

# METHODOLOGY APPLIED FOR THE BALANCE OF PAYMENTS AND INTERNATIONAL INVESTMENT POSITION (BPM6) STATISTICS

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## Table of contents

1. General.....	3
2. Hungarian publication practices and revision policy .....	4
3. Basic concepts and compilation system of balance of payments and international investment position statistics	5
4. Major components and instruments in the balance of payments and international investment position .....	7
4.1 Current account.....	7
4.1.1 Goods .....	8
4.1.2 Services .....	9
4.1.3 Primary Income .....	11
4.1.3.1 Compensation of employees .....	11
4.1.3.2 Investment income.....	11
4.1.3.2.1 Direct investment income .....	12
4.1.3.2.1.1 Income on Equity .....	12
4.1.3.2.1.2 Interest income on debt instruments.....	14
4.1.3.2.2 Portfolio investment income .....	14
4.1.3.2.3 Other investment income.....	15
4.1.3.3 Income on reserve assets .....	15
4.1.3.4 Other primary income.....	15
4.1.4 Secondary income .....	16
4.2 Capital account .....	16
4.2.1 Gross acquisitions/disposals of non-produced, non-financial assets .....	17
4.2.2 Capital transfers.....	17
4.3 The financial account and the international investment position .....	17
4.3.1 Direct investment.....	18
4.3.1.1 Equity .....	19
4.3.1.1.1 Equity other than reinvestment of earnings .....	19
4.3.1.1.2 Reinvestment of earnings .....	20
4.3.1.2 Debt instruments .....	20
4.3.1.3 Additional breakdowns .....	21
4.3.2 Portfolio investment .....	22
4.3.3 Financial derivatives and employee stock options.....	23

4.3.4	<i>Other investment</i> .....	23
4.3.5	<i>Reserve assets</i> .....	24
5.	<i>Annexes</i> .....	26
5.1	<i>Definition and separation of special purpose entities</i> .....	26
5.2	<i>The definition of direct investment relationship</i> .....	27
5.3	<i>The link between balance of payments statistics and the system of national accounts</i> .....	28

## 1. General

In Hungary, the central bank is responsible for compiling and publishing balance of payments and related stock (International Investment Position) statistics. Balance of payments statistics are compiled in close cooperation with the Hungarian Central Statistical Office (HCSO). For various balance of payments instruments, data collected by the HCSO. These include trade in goods, business services and travel, other services, compensation of employees, EU transfers in the current and capital account, and household transfers (see Table 1).

Balance of payments and related stock statistics compiled by the MNB according to the standards of the sixth edition of the IMF Balance of Payments and International Investment Position Manual (BPM6), and also take into account specific compilation recommendations of the relevant international bodies. Those set out in ECB Guideline ECB/2011/23 of 9 December 2011, as amended, and Regulation (EC) No 184/2005 of the European Parliament and of the Council of 12 January 2005 (as amended). The general legal background for the data collections required for the compilation of statistics is provided by the Central Bank Act (Act CXXXIX of 2013 on the Magyar Nemzeti Bank) and the Statistics Act (Act CLV of 2016). Annual reporting obligations are set out in the annually updated MNB regulation and in the National Statistical Data Collection Program (OSAP). The content of the tables and detailed methodological instructions for completing the reports are available at the [MNB website](#).

Due to the increasing data requirements for the compilation of balance of payments statistics resulting from the international reporting obligations of the MNB, the growing complexity of financial relations and the characteristics of the international regulatory environment, a direct reporting system for the collection of statistical data has been in place since 2008<sup>1</sup>. Large companies reporting the full set of BOP and IIP statistics on a monthly basis, a sample of SMEs (based on a threshold) reporting on a quarterly or annual basis, supplementary subject-specific surveys and various estimation methods are essential in the compilation of the statistics. Historical data according to the BPM6 methodology are available since 1995. From 2013 as a reference period, the entire data collection and processing system is based on the BPM6 methodology. For periods prior to 2013, the compilation of BPM6 data has been limited by the availability of the necessary raw data and by of the IT infrastructure. (More details are provided in the section on instruments.)

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<sup>1</sup> Previously the BOP compilation was based on ITRS International transactions reporting system (ITRS) that mainly relied on the use of transaction codes for payments based on reports by credit institutions.

**Table 1**

**Division of labor between the HCSO and the MNB**

Balance of payments instruments	Financial and non-financial corporations	Government and MNB	Households
Goods		HCSO	
Services		HCSO	
Compensation of Employees		HCSO	
Investment income		MNB	
Other primary income		HCSO	
Secondary income	HCSO/MNB	HCSO	HCSO
Trade in non-produced, non-financial assets		MNB	
Capital transfers		HCSO/MNB	
EU transfers in total BOP		HCSO/MNB	
Direct investment		MNB	
Portfolio investment		MNB	
Financial derivatives and employee stock options		MNB	
Other investment		MNB	
Reserve assets		MNB	

*2. Hungarian publication practices and revision policy*

The MNB publishes external statistics in forint and euro on its website according to a predefined release calendar which is updated at the end of the previous year. The MNB publishes balance of payments statistics on a monthly and quarterly basis, both including and excluding SPEs (special purpose entities). (For details on the definition and separation of special purpose entities, see Chapter 5. Annex 1.)

When compiling statistics, monthly flow data reported by foreign currency are converted to Forints at the monthly average of MNB's official daily mid exchange rates. The cumulative and quarterly flow data are calculated by summing the individual monthly data. Stock data, also reported by currency, are converted to HUF at the MNB's official daily mid exchange rates at the end of the period and are aggregated. The data published in EUR are converted from the HUF data at the average monthly (for flow statistics) or quarter-end HUF/EUR rates (in the statistics prior to 1999, ECU is equal to EUR).

The published balance of payments statistics distinguishes four institutional sectors, in line with the methodology:

- the MNB as a monetary authority,
- other monetary institutions (banks, specialized credit institutions, co-operative credit institutions, Hungarian branches of other monetary institutions and money market funds),
- the general government (central government, local governments, and social security funds), and
- other sectors (non-financial corporations, other financial intermediaries, auxiliary financial service providers, households and non-profit institutions serving households, private financial intermediaries).

Publications also use this **standard breakdown by sectors**:

- A. Magyar Nemzeti Bank (S.121)
- B. Other monetary institutions (S.12T)
  - B.1. Credit institutions (S.122)
  - B.2. Money market funds (S.123)
- C. General government (S.13)
- D. Other sectors (S.1P)
  - D.1. Other financial institutions (S.12M)
  - D.2. Non-financial corporations, households and nonprofit institutions serving households (S.1V)

In 1996, Magyar Nemzeti Bank adopted the Special Data Dissemination Standard (SDDS)<sup>2</sup>, and in accordance with its requirements, it releases metadata, a comprehensive methodology and a release calendar for the balance of payments (and the other macroeconomic statistical categories required in the standard).

In the period preceding the release of quarterly balance of payments statistics, the MNB publishes **monthly balance of payments statistics**, excluding SPEs, for the current quarter. The objective of the monthly data publication is to provide information to users on economic developments and financing processes related to the rest of the world with the shortest lag possible following the reference period. The monthly data are available on the website until the relevant quarterly figures are published. The MNB does not publish time series of monthly data and does not modify them in case of data revisions.

**Statistics on international reserves** are also published on a monthly basis, of which a preliminary and final version are produced.

**Quarterly data** are published with the revision of previous periods. As the MNB uses data from the HCSO's data collections for its balance of payments statistics, revision policy depends on the revision cycles of the various data sources. In March and September, the revision period is longer (4 years), while in June and December it mainly concerns data for the "open year", and it is then possible to revise the 4 preceding quarters. For the revision policy of the balance of payments statistics this means that in a normal revision cycle, the balance of payments data can be considered final after 15 quarters following the reference year.

The first **annual balance of payments data** is published by the MNB in the ninth month following the reference year. This includes detailed preliminary foreign direct investment statistics, including sectoral and country breakdowns, based on the annual surveys, as well as preliminary data on reinvested earnings and stocks.

Annual data is first revised in the 15th month following the reference year, and final balance of payments data are published in the 45th month following the reference year.

Every 5 years, national accounts and balance of payments statistics carry out a joint benchmark revision, harmonized at international level, which is comprehensive, including long periods under revision and promotes consistency of macro statistical data.

### *3. Basic concepts and compilation system of balance of payments and international investment position statistics*

The **Balance of Payments (BOP)** is a flow type of statistical statement for recording economic and financial transactions between resident and non-resident institutional units of a country in a specified period. Closely related to the flow-oriented balance of payments is the stock-oriented international investment position (IIP), which is a summary of statistical information on the stock of financial assets and liabilities vis-à-vis non-residents. The value of stocks may change between two reference dates due to transactions, revaluations resulting from changes in exchange rates and in the market prices of instruments or because of other changes in stock. A country's net worth consist of its nonfinancial assets, on the one hand, and its net external financial position on the other hand, which is the difference between financial claims (plus bullion held as a reserve asset) on and liabilities to the rest of the world. The net external financial position is presented in the international investment position. *Balance of payments and international investment position statistics* provide for the **coherent recording of the transactions and financial positions of an economy vis-à-vis the rest of the world**, portraying real economic and financial transactions *from the perspective of the compiling country*.

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<sup>2</sup> For the SDDS page for Hungary, click: <http://dsbb.imf.org/Pages/SDDS/DQAFBase.aspx?ctycode=HUN&catcode=BOP00>

In line with other macroeconomic statistics, the term **resident** is also defined in balance of payments statistics using the concepts of economic interest and economic territory. Residents of a country include all natural and legal persons and entities without legal personality who meet the condition of having a substantial economic interest (permanent residence, place of business, establishment, production, etc.) in the economic territory of the country in question. Therefore, in statistical terms, the resident status of an economic unit in each country depends on the **existence of the centre of predominant economic interest** rather than citizenship or nationality. From the perspective of an enterprise, this includes having a registered permanent establishment in the given country and engaging in economic activities there or, for new companies, intending to do so for at least one year.

VAT registrations created in Hungary by non-residents are considered non-resident units, while those created abroad by Hungarian enterprises are considered resident institutional units as they cannot be deemed as relocation of economic activity.

In addition to the residency status of economic actors, the principle of **economic ownership** (as opposed to legal ownership) and **accrual-based accounting** of economic events (as opposed to cash flow-based accounting) are important accounting criteria when identifying assets and transactions related to assets.

The consistent accounting system for balance of payments statistics is based on - similarly to those used in business accounting - the **double-entry bookkeeping**. Each transaction is recorded in two places: firstly, the transaction (business event) itself and secondly, the related financing, i.e. liabilities (debit) and assets (credit), is recorded in the statistics (see Figure 1). Many transactions recorded in the balance of payments are nonfinancial or financial assets of a certain value change ownership in exchange for nonfinancial or financial assets of identical value. Transfers are the exceptions.

**Chart 1**

**The convention of double entry system in the balance of payments**

Credit (+)	Debit (-)
export of goods and services	import of goods and services
inflow of income	outflow of income
received unrequited transfers	provided unrequited transfers
decrease in assets	increase in assets
increase in liabilities	decrease in liabilities

In the case of financial assets, the balance of payments includes not only **changes in ownership**, but also the creation (e.g. issuance of bonds) or termination (e.g. repayment of debt) of new claims and liabilities, or their renewal under new terms between contracting parties (e.g. change of maturity). Moreover, there are business events where the counterparty gives nothing in return for the economic value provided, these are called transfers (e.g. food and medical aid, investment subsidies). Since the double-entry principle applies universally, the transaction must be recorded on both sides also for these events. When goods, a service or a financial asset is provided without compensation, the missing “financing” side of such uncompensated transactions is recorded as a transfer in the balance of payments. If an unrequited transfer concerns the accumulation, it is a capital transfer to be recorded in the capital account, in all other cases it is a current transfer to be recorded in the secondary income sub-account of the current account.

Chapter 5. Annex 3 shows how the balance of payments and related stock statistics form an integral and conceptual part of the broader system of national accounts.

#### 4. Major components and instruments in the balance of payments and international investment position

Table 2

##### Balance of payments structure

###### **1. Current account**

###### **1.A. Goods and Services**

- 1.A.a. Goods
- 1.A.b Services
  - 1.Ab.4. Travel
  - 1.Ab.e. Other services

###### **1.B. Primary income**

- 1.B.1. Compensation of employees, balance
- 1.B.2. Investment income, balance
  - 1.B.2.1. Income from direct investment, balance
  - 1.B.2.2. Income from portfolio investment, balance
  - 1.B.2.3. Other investment income, balance
  - 1.B.2.4. Reserve assets income, balance
- 1.B.3. Other primary income, balance

###### **1.C. Secondary income**

###### **2. Capital account**

- 2.1. Non-produced, non-financial assets
- 2.2. Capital transfers

###### **3. Financial account (net assets)**

###### **3.1. Direct investment (net assets)**

- Assets
- Liabilities

###### **3.2. Portfolio investment (net assets)**

- Assets
- Liabilities

###### **3.3. Financial derivatives and employee stock options (net assets)**

- Assets
- Liabilities

###### **3.4. Other investments (net assets)**

- Assets
- Liabilities

###### **3.5. Reserve assets**

###### **4. Net errors and omissions**

The following section presents the different instruments in line with the applied statistical practice. For the entries of the financial account, the transaction and stock data are discussed within the instrument concerned. We apply standard considerations to each item; thus, every description contains a brief discussion of the instrument concerned, the data source(s) used, and any estimate(s) applied. The methodological specialties by instruments, the revision policy applied and the way they are presented in the standard publications are also described. Where not specifically mentioned, the general publication and revision policy (described above) applies.

#### 4.1 Current account

##### **I. Current account (1.A.+1.B.+1.C.)**

- 1.A. Goods and Services
- 1.B. Primary Income
- 1.C. Secondary income

In the current account real economic transactions - the ones related to trade in goods and services - are recorded, furthermore earnings from employment, income related to investments as well as other primary income and secondary income. Each instrument is compiled and presented in a breakdown by credit, debit, and net.

## **1.A. Goods and Services**

### 1.A.a. Goods

### 1.A.b. Services

The balance of goods and services determines the balance of trade between residents and non-residents. This is primarily related to production, where the resident or non-resident status of the participating parties is essential.

#### *4.1.1 Goods*

Goods includes changes in the economic ownership of real assets between resident and non-resident economic actors. Goods general trade include merchanting and non-monetary gold recorded separately, in accordance with the international methodology. General merchandise turnover includes exports and imports of goods, fuel procured by non-resident carriers in the country compiling the statistics (and similar goods procured by resident carriers abroad). In the case of merchanting, acquisitions are presented as negative exports.

The main data source for balance of payments goods is the external trade statistics compiled by the HCSO.

Due to the methodological differences between external trade and balance of payments (and national accounts) statistics, the following changes are made to the external trade data transmitted to the balance of payments (and national accounts):

- Trade in goods data in the balance of payments are to be valued at f.o.b. value (i.e. the value at the customs frontier of the exporting economy), thus the c.i.f. value of imports (i.e. the value at the Hungarian frontier) recorded in the external trade statistics is replaced by the HCSO with the f.o.b. value for the compilation of balance of payments statistics.
- Due to the nature of external trade data collection, much of the trade in goods carried by non-resident enterprises registered for VAT purposes in Hungary contain value added that does not belong to the resident economy; consequently, this value added should be eliminated from the balance of payments, and the national accounts. In parallel, external trade data do not include the value added generated by resident enterprises abroad through their VAT registrations established abroad that forms part of the resident economy, therefore this value added should be added to the balance of payments, and the national accounts.
- In external trade statistics, the returned goods are presented on a gross basis, while under the balance of payments methodology it is a reversal item, therefore the external trade data received from the HCSO are also adjusted accordingly. In statistics, returned goods are products that are returned in an unaltered state to the seller after they have crossed the frontier as the buyer does not want to keep them (this case is different from goods shipped, for instance, for participation in exhibitions then shipped back, where no change of ownership occurred in the first place). The adjustment for returned goods has no effect on the trade balance (export becomes reversed imports, imports reversed exports).
- Gross (i.e. including process materials) processing, which is part of the external trade data of the HCSO, was part of goods under BPM5, but is recorded under services under BPM6 on a net basis, i.e. considering only the processing fee. Process materials (i.e. manufacturing services other than processing fees) are not included in the balance of payments. Revision according to BPM6 has been backed to 1995.
- The HCSO collects data on product movements that cannot be observed in foreign trade statistics or in other data collections (bunker fuel, factoryless production - where the principal is resident, but all transactions are carried out abroad-, merchanting, processing, high value goods in private trade, financial leasing), or makes own estimates (illegal transactions – e.g. smuggled goods, drugs, VAT-fraud).



Financial lease recorded under goods is shown at the market value of the leased goods, in accordance with the general accounting principles. (In the case of financial lease, a financial asset or liability is recorded as a financing item under other investment.)

The source of data for some items of the balance of payments trade in goods is the quarterly service data collection of the HCSO. This includes the items listed in the last point's first category above.

Revision: For goods, the HCSO revises months 1–12 of the previous year in March and months 1–12 of the previous year and months 1–6 of the reference year in September. Goods figures for previous periods are also adjusted by the annual SUT correction made by national accounts. These revisions are applied by the MNB in March and September.

#### 4.1.2 Services

##### 1.A.b Services

- 1.A.b.1 Manufacturing services on physical inputs owned by others
- 1.A.b.2 Maintenance and repair services not included elsewhere (n.i.e.)
- 1.A.b.3 Transport
- 1.A.b.4. Travel
- 1.A.b.5. Construction and installation services
- 1.A.b.6. Insurance and pension services
- 1.A.b.7 Financial services
  - 1.A.b.7.1 Explicitly charged and other financial services
  - 1.A.b.7.2 Financial intermediation services indirectly measured (FISIM)
- 1.A.b.8. Charges for the use of intellectual property n.i.e.
- 1.A.b.9. Telecommunications, computer, and information services
- 1.A.b.10 Other business services
- 1.A.b.11. Personal, cultural, and recreational services
- 1.A.b.12. Government goods and services n.i.e.

The main difference between services and goods is that their production and consumption (including international trade) take place simultaneously (the picture is slightly more complex for purchases of intangible assets).

Net process fees are recorded under **manufacturing services on physical inputs owned by others**.

**Maintenance and repair services n.e.c.** include the value of repair and maintenance work carried out by residents on goods owned by non-residents and carried out by non-residents on goods owned by residents.

**Transport** includes the charge for the forwarding of goods owned by residents to non-residents and the charge for the forwarding of goods owned by non-residents to residents, according to the route and conditions specified in the contract.

**Travel** includes goods and services purchased and consumed by residents abroad and by non-residents at home (including estimated prostitution "services").

**Construction and installation services** include revenues generated from services provided by residents to non-residents abroad and by non-residents to residents in Hungary *within the year*, less the costs incurred locally (in the case of capital outlays beyond the year, the non-resident contractor becomes resident!).

**Insurance and pension services** include premiums and subsequent payments (indemnities, pensions, etc.) made between residents and non-residents under contracts. However, the premiums do not include the full premium, only the service component included in the premiums (the remainder is included in secondary income). For insurance, while it includes reinsurance, for pensions, it does not include transactions related to social security (they are part of transfers).

**Financial services** are basically divided into two parts: explicitly charged and other financial services and financial intermediation services indirectly measured (FISIM).

**Explicitly charged and other financial services** are divided into three main categories: (i) explicit commissions and fees received or paid for financial, stock exchange transactions, (ii) implicit financial service fees incurred in stock exchange transactions (foreign exchange, shares, bonds, notes, financial derivatives, and other financial instruments) and (iii) services related to other financial activities (e.g. asset management, financial advisory, etc.).

The indirectly measured **fee for financial intermediation services (FISIM)** includes the service component in interest due or payable on loans taken from credit institutions and deposits placed with them. Due to its nature, this service category can never be directly observable, so appropriate estimation procedures are necessary for its accounting. This service fee is excluded from interest income.

**Charges for the use of intellectual property not included elsewhere** include charges paid or received for the use and exploitation of and licenses to use intellectual property, *where these arise from research and development or marketing* (charges for the use of audiovisual and information technology products are included in other service categories). This category also includes the sale of rights to intangible assets arising from research and development.

**Telecommunication, computer, and information technology services** include services related to the transmission of voice, images, data, signals, and other information provided by residents to non-residents or used by residents from non-residents, and services related to hardware, software and data processing between residents and non-residents. It also includes the sale of intangible related rights covered by this category of services.

**Other business services** include services not covered by other service categories. The two most important elements are R&D services and other intra-group services (R&D services here refer to production and not consumption). Also worth mentioning here are business and engineering services.

**Personal, cultural, and recreational services** mainly include educational, health and audiovisual services between residents and non-residents. They also include the sale of rights to audiovisual products (films, music recordings, etc.).

**Government goods and services** include goods and services bought by the resident government sector from and sold to non-residents (however, sales of high-value goods such as military equipment are recorded elsewhere, i.e. in the goods account).

#### **Data sources**

The source of the travel data is the border survey conducted by the HCSO, where Hungarians returning from abroad and foreigners leaving Hungary are asked about their expenses related to financing their travel. The number of passengers is determined by counting traffic and then calculating the values based on unit expenditure.

The main sources of **other services data** are quarterly surveys completed by enterprises providing or using foreign trade services, and administrative sources (e.g. government and insurance services). For processing fees, external trade in services became the main source of data only from 2024 onwards, before which the figures were derived from external trade data (this is still the case for monthly processing fee data). For financial intermediation services indirectly measured (FISIM), an aggregate estimate is also produced by the HCSO. However, purchases of rights to intangible assets are collected by the MNB and reported to the HCSO.

The data collected for **transport services** only include explicit transport charges, but due to the f.o.b./f.o.b. valuation of goods, implicit transport charges also should be estimated. The HCSO estimates such adjustment items, and it is included in transportation services data.

In the case of **FISIM**, the interest data reported by the reporting agents include the service component, so these interest data should also be adjusted for FISIM estimated by the HCSO. The estimation is performed on the level of the national economy, breakdown by country, sector and currency is based upon reported data.

For services data, most data is reported quarterly, therefore monthly balance of payments services data is estimated. **The revision** of services data is largely aligned with the revision of data sources. Travel data are essentially unchanged

after the first publication, while external trade in services changes once a year, in March, for two years in retrospect. However, within the framework of the general revision policy of the balance of payments, services figures also may change a result of estimates of the HCSO (SUT adjustment, revisions of FISIM and other instruments) and the revision of the sales of intellectual property rights collected by the MNB.

### 4.1.3 Primary Income

#### 1.B. Primary income

- 1.B.1. Compensation of employees
- 1.B.2. Investment Income
- 1.B.3. Other primary income

Within primary income, a distinction is made between compensation of employees, income from investments (income linked to FDI, portfolio investments, other investment, and foreign reserves) and other primary incomes. Since 2004, income has been recorded on an accrual basis in the balance of payments statistics; previously, a cash basis of recording had been used.

#### 4.1.3.1 Compensation of employees

Compensation of employees includes amounts received or paid as wages or salaries that, from the perspective of the country compiling the balance of payments statistics, **are received by resident<sup>3</sup> workers abroad or are paid to non-resident workers at home**. From a statistical point of view, the focus is on when a worker is to be considered resident or non-resident. As with legal entities, residency is determined by the basic center of predominant economic interest of natural persons. This decision is not made based on citizenship or permanent residence; instead, the key factor is the location where the natural person pursues the activity through which he/she earns a living (where he/she keeps a household). A natural person becomes a resident in the country where they have lived or worked for a longer period, i.e. statistically at least one year.

There are two main data sources available for the compensation of Hungarian citizens employed abroad: the number of persons employed in foreign establishments in the Hungarian Labor Force Survey (MEF) of the Hungarian Central Statistical Office (HCSO) and the average earnings per capita, which are estimated by economic sector, based on the income data extracted from the Eurostat database. The data source for determining the rates of taxes and contributions included in secondary earnings-related income is the Eurostat database. Estimates of the employment income of Hungarian citizens working in foreign embassies in Hungary are provided by the National Tax and Customs Administration.

The basic data on the employment income of foreign citizens employed in Hungary are estimated based on the personal income tax database on foreigners, based only on the data of foreign citizens working in Hungary for less than one year. Data for non-registered workers are based on estimates.

**The source of data** on labor income from 2008 onwards is the estimates of the HCSO, which is based mainly on administrative sources.

#### 4.1.3.2 Investment income

#### 1.B.2. Investment income

- 1.B.2.1. Direct investment income
- 1.B.2.2. Portfolio investment income

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<sup>3</sup> Here, it refers to a worker who has been working abroad for less than a year.

- 1.B.2.3. Other investment income
- 1.B.2.4. Income from reserve assets

Income from investment includes income from direct investments, portfolio investments and other investments and, prior to 2008, reserve assets recorded in the previous rows.

#### *4.1.3.2.1 Direct investment income*

##### **1.B.2.1. Direct investment income**

- 1.B.2.1.1. Equity
  - 1.B.2.1.1.1. Dividends and withdrawals from income of quasi-corporations
  - 1.B.2.1.1.2. Reinvested earnings
- 1.B.2.1.2. Debt instruments

Foreign direct investment income includes all income resulting from direct investment relationships between residents and non-residents. (See Chapter 5 Annex 2 for a detailed description of the direct investment relationship.)

Direct investment income consists of **income on equity and interest income on debt instruments**.

##### *4.1.3.2.1.1 Income on Equity*

There are two approaches for the calculation of income on equity to measure corporate income: the concept taking all elements of profits, including e.g. foreign exchange gains or losses and losses from the write-off of assets (all-inclusive concept) and the one leaving those elements out and considering only profits from normal operations (current operating performance concept, COPC). Until 2008, balance of payments statistics applied the all-inclusive concept. The introduction of the corporate surveys collecting more detailed information in 2008 facilitated the elimination of income components not related to current operations (COPC adjustment). Income adjusted for extraordinary items is called *adjusted profit after tax*.

As a result of accrual accounting, the value of equity income depends exclusively on the income generated in the reference year — it may be negative if the enterprise made a loss — and thus irrespective of the dividends declared payable or actually paid. The difference between the positive or negative adjusted profit after tax and the dividend declared in the period concerned is reinvested earnings. It follows from the accounting technique that the equity is not affected by the decision to distribute the income, because if the dividend is higher, the reinvested income will be lower: the amount is the income related to equity.

In terms of its source, equity (which is equal to adjusted net profit) is an annual data, its intra-year distribution assumes that it is generated relatively uniformly: we use the seasonal pattern of GDP to distribute the annual equity income to quarterly and monthly data for inward income on equity, while outward income on equity is distributed evenly among periods. The COPC adjustment is equally distributed for both investment directions within a year.

Equity includes *dividends, distributed branch profits and reinvested earnings*.

##### *Dividends and withdrawals from income of quasi-corporations*

Dividends are distributed earnings allocated to the owners of equity. Also included capital withdrawals from branches that are assumed to be dividends.

Exceptional/extraordinary payments must not be recorded as dividends, but as capital withdrawals (superdividends). Superdividends are outstanding dividends include either dividends declared from the company's profit in previous years or dividends declared more than the COPC adjusted profit after tax.

Dividends are recorded in the period when the owners declare the distribution of dividends. Prior to 2008, due to lack of information, dividends declared were recorded in the second quarter, whereas from 2008 onwards, it became possible to record dividends at the time they are declared payable based on the monthly and quarterly surveys.

In the publication tables, the *dividends and distributed branch profits* row shows dividends of resident investors received from abroad on the credit side and dividend payable to non-resident investors on the debit side.

Within direct investment income, in line with international methodological recommendations, from 2013, dividend on fellow enterprises of a corporate group with less than 10% voting power is also recorded, while reinvested earnings (the adjusted net profit) only need to be recognized in case of voting power of at least 10%.

The source of the dividend data is the monthly, quarterly, and annual balance of payments data collections, which are grossed up based on the data of the corporate tax returns and annual reports.

### *Reinvested earnings*

Reinvested earnings are the residual of income due to the owners of equity in addition to distributed income (dividend). The difference between the adjusted profit after tax and the dividend declared in the period concerned is reinvested earnings.

While interpreting quarterly data, the **intra-year distribution of reinvested earnings** often causes difficulties. The monthly/quarterly amount of reinvested earnings equals the difference between the monthly/quarterly equity income and the dividend declared payable for the month or quarter under review. Equity income is distributed in proportion to GDP for inward income on equity and evenly over time for outward income on equity. Dividends must be recorded when they are declared. As the majority of firms operate based on the normal business year, general meetings and dividend declarations are usually held in May or June, thus **a major part of annual dividend falls within the second quarter**. For this reason, reinvested earnings are always negative in the second quarter in a quarterly breakdown. However, this negative quarterly reinvested earnings only stems from technical factors, with no underlying “negative” economic content. It merely means that dividends are higher in the second quarter than equity income.

According to the methodology, reinvested earnings only need to be recorded if the direct investor’s voting power exceeds 10%, meaning that they are not recorded for either reverse investment or fellow enterprises.

When recognizing reinvested earnings, the **reinvested earnings on indirect ownership** must also be taken into account along the ownership chain. Income on *indirect ownership recorded for inward income on equity* (debit side) is the income accruing to the foreign investor received from the foreign subsidiary's generated income reduced by the paid dividend (dividend advance). (Income earned reduced by dividends paid as only dividends (advance dividends) actually paid are recorded by the parent company as income.) Reinvested earnings on indirect ownership recorded *in the* outward income on equity (credit side) include the earnings from indirect subsidiaries to the direct subsidiary. If the resident company has a foreign investor, the income from the indirect subsidiaries is also reallocated to the foreign investor.

Accounting for indirect ownership is important for countries that are either at the top or in the middle of the investment chain. For the former, it is important to account for income through indirect and direct subsidiaries up to the resident ultimate investor, while for the latter, it is important to allocate income from indirect and direct subsidiaries through the resident subsidiary to the foreign investor. Multinational companies and special purpose entities play a significant role in direct investment in Hungary, where Hungary is at the middle of the investment chain in most cases. In Hungary, indirect income has been recorded since 2015; in 2024, however, we have also retrospectively abolished the related stock adjustment. The international methodology does not provide guidance on the accounting of position effects.

**Data source:** For the *adjusted after-tax profit* component of reinvested earnings, data is available from the annual balance of payments reports based on the annual financial statements by the end of September following the reference

year, which is grossed up based on the corporate tax returns and annual accounts. This data is estimated by the end of September following the reference year, until the receipt of the annual reports.

#### *4.1.3.2.1.2 Interest income on debt instruments*

Within direct investments, **interest-type income** on assets and liabilities is recorded continuously in the current account due to the accrual basis of accounting. In accordance with the methodology of accrual accounting, interest accrued but not paid in the given period must also be recorded as an increase on the asset or liability side of the appropriate instrument. At the time of interest payment (financial settlement), statistics show a transaction reducing the position of the financial instrument concerned in the financial account. Accrued interest is included as part of interest-bearing instruments in the statistics.

Income on debt instruments includes interest accrued on loans, debt security assets and liabilities as well as interest received or paid in respect of settlement or cash pool accounts. Credits show interest related to assets; debits contain interest relating to liabilities.

Income is also broken down based on the direction of investment (in Hungary or abroad) shown in the international investment position for the asset or liability underlying the interest.

At the same time, in line with international methodological recommendations, debt-type income among financial intermediaries is not part of direct investment income; these are recorded among portfolio or other investment income.

Income on interest is recorded based on monthly and quarterly data supply.

#### *4.1.3.2.2 Portfolio investment income*

##### 1.B.2.2. Portfolio investment income

##### 1.B.2.2.1. Equity and investment fund shares

##### 1.B.2.2.1.1. Equity securities

##### 1.B.2.2.1.2. Investment funds shares

##### 1.B.2.2.1.2.1. Dividends

##### 1.B.2.2.1.2.2. Reinvested earnings

##### 1.B.2.2.2. Debt securities

##### 1.B.2.2.2.1. Short-term debt securities

##### 1.B.2.2.2.2. Long-term debt securities

Dividends financially settled on non-enterprise group shares with participation of under 10% traded on the stock exchange and OTC, income on investment fund shares and reinvested earnings, alongside accrual-based interest income of debt securities with original maturities of less than or over one year are recorded among portfolio investment income in a breakdown by resident sector.

On the revenue side, non-resident securities held by residents are recognized, while on the expenditure side, Hungarian securities held by non-residents are recognized.

Income from equity investments below the 10% threshold are recorded at the time of dividends payment; in line with international methodological recommendations, reinvested earnings are not recognized here.

The prorated incomes of money market and other investment fund shares are recorded as reinvested earnings. Reinvested earnings are reduced by the amount of dividends when they are paid out.

Interest on debt securities with an original maturity of one year or less includes interest on treasury bills, short bonds, etc., while income on securities with an original maturity of over one year includes accrued interest on long bonds.

The interest income of the securities using the securities portfolios and interest rate information is determined individually within the framework of the securities statistics of the MNB.

**Data source:** Portfolio investment income data is taken over from securities statistics into BOP statistics, except for bills. (See also Portfolio investments.) Bills are observed through the data collection for the balance of payments using direct corporate surveys.

**Revision:** It is aligned with the revision of securities statistics, where time series are revised once a year for methodological reasons, at the September release.

#### 4.1.3.2.3 *Other investment income*

##### 1.B.2.3. Other investment income

1.B.2.3.1. Withdrawals from income of quasi-corporations

1.B.2.3.2. Interest

1.B.2.3.3. Investment income attributable to policyholders in insurance, pension schemes, and standardized guarantee schemes

Most of the other investment income consists of interest credits on non-securitized assets and interest debits on liabilities. This range of interest-bearing instruments includes various loans, deposits, and current accounts.

This is where income from unsecuritized investment outside the enterprise group under 10 per cent and investment income attributable to policyholders in insurance, pension schemes, and standardized guarantee schemes are recorded.

Accrual-based accounting interest is published without financial intermediation services indirectly measured (FISIM), but the latter is recorded in a separate table in a breakdown by resident sector, alongside total accrual-based accounting interest.

**Data source:** Monthly and quarterly reports from the economic operators concerned. An exception to the above is households, whose incomes and expenditures are available based on the data supplied by central banks and the BIS, and data disclosed to the National Tax and Customs Administration of Hungary (NAV) pursuant to the Council Directive 2003/48/EC by countries disclosing information on the annual interest income of Hungarian private persons.

#### 4.1.3.3 *Income on reserve assets*

Income on reserve assets presents the accrual-based accounting interests (credits) on all central bank reserve assets. The source of the data is the MNB's accounting records and securities statistics.

#### 4.1.3.4 *Other primary income*

##### 1.B.3. Other primary income

1.B.3.1. Subsidies, taxes on production and on imports

1.B.3.1.1. General government

1.B.3.1.2. Other sectors

1.B.3.2. Rent

Other primary income includes a share of EU transfers, taxes and subsidies on products and production, and rents. These rents are rent amounts payable to the owners of natural resources (land, fishing, forestry, and grazing rights, watercourses) for putting the natural resources at the disposal of another institutional unit for a short-defined period.

Primary income includes, as *revenue*, the agricultural and rural development subsidies from the European Union, since the final beneficiary of these subsidies is not the government sector but private farmers, companies and non-profit organizations, and as expenditure, the customs duties due to the European Union.

**Data source:** In the monthly balance of payments statistics, other primary income other than EU transfers is an estimate, and in the case of quarterly publications, the estimate is replaced by data from the HCSO.

For EU transfers recorded under product and production subsidies, the Hungarian State Treasury provides most of the data needed for the balance of payments on a monthly basis. For the other part of the data, we use the estimate produced by the HCSO during the year. The precise information is obtained from the budget closing accounts and their annexes, so that it can be incorporated into the statistics in September of the year following the reference year.

#### 4.1.4 Secondary income

##### 1.C. Secondary income

1.C.1. General government (S.13)

1.C.2. Other sectors (S.1-S.13)

1.C.3. Adjustment for change in pension entitlements

Secondary income directly affects the level of disposable income. They may be made in cash or in kind. As a rule, they are made regularly for small amounts.

**Data source:** Secondary incomes of general government and households are provided by the HCSO for the quarterly publication (aid deliveries are taken from external trade statistics, while estimates are made for the remittances of long-term expatriates and foreign citizens employed in Hungary). In the monthly publication, these are estimates. For other sectors, the HCSO figures are supplemented by data from the direct corporate reports to be included in the balance of payments. The revision of data is linked to the data revision regime of the HCSO.

The part of **EU transfers** that is received as operating support is recorded under secondary income. Such current transfer **income** can come from any EU program (e.g. Cohesion Operational Programs, RRF, other programs). The beneficiaries are varied, with all sectors of the economy benefiting from the proceeds, but generally the largest share goes to the government sector.

During the year, monthly interim budget reports provide some of the **data sources**, while estimates are used to produce data not available during the year (e.g. expected balance of advance payments, domestic/EU share of aid). A detailed database is produced in March of the year following the reference year, from which the annual data without estimates are compiled.

Included under secondary income **debit** is the contribution to the EU budget (e.g. GNI-based contribution, plastic waste-based contribution).

For EU transfers, due to data availability, EU transfers for the previous year, which can be considered quasi-final, are published in the March publication following the current year. This reference year is then no longer subject to planned revision. The breakdown of EU transfer receipts may change in the future, e.g. if the sector classification of an organization changes subsequently, and it had EU transfer receipts, the sector breakdown of EU transfers may change.

#### 4.2 Capital account

##### Capital account (2.1+2.2)

2.1 Gross acquisitions/disposals of non-produced, non-financial assets

2.2. Capital transfers

2.2.1. General government

2.2.2. Other sectors

The sum of the balances on the current and capital accounts represents the net lending or net borrowing by the economy vis-à-vis the rest of the world.



The capital account contains capital transfers on the one hand, and transactions related to the change of ownership of non-produced, non-financial assets on the other hand.

#### 4.2.1 *Gross acquisitions/disposals of non-produced, non-financial assets*

An item for recording transactions relating to the change of ownership of intangible assets (natural assets, contracts, leases, licenses, marketing assets and goodwill). This includes the sale of carbon allowances to be used for corporate emissions.

The **source of data** is the direct reports submitted to the MNB by economic operators with links abroad.

#### 4.2.2 *Capital transfers*

Capital transfers are investment grants, fixed assets provided free of charge as well as debt forgiveness based on the mutual agreement between debtor and creditor. A capital transfer changes the stock of non-financial or financial assets (wealth) of the parties involved in the transaction. Capital transfers are essentially, but not exclusively, not regular transfers.

**Data source:** The source of data is the HCSO for the general government and direct reporting to the MNB by economic entities for other sectors.

The part of EU transfers that is received for capital/investment support is recorded under capital transfers. The data are produced from the same source in the same way as the EU transfer receipts recorded as secondary income. Thus, the same applies to EU capital transfer receipts as described in that paragraph.

### 4.3 *The financial account and the international investment position*

#### **3. A Financial account (net assets) (3.1+3.2+3.3+3.4+3.5)**

- 3.1. Direct investment (net assets)
- 3.2. Portfolio investments (net assets)
- 3.3. Financial derivatives and employee stock options (net assets)
- 3.4. Other investments (net assets)
- 3.5. Reserve assets

#### 4. Net errors and omissions

The financial account shows the financial assets that are responsible for the surplus (**net lending**) or deficit (**net borrowing**) of the sum of the current account and capital account balances. Accordingly, the financial account contains capital transactions in a functional breakdown, i.e., it shows transactions relating to direct investment, portfolio investment, financial derivatives, other investment, and international reserves separately. While the combined surplus/deficit of the current and capital accounts is theoretically equal to the balance of the financial account, in practice, there is a difference between the two, which is treated as a statistical error (NEO).

That is because the financial account shows how the transactions in the current and capital accounts are financed. If, for example, the balance of the current and capital accounts shows a deficit (that is, financing capacity is negative, and a borrowing requirement arises), the resident economy needs to borrow from non-residents based on the financial account (it needs to decrease one or more of its financial instrument net assets or use up foreign reserves). Conversely, if net lending vis-à-vis non-residents is positive based on the balance of the current account and capital account, then the resident economy has supplied the same amount of net credit to non-residents based on the financial account.

Under the balance of payments methodology, **reserve assets** are liquid assets owned by and readily available to monetary authorities: in the event of payment difficulties, they can be used directly to perform payment, indirectly to ease financial pressure by intervention in exchange markets to affect the exchange rate of the national currency or for

any other purposes. The balance of payments exclusive of foreign reserves reveals whether there is a surplus or deficit in financing and it restores equilibrium by adjusting the level of reserves as appropriate for the balance.

The existence of an indirect investment relationship (simplified as belonging to the same group of companies) between residents and non-residents involved in a transaction plays an important role in the separation of direct investment, portfolio investment and other investment in the financial account. If such relationship exists, the item is recorded under the instrument indirect investment, otherwise it is recorded under portfolio investment or other investments, depending on its nature.

The structure of the **international investment position** by financial instrument is identical with the structure of the financial account and it corresponds to the classification of the investment income categories in the current account. This assures the reconciliation of flow and stock data and the consistent accounting for the earnings related to the various investment categories.

The published IIP table contains financial instruments corresponding to the structure of the financial account:

1. indirect investment (equity; debt instruments),
2. portfolio investment (equity, bonds and notes, money market instruments),
3. financial derivatives and employee stock options,
4. other investment broken down by original maturity,
5. reserve assets (of which monetary gold).

In respect of the instruments in the financial account, data collection required by the MNB and estimates constitute the source of data, thus the standard revision policy of the MNB for the balance of payments statistics is applicable.

#### 4.3.1 *Direct investment*

**In the framework of the direct investment relationship**, voting power is the criterion of the direct investment relationship, so that only transactions and positions between counterparties that meet this criterion are recorded as direct investment. See Chapter 5. Annex 2 for a detailed description of the framework.

The standard presentation of balance of payments statistics for direct investment also is according to the asset-liability principle, complemented by foreign direct investment according to the directional principle. A detailed description of the two breakdowns is presented in Chapter 5. Annex 2 as part of the FDI framework.

#### **Direct investments in a breakdown by assets and liabilities:**

##### **3.1. Direct investment, net assets**

###### **3.1.k. Direct investment, total assets**

###### 3.1.1.k. Equity

3.1.1.1.k. Equity other than reinvestment of earnings

3.1.1.2.k. Reinvestment of earnings

###### 3.1.2.k. Debt instruments

###### **3.1.t. Direct investment, liabilities**

###### 3.1.1.t. Equity

3.1.1.1.t. Equity other than reinvestment of earnings

3.1.1.2.t. Reinvestment of earnings

###### 3.1.2.t. Debt instruments

The **difference between the two presentations** is that while **in the asset-liability breakdown all assets and liabilities are aggregated, in the directional breakdown**, capital flows in the opposite direction to the investment directions, such as reverse investment or equity movements in fellow enterprises, **reduce the net investment**.

## Direct investment broken down by the direction of investment:

### 3.1. Direct investment, net assets

#### 3.1.ki Direct Investment abroad

##### 3.1.1.ki Equity

3.1.1.1.ki Equity other than reinvestment of earnings — transactions only

3.1.1.2.ki Reinvestment of earnings — transactions only

##### 3.1.2.ki Debt instruments

3.1.2.1.ki Debt instruments, assets

3.1.2.2.ki Debt instruments, liabilities

#### 3.1.be Direct investment in Hungary

##### 3.1.1.be Equity

3.1.1.1.be Equity, balance — transactions only

3.1.1.2.be Reinvested earnings — transactions only

##### 3.1.2.be Debt instruments

3.1.2.1.be Debt instruments, assets

3.1.2.2.be Debt instruments, liabilities

### 4.3.1.1 Equity

#### 4.3.1.1.1 Equity other than reinvestment of earnings

- *Direct investment abroad, Equity* transactions include registered capital- or capital reserve increase or decrease by residents in non-resident enterprises as well as the acquisition or sale of equity by a resident investor in a non-resident enterprise.  
Acquisition and sale of equity by a non-resident entity in a resident investor below the 10% threshold is recorded here (reverse investment)  
Capital withdrawals stemming from extraordinary dividend are also presented in this row.  
The acquisition and sale of property abroad by residents is also recorded here.
- *Direct investment in Hungary, Equity* transactions include registered capital- or capital reserve increase or decrease by non-residents in enterprises registered in Hungary, the supplementary contribution to the tied-up reserve and its repayments well as the acquisition or sale of equity by a non-resident investor in a resident enterprise.  
Acquisition and sale of equity by a Hungarian enterprise in a non-resident investor below the 10% threshold is recorded here (reverse investment).  
Capital withdrawals stemming from extraordinary dividend are also presented in this row.  
Also recorded here are acquisitions and sales of non-commercial real estate in Hungary by non-residents.  
The exchange of ownership between foreign investors is recorded gross, with the buyer recording an equity investment and the seller a capital withdrawal. The transaction has no impact on the equity balance.
- Intra-group debt forgiveness is also recorded among direct investment equity.

In case of mergers and acquisitions the transferred assets are recorded as transactions. **Assets and liabilities** relating to equity capital are valued at market prices in case of listed companies, while for unlisted enterprises, the valuation is based on the own funds at book value (OFBV) in the balance sheet of the non-resident enterprise for outward direct investment and of the resident enterprise for inward direct investment. Negative equity is replaced by 0 in the stocks at the end of the year.

**Data source:** transaction data on *equity* in direct investment based on monthly and quarterly surveys from reporting agents, while stock data are based on annual surveys. The stock data are derived from the summation of the stock and transactions from previous periods until the annual surveys are received. Transaction data are also estimated based on annual surveys.

Supplements to the data produced by the surveys:

- In case of the direct investments of non-residents in Hungary in the form of equity, their adjusted net profit and dividend data are supplemented with the data of enterprises in which, according to the corporate income tax return database, the ownership of non-residents was at or above 10% and the enterprise submitted no yearly survey.
- From 2020, the stock data from the survey has also been grossed up for Hungarian foreign investment based on the tax return.
- Households' acquisition of foreign equity, profit after tax, dividends and stocks are estimated based on tax returns.
- Non-residents' domestic non-business real estate purchases are estimated from the NAV database of non-business real estate sales tax payments, from 2016 for purchases and from 2019 for sales, traced back to 2008. The data recorded include all non-resident sales and purchases in proportion to ownership, so that sales between non-residents are recorded on both the credit and debit side of the balance sheet under the general accounting principles for direct investment. Stocks rolled from transactions are revalued using the price index published on the EUROSTAT website.

#### 4.3.1.1.2 *Reinvestment of earnings*

The reinvested earnings recorded within *direct investment abroad in the financial account* is identical with the reinvested earnings as income credit in the current account, while the *reinvested earnings* within *Direct investment in Hungary* equals the reinvested earnings as income debit in the current account.

Reinvested earnings only need to be recorded in case of voting power of 10% or higher, and do not need to be recorded in relationships among fellow enterprise or in case of reverse investment.

In reinvested earnings, we record price changes on equity securities, exchange rate changes or other stock changes, depending on the nature of the adjustment, in an amount identical with the COPC adjustment but with an opposite sign, to adjust the size of after-tax profits.

**Data source:** For the *adjusted after-tax profit* component of reinvested earnings, data is available from the annual balance of payment reports based on the annual company accounts by the end of September following the reference year, which is grossed up based on the corporate tax returns and annual accounts. This data is estimated by the end of September following the reference year, until the receipt of the annual returns.

#### 4.3.1.2 *Debt instruments*

The name of the category suggests that, here, the transactions generate intra-group debt: it includes loans, debt securities (now not only inter-company loans, but also loans among (corporate) group members direct investment within a direct investment relationship). It also includes assets and liabilities due to dividends; credits; intercompany accounts (cash pool, zero balancing), trade credits as well as other assets and liabilities including the ones relating to capital paid up but not registered.<sup>4</sup>

Furthermore, the assets and liabilities of banks and other financial intermediaries on/to their parents and subsidiaries have been included among other investment rather than under direct investment since 2008, based on the BPM6.

Liabilities to non-residents are shown in the statistics at nominal value (excluding impairment).

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<sup>4</sup> Expanded scope of debt instruments: Since 1995, they contain non-equity-related debt relationships between the parent and the subsidiaries. Since 2002, financial transactions vis-à-vis clearing centers within an enterprise group have also been recorded in this row. Since 2008, other intragroup assets and liabilities relating to group members have been recorded fully in this category.

**Data source:** For *debt instruments*, flow and stock data are derived from monthly and quarterly surveys. Enterprises are added to the sample of respondents to the quarterly surveys based on a threshold.

In accordance with international methodology recommendations, the **activity breakdown** of published direct investment data uniformly shows the activity of the resident party in a breakdown of investments by sector under both transactions and stocks (that is, classification takes place based on the activity of the Hungarian party in case of the investments of non-residents in Hungary and based on the activity of the foreign subsidiary in case of the investments of residents abroad).

The **activity of Special Purpose Entities (SPEs)** is largely related to direct investment<sup>5</sup>, and **in Hungary it is important to treat them separately**. Since 2006, the MNB has published balance of payments data – including indirect investment data including and excluding SPEs, which is now part of the standard breakdown.

#### 4.3.1.3 Additional breakdowns

The MNB publishes additional breakdowns to allow for the analysis of direct investment data.

- **Capital in transit and asset portfolio restructuring** are phenomena causing distortion of the data for normal enterprises (other than SPEs) in certain years. In Hungary, due to the small size of the Hungarian economy and the size of big multinational enterprise groups, the size of the funds passing through of these companies in certain isolated periods may largely distort the data.

**Capital in transit** or passing through funds are international enterprise group transactions that pass through an economy to an affiliate in another economy without affecting the economy, yet the companies concerned do not qualify as special purpose entities due to their ownership structure and activity. While these enterprises do engage in activity that is relevant to the Hungarian economy, these capital in transit transactions are not linked to developments or investments in Hungary and go to fund other operations, distorting the statistics on the components of direct investments.<sup>6</sup>

Capital in transit include equity capital investment received by a Hungarian enterprise from a non-resident investor to establish foreign operations, carry out capital injection or lend abroad using such financing received from a non-resident investor. Acquisition of foreign participations from loans received from non-resident investors or other enterprise group members and loans granted to foreign subsidiaries or enterprise group members are also recognized here. Nevertheless, conversion of foreign credits and loans/receivables to capital injection are not regarded as capital in transit, nor is the repayment of foreign credits and loans/receivables from capital injection, the settlement of non-resident accounts receivable and payable or the realignment of international asset portfolios (equity claim replacing credit claim).

We publish capital in transit and asset portfolio restructuring transactions back to 2008, alongside direct investment data excluding these items (however, the stocks still include their effects). <https://statisztika.mnb.hu/statistical-topics/balance-of-payments-and-related-statistics/foreign-direct-investments/fdi-flows-excluding-capital-in-transit-and-restructuring-of-asset-portfolios->

It has no uniform international definition, and no uniform method exists for dealing with such transactions of such a size, which are not linked to the domestic economy.

- According to the international methodology, it is recommended to separate **cross-border mergers and acquisitions** (M&A). As a result of these transactions, no new capital is created in the economy; instead, the existing capital

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<sup>5</sup> For the definition of special purpose entities and their segregation in the statistics, see Annex 1.

<sup>6</sup> This increases the value of investments of non-residents in Hungary and of residents abroad, or the value of equity capital and other capital within an investment direction, or assets and liabilities within other capital.

investments have new owners. This breakdown is available from 2008 and is available on the MNB website. <https://statisztika.mnb.hu/timeseries/MegtisztítottFdiForgalmakEurEn.xlsx>

- **Breakdown of direct investment in Hungary by the country of ultimate investor**

According to the standard breakdown of the international statistical methodological recommendations (BPM6, BMD4), the country breakdown of stock, transactions and income data for direct investment is currently published by the country of the **direct** investor or the country of investment. At international level, there is also a growing need to breakdown the stock of foreign investment by the ultimate investor. The breakdown by country of the ultimate investor is published by the MNB with a 15-month delay (T+15 months) in the March release. From the 2014 reference period onwards, a separate table is available in the publication for data excluding and including special purpose entities.

In Hungary, the MNB uses the WTA (winner takes all) approach to produce this supplementary breakdown of foreign direct investment positions in Hungary by country of final investor. This breakdown reallocates the **position of foreign direct investment in Hungary** from the country of the direct investor to the ultimate controlling parent (UCP) of the resident entity, leaving the value unchanged. Regardless of the number of direct investors, the resident investments allocated to the single parent company with ultimate control at the top of the majority ownership chain. In contrast to the standard country breakdown, which considers the direct partner, the **country of the ultimate investor may also be Hungary**. (Where the ultimate investor is unknown, at least for a while, the stock is allocated to the direct investor.)

Data are available: <https://statisztika.mnb.hu/statistical-topics/balance-of-payments-and-related-statistics/foreign-direct-investments/closing-positions-of-fdi-by-the-country-of-ultimate-investor>

#### 4.3.2 *Portfolio investment*

##### 3.2. Portfolio investment

###### 3.2.1. Equity and investment fund shares

###### 3.2.1.1. Equity securities

###### 3.2.1.2. Investment fund shares

###### 3.2.2. Debt securities

###### 3.2.2.1. Short-term debt securities

###### 3.2.2.2. Long-term debt securities

The category of **portfolio investments** includes financial instruments traded on exchanges or other financial markets (excluding negotiable financial instruments recorded under direct investments and constituting reserve assets).

Assets include securities issued by non-residents, while liabilities include securities issued by residents, irrespective of whether they were issued on a Hungarian or foreign market. The publication features a breakdown by resident sector showing the holder of the security asset or the issuer of the security debt.

Securities temporarily changing hands in the context of repo transactions are recognized under their economic owner instead of their custodial owner, in other words stocks and transactions for loan receivables/payables are recorded under other investments, instead of portfolio investments.

Stock exchange and OTC shares of under 10% outside the enterprise group and money market and non-money market investment fund shares, irrespective of their percentage limit, are recorded under equity and investment fund shares.

Debt securities are classified according to maturity, being either short-term (e.g. treasury bills, short-term bonds) or long-term (e.g. bonds, mortgage bonds).

**Data source:** The primary source of data is the securities statistics, which monitors stocks of Hungarian securities held by non-residents and foreign securities held by residents, by instrument, based on the reporting of Hungarian custodians and direct corporate surveys. Data supplied by custodians is supplemented with information on the stock of securities in

custody outside Hungary as reported by resident owners. Transactions are calculated from changes in stock, after adjustment for price and exchange rate fluctuations.

Bills are observed through the data collection for the balance of payments using direct corporate surveys.

In case of the foreign securities holdings of households, in the absence of direct household surveys, information is available only on securities receivables reported by resident custodians, therefore the stocks and flows of securities in custody abroad are estimated.

**Revision:** It is aligned with the revision of securities statistics, where time series are revised once a year for methodological reasons, at the September release.

#### *4.3.3 Financial derivatives and employee stock options*

### **3.3. Financial derivatives and employee share options**

#### 3.3.k Assets

#### 3.3.t Liabilities

Financial derivatives include forward and options contracts of settlement type (i.e. to be settled net as the difference between the two prices) and delivery type (to be settled by delivery of the asset) for financial instruments and exchange-traded commodities, and settlement-type futures and options contracts for other commodities and underlying assets (financial and non-financial variables), as well as swaps and their further derivatives. The value depends on the performance of the underlying asset. Dependence on the reference (underlying) instrument is a key feature of financial derivatives. The reference instrument can be a financial or non-financial instrument, an interest rate, another derivative or the difference between two prices. The derivative contract may refer to an index, a basket of prices or other items.

Employee stock options are insignificant for the balance of payments.

A transaction is recorded as a financial derivative asset in the following cases: premiums paid on purchased options, transactions related to derivative positions having positive net present value at the time of the valuation, transactions related to the closing of derivative positions with net gains and amounts received as a result of the exercise of purchased options.

A transaction is recorded under financial derivatives liabilities in the following cases: premium received on written options, transactions related to derivative positions having negative net present value at the time of the valuation, closing derivative positions with a net loss and the amount paid for the exercise of the written option.

Open forward contracts are disclosed as assets if at the closing of the transaction at the market price prevailing at the end of the period the derivative position would show a net gain, and as a liability if it would show a net loss. The buyer of the option remains the creditor and the writer of the option remains the debtor throughout the life of the contract.

In the case of derivatives, the balances of positive and negative positions (assets and liabilities) are shown separately in publications, in a sectoral breakdown.

**Data source:** The data are derived from the reports of economic entities on their own positions and transactions. Since 2008, the derivatives assets and liabilities of other sectors on non-residents have included the transactions estimated from the aggregate balance sheet data of investment funds excluding money market funds. The general government, credit institutions and the MNB had reported their stock of financial derivatives based on the valuation of contracts at a market value prior to that date. Corresponding information on the financial derivative positions of other sectors have been available since 2008.

#### *4.3.4 Other investment*

### **3.4. Other investment**

#### 3.4.1. Other equity

- 3.4.2. Currency and deposits
- 3.4.3. Loans
- 3.4.4. Insurance, pension schemes, and standardized guarantee schemes
- 3.4.5. Trade credits and advances
- 3.4.6. Other accounts receivable
- 3.4.7 Special drawing rights (debt due to SDR allocation) – for debts only

Other investment contains direct investments, portfolio investments and financial instruments not classified under international reserves in a breakdown by resident sectors.

**Other equity** includes participations below 10% within the enterprise group among direct investments, unsecured participations outside the enterprise group and participation in international organizations are presented among other investments.

Deposits, loans, trade credit and other receivables or payables are broken down into either short-term or long-term categories based on their original maturity. **Deposits** include current accounts, fixed and other deposits, and financial leases and repo transactions are recorded among **loans**, alongside money loans. Loans and deposits are recorded at nominal value in accordance with the methodological requirements.

The rows for **insurance, pension schemes, and standardized guarantee schemes** introduced under the BPM6 methodology include the various insurance technical reserves, claims on pension funds and standardized guarantee reserves.

**Trade credit** receivables and payables include deferred payments on goods and services and advance and progress payments. Receivables include deferred payments linked to exports and advance and progress payments to suppliers, while payables include deferred payments to suppliers and advance and progress payments by customers.

**Other assets and liabilities** include funds in transit, alongside goods and services. The assets and liabilities arising from the accrual accounting of EU transfers are recorded here.

**Currency** in row 3.4.2. (Currency and deposits) can only be recorded among assets, while 3.4.7. **SDRs** (debt due to SDR allocation) can only be recorded among liabilities.

**Data source:** The data source is direct reporting to the MNB by economic entities with external economic relations, supplemented by various estimates. The deposit assets with maturity of under one year include the transactions calculated from the aggregate balance sheet data of investment funds excluding money market funds.

Foreign holdings and turnover of investment funds has been accounted for in the balance of payments since January 2022 using the balance sheet of investment funds.

In the case of households, the data available is estimated using the data on the loan and deposit stock of Hungarian households in the monetary statistics of foreign central banks, the BIS bank transmission, and the NAV data exchange account files. The estimate of households' foreign pension reserves is based on the household wealth survey.

#### 4.3.5 *Reserve assets*

##### **3.5 Reserve assets**

- 3.5.1.k. Monetary gold
- 3.5.2.k. SDRs
- 3.5.3.k. Reserve position in the International Monetary Fund (RPF)
- 3.5.4.k. Currency and deposits
- 3.5.5.k. Securities
- 3.5.6.k. Other reserve assets



International reserve assets are liquid external assets of the central bank on non-residents that are readily available in the case of payment difficulties or indirectly to influence the national currency through an exchange rate intervention, or for any other purposes.

**International reserves include**, in accordance with the international methodology,

- monetary gold, including gold bullion and unallocated gold accounts,
- SDR holdings,
- reserve position in the IMF,
- various liquid foreign exchange assets (currency, current account, liquid deposits, securities, and other reserve assets).

In case of securities, changes in reserves are calculated based on the change in stock adjusted for revaluation and other stock changes, while for current accounts, monetary gold, SDR holdings, deposits or other assets, the net transactions are directly reported by the MNB. Both gold and securities are published at market value.

The **source of data** is the balance sheet of the MNB and Securities statistics.

## 5. Annexes

### 5.1 Definition and separation of special purpose entities

**Special purpose entities (SPEs)** are subsidiaries forming part of multinational enterprise groups mostly active abroad, with only weak ties to the Hungarian economy. They are mainly involved in the intra-group intermediation of funds, the direction and volume of funds channeled through them regulated by their parent companies. Their investments are not primarily aimed at foreign direct investment in Hungary: their net investment into various financial instruments over longer periods is close to zero. At the same time, they shift relatively large volumes of funds, thus their transactions inflate particularly the gross components of the financial account, thus distorting the statistics reflecting the financial processes playing out in the national economy.

Hungary has compiled the BOP and IIP separately including and excluding special purpose entities since January 2006 to eliminate the distortion by SPE data. The MNB examines data net of SPEs in its statistical releases and analyses.

In the BPM6 international methodology, data on SPEs had to be separated within the direct investment data. Data on special purpose entities are also to be reported separately in Eurostat and OECD FDI data. In 2020, an internationally agreed definition of SPEs was developed under the leadership of the IMF. Its aim was to launch a comprehensive international data collection, to collect as complete as possible the comparable SPE data that are missing from statistics. The IMF has been publishing SPE data on its website since 2022. The ECB has required member countries to report SPE data by regulation and will make the data available on its website from April 2024.

In 2021, the internationally accepted definition of SPEs was implemented in Hungary. The internationally agreed definition of SPEs adopted by the IMF BOPCOM<sup>7</sup> gives a broader definition of SPEs than previously, implying a mostly or predominantly international relationship rather than an exclusive international relationship, and does not limit the activity observed to passive financial activity. This is based on the proliferation of special purpose entities in the non-financial corporate sector, such as companies holding intellectual property rights and collecting fees/royalties, companies involved in intermediary trading or private operating leasing, in addition to traditional financial SPEs. These SPEs also hold significant non-financial assets on their balance sheets, unlike the traditional SPEs of the past, which held almost exclusively financial assets.

#### Hungarian SPE criteria applied after 2021:

1. The company is registered in Hungary.
2. It has no more than 5 employees. The balance sheet total (any type of stock) is in the order of billions of forints – empty and large companies are concerned.
3. The main type of activity is typically passive finance (6420 – holding, 6492 – lending, 6499 – other finance, possibly 7010 – business management) or passive intermediation (4600 – wholesale, 6800 – real estate, 7700 – lending /especially 7740 – lending of intangible assets/, possibly 8299 – other services), replacing the former “off-shore” criteria for the company name.
4. There are only a few types of assets and liabilities on the balance sheet, they are linked to the group or to a few external partners, credits and debits are intra-group or may be linked to a few external partners – a closed activity, the firm is not linked to the market.
5. Conditions for turnover:

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<sup>7</sup> The IMF's definition of special purpose entities: A special purpose entity, resident in an economy, is a formally registered and/or incorporated legal entity recognized as an institutional unit. It has no or little employment up to a maximum of five employees, no or little physical presence and no or little physical production in the host economy. SPEs are directly or indirectly owned by non-residents. SPEs are established to obtain specific advantages provided by the host jurisdiction with an objective to grant its owner(s) access to capital markets or sophisticated financial services; isolate owner(s) from financial risks; and/or reduce regulatory and tax burden; and/or safeguard confidentiality of their transactions and owner(s). SPEs transact almost entirely with non-residents and a large part of their financial balance sheet typically consists of cross-border claims and liabilities.

- a) The annual turnover is HUF 0 or 500 million at most, the balance sheet consists predominantly of financial assets and the activity is passive financial – in which case it is a holding company (6420) or other passive financial (group financing, 6492, 6499) and can be a financial SPE according to the subsequent conditions.
  - b) There are also non-financial assets on the balance sheet which are not “beneficially owned” by the enterprise and thus the activity is passive intermediation (lending of intangible assets or tangible assets), and the annual turnover is significant (billions of HUF), in which case the enterprise is a holding if it is a stand-alone institution (6420) and can be a financial SPE as defined below.
  - c) There are no non-financial assets on the balance sheet, but the annual turnover is significant (billions of forints) as the company is engaged in intermediary trading – it may again be a financial SPE under the subsequent conditions.
6. The company is directly or indirectly under foreign control; this is a necessary condition for SPE qualification.
  7. The company’s financial assets and liabilities are predominantly (over 90%) held abroad, and its credits and debits (if significant) are predominantly derived from or directed abroad – making the SPE a passive financial or other intermediary, not just a closed financial intermediary or an entity to be zeroed out and consolidated.

The MNB identifies special purpose entities within resident corporations in conjunction with the HCSO.

## 5.2 The definition of direct investment relationship

In the breakdown of the balance of payments by instrument, in addition to the type of transaction, the relationship between the companies involved in the transactions plays an important role, based on which we distinguish direct investment, portfolio- and other investment.

In the framework of the direct investment relationship, voting power is the criterion of the direct investment relationship. The definition of the direct investment is based on control (above 50 per cent ownership), influence (between 10–50 per cent ownership), which also includes the relationships between ownership chains. If one or more chains of ownership originate from a common investor, then all the companies in all the chains have a direct investment relationship, belonging to the same group.

The actors:

- **direct foreign investor (parent company):** an entity (institutional unit) resident in an economy that has **directly** acquired 10% or more of the voting rights of a company (enterprise) resident in another economy.
- **indirect foreign investor:** a non-resident company that **indirectly** controls a resident company.
- **foreign direct investment (subsidiary):** an enterprise resident in an economy in which an investor resident in another economy directly holds 10% or more of the voting rights.
- **foreign indirect investment:** a non-resident company in which the resident company has indirect control.
- **fellow enterprise:** fellow enterprises, that is, those enterprises that are under the control or influence of the same immediate or indirect investor, but neither fellow enterprise controls nor influences the other fellow enterprise.

**The framework of direct investment** aims to identify all the enterprises that form a group of companies in which the same ultimate investor has lasting interest.

The data has been accounted for according to the framework of FDI relationship since 2013, when the BPM6 methodology was implemented. In the years prior to 2013, the previous methodology recommended that investments with a foreign ownership interest of 10 percent or more, as well as loan and other financing relationships between the investor and its investment, should be recorded as direct investment.

In the balance of payments, **the asset-liability breakdown** is part of the standard publication for direct investment. In this all assets and liabilities between counterparts are aggregated.

In the standard breakdown of direct investment, a distinction is made by investments of

- direct investor in direct investment enterprises,

- direct investment enterprises in direct investor (reverse investment),
- investments/divestments in fellow companies, transactions between fellow companies.

In addition, to support the analysis, the publications also include foreign direct investments according to the **directional principle**.

- **Foreign investment in Hungary** is increased by the value of equity and debt investment from the foreign parent companies to resident investments, while the value of investment is reduced by the value of equity and debt investments from the resident companies to foreign direct and indirect parent companies (reverse investment). Foreign direct investment in Hungary includes transactions and positions between a resident enterprise and a non-resident direct or indirect investor, and between a resident enterprise with a non-resident ultimate investor and its fellow companies.
- **Foreign direct investment abroad** includes direct or indirect investments between the resident (investor) corporations and non-resident investments, as well as transactions and positions between resident corporations who have a **resident ultimate investor** and their fellow companies.

For fellow companies with unknown investor or without an ultimate investor, their liabilities are included in the inward investments in Hungary, while their assets are included in the foreign investment abroad.

### *5.3 The link between balance of payments statistics and the system of national accounts*

In combination, the balance of payments statistics and the related international investment position provide for the coherent recording of the transactions and positions of an economy vis-à-vis the rest of the world. It essentially corresponds to the rest of the world sector account in the system of national accounts with the exception that while balance of payments statistics presents the transactions, assets, and liabilities of resident economic sectors vis-à-vis the rest of the world, the rest of the world account looks at the same elements from the perspective of non-residents.

Chart 2 presents the System of National Accounts.

Accounts that have their counterparts in the BOP and IIP statistics are highlighted, the balancing items of the various accounts are indicated in bold.

Chart 2

Overview of the key accounts and balancing items of the System of National Accounts as a framework for macroeconomic statistics including International Accounts

		Transactions/Balance of payments				
		Goods and services account X-M				
		Production account Value added/GDP				
		Generation of income account Operating surplus				
		Distribution of primary income account International income DNI				
		Distribution of secondary income Disposable income DI				
		Use of income Savings S				
		Opening balance sheet				
		Capital account Net lending/net borrowing NL	Revaluation account	Other changes in volume account	Closing balance sheet	
Nonfinancial assets	Accumulation accounts					
Financial assets	Net worth NWO	Financial account Net lending/net borrowing NL	<b>dNW1</b>	<b>dNW2</b>	Net worth NWC	
		Balances	Transactions	Valuation changes	Other volume changes	Balances

The components relating to the BOP and IIP are highlighted, and the name of the balancing item is indicated in bold.

- GDP** = gross domestic product
- S** = saving
- NL** = net lending
- NWO** = opening level of net worth
- NWC** = closing level of net worth
- dNW1**= change in net worth from revaluation
- dNW2**= change in net worth from other change in volume

**Correlations between national account aggregates and the balance of payments**

Uses and resources are in balance on the production account of the national accounts. This is the balance between gross output and import, and consumption, intermediate consumption, and accumulation. Gross domestic product (GDP) is one of the most typical, extensively used measures of economic output defined as the difference of gross output and intermediate consumption. On the other hand, this measure of output is also an income category as it expresses a volume of income identical with the production measured. GDP does not contain income from abroad: it measures the income produced by the residents of a country rather than the location where such income is earned. If the value of the GDP is adjusted for the balance on primary income (BPI), the gross national income (GNI) is obtained.

If we take tally of transactions involving the rest of the world, i.e., add to the net exports of goods and services the primary income of non-residents and net current international transfers, we obtain the current account balance (CAB).

## Correlations between national account aggregates and the balance of payments

<b>Resources</b>	=	<b>Uses</b>	<b>(1a)</b>
<b>GO + M</b>	=	<b>C + G + I + X + IC</b>	<b>(1b)</b>
<b>GDP</b>	=	<b>GO - IC</b>	<b>(2a)</b>
	=	<b>C + G + I + (X - M)</b>	<b>(2b)</b>
<b>GNI</b>	=	<b>GDP + BPI</b>	<b>(3)</b>
<b>GNDI</b>	=	<b>GDP + BPI + BSI</b>	<b>(4a)</b>
	=	<b>C + G + I + (X - M) + BPI + BSI</b>	<b>(4b)</b>
	=	<b>C + G + I + CAB</b>	<b>(4c)</b>
<b>CAB</b>	=	<b>(X - M) + BPI + BSI</b>	<b>(5a)</b>
	=	<b>GNDI - (C + G + I) = GNDI - A</b>	<b>(5b)</b>
<b>S</b>	=	<b>GNDI - C - G</b>	<b>(6a)</b>
	=	<b>I + CAB</b>	<b>(6b)</b>
<b>CAB</b>	=	<b>S - I</b>	<b>(7a)</b>
	=	<b>(SH - IH) + (SE - IE) + (SG - IG)</b>	<b>(7b)</b>
<b>KAB</b>	=	<b>NKT - NPNNA</b>	<b>(8)</b>
<b>CAB + KAB</b>	=	<b>S - I + NKT - NPNNA = NFI</b>	<b>(9)</b>

Where

**GO** = gross output

**IC** = intermediate consumption

**C** = private consumption (household consumption expenditure)

**CAB** = current account balance

**G** = government consumption expenditure

**GDP** = gross domestic product

**GNI** = gross national income

**A** = domestic use

**GNDI** = gross national disposable income

**I** = gross domestic (non-financial) investment

**M** = imports of goods and services

**BSI** = balance on primary income

**NFI** = net foreign (financial) investment (or net lending vis-à-vis the rest of the world)

**NCT** = net current transfers from abroad

**NPNNA** = net purchases of non-produced, non-financial assets

**CAB** = capital account balance

**BPI** = balance on primary income

**S** = gross saving

**X** = exports of goods and services

**(SH-IH)** = net financial savings by households

**(SH-IH)** = net financial saving by corporations

**(SG-IG)** = net financial saving by government

The current account balance reflects the economy's savings position vis-à-vis the rest of the world (7a), in other words, whether the value of gross saving relative to gross investment results in borrowing (current account deficit) or lending (current account surplus).

Any amount of the disposable income not used within an economy is automatically recorded in the balance of payments as funds allocated abroad and any domestic use more than the disposable income is recorded as borrowing (5b). To establish if an economy was a net lender or a net borrower in a specific period, the aggregate balance of the current and capital accounts is needed (9). The relationship between the net financial positions of the individual sectors and the current account balance is shown in equation (7b).