

31 December 2004

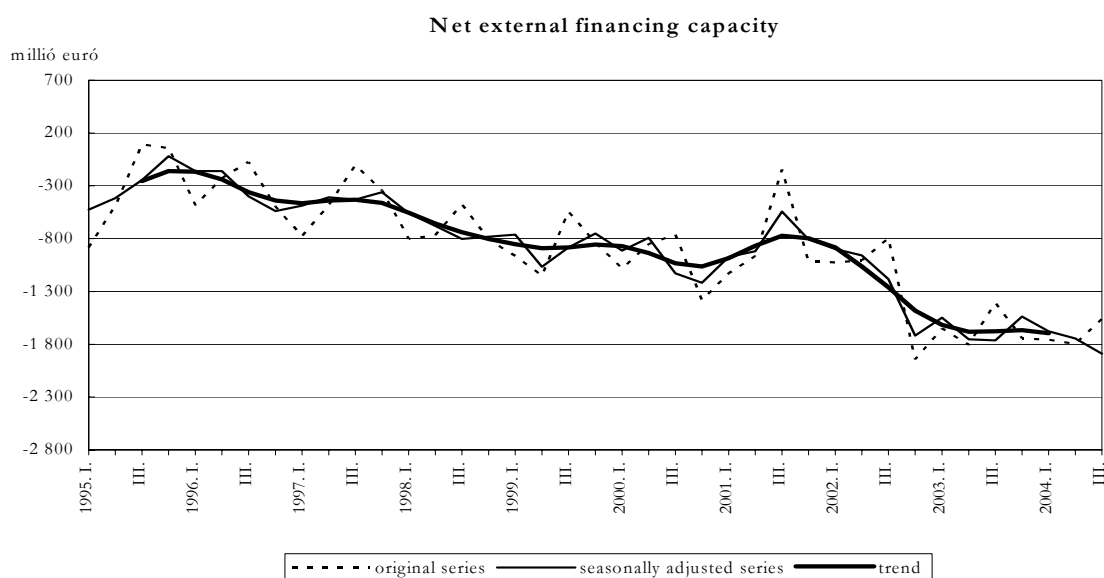
PRESS RELEASE

Hungary's balance of payments: 2004 Q3

Based on the quarterly data, Hungary's net external financing requirement (i.e. its combined current and capital account deficit) amounted to EUR 1,559 million in 2004 Q3. Here, the current account deficit amounted to EUR 1,729 million (see Chart 1).¹ The combined current and capital account deficit was partly offset by non-debt inflows of EUR 1,392 million. Hungary's seasonally adjusted net external financing requirement did not increase materially over a period of eight quarters.

By contrast, after eliminating the seasonal effects, the current account deficit continued to rise in 2004 Q3.² The divergence between the two indicators was caused by an increase in EU transfers recorded in the capital account.

Chart 1



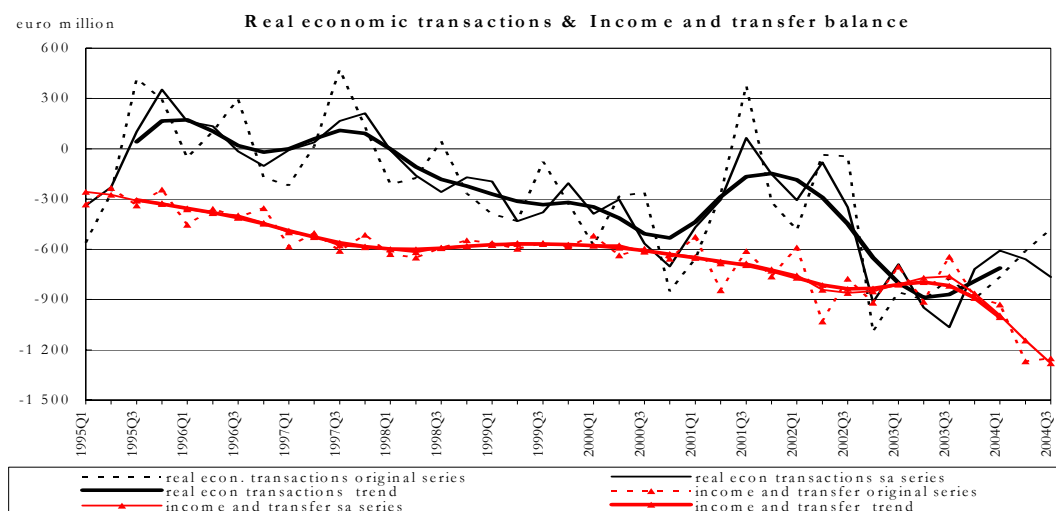
¹ The importance of current transfers to be recorded in the current account and of capital transfers to be recorded in the capital account has increased since Hungary's EU accession. Accordingly, the role of the balance on the current and capital accounts showing the country's net external financing 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.)*

² Community goods under customs inspection and stored mainly in customs warehouses at the time of Hungary's accession to the EU are not included in balance of payments statistics. According to information by the CSO, the total value of goods entered up to the end of September was some HUF 252.9 billion (some EUR 1,005 million). If further information becomes available as a result of the CSO's questionnaire-based survey of domestic firms, the Bank will record retroactively this item consistent with the national accounts, in the framework of its revision policy.

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

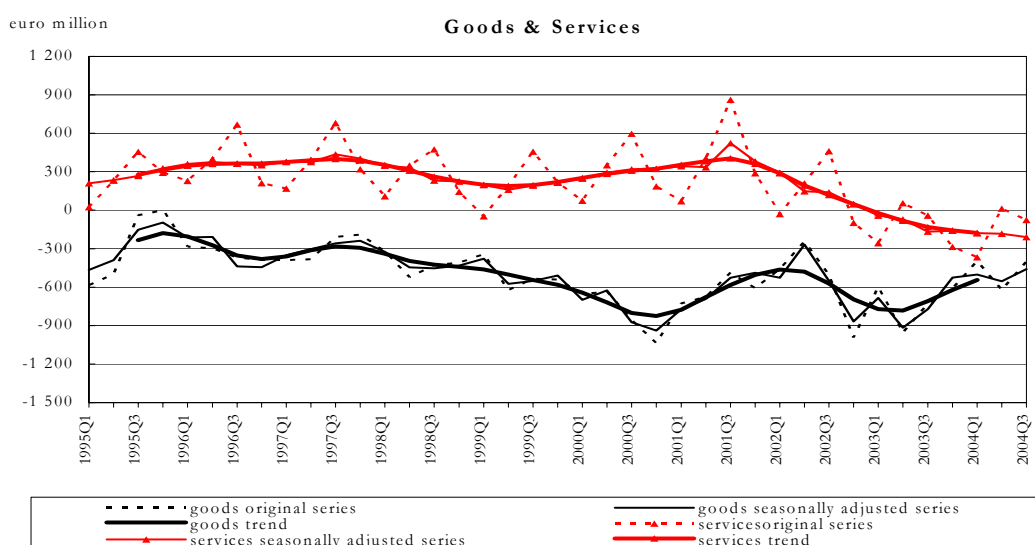
Over a longer period, developments in income and current transfers show rising deficits. This results partly from the accounting treatment of direct investment income, the higher costs of debt servicing closely related to the increase in Hungary's outstanding debt and partly from the fact that liabilities related to EU membership are recorded as current transfers (see Chart 2).

Chart 2



Compared with 2004 Q2, the higher deficits on the various components of services were dominant in the rise in seasonally adjusted deficit on real economic transactions.³ The seasonally adjusted goods deficit, however, fell relative to three months previously (see Chart 3).

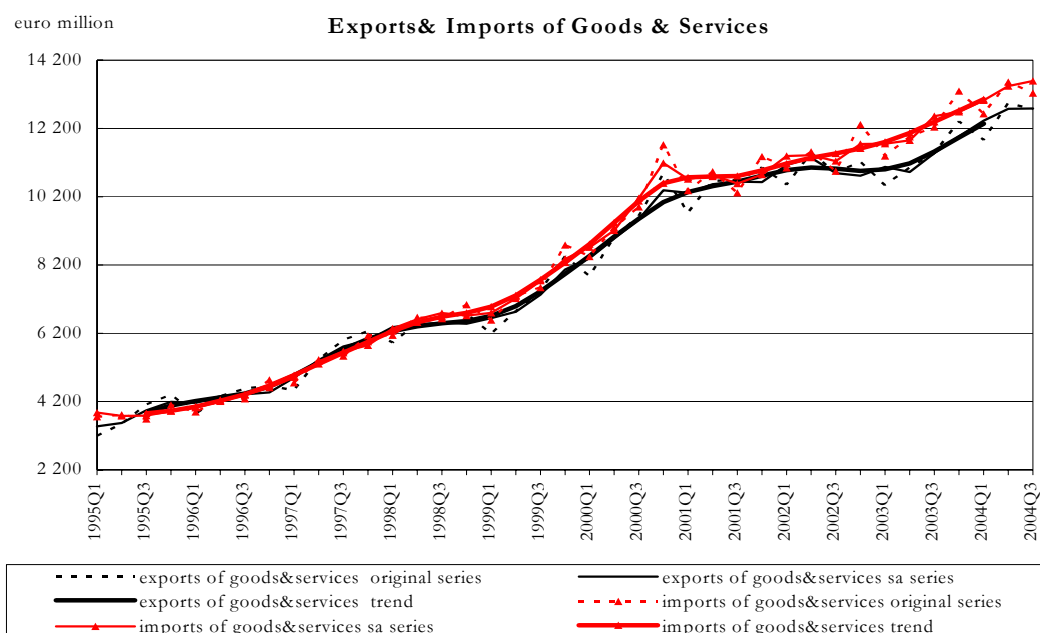
Chart 3



³ In the adjustment process, the balances are directly seasonally adjusted. This means that the total services time series are directly adjusted. As, however, subsequently we look at the components separately we find that the seasonally adjusted values of both travel and other services have fallen more strongly relative to the previous period than indicated by the time series of total services.

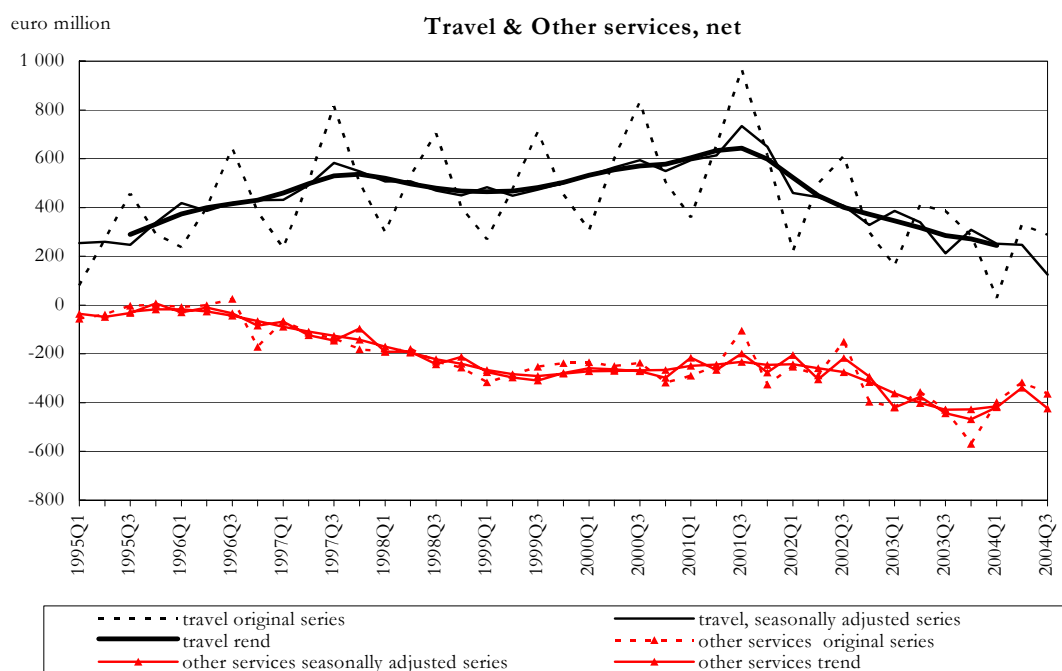
The improvement in the goods balance relative to the previous quarter was the result of exports rising slightly more strongly than imports (see Chart 4).

Chart 4



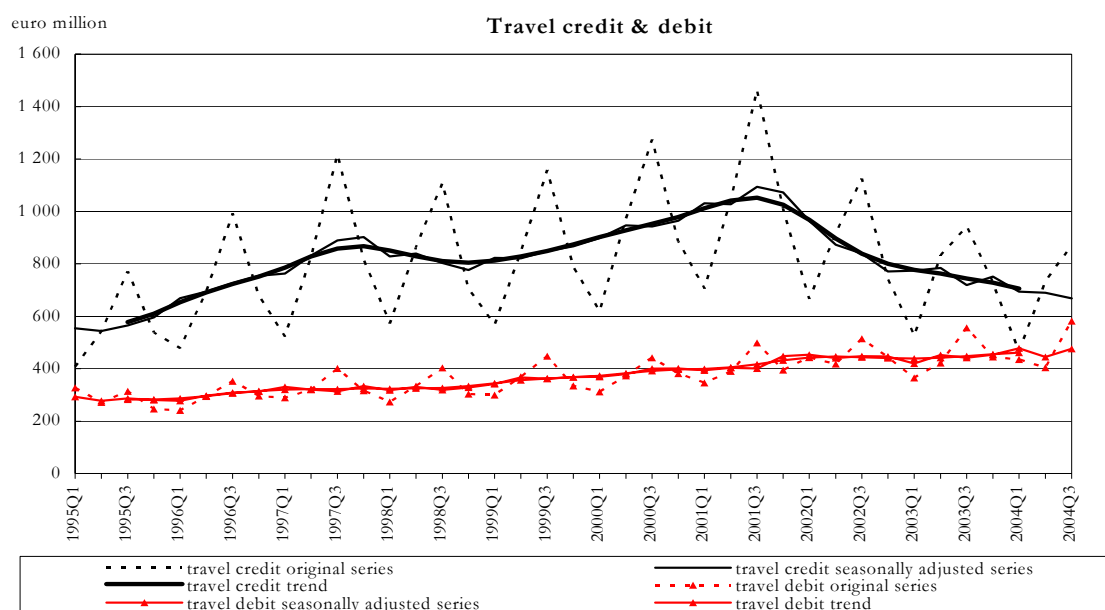
Within services, the balances on travel and other services both deteriorated in comparison with Q2: revenue fell and expenditure rose (see Chart 5).

Chart 5



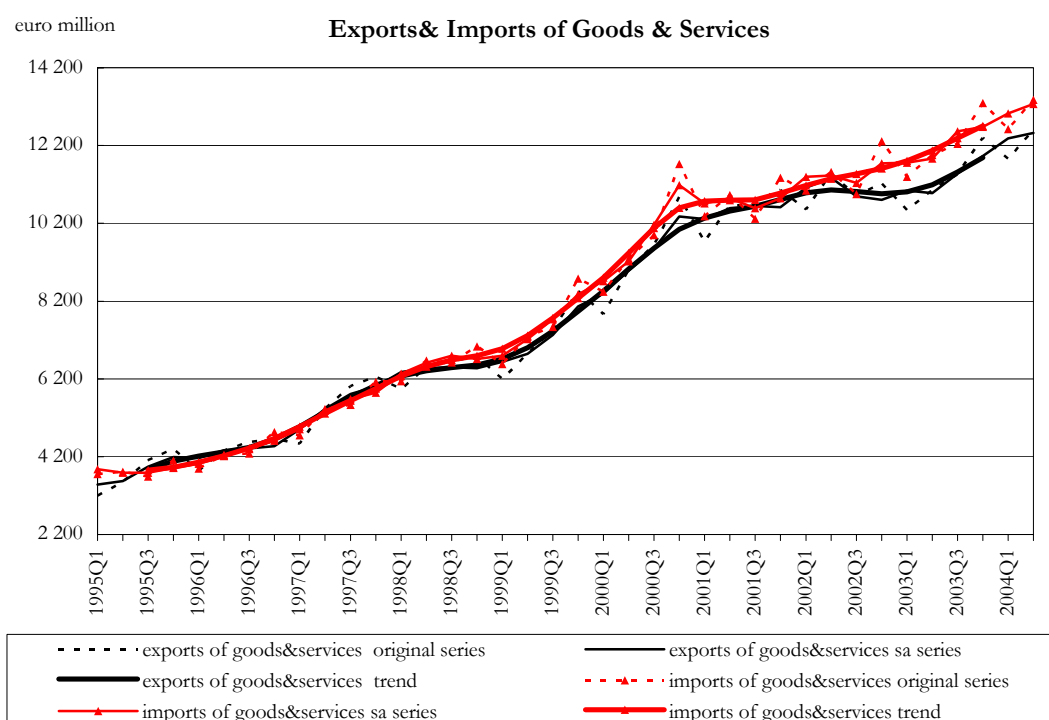
Seasonally adjusted travel revenue fell 2004 Q3 relative to the previous quarter; however, travel expenditure rose slightly (see Chart 6).

Chart 6



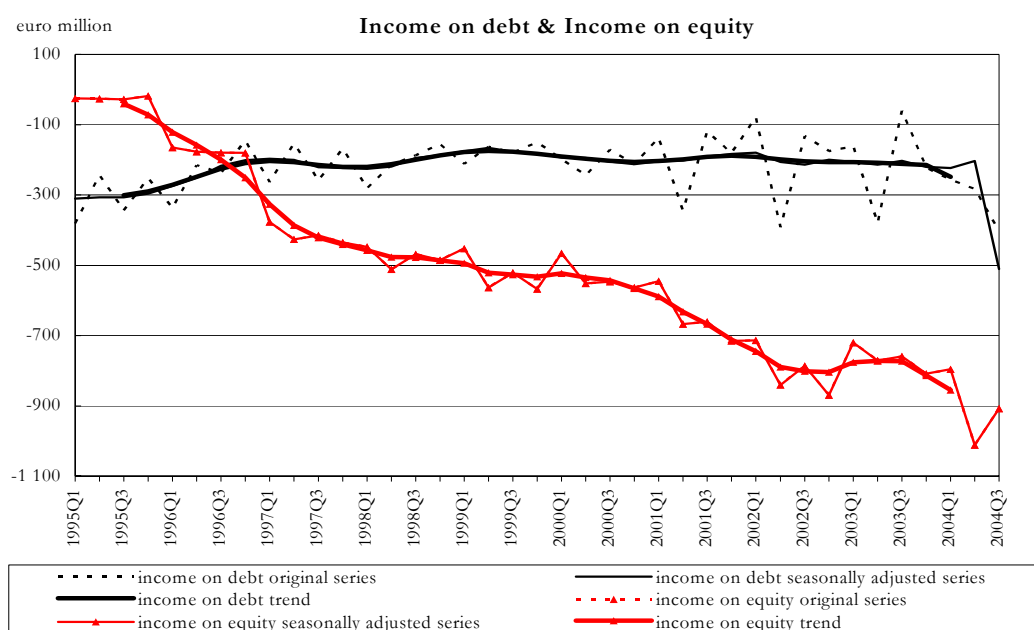
The combined revenue on trade in goods and services rose at a slower rate than expenditure (see Chart 7).

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 Q3, the balance on income on debt deteriorated, while the deficit on income on equity fell. The higher deficit on income on debt was caused by an increase in non-residents' holdings of forint-denominated government securities and, within direct investment, by rising interest payments on debt (see Chart 8).

Chart 8



From 2004 Q2, EU transfers have been reflected in the accounts. The deficit registered for the general government sector, resulting from Hungary's contribution to the Community budget, and the net revenue of other sectors offset each other in the data for Q3. The surplus on current transfers was EUR 31 million in the review period.⁴ As a combined effect of these, the balance on the income and transfer account continued to deteriorate.

Inward and outward non-debt capital transactions showed a net inflow of EUR 1,392 million in 2004 Q3. 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 45 million and those by non-residents in Hungary in the amount of EUR 1,251 million. Portfolio investment transactions in equity securities showed a net inflow of EUR 95 million in the quarter under review.

Central bank foreign exchange reserves amounted to EUR 10.5 billion at end-September 2004. Whole-economy gross foreign debt was EUR 2.9 billion higher than at the end of 2004 Q2. Hungary's net foreign debt increased by EUR 0.5 billion. Non-residents' holdings of forint-denominated government securities were EUR 9.9 billion at end-September 2004, EUR 1.0 billion higher than at the end of the previous quarter.

⁴ After seasonal adjustment, the second-quarter data proved to be an outlier, affecting several periods. The change caused by EU transfers makes adjusting the time series meaningless for the time being.

Table 1
Stock of Foreign debt of Hungary as of end of period

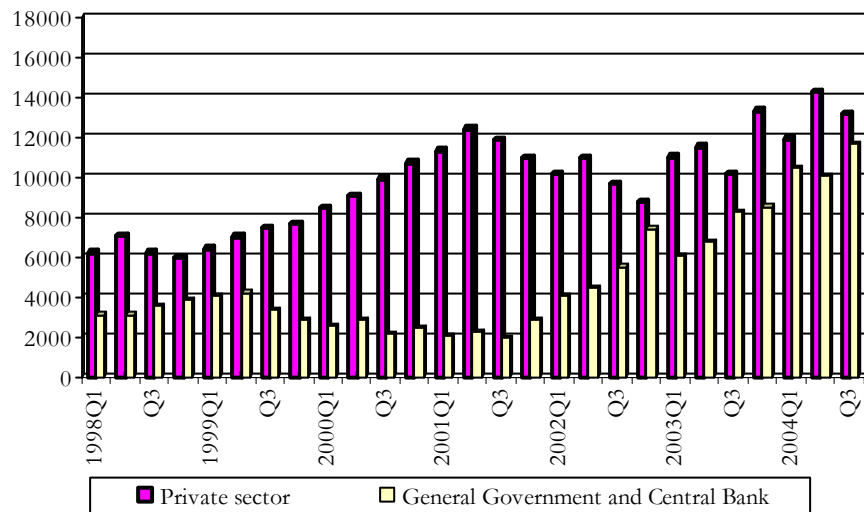
Euro million

	2002	2003	2004		
			Q1	Q2	Q3
I. Gross foreign debt, Total Economy (S.1) (A+B)	39,2	48,1	49,2	51,4	54,3
A: General government and Central bank (S.13+S.121)	18,4	20,1	21,3	21,2	22,7
A.1. o/w:debt denominated in HUF ^{/1}	7,6	8,9	10,3	9,7	10,9
B. Private sector (S.1-S.13-S.121)	20,8	28,0	27,9	30,2	31,6
II. Net foreign debt, Total Economy (S.1) (A+B)	16,2	21,8	22,4	24,3	24,8
A: General government and Central bank (S.13+S.121)	7,4	8,5	10,5	10,1	11,6
A.1. o/w:debt denominated in HUF ^{/1}	7,6	8,7	10,0	9,5	10,7
B. Private sector (S.1-S.13-S.121)	8,8	13,3	11,9	14,3	13,1

Chart 9

Net foreign debt, Hungary 1998-2004

euro million



At the end of 2004 Q3, the net debt of general government and the MNB was higher relative to the end of the previous quarter. By contrast, the private sector's net debt fell. Whole-economy net debt was EUR 24.8 billion at end-September. Total net external liabilities to non-residents, which also includes equity capital, amounted to EUR 65.6 billion.

Table 2
Balance of payments, Hungary

euro million

	2002					2003					2004			
	Q1	Q2	Q3	Q4	2002	Q1	Q2	Q3	Q4	2003	Q1	Q2	Q3	Q1-Q3
1. Goods, net	-458	-247	-505	-994	-2203	-599	-957	-732	-610	-2898	-398	-624	-403	-1425
1.1. Exports	8991	9587	8841	9401	36821	8994	9277	9542	10564	38377	10291	11033	10756	32080
1.2. Imports	9449	9834	9346	10395	39024	9593	10233	10274	11174	41275	10689	11656	11159	33504
2. Services and income, net	-778	-977	-432	-1108	-3296	-1107	-1060	-832	-1272	-4272	-1389	-1251	-1357	-3997
2.1. Services*, net	-29	210	461	-99	542	-257	55	-42	-285	-529	-368	13	-76	-430
2.1.1. Exports	1566	1893	2065	1819	7342	1545	1775	1923	1838	7082	1568	1916	2003	5487
2.1.2. Imports	1595	1683	1604	1917	6800	1802	1720	1965	2123	7611	1936	1903	2079	5917
2.2. Income, net	-749	-1187	-893	-1010	-3838	-850	-1115	-790	-987	-3742	-1022	-1264	-1281	-3567
2.2.1. Income on debt, net	-79	-392	-132	-176	-779	-161	-380	-61	-222	-823	-257	-283	-403	-943
2.2.2. Income on equity, net	-714	-841	-786	-870	-3210	-720	-771	-759	-808	-3058	-796	-1012	-908	-2715
2.2.3. Compensation of employees, net	44	46	25	35	151	30	36	30	43	139	31	31	30	92
3. Current transfers	160	157	118	91	525	147	202	145	100	594	93	-4	31	120
4. Current account balance	-1076	-1067	-820	-2011	-4974	-1559	-1815	-1419	-1783	-6576	-1695	-1878	-1729	-5302
5. Capital account balance	50	62	23	68	202	-91	9	12	38	-32	-63	81	169	187
6. Net external financing capacity (4+5)	-1026	-1005	-796	-1944	-4771	-1650	-1806	-1407	-1745	-6608	-1758	-1797	-1559	-5114
7. Non debt creating financing, net	801	-68	1105	831	2670	311	-190	1463	-1876	-292	1124	-27	1392	2489
7.1. Abroad, net	-44	-2	-101	-72	-219	-385	-119	-60	-803	-1367	-212	-122	45	-289
7.1.1. Equity capital	-36	-5	-89	-60	-191	-367	-115	-38	-781	-1301	-215	-179	62	-333
7.1.2. Reinvested earnings	-8	4	-12	-12	-28	-19	-4	-22	-22	-66	3	58	-17	44
7.2. In Hungary, net	732	-6	1329	1013	3068	489	-110	1374	-901	852	1010	-3	1251	2258
7.2.1. Equity capital	260	236	531	130	1157	-1	151	596	-1733	-987	531	489	323	1343
7.2.2. Reinvested earnings	472	-242	798	883	1911	490	-261	779	832	1839	479	-492	928	916
7.3. Portfolio investment, equity securities, net	113	-60	-123	-110	-179	208	39	148	-173	223	326	98	95	519
*- o/w: Travel, net	223	498	611	297	1629	160	411	386	283	1241	30	329	288	647
credit	666	915	1125	741	3448	526	832	942	729	3029	465	734	870	2069
debit	444	418	514	444	1819	365	422	556	445	1788	435	404	582	1421

Table 3
Balance of payments, Hungary (seasonally adjusted data) ^{a)}

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.	Q. III.
1. Goods, net	-528	-268	-552	-868	-683	-915	-770	-526	-502	-555	-460
1.1. Exports	9266	9531	9111	8926	9263	9221	9832	10037	10593	10964	11083
1.2. Imports	9719	9695	9659	9940	9868	10088	10617	10686	10996	11491	11531
2. Services and income, net	-606	-812	-838	-929	-993	-1008	-1118	-1145	-1212	-1240	-1663
2.1. Services	292	148	140	48	-42	-70	-167	-159	-179	-182	-210
2.1.1. Travel, net	459	443	407	329	386	339	212	309	252	247	125
credit	964	873	840	771	775	785	719	751	694	689	668
debit	453	440	448	447	420	452	441	453	478	445	476
2.1.2. Other services, net	-205	-304	-217	-293	-420	-375	-443	-467	-419	-338	-424
credit	905	993	970	1027	1020	959	1018	1061	1101	1191	1178
debit	1145	1210	1242	1299	1369	1382	1506	1521	1607	1600	1684
2.2. Income, net	-898	-960	-978	-977	-952	-938	-951	-985	-1033	-1058	-1453
2.2.1. Income on debt, net	-180	-206	-214	-200	-205	-214	-202	-221	-224	-203	-511
2.2.2. Income on equity, net	-714	-841	-786	-870	-720	-771	-759	-808	-796	-1012	-908
2.2.3. Compensation of employees, net	42	41	33	33	32	34	34	37	33	32	33
3. Current transfers	157	136	120	114	145	179	146	123	93	-26	31
4. Current account balance	-992	-1009	-1194	-1755	-1515	-1750	-1759	-1545	-1671	-1815	-2046
5. Capital account	89	49	10	50	36	-2	-8	18	-10	71	144
6. Net external financing capacity	-898	-959	-1183	-1718	-1548	-1754	-1763	-1536	-1676	-1745	-1890

Methodological notes and explanation of data revisions

- A. With Hungary's accession to the EU and the complete removal of customs barriers, community goods under customs inspection and stored mainly in customs warehouses, are being entered continuously, irrespective of their origin and destination. According to information by the CSO, this exercise amounted to some HUF 252.9 billion (some EUR 1,005 million) up to the end of September. Most of the changes of ownership of these goods between residents and non-residents affected earlier periods. Consequently, the Bank has not been recording the above amount in the balance of payments.
- B. In accordance with its announced data revision policy, at end-December 2004 the Bank is releasing balance of payments and international investment position statistics for 2004 Q3, simultaneously with the release of revised data for 2004 Q1 and Q2. the revision of data for Q1 and Q1 has resulted in the following major changes:
- The current account deficit for 2004 H1 was EUR 253 million lower (some 0.7% of GDP on an annual level) relative to the data as at end-September. Accordingly, the deficit in H1 amounted to 9.4% of GDP. The improvement in the goods balance explained EUR 172 million of the change in current account balance, which resulted from the adjustment of trade data. In addition, the EUR 74 million surplus on current transfers also affected the current account balance outcome, which resulted in part from the adjustment to taxes on non-residents' dividend income on investments in equity capital in Hungary.
 - Revisions to financial account items, showing developments in external financing, amounted to a total EUR 194 million. Direct investment capital inflow was EUR 231 million higher in H1 relative to the data as at end-September. This adjustment was related practically in full to other capital flows, at the same time as equity capital holdings by non-residents in Hungary and those by Hungarian residents abroad increasing by nearly EUR 100 million. This revision also affected liability positions in financial derivatives, as a result of which the balance on portfolio investments fell by EUR 339 million. The balance on other investments also fell, by EUR 86 million.

As a combined effect of the adjustments and data processing errors discussed above, the stock data published for June in September were adjusted as follows:

- Whole-economy gross external debt, including other FDI capital, at end-June was revised down by EUR 1 billion, to EUR 51.4 billion, from the previously released data. The net external debt was revised down by EUR 1.9 billion, to 24.3 billion at end-June.
- Non-residents' holdings of forint-denominated government securities were adjusted downwards by EUR 0.4 billion from the previous release. According to the revised data, their amount was EUR 8.9 billion at end-June.

* * * * *

The Bank will release data on Hungary's balance of payments and international investment position for 2004 Q4 on 31 March 2005. Also on 31 March 2005, the Bank will release detailed statistical data on 2003 inward and outward direct investment.

* * * * *

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 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.

MAGYAR NEMZETI BANK
STATISTICS DEPARTMENT