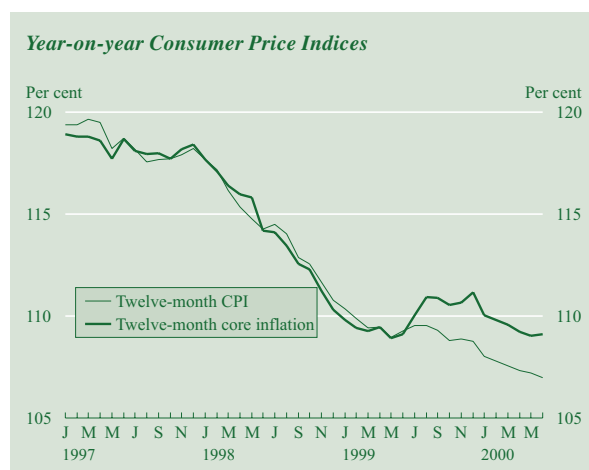


II. PRICES AND EXCHANGE RATES

Consumer prices

The year-on-year rate of core consumer price inflation¹ was 7.0% in June 2000. That meant a further drop relative to the preceding month. The not seasonally adjusted measure of core inflation showed a one-month increase of 0.42%.



Core inflation rates in the twelve months to June 2000

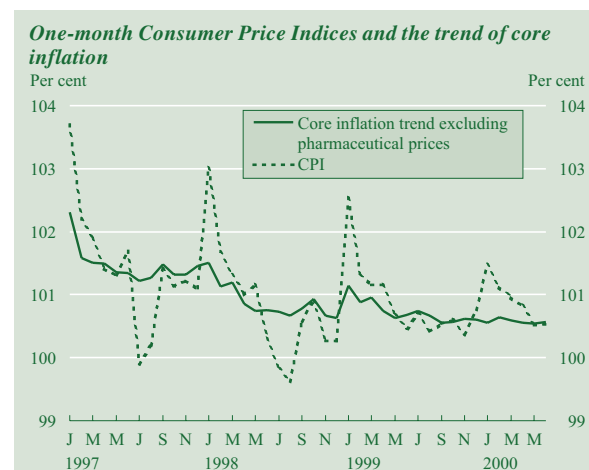
	Twelve-month core inflation	Annualised trend of core inflation
June 1999	109.25	108.38
July	109.52	109.26
August	109.55	108.29
September	109.31	106.84
October	108.81	107.07
November	108.80	107.69
December	108.75	107.55
January 2000	108.02	107.86
February	107.78	107.93
March	107.54	107.27
April	107.32	106.86
May	107.20	106.78
June	106.99	107.23

Note:

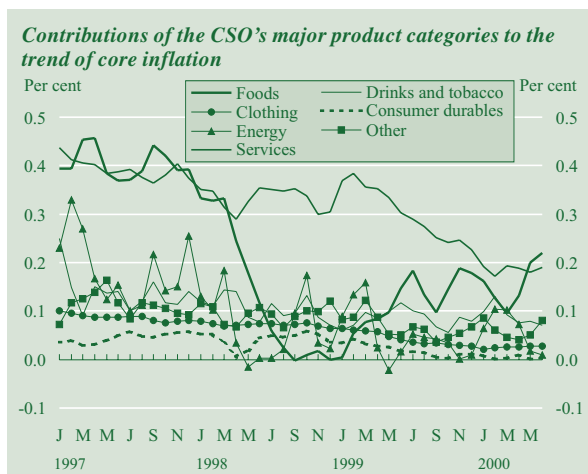
Trend values are derived from a model applied to fixed-base indices. The trend has been calculated for the time series beginning in January 1994. The model is imposed on the January 1994–June 2000 sample, so the values have remained constant despite the inclusion of new outcomes. The model is revised every six months.

The trend value of core consumer price inflation was 0.58% in June, slightly higher than in May. The moderating upward trend of services prices ran out of steam in the month, the outturn for June being 0.18 of a percentage point. However, it was food prices, rather than services prices, which continued to be the major contributor to the monthly core inflation outcome for the second consecutive month. In the background of the trend increase in food prices is an upward correction which started in the middle of last year. In line with the changed supply conditions, producers are increasingly able to raise prices of a number of staple foods, which may affect price developments in the coming months.

The monthly Consumer Price Index for June, released by the CSO, was 0.5%, equal to its outcome for twelve months previously. Consequently, the twelve-month Consumer Price Index remained unchanged at 9.1% in the month under review.



¹ The Bank's estimate of core inflation. It is derived by removing price shocks, believed to have only short-run effects, which do not directly influence the underlying trend of inflation (shocks caused by price changes of seasonal foods, solid and liquid fuels, motor fuels, pharmaceuticals and medical equipment). The gauge currently used by the Bank covers goods whose price changes, whether resulting from administrative measures or from autonomous market price-setting, can be anticipated with relative certainty in the Hungarian inflationary environment.



The price of North Sea Brent crude continued to fluctuate around the \$30 mark throughout June. The average of domestic motor fuel prices, according to the CSO, rose by 2.6% in the month. That reflected the spillover of price increases in the preceding month. At an average 19% in the previous 12 months, there had been a passthrough of continuous price hikes in the directly observable areas, for example in market-determined public transport tariffs. Another factor significantly influencing the outturn for the index in the month was a 0.8% increase in services prices. Within that, the increase in the prices of seasonal holiday travel, at 4.9%, was the most outstanding.

A cross-section of changes in the year-on-year indices for the major expenditure items shows that the index of consumer durables, at 1.3%, continued to mark the lowest extreme of the vertical scale in the month. At 18.5%, the other goods and motor fuel price index was at the highest extreme of the spectrum, followed by the price index for alcoholic beverages and tobacco (10.5%), the services price index (8.8%), the household energy index (7.7%), the food price index (6.1%) and the clothing price index (5.4%).

Producer prices

Seasonally adjusted domestic industrial output prices excluding energy prices, a reliable gauge of fluctuations in producer price levels, increased by 1.1% in June 2000 relative to the preceding month.²

The CSO release of domestic sales prices showed a rise of 0.6% in one month, the June-to-June increase measuring 13.5%.

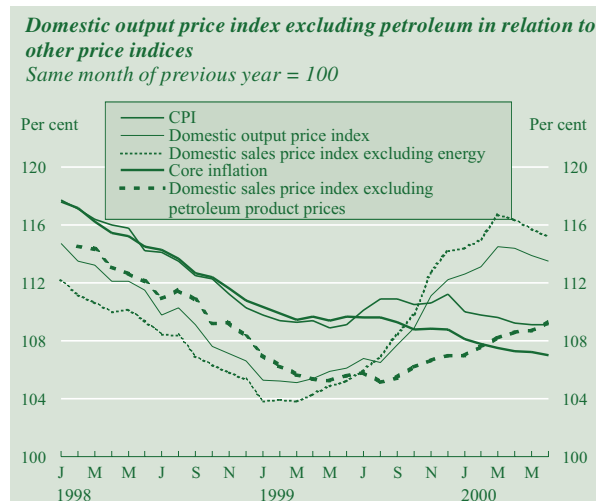
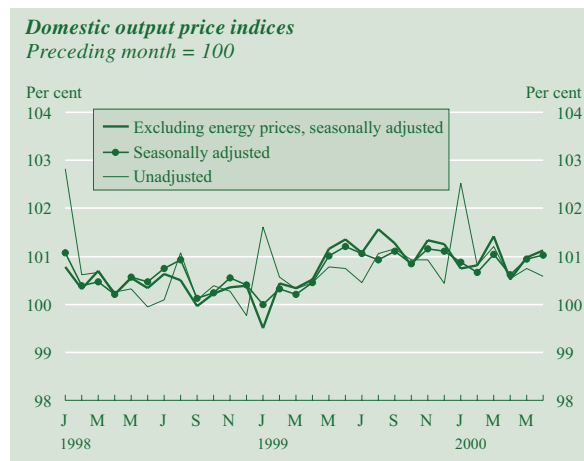
² The index eliminates the effects of changes in the prices of electricity, gas, steam and hot water supply as well as of production, treatment and distribution of water.

The combined, one-month change in domestic and export sales prices was an increase of 0.32% and one of 11.6% year on year.

Manufacturing industry prices, which are a dominant factor influencing movements in domestic sales prices, stood 0.8% higher in June than in the preceding month. Among the branches of manufacturing with the most significant weights, the increases in chemical and food industry export prices, both at 2%, continued to be above the average. Developments in petroleum product prices and chemical materials prices were a basic factor influencing the further rise chemical industry prices. The increase in food prices were driven basically by higher input prices. The monthly outcomes for price indices in other manufacturing sectors varied between -0.1% and 0.5%.

Domestic producer price indices, categorised by end-user, showed that the one-month price index for the sectors producing energy and intermediate goods had increased by 0.6%. The investment goods index had risen by 0.3% and that of consumer goods by 0.8%.

In a twelve-month comparison, consumer goods prices increased by 8.8% and investment goods prices



by 5.7%. The increase in the prices of energy and intermediate goods amounted to 17.0% in the June-to-June period.

Industrial companies raised their export prices by 0.1% in the month. (The monthly average exchange rate of the forint depreciated by 0.28% vis-à-vis the official currency basket.³ The average deviation of the market rate from the central parity measured 210 basis points towards the strong edge of the exchange rate band.) Export prices of machinery and equipment, weighing dominantly within industrial exports, rose by 0.1%. Chemical industry export prices were 0.5% lower than in the preceding month. Other sectors experienced price changes ranging between -0.3% and 0.7%.

The overall level of export prices increased by 9.6% in the twelve-months from June 1999. (The Hungarian currency lost 4.9% of its value in the period). There continued to be significant differences in the rates at which prices changed in the various sectors. Above-trend rises of 38.7% and 12.8% were recorded in chemical and food industry export prices respectively. The change in engineering industry export prices, at 3.4%, was below average.

The exchange rate

The market rate of the forint remained closely aligned with the strong edge of the official intervention band throughout June. Consequently, the exchange rate depreciated by 0.28% against the currency basket in comparison with end-May. The National Bank of Hungary officially devalued the central rate by 0.31% in the month. (Since 1 January 2000 the currency is officially devalued against a currency basket consisting 100% of the euro. The monthly devaluation rate has fallen to 0.3% from 1 April.) The average deviation of the exchange rate from the central rate was 219 basis points toward the strong extreme of the intervention band.

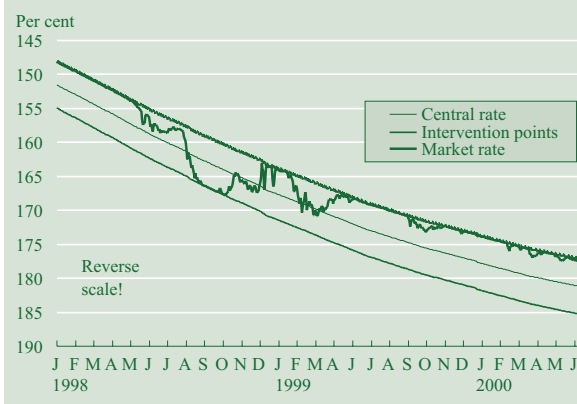
Monthly devaluation of the currency

	Depreciation of the currency in the market*			Official devaluation of the central rate**		
	1998	1999	2000	1998	1999	2000
January	0.81	-1.76	0.20	0.84	0.56	0.37
February	0.81	2.60	0.52	0.84	0.56	0.39
March	0.88	1.50	0.62	0.90	0.62	0.44
April	0.99	-1.38	-0.06	0.99	0.64	0.28
May	2.62	0.09	0.47	0.87	0.58	0.31
June	0.70	0.31	0.28	0.80	0.59	0.31
July	-0.31	0.51		0.86	0.51	
August	4.14	0.49		0.76	0.48	
September	1.51	1.26		0.78	0.50	
October	-0.23	-0.25		0.74	0.39	
November	-0.16	0.49		0.67	0.40	
December	0.39	0.31		0.77	0.47	
January–December	12.75	4.39		10.29	6.50	

* Vis-à-vis the currency basket.

** The Bank devalues the forint for the given day and two value dates ahead using a constant percentage rounded to two decimals. Thus there may be differences between the measures of actual rate adjustments in a month and the pre-announced rate of devaluation. (The monthly rate of crawl was 1.2% between 1 January 1996 and 31 March 1997, 1.1% from April 1997, 1.0% from 15 August 1997, 0.9% from 1 January 1998, 0.8% from 15 June, 0.7% from 1 October, 0.6% from 1 January 1999, 0.5% from 1 July and 0.4% from 1 October. Since 1 April 2000 the rate has been 0.3%.) One possible cause of this gap is the fact that the daily rate is rounded and the number of calendar days vary in different months. Another source of difference may be that in the scheme of calendar-day exchange rate adjustments the currency is devalued on Thursdays or the immediately preceding day(s) rather than on Saturdays and Sundays or, possibly, holidays. Consequently, it may happen that weekends and holidays are shifted back one month statistically, although actually they fall in the following calendar month.

Exchange rate movements within the intervention band 13 March 1995 = 100



³ The series calculated from daily depreciations has been replaced by the indicator showing depreciation of the average exchange rate, the former being less informative in terms of exchange rate movements in a given month. The new indicator shows the ratio of current month's average exchange rate to the preceding month's average.