</b>
<b>II. Net foreign debt, Total Economy (S.1) /1</b>	<b>31.0</b>	<b>33.3</b>	<b>37.1</b>	<b>39.3</b>	<b>40.7</b>
<b>I. Gross foreign debt, Total Economy (S.1) (A+B) /2</b>	<b>83.3</b>	<b>87.6</b>	<b>94.4</b>	<b>95.2</b>	<b>99.6</b>
A: General government and Central bank (S.13+S.121)	31.1	33.0	33.9	33.8	34.2
A.1. o/w.:debt denominated in HUF /3	12.8	13.7	14.4	14.4	14.8
B. Private sector (S.1-S.13-S.121)	52.2	54.6	60.5	61.4	65.4
<b>II. Net foreign debt, Total Economy (S.1) (A+B) /2</b>	<b>37.8</b>	<b>39.8</b>	<b>45.4</b>	<b>46.5</b>	<b>47.0</b>
A: General government and Central bank (S.13+S.121)	14.1	15.3	16.1	16.5	16.9
A.1. o/w.:debt denominated in HUF /3	12.7	13.5	14.2	14.3	14.7
B. Private sector (S.1-S.13-S.121)	23.8	24.5	29.2	30.0	30.1

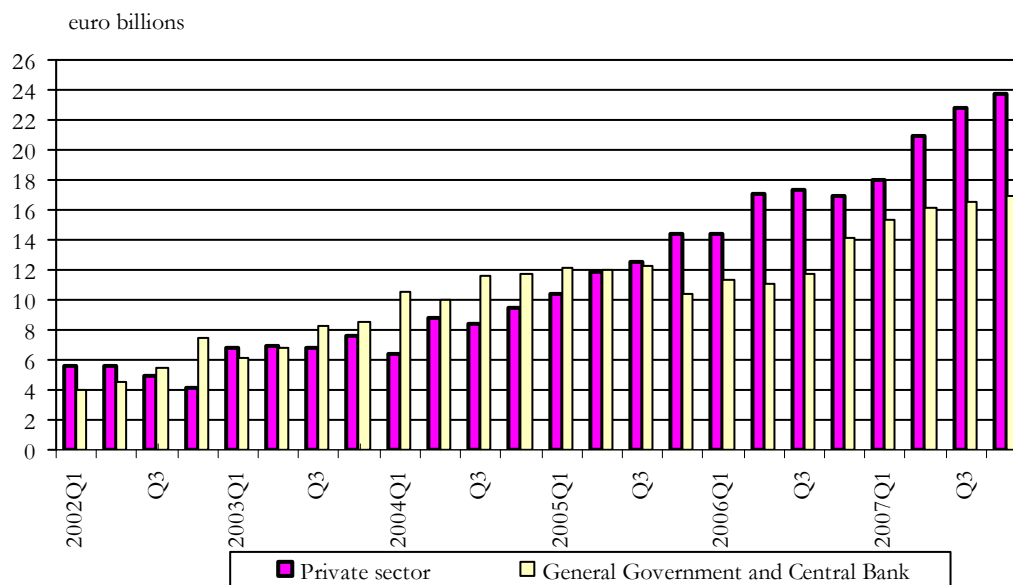
/ 1 Excluding other investment capital recorded within direct investment.

/ 2 Including other investment capital recorded within direct investment.

/ 3 Securities + other.

Note: Due to rounding, sub-totals may not add to total.

**Chart 8**  
**Net foreign debt\*, Hungary 2002-2007**



/ \* Excluding other investment capital recorded within direct investment.

Whole-economy net debt was EUR 40.7 billion at end-December 2007 (40.3% as a proportion of GDP). Including other investment capital recorded within direct investment, Hungary's net foreign



debt amounted to EUR 47.0 billion (46.6% of GDP). At the end of 2007 Q4, the net debt of the general government and the MNB was EUR 0.4 billion higher than at the previous quarter's end.

## Summary tables

**Table 3**  
**Balance of payments, Hungary**

euro million

	2006					2007				
	Q1	Q2	Q3	Q4	Q1-4	Q1	Q2	Q3	Q4	Q1-4
<b>1. Goods, net</b>	<b>-407</b>	<b>-134</b>	<b>-393</b>	<b>13</b>	<b>-921</b>	<b>279</b>	<b>441</b>	<b>317</b>	<b>395</b>	<b>1431</b>
1.1. Exports	13625	14429	14501	16525	59079	16300	16926	17202	18246	68675
1.2. Imports	14032	14563	14894	16512	60001	16021	16485	16885	17852	67243
<b>2. Services and income, net</b>	<b>-1348</b>	<b>-1378</b>	<b>-952</b>	<b>-1223</b>	<b>-4901</b>	<b>-1574</b>	<b>-1973</b>	<b>-1438</b>	<b>-1821</b>	<b>-6806</b>
2.1. Services*, net	1	377	500	391	1268	175	359	416	173	1123
2.1.1. Exports	2156	2560	2889	2944	10549	2488	2968	3496	3240	12192
2.1.2. Imports	2155	2183	2389	2554	9281	2312	2609	3080	3067	11068
2.2. Income, net	-1349	-1755	-1452	-1613	-6169	-1749	-2332	-1855	-1994	-7930
2.2.1. Income on debt, net	-404	-399	-425	-462	-1690	-501	-548	-512	-592	-2153
2.2.2. Income on equity, net	-974	-1386	-1056	-1181	-4597	-1268	-1812	-1376	-1437	-5893
2.2.3. Compensation of employees, net	29	30	28	29	117	19	28	34	35	116
<b>3. Current transfers</b>	<b>245</b>	<b>-6</b>	<b>106</b>	<b>32</b>	<b>377</b>	<b>184</b>	<b>17</b>	<b>-200</b>	<b>313</b>	<b>315</b>
<b>4. Current account balance</b>	<b>-1511</b>	<b>-1517</b>	<b>-1239</b>	<b>-1178</b>	<b>-5446</b>	<b>-1111</b>	<b>-1515</b>	<b>-1321</b>	<b>-1113</b>	<b>-5060</b>
<b>5. Capital account balance</b>	<b>114</b>	<b>35</b>	<b>209</b>	<b>318</b>	<b>675</b>	<b>54</b>	<b>32</b>	<b>601</b>	<b>348</b>	<b>1035</b>
<b>6. Net external financing capacity (4+5)</b>	<b>-1397</b>	<b>-1482</b>	<b>-1030</b>	<b>-860</b>	<b>-4770</b>	<b>-1058</b>	<b>-1483</b>	<b>-720</b>	<b>-765</b>	<b>-4025</b>
<b>7. Non debt creating financing, net</b>	<b>1141</b>	<b>-2438</b>	<b>1195</b>	<b>-381</b>	<b>-483</b>	<b>-136</b>	<b>-3916</b>	<b>-388</b>	<b>588</b>	<b>-3852</b>
7.1. Abroad, net	-338	-221	-436	-1618	-2614	-581	-695	-453	-942	-2670
7.1.1. Equity capital	-143	-192	-207	-1375	-1917	-347	-661	-152	-642	-1801
7.1.2. Reinvested earnings	-195	-30	-229	-243	-697	-234	-34	-301	-300	-869
7.2. In Hungary, net	1341	-1476	1985	950	2800	1091	-2143	2758	2464	4170
7.2.1. Equity capital	894	243	688	-490	1335	383	-719	1067	700	1431
7.2.2. Reinvested earnings	447	-1719	1297	1440	1465	709	-1424	1691	1764	2739
7.3. Portfolio investment, equity securities, net	139	-741	-354	288	-668	-646	-1078	-2693	-934	-5352
*- o/w: Travel, net	263	487	507	427	1684	214	404	382	300	1301
credit	614	830	1104	824	3371	618	875	1159	798	3450
debit	351	343	597	397	1687	404	471	777	498	2149

Note: Due to rounding, sub-totals may not add to total.

**Table 4**  
**Balance of payments, Hungary (seasonally adjusted data) <sup>a)</sup>**

euro million

	2005				2006				2007			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>1. Goods, net</b>	<b>-347</b>	<b>-252</b>	<b>-532</b>	<b>-341</b>	<b>-270</b>	<b>-165</b>	<b>-207</b>	<b>125</b>	<b>264</b>	<b>393</b>	<b>473</b>	<b>526</b>
1.1. Exports	11651	12544	12840	13042	14050	14333	14855	15779	16802	16816	17615	17427
1.2. Imports	11912	12741	13499	13422	14306	14374	15156	15725	16552	16308	17101	17014
<b>2. Services and income, net</b>	<b>-1154</b>	<b>-1217</b>	<b>-1258</b>	<b>-1212</b>	<b>-1333</b>	<b>-1267</b>	<b>-1353</b>	<b>-1397</b>	<b>-1531</b>	<b>-1703</b>	<b>-1696</b>	<b>-1822</b>
2.1. Services	239	185	241	260	199	332	307	380	333	305	294	237
2.1.1. Travel, net	357	263	355	363	347	434	419	426	364	345	308	280
credit	1012	809	833	776	792	849	853	902	828	845	839	867
debit	533	553	434	389	422	365	443	460	489	508	573	577
2.1.2. Other services, net	-154	-12	-120	-100	-209	-131	-52	-23	18	-80	-43	-99
credit	1553	1704	1854	1854	1625	1743	1811	1978	1971	2108	2370	2277
debit	1718	1759	1981	1906	1823	1880	1845	1854	1996	2176	2334	2304
2.2. Income, net	-1394	-1402	-1498	-1472	-1532	-1599	-1660	-1777	-1863	-2009	-1990	-2059
2.2.1. Income on debt, net	-422	-420	-460	-443	-403	-402	-435	-452	-496	-529	-538	-578
2.2.2. Income on equity, net	-987	-1004	-1069	-1059	-1163	-1216	-1258	-1365	-1392	-1475	-1495	-1523
2.2.3. Compensation of employees, net	26	26	26	26	31	29	28	28	25	28	31	31
<b>3. Current transfers</b>	<b>-8</b>	<b>77</b>	<b>-82</b>	<b>190</b>	<b>245</b>	<b>-6</b>	<b>106</b>	<b>32</b>	<b>184</b>	<b>17</b>	<b>-200</b>	<b>313</b>
<b>4. Current account balance</b>	<b>-1571</b>	<b>-1368</b>	<b>-1697</b>	<b>-1438</b>	<b>-1505</b>	<b>-1442</b>	<b>-1250</b>	<b>-1301</b>	<b>-1196</b>	<b>-1257</b>	<b>-1185</b>	<b>-1116</b>
<b>5. Capital account</b>	<b>181</b>	<b>204</b>	<b>107</b>	<b>186</b>	<b>152</b>	<b>120</b>	<b>186</b>	<b>169</b>	<b>129</b>	<b>143</b>	<b>584</b>	<b>198</b>
<b>6. Net external financing capacity</b>	<b>-1392</b>	<b>-1278</b>	<b>-1459</b>	<b>-1324</b>	<b>-1330</b>	<b>-1279</b>	<b>-1154</b>	<b>-1092</b>	<b>-1022</b>	<b>-1006</b>	<b>-883</b>	<b>-885</b>

\* \* \* \* \*

The Bank will release the data on Hungary's balance of payments and international investment position for 2008 Q1 as well as revised balance of payments and IIP statistics for 2007 Q3 and Q4 on 30 June 2008.

\* \* \* \* \*

a) **Methodological notes to seasonal adjustment:**

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

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.

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.

Of the various *outliers*, the software identifies additive outliers, pertaining to one period, and transitory changes, pertaining to several periods.

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 ( $Y_t = 1/9 * X_{t-2} + 2/9 * X_{t-1} + 3/9 * X_t + 2/9 * X_{t+1} + 1/9 * X_{t+2}$ ), instead of the trend calculated by the programme.

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 tables:**

- 1) 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 website at Financial Data...Statistical Releases, 'Sector classification in the MNB's statistical press releases from June 2001' ([www.mnb.hu](http://www.mnb.hu)).
- 2) In conformity with the data dissemination standards of the IMF, the MNB publishes data on external debt in a new composition among the statistical time series on its website, beginning with the release of 2003 Q4 data. The difference between gross foreign debt, published earlier on a regular basis, and the new category of debt is that the latter does not group liabilities arising from financial derivatives into the elements of debt. In the following, both data will be published on the Bank's website, accompanied by references to the relevant types of debt.

**MAGYAR NEMZETI BANK**

STATISTICS