

30 September 2005

## PRESS RELEASE

### Hungary's balance of payments: 2005 Q2

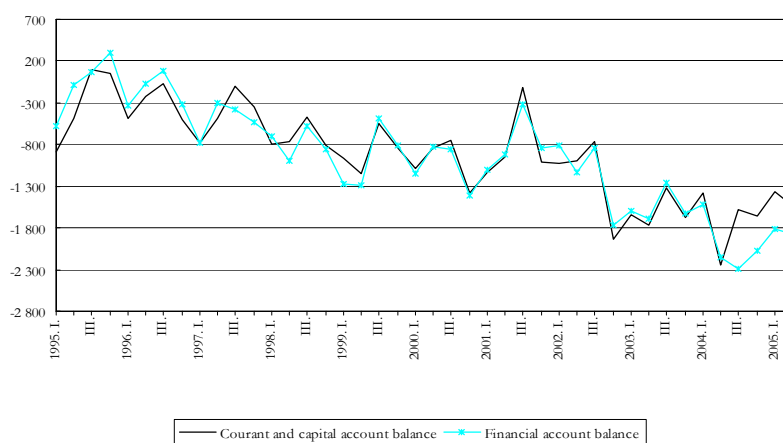
- In line with its announced method of releasing and revising balance of payments data, on 30 September 2005 the Bank is publishing statistical data for 2005 Q2 for the first time, simultaneously releasing revised 2004 Q1 data.
- In addition to the standard data revision, relating to retroactive changes to reports by reporting institutions, other adjustments of data in the aftermath of inspections, as well as using information obtained from other sources, the change to the method of recording trade credit has caused a larger revision from data on 2004 Q3.

Trade credits and debits are recorded in the balance of payments in the process of consolidating foreign trade data from corporate data reports with transfers related to goods trade, derived from settlement data.<sup>1</sup> Developments in credits and debits are not closely monitored statistically; however, it can be assumed that the magnitude of such credits and debits may not depart from the actual level of goods trade over the longer term.

In contrast with this, from 2004 H2 trade credits have been rising significantly on a sustained basis, which cannot be explained in economic terms. For this reason, the MNB, based on available information, has decided to revise data unilaterally. Accordingly, it has recorded the increase in credits, exceeding the extent presumed on the basis of estimates, as a statistical error in the balance of payments statistics, under errors and omissions. Obviously, the reduction in trade credits has affected the increase in net debt. This has caused whole-economy net debt at end-December 2004 to be some EUR 1.2 billion higher than published earlier.

The combined current and capital account deficit, or the top-down measure of external financing capacity, is significantly different from the bottom-up measure, calculated as the balance on the financial account, which has the same content methodologically. In 2004, the combined current and capital account deficit amounted to EUR 6,876 million, or 8.5% of GDP, while the related amount of financing, i.e. the balance on the financial account, amounted to EUR 8,042 million, or 9.9% of GDP.

euro million **Alternative measurements of net external financing capacity**



<sup>1</sup> On the adopted approach, see the methodological notes to the March 2003 publication, under point 1. *Recording trade in goods in the balance of payments*:

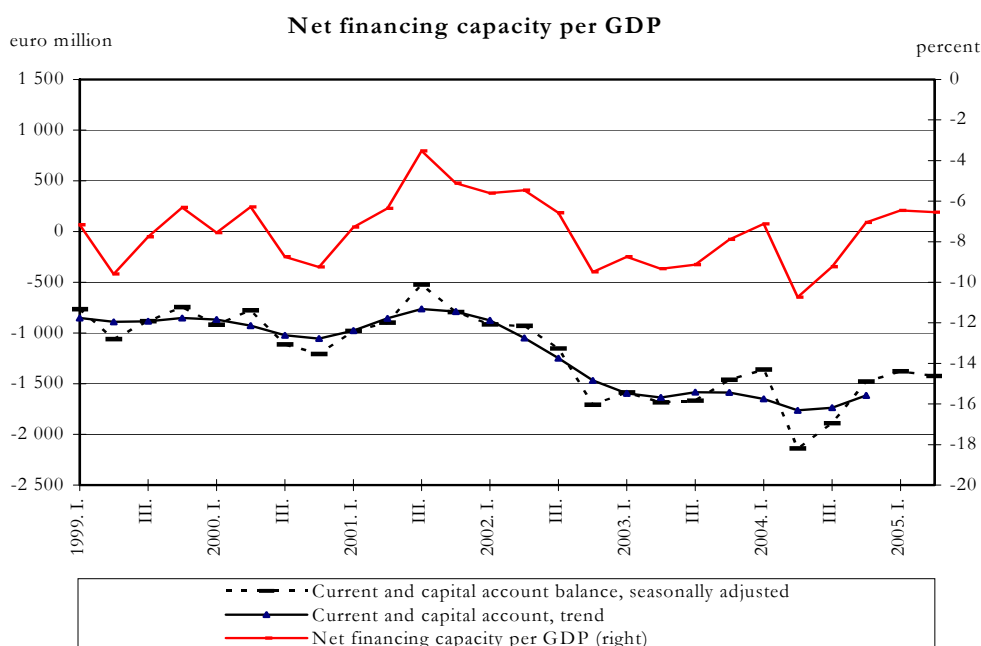
[http://www.mnb.hu/resource.aspx?ResourceID=mnbfile&resourcename=fm\\_modszertan\\_2003\\_en](http://www.mnb.hu/resource.aspx?ResourceID=mnbfile&resourcename=fm_modszertan_2003_en)

In order to reduce the resulting statistical error, the MNB has initiated to discover the inconsistencies in a joint effort with the CSO. (For more details, see the box at the end of this press release.)

- The CSO, by incorporating the results of the annual data collection exercise related to enterprises registering small turnover, has revised data on business services for 2004. With the processing of data reported by enterprises, designated additionally to report data in the course of the year, 2005 Q1 statistical data have also been changed.
- With regard to direct investment, corporate questionnaires, filled in on the basis of annual corporate accounts for 2004, have been incorporated in direct investment data. As regards 2004 statistics, the released data estimates on reinvested earnings have been replaced by actual data derived from questionnaire-based data. The same procedure has been applied in the case of dividends declared payable for 2005 (another component of income on equity within direct investment). After-tax profits for 2005, which will remain an estimate until the corporate questionnaires are returned with June 2006 as a deadline, has been adjusted using an algorithm.<sup>2</sup> In 2004, residents' reinvested earnings abroad and non-residents' reinvested earnings in Hungary have been revised up by EUR 99 million and EUR 79 million respectively.

*Based on the quarterly data, Hungary's net external financing requirement<sup>3</sup> (i.e. its combined current and capital account deficit) amounted to EUR 1,536 million in 2005 Q2. After adjusting for seasonal effects, the Hungary's net external financing requirement amounted to EUR 1,423 million, or 6.6% of GDP (see Chart 1). The net external financing capacity, or the balance on the financial account, calculated on the bottom-up basis, was EUR 1,877 million, or 8.6% of GDP.*

**Chart 1**



The current account deficit amounted to EUR 1,701 million in 2005 Q2. After adjusting for seasonal effects, the deficit fell relative to the previous quarter, coming in at EUR 1.511 million.

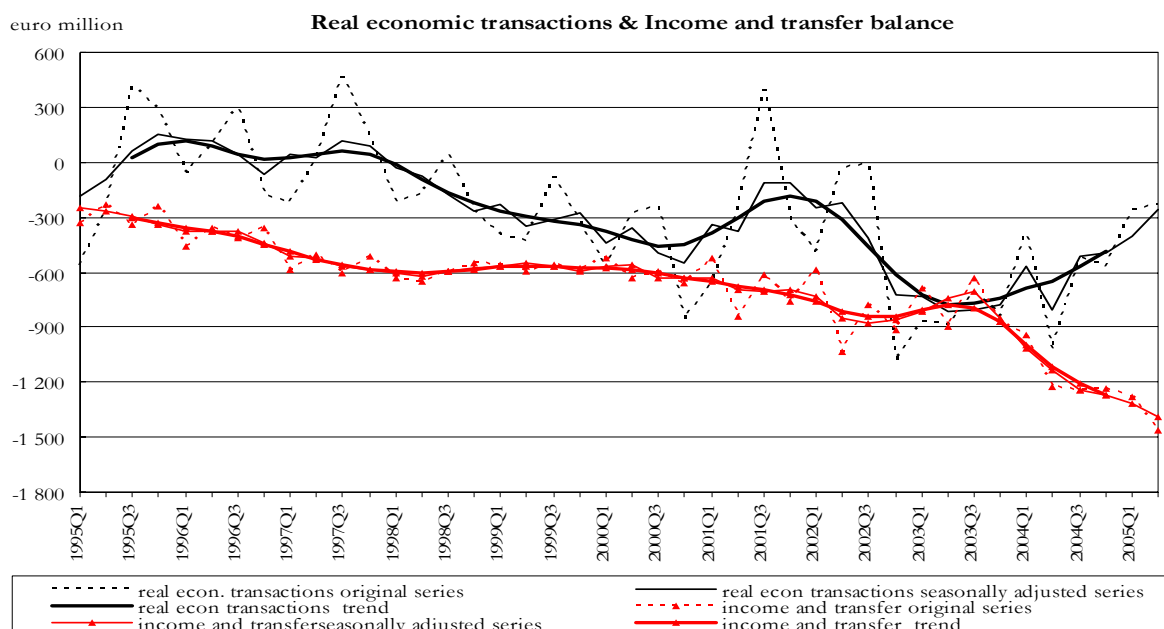
<sup>2</sup> For details on the estimation method and recording direct investment, see the following documents: [http://www.mnb.hu/Resource.aspx?ResourceID=mnbfile&resourcename=fm\\_hatteranyag\\_2004en](http://www.mnb.hu/Resource.aspx?ResourceID=mnbfile&resourcename=fm_hatteranyag_2004en), and [http://www.mnb.hu/Resource.aspx?ResourceID=mnbfile&resourcename=mukt\\_en](http://www.mnb.hu/Resource.aspx?ResourceID=mnbfile&resourcename=mukt_en).

<sup>3</sup> 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 2004 press release.) Current transfers and the capital account cannot be seasonally adjusted due to the break caused by EU transfers.

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

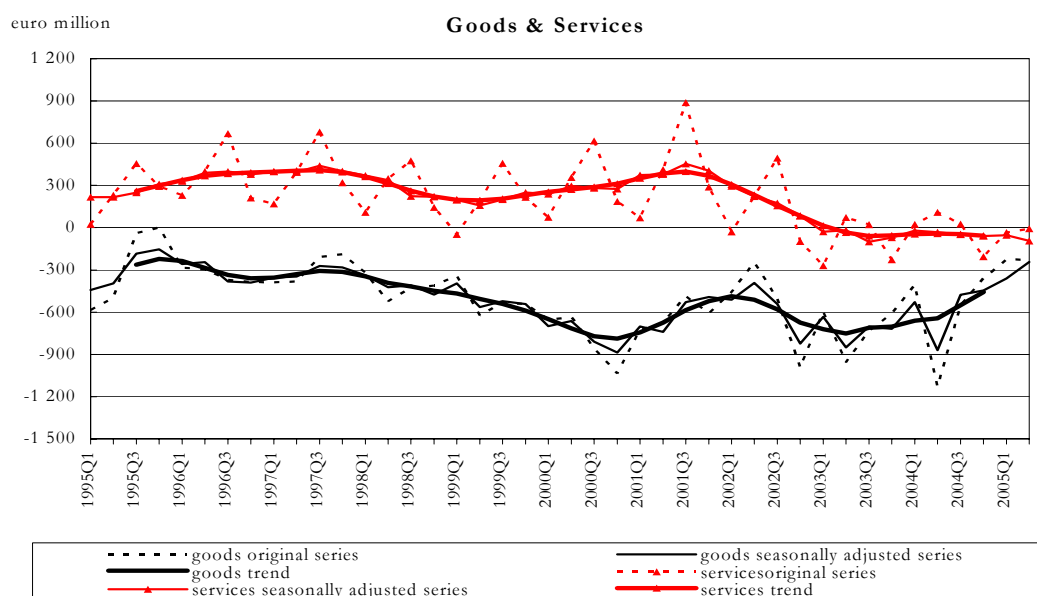
Developments in income and current transfers continue to show rising deficits. After adjusting for seasonal effects, the deficit was EUR 1,387 million in Q2. This resulted mainly from the increase in non-debt income (see Chart 2).

**Chart 2**



The trend of real economic transactions, similarly to the previous quarter, improved, due to the fall in the current account deficit. After adjusting for seasonal affects, the goods deficit amounted to EUR 244 million. The services account deficit remained unchanged for the past two years, remaining less than EUR 100 million (see Chart 3).

**Chart 3**



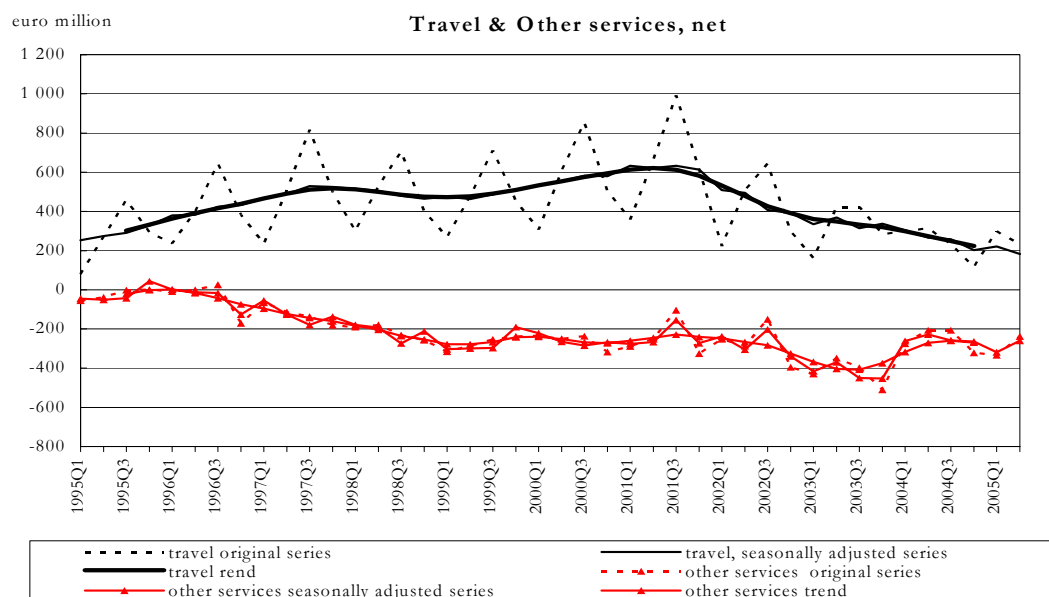
In 2005 Q2, the seasonally adjusted values of exports and imports also both increased (approximating EUR 12.4 billion). The rate of export growth continued to be faster than that of import growth (see Chart 4).

**Chart 4**



Within services, the travel surplus continued to fall.<sup>4</sup> The seasonally adjusted surplus in Q2 was less than EUR 200 million. The deficit on other services remained broadly unchanged around EUR 250 million (see Chart 5).

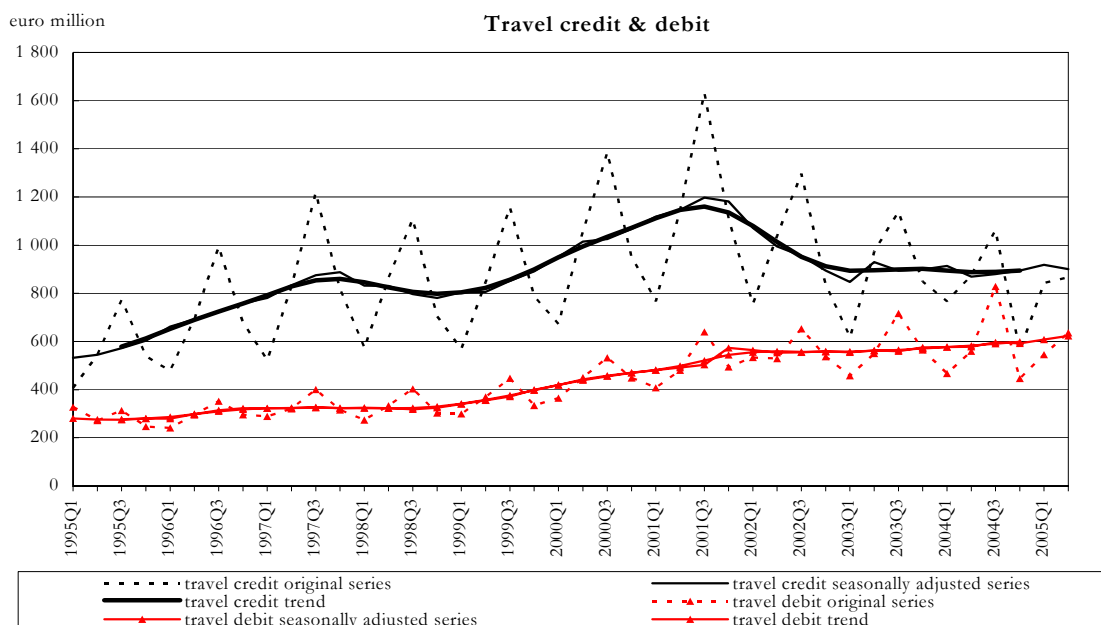
**Chart 5**



<sup>4</sup> From 2004, travel revenue and expenditure have been based on data derived from surveys of demand by non-residents in Hungary and Hungarian residents abroad.

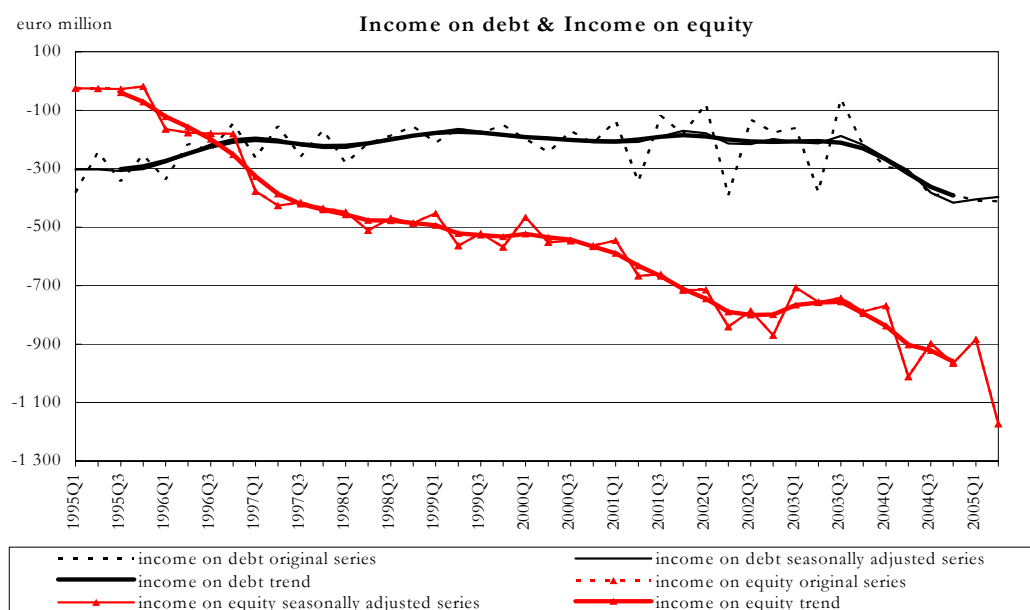
Taking a longer period, travel revenue were static in 2005 Q2. By contrast, expenditure rose above EUR 600 million in the quarter (see Chart 6).

**Chart 6**



Developments in the balances on the income and transfer account were shaped by movements in income on equity and income on debt. In 2005 Q2, the seasonally adjusted deficit on income on debt amounted to EUR 400 million. Negative income on equity was EUR 1,173 million in the period.<sup>5</sup> The deficits on income on debt and income on equity has been rising steadily since 2003 Q3 (see Chart 7).

**Chart 7**



<sup>5</sup> This time series does not include seasonal patterns, consequently, the seasonally adjusted value equals the not seasonally adjusted value.

The surplus on current transfers was EUR 93 million in the review period.

Recorded as current transfers, Hungary's contribution to the Community budget was some EUR 80 million higher than EU transfers received from EU institutions. Including capital transfers, Hungary registered a surplus of nearly EUR 140 million from transfers with the EU.

Inward and outward non-debt capital transactions showed a net inflow of EUR 1,374 million in 2005 Q2. Net direct investment in shares and other equity by Hungarian residents abroad exceeded that by non-residents in Hungary. The value of direct investment in equity capital, including reinvested earnings, was the balance of transactions by Hungarian residents abroad in the amount of EUR 572 million and withdrawals by non-residents from Hungary in the amount of EUR 493 million. This outward flow in Q2 was closely related to the within-year recording of reinvested earnings.<sup>6</sup> Portfolio investment transactions in equity securities showed a net outflow of EUR 308 million in the quarter under review.

Central bank foreign exchange reserves amounted to EUR 14.2 billion at end-June 2005. Whole-economy gross foreign debt, including other investment capital recorded within direct investment, was EUR 4.4 billion higher than at the end of 2005 Q1. Excluding other investment capital, gross foreign debt amounted to EUR 3.1 billion. Hungary's net foreign debt, including other investment capital recorded within direct investment, increased by EUR 2.0 billion. Non-residents' holdings of forint-denominated government securities amounted to EUR 10.0 billion at end-June 2005, EUR 0.3 billion lower than at the end of the previous quarter.

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<sup>6</sup> This withdrawal is the consequence of a within-year recording, according to which the MNB records the major part of dividends declared payable in the previous year, which, in turn, reduces the size of reinvested earnings.

Table 1

Milliárd euro

	2003	2004	2005	
			I. n. év	II. n. év
<b>I. Nemzetgazdaság (S.1), bruttó adósság (A+B)/1</b>	<b>47.6</b>	<b>57.0</b>	<b>60.5</b>	<b>64.9</b>
A: Államháztartás és MNB (S.13+S.121)	20.1	24.0	26.2	27.1
A.1. ebből: forint adósság /2	8.9	11.0	11.4	11.0
B. Magánszektor (S.1-S.13-S.121)	27.6	33.0	34.4	37.8
<b>II. Nemzetgazdaság (S.1), nettó adósság (A+B)/1</b>	<b>21.4</b>	<b>26.8</b>	<b>27.6</b>	<b>31.2</b>
A: Államháztartás és MNB (S.13+S.121)	8.6	11.7	12.1	12.0
A.1. ebből: forint adósság /2	8.7	10.8	11.1	10.6
B. Magánszektor (S.1-S.13-S.121)	12.9	15.0	15.5	19.2
<b>III. Nemzetgazdaság (S.1), bruttó adósság /3</b>	<b>38.8</b>	<b>47.3</b>	<b>50.5</b>	<b>53.6</b>
<b>IV. Nemzetgazdaság (S.1), nettó adósság /3</b>	<b>16.6</b>	<b>21.5</b>	<b>22.0</b>	<b>24.0</b>

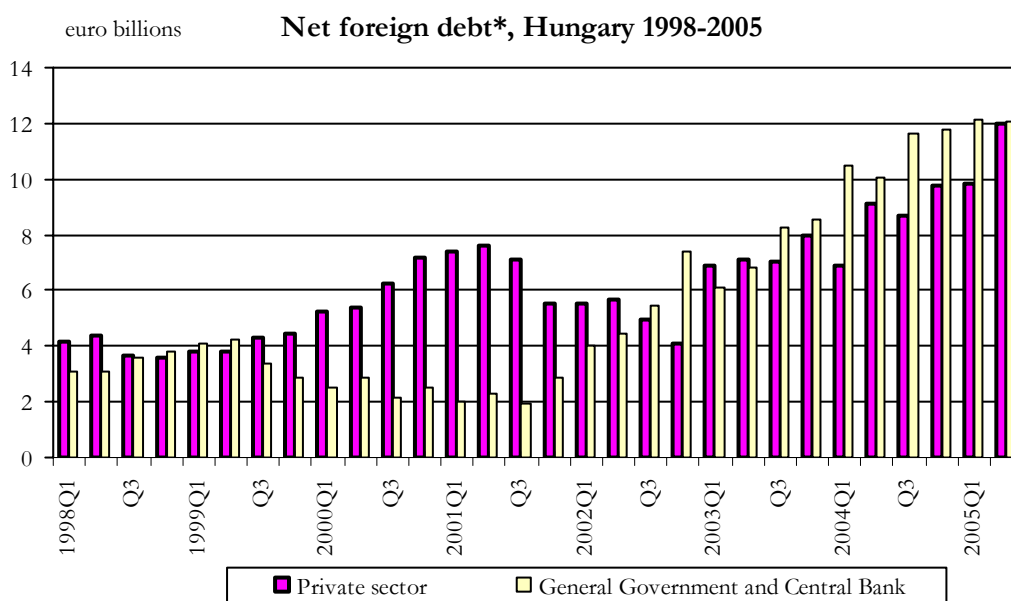
/ 1 FDI including other investment capital.

/ 2 Securities + other.

/ 3 Excluding other investment capital recorded within direct investment.

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

Chart 8



At the end of 2005 Q2, the net debts of general government and the MNB remained unchanged, while the net debt of the private sector rose by EUR 3.7 billion relative to the end of the previous quarter. Here, the increase in net debt (i.e. the net change related to other investment transactions excluding shares and other equity) was EUR 1.6 billion. Within the latter, the increase in liabilities due to dividends declared payable is one of the largest items every second quarter, resulting from the special nature of recording income on direct investment capital, which amounted to EUR 0.7 billion in the period under review. Whole-economy net debt, including other investment capital recorded within direct investment, was EUR 31.2 billion at end-June (37.2% of GDP). Excluding other investment capital, Hungary's net debt was EUR 24.0 billion (28.6% of GDP).

**Table 2**  
**Balance of payments, Hungary**

	2003					2004					2005		
	Q. I.	Q. II.	Q. III.	Q. IV.	Q. I-Q. IV.	Q. I.	Q. II.	Q. III.	Q. IV.	Q. I-Q. IV.	Q. I.	Q. II.	Q. I-Q. II.
<b>1. Goods, net</b>	<b>-599</b>	<b>-957</b>	<b>-732</b>	<b>-610</b>	<b>-2898</b>	<b>-405</b>	<b>-1129</b>	<b>-551</b>	<b>-361</b>	<b>-2446</b>	<b>-226</b>	<b>-228</b>	<b>-454</b>
1.1. Exports	8994	9277	9542	10564	38377	10277	11319	11208	12270	45074	11149	12434	23583
1.2. Imports	9593	10233	10274	11174	41275	10683	12447	11759	12631	47520	11375	12662	24037
<b>2. Services and income, net</b>	<b>-1106</b>	<b>-1026</b>	<b>-751</b>	<b>-1196</b>	<b>-4079</b>	<b>-1007</b>	<b>-1179</b>	<b>-1233</b>	<b>-1525</b>	<b>-4944</b>	<b>-1308</b>	<b>-1565</b>	<b>-2873</b>
2.1. Services*, net	-269	73	23	-227	-401	24	108	25	-206	-49	-35	-7	-42
2.1.1. Exports	1623	1914	2140	1998	7674	1895	2084	2325	1991	8294	2066	2330	4396
2.1.2. Imports	1892	1840	2117	2225	8075	1871	1975	2300	2197	8343	2101	2337	4437
2.2. Income, net	-837	-1100	-773	-968	-3678	-1031	-1287	-1258	-1319	-4895	-1273	-1559	-2832
2.2.1. Income on debt, net	-161	-380	-61	-222	-823	-293	-307	-390	-388	-1379	-413	-411	-823
2.2.2. Income on equity, net	-706	-756	-742	-789	-2994	-769	-1011	-898	-965	-3642	-883	-1173	-2056
2.2.3. Compensation of employees, net	30	36	30	43	139	31	31	30	35	126	23	24	48
<b>3. Current transfers</b>	<b>148</b>	<b>202</b>	<b>145</b>	<b>100</b>	<b>595</b>	<b>88</b>	<b>59</b>	<b>19</b>	<b>88</b>	<b>254</b>	<b>-11</b>	<b>93</b>	<b>82</b>
<b>4. Current account balance</b>	<b>-1557</b>	<b>-1781</b>	<b>-1337</b>	<b>-1706</b>	<b>-6382</b>	<b>-1324</b>	<b>-2249</b>	<b>-1766</b>	<b>-1797</b>	<b>-7136</b>	<b>-1545</b>	<b>-1701</b>	<b>-3246</b>
<b>5. Capital account balance</b>	<b>-91</b>	<b>9</b>	<b>12</b>	<b>38</b>	<b>-32</b>	<b>-54</b>	<b>2</b>	<b>177</b>	<b>135</b>	<b>260</b>	<b>171</b>	<b>165</b>	<b>336</b>
<b>6. Net external financing capacity (4+5)</b>	<b>-1649</b>	<b>-1772</b>	<b>-1325</b>	<b>-1668</b>	<b>-6414</b>	<b>-1378</b>	<b>-2247</b>	<b>-1589</b>	<b>-1662</b>	<b>-6876</b>	<b>-1374</b>	<b>-1536</b>	<b>-2910</b>
<b>7. Non debt creating financing, net</b>	<b>297</b>	<b>-204</b>	<b>1468</b>	<b>-1572</b>	<b>-11</b>	<b>780</b>	<b>-135</b>	<b>1387</b>	<b>1246</b>	<b>3278</b>	<b>123</b>	<b>-1374</b>	<b>-1251</b>
7.1. Abroad, net	-388	-120	-41	-808	-1358	-307	-211	-57	-215	-790	-484	-572	-1056
7.1.1. Equity capital	-369	-115	-16	-781	-1281	-215	-179	60	-96	-430	-480	-707	-1187
7.1.2. Reinvested earnings	-19	-6	-25	-27	-77	-92	-32	-117	-119	-360	-4	135	131
7.2. In Hungary, net	476	-122	1361	-592	1123	764	-22	1346	1147	3236	781	-493	288
7.2.1. Equity capital	-1	151	596	-1410	-664	237	464	327	55	1082	316	359	675
7.2.2. Reinvested earnings	477	-274	766	818	1788	528	-486	1020	1092	2154	466	-852	-387
7.3. Portfolio investment, equity securities, net	208	39	148	-173	223	322	98	99	314	833	-175	-308	-483
*. o/w: Travel, net	160	423	422	283	1288	300	315	232	116	962	299	231	530
credit	618	972	1138	849	3577	767	874	1061	562	3265	844	867	1711
debit	457	550	716	565	2289	468	560	829	446	2302	545	636	1181

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

**Table 3**  
**Balance of payments, Hungary (seasonally adjusted data) <sup>a)</sup>**

	2003				2004				2005	
	Q. I.	Q. II.	Q. III.	Q. IV.	Q. I.	Q. II.	Q. III.	Q. IV.	Q. I.	Q. II.
<b>1. Goods, net</b>	<b>-634</b>	<b>-850</b>	<b>-701</b>	<b>-719</b>	<b>-529</b>	<b>-869</b>	<b>-476</b>	<b>-446</b>	<b>-361</b>	<b>-244</b>
1.1. Exports	9338	9248	9777	9987	10670	11283	11484	11601	11575	12395
1.2. Imports	9987	10019	10561	10692	11169	12150	12058	12087	11928	12358
<b>2. Services and income, net</b>	<b>-965</b>	<b>-946</b>	<b>-967</b>	<b>-1038</b>	<b>-1128</b>	<b>-1179</b>	<b>-1349</b>	<b>-1382</b>	<b>-1417</b>	<b>-1528</b>
2.1. Services	-27	-19	-100	-71	-20	-33	-49			
2.1.1. Travel, net	335	368	314	337	304	266	258	202	222	182
credit	847	930	894	899	913	869	880	895	918	901
debit	555	563	559	576	577	578	597	592	609	623
2.1.2. Other services, net	-416	-369	-450	-453	-261	-228	-258	-264	-318	-260
credit	1039	952	1019	1082	1173	1214	1280	1356	1280	1462
debit	1372	1381	1479	1481	1524	1523	1595	1613	1586	1645
2.2. Income, net	-938	-926	-867	-967	-1108	-1146	-1301			
2.2.1. Income on debt, net	-210	-213	-188	-218	-265	-306	-381	-416	-405	-397
2.2.2. Income on equity, net	-706	-756	-742	-789	-769	-1011	-898	-965	-883	-1173
2.2.3. Compensation of employees, net	32	34	34	37	34	32	31	29	26	26
<b>3. Current transfers</b>	<b>142</b>	<b>189</b>	<b>153</b>	<b>111</b>	<b>82</b>	<b>46</b>	<b>27</b>	<b>99</b>	<b>-17</b>	<b>80</b>
<b>4. Current account balance</b>	<b>-1594</b>	<b>-1621</b>	<b>-1634</b>	<b>-1521</b>	<b>-1436</b>	<b>-2045</b>	<b>-2001</b>	<b>-1642</b>	<b>-1667</b>	<b>-1511</b>
<b>5. Capital account</b>	<b>-91</b>	<b>9</b>	<b>12</b>	<b>38</b>	<b>-54</b>	<b>2</b>	<b>177</b>	<b>135</b>	<b>171</b>	<b>165</b>
<b>6. Net external financing capacity</b>	<b>-1586</b>	<b>-1686</b>	<b>-1668</b>	<b>-1461</b>	<b>-1362</b>	<b>-2139</b>	<b>-1889</b>	<b>-1478</b>	<b>-1378</b>	<b>-1423</b>

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The Bank will release data on Hungary's balance of payments and international investment position for 2005 Q3 on 30 December 2005.

\* \* \* \* \*



## Notes to the revision of trade credit data

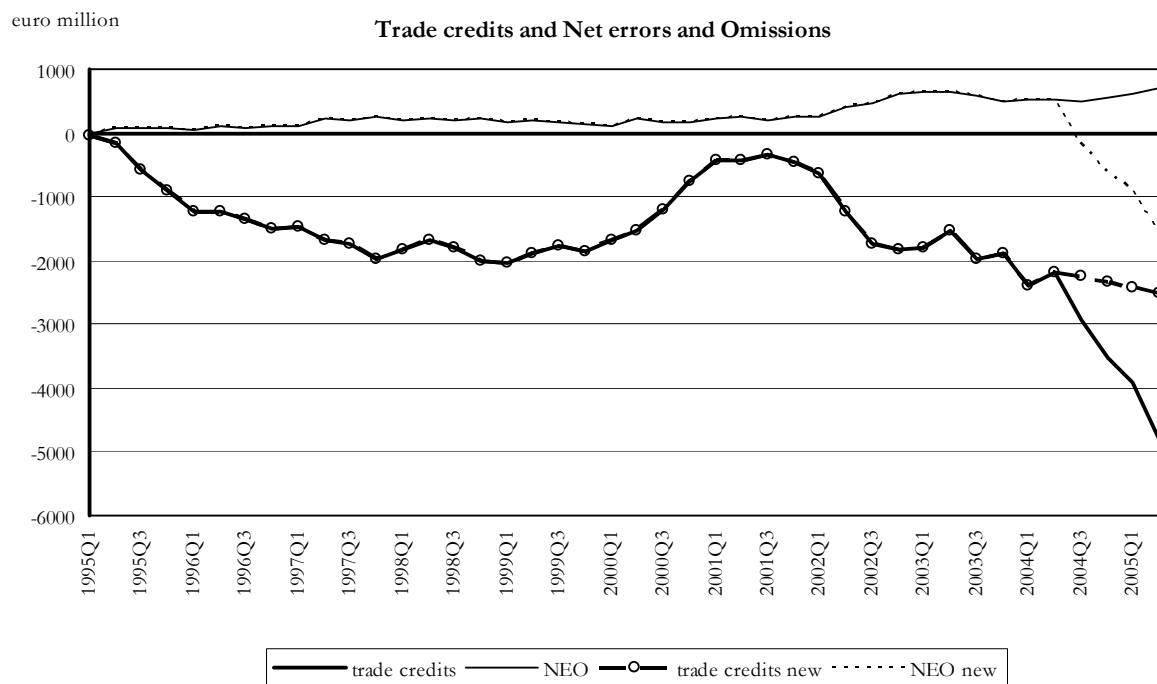
At the time of incorporating the CSO's foreign trade statistics into the balance of payments, the MNB started from the following assumptions:

- The balance of items which do not entail cash movement (materials for processing, contributions in-kind) should be eliminated from trade statistics which record physical movements in goods, and recorded under errors and omissions, as the closed cash based reports do not include such;
- The part of settlements related to transactions in tradables which is not backed by goods excluded from trade statistics continues to be part of the published balance of payments data;
- After eliminating the above items, in principle, the trade codes in the balance of payments and foreign trade data may only include transactions which are recorded in both the balance of payments and under goods. Consequently, only the different times of recording or the terms of delivery may cause differences among such partial turnover data, the financing items of which should be recorded within trade credits and debits.

At the time of incorporating the data, trade credits calculated using this method for the period 1995–2002 amounted to less than EUR 2 billion, which, taking into account the period under revision, was acceptable. Up to 2005 Q2, this trade credit increased by some EUR 3 billion, and by some EUR 2.5 billion since 2004 Q2 in particular. This steady increase suggest that the assumptions presented above could not be sustained.

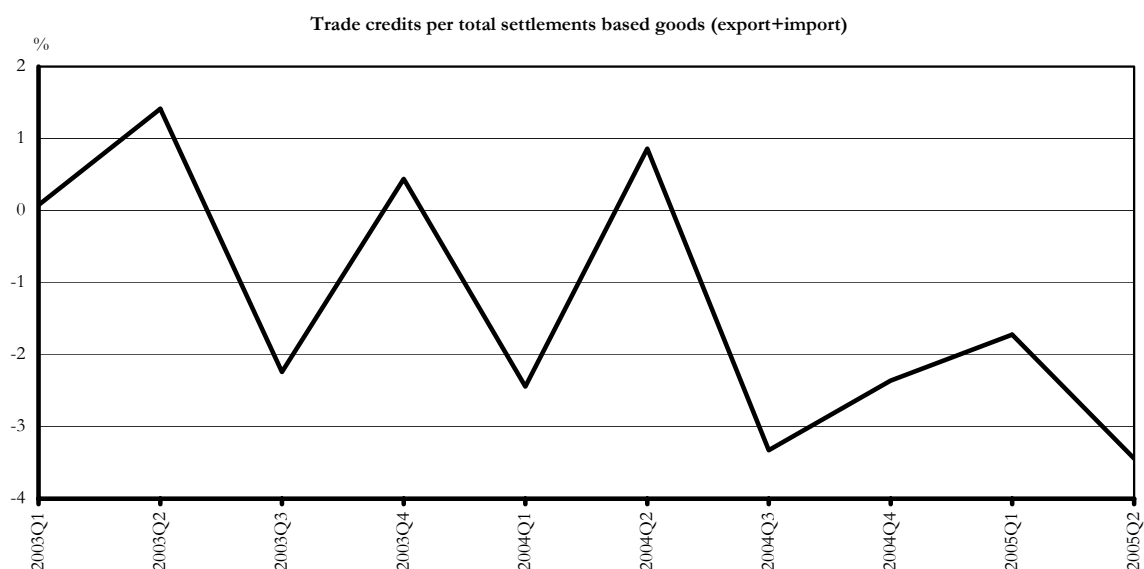
As the MNB does not have information on any dramatic change in payment methods in foreign trade in the review period, it assumes that the stocks of and flows in trade credits and debits may not depart from the level of goods trade.

After 2002, the behaviour of trade credits as a proportion of total turnover (i.e. as a percentage of exports and imports), calculated using the old methodology, implies that, after 2004 Q2, the increase in trade credits picked up speed. (*The signs follow the sign convention of balance of payments statistics, i.e. negative values denote an increase in credits.*)



Based on all these, the MNB revised trade credits for the period beginning with 2004 Q3. The chosen reference value was the average of the period between 2003 Q1–2004Q2, when the increase in trade credits was relatively moderate.

The table below shows the results of the revision. (*The balance of errors and omissions in the table only shows the balance of statistical error related to the incorporation of foreign trade data.*)



With the revision the MNB made it explicit that it did not have adequate information on the causes of the significant and steady unidirectional increase in the gap between payment data and foreign trade data from 2004 Q3, which would allow incorporating such into balance of payments data, in line with earlier practice. At the balance of payments level this means that items of unknown origin, recorded earlier as an increase in foreign assets, are now recorded under statistical errors. As a consequence, the external financing requirement, calculated on the basis of the balance on the financial account, is considerably higher than the combined current and capital account deficit.

The revision of trade credits presented above will not be an automatic process, rather an ad hoc exercise, with knowledge of developments over a given period. With regard to 2004, after processing data from reports by the Tax and Financial Control Administration and corporate annual accounts, the MNB will examine whether and to what extent it is justified to revise the estimation method outlined above. The major goal is to discover the source of the statistical error now recorded, and to adjust balance of payments data accordingly.

\* \* \* \* \*

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