



23 September 2014

PRESS RELEASE

Hungary's balance of payments: 2014 Q2

The international methodological standards for balance of payments statistics (Balance of Payments and International Investment Position Manual 6th Edition - BPM6), revised in recent years, will be implemented uniformly in the European Union Member States, including in Hungary, in 2014. The press release of 23 September, containing Hungary's balance of payments data for 2014 Q2, is the second to be published with a content and detail reflecting the new methodological requirements.

With the publication of Hungary's national accounts by the Hungarian Central Statistical Office (HCSO) in September 2014, the changeover to the new methodology (ESA 2010) will also be completed. The methodologies for the balance of payments statistics and the national account statistics are consistent with each other. The revision of time series, made necessary by the changeover, has provided an opportunity for data revisions, use of new data sources and changes to estimation methods for long time series exceeding the normal revision periods. Consequently, the published data will reflect two influences: first, the change to the international methodology and, second, the data revision improving the quality of statistics.

Balance of payments statistics have been compiled in cooperation with the HCSO for more than a decade. A number of balance of payments data collected by the HCSO are taken over by the MNB. As a result, data revisions by the HCSO are reflected in the balance of payments statistics through input data.

Balance of payments and international investment position data compiled in accordance with the new methodology going back to 1995¹ are published on the MNB's website.

- 1) Data on **households' holdings of currency, deposits abroad and equity investments** have been revised simultaneously with the methodological changeover. The use of new data sources has made it possible to present a more detailed picture of the sector's financial investments abroad. These changes are also reflected in the closing balance for the direct investment time series back to the end of 1998 and in the other investments time series back to 2008.*
- 2) Data on **compensation of employees and the related transfers, as well as workers' remittances** are compiled by the HCSO.*

At the time of the changeover to the ESA 2010, the HCSO revised its data sources used to produce estimates for such data. As a result, the data have changed significantly. The HCSO will inform users of this revision in its publication 'National Accounts of Hungary, 2013 (Preliminary estimation)' to be released on 30 September 2014.

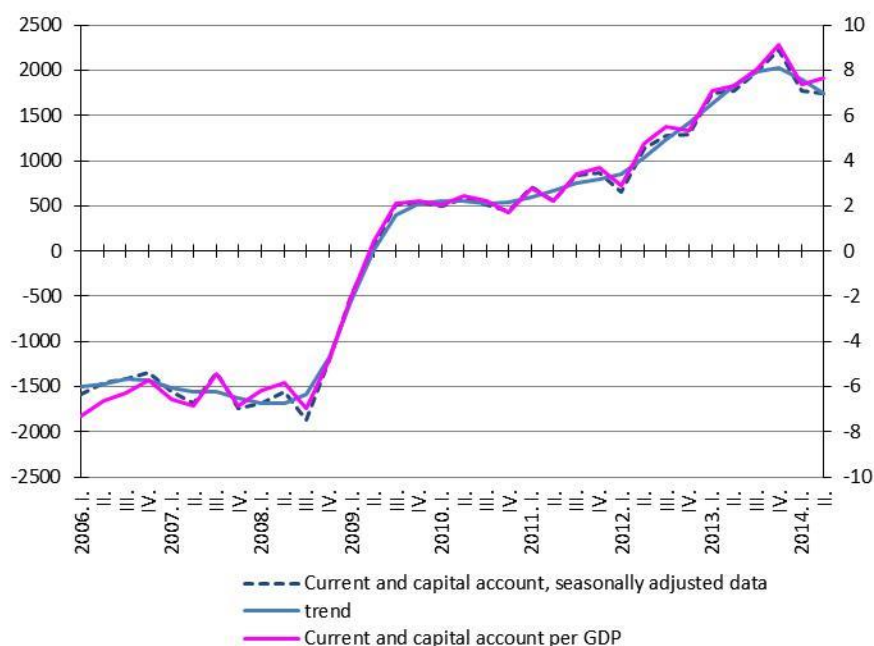
- 3) The new statistical methodologies discuss in detail the issue of economic ownership and legal ownership. It is important in compiling statistical accounts that where there is a difference between the two concepts, the former should be applied in determining the change of ownership. In connection with this, the HCSO and MNB have reclassified certain **lease transactions from operating leases into financial leases** after a detailed analysis of the transactions affected.*

¹ Statistical data compiled on the basis of the old (BPM5) methodology will continue to be available on the Bank's website frozen, reflecting the revision as at the end of March 2014.

The effects of the mythological changeover were dealt with by the [press release of 24 June 2014](#) and were discussed in detail in the [methodological notes](#). The quantified impact of the methodological change is presented on the [methodological changeover page](#) on the MNB's website and in the publication on balance of payments statistics in connection with the introduction of the new methodology to be published soon.

In 2014 Q2, Hungary's unadjusted net external financing capacity (i.e. the combined surplus on its current and capital accounts) amounted to EUR 1,572 million (HUF 543 billion).² Adjusted for seasonal effects, the net external financing capacity was EUR 1,751 million or 7.7% of GDP (HUF 584 billion).

Chart 1
Net external financing capacity in EUR millions (left-hand scale)
and as a percentage of GDP (right-hand scale)



² Consistent with its practice of releasing and revising statistical data, on 23 September 2014 the MNB is publishing Hungary's balance of payments and international investment position statistics for 2014 Q2 for the first time, as well as revised back data.

Table 1
Current account balance and net external financing capacity (EUR millions)

	2011	2012	2013					2014		
	Y.	Y.	Q1	Q2	Q3	Q4	Q1-Q4	Q1	Q2	Q1-Q2
1. Current account, net (1.A+1.B+1.C)	754	1 873	858	824	1 564	917	4 162	1 067	809	1 876
1.A. Goods and Services, net	6 213	6 836	1 784	1 851	2 467	1 522	7 623	1 799	1 776	3 576
Exports	87 833	86 424	21 227	22 343	22 768	22 859	89 197	22 150	23 625	45 776
Imports	81 620	79 588	19 444	20 492	20 301	21 337	81 573	20 351	21 849	42 200
1.A.a. Goods, net	2 925	3 038	901	777	1 157	752	3 586	971	578	1 549
Exports	71 793	70 299	17 467	18 095	18 209	18 638	72 409	18 340	19 260	37 600
Imports	68 868	67 261	16 566	17 318	17 052	17 886	68 822	17 368	18 682	36 051
1.A.b. Services, net	3 288	3 798	883	1 074	1 310	771	4 037	828	1 199	2 027
Exports	16 039	16 125	3 761	4 248	4 558	4 221	16 788	3 811	4 365	8 176
Imports	12 752	12 327	2 878	3 174	3 248	3 451	12 751	2 983	3 166	6 149
1.B. Primary income, net	-4 892	-4 160	-563	-933	-737	-674	-2 907	-489	-804	-1 293
1.B.1. Compensation of employees, net	981	1 648	518	537	545	569	2 168	525	543	1 068
1.B.2. Investment income, net	-7 170	-7 097	-1 465	-1 798	-1 565	-1 657	-6 485	-1 327	-1 706	-3 033
1.B.2.1. Direct investment income, net	-4 714	-4 408	-884	-959	-994	-1 084	-3 921	-776	-912	-1 688
1.B.2.2. Portfolio investment income, net	-1 962	-2 274	-537	-791	-519	-539	-2 387	-520	-758	-1 279
1.B.2.3. Other investment income, net	-1 366	-1 207	-224	-217	-197	-188	-826	-182	-177	-359
1.B.2.4. Reserve assets, net	872	793	180	169	145	154	648	151	141	293
1.B.3. Other primary income, net	1 297	1 288	384	329	282	414	1 410	314	358	672
-of which: EU transfers	1 297	1 288	384	329	282	414	1 410	314	358	672
1.C. Secondary income, net	-567	-802	-363	-94	-166	69	-554	-243	-163	-407
-of which: EU transfers	-26	105	-127	161	78	304	417	12	107	119
2. Capital account, net	2 353	2 532	607	830	614	1 590	3 641	498	763	1 262
-of which: EU transfers	2 388	2 497	598	812	616	1 579	3 605	480	755	1 235
3. Financial account (net assets) (3.1+3.2+3.3+3.4+3.5)	724	4 789	1 443	2 047	1 779	1 909	7 178	1 050	1 535	2 585
3.1. Direct investment (net assets)	-972	-2 021	-445	914	794	-1 636	-373	-631	1 953	1 323
3.1.k. Abroad (net assets)	3 165	9 081	184	30	-945	2 013	1 283	483	360	843
3.1.1.k Equity (net assets)	298	12 743	103	192	-935	1 786	1 147	464	541	1 005
3.1.1.1.ki Equity other than reinvestment of earnings (net assets)	359	11 744	95	167	-1 142	1 544	663	372	476	848
3.1.1.2.ki Reinvestment of earnings (net assets)	-61	999	8	25	207	243	484	92	65	157
3.1.2.ki Debt instruments (net assets)	2 867	-3 663	81	-162	-10	226	136	19	-181	-162
3.1.2.1.ki Assets	2 776	-3 340	-12	-115	92	528	493	-25	68	44
3.1.2.2.ki Liabilities	-92	323	-93	47	101	301	357	-44	249	206
3.1.t In Hungary (net liabilities)	4 137	11 101	629	-883	-1 739	3 649	1 656	1 114	-1 593	-479
3.1.1.t Equity (net liabilities)	4 388	5 796	520	-1 014	882	3 201	3 590	826	-2 362	-1 537
3.1.1.1.be Equity other than reinvestment of earnings (net liabilities)	3 162	4 347	123	206	-186	2 028	2 171	295	-1 336	-1 040
3.1.1.2.be Reinvestment of earnings (net liabilities)	1 226	1 450	397	-1 219	1 068	1 173	1 419	531	-1 027	-496
3.1.2.be Debt instruments (net liabilities)	-251	5 305	109	130	-2 621	448	-1 934	288	769	1 057
3.1.2.1.be Assets	384	-7 058	1 626	893	770	-1 238	2 051	523	-29	493
3.1.2.2.be Liabilities	133	-1 753	1 735	1 023	-1 851	-790	117	811	740	1 550
3.2. Portfolio investment (net assets)	-6 416	-1 508	-1 368	-1 101	833	-1 438	-3 073	-989	709	-280
3.2.k Assets	-1 554	-751	-200	-13	2	-141	-351	195	479	674
3.2.t Liabilities	4 862	757	1 168	1 088	-831	1 296	2 722	1 184	-229	955
3.3. Financial derivatives (other than reserves), net assets	787	-274	-228	-53	-112	-185	-579	5	47	53
3.3.k Assets	-5 015	-4 665	-1 207	-844	-748	-1 095	-3 893	-854	-1 755	-2 609
3.3.t Liabilities	-5 802	-4 391	-979	-791	-636	-909	-3 314	-860	-1 802	-2 662
3.4. Other investment (net assets)	3 451	11 943	1 639	2 943	3 581	1 830	9 993	249	-984	-736
3.4.k Assets	-1 780	-1 886	-221	150	-200	70	-200	-392	-1 325	-1 717
3.4.t Liabilities	-5 231	-13 830	-1 860	-2 793	-3 781	-1 759	-10 193	-641	-341	-982
3.5. Reserve assets	3 874	-3 351	1 845	-656	-3 317	3 338	1 210	2 416	-190	2 225
Memorandum:										
Net external financing capacity										
Net external financing capacity (CA and Capital account)	3 107	4 406	1 465	1 654	2 178	2 506	7 803	1 565	1 572	3 137
Financial account balance	724	4 789	1 443	2 047	1 779	1 909	7 178	1 050	1 535	2 585
Difference (Net errors and omissions)	-2 383	384	-22	393	-399	-597	-625	-515	-37	-552

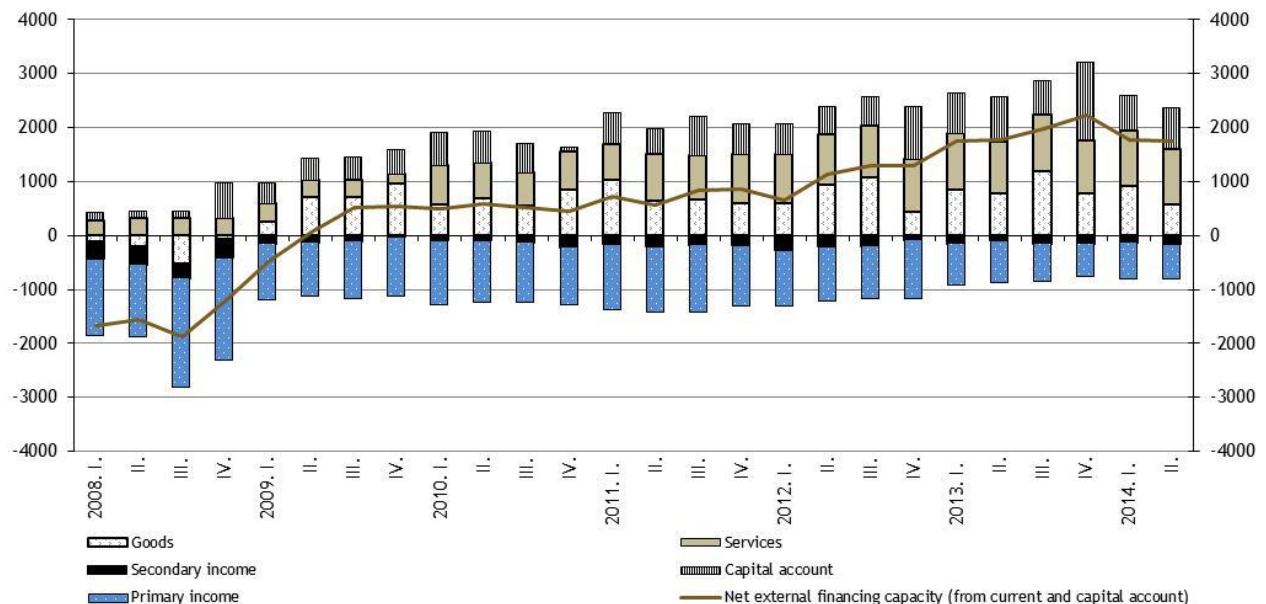
Table 2
Net external financing capacity (seasonally adjusted data; EUR millions)

	2013				2014	
	I. n.év	II. n.év	III. n.év	IV. n.év	I. n.év	II. n.év
1. Real economic transactions, net (Goods and services)	1 895	1 742	2 205	1 875	1 895	1 709
1.1. Export	21 884	22 214	22 409	22 655	22 861	23 477
1.2. Import	20 020	20 518	20 278	20 741	20 969	21 863
1.1. Goods	859	779	1 196	794	929	579
1.1.1. Export	17 834	18 055	18 236	18 283	18 729	19 209
1.1.2. Import	17 108	17 346	17 176	17 455	17 942	18 703
1.2. Services	1 036	968	1 054	976	1 025	1 035
1.2.1. Travel, net	654	672	666	669	679	678
export	1 023	1 042	972	1 011	1 100	1 096
import	328	372	359	352	374	410
1.2.2. Other services, net	404	316	491	347	339	427
export	3 122	3 163	3 254	3 247	3 112	3 235
import	2 755	2 888	2 793	2 871	2 831	2 838
2. Primary income	-760	-781	-711	-604	-676	-640
3. Secondary income	-146	-93	-146	-143	-125	-156
4. Current account balance	950	865	1 212	1 127	1 146	883
5. Capital account	746	826	626	1 451	642	750
6. Net external financing capacity	1 744	1 769	1 981	2 228	1 777	1 751

Note: Seasonally adjusted Primary income data is corrected at 11h45 on 23 September 2014. Chart2 and the related paragraph are also corrected for this error accordingly.

1 Main developments in net external financing capacity (current and capital account aggregates)

Chart 2
Net external financing capacity (EUR millions)



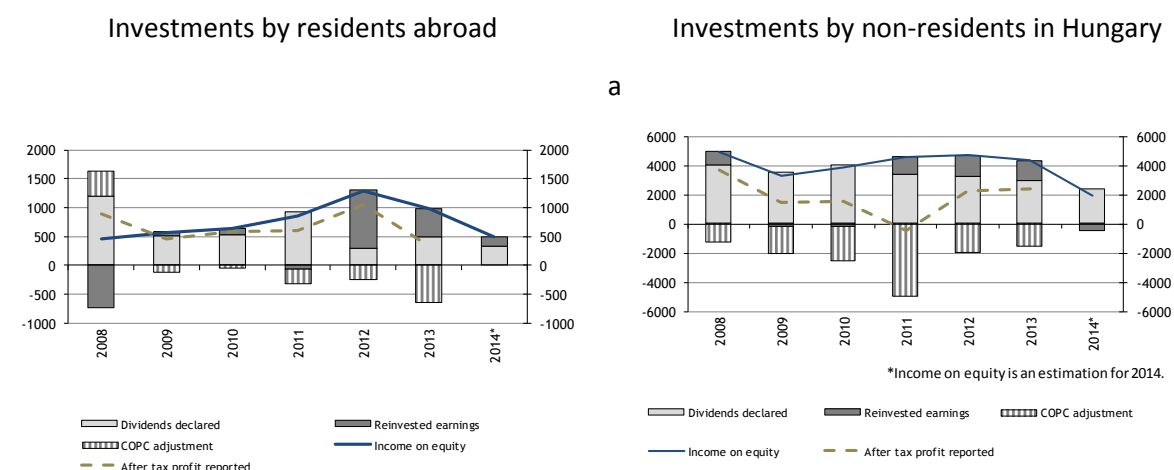
The combined balance on goods, one of the main aggregates of net external financing capacity calculated as the balance on the current and capital accounts, declined in 2014 Q2, while the surplus on services as well as revenue and expenditure were higher compared with the previous quarter. The

goods surplus amounted to EUR 579 million in 2014 Q2. Exports (EUR 19,209 million) and imports (EUR 18,703 million) rose relative to the previous quarter.

The surplus on **services** amounted to EUR 1,035 million in 2014 Q2. Within this, the travel surplus was EUR 678 million. Seasonally adjusted, revenues (EUR 1,096 million) and expenditures (EUR 410 million) were both higher than 2013 quarterly data. Data on other services were around levels recorded for the previous quarter: revenues amounted to EUR 3,235 million and expenditures to EUR 2,838 million.

In 2014 Q2, the seasonally adjusted **primary income** deficit (EUR 640 million) was slightly lower relative to the previous quarter. Actual data for companies' income on shares and other equity for 2013, based on the sector's annual reports, are published for the first time (income on shares and other equity within direct investment for 2014 continue to be estimates).

Chart 3
Components of direct investment income on shares and other equity (EUR millions)³



* Income on equity for 2014 is an estimate. Consequently, reinvested earnings for the year, calculated on the basis of the residual principle, is also an estimate.

The amount of dividends declared in the period between 2011–2013 follows a fairly stable pattern. For 2014, reported data only for Q1–Q2 are available; however, at companies whose business year is identical to the calendar year decisions on dividends are generally made in the first half, and therefore no significant change is expected in the data for the remainder of the year.

³ For the individual years, a dashed line denotes the size of after-tax profits reported by data providers as stated in their income statement. In the balance of payments, extraordinary profit elements, other than normal income, must be recorded as revaluation (exchange rate or price changes) or as other volume change in the international investment position rather than as income (COPC adjustment). Investment income on shares and other equity recorded in the balance of payments is the sum of dividends declared and reinvested earnings.

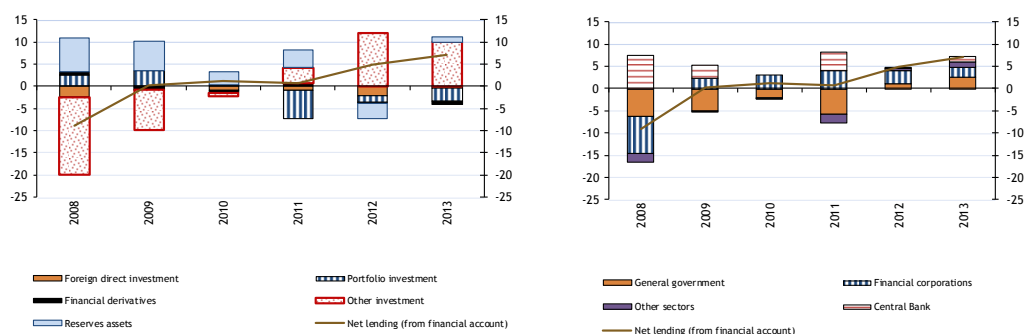
Table 3
Adjustment for recording income on FDI equity according to the current operating performance
concept [COPC] (EUR millions)
2008–2013⁴

1 FDI abroad, income on equity	2008	2009	2010	2011	2012	2013
1.1 After tax profit	891	463	592	612	1057	337
1.1.1. Of which COPC adjustment	426	-113	-43	-252	-241	-649
1.1.2. Adjusted FDI income, Published (1.1-1.2)	465	576	635	864	1298	986
2 FDI in Hungary, income on equity	2008	2009	2010	2011	2012	2013
2.1 After tax profit	3702	1467	1545	-342	2705	2804
2.1.1. Of which COPC adjustment	-1257	-1863	-2330	-4966	-1998	-1541
2.1.2. Adjusted FDI income, Published (2.1-2.1.1.)	4960	3330	3875	4624	4703	4344

The deficit on the **secondary income balance** was EUR 156 million. Within this, the surplus on transfers to and from the EU amounted to EUR 107 million. The balance of primary income with the EU (product and production taxes and subsidies) showed a surplus of EUR 358 million, and funds received as capital transfers amounted to EUR 755 million. On aggregate, the balance with the EU was in a EUR 1,220 million surplus in Q2.

2 Financial account⁵

Chart 4
Financial account by functional categories and institutional sectors (EUR billions)



Within **direct investments**, outward investments by Hungarian residents rose by EUR 360 million and inward investments by non-residents fell by EUR 1,593 million in 2014 Q2. Within direct investments by Hungarian residents abroad, investments in equities contributed EUR 476 million and reinvested earnings EUR 65 million to the value of investments abroad in 2014 Q2. Transactions in debt instruments showed a EUR 181 million reduction in net assets. Within direct investments by non-residents in Hungary, the value of investments in equities fell by EUR 1,336 million. Within this, the

⁴ In the balance of payments, row 1.1.2. of the Table is shown under Direct investment income, Income on equity, **credit**, and row 2.1.2. is shown as **debit** under the same item.

⁵ Summary data for the individual categories of investment are included in Table 1.

amount of superdividends was EUR 993 million. Reinvested earnings further reduced the value of direct investments by non-residents by EUR 1,027 million. The balance of transactions in debt instruments showed a EUR 769 million increase in net liabilities. The EUR 639 million of capital in transit recorded on assets and liabilities had a neutral effect on this balance.

Portfolio investment transactions showed a net outflow of EUR 709 million in 2014 Q2, reflecting an increase of EUR 479 million in assets and a decline of EUR 229 million in liabilities. Within assets, equity securities and investment fund shares increased by EUR 302 million and debt securities by EUR 177 million. Within liabilities, equity securities and investment fund shares rose by EUR 200 million, while debt securities fell by EUR 429 million.

The balance of **other investments** showed an inflow of EUR 984 million in 2014 Q2. This reflected a decline of EUR 1,325 million in assets and one of EUR 341 million in liabilities. Within assets, it was mainly currency and deposits which fell (by EUR 1,117 million), while within liabilities, it was loan liabilities (by EUR 880 million).

3 Stock of international reserves and external debt

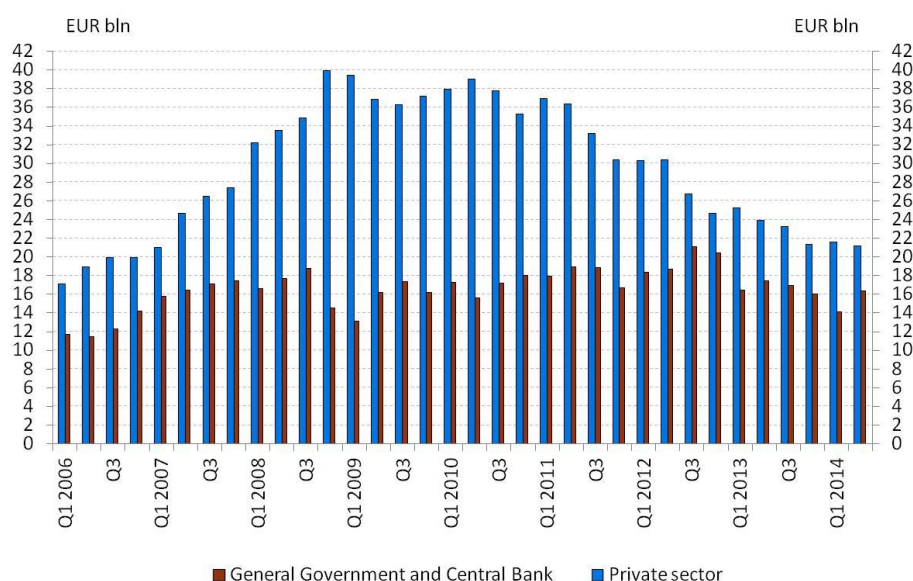
Central bank foreign exchange reserves amounted to EUR 36.1 billion at the end of June 2014. Hungary's net foreign debt, excluding FDI debt instruments, amounted to EUR 37.6 billion at the end of June 2014 (38.0% as a percentage of GDP). Net short-term assets reflecting the recording of EU transfers on an accrual basis amounted to EUR 440 million. Within this, the value of assets was EUR 1,274 million and that of liabilities was EUR 1,714 million.

Table 4
Foreign assets and liabilities of Hungary⁶ (EUR millions)

	2011	2012	2013				2014	
	Q4	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Assets	109 773	104 819	108 526	107 166	102 571	106 233	109 067	108 954
3.1.k Direct investment	42 374	43 475	45 995	46 637	46 153	46 813	47 557	49 163
3.2.k Portfolio investment	6 230	6 109	5 931	5 711	5 860	5 835	6 051	6 689
3.3.k Financial derivatives (other than reserves)	4 090	3 869	3 849	3 085	2 679	2 679	2 618	1 736
3.4.k Other investment	19 305	17 484	17 284	17 404	17 064	17 123	16 644	15 287
o/w: assets related to the European Union	1 430	1 407	826	1 359	1 755	1 610	1 344	1 274
3.5. Reserve assets	37 774	33 881	35 467	34 329	30 815	33 782	36 197	36 080
Liabilities	205 538	204 672	202 813	203 223	196 108	198 140	198 570	196 840
3.1.t Direct investment	87 994	93 645	95 127	96 712	94 711	97 027	97 884	96 059
3.2.t Portfolio investment	40 376	47 885	47 386	49 525	48 267	49 858	50 156	51 436
3.3.t Financial derivatives (other than reserves)	4 624	3 771	4 007	3 538	3 700	3 718	3 834	3 006
3.4.t Other investment	72 545	59 370	56 292	53 449	49 431	47 538	46 696	46 339
o/w: liabilities related to the European Union	2 213	1 576	1 295	1 254	870	1 115	1 303	1 714
Net Assets	-95 765	-99 853	-94 287	-96 057	-93 537	-91 907	-89 503	-87 886
o/w: net assets related to the European Union	-783	-170	-469	105	884	494	41	-440
Memorandum:								
Gross external debt (excluding direct investment other capital)	105 006	97 363	95 225	93 971	88 998	89 131	89 402	90 072
General government and Central bank	55 440	55 183	52 544	52 790	48 951	51 196	51 752	53 450
Other MFIs and Other sectors	49 566	42 180	42 681	41 182	40 047	37 935	37 650	36 622
Net external debt (excluding direct investment other capital)	47 088	45 111	41 674	41 414	40 241	37 334	35 686	37 616
General government and Central bank	16 735	20 424	16 437	17 459	16 961	16 016	14 097	16 400
Other MFIs and Other sectors	30 353	24 687	25 237	23 956	23 279	21 318	21 589	21 217

⁶ Assets and liabilities vis-à-vis non-residents include all financial assets and liabilities vis-à-vis the rest of the world, while foreign debt, by definition, does not include *shares and other equity* and *financial derivatives*.

Chart 5
Net foreign debt of Hungary (excluding FDI debt instruments), 2014 Q2



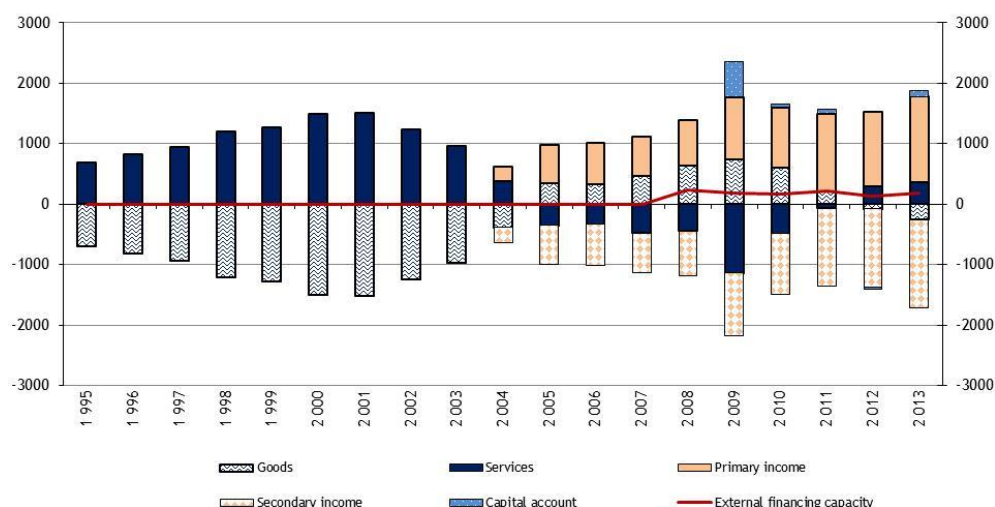
4 The methodological changeover and data revisions during the review period

The revised period dates back to 1995. It includes, first, the normal revision period of 2011 to 2014 Q1 and, second, the time series have been backdated to 1995 under the new methodology, in accordance with the opportunities available. The time series are available on the MNB's website.

The normal revision period is split into two phases: one is the period 2011 to 2012, for which data compiled under the new methodology are released for the first time. The other 2013 as a whole and 2014 Q1, for which data were published using the BPM6 methodology in June 2014. The methodological change has no effect on this period, 'only' the data revision. However, this data revision extends beyond the framework of usual, regular data revision. As was discussed in the introduction, the revision of time series made necessary by the methodological changeover provided an opportunity for data revisions, use of new data sources and changes to estimation methods for long time series which are greater in magnitude than the normal revision periods.

Chart 6 summarises the methodological changes affecting the individual items. The Chart illustrates well that the effect of the methodological change, harmonised with national accounts, appears mainly as a reclassification between the major categories of the balance of payments, ensuring consistency between the two statistics. For the period prior to the EU accession, a reclassification has been made only between goods and services (processing fee, repair, merchanting), without its balance having any effect on net financing capacity. For the period after the EU accession, part of EU transfers within secondary income has been reclassified into primary income under the new methodology. The rest of methodological changes are included in the new balance of payments data from 2008. Financial intermediation services indirectly measured (FISIM) have been reclassified from interest income on other investments into services. Trade in computer software, audiovisual products and transactions involving the proprietary rights arising from research and development have been reclassified into the corresponding categories of services. Income on reserve assets must be recorded separately within investment income, showing all items which were included in several instruments in the past under a single heading. However, this reclassification has had no effect on financing capacity; data published earlier have been regrouped from one instrument to another. From 2008, the recording of illegal trade in goods (goods) and transactions in illegal activities (services) are a new element in goods and services. Consequently, from 2008 these items will not 'cancel each other out', as the Chart shows; and financing capacity has also changed, namely, it has increased as a result of these shifts.

Chart 6
Impact of methodological changes on the instruments of external net financing capacity
(EUR millions)



The factors and effects of the methodological changeover are discussed in detail on the dedicated [methodological changeover page](#) on the MNB's website. This presents in the effects of the changeover to BPM6 on the individual balance of payments and international investment position data, in addition to the methodological descriptions.

Tables 5 and 6 present shifts relative to 2013–2014 data published in June 2014. The data revision affecting the balance of payments mainly reflects the change in the data source used to estimate for compensation of employees compiled by the CSO (Table 5) and, in the stocks, the effect of the revision of financial lease (Table 6).

Table 5
Changes in net flows vis-a-vis the last publication (excluding SPEs, EUR millions)

	2013	2014Q1
1. Goods	-202	-186
2. Services	38	-3
3. Incomes	1 515	286
3.1. Compensation of employees	1 368	301
3.2. Investment income	191	-15
3.3. Other primary income	-43	0
4. Current transfers	-195	-14
I. Current account balance (1+2+3+4)	1 157	82
II. Capital account	13	-71
III. Financial account (5+6+7+8)	-121	-278
5. Foreign direct investment	5	5
Foreign direct investment abroad	-285	-113
Equity	-258	-130
Other capital	-28	18
Foreign direct investment in Hungary	-291	-118
Equity	-229	-198
Other capital	-62	80
6. Portfolio investments	69	-86
Assets	68	33
Liabilities	0	120
7. Financial derivatives	0	0
8. Other investments	-196	-197
Assets	-111	-153
Liabilities	85	45
IV. Net errors and omissions	-1 292	-290

Table 6
Changes in stocks and some indicators vis-à-vis the last publication
(excluding SPEs, EUR millions)

	2013	2014Q1
1. Foreign direct investment (net assets)	50	183
Foreign direct investment abroad (net assets)	-859	-924
Equity	-834	-913
Other capital assets	-2	-11
Other capital liabilities	23	0
Foreign direct investment in Hungary	-909	-1 107
Equity	-766	-1 045
Other capital assets	144	63
Other capital liabilities	1	1
2. Portfolio investments (net liabilities)	114	52
Assets	114	149
Liabilities	0	97
3. Financial derivatives (net liabilities)	0	90
4. Other investments (net liabilities)	-1 433	-1 585
Assets	-166	-333
Liabilities	1 266	1 251
Gross debt*	1 266	1 349
Net debt*	1 370	1 619
Goods net in the percentage of the GDP	-0,2%	-0,8%
Current account balance in the percentage of the GDP	1,2%	0,4%
Gross debt in the percentage of the GDP*	1,3%	6,0%
Net debt in the percentage of the GDP*	1,4%	7,2%

* * * * *

In this press release, Hungary's balance of payments and international investment position are presented excluding data on special purpose entities (SPEs), consistent with past practice. However, Hungary's balance of payments and IIP both excluding and including SPE data are available on the MNB's website.

The MNB will release Hungary's balance of payments and international investment position data for 2014 Q3 on 23 December 2014.

Detailed tables: [Balance of payments](#)

Notes [Methodological notes](#)

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