

30 September 2008

PRESS RELEASE

Hungary's balance of payments: 2008 Q2

Consistent with its method of releasing and revising statistical data, on 30 September 2008 the MNB is publishing 2008 Q2 balance of payments data for the first time, together with revised data for 2008 Q1 as well as for 2006 and 2007.

Data derived from corporate questionnaires for direct investment in 2007 have now been incorporated into balance of payments data. Estimates for reinvested earnings, published in the statistics for 2007, have been replaced by preliminary data based on questionnaires. After-tax corporate profits for 2008 continue to be estimates until the receipt of corporate questionnaires to be submitted in June 2009.

On 30 September 2008, the CSO and the MNB have revised data for goods, services, compensation of employees and current transfers in the national accounts and the balance of payments back to 2004. More details of the extraordinary revision can be found at the end of this press release.

According to quarterly data, in 2008 Q2 Hungary's net external financing requirement (i.e. the balance on its combined current and capital accounts), rose compared with the previous quarter. Its value was EUR 1,712 million (HUF 424 billion in domestic currency terms) and EUR 1,192 million, or 4.4% of GDP, after adjusting for seasonal effects.

Chart 1

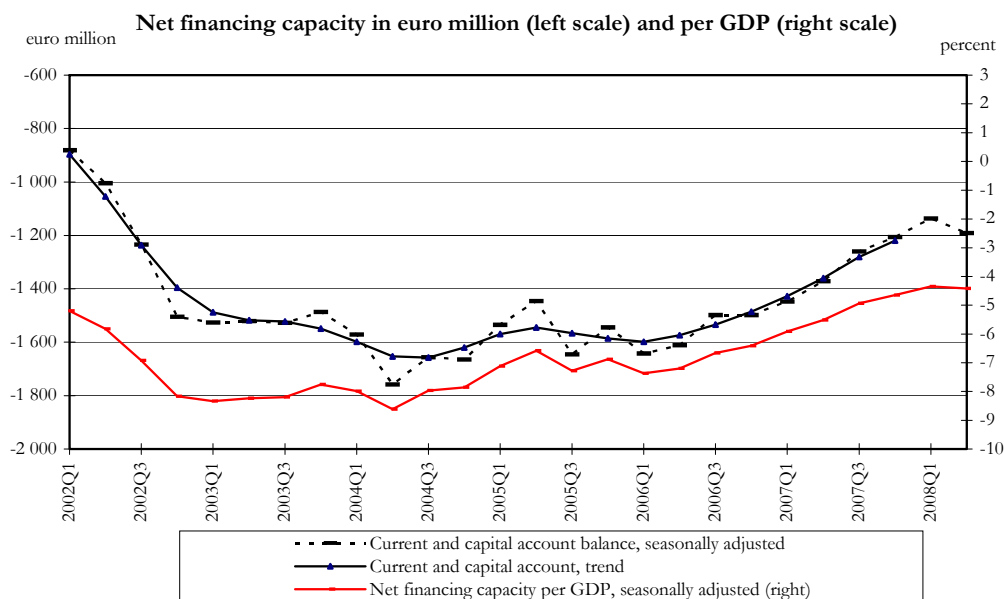


Table 1
Current account balance and net external financing capacity

Euro million

	2007					2008		
	Q1	Q2	Q3	Q4	Q1-Q4	Q1	Q2	Q1-Q2
1. Real economic transaction	154	428	449	338	1 370	448	588	1 036
Export	18 782	19 829	20 644	21 569	80 824	21 374	22 182	43 556
Import	18 627	19 400	20 196	21 231	79 454	20 926	21 594	42 520
1.1. Goods	-12	89	47	194	318	375	287	662
1.1.1. Export	16 183	16 803	17 080	18 313	68 379	18 601	18 896	37 497
1.1.2. Import	16 194	16 713	17 033	18 119	68 060	18 227	18 609	36 836
1.2. Services	166	339	402	144	1 051	73	301	374
1.2.1. Travel, net	214	404	382	300	1 301	192	347	538
export	618	875	1 159	798	3 450	682	988	1 670
import	404	471	777	498	2 149	490	641	1 131
1.2.2. Other services, net	-48	-65	20	-156	-249	-119	-46	-164
export	1 981	2 151	2 405	2 458	8 995	2 091	2 298	4 389
import	2 030	2 216	2 386	2 614	9 245	2 209	2 344	4 553
2. Income and current transfers	-1 596	-2 398	-2 128	-1 758	-7 880	-2 095	-2 426	-4 521
2.1.. Income	-1 627	-2 187	-1 726	-1 846	-7 386	-1 822	-2 092	-3 915
2.2.1. Income on debt	-500	-546	-512	-591	-2 149	-763	-784	-1 547
2.2.2. Income on equity	-1 352	-1 900	-1 463	-1 524	-6 240	-1 296	-1 597	-2 893
2.2.3. Compensation of employees	225	260	249	270	1 003	236	289	525
2.2.. Current transfers, net	32	-210	-403	87	-494	-273	-334	-606
3. Current account balance	-1441	-1969	-1680	-1420	-6510	-1647	-1838	-3485
4. Capital account	54	136	601	348	1 139	788	126	915
5. Non debt creating financing	-274	-4 037	-914	412	-4 813	1 567	-1 018	550
5.1. Abroad	-651	-731	-385	-873	-2 640	-364	501	137
5.1.1. Equity capital	-484	-765	-152	-641	-2 042	-86	-65	-151
5.1.2. Reinvested earnings	-166	35	-234	-233	-598	-278	566	288
5.2. In Hungary	1 060	-2 177	2 206	2 258	3 347	1 553	-396	1 157
5.2.1. Equity capital	347	-719	496	721	844	279	100	379
5.2.2. Reinvested earnings	713	-1 457	1 710	1 537	2 503	1 274	-496	779
5.3. Portfolio investment, equity securities	-683	-1 130	-2 734	-973	-5 520	379	-1 123	-744
6. Debt creating finance	2 222	6 275	2 180	1 102	11 779	452	3 566	4 017
6.1 Debt creating finance excluding FDI other capital	2 407	4 185	2 581	1 704	10 877	1 144	1 936	3 080
6.1.1 Assets	-753	165	1 243	261	916	-810	-267	-1 077
6.1.2 Liabilities	3 160	4 021	1 338	1 443	9 961	1 954	2 203	4 157
6.2 FDI other capital	-185	2 090	-401	-602	901	-692	1 629	937
6.2.1. Abroad	-36	16	49	-154	-124	62	106	168
6.2.1.1 Assets	-84	118	-16	-127	-109	7	36	43
6.2.1.2 Liabilities	48	-102	65	-27	-15	55	71	125
6.2.2 In Hungary	-149	2 073	-450	-448	1 026	-754	1 523	769
6.2.2.1 Assets	-240	125	-387	-3 076	-3 579	-774	47	-727
6.2.2.2 Liabilities	91	1 949	-63	2 628	4 605	20	1 476	1 496
7. Net external financing capacity								
7.1. Net external financing capacity (CA and Capital account)	-1 388	-1 833	-1 079	-1 072	-5 371	-859	-1 712	-2 570
7.2. Financial account balance (Financial account balance and reserves)	-1 948	-2 238	-1 266	-1 514	-6 966	-2 019	-2 548	-4 567
7.3. Difference (Net errors and omissions)	-561	-405	-188	-442	-1 595	-1 160	-837	-1 997

Table 2
Balance of payments and financing capacity items - seasonally adjusted data

euro million

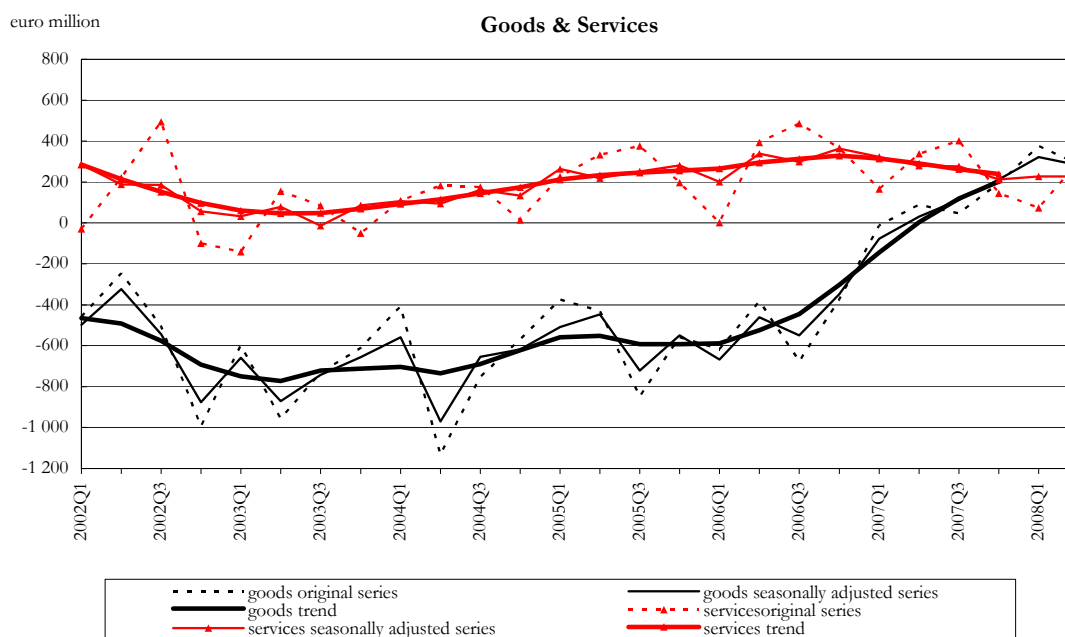
	2006				2007				2008
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
1. Real economic transactions, net (Goods and services)	-506	-170	-154	29	227	283	448	425	471
1.1. Export	16 073	16 679	17 451	18 230	19 175	19 782	20 575	21 208	21 986
1.2. Import	16 624	16 776	17 585	18 376	19 198	19 351	20 301	20 318	21 598
1.1. Goods, net	-668	-461	-550	-347	-76	32	112	213	321
1.1.1. Export	13 791	14 167	14 723	15 655	16 481	16 696	17 559	17 635	18 908
1.1.2. Import	14 300	14 506	15 260	15 952	16 550	16 603	17 268	17 395	18 627
1.2. Services, net	201	338	299	364	323	280	277	213	227
1.2.1. Travel, net	357	435	420	442	341	357	292	318	298
export	784	842	852	905	818	842	829	839	891
import	413	388	465	470	501	522	550	566	618
1.2.2. Other services, net	-201	-121	-67	-41	11	-106	-58	-122	-130
export	1 645	1 779	1 834	1 976	2 088	2 166	2 436	2 295	2 204
import	1 833	1 908	1 871	1 885	2 098	2 269	2 408	2 358	2 421
2. Income and current transfers, net	-1 353	-1 441	-1 495	-1 684	-1 837	-2 031	-2 076	-2 046	-2 145
2.1. Income, net	-1 302	-1 391	-1 408	-1 503	-1 649	-2 044	-1 791	-1 861	-1 894
2.1.1. Income on debt, net	-425	-420	-437	-457	-481	-523	-564	-621	-693
2.1.2. Income on equity, net	-1 124	-1 195	-1 185	-1 245	-1 479	-1 677	-1 566	-1 495	-1 432
2.1.3. Compensation of employees, net	226	229	226	231	241	246	256	257	260
2.2. Current transfers, net	6	-121	-21	-185	-65	-135	-244	-100	-291
3. Current account balance, net	-1 842	-1 699	-1 568	-1 751	-1 528	-1 735	-1 685	-1 584	-1 698
4. Capital account, net	141	44	181	182	130	206	587	234	843
6. Net external financing capacity	-1 643	-1 612	-1 499	-1 499	-1 448	-1 372	-1 261	-1 207	-1 137

External financing capacity

In 2008 Q2, the current account deficit amounted to EUR 1,617 million, seasonally adjusted. The seasonally adjusted deficit fell slightly compared with the previous quarter.

Within real economic developments, trade in goods was in a EUR 283 million surplus, seasonally adjusted. The seasonally adjusted surplus on services amounted to EUR 228 million (Chart 2). Compared with the previous quarter, the trade balance deteriorated and the surplus on services remained broadly unchanged in Q2.

Chart 2

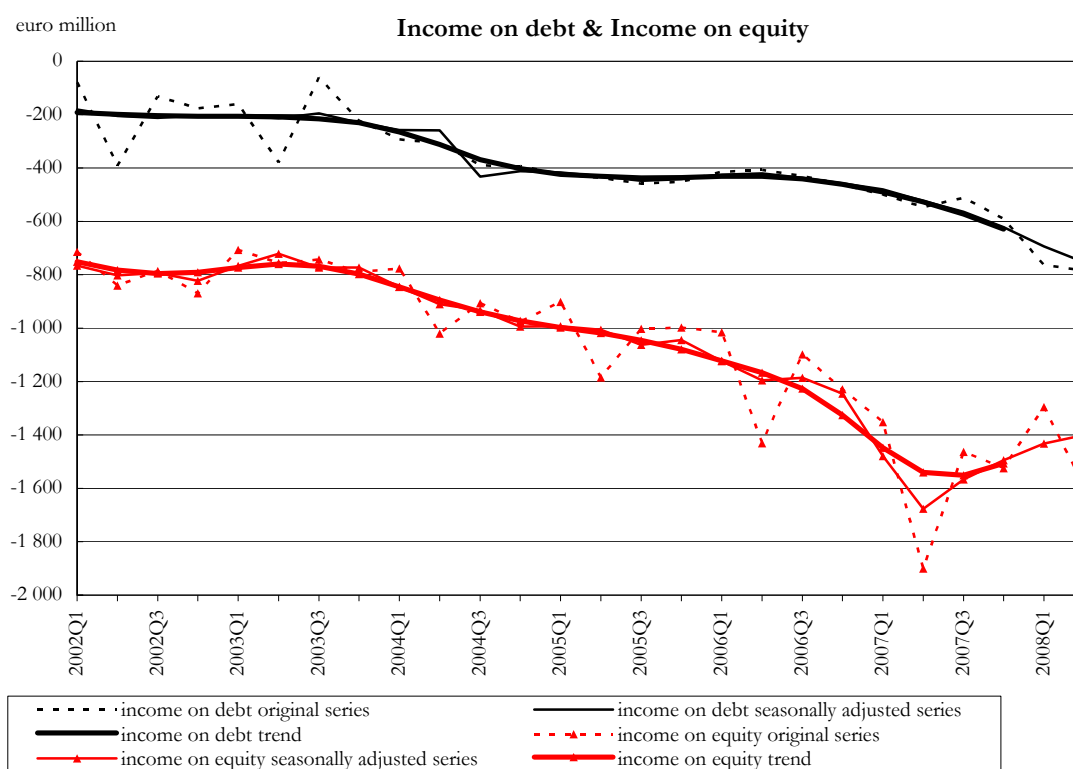


Within services, the seasonally adjusted travel surplus amounted to EUR 321 million in 2008 Q2. In contrast, other services registered a seasonally adjusted EUR 63 million deficit in the period (Chart 3). Within incomes, the seasonally adjusted deficit on income on debt amounted to EUR 753 million, and negative income on equity was EUR 1,399 million. The deficit on income on debt continued to rise, as seen in the previous quarters, while the deficit income on equity fell slightly compared with earlier periods.

The deficit on current transfers amounted to EUR 334 million in 2008 Q2.

Looking at fourth-quarter transactions with the European Union, the balance of current transfers showed a EUR 7 million deficit, and the amount of transactions recorded as capital transfers showed a EUR 121 million surplus. The balance of capital transfers to and from EU institutions was in a EUR 114 million surplus in the period.

Chart 3



Inward and outward non-debt capital transactions showed a net outflow of EUR 1,018 million in 2008 Q2. The value of outward direct investment transactions in equity capital by Hungarian residents amounted to EUR 65 million and inward transactions by non-residents amounted to EUR 100 million. Reinvested earnings on direct investment by Hungarian residents and non-residents, respectively, reduced the value of investment by EUR 566 million and EUR 496 million.¹ Portfolio investment transactions in equity securities showed a net outflow of EUR

¹ Reinvested earnings are the difference between after-tax profit and declared dividends. For 2007, 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 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, under after-tax profits, as a percentage of the seasonal factors of GDP. As owners decide on the distribution of dividends, their recording is aligned with the time dividends are declared payable and are derived from direct reports. The value of reinvested earnings is negative in Q2, given that firms generally decide on dividends in the first half, and mainly in the second quarter.

1,123 million in the quarter under review. Here, purchases of shares abroad by Hungarian residents amounted to EUR 625 million and sales of Hungarian shares by non-residents amounted to EUR 498 million. The balance of debt generating financing was EUR 3,566 million in 2008 Q2. Here, other FDI – included in foreign direct investment flows – related to direct investment by Hungarian residents abroad showed an inflow of EUR 106 million and other FDI related to direct investment by non-residents in Hungary showed a inflow of EUR 1,523 million.

Reserves and debt

Central bank foreign exchange reserves amounted to EUR 17.3 billion at end-June 2008.

Hungary's net foreign debt, excluding other capital recorded under direct investment, amounted to EUR 48.3 billion at the end of June 2008 (46.3% as a percentage of GDP). Including other capital, the net debt was EUR 52.4 billion (50.2% as a percentage of GDP).

Table 3
Foreign assets and liabilities of Hungary

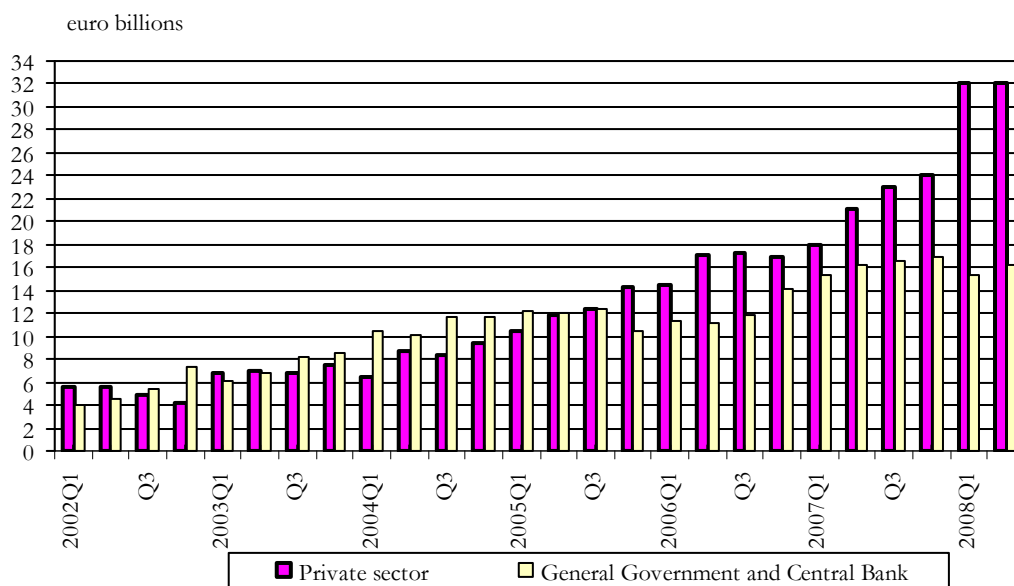
Euro million

	2007				2008		
	Q1	Q2	Q3	Q4	Q1 op.poz.**	Q1	Q2
1. Assets	60 449	62 065	62 098	66 816	68 350	70 989	74 750
1.1. International reserves	16 999	16 966	16 478	16 385	16 386	16 815	17 290
1.2. Direct investment *	17 619	17 991	18 096	21 667	27 563	28 155	28 103
1.3. Portfolio investment	5 225	5 456	5 933	6 219	6 257	6 450	7 057
1.4. Financial derivatives	1 615	1 899	1 634	1 661	2 382	3 203	4 266
1.5. Other foreign assets	18 992	19 752	19 957	20 883	15 763	16 365	18 034
2. Liabilities	157 801	166 495	167 027	172 554	178 894	179 742	190 052
2.1. Direct investment *	71 846	73 206	75 845	80 819	81 495	80 650	86 600
2.2. Portfolio investment	50 080	53 109	49 403	47 961	53 117	50 812	52 678
2.3. Financial derivatives	1 905	2 276	2 142	2 175	2 513	3 703	3 884
2.4. Other foreign liabilities	33 971	37 903	39 638	41 599	41 769	44 577	46 890
3. Net foreign liabilities (2-1)	97 352	104 430	104 929	105 738	110 544	108 753	115 302
Memorandum:							
4. Gross foreign debt (excluding direct investment other capital)	72 629	77 643	79 194	81 333	81 375	85 310	89 910
4.1. General government and Central bank	32 971	33 896	33 835	34 234	33 986	33 134	34 717
4.2. Private sector	39 658	43 747	45 358	47 099	47 389	52 176	55 193
5. Nettó adósság (excluding direct investment other capital)	33 317	37 242	39 529	40 935	45 693	47 371	48 331
5.1. General government and Central bank	15 350	16 160	16 562	16 960	16 670	15 268	16 257
5.2. Private sector	17 967	21 083	22 967	23 975	29 024	32 103	32 074

* Assets and liabilities are grouped separately from the directional breakdown of investment.

** Opening stocks derived from the new data collection system.

Chart 4
Net foreign debt of Hungary 2002-2008*



* Excluding other FDI capital recorded within direct investment.

* * * * *

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 data are available on the Bank's website both excluding and including SPE data. The MNB will release Hungary's balance of payments and international investment position data as well as the revised Q1 and Q2 data on 31 December 2008.

Joint release of the MNB and the CSO

On the adjustment of goods data in the balance of payments and the national accounts

On 30 September 2008, the CSO is releasing preliminary national accounts data for 2007, simultaneously with the MNB releasing preliminary balance of payments data for 2007. Consistent with the announced data revision policy, the CSO and the MNB have revised their methodologies related to the publication of statistical data and they have revised the related statistical time series accordingly. The revision of goods data is the most significant of the areas affected by the revision.²

In the past, trade credit assets in the balance of payments were determined basically by the difference between cash-based trade data reported to the MNB and accruals-based statistical data as measured by the CSO. From 2004 Q3, such deviations showed a unidirectional pattern, unjustifiable in terms of economic fundamentals. The MNB recorded a large part of calculated turnover in trade credit as statistical error (under errors and omissions), and started to examine the causes of deviations together with the CSO. During the examination, enterprises registered in the territory of Hungary, only obliged to declare VAT but playing an increasingly greater role in the country's foreign trade, became the centre of attention. Such enterprises provide data for Hungary's foreign trade statistics, in accordance with the practice of the European Union. While the data must be treated as part of Hungarian foreign trade, consistent with international standards on foreign trade statistics, there is no clearly defined recommendations for their treatment in the national accounts and the balance of payments. In the view of domestic experts, in terms of the national accounts and the balance of payments such enterprises do not constitute part of the Hungarian economy and, therefore, they should be recorded differently from the standards on foreign trade statistics. This means that trade margins on foreign trade transactions should be ignored when assessing the performance of the Hungarian economy.

Based on the calculations performed jointly by the CSO and MNB, the value of adjustment related to turnover conducted by such enterprises (estimating with the average trade margin used in international practice) was HUF -101 billion in 2004, HUF -179 billion in 2005, HUF -297 billion in 2006 and HUF -331 billion in 2007. The CSO and the MNB have revised the values of goods exports and imports recorded in the national accounts and the balance of payments in a way that the balance of goods has been adjusted by the amounts above. The revision has not affected the CSO's official foreign trade statistics.

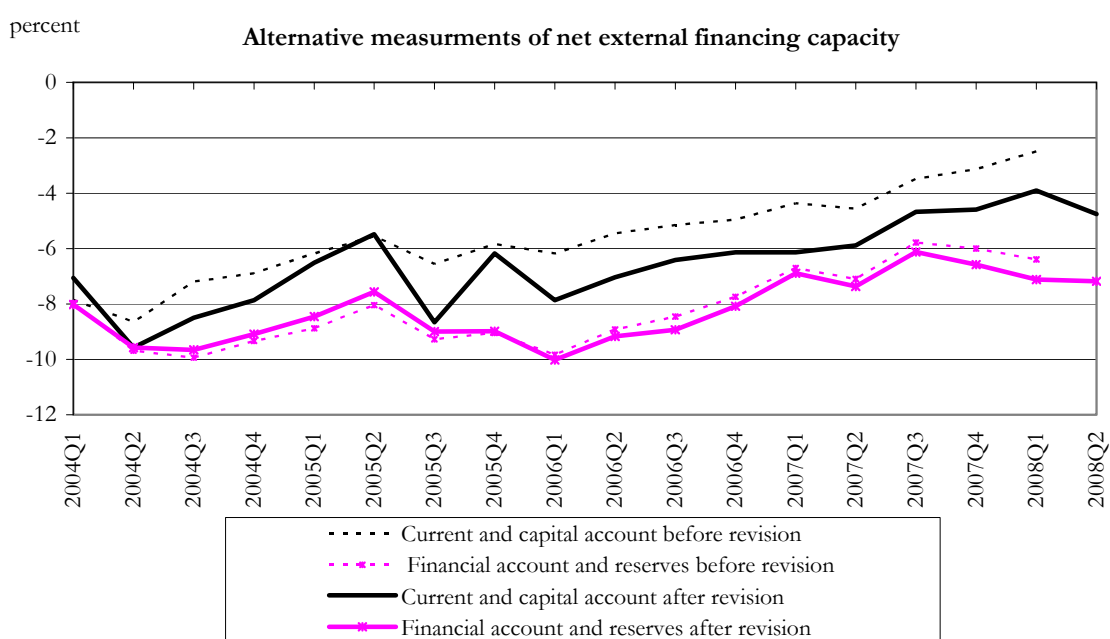
Adjustments to trade data related to the trade margin will continue in 2008, and will be incorporated into balance of payments and national accounts data on a regular basis.

² See the methodological notes to the MNB's balance of payments at [Módszertani megjegyzések](#) and the CSO's 'Gross domestic product, 2007 (preliminary data)'.

The effect of data revisions on the balance of payments and the external financing capacity

Reclassifying turnover in trade credit into statistical errors and its size automatically led to a significant increase in the gap between financing requirement calculated from the bottom up and from the top to bottom in the balance of payments. This discrepancy was observable continuously in the MNB's press releases and published balance of payments data. The revision of goods data related to turnover of enterprises registered in Hungary, but obliged to declare only VAT, narrowed this gap through reducing the statistical error. In this release of balance of payments data, the size of external financing requirement, calculated from the bottom up and from the top to bottom, has been modified by other revisions as well, similarly to earlier balance of payments data releases; however, the shift shown in the chart below has been the result primarily of the revision of trade data discussed above.

Chart 5



Data revision due to the harmonisation between the balance of payments and the CSO's national accounts for the rest of the world

In September 2007, the components of travel data compiled by the CSO have been modified. First, the costs of international passenger services have been eliminated from both travel revenue and expenditure. Second, items related to travels abroad but qualified as domestic consumption (i.e. purchased from resident service providers) have been eliminated from expenditure data. In accordance with its publication and data revision policy for the balance of payments, the MNB backdated changes in its time series to 2005; however, backdating of changes to 2004 has only become possible within the framework of the current special revision.

As a result of the change in methodology, both revenue and expenditure have been revised down. As the change has had a greater effect on expenditure, the 2004 travel surplus has increased by EUR 247 million.

For 2005, data on other services, excluding travel, and in particular turnover in transport services and financial services, collected by the CSO, have also been adjusted during the special revision.

From 2008, contributions paid on compensation of employees (current transfers, other sectors, expenditure) and commissions received (current transfers, general government, revenue), as well

as remittances of workers employed for more than one year (current transfers, other sectors, revenue and expenditure) have been incorporated into the balance of payments based on the CSO's estimate derived from administrative sources, instead of the earlier observation of cash data. As the CSO's data are also available for previous years, they have been incorporated into the balance of payments back to 2004, in order to ensure comparability of time series. The revision has not affected the balance on the current account (see table).

Modifications in items because of methodological changes

euro million

	2004	2005	2006	2007
Compensation of employees	618	735	794	887
Current transfers, general government sector	152	172	160	184
Current transfers, other sectors	-770	-907	-954	-1 071
Total changes	0	0	0	0

Detailed tables: [Balance of payments](#)

Notes [Methodological notes](#)

Charts: [Chart pack](#)

Q&A: [Questions and answers](#)

One of the primary statutory duties of the Magyar Nemzeti Bank is to collect and publish statistical information. The MNB makes available for users statistical data compiled in accordance with international standards on a regular basis. The Quarterly Report on Inflation and the Report on Financial Stability, the Bank's periodical publications, contain compressive analyses of underlying economic processes and are accessible at www.mnb.hu.

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STATISTICS