

IV. EARNINGS AND NET LENDING OF HOUSEHOLDS

Earnings

Whole-economy gross earnings growth¹ picked up in April relative to the preceding month, the Bank's calculations showed.² That occurred mainly on the back of short-run influences affecting the corporate sector and an increase in irregular pay as a percentage of total pay, both in the corporate and government sectors. Earnings in the corporate sector, after eliminating from the indicator the effects of changes in the composition of workforce, grew by 17.7% relative to April 1999. Government sector earnings growth amounted to 11.7% over the same period.

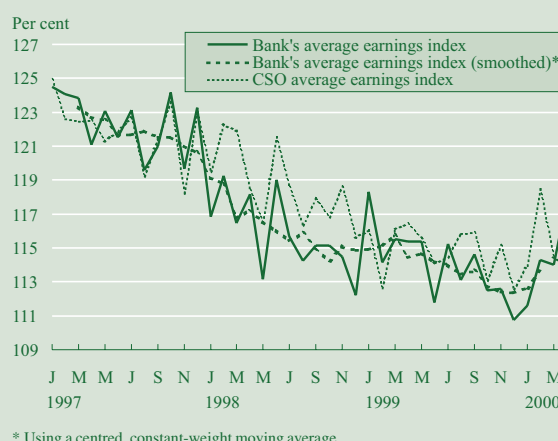
The Bank has quantified the effects of the following three factors believed to be relevant for developments in corporate sector earnings:

- The increase in hours worked has been the most significant factor explaining the difference between the outcomes of the two indexes. Taking this into account, corporate sector earnings growth has been 2 percentage points weaker in recent months than originally reported. This situation was most observable in manufacturing, and particularly in engineering, where significant improvements in performance explain the high level of nominal indexes. In 2000 Q1, gross earnings growth of blue-collar workers, adjusted by the change in the average number of hours worked, would have been only 14.4%, in contrast with the originally reported 19.6%.

But in April, diverging from that trend and due mainly to short-run effects, the corporate sector earnings index was pushed higher by 4.2 percentage points to 17.7% owing to the upward adjustment by the number of hours actually worked. That adjustment in April was explained in large part by a significant drop in the number of working days relative to April 1999³ and a related drop of around 7% in the average number of hours worked by corporate sector blue-collar workers.

- Assuming that employment patterns in the corporate sector remained broadly comparable with those of the year previous period, year-on-year gross earnings growth was practically flat in April 2000.
- Earnings growth was pushed higher by the high share of non-basic pay. In April, irregular pay,⁴ the effect of which was not removed from the index, was higher expressed as a percentage share of total earnings, thus resulting in a higher total pay growth.

Corporate sector monthly gross average earnings growth
Same month of previous year = 100



¹ Starting from May, movements in earnings will be presented by the Bank's new indicator, which removes the CSO index the effects of changes in the composition of labour, i.e. those in the distribution of blue-collar and white-collar workers, the composition of labour across the sectors, and the number of hours worked, in order to provide a more accurate picture of actual movements in earnings. For the present, only blue-collar worker's earnings are adjusted by the number of hours worked, so the adjusted indices differ slightly from those reported in the Bank's Quarterly Report on Inflation for 2000 Q1.

² Companies with more than 5 employees, including financial and non-financial corporations, units of central government and the social security authorities, i.e. the entire general government sector.

³ The number of working days was 19, 2 days less than a year earlier.

⁴ Bonuses, overtime, profit-related pay, one-month pay wards etc.

According to the Bank's calculations,⁵ government sector earnings grew by 11.7% in April, representing an increase of 3.7 percentage points relative to March⁶ and a fall of 3.7 percentage points in comparison with April 1999.

Here, the following effects must be taken into account:

- In April, the index for government sector earnings, assuming unchanged employment patterns, was 2.3 percentage points lower relative to twelve months previously than the index published by the CSO.
- Elimination of the effect of changes in the composition of blue-collar and white-collar workers caused a significant moderation of 1.9 percentage points in earnings growth. However, changes in the ratios of employment levels within the sector led to a less sharp slowdown of 0.4 of a percentage point.

The gradual decline in the workforce since early 1999 has been mainly due to a drop in the number of blue-collar workers. The number of government sector full-time employees was 1.8% lower in April than a year before. Here the number of blue-collar staff, accounting for over one third of total full-time employment, shrank by nearly 5%. During the same period, however, there was only a 0.5% decrease in the number of white-collar staff.

- In April, irregular pay as a share of total earnings rose markedly, by nearly 2 percentage points relative to twelve months previously. Accordingly, these elements of total earnings were a factor pushing total gross earnings growth higher in the month.

Whole economy net earnings grew by 11.4% in April 2000, the CSO reported. That rate was 2.2 percentage points slower than

gross earnings growth. The virtually static rates of taxes and contributions in 2000, in contrast with the around 4 percentage points gap observed in the previous year,⁷ account for the narrowing gap between gross and net earnings growth. Continuing to skew the value of net earnings growth downwards is the fact that the CSO does not add to net earnings the amount of tax allowance for children, introduced in 1999 and raised by 30% from the start of 2000. The CSO estimates this factor to have pushed whole-economy net earnings up by some 2 percentage points in 1999, to 14.8%.

Net lending of households

In April, operational net lending of households⁸ was lower than both a year earlier and in the preceding month. Claims of households on credit institutions fell, with the increase in assets being absorbed mainly by classes of financial instruments offered by non-bank intermediaries. Recourse to home-building loans, in addition to consumer credit, affected the change in the outstanding total of household debt.

Operational net lending of households amounted to Ft 7.1 billion in April. Including compensation for inflation in the amount of Ft 25.4 billion, operational net lending totalled Ft 32.5 billion. Net financial wealth of households, valued at market prices, was Ft 15.6 billion higher in the month. Movements in security prices caused a downward revaluation of Ft 16.8 billion in net wealth. The effect of other changes in volume was Ft –0.1 billion.

As regards changes in claims on credit institutions, households' domestic and foreign currency deposits fell. Inflation-adjusted transactions in domestic currency deposits and bank securities caused the total stock of claims to fall by Ft 18.9 billion. Including the effect of compensation for inflation incorporated in interest, at Ft 15.1 billion, deposit and securities holdings fell by Ft 3.8 billion. That was explained by a significant decline of some Ft 13 billion in the stock of long-term deposits.

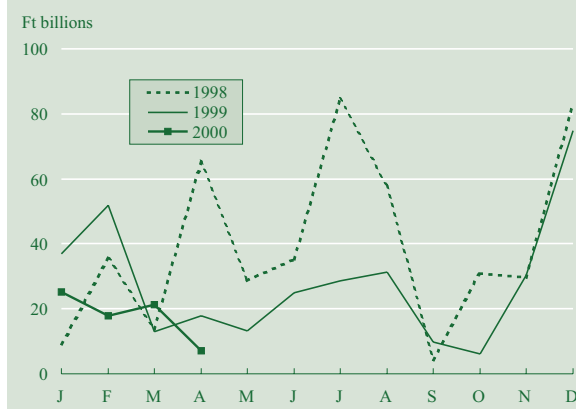
⁵ The data have been adjusted by eliminating the percentage shares of blue-collar and white-collar workers as well as the effect of changes in workforce across the sectors.

⁶ The very subdued earnings growth in the government sector in January is attributable to the salient base of the year earlier period. The deferral of a large part of the previous year's pay settlements to January 2000 caused the earnings index to rise strongly in some sectors, for example, in defence and education.

⁷ Slower earnings growth in 1999 is explained partly by the following changes to the tax regime: the amount of tax credit was halved and terminated for incomes exceeding Ft 1 million. Another factor slowing earnings growth was the increase of 1 percentage point to 11% in the social security contribution.

⁸ Operational net lending of households presents savings by eliminating the distorting effects of inflation. Interest accumulating on financial assets and liabilities compensates holders for part of their losses incurred due to inflation. When constructing the new indicator, compensation – the measure of which is defined by the inflation rate – is treated as revaluation instead of transaction, as is the case with revaluation gain on foreign currency deposits.

Operational net lending of households



In April, the value of banknotes and coin held by households increased by Ft 18.3 billion, an amount largely comparable with that recorded in the preceding month.

The pace at which households reduced their foreign currency deposits slowed a little in the month, the change due to inflation-adjusted transactions being Ft –0.6 billion. The year's monthly average was Ft –4.4 billion. Including the Ft 16.1 billion revaluation gain and the Ft 1.1 billion compensation for inflation, the domestic currency equivalent of foreign currency deposits was Ft 16.6 billion higher.

The switch from deposits into other instruments continued in April. The composition of non-bank securities purchased changed a little relative to the preceding month. Of the various types of security, invest-

ment fund certificates and shares were the most sought-after. Net purchases of investment fund certificates, excluding the effect of compensation for inflation, amounted to Ft 5.7 billion, substantially less than in March. Acquisitions of shares totalled Ft 8 billion, the amount being comparable with that recorded in the preceding month. At Ft 4.5 billion, households continued to reduce their holdings of government debt securities. On balance, flows into non-bank securities amounted to Ft 9.2 billion. The market value of total wealth held in these instruments fell by Ft 15 billion. That reflected the contribution of compensation for inflation to the tune of Ft 8.7 billion and a revaluation loss of Ft 32.9 billion caused by movements in securities prices.

Changes in net financial wealth of households

					Ft billions		
	1999				2000. Q1	1999	2000
	Q1	Q2	Q3	Q4		April	
1 Change in net financial wealth(1=2+5+6)	135.1	153.5	164.4	311.1	163.0	60.2	15.6
2 Net lending	169.9	124.1	149.3	194.4	147.4	41.0	32.5
3 Inflation compensation incorporated in interest	68.3	68.2	79.5	83.5	81.7	23.1	25.4
4 Operational net lending (4=2–3)	101.6	55.9	69.8	110.9	65.7	17.9	7.1
5 Revaluation	–12.4	23.2	14.6	65.2	67.0	18.8	–16.8
6 Other changes in volume	–22.4	6.2	0.5	51.5	–51.4	0.4	–0.1
7 Nominal holding gain (7=3+5)	55.9	91.4	94.1	148.7	148.7	41.9	8.6
8 Revaluation due to inflation	101.2	100.5	120.4	126.0	121.6	34.0	38.5
9 Real holding gain (9=7–8)	–45.3	–9.1	–26.3	22.7	27.1	7.9	–29.9
10 Change in inflation-adjusted net financial wealth (10=1–6–8–4+9)	56.3	46.8	43.5	133.6	92.8	25.8	–22.8

Net household wealth and the components of change in assets

Ft billions							
	Stock data		Change in volume: April	Of which:			
	2000			Transaction		Revaluation	Other
	31 March	30 April		Excluding compensation for inflation	Compensation for inflation		
Banknotes and coin	682.7	701.0	18.3	18.3	0.0	0.0	0.0
Forint deposits and bank securities	2,416.5	2,412.7	−3.8	−18.9	15.1	0.0	0.0
Foreign currency deposits	669.0	685.6	16.6	−0.6	1.1	16.1	0.0
<i>Investment funds certificates</i>	453.5	458.3	4.8	5.7	3.2	−4.1	0.0
<i>Government securities</i>	744.7	744.6	−0.1	−4.5	5.5	−1.1	0.0
<i>Exchange-traded shares</i>	273.0	253.3	−19.7	8.0	0.0	−27.7	0.0
<i>Corporate bonds</i>	4.6	4.6	0.0	0.0	0.0	0.0	0.0
Non-bank securities, total	1,475.8	1,460.8	−15.0	9.2	8.7	−32.9	0.0
Life insurance reserves	315.1	320.9	5.8	3.5	2.3	0.0	0.0
Claims on pension funds	279.7	289.7	10.0	7.9	2.1	0.0	0.0
Financial assets of households	5,838.8	5,870.7	31.9	19.4	29.3	−16.8	0.0
Household debt	557.8	574.1	16.3	12.3	3.9	0.0	0.1
NET FINANCIAL WEALTH AND CONTRIBUTORS TO THE CHANGE IN FINANCIAL ASSETS	5,281.0	5,296.6	15.6	7.1	25.4	−16.8	−0.1

Net equity of households in life insurance reserves and pension funds continued to grow. Net, inflation-adjusted contributions amounted to Ft 11.4 billion. Taking account of compensation for inflation incorporated in interest, net equity rose by Ft 15.8 billion in the month.

The increase in household debt was due mainly to a rise in the outstanding stock of consumer credit. However, there was an increase, too, in the use of home-building and property loans both in March and April. Inflation-adjusted transactions in consumer and home-building loans amounted to Ft 7.9 billion and Ft 2 billion

respectively. The increase in small business debt was Ft 2.4 billion. Including the effect of compensation for inflation and other volume changes, to the amounts of Ft 12.3 billion and Ft 3.9 billion respectively, outstanding household debt rose by Ft 16.3 billion in the month.

Operational net lending of households amounted to a total Ft 72.8 billion in the first four months of 2000, down Ft 46.7 billion on the year earlier period. Net lending of households amounted to Ft 179.9 billion, Ft 31 billion lower than in the comparable period of 1999.