

30 June 2008

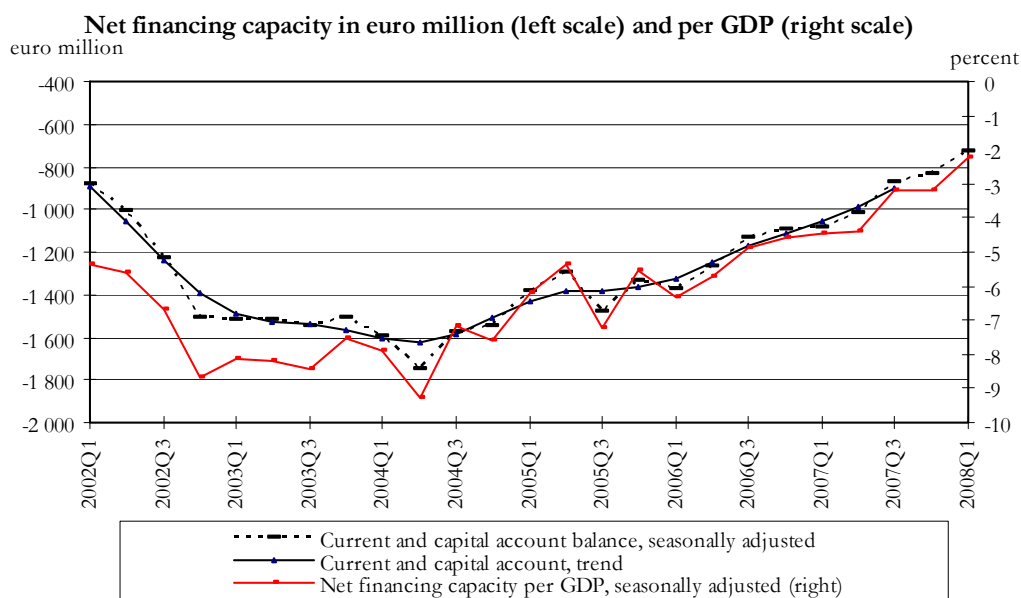
PRESS RELEASE

Hungary's balance of payments: 2008 Q1

2008 Q1 balance of payments data are published from a data collection system based on direct corporate questionnaires introduced on 1 January 2008. Appendix 1 of this press release contains information on the transition to the new data collection system. Simultaneously with the launch of the new regime, the MNB has made a number of methodological changes, in order to meet international statistical standards. Appendix 2 summarises the effect of those changes on the published data.

According to quarterly data, in 2008 Q1 Hungary's net external financing requirement (i.e. the balance on its combined current and capital accounts), fell compared with the previous quarter. Its value was EUR 367 million (HUF 92 billion in domestic currency terms) and EUR 729 million, or 2.2% 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 1,375 million (equal to HUF 353 billion).

Chart 1

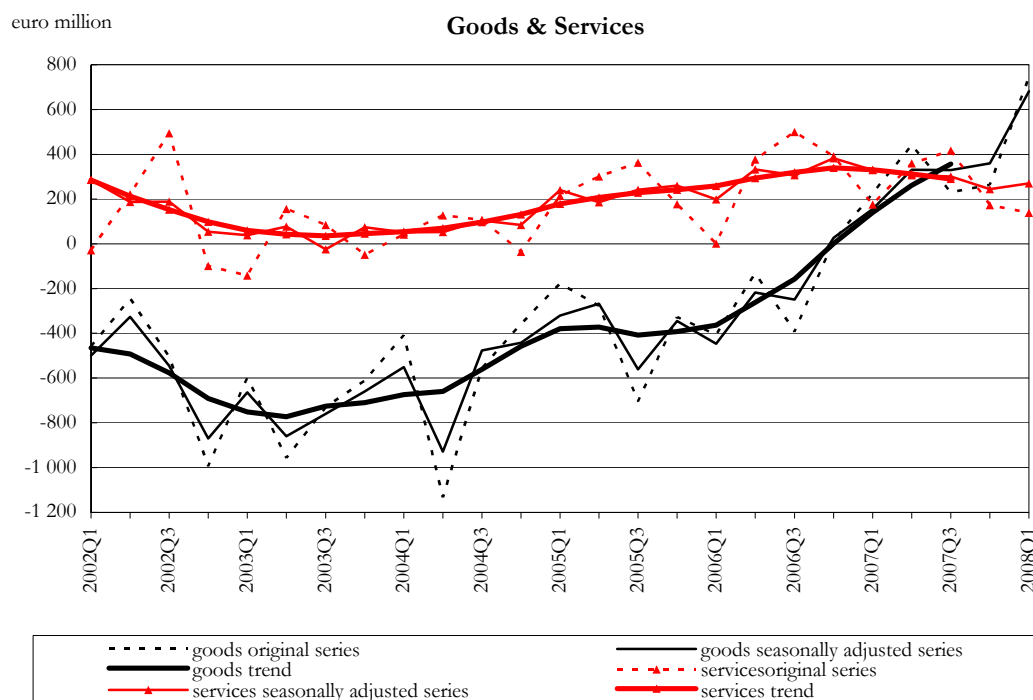


Current account

In 2008 Q1, the current account deficit amounted to EUR 1,160 million and EUR 1,274 million seasonally adjusted. The seasonally adjusted deficit continued to fall compared with the previous quarter. Improvements in the combined balance on the income and transfer accounts accounted for most of this fall, which, in turn, were explained mainly by the increase in funds from the EU.

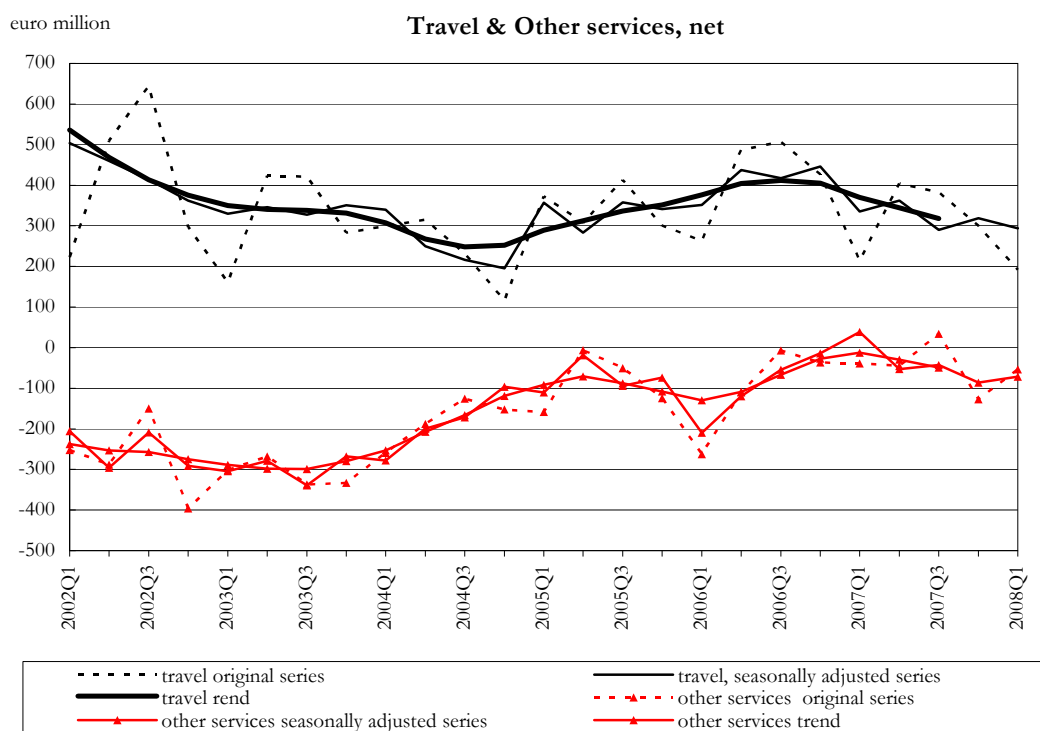
Within real economic developments, trade in goods continued to be in surplus, at EUR 681 million seasonally adjusted and at EUR 744 million not seasonally adjusted. The surplus on services amounted to EUR 269 million, seasonally adjusted, and EUR 139 million, not seasonally adjusted (Chart 2). Compared with the previous quarter, the trade balance improved and the surplus on services increased in Q1, according to the seasonally adjusted data.

Chart 2



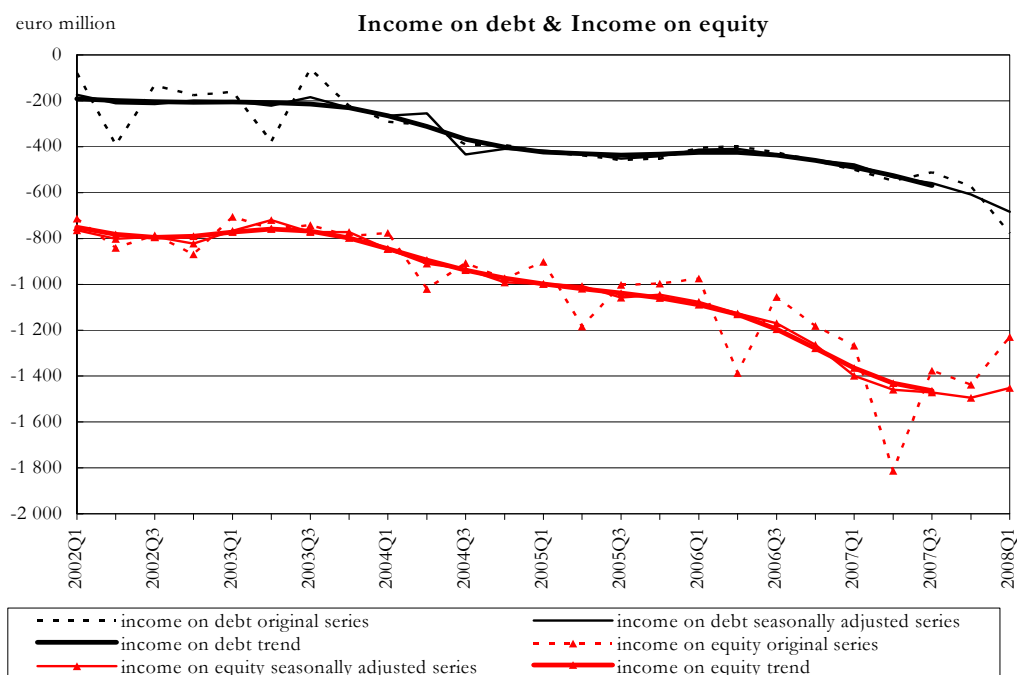
Within services, the seasonally adjusted travel surplus amounted to EUR 294 million in 2008 Q1. In contrast, other services registered a seasonally adjusted EUR 71 million deficit in the period (Chart 3).

Chart 3



Of the components of the balance on the income and transfer accounts, the seasonally adjusted deficit on income on debt amounted to EUR 684 million, and negative income on equity was EUR 1,452 million (Chart 4). The deficit on income on debt continued to rise, while the deficit income on equity fell slightly compared with 2007 Q4. A significant surplus was registered on compensation of employees, due to recording data in accordance with the new methodology.

Chart 4



The deficit on current transfers amounted to EUR 273 million in 2008 Q1. This was accounted for by a methodological change, according to which current transfers by households, taxes paid on labour income earned abroad and transfers by migrants have been recorded under this position since 2008.

Looking at fourth-quarter transactions with the European Union,¹ the balance of current transfers showed a EUR 52 million deficit, and the amount of transactions recorded as capital transfers showed a EUR 795 million surplus. The balance of capital transfers to and from EU institutions was in a EUR 743 million surplus in the period.

Financing

Inward and outward non-debt capital transactions showed a net inflow of EUR 1,699 million in 2008 Q1. The value of outward direct investment transactions in equity capital by Hungarian residents amounted to EUR 84 million and reinvested earnings amounted to EUR 342 million. Inward transactions by non-residents amounted to EUR 292 billion million and reinvested earnings amounted to EUR 1,366 million. Portfolio investment transactions in equity securities showed a net inflow of EUR 468 million in the quarter under review. Here, purchases of shares abroad by Hungarian residents amounted to EUR 521 million (outflow) and purchases of Hungarian shares by non-residents amounted to EUR 989 million (inflow).

The balance of debt generating financing was EUR -324 million in 2008 Q1. Here, other FDI – included in foreign direct investment flows – related to direct investment by Hungarian residents abroad showed an inflow of EUR 82 million and other FDI related to direct investment by non-residents in Hungary showed an outflow of EUR 864 million.

Table 1
Foreign direct investment flows²

	2006					2007					2008
	Q1	Q2	Q3	Q4	Q1-Q4	Q1	Q2	Q3	Q4	Q1-Q4	Q1
Abroad*	-579	-279	-280	-1,785	-2,923	-567	-792	-520	-1,126	-3,004	-344
Equity capital	-143	-192	-207	-1,375	-1,917	-347	-661	-152	-642	-1,801	-84
Reinvested earnings	-195	-30	-229	-243	-697	-234	-34	-301	-300	-869	-342
Other capital	-241	-58	156	-166	-309	14	-97	-67	-184	-334	82
In Hungary	2,332	411	1,460	1,225	5,428	719	-205	1,776	1,761	4,051	793
Equity capital	894	243	688	-490	1,335	383	-719	502	701	867	292
Reinvested earnings	447	-1,719	1,297	1,440	1,465	709	-1,424	1,691	1,764	2,739	1,366
Other capital	991	1,887	-525	275	2,628	-372	1,939	-418	-704	445	-864

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

¹ 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.

² 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 and 2008, 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. In the new data collection system, declared dividends are based on reported data. For this reason, within-year developments in reinvested earnings have changed from 2008. (Earlier, 20% of the annual dividends were estimated for the first quarter 80% for the second. In the new system, declared dividends are recorded in the month they are actually declared payable.)

Reserves and debt

Central bank foreign exchange reserves amounted to EUR 16.8 billion at end-March 2008.

The new data collection system has made it possible to record other capital movements within corporate groups under direct investment, in accordance with international methodological standards. Earlier, data only on parent companies were recorded. The methodological change has caused a break in the time series (Chart 5).

Whole-economy gross foreign debt was EUR 3.8 billion higher than the opening stock reported for 2008. Gross foreign debt, including other investment capital recorded within direct investment, rose by EUR 3.6 billion. Hungary's net foreign debt rose by EUR 1.0 billion, and by EUR 0.2 billion including other FDI capital recorded within direct investment. Non-residents' holdings of forint-denominated government securities amounted to EUR 11.7 billion at the end of Q1, down EUR 0.9 billion on the opening stock for 2008.

Table 2³
Stock of Foreign debt of Hungary as of end of period

	2007					Euro billion
	Q1	Q2	Q3	Q4	Q4 /4	Q1
III. Gross foreign debt, Total Economy (S.1) /1	72.6	77.6	79.2	81.3	82.0	85.9
A: General government and Central bank (S.13+S.121)	33.0	33.9	33.8	34.2	34.0	33.1
A.1. o/w.:debt denominated in HUF /3	13.7	14.4	14.4	14.8	14.5	13.7
B. Private sector (S.1-S.13-S.121)	39.6	43.7	45.3	47.1	48.1	52.7
II. Net foreign debt, Total Economy (S.1) /1	33.3	37.1	39.3	40.7	46.8	47.8
A: General government and Central bank (S.13+S.121)	15.3	16.1	16.5	16.9	16.7	15.3
A.1. o/w.:debt denominated in HUF /3	13.5	14.2	14.3	14.7	14.4	13.6
B. Private sector (S.1-S.13-S.121)	18.0	21.0	22.8	23.8	30.2	32.5
I. Gross foreign debt, Total Economy (S.1) (A+B) /2	87.6	94.4	95.7	100.2	101.5	105.0
A: General government and Central bank (S.13+S.121)	33.0	33.9	33.8	34.2	34.0	33.1
A.1. o/w.:debt denominated in HUF /3	13.7	14.4	14.4	14.8	14.5	13.7
B. Private sector (S.1-S.13-S.121)	54.6	60.5	61.9	65.9	67.5	71.9
II. Net foreign debt, Total Economy (S.1) (A+B) /2	39.8	45.4	47.1	47.5	48.8	49.0
A: General government and Central bank (S.13+S.121)	15.3	16.1	16.5	16.9	16.7	15.3
A.1. o/w.:debt denominated in HUF /3	13.5	14.2	14.3	14.7	14.4	13.6
B. Private sector (S.1-S.13-S.121)	24.5	29.2	30.5	30.6	32.2	33.7

/ 1 Excluding other FDI capital recorded within direct investment.

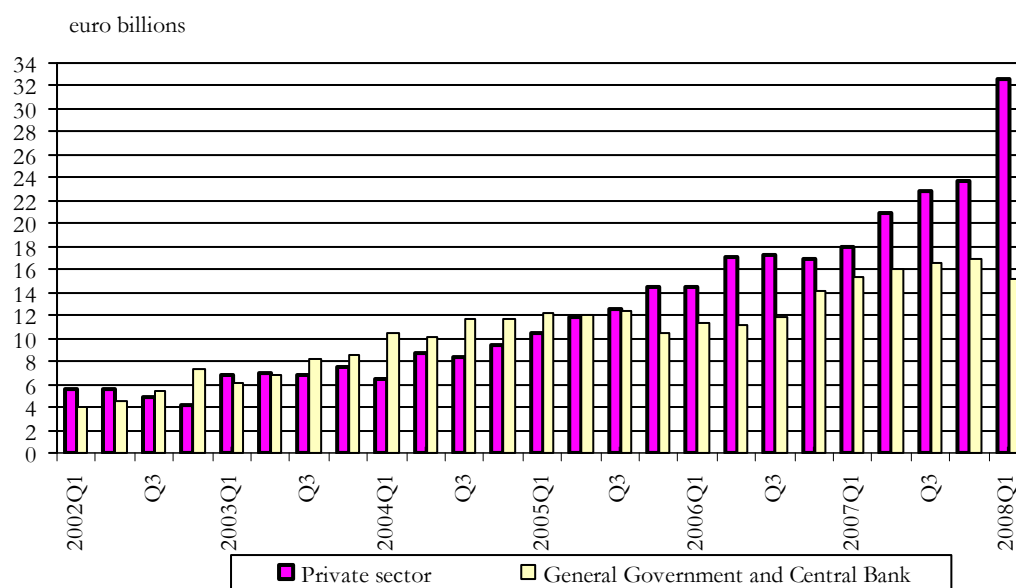
/ 2 Including other FDI capital.

/ 3 Securities + other.

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

³ Appendix 3 contains a detailed description of the changes in stocks due to the new methodology.

Chart 5
Net foreign debt of Hungary, 2003–2008*



* Excluding other FDI capital recorded within direct investment.

Whole-economy net debt, excluding other capital recorded within direct investment, was EUR 47.8 billion at end-March 2008 (46.8% of Hungarian GDP). Including other investment capital recorded within direct investment, Hungary's net foreign debt amounted to EUR 49.0 billion (48.0% of GDP). Compared with the opening stock calculated using the new methodology, the net debt of general government and the MNB was EUR 1.3 billion lower at the end of 2008 Q1.

Summary tables

Table 3
Balance of Payments, Hungary

Euro million

	2007					2008
	Q1	Q2	Q3	Q4	Q1-Q4	Q1
1. Real economic transaction, net	454	800	733	567	2,555	882
<i>Export</i>	18,788	19,894	20,698	21,486	80,866	21,075
<i>Import</i>	18,334	19,094	19,965	20,919	78,311	20,192
1.1. Goods, net	279	441	317	395	1,431	744
1.1.1. <i>Export</i>	16,300	16,926	17,202	18,246	68,675	18,412
1.1.2. <i>Import</i>	16,021	16,485	16,885	17,852	67,243	17,668
1.2.. Services*, net	175	359	416	173	1,123	139
1.2.1. <i>Export</i>	2,488	2,968	3,496	3,240	12,192	2,663
1.2.2. <i>Import</i>	2,312	2,609	3,080	3,067	11,068	2,524
2. Income and current transfers, net	-1,566	-2,315	-2,050	-1,661	-7,591	-2,043
2.1.. Income, net	-1,749	-2,332	-1,855	-1,975	-7,911	-1,770
2.2.1. <i>Income on debt, net</i>	-501	-548	-512	-573	-2,135	-776
2.2.2. <i>Income on equity, net</i>	-1,268	-1,812	-1,376	-1,437	-5,893	-1,230
2.2.3. <i>Compensation of employees, net</i>	19	28	34	35	116	236
2.2.. Current transfers, net	184	17	-195	314	320	-273
3. Current account balance, net	-1111	-1515	-1316	-1094	-5036	-1160
4. Financial account, net	54	32	601	348	1,035	793
5. Non debt creating financing, net	-136	-3,916	-953	589	-4,416	1,699
5.1. <i>Abroad, net</i>	-581	-695	-453	-942	-2,670	-426
5.1.1. <i>Equity capital</i>	-347	-661	-152	-642	-1,801	-84
5.1.2. <i>Reinvested earnings</i>	-234	-34	-301	-300	-869	-342
5.2. <i>In Hungary, net</i>	1,091	-2,143	2,193	2,465	3,606	1,657
5.2.1. <i>Equity capital</i>	383	-719	502	701	867	292
5.2.2. <i>Reinvested earnings</i>	709	-1,424	1,691	1,764	2,739	1,366
5.3. <i>Portfolio investment, equity securities, net</i>	-646	-1,078	-2,693	-934	-5,352	468
6. Net external financing capacity						
6.1. <i>Net external financing capacity (CA and Capital account)</i>	-1,058	-1,483	-715	-746	-4,001	-367
6.2. <i>Financial account balance (Financial account balance and reserves)</i>	1,946	2,057	1,114	1,351	6,468	1,375
*. o/w: Travel, net	214	404	382	300	1,301	192
<i>credit</i>	618	875	1,159	798	3,450	682
<i>debit</i>	404	471	777	498	2,149	490

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

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

euro million

	2006				2007				2008
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
1. Goods, net	-446	-217	-250	26	155	331	330	360	681
1.1. <i>Exports</i>	13997	14299	14866	15866	16723	16773	17630	17540	18883
1.2. <i>Imports</i>	14500	14416	15186	15878	16584	16335	17297	17307	18220
2. Services and income, net	-1290	-1178	-1235	-1208	-1652	-1697	-1671	-1718	-1709
2.1. <i>Services</i>	198	333	307	382	330	306	302	243	269
2.1.1. <i>Travel, net</i>	352	437	418	446	335	362	290	319	294
<i>credit</i>	794	836	883	939	863	884	882	899	874
<i>debit</i>	418	360	438	454	481	501	565	569	584
2.1.2. <i>Other services, net</i>	-210	-120	-55	-14	39	-53	-43	-86	-71
<i>credit</i>	1693	1781	1765	1898	2080	2161	2293	2166	1617
<i>debit</i>	1853	1889	1839	1957	1916	2195	2419	2353	1536
2.2. <i>Income, net</i>	-1488	-1511	-1542	-1590	-1982	-2003	-1973	-1961	-1978
2.2.1. <i>Income on debt, net</i>	-414	-409	-434	-458	-477	-533	-559	-608	-684
2.2.2. <i>Income on equity, net</i>	-1076	-1126	-1170	-1263	-1398	-1460	-1471	-1495	-1452
2.2.3. <i>Compensation of employees, net</i>	31	29	28	28	25	28	31	31	241
3. Current transfers	245	-6	106	32	184	17	-195	314	-273
4. Current account balance	-1572	-1422	-1212	-1310	-1242	-1347	-1351	-1300	-1274
5. Capital account	152	120	186	169	129	143	584	198	840
6. Net external financing capacity	-1371	-1266	-1130	-1094	-1088	-1016	-876	-834	-729

Appendix 1

Information on the BoP data collection system based on direct reports, launched in January 2008

Beginning from 1 January 2008, Hungary's balance of payments has been compiled from a new data collection system based on direct reports by economic agents, after a long period of preparation by the Magyar Nemzeti Bank and the Central Statistical Office (CSO).

Changes in the European regulatory environment and the continuous increase in data needs were the underlying reasons for developing a new data collection system.⁴

In recent years, Member States of the European Union have made continued efforts to overhaul their systems for collecting balance of payments data. Today, 11 countries collect data based on questionnaires, and other Member States will also develop their own direct data reporting systems in the near future.

The MNB has been using data collected from direct reports to the CSO to compile data for the real economic components of the current account. The CSO has been the source of data on goods since 2003, on business services and travel since 2004, and on other services since 2005. From 2008, the source of data on compensation of employees, EU transfers, as well as government and household transfers has been the CSO's database.

Prior to 2008, the compilation of financial and capital account data in the balance of payments mainly relied on the use of transaction codes for funds transfers based on reports by credit institutions. In the new regime the MNB obtains the necessary information directly from reporting agents. With the launch of the new data collection system in January 2008, indirect data provision based on cash accounting was terminated.

From 2008, balance of payments data on portfolio investment and portfolio investment income have been taken from the MNB's statistics on securities holdings.

The compilation of financial and capital account data is based on monthly reports by some 700 large companies and other economic agents and on quarterly or annual reports by another 2800 small and medium-sized enterprises. In the new system, reports from data providers in a closed system serve as the source of BoP statistics.

The introduction of the new system helped to reduce social costs associated with the compilation of statistics and to avoid parallel activities within the national statistical services.

Appendix 2

The impact of transition to a new data collection system and of changes in methodology (refer to Annex 4 for a description of the applied methodology)

1. *Goods*: Nothing of substance has changed as far as data sources and compilation procedures are concerned, meaning that the MNB will continue to rely on the data compiled by CSO and published in the Intrastat/Extrastat system regarding turnover in the foreign trade of goods for the purposes of balance of payments statistics. A minor change, however, is that fuels in the storage tanks of vehicles, aka bunker fuels, are no longer shown under financial transactions, instead they are now applied on the basis of service - foreign trade surveys.

2. *Services*: Nothing of substance has changed as far as data sources and compilation procedures are concerned, for the MNB continues to obtain the relevant data from CSO. The main source of service-related data are direct corporate questionnaires, cross-border surveys, and administrative data. A minor change, however, is that information relating external manufacturing are also obtained from direct corporate questionnaires.

3. *Income*

3.1. *Compensation of employees*: As for the incomes of employees, the procedure of monitoring transactions is now replaced by estimates made on the basis of CSO administrative resources for the purposes of balance

⁴ Detailed information on the new data collection system (questionnaires, legal background, the criteria of selecting agents required to provide data, etc.) are available on the MNB's website at <http://english.fma.mnb.hu/>

of payments statistics. This covers the gross earnings of employees in its entirety. In this context, taxes and contributions paid and received in connection with wages are also shown under current transfers.

3.2 *Direct investment income*: The new system contains facilities to isolate the incomes which are not closely related to normal business operations. The time of appropriation of dividends is adjusted to the time when it is approved, as oppose to previously, when it was merely estimated in the course of the year. Therefore, the spread of dividend payments and, consequently, the spread of reinvested income has changed. As for interest income, accrual-based interests are accounted on the basis of data disclosed by the corporate sector, as opposed to the previous system where it was estimated for statistical purposes.

3.3. *Portfolio investment income*: The securities statistics of MNB and data obtained directly from the corporate sector provide a new source of data for accrual-based interest in the new system.

3.4. *Other investment income*: As far as interest income is concerned, accrual-based interest is applied relying on the information received from data suppliers relating to interests payable or due for the reference period, as opposed to the previous system where it was estimated for statistical purposes.

4. *Current transfers*: The new system uses, furthermore, the CSO's data relating to one-way transfers made by the central government and by the households (e.g. repatriation contributions and pensions received or paid on employment income, and transfers made by employees employed for over one year). The CSO's service - foreign trade survey is also applied in connection with settlement payments paid by resident insurance companies to non-resident entities, or received by resident clients from abroad, as well as the part of insurance premiums to which no service is attached. As for the other sectors, data received directly from the source are applied for the purposes of balance of payments statistics.

5. *Capital transfers*: Source of data in the new system is the CSO, and data received directly from the source.

6. *Non-produced, non-financial assets*: Source of data: data received directly from the source.

7. *Direct investment*: The new data collection system from sources in the corporate sector is designed to monitor the movement of capital within a corporate group and hence to pay more attention to indirect ownership. The new system – outside of direct holdings of 10% or more – covers the ownership chain only to the extent of the relations with group members with indirect majority holdings.

Within a corporate group, claims and liabilities relating to commercial credits and loans are shown under other capital market driven transactions. Consequently, the level of claims and liabilities is higher than before in the other capital row of direct investment, and it drops by the same measure under other investment as appropriate.

As regards the transactions not shown under other capital market driven transactions, we will have any information upon receipt of the questionnaires completed for the year 2007, scheduled to be published in September 2008, the figures published in June reflect the turnover data reported previously plus changes in holdings.

8. *Portfolio investment*: The new system relies first and foremost on the MNB's securities statistics, containing information relating to securities of Hungarian issue held by non-resident persons and foreign securities held by residents, separately for each type of securities, relying on the disclosures of Hungarian custodians and the results of corporate questionnaires. Transactions are computed from changes in holdings, with the impacts of changes in prices and exchange rates eliminated. The monitoring of bills of exchange and securities other than shares below 10% held by means other securities is accomplished through corporate questionnaires.

There is a slight difference between the closing stock of December 2007 of portfolio investment under shares and other equity and the opening stock of January 2008, for up to this point we included interest accrued on debt securities. As of 2008, these accounts will be published at market value. Furthermore, until 2007, accounts of securities issued by other sectors and by credit institution had to be calculated based on previous turnover data, due to the lack of disclosures. The aggregated data shown in forints have been revalued, consistent with changes in the BUX index.

As of 2008, the MNB has information available with respect to all sectors. The assessment of shares listed on the stock exchange is carried out at market value, whereas the evaluation of unlisted companies in the case of investments made by residents abroad is based on the foreign company's own capital, and the

evaluation of unlisted companies in the case of investments made by non-resident entities in Hungary is based on the Hungarian company's own capital. Accordingly, as far as other sectors are concerned, the holdings of households primarily in foreign shares and investment units exceeds the holdings shown previously.

9. *Financial derivatives*: Data has been gathered from the disclosures of economic operators relating to their own holdings and transactions. Previously, the MNB only had access to information relating to financial companies and the central government, whereas the new system covers a broader spectrum relying on data received directly from the source, therefore the level of claims and liabilities indicated is higher.

10. *Other investment*: As of 2008, the transactions relating to other investments are recorded according to the disclosures of data providers on the gross volume (growth and reduction) or net volume (balance) of their transactions. As the credits and loans of non-financial companies within the corporate group are shown under direct investment effective as of 2008, the level of assets and liabilities shown under other investments in the corporate and other sectors will be lower. At the same time, since 2008 this category contains the transactions of financial companies (credit institutions) and other financial intermediaries shown under other sectors and bodies engaged in auxiliary financial activities involving subordinated loan capital, has also been transferred to this row (that were previously shown under direct capital investments, other items). Another new category introduced in 2008 for disclosures is commercial credits and loans (data in connection with these instruments had previously been projected based on the differences between data disclosures on financial transactions and goods turnover data received from CSO), however, in the new system part of the latter is moved from other investments and now shown under direct investment (see the relevant note).

The difference between the closing inventory of December 2007 of the central government and the opening inventory of January of 2008 is the result of the addition of previously unknown claims, and the replacement of turnover data with disclosed information.

Appendix 3

Methodological notes to seasonal adjustment and the press release tables

Notes to the seasonal adjustment method

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 tables

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).

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.

Consistent with its method of releasing and revising statistical data, the MNB is publishing 2008 Q1 balance of payments data for the first time, together with revised data for 2007 Q3–Q4. From 2008, the balance of payments data have been compiled from the new statistical data collection system.

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.

The MNB will release data on Hungary's balance of payments and international investment position for 2008 Q2, as well as revised data for 2006 and annual 2007 data on 30 September 2008.

MAGYAR NEMZETI BANK
STATISTICS