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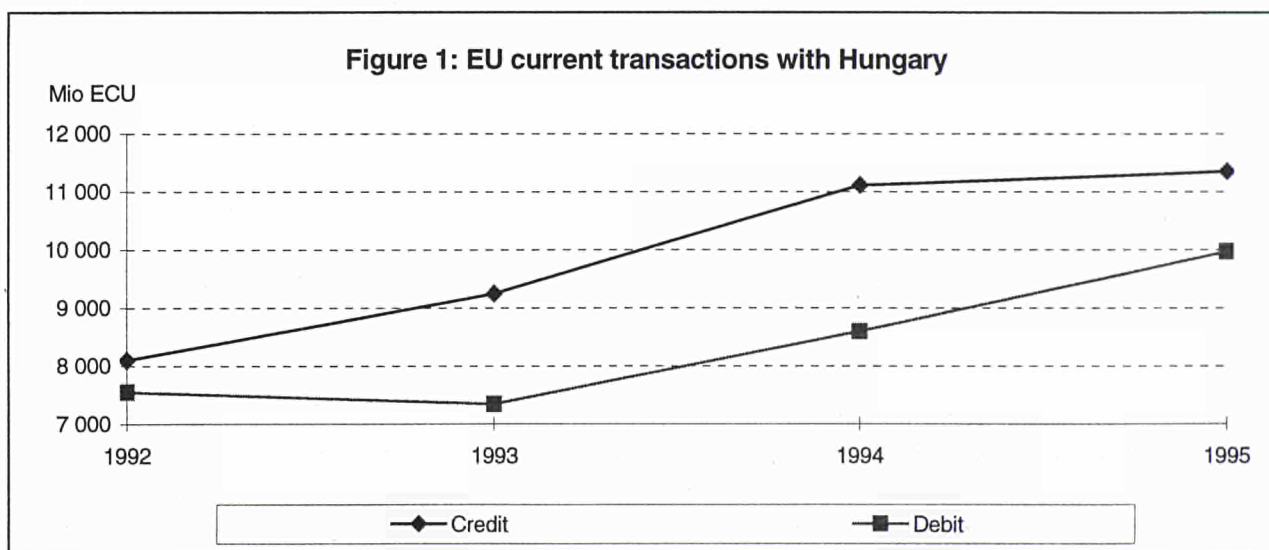
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EUROPEAN UNION CURRENT AND DIRECT INVESTMENT TRANSACTIONS WITH HUNGARY

European Union Balance of Payments (BoP) statistics allow for the characterisation of the cross-border activities with third countries and economic or geographic regions. In this integrated framework Eurostat records the current transactions in goods, services, income and transfers as well as the foreign direct investment flows and positions. The BoP of the European Union (see Box 1 on page 7) therefore provides information on all cross-border flows. BoP is a unique tool for assessing the state and development of global economic relations with third countries.

The total current transactions (goods, services, income and transfers) between the Union and Hungary (Figure 1, Table 1) developed much faster on the credit side than for debits between 1992 and 1995. While credits (EU receipts from Hungary) grew relentlessly, the debits (payments from EU to Hungary) fell slightly in 1993 before growing strongly with rates of 17% and 16% in 1994 and 1995 respectively. After two years of strong growth with +14% and +20% the credits levelled out in 1995. Thus, the EU surplus in current transactions decreased to ECU 1.4 bn in 1995.



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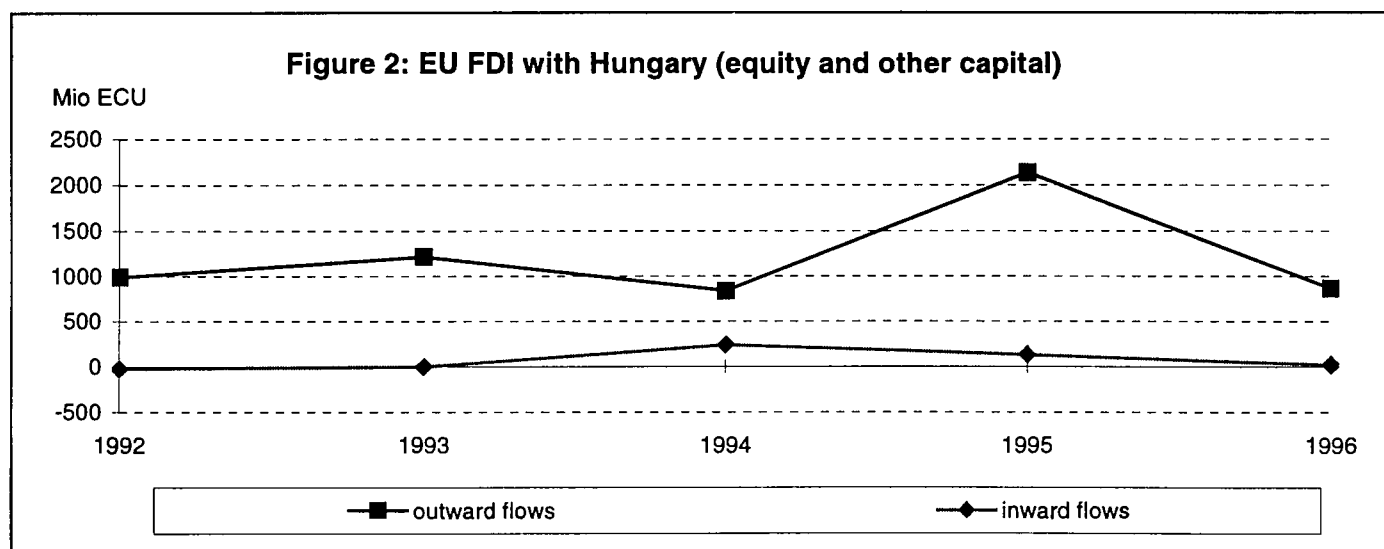
Table 1: EU total current and FDI transactions with Hungary

| | EU total current transactions with Hungary | | | | |
|---|---|------|-------|-------|------|
| | (Mio ECU) | | | | |
| | 1992 | 1993 | 1994 | 1995 | 1996 |
| Credit | 8105 | 9247 | 11113 | 11354 | : |
| Debit | 7551 | 7345 | 8601 | 9969 | : |
| Net | 554 | 1902 | 2513 | 1385 | : |
| | EU FDI* (equity and other capital) with Hungary | | | | |
| | (Mio. ECU) | | | | |
| Outward flows | 989 | 1217 | 839 | 2135 | 865 |
| Inward flows | -22 | 0 | 240 | 136 | 22 |
| Net | 1011 | 1217 | 599 | 1999 | 843 |
| EU net flows with Hungary, ratio FDI and current transactions, in % | | | | | |
| | 182 | 64 | 24 | 144 | |

* Figures for Ireland and Greece are estimated. The other capital component for Austria is estimated.

While current account flows grew comparatively moderate in 1995, the Union direct investment (FDI) in Hungary more than doubled from ECU 0.8 bn to 2.1 bn (Figure 2, Table 1). However, this vigorous expansion came to a halt in 1996, when EU FDI fell back to the

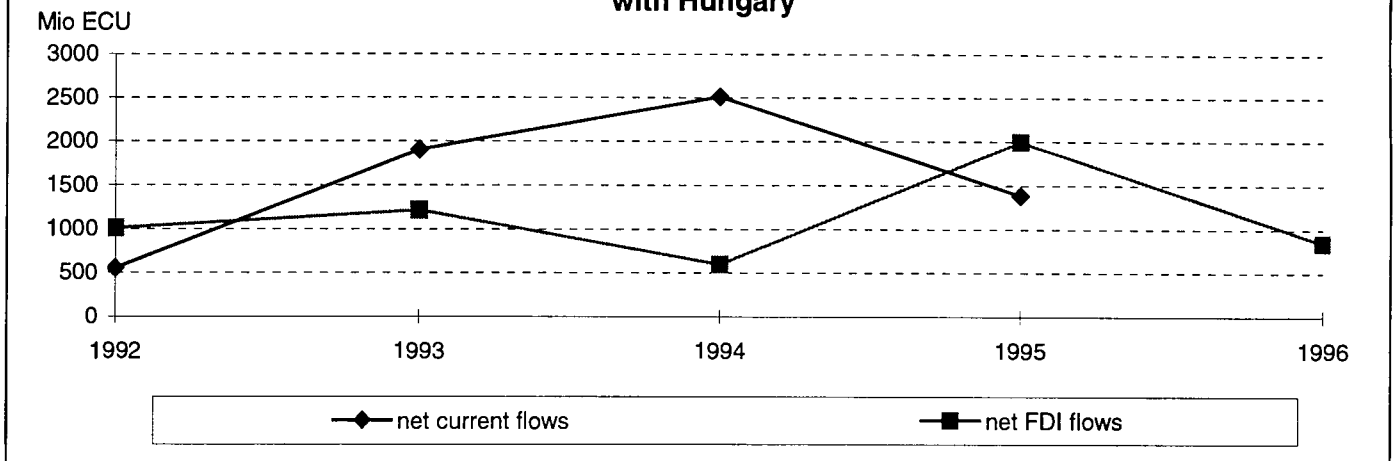
level seen for 1992-1994. The FDI of Hungary in the Union picked up in 1994 with ECU quarter of a billion after a small disinvestment in 1992 and no FDI activity in 1993. However, FDI slowed down to 136 million in 1995 before almost coming to a halt in 1996.



Whereas FDI flows only represented a fraction of about one twentieth the current flows, the net flows (Figure 3, Table 1) between the Union and Hungary stood comparatively close together between 1992 and 1995. In 1992, nearly double the current account

surplus of the Union found its way back to Hungary in the form of FDI. In 1995 it was about one and a half. In contrast, 1993 and 1994 net FDI in Hungary represented two thirds and one quarter respectively of the Union current account surplus.

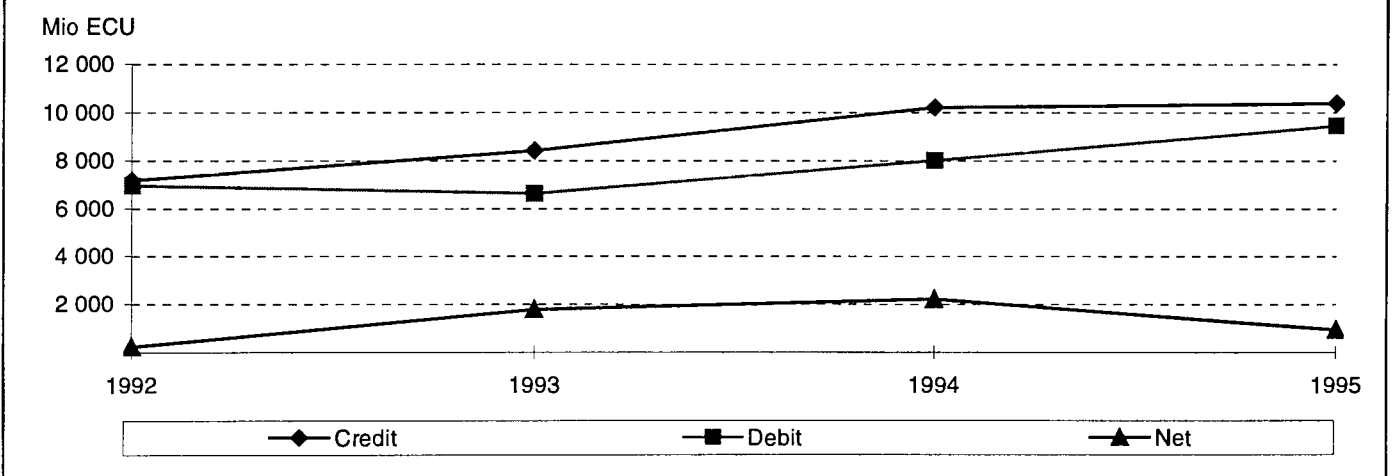
Figure 3: EU net current and net FDI flows (equity and other capital) with Hungary



A closer look at the major part of the current account between the Union and Hungary, that is the trade in goods and services (*Figure 4, Table 2*), shows that due to its relative weight, it determined the shape of the current account development. The Union exports (credits) expanded faster than the imports (debits)

between 1993 and 1994 and thus the EU surplus widened to more than ECU 2 bn. However, while exports slowed down in 1995 the imports grew at approximately the same pace as in 1994. Thus, in 1995 exports and imports were fairly equal and the balance came closer to equilibrium.

Figure 4: EU trade in goods and services with Hungary



The breakdown of the EU trade with Hungary into goods and services (*Figure 5, Table 2*) reveals that both components contributed to the Union surplus between 1992 and 1994. However, the bulk of the surplus was created through exchange of goods. In contrast, Hungary recorded a surplus in cross-border trade in services with the Union in 1995 and thus the

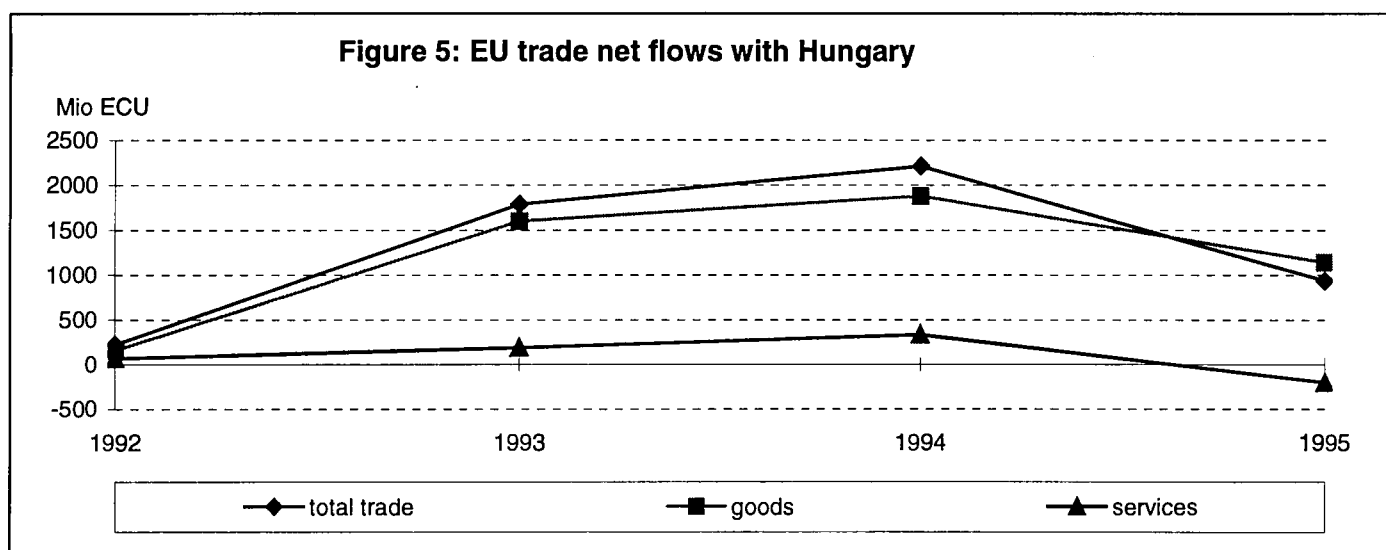
downturn of EU trade surplus in 1995 was partly due to the net importer position in services. However, between 1994 and 1995 the goods trade surplus shrank to the same tune as that for services so that both components contributed to the downturn in the Union surplus fairly equally.

Table 2: EU trade with Hungary

(Mio ECU)

| | 1992 | 1993 | 1994 | 1995 |
|--------------------------|------|------|-------|-------|
| Total trade | | | | |
| Credit | 7185 | 8423 | 10219 | 10398 |
| Debit | 6960 | 6631 | 8005 | 9459 |
| Net | 224 | 1791 | 2213 | 939 |
| Trade in goods | | | | |
| Credit | 5659 | 6787 | 8240 | 8835 |
| Debit | 5503 | 5186 | 6361 | 7694 |
| Net | 155 | 1600 | 1878 | 1140 |
| Trade in services | | | | |
| Credit | 1526 | 1636 | 1979 | 1563 |
| Debit | 1457 | 1445 | 1644 | 1765 |
| Net | 69 | 191 | 335 | -201 |

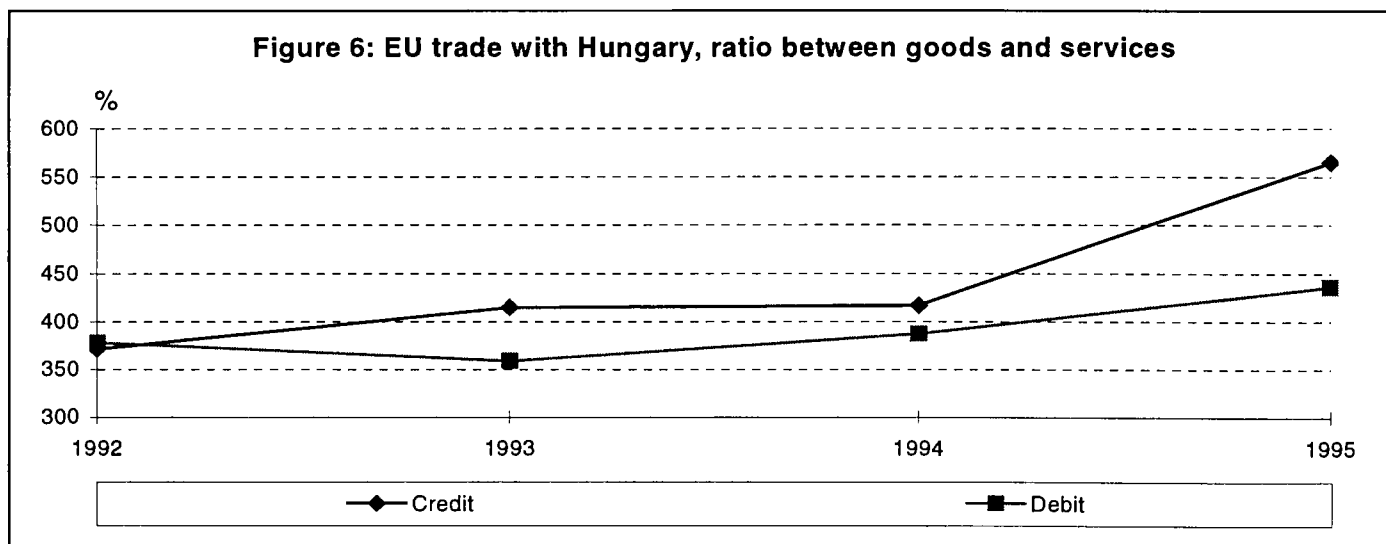
Figure 5: EU trade net flows with Hungary



The ratio between goods and services in EU trade with Hungary (Figure 6) depicts the pace with which goods exchange gained in importance, particularly in 1995. The relative importance of goods was higher on the

export side than on the import side between 1993 and 1995. In 1995, on each ECU turned over by EU service exporters, there were about 5.5 among the goods exporters. On the import side the ratio stood at 1: 4.5.

Figure 6: EU trade with Hungary, ratio between goods and services



The Union net income with Hungary (Figure 7, Table 3) shows a surplus. Between 1992 and 1995 the net income stream from Hungary to the Union stood between ECU 0.4 bn and 0.7 bn. Thereby the Union

always recorded a surplus in investment income while running the opposite for the compensation of employees.

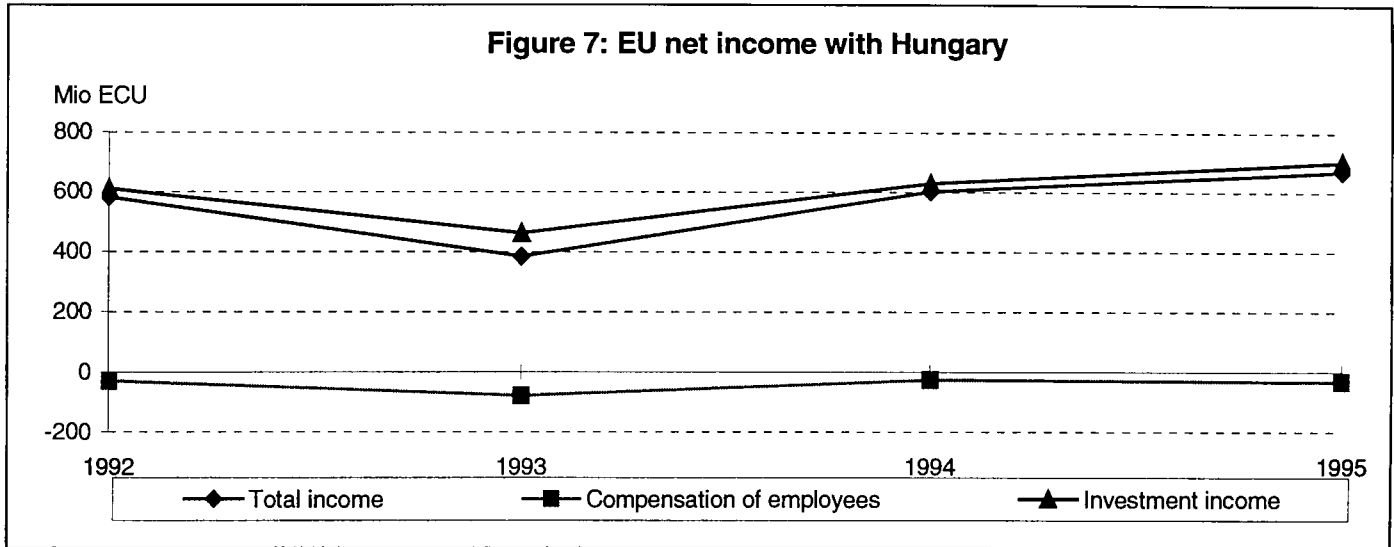


Table 3: EU net income with Hungary

(Mio ECU)

| | 1992 | 1993 | 1994 | 1995 |
|---------------------------|------|------|------|------|
| Total income | 582 | 384 | 603 | 671 |
| Compensation of employees | -29 | -78 | -26 | -32 |
| Investment income | 610 | 462 | 629 | 702 |

EU net investment income (Table 4), which covers income on direct, portfolio and other investment, developed remarkably stably between 1992 and 1995. This was the result of partly countering developments of income streams in both directions. While EU investment receipts from Hungary decreased in 1993

the opposite applied for Hungarian receipts from the Union. In 1994 a credit growth opposed a downturn in Hungarian investment income from the Union. The latter remained fairly unchanged in 1995, whereas EU investors in Hungary saw income increasing by 9%.

Table 4: EU net investment income with Hungary

(Mio ECU)

| | 1992 | 1993 | 1994 | 1995 |
|--------|------|------|------|------|
| Credit | 884 | 770 | 845 | 919 |
| Debit | 274 | 308 | 216 | 217 |
| Net | 610 | 462 | 629 | 702 |

The development of EU compensation of employees (wages, salaries and other benefits, including those of border, seasonal and other non-resident workers) with

Hungary (Figure 8, Table 5) reveals that net flows are largely determined by the EU payments.

Figure 8: EU compensation of employees with Hungary

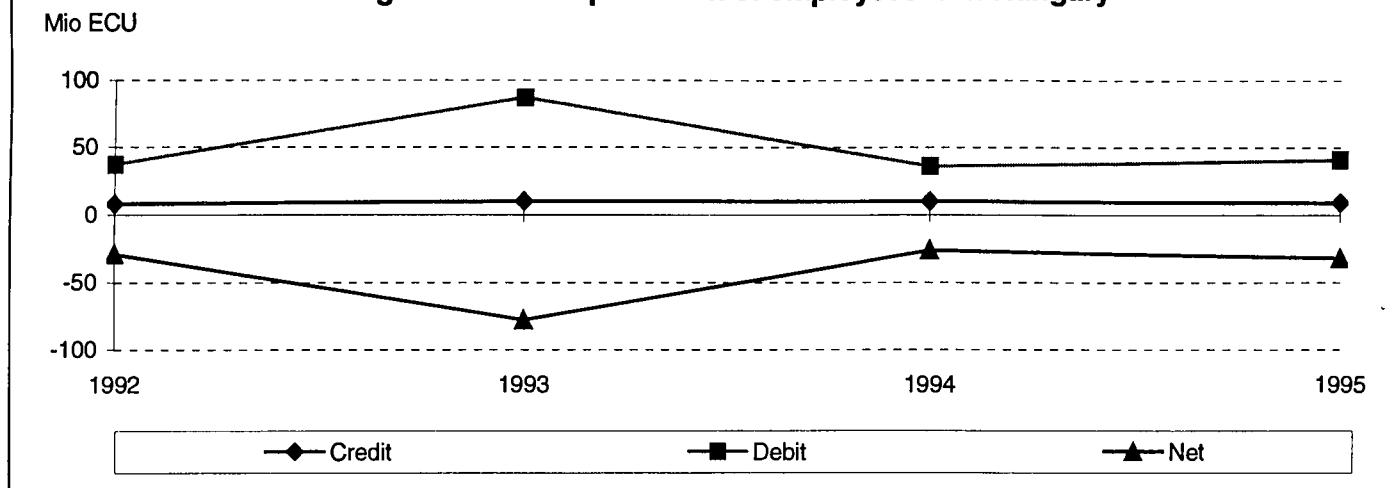


Table 5: EU compensation of employees with Hungary

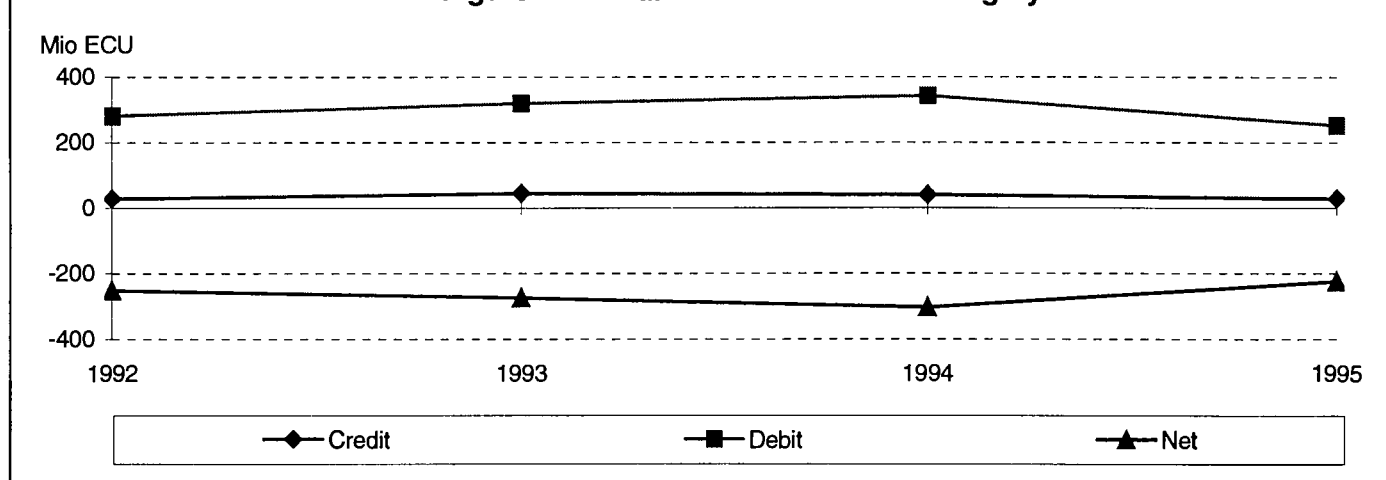
| | <i>(Mio ECU)</i> | | | | |
|--------|------------------|------|------|------|--|
| | 1992 | 1993 | 1994 | 1995 | |
| Credit | 8 | 10 | 10 | 9 | |
| Debit | 37 | 87 | 36 | 41 | |
| Net | -29 | -78 | -26 | -32 | |

The compensation of employees received by EU workers represented only a fraction of the payments in the opposite direction, with values between ECU 8 million to 10 million between 1992 and 1995. In contrast, the Hungarian compensation of employees from the Union stood around 40 million, in 1993 at 87 million.

The Hungarian surplus in compensation of employees is thus the second item beneath direct investment,

counter-balancing the EU trade surplus. However, it covered less of it year by year between 1992 and 1994. In 1992 it represented 13% before falling to 4% and 1% the following two years. In 1995, the Hungarian surplus in compensation of employees increased to ECU 32 million which equals 3% of the EU trade surplus of that year.

Figure 9: EU current transfers with Hungary



The current transfers, see definition in box 2 on page 7, between the Union and Hungary represent the third item with a surplus for Hungary (*Figure 9, Table 6*), by far greater than for compensation of employees. With values between ECU 200 million and 300 million, the net current transfers counter-balanced

substantial portions of the EU trade surplus. In 1992 the net current transfers were even bigger than the EU trade surplus, and in 1993 and 1994 it covered 15% and 14% respectively. In 1995 the ratio increased to close to one quarter.

Table 6: EU current transfers with Hungary

| | <i>(Mio ECU)</i> | | | |
|--------|------------------|------|------|------|
| | 1992 | 1993 | 1994 | 1995 |
| Credit | 28 | 45 | 40 | 28 |
| Debit | 280 | 319 | 342 | 252 |
| Net | -252 | -274 | -303 | -224 |

BOX 1: Main BoP components

1. Current account

- 1.A Goods and Services
 - 1.A.a Goods
 - 1.A.b Services
- 1.B Income
 - 1.B.1 Compensation of employees
 - 1.B.2 Investment income
- 1.C Current transfers

2. Capital and financial account

- 2.A Capital account
- 2.B Financial account
 - 2.B.1 Direct investment
 - 2.B.2 Portfolio investment
 - 2.B.3 Other Investment
 - 2.B.4 Reserve assets

BOX 2: Definition of current and capital transfers

Current transfers consist of all transfers that are not transfers of capital. Current transfers directly affect the level of disposable income and should influence the consumption of goods or services. That is, current transfers reduce (increase) the income and consumption possibilities of the donor (recipient).

A capital transfer in kind consists of the transfer of ownership of a fixed asset or the forgiveness of a liability by a creditor when no counterpart is received in return. A transfer in cash is a capital transfer when it is linked to, or conditional on the acquisition or disposal of a fixed asset (for example an investment grant) by one or both parties to the transaction.

Current transfers are included in the current account; capital transfers are included in the capital account component of the capital and financial account.

Examples for current transfers performed between governments are payments for relief efforts in goods or regular contributions to international organisations. Examples for current transfers between governments and individuals or among individuals are worker's remittances by migrants assumed to stay in their new economy or transfers in cash or in kind like food, clothing, medical goods to relieve hardships such as natural disasters, etc.

Source for the definitions: International Monetary Fund, Balance of Payments Manual, 5th ed.; Washington, DC 1993, pp. 74-76.

For further information on the EU cross-border current and direct investment transactions Eurostat provides the following publications:

Geographical breakdown of the current account - EU, 1992-1995, Luxembourg: Office for Official Publications of the European Communities, 1997, 445 pp., ISBN 92-828-2127-7, Catalog Number: CA-06-97-602-EN-C.

European Union direct investment yearbook 1997, Luxembourg: Office for Official Publications of the European Communities, 1998, 383 pp., ISBN 92-828-1631-1, Catalog Number: CA-07-97-515-EN-C.

Balance of Payments – Quarterly statistics, 4/97, Luxembourg: Office for Official Publications of the European Communities, 1998, 113 pages, Catalog Number CA-BK-97-004-EN-C.

Statistics in focus, External trade, 3/1998, European Union trade and investment with central and eastern European countries, 8 pp., ISSN 1024-6878, Catalog Number CA-NO-98-003-EN-C.

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