

This metadata describes the compilation practices, sources and methodology in use in 2003. Please refer to the contact person below for details of any changes that may have been introduced by the country since that time.

Hungary:

Direct Investment Compilation Practices, Data Sources and Methodology

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Direct Investment in Hungary

- **Balance of Payments (“Transactions Data”)**
- **International Investment Position (“Position Data”)**

Direct Investment Abroad

- **Balance of Payments (“Transactions Data”)**
- **International Investment Position (“Position Data”)**

DIRECT INVESTMENT IN HUNGARY

BALANCE OF PAYMENTS (“INWARD TRANSACTIONS”) DATA

A. Compilation Practices and Data Sources

Data Availability

Separately identifiable monthly data (the most timely) are compiled by the Magyar Nemzeti Bank (MNB, the central bank of Hungary, within the balance of payments framework on (a) the components of direct investment income: (i) income on equity (dividends and distributed branch profits), (ii) reinvested earnings, and (iii) income on debt (interest), and (b) the components of direct investment financial flows: (i) equity capital, and (ii) other capital. These data are disseminated with a timeliness of 30 working days after the end of the reference period on the MNB website (<http://www.mnb.hu>). (Prior to the annual data for 2003, data on reinvested earnings were not disseminated.) Beginning in May 2004, monthly data will no longer be disseminated, but the historical data up through April 2004 will still be available on the MNB website.

More comprehensive separately identifiable quarterly data are compiled by the MNB within the balance of payments framework on (a) the components of direct investment income: (i) income on equity (dividends and distributed branch profits), (ii) reinvested earnings, and (iii) income on debt (interest), and (b) the components of direct investment financial flows: (i) equity capital, and (ii) other capital. (Prior to 2003 quarterly data were not compiled.) These data are disseminated with a timeliness of 3 months after the end of the reference period on the MNB website (<http://www.mnb.hu>). The data are also reported to the IMF for publication and to the OECD and Eurostat.

Revision Practices

The data are preliminary when first released. The monthly data for the reference quarter are revised to take account of revised source data and are disseminated quarterly together with the preliminary data (first release) for the reference quarter, 3 months after the end of the reference quarter. The monthly and quarterly data are revised again at the end of the next two years to take account of the results of annual enterprise surveys and are disseminated once a year, 3 months, 15 months, and 27 months after the end of the reference years. At this time the monthly and quarterly data are considered to be final, that is, 27 months after the end of the reference year, or 25-36 months after the first release of the monthly data, depending on the month, and, 24-33 months after the first release of the quarterly data, depending on the quarter.

From May 2004, when monthly data will cease to be disseminated, the quarterly data for the previous two quarters will be revised and disseminated quarterly together with the preliminary data for the latest quarter, and are expected to become final 21 months after the end of the reference year, that is, 18-27 months after the first release of the quarterly data, depending on the quarter.

The revised status of the data is clearly identified in the disseminated data and the general public are informed of the reasons for the revisions. The historical data are revised as far back as possible in instances of major changes in methodology or data collection system. (In the case of the recent introduction of disseminated data on reinvested earnings, the historical data were revised back to 1995.)

There are no differences in the revision practices between the data disseminated in the national publications and those reported to the IMF and the OECD and Eurostat for publication. However, because of differences in reporting deadlines, the data reported to, and published by, those organizations may differ at times from the data disseminated in the national publications.

Data Coverage

No major sectors of the economy or elements within those economic sectors are excluded from the data.

There are no differences in the sectoral coverage between the data disseminated in the national publications and those reported to the IMF and the OECD and Eurostat for publication.

Data Collection Method

The data are collected using a mixture of an individual transactions basis (an international transactions reporting system [ITRS]) and an aggregate basis (an enterprise survey). The reporting requirements are compulsory.

Data Sources

The monthly data (the most timely) for income of equity (dividends and distributed branch profits) and reinvested earnings are model-based estimates. The most timely data for the remaining components are compiled primarily an international transactions reporting system (ITRS), which covers cash transactions made through the domestic banking system, cash transactions made through the foreign bank accounts of enterprises, and noncash transactions. Information obtained from monthly enterprise surveys of resident enterprises is used as a secondary data source for the data on income on debt (interest), and information from quarterly enterprise surveys of resident enterprises is used as a secondary data source for the data on equity capital and other capital.

The more comprehensive quarterly data on income of equity (dividends and distributed branch profits) and reinvested earnings are compiled primarily from information obtained from annual enterprise surveys of resident enterprises, with information from corporate tax declarations being used as a secondary data source. (Prior to the processing of the results of the annual enterprise survey, the quarterly data on income of equity (dividends and distributed branch profits) and reinvested earnings are model-based estimates.) The data sources for the quarterly data on income on debt (interest), equity capital, and other capital, are the same as for the most timely monthly data.

There are no differences in the data sources between the data disseminated in the national publications and those reported to the IMF and OECD for publication.

A business register of enterprises involved in direct investment is used to compile the inward direct investment transactions data. The register is maintained by the MNB and is updated on a quarterly basis using information from (i) the ITRS's list of transactors, (ii) a register maintained by the tax authorities, and (iii) the financial press. The same business register is used to compile the inward direct investment transactions and position data, and the outward direct investment transactions and position data.

Geographic Classification

Quarterly data showing breakdowns by country for the direct investment income data and direct investment financial flows data are compiled by the MNB. The direct investment financial flows data showing breakdowns by country are disseminated quarterly with a timeliness of 3 months after the end of the reference period on the MNB's website (<http://www.mnb.hu>). The direct investment income data showing breakdowns by country are not disseminated, but are available on request. The data showing country breakdowns for both the direct investment financial flows and direct investment income are also reported to the OECD and Eurostat. The data cover 64 countries and bilateral data are not used in the compilation of the data.

The debtor/creditor principle is used as the basis for the geographic allocation of the data. The five countries with the largest amount of direct investment income from investment in Hungary during 2002 (ranked in descending order) were: Germany, the United States, Austria, the Netherlands, and France. The five countries with the largest amount of direct investment financial flows into Hungary during 2002 (ranked in descending order) were: Austria, Germany, Spain, the Netherlands, and the United States.

In addition to the data showing country breakdowns, quarterly data are compiled by the MNB showing breakdowns of both the direct investment income and direct investment financial flows for the following regions/economic zones: (i) the EU15, (ii) EFTA, (iii) the OECD, (iv) NAFTA, (v) the CIS countries, (vi) the ASEAN countries, (vii) the OPEC countries, (viii) the EU25, and (ix) the EMU. The data for the (i) EU15, (ii) the EU25, and (iii) the EMU, are disseminated quarterly on the MNB website specified above with a timeliness of 3 months after the end of the reference period, and the data for the remaining regions/economic zones are available on request. The data for (i) the EU15, (ii) EFTA, (iii) the OECD, (iv) NAFTA, (v) the CIS countries, (vi) the ASEAN countries, and (vii) the OPEC countries, are also reported to the OECD and Eurostat.

There are no differences in the data coverage, sources, etc. between the inward transactions data showing geographic breakdowns disseminated in the national publications and reported to the OECD and Eurostat, and

the aggregate inward data on direct investment income and direct investment financial flows reported to the IMF for publication.

Industrial Classification

Quarterly data showing breakdowns by industrial activity for direct investment income and direct investment financial flows are compiled by the MNB and are disseminated quarterly with a timeliness of 3 months after the end of the reference period on the MNB website (<http://www.mnb.hu>). The data showing breakdowns by industrial activity for both the direct investment financial flows and direct investment income are also reported to the OECD and Eurostat. The data show a breakdown for 11 industrial activities. The classification used is NACE, Rev. 1, which broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC).

Both the data on direct investment income and direct investment financial flows are classified on the basis of the industrial activity of the resident direct investment enterprises. The five industrial activities with the largest amount of direct investment income from investment in Hungary during 2002 (in descending order) were: (i) manufacturing, (ii) trade and repairs, (iii) financial intermediation, (iv) transport, storage, and postal services, and (v) real estate and business activity. The five industrial activities with the largest amount of direct investment financial flows into Hungary during 2002 (in descending order) were: (i) manufacturing, (ii) financial intermediation, (iii) real estate and business activity, (iv) transport, storage, and postal services, and (v) construction.

Quarterly data are compiled by the MNB for both the direct investment income data and the direct investment financial flows data showing a breakdown by both industrial activity and main partner country. These data are disseminated quarterly with a timeliness of 3 months after the end of the reference period on the MNB website specified above. For direct investment income, the three highest ranking partner countries during 2002 (ranked in descending order) for which breakdowns by industrial activity are disseminated were: the United States, Japan, and Canada. For direct investment financial flows, the three highest ranking partner countries during 2002 (ranked in descending order) for which breakdowns by industrial activity are disseminated were: the United States, Japan, and Canada. Data showing breakdowns by both industrial activity and main partner country are reported to the OECD and Eurostat for these three countries only, in accordance with the OECD and Eurostat requirements. The data are not disseminated by the MNB, but are available on request.

In addition, annual data are compiled by the MNB for both the direct investment income data and the direct investment financial flows data showing a breakdown by both industrial activity and region/economic zones. These data are not disseminated by the MNB, but are available on request with a timeliness of 9 months after the end of the reference period. The data are also reported to the OECD and Eurostat.

There are no differences in the data coverage, sources, etc. between the inward transactions data showing industrial activity breakdowns disseminated in the national publications and reported to the OECD and Eurostat, and the aggregate inward data on direct investment income and direct investment financial flows reported to the IMF for publication.

B. Methodology

Definition of Direct Investment Enterprises in Hungary

In accordance with the international standards, the basic criterion for defining direct investment enterprises in Hungary is 10 percent ownership by a nonresident investor, regardless of whether the investor has an effective voice in management—that is, enterprises in which the nonresident direct investor owns 10 percent or more but does not have an effective voice in management are included, while enterprises in which the nonresident investor owns less than 10 percent but has an effective voice in management are not included. In accordance with the international standards, the 10 percent ownership is based on the ownership of each individual nonresident investor or group of related nonresident investors, rather than being calculated by combining the holdings of all nonresident investors in a specific enterprise or from a specific country. No value threshold is used to identify resident direct investment enterprises, and unincorporated enterprises are not treated differently from incorporated enterprises.

Treatment of Indirectly Owned Direct Investment Enterprises

The "Fully Consolidated System" (FCS) recommended in the international standards is partially applied. Specifically, (i) the direct investment earnings data do not include the relevant share of all indirectly-owned direct investment enterprises, and (ii) the direct investment financial flows data do not include all equity and other capital transactions made directly between resident enterprises of a related group as defined in the FCS and nonresident enterprises of the same group, without consideration of the percentage of equity directly held by these enterprises in each other, and including those enterprises that share a common direct investor but have no ownership in each other. However, with effect from January 2002, the data include other capital transactions between resident nonfinancial direct investment enterprises and nonresident intra-group financial intermediaries (special purpose entities).

Enterprises in Hungary are required by law to (i) produce consolidated accounts covering their subsidiaries and associate companies, both foreign and domestic, and (ii) identify all transactions with the parent company.

Measurement of Direct Investment Earnings

Contrary to the international standards, the "Current Operating Performance Concept" (COPC) is not fully used to calculate direct investment earnings. In accordance with the COPC, (i) deductions are made for depreciation of capital, and for provisions for host-country income and corporation taxes, (ii) interest receivable/payable is included, and (iii) debt repayments receivable/payable are excluded. Contrary to the COPC, (ii) realized and unrealized capital gains and losses, write-offs, and realized and unrealized exchange rate gains and losses are included.

Treatment of Income on Equity (Dividends and Distributed Branch Profits)

The data on dividends and distributed branch profits cover both incorporated enterprises and unincorporated enterprises. In accordance with the international standards, (i) dividends and distributed branch profits for both incorporated and unincorporated enterprises are recorded on the date they are declared payable, (ii) dividends and distributed branch profits are recorded gross of any withholding taxes, and (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks. (Prior to the data for 2003, dividends and distributed branch profits for both incorporated and unincorporated enterprises were (i) recorded on the date they were paid, rather than the date they were declared payable, and (ii) recorded net, rather than gross, of withholding taxes.) Contrary to the international standards, the data do not include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises.

Treatment of Reinvested Earnings and Undistributed Branch Profits

The data on reinvested earnings and undistributed branch profits cover both incorporated enterprises and unincorporated enterprises. In accordance with the international standards, (i) reinvested earnings and undistributed branch profits are recorded in the period in which they are earned, (ii) when a direct investment enterprise makes a net loss, that net loss is recorded as negative reinvested earnings, and (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks. Contrary to the international standards, the data do not include reinvested earnings and undistributed branch profits between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises.

Treatment of Income on Debt (Interest)

The data on income on debt (interest) cover both incorporated enterprises and unincorporated enterprises and include interest on (i) long-term loans, and (ii) short-term loans. The data do not cover (i) bonds and money market instruments, (ii) trade credits, and (iii) financial leases. In accordance with the international standards, the data do not include (i) interest on financial derivatives, and (ii) interest on deposits, loans, and other claims and liabilities related to usual banking and financial intermediation activities between affiliated banks and affiliated financial intermediaries. In accordance with the international standards (i) the data include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, and (ii) there are no differences between

the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks. Contrary to the international standards, the data are compiled on a paid basis, rather than on an accrual basis. However, with effect from 2004 the data will be compiled on an accrual basis, in accordance with the international standards.

Treatment of Equity Capital

The equity capital transactions data cover (i) listed voting stocks (shares), (ii) unlisted voting stocks (shares), (iii) participating preference [preferred] shares, (iv) other non-voting stocks (shares), and (v) noncash acquisitions of equity, such as through the provision of capital equipment. (Prior to 2003, the data did not cover noncash acquisitions of equity, such as through the provision of capital equipment. However, the historical data back to 1995 has now been revised to include these transactions.) In accordance with the international standards, (i) the data include equity transactions between affiliated banks and between affiliated financial intermediaries, (ii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks, and (iii) the data include equity transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises. Contrary to the international standards, the data include non-participating preference shares are classified under equity capital, rather than under other capital.

Treatment of Other Capital

The other capital transactions data cover: (i) long-term loans, and (ii) short-term loans. The data do not cover (i) bonds and money market instruments, (ii) trade credits, and (iii) financial leases. In accordance with the international standards, the data exclude (i) financial derivatives, (ii) loan/debt guarantees provided by direct investors or related direct investment enterprises, (iii) changes in insurance company technical reserves, and (iv) transactions between affiliated banks involving deposits, loans, and other claims and liabilities related to usual banking activities. In accordance with the international standards, (i) the data include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (ii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks, and (iii) the data include transactions associated with permanent debt between affiliated banks and between affiliated financial intermediaries. (Permanent debt is defined as being subordinated loans with a maturity of at least 5 years that are extended by a direct investor to an affiliated bank, which may be used for settling the credit institution's debt, and for which the lender's claims shall take the last place before the shareholders in the order of repayment.) Contrary to the international standards, (i) transactions between affiliated financial intermediaries involving claims and liabilities related to usual financial intermediation activities are included in the data, and (ii) the data do not include non-participating preference shares, which are instead classified under equity capital.

In instances when a loan/debt guarantee provided by a direct investor or related direct investment enterprise is invoked following default by a direct investment enterprise, the entire amount of the loan/debt guarantee outstanding is treated as direct investment lending by the guarantor and recorded under "Direct Investment in Hungary: Other Capital: Increase in Liabilities to Direct Investors" at the time the guarantee is invoked.

Treatment of Reverse Investment

Transactions involving reverse investment are treated in accordance with the international standards.

Assuming that the direct investment enterprise is a resident of Hungary and the direct investor is a nonresident, when the direct investment enterprise owns at least 10 percent of its nonresident direct investor, and has therefore established a direct investment relationship in its own right, in accordance with the international standards, equity transactions are recorded as "Direct Investment Abroad: Equity Capital: Increase in Claims on Affiliated Enterprises" and loan transactions are recorded as "Direct Investment Abroad: Other Capital: Increase in Claims on Affiliated Enterprises".

Assuming that the direct investment enterprise is a resident of Hungary and the direct investor is a nonresident, when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, in accordance with the international standards, equity transactions are recorded as "Direct Investment in Hungary: Equity Capital: Increase in Claims on Direct Investors", and loan transactions are recorded as "Direct Investment in

Hungary: Other Capital: Increase in Claims on Direct Investors". (Prior to 2003, equity transactions were recorded as "Portfolio Investment: Increase in Assets: Equity Securities", and loan transactions were recorded as "Other investment" Increase in Assets: Loans". However, the historical data back to 1995 has now been revised to correctly classify these transactions.) Data showing "Direct Investment in Hungary: Equity Capital: Increase in Claims on Direct Investors", and "Direct Investment in Hungary: Other Capital: Increase in Claims on Direct Investors" are reported to the IMF for publication, on the rare occasions that they occur.

Treatment of Quasi-corporations

Contrary to the international standards, the direct investment data do not include the activities of quasi-corporations involving the operation in Hungary by nonresidents of (i) construction enterprises, and (ii) mobile equipment, such as ships, aircraft, and drilling rigs.

Treatment of Offshore Enterprises

In accordance with the international standards, activities of offshore enterprises established in Hungary by nonresidents are included in the direct investment data. However, the coverage is not complete as the activities of offshore enterprises are not included in the income data and the data included in the financial flows data are recorded on a net basis.

Treatment of Special Purpose Entities (SPEs)

In accordance with the international standards, (i) activities of SPEs established in Hungary by nonresidents are included in the direct investment data, with no exceptions, and (ii) in the case of SPEs established in Hungary by nonresidents that have the primary purpose of financial intermediation, transactions with affiliated banks and affiliated financial intermediaries are excluded from the data, except those involving equity capital and permanent debt.

Treatment of Land and Buildings

In accordance with the international standards, the equity capital data include purchases and sales of land and buildings in Hungary by nonresident enterprises and nonresident individuals. Land and buildings purchased in Hungary by nonresident enterprises and nonresident individuals on long-term leases are not included.

Treatment of Natural Resources Exploration

In accordance with the international standards, (i) expenditure related to natural resources exploration in Hungary by nonresidents is included in the equity capital data, (ii) expenditure on bonus payments made by nonresidents to the host country for the right to undertake exploration for natural resources is included in the equity capital data when there is a clear intention to establish a direct investment enterprise, and (iii) in instances of the shutdown of a direct investment enterprise established in Hungary by nonresidents for natural resource exploration, no transactions are shown in the balance of payments statistics.

Exchange Rate Conversion

All transactions are converted to the unit of account at the monthly average exchange rate.

DIRECT INVESTMENT IN HUNGARY

INTERNATIONAL INVESTMENT POSITION LIABILITIES (“INWARD POSITION DATA”)

A. Compilation Practices and Data Sources

Data Availability

Separately identifiable quarterly data (the most timely) are compiled by the Magyar Nemzeti Bank (MNB), the central bank of Hungary, within the international investment position (IIP) framework on (a) equity capital and reinvested earnings, and (b) other capital, and are disseminated with a timeliness of 3 months after the end of the reference period on the MNB website (<http://www.mnb.hu>). (Prior to 2003 quarterly data were not compiled.) The data are also reported to the IMF for publication and to the OECD and Eurostat.

More comprehensive separately identifiable annual (calendar year) data are compiled by the MNB within the international investment position (IIP) framework on (a) equity capital and reinvested earnings, and (b) other capital, and are disseminated with a timeliness of 15 months after the end of the reference period on the MNB website (<http://www.mnb.hu>). (Prior to 2003, annual data were not compiled by the MNB.) The data are also reported to the IMF for publication and to the OECD and Eurostat.

The timeliness of the annual data will be changed from 15 months to 9 months after the end of the reference year, with effect from the data for 2003, due to be disseminated at the end of September 2004.

Revision Practices

The quarterly data are preliminary when first released. The quarterly data for the first three quarters of the current year and the previous year are revised once a year to take account of the results of the annual enterprise survey for the previous year and are disseminated together with the preliminary data for the last quarter of the year, 3 months after the end of the reference period. The quarterly data for the current year are revised again 15 months after the end of the reference year to take account of the results of the annual enterprise survey for the current year, and may be revised again 27 months after the end of the reference year to reflect possible changes in corporate tax declarations for the reference year. At this time the quarterly data are considered to be final, that is, 27 months after the end of the reference year, or 24-33 months after their first release, depending on the quarter.

The annual data are preliminary when first released. The annual data for the previous year are revised once to take account of the results of the annual enterprise survey and are disseminated together with the first release of the preliminary data for the latest year, 3 months after the end of the latest year. The annual data for the previous year are revised again 12 months later to take account of possible changes in corporate tax declarations for the reference year. After the second revision the annual data are considered to be final, that is, 27 months after the end of the reference year, or 24 months after their first release.

Once the timeliness of the annual data is changed from 15 months to 9 months in 2004, the quarterly data will become final 21 months after the end of the reference year or, depending on the quarter, 18-27 months after their first release, and the annual data will become final 21 months after the end of the reference year, or 18 months after their first release.

The revised status of the data is clearly identified in the disseminated data and the general public are informed of the reasons for the revisions. The historical data are revised as far back as possible in instances of major changes in methodology or data collection system. (In the case of the recent introduction of disseminated data on reinvested earnings, the historical data were revised back to 1995.)

There are no differences in the revision practices between the data disseminated in the national publications and those reported to the IMF and the OECD and Eurostat for publication. However, because of differences in reporting deadlines, the data reported to, and published by, those organizations may differ at times from the data disseminated in the national publications.

Data Coverage

No major sectors of the economy or elements within those economic sectors are excluded from the data.

There are no differences in the sectoral coverage between the data disseminated in the national publications and those reported to the IMF and the OECD and Eurostat for publication.

Data Collection Method

The data are collected using a mixture of an individual transactions basis (an international transactions reporting system [ITRS]) and an aggregate basis (an enterprise survey). The reporting requirements are compulsory.

Data Sources

The quarterly data (the most timely) for equity capital and other capital are compiled primarily from an international transactions reporting system (ITRS), using the perpetual inventory method (a method for deriving position data from transactions data). The ITRS covers cash transactions made through the domestic banking system, cash transactions made through the foreign bank accounts of enterprises, and noncash transactions, and adjustments are made for price changes and exchange rate changes, but not for other nontransaction changes. Information obtained from quarterly enterprise surveys of resident enterprises is used as a secondary data source. The quarterly data for reinvested earnings are model-based estimates.

The more comprehensive annual data for equity capital and reinvested earnings are compiled primarily from annual enterprise surveys of resident enterprises, with information from corporate tax declarations being used as a secondary data source. The annual data for other capital are compiled from the ITRS, using the perpetual inventory method described above.

There are no differences in the data sources between the data disseminated in the national publications and those reported to the IMF and OECD for publication.

A business register of enterprises involved in direct investment is used to compile the inward direct investment position data. The register is maintained by the MNB and is updated on a quarterly basis using information from (i) the ITRS's list of transactors, (ii) a register maintained by the tax authorities, and (iii) the financial press. The same business register is used to compile the inward direct investment transactions and position data, and the outward direct investment transactions and position data.

Geographic Classification

Annual data showing breakdowns by country for the inward direct investment position data are compiled by the MNB and disseminated quarterly with a timeliness of 15 months after the end of the reference period on the MNB website (<http://www.mnb.hu>). The data showing country breakdowns for the inward direct investment position data are also reported to the OECD and Eurostat. The data cover 64 countries and bilateral data are not used in the compilation of the data.

In accordance with the international standards, the data are compiled on an immediate country basis. The five countries with the largest amount of direct investment in Hungary as at the end of 2002 (ranked in descending order) were: Germany, the Netherlands, Austria, the United States, and France.

In addition to the data showing country breakdowns, annual data are compiled by the MNB showing breakdowns of the inward direct investment position data for the following regions/economic zones: (i) the EU15, (ii) EFTA, (iii) the OECD, (iv) NAFTA, (v) the CIS countries, (vi) the ASEAN countries, (vii) the OPEC countries, (viii) the EU25, and (ix) the EMU. The data for the (i) EU15, (ii) the EU25, and (iii) the EMU, are disseminated once on the MNB website specified above with a timeliness of 15 months after the end of the reference period, and the data for the remaining regions/economic zones are available on request. The data for (i) the EU15, (ii) EFTA, (iii) the OECD, (iv) NAFTA, (v) the CIS countries, (vi) the ASEAN countries, and (vii) the OPEC countries, are also reported to the OECD and Eurostat.

There are no differences in the data coverage, sources, etc. between the inward position data showing geographic breakdowns disseminated in the national publications and reported to the OECD and Eurostat, and the aggregate inward position data flows reported to the IMF for publication.

Industrial Classification

Annual data showing breakdowns by industrial activity for the inward direct investment position data are compiled by the MNB and are disseminated once a year with a timeliness of 15 months after the end of the reference period on the MNB website (<http://www.mnb.hu>). The data showing breakdowns by industrial activity for the inward direct investment position data are also reported to the OECD and Eurostat. The data show a breakdown for 11 industrial activities. The classification used is NACE, Rev. 1, which broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC).

The inward position data are classified on the basis of the industrial activity of the resident direct investment enterprises. The five industrial activities with the largest amount of direct investment in Hungary as at the end of 2002 (in descending order) were: (i) manufacturing, (ii) real estate and business activities, (iii) wholesale and retail trade, (iv) financial intermediation, and (v) transport, storage, and postal services.

Annual data are compiled by the MNB for the inward direct investment position data showing a breakdown by both industrial activity and main partner country. These data are disseminated with a timeliness of 15 months after the end of the reference period on the MNB website specified above. The three highest ranking partner countries as at the end of 2002 (ranked in descending order) for which breakdowns by industrial activity are disseminated were: the United States, Japan, and Canada. Data showing breakdowns by both industrial activity and main partner country are reported to the OECD and Eurostat for these three countries only, in accordance with the OECD and Eurostat requirements. The data are not disseminated by the MNB, but are available on request.

In addition, annual data are compiled by the MNB for the inward direct investment position data showing a breakdown by both industrial activity and region/economic zones. These data are not disseminated by the MNB, but are available on request with a timeliness of 15 months after the end of the reference period. The data are also reported to the OECD and Eurostat.

There are no differences in the data coverage, sources, etc. between the inward position data showing industrial activity breakdowns disseminated in the national publications and reported to the OECD and Eurostat, and the aggregate inward position data reported to the IMF for publication.

B. Methodology

Definition of Direct Investment Enterprises in Hungary

In accordance with the international standards, the basic criterion for defining direct investment enterprises in Hungary is 10 percent ownership by a nonresident investor, regardless of whether the investor has an effective voice in management—that is, enterprises in which the nonresident direct investor owns 10 percent or more but does not have an effective voice in management are included, while enterprises in which the nonresident investor owns less than 10 percent but has an effective voice in management are not included. In accordance with the international standards, the 10 percent ownership is based on the ownership of each individual nonresident investor or group of related nonresident investors, rather than being calculated by combining the holdings of all nonresident investors in a specific enterprise or from a specific country. No value threshold is used to identify resident direct investment enterprises, and unincorporated enterprises are not treated differently from incorporated enterprises.

Treatment of Indirectly Owned Direct Investment Enterprises

The “Fully Consolidated System” (FCS) recommended in the international standards is partially applied. Specifically, the data do not include (i) the relevant share of the reinvested earnings of indirectly-owned direct investment enterprises, and (ii) all equity capital and other capital positions held directly by resident enterprises of a related group as defined in the FCS with nonresident enterprises of the same group, without consideration of the percentage of equity directly held by these direct investors or enterprises in each other, and including those enterprises that share a common direct investor but have no ownership in each other. However, with effect from January 2002, the data include other capital positions held between resident nonfinancial direct investment enterprises and nonresident intra-group financial intermediaries (special purpose entities).

Enterprises in Hungary are required by law to (i) produce consolidated accounts covering their subsidiaries and associate companies, both foreign and domestic, and (ii) identify all transactions with the parent company.

Treatment of Equity Capital and Reinvested Earnings

The equity capital position data cover (i) listed voting stocks (shares), (ii) unlisted voting stocks (shares), (iii) participating preference [preferred] shares, (iv) other non-voting stocks (shares), and (v) noncash acquisitions of equity, such as through the provision of capital equipment. In accordance with the international standards, (i) the data include equity positions between affiliated banks and between affiliated financial intermediaries, (ii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks, and (iii) the data include equity positions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises. Contrary to the international standards, the data include non-participating preference shares are classified under equity capital, rather than under other capital.

The reinvested earnings data cover both incorporated enterprises and unincorporated enterprises. In accordance with the international standards, (i) reinvested earnings are recorded in the period in which they are earned, (ii) when a direct investment enterprise makes a net loss, that net loss is recorded as negative reinvested earnings, (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks, and (iv) the data include reinvested earnings between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises. (See also the section on the *Measurement of Direct Investment Earnings* in the metadata on the Balance of Payments [transactions] data on Direct Investment in Hungary.)

Treatment of Other Capital

The other capital position data cover: (i) long-term loans, and (ii) short-term loans. The data do not cover (i) bonds and money market instruments, (ii) trade credits, and (iii) financial leases. In accordance with the international standards, the data exclude (i) financial derivatives, (ii) loan/debt guarantees provided by direct investors or related direct investment enterprises, (iii) changes in insurance company technical reserves, and (iv) positions between affiliated banks involving deposits, loans, and other claims and liabilities related to usual banking activities. In accordance with the international standards, (i) the data include positions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (ii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks, and (iii) the data include positions associated with permanent debt between affiliated banks and between affiliated financial intermediaries. (Permanent debt is defined as being subordinated loans with a maturity of at least 5 years that are extended by a direct investor to an affiliated bank, which may be used for settling the credit institution's debt, and for which the lender's claims shall take the last place before the shareholders in the order of repayment.) Contrary to the international standards, (i) positions between affiliated financial intermediaries involving claims and liabilities related to usual financial intermediation activities are included in the data, and (ii) the data do not include non-participating preference shares, which are instead classified under equity capital.

In instances when a loan/debt guarantee provided by a direct investor or related direct investment enterprise is invoked following default by a direct investment enterprise, the entire amount of the loan/debt guarantee outstanding is treated as direct investment lending by the guarantor and recorded under "Liabilities: Direct Investment in Hungary: Other Capital: Liabilities to Direct Investors" at the time the guarantee is invoked.

Treatment of Reverse Investment

Positions involving reverse investment are treated in accordance with the international standards.

Assuming that the direct investment enterprise is a resident of Hungary and the direct investor is a nonresident, when the direct investment enterprise owns at least 10 percent of its nonresident direct investor, and has therefore established a direct investment relationship in its own right, in accordance with the international standards, equity positions are recorded as "Assets: Direct Investment Abroad: Equity Capital: Claims on

Affiliated Enterprises” and loan positions are recorded as “Assets: Direct Investment Abroad: Other Capital: Claims on Affiliated Enterprises”.

Assuming that the direct investment enterprise is a resident of Hungary and the direct investor is a nonresident, when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, in accordance with the international standards, equity positions are recorded as “Liabilities: Direct Investment in Hungary: Equity Capital: Claims on Direct Investors”, and loan positions are recorded as “Liabilities: Direct Investment in Hungary: Other Capital: Claims on Direct Investors”. (Prior to 2003, equity positions were recorded as “Assets: Portfolio Investment: Equity Securities”, and loan positions were recorded as “Assets: Other investment: Loans”. However, the historical data back to 1995 has now been revised to correctly classify these positions.) Data showing “Liabilities: Direct Investment in Hungary: Equity Capital: Claims on Direct Investors”, and “Liabilities: Direct Investment in Hungary: Other Capital: Claims on Direct Investors” are reported to the IMF for publication, on the rare occasions that they occur.

Treatment of Quasi-corporations

Contrary to the international standards, the direct investment data do not include the activities of quasi-corporations involving the operation in Hungary by nonresidents of (i) construction enterprises, and (ii) mobile equipment, such as ships, aircraft, and drilling rigs.

Treatment of Offshore Enterprises

In accordance with the international standards, activities of offshore enterprises established in Hungary by nonresidents are included in the direct investment data. However, the coverage is not complete as the data are cumulative transactions data, which are in turn recorded on a net basis.

Treatment of Special Purpose Entities (SPEs)

In accordance with the international standards, (i) activities of SPEs established in Hungary by nonresidents are included in the direct investment data, with no exceptions, and (ii) in the case of SPEs established in Hungary by nonresidents that have the primary purpose of financial intermediation, positions with affiliated banks and affiliated financial intermediaries are excluded from the data, except those involving equity capital and permanent debt.

Treatment of Land and Buildings

In accordance with the international standards, the equity capital data include ownership of land and buildings in Hungary by nonresident enterprises and nonresident individuals. Land and buildings owned in Hungary by nonresident enterprises and nonresident individuals on long-term leases are not included.

Treatment of Natural Resources Exploration

In accordance with the international standards, (i) expenditure related to natural resources exploration in Hungary by nonresidents is included in the equity capital data, (ii) expenditure on bonus payments made by nonresidents to the host country for the right to undertake exploration for natural resources is included in the equity capital data when there is a clear intention to establish a direct investment enterprise, and (iii) in instances of the shutdown of a direct investment enterprise established in Hungary by nonresidents for natural resource exploration, an adjustment to reflect that shutdown is made to the liabilities data on direct investment equity capital in the international investment position statistics.

Valuation of Assets and Liabilities

The data on equity capital for listed enterprises are recorded at market values. The data on equity capital for unlisted enterprises are recorded at book values, which are the historical costs.

The data on other capital are recorded at book values, which are the historical costs.

The book values used are those shown in the accounting records of the resident direct investment enterprises, rather than the nonresident direct investors.

Exchange Rate Conversion

All positions are converted to the unit of account at the exchange rate prevailing on the date to which the position data relate.

DIRECT INVESTMENT ABROAD

BALANCE OF PAYMENTS (“OUTWARD TRANSACTIONS”) DATA

A. Compilation Practices and Data Sources

Data Availability

Separately identifiable monthly data (the most timely) are compiled by the Magyar Nemzeti Bank (MNB), the central bank of Hungary, within the balance of payments framework on (a) the components of direct investment income: (i) income on equity (dividends and distributed branch profits), (ii) reinvested earnings, and (iii) income on debt (interest), and (b) the components of direct investment financial flows: (i) equity capital, and (ii) other capital. These data are disseminated with a timeliness of 30 working days after the end of the reference period on the MNB website (<http://www.mnb.hu>). (Prior to the annual data for 2003, data on reinvested earnings were not disseminated.) Beginning in May 2004, monthly data will no longer be disseminated, but the historical data up through April 2004 will still be available on the MNB website.

More comprehensive separately identifiable quarterly data are compiled by the MNB within the balance of payments framework on (a) the components of direct investment income: (i) income on equity (dividends and distributed branch profits), (ii) reinvested earnings, and (iii) income on debt (interest), and (b) the components of direct investment financial flows: (i) equity capital, and (ii) other capital. (Prior to 2003 quarterly data were not compiled.) These data are disseminated with a timeliness of 3 months after the end of the reference period on the MNB website (<http://www.mnb.hu>). The data are also reported to the IMF for publication and to the OECD and Eurostat.

Revision Practices

The data are preliminary when first released. The monthly data for the reference quarter are revised to take account of revised source data and are disseminated quarterly together with the preliminary data (first release) for the reference quarter, 3 months after the end of the reference quarter. The monthly and quarterly data are revised again at the end of the next two years to take account of the results of annual enterprise surveys and are disseminated once a year, 3 months, 15 months, and 27 months after the end of the reference years. At this time the monthly and quarterly data are considered to be final, that is, 27 months after the end of the reference year, or 25-36 months after the first release of the monthly data, depending on the month, and, 24-33 months after the first release of the quarterly data, depending on the quarter.

From May 2004, when monthly data will cease to be disseminated, the quarterly data for the previous two quarters will be revised and disseminated quarterly together with the preliminary data for the latest quarter, and are expected to become final 21 months after the end of the reference year, that is, 18-27 months after the first release of the quarterly data, depending on the quarter.

The revised status of the data is clearly identified in the disseminated data and the general public are informed of the reasons for the revisions. The historical data are revised as far back as possible in instances of major changes in methodology or data collection system. (In the case of the recent introduction of disseminated data on reinvested earnings, the historical data were revised back to 1995.)

There are no differences in the revision practices between the data disseminated in the national publications and those reported to the IMF and the OECD and Eurostat for publication. However, because of differences in reporting deadlines, the data reported to, and published by, those organizations may differ at times from the data disseminated in the national publications.

Data Coverage

No major sectors of the economy or elements within those economic sectors are excluded from the data.

There are no differences in the sectoral coverage between the data disseminated in the national publications and those reported to the IMF and the OECD and Eurostat for publication.

Data Collection Method

The data are collected using a mixture of an individual transactions basis (an international transactions reporting system [ITRS]) and an aggregate basis (an enterprise survey). The reporting requirements are compulsory.

Data Sources

The monthly data (the most timely) for income of equity (dividends and distributed branch profits) and reinvested earnings are model-based estimates. The most timely data for the remaining components are compiled primarily an international transactions reporting system (ITRS), which covers cash transactions made through the domestic banking system, cash transactions made through the foreign bank accounts of enterprises, and noncash transactions. Information obtained from monthly enterprise surveys of resident enterprises is used as a secondary data source for the data on income on debt (interest), and information from quarterly enterprise surveys of resident enterprises is used as a secondary data source for the data on equity capital and other capital.

The more comprehensive quarterly data on income of equity (dividends and distributed branch profits) and reinvested earnings are compiled primarily from information obtained from annual enterprise surveys of resident enterprises, with information from corporate tax declarations being used as a secondary data source. (Prior to the processing of the results of the annual enterprise survey, the quarterly data on income of equity (dividends and distributed branch profits) and reinvested earnings are model-based estimates.) The data sources for the quarterly data on income on debt (interest), equity capital, and other capital, are the same as for the most timely monthly data.

There are no differences in the data sources between the data disseminated in the national publications and those reported to the IMF and OECD for publication.

A business register of enterprises involved in direct investment is used to compile the outward direct investment transactions data. The register is maintained by the MNB and is updated on a quarterly basis using information from (i) the ITRS's list of transactors, (ii) a register maintained by the tax authorities, and (iii) the financial press. The same business register is used to compile the outward direct investment transactions and position data, and the inward direct investment transactions and position data.

Geographic Classification

Quarterly data showing breakdowns by country for the direct investment income data and direct investment financial flows data are compiled by the MNB. The direct investment financial flows data showing breakdowns by country are disseminated quarterly with a timeliness of 3 months after the end of the reference period on the MNB's website (<http://www.mnb.hu>). The direct investment income data showing breakdowns by country are not disseminated, but are available on request. The data showing country breakdowns for both the direct investment financial flows and direct investment income are also reported to the OECD and Eurostat. The data cover 64 countries and bilateral data are not used in the compilation of the data.

The debtor/creditor principle is used as the basis for the geographic allocation of the data. The five countries with the largest amount of direct investment income from investment abroad by residents of Hungary during 2002 (ranked in descending order) were: the Slovak Republic, the Netherlands, the United States, Denmark, and the Czech Republic. The five countries with the largest amount of direct investment financial flows from Hungary during 2002 (ranked in descending order) were: Croatia, the Slovak Republic, Bulgaria, Romania, and Macedonia.

In addition to the data showing country breakdowns, quarterly data are compiled by the MNB showing breakdowns of both the direct investment income and direct investment financial flows for the following regions/economic zones: (i) the EU15, (ii) EFTA, (iii) the OECD, (iv) NAFTA, (v) the CIS countries, (vi) the ASEAN countries, (vii) the OPEC countries, (viii) the EU25, and (ix) the EMU. The data for the (i) EU15, (ii) the EU25, and (iii) the EMU, are disseminated quarterly on the MNB website specified above with a timeliness of 3 months after the end of the reference period, and the data for the remaining regions/economic zones are available on request. The data for (i) the EU15, (ii) EFTA, (iii) the OECD, (iv) NAFTA, (v) the CIS countries, (vi) the ASEAN countries, and (vii) the OPEC countries, are also reported to the OECD and Eurostat.

There are no differences in the data coverage, sources, etc. between the outward transactions data showing geographic breakdowns disseminated in the national publications and reported to the OECD and Eurostat, and

the aggregate outward data on direct investment income and direct investment financial flows reported to the IMF for publication.

Industrial Classification

Quarterly data showing breakdowns by industrial activity for direct investment income and direct investment financial flows are compiled by the MNB and are disseminated quarterly with a timeliness of 3 months after the end of the reference period on the MNB website (<http://www.mnb.hu>). The data showing breakdowns by industrial activity for both the direct investment financial flows and direct investment income are also reported to the OECD and Eurostat. The data show a breakdown for 11 industrial activities. The classification used is NACE, Rev. 1, which broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC).

Both the data on direct investment income and direct investment financial flows are classified on the basis of the industrial activity of the resident direct investors. The five industrial activities with the largest amount of direct investment income from investment abroad by residents of Hungary during 2002 (in descending order) were: (i) manufacturing, (ii) real estate and business activity, (iii) transport, storage, and postal services, (iv) trade and repairs, and (v) hotels and restaurants. The five industrial activities with the largest amount of direct investment financial flows from Hungary during 2002 (in descending order) were: (i) manufacturing, (ii) financial intermediation, (iii) real estate and business activity, (iv) transport, storage, and postal services, and (v) mining.

Quarterly data are compiled by the MNB for both the direct investment income data and the direct investment financial flows data showing a breakdown by both industrial activity and main partner country. These data are disseminated quarterly with a timeliness of 3 months after the end of the reference period on the MNB website specified above. For direct investment income, the three highest ranking partner countries during 2002 (ranked in descending order) for which breakdowns by industrial activity are disseminated were: the United States, Japan, and Canada. For direct investment financial flows, the three highest ranking partner countries during 2002 (ranked in descending order) for which breakdowns by industrial activity are disseminated were: the United States, Japan, and Canada. Data showing breakdowns by both industrial activity and main partner country are reported to the OECD and Eurostat for these three countries only, in accordance with the OECD and Eurostat requirements. The data are not disseminated by the MNB, but are available on request.

In addition, annual data are compiled by the MNB for both the direct investment income data and the direct investment financial flows data showing a breakdown by both industrial activity and region/economic zones. These data are not disseminated by the MNB, but are available on request with a timeliness of 9 months after the end of the reference period. The data are also reported to the OECD and Eurostat.

There are no differences in the data coverage, sources, etc. between the outward transactions data showing industrial activity breakdowns disseminated in the national publications and reported to the OECD and Eurostat, and the aggregate outward data on direct investment income and direct investment financial flows reported to the IMF for publication.

B. Methodology

Definition of Direct Investors

In accordance with the international standards, the basic criterion for defining resident direct investors is 10 percent ownership by a resident investor of an enterprise abroad, regardless of whether the investor has an effective voice in management—that is, enterprises abroad in which the resident direct investor owns 10 percent or more but does not have an effective voice in management are included, while enterprises abroad in which the resident investor owns less than 10 percent but has an effective voice in management are not included. In accordance with the international standards, the 10 percent ownership is based on the ownership of each individual resident investor or group of related resident investors, rather than being calculated by combining the holdings of all resident investors in a specific enterprise abroad or in a specific country abroad. No value threshold is used to identify resident direct investors, and unincorporated enterprises are not treated differently from incorporated enterprises.

Treatment of Indirectly Owned Direct Investment Enterprises

The “Fully Consolidated System” (FCS) recommended in the international standards is partially applied. Specifically, (i) the direct investment earnings data do not include the relevant share of all indirectly-owned direct investment enterprises, and (ii) the direct investment financial flows data do not include all equity and other capital transactions made directly between resident enterprises of a related group as defined in the FCS and nonresident enterprises of the same group, without consideration of the percentage of equity directly held by these enterprises in each other, and including those enterprises that share a common direct investor but have no ownership in each other. However, with effect from January 2002, the data include other capital transactions between resident direct investors and nonresident intra-group financial intermediaries (special purpose entities).

Enterprises in Hungary are required by law to (i) produce consolidated accounts covering their subsidiaries and associate companies, both foreign and domestic, and (ii) identify all transactions with the parent company.

Measurement of Direct Investment Earnings

Contrary to the international standards, the “Current Operating Performance Concept” (COPC) is not fully used to calculate direct investment earnings. In accordance with the COPC, (i) deductions are made for depreciation of capital, and for provisions for host-country income and corporation taxes, (ii) interest receivable/payable is included, and (iii) debt repayments receivable/payable are excluded. Contrary to the COPC, (ii) realized and unrealized capital gains and losses, write-offs, and realized and unrealized exchange rate gains and losses are included.

Treatment of Income on Equity (Dividends and Distributed Branch Profits)

The data on dividends and distributed branch profits cover both incorporated enterprises and unincorporated enterprises. In accordance with the international standards, (i) dividends and distributed branch profits for both incorporated and unincorporated enterprises are recorded on the date they are declared payable, (ii) dividends and distributed branch profits are recorded gross of any withholding taxes, and (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks. (Prior to the data for 2003, dividends and distributed branch profits for both incorporated and unincorporated enterprises were (i) recorded on the date they were paid, rather than the date they were declared payable, and (ii) recorded net, rather than gross, of withholding taxes.) Contrary to the international standards, the data do not include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises.

Treatment of Reinvested Earnings and Undistributed Branch Profits

The data on reinvested earnings and undistributed branch profits cover both incorporated enterprises and unincorporated enterprises. In accordance with the international standards, (i) reinvested earnings and undistributed branch profits are recorded in the period in which they are earned, (ii) when a direct investment enterprise makes a net loss, that net loss is recorded as negative reinvested earnings, and (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks. Contrary to the international standards, the data do not include reinvested earnings and undistributed branch profits between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises.

Treatment of Income on Debt (Interest)

The data on income on debt (interest) cover both incorporated enterprises and unincorporated enterprises and include interest on (i) long-term loans, and (ii) short-term loans. The data do not cover (i) bonds and money market instruments, (ii) trade credits, and (iii) financial leases. In accordance with the international standards, the data do not include (i) interest on financial derivatives, and (ii) interest on deposits, loans, and other claims and liabilities related to usual banking and financial intermediation activities between affiliated banks and affiliated financial intermediaries. In accordance with the international standards, (i) the data include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, and (ii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks. Contrary to the international standards, the data are compiled on a paid basis, rather than on an accrual basis. However, with effect from 2004 the data will be compiled on an accrual basis, in accordance with the international standards.

Treatment of Equity Capital

The equity capital transactions data cover (i) listed voting stocks (shares), (ii) unlisted voting stocks (shares), (iii) participating preference [preferred] shares, (iv) other non-voting stocks (shares), and (v) noncash acquisitions of equity, such as through the provision of capital equipment. (Prior to 2003, the data did not cover noncash acquisitions of equity, such as through the provision of capital equipment. However, the historical data back to 1995 has now been revised to include these transactions.) In accordance with the international standards, (i) the data include equity transactions between affiliated banks and between affiliated financial intermediaries, (ii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks, and (iii) the data include equity transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises. Contrary to the international standards, the data include non-participating preference shares are classified under equity capital, rather than under other capital.

Treatment of Other Capital

The other capital transactions data cover: (i) long-term loans, and (ii) short-term loans. The data do not cover (i) bonds and money market instruments, (ii) trade credits, and (iii) financial leases. In accordance with the international standards, the data exclude (i) financial derivatives, (ii) loan/debt guarantees provided by direct investors or related direct investment enterprises, (iii) changes in insurance company technical reserves, and (iv) transactions between affiliated banks involving deposits, loans, and other claims and liabilities related to usual banking activities. In accordance with the international standards, (i) the data include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (ii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks, and (iii) the data include transactions associated with permanent debt between affiliated banks and between affiliated financial intermediaries. (Permanent debt is defined as being subordinated loans with a maturity of at least 5 years that are extended by a direct investor to an affiliated bank, which may be used for settling the credit institution's debt, and for which the lender's claims shall take the last place before the shareholders in the order of repayment.) Contrary to the international standards, (i) transactions between affiliated financial intermediaries involving claims and liabilities related to usual financial intermediation activities are included in the data, and (ii) the data do not include non-participating preference shares, which are instead classified under equity capital.

In instances when a loan/debt guarantee provided by a direct investor is invoked following default by a direct investment enterprise, the entire amount of the loan/debt guarantee outstanding is treated as direct investment lending by the guarantor and recorded under "Direct Investment Abroad: Other Capital: Increase in Claims on Affiliated Enterprises" at the time the guarantee is invoked.

Treatment of Reverse Investment

Transactions involving reverse investment are treated in accordance with the international standards.

Assuming that the direct investment enterprise is a resident of Hungary and the direct investor is a nonresident, when the direct investment enterprise owns at least 10 percent of its nonresident direct investor, and has therefore established a direct investment relationship in its own right, in accordance with the international standards, equity transactions are recorded as "Direct Investment Abroad: Equity Capital: Increase in Claims on Affiliated Enterprises" and loan transactions are recorded as "Direct Investment Abroad: Other Capital: Increase in Claims on Affiliated Enterprises".

Assuming that the direct investment enterprise is a resident of Hungary and the direct investor is a nonresident, when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, in accordance with the international standards, equity transactions are recorded as "Direct Investment in Hungary: Equity Capital: Increase in Claims on Direct Investors", and loan transactions are recorded as "Direct Investment in Hungary: Other Capital: Increase in Claims on Direct Investors". (Prior to 2003, equity transactions were recorded as "Portfolio Investment: Increase in Assets: Equity Securities", and loan transactions were recorded as "Other investment" Increase in Assets: Loans". However, the historical data back to 1995 has now been revised to correctly classify these transactions.) Data showing "Direct Investment in Hungary: Equity Capital: Increase in Claims on Direct Investors", and "Direct Investment in Hungary: Other Capital: Increase in Claims on Direct Investors" are reported to the IMF for publication, on the rare occasions that they occur.

Treatment of Quasi-corporations

Contrary to the international standards, the direct investment data do not include the activities of quasi-corporations involving the operation abroad by residents of Hungary of (i) construction enterprises, and (ii) mobile equipment, such as ships, aircraft, and drilling rigs.

Treatment of Offshore Enterprises

In accordance with the international standards, activities of offshore enterprises established abroad by residents of Hungary are included in the direct investment data. However, the coverage is not complete as the activities of offshore enterprises are not included in the income data and the data included in the financial flows data are recorded on a net basis.

Treatment of Special Purpose Entities (SPEs)

In accordance with the international standards, in principle, (i) activities of SPEs established abroad by residents of Hungary are included in the direct investment data, with no exceptions, and (ii) in the case of SPEs established abroad by residents of Hungary that have the primary purpose of financial intermediation, transactions with affiliated banks and affiliated financial intermediaries are excluded from the data, except those involving equity capital and permanent debt. However, in practice no instances of such SPEs have occurred to date.

Treatment of Land and Buildings

In accordance with the international standards, the equity capital data include purchases and sales of land and buildings abroad by enterprises and individuals resident in Hungary. Land and buildings purchased abroad by enterprises and individuals resident in Hungary on long-term leases are not included.

Treatment of Natural Resources Exploration

In accordance with the international standards, (i) expenditure related to natural resources exploration abroad by residents of Hungary is included in the equity capital data, (ii) expenditure on bonus payments made by residents of Hungary to the host country for the right to undertake exploration for natural resources is included in the equity capital data when there is a clear intention to establish a direct investment enterprise, and (iii) in instances of the shutdown of a direct investment enterprise established abroad by residents of Hungary by nonresidents for natural resource exploration, no transactions are shown in the balance of payments statistics.

Exchange Rate Conversion

All transactions are converted to the unit of account at the monthly average exchange rate.

DIRECT INVESTMENT ABROAD

INTERNATIONAL INVESTMENT POSITION ASSETS (“OUTWARD POSITION DATA”)

A. Compilation Practices and Data Sources

Data Availability

Separately identifiable quarterly data (the most timely) are compiled by the Magyar Nemzeti Bank (MNB), the central bank of Hungary, within the international investment position (IIP) framework on (a) equity capital and reinvested earnings, and (b) other capital, and are disseminated with a timeliness of 3 months after the end of the reference period on the MNB website (<http://www.mnb.hu>). (Prior to 2003 quarterly data were not compiled.) The data are also reported to the IMF for publication and to the OECD and Eurostat.

More comprehensive separately identifiable annual (calendar year) data are compiled by the MNB within the international investment position (IIP) framework on (a) equity capital and reinvested earnings, and (b) other capital, and are disseminated with a timeliness of 15 months after the end of the reference period on the MNB website (<http://www.mnb.hu>). (Prior to 2003, annual data were not compiled by the MNB.) The data are also reported to the IMF for publication and to the OECD and Eurostat.

The timeliness of the annual data will be changed from 15 months to 9 months after the end of the reference year, with effect from the data for 2003, due to be disseminated at the end of September 2004.

Revision Practices

The quarterly data are preliminary when first released. The quarterly data for the first three quarters of the current year and the previous year are revised once a year to take account of the results of the annual enterprise survey for the previous year and are disseminated together with the preliminary data for the last quarter of the year, 3 months after the end of the reference period. The quarterly data for the current year are revised again 15 months after the end of the reference year to take account of the results of the annual enterprise survey for the current year, and may be revised again 27 months after the end of the reference year to reflect possible changes in corporate tax declarations for the reference year. At this time the quarterly data are considered to be final, that is, 27 months after the end of the reference year, or 24-33 months after their first release, depending on the quarter.

The annual data are preliminary when first released. The annual data for the previous year are revised once to take account of the results of the annual enterprise survey and are disseminated together with the first release of the preliminary data for the latest year, 3 months after the end of the latest year. The annual data for the previous year are revised again 12 months later to take account of possible changes in corporate tax declarations for the reference year. After the second revision the annual data are considered to be final, that is, 27 months after the end of the reference year, or 24 months after their first release.

Once the timeliness of the annual data is changed from 15 months to 9 months in 2004, the quarterly data will become final 21 months after the end of the reference year or, depending on the quarter, 18-27 months after their first release, and the annual data will become final 21 months after the end of the reference year, or 18 months after their first release.

The revised status of the data is clearly identified in the disseminated data and the general public are informed of the reasons for the revisions. The historical data are revised as far back as possible in instances of major changes in methodology or data collection system. (In the case of the recent introduction of disseminated data on reinvested earnings, the historical data were revised back to 1995.)

There are no differences in the revision practices between the data disseminated in the national publications and those reported to the IMF and the OECD and Eurostat for publication. However, because of differences in reporting deadlines, the data reported to, and published by, those organizations may differ at times from the data disseminated in the national publications.

Data Coverage

No major sectors of the economy or elements within those economic sectors are excluded from the data.

There are no differences in the sectoral coverage between the data disseminated in the national publications and those reported to the IMF and the OECD and Eurostat for publication.

Data Collection Method

The data are collected using a mixture of an individual transactions basis (an international transactions reporting system [ITRS]) and an aggregate basis (an enterprise survey). The reporting requirements are compulsory.

Data Sources

The quarterly data (the most timely) for equity capital and other capital are compiled primarily from an international transactions reporting system (ITRS), using the perpetual inventory method (a method for deriving position data from transactions data). The ITRS covers cash transactions made through the domestic banking system, cash transactions made through the foreign bank accounts of enterprises, and noncash transactions, and adjustments are made for price changes, but not for exchange rate changes or other nontransaction changes. Information obtained from quarterly enterprise surveys of direct investors resident in Hungary is used as a secondary data source. The quarterly data for reinvested earnings are model-based estimates.

The more comprehensive annual data for equity capital and reinvested earnings are compiled primarily from annual enterprise surveys of direct investors resident in Hungary, with information from corporate tax declarations being used as a secondary data source. The annual data for other capital are compiled from the ITRS, using the perpetual inventory method described above.

There are no differences in the data sources between the data disseminated in the national publications and those reported to the IMF and OECD for publication.

A business register of enterprises involved in direct investment is used to compile the outward direct investment position data. The register is maintained by the MNB and is updated on a quarterly basis using information from (i) the ITRS's list of transactors, (ii) a register maintained by the tax authorities, and (iii) the financial press. The same business register is used to compile the outward direct investment transactions and position data, and the inward direct investment transactions and position data.

Geographic Classification

Annual data showing breakdowns by country for the outward direct investment position data are compiled by the MNB and disseminated once a year with a timeliness of 15 months after the end of the reference period on the MNB website (<http://www.mnb.hu>). The data showing country breakdowns for the outward direct investment position data are also reported to the OECD and Eurostat. The data cover 64 countries and bilateral data are not used in the compilation of the data.

In accordance with the international standards, the data are compiled on an immediate country basis. The five countries with the largest amount of direct investment from Hungary as at the end of 2002 (ranked in descending order) were: the Netherlands, Macedonia, the Slovak Republic, Romania, and Denmark.

In addition to the data showing country breakdowns, annual data are compiled by the MNB showing breakdowns of the outward direct investment position data for the following regions/economic zones: (i) the EU15, (ii) EFTA, (iii) the OECD, (iv) NAFTA, (v) the CIS countries, (vi) the ASEAN countries, (vii) the OPEC countries, (viii) the EU25, and (ix) the EMU. The data for the (i) EU15, (ii) the EU25, and (iii) the EMU, are disseminated once on the MNB website specified above with a timeliness of 15 months after the end of the reference period, and the data for the remaining regions/economic zones are available on request. The data for (i) the EU15, (ii) EFTA, (iii) the OECD, (iv) NAFTA, (v) the CIS countries, (vi) the ASEAN countries, and (vii) the OPEC countries, are also reported to the OECD and Eurostat.

There are no differences in the data coverage, sources, etc. between the outward position data showing geographic breakdowns disseminated in the national publications and reported to the OECD and Eurostat, and the aggregate outward position data flows reported to the IMF for publication.

Industrial Classification

Annual data showing breakdowns by industrial activity for the outward direct investment position data are compiled by the MNB and are disseminated once a year with a timeliness of 15 months after the end of the reference period on the MNB website (<http://www.mnb.hu>). The data showing breakdowns by industrial activity for the outward direct investment position data are also reported to the OECD and Eurostat. The data show a breakdown for 11 industrial activities. The classification used is NACE, Rev. 1, which broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC).

The outward position data are classified on the basis of the industrial activity of the resident direct investors. The five industrial activities with the largest amount of direct investment from Hungary as at the end of 2002 (in descending order) were: (i) financial intermediation, (ii) real estate and business activities, (iii) manufacturing, (iv) wholesale and retail trade, and (v) hotels and restaurants.

Annual data are compiled by the MNB for the outward direct investment position data showing a breakdown by both industrial activity and main partner country. These data are disseminated with a timeliness of 15 months after the end of the reference period on the MNB website specified above. The three highest ranking partner countries as at the end of 2002 (ranked in descending order) for which breakdowns by industrial activity are disseminated were: the United States, Japan, and Canada. Data showing breakdowns by both industrial activity and main partner country are reported to the OECD and Eurostat for these three countries only, in accordance with the OECD and Eurostat requirements. The data are not disseminated by the MNB, but are available on request.

In addition, annual data are compiled by the MNB for the outward direct investment position data showing a breakdown by both industrial activity and region/economic zones. These data are not disseminated by the MNB, but are available on request with a timeliness of 15 months after the end of the reference period. The data are also reported to the OECD and Eurostat.

There are no differences in the data coverage, sources, etc. between the outward position data showing industrial activity breakdowns disseminated in the national publications and reported to the OECD and Eurostat, and the aggregate outward position data reported to the IMF for publication.

B. Methodology

Definition of Direct Investors

In accordance with the international standards, the basic criterion for defining resident direct investors is 10 percent ownership by a resident investor of an enterprise abroad, regardless of whether the investor has an effective voice in management—that is, enterprises abroad in which the resident direct investor owns 10 percent or more but does not have an effective voice in management are included, while enterprises abroad in which the resident investor owns less than 10 percent but has an effective voice in management are not included. In accordance with the international standards, the 10 percent ownership is based on the ownership of each individual resident investor or group of related resident investors, rather than being calculated by combining the holdings of all resident investors in a specific enterprise abroad or in a specific country abroad. No value threshold is used to identify resident direct investors, and unincorporated enterprises are not treated differently from incorporated enterprises.

Treatment of Indirectly Owned Direct Investment Enterprises

The “Fully Consolidated System” (FCS) recommended in the international standards is partially applied. Specifically, the data do not include (i) the relevant share of the reinvested earnings of indirectly-owned direct investment enterprises, and (ii) all equity capital and other capital positions held directly by resident enterprises of a related group as defined in the FCS with nonresident enterprises of the same group, without consideration of the percentage of equity directly held by these direct investors or enterprises in each other, and including those enterprises that share a common direct investor but have no ownership in each other. However, with effect from January 2002, the data include other capital positions held between resident direct investors and nonresident intra-group financial intermediaries (special purpose entities).

Enterprises in Hungary are required by law to (i) produce consolidated accounts covering their subsidiaries and associate companies, both foreign and domestic, and (ii) identify all transactions with the parent company.

Treatment of Equity Capital and Reinvested Earnings

The equity capital position data cover (i) listed voting stocks (shares), (ii) unlisted voting stocks (shares), (iii) participating preference [preferred] shares, (iv) other non-voting stocks (shares), and (v) noncash acquisitions of equity, such as through the provision of capital equipment. In accordance with the international standards, (i) the data include equity positions between affiliated banks and between affiliated financial intermediaries, (ii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks, and (iii) the data include equity positions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises. Contrary to the international standards, the data include non-participating preference shares are classified under equity capital, rather than under other capital.

The reinvested earnings data cover both incorporated enterprises and unincorporated enterprises. In accordance with the international standards, (i) reinvested earnings are recorded in the period in which they are earned, (ii) when a direct investment enterprise makes a net loss, that net loss is recorded as negative reinvested earnings, (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks, and (iv) the data include reinvested earnings between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises. (See also the section on the *Measurement of Direct Investment Earnings* in the metadata on the Balance of Payments [transactions] data on Direct Investment Abroad.)

Treatment of Other Capital

The other capital position data cover: (i) long-term loans, and (ii) short-term loans. The data do not cover (i) bonds and money market instruments, (ii) trade credits, and (iii) financial leases. In accordance with the international standards, the data exclude (i) financial derivatives, (ii) loan/debt guarantees provided by direct investors or related direct investment enterprises, (iii) changes in insurance company technical reserves, and (iv) positions between affiliated banks involving deposits, loans, and other claims and liabilities related to usual banking activities. In accordance with the international standards, (i) the data include positions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (ii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks, and (iii) the data include positions associated with permanent debt between affiliated banks and between affiliated financial intermediaries. (Permanent debt is defined as being subordinated loans with a maturity of at least 5 years that are extended by a direct investor to an affiliated bank, which may be used for settling the credit institution's debt, and for which the lender's claims shall take the last place before the shareholders in the order of repayment.) Contrary to the international standards, (i) positions between affiliated financial intermediaries involving claims and liabilities related to usual financial intermediation activities are included in the data, and (ii) the data do not include non-participating preference shares, which are instead classified under equity capital.

In instances when a loan/debt guarantee provided by a direct investor is invoked following default by a direct investment enterprise, the entire amount of the loan/debt guarantee outstanding is treated as direct investment lending by the guarantor and recorded under "Assets: Direct Investment Abroad: Other Capital: Claims on Affiliated Enterprises" at the time the guarantee is invoked.

Treatment of Reverse Investment

Positions involving reverse investment are treated in accordance with the international standards.

Assuming that the direct investment enterprise is a resident of Hungary and the direct investor is a nonresident, when the direct investment enterprise owns at least 10 percent of its nonresident direct investor, and has therefore established a direct investment relationship in its own right, in accordance with the international standards, equity positions are recorded as "Assets: Direct Investment Abroad: Equity Capital: Claims on

Affiliated Enterprises” and loan positions are recorded as “Assets: Direct Investment Abroad: Other Capital: Claims on Affiliated Enterprises”.

Assuming that the direct investment enterprise is a resident of Hungary and the direct investor is a nonresident, when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, in accordance with the international standards, equity positions are recorded as “Liabilities: Direct Investment in Hungary: Equity Capital: Claims on Direct Investors”, and loan positions are recorded as “Liabilities: Direct Investment in Hungary: Other Capital: Claims on Direct Investors”. (Prior to 2003, equity positions were recorded as “Assets: Portfolio Investment: Equity Securities”, and loan positions were recorded as “Assets: Other investment: Loans”. However, the historical data back to 1995 has now been revised to correctly classify these positions.) Data showing “Liabilities: Direct Investment in Hungary: Equity Capital: Claims on Direct Investors”, and “Liabilities: Direct Investment in Hungary: Other Capital: Claims on Direct Investors” are reported to the IMF for publication, on the rare occasions that they occur.

Treatment of Quasi-corporations

Contrary to the international standards, the direct investment data do not include the activities of quasi-corporations involving the operation abroad by residents of Hungary of (i) construction enterprises, and (ii) mobile equipment, such as ships, aircraft, and drilling rigs.

Treatment of Offshore Enterprises

In accordance with the international standards, activities of offshore enterprises established abroad by residents of Hungary are included in the direct investment data. However, the coverage is not complete as the data are cumulative transactions data, which are in turn recorded on a net basis.

Treatment of Special Purpose Entities (SPEs)

In accordance with the international standards, in principle, (i) activities of SPEs established abroad by residents of Hungary are included in the direct investment data, with no exceptions, and (ii) in the case of SPEs established abroad by residents of Hungary that have the primary purpose of financial intermediation, positions with affiliated banks and affiliated financial intermediaries are excluded from the data, except those involving equity capital and permanent debt. However, in practice no instances of such SPEs have occurred to date.

Treatment of Land and Buildings

In accordance with the international standards, the equity capital data include ownership of land and buildings abroad by enterprises and individuals resident in Hungary. Land and buildings owned abroad by enterprises and individuals resident in Hungary on long-term leases are not included.

Treatment of Natural Resources Exploration

In accordance with the international standards, (i) expenditure related to natural resources exploration abroad by residents of Hungary is included in the equity capital data, (ii) expenditure on bonus payments made by residents of Hungary to the host country for the right to undertake exploration for natural resources is included in the equity capital data when there is a clear intention to establish a direct investment enterprise, and (iii) in instances of the shutdown of a direct investment enterprise established abroad by residents of Hungary by nonresidents for natural resource exploration, an adjustment to reflect that shutdown is made to the assets data on direct investment equity capital in the international investment position statistics.

Valuation of Assets and Liabilities

The data on equity capital for listed enterprises are recorded at market values. The data on equity capital for unlisted enterprises are recorded at book values, which are the historical costs.

The data on other capital are recorded at book values, which are the historical costs.

The book values used are primarily those shown in the accounting records of the nonresident direct investment enterprises. However, when the accounting records of the nonresident direct investment enterprises are not available, the accounting records of the resident direct investors are used.

Exchange Rate Conversion

All positions are converted to the unit of account at the exchange rate prevailing on the date to which the position data relate.