Balance of payments

Under the new international balance of payments methodology, the structure and main categories will be fully harmonised with the structure and concepts of the national accounts. The new balance of payments methodology applies the sectoral classification and terminology of the SNA. The balance of payments uses the primary income and secondary income categories already used in national accounts instead of the former labels of income and current transfers. As a result of this change, taxes and subsidies on products and production are also re-classified into primary income as opposed to BPM5, which treated them as current transfers. The list of financial assets and their classification has been fully harmonised, along with the treatment of insurance and pension services. Financial Intermediation Services Indirectly Measured (FISIM) are also included in the balance of payments in the context of the methodological changes of 2014. This item has already been included in the national accounts in the category of services. The sign convention applied in the financial account has also changed in the wake of harmonisation. Instead of credit and debit, increase and decrease in assets and liabilities are presented, with assets minus liabilities constituting the balance (net assets). The sign of net external financing capacity therefore becomes identical regardless of the approach of calculation, i.e. based on the current and capital account or the financial account.

Key changes

The new structure

I. Current account (1.A+1.B+1.C)
1.A Goods and Services
1.B Primary Income
1.C Secondary Income
2. Capital Account (2.1+2.2)
2.1 Non-produced, non-financial assets
2.2 Capital transfers
3. Financial account (3.1+3.2+3.3+3.4+3.5)
3.1 Direct investment
3.2 Portfolio investment
3.3 Financial derivatives and employee stock options
3.4 Other investment
3.5 Reserve assets
4. Net errors and omissions

- Goods and Services: goods for processing are now classified as services, while re-exports as goods. FISIM are included under services, alongside the sale and purchase of intellectual property (e.g. audiovisual products).
- Primary Income: a new label for compensation of employees, investment income and other primary income. Income on reserve assets is now recorded as a separate item under investment income. The category of other primary income now includes taxes and subsidies on products and production, moved from current transfers.
- Secondary Income: a new designation for the former category of current transfers in a more detailed breakdown, with taxes and subsidies on products and production, reclassified under primary income, subtracted. Personal transfers now form a new category.

- Capital Account: changes in the assets of persons changing their economic territory of residence are reclassified from capital transfers (recorded as other changes in volume), while among non-produced, non-financial assets, the sale and purchase of intellectual property is being reclassified under services.
- Direct investment: the standard presentation of the dissemination of direct investment data will be according to the asset/liability principle as for the other financial instruments in the financial account. However the FDI data will continue to be classified according to the directional principle, too. The framework for direct investment relationships has also been clarified. The new methodology puts greater emphasis on transactions and positions relating to fellow enterprises. The ultimate investing resident or non-resident nature determines the investment direction under which the accounts receivable/payable related to fellow enterprises will be recorded.
- Portfolio investment: the new designations replacing bonds and money market instruments under debt securities are broken down into long-term and short-term based on their original maturity. Reinvested earnings must be recorded for investment funds.
- Financial derivatives and employee stock options: employee stock options have been added.
- Other investments: unsecuritised equity participations below the 10 per cent ownership threshold have been reclassified from portfolio investments. The counterparty to allocation or cancellation of SDRs must be recorded as an incurrence or repayment of a liability transaction under other investments.
- Reserve assets: allocation and cancellation of SDRs must be recorded as transactions rather than other changes in volume. The definition of monetary gold has been specified in greater detail.

Goods and Services

Goods and services show re-exports entailing change of ownership among residents and non-residents (consisting of resident traders purchasing and selling the goods abroad, without importing them into its own country), which were part of services under BPM5; the concept of products manufactured using inward and outward processing has been reclassified under services from trade in goods. The sale and purchase of intellectual property, formerly recognised under non-produced, non-financial assets, and financial services indirectly measured (FISIM), formerly classified under other investment incomes, are now also recorded under services.
Goods and services purchased from resident corporations by non-resident contractors in the country of the construction for construction activity has been reclassified under construction services from other business services.
Large value goods acquired for personal use have been reclassified from travel to regular trade in goods.

Primary Income

Primary income includes

- compensation of employees,
- investment income, and
- other primary income.

Within investment income, direct investment income is now recorded as income of assets and liabilities instead of foreign investments abroad or in Hungary. Extraordinary dividends paid from the earnings of previous years (superdividends) must be treated in the financial account as a withdrawal of equity rather than as of income.

Within portfolio investment income, the reinvested earnings of investment funds are now presented explicitly. Among interest income on other investments, financial intermediation services indirectly measured (FISIM) are now recorded under services. Another novelty in this category is the presentation of income on reserve assets as a separate item. Other primary income (taxes and subsidies on products and production, rent) have been reclassified to this account from current transfers.

Secondary Income

The former current transfers are now called secondary income, and no longer include taxes and subsidies on products and production which form part of primary income. The BPM6 also stipulates a more detailed breakdown of secondary income compared to the former methodology and introduces the new category of personal transfers, which is wider in scope than the former workers' remittances.

Capital Account

Large inheritances (legacies) still treated as current transfers under the BPM5 are recorded as capital transfers, along with insurance claims following a catastrophe, while changes in the assets of persons changing their economic territory of residence are other changes in volume, and not imputed as being a transfer under the BPM6.

The sale of intellectual property was previously recorded as a non-produced, non-financial asset under the BPM5, whereas the BPM6 classifies trade in intellectual property products linked to computer software, audiovisual products and the results of R&D among services.

Direct investment

One of the most important changes in the new methodology is the asset/liability presentation of foreign direct investment in the standard presentation of the financial account. This means that all assets and liabilities are presented separately according to the asset/liability concept. This is reflected in both the increase in financial assets and the increase in financial liabilities. Meanwhile, the data according to the directional principle will still be published for the sake of facilitating the analysis of foreign direct investment data. According to the directional principle, the netting of reverse investment is built in.

The main difference between these two concepts is the presentation of reverse investment, which arises when a direct investment enterprise acquires equity in or lends funds to its investor. Under the assets/liabilities presentation concept, for instance, the assets of the non-resident parent company increase Hungary's assets, whereas, according to the directional principle, they decrease direct investments in Hungary recorded as net liabilities.

The coverage of direct investment relationships due to indirect voting power and fellow enterprises is elaborated. (Fellow enterprises are enterprises under the control of the same immediate or indirect investor, but neither fellow enterprise controls or influences the other fellow enterprise). In principle, all assets and liabilities between fellow enterprises are shown in direct investment abroad when the ultimate controlling parent is a resident and in direct investment in Hungary when the ultimate controlling parent is a non-resident. (The MNB has already treated transactions and stocks among fellow enterprises as part of direct investments since the establishment of the new data collection system in 2008. From this date on, transactions/positions among fellow enterprises have been classified as foreign direct investment abroad or in Hungary based on the immediate foreign investor or immediate foreign subsidiary of the data supplier.)

Investments among fellow enterprises representing voting power of under 10 per cent must also be recorded as direct investment under the new methodology. Assets and liabilities within the enterprise group arising from insurance technical reserves also form part of direct investment under the BPM6. Extraordinary dividends paid from the earnings of previous years (superdividends) must be treated as a withdrawal of equity rather than as of income.

Portfolio investment

Reinvested earnings of investment funds are presented separately from capital transactions within portfolio investment. Unsecuritised equity (equity in quasi-corporations, etc.) below the 10 per cent ownership threshold has been reclassified to other investment, while investments in the form of securities in fellow enterprises representing voting shares of under 10 per cent must be recorded under direct investment under the new methodology. Stock and flow data are available in a breakdown by listed and unlisted shares. Portfolio investment debt instruments must be broken down into short and long maturities, replacing the former categories of bonds and money market instruments.

Financial derivatives and employee stock options

In line with the national accounts, the designation of financial derivatives has changed in the balance of payments as well, supplemented by employee stock options. However, this change only has of negligible impact in terms of the balance of payments.

Other investment

Unsecuritised equity participations below the 10 per cent ownership threshold have been reclassified from portfolio investment. Participations in international organisations below the 10 per cent ownership threshold must be presented under equity, as opposed to the former other long-term accounts receivable. Long-term debt presented according to its original maturity is also broken down by remaining maturity (short or long maturity).

Another change compared to the former methodology is that allocation of SDRs presented among reserves must be recorded as acquisition of an asset and as an incurrence of a liability, and the creation and cancellation of SDRs must be recorded as transactions rather than other changes in volume. The recording of these transactions does not affect net lending/net borrowing.

Reserve assets

Monetary gold is broken down into gold bullion, including allocated gold accounts as well as unallocated gold accounts.