



13 November 2002

## BACKGROUND INFORMATION

**for the press conference held on the methodological changes to the balance of payments statistics to be implemented in 2003–04**

### Methodological changes

- 1 Affecting **trade in goods from 2003** and **incomes from 2004**, Magyar Nemzeti Bank will change its statistical methodology of compiling Hungarian balance of payments statistics from recording settlements data to a more accurate system of recording transactions according to the accrual method. As a result of this methodological change, to be implemented **in two stages**, the analytical power of balance of payments data will increase, their consistency with other macroeconomic statistics will improve and the existing discrepancies with international methodological standards will be eliminated.
  - Currently, trade in goods as stated in Hungary's balance of payments fundamentally records foreign trade **payments**, on the basis of reports from credit institutions and enterprises. With the adoption of the planned methodological change, data on goods in the balance of payments will be based on **customs statistics**, reflecting the physical movement of goods, thus they will replace payment data, consistent with the treatment applied in the national accounts methodology. However, this change is not intended to create numerical consistency between the two sets of statistics, given that they will continue to be compiled on the basis of different methods (*for example, different terms of delivery [f.o.b./c.i.f. vs f.o.b./f.o.b.]*). Nevertheless, the identical source of data will create harmony between the various statistics.
  - The balance of payments statistics including data on **reinvested earnings** will be published **from 2004**, scheduled to the release of 2003 annual data. Recording reinvested earnings in the balance of payments is a standard requirement in international statistical methodology. In the majority of OECD countries, including the EU and EMU member states as well, the current practice of recording reinvested earnings is consistent with the principles of international methodology.

As part of the balance of payments statistics, the MNB has been publishing on a regular basis data on foreign direct investments in Hungary since 1990 and on those by Hungarian residents abroad since 1993. Due to a lack of adequate data collection system, investors' income in a given year, determined by the income generating capacity of the enterprise, i.e. foreign owners' share of FDI companies' after-tax

profits, and the effects on stocks of reinvested earnings as well as contributions in kind, have not been captured by the statistics. Currently, the current account records as FDI income on equity only paid dividends, determined by investors' decisions. Accounting for reinvested earnings only reflects, but **does not affect, actual developments in the real economy and incomes**, and the **external equilibrium of the national economy**, as it only causes a change in their statistical recording, thereby improving the **applicability** of macroeconomic statistics in economic analyses and their international **comparability**. Nevertheless, *the lack of measuring non-repatriated but reinvested earnings significantly influences the picture depicted about the Hungarian economy.*

In agreement with the CSO, the MNB introduced the obligation for FDI companies to report data on direct investments in 1999, in order to address the problem noted above. The Bank conducted its first survey and prepared the statement of reinvested earnings for 1999 in 2000. As harmonisation between the national accounts and the balance of payments statistics is also an important issue in this specific area, experts of the CSO and the MNB have been making efforts to solve the methodological and practical issues relevant to accounting and data dissemination, respectively.

- Recording investment income on an accrual basis will only replace the current cash accounting from 2004. This means that, instead of stating actual payments, the income accruing from holdings of financial assets will be recorded continuously in the balance of payments from 2004.
- 2 The CSO and the MNB agreed earlier to revise past **travel data**, both in the balance of payments and the national accounts, **simultaneously** with the revisions to statistical data on trade in goods, at the time the data for 2002 are published. Basically, this revision is made necessary by the fact that since 1999 the two institutions have used different methods in the balance of payments and the national accounts to record travel services.

Simultaneously with the release of the *balance of payments* for December 1999, the MNB, for methodological considerations, revised the monthly travel data for the period 1995–1999. And, since then, it compiles data on the basis of a new methodology. This switch was justified by the requirement to record cash flows linked to travel which, due to a lack of adequate information, were not adequately captured by the balance of payments statistics, if at all.<sup>1</sup>

The revision had two components:

- ◆ the balance of foreign currency transactions on households' foreign currency accounts is recorded under travel and
- ◆ the portion exceeding a certain limit of foreign currency exchanged by residents at currency traders is recorded under travel receipts

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<sup>1</sup> A detailed description of the correction can be found on the Bank's website at Statistics...Methodological notes...in the document 'Retroactive changes to BOP data for 1995–99 due to revision of statistical methodology'.

instead of foreign currency purchased for travel purposes (reverse expenditure).

The CSO continues to state travel data in the *national accounts* on the basis of a methodology applied prior to 1999. As a consequence, the balance of payments and the national accounts show **different travel data** – GDP records lower levels of travel receipts (from 1995) and expenditures (from 1998) than the balance of payments.

In order to create **harmony** among travel data recorded in various macroeconomic statistics, the MNB, in close cooperation with the CSO, invited proposals for a survey of travel in June 2000. Based on the outcome of the survey, conducted involving external experts, revenue and expenditure data for the period 1995–2002 were revised in a joint effort. These revisions affected other items in the balance of payments (income, current transfers and direct investments) as well, in addition to the travel data.

Simultaneously with the release of data for 2002 and consistent with its earlier practice, the Bank will publish on its website a **detailed methodological description** of the implemented changes.

### **The new system of data releases and revisions**

- 1 In the current Hungarian practice of data releases, the MNB publishes the country's preliminary current account on the 3<sup>rd</sup> of the second month following the reference month and a final balance of payments as well as stock data on the 18<sup>th</sup>.<sup>2</sup> The Bank will release the balance of payments containing customs statistics and adjusted travel data **for the period beginning with 1995**, together with the **data for December 2002**. Given that, according to the advance data release calendar, the CSO will release the (final) customs data for 2002 on 24 February 2003, publication of the balance of payments on the basis of the revised methodology will have to be rescheduled, relative to the earlier practice.

Accordingly, the MNB will publish the balance of payments and the international investment position statistics for December 2002 and the year 2002 **on 25 February 2003**, together with the revised data for the period beginning with 1995.

- 2 The method of publishing and revising balance of payments data will be changed **from 2003**. In addition to implementing the above-noted methodological changes in the compilation of balance of payments statistics, the MNB will also revise its current publication and revision policy, adopting the principle of regular revisions as long as new sources of information may improve data accuracy.

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<sup>2</sup> Since 1999, the Bank revises monthly transaction and stock data going back 24 months, simultaneously with the publication of end-of-year final balance of payments data. This is necessitated by the need to discontinue the gap between late corporate reports on borrowing and the release of statistics on a monthly basis. Accordingly, taking into account the pre-determined data revisions, even in the current practice, final balance of payments and stock data are only available in the 14<sup>th</sup> month following the reference year.

- **Changes to the publication method:**
  - ◆ **Only the balance of payments** consisting of the main aggregates will be published **monthly**, in addition to statistics on the stock of international reserves. Unlike in the current practice, **stock data** on other external assets and liabilities will not be published. The latter, together with the detailed balance of payments, will only be compiled and published **quarterly and yearly**.<sup>3</sup> The deadline for monthly releases will fall in the R+40–46 calendar-day interval designated by R+30 working days. The deadlines for the quarterly and yearly releases will adjust to the end of the quarter following the reference period (R+3M).
- **With the new publication method**, the Bank will also change its **current revision practice**:
  - ◆ **Monthly** data will undergo a certain number of revisions, at the time of releasing and revising the quarterly and yearly data, respectively. Accordingly, they will be revised at the time of release of data for the reference quarter and also each time when the yearly data containing those for the reference month are revised.
  - ◆ **Quarterly** data will only be released once (reference quarter+3 months), with the number of quarterly revisions being connected to the release of yearly data and the yearly revisions. Data for Q1, Q2 and Q3 will be revised three times (reference year+3 months, reference year+15 months and, finally, reference year+27 months); Q4 data will be revised twice, at the time of revision of the yearly data (reference year+15 months and reference year+27 months).  
  
As quarterly releases will be separate from the monthly releases, there will be an opportunity to reflect continuously a large portion of usual monthly variations in customs data in the balance of payments.
  - ◆ **Yearly** data will be released once (reference year+3 months – incorporation of final customs statistics), and will be revised twice (reference year+15 months – processing the questionnaire on FDI, and reference year+27 months – comparison with the final APEH TÁSA database), to account for reinvested earnings.

The new publication and data revision policy is consistent with the information requirements of domestic monetary policy, as the analyses providing a basis for decisions, (such as the Quarterly Report on Inflation), have been performed on the basis of quarterly data.

In accordance with the current practice, which is consistent with international data dissemination standards, from 2003 the balance of payments data will continue to be released on pre-announced dates.

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<sup>3</sup> Based on the latest published quarterly data and the monthly financial account statistics, there is an opportunity in every month to estimate the main stock data for the national economy (debt, FDI) for the purposes of analysis. However, these will not be released as part of the Bank's official statistical data.