

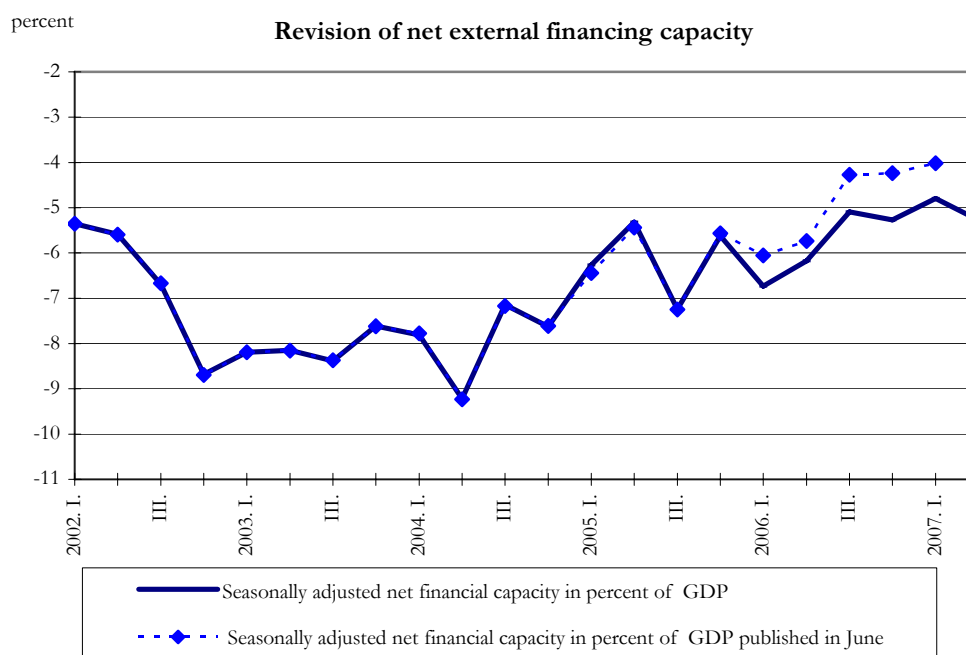
## PRESS RELEASE

### Hungary's balance of payments: 2007 Q2

Consistent with its method of releasing and revising statistical data, on 28 September 2007 the MNB is publishing 2007 Q2 balance of payments data for the first time, together with revised data for 2007 Q1 and annual 2005 and 2006 statistical data.

*Hungary's current account deficit in 2005 has been revised down by EUR 77 million and the deficit in 2006 has been revised up by EUR 652 million. Hungary's net financing requirement in the past four quarters, calculated using the top-down approach, has been revised down by nearly 1 per cent of GDP; however, its trend has remained unchanged.*

Chart 1



- Data derived from corporate questionnaires, filled out on the basis of firms' balance sheets and tax returns for 2006, have now been incorporated in direct investment data. Estimates for 2006 reinvested earnings and 2007 dividend payments have been replaced by preliminary data derived from the questionnaires. After-tax profit results for 2007 will remain an estimate until the questionnaires to be received in June 2008 are processed, but they have been changed by taking account of 2006 data.
- In accordance with past practice, in this press release Hungary's balance of payments are presented excluding data on special purpose entities (which are significant in economic terms). However, the 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>

The CSO has recently changed its methodology of recording travel data. First, costs of passenger services have been eliminated from both revenue and expenditure. Second, items related to travels abroad but qualifying as domestic consumption (i.e. those purchased from non-residents) have also been eliminated from expenditure data. In accordance with the its policy of releasing and revising balance of payments data, the MNB has applied these changes retrospectively to cover data from 2005.

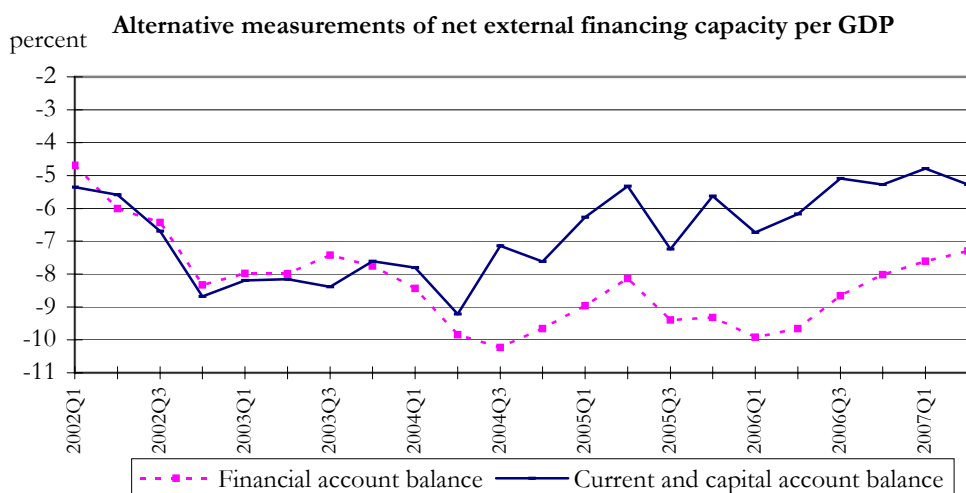
As a result of the changes to methodology and the normal revision procedure, both revenue and expenditure levels have been reduced relative to data published earlier. As the change has affected expenditure to a greater extent, net travel revenue for 2005, 2006 and 2007 Q1, respectively, has become higher by EUR 309, EUR 177 million and EUR 96 million.

The CSO has also revised goods data used to compile 2006 national accounts data. As a result of these changes, the goods deficit in 2006 has been revised up by EUR 502 million. The 2005 and 2007 Q1 deficits have increased less, by EUR 30 million and EUR 50 million respectively.

\* \* \*

*According to quarterly data, in 2007 Q2 Hungary's net financing requirement (i.e. the balance on its combined current and capital accounts), increased relative to the previous quarter. The net financing requirement amounted to EUR 1,668 million and it was EUR 1,243 million, or 5.3% of GDP, after adjusting for seasonal effects. Expressed in domestic currency terms, the net financing requirement was HUF 335 billion. The net financing requirement, derived as the combined current and capital account balance using the bottom-up method, was EUR 1,950 million and EUR 1,839 million seasonally adjusted. This was the equivalent of 7.3% of GDP (see Chart 2).<sup>2</sup>*

**Chart 2**



### Current account

In 2007 Q2, the current account deficit amounted to EUR 1,700 million and EUR 1,455 million seasonally adjusted. The deficit rose relative to the previous period; however, it rose much less after adjusting for seasonal variations. The seasonally adjusted balance of real economic

<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](#).

transactions was little changed; and the income account deficit has recently been rising steadily (see Chart 3).

Within real economic developments, trade in goods continued to be in surplus, at EUR 164 million seasonally adjusted and at EUR 200 million not seasonally adjusted. According to the seasonally adjusted data, the surplus on services amounted to EUR 364 million and EUR 401 million not seasonally adjusted (see Chart 4).

Chart 3

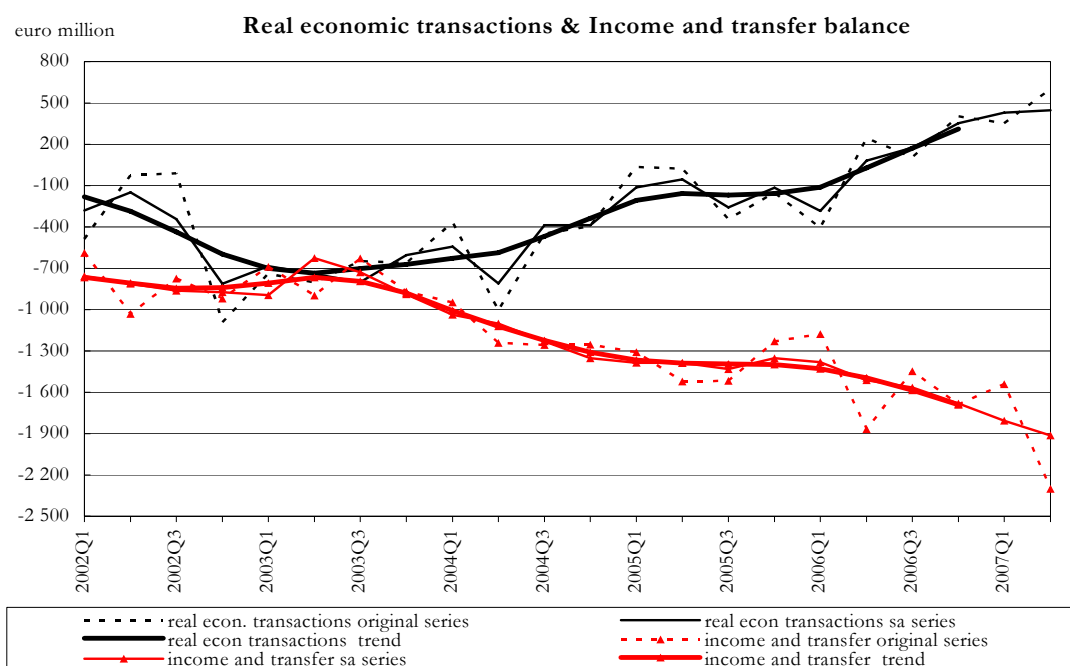
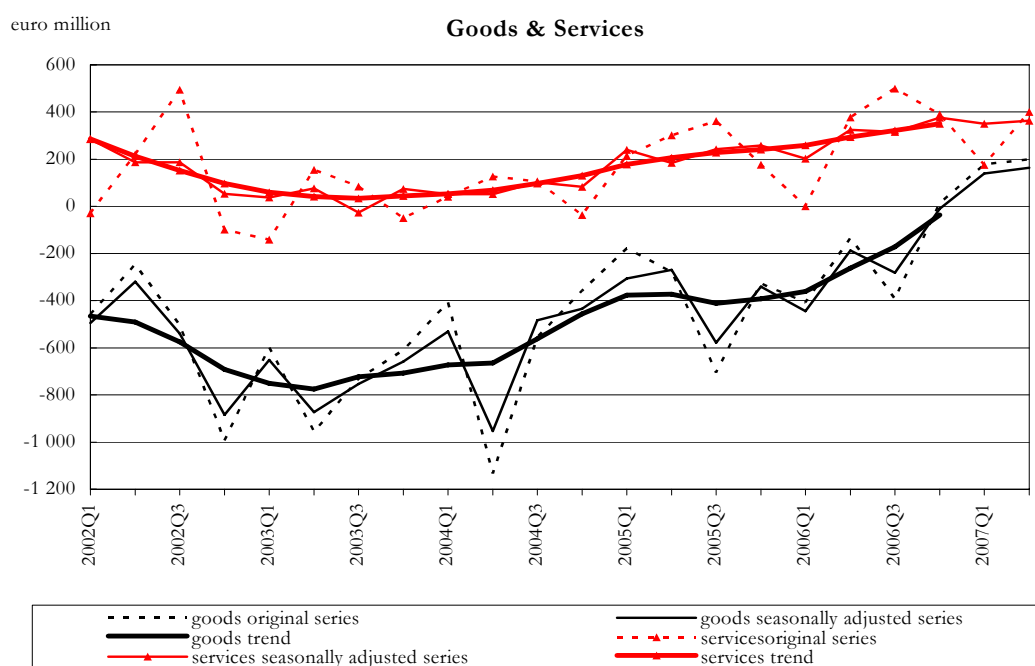


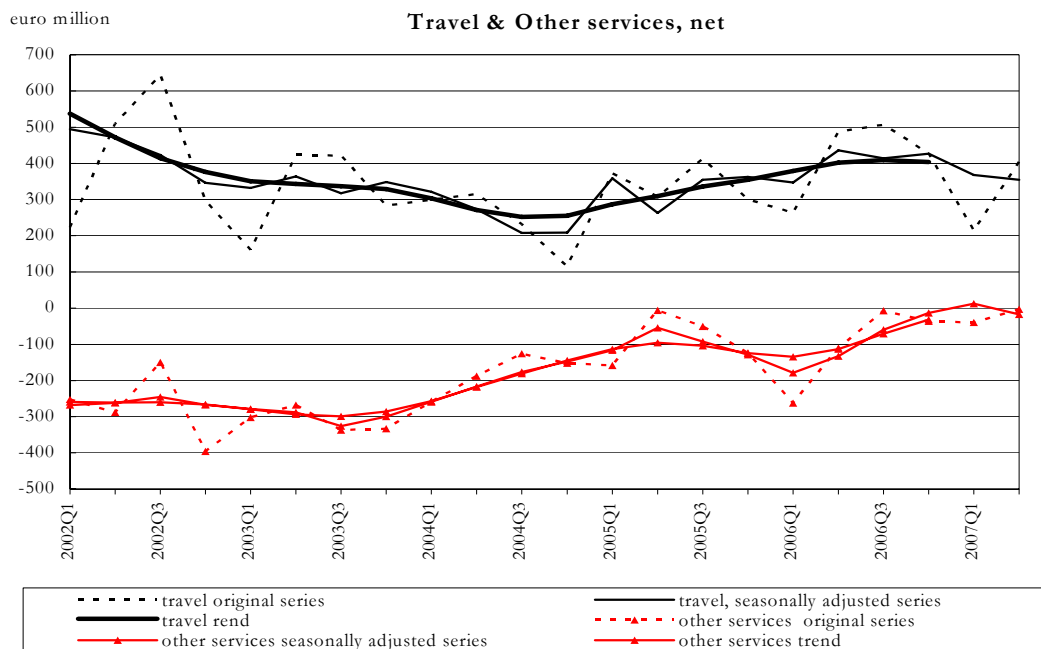
Chart 4



Exports and imports both were lower than in the previous quarter after adjusting for seasonal effects, with the trend values remaining unchanged. Accordingly, the surplus of trade in goods rose slightly relative to Q1.

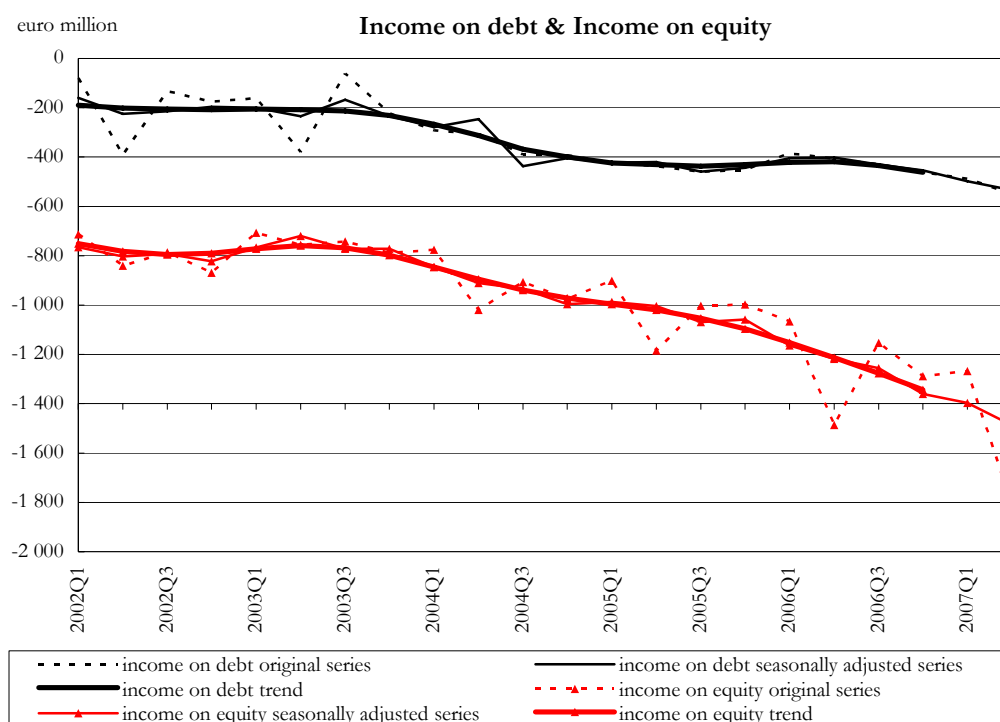
The seasonally adjusted surplus on services barely changed, amounting to EUR 364 million in Q2. Within services, the seasonally adjusted travel surplus was EUR 355 million, down EUR 10 million on 2007 Q1. Other services registered a seasonally adjusted EUR 18 million deficit in Q2 (see Chart 5).

**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 Q2, the seasonally adjusted deficit on income on debt amounted to EUR 534 million, and negative income on equity was EUR 1,488 million. The deficits on both income on equity and income on debt rose, as a result of (i) the continued rise in reinvested earnings and (ii) increasing interest expense.

Chart 6



The seasonally adjusted surplus on current transfers amounted to EUR 20 million in 2007 Q2.

Looking at fourth-quarter transactions with the European Union,<sup>3</sup> the balance of current transfers showed a EUR 15 million deficit, and the amount of transactions recorded as capital transfers showed a EUR 145 million surplus. The balance of capital transfers to and from EU institutions showed a EUR 130 million surplus in the period.

## Financing

Inward and outward non-debt capital transactions showed a net outflow of EUR 4.2 million in 2007 Q2. The value of direct investment in equity capital was the balance of outward transactions by Hungarian residents in the amount of EUR 661 million (see Chart 7) and reinvested earnings of EUR -60 million, as well as outward transactions by non-residents in the amount of EUR 1.4 billion and reinvested earnings of EUR -1.47 billion (see Chart 8).

As a result of the change in ownership of Budapest Airport, the value of direct investment in equity capital by non-residents in Hungary fell significantly, by EUR 1.9 billion.

Portfolio investment transactions in equity securities showed a net outflow of EUR 459 million in the quarter under review.

<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.

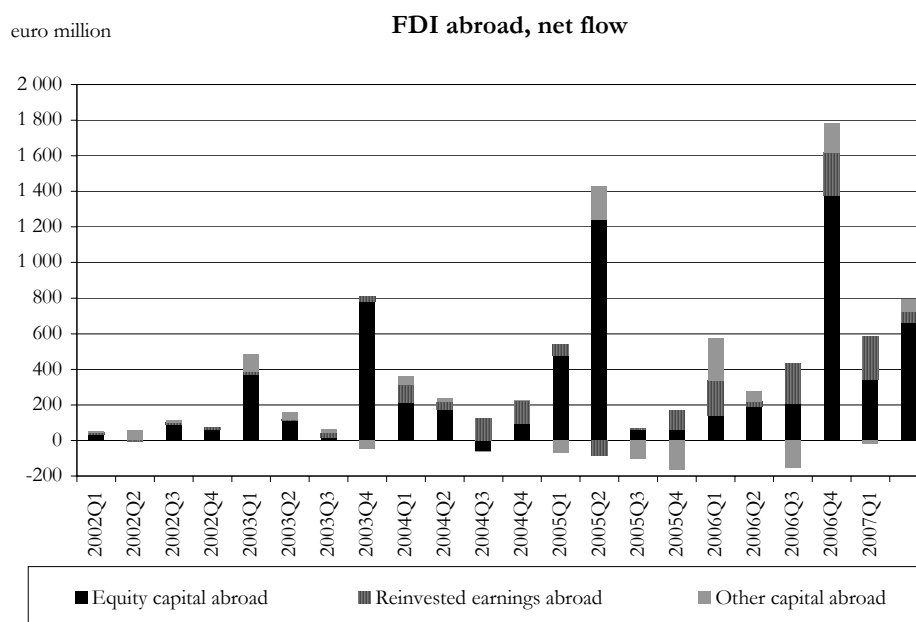
The balance of debt generating financing was EUR 3 billion in Q2. Here, other FDI – included in foreign direct investment flows – by Hungarian residents abroad amounted to EUR 70 million and other FDI by non-residents in Hungary amounted to EUR 2.2 billion.

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

	2005					2006					2007	
	Q1	Q2	Q3	Q4	Q1-Q4	Q1	Q2	Q3	Q4	Q1-Q4	Q1	Q2
<b>Abroad*</b>	-469	-1 343	39	-4	-1 777	-576	-277	-278	-1 782	-2 913	-565	-791
Equity capital	-478	-1 239	-61	-60	-1 837	-143	-192	-207	-1 375	-1 917	-346	-661
Reinvested earnings	-63	82	-6	-109	-96	-193	-27	-227	-241	-688	-240	-60
Other capital	72	-186	106	164	156	-241	-58	156	-166	-309	21	-70
<b>In Hungary</b>	1 064	1 896	758	2 454	6 172	2 274	522	1 550	1 334	5 680	719	-800
Equity capital	305	888	340	2 433	3 966	894	243	688	-490	1 335	380	-1 370
Reinvested earnings	531	-831	1 104	1 114	1 918	533	-1 639	1 392	1 545	1 830	647	-1 674
Other capital	227	1 839	-686	-1 093	288	848	1 918	-530	279	2 516	-308	2 244

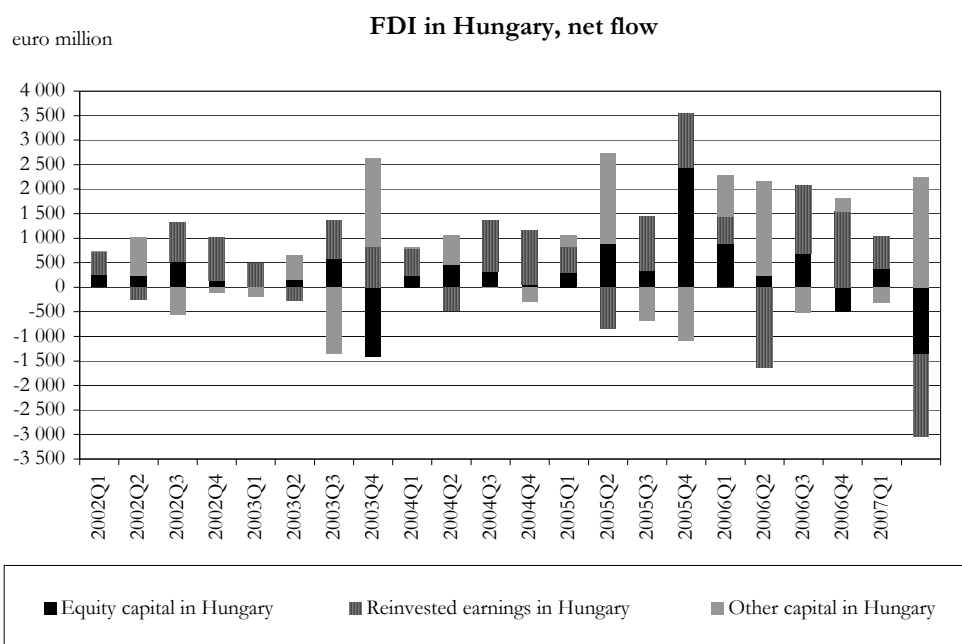
The data in the table follow the sign conventions used in balance of payments statistics.

**Chart 7**



<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.

Chart 8



## Reserves and debt

Central bank foreign exchange reserves amounted to EUR 17.0 billion at end-June 2007. Whole-economy gross foreign debt was EUR 5.0 billion higher than at the end of 2007 Q1. Gross foreign debt, including other investment capital recorded within direct investment, rose by EUR 7.1 billion in the period. Hungary's net foreign debt rose by EUR 3.8 billion, and by EUR 5.8 billion including other FDI capital recorded within direct investment. Non-residents' holdings of forint-denominated government securities amounted to EUR 12.5 billion at the end of Q2, up EUR 0.1 billion on the end of 2007 Q1.

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

	2006	2007	
		Q1	Q2
<b>III. Gross foreign debt, Total Economy (S.1) /1</b>	<b>68.4</b>	<b>72.6</b>	<b>77.6</b>
<b>II. Net foreign debt, Total Economy (S.1) /1</b>	<b>31.0</b>	<b>33.2</b>	<b>37.1</b>
<b>I. Gross foreign debt, Total Economy (S.1) (A+B) /2</b>	<b>84.7</b>	<b>89.1</b>	<b>96.2</b>
A: General government and Central bank (S.13+S.121)	31.1	33.0	33.9
A.1. o/w.:debt denominated in HUF /3	12.8	13.7	14.4
B. Private sector (S.1-S.13-S.121)	53.7	56.1	62.3
<b>II. Net foreign debt, Total Economy (S.1) (A+B) /2</b>	<b>39.1</b>	<b>41.1</b>	<b>47.0</b>
A: General government and Central bank (S.13+S.121)	14.1	15.3	16.2
A.1. o/w.:debt denominated in HUF /3	12.7	13.5	14.3
B. Private sector (S.1-S.13-S.121)	25.1	25.8	30.8

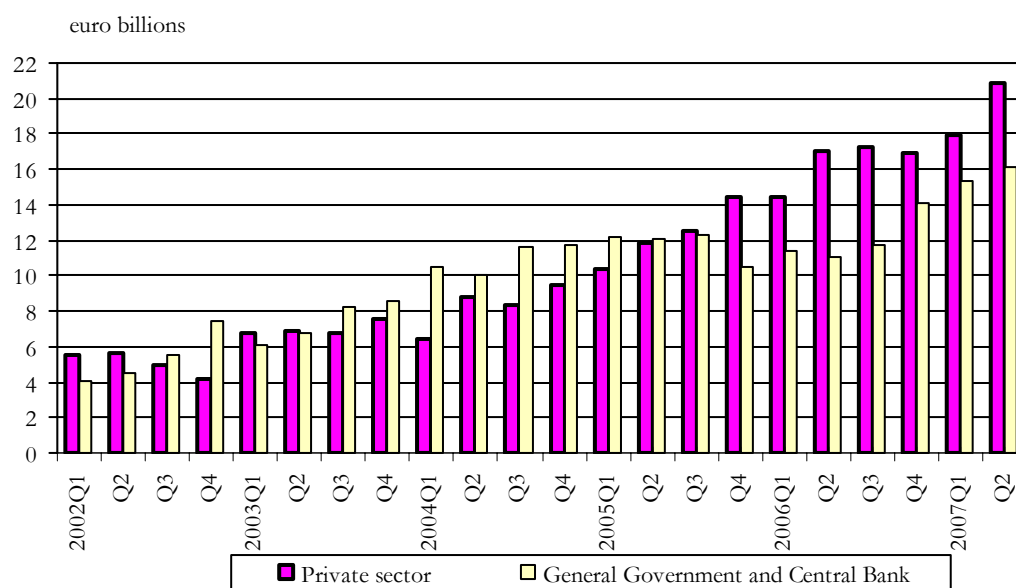
/ 1 Excluding other FDI capital recorded within direct investment.

/ 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 37.1 billion at end-June 2007 (38.7% as a proportion of GDP). Including other investment capital recorded within direct investment, Hungary's net foreign debt amounted to EUR 47.0 billion (49.0% of GDP). At the end of 2007 Q2, the net debt of general government and the MNB was EUR 0.9 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	Q2	Q1-2
<b>1. Goods, net</b>	<b>-178</b>	<b>-278</b>	<b>-706</b>	<b>-328</b>	<b>-1490</b>	<b>-407</b>	<b>-134</b>	<b>-393</b>	<b>13</b>	<b>-921</b>	<b>178</b>	<b>200</b>	<b>378</b>
1.1. Exports	11290	12632	12533	13665	50120	13625	14429	14501	16525	59079	16218	16735	32953
1.2. Imports	11468	12910	13239	13993	51610	14032	14563	14894	16512	60001	16040	16536	32575
<b>2. Services and income, net</b>	<b>-1087</b>	<b>-1296</b>	<b>-1074</b>	<b>-1244</b>	<b>-4701</b>	<b>-1422</b>	<b>-1485</b>	<b>-1053</b>	<b>-1330</b>	<b>-5290</b>	<b>-1561</b>	<b>-1932</b>	<b>-3494</b>
2.1. Services*, net	214	301	362	176	1054	1	377	500	391	1268	175	401	576
2.1.1. Exports	2297	2538	2825	2627	10287	2156	2560	2889	2944	10549	2487	2961	5448
2.1.2. Imports	2083	2237	2463	2451	9233	2155	2183	2389	2554	9281	2312	2560	4872
2.2. Income, net	-1301	-1597	-1436	-1420	-5755	-1423	-1862	-1553	-1720	-6558	-1736	-2333	-4070
2.2.1. Income on debt, net	-423	-438	-459	-452	-1771	-385	-406	-429	-461	-1682	-488	-550	-1038
2.2.2. Income on equity, net	-902	-1184	-1002	-997	-4085	-1067	-1486	-1153	-1288	-4993	-1268	-1812	-3080
2.2.3. Compensation of employees, net	23	24	25	29	102	29	30	28	29	117	19	29	48
<b>3. Current transfers</b>	<b>-8</b>	<b>77</b>	<b>-82</b>	<b>190</b>	<b>178</b>	<b>245</b>	<b>-6</b>	<b>106</b>	<b>32</b>	<b>377</b>	<b>196</b>	<b>33</b>	<b>229</b>
<b>4. Current account balance</b>	<b>-1273</b>	<b>-1498</b>	<b>-1861</b>	<b>-1382</b>	<b>-6013</b>	<b>-1585</b>	<b>-1625</b>	<b>-1340</b>	<b>-1285</b>	<b>-5835</b>	<b>-1187</b>	<b>-1700</b>	<b>-2887</b>
<b>5. Capital account balance</b>	<b>171</b>	<b>183</b>	<b>81</b>	<b>277</b>	<b>713</b>	<b>114</b>	<b>35</b>	<b>209</b>	<b>318</b>	<b>675</b>	<b>54</b>	<b>32</b>	<b>86</b>
<b>6. Net external financing capacity (4+5)</b>	<b>-1102</b>	<b>-1314</b>	<b>-1780</b>	<b>-1104</b>	<b>-5301</b>	<b>-1471</b>	<b>-1590</b>	<b>-1131</b>	<b>-967</b>	<b>-5159</b>	<b>-1134</b>	<b>-1667</b>	<b>-2801</b>
<b>7. Non debt creating financing, net</b>	<b>121</b>	<b>-1398</b>	<b>1924</b>	<b>2824</b>	<b>3471</b>	<b>1229</b>	<b>-2357</b>	<b>1292</b>	<b>-274</b>	<b>-109</b>	<b>-206</b>	<b>-4223</b>	<b>-4428</b>
7.1. Abroad, net	-541	-1157	-67	-168	-1933	-336	-219	-434	-1616	-2604	-586	-721	-1307
7.1.1. Equity capital	-478	-1239	-61	-60	-1837	-143	-192	-207	-1375	-1917	-346	-661	-1007
7.1.2. Reinvested earnings	-63	82	-6	-109	-96	-193	-27	-227	-241	-688	-240	-60	-300
7.2. In Hungary, net	837	57	1444	3547	5884	1426	-1396	2080	1055	3164	1027	-3043	-2016
7.2.1. Equity capital	305	888	340	2433	3966	894	243	688	-490	1335	380	-1370	-990
7.2.2. Reinvested earnings	531	-831	1104	1114	1918	533	-1639	1392	1545	1830	647	-1674	-1026
7.3. Portfolio investment, equity securities, net	-175	-298	547	-555	-481	139	-741	-354	288	-668	-646	-459	-1105
*- o/w: Travel, net	373	307	413	301	1394	263	487	507	427	1684	214	404	618
credit	822	846	997	639	3304	614	830	1104	824	3371	618	875	1493
debit	450	538	584	338	1910	351	343	597	397	1687	404	471	875

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	Q2
<b>1. Goods, net</b>	<b>-306</b>	<b>-269</b>	<b>-578</b>	<b>-340</b>	<b>-444</b>	<b>-187</b>	<b>-282</b>	<b>-10</b>	<b>139</b>	<b>164</b>
1.1. Exports	11638	12549	12885	13007	14033	14337	14914	15731	16695	16631
1.2. Imports	11841	12747	13633	13356	14487	14379	15338	15761	16560	16327
<b>2. Services and income, net</b>	<b>-1155</b>	<b>-1220</b>	<b>-1252</b>	<b>-1211</b>	<b>-1334</b>	<b>-1285</b>	<b>-1330</b>	<b>-1392</b>	<b>-1521</b>	<b>-1676</b>
2.1. Services	240	185	242	257	202	325	316	376	351	364
2.1.1. Travel, net	358	263	355	362	347	436	413	427	367	355
credit	1009	809	829	779	791	846	848	903	829	848
debit	527	552	445	386	416	361	456	455	476	493
2.1.2. Other services, net	-117	-54	-93	-129	-179	-133	-60	-13	12	-18
credit	1551	1701	1864	1851	1622	1740	1821	1974	1966	2097
debit	1718	1751	1994	1877	1820	1873	1849	1857	1973	2114
2.2. Income, net	-1396	-1405	-1494	-1468	-1536	-1610	-1646	-1768	-1872	-2040
2.2.1. Income on debt, net	-422	-421	-459	-443	-404	-403	-431	-454	-498	-534
2.2.2. Income on equity, net	-987	-1004	-1069	-1059	-1163	-1218	-1255	-1360	-1398	-1488
2.2.3. Compensation of employees, net	26	26	26	26	31	29	28	28	24	27
<b>3. Current transfers</b>	<b>-32</b>	<b>59</b>	<b>-58</b>	<b>212</b>	<b>214</b>	<b>-21</b>	<b>130</b>	<b>57</b>	<b>160</b>	<b>20</b>
<b>4. Current account balance</b>	<b>-1532</b>	<b>-1391</b>	<b>-1732</b>	<b>-1450</b>	<b>-1653</b>	<b>-1487</b>	<b>-1328</b>	<b>-1420</b>	<b>-1298</b>	<b>-1455</b>
<b>5. Capital account</b>	<b>180</b>	<b>203</b>	<b>99</b>	<b>202</b>	<b>146</b>	<b>105</b>	<b>193</b>	<b>208</b>	<b>98</b>	<b>96</b>
<b>6. Net external financing capacity</b>	<b>-1374</b>	<b>-1291</b>	<b>-1488</b>	<b>-1363</b>	<b>-1435</b>	<b>-1346</b>	<b>-1214</b>	<b>-1217</b>	<b>-1191</b>	<b>-1243</b>

The Bank will release data on Hungary's balance of payments and international investment position for 2007 Q3, as well as revised data for 2007 Q1–Q2 on 29 December 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