

31 March 2006

PRESS RELEASE

Hungary's balance of payments: 2005 Q4

- Consistent with its method of releasing and revising balance of payments data, on 31 March 2006 the MNB is publishing 2005 Q4 statistical data for the first time, simultaneously with publishing revised 2005 Q2–Q3 data. Including the figures for Q4 in this press release, 2005 Q1–Q4 data are now available, which, however the Bank does not consider to be equivalent to annual 2005 data, due to its estimate of direct investment income data. Accordingly, the 2005 figures are only included in the [quarterly time series](#). The MNB will publish annual 2005 balance of payments data in September 2006, in line with its dissemination practice.
- Taking account of information now available as a result of processing direct investment questionnaires related to 2004, data on direct investment and income have also been updated. In this press release, 2004 direct investment data are available in a [breakdown by country and sector](#), similarly to the practice of past years.
- The CSO had revised data on business services released for the period 2004–2005. Due to the extent to which the data had been revised, the MNB has already incorporated these changes into its balance of payments statistics, even for the periods unaffected by the normal revision, ahead of the annual revision scheduled for September 2006. The revision by the CSO had also affected 2004 statistical data on goods, in addition to services, the reason being that data on repairs on goods in the questionnaires on business services had been restated.¹

According to quarterly data, Hungary's net financing capacity (i.e. its combined current and capital account balance) showed a deficit of EUR 1,206 million in 2005 Q4. After adjusting for seasonal effects, Hungary's net external financing requirement amounted to EUR 1,271 million, or 6% of GDP (see Chart 1). Expressed in domestic currency, the net financing capacity amounted to HUF -304 billion in Q4. The net external financing requirement, derived as the combined current and capital account balance, i.e. in a top-down approach, fell relative to the previous quarter. The external financing requirement, calculated as the balance on the financial account, i.e. using the bottom-up method, which does not reflect the recording error in foreign trade statistics, was the equivalent of 9% of GDP.²

The fall in Hungary's external financing requirement, calculated using the top-down approach, resulted from (i) developments in the balance of real economic transactions and (ii) the higher surplus on transactions with the EU, recorded under current and capital transfers. Variations in the quarterly amounts of EU funds, recorded in the balance of payments, are influenced by the exact points in time such funds are actually drawn, as Hungary's GNI proportional contributions to the EU budget are recorded evenly. Consequently, developments in the quarterly balance cannot be considered a trend effect.

¹ A couple of exceptions notwithstanding, under international statistical standards repairs on goods must be recorded under goods.

² Due to the change in the method of data recording, discussed in the [September 2005 press release on Hungary's balance payments](#), which was related to the incorporation of foreign trade data released by the CSO, the financing requirement amounted to EUR 2,221 million in a bottom-up approach (see Chart 2) and EUR 2,066 seasonally adjusted. The difference between in the two indicators, calculated using the two methods, has been recorded under net errors and omissions in the balance of payments.

Chart 1

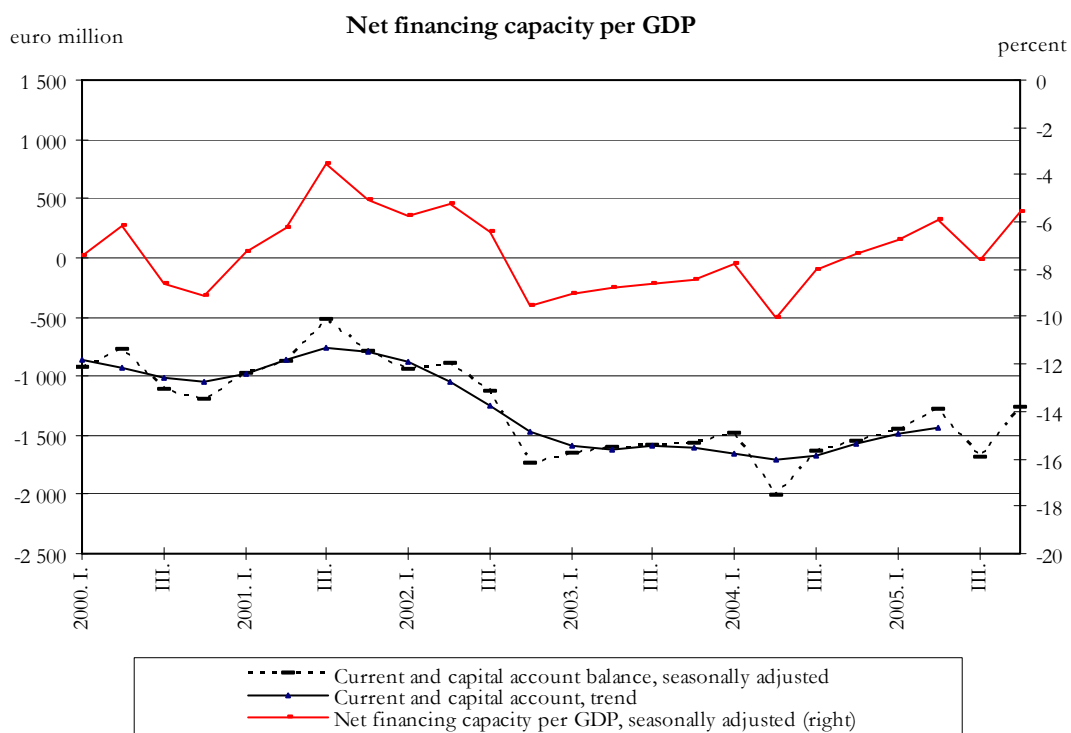
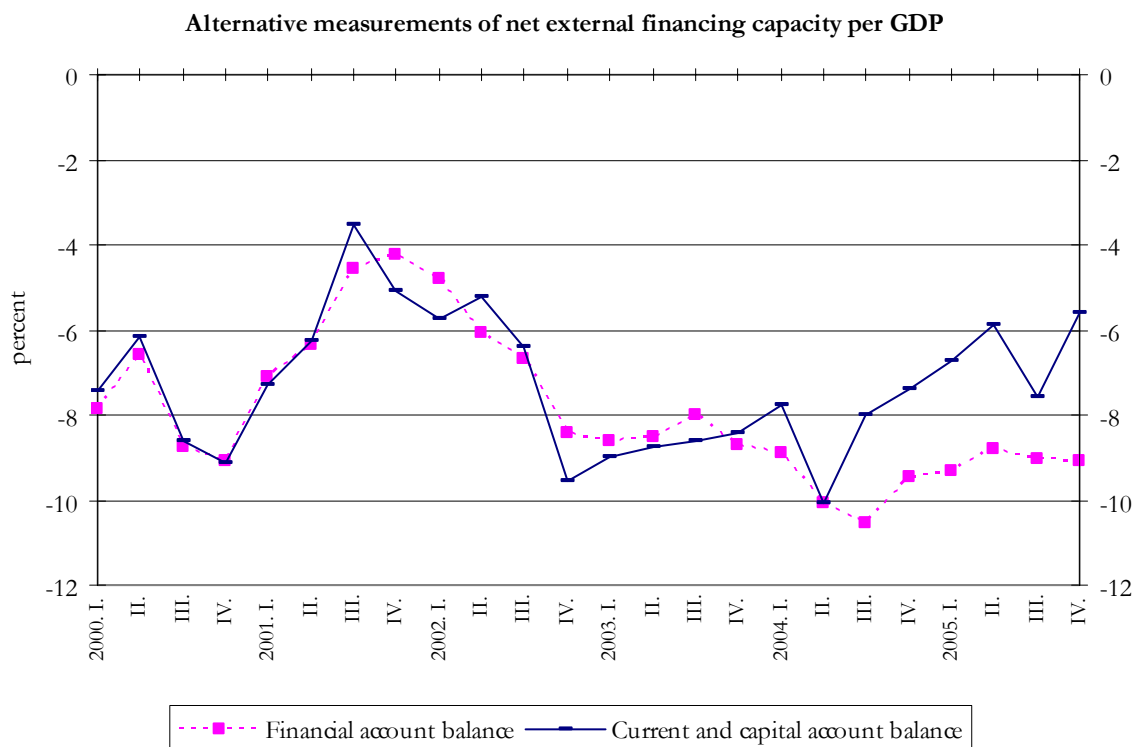


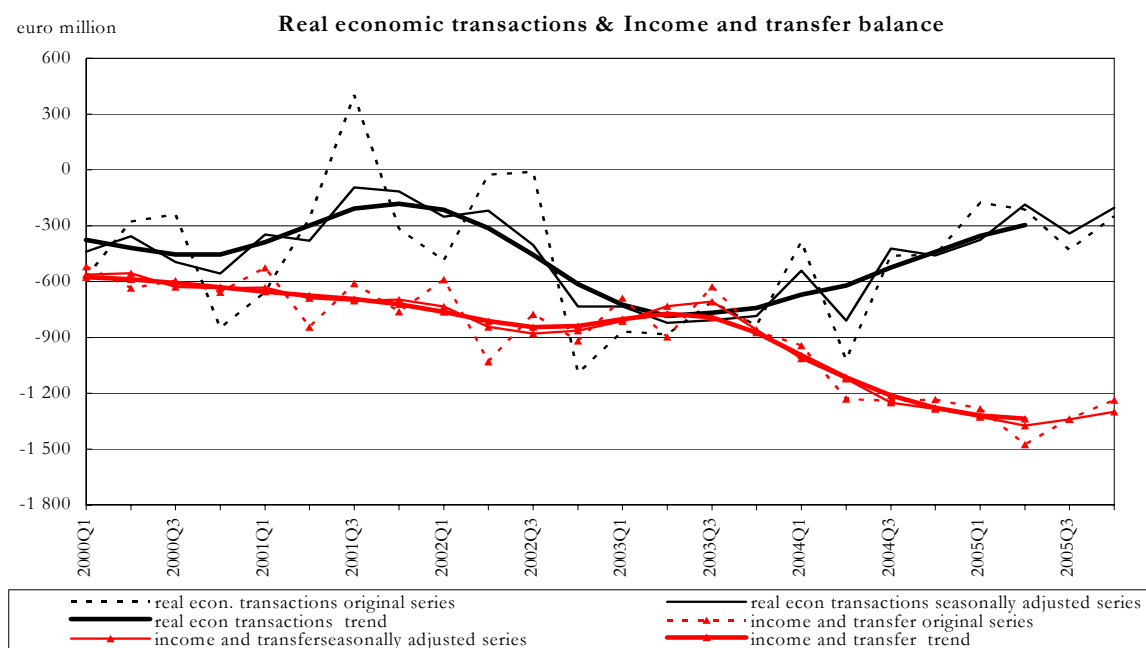
Chart 2



The current account deficit amounted to EUR 1,486 million in 2005 Q4. After adjusting for seasonal effects, the deficit fell relative to the previous quarter, coming in at EUR 1.490 million.

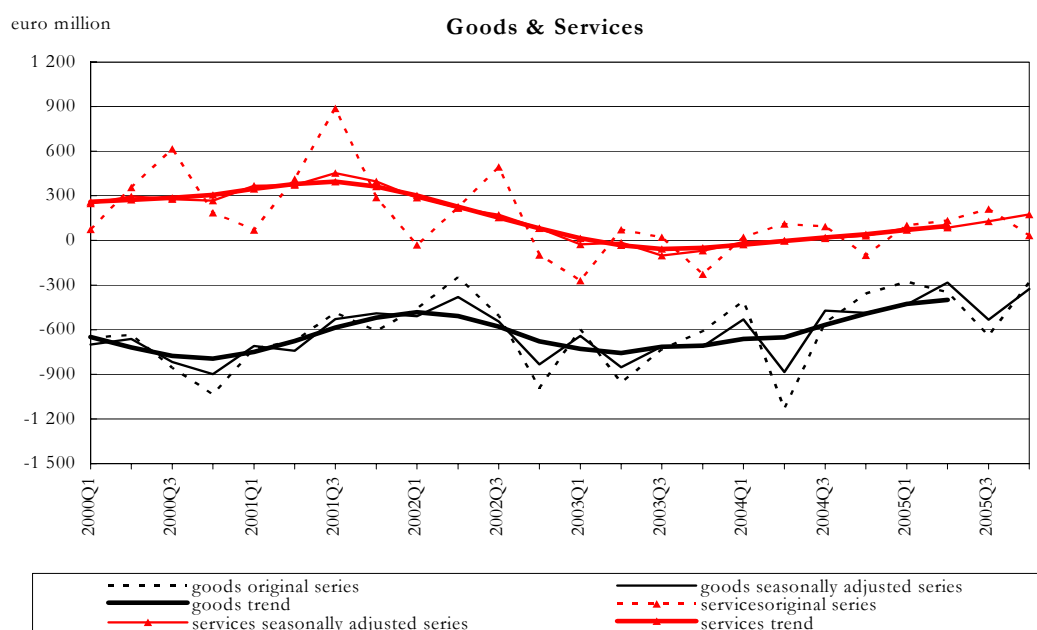
Improvements in the balance of real economic transactions and the transfer account both played an important role in the fall in the current account deficit relative to the previous quarter. The deficit on income and current transfers amounted to EUR 1,237 million in Q4. After adjusting for seasonal effects, the deficit was EUR 1,300 million. The amount of deficit fell relative to the previous quarter.

Chart 3



The balance of trade in goods fluctuated slightly in Q3–Q4; however, its level has remained broadly unchanged over the past several periods, amounting to EUR 327 million in 2005 Q4. The services account deficit, seasonally adjusted, has not changed materially in the past two years.

Chart 4



In 2005 Q4, the seasonally adjusted value of exports increased (approximating EUR 13 billion, seasonally adjusted), that of imports remaining at the previous quarter's level, after adjusting for seasonal effects.

Chart 5



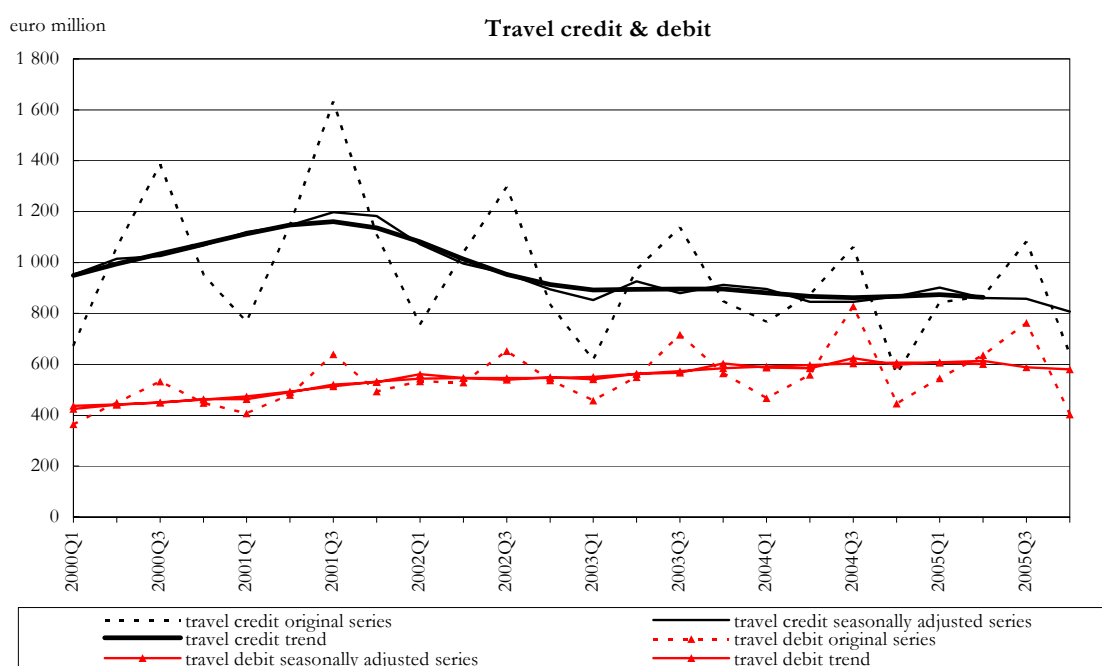
Within services, the seasonally adjusted travel surplus (EUR 250 million) and the deficit on other services (EUR 146 million) both remained largely unchanged in comparison with the previous quarter.

Chart 6



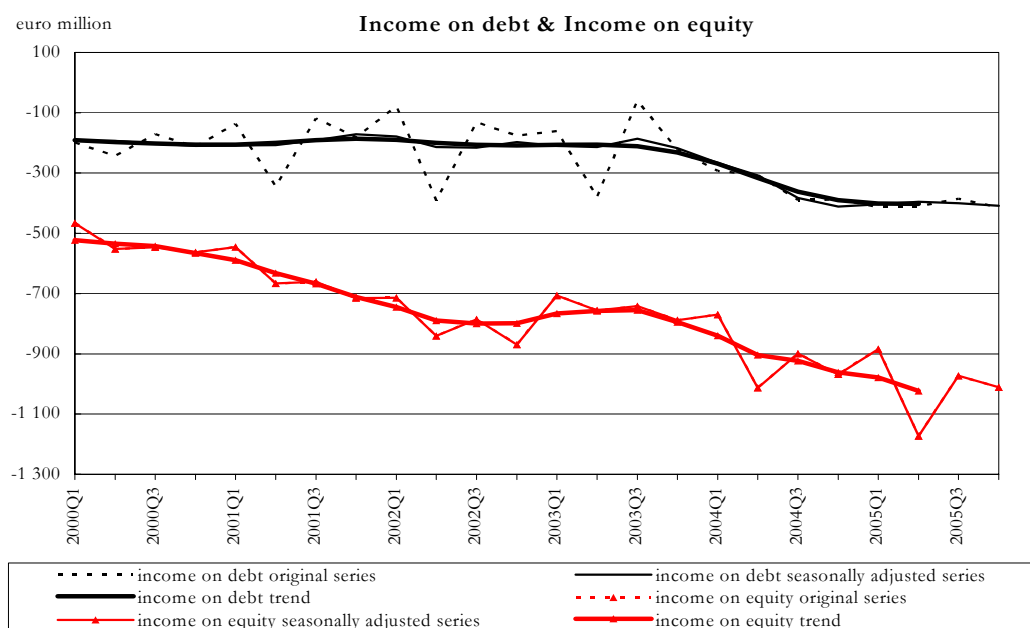
After adjusting for seasonal effects, the changes in travel revenue and expenditure were small in 2005 Q4.

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 2005 Q4, the seasonally adjusted deficit on income on debt amounted to slightly more than EUR 400 million, and negative income on equity slightly exceeded EUR 1 billion.³ The deficits on income on debt and income on equity have been rising steadily since 2003 Q4. Negative income on debt has remained static around EUR 400 million for the past several quarters.

Chart 8



³ This time series does not include seasonal patterns, consequently, the seasonally adjusted value equals the not seasonally adjusted value.

The surplus on current transfers amounted to close to EUR 160 million in the review period.

Recorded as current transfers, the amount of transfers received from EU institutions was some EUR 45 million higher than Hungary's contribution to the Community budget in 2005 Q4. Including capital transfers, Hungary registered a surplus of nearly EUR 323 million from transfers with the EU.

Inward and outward non-debt capital transactions showed a net inflow of EUR 2,977 million in 2005 Q4. The value of direct investment in equity capital, including reinvested earnings, was the balance of outward transactions by Hungarian residents in the amount of EUR 147 million and inward transactions by non-residents in the amount of EUR 3,514 million. Privatisation revenues accounted for EUR 2 billion of investment receipts. Of this amount, the privatisation of Budapest Airport accounted for EUR 1,847 million (HUF 464 billion) and the sale of Antenna Hungaria for another EUR 182 million. Portfolio investment transactions in equity securities showed a net outflow of EUR 390 million in the quarter under review.

Central bank foreign exchange reserves amounted to EUR 15.7 billion at end-December 2005. Whole-economy gross foreign debt was EUR 1.5 billion higher than at the end of 2005 Q3. Gross foreign debt, including other investment capital recorded within direct investment, rose by EUR 1.1 billion in the period. Hungary's net foreign debt rose by EUR 0.2 billion, and by EUR 0.6 billion including other investment capital recorded within direct investment. Non-residents' holdings of forint-denominated government securities amounted to EUR 10.2 billion at the end of 2005, EUR 0.3 billion lower than at the end of Q3.

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

	2004	2005 euro billion			
		Q1	Q2	Q3	Q4
III. Gross foreign debt, Total Economy (S.1) /1	47,3	50,4	53,6	55,9	57,4
II. Net foreign debt, Total Economy (S.1) /1	21,2	21,6	23,6	24,5	24,7
I. Gross foreign debt, Total Economy (S.1) (A+B) /2	57,0	60,4	64,8	66,9	68,0
A: General government and Central bank (S.13+S.121)	24,0	26,2	27,1	27,6	26,9
A.1. o/w:debt denominated in HUF /3	11,0	11,4	11,0	11,2	10,9
B. Private sector (S.1-S.13-S.121)	33,0	34,3	37,7	39,3	41,1
II. Net foreign debt, Total Economy (S.1) (A+B) /2	26,5	27,2	30,7	30,9	30,3
A: General government and Central bank (S.13+S.121)	11,7	12,1	12,0	12,3	10,4
A.1. o/w:debt denominated in HUF /3	10,8	11,1	10,6	10,9	10,6
B. Private sector (S.1-S.13-S.121)	14,7	15,1	18,7	18,6	19,9

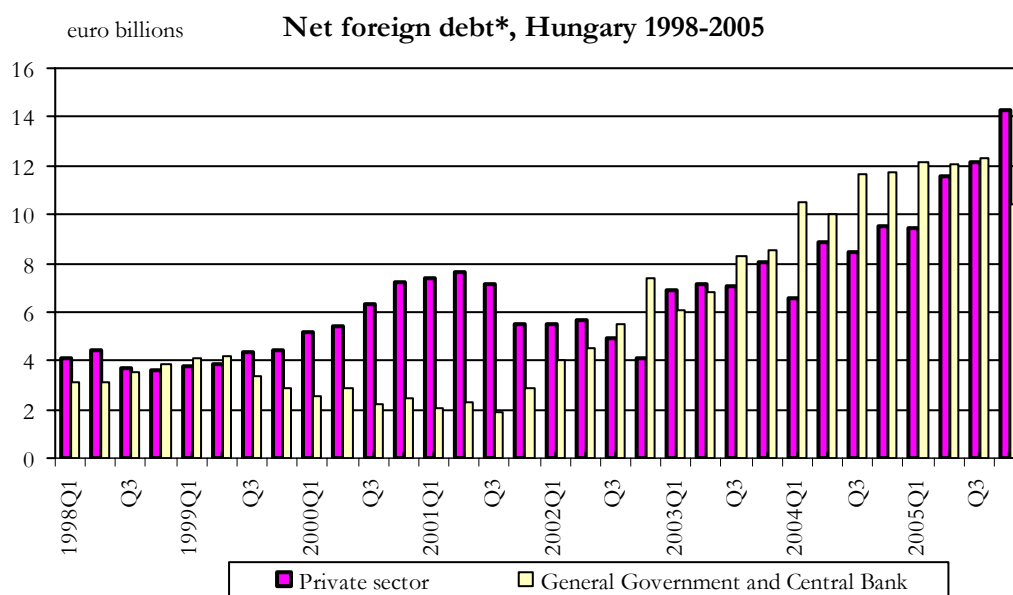
/ 1 Excluding other investment capital recorded within direct investment.

/ 2 Including other investment capital.

/ 3 Securities + other.

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

Chart 9



Whole-economy net debt was EUR 24.7 billion at end-December 2005 (28.2% of GDP). Including other investment capital recorded within direct investment, Hungary's net debt amounted to EUR 30.3 billion (34.5% of GDP). At the end of 2005 Q4, the net debt of general government and the MNB was EUR 1.9 billion higher than at end-Q3.

Table 2
Balance of payments, Hungary

euro million

	2004					2005				
	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	-408	-1133	-555	-358	-2453	-279	-347	-642	-282	-1549
1.1. Exports	10277	11318	11208	12279	45083	11127	12594	12492	13581	49794
1.2. Imports	10685	12451	11763	12637	47536	11405	12942	13134	13863	51343
2. Services and income, net	-1010	-1177	-1167	-1421	-4776	-1174	-1425	-1122	-1363	-5084
2.1. Services*, net	22	112	93	-99	127	101	134	212	33	480
2.1.1. Exports	1952	2158	2465	2085	8660	2180	2440	2762	2545	9927
2.1.2. Imports	1930	2046	2372	2184	8533	2080	2306	2550	2512	9447
2.2. Income, net	-1032	-1289	-1260	-1322	-4903	-1274	-1559	-1334	-1396	-5564
2.2.1. Income on debt, net	-293	-307	-390	-388	-1379	-413	-411	-385	-415	-1623
2.2.2. Income on equity, net	-770	-1013	-900	-968	-3651	-885	-1173	-973	-1011	-4042
2.2.3. Compensation of employees, net	31	31	30	35	126	23	24	25	29	102
3. Current transfers	88	59	19	88	254	-9	83	-6	159	228
4. Current account balance	-1330	-2252	-1704	-1690	-6976	-1462	-1689	-1769	-1486	-6405
5. Capital account balance	-54	2	177	135	260	171	183	78	280	712
6. Net external financing capacity (4+5)	-1384	-2249	-1527	-1556	-6716	-1291	-1506	-1692	-1206	-5694
7. Non debt creating financing, net	781	-129	1389	1249	3290	111	-1405	1957	2977	3639
7.1. Abroad, net	-316	-217	-67	-224	-824	-483	-570	-12	-147	-1212
7.1.1. Equity capital	-215	-175	59	-96	-427	-479	-706	-60	-86	-1331
7.1.2. Reinvested earnings	-101	-41	-127	-128	-397	-4	136	48	-61	118
7.2. In Hungary, net	775	-11	1358	1160	3281	769	-536	1360	3514	5107
7.2.1. Equity capital	237	464	327	55	1082	313	354	339	2435	3440
7.2.2. Reinvested earnings	538	-474	1031	1105	2199	456	-890	1021	1080	1667
7.3. Portfolio investment, equity securities, net	322	98	99	314	833	-175	-299	609	-390	-256
*. o/w: Travel, net	300	315	232	116	962	299	231	319	236	1085
credit	767	874	1061	562	3265	844	867	1082	640	3433
debit	468	560	829	446	2302	545	636	763	404	2347

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

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

euro million

	2004				2005			
	Q. I.	Q. II.	Q. III.	Q. IV.	Q. I.	Q. II.	Q. III.	Q. IV.
1. Goods, net	-530	-885	-471	-486	-431	-283	-534	-327
1.1. Exports	10675	11256	11483	11631	11559	12524	12797	12864
1.2. Imports	11227	12143	11974	12123	12048	12621	13326	13289
2. Services and income, net	-1118	-1136	-1306	-1303	-1271	-1315	-1268	-1244
2.1. Services	-10	-1	15	32	84	85	128	176
2.1.1. Travel, net	299	271	251	205	276	215	276	251
credit	896	846	845	867	901	860	857	808
debit	587	585	625	598	608	614	588	581
2.1.2. Other services, net	-264	-223	-190	-158	-184	-118	-158	-146
credit	1230	1301	1408	1446	1396	1591	1682	1821
debit	1575	1611	1604	1605	1623	1671	1807	1827
2.2. Income, net	-1108	-1135	-1321	-1335	-1355	-1400	-1396	-1419
2.2.1. Income on debt, net	-266	-308	-382	-412	-404	-396	-400	-408
2.2.2. Income on equity, net	-770	-1013	-900	-968	-885	-1173	-973	-1011
2.2.3. Compensation of employees, net	34	32	31	29	26	26	25	25
3. Current transfers	80	41	32	100	-18	66	9	171
4. Current account balance	-1485	-2017	-1821	-1645	-1638	-1492	-1790	-1490
5. Capital account	-54	2	177	135	171	183	78	280
6. Net external financing capacity	-1490	-2011	-1640	-1559	-1452	-1283	-1691	-1271

* * * * *

The Bank will release data on Hungary's balance of payments and international investment position for 2006 Q1 on 30 June 2006.

* * * * *

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 Of the various *outliers*, the software identifies additive outliers and transitory changes.
- 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' (www.mnb.hu).
- 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