

Explanatory Comments on the Revision to Certain BOP Entries for the period 1995-1999

Simultaneously with the publication of the balance of payments for December 1999, the National Bank of Hungary has revised certain earlier figures published with the monthly balances and stocks of foreign assets and liabilities for the period 1995-1999.

The revision affected the following three main issues:

- A. the reclassification, relying on estimates, of the balance on household foreign exchange accounts recorded under current transfers into various balance of payments categories (1995-1999),
- B. the review of the accounting method of foreign currency purchases from Hungarian residents by non-bank foreign currency trading institutions (1998-1999),
- C. the reconciliation of direct corporate borrowing/repayment figures with information reported at later dates (1996-1999).

The revisions affect the following items:

- 1. travel, credits (1995-1999, with reference to A. and B. above)
- 2. travel, debits (1998-1999, with reference to B. above)
- 3. current transfers (1995-1999, with reference to A. above)
- 4. other short-term assets held by the corporate and other sectors (1995, changes in flow and stock, with reference to A. above)
- 5. inter-company loans (foreign direct investments in Hungary by non-residents) (1996-1999, changes in flow and stock figures, with reference to C. above)
- 6. other short to long-term liabilities of the corporate and other sectors (1996-1999, changes in flow and stock with reference to C. above)
- 7. errors and omissions (1996-1999, with reference to C. above)

The revised figures are inserted in the original balance of payments structure published for the year concerned.

A/ The reclassification, relying on estimates, of the balance on household foreign exchange accounts recorded under current transfers into various balance of payments categories (1995-1999)

- 1. The Bank has no reliable information from the household sector regarding the economic flows underlying foreign exchange deposits and withdrawals, which constitute part of household foreign exchange account transactions recorded in the balance of payments. With no legal authorisation to do so, the Bank is not allowed to question individuals on the

origin or use of the currencies in their possession. In accordance with the presumed nature of the economic activity, foreign currency deposits and withdrawals were recorded as one entry in the current transfers row of the balance of payments.

2. According to information available for the Bank, transactions relating to household foreign exchange accounts may have included the following transactions:
 - *travel-related transactions* (renting out of rooms, flats, holiday homes; shopping tourism; medicinal tourism)
 - *wages* (particularly those received by people doing seasonal agricultural work near the country borders, or employed for odd jobs, or doing illegal unskilled or skilled work on construction sites)
 - *current transfers* (grants, gifts)
 - *trade-related transactions* (prior to the introduction of business foreign exchange accounts as of April 1 1995, many private entrepreneurs are assumed to have used personal foreign exchange accounts to avoid conversion or exchange rate losses),
 - *other investments* (in March 1995, as a result of the negative expectations in connection with the potential consequences of macroeconomic imbalances, there were significant withdrawals of household currency savings from the Hungarian banking system to be held presumably in the form of foreign exchange only to be re-deposited simultaneously with the gradual revival of confidence in the wake of the introduction of the stabilisation programme).
3. The items recording the currency flight of March 1995 have been separately dealt with in the course of the revision.

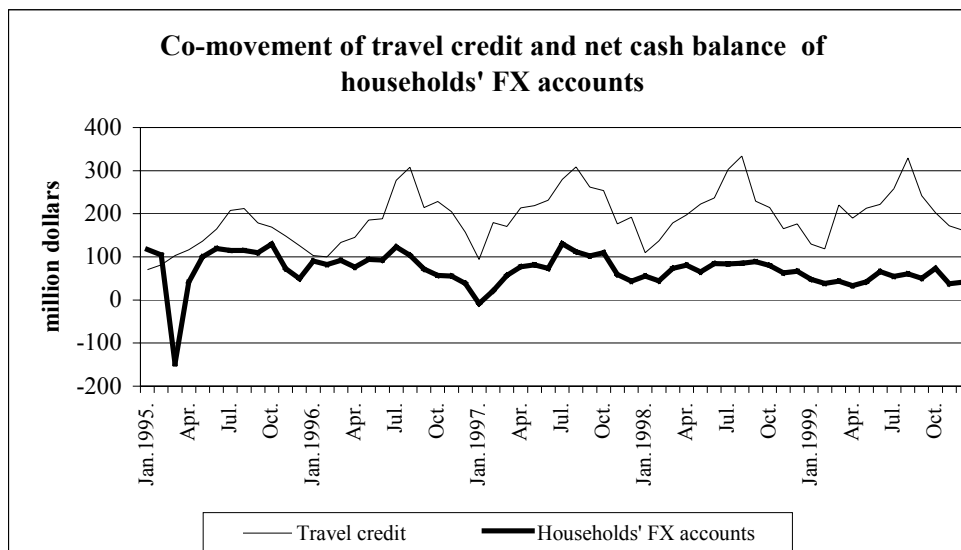
At that time, the "standard monthly balance" on household foreign exchange accounts showed a surplus of approximately 100 million dollars. Then, in March 1995, the balance turned into a 148 million dollar deficit. The "missing" 248 million dollars are believed to have fled the banking system during March as a result of dwindling public confidence (in more precise terms, deposits worth 148 million dollars had been cashed and 100 million dollars had not been deposited, contrary to the trend of the preceding months), only to return in the subsequent months, when conditions were back to normal. In terms of the correction, the 100-million-dollar balance was believed to remain in March, and the 248-million-dollar amount was recorded as short-term household assets due to an increase in personal currency reserves, not registered on account of missing information.

The current account balance was credited (with 248 million dollars) on one occasion in March 1995, while the capital account was debited with the same amount. As of May, this amount – having flowed back into deposits – is divided into eight equal sums and appears on the debit side of monthly current accounts and the credit side of capital account.¹

The revision has not affected the annual balance on the current account, expressed in dollar terms, whereas the monthly distribution has changed. End-of-month values for external assets and the net position are higher, on a monthly decreasing basis in the April to November period, while they are identical with the original figures at the end of December (see Attachment 1).

¹ When applying subsequent correction to the balance of payments, the changes made to the current account - reflecting the household portfolio rearrangement - should also be recorded in the external position statistics. Accordingly, in March there should be a 248-million-dollar increase in foreign currency assets held by the corporate and other sectors (representing a reduction in the net national debt) over the published figure, while in the period from May to December, there should be a 31-million-dollar monthly reduction in the increased volume (in other words, the net debt, reduced in March, is increased by this amount every month)

4. Analysts believe that, out of the items listed in section three, foreign exchange transactions appear to be dominated by the currency flows linked to travel services (see the chart below). Preliminary calculations suggest that revision would entail only minor corrections – within the statistical margin of error - with respect to the items outside travel. Therefore, these items have been ignored and all underlying transactions are considered to have taken place within travel.



The balance of transactions recorded on households' foreign exchange accounts is now included with travel. Changes due to the correction of the entries for current transfers and travel are presented in Table 1 of Attachment 2.

5. As of December 1999, the balance on households' foreign exchange accounts is calculated under the terms of the above method, at least until the availability of information calling for a different kind of technique. Tourism revenues, which are likely to have been underestimated under the previous procedure, have been raised going back to 1995.

B/ Review of the accounting method of foreign currency purchases from Hungarian residents by foreign currency trading institutions (1998-1999)

1. Since May 1999, travel-related expenditure has been permanently and significantly lower than that suggested by the previous year's figures. An examination of the time series indicates that, although to a lesser extent, the change was already present in 1998. The fall in expenditure largely reflects changes in the data submitted by non-bank foreign exchange trading institutions². Currency purchases from Hungarian residents regularly exceeded sales to a considerable degree.
2. Currency purchases by Hungarian individuals are stated in the current account on the debit side travel. As in the past sales of foreign currencies for forints by individuals were treated as a re-exchange of the currency that had been purchased for travel, the related sums were entered in the balance as reverse entries in travel expenditure.

² Foreign currency trading institutions are non-bank businesses licensed to engage in the exchange and trade of currencies in compliance with pertaining legal provisions.

3. Information provided by the currency trading institutions with the highest transaction volumes indicates that Hungarian residents are selling not the currencies originally acquired for travel purposes and left unspent, but sums they have received for tourism services, trade or as payment for work done in the vicinity of country borders. No accurate information is currently available as to the distribution by source of foreign exchange receipts.
4. In line with the procedure used for reclassifying the flows on household foreign exchange accounts, the correction of the entries relating to the currencies sold back is now wholly included with the travel account. The revision does not affect the balance, only the credit and debit entries. This is based on the assumption that instead of placing their incomes from travel services on their foreign exchange accounts, individuals convert them into forints.

The excess reverse entries to expenditure affecting turnover of non-bank foreign exchange institutions between 1998-99 over the reverse entries for 1997 are treated as actual monthly travel revenue.

As 1997 is the last year when the volume of foreign currency purchases by Hungarian residents exceeds that of their sales for each period, this is a year when the interpretation of foreign currency sales as the return of left-over currency and its inclusion in statistics as reverse entries seems to be justified. When assessing the reverse entries to expenditure related to non-bank foreign exchange trading institutions in 1998 and 1999, figures for 1997 were taken as a benchmark.

Changes caused by the modified treatment of FX sales by residents *
(USD million)

	1998			Jan-Nov 1999		
	orig	diff	rev*	orig	diff	rev*
Travel, credit	2504	141	2645	2296	326	2622
Travel, debit	974	141	1115	785	326	1111

* effect of this factor purely

5. The accounting treatment of the currencies bought by foreign exchange dealers from residents is to follow the above procedure as of December 1999.

C/ Reconciliation of direct corporate borrowing/repayment figures with information reported at later dates (1996-1999)

1. Businesses do not provide their reports regularly on their direct foreign borrowing activity, and sometimes they do so only several observation periods later without specifying the transaction date. Data reported belatedly were included in the statistics at the time of their submission. The mode of processing these data depended on whether the actual transaction took place during a preceding month in the year under consideration or before. In the former case, the transactions were included with the entries for the given month, whereas in the latter case as other volume change. This correction is aimed at removing the transactions and volume changes that were included in the balance in the above-stated manner from the monthly figures for the period 1997-1999.

2. The method of adjustment for the series:

a) In the majority of transactions over 5 million US dollars, the time of the transactions was clarified. The same happened in connection with the loans about which no information was provided following the letter of intent by the debtor: after contacting the debtor/the entity applying for permission, the transactions relating to the loan were entered into the time series at the appropriate date.

b) In cases when the time of transactions was not clarified the amount was distributed evenly over the 12 months of the preceding year or the preceding months of the year under consideration, depending on whether they were reported as transactions taking place in an earlier year or in an earlier month of the given year.

3. Transactions reported with a delay will continue to be included in the statistics for the date of their reception, in accordance with the current practice. They will be placed in their proper positions in the time series once a year with a retroactive effect of at most one year.

See attachments 1 and 2

Change in BoP items as a result of reclassification of net cash balance on households' FX accounts and modified treatment of cash withdrawal from these accounts in March 1995

Hungary's Balance of Payments in Convertible Currencies, 1995 (USD million)

	January			February			March			April			May			June		
	orig	diff	rev	orig	diff	rev	orig	diff	rev	orig	diff	rev	orig	diff	rev	orig	diff	rev
Travel, net	-57	117	60	-59	105	46	-41	100	59	42	42	84	74	69	142	75	88	163
Unrequited transfers, net	137	-117	20	119	-105	14	-133	148	15	54	-42	13	130	-100	30	129	-119	10
o/w Households' FX accounts	117	-117	0	105	-105	0	-148	148	0	42	-42	0	100	-100	0	119	-119	0
Current account balance	-471	0	-471	-229	0	-229	-720	248	-472	-358	0	-358	-189	-31	-220	-107	-31	-138
Capital account																		
Short-term capital	418	0	418	-208	0	-208	374	-248	127	5	0	5	68	31	99	85	31	116

	July			August			September			October			November			December			January-December		
	orig	diff	rev	orig	diff	rev	orig	diff	rev	orig	diff	rev	orig	diff	rev	orig	diff	rev	orig	diff	rev
Travel, net	130	84	214	132	84	216	108	79	187	110	99	209	89	41	130	54	19	73	659	926	1585
Unrequited transfers, net	129	-115	14	153	-115	38	120	-110	10	159	-130	29	77	-72	5	53	-50	3	1127	-926	201
o/w Households' FX accounts	115	-115	0	115	-115	0	110	-110	0	130	-130	0	72	-72	0	50	-50	0	926	-926	0
Current account balance	-2	-31	-33	-234	-31	-265	18	-31	-13	122	-31	91	-50	-31	-81	-260	-31	-291	-2480	0	-2480
Capital account																					
Short-term capital	134	31	165	287	31	318	85	31	116	37	31	68	45	31	76	81	31	112	1411	0	1411

Table 1: Changes caused by reclassification of the cash transactions on households' FX accounts *

USD million	1995			1996			1997			1998			Jan-Nov 1999		
	orig	diff	rev	orig	diff	rev	orig	diff	rev	orig	diff	rev*	orig	diff	rev*
Travel, credit	1714	-1381	333	2246	977	3222	2582	858	3440	2504	869	3373	2296	547	2843
Current transfers, net	1127	-1102	25	922	-977	-55	996	-858	138	1018	-869	148	856	-547	309

* effect of this factor purely

Table 2: Changes in flows caused by revised enterprise loan transactions

USD million	1996			1997			1998			Jan-Nov 1999		
	orig	diff	rev	orig	diff	rev	orig	diff	rev	orig	diff	rev
FDI in Hungary, intercompany loans, liabilities	195	292	487	282	88	369	444	102	545	255	6	262
Other investment, ST liabs.	568	-149	419	916	2	919	253	-10	243	226	15	240
Other investment, MLT liabs.	-2225	291	-1934	-555	181	-374	-508	112	-396	1508	75	1584
Net errors and omissions	1410	-434	976	296	-271	25	232	-204	29	-129	-97	-225

Table 3: Changes in stocks caused by revised enterprise loan transactions (end-period)

USD million	1996 (old basis)			1996 (new basis)			1997			1998			November 1999		
	orig	diff	rev	orig	diff	rev	orig	diff	rev	orig	diff	rev	orig	diff	rev
Intercompany loans, liabilities	1 388	272	1 660	1 388	290	1 678	1 681	204	1 885	2 265	263	2 528	2 694	145	2 839
Other investment, ST liabs.	2 987	-138	2 849	3 184	-148	3 036	3 299	3	3 302	3 700	-10	3 690	3 775	24	3 799
Other investment, MLT liabs.	9 367	270	9 638	9 487	283	9 770	8 402	441	8 844	8 553	281	8 833	9 437	90	9 527

Table 4: Overall effects of all revisions

USD million	1995			1996			1997			1998			Jan-Nov 1999		
	orig	diff	rev	orig	diff	rev	orig	diff	rev	orig	diff	rev	orig	diff	rev
Travel, credit	1714	-1381	333	2246	977	3222	2582	858	3440	2504	1011	3514	2296	873	3170
Travel, debit	1056	0	1056	957	0	957	924	0	924	974	141	1115	785	326	1111
Current transfers, net	1127	-1102	25	922	-977	-55	996	-858	138	1018	-869	148	856	-547	309
FDI in Hungary, intercompany loans, liabilities	n.a.	n.a.	n.a.	195	292	487	282	88	369	444	102	545	255	6	262
Other investment, ST liabs.	1420	0	1420	568	-149	419	916	2	919	253	-10	243	226	15	240
Other investment, MLT liabs.	1072	0	1072	-2225	291	-1934	-555	181	-374	-508	112	-396	1508	75	1584
Net errors and omissions	1224	0	1224	1410	-434	976	296	-271	25	232	-204	29	-129	-97	-225