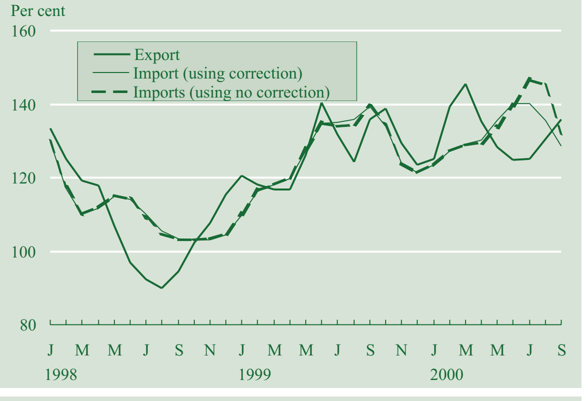
III. Foreign trade and payments

Foreign trade

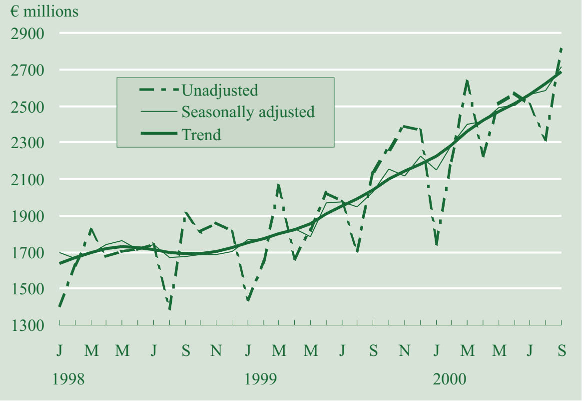
After seasonal adjustment, the upward slope of the trend of Hungarian merchandise exports crossed above the comparable indicator for imports again in September 2000.[1] The slope of export growth turned upwards. That contrasted with the slope of import growth, which turned downwards. As a result, the trend of the merchandise trade balance showed no further sign of a deterioration.

The year-on-year growth rates of goods exports and imports were broadly comparable in September and 2000 Q1–Q3, with merchandise trade turnover rising at an even pace. However, the growth rate of outward trade was stronger than that of inward trade in January–September relative to the same period of the previous year, explained by the deterioration in Hungary's terms of trade. The increase in the world market price of energy played a dominant role in the terms of trade deteriorating in the period.

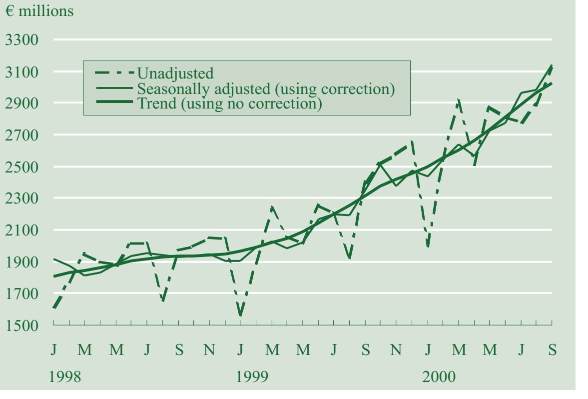
Annualised growth rates of merchandise foreign trade
In euros, preceding month = 100



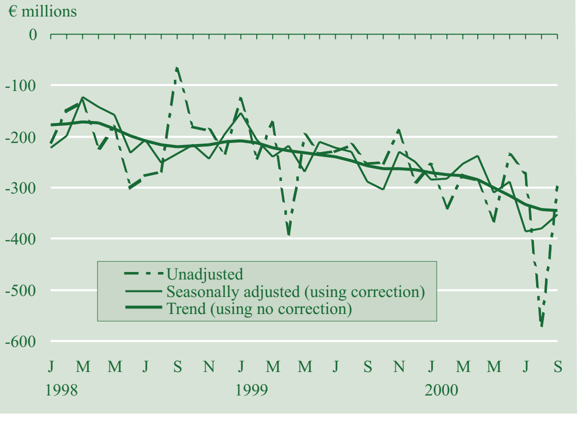
Merchandise exports



Merchandise imports



Trade balance



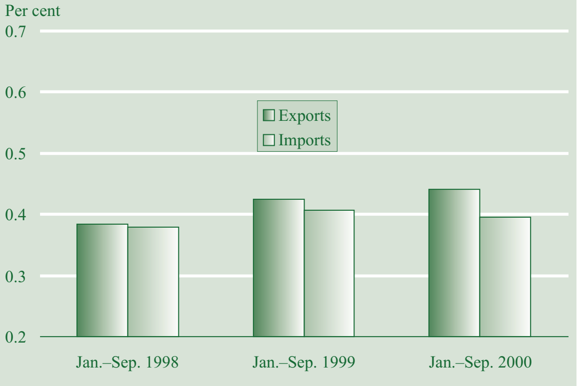
[1] The same holds true if imports are adjusted to reflect the significant deviation from seasonal patterns characteristic for the summer months. However, a clear-cut explanation has not yet been found for this effect. The chart plots a version which assumes unchanged seasonal patterns in 2000 from the previous years. This is taken as a basis to seasonally adjust import values.

Major indicators of foreign trade

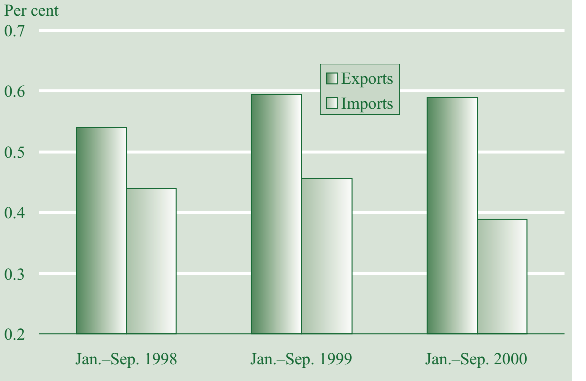
	Exports		Imports		Balance	
	September	January–September	September	January–September	September	January–September
Available data (€ millions; 1999)	2,146.2	16.469.5	2,398.8	18,539.0	–252.6	–2,069.6
Available data (€ millions; 2000)	2,739.0	21.401.6	3,048.7	24,333.0	–309.7	–2,931.3
	Value indices (%), same period of previous year = 100					
Calculated from available data	127.6	129.9	127.1	131.3	–	–
Reflecting forthcoming adjustments*	131.1	130.7	129.9	131.7	–	–
Volume indices*, **	–	121.8	–	119.5	–	–

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

Herfindahl concentration indices for foreign trade in a breakdown by commodity group



Herfindahl concentration indices for foreign trade in a breakdown by region



Movements in the US dollar exchange rate of the euro exercised an influence on growth rates expressed in euros – the euro was 21.9% weaker in September and also 14.4% weaker on average in the first nine months of 2000 than in the comparable periods of 1999.

The unadjusted figures, expressed in euros, show that the value of Hungarian goods trade, reflecting seasonal factors observed in previous years, was higher in September than in the preceding month. This rise, however, was insignificant in the case of imports, which was related to the September base being considerably higher than the seasonal patterns might suggest. As a result, the merchandise trade balance improved significantly compared with August.

The regional pattern of Hungarian imports showed quite a large degree of variation in the first three quarters of 2000 – the percentage share accounted for by developed countries fell, while the share of the other groups of countries increased relative to the same period of 1999, so the degree of concentration weakened. Simultaneously, the degree of concentration according to regions also weakened, explained by the fact that exports to the CEFTA and the CIS states picked up to grow at

Foreign trade by major groups of commodity*

	1999 September	2000			1999	2000	1999	2000
		July	August	September	January–September		January–September	
	Trade volume, € millions						*Distribution, %*	
EXPORTS								
Food, beverages, tobacco	167.5	161.7	175.7	184.4	1,271.0	1,509.6	7.7	7.1
Raw materials	58.4	66.5	54.7	66.6	417.3	507.2	2.5	2.4
Energy	33.8	45.8	45.8	48.4	270.4	378.3	1.6	1.8
Manufactured goods	642.5	759.2	672.4	767.0	5,224.6	6,408.4	31.7	29.9
Machinery, equipment	1,244.0	1,464.6	1,341.0	1,672.5	9,286.1	12,598.2	56.4	58.9
Total	***2,146.2***	***2,497.8***	***2,289.6***	***2,739.0***	***16,469.5***	***21,401.6***	***100.0***	***100.0***
IMPORTS								
Food, beverages, tobacco	65.9	77.2	75.0	84.0	576.6	677.2	3.1	2.8
Raw materials	54.1	61.7	65.6	66.0	430.3	554.8	2.3	2.3
Energy	143.1	243.1	277.2	267.7	1,030.4	1,945.0	5.6	8.0
Manufactured goods	921.6	1,019.0	996.9	1,047.5	7,252.6	8,893.1	39.1	36.5
Machinery, equipment	1,214.1	1,373.0	1,450.8	1,583.5	9,249.2	12,262.8	49.9	50.4
Total	***2,398.8***	***2,774.0***	***2,865.5***	***3,048.7***	***18,539.0***	***24,333.0***	***100.0***	***100.0***

* Data for 2000 are preliminary.

Direction of foreign trade*

	1999 September	2000 July	2000 August	2000 September	1999 January–September	2000 January–September	1999 January–September	2000 January–September
	Trade volume, € millions						*Distribution, %*	
EXPORTS								
Developed countries	1,801.3	2,102.2	1,871.9	2,279.9	13,770.6	17,933.0	83.6	83.8
EU	1,636.3	1,892.7	1,649.5	2028.5	12,515.5	16,187.6	76.0	75.6
CEECs	279.2	315.1	324.7	353.7	2,067.6	2,737.7	12.6	12.8
CEFTA	172.3	202.1	209.4	228.8	1,314.6	1,748.4	8.0	8.2
CIS	55.8	57.8	51.8	63.7	401.6	522.0	2.4	2.4
Developing countries	52.4	70.2	85.1	94.1	533.5	653.2	3.2	3.1
Other countries	13.3	10.4	7.9	11.3	97.8	77.8	0.6	0.4
Total	***2,146.2***	***2,497.8***	***2,289.6***	***2,739.0***	***16,469.5***	***21,401.6***	***100.0***	***100.0***
IMPORTS								
Developed countries	1,759.9	1,938.6	1,927.5	2,047.1	13,960.9	17,068.1	75.3	70.1
EU	1,512.1	1,636.0	1,582.2	1,696.5	12,068.1	14,278.1	65.1	58.7
CEECs	360.7	501.6	509.9	550.4	2,561.5	4,100.7	13.8	16.9
CEFTA	178.1	210.4	230.1	233.4	1,341.6	1,835.4	7.2	7.5
CIS	177.6	277.1	265.6	303.4	1,178.7	2,176.1	6.4	8.9
Developing countries	217.4	247.3	306.3	322.7	1,597.7	2,300.5	8.6	9.5
Other countries	60.9	86.5	121.9	128.5	418.9	863.8	2.3	3.5
Total	***2,398.8***	***2,774.0***	***2,865.5***	***3,048.7***	***18,539.0***	***24,333.0***	***100.0***	***100.0***

* Data for 2000 are preliminary.

rates which were stronger than those of exports to the developed countries.

The pattern of Hungarian foreign trade categorised by major groups of commodity showed only a slight variation in September; and the modest increase in the concentration of imports in the first nine months of the year relative to the same period of 1999 was the result of the already noted increase in energy prices.

The developed countries, and members of the EU in particular, constitute the major markets for Hungarian exports of machinery and equipment.[2] As is the case with whole-economy imports, the percentages that the developed countries and members of the EU account for within mechanical engineering imports continue to fall, with a simultaneous increase in those of the other important regions, including the CEFTA, the CIS states and the Far East.[3] Multinationals with production bases in Hungary are importing an increasing proportion of their input directly from the Far East instead of their west European distribution locations. That offers an explanation for the decline in percentage shares rather than a weakening of Hungary's economic contacts with the developed countries.

The surplus on Hungarian food industry goods trade was higher, both in September and the first nine months of 2000, than the outcomes recorded in the comparable periods of 1999. And, due to the base effect, inward and outward trade with the CIS states and Russia rose particularly strongly. In addition, there was a perceptible increase in food industry exports to the member countries of the CEFTA.

The energy bill, though the value of imports in calorific terms rose only slightly, was around €900 million higher in 2000 Q1–Q3 relative to the same period of 1999.[4] That was mainly due to movements in the price of crude oil, in addition to the depreciation of the euro against the dollar.

The foreign trade of virtually every major category of commodity with the CEFTA and the CIS rose in the first nine months relative to the year earlier period. However, it was exclusively imports from the CIS region which increased as a percentage of total Hungarian imports, mainly assisted by the rise in energy prices.[5]

In terms of value added, the ratio of processing exports to finished goods exports was slightly lower in September and the first nine months of 2000 than in the comparable periods of the previous year. The percentage share which materials for processing accounted for within whole-economy exports and imports fell, both in August and the first eight months of the year.[6]

[2] This is indicated by the shares of the developed countries and the EU within Hungarian exports of machinery and equipment – they accounted for 92% and 83% respectively in the first nine months of 1999 and 2000.

[3] The percentage shares that the developed countries and the EU accounted for within Hungarian imports of machinery and equipment were 83% and 70% in January–September 1999, compared with 76% and 62% a year later.

[4] This broadly accounts for the cumulative deterioration in the merchandise trade balance seen in the first nine months of 1999.

[5] There is a quite strong correlation between total energy imports and imports of energy from the CIS – in the first nine months of 2000 the CIS accounted for 76% of Hungarian energy imports, following 70% a year before; and energy accounted for 68% of total imports from the CIS, rising from 61% in the comparable period of 1999.

[6] 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 not satisfactory.

PROCESSING TRADE

2000 turnover data

	Processing exports				Imports of materials for inward processing	
	Full value		Material content			
	September	January–September	September	January–September	September	January–September
Available data (€ millions; 1999)	370.8	3,147.5	280.0	2,362.3	340.9	2,876.8
Available data (€ millions; 2000)	437.8	3,853.4	341.7	2,977.3	418.6	3,551.3
	Value indices on dollar basis; same period of previous year = 100					
Calculated from available data	118.0	122.4	122.0	126.0	122.8	123.4
Reflecting forthcoming adjustments*	121.3	123.0	125.4	126.9	125.4	123.9

* Estimate.

Ratios*

Per cent

	1999		2000	
	September	January–September	September	January–September
Processing exports as a percentage of total exports	17.3	19.1	16.1	18.2
Fee content of processing exports	24.5	24.9	22.2	23.0
Imports of materials as a percentage of total imports	14.2	15.5	13.9	14.7

* 2000 data reflect ratios after removal of forthcoming adjustments and the exchange rate effect.

The current account and financing

In September 2000, the current account was €310 million in deficit. The size of current account deficit was mainly determined by the highest merchandise trade deficit in the year to date (€320 million)[7]. The other major component of the month's goods deficit was the strong outflow of investment income of equity. At €89 million, the repatriated profits of one company accounted for 63% of the total €142 million. The tourism surplus, which continued to be saliently high in the month, offset only partially the negative effects of the merchandise trade and income deficits. The current account deficit amounted to €986 million in the first nine months of 2000.

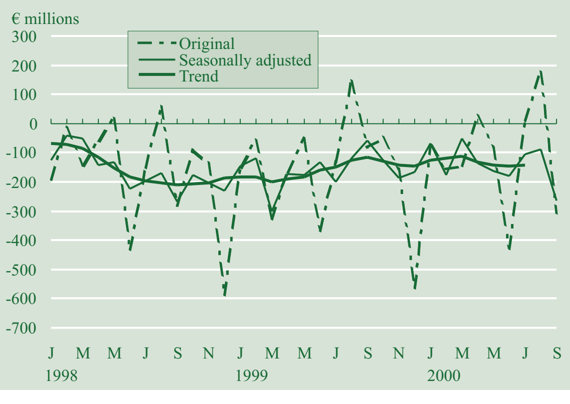
After removing the effects of seasonal patterns, the current account deficit amounted to €265 million in the month under review. That meant an increase of €177 million relative to August, the increase in the goods trade deficit being the most important explanatory factor. Imports grew somewhat more strongly in the latter three months than exports, with a resultant slight deterioration in the merchandise trade balance. The deficit on other service transactions halved; and the rising tourism surplus offset the higher outflow of investment income on debt.

Current account

€ millions

	1999 Sep.	2000 Aug.	2000 Sep.	1999 Jan.–Sep.	2000 Jan.–Sep.
Trade balance	–200	–46	–320	–1,441	–1,500
Exports	1,760	2,454	2,281	14,565	19,799
Imports	1,960	2,500	2,600	16,006	21,299
Services	179	273	219	972	1,527
Tourism	209	357	259	1,588	1,954
Other services	–31	–85	–40	–616	–427
Income	–91	–106	–238	–953	–1,368
Investment income	–92	–106	–239	–956	–1,371
debt-creating	–80	–46	–97	–553	–608
non-debt creating	–12	–60	–142	–404	–762
Compensation of employees	1	0	1	3	3
Current transfers	29	55	29	225	355
Current account	**–83**	**176**	**–310**	**–1,197**	**–986**
Real economic transactions	–21	226	–101	–469	27
Income and transfer accounts	–62	–51	–209	–728	–1,013

Current account



[7] In September, merchandise exports, as shown in the balance of payments, were €96 million lower than customs-based exports and imports, which include turnover conducted by the customs-free zones. Imports, in contrast, were €10 million higher. Accordingly, the difference between the two balance outcomes amounted to €106 million. January–September balance-of-payments exports were €1,583 million and imports €857 million higher than customs-based exports and imports respectively, with a €726 million lower deficit relative to that recorded on a customs basis.

Developments in the seasonally adjusted current account data

€ millions

	1999 Sep.	2000 July	2000 Aug.	2000 Sep.
Trade balance*	–165	–179	–153	–202
Exports	1,792	2,281	2,372	2,378
Imports	1,978	2,453	2,531	2,664
Tourism	182	222	219	228
Non-debt-related income flows	–80	–94	–98	–99
Debt-related income flows	–59	–50	–58	–72
Current account	–58	–106	–88	–265

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

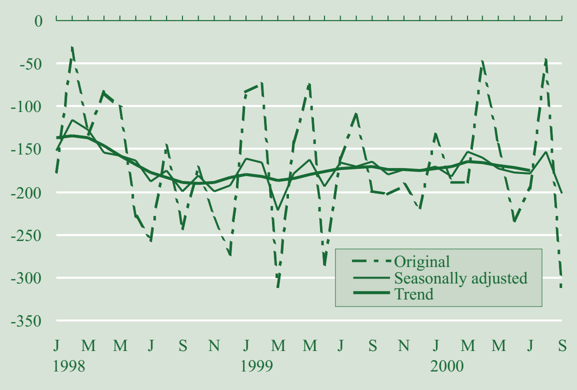
Seasonally adjusted balance of services excluding tourism*

€ millions

	1999 Sep.	2000 July	2000 Aug.	2000 Sep.
Construction services	–4	8	2	4
Merchanting services	38	6	6	6
Transportation	13	10	12	12
Business services	–10	–23	–17	–13
Technical and cultural services	–62	–35	–73	–47
Government services	–3	–1	–1	–1
Total	–31	–33	–85	–40

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

Trade balance

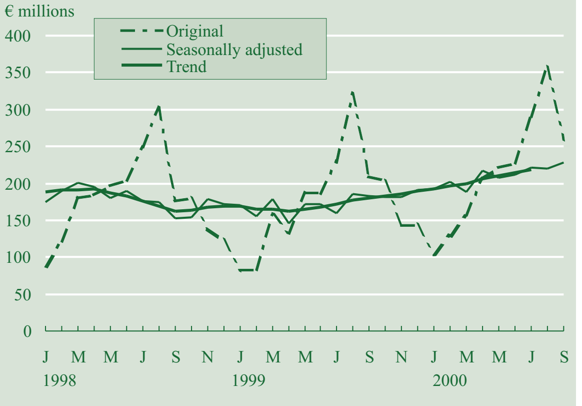


The seasonally adjusted current account balance was higher by €207 million in one year. The merchandise trade deficit and the outflows of investment incomes both on equity and debt all rose. Although it continued to rise, the rising tourism surplus counterbalanced that effect only partially.

The combined current and capital account closed with a deficit of €292 million in September. Non-debt capital inflow, at €31 million, offset only a part of the combined current and capital account deficit. The inflow of non-debt financing was the balance of €85 million net direct investment receipts and €54 million net portfolio investment outflows from equity securities.

In September the financial account, which registers capital transactions by function, closed with a surplus of €626 million, excluding movements in reserves. Net inflows arising from foreign direct investment transactions amounted to €36 million, investments recorded as flows into equity securities accounting for €84 million and outflows on inter-company loans for €49 million. The outflow on portfolio investment transactions amounted to €61 million. That was nearly equal to the fall in the domestic currency-denominated bond liabilities of the government sector. Within other investments, short-term assets of credit institutions fell by €132 million, long-term liabilities and short-term assets of the corporate and other sectors rising by €234 million and €164 million respectively.

Tourism



Transactions affecting changes in net debt outstanding to the rest of the world

€ millions

	2000 September	2000 January–September
1 Current account balance	–310	–986
2 Capital account balance	17	177
3 Borrowing requirement (1+2)*	–292	–809
4 Non-debt inflow	31	592
5 Total (3+4)	–262	–217
6 Debt creating flows (6a+6b)**	236	216
6a In domestic currency	–62	819
6b In foreign currency	298	–603
7 Financing gap (5+6)	–26	0
8 Net errors and omissions	26	0

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

Financial account*

€ millions

	1999 Sep.	2000 Aug.	2000 Sep.	1999 Jan.–Sep.	2000 Jan.–Sep.
Foreign direct investment in Hungary	97	283	178	1,040	1,524
Direct investment abroad	–11	–23	–143	–147	–242
Portfolio investment	–243	113	–61	1,183	–905
Assets	94	163	102	623	295
Liabilities	–337	–50	–163	560	–1,200
Other investments	632	–171	651	731	1,302
Assets	109	–22	–48	–292	–630
Liabilities	523	–149	699	1,023	1,932
Changes in international reserves	–416	–384	–359	–1,273	–870

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

Current account financing and capital transactions

€ millions

	1999 Sep.	2000 Aug.	2000 Sep.	1999 Jan.–Sep.	2000 Jan.–Sep.
Current account	–83	176	–310	–1,197	–986
Capital account	44	37	17	–38	177
NBH	–391	–361	6	–2,700	–1,406
Government	214	67	–108	2,076	783
NBH and government	–178	–294	–102	–623	–623
Credit institutions	255	191	178	–14	1,179
Corporate and other sectors	–105	–340	155	1,278	–1,030
Foreign direct investment	86	260	36	893	1,282
Financing total	59	–182	267	1,534	809
Of which: debt-creating	31	–334	236	–288	216
non-debt creating	28	153	31	1,821	592
Errors and ommissions (NEO)	–20	–31	26	–299	0

Hungary's external accounts

Whole-economy gross foreign debt rose to €32.5 billion to the end of September, inter-company loans accounting for €3.3 billion of the outstanding total. The combined gross foreign currency debt of the NBH and the central government outstanding to non-residents and that of credit institutions and the corporate and other sectors amounted to €16.1 billion and €16.4 billion respectively.

Total financial liabilities of direct investment enterprises to their parents, also known as inter-company loans, accounted for 30% of corporate sector gross external debt.

Whole-economy net debt stood at €11.4 billion at end-September, inter-company loans amounting to €3 billion. The combined net debt of the NBH and the central government stood at €2.2 billion. However, if only foreign currency-denominated assets and liabilities are taken into account, the two sectors took a €218 million net lending position in foreign currency. Private sector net foreign debt was €9.2 billion.

Hungary's domestic currency debt outstanding to non-residents fell by €85 million, to a total €2,465 million, relative to its value at end-August.

The total stock of foreign direct investment by non-residents in Hungary was €20.7 billion to the end of September. Equity capital holdings accounted for €17.4 billion, or 84%, of this.

Assets and liabilities vis-à-vis non-residents
Changes compared to the preceding month

€ millions

	2000 August	2000 September	Change	Of which: Transactions	Exchange rate changes	Price effect	Other volume changes
Net foreign currency debt of the NBH and government	–153	–218	–65	–40	5	–30	0
Net forint debt of the NBH and government	2,551	2,465	–85	–62	–23	0	0
Total net debt of the NBH and government	2,398	2,248	–150	–102	–18	–30	0
Assets of the NBH and government	13,378	13,848	470	330	61	79	0
Of which: international reserves	11,628	12,047	419	359	54	5	0
Gross foreign currency debt of the NBH and government	13,226	13,631	405	291	66	49	0
Gross forint debt of the NBH and government	2,551	2,465	–85	–62	–23	0	0
Total gross debt of the NBH and government	15,776	16,096	320	229	43	49	0
Business sector, net debt*	5,755	6,167	412	386	15	–24	34
Business sector, assets	6,912	6,979	67	–42	62	57	–10
Business sector, gross debt	12,667	13,146	479	345	77	34	24
Inter-company loans, net	3,059	3,017	–42	–49	7	0	0
assets	342	248	–95	–100	5	0	0
liabilities	3,401	3,264	–137	–149	12	0	0

* Excluding inter-company loans.

Assets and liabilities vis-à-vis non-residents
Changes relative to the December of the previous year

€ millions

	1999 December	2000 September	Change	Of which			
				Transactions	Exchange rate changes	Price effect	Other volume changes
Net foreign currency debt of the NBH and government	1,338	–218	–1,556	–1,442	222	–345	9
Net forint debt of the NBH and government	1,723	2,465	742	819	–77	0	0
Total net debt of the NBH and government	3,061	2,248	–814	–623	145	–345	9
Assets of the NBH and government	12,073	13,848	1,775	473	593	711	–2
Of which: international reserves	10,751	12,047	1,296	870	512	–86	0
Gross foreign currency debt of the NBH and government	13,411	13,631	219	–969	815	366	8
Gross forint debt of the NBH and government	1,723	2,465	742	819	–77	0	0
Total gross debt of the NBH and government	15,135	16,096	961	–150	738	366	8
Business sector, net debt*	5,589	6,167	579	588	158	–97	–70
Business sector, assets	5,411	6,979	1,568	598	495	317	158
Business sector, gross debt	11,000	13,146	2,146	1,185	653	220	88
Inter-company loans, net	2,678	3,017	338	252	76	0	10
assets	190	248	58	–16	23	0	50
liabilities	2,869	3,264	396	236	99	0	60

* Excluding inter-company loans.