

30 June 2004

## PRESS RELEASE

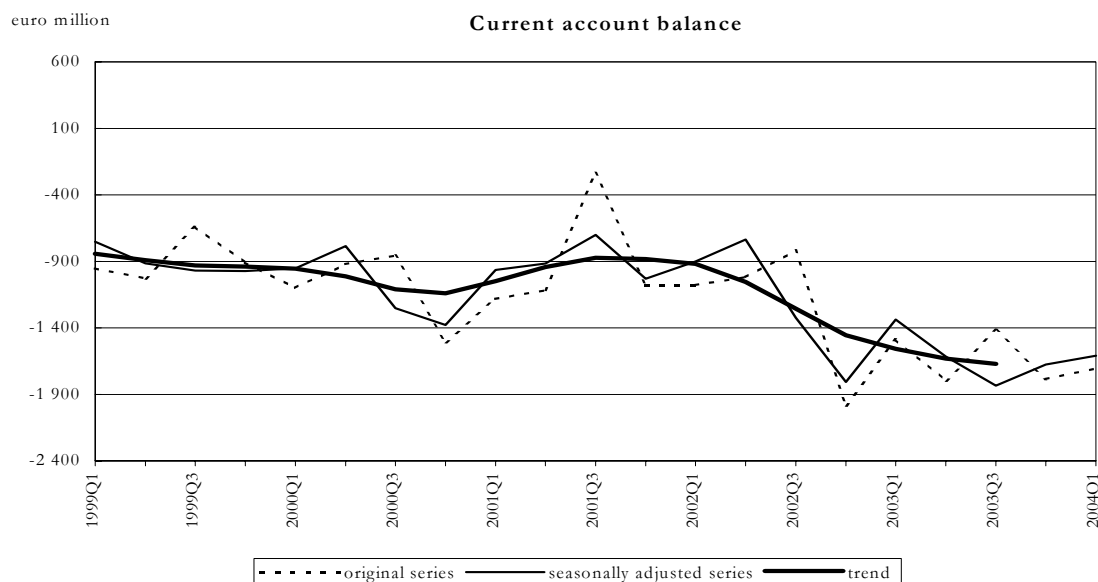
### Hungary's balance of payments: 2004 Q1

With the release of data for 2004 Q1, the Bank shifts to recording income on debt on an accrual basis within balance of payments statistics, in line with international statistical standards. Interest accruing on residents' assets vis-à-vis non-residents during a period is recorded as interest income, irrespective of the period in which interest is actually paid out. Interest accruing in a given period but not paid out is recorded as a transaction affecting the given instrument in the financial account, the effect of which is also reflected in the international investment position. Accrual-based interest accrued on monetary financial institutions' financial assets is directly reported by data providers, while accrual-based interest accruing on interest-bearing instruments of the other sectors is estimated by the Bank on the basis of the annual amount of interest paid and the average stock of instruments.

*Based on the quarterly data, Hungary's current account registered a EUR 1,705 million deficit in 2004 Q1. That was EUR 51 million lower than the deficit deriving from the data released for the first three months of the period. Half of the current account deficit was financed by non-debt inflows in the period under review.*

*After eliminating the seasonal effects, the current account deficit<sup>1</sup> was lower than in the previous quarter. The trend of quarterly current account deficits has been downwards since end-2002 (see Chart 1).*

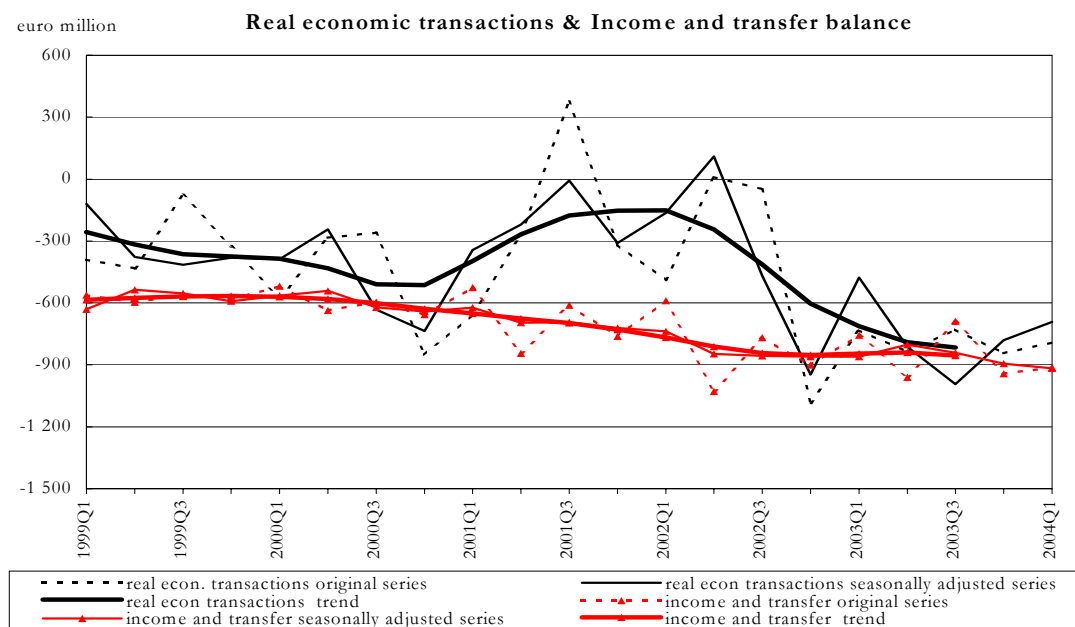
Chart 1



<sup>1</sup> In seasonal adjusting the data, the Bank uses the method of indirect adjustment, instead of the earlier direct adjustment method. The reason for changing the method is that, in the current account balance and its components, the outturns for the aggregates derived by direct adjustment and the seasonally adjusted values of the aggregates showed divergent trends, making the interpretation of processes difficult. (Indirect adjustment means that the seasonally adjusted value of the aggregate is derived by seasonally adjusting the components, in contrast with the direct adjustment, where the aggregate is directly seasonally adjusted.)

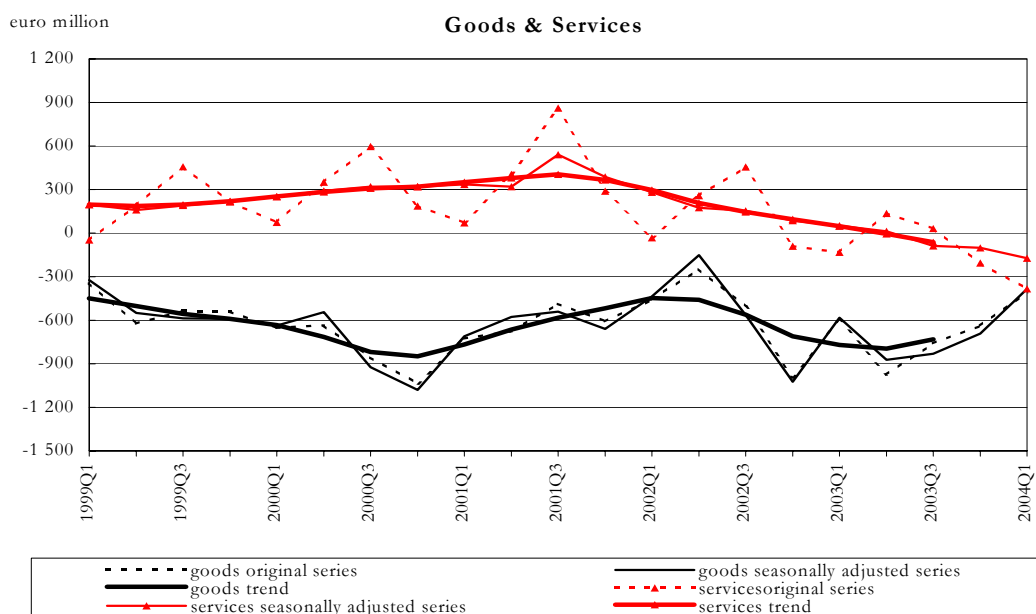
*Real economic transactions (i.e. those in goods and services) play the most dominant role in developments in the current account balance. In 2004 Q1, the lower deficit on this sub-account continued to explain the lower current account deficit. Taking a longer-term perspective, the balances of income and current transfers develop more evenly taking a relative to real economic transactions – the slow increase in deficit derives from the effect of accounting for reinvested earnings (see Chart 2).*

**Chart 2**



Compared with the previous year, the improvement in the goods balance was dominant in the fall in the deficit on real economic transactions. The deficit on services, however, increased relative to earlier period (see Chart 3).

**Chart 3**



The improvement in the goods balance relative to the previous quarter was the result of exports rising more strongly than imports (see Chart 4).<sup>2</sup> The rate of growth of seasonally adjusted exports was higher in the previous two quarters than the comparable indicator for imports.

**Chart 4**



Within services, the balances on both travel and other services deteriorated in the period under review (see Chart 5). In the case of other services, all this was reflected in a strong increase in expenditure, in contrast with travel, where lower revenue was the dominant factor behind the deterioration in balance.

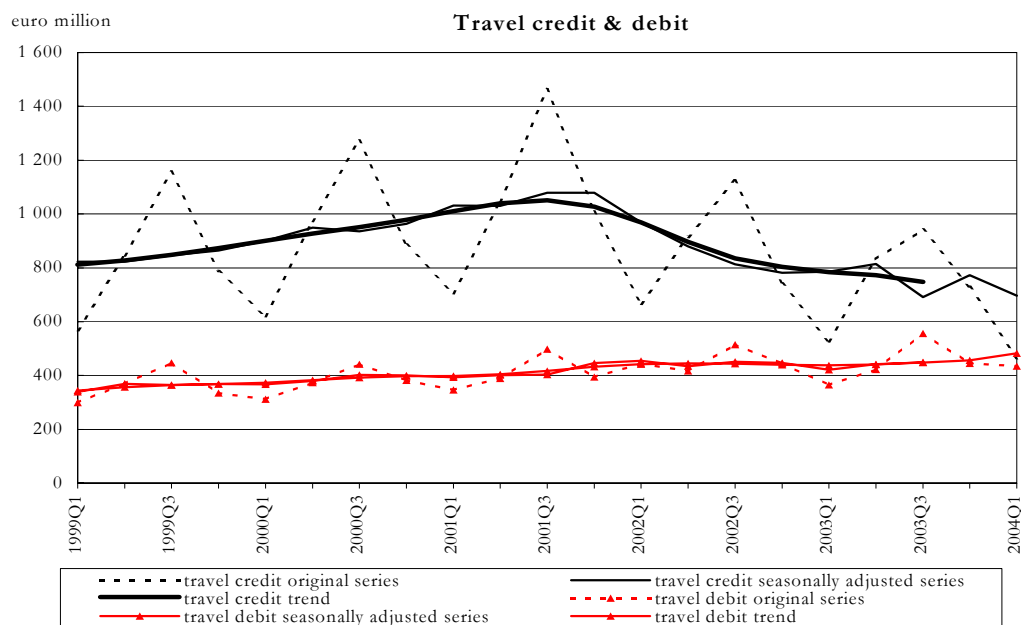
**Chart 5**



<sup>2</sup> Exports turned out to be higher by EUR 50 million and imports by EUR 48 lower than the releases of monthly goods data. The Bank will release the revised goods data for January–March on its website within monthly balance of payments data.

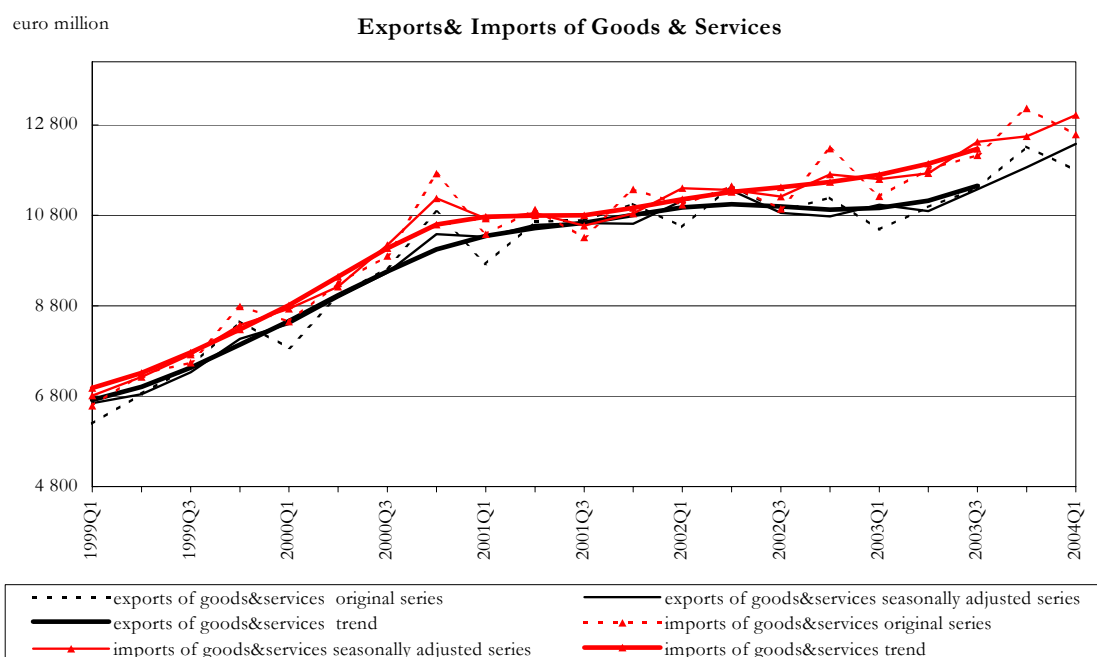
Travel revenue continued to be lower than in the previous quarter. Travel expenditure has been rising at a modest pace in recent years, the 2004 Q1 data exceeding that for the previous quarter (see Chart 6).

**Chart 6**



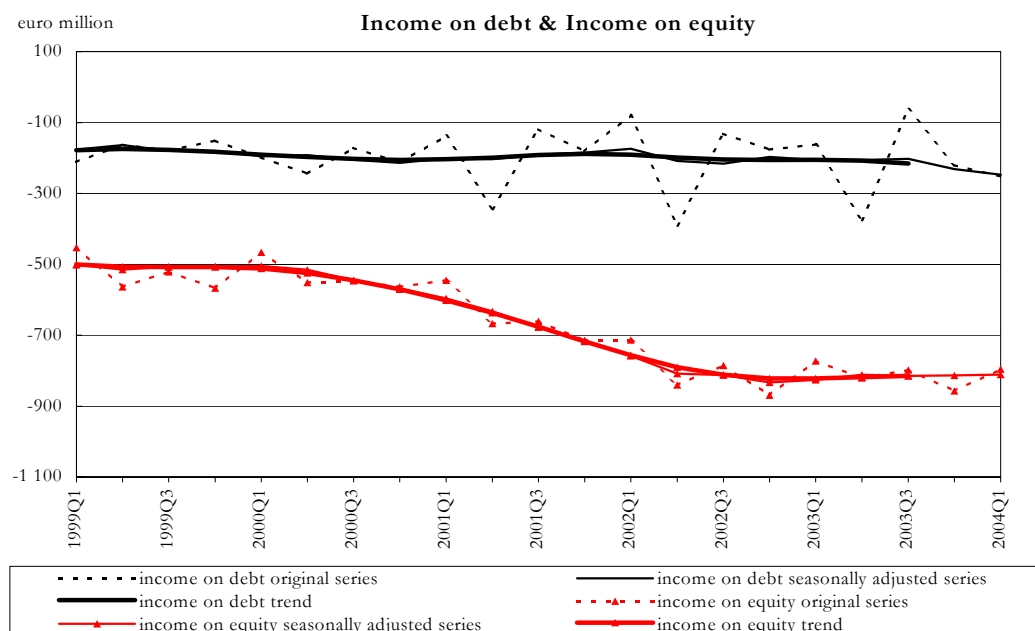
The fall in total travel revenue was offset by the rapidly increasing pace of goods export growth – the combined revenue data on goods and services exports rose identically in the period under review (see Chart 7).

**Chart 7**



Developments in the balances on the income and transfer account were shaped by income on equity and income on debt. In 2004 Q1, the balance on income on debt deteriorated, while the balance on income of equity improved slightly relative to the previous period. As a combined effect of these, the seasonally adjusted balance on the income and transfer account slightly deteriorated (see Chart 8).

**Chart 8**



After eliminating the seasonal effects, the surplus on current transfers in 2004 Q1 was lower than in the previous quarter.

Inward and outward non-debt capital transactions showed a net inflow of EUR 860 million in 2004 Q1. The value of direct investment in equity capital (which also includes reinvested earnings) was the balance of transactions by non-residents in Hungary and by Hungarian residents abroad, in the amounts of EUR 220 million and EUR 754 million respectively. Portfolio investment transactions in equity securities showed a net inflow of EUR 326 million in the quarter under review.

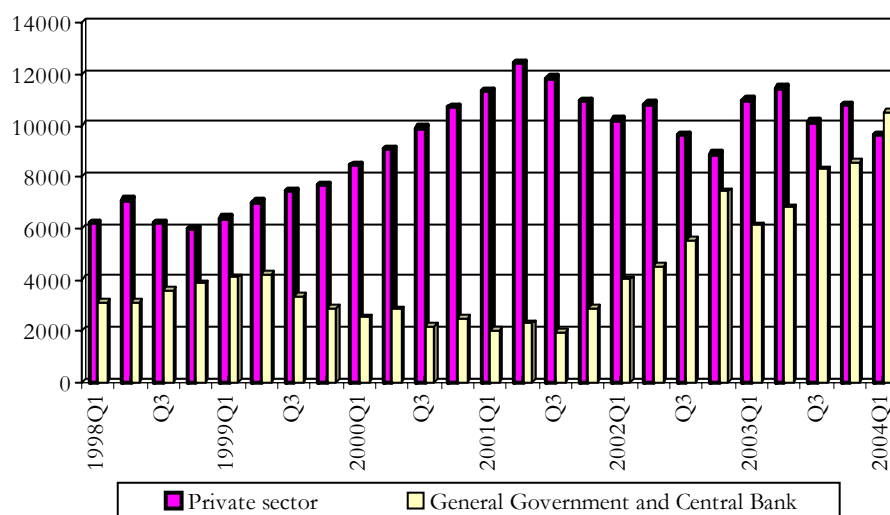
Central bank foreign exchange reserves amounted to EUR 10.2 billion at end-March 2004. Whole-economy gross foreign debt was EUR 1.1 billion higher than at the end of 2003 Q4. Transactions reduced the gross foreign debt by EUR 0.7 billion, price and exchange rate movements as well as other volume changes increasing it by EUR 1.8 billion respectively. Hungary's net debt increased by EUR 0.8 billion, mainly as an upward effect of transactions. The outstanding total of forint-denominated government and central bank securities was EUR 9.2 billion at end-March 2004, EUR 0.3 billion higher than at the end of the previous quarter. The Hungarian Government issued a euro-denominated bond in the amount of EUR 1 billion.

### Stock of Foreign debt of Hungary

	Euro million	
	2003 Q4	2004 Q1
<b>I. Gross foreign debt, Total Economy (S.1) ( A+B)</b>	<b>45.7</b>	<b>46.8</b>
A: General government and Central bank (S.13+S.121)	20.1	21.3
A.1. o/w.:debt denominated in HUF	8.9	9.2
B. Private sector (S.1-S.13-S.121)	25.6	25.5
B.1. o/w.:debt denominated in HUF	4.9	5.2
B.2. o/w.:Intercompany loans	6.8	6.8
<b>II. Net foreign debt, Total Economy (S.1) ( A+B)</b>	<b>19.3</b>	<b>20.1</b>
A: General government and Central bank (S.13+S.121)	8.6	10.5
A.1. o/w.:debt denominated in HUF	8.7	8.9
B. Private sector (S.1-S.13-S.121)	10.8	9.6
B.1. o/w.:debt denominated in HUF	0.8	2.5
B.2. o/w.:Intercompany loans	2.7	2.5

### Net foreign debt, Hungary 1998-2004

euro million



At the end of 2004 Q1, the net debt of general government and the MNB was higher relative to the end of the previous quarter, mainly on account of an increase in financial liabilities. By contrast, the private sector's net debt fell, as a balance of a higher increase in assets than in liabilities. The net debt of the private sector was lower for the first time over a protracted period than that of the MNB and general government.

# Balance of payments, Hungary

euro million

	2002					2003					2004
	Q1	Q2	Q3	Q4	2002	Q1	Q2	Q3	Q4	2003	Q1
<b>1. Goods, net</b>	<b>-458</b>	<b>-247</b>	<b>-505</b>	<b>-994</b>	<b>-2203</b>	<b>-599</b>	<b>-974</b>	<b>-760</b>	<b>-638</b>	<b>-2971</b>	<b>-408</b>
1.1. Exports	8991	9587	8841	9401	36821	8947	9216	9486	10511	38161	10263
1.2. Imports	9449	9834	9346	10395	39024	9547	10190	10246	11149	41132	10671
<b>2. Services and income, net</b>	<b>-780</b>	<b>-928</b>	<b>-436</b>	<b>-1100</b>	<b>-3244</b>	<b>-1036</b>	<b>-1024</b>	<b>-800</b>	<b>-1240</b>	<b>-4100</b>	<b>-1401</b>
2.1. Services*, net	-32	257	456	-90	591	-132	136	31	-206	-170	-384
2.1.1. Exports	1551	1870	2051	1795	7268	1541	1766	1913	1816	7036	1533
2.1.2. Imports	1584	1613	1595	1885	6677	1674	1629	1882	2022	7207	1917
2.2. Income, net	-748	-1185	-892	-1010	-3835	-904	-1161	-831	-1034	-3930	-1017
2.2.1. Income on debt, net	-79	-391	-132	-176	-777	-162	-376	-63	-220	-820	-252
2.2.2. Income on equity, net	-713	-840	-786	-869	-3209	-773	-821	-798	-857	-3249	-796
2.2.3. Compensation of employees, net	44	46	25	35	151	30	36	30	43	139	31
<b>3. Current transfers</b>	<b>159</b>	<b>156</b>	<b>123</b>	<b>109</b>	<b>547</b>	<b>148</b>	<b>201</b>	<b>142</b>	<b>92</b>	<b>583</b>	<b>104</b>
<b>4. Current account balance</b>	<b>-1079</b>	<b>-1019</b>	<b>-818</b>	<b>-1984</b>	<b>-4900</b>	<b>-1488</b>	<b>-1797</b>	<b>-1418</b>	<b>-1786</b>	<b>-6488</b>	<b>-1705</b>
<b>5. Non debt creating financing, net</b>	<b>801</b>	<b>-68</b>	<b>1105</b>	<b>831</b>	<b>2669</b>	<b>467</b>	<b>-143</b>	<b>1510</b>	<b>496</b>	<b>2330</b>	<b>860</b>
5.1. Abroad, net	-44	-2	-101	-71	-218	-377	-132	-41	-782	-1332	-220
5.1.1. Equity capital	-36	-5	-89	-59	-190	-368	-137	-26	-766	-1297	-216
5.1.2. Reinvested earnings	-8	4	-12	-12	-28	-9	5	-15	-16	-35	-5
5.2. In Hungary, net	732	-6	1329	1014	3068	632	-49	1405	1451	3439	754
5.2.1. Equity capital	260	236	531	131	1158	98	172	594	571	1436	238
5.2.2. Reinvested earnings	472	-242	798	883	1910	534	-221	810	880	2003	516
5.3. Portfolio investment, equity securities, net	113	-60	-123	-112	-181	212	-38	147	-172	224	326
*- o/w: Travel, net	223	498	611	297	1629	160	411	386	284	1241	30
credit	666	915	1125	741	3448	526	832	942	729	3029	465
debit	444	417	514	443	1819	365	422	556	445	1788	435

## Balance of payments, Hungary (seasonally adjusted data) <sup>a)</sup>

Euro million

	2002				2003				2004
	Q. I.	Q. II.	Q. III.	Q. IV.	Q. I.	Q. II.	Q. III.	Q. IV.	Q. I.
<b>1. Goods, net</b>	<b>-436</b>	<b>-152</b>	<b>-564</b>	<b>-1024</b>	<b>-584</b>	<b>-874</b>	<b>-832</b>	<b>-691</b>	<b>-383</b>
1.1. Exports	9287	9560	9088	8901	9239	9190	9749	9955	10597
1.2. Imports	9723	9712	9652	9925	9823	10064	10581	10645	10981
<b>2. Services and income, net</b>	<b>-602</b>	<b>-722</b>	<b>-907</b>	<b>-929</b>	<b>-899</b>	<b>-892</b>	<b>-1140</b>	<b>-1118</b>	<b>-1355</b>
2.1. Services	271	263	96	78	106	60	-163	-90	-309
2.1.1. Travel, net	515	445	362	334	365	372	243	315	214
credit	969	880	813	782	786	814	691	772	696
debit	454	435	451	447	421	442	448	457	482
2.1.2. Other services, net	-244	-183	-267	-256	-259	-312	-406	-406	-523
credit	891	980	949	1000	1017	965	993	1035	1064
debit	1135	1163	1216	1256	1275	1277	1399	1440	1587
2.2. Income, net	-874	-984	-1002	-1007	-1006	-952	-977	-1027	-1047
2.2.1. Income on debt, net	-163	-217	-220	-203	-215	-173	-196	-251	-272
2.2.2. Income on equity, net	-753	-808	-815	-837	-823	-813	-816	-813	-809
2.2.3. Compensation of employees, net	42	41	33	33	32	33	34	37	34
<b>3. Current transfers</b>	<b>136</b>	<b>138</b>	<b>146</b>	<b>146</b>	<b>145</b>	<b>150</b>	<b>136</b>	<b>133</b>	<b>129</b>
<b>4. Current account balance</b>	<b>-901</b>	<b>-736</b>	<b>-1325</b>	<b>-1807</b>	<b>-1338</b>	<b>-1615</b>	<b>-1836</b>	<b>-1676</b>	<b>-1610</b>

\* \* \* \* \*

Based on the Monetary Council's decision of 15 December, the Bank's data release and revision policy will change after Hungary's joining the European Union. For a detailed description, see the press release 'Changes to the compilation and publication method and to the revision policy of the balance of payments statistics' on the Bank's website at:

([http://www.mnb.hu/dokumentumok/sajtokozl0105\\_en.pdf](http://www.mnb.hu/dokumentumok/sajtokozl0105_en.pdf)).

The next release of balance of payments data is schedule for 30 September 2004, at the time of releasing data for 2004 Q2. Also at the time of publishing 2004 Q2 data, the Bank will release the revised data on 2004 Q1 and annual 2002–2003 data.

a) Methodological notes to seasonal adjustment:

The method used to seasonally adjust the sub-components of the current account 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 ( $Y_t = 1/9 * X_{t-2} + 2/9 * X_{t-1} + 3/9 * X_t + 2/9 * X_{t+1} + 1/9 * X_{t+2}$ ), instead of the trend calculated by the programme.
- 5 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'.
- 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.