

IV. EARNINGS AND NET LENDING OF HOUSEHOLDS

Earnings

Whole-economy gross earnings growth picked up speed in the second quarter of 2000 relative to the previous quarter; the Bank's calculations show.¹ Government sector earnings growth was modest in the period. Earnings growth in the corporate sector was a little stronger, explained in large part by a fall in the number of hours worked as compared with the same period of 1999, and by an increase in the proportion of non-basic pay. According to the indicators which eliminate the effects of changes in the composition of workforce, corporate and government sector earnings grew by 15.1% and 9.7% respectively, compared with twelve months previously.

In the corporate sector, the number of hours worked in manufacturing was little changed in 2000 Q2, but there was a considerable increase of nearly 2% in other services² relative to the same period of the previous year. Contributing to the outcome of the earnings index, in addition to the above effect, was a higher proportion of irregular pay,³ the effect of which could not be eliminated from the earnings index. The impact of irregular pay was the strongest in services within the corporate sphere.

¹ Starting from this Report, movements in earnings are analysed by the Bank's new indicator, which removes the CSO index the effects of changes in the composition of labour, i.e. the shifts in the distribution of blue-collar and white-collar workers, the composition of labour across the sectors, and the number of hours worked, therefore, it provides a more accurate picture of actual movements in earnings. More detailed explanation of the new method is included in the June Quarterly Report on Inflation.

² These include hotels and restaurants, transportation and storage, financial intermediation, renting, education, health care and other community activities.

³ Bonuses, overtime, profit-related pay, one-month pay awards etc.

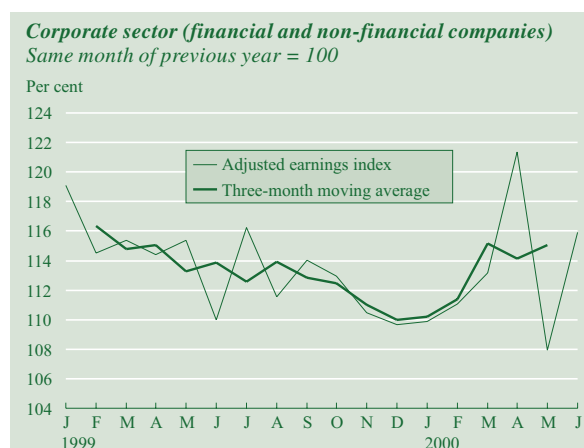
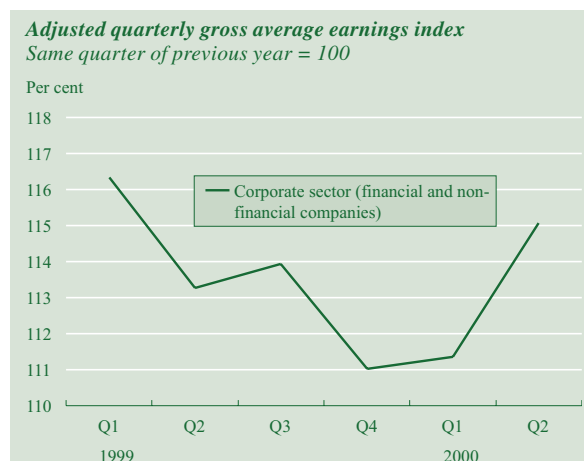
⁴ The data have been adjusted by eliminating the percentage shares of blue-collar and white-collar workers as well as the effect of changes in workforce across the sectors.

⁵ 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.

Corporate sector gross earnings growth was 15.9% in June year on year.

The significant pick-up in earnings growth in a twelve-month comparison was caused in part by a rise of 3% in the monthly average number of hours worked and in part by a strong increase in the proportion within the total of irregular pay.

Government sector adjusted earnings growth⁴ amounted to 9.7% in 2000 Q2,⁵ showing an increase of 2.5 percentage points from the previous quarter's outcome and a drop of 6.7 percentage points relative to 1999 Q2.



The proportion of irregular pay was higher in the period than a year earlier, which acted to push the earnings index upwards.

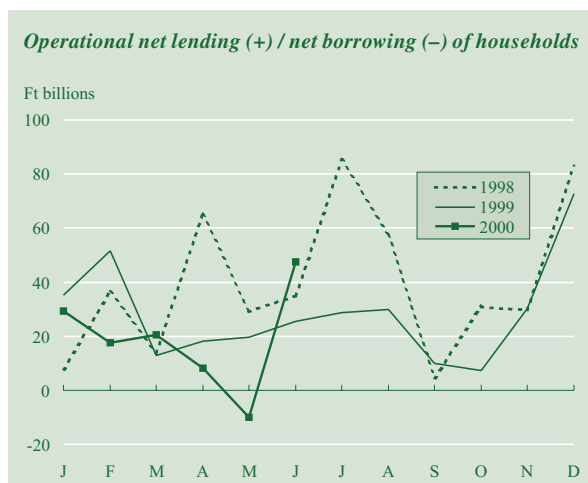
In June, the increase in adjusted government sector earnings growth was 10.0% relative to twelve months previously.

The CSO release of June gross earnings growth amounted to 12.5% in the corporate sector and 11.2% in the government sector. Whole-economy earnings grew by 12.0% in the month.

Net lending of households

In June, operational net lending of households,⁶ i.e. their financial savings after adjustment for the effects of inflation, rose to its highest level during the year to date. Of the various financial assets, holdings of banknotes and coin rose the most strongly, but flows into deposits, life insurance schemes and pension funds were also significant. The slow upward trend of household debt continued.

Operational net lending of households amounted to Ft 47.5 billion in June. Including compensation for inflation to the amount of Ft 25.4 billion, operational net lending totalled Ft 72.9 billion. Net financial wealth of households, valued at market prices, was Ft 44 billion higher in the month. That reflected a downward revaluation of Ft 28.8 billion due to movements in security prices, the effect of other changes in volume being Ft -0.1 billion.



⁶ 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.

Households' domestic currency asset holdings with credit institutions rose by Ft 23.1 billion in June after falling in the preceding two months. Inflation-adjusted transactions and compensation for inflation incorporated in interest contributed Ft 8.2 billion and Ft 14.9 billion respectively. Nearly half of the total increase in holdings emanated from the fact that the payment of wages due in the early days of July was effected at the end of June, so their amount was added to the current account balances through the wage transfers. The rise in sight deposits accounted for a large part, some Ft 20 billion, of the change in the stock of domestic asset holdings.

The early payment of wages also had an effect on the monthly development in notes and coin holdings. Notes and coin held by households rose by Ft 30.6 billion in June, the shift in pay days accounting for around Ft 5 billion.

The value of households' foreign currency deposits fell by Ft 2.4 billion in one month. That, however, was the result of a Ft 7.3 holding loss caused mainly by the depreciation of the US dollar, given that inflation-adjusted transactions amounted to Ft 3.8 billion, an amount comparable with the preceding month's figure.

In June household sector holdings of non-bank securities experienced a drop of Ft 13.9 billion. Share prices suffered a massive decline in the month, which caused a fall of Ft 21.5 billion in the value of holdings. Whereas flows of household funds into securities, though at a moderating pace, continued in the preceding few months, in June inflation-adjusted transactions, at Ft -1.1 billion, had a negative value.

At Ft 1.5 billion, only holdings of shares rose in the month. That amount was broadly comparable with the increase in May. Following massive sales of shares in the previous year, households have continued to build up their portfolios, although at a slowing pace since February. However, demand for investment fund certificates fell back significantly in the first half of the year – while inflation-adjusted transactions amounted to Ft 71.6 billion in Q1, they moderated to only Ft 2.9 billion in Q2. And in June, as in the preceding month, households were in a net selling position (Ft -1.9 billion). Purchases of government securities were Ft 0.8 billion lower in the month under review than in the preceding month – demand for government paper was modest throughout 2000 H1, inflation-adjusted transactions amounting to Ft -6.1 billion in Q1 and Ft 4.1 billion in Q2.

As regards the various classes of financial assets, net equity of households in life insurance reserves and pension funds grows uninterruptedly. Net, inflation-adjusted contributions amounted to a total Ft 18.6 billion in June. Taking account of compensation for inflation

incorporated in interest at Ft 4.7 billion, net equity rose by Ft 23.3 billion in the month.

The rise in outstanding household debt continued, reflecting the dominant trend of the year. Outstanding borrowings of households were Ft 16.7 billion higher in June than in May. Inflation-adjusted transactions amounted to Ft 12.6 billion. The rise in consumer credit was more modest and that in home-building loans stronger than in the preceding few months. Inflation-ad-

justed transactions amounted to Ft 5.8 billion and Ft 4.5 billion respectively.

Operational net lending, or inflation-adjusted financial savings, of households amounted to a total Ft 113.1 billion in the first half of 2000. That amount was Ft 49.9 billion less than in the year earlier period. Net lending of households, i.e. their financial savings, amounted to Ft 271.4 billion, showing a Ft 28.2 billion decrease relative to the comparable period of 1999.

Changes in net financial wealth of households

Ft billions

| | 1999 | | | | 2000 | | 1999 | 2000 |
|--|--------------|--------------|--------------|--------------|--------------|--------------|-------------|-------------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | June | June |
| 1 Change in net financial wealth (1=2+5+6) | 133.3 | 160.9 | 163.0 | 310.7 | 163.9 | 101.2 | 41.0 | 44.0 |
| 2 Net lending | 168.1 | 131.5 | 147.9 | 194.0 | 149.2 | 122.2 | 48.5 | 72.9 |
| 3 Inflation compensation incorporated in interest | 68.3 | 68.3 | 79.5 | 83.6 | 81.9 | 76.4 | 22.9 | 25.4 |
| 4 Operational net lending (4=2-3) | 99.8 | 63.2 | 68.4 | 110.4 | 67.3 | 45.8 | 25.6 | 47.5 |
| 5 Revaluation | -12.4 | 23.2 | 14.6 | 65.2 | 66.1 | -58.9 | -11.8 | -28.8 |
| 6 Other changes in volume | -22.4 | 6.2 | 0.5 | 51.5 | -51.4 | 37.9 | 4.3 | -0.1 |
| 7 Nominal holding gain (7=3+5) | 55.9 | 91.5 | 94.1 | 148.8 | 148.0 | 17.5 | 11.1 | -3.4 |
| 8 Revaluation due to inflation | 101.2 | 100.6 | 120.4 | 126.1 | 121.8 | 116.5 | 33.9 | 39.0 |
| 9 Real holding gain (9=7-8) | -45.3 | -9.1 | -26.3 | 22.7 | 26.2 | -99.0 | -22.8 | -42.4 |
| 10 Change in inflation-adjusted net financial wealth (10=1-6-8=4+9) | 54.5 | 54.1 | 42.1 | 133.1 | 93.5 | -53.2 | 2.8 | 5.1 |

Net household wealth and the components of change in assets

Ft billions

| | Stock data | | Change in volume: June | Of which: | | | |
|---|------------|---------|------------------------|--------------------------------------|----------------------------|-------------|-------|
| | 2000 | | | Transaction | | Revaluation | Other |
| | 31 May | 30 June | | Excluding compensation for inflation | Compensation for inflation | | |
| Banknotes and coin | 702.6 | 733.2 | 30.6 | 30.6 | 0.0 | 0.0 | 0.0 |
| Forint deposits and bank securities | 2,410.7 | 2,433.8 | 23.1 | 8.2 | 14.9 | 0.0 | 0.0 |
| Foreign currency deposits | 683.4 | 681.0 | -2.4 | 3.8 | 1.1 | -7.3 | 0.0 |
| Investment funds certificates | 458.3 | 459.6 | 1.3 | -1.9 | 3.2 | 0.0 | 0.0 |
| Government securities | 758.0 | 762.7 | 4.7 | -0.8 | 5.5 | 0.0 | 0.0 |
| Exchange-traded shares | 283.6 | 263.6 | -20.0 | 1.5 | 0.0 | -21.5 | 0.0 |
| Corporate bonds | 3.8 | 3.9 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 |
| Non-bank securities, total | 1,503.7 | 1,489.8 | -13.9 | -1.1 | 8.7 | -21.5 | 0.0 |
| Life insurance reserves | 337.1 | 350.6 | 13.5 | 11.0 | 2.5 | 0.0 | 0.0 |
| Claims on pension funds | 300.3 | 310.1 | 9.8 | 7.6 | 2.2 | 0.0 | 0.0 |
| Financial assets of households | 5,937.8 | 5,998.5 | 60.7 | 60.1 | 29.4 | -28.8 | 0.0 |
| Household debt | 594.9 | 611.6 | 16.7 | 12.6 | 4.0 | 0.0 | 0.1 |
| NET FINANCIAL WEALTH AND CONTRIBUTORS TO THE CHANGE IN FINANCIAL ASSETS | 5,342.9 | 5,386.9 | 44.0 | 47.5 | 25.4 | -28.8 | -0.1 |