

PRESS RELEASE

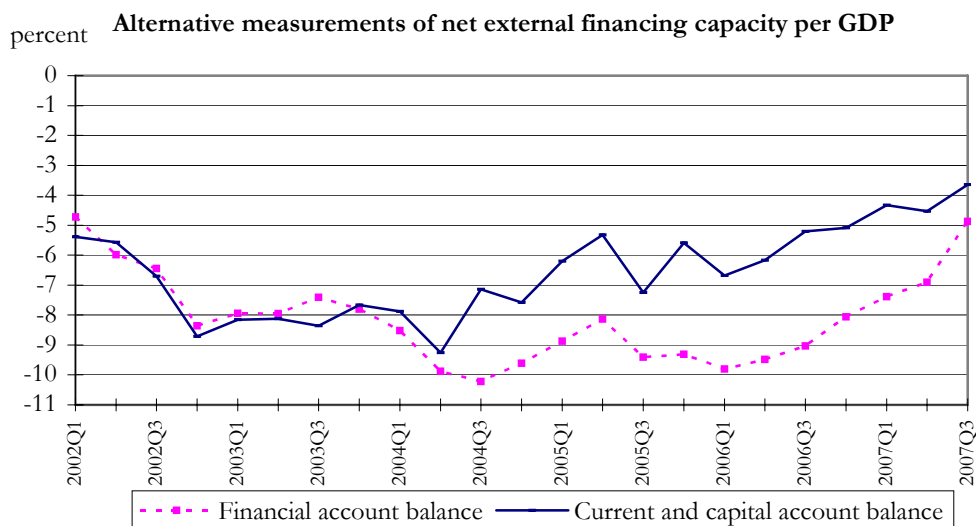
Hungary's balance of payments: 2007 Q3

Consistent with its method of releasing and revising statistical data, the MNB is publishing 2007 Q3 balance of payments data for the first time, together with revised data for 2007 Q1 and 2007 Q2.

According to the revised quarterly current account data, the Q1 and Q2 deficits, respectively, are lower by EUR 89 million and EUR 190 million, due mainly to the revision to trade in goods data by the CSO.¹

According to quarterly data, in 2007 Q3 Hungary's net financing requirement (i.e. the balance on its combined current and capital accounts), fell relative to the previous quarter. Its value was EUR 790 million (HUF 198 billion in domestic currency terms) and EUR 1,019 million, or 3.6% of GDP, after adjusting for seasonal effects. The net financing requirement, derived as the combined current and capital account balance using the bottom-up approach, amounted to EUR 1,016 million, and it was EUR 1,278 million seasonally adjusted. That was equal to 4.9% of GDP (see Chart 1).²

Chart 1



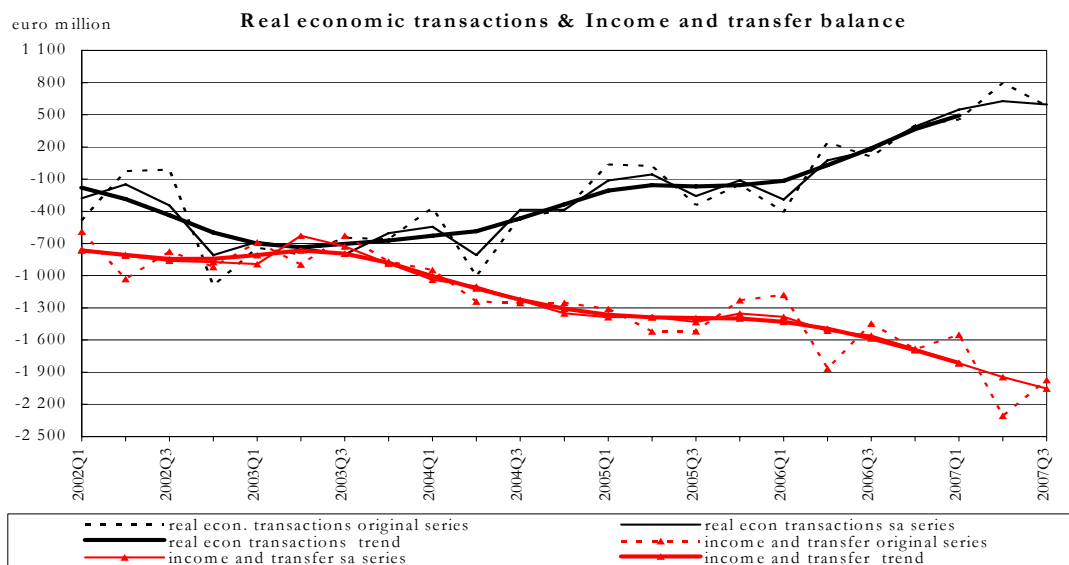
¹ In accordance with its revision policy, the CSO re-released revised 2007 goods data on 30 November.

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

Current account

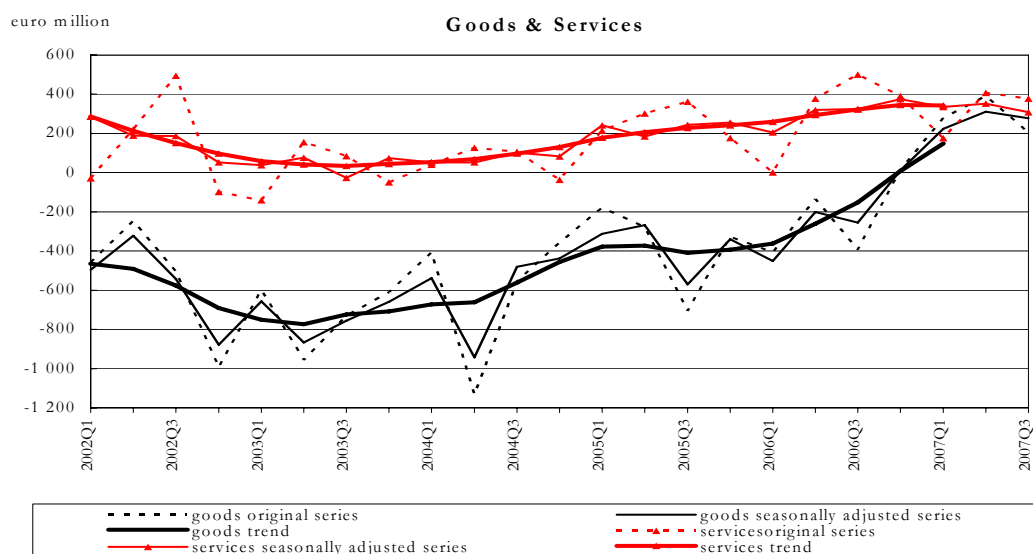
In 2007 Q3, the current account deficit amounted to EUR 1,390 million and EUR 1,336 million seasonally adjusted. The seasonally adjusted deficit barely changed relative to the previous quarter. Developments in the balance of real economic transactions and the income account were consistent with earlier trends (see Chart 2).

Chart 2



Within real economic developments, trade in goods continued to be in surplus, at EUR 277 million seasonally adjusted and at EUR 204 million not seasonally adjusted. According to the seasonally adjusted data, the surplus on services³ amounted to EUR 308 million and EUR 377 million not seasonally adjusted (see Chart 3).

Chart 3

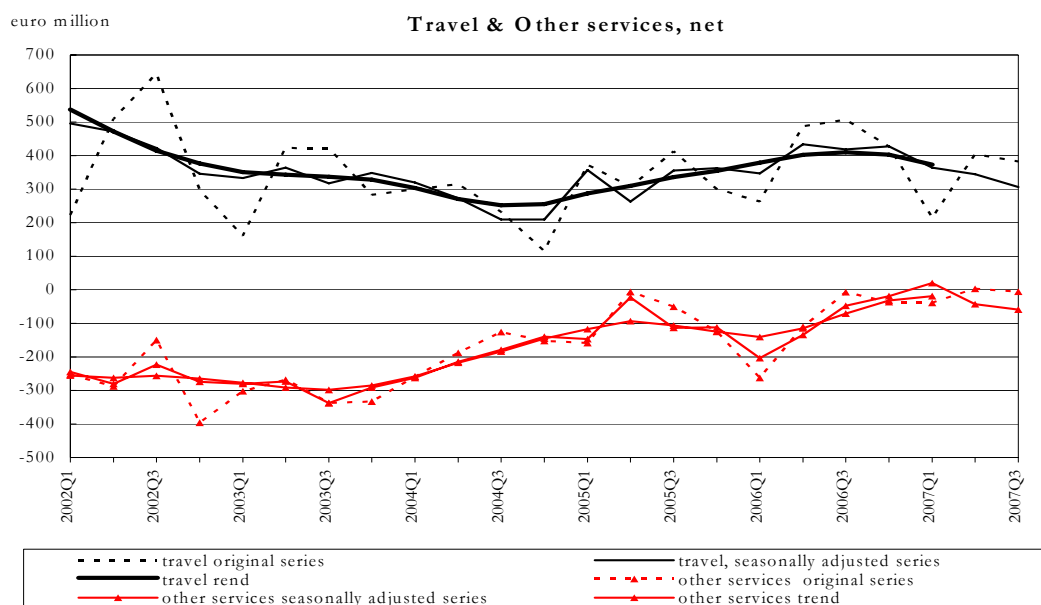


³ The balance of payments contains the accurate trade in services data corrected by the CSO. The CSO's press release of 18 December on the data correction is available by clicking on the link below (available only in Hungarian): <http://portal.ksh.hu/pls/portal/url/ITEM/417B75FB30591C83E04400306E4816D2>.

Exports and imports of goods and services both rose evenly in the period under review.

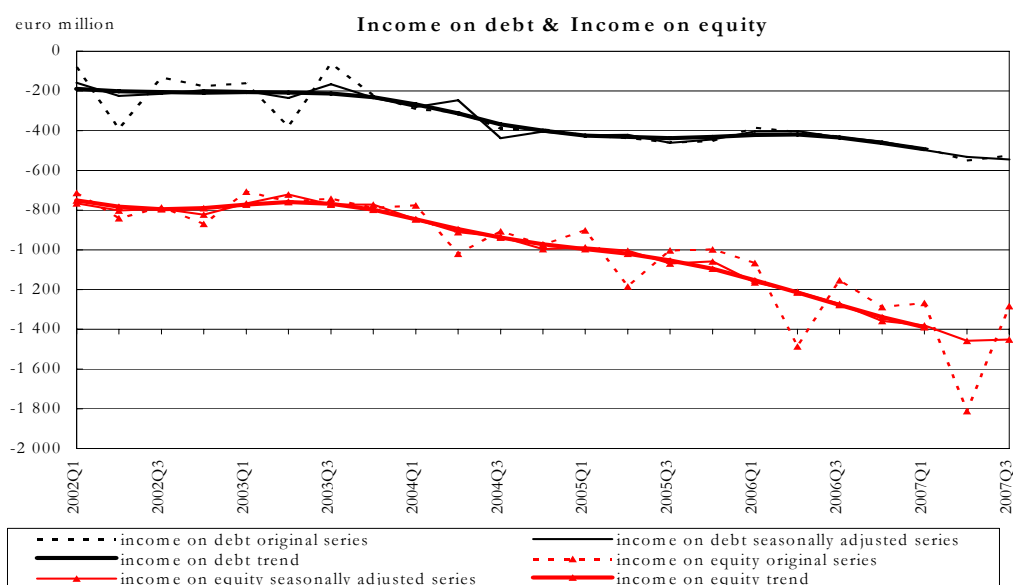
Within services, the seasonally adjusted travel surplus was EUR 306 million. That was nearly EUR 40 million lower than in the previous quarter. Other services registered a seasonally adjusted EUR 59 million deficit in Q3 (see Chart 4).

Chart 4



Of the components of the balance on the income and transfer accounts, developments in income on debt (interest) and income on equity (dividends) were dominant (see Chart 5). In 2007 Q3, the seasonally adjusted deficit on income on debt amounted to EUR 544 million, and negative income on equity was EUR 1,451 million. The deficits on income on equity and income on debt rose, as a consequence of (i) the continued rise in reinvested earnings and (ii) increasing interest expense.

Chart 5



The surplus on current transfers amounted to EUR 198 million in 2007 Q3.

Looking at fourth-quarter transactions with the European Union,⁴ the balance of current transfers showed a EUR 176 million deficit, and the amount of transactions recorded as capital transfers showed a EUR 636 million surplus. The balance of capital transfers to and from EU institutions recorded a EUR 460 million surplus in the period.

Financing

Inward and outward non-debt capital transactions showed a net outflow of EUR 475 million in 2007 Q3. The value of outward direct investment transactions in equity capital by Hungarian residents amounted to EUR 152 million and reinvested earnings amounted to EUR 291 million. Inward transactions by non-residents amounted to EUR 738 billion million and reinvested earnings amounted to EUR 1,587 million. Portfolio investment transactions in equity securities showed a net outflow of EUR 2,357 million in the quarter under review. Here, purchases of shares abroad by Hungarian residents amounted to EUR 672 million and sales of Hungarian shares by non-residents amounted to 1,686 million. The greater part of the latter was related to purchases by MOL of its own shares.

The balance of debt generating financing was EUR 1,020 million in Q3. Here, other FDI – included in foreign direct investment flows – related to direct investment by Hungarian residents abroad showed an outflow of EUR 66 million and other FDI related to direct investment by non-residents in Hungary showed an outflow of EUR 412 million.

Table 1
Direct investments abroad and in Hungary⁵

	2005					2006					2007		
	Q1	Q2	Q3	Q4	Q1-Q4	Q1	Q2	Q3	Q4	Q1-Q4	Q1	Q2	Q3
Abroad*	-469	-1 343	39	-4	-1 777	-576	-277	-278	-1 782	-2 913	-565	-793	-509
Equity capital	-478	-1 239	-61	-60	-1 837	-143	-192	-207	-1 375	-1 917	-346	-663	-152
Reinvested earnings	-63	82	-6	-109	-96	-193	-27	-227	-241	-688	-240	-60	-291
Other capital	72	-186	106	164	156	-241	-58	156	-166	-309	21	-70	-66
In Hungary	1 064	1 896	758	2 454	6 172	2 274	522	1 550	1 334	5 680	733	-818	1 913
Equity capital	305	888	340	2 433	3 966	894	243	688	-490	1 335	383	-1 345	738
Reinvested earnings	531	-831	1 104	1 114	1 918	533	-1 639	1 392	1 545	1 830	647	-1 674	1 587
Other capital	227	1 839	-686	-1 093	288	848	1 918	-530	279	2 516	-297	2 201	-412

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 Reinvested earnings are the difference between after-tax profit and declared dividends. For 2006, 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 2007, however, 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 6

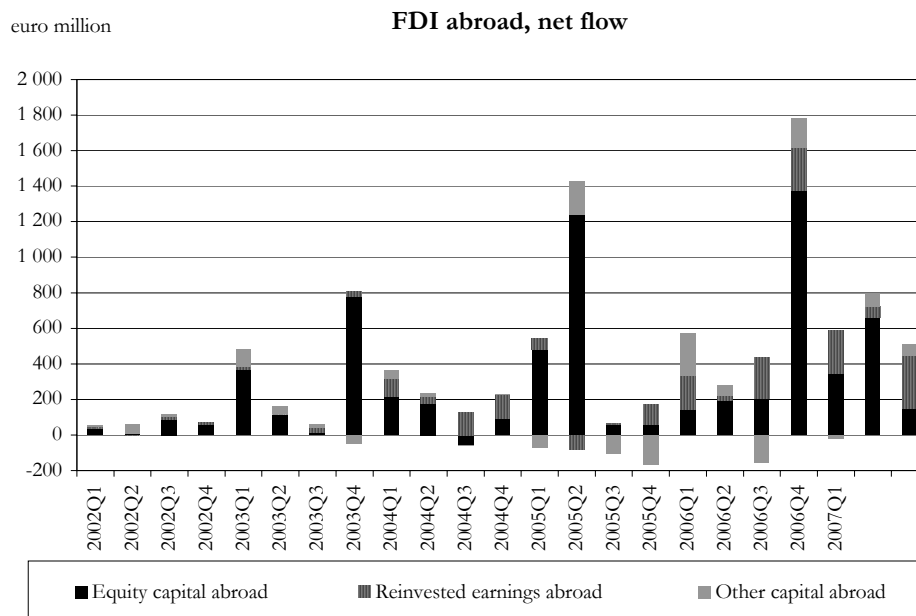
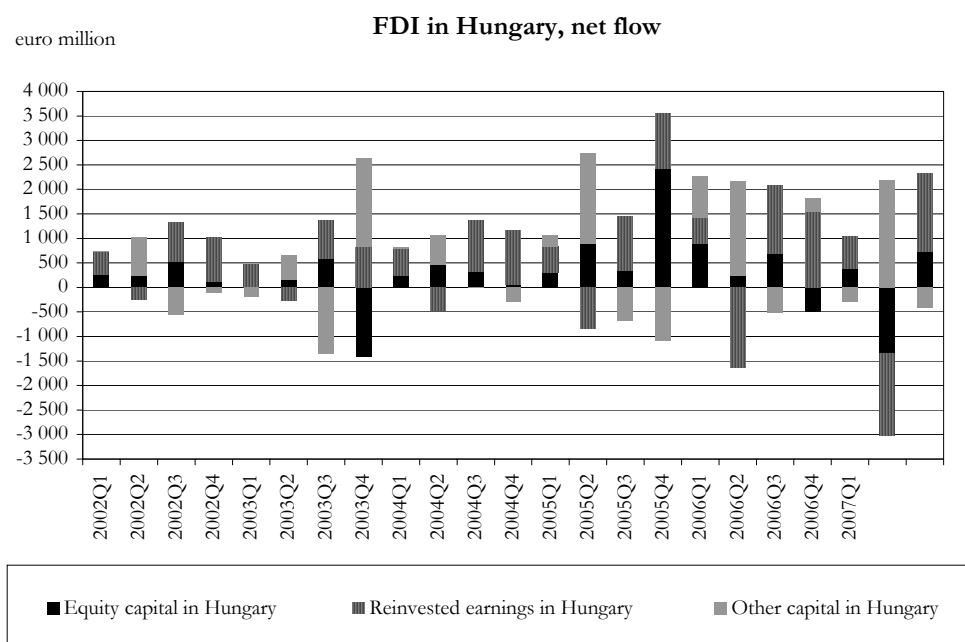


Chart 7



Reserves and debt

Central bank foreign exchange reserves amounted to EUR 16.5 billion at end-September 2007. Whole-economy gross foreign debt was EUR 1.5 billion higher than at the end of 2007 Q2. Gross foreign debt, including other investment capital recorded within direct investment, rose by EUR 0.5 billion in the period. Hungary's net foreign debt rose by EUR 1.5 billion, and by EUR 0.9 billion including other FDI capital recorded within direct investment. Non-residents' holdings of forint-denominated government securities amounted to EUR 12.7 billion at the end of Q3, up EUR 0.2 billion on the end of 2007 Q2.

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

euro billion

	2006	2007		
		Q1	Q2	Q3
III. Gross foreign debt, Total Economy (S.1) /1	68.4	72.6	77.6	79.1
II. Net foreign debt, Total Economy (S.1) /1	31.0	33.2	37.1	38.6
I. Gross foreign debt, Total Economy (S.1) (A+B) /2	84.7	89.1	96.2	96.7
A: General government and Central bank (S.13+S.121)	31.1	33.0	33.9	33.9
A.1. o/w.:debt denominated in HUF /3	12.8	13.7	14.4	14.5
B. Private sector (S.1-S.13-S.121)	53.7	56.1	62.3	62.9
II. Net foreign debt, Total Economy (S.1) (A+B) /2	39.1	41.1	47.0	47.9
A: General government and Central bank (S.13+S.121)	14.1	15.3	16.2	16.5
A.1. o/w.:debt denominated in HUF /3	12.7	13.5	14.3	14.3
B. Private sector (S.1-S.13-S.121)	25.1	25.8	30.9	31.4

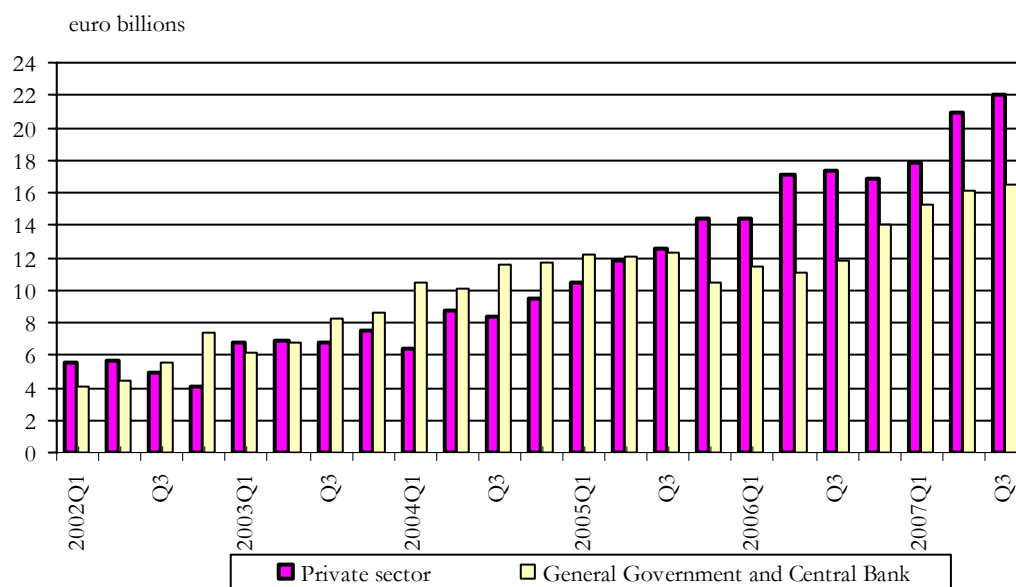
/ 1 Excluding other FDI capital recorded within direct investment.

/ 2 Including other FDI capital.

/ 3 Securities + other.

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

Chart 8
Net foreign debt of Hungary, 2002–2007*



* Excluding other FDI capital recorded within direct investment.

Whole-economy net debt was EUR 38.6 billion at end-September 2007 (39.2% of GDP). Including other investment capital recorded within direct investment, Hungary's net foreign debt amounted to EUR 47.9 billion (48.7% of GDP). At the end of 2007 Q3, the net debt of general government and the MNB was EUR 0.3 billion higher than at the previous quarter's end.

Summary tables

Table 3
Balance of payments, Hungary

euro million

	2006					2007			
	Q1	Q2	Q3	Q4	Q1-4	Q1	Q2	Q3	Q1-3
1. Goods, net	-407	-134	-393	13	-921	279	390	204	873
1.1. Exports	13625	14429	14501	16525	59079	16300	16816	17022	50138
1.2. Imports	14032	14563	14894	16512	60001	16021	16426	16817	49265
2. Services and income, net	-1422	-1485	-1053	-1330	-5290	-1561	-1927	-1397	-4885
2.1. Services*, net	1	377	500	391	1268	175	407	377	960
2.1.1. Exports	2156	2560	2889	2944	10549	2488	2966	3435	8889
2.1.2. Imports	2155	2183	2389	2554	9281	2312	2559	3058	7929
2.2. Income, net	-1423	-1862	-1553	-1720	-6558	-1736	-2334	-1774	-5844
2.2.1. Income on debt, net	-385	-406	-429	-461	-1682	-488	-550	-525	-1563
2.2.2. Income on equity, net	-1067	-1486	-1153	-1288	-4993	-1268	-1812	-1283	-4363
2.2.3. Compensation of employees, net	29	30	28	29	117	19	28	34	81
3. Current transfers	245	-6	106	32	377	184	27	-198	13
4. Current account balance	-1585	-1625	-1340	-1285	-5835	-1099	-1510	-1390	-3999
5. Capital account balance	114	35	209	318	675	54	32	601	687
6. Net external financing capacity (4+5)	-1471	-1590	-1131	-967	-5159	-1045	-1478	-790	-3312
7. Non debt creating financing, net	1229	-2357	1292	-274	-109	-203	-4204	-475	-4883
7.1. Abroad, net	-336	-219	-434	-1616	-2604	-587	-723	-443	-1753
7.1.1. Equity capital	-143	-192	-207	-1375	-1917	-347	-663	-152	-1162
7.1.2. Reinvested earnings	-193	-27	-227	-241	-688	-240	-60	-291	-591
7.2. In Hungary, net	1426	-1396	2080	1055	3164	1030	-3019	2325	336
7.2.1. Equity capital	894	243	688	-490	1335	383	-1345	738	-225
7.2.2. Reinvested earnings	533	-1639	1392	1545	1830	647	-1674	1587	561
7.3. Portfolio investment, equity securities, net	139	-741	-354	288	-668	-646	-463	-2357	-3467
*- o/w: Travel, net	263	487	507	427	1684	214	404	382	1001
credit	614	830	1104	824	3371	618	875	1159	2652
debit	351	343	597	397	1687	404	471	777	1651

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

Table 4
Balance of payments, Hungary (seasonally adjusted data) ^{a)}

euro million

	2005				2006				2007		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
1. Goods, net	-312	-269	-571	-341	-451	-202	-256	10	223	311	277
1.1. Exports	11643	12566	12875	12995	14042	14357	14900	15715	16792	16735	17492
1.2. Imports	11843	12764	13620	13349	14490	14398	15323	15752	16544	16240	17302
2. Services and income, net	-1144	-1233	-1240	-1226	-1320	-1280	-1351	-1382	-1542	-1625	-1675
2.1. Services	241	185	243	256	205	320	325	374	334	351	308
2.1.1. Travel, net	357	263	355	363	347	434	418	427	364	345	306
credit	1009	809	831	777	790	845	850	903	826	844	833
debit	534	554	434	389	422	366	443	460	489	508	573
2.1.2. Other services, net	-147	-23	-113	-112	-204	-135	-48	-19	20	-43	-59
credit	1552	1704	1860	1850	1623	1743	1817	1973	1968	2106	2317
debit	1716	1764	1979	1899	1820	1886	1841	1849	1992	2131	2311
2.2. Income, net	-1385	-1418	-1483	-1482	-1525	-1600	-1676	-1757	-1876	-1976	-1983
2.2.1. Income on debt, net	-422	-420	-460	-443	-404	-402	-433	-454	-497	-531	-544
2.2.2. Income on equity, net	-987	-1004	-1069	-1059	-1164	-1212	-1273	-1358	-1380	-1458	-1451
2.2.3. Compensation of employees, net	26	26	26	26	31	29	27	28	25	28	30
3. Current transfers	-8	77	-82	190	245	-6	106	32	184	27	-198
4. Current account balance	-1531	-1392	-1733	-1446	-1659	-1508	-1297	-1387	-1232	-1349	-1336
5. Capital account	180	203	99	202	146	105	193	208	98	96	591
6. Net external financing capacity	-1373	-1291	-1489	-1363	-1441	-1355	-1213	-1160	-1088	-1102	-1019

The MNB will release data on Hungary's balance of payments and international investment position for 2007 Q4, as well as revised data for 2007 Q2–Q3 on 29 March 2008. Simultaneously with this, the Bank will also release direct investment data in a breakdown by country and industry, derived from corporate questionnaires for 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 ($Y_t = 1/9 \cdot X_{t-2} + 2/9 \cdot X_{t-1} + 3/9 \cdot X_t + 2/9 \cdot X_{t+1} + 1/9 \cdot X_{t+2}$), instead of the trend calculated by the programme.

The sub-balance outcomes are directly seasonally adjusted. This means that the sub-accounts, derived from the not adjusted data, are directly seasonally adjusted. Consequently, the seasonally adjusted current account balance outcome cannot 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