

## SUMMARY

*The strong performance of industrial production continued in June. The recovery of domestic sales has made a progressively higher contribution to output growth over the past few months, in addition to the uninterrupted expansion of exports. Seasonally adjusted industrial output rose by 1.2%, the volume of total sales being 2.1% higher than in May. Within total sales, the one-month increase in domestic sales, at 3.8%, was outstanding. Exports grew by 0.8%. Industrial output rose by 21.1% in a twelve-month comparison. The recorded increase in total sales was 22.3%. The steady upward trend of domestic demand, lasting for the past couple of months, rose considerably again, by 18.5%, following a gain of 17% recorded in May. Meanwhile, exports rose by 25.9%, showing a slight slowdown compared with the average of the previous five months. The backbone of industrial growth continued to be export-oriented manufacturing. Manufacturing output increased by 22.7% in a year-on-year comparison. Manufacturing exports rose by 26.1% and domestic sales also considerably, by 20.9%, in comparison with their levels recorded a year earlier. According to the popular gauge of productivity, gross manufacturing output per employee was 19.3% higher in the month than a year previously. Construction industry output rose by a healthy 8.1% in one month, following slow increases and stagnation which characterised the months preceding June. The sector's output gained 10.9% relative to the same month of 1999.*

*The increase in corporate sector net domestic debt since September 1999 continued in June 2000 with a further strong increase of Ft 90.5 billion. Transactions contributed Ft 100.9 bil-*

*lion to the debt stock. Exchange rate movements and other volume changes made negative contributions of Ft –7.8 billion and Ft –2.6 billion respectively. At Ft 62.8 billion, the larger part of the increase in debt due to transactions was accounted for by a rise in firms' domestic currency borrowings, reversing the pattern of the preceding month. The sector's deposits rose by Ft 18.6 billion due to transactions. This was accounted for by an increase of Ft 27.5 billion in domestic currency deposits and a fall of Ft 9 billion in foreign currency deposits. As a result of changes in debt and deposits, corporate sector net debt rose by Ft 75.9 billion in the month.*

*Developments in the Hungarian labour market in the second quarter of 2000 show that the rise in employment, continuing for more than two years, remained unbroken. The indicators of unemployment, in contrast, were practically unchanged in comparison with the previous quarter. The number of people in employment continued to rise and the employment ratio improve, rising back to their levels seen in the same period of 1993. According to the seasonally adjusted data, the employment ratio stood at 50% in 2000 Q2, showing a slight increase relative to the previous quarter and edging up 0.6 of a percentage point relative to 1999 Q2. The number of registered unemployed and the unemployment rate remained on a downward trend, despite both indicators improving a little compared with the previous quarter. The seasonally adjusted unemployment rate, at 6.5% in 2000 Q2, was 0.3 of a percentage point less than a year earlier. Simultaneously with an increase in the number of economically active people, the cohort of inactive persons continued to fall, so the activity ratio*

rose by 0.2 of a percentage point in comparison with the previous quarter and by 0.4 of a percentage point relative to the same period of 1999.

The year-on-year rate of core inflation, derived by the Bank from the Consumer Price Index, was 7% in June, showing a fall of 0.2 of a percentage point from the May outcome. The trend measure of core inflation was 100.58%. As in the preceding couple of months, the major contributor was the increase in food prices. The trend rise in food prices is interpreted as an upward correction continuing since the middle of 1999. Stronger than the increase in consumer prices, the change in producer prices was an increase of 13.5% in June relative to a year earlier. As seen in the preceding few months, the strongest one-month increases continued to be in chemical industry and food industry prices, on account mainly of changes in the prices of petroleum products and base chemicals, and, as concerns the food industry, in input prices. Removing the effects of movements in petroleum product prices, the Producer Price Index stood at 109.3%.

According to Bank's adjustments designed to eliminate the effects of changes in the composition of the workforce and variations in the number of hours worked, growth in corporate sector gross average earnings picked up in June relative to the preceding month. That increase was in large part the result of a fall in the number of hours worked, on the one hand, and an increase in the proportion of irregular pay, on the other. The Bank estimated gross earnings in the range of businesses with more than 5 employees had grown by 15.9% in the twelve-month period since June 1999.

Operational net lending, or inflation-adjusted financial savings, of households was Ft 47.5 billion in June, the largest one-month gain in the year to date. Of the components of operational net lending, financial asset holdings were Ft 60.1 billion higher due to transactions, and outstanding debt rose by Ft 12.6 billion. Taking account of the Ft 28.8 billion holding loss and the Ft 0.1 billion negative effect on net wealth of other vol-

ume changes, the increase in net wealth measured at market prices was Ft 44 billion. Within households' asset holdings, the value of banknotes and coin rose the most strongly, by Ft 30.6 billion. Unlike the picture of the preceding two months, domestic currency claims of households on credit institutions were higher by Ft 23.1 billion, inflation-adjusted transactions contributing Ft 8.2 billion to the increase. Another change in comparison with earlier periods of the year was a fall of Ft 13.9 billion in financial wealth of households held in non-bank securities. At Ft 21.5 billion, households suffered significant holding losses caused by the downturn in share prices. Outstanding debt of households rose by Ft 16.7 billion in the month, net borrowing, i.e. the increase in debt excluding compensation for the effects of inflation, amounting to Ft 12.6 billion. Outstanding consumer credit rose slightly less strongly than in the preceding few months, by Ft 5.8 billion, unlike home-building and real property loans, which rose by Ft 4.5 billion.

According to the seasonally adjusted data, Hungary's current account ran a deficit of €183 million in June. That was €20 million less than the deficit recorded in the preceding month and also €55 million lower than a year earlier. The trend, derived from the seasonally adjusted data by using moving averages, shows the uninterrupted decline in deficit since December 1999 stalled in the month under review, as the outflow of investment income, exceeding the outcome for the past few years, could not offset the improvement in the balance of real economic transactions. Looking at the more important sub-balances of the current account, the trend of merchandise trade deficit continued to be downwards, while the surplus on tourism remained upwards, as seen in earlier periods. Analysis of the major components of the one-month change in the balance of payments shows that, after seasonal adjustment, negative investment income and the deficit on other service transactions fell a little, by €16 million and €17 million respectively, relative to the preceding month. The higher tourism surplus partly offset the effect of

these factors. The merchandise trade balance showed little change in comparison with May. In a year-on-year comparison, the deterioration in the current account balance resulted mainly from a rise of €66 million in negative investment income, and the €38 million outflow of income on equity in particular. Improvements in the other sub-accounts of the balance of payments could only partly offset the negative impact of investment income deficit.

The general government borrowing requirement amounted to Ft 58.1 billion in June and Ft 223.5 billion in the first half of the year. The central government, the social security funds and the local government authorities, respectively, registered deficits of Ft 42.1 billion, Ft 2 billion and Ft 13.9 billion. The net general government borrowing requirement was Ft 23.6 billion higher than in May, but Ft 152.9 billion lower in January–June relative to the comparable period of 1999. Including the flows of the extra-budgetary funds and ÁPV Rt, and adjusting using the Bank's method, the net central government borrowing requirement amounted to Ft 42.1 billion. That was Ft 22.9 billion lower than in June 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 24.1 billion. Of the most important revenue items of the central government, only transfers by economic organisations lagged somewhat behind the official projection in the first half. Receipts of consumption tax, revenue of the central government units and revenues related to debt servicing, in contrast, exceeded the target. Among the major categories of expenditure, transfers to economic organisations, consumer price subsidies, debt servicing and interest reimbursements and transfers to local authorities continued to slightly exceed the time-proportionate fraction of the target. But the actual amounts of guarantees and contributions to the operations of the social security system, expenditure of the central government units, dwelling subsidies, and provisions disbursed

through the social security authorities all fell behind the target in the first half.

The forint exchange rate remained closely aligned with the strong extreme of the official intervention band almost throughout the entire length of the month. The Bank devalued the central rate by 0.31%. For the first time since April 1999, there was no official intervention in the foreign exchange market. Of the Bank's liabilities-side sterilisation instruments, the monthly average of credit institutions' current account balances rose by Ft 3.1 billion, that of remunerated deposits, in contrast, falling by Ft 102 billion. At Ft 27.6 billion, the average stock of foreign currency deposits was also lower than in May.

In the early days of June the official share index of the Budapest Stock Exchange prolonged its rise which began in the last week of May. Then prices were falling almost throughout the whole of the remaining part of the month. The BUX closed the month at 8,318.3 points, equal to the monthly low. The month's finish was 7.74% lower than May's close, but 28% higher than a year earlier. Following the rise in the preceding month, government securities yields continued to fall in the secondary market. Yields were lower at the full length of the curve throughout the month as a whole. The falls at the short end of the curve, i.e. at 3, 6 and 12 months were more modest, ranging between 39 and 47 basis points. At the far end, yields fell a little more strongly, in a range of 39–68 basis points. Bids submitted for the purchase of government securities at the auctions held in May rose. In contrast with the distant end of the curve, where yields fell, the average two-year yield rose.

Interbank forint market turnover was Ft 1,584 billion in June, registering a slight increase of 1.6% from May. Monthly average interest rates were higher across the whole market, rising more markedly at the short and less at the long end. Following a massive decline in earlier months of the year, then a significant increase in April and a further modest rise in May, the proportion of 1–2 day transactions, accounting for

*the majority of interbank deals, rose significantly again, by 1.7 percentage points to 87.3%. The rise of 50 basis points in the average interest rate in this maturity bracket meant that it returned to its level seen two months previously.*

*Movements in the banking market's averages of corporate and household sector borrowing and deposit rates were modest in June. Corporate sector short-term borrowing rates fell by another 10 basis points, in contrast with deposit rates, which remained unchanged. Except short-term deposit rates, household sector average borrowing and deposit rates continued to edge lower. Sight and long-term deposit rates fell equally, by 20 basis points. The average level of borrowing rates fell 10 basis points. As a result of changes in interest rate conditions, the differential between corporate sector short-term borrowing and deposit rates widened to 330 basis points. As seen in the preceding month, the average level of corporate sector deposit rates exceeded that of household sector deposit rates by 20 basis points.*

*The gap between average interest rates facing corporate and household sector borrowers*

*narrowed from 900 basis points to 890 basis points.*

*As an upward correction of the drop below the trend values in the preceding month, annual growth in every monetary aggregate was higher in June. Annual growth in the monetary base picked up 1.1 percentage points to 14.6%. The annual index of the money stock M1, which comprises currency held by non-banks and forint sight deposits, changed the most strongly, accelerating by 2.3 percentage points, and as a result the end-June level of the aggregate was 17.4% higher than a year earlier. The index of broad money M3 changed by 0.9 of a percentage point to 13.8%, and that of M4 by 0.2 of a percentage point to 16.3%. Of the components of M3, the increases in corporate and households sector domestic currency deposits were dominant. The domestic credit stock expanded by Ft 88 billion due to transactions, but fell by Ft 6.6 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 a fall of Ft 34.9 billion. Corporate debt expanded by Ft 100.9 billion due to the transaction effect.*