

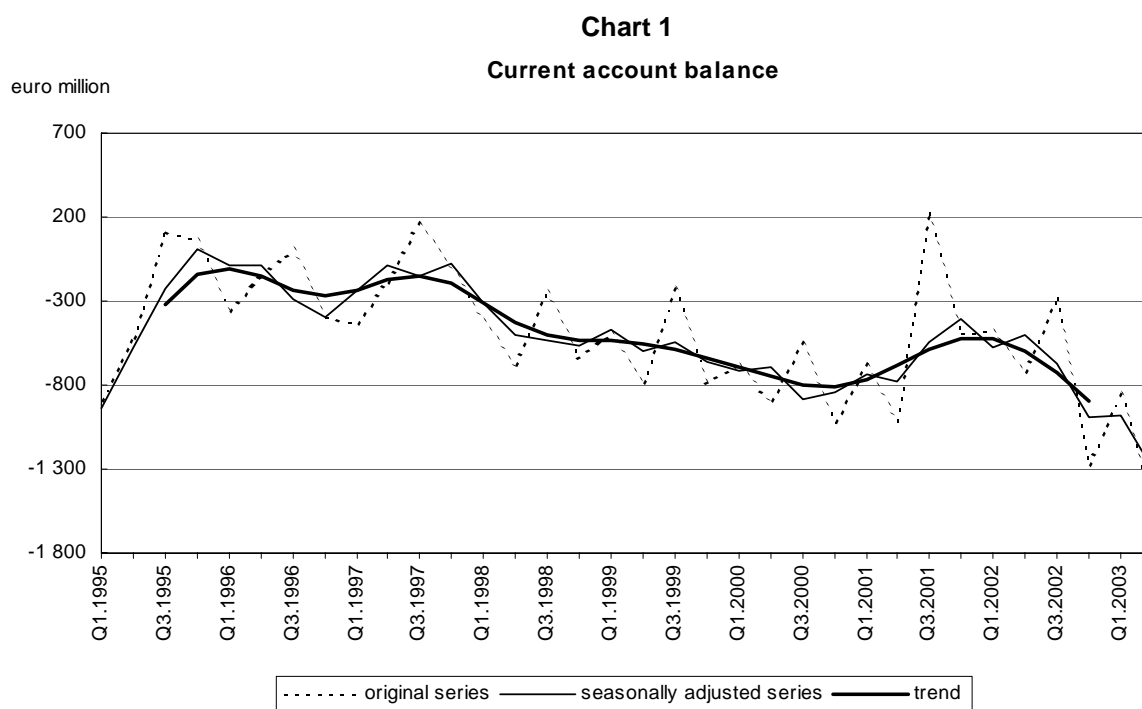
PRESS RELEASE

Hungary's balance of payments: 2003 Q2

From 2003, the Bank has shifted the focus of its releases from monthly to quarterly data. On a monthly basis, the Bank only publishes the balance of payments data consisting of the main aggregates, in addition to international reserves data, on the R+30th working day. Unlike the earlier practice, IIP data are not be published. While keeping the previous structure, detailed balance of payments and IIP data are only compiled and published quarterly and yearly on the Bank's website before the end of the quarter following the reference period. With the introduction of the new system of data releases, the Bank has also changed its data revision practice. Monthly data are revised regularly at the time of releasing and revising quarterly and yearly data. Quarterly data are not revised within a year – they are only revised at the time of releasing and revising yearly data. Yearly data are revised twice – in the 15th month following the reference year as well as a year later. For more details, see the methodological description at: http://www.mnb.hu/dokumentumok/fm_modszertan_2003_en.pdf

Based on the quarterly data, Hungary's current account registered a EUR 1,529 million deficit in 2003 Q2. This was nearly EUR 65 million higher than the deficit derived from data released for the second three months of the year individually. It was mainly the increase in net foreign debt that financed Hungary's current account deficit.

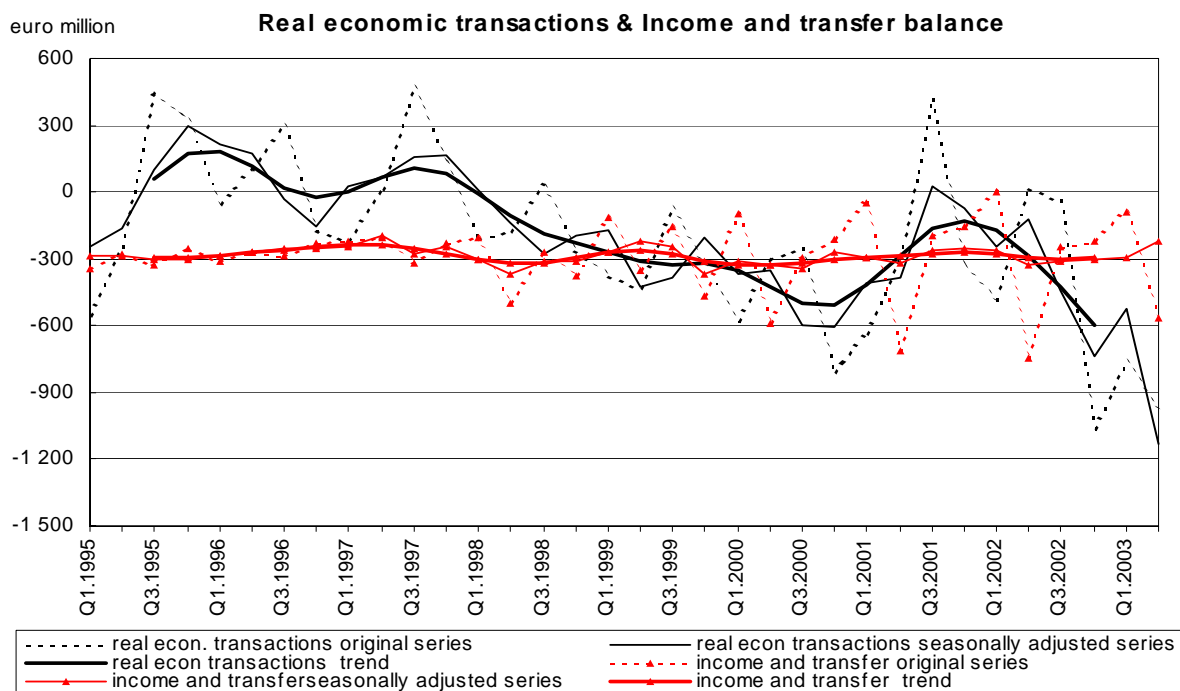
After eliminating the seasonal effects, the current account deficit¹ was higher than in the previous quarter. As a result, the build-up of deficit continued in Q2, after stagnation in the previous quarter (see Chart 1).



¹ In the following, the remarks are based on seasonally adjusted data in the case of the current account items.

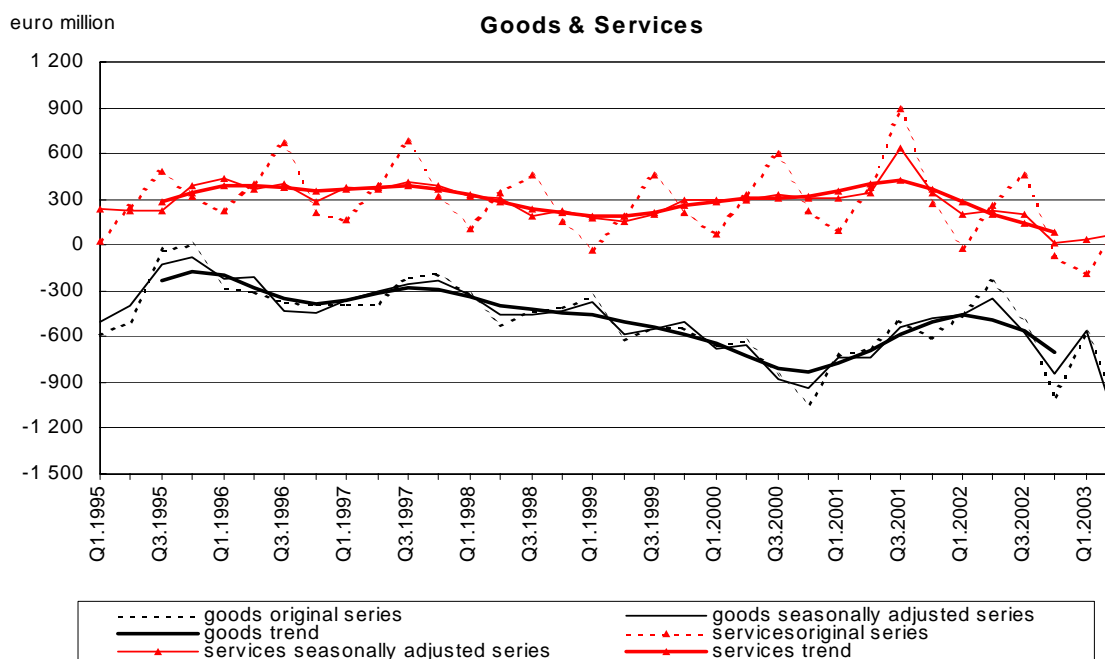
Real economic transactions (goods and services) play a dominant role in current account balance outcomes. In Q2, the higher deficit on this sub-account continued to explain the increase in current account deficit. Compared with real economic transactions, income and current transfers appear to be in broad balance over the longer term. This sub-account registered a smaller deficit in the period under review relative to the previous period (see Chart 2).

Chart 2

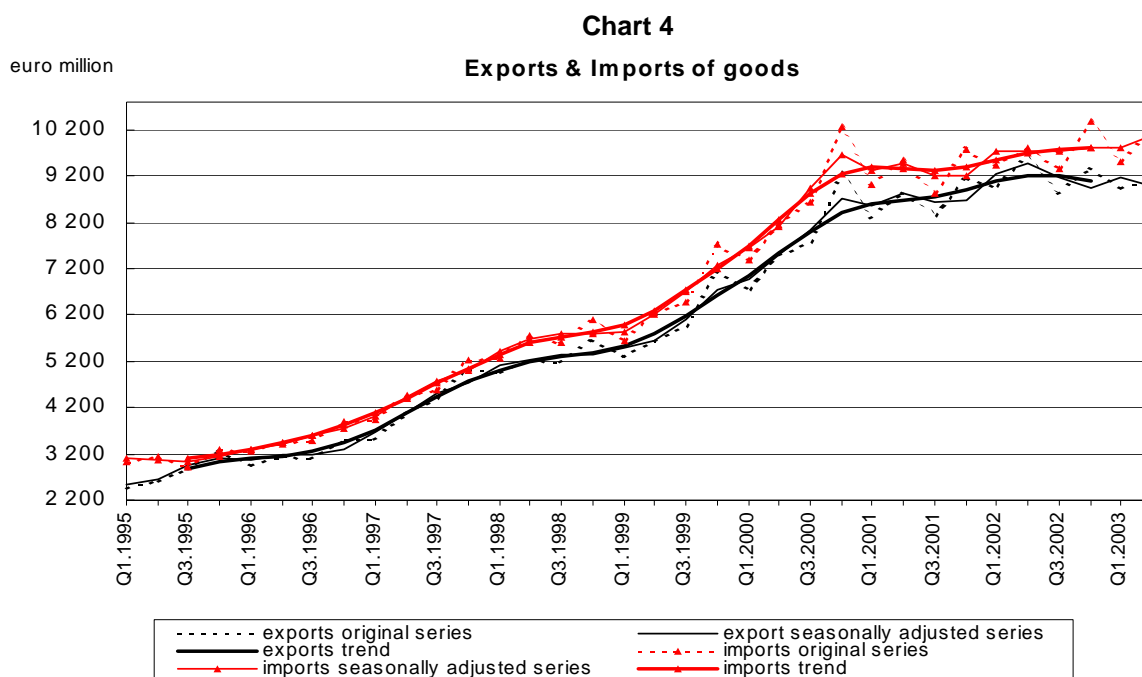


The deficit on real economic transactions increased relative to Q1, in which the higher goods deficit played a dominant role. The balance on service transactions improved slightly again relative to the previous quarter (see Chart 3).

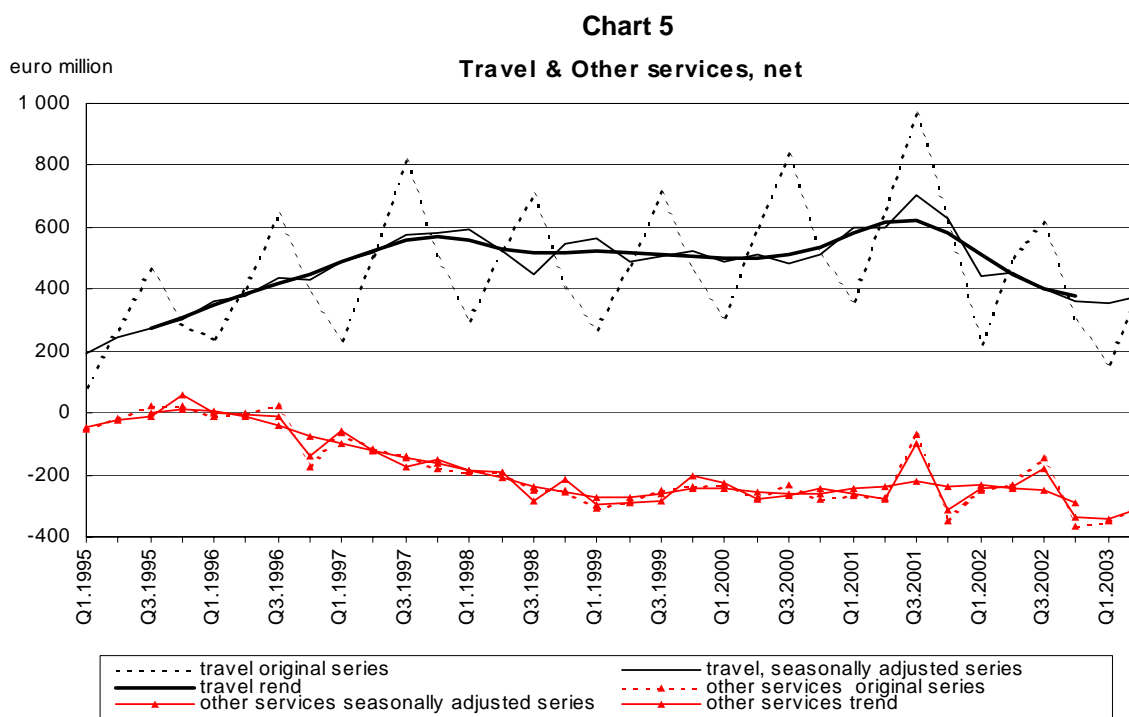
Chart 3



The fall in exports and the rise in imports were dominant in the deterioration in the goods balance relative to the previous quarter (see Chart 4).² Over a longer period, the upward trend of imports has picked up slightly in the past two years, that of exports showing no significant variations for the period after 2002 Q1.

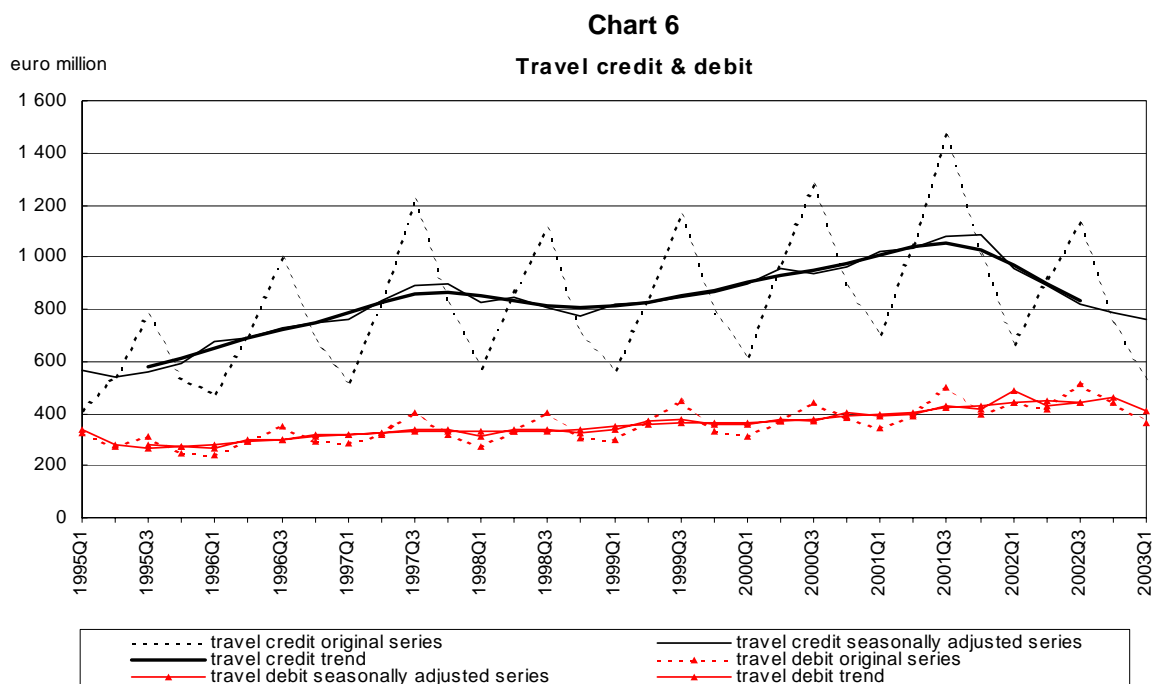


Within services, there were improvements on both the travel and the other services accounts (see Chart 5). In the case of other services, this was accompanied by a robust increase in both expenditure and revenue.

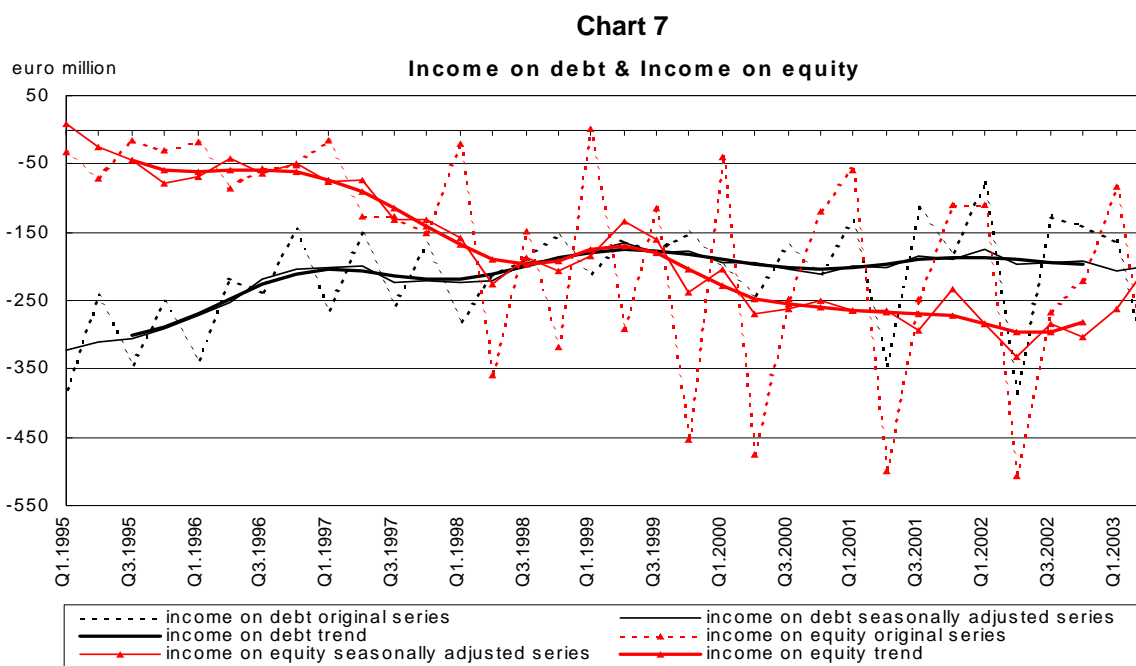


² In line with the new practice of data releases and revisions, second-quarter data are the first revision of monthly data released in April, May and June. Second-quarter exports and imports were EUR 78 million and EUR 59 million lower respectively than the sum of monthly data released in the second quarter. The Bank will publish on its website the revised data as part of the time series of the monthly balance of payments.

2003 Q2 travel revenue exceeded the data for the previous quarter for the first time since end-2001.³ The trend of expenditures has been slightly upwards in recent years, with the data for 2003 Q2 being higher than in the previous quarter (see Chart 6).



Developments in income on debt and income on equity are dominant factors affecting the income and transfer account balance. Quarterly outflows of income on debt have been around EUR 200 million since 1997. The balance of inward and outward flows of income on equity improved in 2003 Q2 relative to the previous period. This contributed significantly to the improvement in the income and transfer account (see Chart 7).



³ The favourable travel revenue data were attributable mainly to an increase in turnover in June 2003 – whereas in January–May 2003 monthly revenue lagged behind the levels of the previous year, the June 2003 data were higher (in July 2003, however, revenue was again lower than a year previously).

The surplus on current transfers in 2003 Q2 was higher than in the previous periods.

Inward and outward non-debt capital transactions showed a net inflow of EUR 90 million in 2003 Q2. The value of direct investment in equity capital was the net result of direct investment transactions by Hungarian residents abroad and by non-residents in Hungary, in the amounts of EUR 140 million and EUR 186 million respectively. Portfolio investment transactions in equity securities showed a net inflow of EUR 44 million in the period under review.

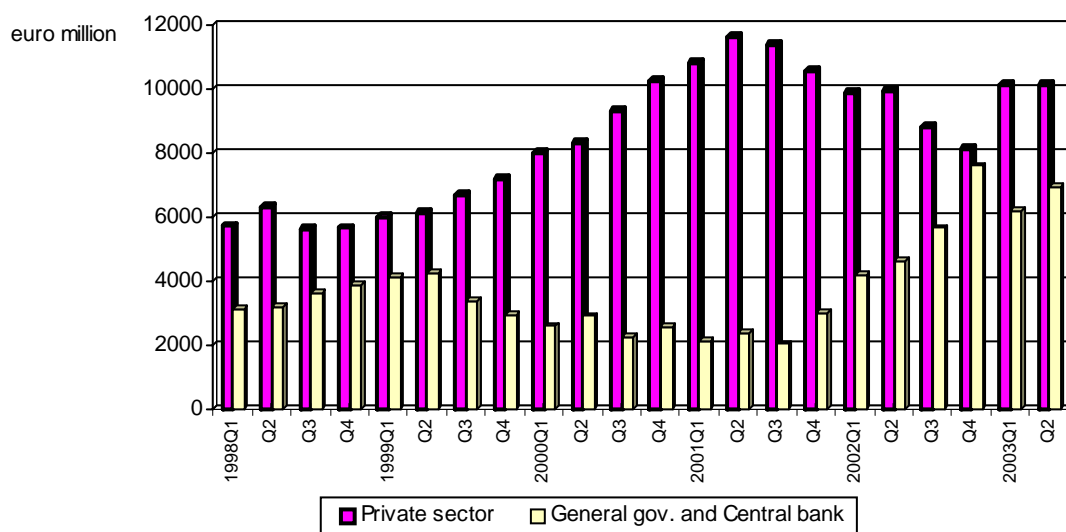
Central bank foreign exchange reserves amounted to EUR 10.9 billion at end-June 2003. Whole-economy gross foreign debt was EUR 0.3 billion lower than at the end of Q1. Transactions, and price and exchange rate movements as well as other volume changes reduced the gross foreign debt by EUR 0.1 billion and EUR 0.2 billion respectively. Transactions contributed EUR 1.3 billion to the EUR 0.8 billion increase in net debt. The downward effect of other factors was EUR 0.5 billion. The outstanding total of forint-denominated government and central bank securities was EUR 7.6 billion at end-June 2003, EUR 0.4 billion lower than at the end of the previous quarter.

Foreign debt of Hungary

	Euro million	
	2003	
	Q1	Q2
I. Gross foreign debt, Total Economy (S.1) (A+B)	40.5	40.2
A: General government and Central bank (S.13+S.121)	19.3	18.1
A.1. o/w.:debt denominated in HUF/1	8.3	8.0
B. Private sector (S.1-S.13-S.121)	21.3	22.1
B.1. o/w.:debt denominated in HUF/1	2.1	2.4
B.2. o/w.:Intercompany loans	5.9	6.4
II. Net foreign debt, Total Economy (S.1) (A+B)	16.3	17.1
A: General government and Central bank (S.13+S.121)	6.2	7.0
A.1. o/w.:debt denominated in HUF/1	7.9	7.8
B. Private sector (S.1-S.13-S.121)	10.1	10.1
B.1. o/w.:debt denominated in HUF/1	-0.5	0.0
B.2. o/w.:Intercompany loans	3.3	3.0

1/ securities plus others

Net foreign debt, Hungary 1998-2003 (by sectors, including intercompany loans)



The net debt of general government and the MNB was higher at end-Q2 than at the end of the previous quarter, due mainly to a drop in central bank reserves. By contrast, the private sector's net debt remained practically unchanged, reflecting equal increases in assets and liabilities.

Balance of payments, Hungary

euro million

	2001				2002				2003	
	Q. I	Q. II	Q. III	Q. IV	Q. I	Q. II	Q. III	Q. IV	Q. I	Q. II
1. Goods, net	-726	-676	-486	-608	-458	-247	-505	-994	-574	-1073
1.1. Exports	8310	8878	8352	9157	8991	9587	8841	9401	8942	9087
1.2. Imports	9036	9554	8838	9765	9449	9834	9346	10395	9517	10159
2. Services and income, net	-56	-412	575	23	-167	-580	96	-392	-401	-625
2.1. Services*, net	91	384	899	269	-24	265	465	-70	-185	107
2.1.1. Exports	1614	1971	2623	2158	1825	2068	2337	2007	1863	2089
2.1.2. Imports	1523	1587	1724	1889	1849	1803	1872	2077	2049	1982
2.2. Income, net	-147	-796	-324	-246	-143	-845	-369	-322	-215	-732
2.2.1. Income on debt, net	-135	-343	-116	-179	-79	-384	-128	-138	-162	-370
2.2.2. Income on equity, net	-60	-498	-248	-110	-109	-506	-267	-220	-83	-398
2.2.3. Compensation of employees, net	47	46	39	44	44	46	25	35	30	36
3. Current transfers	99	79	130	91	145	101	123	106	126	169
4. Current account balance	-684	-1009	219	-494	-480	-726	-285	-1280	-849	-1529
5. Non debt creating financing, net	300	307	162	41	335	168	311	77	-65	90
5.1. Direct investment, equity capital, net	227	286	148	61	222	228	433	193	-277	46
5.1.1. Abroad, net	-312	-45	-44	25	-38	-7	-95	-63	-355	-140
5.1.2. In Hungary, net	539	331	192	36	260	236	528	257	79	186
5.2. Portfolio investment, equity securities, net	73	22	13	-20	113	-60	-123	-117	212	44
* - o/w: Travel, net	359	656	966	615	223	498	611	297	160	410
credit	705	1045	1464	1010	666	915	1125	741	526	832
debit	346	389	498	394	444	417	514	443	365	422

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

Euro million

	2001				2002				2003	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
1. Goods, net	-741	-740	-532	-473	-456	-346	-570	-838	-555	-1177
1.1. Exports	8560	8816	8658	8677	9236	9489	9176	8930	9172	8992
1.2. Imports	9338	9483	9193	9211	9753	9740	9723	9810	9829	10066
2. Services and income, net										
2.1. Services	313	349	633	348	199	229	198	10	39	70
2.1.1. Travel, net	601	598	706	630	443	454	402	361	355	379
credit	1027	1021	1072	1086	976	893	825	797	775	809
debit	390	405	421	411	486	439	434	455	413	448
2.1.2. Other services, net	-262	-278	-100	-313	-240	-239	-179	-334	-339	-309
credit	906	987	1177	1095	1143	1195	1224	1249	1290	1303
debit	1144	1213	1301	1362	1345	1403	1463	1489	1635	1581
2.2. Income, net	-414	-411	-413	-395	-406	-474	-436	-443	-442	-396
2.2.1. Income on debt, net	-199	-202	-185	-189	-175	-196	-195	-193	-207	-199
2.2.2. Income on equity, net	-263	-266	-294	-232	-284	-332	-284	-303	-261	-197
2.2.3. Compensation of employees, net	41	48	44	43	45	38	32	35	29	34
3. Current transfers	95	81	127	96	142	102	120	111	122	171
4. Current account balance	-740	-782	-542	-407	-575	-501	-667	-994	-984	-1302

The release of balance of payments data for August 2003 is scheduled for 10 October 2003.

^{a)} Methodological notes to seasonal adjustment:

The method used to seasonally adjust the sub-components of the current account in 2002 is as follows:

- 1 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.
- 2 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.
- 3 *Outliers* are identified according to the basic setting, allowing the identification of all three types of outlier.

- 4 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 ($y_t = 1/9x_{t-2} + 2/9x_{t-1} + 3/9x_t + 2/9x_{t+1} + 1/9x_{t+2}$), instead of the trend calculated by the programme.
- 5 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'.
- 2 In order to comply with the data dissemination standards of the IMF, the MNB will publish IIP data 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, in addition to indicating the relevant type of debt.