

Methodological notes to the Hungarian balance of payments and the international investment position From 2008

A Legal background and basic balance of payments concepts

In Hungary, the country's balance of payments (BoP) and the statistics on the size of and changes in the stocks of its external financial assets and liabilities (international investment position, IIP) are compiled by the Magyar Nemzeti Bank.

The recent increase in the MNB's statistical needs to meet international data provision requirements, the growing complexity of financial relationships and changes in the regulatory environment have made it necessary to implement methodological changes to the compilation of statistical data. In 2008, in cooperation with the Hungarian Central Statistical Office (HCSO), the Magyar Nemzeti Bank launched a new data collection system based on direct reports. While in the previous system the compilation of the BoP mainly relied on the use of transaction codes for payments based on reports by credit institutions, in the new regime the MNB obtains the necessary information directly from reporting agents.

In developing the new system, attention was paid to avoiding parallel activities within the national statistical services and to reducing the social costs associated with the compilation of statistics – for data providers and during the compilation process. To this end, the MNB and the HCSO cooperated with each other to design and develop the new system. Formal cooperation (maintenance of the data reporting registers, data exchange, joint solutions for methodological problems) between the central bank and the statistical office has also been growing in importance in Hungary, consistent with the general approach within the European Union. The central bank takes over a number of statistical data on BoP instruments collected by the HCSO. These include: goods (from 2003); business services and travel (from 2004); other services (from 2005); compensation of employees, EU and household transfers (from 2008). Also from 2008, portfolio investment and portfolio investment income data are taken from the MNB's statistics on securities holdings.

The general legal background for data collections required for the compilation of statistics is provided by the MNB Act (Act LVIII of 2001) and the Act on Statistics (Act XLIV of 1993).

The new data reporting obligation was provided by Decree 3/2007. (II.21.) MNB. The contents of tables in the reports as well as the detailed methodological descriptions necessary to fill out the questionnaires are available on the MNB's website at: http://english.fma.mnb.hu/engine.aspx?page=altalanos_tudnivalok.

For 2008, the HCSO's reports (data supplies) are specified by Government Decree 300/2007. (XI. 9.) on the National Statistical Data Collection Programme (OSAP) pursuant to Act XLVI of 1993 on statistics (OSAP registration numbers: 2183, 2184, 2185, 2186, 2187, 2188). The Appendixes are published in the Statistical Gazette.

Large companies, reporting the full set of BoP and IIP statistics on a monthly basis, a sample of SMEs (based on a value limit) reporting on a quarterly or yearly basis, area-specific questionnaire surveys supplementing these, as well as the various estimation methods play an important role in compiling the statistics.

Statistical data are published in Hungarian forints (HUF) and euros (EUR), as scheduled in the advance release calendar, through the media and on the MNB's website: <http://english.mnb.hu/>. The advance release calendar is updated twice annually, in June and December.

The MNB publishes BoP statistics on a quarterly basis, on the 90th day following the end of the reference quarter. Simultaneously with the publication of quarterly data, the two quarters immediately preceding the reference period are revised. The MNB publishes annual BoP data for the reference year +9 months, this publication includes final data on trade in goods and preliminary data on reinvested earnings.

Annual data are revised for the first time for the reference year+15 months. By that time the detailed foreign direct investment statistics have been prepared on the basis of corporate questionnaires broken down by sector and country. Final BoP data (including reinvested earnings and FDI stocks) are published for the reference year + 21 month.

The balance of payments and the related IIP statistics record economic transactions between resident as well as non-resident natural and legal persons, stocks and flows of financial assets and liabilities, irrespective of whether a transaction is conducted or whether the outstanding stock of assets and liabilities is in forints or euros.

In statistical terms, natural or legal persons are Hungarian residents whose centre of economic interest (permanent residence, seat, production, etc.) lies within the territory of Hungary. In the case non-natural persons, the major distinction is whether or not the given institutional unit possesses the HCSO's single identification code.

Residents

- Natural persons residing at least for on year or intending to reside in the territory of the Republic of Hungary, irrespective of citizenship, not engaging in entrepreneurial activity, excluding non-Hungarian members, employees and their family of foreign diplomatic and consular representations operating in Hungary, as well as persons residing or arriving in Hungary for the purposes of studying or medical treatment,
- Hungarian members, employees and their family of foreign diplomatic and consular representations operating abroad,
- Natural or legal persons as well as unincorporated organisations with residence or seat in the territory of the Republic of Hungary – including customs free areas and transit territories – or otherwise engaging in entrepreneurial activity.

The accounting framework for BoP statistics follows the convention of double-entry book-keeping, similar to business accounting, i.e. recorded transactions between residents and non-residents are entered both as a credit and a debit. In the balance of payments, all credit entries are shown with a positive arithmetic sign and all debit entries are shown with a negative arithmetic sign.

In the financial account of the balance of payments, increases in assets and decreases in liabilities are recorded as debits, and, accordingly, decreases in assets and increases in liabilities are recorded as credits.

According to the convention relating to transactions resulting in changes in assets or liabilities, outflows of real resources (goods and services exports), inflows of income as well as unrequited transfers received (current or capital) are recorded on the assets (credit) side, while inflows of real resources (goods and services imports), outflows of income as well as unrequited transfers granted (current or capital) are recorded on the liabilities (debit) side in the current account or the capital account.

The difference in stock data between two points of time (flows) reflects the combined effect of transactions, revaluations and other volume changes. Within revaluation, i.e. the change in the price of an instrument, valuation changes due to exchange rate movements are recorded separately in the statistics. Adjustments of misreported stocks for earlier periods, in addition to

volume changes due to methodological or classification changes, are also recorded as other volume changes.

Monthly flow data, reported by foreign currency, are converted to forints at the MNB's official monthly average mid exchange rates weighted by working days, and are aggregated at the level of the total economy. Accumulated and quarterly flow data can be calculated by adding up data for individual months. Stock data, also reported by foreign currency, are converted to forints at the MNB's official end-of-period daily mid exchange rates and are aggregated. Data published in euros are derived by converting forint data at monthly average (flow statistics) and end-of-quarter EUR/HUF exchange rates (in the statistics prior to 1999, the ecu has a 1:1 value to the euro).

The published balance of payments statistics distinguish four different institutional sectors: the MNB as a monetary authority, general government, other monetary financial institutions and other sectors. A detailed description of the sectors can be found on page 10 in Appendix 2 of the MNB decree on the new reporting requirements for the balance of payments.

The current account, a sub-account of the balance of payments, is a statistical record of real economic transactions (i.e. those in goods trade and services), investment income (both dividends and interest), compensation of employees and current transfers.

The capital account, a sub-division of accumulation accounts, is clearly distinguished from the current account. It covers capital transfers as well as revenues and expenses related to acquisitions and disposals of non-produced, non-financial assets. Transfers to and from the European Union are recorded as current and capital transfers in the balance of payments.

The balance on the current account reflects a country's saving position vis-à-vis the rest of the world, while the sum of current and capital account balances shows the country's net lending (+) or net borrowing (-) position.

The financial account shows (i) the changes in financial assets and liabilities by type of financial instrument that contribute to the combined surplus on the current and capital account (net lending) and (ii) the financial assets that finance the deficit on the current and capital account (net borrowing). The financial account covers capital transactions in a functional breakdown, i.e. it distinguishes between the concepts of direct investment, portfolio investment, financial derivatives, other investment and reserve assets. The sum of balances (surplus or deficit) on the current and capital accounts equals in value to the balance on the financial account – including international reserves - of the opposite sign. An exchange of financial instruments for another (e.g. a current account for a deposit account) and the related transactions in assets or liabilities (e.g. increase in the current account abroad due to borrowing) do not change the balance on the financial account.

In practice, BoP statistics cannot rely on observations of individual business transactions. The item 'Net Errors and Omissions' includes the statistical discrepancy that arises in the balance of payments due to using different data sources (incorporating direct reports, HCSO and securities statistics) and, occasionally, aggregated data. The item is intended to create conformity with the double-entry accounting convention, i.e. the identity of the credit and debit sides, at the level of the balance of payments.

The tables published since 1995 correspond to the standard classification of the balance of payments revised in 1993. From 1995, the credit and debit sides of the balance of payments have also been published. Items in the capital and financial accounts continued to be made on a net basis.

Recording data on special purpose entities (SPEs) in the balance of payments

From January 2006, the MNB compiles the balance of payment and IIP statistics, including data on SPEs (earlier pass-through companies) on a gross basis, consistent with international methodological standards. However, based on economic considerations and in order to ensure

comparability with data published earlier, the MNB continues to publish Hungary's balance of payments and external balance sheet excluding data on SPEs. In classifying companies into SPEs, the MNB cooperates with the HCSO.

Up to 2005, two types of off-shore companies were distinguished for the purposes of accounting in the balance of payments statistics. One group comprised companies functioning as passive financial intermediaries or pass-through companies, which generally promptly allocated funds from equity investment as loans to non-residents. The net cash-flow of these companies were recorded as direct investment. The other group comprised companies engaged in actual real economic activity. In their case transactions in the service or capital account – related to the purchase or sale of non-produced, non-financial assets – were recorded in the balance of payments.

As a result of changes in legal environment after 31 December 2002 no new off-shore company was registered, and the category of off-shore companies were ceased at 31 December 2005.

B Main instruments included in the balance of payments statistics

I Current account

1 Goods

The data of external trade statistics from the Intrastat/Extrastat system, compiled by the HCSO, are incorporated in the balance of payments statistics.

Due to the methodological differences between external trade and balance of payments statistics the following regroupings are made between goods turnover and services:

- Trade in goods data in the balance of payments are valued f.o.b. (i.e. the value at the customs frontier of the exporting country), thus the c.i.f. value of imports (i.e. the value at the Hungarian frontier) recorded by the HCSO should be replaced by its f.o.b. value in the balance of payments. The balance stemming from the difference between the contractual and f.o.b. values is recorded under transportation services (before 2008 the HCSO used to calculate a separate correction item for this, which has become incorporated in the foreign trade-in-services data since 2008). So this adjustment does not influence the combined balance of trade in goods and the related transportation services.
- Certain items of trade in goods (e.g. trade in goods not crossing the Hungarian border, the so-called 'bunker' fuel in the tanks of vehicles, repairs on goods) are not included in the external trade statistics. The data for these flows are also taken over from the HCSO, deriving information from the quarterly services questionnaires.

Financial leasing, which is recorded under goods, is recorded at the market value of the leased goods (on f.o.b./f.o.b. terms of delivery stated in the external trade statistics, in accordance with the general recording principles of transactions in goods). As a financing item related to financial leasing, as related credit flow, trade credit is recorded under other investment.

No further breakdown for goods is published.

2 Services

The data are taken over from the HCSO. Direct corporate questionnaires, border surveys and administrative data constitute the main sources of data.

Eleven groups of services are distinguished in the publication:

- 1 Transportation services,
- 2 Travel [personal and business travel],
- 3 Communication services,

- 4 Construction services,
- 5 Insurance services,
- 6 Financial services,
- 7 Computer and information services,
- 8 Royalties and license fees,
- 9 Other business services [merchandising and other trade-related services, rental fees, miscellaneous business, professional and technical services (legal representation, PR, translation, interpretation, security services etc.)],
- 10 Personal, cultural and entertainment-related services [audio-visual and related services, other cultural and recreational services],
- 11 Government services.

The source of travel data is the border survey conducted by the HCSO, in the course of which Hungarians returning from abroad and foreigners leaving Hungary are asked about their expenses related to travelling.

The main source of data for other services is partly constituted by the questionnaires filled in by the enterprises which provide or use foreign trade-in-services and partly by administrative sources (e.g. in case of the government and insurance services).

Merchandising is recorded on a net basis, in accordance with the international methodology.

On recording insurance services, not the total insurance premium, but only the service included in the insurance premium is recorded under services.

3 Income

Labour income (compensation of employees) and investment income are distinguished. Income is recorded on an accrual basis in the balance of payments statistics.

Gross income received by residents as employees and gross income paid to non-resident employees are recorded under labour income (compensation of employees). Since 2008 the MNB has used the HCSO's estimate for labour income based on administrative sources. Flows are significantly higher than in the previous years when data were derived from settlement information (so could include only part of the net income).

Within investment income, individual income elements are published in accordance with the structure of the financial account:

Income on equity, (i.e. dividend and reinvested earnings) and income on debt are recorded separately.

As a result of recording on an accrual basis, the value of income on equity depends exclusively on the income produced in the given year and irrespective of the dividends declared payable or actually paid. Income on equity can even be negative if the company has made a loss. . Reinvested earnings is the difference between the profit/loss after taxation in the given period and the dividend declared payable in the same period. Considering that dividend can be voted not only vis-à-vis the profits earned within the given period, reinvested earnings can be negative even if the company makes profit, expressing the fact that the owner increased his income withdrawn from the company, at the expense of the company's equity capital. As a consequence of the technique of recording, the balance of the income account is not influenced by the decision about the distribution of income, because the same amount appears with an opposite sign as dividend and reinvested earnings. The greater deficit of the current account due to the reinvested profit is always financed automatically in the financial account; it does not require the involvement of any additional funds. At the same time this also shows that the current account balance is not the

only relevant indicator in terms of the assessment of the developments in the external equilibrium.

In measuring corporate income, for determining the income on direct investment, two approaches are distinguished: one of them includes all elements of profit/loss (e.g. exchange rate gain or loss and also the loss related to writing off a claim), while the other, which only takes into account the corporate profit/loss related to normal operation, excludes the aforementioned items. Until 2008, the MNB applied the income recording which included all the elements of profit/loss. Corporate questionnaires collecting more detailed information and introduced as of 2008 have allowed the elimination of income elements which are not closely related to normal operation.

Reinvested earnings at whole-economy level are determined on the basis of the annual direct investment reports supplemented by the information from corporation tax returns. Until the publication at end-September following the year under review (processing of the annual questionnaires for the year under review) corporate income / income on equity – and thus reinvested earnings too – are estimated figures. The estimate is based on forecasts regarding the amount of investment and profitability. The dividend component of reinvested earnings is already based on reported data in the new system. The time of recording is according to the decision of declaring the dividend payable. Before 2008 the distribution of the adopted dividend within the year was based on estimation.

Income on equity (dividend) on portfolio investment is recorded at the time of the payment date.

Income on debt on financial instruments is recorded continuously in the current account, instead of the statement of actual payments. Interests on an accrual basis related to direct investment and other investments are reported directly by the data providers, while the accrual-based interests from portfolio investments are taken from the securities statistics. Following from the methodology of accrual-based income accounting, interests accrued but not yet paid in the given period are recorded as a claim or liability of the relevant instrument. When the interest is paid, a transaction with opposite sign has to be recorded in the financial account at the given instrument.

4 Current transfers

The published balance of payments includes the balance of revenues and expenditures broken down to general government and other sectors.

Since the EU accession Hungary's contributions to the EU budget (contribution in proportion to the gross national income (GNI), UK correction, customs duties etc.) are recorded as the general government's current transfer debit, while current transfer credit includes – as a rule of thumb if the MNB has no other information available on the given transaction – transfers received under the PHARE programme, from the European Social Fund and from the Guarantee section of the European Agricultural Guidance and Guarantee Fund. The transfers from the Guidance section of the latter fund, from other development funds and under the SAPARD programme are recorded by the MNB as capital transfers credit.

Current transfers of the general government are compiled by the HCSO (taxes and contributions paid by non residents, pensions paid to non residents). Also HCSO data are used for households' unrequited transfers, which consist of taxes and contributions paid on the basis of labour income, pensions and workers' remittances.

Claims payable by resident insurance companies to non-residents and the compensations received from abroad by resident clients as well as the non-service part of the insurance premium are also recorded here. The HCSO's external trade-in-services data constitute the source of data.

As far as the other sectors are concerned, data from the direct reports are included in the balance of payments.

II Capital account

The capital account contains capital transfers as well as the revenues and expenditures related to the transfer of ownership of non-produced non-financial assets.

5 Capital transfers

The financing item of fixed assets and investment granted free of charge or the transfer of liquid assets covering these goods without compensation are recorded as capital transfers. Capital transfer changes the stock of real or financial assets (wealth) of the parties participating in the transaction. Although it is not their exclusive feature, capital transfers are usually large-amount, non-regular transfers.

All transfers which are not capital transfers have remained in the current transfers category. Current transfers directly influence the magnitude of disposable income and – assuming that everything else remains unchanged – consumption, and can also be in the form of money or in tangible form. In the former case they usually consist of small-amount, regular transfers.

Debt forgiveness, which is based on mutual agreement between debtor and creditor, is also recorded here.

The net transfers is published separately for the general government and the other sectors. The source of data is identical with the one used for current transfers.

6 Non-produced non-financial assets

This item serves the recording of transactions related to selling/buying the ownership of elements of intangible assets. Direct corporate questionnaires constitute the source of data.

This item is published in net terms, with no sectoral breakdown.

III Financial account

7 Direct investment

A foreign direct investment means that a resident entity of an economy aims at obtaining a lasting interest in an enterprise resident of another economy. Lasting interest refers to the time horizon of the investment in one hand, and to the effective voice in the management of the created direct investment enterprise. According to international standards, any 10% or higher participation is recorded under this category. If this partnership exists, in addition to the initial equity transaction between the investor and the enterprise, other indirect and direct capital, credit and other financing transactions are also recorded under this item in the balance of payments statistics. Accordingly, those capital transactions which are related to debt-type financial instruments and do not necessarily represent long-term financial resources for the enterprise also must be recorded as direct investment. For example, short-term money (cash-pooling, zero balancing) moving within the framework of daily cash settlement system of an enterprise group belongs here.. The link between these various types of investment and financing which justifies their classification in the same statistical category is that the participants in the transaction are related parties, there is a lasting indirect or direct ownership relationship between them. Accordingly, it is the investor's relationship which is permanent between the economic entities, the result of which is that the conditions of financial and capital relations between the parties are different from normal market conditions. In 2008 we switched to the so called DIIC (direct influence indirect control) method to keep track of indirect relations within the enterprise group that – above of the direct relation of 10% or more – covers the relations among group members down the ownership chain only to the extent of indirect majority participation. As of trade credits among groupmembers are recorded as other capital as well.

The primary classification of direct investment is related to the direction of the investment, rather than the asset – liability principle typical of financial instruments, in the balance of payments statistics resident investors' direct investments abroad and non-resident investors' direct investments in the reporting economy are shown

On the basis of corporate questionnaires, we were able to compile country- and activity breakdowns of equity capital. The breakdowns are available since 1999.

As of 2008 the activity breakdown of foreign direct investments is based on the sector code of the resident party participating in the investment. Accordingly, the activity breakdown concerning the direct investments made by non-resident entities in Hungary (which can be equity or other capital as well) shows the activity of the direct investment enterprise, at the residents' direct investment abroad the activity of the resident investor is concerned.

For classifying the activity of the stocks always the activity of the direct investment is recorded, that is, in case of foreign direct investment in Hungary, the statistics shows the activity of the resident partner, and in case of the residents' direct investment abroad it shows the activity of the foreign investment.

As of 2008 the equity transactions between foreign investors are recorded as well (as increase in equity stock by investor one and as decrease by the other)

Since 2008 we do not treat investments between financial intermediaries as foreign direct investments, for they are shown under other investments.

8 Portfolio investment

This category covers investments in secondary market instruments (securities).

Portfolio investments are broken down according to:

- 1 Shares and other participations (shares under 10%),
- 2 Bonds and notes,
- 3 Money market instruments,

according to the asset/liability principle.

The principle source for these data is securities statistics, containing security-by-security information relating to Hungarian securities held by non-resident persons and foreign securities held by resident entities, relying on the disclosures of Hungarian custodians and the results of corporate questionnaires. Transactions are computed from changes in stocks, with the impacts of changes in prices and exchange rates filtered out. The monitoring of bills and participation below 10% not embodied in securities is accomplished through corporate questionnaires.

9 Financial derivatives

A transaction is recorded as a change in assets under financial derivatives in the following cases: premium paid on purchased option (put or call), trading in derivative positions, transactions related to derivative positions having positive net present value at the time of transaction, closing derivative positions with net gains. A transaction is recorded as a change in liabilities under financial derivatives in the following cases: premium received on written option (put or call), transactions related to derivative positions having negative net present value at the time of transaction, closing derivative positions with net loss. Data has been gathered from the reports of economic units relating to their own stocks and transactions.

10 Other investment

Other investment cover the transactions involving financial instruments (trade credits, loans, deposits, other assets and liabilities, etc.) other than direct investment and portfolio investment, broken down according to original maturity of less than one year (short term), and over one year (long term). Since 2008 this category contains the transactions of financial companies (credit institutions, financial intermediaries and financial auxiliaries shown under other sectors) involving subordinated loan capital, at the same time, the inter-company transactions of non-financial companies, that were previously shown under this category had been transferred to direct investment.

Since 2008, the transactions in other investments are recorded on gross (increase and decrease) or net basis, according to the reports of data providers. As for the trade credits, instead of the previous calculation from the difference between payments data and HCSO data on the foreign trade of goods and services, the published data are obtained from reported transactions.

11 Changes in international reserves

International reserves comprise the central bank's liquid assets, held by the monetary authority at the ready to bridge any potential solvency-related problems, or indirectly, to use them for any foreign exchange market intervention – by influencing the exchange rate of the national currency –, or to use them for other similar purposes. Changes in reserves is manifested in changes in the comprising liquid instruments, minus the effects of revaluation and changes in the volume of other instruments.

IV Notes to international investment position

International investment position data contain the assets and liabilities of Hungarian residents.

The structure of foreign investment position according to financial instruments corresponds to the financial accounts structure of the balance of payments, and it is consistent with the classification of capital income items of current accounts. This procedure ensures the conformity between transactions and stocks, and the consistent accounting of the different income components.

The difference between the two sides (assets and liabilities) of the account shows the net positions vis-à-vis non-resident entities (net claims or liabilities), that is equal to the part of the nation's net worth from relationships with non-resident entities. If we were to calculate this same difference on the assets and liabilities exclusive of equity securities and owners' investments, we will receive the net creditor position or the net liability position vis-à-vis non-resident entities.

The concept of liability shall be handled separately from the concept of debt, as debt and liability are not treated as synonymous from an economic and statistical standpoint. Investments embodied in participations in the form of ownership are known as non-debt creating instruments. In account statistics (and consequently in the balance sheet) these type of instruments are shown in two different places: one is the 'Direct capital investments - Shares, other participations and reinvested earnings' row, and the other is the 'Portfolio investments – Shares and other participations' (equity securities) row. Net debts owed to non-resident entities comprise the difference between the liabilities embodied as the debts of resident entities and the claims embodied in the debts of non-resident entities.

As stocks are to be evaluated at the market price and foreign exchange rate in effect at the relevant point in time, and they are to be translated to the currency in which they are assessed, on account of the revaluation difference the data of record calculated for two different points in time will not correspond regardless of whether or not any transaction takes place during the time period between these two points in time. The value of the stocks, however, may vary for reasons

apart from transactions or revaluation, such as where some doubtful receivables are written off, meaning that they are cancelled from the books. Writing receivables off – being a unilateral step taken by the creditor – is not to be confused with debt consolidation (that takes place upon mutual consent between the debtor and the creditor), and that is to be shown under capital transfer.

Another factor that concerns other changes in account is that where certain items are to be transferred from one class to another in response to changes in the requirements for compliance with certain specific classification criteria. For example, the crossing of the 10% threshold between direct capital investments and portfolio investments in shares. Where an investor who did not reach the threshold during the previous period makes additional investments in the next period and hence exceeds that threshold, the transactions carried out during the reference period are to be shown in balance sheet under direct capital investments (no retroactive correction is required in the balance sheet), however, in the account statistics the sums shown during the previous period under portfolio investments are to be transferred to direct capital investments. Such transfers are to be shown under other changes in account.

According to the accrual-based income accounts, the interest charged to the reference period and unpaid has to be added to the relevant instrument under receivables or liabilities, as appropriate. On the other hand, the amounts of interest paid out have to be deducted accordingly.

Apart from equity securities and other similar participations shown under direct capital and portfolio investments, interests accrued before the end of the reference period shall also be shown in the records.

As previously, the data of record is shown broken down according to the structure established for the economy as a whole.

The table of accounts shows the financial instruments consistent with the relevant balance sheet structure:

- 1 International reserves (including: gold reserves),
- 2 Direct capital investments (shares, other participations and reinvested earnings; other capital),
- 3 Portfolio investments (shares and other participations, bonds, money market instruments),
- 4 Financial derivatives and
- 5 Other investments broken down according to original maturity.

1 International reserves

According to international standards, these reserves comprise:

- 1 Gold reserves,
- 2 Liquid foreign exchange receivables (foreign currency, current account, liquid deposits, securities, etc.),
- 3 SDR,
- 4 Reserves relating to IMF (RPF).

The claims of MNB from financial derivatives are shown under other investments, rather than under reserves. Source of data: MNB balance sheet.

Gold is evaluated since 1992 at the London fix (previously at 320 USD/ounce). Securities are evaluated at market value.

The table of accounts shows only gold and all other reserves in a separate row.

2 Direct investment

For the two components of the stock of foreign direct investments (equity capital and reinvested earnings and other capital) the value of the stock of foreign direct investments is measured in a different way.

The equity capital and reinvested earnings is reported once in a year in the special yearly survey by the enterprises. During the year the stock is generated by rolling: adding transactions to the initial stock.

The sample of the yearly data providers are defined by threshold. About the applied thresholds information is available in the Decree 3/2007. (II.21.) MNB.

The aggregated data of equity and reinvested earnings investments in Hungary derived from the survey is supplemented by tax records for the enterprises - with 10% and more foreign participation - not included in the sample of the MNB.

As regards the foreign investments abroad of resident entities, the results of questionnaires are not supplemented, as these questionnaires are typically fairly accurate due to the high level of concentration in the investments made by resident entities.

The valuation of assets and liabilities is carried out at market value in the case of companies listed on the stock exchange, whereas the valuation of unlisted companies is based on their own funds at book value..

As regards other capital, since 2008 we switched to a new method to consider indirect relations within the enterprise group as well that – outside of direct participation of 10% or more – covers the ownership chain only to the extent of the relations with group members with indirect majority holdings. The value of the stock is generated by the reported data.

3 Portfolio investment

The source of information is the same as in the case of flows published in the financial accounts, that is the securities statistics, and in the case of bills and participation below 10% not embodied in securities the direct reporting of economic units. Except the household for sector all sectors we have reported stocks, which are valued at market price. Data for the household sector is estimated.

4 Financial derivatives

Derivative positions which are negative at the end of the reference period, shown in the statistics under liabilities, are debts in our records, while positive positions (claims) are shown as net deductions from debts. Furthermore, information on gross debts calculated without derivative positions are also published.

In the case of open forward transactions claims are to be shown, if the derivative position shows a positive value upon the closure of the transaction at market value in effect at the end of the month. The buyer of the option must always report a claim. In the case of open forward transactions liabilities are to be shown, if the derivative position shows a negative value upon the closure of the transaction at market value in effect at the end of the month. The seller of the option must always report a liability.

The Government sector, credit institutions and the MNB are already carrying out the assessment of their financial derivatives at market value. We have similar information available concerning the value of financial derivatives for the other sectors as of 2008.

5 Other investment

Contains the stock of assets and liabilities of resident entities from other investments (trade credits, loans, deposits, etc.) broken down according to original maturity. Apart from households, reported stock data are available for all sectors. As of 2008 the stock of trade credits is also based on reported data. As for the household sector, the published stock of assets and liabilities is based on estimates.