

30 December 2005

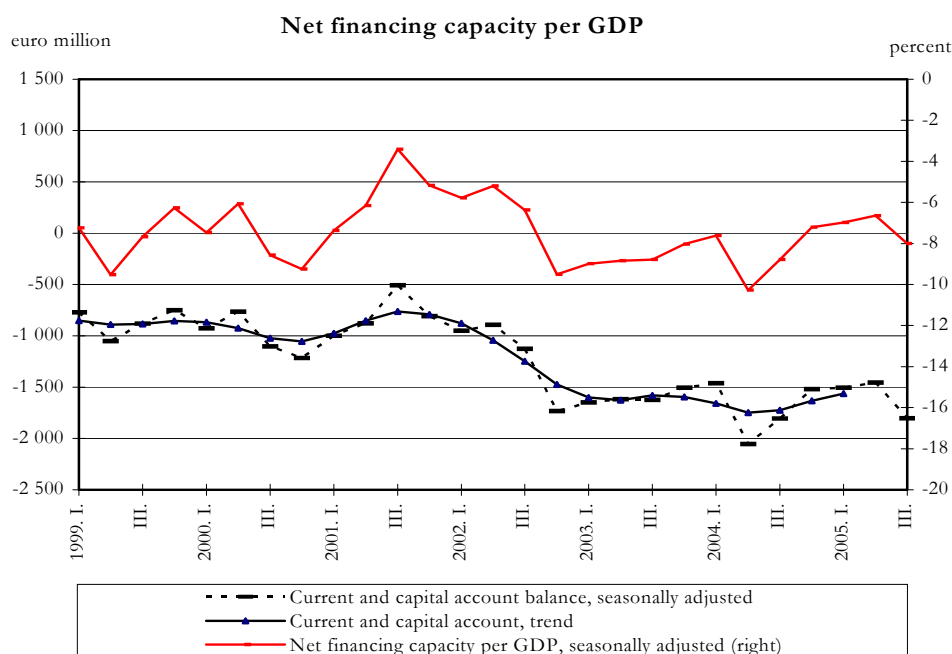
PRESS RELEASE

Hungary's balance of payments: 2005 Q3

- In line with its announced method of releasing and revising balance of payments data, on 30 December 2005 the Bank is publishing 2005 Q3 statistical data for the first time, simultaneously with releasing revised 2005 Q1–Q2 data.. Hungary's current account deficit was EUR 110 million higher than released earlier, due to the revision by the CSO of data on trade in goods and services.

According to quarterly data, Hungary's net financing capacity (i.e. its combined current and capital account balance) showed a deficit of EUR 1,622 million in 2005 Q3.¹ After adjusting for seasonal effects, Hungary's net external financing requirement amounted to EUR 1,802 million, or 8% of GDP (see Chart 1). Expressed in domestic currency, the net financing capacity amounted to HUF 417 billion in Q3. The net external financing requirement rose relative to the previous quarter. This resulted from two factors: (i) the increase in the trade deficit and (ii) the negative balance of transfers related to Hungary's EU membership, recorded under current and capital transfers. The dates of actually drawing on EU funds explain the quarterly differences between the amounts recorded in the balance of payments, as Hungary's GNI-proportionate contribution to the EU budget is recorded in equal amounts. Consequently, developments in the quarterly balance cannot be considered a trend effect.

Chart 1



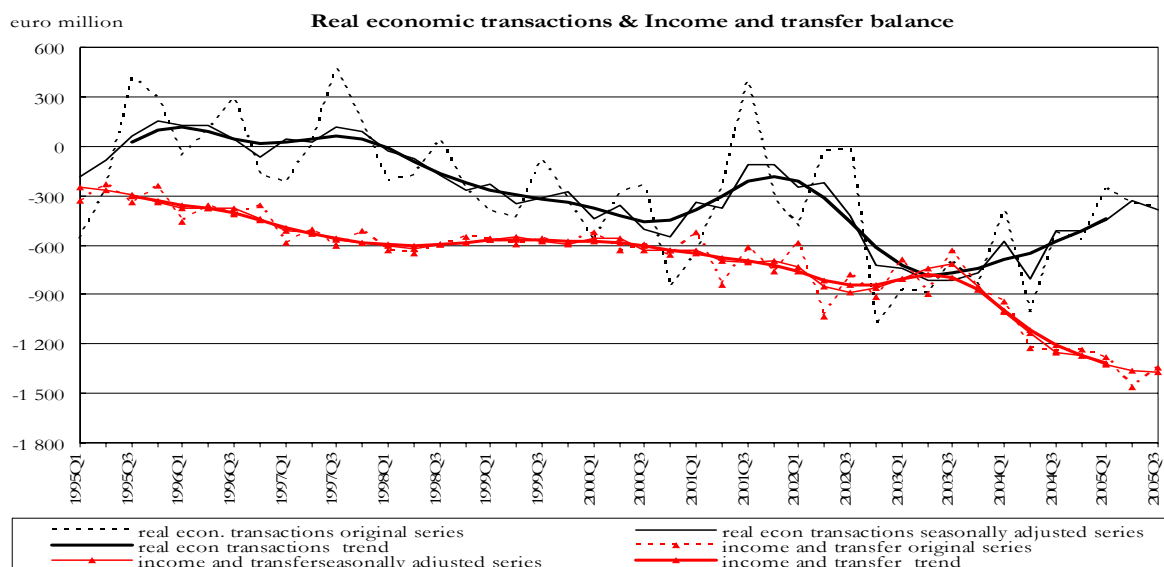
¹ Due to the change in the method of data recording, discussed in the September 2005 press release on Hungary's balance payments, which was related to the incorporation of foreign trade data released by the CSO, the financing requirement amounted to EUR 2,154 million in a bottom-up approach. For details on the adopted approach, see the introductory notes in the Bank's September 2005 balance of payments release. Due to revising Q1–Q2 data, the gap between financing requirements calculated in a bottom-up and top-down approach fell by some EUR 170 million.

The current account deficit amounted to EUR 1,697 million in 2005 Q3. After adjusting for seasonal effects, the deficit rose relative to the previous quarter, coming in at EUR 1.867 million.

Real economic transactions, and particularly those in goods, played a dominant role in the increase in the current account deficit relative to the previous quarter (see Chart 2).

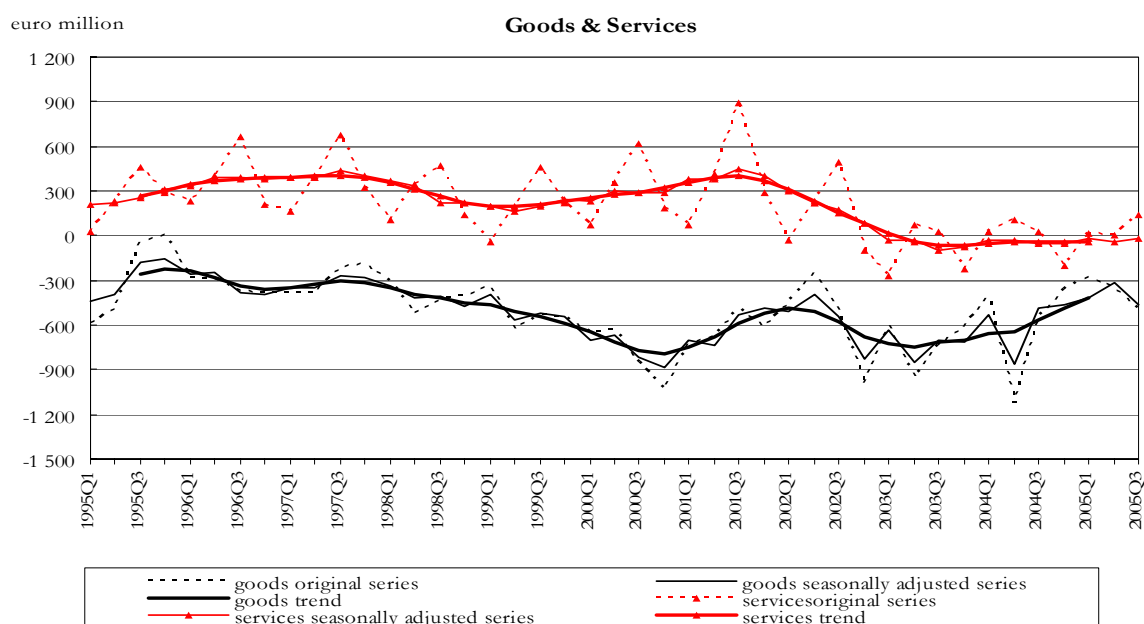
The deficit on income and current transfers amounted to EUR 1,340 million in Q3. After adjusting for seasonal effects, the deficit was EUR 1,371 million. The amount of deficit did not change materially in comparison with earlier periods (see Chart 2).

Chart 2



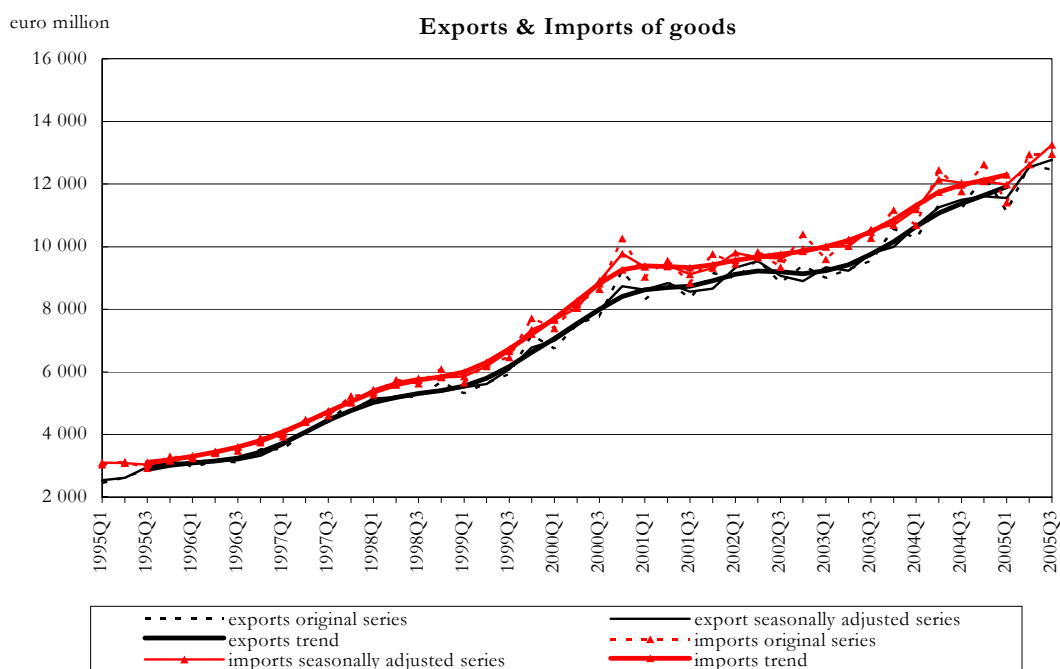
The balance on real economic transactions stopped improving in Q3, due to the higher current account deficit. After adjusting for seasonal affects, the goods deficit amounted to EUR 464 million. The services account deficit has not changed materially in the past two years, remaining less than EUR 50 million on a quarterly basis in 2005 (see Chart 3).

Chart 3



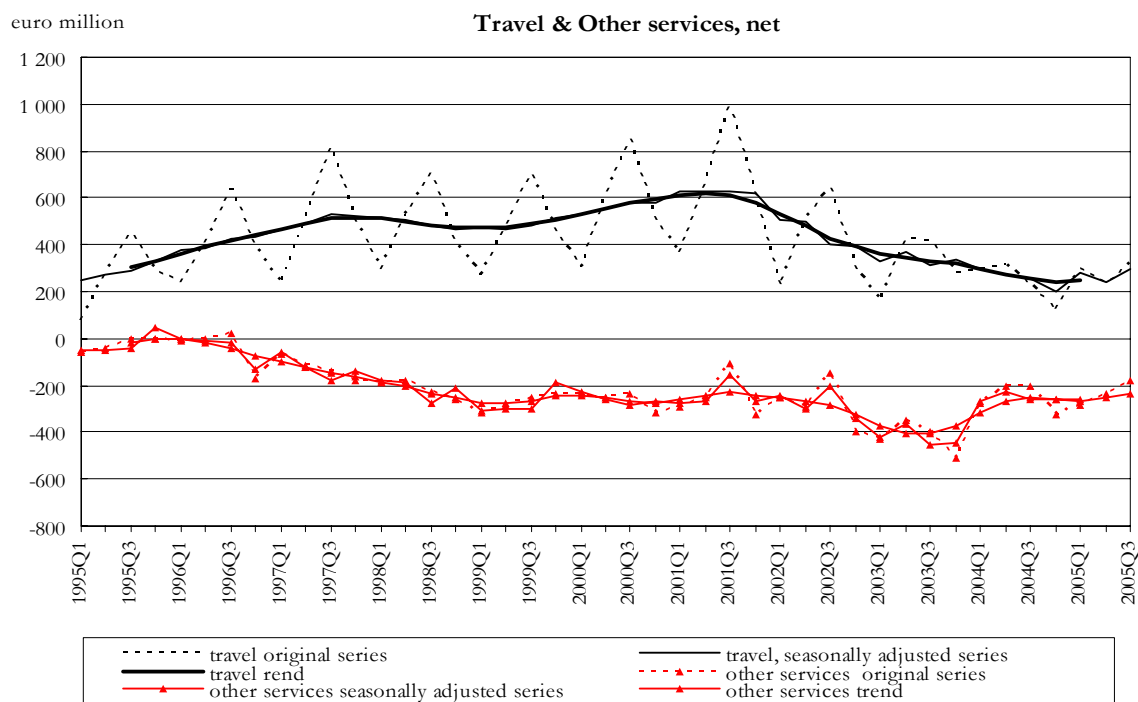
In 2005 Q3, the seasonally adjusted values of exports and imports both increased (approximating or slightly exceeding EUR 13 billion). However, the rate of import growth was faster than that of export growth in the quarter under review (see Chart 4).

Chart 4



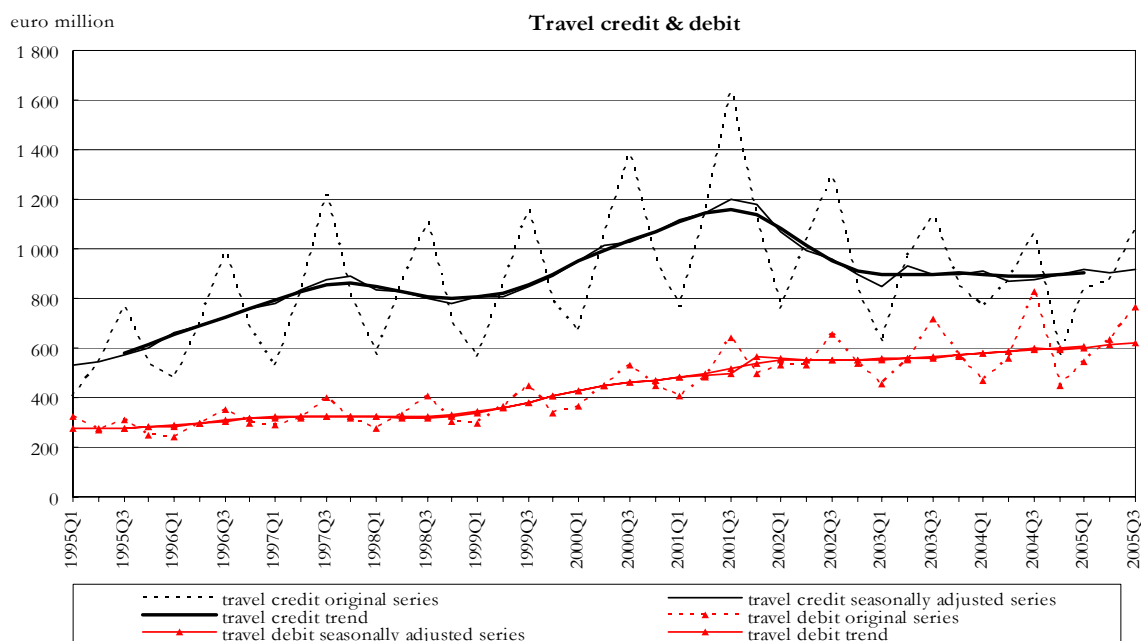
Within services, the seasonally adjusted travel surplus rose, amounting to nearly EUR 300 million. The deficit on other services remained amounting to less than EUR 250 million (see Chart 5).

Chart 5



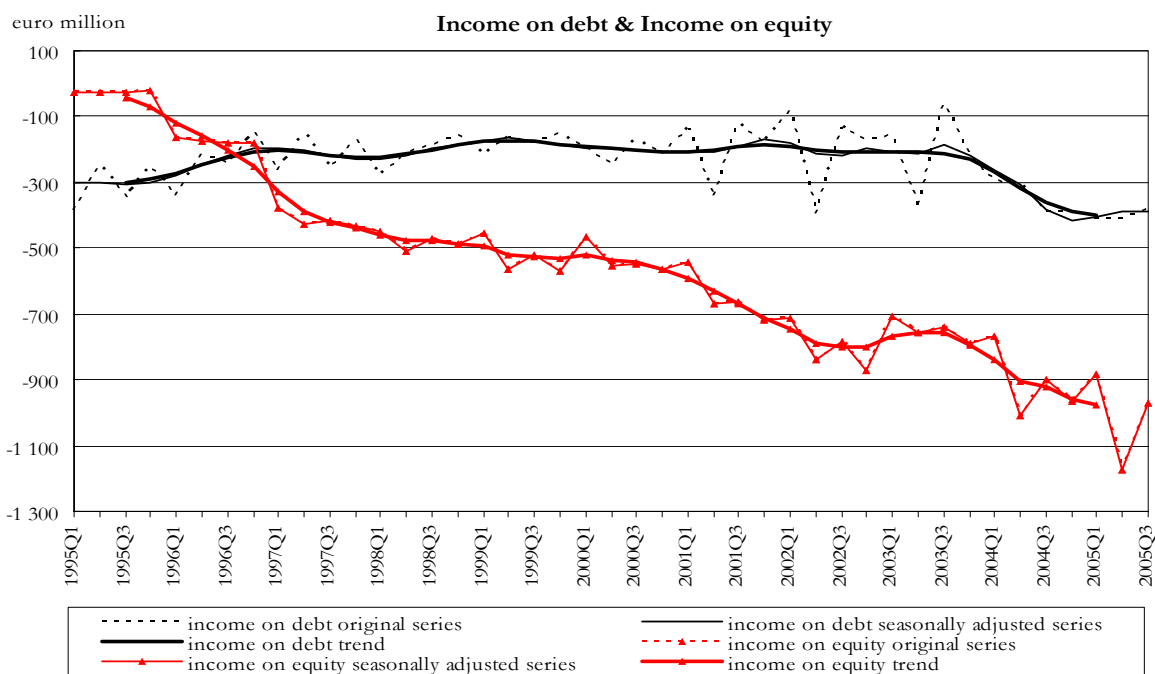
Developments in seasonally adjusted travel revenue and expenditure were small in 2005 Q3. However, growth in revenue was faster than that in expenditure in the quarter (see Chart 6).

Chart 6



Developments in the balances on the income and transfer account were shaped by movements in income on equity and income on debt. In 2005 Q3, the seasonally adjusted deficit on income on debt amounted to nearly EUR 400 million. Negative income on equity was slightly less than EUR 1 billion in the period.² The deficits on income on debt and income on equity have been rising steadily since 2003 Q3 (see Chart 7).

Chart 7



The surplus on current transfers was EUR 7 million in the review period.

² This time series does not include seasonal patterns, consequently, the seasonally adjusted value equals the not seasonally adjusted value.

Recorded as current transfers, Hungary's contribution to the Community budget was some EUR 96 million higher than the amount of transfers received from EU institutions. Including capital transfers, Hungary registered a surplus of nearly EUR 10 million from transfers with the EU.

Inward and outward non-debt capital transactions showed a net inflow of EUR 1,952 million in 2005 Q3. The value of direct investment in equity capital, including reinvested earnings, was the balance of transactions by Hungarian residents abroad in the amount of EUR 16 million and those by non-residents in Hungary in the amount of EUR 1,358 million. Portfolio investment transactions in equity securities showed a net inflow of EUR 609 million in the quarter under review.

Central bank foreign exchange reserves amounted to EUR 14.6 billion at end-September 2005. Whole-economy gross foreign debt was EUR 2.3 billion higher than at the end of 2005 Q2. Gross foreign debt, including other investment capital recorded within direct investment, rose by EUR 2.1 billion in the period. Hungary's net foreign debt rose by EUR 0.9 billion, and by EUR 0.1 billion including other investment capital recorded within direct investment. Non-residents' holdings of forint-denominated government securities amounted to EUR 10.5 billion at end-September 2005, EUR 0.5 billion higher than at the end of the previous quarter.

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

	2003	2004	2005		
			Q1	Q2	Q3
III. Gross foreign debt, Total Economy (S.1) /1	38,8	47,3	50,4	53,5	55,8
II. Net foreign debt, Total Economy (S.1) /1	16,6	21,5	21,9	23,9	24,8
I. Gross foreign debt, Total Economy (S.1) (A+B) /2	47,6	57,0	60,4	64,8	66,9
A: General government and Central bank (S.13+S.121)	20,1	24,0	26,2	27,1	27,6
A.1. o/w:debt denominated in HUF /3	8,9	11,0	11,4	11,0	11,2
B. Private sector (S.1-S.13-S.121)	27,6	33,0	34,3	37,7	39,3
II. Net foreign debt, Total Economy (S.1) (A+B) /2	21,4	26,8	27,5	31,1	31,2
A: General government and Central bank (S.13+S.121)	8,6	11,7	12,1	12,0	12,3
A.1. o/w:debt denominated in HUF /3	8,7	10,8	11,1	10,6	10,9
B. Private sector (S.1-S.13-S.121)	12,9	15,0	15,3	19,1	18,9

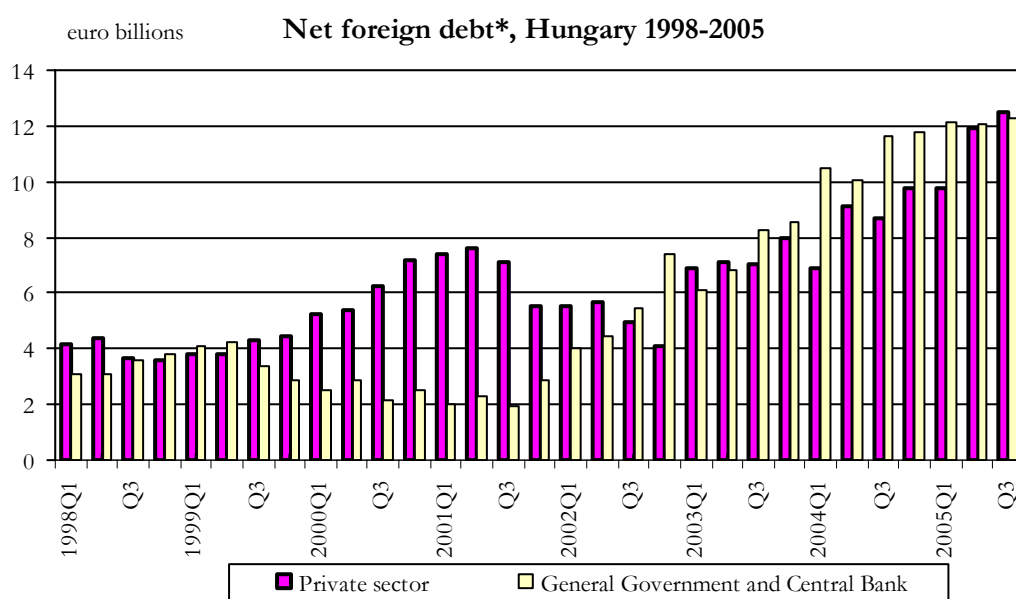
/ 1 Excluding other investment capital recorded within direct investment.

/ 2 Including other investment capital.

/ 3 Securities + other.

Note: Due to rounding, sub-totals may not add to total.

Chart 8



At the end of 2005 Q3, the net debt of general government and the MNB rose by EUR 0.3 billion. Whole-economy net debt was EUR 24.8 billion at end-September (28.5% of GDP). Including other investment capital recorded within direct investment, Hungary's net debt amounted to EUR 31.2 billion (36.0% of GDP).

Table 2
Balance of payments, Hungary

euro million

	2003					2004					2005			
	Q. I.	Q. II.	Q. III.	Q. IV.	Q. I-Q. IV.	Q. I.	Q. II.	Q. III.	Q. IV.	Q. I-Q. IV.	Q. I.	Q. II.	Q. III.	Q. I-Q. III.
1. Goods, net	-599	-957	-732	-610	-2898	-405	-1129	-551	-361	-2446	-278	-344	-498	-1121
1.1. Exports	8994	9277	9542	10564	38377	10277	11319	11208	12270	45074	11127	12597	12462	36186
1.2. Imports	9593	10233	10274	11174	41275	10683	12447	11759	12631	47520	11405	12942	12960	37307
2. Services and income, net	-1106	-1026	-751	-1196	-4079	-1007	-1179	-1233	-1525	-4944	-1255	-1560	-1192	-4007
2.1. Services*, net	-269	73	23	-227	-401	24	108	25	-206	-49	17	-1	142	158
2.1.1. Exports	1623	1914	2140	1998	7674	1895	2084	2325	1991	8294	2114	2352	2690	7155
2.1.2. Imports	1892	1840	2117	2225	8075	1871	1975	2300	2197	8343	2096	2353	2548	6998
2.2. Income, net	-837	-1100	-773	-968	-3678	-1031	-1287	-1258	-1319	-4895	-1273	-1559	-1333	-4165
2.2.1. Income on debt, net	-161	-380	-61	-222	-823	-293	-307	-390	-388	-1379	-413	-410	-385	-1208
2.2.2. Income on equity, net	-706	-756	-742	-789	-2994	-769	-1011	-898	-965	-3642	-883	-1173	-973	-3029
2.2.3. Compensation of employees, net	30	36	30	43	139	31	31	30	35	126	23	24	25	73
3. Current transfers	148	202	145	100	595	88	59	19	88	254	-11	93	-7	75
4. Current account balance	-1557	-1781	-1337	-1706	-6382	-1324	-2249	-1766	-1797	-7136	-1545	-1812	-1697	-5053
5. Capital account balance	-91	9	12	38	-32	-54	2	177	135	260	171	183	75	429
6. Net external financing capacity (4+5)	-1649	-1772	-1325	-1668	-6414	-1378	-2247	-1589	-1662	-6876	-1374	-1628	-1622	-4624
7. Non debt creating financing, net	297	-204	1468	-1572	-11	780	-135	1387	1246	3278	121	-1393	1952	680
7.1. Abroad, net	-388	-120	-41	-808	-1358	-307	-211	-57	-215	-790	-483	-571	-16	-1070
7.1.1. Equity capital	-369	-115	-16	-781	-1281	-215	-179	60	-96	-430	-479	-706	-63	-1248
7.1.2. Reinvested earnings	-19	-6	-25	-27	-77	-92	-32	-117	-119	-360	-4	135	48	178
7.2. In Hungary, net	476	-122	1361	-592	1123	764	-22	1346	1147	3236	780	-520	1358	1618
7.2.1. Equity capital	-1	151	596	-1410	-664	237	464	327	55	1082	314	332	337	983
7.2.2. Reinvested earnings	477	-274	766	818	1788	528	-486	1020	1092	2154	466	-852	1021	635
7.3. Portfolio investment, equity securities, net	208	39	148	-173	223	322	98	99	314	833	-175	-302	609	132
*. o/w: Travel, net	160	423	422	283	1288	300	315	232	116	962	299	231	319	849
credit	618	972	1138	849	3577	767	874	1061	562	3265	844	867	1082	2793
debit	457	550	716	565	2289	468	560	829	446	2302	545	636	763	1944

Note: Due to rounding, sub-totals may not add to total.

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

euro million

	2003				2004				2005		
	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	-639	-848	-707	-717	-533	-864	-484	-467	-420	-321	-464
1.1. Exports	9337	9230	9785	9999	10670	11260	11493	11614	11553	12532	12779
1.2. Imports	9998	10015	10551	10694	11186	12142	12040	12090	11986	12623	13256
2. Services and income, net	-964	-954	-966	-1040	-1138	-1165	-1380	-1372	-1376	-1452	-1422
2.1. Services	-28	-28	-99	-74	-31	-29	-56	-50	-22	-47	-14
2.1.1. Travel, net	332	371	311	341	301	270	253	204	277	237	296
credit	847	930	894	899	913	870	878	895	920	904	919
debit	553	560	561	575	582	584	599	596	603	615	618
2.1.2. Other services, net	-419	-367	-452	-449	-265	-226	-261	-259	-271	-252	-232
credit	1037	960	1012	1083	1171	1225	1269	1358	1326	1499	1607
debit	1373	1388	1468	1489	1522	1537	1561	1591	1625	1701	1860
2.2. Income, net	-936	-927	-867	-967	-1107	-1136	-1324	-1321	-1353	-1405	-1408
2.2.1. Income on debt, net	-210	-214	-188	-219	-264	-306	-383	-416	-404	-391	-387
2.2.2. Income on equity, net	-706	-756	-742	-789	-769	-1011	-898	-965	-883	-1173	-973
2.2.3. Compensation of employees, net	32	34	34	37	34	32	31	29	26	26	26
3. Current transfers	139	183	159	113	79	39	35	101	-21	73	11
4. Current account balance	-1604	-1623	-1616	-1525	-1455	-2047	-1966	-1650	-1699	-1631	-1867
5. Capital account	-91	9	12	38	-54	2	177	135	171	183	75
6. Net external financing capacity	-1649	-1619	-1624	-1505	-1463	-2055	-1807	-1520	-1504	-1457	-1802

* * * * *

The Bank will release data on Hungary's balance of payments and international investment position for 2005 Q4 on 31 March 2006. Simultaneously with this, the Bank will also release detailed direct investment data for 2004.

* * * * *

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 Of the various *outliers*, the software identifies additive outliers and transitory changes.
- 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' (www.mnb.hu).
- 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