



29 September 2006

## PRESS RELEASE

### Hungary's balance of payments: 2006 Q2

Consistent with its method of releasing and revising balance of payments data, on 29 September 2006 the MNB is publishing 2006 Q2 statistical data for the first time, simultaneously with the release of revised 2004–05 data. Data derived from corporate questionnaires on firms' balance sheet and profit and loss account reports have been incorporated into direct investment data for 2005. In the statistics for 2005, estimated reinvested earnings data have been replaced by actual data calculated on the basis of data derived from questionnaires. This holds true for 2006 data as well. After-tax profits for 2006 will remain estimates as long as the corporate questionnaires, to be returned until June 2007, are processed; however, they have been changed as account has been taken of fresh actual data.

In this press release, the following revisions have been made to the method of compiling balance of payments data in the framework of methodological harmonisation with the CSO:

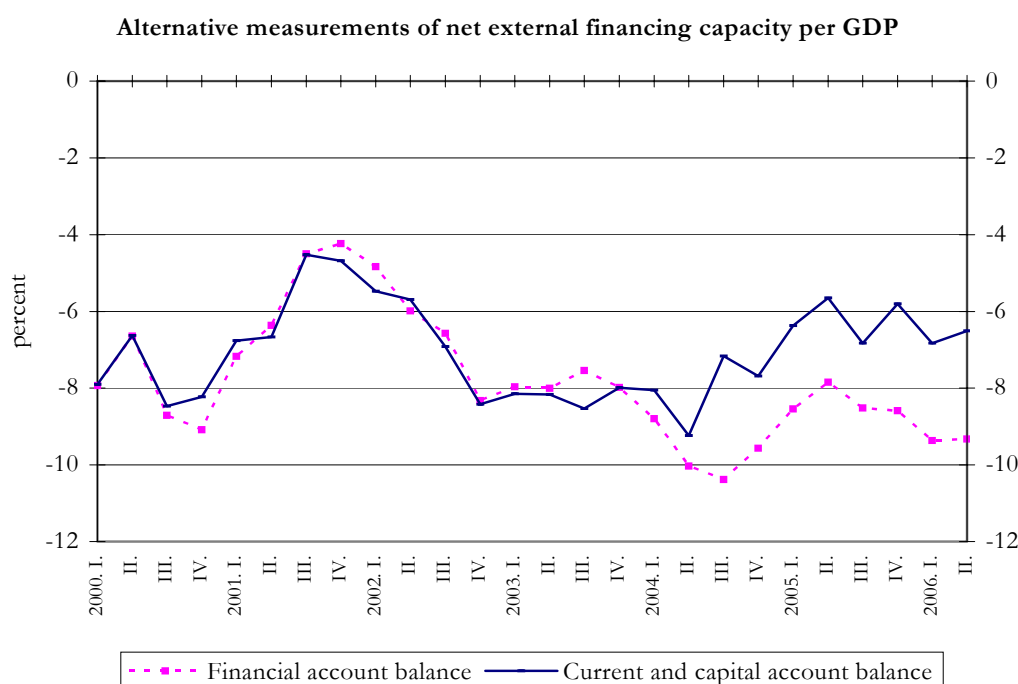
- 1 The MNB has incorporated data on transport, insurance, financial and government services, derived from a direct questionnaire-based survey conducted by the CSO, into balance of payments data. This has resulted in services recorded in the balance of payments being taken from the CSO's collection of data.
- 2 Further methodological harmonisation with the CSO has justified it to revise 2003 data on goods and services in the framework of an unscheduled revision exercise. This has been made necessary by the recording of return goods and outsourced production. (For more details, see the box at the end of this press release.)
- 3 The MNB has incorporated data on 2004–05 business services modified by the CSO. For the purposes of this press release, data for 2003, deriving from data collected by the MNB, have been modified on the basis of refined data from reporting entities in order to make them comparable with those for various years.
- 4 However, the methodological harmonisation with the CSO does not extend to retroactively changing the Bank's earlier method of recording off-shore firms' data. In calculating GDP, in 2006 the CSO has adjusted the recording of off-shore firms' net exports to the practice of recording under the production approach at net domestic cost. From 2003, the Bank has imputed as much foreign trade turnover in the national accounts as can be calculated on the basis of their output. The Bank continues to treat such firms as resident units, consistent with its earlier practice, and records their entire service turnover. Consequently, the time series for services in the balance of payments does not include any break caused by a revision of methodology. From 2006, there has been no difference between statistical data recorded by the CSO and the MNB, as the off-shore status of special purpose entities has ceased to exist.

In the balance of payments statistics, transactions between Hungary and the European Union have been recorded consistent with the method used by Eurostat in compiling the balance of payments for institutions of the EU. This has caused a difference relative to the Hungarian practice of compiling the financial accounts, as, in contrast with Eurostat's approach, intervention purchases of agricultural products are not recorded as transactions in the balance of payments and the related claims as claims on the EU.

**In this press release, Hungary's balance of payments is presented excluding data on special purpose entities, in accordance with past practice. However, Hungary's balance of payments and external balance sheet are available on the Bank's website both excluding and including SPE data. From 2006 Q1, the table of quarterly time series continues with data excluding those of special purpose entities.<sup>1</sup>**

According to quarterly data, Hungary's net financing capacity (i.e. its combined current and capital account balance), calculated using the top-down approach, barely changed in 2006 Q2 relative to the previous quarter, showing a deficit of EUR -1,434 million. After adjusting for seasonal effects, Hungary's net external financing requirement amounted to EUR -1,433 million, or -6.5% of GDP. Expressed in domestic currency, the net financing capacity amounted to HUF -383 billion in Q2. The net external financing requirement, derived as the combined current and capital account balance using the bottom-up method, was the equivalent of -9.3% of GDP, similarly to the previous quarter.<sup>2</sup>

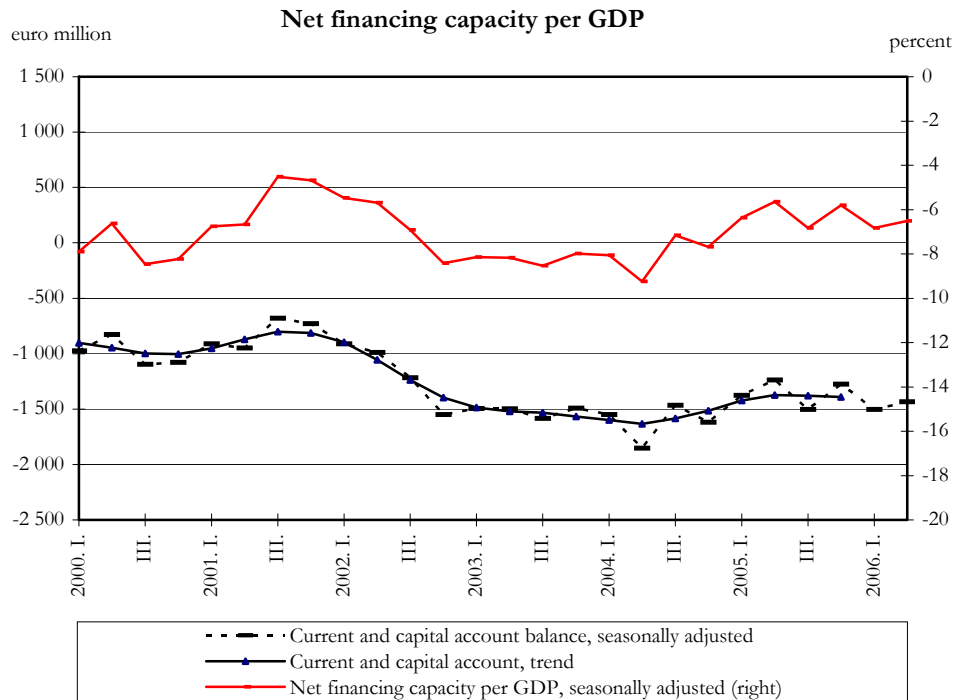
**Chart 1**



<sup>1</sup> For a more detailed description of recording SPEs in the balance of payments, see the MNB's balance of payments press release for 2006 Q1 and the methodological notes on the Bank's website.

<sup>2</sup> The financing capacity, calculated in a bottom-up approach, was EUR -1,944 million. Not seasonally adjusted, it amounted to EUR -2,028 million. The difference between the two figures, calculated using the two methods, is shown in errors and omissions in the balance of payments.

Chart 2

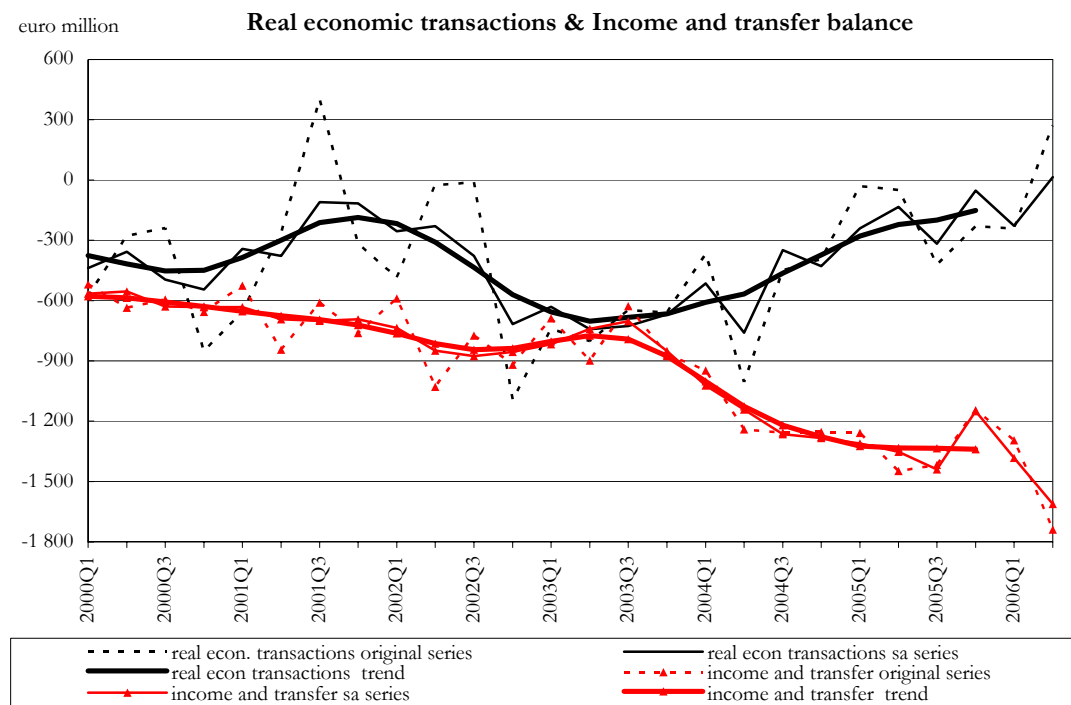


In 2006 Q2, the external financing requirement, calculated in the top-down approach, was the result of divergent developments: the balance of real economic transactions turned from a EUR 218 million deficit to a EUR 14 million surplus (seasonally adjusted), while the deficits on income as well as current and capital transfers were EUR 227 million higher relative to the previous quarter.

The current account deficit amounted to EUR 1,468 million in 2006 Q2. After adjusting for seasonal effects, the deficit was EUR 1,387 million.

The deficit on income and current transfers amounted to EUR 1,740 million in Q2. After adjusting for seasonal effects, the deficit was EUR 1,610 million. The income deficit rose at a steady pace (due to the continued rise in reinvested earnings); however, as usual, dividend payments by quoted companies, recorded under portfolio investments, increased the deficit on non-debt generating income. Current transfers have been changing from quarter to quarter since transfers with the EU are recorded in the statistics.

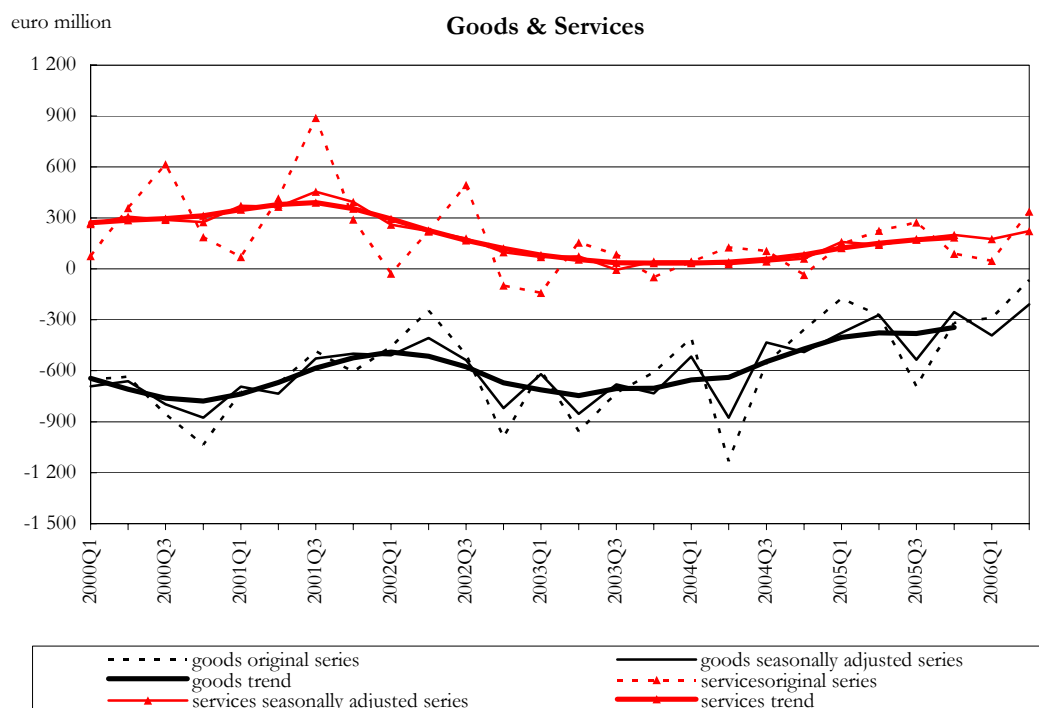
Chart 3



The deficit on trade in goods has been falling. It amounted to EUR 209 million in 2006 Q2 after adjusting for seasonal effects and it was only EUR 66 million including seasonal effects.

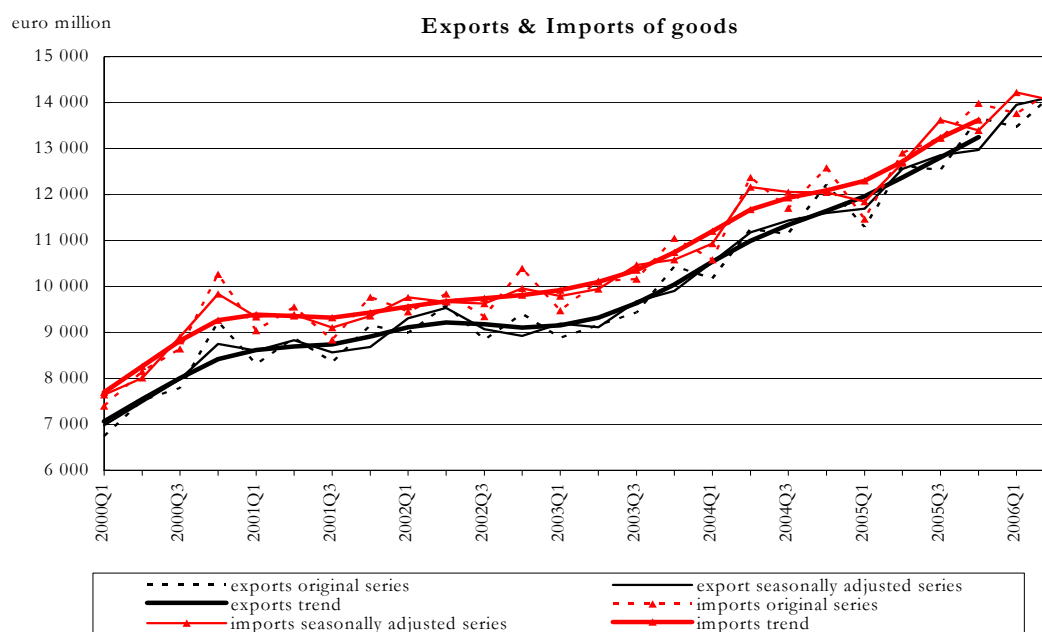
The services account surplus rose further, to a seasonally adjusted EUR 222 million in Q2. It amounted to EUR 337 million including seasonal effects.

Chart 4



In 2006 Q2, the seasonally adjusted values of exports and imports both barely changed. The values of exports and imports were more than EUR 14 billion.

**Chart 5**

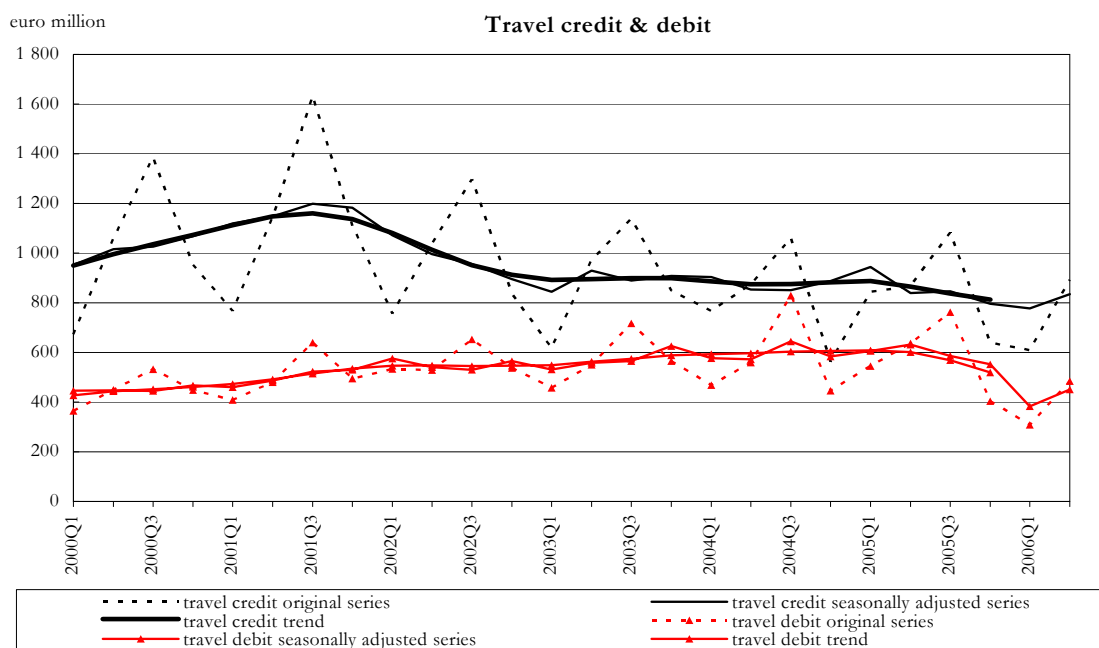


Within services, the seasonally adjusted travel surplus was EUR 340 million and the deficit on other services was EUR 99 million. The travel surplus was higher in comparison with the previous quarter, mainly explained by a decline in expenditure. Other service revenue and expenditure both continued to rise steadily.

**Chart 6**

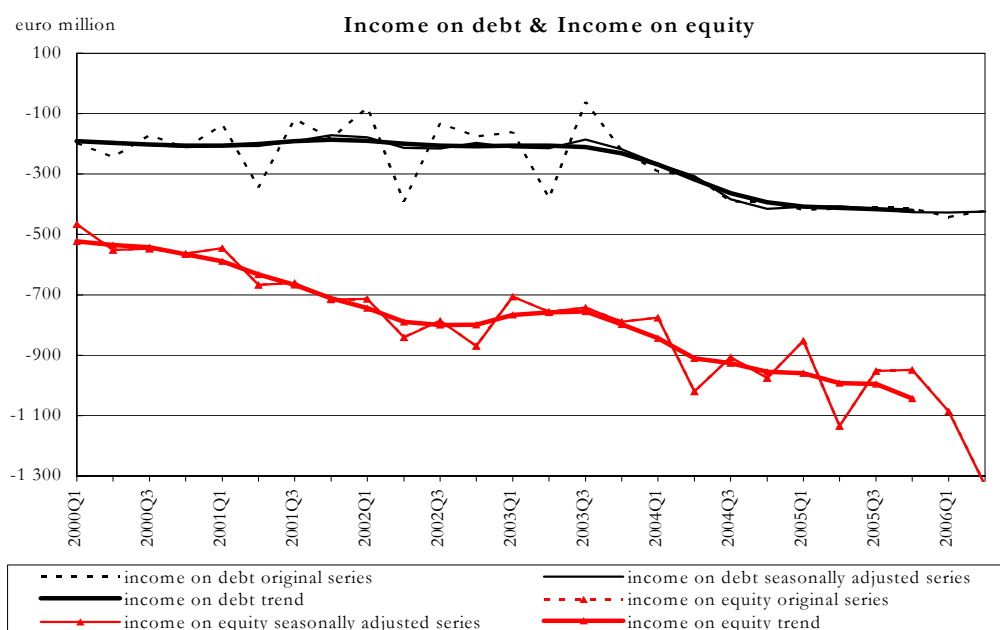


Chart 7



Developments in the balance on the income and transfer account were shaped by movements in income on equity and income on debt. In 2006 Q2, the seasonally adjusted deficit on income on debt amounted to EUR 424 million, and negative income on equity was EUR 1,331 million.<sup>3</sup> The deficit on income of equity resulted from two factors: (i) the steady increase in reinvested earnings and (ii) higher dividend payments by quoted companies, recorded under portfolio investments.

Chart 8



<sup>3</sup> This time series does not show seasonal patterns, consequently, the seasonally adjusted value equals the not seasonally adjusted value.

The deficit on current transfers amounted to close to EUR 18 million in the review period.

The dates of actually drawing on EU funds explain the quarterly differences between the amounts recorded in the balance of payments. However, Hungary's GNI-proportionate contribution to the EU budget is recorded in equal amounts. Consequently, developments in the quarterly balance cannot be considered a trend effect.

Looking at second-quarter transactions with the EU, the balance of current transfers showed a deficit of EUR 95 million, and the amount of transactions recorded as capital transfers showed a surplus of EUR 157 million. The balance of capital transfers to and from EU institutions showed a surplus of EUR 62 million.

Inward and outward non-debt capital transactions showed a net outflow of EUR 2,223 million in 2006 Q2. 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 140 million and outward transactions by non-residents in the amount of EUR 1,339 million. Portfolio investment transactions in equity securities showed a net outflow of EUR 744 million in the quarter under review.

Central bank foreign exchange reserves amounted to EUR 16.6 billion at end-June 2006. Whole-economy gross foreign debt was EUR 0.2 billion higher than at the end of Q1. Gross foreign debt, including other investment capital recorded within direct investment, rose by EUR 1.8 billion in the period. Hungary's net foreign debt rose by EUR 2.2 billion, and by EUR 3.4 billion including other investment capital recorded within direct investment. Non-residents' holdings of forint-denominated government securities amounted to EUR 9.2 billion at the end of June 2006, EUR 1.5 billion lower than at the end of Q1.

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

	2005	2006	
		Q1	Q2
<b>III. Gross foreign debt, Total Economy (S.1) /1</b>	<b>57.8</b>	<b>60.9</b>	<b>61.1</b>
<b>II. Net foreign debt, Total Economy (S.1) /1</b>	<b>24.2</b>	<b>25.1</b>	<b>27.3</b>
<b>I. Gross foreign debt, Total Economy (S.1) (A+B) /2</b>	<b>68.4</b>	<b>74.8</b>	<b>76.6</b>
A: General government and Central bank (S.13+S.121)	26.9	29.7	28.2
A.1. o/w:debt denominated in HUF /3	10.9	11.5	10.5
B. Private sector (S.1-S.13-S.121)	41.5	45.1	48.3
<b>II. Net foreign debt, Total Economy (S.1) (A+B) /2</b>	<b>29.7</b>	<b>31.9</b>	<b>35.3</b>
A: General government and Central bank (S.13+S.121)	10.4	11.3	11.0
A.1. o/w:debt denominated in HUF /3	10.6	11.2	10.3
B. Private sector (S.1-S.13-S.121)	19.2	20.6	24.3

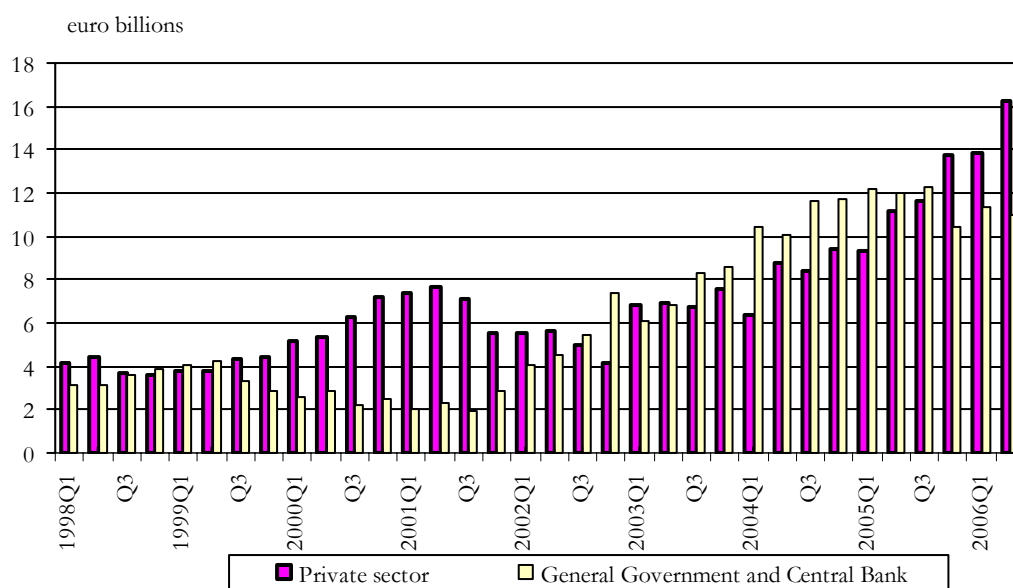
/ 1 Excluding other investment capital recorded within direct investment.

/ 2 Including other investment capital.

/ 3 Securities + other.

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

**Chart 9**  
**Net foreign debt of Hungary, 1998–2006\***



\* Excluding other investment capital recorded within direct investment.

Whole-economy net debt was EUR 27.3 billion at end-June 2006 (31.1% as a proportion of GDP). Including other investment capital recorded within direct investment, Hungary's net debt amounted to EUR 35.3 billion (40.2% of GDP). At the end of 2006 Q2, the net debt of general government and the MNB was EUR 0.3 billion lower than at the previous quarter's end.



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

euro million

	2005					2006		
	Q. I.	Q. II.	Q. III.	Q. IV.	Q.I-IV.	Q. I.	Q. II.	Q.I-II.
<b>1. Goods, net</b>	<b>-175</b>	<b>-273</b>	<b>-694</b>	<b>-318</b>	<b>-1460</b>	<b>-289</b>	<b>-66</b>	<b>-355</b>
1.1. Exports	11291	12631	12533	13665	50120	13475	14219	27695
1.2. Imports	11466	12904	13227	13983	51580	13764	14285	28050
<b>2. Services and income, net</b>	<b>-1103</b>	<b>-1301</b>	<b>-1066</b>	<b>-1244</b>	<b>-4713</b>	<b>-1453</b>	<b>-1384</b>	<b>-2837</b>
2.1. Services*, net	145	223	272	88	728	46	337	384
2.1.1. Exports	2297	2534	2883	2599	10313	2100	2595	4695
2.1.2. Imports	2152	2311	2611	2510	9585	2054	2258	4312
2.2. Income, net	-1247	-1524	-1338	-1332	-5442	-1499	-1722	-3221
2.2.1. Income on debt, net	-419	-414	-411	-413	-1657	-442	-421	-863
2.2.2. Income on equity, net	-851	-1135	-952	-948	-3886	-1086	-1331	-2417
2.2.3. Compensation of employees, net	23	24	25	29	102	29	31	60
<b>3. Current transfers</b>	<b>-11</b>	<b>75</b>	<b>-80</b>	<b>187</b>	<b>171</b>	<b>205</b>	<b>-18</b>	<b>186</b>
<b>4. Current account balance</b>	<b>-1289</b>	<b>-1499</b>	<b>-1840</b>	<b>-1375</b>	<b>-6002</b>	<b>-1537</b>	<b>-1468</b>	<b>-3006</b>
<b>5. Capital account balance</b>	<b>171</b>	<b>183</b>	<b>78</b>	<b>282</b>	<b>714</b>	<b>114</b>	<b>35</b>	<b>148</b>
<b>6. Net external financing capacity (4+5)</b>	<b>-1118</b>	<b>-1316</b>	<b>-1762</b>	<b>-1093</b>	<b>-5288</b>	<b>-1424</b>	<b>-1434</b>	<b>-2857</b>
<b>7. Non debt creating financing, net</b>	<b>71</b>	<b>-1448</b>	<b>1874</b>	<b>2774</b>	<b>3271</b>	<b>1309</b>	<b>-2223</b>	<b>-914</b>
7.1. Abroad, net	-588	-669	-113	-214	-1584	-226	-140	-366
7.1.1. Equity capital	-478	-705	-60	-59	-1302	-149	-214	-364
7.1.2. Reinvested earnings	-110	36	-53	-155	-281	-77	74	-2
7.2. In Hungary, net	834	-480	1440	3542	5336	1391	-1339	52
7.2.1. Equity capital	305	355	339	2432	3431	977	267	1244
7.2.2. Reinvested earnings	528	-834	1101	1110	1905	415	-1607	-1192
7.3. Portfolio investment, equity securities, net	-175	-299	547	-555	-482	143	-744	-600
*- o/w: Travel, net	299	231	319	236	1085	301	408	709
credit	844	867	1082	640	3433	609	893	1502
debit	545	636	763	404	2347	308	484	792

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

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

euro million

	2004				2005				2006	
	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>-516</b>	<b>-876</b>	<b>-434</b>	<b>-490</b>	<b>-376</b>	<b>-272</b>	<b>-536</b>	<b>-254</b>	<b>-393</b>	<b>-209</b>
1.1. Exports	10531	11178	11433	11599	11690	12558	12856	12972	13951	14136
1.2. Imports	10932	12161	12052	12050	11847	12682	13624	13396	14222	14039
<b>2. Services and income, net</b>	<b>-1063</b>	<b>-1122</b>	<b>-1274</b>	<b>-1296</b>	<b>-1156</b>	<b>-1234</b>	<b>-1213</b>	<b>-1208</b>	<b>-1348</b>	<b>-1336</b>
2.1. Services	43	29	42	60	158	142	175	200	175	222
2.1.1. Travel, net	299	271	252	205	276	214	296	294	316	340
credit	904	853	851	887	945	840	847	796	777	834
debit	577	572	645	583	606	631	586	552	383	450
2.1.2. Other services, net	-234	-212	-171	-110	-125	-35	-92	-106	-224	-99
credit	1236	1321	1431	1513	1492	1689	1813	1885	1531	1725
debit	1580	1585	1643	1604	1671	1652	1935	1818	1794	1900
2.2. Income, net	-1106	-1151	-1316	-1356	-1314	-1376	-1388	-1408	-1523	-1558
2.2.1. Income on debt, net	-266	-307	-383	-415	-408	-407	-415	-426	-427	-424
2.2.2. Income on equity, net	-776	-1020	-907	-976	-851	-1135	-952	-948	-1086	-1331
2.2.3. Compensation of employees, net	34	32	31	29	26	26	26	27	29	30
<b>3. Current transfers</b>	<b>68</b>	<b>61</b>	<b>45</b>	<b>64</b>	<b>-62</b>	<b>121</b>	<b>-35</b>	<b>140</b>	<b>127</b>	<b>65</b>
<b>4. Current account balance</b>	<b>-1424</b>	<b>-2085</b>	<b>-1796</b>	<b>-1598</b>	<b>-1411</b>	<b>-1386</b>	<b>-1850</b>	<b>-1362</b>	<b>-1634</b>	<b>-1387</b>
<b>5. Capital account</b>	<b>-54</b>	<b>2</b>	<b>177</b>	<b>135</b>	<b>171</b>	<b>183</b>	<b>78</b>	<b>282</b>	<b>114</b>	<b>35</b>
<b>6. Net external financing capacity</b>	<b>-1548</b>	<b>-1852</b>	<b>-1467</b>	<b>-1620</b>	<b>-1377</b>	<b>-1237</b>	<b>-1505</b>	<b>-1274</b>	<b>-1505</b>	<b>-1433</b>

\* \* \* \* \*

### Return goods

According to the balance of payments methodology, **goods already put on the market and crossed the border** which have been **returned** (due to quality complaint or goods unsold, etc.) must be recorded as cancelled, both in exports and imports. Under the earlier method, goods were not cancelled – now the Bank, in agreement with the CSO, has done so back to 2003. This modification has not affected the balance, as revenue and expenditure on goods have fallen identically. On an annual level, the size of this correction is EUR 470 million in 2003, EUR 304 million in 2004 and EUR 203 million in 2005. From 2006 goods turnover has been recorded in accordance with the revised method.

### Outsourced production

In recent years, a number of Hungarian firms that have purchased goods abroad have had them processed abroad, rather than in Hungary, and then sold such goods abroad (outsourced production). In 2006, the MNB and the CSO agreed to record such activities under **trade services** in the balance of payments and the national accounts and that the MNB would backdate such data to 2003 in the balance of payments. This has meant estimating data for 2003 and 2004 and using actual data as a basis for 2005 and 2006. The annual balance was EUR 131 million in 2003, EUR 92 million in 2004 and EUR 134 million in 2005. This revision has improved the balances on trade services and the current account as well.

\* \* \* \* \*

The Bank will release data on Hungary's balance of payments and international investment position for 2006 Q3 as well as balance of payments and IIP statistics for 2006 Q1 on 29 December 2006.

\* \* \* \* \*

#### a) Methodological notes to seasonal adjustment:

The method used to seasonally adjust the sub-components of the current account as follows:

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.

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.

Of the various *outliers*, the software identifies additive outliers, pertaining to one period, and transitory changes, pertaining to several periods.

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 ( $Y_t = 1/9 * X_{t-2} + 2/9 * X_{t-1} + 3/9 * X_t + 2/9 * X_{t+1} + 1/9 * X_{t+2}$ ), instead of the trend calculated by the programme.

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](http://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