

PRESS RELEASE

Hungary's balance of payments: 2003 Q1

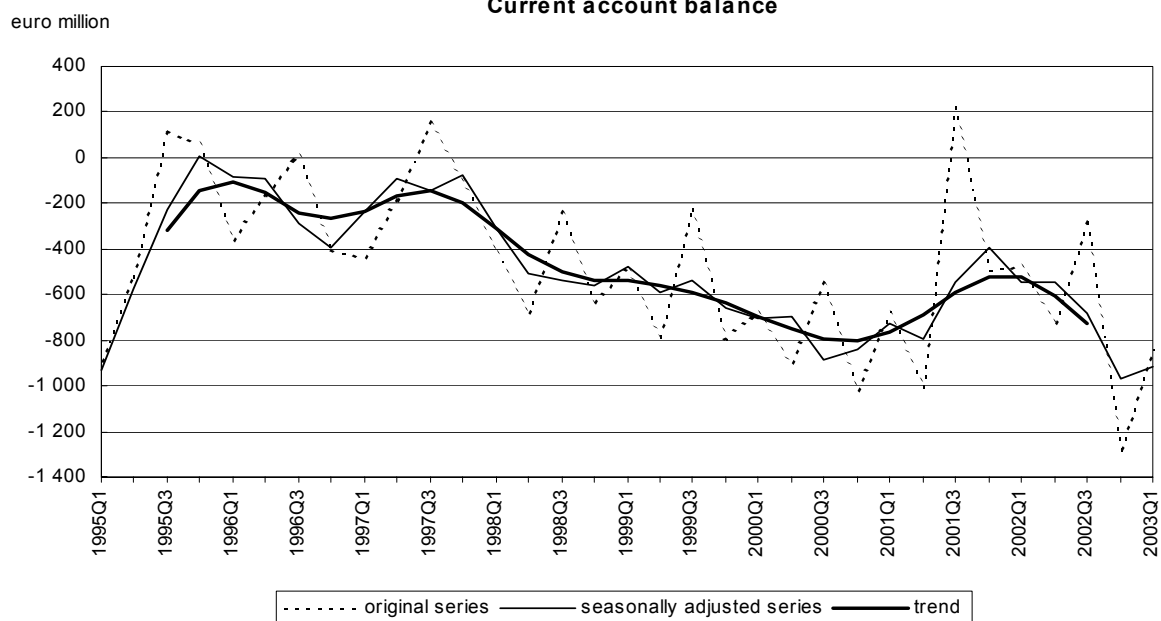
From 2003, the Bank has shifted the focus of its releases from monthly to quarterly data. On a monthly basis, the Bank only publishes the balance of payments data consisting of the main aggregates, in addition to international reserves data, on the R+30th working day. Unlike the earlier practice, IIP data are not be published. While keeping the previous structure, detailed balance of payments and IIP data are only compiled and published quarterly and yearly on the Bank's website before the end of the quarter following the reference period. With the introduction of the new system of data releases, the Bank has also changed its data revision practice. Monthly data are revised regularly at the time of releasing and revising quarterly and yearly data. Quarterly data are not revised within a year – they are only revised at the time of releasing and revising yearly data. Yearly data are revised twice – in the 15th month following the reference year as well as a year later. For more details, see the [methodological description](http://www.mnb.hu/dokumentumok/fm_modszertan_2003_en.pdf) at: http://www.mnb.hu/dokumentumok/fm_modszertan_2003_en.pdf

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Based on the quarterly data, Hungary's current account registered a EUR 849 million deficit in 2003 Q1. This was nearly EUR 140 million lower than the deficit derived from data released for the first three month of the year. After eliminating the seasonal effects, the deficit was less than in the previous quarter. This meant that the rapid build-up of deficit in the previous three quarters came to an end in 2003 Q1 (see Chart 1).

Chart 1

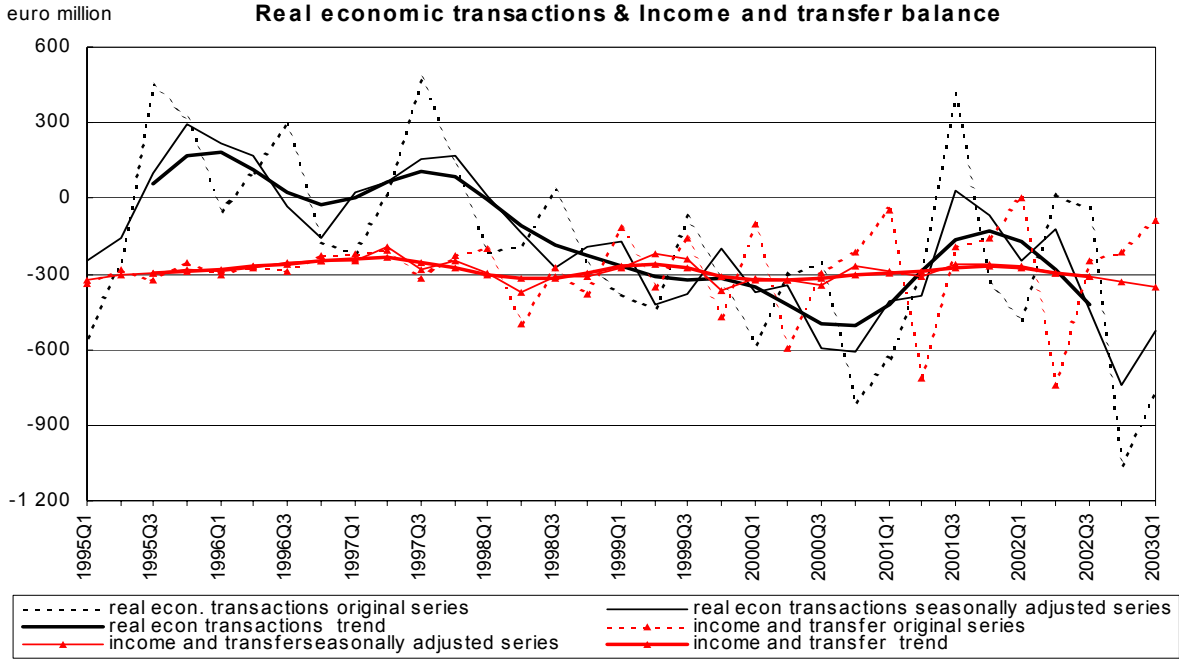
Current account balance



Real economic transactions (goods and services) continue to play a dominant role in current account balance outcomes. Over the longer term, income and current transfers appear to be

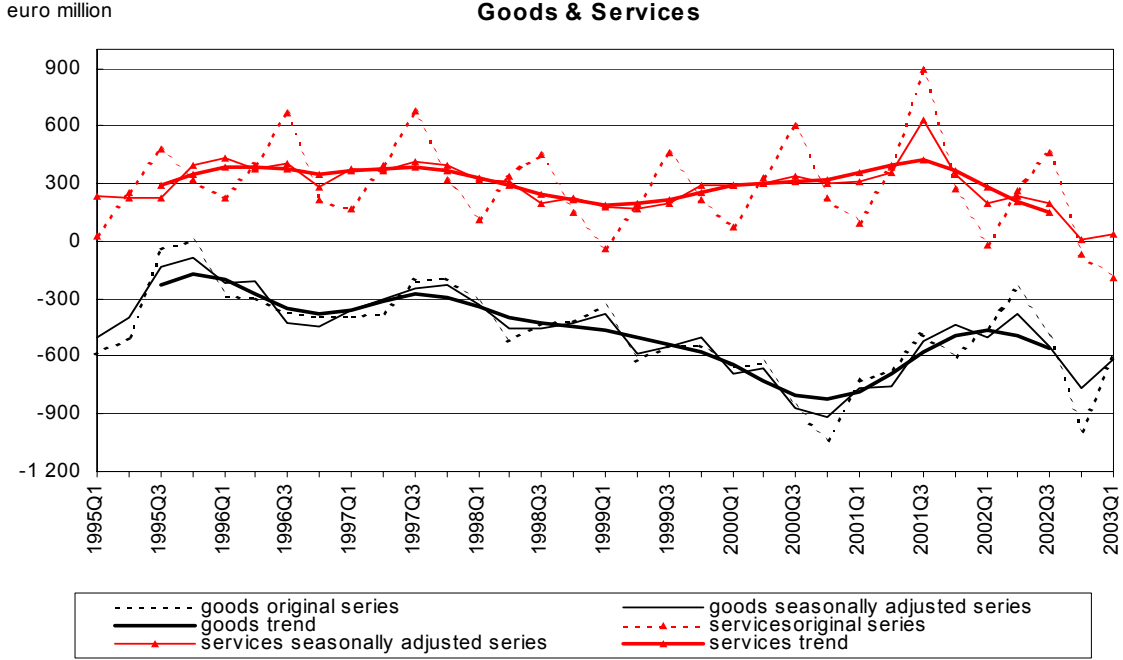
in broad balance (see Chart 2), although the seasonally adjusted deficit on this sub-account has exceeded the deficit for the previous period for the fourth consecutive quarter. Explanation for this is the financing structure of the current account deficit. In 2003 Q1, non-debt flows were in deficit. As a consequence, it was the increase in net foreign debt that financed Hungary's current account deficit.

Chart 2

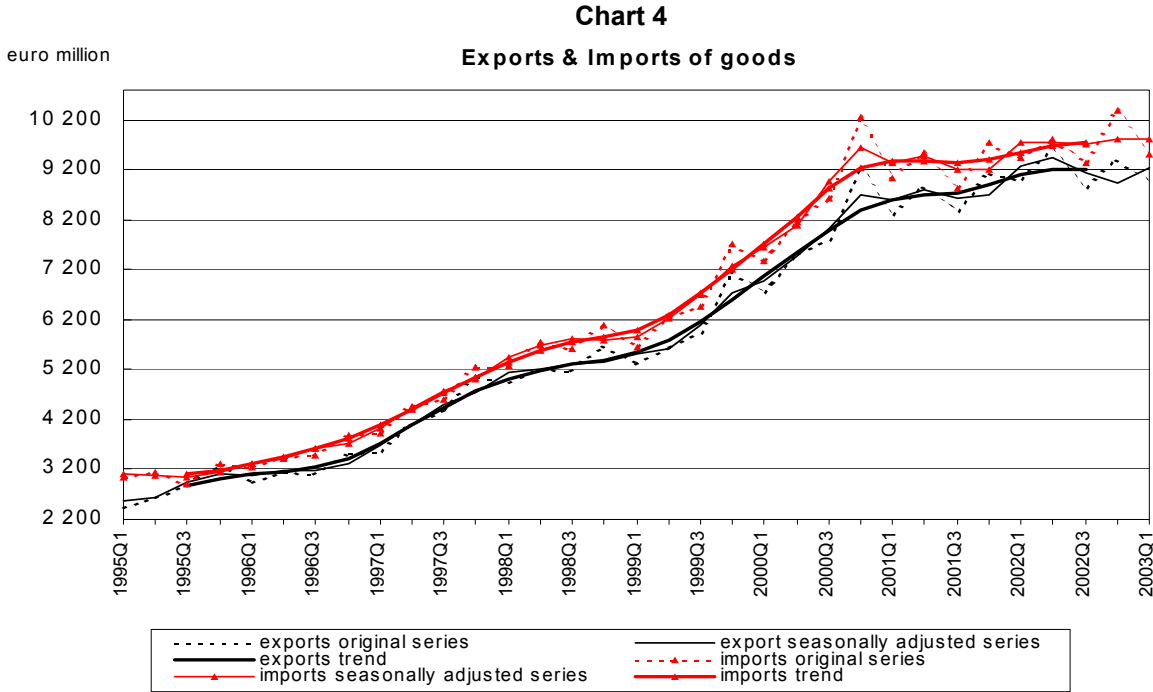


The deficit on real economic transactions fell relative to the previous quarter, in which the improvement in goods balance played a dominant role. After eliminating the seasonal effects, the balance on service transactions also improved slightly in comparison with the previous quarter. This led to a slowdown in growth in the deficit which started in 2001 (see Chart 3).

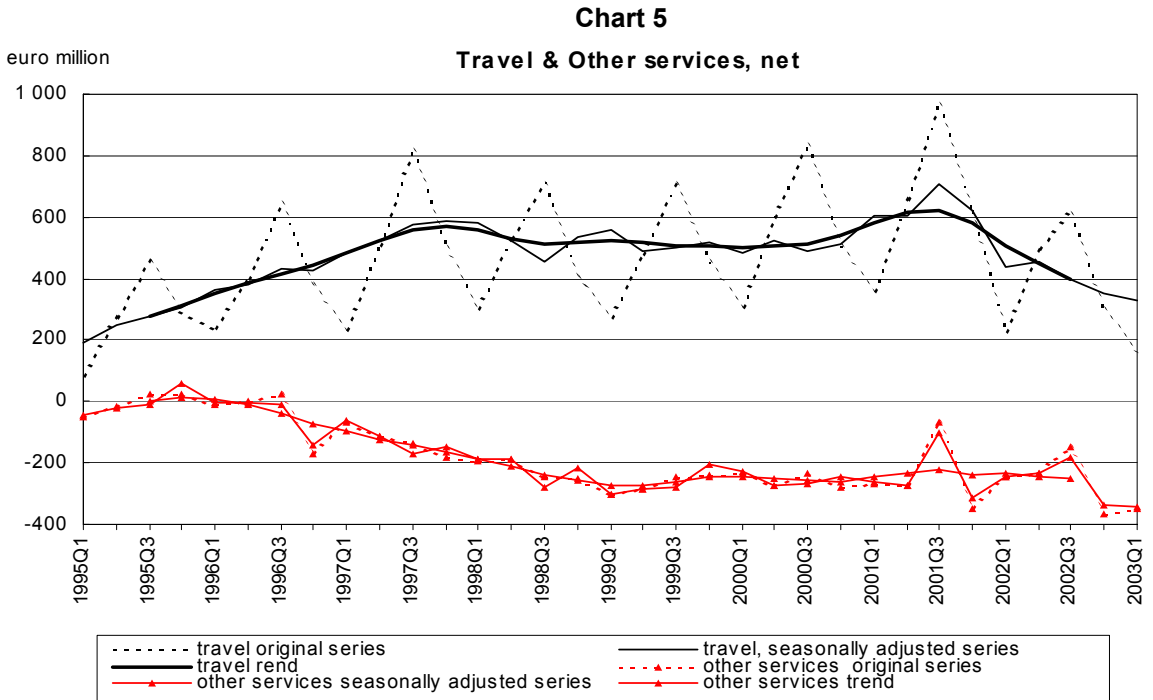
Chart 3



The rise in seasonally adjusted exports was dominant in the improvement in the goods balance relative to the previous quarter, imports remaining level (see Chart 4).¹ Over a longer period, the upward trend of imports picked up slightly, that of exports being uncertain.



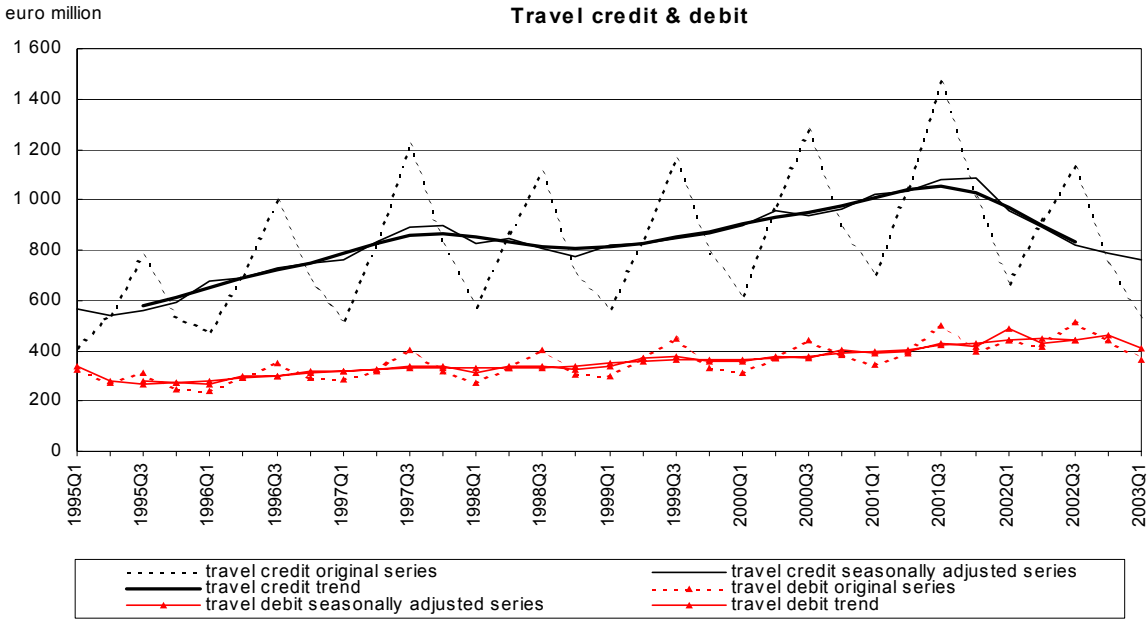
Within services, there was a slowdown in deterioration on both the travel and the other services accounts (see Chart 5). In the case of other services, this was accompanied by a robust increase in both expenditure and revenue.



¹ In line with the new practice of data releases and revisions, first-quarter data are the first revisions of data released in January, February and March. First-quarter exports were EUR 263 million higher than the sum of data released in the first three quarters, first quarter imports being EUR 78 million higher. The Bank will publish on its website the revised data as part of the time series of the monthly balance of payments.

Growth in seasonally adjusted travel revenue since mid-2001 slowed in the quarter under review. Although the trend of expenditures has been slightly upwards in recent years, the seasonally adjusted data for 2002 Q1 were lower than in the previous quarter (see Chart 6).

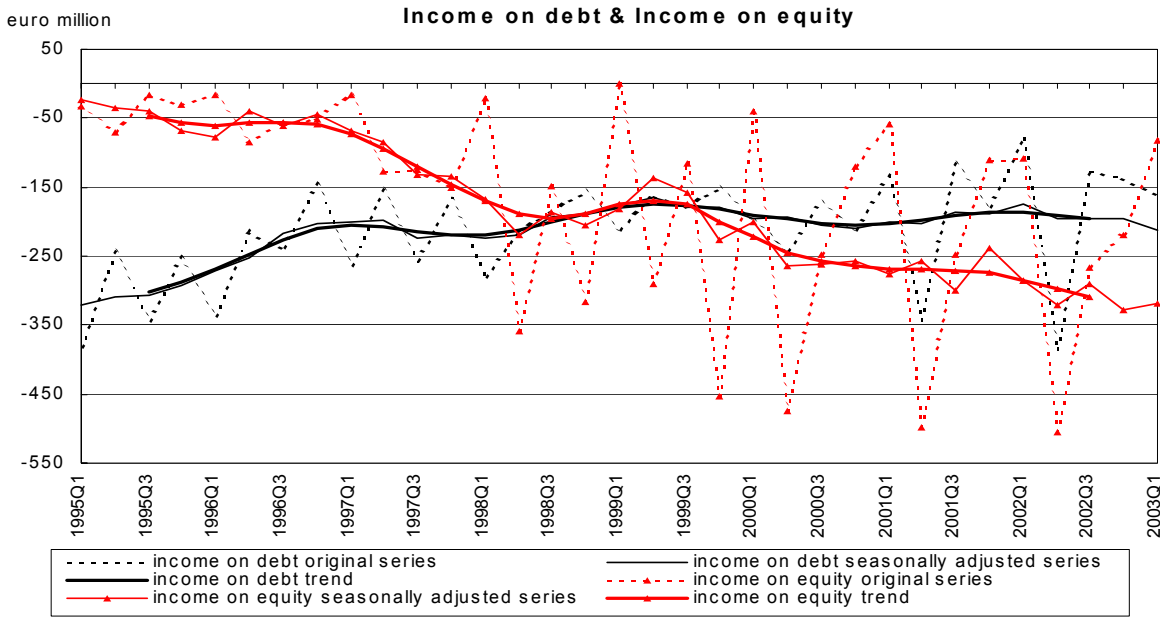
Chart 6



The income and transfer account is the other major component of the current account, in addition to real economic transactions (see Chart 2). Here, developments in income on debt and income on equity are dominant. Seasonally adjusted outflows of income on debt have been around EUR 200 million for several years now. Consistent with developments in the financing pattern of the current account deficit, the data for 2003 Q1 show a slight increase. This was important in terms of the increase in the seasonally adjusted deficit on the income and transfer account in 2003 Q1 (see Chart 7).

The seasonally adjusted deficit on income on equity have been rising steadily. However, the first-quarter data traditionally mark the yearly low.

Chart 7



Before and after eliminating the seasonal effects, the surplus on current transfers in 2003 Q1 was slightly lower than a year earlier. The seasonally adjusted trend of surpluses has been fluctuating around the same level since 2002.

Inward and outward non-debt capital transactions showed a net outflow of EUR 65 million in 2003 Q1. The value of direct investment in equity capital was the net result of direct investment transactions by Hungarian residents abroad and by non-residents in Hungary, in the amounts of EUR 355 million and EUR 79 million respectively. Portfolio investment transactions in equity securities showed a net inflow of EUR 212 million in the period under review.

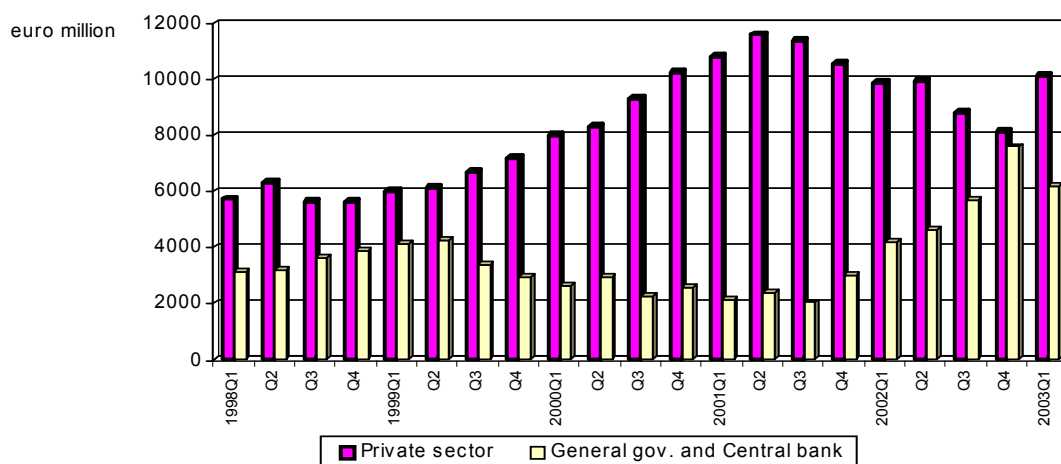
Central bank foreign exchange reserves amounted to EUR 12.5 billion at end-March 2003. Whole-economy gross foreign debt was EUR 1.9 billion higher than at the end of 2002. Transactions contributed EUR 2.1 billion to the increase in gross debt, the downward effect of price and exchange rate movements as well as other volume changes being EUR 0.3 billion. Transactions contributed EUR 0.9 billion to the increase in net debt. The downward effect of other factors was EUR 0.3 billion. The outstanding total of forint-denominated government and central bank securities was EUR 0.8 billion at end-March 2003, EUR 0.4 billion higher than at the end of the previous year.

Foreign debt of Hungary

	Euro million	
	2002 Q4	2003 Q1
I. Gross foreign debt, Total Economy (S.1) (A+B)	38.6	40.5
A: General government and Central bank (S.13+S.121)	18.4	19.3
A.1. o/w.:debt securities denominated in HUF	7.6	8.0
B. Private sector (S.1-S.13-S.121)	20.2	21.3
B.1. o/w.:Intercompany loans	6.2	5.9
II. Net foreign debt, Total Economy (S.1) (A+B)	15.7	16.3
A: General government and Central bank (S.13+S.121)	7.6	6.2
A.1. o/w.:debt securities denominated in HUF	7.6	8.0
B. Private sector (S.1-S.13-S.121)	8.1	10.1
B.1. o/w.:Intercompany loans	3.9	3.3
III. Gross foreign debt denominated in foreign currencies, Total Economy (S.1) ^{a)}	24.8	26.6
IV. Net foreign debt denominated in foreign currencies, Total Economy (S.1) ^{a)}	4.2	5.0

a) excluding intercompany loans

Net foreign debt, Hungary 1998-2003 (by sectors, including intercompany loans)



The continuous increase in the net debt of general government and the MNB since mid-2001 was replaced by a decrease at the end of 2003 Q1, due to the higher level of reserves. The private sector's net debt developed in the opposite direction, as the increase in debt and the fall in assets both resulted in a deterioration in the net external position.

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Balance of payments, Hungary

Euro million

	2001				2002				2003
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
1. Goods, net	-726	-676	-486	-608	-458	-247	-505	-994	-574
1.1. Exports	8310	8878	8352	9157	8991	9587	8841	9401	8942
1.2. Imports	9036	9554	8838	9765	9449	9834	9346	10395	9517
2. Services and income, net	-56	-412	575	23	-167	-580	96	-392	-401
2.1. Services*, net	91	384	899	269	-24	265	465	-70	-185
2.1.1. Exports	1614	1971	2623	2158	1825	2068	2337	2007	1863
2.1.2. Imports	1523	1587	1724	1889	1849	1803	1872	2077	2049
2.2. Income, net	-147	-796	-324	-246	-143	-845	-369	-322	-215
2.2.1. Income on debt, net	-135	-343	-116	-179	-79	-384	-128	-138	-162
2.2.2. Income on equity, net	-60	-498	-248	-110	-109	-506	-267	-220	-83
2.2.3. Compensation of employees, net	47	46	39	44	44	46	25	35	30
3. Current transfers	99	79	130	91	145	101	123	106	126
4. Current account balance	-684	-1009	219	-494	-480	-726	-285	-1280	-849
5. Non debt creating financing, net	300	307	162	41	335	168	311	77	-65
5.1. Direct investment, equity capital, net	227	286	148	61	222	228	433	193	-277
5.1.1. Abroad, net	-312	-45	-44	25	-38	-7	-95	-63	-355
5.1.2. In Hungary, net	539	331	192	36	260	236	528	257	79
5.2. Portfolio investment, equity securities, net	73	22	13	-20	113	-60	-123	-117	212
*- o/w: Travel, net	359	656	966	615	223	498	611	297	160
credit	705	1045	1464	1010	666	915	1125	741	526
debit	346	389	498	394	444	417	514	443	365

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

Euro million

	2001				2002				2003
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
1. Goods, net	-761	-754	-522	-431	-497	-374	-550	-761	-614
1.1. Exports	8594	8792	8635	8687	9288	9453	9140	8946	9241
1.2. Imports	9332	9487	9197	9209	9744	9746	9729	9807	9816
2. Services and income, net									
2.1. Services									
2.1.1. Travel, net	601	601	707	622	439	456	398	354	331
credit	1024	1035	1082	1083	954	889	819	786	759
debit	389	399	426	414	485	429	442	459	412
2.1.2. Other services, net	-264	-275	-100	-314	-243	-235	-179	-335	-342
credit	906	987	1178	1094	1145	1186	1224	1257	1311
debit	1149	1208	1301	1364	1351	1397	1462	1490	1643
2.2. Income, net									
2.2.1. Income on debt, net	-199	-202	-185	-189	-175	-195	-196	-195	-212
2.2.2. Income on equity, net	-275	-256	-299	-239	-285	-321	-291	-329	-317
2.2.3. Compensation of employees, net	41	48	44	43	45	39	32	33	26
3. Current transfers	93	83	127	96	139	104	121	111	120
4. Current account balance	-728	-797	-542	-396	-543	-544	-682	-970	-916

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The MNB will release the May 2003 balance of payments on 14 July 2003.

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^{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:

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'.