

SUMMARY

Continuing the strong performance seen in the preceding months, industrial production growth remained robust in April. According to the seasonally adjusted data, output rose by 0.9% in one month, the volume of total sales being 1.7% higher than in March. The twelve-month gain in output was 14.9%. Total sales, rising by 15.7%, slightly outperformed the increase in output. In addition to the further strong performance of exports, domestic demand continued to pick up – exports grew by 25.7% and domestic sales by 6.5% relative to April 1999. Selling 60% of its output in external markets, export-oriented manufacturing continued to be the engine of industrial production growth. Manufacturing output increased by 16.7% year on year. Manufactured exports surged by 25.8%. Also exceeding the broad industrial average, domestic sales rose by 7.7% in comparison with their levels recorded a year earlier. The volume of fresh orders, both export and domestic, in the major branches of manufacturing was sharply higher in the first four months than a year earlier. That is an indication that the pick-up in output continued. According to the gauge of productivity, gross manufacturing output per employee was 14.2% higher in April than twelve months previously. Construction industry output was static, in comparison with both the preceding month and a year earlier.

The trend rise in corporate sector net domestic debt since September 1999 continued in April. Broadly equal to the increase in March, outstanding debts of firms rose by Ft 58.5 billion. Transactions contributed Ft 40.6 billion to the stock of outstanding corporate sector debt. Exchange rate movements accounted for another

Ft 17.9 billion. The larger part of the increase in debt due to transactions, Ft 39.2 billion, was accounted for by a rise in foreign currency loans. The sector's deposits fell by Ft 3.8 billion due to transactions, reflecting a fall of Ft 8.2 billion in domestic currency deposits and an increase of Ft 4.4 billion in foreign currency deposits. As a result of changes in debt and deposits, corporate sector net debt rose by Ft 59.3 billion, by broadly the same amount as in the preceding month.

The year-on-year rate of core inflation, derived by the Bank from the Consumer Price Index, was 7.32% in April, showing a fall of 0.22 of a percentage point relative to the March outcome. The trend measure of core inflation was 100.55%. As in the preceding couple of months, a major contributor was increased services prices. However, the measure of contribution from services prices in April, at 0.19 of a percentage point, was nearly 0.2 of a percentage point less than a year before. The change in producer prices was an increase of 14.4% in April relative to a year earlier, massively higher than the increase in consumer price inflation. Chemical industry prices rose strongly, due mainly to changes in basic material prices. Removing the effects of movements in petroleum product prices, the Producer Price Index stood at 108.6%.

Growth in whole-economy gross average earnings picked up in April, according to Bank calculations eliminating the effects of changes in the composition of the workforce. That stronger growth was mainly owing to a number of temporary influences facing the corporate sector and to the increased share of non-basic pay awards within total pay, both in the corporate and gov-

ernment sectors. The Bank estimated gross average earnings had risen by 17.7% in companies with more than 5 employees in twelve months. The increase of 3.7 percentage points in the index relative to March was the result of the short-run effects discussed above.

Operational net lending of households was Ft 7.1 billion in April, lower than the first-quarter average. Of the components of operational net lending, financial asset holdings were Ft 19.4 billion higher due to transactions, and outstanding debt rose by Ft 12.3 billion. Net wealth was up Ft 15.6 billion, measured at market prices. The shift from deposit holdings towards other forms of wealth continued in the month. Flows into investment fund certificates, in addition to life insurance schemes and pension funds, were dominant, while domestic currency deposits and holdings of bank securities fell. Household cash holdings, another class of financial asset, rose, in addition to those mentioned earlier. Domestic currency deposits and holdings of bank securities fell by Ft 18.9 billion due to transactions, explained by a drop in short-term deposits. Taking account of compensation for inflation, holdings fell by Ft 3.8 billion. Inflation-adjusted purchases of investment fund certificates and shares totalled Ft 5.7 billion and Ft 8 billion respectively. Simultaneously, holdings of government debt securities due to transactions continued to fall, by around Ft 4.5 billion. Net equity of households in life insurance reserves and pension funds rose by Ft 3.5 billion and Ft 7.9 billion respectively due to transactions. Household debt rose by another Ft 16.3 billion in the month, net borrowing, i.e. the increase in debt excluding compensation for inflation, amounting to Ft 12.3 billion. At Ft 7.9 billion, the rise in outstanding consumer loans accounted for the major part, 64%, of the increase in debt. The inflation-adjusted rise in home-building loans was Ft 2 billion. Of note is the shift within household debt by types of credit over the past twelve months – whereas the share of outstanding consumer loans within total debt rose by 10 percentage points, from 37.8% to

47.6%, that of home-building loans fell from 28.6% to 23%.

According to the unadjusted data, Hungary's current account deficit amounted to 92 million in April. That was 22 million higher than in the preceding month, while being 122 million lower than a year earlier. Looking at the major components of the one-month fall in current account deficit, the seasonally adjusted deficit on debt-related transactions was 34 million higher, while the merchandise trade deficit rose by 7 million. The increase of 28 in the tourism surplus only partly offset the negative effect of those factors. The improvement in the current account balance in a one-year comparison was largely due to a lower merchandise trade and other services deficits and an increase in the tourism surplus. The fall in the not seasonally adjusted cumulative current account deficit for January–April amounted to 350 million, half the amount recorded in the same period of 1999. The cumulative deficit fell mainly due to an increase of 144 million in the tourism surplus, an improvement of 104 in the balance of other services, a rise of 77 million the surplus on current transfers and a fall of 51 million in the deficit on goods trade. This effect was partly reduced by an increase of 25 million in the deficit on non-debt income. Here, payments on the existing debt and the outflow of direct investment income on equity rose by 14 million and 11 million respectively. The trend, derived from the seasonally adjusted data by using moving averages, shows a decline in deficit since December 1999. Looking at the major sub-accounts of the balance of payments, the merchandise trade deficit has been falling and the tourism surplus rising gradually.

The general government borrowing requirement amounted to Ft 14.5 billion in April and Ft 155.1 billion in the first four months of the year. The central government ran a surplus of Ft 4.9 billion. This contrasted with a social security and a local authority deficit of Ft 7.2 billion and Ft 12.2 billion respectively. The net general government borrowing requirement was Ft 14.3

billion lower than in March, falling by a total Ft 95.5 billion in January–April relative to the comparable period of 1999. Including the flows of the extra-budgetary funds and ÁPV Rt and adjusted using the Bank's method, net lending of central government amounted to Ft 4.9 billion, showing fall of Ft 3.5 billion relative to April 1999. After removing interest payments and receipts as well as mutual assets and liabilities of the NBH and the government, the primary surplus of the central government amounted to Ft 57.9 billion. Of the most important revenue items of the central government, payments by economic organisations, excluding customs duties and import fees which met 27.7% of the projection, continued to be slightly below the time-proportional fraction of the annual projection in the first four months, but exceeded by 9% the corresponding outcome for the same period of 1999. Consumption-related tax receipts, at 34.4%, exceeded the target, owing to VAT revenue meeting 38.7% of the official projection. One-month receipts from households were as projected, and at 37.5%, revenue of the central government units met the target to the end of April. Central government receipts of payments by local government authorities were of special note, as they met 83.9% of the annual projection. Among the major categories of expenditure, transfers to economic organisations (37.4%), consumer price subsidies (34.3%), expenditure of the budgetary units (33.9%) debt servicing and interest payments (37.9%) and transfers to local authorities (36.2%) exceeded the time-proportionate fraction of the target. Dwelling subsidies (18.8%), guarantees and contributions to the operations of social security (25.1%), and provisions disbursed through the social security authorities (30.7%) fell behind the target.

The forint exchange rate first slightly weakened in the early days of April, then it returned to near the strong extreme of the official intervention band in the second half of the month. The Bank devalued the central rate by 0.28%. Bank operations in the foreign exchange market in-

involved purchases of foreign currencies from commercial banks to the amount of 37.8 million in the month. Of the Bank's liabilities-side sterilisation instruments, the monthly average of credit institutions' current account balances rose by Ft 1 billion, while that of remunerated deposits fell by a marked Ft 167.1 billion. The average stock of foreign currency deposits was Ft 5.4 billion lower than in March.

The official share index of the Budapest Stock Exchange fell by 11.28% in April. This followed a drop of 1.22% in March and a rally which took it 45.5% higher in November 1999–February 2000. The fall was confined to the first part of the month, the index fluctuating narrowly above the 9,000 point mark throughout the latter part. The BUX index closed April at 8,872.49, down 11% on the March finish, but still nearly 50% higher than a year earlier. Government securities yields continued to rise in the secondary market in the early part of the month. That was followed by a few days of volatile movements and stagnation in the final third. Yields were higher across every maturity throughout the month as a whole. The rises at the short end of the curve, i.e. at 3, 6 and 12 months, were more modest, between 3–12 basis points. At the far end, yields rose more strongly, in a range of 7–34 basis points. Higher yields at the longer end and a little stronger investor demand characterised the month's government securities auctions. In contrast, yields were static and demand slackened at the short end.

Interbank forint market turnover was Ft 1,340 billion in April, almost equal to the turnover recorded in March. Following a decline in the preceding few months, the proportion of one–two day deals, accounting for the bulk of transactions, rose 8.8 percentage points to 85%, and the average interest rate fell 40 basis points. There was a simultaneous drop of nearly one-third in turnover between one and two weeks, accompanied by a 30 basis point fall in interest rates. Interbank rates increased at the short end and stagnated at the longer end in the period up to the official interest rate reduction on 25 April. That was followed by a massive drop, however. The

monthly averages were 30–50 basis points lower across every maturity.

The banking market's averages of corporate and household sector borrowing and deposit rates continued to fall in April. Corporate sector short-term deposit rates fell more than borrowing rates. Average short-term deposit rates fell 40 basis points, borrowing rates experiencing a token drop of 10 basis points. Looking at developments in household sector interest rates, it was longer-term borrowing rates, i.e. those on home-building and property loans, and long-term deposits that fell the most, by 200 and 100 basis points respectively. Average sight deposit rates were 30 basis points lower. Short-term deposit rates fell 60 basis points. The fall in consumer loan rates amounted to 20 basis points. As a result of changes in interest rate conditions, the differential between corporate sector short-term borrowing and deposit rates widened by 30 basis point, and that between household sector borrowing and deposit rates widened by 40 basis points. The average level of corporate sector deposit rates exceeded that of household

sector deposit rates by 30 basis points. The differential between interest rates facing corporate and personal sector borrowers narrowed from 900 basis points to 870 basis points.

As regards the individual monetary indicators, annual growth in the aggregates picked up slightly in April. Annual growth in M0 rose by 0.4 of a percentage point to 16.7%. The annual index of the money stock M1, which comprises currency held by non-banks and forint sight deposits, changed the most strongly, rising by 1.2 percentage points, so its end-of-month level was 18.4% higher than in April 1999. The index of broad money M3 rose by 0.2 of a percentage point to 15.2%. Annual growth in M4 picked up 0.5 of a percentage point, to run at 17.2%. The domestic credit stock expanded by Ft 77.2 billion due to transactions and by Ft 9.8 billion due to exchange rate movements. Looking at the major components of the domestic credit stock, the change due to transactions in net liabilities of central government to domestic credit institutions was an increase of Ft 20.8 billion in the month. Corporate debt expanded by Ft 58.54 billion due to the transaction effect.