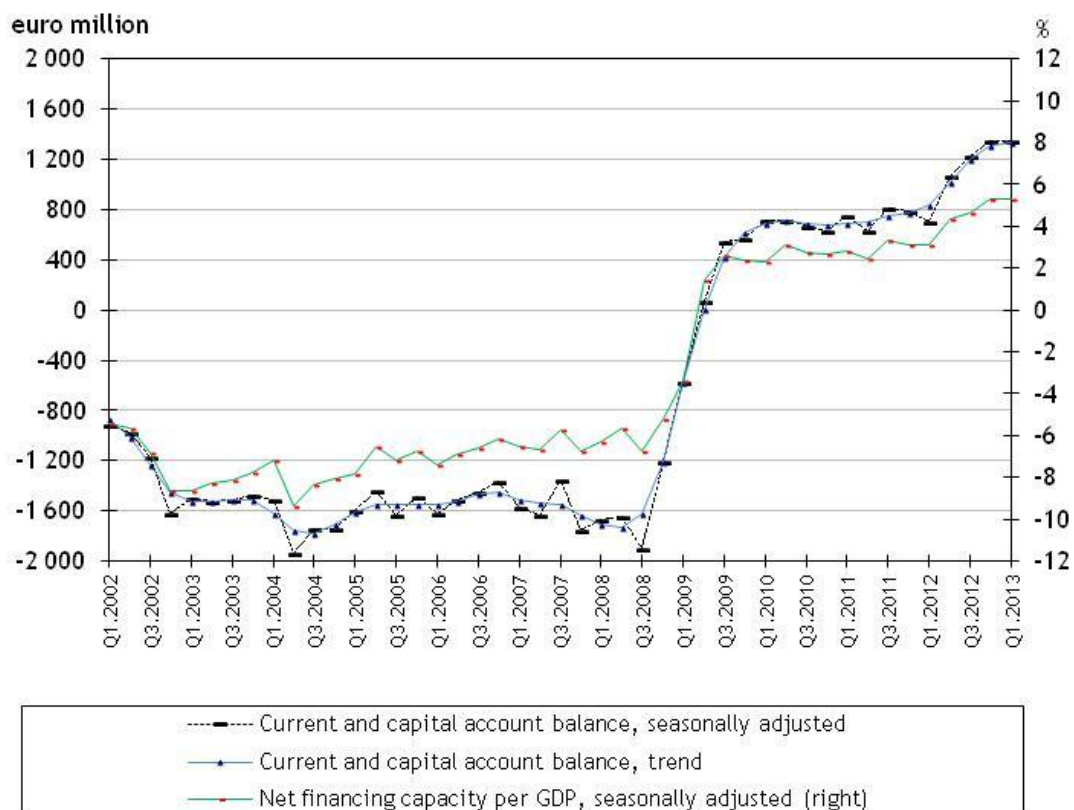


PRESS RELEASE

Hungary's balance of payments: 2013 Q1

In 2013 Q1,¹ Hungary's net external financing capacity (i.e. the combined surplus on its current and capital accounts) amounted to EUR 1,111 million (HUF 332 billion). Adjusted for seasonal effects, the net external financing capacity was EUR 1,347 million or 5.3% of GDP (HUF 378 billion), the same as in the previous quarter. According to seasonally adjusted data,² the current account surplus amounted to EUR 752 million in Q1. Within this, the surplus on goods and services was EUR 1,936 million, higher than the surplus recorded in the previous quarter.

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



¹ Consistent with its practice of releasing and revising statistical data, on 28 June 2013 the MNB is publishing Hungary's balance of payments statistics for 2013 Q1 for the first time, together with revised data for 2012 Q1-Q4 (based on revised data reported by data providers).

² The detailed seasonally adjusted data and charts are available by clicking on the following links: [data](#), [charts](#).

Table 1
Current account balance and net external financing capacity

Euro million

	2012					2013
	Q1.	Q2.	Q3.	Q4.	Q1-Q4.	Q1.
I. Current account	-53	570	890	297	1 704	549
1. Real economic transaction	1 572	2 206	2 325	1 376	7 478	1 839
1.1. Export	22 411	23 262	23 605	23 165	92 443	22 589
1.2. Import	20 839	21 057	21 280	21 790	84 965	20 750
1.1. Goods	895	1 303	1 163	711	4 071	1 112
1.1.1. Export	18 888	19 342	19 182	19 164	76 576	19 013
1.1.2. Import	17 994	18 039	18 020	18 453	72 505	17 901
1.2. Services	677	903	1 163	665	3 407	727
1.2.1. Export	3 523	3 921	4 423	4 001	15 867	3 577
1.2.2. Import	2 845	3 018	3 260	3 337	12 460	2 850
2. Income and current transfers	-1 625	-1 636	-1 435	-1 079	-5 774	-1 290
2.1.. Income	-1 383	-1 682	-1 519	-1 620	-6 204	-1 268
2.1.1. Compensation of employees	213	230	245	249	937	200
2.1.2. Direct investment income	-985	-1 065	-1 150	-1 229	-4 429	-889
2.1.3. Portfolio investment income	-284	-524	-311	-366	-1 484	-354
2.1.4. Other investment income	-327	-323	-302	-274	-1 227	-225
2.2.. Current transfers	-242	47	84	541	430	-22
-of which: EU transfers	34	272	326	773	1 405	193
II. Capital account	406	502	594	1 145	2 647	562
-of which: EU transfers	407	518	603	1 120	2 648	564
III. Financial account (3+4+5+6)	-2 525	-1 526	-2 600	-1 732	-8 383	554
3. Direct investment	387	-580	884	1 253	1 944	366
3.1. Abroad	-3 391	-1 671	-511	-2 606	-8 178	-277
3.1.1. Equity capital and reinvested earnings	-6 324	-174	-906	-4 338	-11 743	-59
3.1.1.1. Equity capital	-6 269	-92	-709	-4 137	-11 207	-130
3.1.1.2. Reinvested earnings	-55	-83	-197	-201	-536	71
3.1.2. Other capital	2 933	-1 496	396	1 732	3 565	-218
3.1.2.1. Assets	3 045	-1 402	-34	1 715	3 325	-134
3.1.2.2. Liabilities	-113	-94	430	17	240	-85
3.2. In Hungary	3 778	1 090	1 395	3 859	10 122	643
3.2.1. Equity capital and reinvested earnings	1 097	-557	1 066	2 849	4 456	832
3.2.1.1. Equity capital	945	858	20	1 709	3 532	497
3.2.1.2. Reinvested earnings	152	-1 415	1 046	1 140	924	335
3.2.2. Other capital	2 681	1 647	329	1 010	5 666	-189
3.2.2.1. Assets	2 020	1 452	2 929	876	7 278	-1 467
3.2.2.2. Liabilities	661	195	-2 600	134	-1 611	1 278
4. Portfolio investment	391	-663	1 926	135	1 790	1 507
4.1. Assets	130	228	243	124	725	234
4.2. Liabilities	261	-890	1 683	11	1 064	1 273
5. Financial derivatives	-233	-117	160	464	275	228
5.1. Assets	1 326	1 194	1 184	961	4 665	1 202
5.2. Liabilities	-1 559	-1 310	-1 023	-497	-4 389	-974
6. Other investment	-3 070	-167	-5 571	-3 585	-12 392	-1 547
6.1. Assets	747	1 790	-978	508	2 067	276
6.2. Liabilities	-3 817	-1 957	-4 593	-4 093	-14 459	-1 823
IV. International reserves	2 808	-490	889	144	3 351	-1 845
Memorandum:						
7. Net external financing capacity						
7.1. Net external financing capacity (CA and Capital account)	354	1 072	1 484	1 442	4 351	1 111
7.2. Financial account balance (Financial account balance and reserves)	-283	2 016	1 711	1 588	5 032	1 291
7.3. Difference (Net errors and omissions)	-636	944	226	146	680	180

Table 2
Current account balance and financing capacity items - seasonally adjusted data;³ EUR millions

	2 012				euro million 2013
	Q1	Q2	Q3	Q4	Q1
1. Real economic transactions, net (Goods and services)	1 669	1 968	2 193	1 733	1 936
1.1. Export	23 192	23 128	23 273	22 857	23 379
1.2. Import	21 505	21 294	21 337	21 176	21 481
1.1. Goods	853	1 135	1 127	911	1 096
1.1.1. Export	19 265	19 219	19 326	18 786	19 388
1.1.2. Import	18 386	18 130	18 055	18 037	18 438
1.2. Services	864	820	895	825	900
1.2.1. Travel, net	540	540	557	559	555
export	959	914	947	938	958
import	423	388	383	358	329
1.2.2. Other services, net	279	298	324	228	341
export	2 969	2 999	3 056	3 075	2 981
import	2 651	2 741	2 760	2 780	2 710
2. Income	-1 512	-1 505	-1 554	-1 554	-1 473
3. Current account balance	-9	482	724	475	752
4. Capital account	449	503	526	1 156	580
5. EU-transfers (current and capital account)	907	976	969	1 193	1 134
6. Net external financing capacity	699	1 072	1 220	1 352	1 347

The difference between the two measures of net external financing capacity, calculated as the balance on the financial account (international reserves included) on the one hand and as the balance on the current and capital accounts, on the other, amounted to EUR 180 million in 2013 Q1.

Developments in the main aggregates of the current account

In 2013 Q1, the seasonally adjusted surplus on goods amounted to EUR 1,096 million. Seasonally adjusted exports and imports both rose relative to the previous quarter, amounting to EUR 19,388 million and EUR 18,438 million respectively.

The seasonally adjusted surplus on services was EUR 900 million in 2013 Q1, higher than the previous quarter. Within services, travel revenue and expenditure were EUR 958 million and EUR 329 million respectively. Travel revenue increased and expenditure fell relative to the previous quarter. The surplus on other services amounted to EUR 341 million, which was also higher than in the previous quarter, accompanied by lower revenue and expenditure. Other services revenue and expenditure amounted to EUR 2,981 million and EUR 2,710 million respectively.

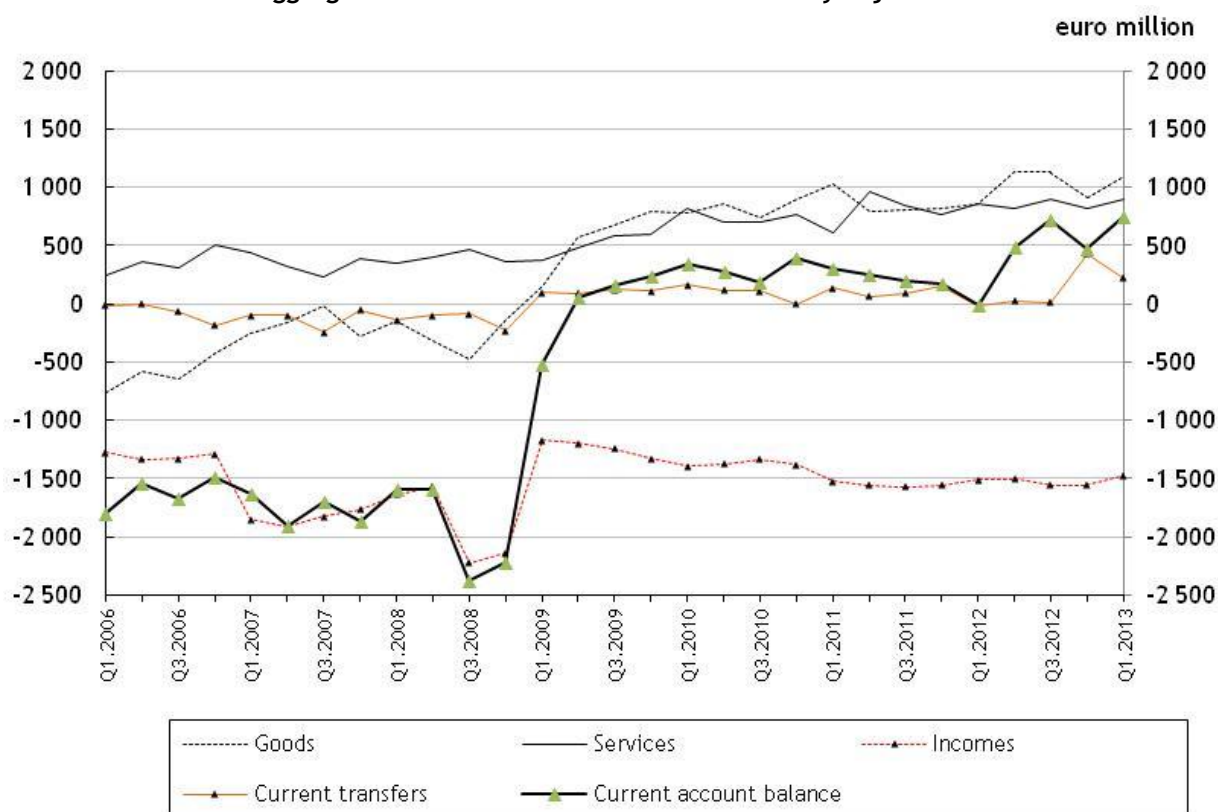
In the income account, the seasonally adjusted deficit amounted to EUR 1,473 million in 2013 Q1. The amount of deficit fell relative to the previous quarter. For 2012 and 2013, the amounts of income on equity within direct investment are estimates. Income on equity for 2012 has been modified slightly. (Income on equity credit and debit were revised down by EUR 34 million and EUR 203 million respectively relative to the previous estimate.⁴)

³ The balances are directly adjusted. This means that the seasonally adjusted balances cannot be reproduced from the seasonally adjusted credits and debits. The same applies to the aggregates. The seasonally adjusted aggregates cannot be reproduced from the seasonally adjusted sub-accounts either. (e.g. the seasonally adjusted current account balance does not equal to the sum of the seasonally adjusted data of the sub-accounts).

⁴ Data on income on equity for 2012, based on companies' annual reports, will become available in September 2013. Until then, the data remain estimates in the balance of payments. However, these will be modified quarterly in the light of new information.

According to accrual-based data, the seasonally unadjusted surplus on current transfers from the European Union was EUR 193 million, and transactions recorded as capital transfers showed a EUR 564 million surplus. Current and capital transfers to and from the EU are adjusted jointly; the seasonally adjusted surplus was EUR 1,134 million in 2013 Q1.

Chart 2
Main aggregates of the current account - seasonally adjusted data



The financial account⁵

Within direct investment, outward investments by Hungarian residents increased by EUR 277 million and inward investments by non-residents by EUR 643 million.

Within direct investments by Hungarian residents abroad, investments in equities rose by EUR 130 million and the value of reinvested earnings fell by EUR 71 million. FDI other capital net outflows amounted to EUR 218 million.

Within direct investments by non-residents in Hungary, the value of investments in equities was EUR 497 million. Reinvested earnings increased the value of inward investments by EUR 335 million in Q1. FDI other capital net outflows amounted to EUR 189 million. This reflected an increase of EUR 1,467 million in foreign assets and one of EUR 1,278 million in foreign liabilities (of which capital in transit amounted to EUR 1,147 million on both the assets and liabilities sides⁶).

⁵ For summary data by investment category, see Table 1. More detailed data are available on the MNB's website by clicking on the following link: [quarterly time series](#).

⁶ Detailed quarterly data relating to the phenomenon of capital in transit are available in the table containing [capital in transit transactions](#) on the Bank's website. The adjusted FDI data are [published separately](#) on the website.

Portfolio investment transactions showed a net inflow of EUR 1,507 million in 2013 Q1, reflecting a decrease of EUR 234 million in assets and an increase of EUR 1,273 million in liabilities. Within assets, the decline in equity investments representing less than 10% foreign ownership amounted to EUR 174 million, that in bond assets amounted to EUR 49 million and that in money market instruments amounted to EUR 11 million. Within liabilities, the increase in equity liabilities representing less than 10% foreign ownership was EUR 242 million and that in bond liabilities was EUR 1,045 million (here, forint-denominated government bonds decreased by EUR 185 million and foreign currency-denominated bonds increased by EUR 1,199 million), while money market instruments decreased by EUR 13 million.

The balance of other investments showed an outflow of EUR 1,547 million in Q1. This reflected a decrease of EUR 276 million in assets and one of EUR 1,823 million in liabilities. Within assets, short-term assets fell by EUR 131 million and long-term assets by EUR 146 million. Within liabilities, the increase in short-term liabilities was EUR 490 million: short-term liabilities of the private sectors rose by EUR 1,825 million and those of general government and the MNB fell by EUR 1,337 million. Long-term liabilities fell by EUR 2,313 million, of which the repayment by the MNB and the government of an IMF loan accounted for EUR 1.1 billion and the decline in long-term liabilities of the private sector accounted for EUR 1.2 billion.

Stock of international reserves and external debt

Central bank foreign exchange reserves amounted to EUR 35.5 billion at the end of March 2013. Hungary's outstanding stock of net foreign debt, excluding FDI other capital, amounted to EUR 39.1 billion at the end of March 2013 (39.8% as a percentage of GDP). The stock of net short-term liabilities due to the recording of EU transfers on an accrual basis was EUR 563 million. Within this, the value of assets was EUR 721 million and that of liabilities was EUR 1,284 million.

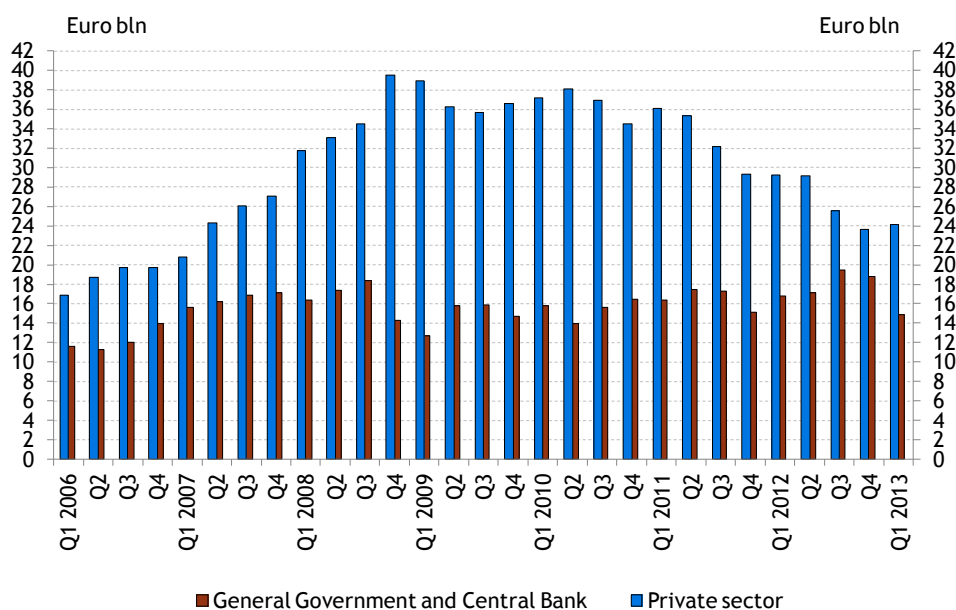
Table 3
Stock of foreign assets and liabilities of Hungary⁷

		2012				Euro million
		Q1	Q2	Q3	Q4	Q1
1. Assets		105 071	105 923	103 368	102 575	105 767
1.1. International reserves		34 697	35 575	34 577	33 881	35 467
1.2. Direct investment *		42 121	43 161	40 775	41 699	43 805
1.3. Portfolio investment		6 472	6 072	6 085	6 065	5 846
1.4. Financial derivatives		3 453	4 305	4 219	3 869	3 847
1.5. Other foreign assets		18 329	16 809	17 711	17 061	16 801
o/w: due to accrual accounting of EU-transfers		679	933	1 213	1 386	721
2. Liabilities		205 333	205 726	204 834	201 706	199 956
2.1. Direct investment *		91 926	92 990	92 400	93 489	94 559
2.2. Portfolio investment		43 854	44 423	48 829	48 859	47 869
2.3. Financial derivatives		3 723	3 640	3 587	3 760	3 987
2.4. Other foreign liabilities		65 831	64 673	60 017	55 598	53 541
o/w: due to accrual accounting of EU-transfers		1 809	2 144	2 115	1 576	1 284
3. Net foreign liabilities (2-1)		100 262	99 803	101 466	99 130	94 190
o/w: due to accrual accounting of EU-transfers		1 130	1 211	902	191	563
Memorandum:						
4. Gross foreign debt (excluding direct investment other capital)		100 333	100 028	98 669	94 637	92 506
4.1. General government and Central bank		52 379	53 420	54 801	53 982	51 337
4.2. Private sector		47 954	46 608	43 868	40 655	41 170
5. Net foreign debt (excluding direct investment other capital)		46 016	46 288	45 030	42 469	39 057
5.1. General government and Central bank		16 802	17 092	19 465	18 840	14 874
5.2. Private sector		29 215	29 196	25 565	23 628	24 183

* Assets and liabilities are grouped separately within the directional breakdown of investment.

⁷ 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 3
Net foreign debt of Hungary (excluding FDI other capital), 2006-2013



Data revisions during the review period

Tables 4 and 5 summarise all changes to data due to revisions for 2012. The data revision for the review period reflect only corrections by data providers.

Table 4
Total revisions by BoP components vis-à-vis the last publication

EUR millions	
	2012
1. Goods	0
2. Services	0
3. Incomes	170
4. Current transfers	-70
I. Current account balance (1+2+3+4)	100
II. Capital account	0
III. Financial account (5+6+7+8)	-253
5. Foreign direct investment	-307
Foreign direct investment abroad	32
Equity	-2 124
Other capital	2 156
Foreign direct investment in Hungary	-339
Equity	-240
Other capital	-99
6. Portfolio investments	-30
Assets	-53
Liabilities	23
7. Financial derivatives	5
8. Other investments	79
Assets	10
Liabilities	69
IV. Net errors and omissions	153

Table 5
Changes in stocks and some indicators vis-à-vis the last publication

EUR millions	
	2012
1. Foreign direct investment (net liabilities)	-403
Foreign direct investment abroad (net assets)	-9
Equity	2 118
Other capital assets	-2 126
Other capital liabilities	1
Foreign direct investment in Hungary	-412
Equity	-235
Other capital assets	121
Other capital liabilities	-56
2. Portfolio investments (net liabilities)	-57
Assets	62
Liabilities	4
3. Financial derivatives (net liabilities)	-745
4. Other investments (net liabilities)	164
Assets	9
Liabilities	173
Gross debt*	174
Net debt*	111
Goods net in the percentage of the GDP	0,0%
Current account balance in the percentage of the GDP	0,1%
Gross debt in the percentage of the GDP*	0,2%
Net debt in the percentage of the GDP*	0,1%

*FDI other capital excluded

Direct investments: a form of financing versus an economic phenomenon

While FDI constitute a key functional financing category in the balance of payments statistics, analysts and decision makers also attach great importance to the part of FDI flowing into the country from abroad which actually goes into 'production' in Hungary, contributing directly or indirectly to the increase in production capacity, the creation of new jobs, the rise in future exports, productivity growth, technological modernisation, etc.

In countries like Hungary, where FDI flows play an important role, the separate presentation of direct investment flows not affecting the external financing or economic potential of the national economy within the standard statistical structure causes difficulties. There are a growing number of economic phenomena and transactions which need to be recognised in accordance with international statistical methodologies in the balance of payments statistics, but which distort data on direct investment. They have to be identified if we aim to publish statistics that are meaningful from an economic point of view. There is no difference in respect of economic vs. financing approaches on the level of net (headline) figures; the value of net FDI does not produce distortion at whole-economy level, albeit netting also hides details that are important for the analysis. Economic analyses, however, tend to focus on FDI equity data in Hungary. The value of these are distorted by capital transactions that only re-channelled in Hungary (capital in transit), which involve a swap between inter-company loans (*other capital*) and *equity* instruments, or serve as a source of outward investment recorded by the direction of FDI.

1) The appearance of **special purpose entities** in Hungary was first in terms of chronology and its distorting effect. **Special purpose entities** (SPEs) are principally involved in the intermediation of funds within an enterprise group; they only play an intermediary role in the given group, owing to

the funds flowing through them (the direction and volume of such flows is determined by their parent companies), and are not actual targets of direct investments (the net cash flow involving various financial instruments approximates zero over a longer period). As relatively large amounts are channelled through SPEs, the financial flows of their transactions particularly increases the gross figures of the financial account. Capital in transit flows through SPEs are separately published since 2006 in Hungary. Both datasets of BoP including and excluding SPEs are available on the MNB's website. The press release shows data excluding SPEs.

2) In recent years we have observed unusually large same quarter FDI inflows and outflows in the non-SPE corporate sector as well. This phenomenon is defined as **capital in transit**. Similar to capital flows through special purpose entities, these capital investments do not affect the Hungarian economy either. Since September 2012, the MNB publishes capital in transit transactions in a separate table, going back to 2008. Since capital in transit may affect not only FDI, but also portfolio investments and other investments, the table showing capital in transit transactions also indicates the instruments concerned. The capital in transit phenomenon, however, mainly distorts data relating to direct investments. With a view to improving the usability of FDI data, from March 2013 transactions relating to direct investments both by non-residents in Hungary and by residents abroad, adjusted for capital in transit, are also published separately on the MNB's website.

3) The **restructuring of multinational companies' asset portfolios (financial restructuring)**, which may also sharply increase the FDI inflow and outflow data of a given period without any foreign funds entering the country in net terms, is also relevant in terms of the discussed phenomenon. So far we have not separated transactions relating to the restructuring of asset portfolios, although the MNB's press releases always point out extraordinary (one-off) transactions. (These also include transactions where capital - considered and published as capital in transit - paid up by the investor but not yet registered is registered by the court of registration [the decrease in *other capital* is offset by the increase in *equity*]). From June 2013, we will also take these transactions into account and indicate them separately in the table containing the adjusted direct investment data, noted in the previous paragraph, once the relevant information becomes publicly available.

Since 2008, the restructuring of asset portfolios has affected two periods, in addition to the registration of capital: 2009 Q4 and 2012 Q1. We mentioned the first period on pp.10-11 of the [press release](#) in September 2010. As for the second case, with the publication of companies' 2012 annual reports, it has become possible to identify FDI transactions related to asset portfolio restructuring in 2012 Q1 separately in the publication, based on publicly available information. In the above quarter, a Hungarian company paid out a part of its accumulated profit reserves - from which it had earlier extended an inter-company loan to a non-resident member of the enterprise group [*direct investment in Hungary, other capital assets*] - to its Hungarian shareholder as an interim dividend, which the latter invested in equity of a non-resident company belonging to the enterprise group [*direct investment abroad, shares and other equity assets*]. If we look at the two Hungarian companies being in FDI relationship together, as appear in the balance of payments statistics, the combined asset portfolio of the two companies was simply restructured: other capital assets became equity assets vis-à-vis non-residents. If we analyse FDI data in terms of their impact on the Hungarian economy, these are also an item to be eliminated, similarly to capital in transit.

FDI data in the BoP adjusted for capital in transit and restructuring of asset portfolios (EUR millions)

	2009	2010	2011	2012
Foreign direct investment, net according to the BoP (7.1+7.2)	128	768	577	1 944
of which: capital in transit, net (7.1.a+7.2.a)*	0	-104	-74	-374
restructuring of assets (7.1.b+7.2.b)	0	0	0	0
7.1 Foreign direct investment abroad, according to the BoP	-1 348	-878	-3 162	-8 178
of which: 7.1.a. capital in transit	-188	-513	-2 687	-4 305
7.1.b. restructuring of assets	0	0	0	-3 000
7.1.1. Equity and reinvested earnings according to the BoP	-863	-944	-298	-11 743
of which: 7.1.1.a. capital in transit	-235	-411	-105	-2 362
7.1.1.b. restructuring of assets	0	-423	0	-7 680
7.1.2. Other capital according to the BoP	-485	66	-2 864	3 565
of which: 7.1.2.a. capital in transit	47	-103	-2 582	-1 943
7.1.2.b. restructuring of assets	0	423	0	4 680
7.2 Foreign direct investment in Hungary, according to the BoP	1 476	1 646	3 739	10 122
of which: 7.2.a. capital in transit	188	409	2 613	3 931
7.2.b. restructuring of assets	0	0	0	3 000
7.2.1. Equity and reinvested earnings according to the BoP	-1 810	2 947	4 413	4 456
of which: 7.2.1.a. capital in transit	235	221	2 695	1 364
7.2.1.b. restructuring of assets	-4 675	172	2 247	1 583
7.2.2. Other capital according to the BoP	3 286	-1 301	-673	5 666
of which: 7.2.2.a. capital in transit	-47	189	-82	2 566
7.2.2.b. restructuring of assets	4 675	-172	-2 247	1 417
A) Adjusted foreign direct investment, net (B+C)	128	872	651	2 318
B) Adjusted foreign direct investment abroad (7.1 - (7.1.a + 7.1.b))	-1160	-365	-475	-873
Adjusted equity and reinvested earnings (7.1.1 - (7.1.1.a + 7.1.1.b))	-628	-110	-193	-1 700
Adjusted other capital (7.1.2 - (7.1.2.a + 7.1.2.b))	-532	-254	-282	827
C) Adjusted foreign direct investment in Hungary (7.2 - (7.2.a + 7.2.b))	1288	1237	1126	3192
Adjusted equity and reinvested earnings (7.2.1 - (7.2.1.a + 7.2.1.b))	2 630	2 555	-529	1 508
Adjusted other capital (7.2.2 - (7.2.2.a + 7.2.2.b))	-1 342	-1 317	1 655	1 683

* The table does not include portfolio investments. The capital in transit transactions affecting portfolio investments offset the balance of capital in transit in FDI.

In this press release, Hungary's balance of payments is 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 2013 Q2 as well as revised annual data for 2010-2012 and 2013 Q1 on 27 September 2013.

**MAGYAR NEMZETI BANK
STATISTICS**

One of the primary statutory duties of the Magyar Nemzeti Bank is to collect and publish statistical information. The statistical press release aims to help the reader understand the latest published data. The Quarterly Report on Inflation and the Report on Financial Stability, published periodically, contain the Bank's analyses of underlying economic processes and are accessible at www.mnb.hu.

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