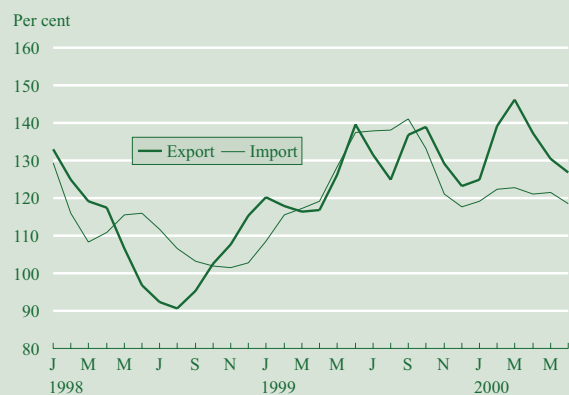


### III. FOREIGN TRADE AND PAYMENTS

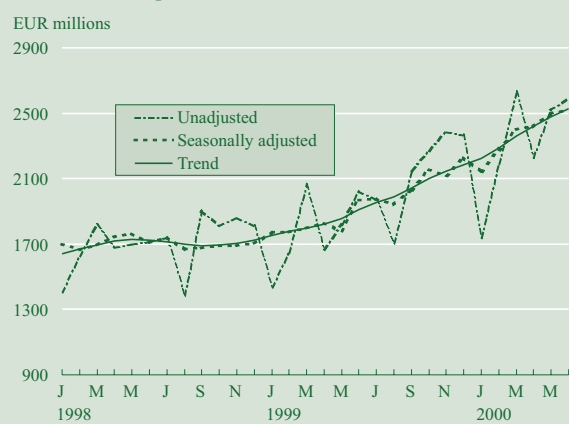
#### Foreign trade

After seasonal adjustment, the upward slope of the trend of Hungarian merchandise exports was significantly sharper than the comparable indicator for imports in the first half of 2000. The slope of import growth remained broadly level throughout the period. That contrasted with export growth, which turned downwards gradually. The trend of the merchandise trade balance practically flattened out in 2000 H1.

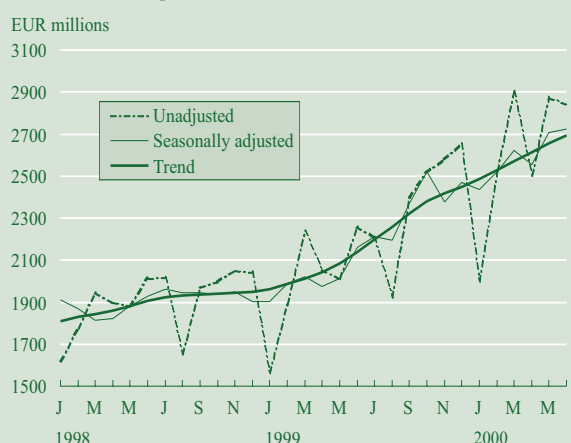
**Annualised growth rates of merchandise foreign trade**  
In euros; preceding month = 100



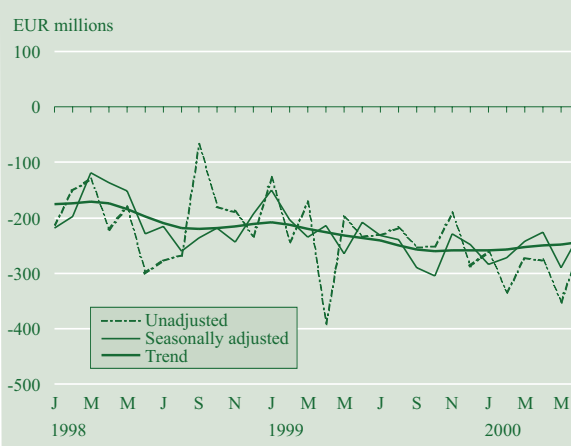
**Merchandise exports**



**Merchandise imports**



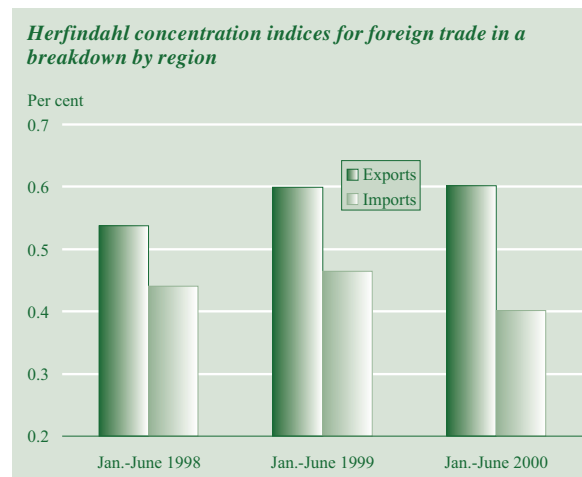
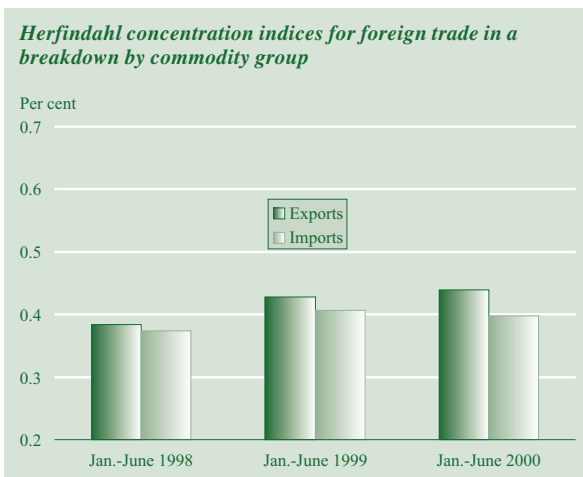
**Trade balance**



The year-on-year growth rate of goods exports was higher than that of imports in June 2000. However, comparing actual figures for the first halves of 1999 and 2000, the growth rates of inward and outward trade developed evenly. Although more modestly than in the preceding few months of the year, movements in exchange rates continued to exercise a strong influence on growth rates denominated in euros – the euro exchange

Major indicators of foreign trade						
	Exports		Imports		Balance	
	June	January–June	June	January–June	June	January–June
Available data (€ millions; 1999)	2,023.0	10,643.0	2,255.8	12,011.2	–232.8	–1,368.2
Available data (€ millions; 2000)	2,518.0	13,788.2	2,775.1	15,562.1	–257.1	–1,773.9
Value indices (%), same period of previous year = 100						
Calculated from available data	124.5	129.6	123.0	129.6	–	–
Reflecting forthcoming adjustments*	127.9	130.6	126.0	130.3	–	–
Volume indices***	–	122.1	–	118.8	–	–

\* Estimate.  
 \*\* Indices calculated using unit value indices released by the CSO for January–June and foreign trade values reported by the MEA.



rate against the dollar was 9.4% weaker in June and 13.4% weaker on average in the first six months of the year than in the comparable periods of 1999.

While the growth rates of exports and imports were broadly even in nominal terms, the volume of merchandise exports was higher in 2000 H1 than in 1999 H1, which translated into a deterioration in Hungary's terms of trade. That was the consequence mainly of the considerable increase in the price of imported energy.

The unadjusted figures, expressed in euros, show that the value of Hungarian goods trade, reflecting seasonal factors, was higher in June relative to the preceding month's outcome. But, diverging from the seasonal pattern, imports fell. As a result, the merchandise trade balance improved somewhat compared with May.

The regional pattern of Hungarian imports showed quite a large degree of variation in 2000 H1 – the percentage share accounted for by developed countries and

Foreign trade by major groups of commodity*								
	1999	2000				1999	2000	
	June	April	May	June	January–June	January–June	January–June	
<i>Trade volume, € millions</i>								
<b>EXPORTS</b>								
Food, beverages, tobacco	146.8	155.6	177.4	197.3	780.8	982.9	7.3	7.1
Raw materials	43.1	54.1	60.5	53.5	252.3	317.1	2.4	2.3
Energy	25.1	39.1	39.9	40.8	175.4	237.8	1.6	1.7
Manufactured goods	654.0	681.2	774.3	724.2	3,421.9	4,184.1	32.2	30.3
Machinery, equipment	1,154.0	1,287.9	1,448.2	1,502.2	6,012.6	8,066.2	56.5	58.5
<b>Total</b>	<b>2,023.0</b>	<b>2,217.8</b>	<b>2,500.4</b>	<b>2,518.0</b>	<b>10,643.0</b>	<b>13,788.2</b>	<b>100.0</b>	<b>100.0</b>
<b>IMPORTS</b>								
Food, beverages, tobacco	73.5	72.8	82.9	77.8	396.9	440.9	3.3	2.8
Raw materials	45.6	59.0	67.7	56.7	277.3	361.2	2.3	2.3
Energy	122.5	209.6	187.4	218.6	639.2	1,157.0	5.3	7.4
Manufactured goods	875.8	916.5	1,108.8	1,035.3	4,702.8	5,805.1	39.2	37.3
Machinery, equipment	1,138.3	1,242.4	1,413.8	1,386.7	5,995.1	7,797.8	49.9	50.1
<b>Total</b>	<b>2,255.8</b>	<b>2,500.3</b>	<b>2,860.6</b>	<b>2,775.1</b>	<b>12,011.2</b>	<b>15,562.1</b>	<b>100.0</b>	<b>100.0</b>

\* Data for 2000 are preliminary.

Direction of foreign trade*								
Országcsoport	1999	2000			1999	2000	1999	2000
	June	April	May	June	January–June		January–June	
EXPORTS	Trade volume, € millions						Distribution, %	
Developed countries	1,687.3	1,863.3	2,081.3	2,110.6	8,925.8	11,605.8	83.9	84.2
EU	1,530.7	1,692.5	1,900.4	1,903.1	8,122.5	10,550.7	76.3	76.5
CEECs	231.4	287.3	323.6	322.0	1,284.4	1,732.7	12.1	12.6
CEFTA	152.8	179.6	205.7	207.2	840.6	1,101.4	7.9	8.0
CIS	42.4	59.7	64.5	63.5	238.7	345.8	2.2	2.5
Developing countries	88.3	60.0	86.6	74.4	374.8	402.3	3.5	2.9
Other countries	15.9	7.2	8.8	11.0	58.1	47.4	0.5	0.3
Total	2,023.0	2,217.8	2,500.4	2,518.0	10,643.0	13,788.2	100.0	100.0
IMPORTS								
Developed countries	1,724.4	1,755.2	2,060.4	1,931.3	9 129.1	11,088.8	76.0	71.3
EU	1,498.2	1,471.2	1,731.1	1,623.5	7 918.8	9,332.6	65.9	60.0
CEECs	300.7	428.0	434.1	467.3	1 603.5	2,534.9	13.4	16.3
CEFTA	161.7	186.9	207.9	218.7	850.6	1,157.9	7.1	7.4
CIS	134.8	228.9	216.3	240.4	725.5	1,329.6	6.0	8.5
Developing countries	186.7	208.8	265.2	273.0	1 021.2	1,414.7	8.5	9.1
Other countries	44.1	108.3	100.8	103.5	257.5	523.7	2.1	3.4
Total	2,255.8	2,500.3	2,860.6	2,775.1	12 011.2	15,562.1	100.0	100.0

\* Data for 2000 are preliminary.

\* Data for 2000 are preliminary.

the degree of concentration both fell, while the share of the other groups of countries increased relative to the same period of 1999. Simultaneously, the degree of concentration according to regions did not intensify, explained by the fact that exports to the CEFTA and the CIS states picked up to grow at rates which were comparable with, and at times even stronger than, those of exports to the developed countries.

Exports of practically all important commodity groups rose in June and the first half of 2000 relative to the comparable periods of 1999. The pattern of merchandise exports did not change significantly, though, with a slight increase in the percentage share of machinery and equipment at the expense of a fall in the percentage share that manufactured goods accounted for within whole-economy goods exports. The developed countries, and members of the EU in particular, continued to constitute the major markets for exports of machinery and equipment.<sup>1</sup>

As regards whole-economy imports, year-on-year growth in imports of machinery and equipment was broadly comparable with the whole-economy average in June and the period January–June, leaving the ratio of this commodity group to total imports broadly unaffected. Within imports of machinery and equipment,

<sup>1</sup> This is indicated by the changing shares of the developed countries and the EU within Hungarian exports of machinery and equipment – they rose from 92% and 83% in the first half of 1999 to 93% and 85% in the same period of 2000.

<sup>2</sup> The percentage shares that the developed countries and the EU accounted for within Hungarian imports of machinery and equipment were 83% and 71% in 1999 H1, compared with 77% and 63% in 2000 H1.

<sup>3</sup> There were considerable increases not only in imports of energy but each major commodity group as well from the CIS states in the first half of 2000 relative to the same period of 1999.

however, the percentages that the developed countries and members of the EU accounted for declined, with a simultaneous increase in those of the other important country groups, including the CEFTA region, the CIS states and the Far East.<sup>2</sup> That, however, was the principal consequence of multinationals with production bases in Hungary importing an increasing proportion of their input directly from the Far East instead of their west European distribution bases, rather than a weakening of Hungary's economic contacts with the developed countries.

The volume of Hungarian food industry goods trade, and the surplus on food trade, were both higher in June and the first half of 2000 than the outcomes recorded in the comparable periods of 1999. Due to the base effect, inward and outward trade with the CIS states and Russia rose particularly strongly. However, though only slightly, the percentage share of the region within whole-economy foreign trade fell.

Slightly lower in volume, the value of energy imports was €520 million higher in 2000 H1 relative to the same period of 1999. That was due to movements in the price of crude oil. As 75% of imported energy in the period was from the CIS states (in 1999 the CIS accounted for 68% of imported energy), the increase in the price of imported energy made a significant contribution to the increase in the percentage share that the CIS states accounted for within whole-economy imports (the fall in the degree of regional concentration can be traced to this factor).<sup>3</sup>

In 2000 H1, foreign trade of almost every major category of commodity with the CEFTA and the CIS rose markedly relative to the year earlier period. However, it was only imports from the CIS region which increased

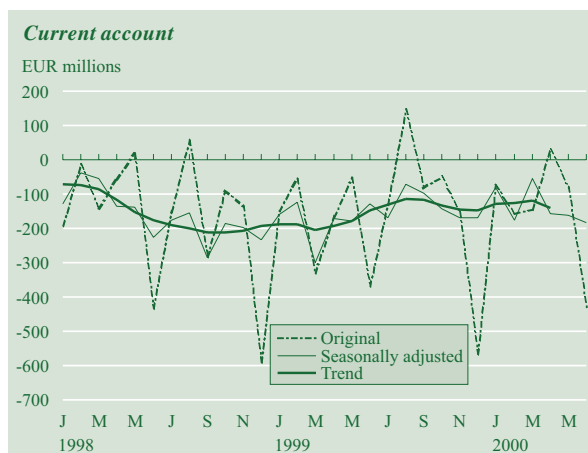
PROCESSING TRADE						
2000 turnover data						
	Processing exports				Imports of materials for inward processing	
	Full value		Material content			
	June	January–June	June	January–June	June	January–June
Available data (€ millions; 1999)	375.3	2,095.1	281.7	1,572.1	367.7	1,911.5
Available data(€ millions; 2000)	488.9	2,554.7	387.0	1,968.9	452.3	2,368.3
Value indices on dollar basis; same period of previous year = 100						
Calculated from available data	130.3	121.9	137.4	125.2	123.0	123.9
Reflecting forthcoming adjustments***	133.9	122.9	141.2	126.5	126.0	124.6
* Estimate.						
** Taking account of prospective adjustments.						
Ratios*						
					Per cent	
	1999		2000			
	June	January–June	June	January–June		
Processing exports as a percentage of total exports	18.6	19.7	19.4	18.5		
Fee content of processing exports	25.0	25.0	20.9	23.0		
Imports of materials as a percentage of total imports	16.3	15.9	16.3	15.2		
* 2000 data reflect ratios after removal of forthcoming adjustments and the exchange rate effect.						

their share as a percentage of Hungarian imports, mainly assisted by the rise in energy prices already noted.

In terms of value added, the ratio of processing exports to finished goods exports was slightly lower in June and January–June 2000 in a year-on-year comparison. There was no perceptible change in the share which materials for processing accounted for within whole-economy exports and imports in June, but, taking the first half of the year, it fell on both the export and import sides, the drop affecting the former more than the latter.<sup>4</sup>

## The current account and financing

In June 2000, the current account ran a deficit of €429 million. After seasonal adjustment, the current account was €183 million in deficit, rising relative to both the preceding month and June 1999. The trend, derived



### Developments in the seasonally adjusted current account data

	€ millions			
	1999 June	2000		
		April	May	June
Trade balance*	-194	-158	-170	-173
Exports	1,625	2,188	2,251	2,278
Imports	1,783	2,373	2,554	2,401
Tourism	170	215	204	209
Non-debt-related income flows	-75	-91	-101	-113
Debt-related income flows	-44	-78	-68	-72
Current account	-128	-157	-163	-183

\* There may be a gap between the goods balance and the difference between exports and imports because of seasonal adjustment.

### Current account

	€ millions				
	1999 June	2000		1999	2000
		May	June	January–June	
Trade balance	-285	-145	-234	-970	-938
Exports	1,540	2,420	2,208	9,431	12,843
Imports	1,825	2,565	2,442	10,401	13,781
Services	109	192	180	381	777
Tourism	187	222	227	829	1,047
Other services	-77	-30	-47	-448	-270
Income	-233	-173	-430	-660	-950
Investment income	-234	-173	-431	-663	-951
debt-creating	-85	-25	-120	-373	-437
non-debt creating	-149	-148	-311	-289	-514
Compensation of employees	2	0	1	2	1
Current transfers	39	45	55	122	250
<b>Current account</b>	<b>-369</b>	<b>-81</b>	<b>-429</b>	<b>-1,128</b>	<b>-860</b>
Real economic transactions	-175	47	-54	-590	-160
Income and transfer accounts	-194	-128	-375	-538	-700

<sup>4</sup> Data on materials for processing constitute the uncertain point of customs-based trade statistics. Although importing companies are obliged to report on the material purchased for processing, such imports are recorded only on a quantitative basis. The system of checking the reliability of value data is inadequate.

from the seasonally adjusted data by using moving averages, shows that the decline in deficit since December 1999 stalled in June, and improvement in the balance of real economic transactions was insufficient to offset the higher-than-previous outflows of investment income. The January–June deficit, however, fell by €268 million relative to that in the same period of 1999.

The merchandise trade deficit amounted to €234 million in June.<sup>5</sup> The seasonally smoothed trade deficit of €173 million was €21 million lower than a year earlier, exports picking up more strength. Exports rose slightly compared with the preceding month, while imports fell back, but neither the seasonally adjusted goods balance nor the trend value, derived by using a moving average, changed considerably. The January–June deficit amounted to €938 million, down €32 million on the same period of 1999.

Tourism registered a surplus of €227 million in the month under review. After seasonal adjustment, the tourism surplus was €209 million, improving by €39 million relative to June 1999. There was a drop of €5 million in the surplus in one month. The trend of tourism surplus has been sloping upwards for exactly one year. Net tourism revenue rose by €218 million in the first half of 2000 relative to the same period of 1999.<sup>6</sup>

The deficit on other service transactions, excluding tourism, was €47 million in June. Revenue, at €242 million, was at its highest level in four years. The deficit fell by €30 million in comparison with June 1999, as there were improvements in the balances of all service categories. The deficit rose by €17 million in one month, explained by a deterioration in the balance of technical and cultural services. In the January–June period of 2000 the deficit on other service transactions excluding tourism fell by €178 million relative to the comparable period of 1999.

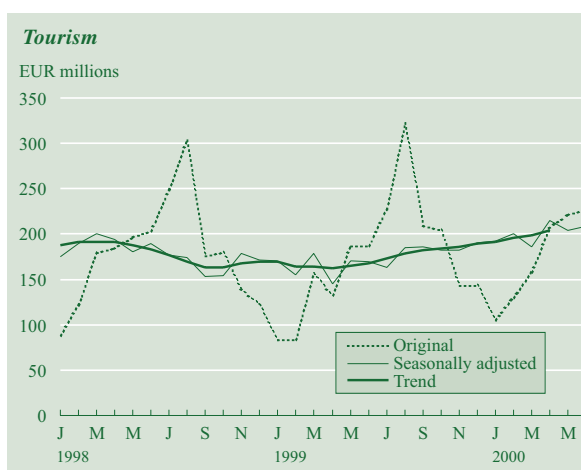
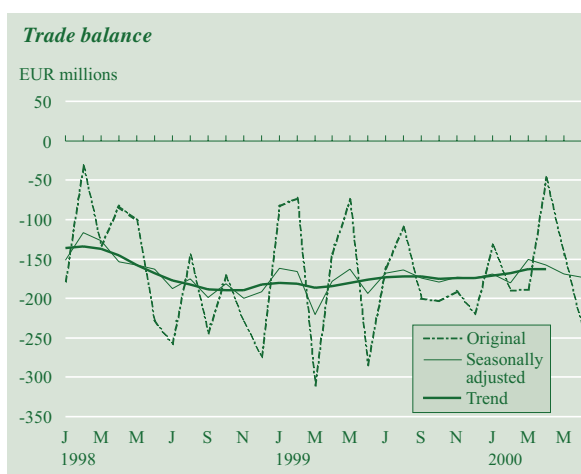
In June, the balance of real economic transactions closed with a €54 million deficit. There was an increase of €101 million in the deficit relative to the preceding

<sup>5</sup> In June, merchandise exports and imports, as shown in the balance of payments, were €185 million and €206 million higher respectively than customs-based exports and imports, which include turnover conducted by the customs-free zones. Accordingly, the difference between the two balance outcomes amounted to €21 million. January–June balance-of-payments exports were €1,239 million and imports €847 million higher than customs-based exports and imports respectively, with a €391 million lower deficit relative to that recorded on a customs basis.

<sup>6</sup> According to the release by the CSO, the number of foreign visitors rose by 11% and that of Hungarian residents travelling abroad rose by 6% in January–June relative to the comparable period of 1999.

<sup>7</sup> The number of firms paying dividends of more than €1 million doubled in June compared with twelve months previously.

<sup>8</sup> The seasonal patterns underlying non-debt investment flows underwent a change. That helped find a model which produces a seasonally adjusted time series in reliable quality.



Seasonally adjusted balance of services excluding tourism*				
	€ millions			
	1999 June	2000		
		April	May	June
Construction services	-7	2	0	-2
Merchanting services	4	8	8	9
Transportation	14	15	8	16
Business services	-14	-3	-9	-8
Technical and cultural services	-72	-80	-55	-65
Government services	-3	-2	-1	-1
<b>Total</b>	<b>-77</b>	<b>-56</b>	<b>-30</b>	<b>-47</b>

\* The aggregate figures may differ due to the method used for seasonal adjustment.

month and a fall of €121 million relative to a year earlier. Due to rising tourism revenues and falling services deficits, the January–June deficit was €430 million lower than in the comparable period of 1999.

According to the balance of payments, negative net investment income amounted to €430 million in the month under review, of which the net outflow of investment income on equity, accounted for 72%.<sup>7</sup> The outflow of seasonally adjusted investment income on equity<sup>8</sup> amounted to €113 million, showing an increase of €12 million on the preceding month and one of €38 mil-

Transactions affecting changes in net debt outstanding to the rest of the world		
€ millions		
	2000	
	June	January–June
1 Current account balance	–429	–860
2 Capital account balance	20	84
3 Borrowing requirement (1+2)*	–409	–776
4 Non-debt inflow	80	501
5 Total (3+4)	–329	–276
6 Debt creating flows (6a+6b)**	338	330
6a In domestic currency	145	583
6b In foreign currency	193	–253
7 Financing gap (5+6)	9	54
8 Net errors and omissions	–9	–54

\* Net borrowing (–) or net lending (+).  
\*\* Net change in debt: decrease, (–) or increase (+).

Financial account*					
	1999 June	2000		1999	2000
		May	June	January–June	
Foreign direct investment in Hungary	157	186	297	653	960
Direct investment abroad	–35	–24	–34	–106	–54
Portfolio investment	768	–176	14	1,751	–892
Assets	–49	64	14	434	6
Liabilities	818	–241	0	1,317	–898
Other investments	312	371	–326	–78	939
Assets	–88	12	–179	–507	–391
Liabilities	399	359	–147	428	1,330
Changes in international reserves	–649	–291	466	–568	–123

\* The signs indicate a fall (+) or increase (–) in reserves.

Current account financing and capital transactions					
	1999 June	2000		1999	2000
		May	June	January–June	
Current account	–369	–81	–429	–1,128	–860
Capital account	–76	27	20	–133	84
NBH	–664	–45	90	–1,491	–930
Government	471	–74	151	1,768	805
NBH and government	–193	–119	241	278	–125
Credit institutions	159	173	34	–165	715
Corporate and other sectors	465	–150	–120	993	–666
Foreign direct investment	123	162	263	546	906
Financing total	553	66	417	1,651	830
Of which: debt-creating	139	20	338	168	330
non-debt creating	414	46	80	1,484	501
Errors and omissions (NEO)	–109	–12	–9	–390	–54

lion on June 1999. Payments on the existing debt, not seasonally adjusted, amounted to €72 million. That meant little change relative to May, but a significant increase above the twelve-month previous outcome. The investment income deficit rose by €288 million in January–June, interest payments on debt explaining 78% of

the increase. Payments on the existing debt were €64 million higher.<sup>9</sup>

The surplus on current transfers was €55 million in June and €250 million in January–June. The cumulative surplus was €128 million higher than in the comparable period of the previous year, explained by rises in other current receipts of each sector, including households, the corporate sphere, non-profit organisations and the government sector.

The income and transfer account, which comprises income and current transfers, registered a deficit of €375 million in June. That was €247 million and €181 million more than in the preceding month and a year earlier. The cumulative January–June deficit was €162 million higher than in the comparable period of 1999. Higher amounts of repatriated profits were behind the increase in deficit.

The combined current and capital account deficit was €409 million in June. Within non-debt financing, the recorded balance-of-payments flow of foreign direct investment into Hungary totalled €80 million – direct investment receipts totalled €144 million, in contrast with net portfolio investment outflows from equity securities amounting to €65 million. Debt-creating inflow totalled €338 million, which meant that whole-economy net debt rose by the same amount due to transactions.

In June the financial account, which registers capital transactions by function, closed with a deficit of €49 million, excluding movements in reserves. Net inflows arising from foreign direct investment transactions amounted to €263 million, investments recorded as flows into equity securities and inter-company loans, respectively, accounting for €144 million and €119 million. Foreign direct investment in Hungary totalled €297 million in the month under review. The value of investments in equity capital channelled through the Hungarian banking sector was €170 million.

Balance-of-payments portfolio investment inflow amounted to €14 million. Liabilities of Hungarian residents on equity securities fell by €42 million. That was the balance of a €33 million inflow to bank securities and a €74 million outflow from the corporate sector. Bond liabilities rose by €79 million, as domestic currency-denominated liabilities of the government sector were €145 million higher, while foreign currency bond liabilities of the NBH and the central government were €66 million lower.

Other investment outflows amounted to €326 million in the month under review, explained almost in full by a

<sup>9</sup> January–June net interest expenses of the NBH and the government sector, and corporate and other sectors were €50 million €24 million higher respectively. Credit institutions, in contrast, saw their net interest expenses fall by €10 million relative to the same period of 1999.



fall of €317 million in short-term liabilities of the Bank.<sup>10</sup> Credit institutions' short-term assets and liabilities fell by €76 million and €51 million respectively. The corporate and other sectors saw their assets and liabilities increase broadly equally, by €196 million and €189 million respectively.

### *Hungary's external accounts*

At the end of June, whole-economy gross foreign debt amounted to €30.7 billion, inter-company loans accounting for €3.2 billion of this. The combined gross foreign currency debt of the NBH and the central government outstanding to non-residents was €15.3 billion,

and that of credit institutions and the corporate and other sectors was €15.4 billion. Total financial liabilities of direct investment enterprises to their parents, also known as inter-company loans, accounted for 31% of corporate sector gross external debt.

Whole-economy net debt stood at €11.7 billion at end-June, inter-company loans amounting to €2.9 billion. The net debt of the NBH and the central government amounted to €2.9 billion. Private sector debt was €8.8 billion. Hungary's domestic currency debt outstanding to non-residents totalled €2,263 million, showing a rise of €139 million relative to end-May 2000.

The total stock of foreign direct investment in Hungary rose to €20.2 billion, holdings in equity capital accounting for €17 billion, or 84% of this.

Assets and liabilities vis-à-vis non-residents							
Changes compared to the preceding month							
	2000		Change	Of which			
	May	June		Transactions	Exchange rate changes	Price effect	Other volume changes
Net foreign currency debt of the NBH and government	513	655	142	96	-51	96	0
Net forint debt of the NBH and government	2,124	2,263	139	145	-6	0	0
Total net debt of the NBH and government	2,637	2,918	280	241	-57	96	0
Assets of the NBH and government	13,132	12,435	-697	-487	-100	-110	0
Of which: international reserves	11,549	10,999	-550	-466	-87	3	0
Gross foreign currency debt of the NBH and government	13,645	13,090	-555	-391	-150	-14	0
Gross forint debt of the NBH and government	2,124	2,263	139	145	-6	0	0
Total gross debt of the NBH and government	15,769	15,353	-416	-246	-156	-14	0
Business sector, net debt*	5,921	5,844	-78	-22	-31	-18	-7
Business sector, assets	6,288	6,378	90	163	-109	27	9
Business sector, gross debt	12,209	12,221	12	140	-140	9	2
Inter-company loans, net	2,783	2,899	116	119	-15	0	12
assets	333	275	-57	-51	-6	0	0
liabilities	3,115	3,174	59	68	-21	0	12

\* Excluding inter-company loans.

<sup>10</sup> Securities transactions with an agreement to buy back the underlying security at a later date are treated either as lending (repo) or borrowing (reverse repo). Liabilities arising from reverse repo agreements are recorded among other financial liabilities with maturities of less than one year.

### III. FOREIGN TRADE AND PAYMENTS

#### Assets and liabilities vis-à-vis non-residents

Changes relative to the previous quarter

€ millions

	December 1999	2000 June	Change	Of which			
				Transactions	Exchange rate changes	Price effect	Other volume changes
Net foreign currency debt of the NBH and government	1,338	655	-683	-708	23	-6	8
Net forint debt of the NBH and government	1,723	2,263	539	583	-43	0	0
Total net debt of the NBH and government	3,061	2,918	-144	-125	-20	-6	8
Assets of the NBH and government	12,073	12,435	362	-85	238	210	-2
Of which: international reserves	10,751	10,999	248	123	198	-73	0
Gross foreign currency debt of the NBH and government	13,411	13,090	-322	-792	261	204	6
Gross forint debt of the NBH and government	1,723	2,263	539	583	-43	0	0
Total gross debt of the NBH and government	15,135	15,353	218	-209	218	204	6
Business sector, net debt*	5,589	5,844	255	259	63	-51	-15
Business sector, assets	5,411	6,378	967	516	164	202	84
Business sector, gross debt	11,000	12,221	1222	775	228	151	69
Inter-company loans, net	2,678	2,899	220	196	29	0	-4
assets	190	275	85	32	7	0	47
liabilities	2,869	3,174	306	227	36	0	43

\* Excluding inter-company loans.