



31 March 2005

PRESS RELEASE

Hungary's balance of payments: 2004 Q4

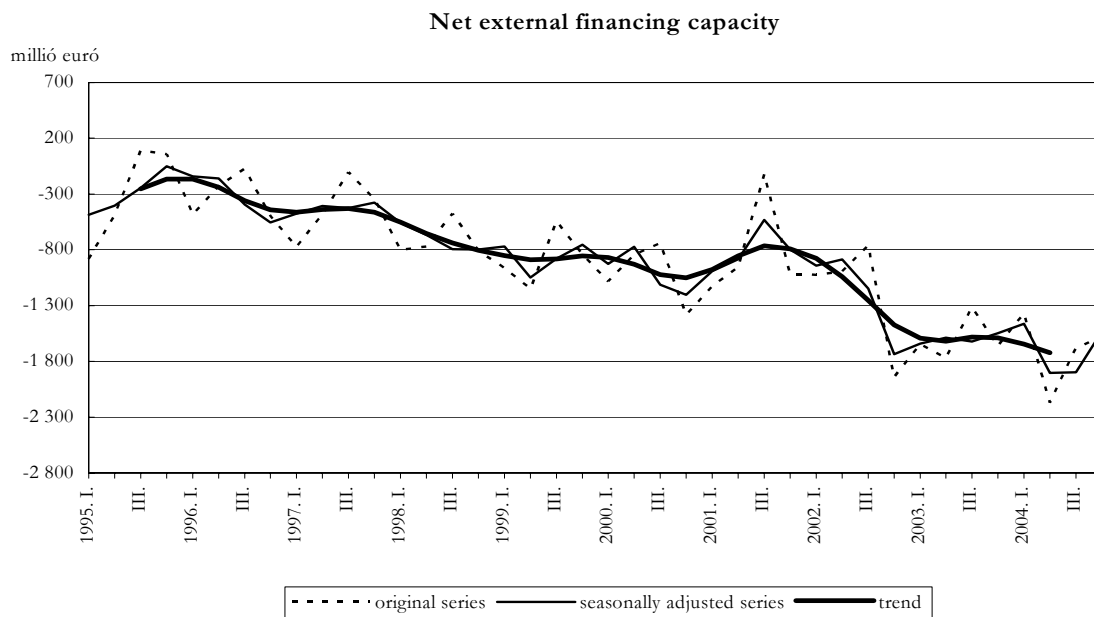
- In accordance with its method of releasing and revising balance of payments data, on 31 March 2005 the Bank is publishing statistical data for 2004 Q4 for the first time. Simultaneously with this, the Bank is also releasing revised 2004 Q2–Q3 data. 2004 annual data will be released at end-September 2005.
- Due to the change in the method of collecting travel and business services data, however, the revision of data extends over the normal revision period. Travel and business services data in the balance of payments have been revised back to 2000 and 2003 respectively. The related methodological notes can be found at the end of this press release.
- As a result of the processing of questionnaires on direct investment in 2003, data on direct and investment and income in 2003 have also been updated, taking into account available information. Simultaneously with this press release, the MNB is issuing a separate information material on developments in direct investment, which is available both on the Bank's website and in printed version.
- After Hungary's accession to the EU, the Bank did not include in the balance of payments Community goods stored in customs warehouses at the time of accession, recorded by the CSO as goods imports in the framework of submitting Intrastat data. In respect of this item, the CSO, relying on its own corporate surveys, revised and published the relevant trade data on 8 February 2005, simultaneously with reducing the value of imports recorded with the same difference (see: <http://portal.ksh.hu/pls/ksh/docs/hun/xftp/gyor/kue/kue20412.pdf>). In accordance with this, the MNB, following an identical approach to that employed by the CSO, included goods imports to the amount of EUR 740.4 million (HUF 181.3 billion), which had not been recorded previously. This treatment mainly affected 2004 Q2. The Bank, maintaining its earlier view, is of the opinion that only EUR 325.1 million (HUF 79.1 billion) should be recorded of the turnover stated by the CSO as part of the submission of Intrastat data; however, in order to avoid market uncertainties potentially caused by the release of different data from that released by the CSO, the Bank is releasing equivalent data to that released by the CSO.

Based on the quarterly data, Hungary's net external financing requirement (i.e. its combined current and capital account deficit) amounted to EUR 1,582 million in 2004 Q4 (see Chart 1).¹ The net external financing requirement was partly offset by non-debt inflows of EUR 1,286 million. Hungary's seasonally adjusted net external financing requirement did not increase materially over a period of eight quarters.

The current account deficit amounted to EUR 1,712 million in 2004 Q4. That meant a fall relative to the previous quarter; however, the upward trend of current account deficits did not change.

¹ The importance of current transfers to be recorded in the current account and of capital transfers to be recorded in the capital account has increased since Hungary's EU accession. Accordingly, the role of the balance on the current and capital accounts showing the country's net external financing capacity will be greater in the analyses of external developments relative to earlier periods. (For more details, see the boxed text at the end of the September press release.)

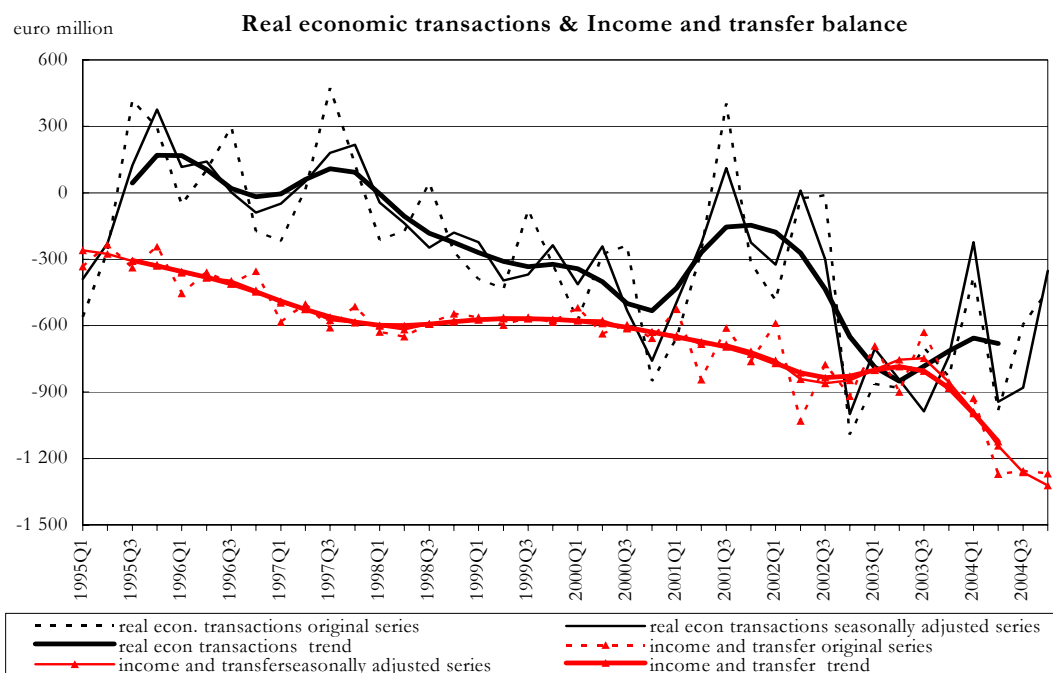
Chart 1



Real economic transactions (i.e. those in goods and services) played a dominant role in the fall in the current account deficit relative to the previous quarter (see Chart 2).

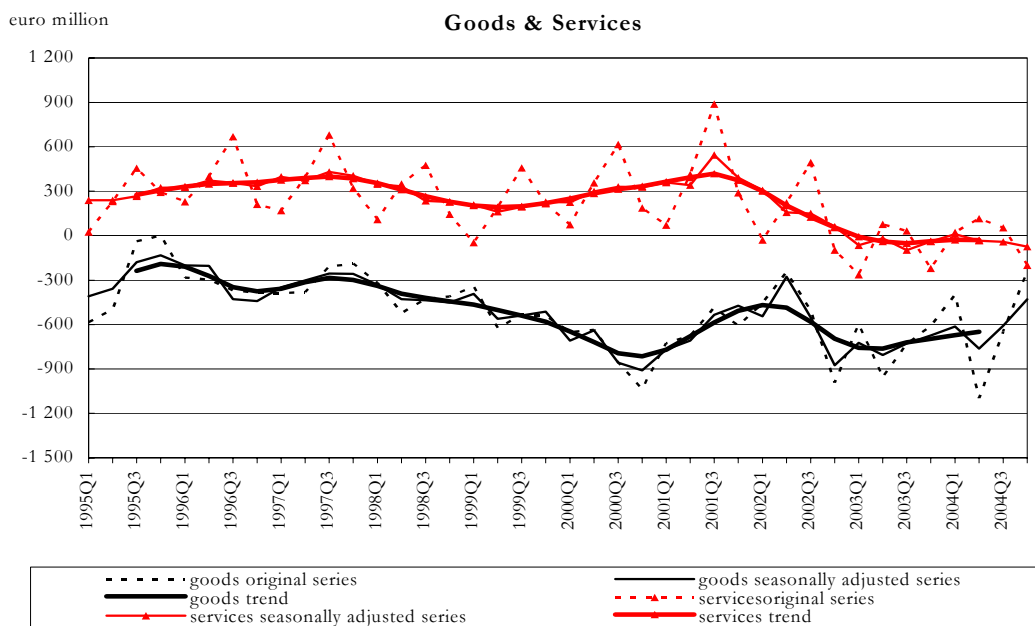
Taking a longer period, developments in income and current transfers show rising deficits. This results partly from the accounting treatment of direct investment income, the higher costs of debt servicing closely related to the increase in Hungary's outstanding debt and partly from the fact that liabilities related to EU membership are recorded as current transfers (see Chart 2).

Chart 2



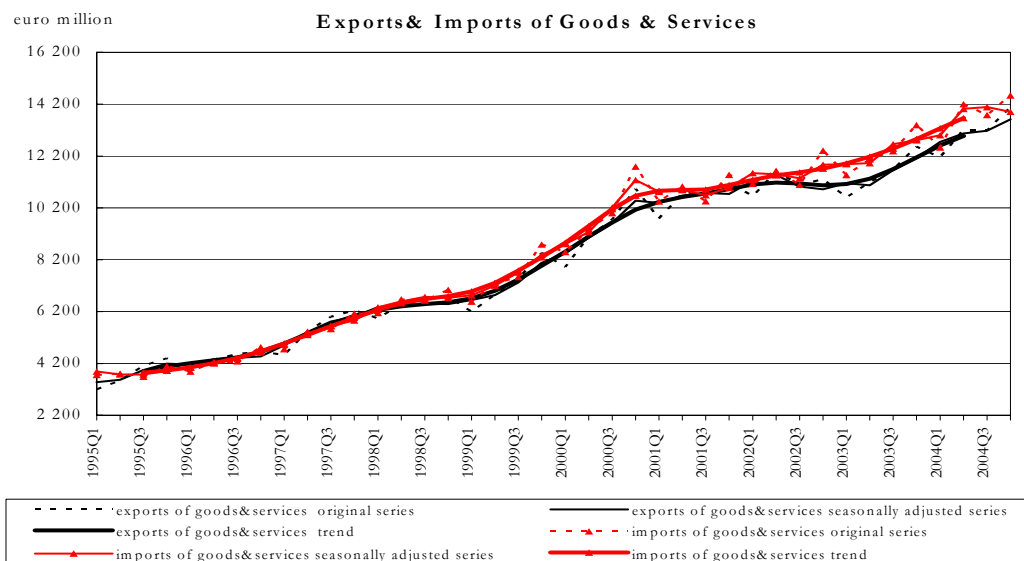
Compared with 2004 Q3, the lower goods deficit was dominant in the decline in the seasonally adjusted deficit on real economic transactions. According to the detailed analysis in the Appendix of this press release, trade in services data will be recorded on the basis of the CSO's questionnaire-based corporate surveys, the dates of invoicing and receipt of invoices, instead of cash transfers observed in the past, as well as on the basis of data derived from surveys of non-residents' demand in Hungary and of Hungarian residents' demand travelling abroad. The services account deficit continued to increase in 2004 Q4. The seasonally adjusted goods deficit, however, fell relative to three months previously (see Chart 3).

Chart 3



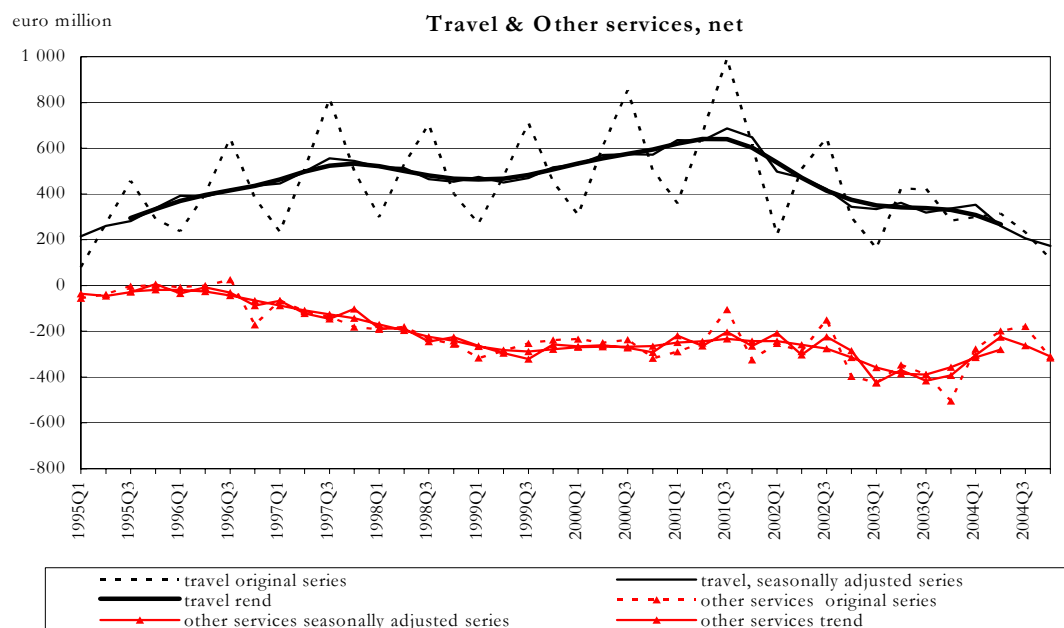
The improvement in the goods balance relative to the previous quarter was the result of the robust rise in exports. Seasonally adjusted imports have remained level since 2004 Q2 (see Chart 4).

Chart 4



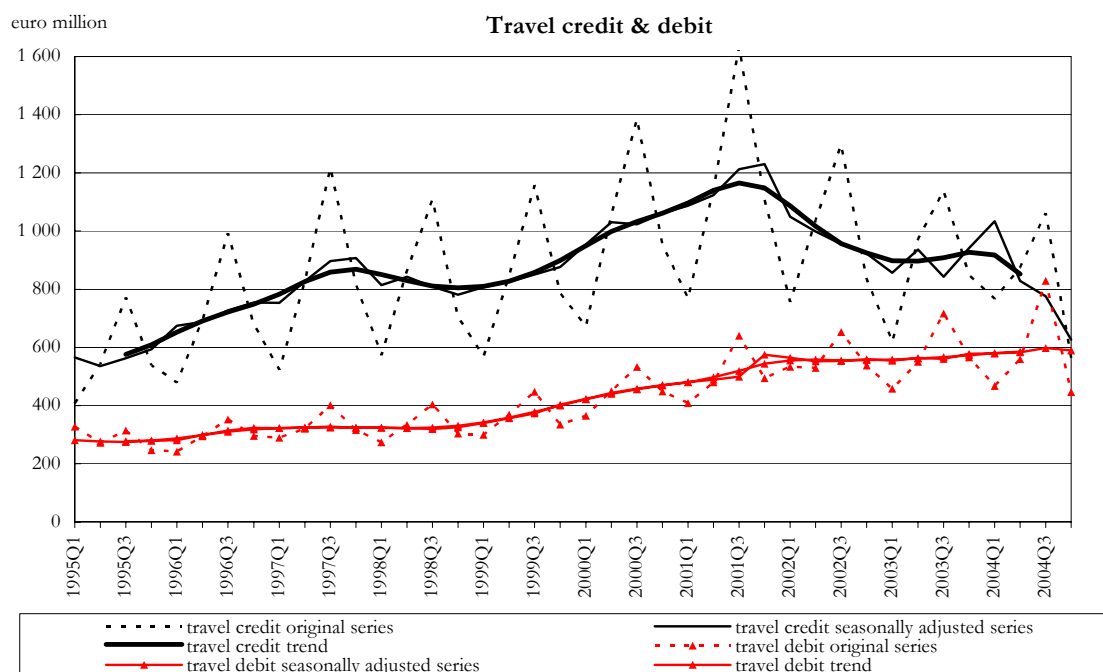
Within services, the balances on travel and other services both deteriorated in comparison with 2004 Q3: net revenue fell and net expenditure rose, respectively (see Chart 5).

Chart 5



Seasonally adjusted travel revenue and expenditure both fell 2004 Q4 relative to the previous quarter (see Chart 6).²

Chart 6



² The result of seasonal adjustment of the time series complemented with data from new sources is uncertain, suggesting a change in seasonal patterns; and the seasonally adjusted 2005 Q1 data is likely to adjust current data for 2004 Q4 upwards.

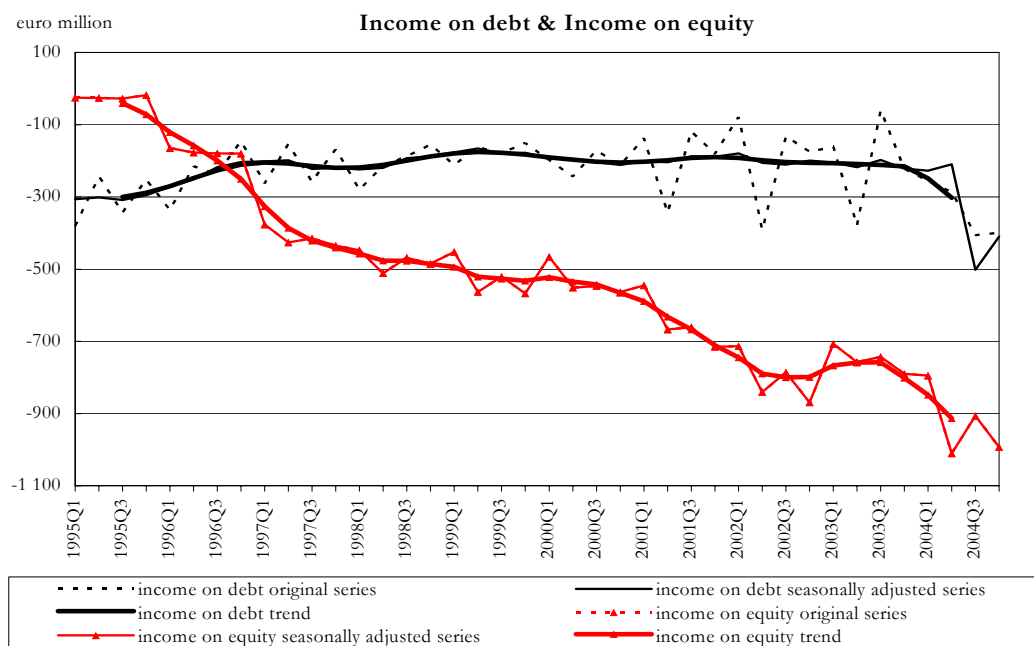
The combined revenue on trade in goods and services continued to rise strongly; however, total expenditure was lower in 2004 Q4 than in the previous quarter (see Chart 7).

Chart 7



Developments in the balances on the income and transfer account were shaped by movements in income on equity and income on debt. In 2004 Q4, the balance on income on debt improved in both 2004 Q3 and Q4 relative to earlier periods, the deficit on income on equity falling since 2004 Q2. The higher deficit on income on debt was caused by an increase in non-residents' holdings of forint-denominated government securities in Q1–Q3 and, within direct investment, by rising interest payments on debt (see Chart 8).

Chart 8



In 2004 Q4, EU transfers received from EU institutions financed 84% of the deficit, recorded as current transfers for the general government sector, resulting from Hungary's contribution to the Community budget. (Including capital transfers, Hungary registered a surplus of over EUR 80 million from transfers with the EU.) On the whole, the surplus on current transfers was EUR 89 million in the review period.³ As a combined effect of these, the balance on the income and transfer account continued to deteriorate in 2004 Q4.

Inward and outward non-debt capital transactions showed a net inflow of EUR 1,286 million in 2004 Q4. The value of direct investment in equity capital (which also includes reinvested earnings) was the balance of transactions by Hungarian residents abroad in the amount of EUR 106 million and those by non-residents in Hungary in the amount of EUR 1,078 million. Portfolio investment transactions in equity securities showed a net inflow of EUR 314 million in the quarter under review.

Central bank foreign exchange reserves amounted to EUR 11.7 billion at end-December 2004. Whole-economy gross foreign debt was EUR 2.5 billion higher than at the end of 2004 Q3. Hungary's net foreign debt increased by EUR 0.3 billion. Non-residents' holdings of forint-denominated government securities amounted to EUR 10.0 billion at end-December 2004, EUR 0.1 billion higher than at the end of the previous quarter.

³ After seasonal adjustment, the second-quarter data proved to be an outlier, affecting several periods. The change caused by EU transfers makes adjusting the time series meaningless for the time being.

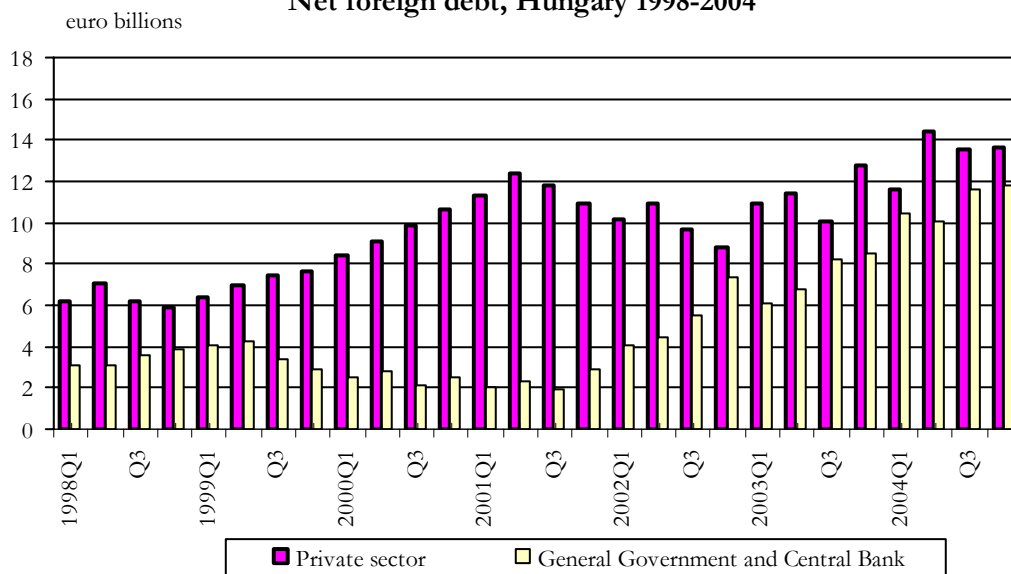
Table 1
Stock of Foreign debt of Hungary as of end of period

Euro billion

	2002	2003	2004			
			Q1	Q2	Q3	Q4
I. Gross foreign debt, Total Economy (S.1) (A+B)	39,2	47,6	49,1	51,4	54,3	56,8
A: General government and Central bank (S.13+S.121)	18,4	20,1	21,3	21,1	22,6	24,0
A.1. o/w:debt denominated in HUF ^{/1}	7,6	8,9	10,3	9,7	10,9	11,1
B. Private sector (S.1-S.13-S.121)	20,8	27,6	27,8	30,3	31,7	32,8
II. Net foreign debt, Total Economy (S.1) (A+B)	16,2	21,3	22,1	24,5	25,1	25,4
A: General government and Central bank (S.13+S.121)	7,4	8,5	10,5	10,0	11,6	11,8
A.1. o/w:debt denominated in HUF ^{/1}	7,6	8,7	10,0	9,5	10,7	10,9
B. Private sector (S.1-S.13-S.121)	8,8	12,8	11,7	14,5	13,5	13,6

Chart 9

Net foreign debt, Hungary 1998-2004



At the end of 2004 Q4, the net debts of general government and the MNB and of the private sector both were higher relative to the end of the previous quarter. Whole-economy net debt was EUR 25.4 billion at end-December. Total net external liabilities to non-residents, which also include equity capital, amounted to EUR 69.3 billion.

Table 2
Balance of payments, Hungary

	2002					2003					2004				
	Q. I.	Q. II.	Q. III.	Q. IV.	Q. I-IV.	Q. I.	Q. II.	Q. III.	Q. IV.	Q. I-IV.	Q. I.	Q. II.	Q. III.	Q. IV.	Q. I-IV.
1. Goods, net	-458	-247	-505	-994	-2203	-599	-957	-732	-610	-2898	-402	-1098	-648	-243	-2391
1.1. Exports	8991	9587	8841	9401	36821	8994	9277	9542	10564	38377	10277	11156	10897	12185	44516
1.2. Imports	9449	9834	9346	10395	39024	9593	10233	10274	11174	41274	10679	12254	11545	12428	46907
2. Services and income, net	-778	-966	-399	-1108	-3251	-1102	-1025	-743	-1190	-4060	-999	-1151	-1231	-1558	-4938
2.1. Services*, net	-29	221	494	-99	587	-264	75	32	-221	-378	22	116	53	-201	-10
2.1.1. Exports	1655	2016	2236	1913	7820	1606	1914	2145	2001	7666	1874	2061	2291	1906	8132
2.1.2. Imports	1685	1795	1742	2011	7233	1870	1838	2113	2222	8043	1852	1945	2238	2107	8142
2.2. Income, net	-749	-1187	-893	-1010	-3838	-838	-1101	-775	-969	-3682	-1021	-1267	-1284	-1357	-4929
2.2.1. Income on debt, net	-79	-392	-132	-176	-779	-161	-380	-61	-222	-823	-257	-287	-406	-399	-1349
2.2.2. Income on equity, net	-714	-841	-786	-870	-3210	-707	-757	-743	-790	-2998	-795	-1011	-907	-993	-3706
2.2.3. Compensation of employees, net	44	46	25	35	151	30	36	30	43	139	31	31	30	35	126
3. Current transfers	160	157	118	91	525	147	202	145	100	594	93	-4	28	89	206
4. Current account balance	-1076	-1056	-786	-2011	-4929	-1554	-1780	-1329	-1701	-6364	-1308	-2253	-1851	-1712	-7123
5. Capital account balance	50	62	23	68	202	-91	9	12	38	-32	-63	81	170	130	318
6. Net external financing capacity (4+5)	-1026	-994	-763	-1944	-4727	-1645	-1771	-1317	-1663	-6396	-1371	-2172	-1681	-1582	-6806
7. Non debt creating financing, net	801	-68	1105	831	2670	298	-203	1470	-1571	-7	814	-97	1388	1286	3392
7.1. Abroad, net	-44	-2	-101	-72	-219	-389	-122	-43	-809	-1363	-210	-116	43	-106	-390
7.1.1. Equity capital	-36	-5	-89	-60	-191	-369	-115	-16	-781	-1281	-215	-181	59	-87	-424
7.1.2. Reinvested earnings	-8	4	-12	-12	-28	-21	-7	-26	-28	-82	5	65	-17	-18	35
7.2. In Hungary, net	732	-6	1329	1013	3068	479	-120	1364	-589	1133	698	-79	1251	1078	2948
7.2.1. Equity capital	260	236	531	130	1157	-1	151	596	-1410	-664	237	490	323	58	1108
7.2.2. Reinvested earnings	472	-242	798	883	1911	480	-272	768	821	1797	461	-569	928	1020	1840
7.3. Portfolio investment, equity securities, net	113	-60	-123	-110	-179	208	39	148	-173	223	326	98	95	314	833
*. o/w: Travel, net	223	509	644	297	1673	160	423	422	283	1288	300	315	232	116	962
credit	756	1038	1296	835	3925	618	972	1138	849	3577	767	874	1061	562	3265
debit	533	529	652	537	2252	457	550	716	565	2288	468	560	829	446	2302

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

	2002				2003				2004			
	Q. I.	Q. II.	Q. III.	Q. IV.	Q. I.	Q. II.	Q. III.	Q. IV.	Q. I.	Q. II.	Q. III.	Q. IV.
1. Goods, net	-545	-277	-552	-875	-724	-806	-728	-673	-614	-764	-608	-430
1.1. Exports	9277	9534	9104	8919	9276	9223	9825	10028	10597	11089	11221	11569
1.2. Imports	9741	9669	9651	9953	9889	10061	10608	10700	11009	12048	11921	11900
2. Services and income, net	-575	-829	-831	-928	-1004	-948	-969	-1007	-1076	-1177	-1359	-1444
2.1. Services	306	157	149	61	-66	-18	-98	-39	10	-34	-41	
2.1.1. Travel, net	498	470	421	344	335	361	318	337	353	261	206	174
credit	1050	999	955	922	856	936	843	942	1034	829	776	627
debit	564	552	553	559	554	563	560	577	579	583	597	589
2.1.2. Other services, net	-208	-303	-225	-284	-425	-369	-416	-393	-304	-226	-263	-310
credit	916	994	958	1024	1006	959	1027	1097	1124	1204	1251	1289
debit	1142	1202	1234	1279	1349	1368	1473	1473	1502	1477	1570	1637
2.2. Income, net	-881	-986	-980	-989	-938	-930	-871	-968	-1086	-1143	-1318	
2.2.1. Income on debt, net	-180	-206	-210	-200	-205	-218	-198	-221	-227	-210	-502	-410
2.2.2. Income on equity, net	-714	-841	-786	-870	-707	-757	-743	-790	-795	-1011	-907	-993
2.2.3. Compensation of employees, net	42	41	33	33	32	34	34	37	33	32	32	30
3. Current transfers	157	140	122	107	144	184	150	116	91	-22	33	105
4. Current account balance	-1028	-929	-1143	-1810	-1581	-1590	-1617	-1579	-1406	-1995	-2073	-1660
5. Capital account	85	42	21	52	35	-13	9	21	-18	53	168	114
6. Net external financing capacity	-942	-888	-1147	-1736	-1641	-1587	-1621	-1548	-1463	-1904	-1897	-1532

* * * * *

The Bank will release data on Hungary's balance of payments and international investment position for 2005 Q1 on 30 June 2005.

* * * * *

a) Methodological notes to seasonal adjustment:

The method used to seasonally adjust the sub-components of the current account 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 ($Y_t = 1/9 \cdot X_{t-2} + 2/9 \cdot X_{t-1} + 3/9 \cdot X_t + 2/9 \cdot X_{t+1} + 1/9 \cdot X_{t+2}$), instead of the trend calculated by the programme.
- 5 The balance outcomes are seasonally adjusted using the indirect method. This means that the seasonal effects are eliminated from the sub-components, and the balances and the aggregates are derived from the seasonally adjusted data. Consequently, the seasonally adjusted current account balance outcomes can be reproduced from the seasonally adjusted data of the sub-accounts.

Notes to the press release and the tables:

- 1 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'.
- 2 In conformity with the data dissemination standards of the IMF, the MNB will publish data on external debt in a new composition among the statistical times series on its website, beginning with the release of 2003 Q2 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 DEPARTMENT

Introduction of new questionnaire-based systems to compile travel and business services data

New sources of data

From 2005, the Magyar Nemzeti Bank has switched its method of recording trade in services data from observing transactions to an approach better approximating the time of the provision and use of services in the balance of payments. Accordingly, trade in business services data are recorded on the basis of the dates of invoicing and receipt of invoices, instead of cash transfers observed in the past. In the case of travel, travel revenue and expenditure in the balance of payments are based on data derived from surveys of non-residents' demand in Hungary and of Hungarian residents' demand travelling abroad.

For the first time, simultaneously with the release of data for 2004 Q4, data derived from the questionnaire-based survey of companies, conducted by the Central Statistical Office (CSO), as well as from traveller surveys, will be used retroactively from 2004 Q1 in the balance of payments.

On 25 March 2005, the CSO published data used in compiling Hungary's balance of payments for 2004.

In a joint effort, the CSO, the Magyar Nemzeti Bank and the Ministry of Economy and Transport participated in the design, development and implementation of new data collections. The overhaul of data collection system was a task laid down by the National Programme for the Adoption of the Acquis Communautaire (ANP), which was aimed at further developing the accuracy of travel statistics and implementing a statistical measurement system for trade in services harmonising with international standards and economic statistics.

The development of the new data collection system was made necessary by the following factors:

1. With Hungary's accession to the European Union, commercial banks may no longer require information on title for balance of payments purposes from their customers in relation to small-value transactions (currently less than EUR 12,500). This, in the case of a data collection system based on commercial bank reports, may lead to a significant loss of information in the area of trade in services (which are characterised by low transaction values) over the longer term.
2. The prospective adoption of the euro should not cause a loss of information due to the expected decline in foreign currency conversion.
3. Ensuring consistence between data on travel and tourists' expenditure.
4. Detailed data for the purposes of international comparison (e.g. breakdown of travel by country, more detailed breakdown of business services) cannot be produced on the basis of bank reports.

Actual data collection started in mid-2003, after work on the design of the new data collections, the choice of the range of data providers, the development of the questionnaires and the necessary IT background was completed. Data of adequate quality, deriving from the new data collections, can be published from 2004 as the reference year.

Travel

In the past, monthly reports by banks and foreign exchange companies have been the underlying source of data on the travel account in the Hungarian balance of payments. Credit institutions have reported under travel (i) purchases and sales of forint (the balance of these being revenue) by non-residents, (ii) purchases and sales of foreign currency (the balance of these being expenditure) by residents, (iii) card and cheque turnover (revenue, expenditure), as well as transfers related to travel (revenue, expenditure). Foreign exchange companies have reported conversions by residents and non-residents from foreign currency into forints and vice versa. The Magyar Nemzeti Bank has complemented data from these two sources with the estimated amount of other travel-related transactions by Hungarian residents (amounts related to travel and paid into household foreign currency accounts or foreign currency converted at foreign exchange companies, or amounts drawn from foreign currency accounts).

Simultaneously with the release of 2004 Q4 data, travel data deriving from the new data collections are included in the balance of payments as part of an extraordinary revision (questioning non-residents travelling home and Hungarian residents arriving in Hungary at the time of crossing the border). This revision has affected the entire year 2004. On the basis of data collected from new sources, time series on travel recorded on a cash basis have been revised and will be published back to 2000 in a breakdown consistent with the methodology used in 2004.

Revision of travel data (2000-2003)

	2000			2001			2002			2003		
	credit	debit	net	credit	debit	net	credit	debit	net	credit	debit	net
Data published	3 752	1 507	2 245	4 224	1 628	2 596	3 448	1 819	1 629	3 029	1 788	1 241
Data revised	4 067	1 794	2 273	4 654	2 022	2 632	3 925	2 252	1 673	3 577	2 288	1 288
Revision	315	287	28	430	394	36	478	433	45	548	500	48

As a result of the data revision both revenue and expenditure data have increased and, given the greater change in the former, net travel revenue for the individual years has also increased. The difference between the balances on the travel account deriving from cash data and border traffic has been recorded under net errors and omissions.

Data on a cash basis of recording have been complemented by estimating three factors:

1. Grossing up card turnover

Earlier, the majority of banks recorded bank card turnover (by bank on a monthly basis) on a net basis, that is, after transactions with the card centre were netted out.

Using semi-annual data on card turnover, the Magyar Nemzeti Bank has estimated the data missing from cash data as a proportion of monthly travel data reported by commercial banks for the months of the given half year. This revision has equally affected both revenue and expenditure and, consequently, the balance has remained unchanged.

2. Estimating the use of forints by Hungarian residents abroad and non-residents in Hungary

There is an opportunity to pay in forints for goods or services in the neighbouring countries. Earlier, forints spent abroad were not recorded within travel expenditure, just as the repatriation of forints taken abroad were not recorded as travel revenue.

The amount of shortfall in turnover caused by not observing the use of forints in 2004 has been estimated on the basis of spending by residents travelling to the countries accepting the forint (Romania, Ukraine and, partly, Slovakia and Serbia). This amount has been used to calculate supplementary turnover for previous years by taking into

account border traffic data and developments in the Hungarian consumer price index.⁴ This revision has equally affected both revenue and expenditure and, consequently, the balance has remained unchanged.

3. Estimating revenue from rents of real estates held by non-residents

In Hungary, there is a large number of real estates owned by non-residents. Such real estates, and those in popular resort areas in particular, are also rented to non-residents. However, revenue arising from this activity is not reflected in data recorded on a cash basis.

In defining the above type of revenue for the period 2000–2003, the Bank has estimated separately the number of real estates rented and the amount of rents.

The revision has only affected revenue; and the balance has been revised by the amount of change.

Business services

In the past, reports by commercial banks on their own transactions and their customers' have served as a basis for the compilation of data under travel in the Hungarian balance of payments. The transactions which have not been recorded by the Hungarian banking sector (e.g. turnover on accounts abroad, offsetting liabilities against assets as well as other transactions not involving cash movement) have been reported by the firms involved.

Data derived from the CSO's questionnaire on business services, based on invoicing information, will make it possible from 2004 to replace data derived from the observation of the groups of services in the balance of payments as follows:

- Communications services
- Construction services
- Computer and information services
- Royalties and licence fees
- Other business services
- Personal, cultural and recreational services

In addition, monthly values of repairs included under goods will be taken from answers to the CSO's new questionnaire.

Simultaneously with the publication of 2004 Q4 data, data deriving from the new data collections are incorporated into the balance of payments as part of an extraordinary revision for 2004 as a whole. The difference between the balances on business services deriving from cash data and responses to corporate questionnaires will be recorded as trade credit.⁵

Comparing the questionnaire-based survey with cash data has provided an opportunity to re-record turnover by off-shore firms⁶ more accurately.

Two types of off-shore firms are distinguished for the purposes of recording in the balance of payments:

⁴ Considering spending per person unchanged, due to a lack of information.

⁵ It is assumed that the major part of spending is explained by the timely difference between invoicing and actual.

⁶ Off-shore firms are enterprises registered in Hungary which, according to the legal definition, pursue their economic activities abroad and are not related to the Hungarian economy. The off-shore status will cease to exist from 31 December 2005.

1. Pass through companies, which generally advance funds arising from equity investment immediately;
2. Firms engaged in the conduct of some kind of real economic transaction.

In the case of the first group of firms, net cash flows are recorded in the balance of payments as direct investment. In the case of the second group, services and capital account transactions, related to the sale or purchase of non-produced non-financial assets, are recorded in the balance of payments (given that off-shore firms, resulting from their legal status, may not conduct transactions in goods with residents).

As a result of the comparison of the two statistical datasets, the Bank has reclassified a number of off-shore firms from the second group (companies engaged in real economic transactions) into the first group (pass through firms). Consequently, in the case of off-shore firms the Bank has not recorded turnover in services in 2004. In order to ensure the comparability of time series, the Bank has adjusted retroactively turnover data of the firms affected. However, this revision only affected turnover in 2003.

Data on trade in business services, published by the CSO and the MNB for 2004, are not comparable, as the CSO has taken account only of services purchased in Hungary by off-shore firms to ensure their continuous operations, while the MNB has recorded total turnover in services by firms engaged in some kind of real economic transaction. In order to avoid frequent revisions of time series and the expected significant jump in data next year, the MNB has decided to continue with the treatment of off-shore firms, discussed above, and depart from the CSO's methodology. From 2006, after the termination of off-shore status for firms, the difference between data published by the two institutions will cease to exist.

Other services

In the case of the four types of services below, the Bank will continue to record data taken from the system based on bank reports in the balance of payments in 2005:

- Transportation
- Insurance services
- Financial services
- Government services

However, the development of a new data collection system is also underway for the above four types of services. The CSO will start collecting relevant data in 2005 Q1. No decision has been taken on the incorporation of data, resulting from the new data collection, in the balance of payments. Such a decision will be taken by the institutions affected, after the results have been analysed.