

VI. MONETARY DEVELOPMENTS

As seen in the preceding few months of the year, the forint exchange rate, though fluctuating modestly, remained close to the firm edge of the official intervention band throughout June. The Bank did not conduct intervention in the interbank foreign exchange market.

The month-end total of central bank domestic and foreign currency liabilities to Hungarian credit institutions fell by Ft 12.9 billion in June. Looking at movements in the average stock data, current account deposits rose by Ft 3.1 billion, non-callable deposits and foreign currency deposits falling by Ft 102 billion and Ft 27.6 billion respectively. The Bank's claims on credit institutions decreased by Ft 4.6 billion, due mainly to a drop in the value of outstanding long-term domestic currency loans. Central bank claims on the general government sector fell by Ft 21.4 billion. Foreign and other net liabilities were also lower, by Ft 4.1 billion.

Non-resident holdings of government debt securities amounted to Ft 589 billion, at par value, showing an increase of Ft 37.6 billion to the end of the month relative to end-May. Average yields fell at the short end and rose at the long end of the secondary market of government debt securities. The total amount of bids submitted was higher at the government securities auctions, but yields generally fell, except at two years.

The forint interbank market recorded turnover of Ft 1,584 billion in June, up Ft 24.8 billion on May. Following a mild rise, monthly average interest rates fell back to their levels seen in April. Quotations of the one-month BUBOR remained static, while those of the six and twelve-month BUBOR fell.

As regards the various indicators of changes in the money stock, M0 growth was 1.1 percentage points slower, running at 14.6% annually. The annual index of the money stock M1, which comprises currency held by non-banks and forint sight deposits, picked up 2.3 percentage points to 117.4%. Broad money M3, a composite of term domestic and foreign currency deposits plus holdings of bank securities, in addition to the elements of M1, stood 13.8% higher in June than twelve months previously, which meant its growth rate accelerated by 0.9 of a percentage point in one month. Annual growth

in M4, the broadest money aggregate, was 116.3%, picking up 0.2 of a percentage point. Net liabilities of the general government and non-profit sector to domestic credit institutions fell by Ft 15.3 billion.

The changes in corporate and household sector short-term deposit and borrowing rates were modest in June. The average price for corporate customers of short-term loans, negotiated at market conditions, remained unchanged at 12.1%. Deposit rates, at 8.8%, showed a drop of 10 basis points. Interest rates on personal home-building and real property loans fell from 17.1% to 16.9%. The average rate on consumer and

Foreign exchange market interventions by the NBH		
	€ millions	
	Purchases	Sales
January–December 1998	3,101.8	2,177.2
January 1999	114.4	0.0
February	200.6	0.0
March	0.0	0.0
April	0.0	0.0
May	44.7	0.0
June	190.9	0.0
July	731.8	0.0
August	457.4	0.0
September	42.0	0.0
October	0.0	0.0
November	504.5	0.0
December	538.9	0.0
January–December 1999	2,825.1	0.0
January 2000	820.1	0.0
February	546.1	0.0
March	100.2	0.0
April	37.8	0.0
May	41.0	0.0
June	0.0	0.0
January–June 2000	1,545.2	0.0

other loan facilities, including Lombard, personal, hire purchase loans, overdrafts and car purchase finance, changed from the preceding month's 21.6% to 21.5%. Household sector short-term borrowing rates were at 8.6% in the month.

Monthly financial statement of the Bank

The value of banknotes and coin in circulation was Ft 33.8 billion higher to the end of June relative to end-May.

The combined total of domestic and foreign currency liabilities of the central bank to credit institutions fell by Ft 12.9 billion in the month under review. Here, domestic currency liabilities and foreign currency liabilities were lower by Ft 0.2 billion and Ft 12.7 billion respectively.

The monthly average balance on credit institutions' settlement accounts was Ft 185.1 billion higher at the end of June than at the preceding month-end. The month-end total of non-callable deposits fell by Ft 173 billion. As regards the Bank's foreign currency liabilities to domestic credit institutions, the stock of short-term foreign currency deposits changed the most strongly, as seen in the preceding few months, showing a drop of Ft 5.7 billion, at current rates.

The change in the average stock of central bank liabilities to credit institutions diverged from the change in the end-of-month total – the average of current account

deposits rose by Ft 3.1 billion, while those of non-callable deposits and foreign currency deposits fell by Ft 102 billion and Ft 27.6 billion respectively. The fall in foreign currency liabilities to domestic credit institutions due to transactions amounted to Ft 86.5 billion in the first half of 2000, the effect of transactions being Ft 107.1 billion.

Central bank claims on credit institutions fell by Ft 4.6 billion in June, mainly due to a decrease in the amount outstanding of central bank long-term loans. Overall, the Bank's net liabilities to domestic credit institutions were lower by Ft 8.3 billion. In January–June, the Bank's claims on domestic credit institutions fell by Ft 15.2 billion. Transactions accounted for Ft 15.5 billion of the decrease.

Central bank net claims on the general government sector were Ft 21.4 billion higher in June. Here, claims on the sector fell by Ft 31.5 billion and liabilities by Ft 52.9 billion. The total stock of general government net borrowings fell by Ft 173.4 billion in January–June. The effect of transactions was Ft 197.9 billion.

Total central bank foreign and other net assets rose by Ft 4.1 billion in one month. Here, net foreign liabilities, valued at current rates, were Ft 40.9 billion lower at month-end than at the end of May. Foreign assets and liabilities both fell – the latter by Ft 171.9 billion and the former by Ft 131 billion. Long-term foreign liabilities were Ft 35.8 billion lower, short-term liabilities also being lower, by Ft 95.2 billion. International reserves had fallen by €550.2 million to €10,999.3 million by the end of June.

Changes in the balance sheet of the NBH
On the basis of month-end stocks

Ft billions													
	1999				2000				1999	2000			
	May	June	Q1	Q2	May	June	Q1	Q2	January–June				
			Monthly average				Monthly average		Total	Trans- action	Volume changes	Total**	
Banknotes and coin	17.9	16.6	−2.0	15.8	−5.0	33.8	−22.9	15.5	44.5	−66.8	0.0	−66.8	
Forint deposits of credit institutions	18.6	4.0	11.8	−13.0	−103.0	−0.2	124.7	−97.3	−6.1	36.9	0.0	36.9	
Foreign currency deposits of credit institutions	−8.0	−18.6	7.3	−15.6	−12.4	−12.7	−25.8	−11.7	−18.6	−107.1	20.6	−86.5	
Net claims on general government (including ÁPV Rt deposits)*	−35.3	−250.8	−31.2	−114.9	−23.5	21.4	−37.5	−13.9	−555.2	−197.9	24.5	−173.4	
Of which: – foreign currency credit	−58.1	−121.4	−30.7	−81.4	13.8	−2.3	−25.8	−9.7	−400.9	−131.3	31.7	−99.6	
– revaluation bonds	0.0	0.0	7.2	−110.2	0.0	0.0	0.0	0.0	−286.1	0.0	0.0	0.0	
Claims on credit institutions	0.3	−8.1	−6.1	−5.7	−2.8	−4.6	5.3	−10.3	−33.4	−15.5	0.3	−15.2	
Foreign and other net assets	63.5	260.9	54.5	107.8	−94.1	4.1	108.2	−69.4	608.4	76.4	−4.1	72.3	

Note: The aggregates may differ due to rounding.

* At current exchange rates, including blocked government deposits.

** There was no other change in volume in the period.

Central bank policy measures

The Bank, in response to developments in the domestic financial markets, made the following policy decisions in the period starting 1 June 2000.

- Effective from 1 July 2000, the rate remunerated on compulsory reserves built for domestic and foreign currency liabilities rose from 5.25% to 5.75%. The rate increase was consistent with changes to reserve maintenance rules announced on 8 February 2000 and effective from 1 July 2000.
- Effective from 8 August 2000, the Bank's main policy rate, the two-week deposit rate fell from 11.0% to 10.75%. Leaving the width of the overnight interest rate corridor unchanged, the Bank reduced the overnight repo and swap rates from 13.0% to 12.75%, and the overnight deposit rate from 9.0% to 8.75%. The rate remunerated on compulsory reserves built for domestic currency liabilities fell from 5.25% to 5.0% and that remunerated on foreign currency reserves fell from 5.75% to 5.5%. Real interest rate levels, secured by yields in the Hungarian money and capital markets and judged by the Bank as adequate, contributed to the decision to reduce dealing rates by 25 basis points.

Banking survey, money supply and demand

As an upward correction of a drop below the trend values in the preceding month, the money indicators rose again in June. The annual growth rate of the monetary base was 1.1 percentage points faster. As a result, the value of M0 was 14.6% higher than a year earlier.

Annual growth in M1, a composite of banknotes and coin held by non-banks and forint sight deposits, changed the most strongly, picking up by 2.3 percentage points from May to June. Consequently, the end-of-month stock of M1 stood 17.4% higher relative to twelve months previously. Broad money M3, which is a measure of banknotes and coin held by non-banks, deposits held with banks as well as holdings of bank securities, grew at a rate 0.9 of a percentage point faster, its stock expanding by 13.8% year on year. Of its constituents, the end-of-month stock of corporate deposits rose by Ft 18.6 billion due to transactions. The sector's domestic currency deposits were Ft 27.5 billion higher, in contrast with foreign currency deposits which fell by

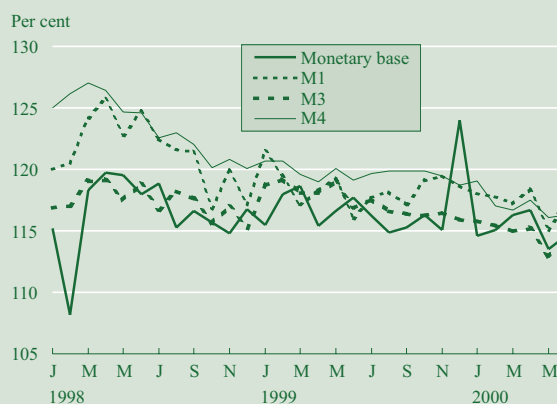
Ft 9 billion. Households' domestic deposits grew by Ft 24.4 billion. The effect of transactions on foreign currency deposits was an increase of Ft 4.8 billion. Annual growth in M4, an aggregate of M3 plus government securities and NBH bills held by the non-bank sector, changed the least – it picked up 0.2 of a percentage point, the end-of-month stock of the aggregate expanding by 16.3% in one year.

The domestic credit stock rose by Ft 88 billion due to transactions, but fell by Ft 6.6 billion due to exchange rate changes. The year-on-year increase in the outstanding total was 5.7%. The effect of transactions on net liabilities of the government sector was a decrease of Ft 34.9 billion. Exchange rate movements contributed Ft 1 billion to the stock. Outstanding borrowings of the corporate sector rose by Ft 90.5 billion in the month. Transactions contributed Ft 100.9 billion, exchange rate movements and other volume changes causing downward revaluations of Ft 7.8 billion and Ft 2.6 billion respectively.

As a result of changes in the outstanding stocks of credits and deposits, net liabilities of the general government and non-profit sector fell by Ft 15.3 billion in June. Net household deposits with domestic banks were Ft 34.6 billion higher. Net corporate debt expanded by Ft 75.9 billion.

Net foreign liabilities of the Hungarian banking sector rose by Ft 34.2 billion.

Annual growth rates of the money aggregates



Notes:

M1 = Currency in circulation + forint sight deposits held at banks.
M3 = M1 + forint time deposits + foreign currency deposits + bank securities.
M4 = M3 + government securities held by non-banks + MNB domestic bills held by non-banks.
Monetary base (M0) = Currency in circulation + banks' required reserves and other domestic currency accounts at the central bank.
M0 is calculated from the month-end total of notes and coin and the monthly average of banks' reserve deposits and other domestic currency balances with the central bank – the latter taken as the averages of the last two weeks up to end-August 1998 and monthly averages from September. M0 does not include the stock of central bank remunerated deposits.

Monthly changes in the net position of institutional sectors vis-à-vis the banking system*

Ft billions

	1999		2000		1999	2000	1999	2000
	Q1	Q2	Q1	Q2	June		January–June	
	Average*		Average*					
General government and non-profit sector, net**	40.6	157.1	45.9	-24.9	231.2	15.3	593.3	62.6
Consolidated central government, net**	41.2	162.8	44.7	-14.0	251.2	33.8	612.0	91.8
Local authorities, net	-1.9	-10.5	-1.0	-11.1	-28.1	-14.3	-37.2	-36.1
Other (non-profit) entities, net	1.3	4.8	2.2	0.2	8.1	-4.2	18.5	6.9
Enterprise sector, net	-46.3	-12.9	-58.1	-45.2	-71.9	-75.9	-177.6	-313.6
Credit	-22.9	-24.2	-49.1	-63.9	-40.6	-93.1	-141.3	-337.7
Deposits+cash+securities***	-23.4	11.2	-9.0	18.7	-31.3	17.2	-36.3	24.1
Households, net****	33.1	27.3	-9.5	8.9	34.7	34.6	178.2	-0.9
Credit	-4.5	-11.4	-10.3	-17.4	-14.0	-16.5	-47.8	-82.9
Deposits+cash+securities	37.6	38.7	0.8	26.3	48.7	51.1	226.0	82.0
Non-residents, net	-23.4	-119.2	-42.1	25.5	-114.5	34.2	-427.7	-49.7
Other items, net	-4.1	-52.3	63.8	35.8	-79.5	-8.2	-166.2	301.6

Note: Increase in credits or decrease in deposits = (-); Decrease in credits or increase in deposits = (+).

* Excluding consolidations and write-offs. At current prices. Preliminary data.

** Including deposits of APV Rt and the non-profit sector.

*** Adjusted for the technical cash stock of the Hungarian Post Office.

**** Including accrued intra-year interest.

* Quarterly average of monthly net changes in positions.

The interbank market

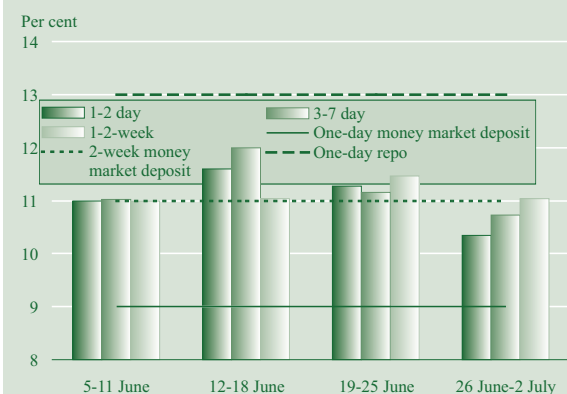
Interest rates rose to the normal opening levels in the forint interbank market at the start of the month-long maintenance period in June. Relatively high overnight

rates, fluctuating around the 11% level, remained dominant throughout most of the first half of the month, with a subsequent rise of 200 basis points around mid-month, caused by stronger demand. Turnover picked up at the longer end of the market, accompanied by a gradual rise in prices during the first two weeks. Short and long-term funding rates both remained high in the second part. Stronger-than-average demand for money characterised trading. As seen in the preceding month, interest rates remained high during the last week of the June maintenance period. However, prices began to fall towards month-end, causing the general level of rates to stabilise at lower levels seen in the preceding few months.

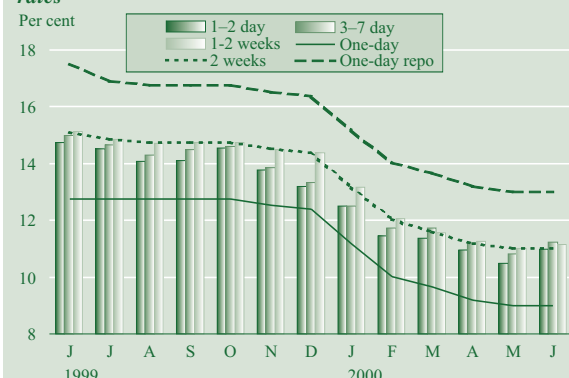
Average interbank interest fell back to levels seen two months previously, following a slight increase. Forint interbank turnover amounted to Ft 1,584 billion, rising by Ft 24.8 billion relative to May. Average 1–2 day rates stood at 11.0%, up 50 basis points on the preceding month's average. The share of this maturity area rose by 1.7 percentage points to 87.3%. The average rate in the maturity bracket of 3–7 day deals was 40 basis points higher, at 11.2%. The proportion of this maturity area rose by 0.6 of a percentage point to 8.1%. Turnover in the fortnight–one month bracket halved. The share of this maturity spectrum within the total was 2.2%. The average interest rate, up 10 basis points, changed to 11.1%. Transactions for maturities extending beyond one month accounted for only 2.4% of total turnover, the average interest rate standing at 11.1%.

The one-month BUBOR remained static at May's level. The six and twelve month interbank offer rates, in contrast, fell. The one-month rate was static at the preceding month's close, finishing June at 11.05%. Three-month BUBOR fell 10 basis points to 10.95%. At

Interbank rates and repo rates in June



Monthly averages of interbank rates and central bank repo rates



Interbank turnover							
	Interbank turnover						
	1–2 days	3–7 days	1 week–2 week	2 week–1 months	1–3 months	Over 3 months	Total
May 1999							
31 May–06 June	224.5	25.6	6.1	6.4	2.7	1.8	267.1
07–14	244.9	21.2	16.6	4.2	5.6	1.1	293.6
14–20	312.2	15.1	5.8	5.5	9.6	1.0	349.2
21–27	236.2	16.3	19.1	2.5	10.3	0.7	285.1
June 1999*	1,093.3	77.3	47.8	18.0	30.9	5.9	1,273.2
May 2000							
01–07	225.0	19.5	16.8	10.9	4.6	0.3	277.0
08–14	212.6	29.4	6.7	5.0	1.2	2.2	257.2
15–21	272.1	14.8	19.4	0.7	0.7	3.3	310.9
22–28	339.1	46.1	9.1	–	2.9	0.4	397.6
May 2000*	1,334.8	115.9	70.6	16.7	13.0	8.2	1,559.2
June 2000							
05–11	422.1	39.9	3.2	0.2	4.5	–	469.9
12–14	240.8	32.9	13.1	3.3	2.1	0.2	292.4
19–21	273.3	24.8	9.6	7.1	3.4	2.5	320.8
26–02 July	343.6	15.7	9.6	–	5.2	5.2	379.1
June 2000*	1,382.7	128.7	35.5	12.6	16.3	8.4	1,584.0

* As the first and last days of weeks do not always coincide with the first and last days of a given month, the sum of weekly turnover figures do not always add up to the month's total.

six months, the BUBOR was 3 basis points lower, finishing at 10.83%. The differential between the two shortest-term rates had widened to 10 basis points from zero by the end of the month. The gap between the two longest-term instruments narrowed from May's 19 basis points to 12 basis points.

Government securities yields

Unlike in the preceding month, the direction of Hungarian government securities yields was mostly downwards throughout June. Non-resident investors held Ft 37.6 billion more Hungarian domestic currency-denominated government debt securities, so the sector's total holdings amounted to Ft 589 billion at the end of the month.

The Bank's estimate of three, six and twelve-month zero-coupon yields,¹ derived on a compounded basis from the most competitive secondary market prices, fell 47 basis points, 47 basis points and 39 basis points at three, six and twelve months respectively. The rises in yields beyond one year were a little more marked. Accordingly, at two years yields were higher by 39 basis points, by 52 basis points at three years, by 68 basis points at five years and by 41 basis points at ten years.

Implied forward rates² in one, two and three years' time fell progressively in a range of 40–95 basis points throughout the whole period. In contrast, the implied forward rate in four years' time fell markedly, by 88 ba-

sis points. The one-year implied forward rate in nine years' time experienced a rise of 43 basis points.

Quoted on a weekly basis, the yield-to-maturity on the fifth series of the Treasury Savings Bond³, with maturity in 2003, rose from an initial 8.90% to 8.97% but fell to 8.87% towards the last week of the month. The subscribed amount was Ft 0.4 billion.

The National Bank of Hungary had decided to issue a non interest-bearing bill with maturity of three months from 22 March 2000. The inaugural series of the bill was launched at the auction conducted on 20 March. The Bank offers a new series of the bill at auction every Monday. No indications for bidders, whether in terms of quantity or quality, are given in advance. The upper ceil-

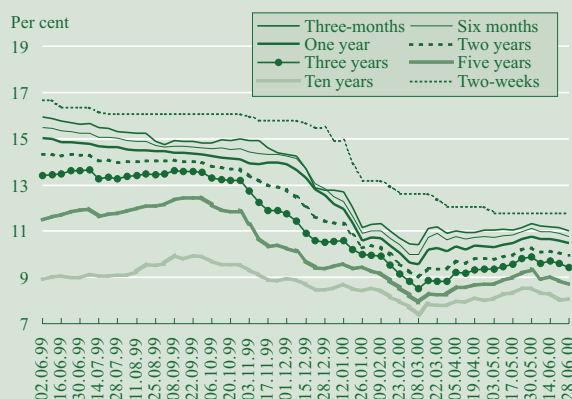
¹ The National Bank of Hungary calculates zero-coupon yields using the Svensson method. The estimates rely on the Debt Management Agency's release of the most favourable secondary market prices of discount treasury bills and fixed-rate government bonds with residual maturity of more than three months.

² Implied forward rates may be equal to expected future interest rates only if certain conditions are met. However, movements in derived rates may help anticipate shifts in the market's expectations of future interest rates. At present, only one single ten-year bond trades in the market, and turnover volumes in the secondary market are relatively thin. Therefore, the estimate of the ten-year zero-coupon rate, and particularly the forward rate derived from the zero-coupon rate, which is substituted by the one-year rate in nine years' time, cannot reflect the rapid turns in the market's judgement.

³ The three-year government bond pays graduated interest, and is sold via subscription only. The bond redeemable before maturity, with the whole amount of interest paid on maturity or on redemption.

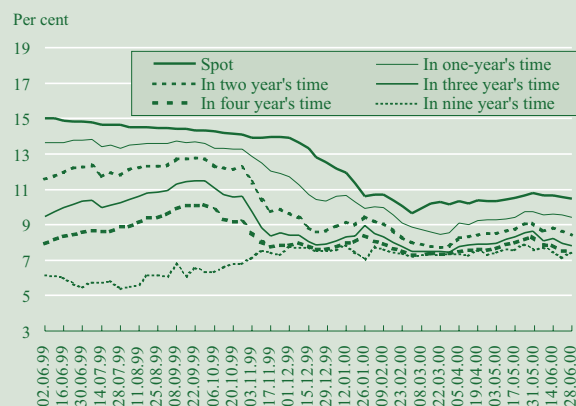
Zero-coupon yields, and the annual return on central bank two-week and one-month deposit rates

Short-term yields on a compounded basis; weekly averages



One-year spot and implied forward rates derived from the Bank's zero-coupon yields

On a compounded basis; weekly averages



Supply and demand at discount treasury bill tenders and average annual bond equivalent yields

	3 months		6 months		12 months		Average bond equivalent yields		
	Announced amount	Total bids	Announced amount	Total bids	Announced amount	Total bids	3	6	12
							Months		
							Ft billions		
31 May–4 June 1999	5.0	16.3	–	–	–	–	14.97	–	–
7–11 June	5.0	17.5	22.0	66.4	22.0	56.6	14.93	14.87	14.80
14–18 June	5.0	16.9	–	–	–	–	14.74	–	–
21–25 June	5.0	16.4	22.0	55.2	22.0	39.1	14.69	14.65	14.72
28 June–2 July	7.0	16.6	–	–	–	–	14.71	–	–
1–5 May 2000	10.0	28.4	–	–	–	–	10.75	–	–
8–12	10.0	27.5	20.0	48.8	21.0	40.6	10.74	10.57	10.51
15–19	10.0	21.9	–	–	–	–	10.73	–	–
22–26	10.0	21.2	20.0	19.7	21.0	33.4	10.80	10.80	10.92
29 May–2 June	10.0	19.4	–	–	–	–	10.90	–	–
5–9 June	10.0	22.0	20.0	34.1	21.0	40.9	10.78	10.77	10.72
12–16 June	10.0	20.3	–	–	–	–	10.79	–	–
19–23 June	10.0	47.8	20.0	46.8	21.0	57.4	10.68	10.61	10.54
26–30 June	10.0	25.8	–	–	–	–	10.64	–	–

ing of the amount to be allocated is limited to the amount on offer, with no floor being established.

The Bank conducted four bill tenders in June. Initially, yields were generally static, but they fell at later auctions. However, starting from Ft 30 billion, demand picked up to nearly Ft 90 billion. The Bank did not accept bids to the amount of Ft 16 billion received at the auction held on 19 June, given the overall level of yields,

so no issue was made of the 2000/14 bill series. The average yield of all auctions held in June, weighted by the amount sold, was 10.71%.

The amount of bids submitted to the government securities auctions for discount treasury bills, conducted by the Debt Management Agency, was higher than in the preceding month. The two-year yield rose. At the more distant maturities, in contrast, yields fell.

The value of the Hungarian Government Bond Index, the MAX,⁴ which reflects movements in the prices of publicly-issued, fixed-coupon government bonds with a residual maturity of more than one year, stood at 188.6495 on 30 June. The annual return achievable on a

⁴ Average prices of bonds in the index, based on the secondary market prices, are weighted by the total of accepted bids submitted for tender. Reflecting the actual composition of the basket, interest is reinvested in the index. The starting base of the MAX was 100.0000 on 31 December 1996.

Government bond yields at issue

	Bond	Term to maturity	Amounts offered	Bids	Accepted bids	Average bond yields			
						2	3	5	10
						Years			
						%			
3 June 1999	2002/H	2,6	20,0	42,6	20,0	—	13,68	—	—
3 June	2009/B	9,6	5,0	9,3	4,0	—	—	—	9,96
17 June	2004/H	4,6	10,0	12,4	8,0	—	—	12,22	—
17 June	2001/H	1,9	20,0	25,9	20,0	14,34	—	—	—
4 May 2000	2003/J	2,7	27,0	56,0	27,0	—	9,58	—	—
4 May	2009/B	8,7	10,0	12,0	8,0	—	—	—	8,59
18 May	2002/K	2,0	30,0	71,8	30,0	10,02	—	—	—
18 May	2005/E	4,7	12,0	19,2	12,0	—	—	9,17	—
1 June	2003/J	2,6	25,0	69,0	25,0	—	10,02	—	—
1 June	2005/F	4,7	4,0	10,7	4,0	—	—	*	—
15 June	2002/K	1,9	25,0	46,1	22,0	10,16	—	—	—
15 June	2005/E	4,6	12,0	44,8	15,0	—	—	9,09	—
29 June	2003/K	3,0	25,0	85,9	25,0	—	9,33	—	—
29 June	2009/B	8,6	12,0	22,6	12,0	—	—	—	8,45

Note: The 2005/F bond, pays variable rate of interest.
 * = Variable rate bond or non-competitive sale.

portfolio equal to the composition of the index basket was 19.18%, the annualised value of total return on the index for 2000 being 14.03%.

Interest rates

Modest changes were observable in corporate and household sector interest rates in June. As regards the corporate sector, a sizeable movement occurred only to the average of long-term deposit rates, which, as is known, play a less significant role within deposit rates. In the household sector, average home-building and property loan rates, and deposit rates continued to fall at the pace experienced in the preceding month.

The gap between corporate and household sector average borrowing rates⁵ narrowed by 10 basis points to 890 basis points. As seen in the preceding month, corporate sector average short-term deposit rates enjoyed a margin of 20 basis points over the corresponding average of household sector deposit rates.

Looking at the developments in the market of corporate finance, the averages of the sector's borrowing and deposit rates changed only modestly in the month, with the exception of long-term rates.

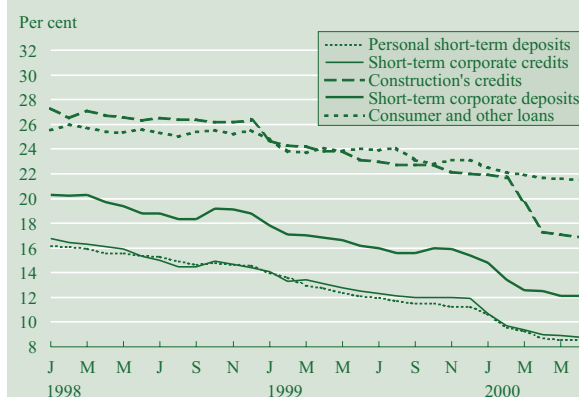
The average price for corporate customers of short-term loans, negotiated at market conditions, remained unchanged at the preceding month's 12.1%. De-

posit rates, standing at 8.8%, showed a drop of another 10 basis points. As a result of movements in interest rate conditions, the banking spread widened to 330 basis points. Generally playing a somewhat less significant role, the average of corporate sector long-term borrowing rates rose from 12.5% to 12.6%. Interest rates paid by banks on deposits fixed for terms of over one year were on average 140 basis points higher, standing at 11.7%.

The cost of funds for companies raised via discounting bills fell from 12.6% to 12.2% in June. The floor and ceiling for rates remunerated on current account deposits were 1.0% and 12.0% respectively.

Household sector average deposit and borrowing rates both continued to edge lower in the month, except short-term deposit rates. The size of this fall was equal to that seen in the preceding month.

Corporate and household sector interest rates



⁵ For both sectors, average borrowing rates have been defined taking into view the new contracts concluded during the course of the month.

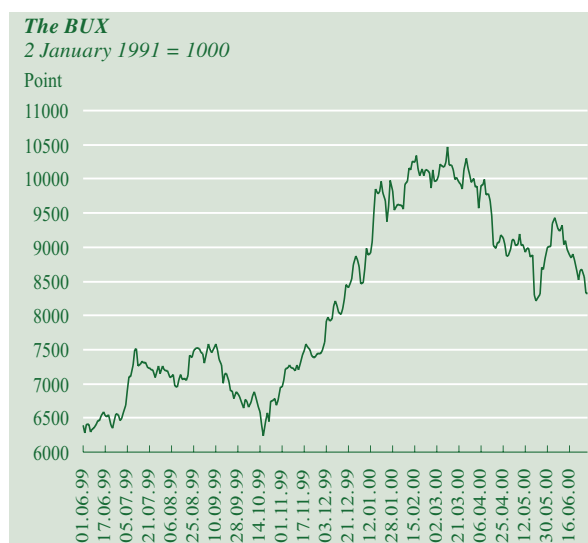
Average short-term deposit rates remained unchanged at 8.6%. In contrast, long-term deposit rates fell 20 basis points to 8.8%. The average of sight deposit rates fell from 3.8% to 3.6%.

The banking sector average of household sector forint borrowing rates slid 10 basis points to 21.1% in the month, showing a comparable fall with that in May. Average interest rates on personal home-building and real property loans fell similarly. The former were 20 basis points lower, at 16.9%. The average rate on consumer and other loan facilities, including Lombard, personal, hire purchase loans, overdrafts and car purchase finance, continued to fall, changing from 21.6% to 21.5%. On aggregate, the differential between home-building and property loan rates, and consumer and other loan rates widened by another 10 basis points, as seen in the previous few months of the year.

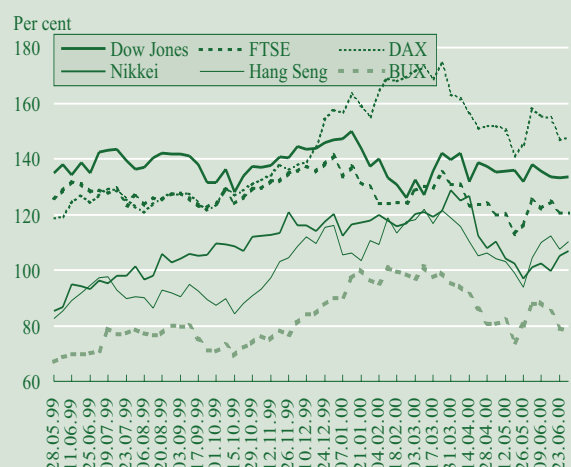
The BUX index

The rally in share prices which started from the low of 8,215.60 on 22 May continued in early June. As a result, the share index of the Budapest Stock Exchange rose to 9,428.39 on 5 June. However, the index fell back subsequently, and it rose only on rare occasions during the later part of the month. The market closed the month at 8,318.30, a value equal to the monthly low. Although that was 7.74% lower than the finish in May, it still exceeded the monthly low of the preceding month and was 28% higher than the close a year earlier.

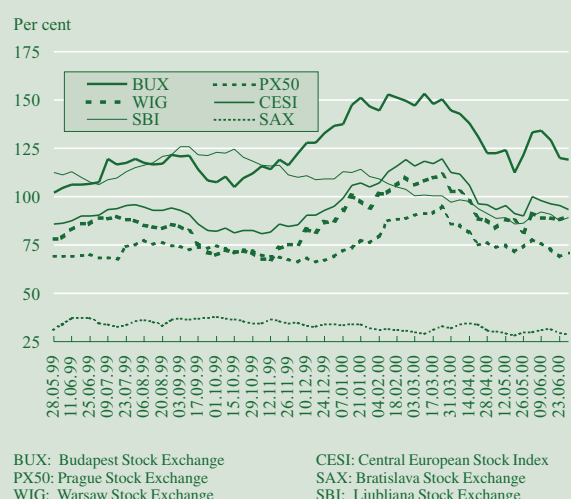
Of the dominant companies, MOL plummeted by nearly 23%, following a combined loss of 6.7% in the preceding two months. The debate emerging over the price of natural gas played a dominant role here. Richter lost nearly 10%, the tug-of-war over the planned in-



The world's leading exchanges and the BUX
5 September 1997 = 100; on a dollar basis



Selected central European exchanges and CESI
31 December 1996 = 100; on a dollar basis



creases in pharmaceuticals prices being the responsible factor. At 5.3%, OTP fell by less than the average. MATÁV lost 1.6% during the month.

Measured on a dollar basis, the official index of the Budapest Stock Exchange fell again in June, by 6.6%, following a drop of 15.3% in April and a gain of 4.1% in May. The major international exchanges all performed better than the Budapest Stock Exchange. The Dow Jones Industrial Average and the DAX fell only slightly, 0.7% and 1.5% respectively. The FTSE remained practically static. However, prices rose strongly on the Far Eastern markets. Accordingly, the Nikkei index gained 8.2% and the Hang Seng Index of Hong Kong 9.8%, although the Nikkei fell by a combined 23% in the preceding two months and the Hang Seng by nearly 16%.

The Central European Stock Index (CESI), which is a composite of the Budapest, Prague, Warsaw, Ljubljana and Bratislava exchanges, fell by another 2.7% in June,

following a total drop of 16.5% in March–May. The nearly equal falls of around 6.5% on the Budapest and Prague markets played a distinct role here. The Warsaw index, in contrast, gained slightly, by 1.3%, by practically the same amount as in the preceding month. Of the less important markets, the index of the Ljubljana exchange was flat, while that of the Bratislava market fell by 2%.

Distribution of securities holdings by sector

The percentage shares that the individual sectors accounted for did not change materially in the second quarter of 1999. There were slight falls in the shares of non-residents, households and the National Bank of Hungary, with rises in those of the corporate sector and credit institutions. Non-residents' holdings of exchange-traded shares also fell back. In contrast, the proportions of other sectors, particularly of financial corporations, increased.

The outstanding total of Hungarian government debt securities,⁶ measured at market value, was 2.1% higher in 2000 Q2 than in the preceding quarter. An increase of 154% in the outstanding amount of NBH bills was responsible for this rise, as the outstanding totals of government bonds and treasury bills, respectively, fell by 1.15% and 1.3%.

The distribution of outstanding government securities by institutional sector appears to have stabilised.

In the financial sphere, the percentage shares of investment funds, life insurance firms and pension funds remained practically at the same level as seen in the preceding quarter, those of credit institutions and other financial corporations slightly rose and that of the National bank of Hungary fell further.

As in earlier periods, there was a modest fall in the ratio of households' government securities holdings to the total.

Unlike in Q1, NFCs increased their holdings of government securities in Q2, their share of total holdings rising above 7%.

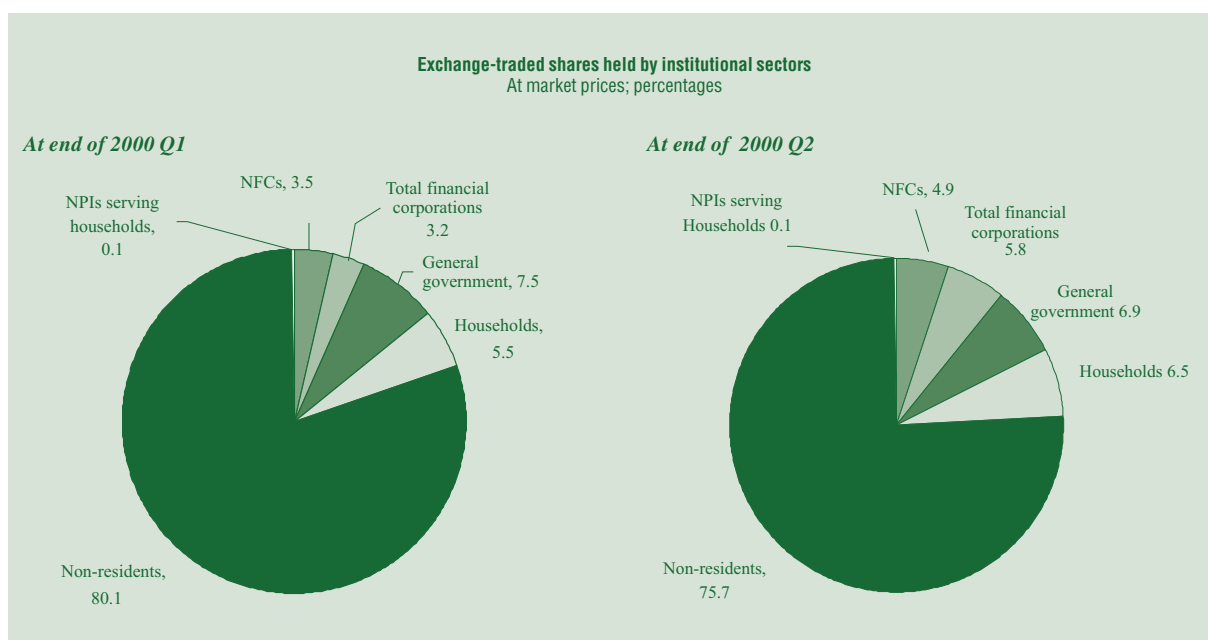
Non-residents' holdings of government paper fell by more than Ft 16.5 billion, so their share of the market dropped to 13.5%.

Market capitalisation of shares issued by Hungarian residents fell by Ft 876 billion in the period under review, to Ft 4,045 billion at end-June, following a rise of Ft 831 billion in the preceding quarter. This was entirely due to the fall in prices. In contrast with a revaluation loss of Ft 936 billion, the balance of new listings and de-listings on the BSE as well as capital enlargements and reductions contributed Ft 60 billion to market capitalisation.

Non-resident investors' percentage share as a total fell from 80% at the end of March to 75.7%. Accordingly, unlike the picture of earlier periods, the importance of non-residents stopped growing further in the second quarter. Non-resident investors' holdings shrank by Ft 879 billion, in which net sales, at Ft 173 billion, definitely played a role, in addition to a holding loss of Ft 720 billion.

Distribution of government securities holdings by sector							Per cent
	Total government securities holdings						
	December 1998	1999				2000	
		March	June	September	December	March	June
Non-financial corporations	8.2	8.5	8.7	10.0	7.9	6.6	7.2
NBH	10.8	11.8	11.6	10.8	10.7	9.4	8.7
Credit institutions	33.4	28.4	26.8	24.2	22.9	22.1	22.5
Investment funds	7.3	8.4	8.4	9.1	8.6	9.5	9.5
Insurance firms, pension funds	11.1	12.3	13.4	14.1	15.5	15.5	15.8
Other financial corporations	2.2	2.9	2.4	2.0	1.9	2.3	2.8
Financial corporations total	64.8	63.8	62.6	60.2	59.5	58.6	59.2
Local government authorities	2.7	3.2	3.0	3.1	2.7	3.0	2.9
Other sub-sectors of general government	0.2	0.1	0.1	0.1	0.1	0.1	0.2
General government, total	2.9	3.2	3.1	3.2	2.8	3.1	3.1
Households	14.9	15.6	15.9	16.8	17.5	16.6	16.3
NPIs serving households	1.3	0.6	1.1	1.1	1.1	1.1	0.7
Non-residents	8.0	8.3	8.6	8.7	11.2	14.1	13.5
Total holdings	100.0	100.0	100.0	100.0	100.0	100.0	100.0

⁶ Government securities comprise domestically issued forint denominated government bonds, treasury bills and domestic currency bills issued by the NBH.



Existing holdings of the general government sector fell below 7%, due to the greater-than-average holding loss registered in Q2.

Holdings of exchange-traded shares by the financial corporations sector surged by 47% as a result of net purchases to the tune of nearly Ft 118 billion. The sector's proportion of total holdings rose by 1.8 times.

Net purchases by households amounted to nearly Ft 5 billion, the effect of other volume changes, which reflected new listings in the period, being Ft 38 billion, so the sector's share of total holdings rose to 6.5%. How-

ever, due to the Ft 51.5 billion holding loss incurred, the value of the sector's holdings fell by Ft 8.5 billion.

NFCs increased their proportion to 4.9% to the end of the quarter.

The outstanding total of investment fund certificates, measured at net asset value, rose by 0.9% in 2000 Q2. Here, the amount of certificates held by households was 1.36% higher.

The percentage shares of the individual institutional sectors did not change considerably in comparison with the preceding quarter.