

30 March 2007

PRESS RELEASE

Hungary's balance of payments: 2006 Q4

- Consistent with its announced method of releasing and revising statistical data, on 30 March 2007 the MNB is publishing 2006 Q4 balance of payments data for the first time, together with revised data for Q2–Q3. Including 2006 Q4 figures, statistics for each individual quarter of 2006 are now available; however, in the Bank's treatment the individual quarterly figures are not equal to the annual data, as direct investment income data are based on estimates. Accordingly, the 2006 data are only included in the quarterly series. The Bank will release annual 2006 balance of payments data in September 2007, consistent with its data release scheme.
- The MNB has updated direct investment and income data for 2005, as information derived from corporate questionnaires on direct investment in 2005 are now available. Continuing the practice of previous years, the Bank is releasing 2005 direct investment data in a breakdown by country and sector. The Bank will publish the methodology of recording direct investment, developments in direct investment in Hungary and abroad, as well as the tables by country and sector on its website on 6 April.
- 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.¹

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According to quarterly data, the downward trend of Hungary's net financing requirement (i.e. the balance on its combined current and capital accounts), calculated using the top-down approach, continued in 2006 Q4. The net financing requirement amounted to EUR 768 million and it was EUR 1,131 million, or 5% of GDP, after adjusting for seasonal effects. Expressed in domestic currency terms, the net financing requirement was HUF 200 billion. The net financing requirement, derived as the combined current and capital account balance using the bottom-up method, was EUR 1,350 million, and EUR 1,521 million seasonally adjusted. This was the equivalent of 6.6% of GDP.²

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 difference between the two figures, calculated using the two methods, is shown in errors and omissions in the balance of payments. For the reasons for the difference, see MNB's balance of payments press release of September 2005.

Chart	1



Alternative measurements of net external financing capacity per GDP

Chart	2
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The current account

In 2006 Q4, the current account deficit amounted to EUR 1,117 million, and EUR 1,156 million seasonally adjusted. The real economic surplus accounted for most of the improvement in balance in Q4, as the deficit on the transfer account, another major component of the current account, remained unchanged at its level of the previous quarters. The deficit amounted to EUR 1,562 million, and EUR 1,460 million seasonally adjusted (see Chart 3).

Within real economic developments, the trade account registered a seasonally adjusted surplus of EUR 6 million, and EUR 159 million not seasonally adjusted. According to the seasonally adjusted data, the surplus on services continued to rise in Q4, amounting to EUR 301 million, and EUR 287 million not seasonally adjusted (see Chart 4).





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In 2006 Q4, trade in goods registered a surplus, not seen since 1995 (the surplus was EUR 1 million in 2005 Q4; earlier, the quarterly balance had not been in surplus since early 1992). Exports and imports both rose robustly; however, export growth outpaced import growth in the final quarter (see Chart 5). Exports amounted to slightly more than EUR 16 billion, imports being marginally less than EUR 16 billion. (After adjusting for seasonal effects, imports amounted to EUR 15.3 billion.)





The seasonally adjusted surplus on services continued to grow steadily, amounting to EUR 301 million in Q4. Within services, the seasonally adjusted travel surplus was EUR 404 million, continuing the upward trend, with revenue growth outpacing expenditure growth (see Chart 7). The deficit on other services was EUR 49 million, falling relative to the previous quarter (see Chart 6).



Chart 6





Developments in the balance on the income and transfer accounts were shaped by movements in income on equity and income on debt (see Chart 8). In 2006 Q4, the seasonally adjusted deficit on income on debt amounted to EUR 455 million, and negative income on equity was EUR 1,157 million.³ The trends of these components remained unchanged in Q4: the deficits on both income on equity and income on debt rose evenly, as a result of (i) the continued rise in reinvested earnings and (ii) increasing interest expense.



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 EUR 58 million in the review period.

Looking at fourth-quarter transactions with the European Union,⁴ the balance of current transfers showed a surplus of EUR 97 million, and the amount of transactions recorded as capital transfers showed a surplus of EUR 270 million. The balance of capital transfers to and from EU institutions showed a surplus of nearly EUR 400 million.

Financing

Inward and outward non-debt capital transactions showed a net outflow of EUR 447 million in 2006 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 1,369 million (see Chart 9) and reinvested earnings of EUR 151 million, as well as outward transactions by non-residents in the amount of EUR 521 million and reinvested earnings of EUR 1,308 million, offsetting the effect of outward transactions.

Portfolio investment transactions in equity securities showed a net inflow of EUR 287 million in the quarter under review.

Within debt generating financing, outflows of capital related to direct investments by Hungarian residents abroad amounted to EUR 172 million and inflows related to directs investments by non-residents in Hungary amounted to EUR 328 million.

			2005			2006					
	Q1	Q2	Q3	Q4	Q1-Q4	Q1	Q2	Q3	Q4	Q1-Q4	
Abroad*	-495	-1 367	16	-29	-1 874	-461	-184	-105	-1 692	-2 442	
Equity capital	-478	-1 239	-61	-60	-1 837	-147	-199	-136	-1 369	-1 852	
Reinvested earnings	-88	57	-32	-134	-197	-77	74	-120	-151	-274	
Other capital	72	-185	109	164	160	-237	-58	151	-172	-316	
In Hungary	1 073	1 889	706	2 431	6 099	2230	289	1240	1115	4874	
Equity capital	305	888	340	2 433	3 966	997	255	664	-521	1394	
Reinvested earnings	531	-831	1 104	1 114	1 918	353	-1846	1087	1308	902	
Other capital	236	1 832	-738	-1 115	215	880	1880	-510	328	2578	

Table 1Direct investments abroad and in Hungary5

euro million

The data in the table follow the sign conventions used in balance of payments statistics.

⁴ Differently from the Hungarian practice of compiling the financial accounts, intervention purchases of agricultural products are not recorded as transactions with non-residents, and the related claims as assets vis-à-vis the EU. This approach is consistent with the approach used by Eurostat in compiling the balance of payments of EU institutions. 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.

⁵ As a reminder, reinvested earnings are the difference between after-tax profit and declared dividends. While in 2005, the after-tax component of directs investments is based on corporate questionnaires, i.e. reported by firms (and so are reinvested earnings), after-tax profits for 2006 are estimates. Consequently, despite the fact that dividends are not reports-based, reinvested earnings are also estimates. Annual data derived from the questionnaires and the estimates are nearly evenly distributed over quarters, while dividends are concentrated in the first two quarters, given that they are a decision of owners and their recording is consistent with the time they are declared: 20% of the annual dividend data are accounted for Q1 and 80% for Q2. Consequently, the value of reinvested earnings is always negative in Q2.











FDI in Hungary, net flow

Reserves and debt

Central bank foreign exchange reserves amounted to EUR 16.4 billion at end-December 2006. Whole-economy gross foreign debt was EUR 5.0 billion higher than at the end of Q3. Gross foreign debt, including other investment capital recorded within direct investment, rose by EUR 6.1 billion in the period. Hungary's net foreign debt rose by EUR 1.7 billion, and by EUR 1.9 billion including other investment capital recorded within direct investment. Non-residents' holdings of forint-denominated government securities amounted to EUR 11.7 billion at the end of December 2006, up EUR 2.1 billion on the end of the third quarter.

			euro billion		
	2005	2006			
	2005	Q3	Q4		
III. Gross foreign debt, Total Economy (S.1) /1	57.8	62.4	67.4		
II. Net foreign debt, Total Economy (S.1) /1	24.2	28.4	30.1		
I. Gross foreign debt, Total Economy (S.1) (A+B) /2	68.3	77.8	83.9		
A: General government and Central bank (S.13+S.121)	26.9	28.8	30.9		
A.1. o/w.:debt denominated in HUF /3	10.9	10.7	12.8		
B. Private sector (S.1-S.13-S.121)	41.4	49.0	53.0		
II. Net foreign debt, Total Economy (S.1) (A+B) /2	29.7	36.5	38.4		
A: General government and Central bank (S.13+S.121)	10.4	11.7	13.9		
A.1. o/w.:debt denominated in HUF /3	10.6	10.5	12.6		
B. Private sector (S.1-S.13-S.121)	19.2	24.8	24.5		

Table 2Stock of Foreign debt of Hungary as of end of period

/ 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 11
Net foreign debt of Hungary, 1998-2006*



* Excluding other investment capital recorded within direct investment.

Whole-economy net debt was EUR 30.1 billion at end-December 2006 (33.7% as a proportion of GDP). Including other investment capital recorded within direct investment, Hungary's net foreign debt amounted to EUR 38.4 billion (43.1% of GDP). At the end of 2006 Q4, the net debt of general government and the MNB was EUR 2.2 billion higher than at the previous quarter's end.

Summary tables

									eu	ro million	
	2005						2006				
	Q1	Q2	Q3	Q4	Q1-4	Q1	Q2	Q3	Q4	Q1-4	
1. Goods, net	-175	-273	-694	-318	-1460	-290	-2	-284	159	-417	
1.1. Exports	11291	12631	12533	13665	50120	13474	14418	14381	16142	58416	
1.2. Imports	11466	12904	13227	13983	51580	13764	14419	14666	15984	58833	
2. Services and income, net	-1125	-1322	-1088	-1266	-4802	-1369	-1451	-949	-1295	-5064	
2.1. Services*, net	145	223	272	88	728	39	277	416	287	1019	
2.1.1. Exports	2297	2534	2883	2599	10313	2112	2611	2987	2966	10676	
2.1.2. Imports	2152	2311	2611	2510	9585	2073	2334	2571	2680	9658	
2.2. Income, net	-1269	-1545	-1361	-1355	-5530	-1408	-1728	-1365	-1582	-6083	
2.2.1. Income on debt, net	-417	-411	-409	-411	-1648	-445	-425	-439	-471	-1780	
2.2.2. Income on equity, net	-876	-1159	-977	-972	-3984	-991	-1334	-955	-1141	-4421	
2.2.3. Compensation of employees, net	23	24	25	29	102	29	30	28	30	117	
3. Current transfers	-11	75	-80	187	171	203	-17	78	20	285	
4. Current account balance	-1311	-1520	-1862	-1397	-6091	-1455	-1469	-1156	-1117	-5197	
5. Capital account balance	171	183	78	277	709	114	41	210	349	713	
6. Net external financing capacity (4+5)	-1140	-1337	-1785	-1120	-5381	-1342	-1429	-945	-768	-4484	
7. Non debt creating financing, net	95	-1424	1899	2799	3368	1270	-2460	1149	-447	-487	
7.1. Abroad, net	-567	-1182	-92	-193	-2034	-224	-126	-256	-1521	-2126	
7.1.1. Equity capital	-478	-1239	-61	-60	-1837	-147	-199	-136	-1369	-1852	
7.1.2. Reinvested earnings	-88	57	-32	-134	-197	-77	74	-120	-151	-274	
7.2. In Hungary, net	837	57	1444	3547	5884	1350	-1591	1751	787	2297	
7.2.1. Equity capital	305	888	340	2433	3966	997	255	664	-521	1394	
7.2.2. Reinvested earnings	531	-831	1104	1114	1918	353	-1846	1087	1308	902	
7.3. Portfolio investment, equity securities, net	-175	-299	547	-555	-482	143	-743	-345	287	-658	
*- o/w: Travel, net	299	231	319	236	1085	301	408	429	369	1507	
credit	844	867	1082	640	3433	609	893	1208	889	3599	
debit	545	636	763	404	2347	308	484	779	520	2092	

Table 3Balance of payments, Hungary

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

 $Table \; 4 \\ \label{eq:table} Balance of payments, \; Hungary (seasonally adjusted data) ^{a)}$

euro milior													
		2004				2005				2006			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
1. Goods, net	-561	-870	-447	-476	-368	-273	-504	-306	-331	-71	-200	6	
1.1. Exports	10536	11173	11432	11600	11696	12552	12854	12973	13957	14327	14750	15326	
1.2. Imports	10958	12172	11996	12065	11879	12694	13555	13415	14260	14187	15027	15336	
2. Services and income, net	-1071	-1095	-1281	-1266	-1184	-1214	-1272	-1190	-1288	-1303	-1207	-1298	
2.1. Services	42	42	54	84	162	160	169	194	186	228	275	301	
2.1.1. Travel, net	300	270	253	204	277	213	298	292	322	372	376	404	
credit	881	811	831	736	941	858	833	845	803	895	952	1013	
debit	583	577	635	570	642	654	564	493	468	481	545	572	
2.1.2. Other services, net	-230	-206	-177	-115	-119	-28	-100	-113	-223	-150	-67	-49	
credit	1260	1330	1417	1456	1587	1691	1773	1773	1696	1752	1767	1855	
debit	1588	1558	1694	1653	1601	1603	2110	1790	1799	1935	1828	1884	
2.2. Income, net	-1113	-1137	-1335	-1350	-1346	-1374	-1441	-1384	-1474	-1530	-1482	-1599	
2.2.1. Income on debt, net	-267	-308	-383	-412	-407	-407	-412	-421	-430	-433	-446	-455	
2.2.2. Income on equity, net	-848	-910	-947	-982	-961	-999	-1045	-997	-1071	-1131	-1066	-1157	
2.2.3. Compensation of employees, net	34	32	31	29	26	26	26	27	29	30	29	29	
3. Current transfers	92	50	46	28	8	59	36	104	106	74	95	58	
4. Current account balance	-1439	-2049	-1802	-1616	-1444	-1372	-1878	-1417	-1549	-1329	-1181	-1156	
5. Capital account	-54	2	177	135	171	183	78	277	114	41	210	349	
6. Net external financing capacity	-1545	-1849	-1473	-1612	-1427	-1207	-1621	-1248	-1328	-1245	-1044	-1131	

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The Bank will release data on Hungary's balance of payments and international investment position for 2007 Q1 as well as revised balance of payments and IIP statistics for 2006 Q3–Q4 on 29 June 2007.

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^{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