

## PRESS RELEASE

### Hungary's balance of payments: 2007 Q1

- Consistent with its announced method of releasing and revising statistical data, on 29 June 2007 the MNB is publishing 2007 Q1 balance of payments data for the first time, together with revised data for 2006 Q3–Q4.
- In this press release, Hungary's balance of payments is presented excluding data on special purpose entities \*which are 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.<sup>1</sup>

\* \* \*

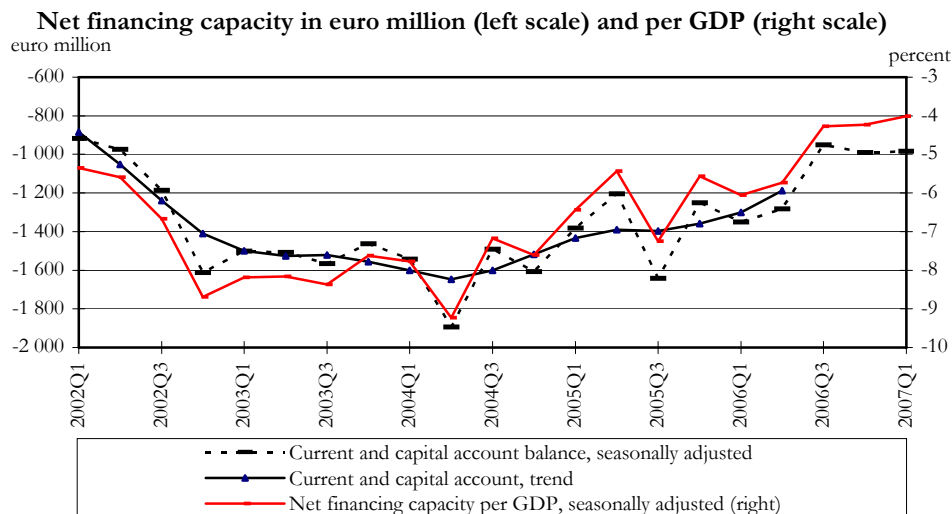
*According to quarterly data, the downward trend of Hungary's net financing requirement (i.e. the balance on its combined current and capital accounts), calculated using the top-down approach, continued in 2007 Q1. The net financing requirement amounted to EUR 1,048 million and it was EUR 985 million, or 4% of GDP, after adjusting for seasonal effects. Expressed in domestic currency terms, the net financing requirement was HUF 265 billion. The net financing requirement, derived as the combined current and capital account balance using the bottom-up method, was EUR 1,552 million and EUR 1,469 million seasonally adjusted. This was the equivalent of 6% of GDP.<sup>2</sup>*

#### Chart 1

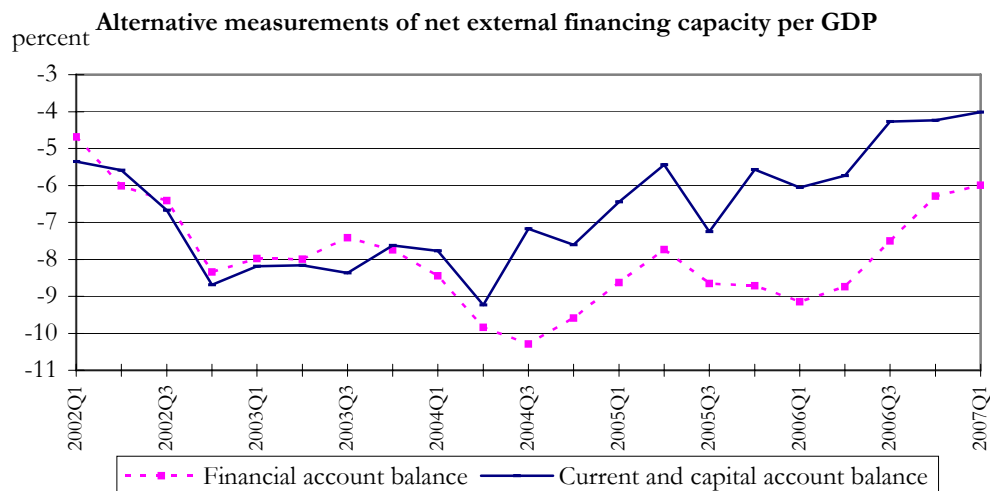
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<sup>1</sup> For a more detailed description of recording SPEs in the balance of payments, see the MNB's balance of payments press release for 2006 Q1 and the methodological notes on the Bank's website.

<sup>2</sup> The difference between the two figures, calculated using the two methods, is shown in errors and omissions in the balance of payments. For the reasons, see the MNB's [balance of payments press release of September 2005](#).



**Chart 2**

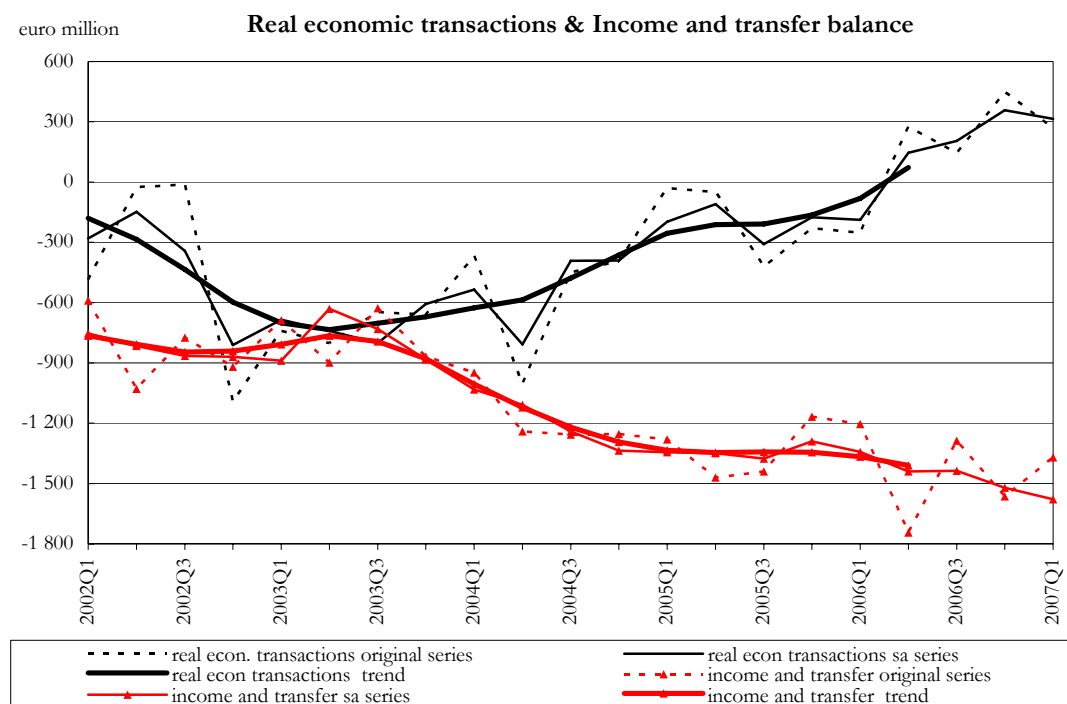


### The current account

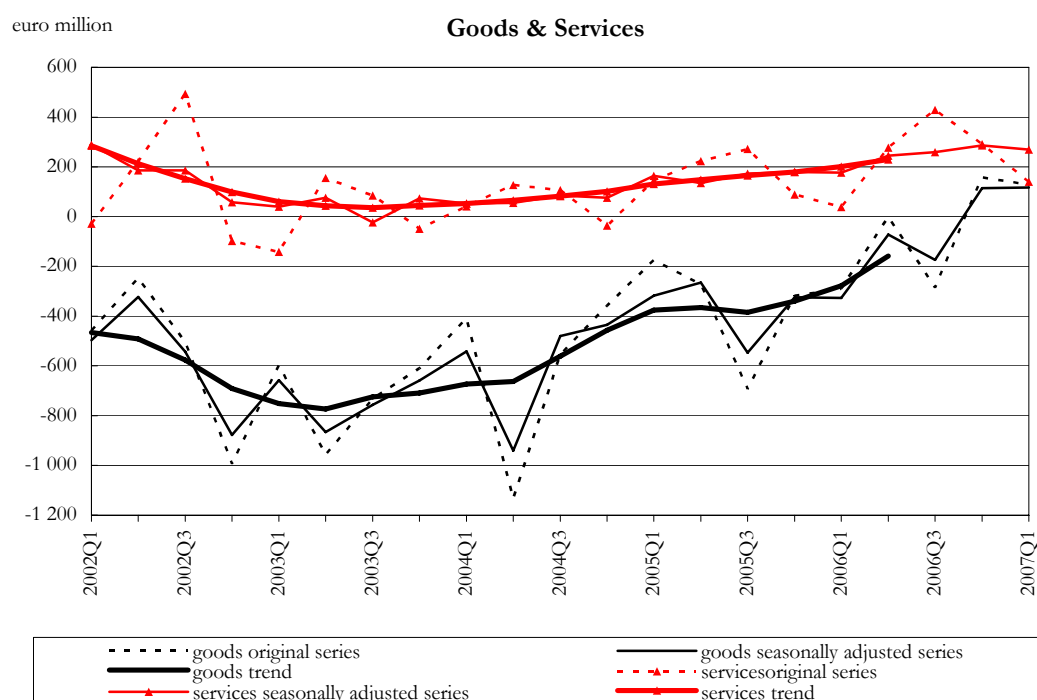
In 2007 Q1, the current account deficit amounted to EUR 1,102 million, and EUR 1,105 million seasonally adjusted. The deficit barely changed relative to the previous period; and the balances of real economic transactions and incomes too were little changed (see Chart 3).

Within real economic developments, trade in goods continued to be in surplus, at EUR 117 million seasonally adjusted and at EUR 128 million not seasonally adjusted. According to the seasonally adjusted data, the surplus on services amounted to EUR 269 million, and EUR 140 million not seasonally adjusted (see Chart 4).

**Chart 3**



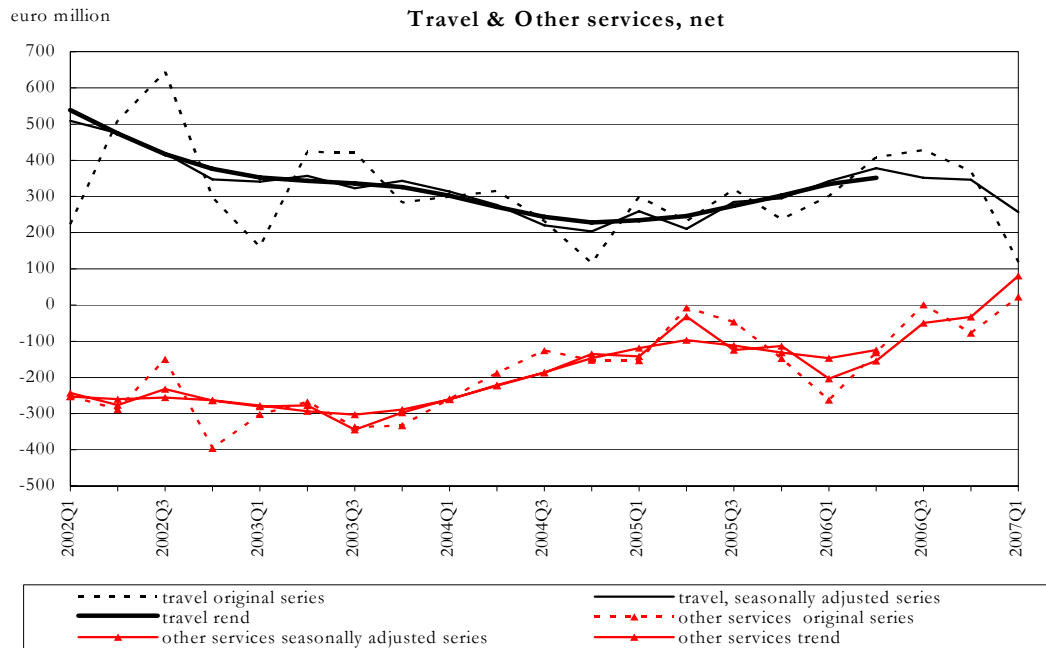
**Chart 4**



Exports and imports both rose very robustly; however, both exceeding EUR 16 million after adjusting for seasonal effects

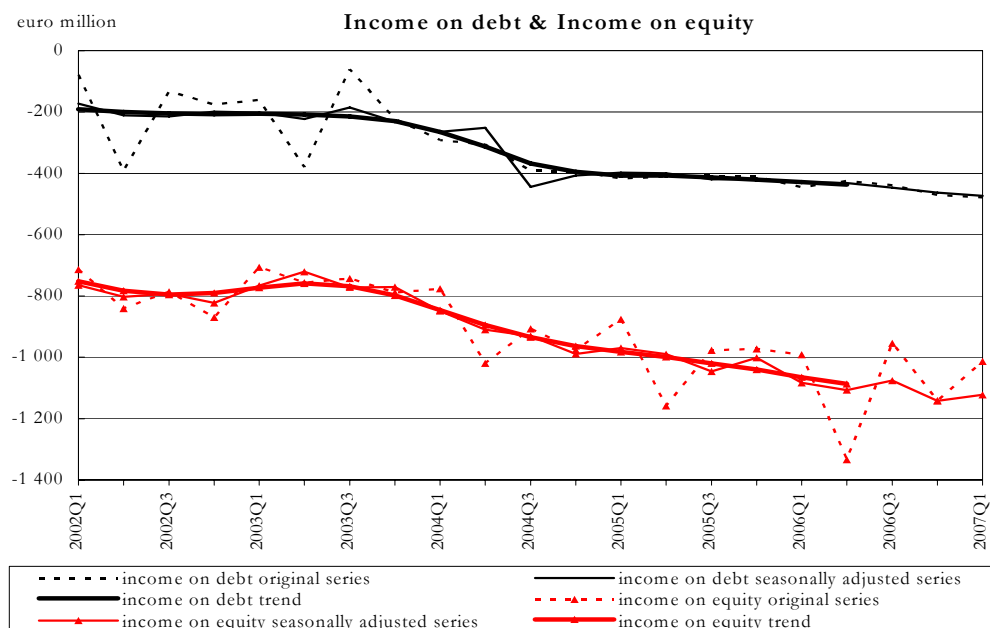
The seasonally adjusted surplus on services amounted to EUR 269 million, falling relative to the previous period. Within services, the seasonally adjusted travel surplus was EUR 257 million, down on 2006 Q4. Other services registered a seasonally adjusted EUR 80 million surplus in Q1 (see Chart 5).

Chart 5



Developments in the balance on the income and transfer accounts were shaped by movements in income on debt (interest) and income on equity (dividends) (see Chart 6). In 2007 Q1, the seasonally adjusted deficit on income on debt amounted to EUR 473 million, and negative income on equity was EUR 1,122 million. The trends of these components remained unchanged in the period under review: 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 6



The surplus on current transfers amounted to EUR 90 million in 2007 Q1.

Looking at fourth-quarter transactions with the European Union,<sup>3</sup> the balance of current transfers showed a EUR 70 million surplus, and the amount of transactions recorded as capital transfers showed a EUR 93 million surplus. The balance of capital transfers to and from EU institutions showed a nearly EUR 163 million surplus.

## Financing

Inward and outward non-debt capital transactions showed a net outflow of EUR 61 million in 2007 Q1. 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 360 million (see Chart 7) and reinvested earnings of EUR 178 million, as well as inward transactions by non-residents in the amount of EUR 442 million and reinvested earnings of EUR 576 million (see Chart 8).

Portfolio investment transactions in equity securities showed a net outflow of EUR 541 million in the quarter under review.

The balance of debt generating financing was EUR 793 million in Q1. Here, other FDI – included in foreign direct investment flows – by Hungarian residents abroad amounted to EUR 131 million and other FDI by non-residents in Hungary amounted to EUR 522 million.

**Table 1**  
**Direct investments abroad and in Hungary<sup>4</sup>**

	2005					2006					euro million 2007
	Q1	Q2	Q3	Q4	Q1-Q4	Q1	Q2	Q3	Q4	Q1-Q4	Q1
<b>Abroad*</b>	-495	-1 367	16	-29	-1 874	-461	-184	-105	-1 692	-2 439	-511
Equity capital	-478	-1 239	-61	-60	-1 837	-147	-199	-136	-1 375	-1 858	-360
Reinvested earnings	-88	57	-32	-134	-197	-77	74	-120	-151	-274	-178
Other capital	72	-185	109	164	160	-237	-58	155	-166	-307	26
<b>In Hungary</b>	1 073	1 889	706	2 431	6 099	2 230	289	1 240	1 115	4 861	481
Equity capital	305	888	340	2 433	3 966	997	255	677	-527	1 401	442
Reinvested earnings	531	-831	1 104	1 114	1 918	353	-1 846	1 087	1 308	902	576
Other capital	236	1 832	-738	-1 115	215	880	1 880	-559	356	2 557	-537

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

## Chart 7

<sup>3</sup> 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.

<sup>4</sup> As a reminder, reinvested earnings are the difference between after-tax profit and declared dividends. While for 2005, the after-tax component of direct 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.

euro million

# FDI abroad, net flow

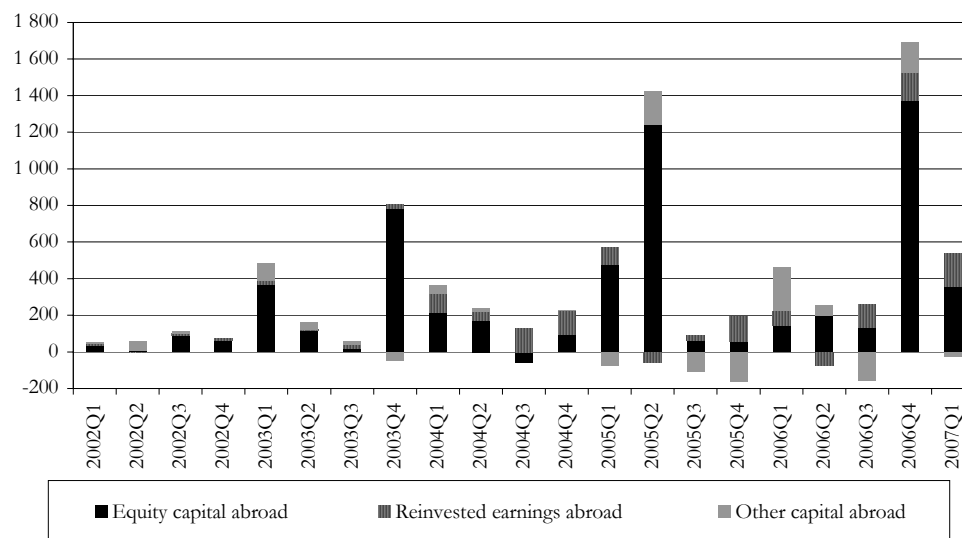
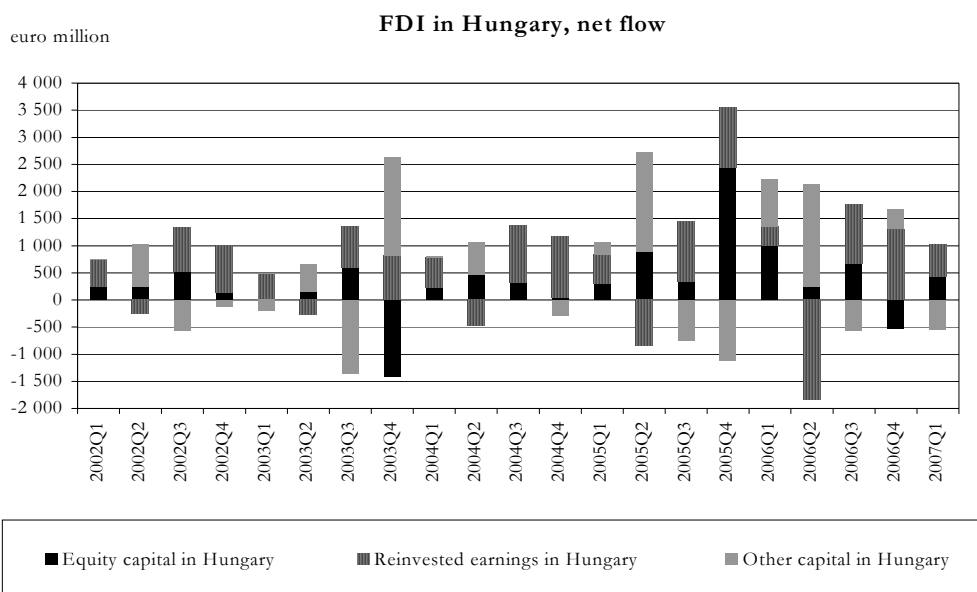


Chart 8



## Reserves and debt

Central bank foreign exchange reserves amounted to EUR 17.0 billion at end-March 2007. Whole-economy gross foreign debt was EUR 4.1 billion higher than at the end of 2006 Q4. Gross foreign debt, including other investment capital recorded within direct investment, rose by EUR 4.1 billion in the period. Hungary's net foreign debt rose by EUR 2.0 billion, and by EUR 1.5 billion including other FDI capital recorded within direct investment. Non-residents' holdings of forint-denominated government securities amounted to EUR 12.4 billion at the end of Q1, up EUR 0.7 billion on the end of 2006 Q4.

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

	euro billion	
	2006	2007 Q1
<b>III. Gross foreign debt, Total Economy (S.1) /1</b>	<b>67.4</b>	<b>71.5</b>
<b>II. Net foreign debt, Total Economy (S.1) /1</b>	<b>30.0</b>	<b>32.0</b>
<b>I. Gross foreign debt, Total Economy (S.1) ( A+B) /2</b>	<b>83.9</b>	<b>88.0</b>
A: General government and Central bank (S.13+S.121)	30.9	32.8
A.1. o/w.:debt denominated in HUF /3	12.8	13.7
B. Private sector (S.1-S.13-S.121)	53.0	55.2
<b>II. Net foreign debt, Total Economy (S.1) ( A+B) /2</b>	<b>38.3</b>	<b>39.8</b>
A: General government and Central bank (S.13+S.121)	13.9	15.2
A.1. o/w.:debt denominated in HUF /3	12.6	13.5
B. Private sector (S.1-S.13-S.121)	24.4	24.6

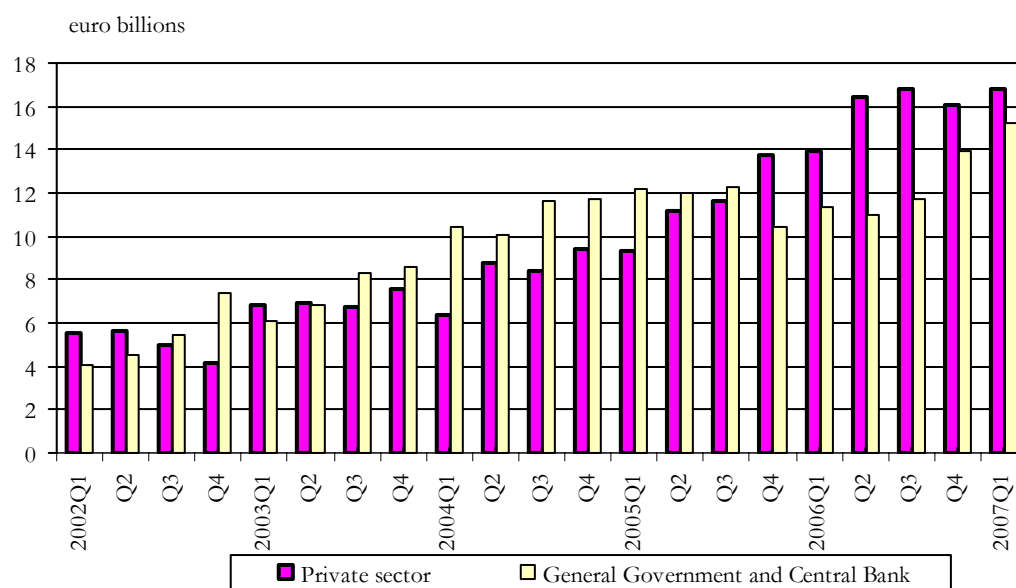
/ 1 Excluding other FDI capital recorded within direct investment.

/ 2 Including other FDI capital.

/ 3 Securities + other.

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

**Chart 9**  
**Net foreign debt of Hungary, 2002–2007\***



\* Excluding other FDI capital recorded within direct investment.

Whole-economy net debt was EUR 32.0 billion at end-March 2007 (34.6% as a proportion of GDP). Including other investment capital recorded within direct investment, Hungary's net foreign debt amounted to EUR 39.8 billion (43.1% of GDP). At the end of 2007 Q1, the net debt of general government and the MNB was EUR 1.3 billion higher than at the previous quarter's end.



## Summary tables

**Table 3**  
**Balance of payments, Hungary**

euro million

	2005					2006					2007
	Q1	Q2	Q3	Q4	Q1-4	Q1	Q2	Q3	Q4	Q1-4	Q1
<b>1. Goods, net</b>	<b>-175</b>	<b>-273</b>	<b>-694</b>	<b>-318</b>	<b>-1460</b>	<b>-290</b>	<b>-2</b>	<b>-285</b>	<b>157</b>	<b>-420</b>	<b>128</b>
1.1. Exports	11291	12631	12533	13665	50120	13474	14418	14381	16142	58415	16060
1.2. Imports	11466	12904	13227	13983	51580	13764	14419	14666	15984	58834	15932
<b>2. Services and income, net</b>	<b>-1125</b>	<b>-1322</b>	<b>-1088</b>	<b>-1266</b>	<b>-4802</b>	<b>-1369</b>	<b>-1451</b>	<b>-936</b>	<b>-1290</b>	<b>-5046</b>	<b>-1333</b>
2.1. Services*, net	145	223	272	88	728	39	277	429	291	1036	140
2.1.1. Exports	2297	2534	2883	2599	10313	2112	2611	2996	2972	10691	2539
2.1.2. Imports	2152	2311	2611	2510	9585	2073	2334	2567	2680	9655	2399
2.2. Income, net	-1269	-1545	-1361	-1355	-5530	-1408	-1728	-1365	-1581	-6082	-1473
2.2.1. Income on debt, net	-417	-411	-409	-411	-1648	-445	-425	-439	-470	-1779	-478
2.2.2. Income on equity, net	-876	-1159	-977	-972	-3984	-991	-1334	-955	-1141	-4421	-1014
2.2.3. Compensation of employees, net	23	24	25	29	102	29	30	28	29	117	19
<b>3. Current transfers</b>	<b>-11</b>	<b>75</b>	<b>-80</b>	<b>187</b>	<b>171</b>	<b>203</b>	<b>-17</b>	<b>78</b>	<b>18</b>	<b>283</b>	<b>102</b>
<b>4. Current account balance</b>	<b>-1311</b>	<b>-1520</b>	<b>-1862</b>	<b>-1397</b>	<b>-6091</b>	<b>-1455</b>	<b>-1469</b>	<b>-1143</b>	<b>-1115</b>	<b>-5183</b>	<b>-1102</b>
<b>5. Capital account balance</b>	<b>171</b>	<b>183</b>	<b>78</b>	<b>277</b>	<b>709</b>	<b>114</b>	<b>41</b>	<b>210</b>	<b>349</b>	<b>713</b>	<b>54</b>
<b>6. Net external financing capacity (4+5)</b>	<b>-1140</b>	<b>-1337</b>	<b>-1785</b>	<b>-1120</b>	<b>-5381</b>	<b>-1342</b>	<b>-1429</b>	<b>-933</b>	<b>-767</b>	<b>-4470</b>	<b>-1048</b>
<b>7. Non debt creating financing, net</b>	<b>95</b>	<b>-1424</b>	<b>1899</b>	<b>2799</b>	<b>3368</b>	<b>1270</b>	<b>-2460</b>	<b>1154</b>	<b>-459</b>	<b>-494</b>	<b>-61</b>
7.1. Abroad, net	-567	-1182	-92	-193	-2034	-224	-126	-256	-1527	-2132	-538
7.1.1. Equity capital	-478	-1239	-61	-60	-1837	-147	-199	-136	-1375	-1858	-360
7.1.2. Reinvested earnings	-88	57	-32	-134	-197	-77	74	-120	-151	-274	-178
7.2. In Hungary, net	837	57	1444	3547	5884	1350	-1591	1764	780	2303	1018
7.2.1. Equity capital	305	888	340	2433	3966	997	255	677	-527	1401	442
7.2.2. Reinvested earnings	531	-831	1104	1114	1918	353	-1846	1087	1308	902	576
7.3. Portfolio investment, equity securities, net	-175	-299	547	-555	-482	143	-743	-354	288	-666	-541
*- o/w: Travel, net	299	231	319	236	1085	301	408	429	369	1507	118
credit	844	867	1082	640	3433	609	893	1208	889	3599	660
debit	545	636	763	404	2347	308	484	779	520	2092	542

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

**Table 4**  
**Balance of payments, Hungary (seasonally adjusted data) <sup>a)</sup>**

euro million

	2005				2006				2007
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
<b>1. Goods, net</b>	<b>-318</b>	<b>-266</b>	<b>-547</b>	<b>-325</b>	<b>-327</b>	<b>-73</b>	<b>-174</b>	<b>115</b>	<b>117</b>
1.1. Exports	11671	12501	12863	13043	13922	14264	14763	15414	16588
1.2. Imports	11886	12698	13567	13396	14265	14190	15041	15320	16508
<b>2. Services and income, net</b>	<b>-1185</b>	<b>-1250</b>	<b>-1239</b>	<b>-1223</b>	<b>-1302</b>	<b>-1274</b>	<b>-1241</b>	<b>-1266</b>	<b>-1315</b>
2.1. Services	165	135	173	179	177	245	259	287	269
2.1.1. Travel, net	259	210	285	295	342	378	351	346	257
credit	1069	823	878	790	814	905	915	991	918
debit	624	653	583	485	351	504	590	619	617
2.1.2. Other services, net	-142	-32	-124	-113	-204	-155	-50	-32	80
credit	1528	1677	1835	1825	1581	1729	1822	1939	1977
debit	1695	1744	1953	1859	1790	1889	1831	1845	1922
2.2. Income, net	-1350	-1385	-1412	-1402	-1479	-1519	-1500	-1553	-1585
2.2.1. Income on debt, net	-397	-400	-419	-419	-430	-432	-447	-463	-473
2.2.2. Income on equity, net	-970	-990	-1046	-1001	-1083	-1107	-1076	-1142	-1122
2.2.3. Compensation of employees, net	26	26	26	26	31	29	28	27	23
<b>3. Current transfers</b>	<b>-20</b>	<b>50</b>	<b>-61</b>	<b>204</b>	<b>192</b>	<b>-42</b>	<b>97</b>	<b>36</b>	<b>90</b>
<b>4. Current account balance</b>	<b>-1571</b>	<b>-1414</b>	<b>-1734</b>	<b>-1438</b>	<b>-1509</b>	<b>-1401</b>	<b>-1149</b>	<b>-1191</b>	<b>-1105</b>
<b>5. Capital account</b>	<b>180</b>	<b>202</b>	<b>100</b>	<b>196</b>	<b>151</b>	<b>114</b>	<b>197</b>	<b>223</b>	<b>108</b>
<b>6. Net external financing capacity</b>	<b>-1382</b>	<b>-1204</b>	<b>-1642</b>	<b>-1251</b>	<b>-1351</b>	<b>-1282</b>	<b>-951</b>	<b>-991</b>	<b>-985</b>

The Bank will release data on Hungary's balance of payments and international investment position for 2007 Q2, revised data for 2005 as well as annual data for 2006 on 28 September 2007.

\* \* \* \* \*

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

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