

29 December 2006

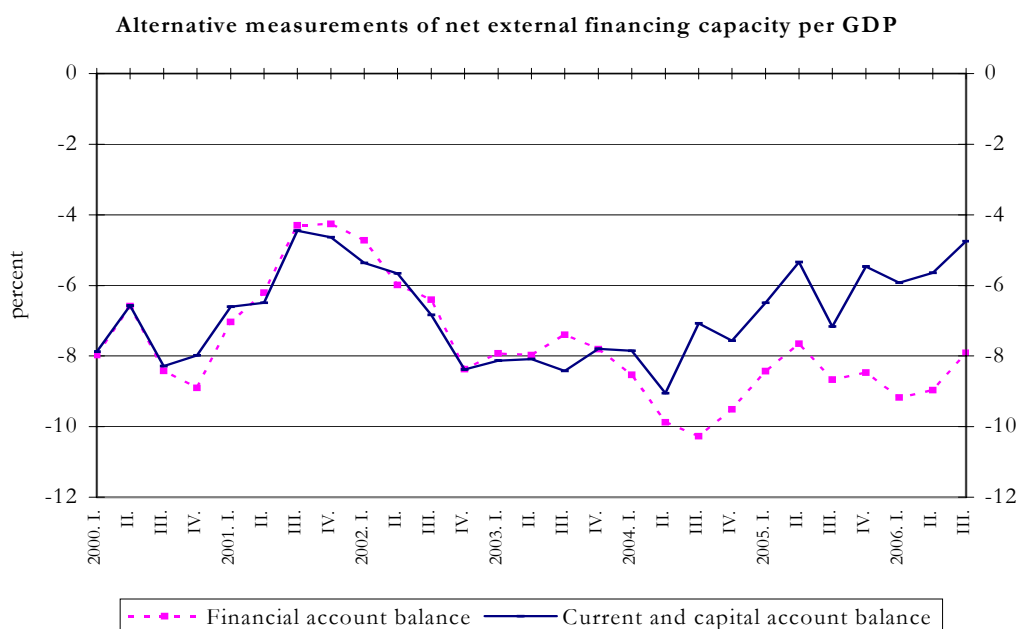
PRESS RELEASE

Hungary's balance of payments: 2006 Q3

Consistent with its announced method of releasing and revising statistical data, on 29 December 2006 the MNB is publishing 2006 Q3 balance of payments data for the first time, simultaneously with the release of revised Q1–Q2 data. In this press release, Hungary's balance of payments is presented excluding data on special purpose entities, interpretable in economic terms, 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.¹

According to quarterly data, Hungary's net financing requirement (i.e. the balance on its combined current and capital accounts), calculated using the top-down approach, was EUR 922 million in 2006 Q3, falling relative to the previous quarter. After adjusting for seasonal effects, the net external financing requirement amounted to EUR 1,049 million, or 4.8% of GDP. Expressed in domestic currency, the net financing requirement was HUF 254 billion. The net financing requirement, derived as the combined current and capital account balance using the bottom-up method, was the equivalent of 7.9% of GDP, falling in comparison with Q2.²

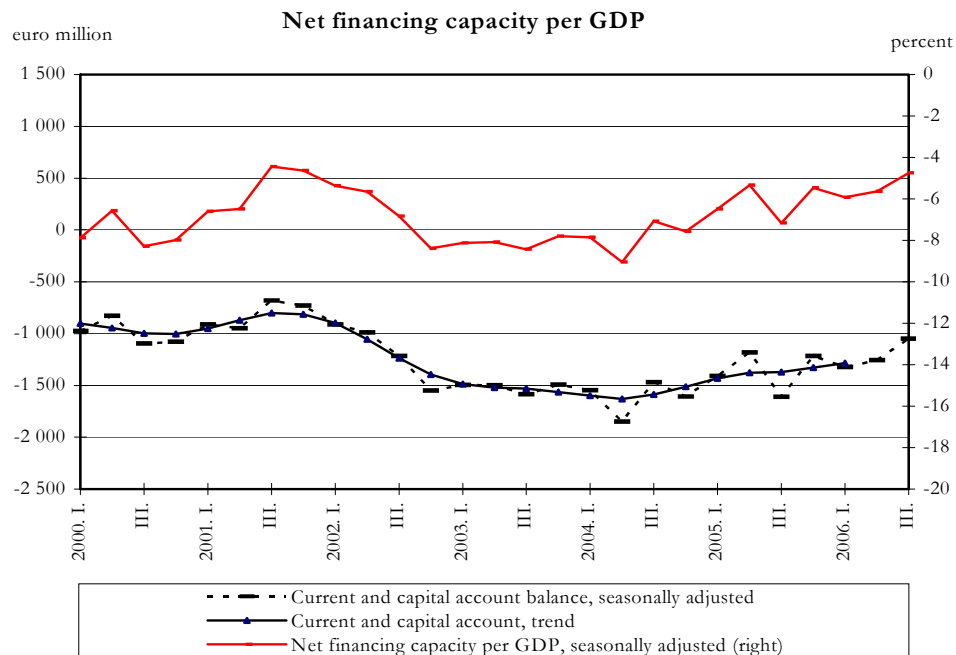
Chart 1



¹ 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.

² The external financing requirement, calculated in a bottom-up approach, was EUR 1,672 million. Not seasonally adjusted, it amounted to EUR 1,721 million. The difference between the two figures, calculated using the two methods, is shown in errors and omissions in the balance of payments.

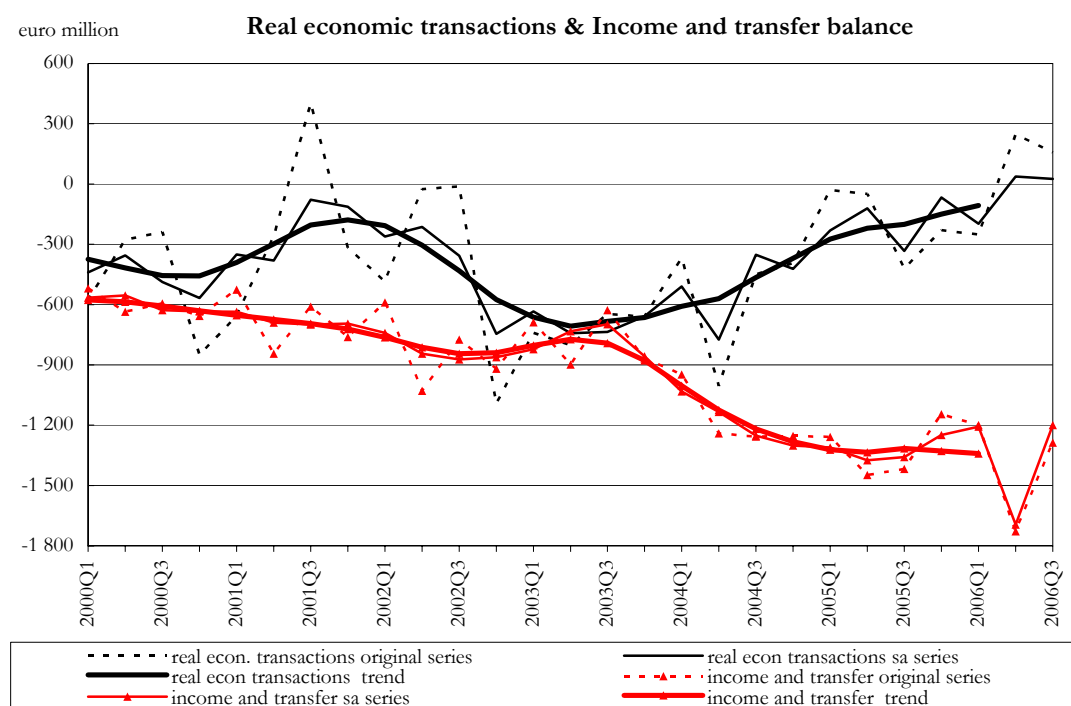
Chart 2



In 2006 Q3, the external financing requirement, calculated in the top-down approach, was the result of lower deficits on income and current transfers. According to the not seasonally adjusted data, the surplus on services was EUR 151 million higher than in the previous quarter. Seasonally adjusted, the services surplus was EUR 54 million. The deficit on income and current transfers fell by EUR 442 million relative to Q2. Here, the fall in the income deficit accounted for EUR 346 million. The combined deficit on income and current transfers amounted to EUR 1,286 million in Q3. After adjusting for seasonal effects, the deficit was EUR 1,199 million. The income deficit has been rising at a steady pace over recent quarters, due to the continued rise in reinvested earnings; however, the deficit on non-debt generating income fell in the review period, due to lower expenditure relative to Q2, when higher dividend payments by quoted companies, recorded under portfolio investments, increased the deficit on non-debt generating income (see Chart 3).

The current account deficit amounted to EUR 1,129 million in 2006 Q3. After adjusting for seasonal effects, the deficit was EUR 1,209 million.

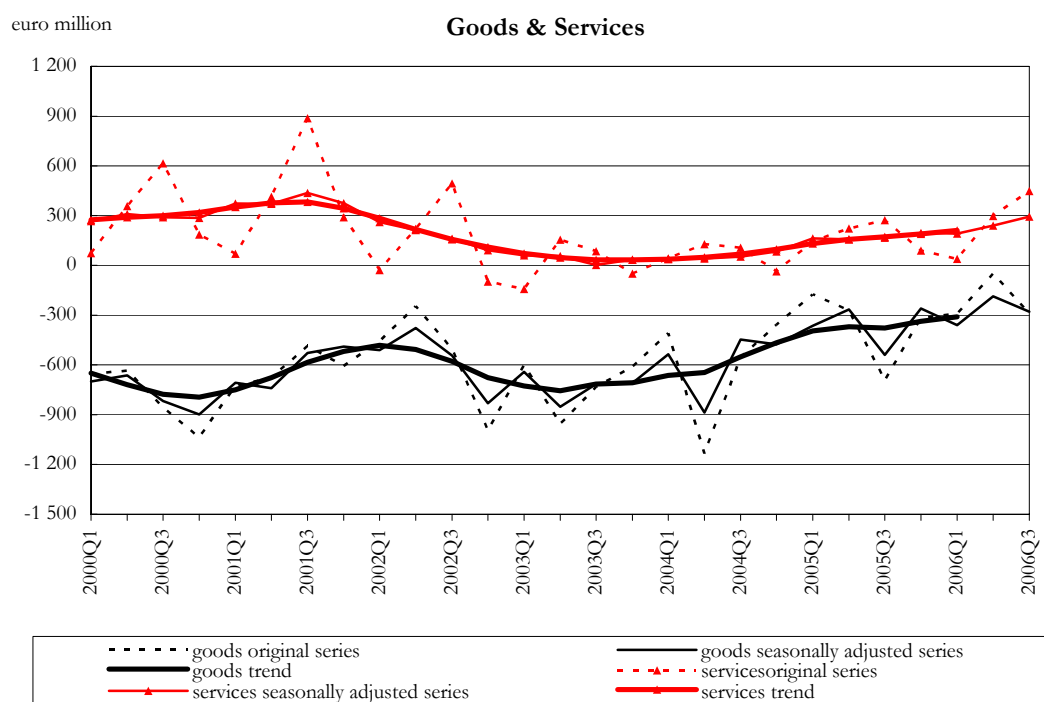
Chart 3



The trend of the deficit on trade in goods has been downwards in recent quarters. It amounted to EUR 279 million in 2006 Q3, after adjusting for seasonal effects.

After adjusting for seasonal effects, the services account surplus rose further to EUR 294 million in the quarter under review.

Chart 4



In 2006 Q3, the seasonally adjusted value imports rose more strongly than that of exports, and amounted to EUR 14.8 billion, after adjusting for seasonal effects. The value of exports was nearly EUR 14.5 billion.

Chart 5

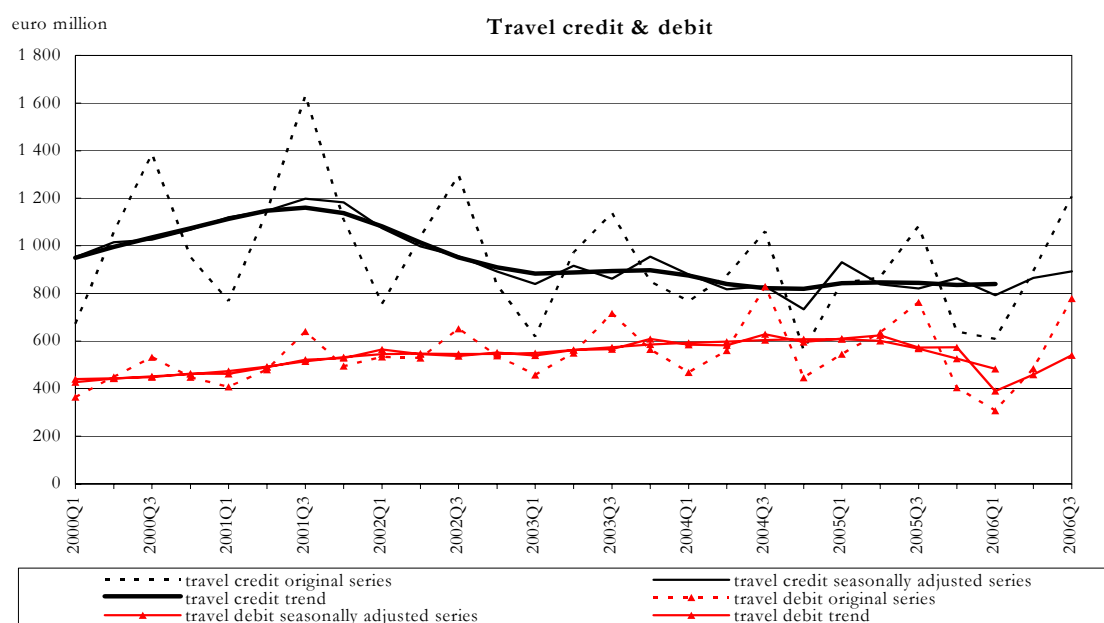


Within services, the seasonally adjusted travel surplus was EUR 348 million, and the deficit on other services amounted to EUR 44 million. The travel surplus was broadly comparable with the outturn for the previous quarter, with nearly identical increases in both travel revenue and expenditure.

Chart 6

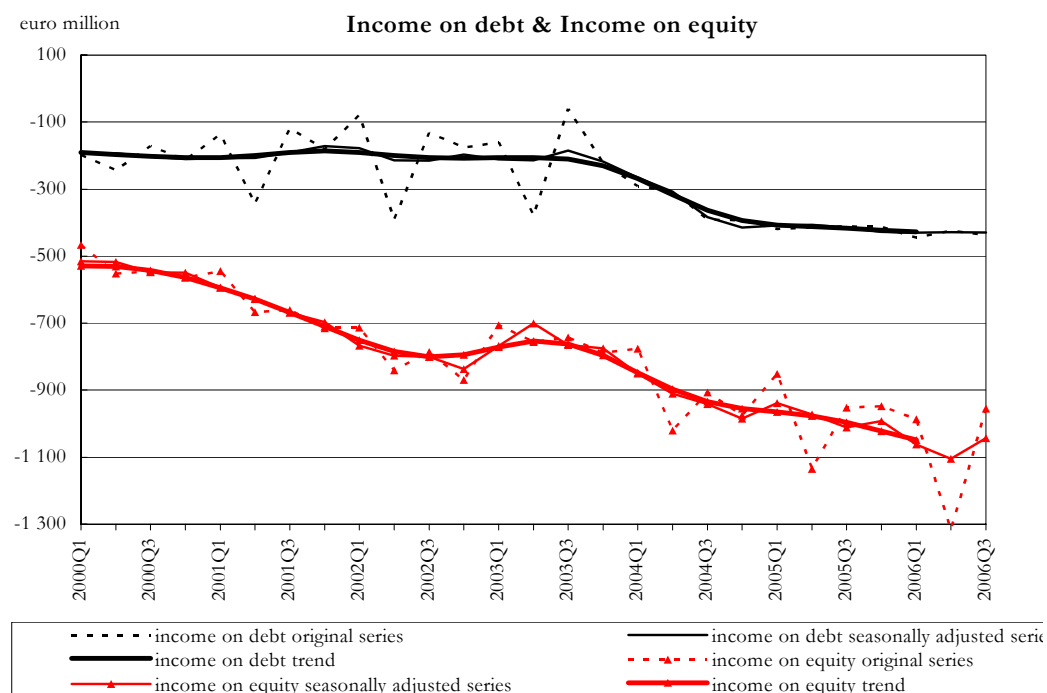


Chart 7



Developments in the balance on the income and transfer accounts were shaped by movements in income on equity and income on debt. In 2006 Q3, the seasonally adjusted deficit on income on debt amounted to EUR 429 million, and negative income on equity was EUR 1,043 million.³ The deficit on income on equity remained broadly unchanged, with the deficit on non-debt income falling relative to the previous quarter.

Chart 8



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

The surplus on current transfers amounted to close to EUR 77 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 European Union, the balance of current transfers showed a surplus of EUR 38 million, and the amount of transactions recorded as capital transfers showed a surplus of EUR 207 million. The balance of capital transfers to and from EU institutions showed a surplus of EUR 245 million.

Inward and outward non-debt capital transactions showed a net inflow of EUR 1,197 million in 2006 Q3. 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 256 million and inward transactions by non-residents in the amount of EUR 1,798 million. Portfolio investment transactions in equity securities showed a net outflow of EUR 345 million in the quarter under review.

Central bank foreign exchange reserves amounted to EUR 16.5 billion at end-September 2006. Whole-economy gross foreign debt was EUR 1.3 billion higher than at the end of Q2. Gross foreign debt, including other investment capital recorded within direct investment, rose by EUR 1.0 billion in the period. Hungary's net foreign debt rose by EUR 1.0 billion, and by EUR 0.7 billion including other investment capital recorded within direct investment. Non-residents' holdings of forint-denominated government securities amounted to EUR 9.5 billion at the end of September 2006, up EUR 0.3 billion on the end of the second quarter.

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

	2005	2006	
		Q2	Q3
III. Gross foreign debt, Total Economy (S.1) /1	57.8	61.1	62.4
II. Net foreign debt, Total Economy (S.1) /1	24.2	27.4	28.4
I. Gross foreign debt, Total Economy (S.1) (A+B) /2	68.4	76.5	77.5
A: General government and Central bank (S.13+S.121)	26.9	28.2	28.8
A.1. o/w:debt denominated in HUF /3	10.9	10.5	10.7
B. Private sector (S.1-S.13-S.121)	41.5	48.3	48.7
II. Net foreign debt, Total Economy (S.1) (A+B) /2	29.7	35.4	36.1
A: General government and Central bank (S.13+S.121)	10.4	11.0	11.7
A.1. o/w:debt denominated in HUF /3	10.6	10.3	10.5
B. Private sector (S.1-S.13-S.121)	19.2	24.4	24.4

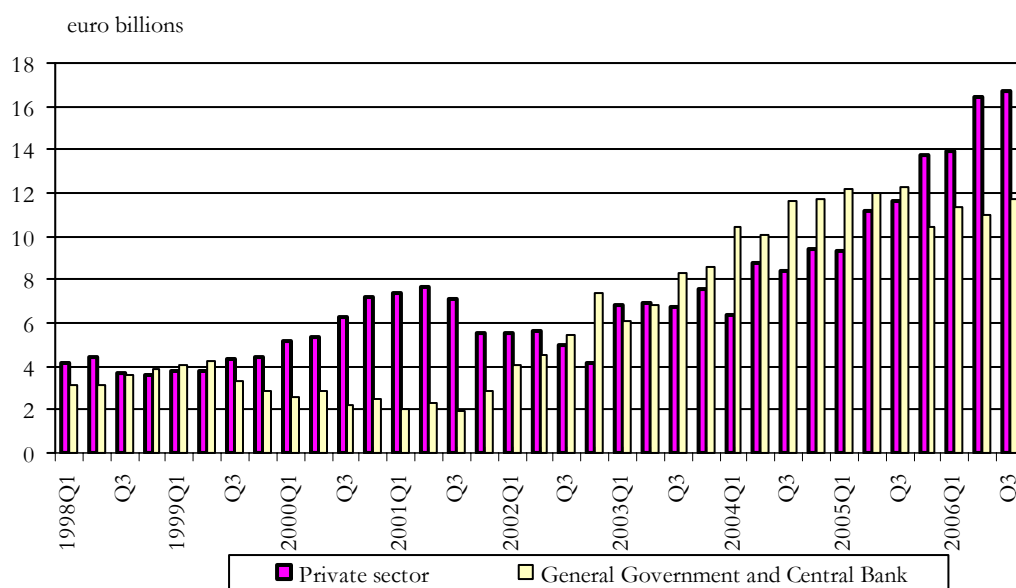
/ 1 Excluding other investment capital recorded within direct investment.

/ 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 28.4 billion at end-September 2006 (32.2% as a proportion of GDP). Including other investment capital recorded within direct investment, Hungary's net foreign debt amounted to EUR 36.1 billion (40.9% of GDP). At the end of 2006 Q3, the net debt of general government and the MNB was EUR 0.7 billion higher 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. III.	Q.I-III.
1. Goods, net	-175	-273	-694	-318	-1460	-290	-50	-291	-632
1.1. Exports	11291	12631	12533	13665	50120	13474	14354	14123	41951
1.2. Imports	11466	12904	13227	13983	51580	13764	14404	14415	42583
2. Services and income, net	-1103	-1301	-1066	-1244	-4713	-1364	-1412	-915	-3691
2.1. Services*, net	145	223	272	88	728	39	297	449	785
2.1.1. Exports	2297	2534	2883	2599	10313	2112	2608	2975	7695
2.1.2. Imports	2152	2311	2611	2510	9585	2073	2310	2527	6911
2.2. Income, net	-1247	-1524	-1338	-1332	-5442	-1403	-1710	-1363	-4476
2.2.1. Income on debt, net	-419	-414	-411	-413	-1657	-445	-424	-437	-1306
2.2.2. Income on equity, net	-851	-1135	-952	-948	-3886	-987	-1316	-955	-3257
2.2.3. Compensation of employees, net	23	24	25	29	102	29	30	28	88
3. Current transfers	-41	75	-80	187	171	203	-19	77	262
4. Current account balance	-1289	-1499	-1840	-1375	-6002	-1451	-1482	-1129	-4062
5. Capital account balance	171	183	78	282	714	114	37	207	358
6. Net external financing capacity (4+5)	-1118	-1316	-1762	-1093	-5288	-1337	-1445	-922	-3704
7. Non debt creating financing, net	71	-1448	1874	2774	3271	1331	-2221	1197	306
7.1. Abroad, net	-588	-669	-113	-214	-1584	-224	-126	-256	-606
7.1.1. Equity capital	-478	-705	-60	-59	-1302	-147	-200	-136	-483
7.1.2. Reinvested earnings	-110	36	-53	-155	-281	-77	74	-120	-122
7.2. In Hungary, net	834	-480	1440	3542	5336	1412	-1353	1798	1857
7.2.1. Equity capital	305	355	339	2432	3431	997	254	711	1962
7.2.2. Reinvested earnings	528	-834	1101	1110	1905	415	-1607	1087	-105
7.3. Portfolio investment, equity securities, net	-175	-299	547	-555	-482	143	-743	-345	-945
*- o/w: Travel, net	299	231	319	236	1085	301	408	429	1138
credit	844	867	1082	640	3433	609	893	1208	2709
debit	545	636	763	404	2347	308	484	779	1571

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				2006		
	Q. I.	Q. II.	Q. III.	Q. IV.	Q. I.	Q. II.	Q. III.	Q. IV.	Q. I.	Q. II.	Q. III.
1. Goods, net	-536	-887	-446	-475	-364	-265	-539	-260	-361	-186	-279
1.1. Exports	10537	11180	11433	11591	11696	12562	12856	12962	13958	14275	14487
1.2. Imports	10937	12178	12030	12049	11853	12699	13599	13396	14229	14175	14820
2. Services and income, net	-1072	-1097	-1276	-1271	-1163	-1196	-1242	-1185	-1273	-1265	-1164
2.1. Services	41	41	53	83	162	157	166	196	191	240	294
2.1.1. Travel, net	299	271	251	206	276	215	296	294	320	345	348
credit	880	817	830	733	932	838	821	864	793	865	893
debit	585	582	628	596	610	624	573	574	390	458	540
2.1.2. Other services, net	-228	-209	-182	-109	-115	-32	-107	-107	-217	-134	-44
credit	1261	1329	1416	1460	1584	1689	1770	1791	1688	1738	1739
debit	1582	1565	1692	1642	1597	1607	2116	1784	1786	1914	1800
2.2. Income, net	-1113	-1138	-1329	-1354	-1325	-1353	-1408	-1381	-1464	-1505	-1458
2.2.1. Income on debt, net	-266	-307	-384	-415	-408	-406	-415	-427	-430	-428	-429
2.2.2. Income on equity, net	-850	-910	-942	-985	-938	-973	-1012	-992	-1062	-1105	-1043
2.2.3. Compensation of employees, net	34	32	31	29	26	26	26	27	29	30	30
3. Current transfers	68	63	38	67	-58	126	-52	145	135	75	107
4. Current account balance	-1421	-2068	-1830	-1584	-1409	-1358	-1905	-1340	-1547	-1350	-1209
5. Capital account	-54	2	177	135	171	183	78	282	114	37	207
6. Net external financing capacity	-1549	-1850	-1471	-1608	-1408	-1182	-1610	-1218	-1322	-1255	-1049

* * * * *

The Bank will release data on Hungary's balance of payments and international investment position for 2006 Q4 as well as revised balance of payments and IIP statistics for 2006 Q2-Q3 on 30 March 2007. Simultaneously with this, the Bank will also release data on direct investments in a breakdown by country and sector, compiled on the basis of corporate questionnaires for 2005.

* * * * *

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).
- 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