



30 September 2004

## PRESS RELEASE

### Hungary's balance of payments: 2004 Q2

In accordance with its announced data revision policy, the Bank is releasing balance of payments and international investment position statistics for 2004 Q2, simultaneously with the release of revised data for 2004 Q1 as well as the years 2003 and 2002. With the current release of revised figures, 2002 balance of payments and international investment position data are now final.<sup>1</sup>

- After Hungary's joining the EU and the complete removal of customs barriers, community goods under customs inspection and stored mainly in customs warehouses, are being entered, irrespective of their origin and destination. According to information by the CSO, the major part of this was performed in May–June and, based on the CSO's report of 7 September 2004, its amount was some HUF 170 billion (some EUR 650 million). Most of the changes in ownership of these goods between residents and non-residents affected earlier periods. Consequently, the above amount has not been recorded in the balance of payments for 2004 Q2<sup>2</sup> (see: <http://portal.ksh.hu/pls/ksh/docs/eng/xftp/gyor/kul/ekul20407.pdf>).
- The importance of current transfers to be recorded in the current account and of capital transfers to be recorded in the capital account increased after Hungary's EU accession. Accordingly, the role of the balance on the current and capital accounts showing the country's net external financing capacity will be greater in the analyses of external developments relative to earlier periods. (For more details, see the boxed text at the end of this press release.)

Based on the quarterly data, Hungary's net external financing requirement (the country's combined current and capital account deficit) amounted to EUR 2,039 million (see Chart 1). Here, the current account deficit amounted to EUR 2,120 million. Currently, the net external financing capacity and the current account balance do not show significant differences; however, the gap is expected to grow with the increase in EU transfers.

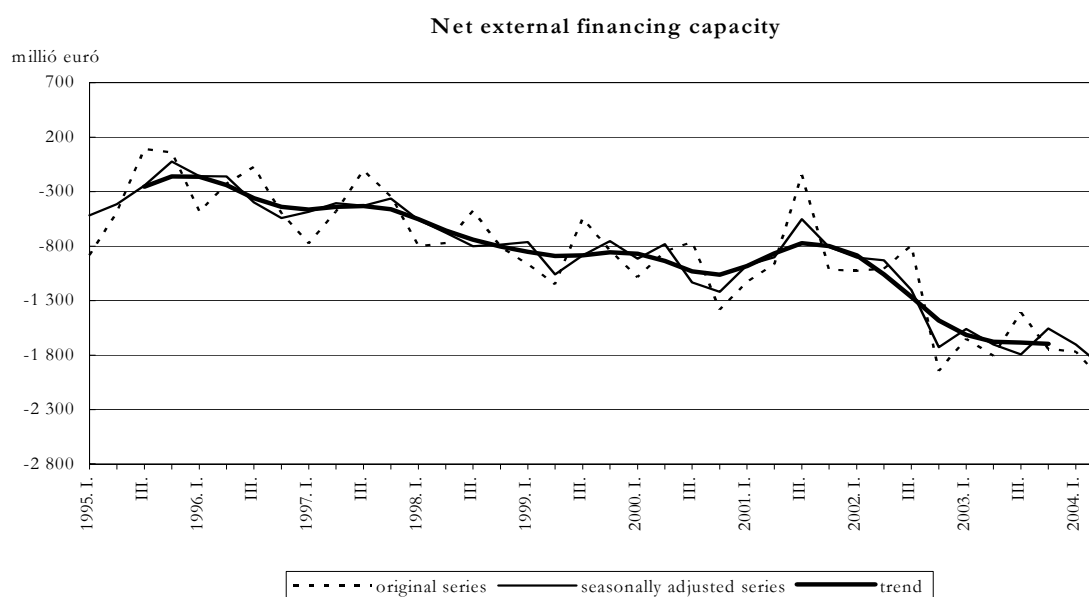
After eliminating the seasonal effects, the current account deficit continued to increase in 2004 Q2.

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<sup>1</sup> This means that 2002 data will not be modified in a normal revision cycle. In the case of potential methodological change, however, the new method will have to be taken back on the time series as far as possible. Consequently, it may happen that the now final data will be modified later.

<sup>2</sup> If further information becomes available, the Bank will record retroactively this item consistent with the national accounts, in the framework of its revision policy.

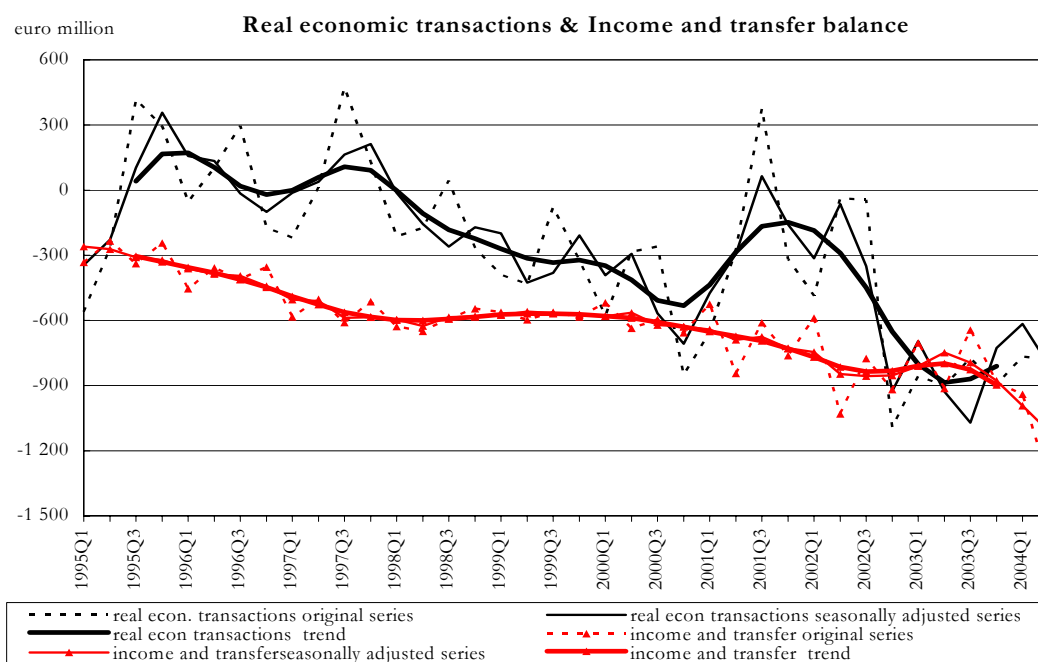
# Chart 1



Income and current transfers rather than real economic transactions (i.e. those in goods and services) played the most dominant role in developments in the current account balance (see Chart 2).

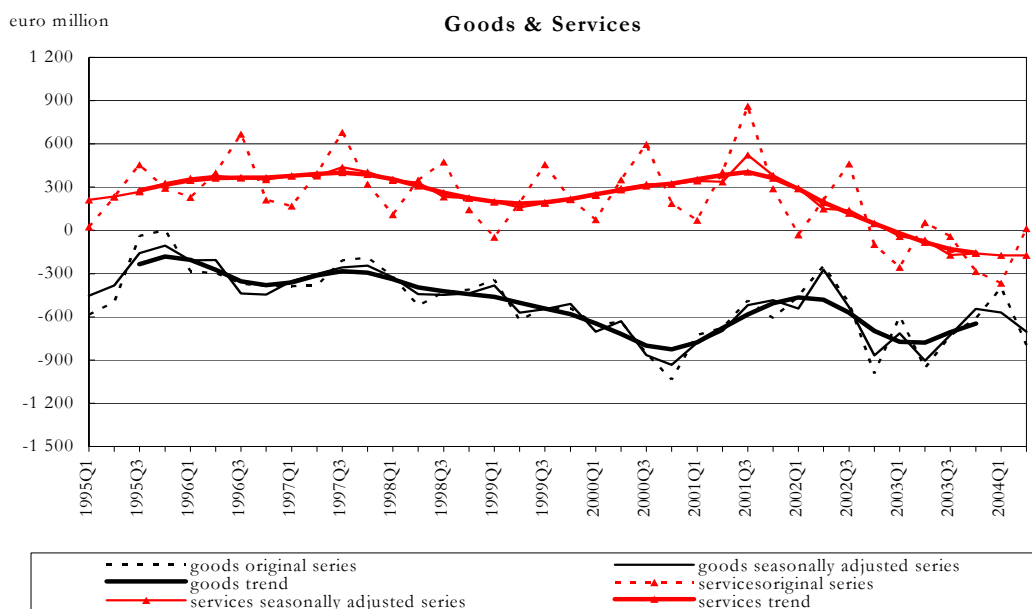
Taking a longer period, developments in income and current transfers show rising deficits. This results from the fact that they include reinvested income and increases in their value. In 2004 Q2, the higher deficit on this sub-account was the result mainly of dividend payments on portfolio equities. Accordingly, the seasonally adjusted amount of deficit continued to increase relative to the previous quarter (see Chart 2).

# Chart 2



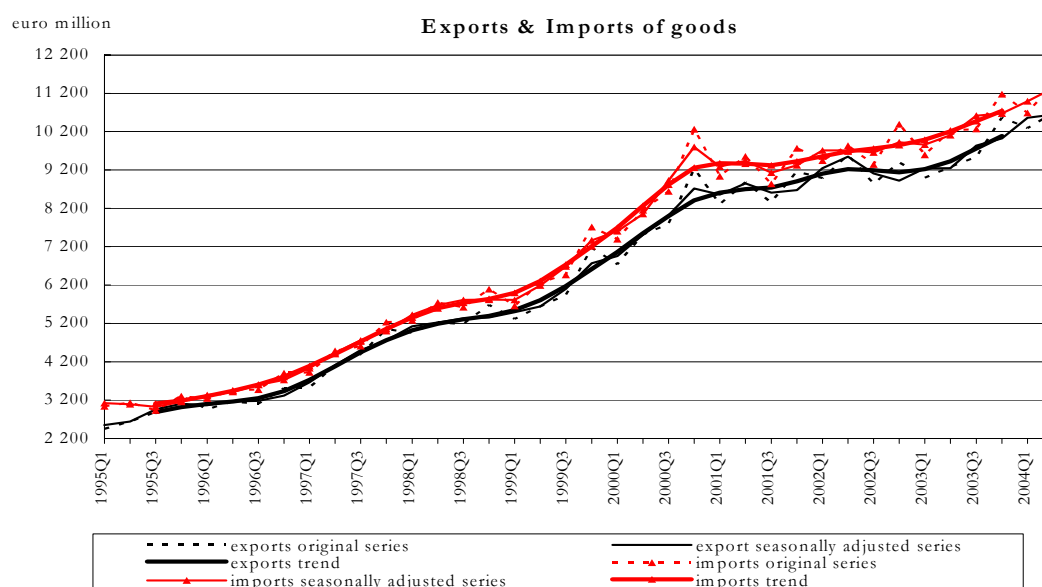
Compared with 2004 Q1, the improvement in the goods balance was dominant in the fall in the seasonally adjusted deficit on real economic transactions. The seasonally adjusted deficit on services, however, remained unchanged at the three-month previous level (see Chart 3).

**Chart 3**



The deterioration in the goods balance relative to the previous quarter was the result of exports remaining static at the three-month previous level and the continued strong increase in imports (see Chart 4). The recorded value of whole-economy exports in 2004 Q2 was EUR 10,677 million and that of imports EUR 11,473 million.<sup>3</sup>

**Chart 4**



<sup>3</sup> The size of imports cleared prior to EU accession due to administrative reasons played a role as a one-off effect in developments in imports in 2004 Q2.

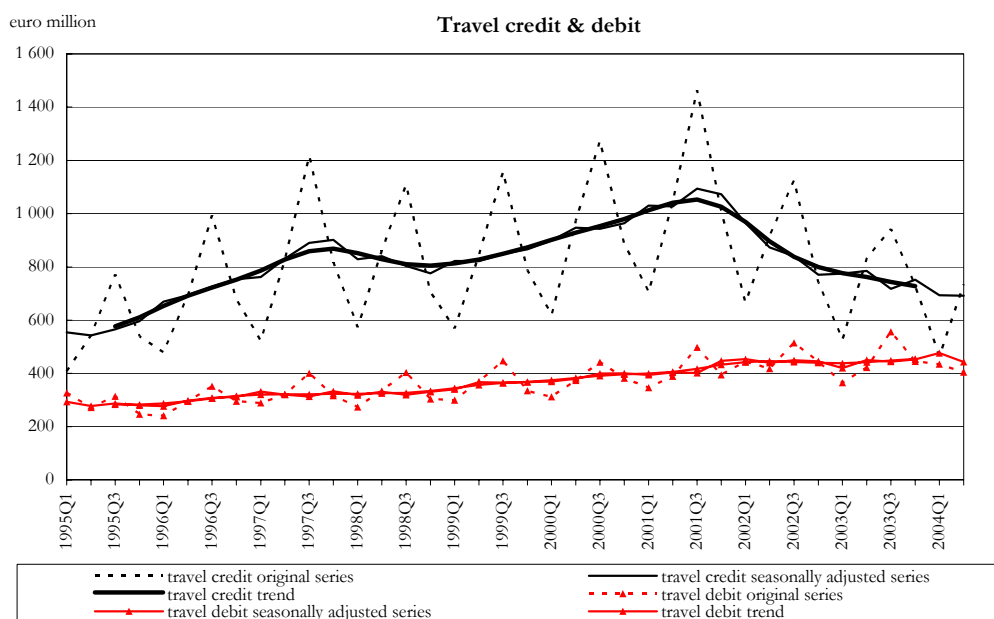
Within services, the balance on travel reflected slightly higher net revenue relative to the previous quarter. By contrast, the deficit on other services continued to fall as a trend since 2003 Q3 (see Chart 5).

**Chart 5**



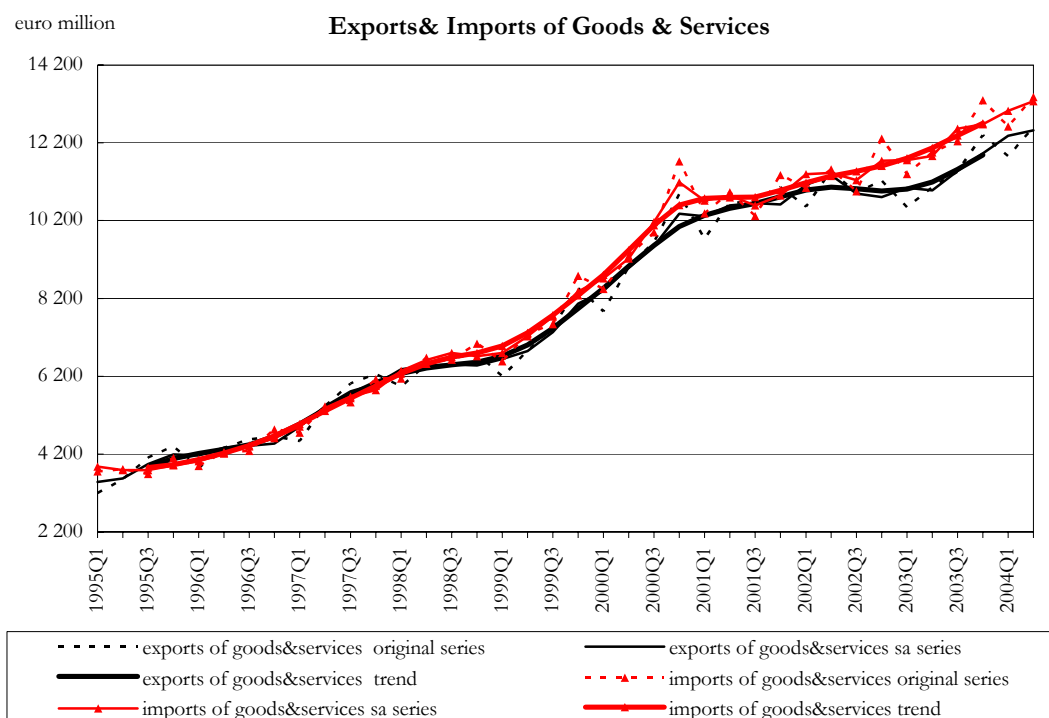
Seasonally adjusted travel revenue remained broadly level in 2004 Q2 relative to the previous quarter; however, travel expenditure fell slightly (see Chart 6).

**Chart 6**



The combined revenue data on goods and services exports rose at a slower rate than expenditure (see Chart 7).

Chart 7

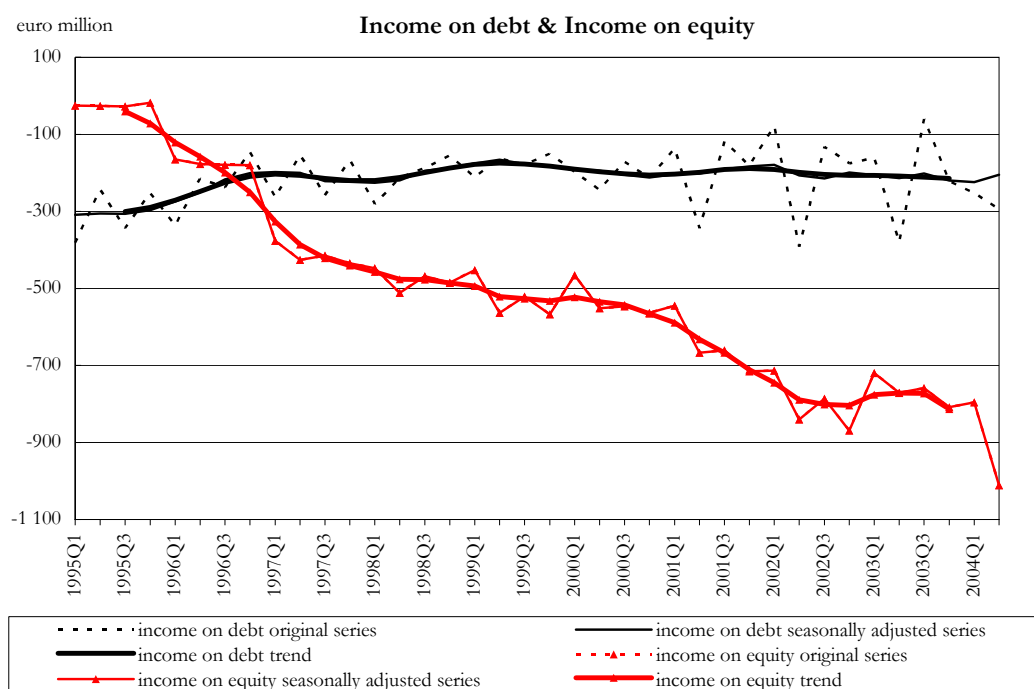


Developments in the balances on the income and transfer account were shaped by movements in income on equity and income on debt. In 2004 Q2, the balances on income on debt and on income on equity both improved. The balance on non-debt income deteriorated as an outlier relative to the previous quarter, which resulted from dividend payments by quoted firms with portfolio investors.<sup>4</sup> The effect of EU transfers was reflected in 2004 Q2; the earlier surplus on current transfers shifted to a deficit, due to Hungarian contribution to the community budget. The deficit on current transfers amounted to EUR 88 million in 2004 Q2.<sup>5</sup> As a combined effect of these, the seasonally adjusted balance on the income and transfer accounts deteriorated (see Chart 8).

<sup>4</sup> Non-debt items within portfolio investment do not include accrual-based income. Consequently, high dividend payments in June are strongly reflected in data.

<sup>5</sup> The seasonal adjustment indicated the second-quarter data as an outlier. However, the change caused by EU transfers makes adjusting the time series meaningless for the time being.

Chart 8



Inward and outward non-debt capital transactions showed a net outflow of EUR 15 million in 2004 Q2. The value of direct investment in equity capital (which also includes reinvested earnings) was the balance of transactions by Hungarian residents abroad in the amount of EUR 13 million and withdrawals by non-residents from Hungary in the amount of EUR 100 million. (Withdrawals were closely related to the recording of reinvested earnings. Excluding reinvested earnings, direct investment amounted to EUR 392 million and reinvested earnings amounted to EUR -492 million.<sup>6</sup>) Portfolio investment transactions in equity securities showed a net inflow of EUR 98 million in the quarter under review.

Central bank foreign exchange reserves amounted to EUR 10.5 billion at end-June 2004. Whole-economy gross foreign debt was EUR 3.3 billion higher than at the end of 2004 Q1. Hungary's net foreign debt increased by EUR 3.8 billion. Non-residents' holdings of forint-denominated government securities was EUR 10.1 billion at end-June 2004, EUR 0.2 billion lower than at the end of the previous quarter.

<sup>6</sup> Withdrawal may have been related to the fact that the Bank records the bulk of dividends declared payable, which, in turn, reduces the size of reinvested earnings.

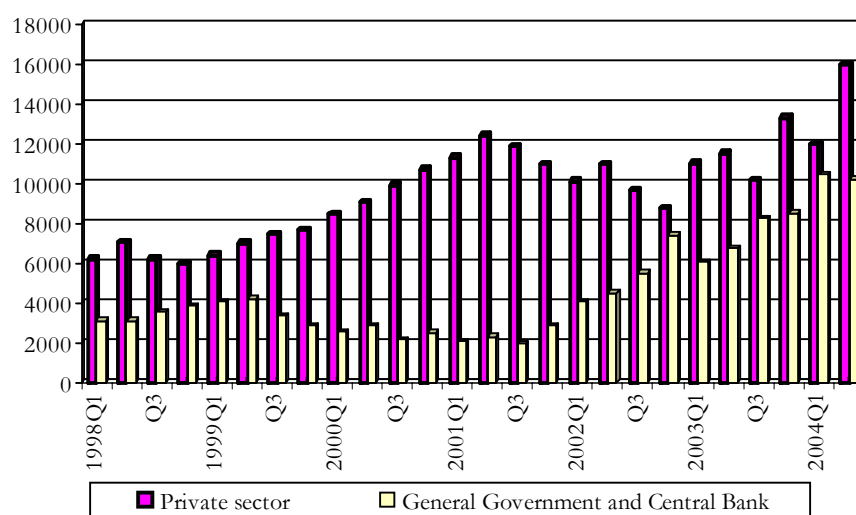
### Stock of Foreign debt of Hungary as of end of period

Euro million

|   | 2002        | 2003        | 2004        |             |
|---|-------------|-------------|-------------|-------------|
|   |             |             | Q1          | Q2          |
| <b>I. Gross foreign debt, Total Economy (S.1) (A+B)</b> | <b>39.2</b> | <b>48.1</b> | <b>49.1</b> | <b>52.4</b> |
| A: General government and Central bank (S.13+S.121)     | 18.4        | 20.1        | 21.3        | 21.4        |
| A.1. o/w.:debt denominated in HUF <sup>/1</sup>         | 7.6         | 8.9         | 10.3        | 10.1        |
| B. Private sector (S.1-S.13-S.121)                      | 20.8        | 28.0        | 27.8        | 31.0        |
| <b>II. Net foreign debt, Total Economy (S.1) (A+B)</b>  | <b>16.2</b> | <b>21.8</b> | <b>22.4</b> | <b>26.2</b> |
| A: General government and Central bank (S.13+S.121)     | 7.4         | 8.5         | 10.4        | 10.2        |
| A.1. o/w.:debt denominated in HUF <sup>/1</sup>         | 7.6         | 8.7         | 10.0        | 9.8         |
| B. Private sector (S.1-S.13-S.121)                      | 8.8         | 13.3        | 12.0        | 16.0        |

### Net foreign debt, Hungary 1998-2004

euro million



At the end of 2004 Q2, the net debt of general government and the MNB was lower relative to the end of the previous quarter. By contrast, the private sector's net debt increased significantly, mainly as a result of an increase in inter-company loans. higher increase in assets than in liabilities. Whole-economy net debt was EUR 26.2 billion at end-June. Total net external liabilities to non-residents, which also includes equity capital, amounted to EUR 63.9 billion.

# Balance of payments, Hungary

euro million

|   | 2002         |              |             |              |              | 2003         |              |              |              |              | 2004         |              |              |
|---|--------------|--------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|   | Q1           | Q2           | Q3          | Q4           | 2002         | Q1           | Q2           | Q3           | Q4           | 2003         | Q1           | Q2           | Q1+Q2        |
| <b>1. Goods, net</b>                              | <b>-458</b>  | <b>-247</b>  | <b>-505</b> | <b>-994</b>  | <b>-2203</b> | <b>-599</b>  | <b>-957</b>  | <b>-732</b>  | <b>-610</b>  | <b>-2898</b> | <b>-398</b>  | <b>-795</b>  | <b>-1193</b> |
| 1.1. Exports                                      | 8991         | 9587         | 8841        | 9401         | 36821        | 8994         | 9277         | 9542         | 10564        | 38377        | 10291        | 10677        | 20969        |
| 1.2. Imports                                      | 9449         | 9834         | 9346        | 10395        | 39024        | 9593         | 10233        | 10274        | 11174        | 41275        | 10689        | 11473        | 22162        |
| <b>2. Services and income, net</b>                | <b>-778</b>  | <b>-977</b>  | <b>-432</b> | <b>-1108</b> | <b>-3296</b> | <b>-1107</b> | <b>-1060</b> | <b>-832</b>  | <b>-1272</b> | <b>-4272</b> | <b>-1386</b> | <b>-1262</b> | <b>-2647</b> |
| 2.1. Services*, net                               | -29          | 210          | 461         | -99          | 542          | -257         | 55           | -42          | -285         | -529         | -367         | 13           | -354         |
| 2.1.1. Exports                                    | 1566         | 1893         | 2065        | 1819         | 7342         | 1545         | 1775         | 1923         | 1838         | 7082         | 1568         | 1915         | 3483         |
| 2.1.2. Imports                                    | 1595         | 1683         | 1604        | 1917         | 6800         | 1802         | 1720         | 1965         | 2123         | 7611         | 1936         | 1902         | 3837         |
| 2.2. Income, net                                  | -749         | -1187        | -893        | -1010        | -3838        | -850         | -1115        | -790         | -987         | -3742        | -1018        | -1275        | -2293        |
| 2.2.1. Income on debt, net                        | -79          | -392         | -132        | -176         | -779         | -161         | -380         | -61          | -222         | -823         | -253         | -294         | -547         |
| 2.2.2. Income on equity, net                      | -714         | -841         | -786        | -870         | -3210        | -720         | -771         | -759         | -808         | -3058        | -796         | -1012        | -1808        |
| 2.2.3. Compensation of employees, net             | 44           | 46           | 25          | 35           | 151          | 30           | 36           | 30           | 43           | 139          | 31           | 31           | 62           |
| <b>3. Current transfers</b>                       | <b>160</b>   | <b>157</b>   | <b>118</b>  | <b>91</b>    | <b>525</b>   | <b>147</b>   | <b>202</b>   | <b>145</b>   | <b>100</b>   | <b>594</b>   | <b>78</b>    | <b>-63</b>   | <b>15</b>    |
| <b>4. Current account balance</b>                 | <b>-1076</b> | <b>-1067</b> | <b>-820</b> | <b>-2011</b> | <b>-4974</b> | <b>-1559</b> | <b>-1815</b> | <b>-1419</b> | <b>-1783</b> | <b>-6576</b> | <b>-1705</b> | <b>-2120</b> | <b>-3825</b> |
| <b>5. Capital account balance</b>                 | <b>50</b>    | <b>62</b>    | <b>23</b>   | <b>68</b>    | <b>202</b>   | <b>-91</b>   | <b>9</b>     | <b>12</b>    | <b>38</b>    | <b>-32</b>   | <b>-63</b>   | <b>81</b>    | <b>18</b>    |
| <b>6. Net external financing capacity (4+5)</b>   | <b>-1026</b> | <b>-1005</b> | <b>-796</b> | <b>-1944</b> | <b>-4771</b> | <b>-1650</b> | <b>-1806</b> | <b>-1407</b> | <b>-1745</b> | <b>-6608</b> | <b>-1768</b> | <b>-2039</b> | <b>-3808</b> |
| <b>7. Non debt creating financing, net</b>        | <b>801</b>   | <b>-68</b>   | <b>1105</b> | <b>831</b>   | <b>2670</b>  | <b>311</b>   | <b>-190</b>  | <b>1463</b>  | <b>-1876</b> | <b>-292</b>  | <b>1124</b>  | <b>-15</b>   | <b>1109</b>  |
| 7.1. Abroad, net                                  | -44          | -2           | -101        | -72          | -219         | -385         | -119         | -60          | -803         | -1367        | -212         | -13          | -225         |
| 7.1.1. Equity capital                             | -36          | -5           | -89         | -60          | -191         | -367         | -115         | -38          | -781         | -1301        | -215         | -70          | -286         |
| 7.1.2. Reinvested earnings                        | -8           | 4            | -12         | -12          | -28          | -19          | -4           | -22          | -22          | -66          | 3            | 58           | 61           |
| 7.2. In Hungary, net                              | 732          | -6           | 1329        | 1013         | 3068         | 489          | -110         | 1374         | -901         | 852          | 1010         | -100         | 910          |
| 7.2.1. Equity capital                             | 260          | 236          | 531         | 130          | 1157         | -1           | 151          | 596          | -1733        | -987         | 531          | 392          | 923          |
| 7.2.2. Reinvested earnings                        | 472          | -242         | 798         | 883          | 1911         | 490          | -261         | 779          | 832          | 1839         | 479          | -492         | -13          |
| 7.3. Portfolio investment, equity securities, net | 113          | -60          | -123        | -110         | -179         | 208          | 39           | 148          | -173         | 223          | 326          | 98           | 424          |
| *- o/w: Travel, net                               | 223          | 498          | 611         | 297          | 1629         | 160          | 411          | 386          | 283          | 1241         | 30           | 329          | 359          |
| credit  | 666          | 915          | 1125        | 741          | 3448         | 526          | 832          | 942          | 729          | 3029         | 465          | 734          | 1199         |
| debit   | 444          | 418          | 514         | 444          | 1819         | 365          | 422          | 556          | 445          | 1788         | 435          | 404          | 839          |

## 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.        | Q. II.       |
| <b>1. Goods, net</b>                      | <b>-543</b> | <b>-272</b> | <b>-533</b>  | <b>-868</b>  | <b>-715</b>  | <b>-904</b>  | <b>-726</b>  | <b>-544</b>  | <b>-569</b>  | <b>-704</b>  |
| 1.1. Exports                              | 9248        | 9551        | 9114         | 8921         | 9241         | 9248         | 9835         | 10028        | 10563        | 10648        |
| 1.2. Imports                              | 9714        | 9714        | 9658         | 9926         | 9863         | 10109        | 10615        | 10670        | 10990        | 11334        |
| <b>2. Services and income, net</b>        | <b>-605</b> | <b>-811</b> | <b>-837</b>  | <b>-927</b>  | <b>-993</b>  | <b>-1005</b> | <b>-1124</b> | <b>-1143</b> | <b>-1204</b> | <b>-1227</b> |
| 2.1. Services                             | 293         | 149         | 141          | 50           | -41          | -68          | -171         | -159         | -174         | -173         |
| 2.1.1. Travel, net                        | 450         | 454         | 392          | 334          | 386          | 362          | 175          | 319          | 256          | 279          |
| credit                                    | 964         | 873         | 840          | 771          | 775          | 785          | 718          | 751          | 693          | 691          |
| debit                                     | 453         | 440         | 449          | 445          | 420          | 450          | 444          | 452          | 476          | 442          |
| 2.1.2. Other services, net                | -207        | -302        | -220         | -290         | -419         | -374         | -448         | -466         | -414         | -337         |
| credit                                    | 909         | 994         | 961          | 1030         | 1028         | 961          | 1003         | 1062         | 1110         | 1199         |
| debit                                     | 1145        | 1210        | 1243         | 1298         | 1368         | 1383         | 1506         | 1520         | 1606         | 1600         |
| 2.2. Income, net                          | -898        | -960        | -978         | -977         | -952         | -937         | -954         | -984         | -1030        | -1054        |
| 2.2.1. Income on debt, net                | -179        | -206        | -214         | -199         | -206         | -214         | -202         | -220         | -224         | -205         |
| 2.2.2. Income on equity, net              | -714        | -841        | -786         | -870         | -720         | -771         | -759         | -808         | -796         | -1012        |
| 2.2.3. Compensation of employees, net     | 42          | 41          | 33           | 33           | 32           | 33           | 34           | 37           | 33           | 32           |
| <b>3. Current transfers</b>               | <b>157</b>  | <b>135</b>  | <b>121</b>   | <b>114</b>   | <b>145</b>   | <b>177</b>   | <b>148</b>   | <b>122</b>   | <b>79</b>    | <b>-88</b>   |
| <b>4. Current account balance</b>         | <b>-998</b> | <b>-982</b> | <b>-1212</b> | <b>-1762</b> | <b>-1525</b> | <b>-1703</b> | <b>-1787</b> | <b>-1559</b> | <b>-1698</b> | <b>-1984</b> |
| <b>5. Capital account</b>                 | <b>85</b>   | <b>42</b>   | <b>22</b>    | <b>51</b>    | <b>35</b>    | <b>-13</b>   | <b>11</b>    | <b>20</b>    | <b>-17</b>   | <b>53</b>    |
| <b>6. Net external financing capacity</b> | <b>-905</b> | <b>-930</b> | <b>-1202</b> | <b>-1726</b> | <b>-1559</b> | <b>-1702</b> | <b>-1792</b> | <b>-1556</b> | <b>-1703</b> | <b>-1909</b> |



### Notes to the balance on the current and capital accounts

As a result of the latest revision of international statistical methodology in 1993, the structure of the balance of payments changed. With the introduction of the *capital account* with a different content and the change in the name of the sub-account (the earlier capital account) serving to recording financing transactions to *financial account*, it became consistent, both in terms of content and name, with the national accounts. This modification made it possible to record in the balance of payments (i) *transactions in non-financial assets*, relating to accumulation processes rather than to income and saving processes, previously recorded in the current account, and (ii) *unrequited capital transfers*, affecting financial and non-financial worth, consistent with macroeconomic statistical accounts.

Similarly to the national accounts, the *combined balance on the current and capital accounts* shows the size of an economy's *net external financing capacity*. This must be financed by transactions in financial instruments recorded in the financial account.

*Current transfers* recorded in the current account and *capital transfers* recorded in the capital account have a greater role with Hungary's accession to the EU. Although Hungary was a recipient of pre-accession funds in earlier years, EU funds have increased by orders of magnitude since the country's accession. In addition, Hungary has been burdened with a contribution obligation in a proportion to its gross national income. Recording this will increase the current account deficit to an extent which is not explained by developments in economic fundamentals. As EU funds related to development and investment are recorded in the capital account instead of the current account, the importance of the combined balance on the two sub-accounts (i.e. *the current and capital accounts*) will increase in analyses of external developments.

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The Bank will release data on Hungary's balance of payments and international investment position for 2004 Q3 on 31 December 2004.

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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 ( $Y_t = 1/9 \cdot X_{t-2} + 2/9 \cdot X_{t-1} + 3/9 \cdot X_t + 2/9 \cdot X_{t+1} + 1/9 \cdot X_{t+2}$ ), instead of the trend calculated by the programme.
- 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.