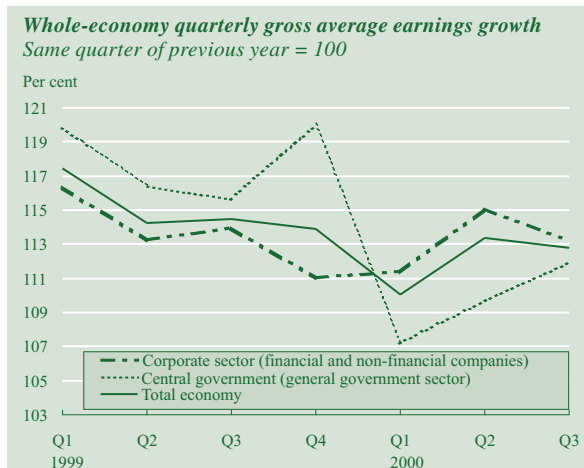


IV. EARNINGS AND NET LENDING OF HOUSEHOLDS

Earnings

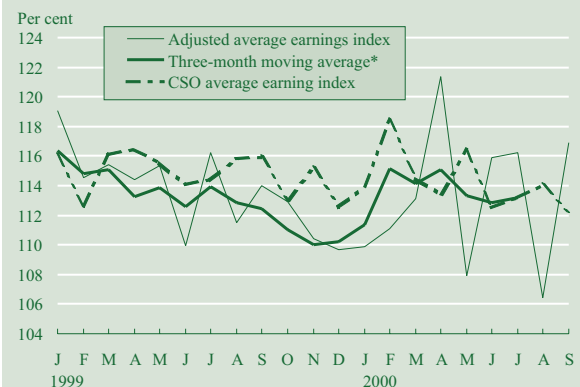
Whole-economy gross earnings growth¹ moderated both in September and 2000 Q3 relative to the preceding month and the same period of 1999 respectively, the Bank's calculations show.² Eliminating the effects of changes in the composition of the workforce, earnings grew by 12.8% in one year. That meant a 0.6 of a percentage point decline relative to the previous quarter and one of 1.7 percentage points relative to 1999 Q3. Here, average earnings in the corporate and government sectors continued to grow at divergent rates. Whereas in 1999 the adjusted indicators showed that there had been significantly stronger growth rates recorded in the government sector than in the corporate sector in each quarter of 1999, that trend seems to have turned around in 2000.



¹ Starting from June 2000, 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 Companies with more than 5 employees (financial and non-financial companies), and units of central government and the social security authorities (general government sector).

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



*The series is smoothed using a centred three-month, equal-weight moving average.

Year-on-year corporate sector gross earnings growth, adjusted for the workforce effect, was 13.2% in the third quarter, showing a drop of 1.9 percentage points relative to the previous quarter and one of 0.7 of a percentage point relative to the outcome recorded a year before.

In 2000 Q3 gross average earnings grew by 11.9%, after adjustment to take into account the workforce effect. That was 2.2 percentage points higher than in Q2, but 3.7 percentage points lower than in the comparable period of 1999.

Looking at the monthly developments in earnings, gross pay in the corporate sector rose by 16.9% in September relative to twelve months previously, up 10.5 percentage points on the outcome recorded in August. The CSO release of the same indicator, which shows unadjusted earnings growth numbers, indicated an increase of 12.2%.

The 4.7 percentage-point gap between the outcomes for the two indicators is explained by the change in the number of hours worked, but a variation in the composition of staff also contributed to the gap widening. The number of hours worked was 4.6% higher in September than a year before. According to the CSO's calculations, the number of working days was 22 in September 1999 and 21 a year later, which caused the number of hours

worked to fall. (In August, the changes in the number of hours worked and that of working days were divergent, which played an important role in the August and September outcomes for earnings growth being quite large.)

Irregular pay to personnel³ was 5.7 percentage points lower in September than a year earlier. That was also an important factor explaining the difference between the unadjusted average earnings growth indices for August and September.

Government sector adjusted earnings growth⁴ amounted to 10.3% in the month, showing an increase of 2.8 percentage points from the August outcome.

Taking into account unchanged employment patterns, growth in government sector earnings was 1.2 percentage points slower in September 2000 relative to twelve months previously than the index released by CSO.

The proportion of irregular pay remained broadly unchanged in the government sector. It accounted for 12.8% of total pay in September 2000, remaining broadly comparable with the outcome recorded for October 1999. As seen in the corporate sector, the proportion of non-basic pay as a percentage of the total fell by nearly 10 percentage points relative to the preceding month.

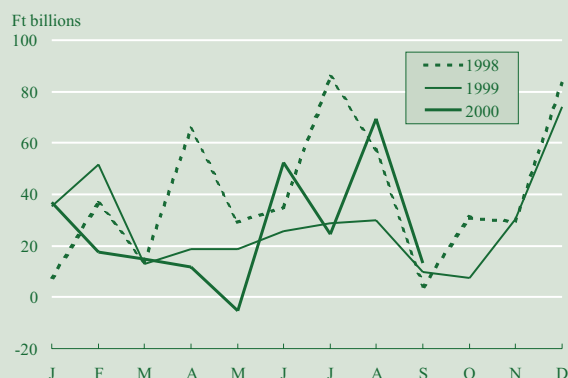
Whole economy net earnings grew by 10% in September 2000, the CSO reported. That rate was 1.9 percentage points slower than gross earnings growth. The virtually static rates of taxes and contribution rates in 2000, in contrast with the around 4 percentage-point differential observed in the previous year,⁵ 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 September, operational net lending of households,⁶ i.e. their financial savings after adjustment for the effects of inflation, was lower than the monthly average of the year, reflecting the seasonal patterns of previous years. As in the first half, the shift away from bank deposits into non-bank instruments was dominant, with the strongest increase in flows into life insurance and pension fund schemes. Household debt continued to increase at the monthly average rate.

Operational net lending of households amounted to Ft 13.2 billion in September. Including compensation for inflation to the amount of Ft 27.1 billion, operational net lending totalled Ft 40.3 billion. Net financial wealth

Operational net lending (+) / net borrowing (–) of households



Changes in net financial wealth of households

	Ft billions					
	1999			2000		
	Q2	Q3	Q4	Q2	Q3	
1 Change in net financial wealth (1=2+5+6)	160.9	163.0	312.1	119.5	220.3	17.6
2 Net lending	131.5	147.9	195.4	135.6	187.0	37.2
3 Inflation compensation incorporated in interest	68.3	79.5	83.6	76.7	79.8	27.4
4 Operational net lending (4=2–3)	63.2	68.4	111.8	58.9	107.2	9.8
5 Revaluation	23.2	14.6	65.2	–59.7	33.4	–19.9
6 Other changes in volume	6.2	0.5	51.5	43.6	–0.1	0.3
7 Nominal holding gain (7=3+5)	91.5	94.1	148.8	17.0	113.2	7.5
8 Revaluation due to inflation	100.6	120.4	126.1	116.8	129.8	41.6
9 Real holding gain (9=7–8)	–9.1	–26.3	22.7	–99.8	–16.6	–34.1
10 Change in inflation-adjusted net financial wealth (10=1–6–8+9)	54.1	42.1	134.5	–40.9	90.6	–24.3

³ Bonuses, overtime, profit-related pay, one-month pay wards 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 Slower earnings growth in 1999 was 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.

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.

of households, valued at market prices, was Ft 54.1 billion higher in the month. That reflected an upward revaluation of Ft 13.8 billion due to the effect of movements in exchange rates.

Claims of households against domestic credit institutions changed only modestly following the significant increase in August. Holdings of domestic currency deposits rose by only Ft 1.4 billion, accounted for almost in full by a Ft 15 billion compensation for inflation incorporated in interest. Inflation-adjusted transactions had a negative effect of Ft –13.6 billion. Withdrawals affected mostly sight deposits. Deposits fixed for terms of more than year continued to rise.

The value of households' foreign currency deposits rose by Ft 19.1 billion compared with end-August. Holding gains resulting from exchange rate movements (mainly as a consequence of the appreciation of the dollar) contributed significantly, Ft 12.8 billion, to the stock of deposits; the contribution of inflation-adjusted transactions amounted to Ft 5.1 billion. Compensation for inflation, incorporated in interest, added another Ft 1.2 billion.

The value of banknotes and coin held by households rose by Ft 9.8 billion in the month.

Household sector holdings of securities were Ft 17.8 billion higher, inflation-adjusted transactions accounting for Ft 6.8 billion of the increase. Purchases of shares

rose the most strongly. Whereas in the first quarter the value of holdings fell by Ft 6.7 billion, there was a gradual rise from April (one of Ft 13.9 billion in the second quarter and Ft 24.9 billion in the third). Households modestly were net purchasers of government securities and net sellers of investment fund certificates in September. Inflation-adjusted transactions contributed Ft 2.1 billion to holdings of government paper, in contrast to holdings of fund certificates, which fell by Ft 2.5 billion.

Net equity of households in life insurance companies and pension funds continue to play a significant role in households' non-bank investment holdings. The value of inflation-adjusted transactions was Ft 19.8 billion in September.

Outstanding household debt rose by Ft 19.7 billion in one month. Outstanding home-building loans rose comparably with the preceding month, while the increase in consumer credit was lower than the monthly average of the year. Inflation-adjusted transactions in loans amounted to Ft 14.7 billion.

Operational net lending, or inflation-adjusted financial savings of households amounted to a total Ft 235.5 billion in the first nine months of 2000, consistent with the outcome recorded in the same period of 1999. Net lending of households, i.e. their financial savings, amounted to Ft 474 billion. That was Ft 26.5 billion higher than a year before.

Net household wealth and the components of change in assets*

Ft billions

	Stock data		Change in volume: September	Of which:		
	2000			Transaction		Revaluation
	31 August	30 September		Excluding compensation for inflation	Compensation for inflation	
Banknotes and coin	759.3	769.1	9.8	9.8	0.0	0.0
Forint deposits and bank securities	2,500.3	2,501.7	1.4	−13.6	15.0	0.0
Foreign currency deposits	718.1	737.2	19.1	5.1	1.2	12.8
<i>Investment funds certificates</i>	<i>475.4</i>	<i>474.8</i>	<i>−0.6</i>	<i>−2.5</i>	<i>3.7</i>	<i>−1.8</i>
<i>Government securities</i>	<i>770.3</i>	<i>777.3</i>	<i>7.0</i>	<i>2.1</i>	<i>6.3</i>	<i>−1.4</i>
<i>Exchange-traded shares</i>	<i>280.4</i>	<i>291.8</i>	<i>11.4</i>	<i>7.2</i>	<i>0.0</i>	<i>4.2</i>
<i>Corporate bonds</i>	<i>3.9</i>	<i>3.9</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
Non-bank securities, total	1,530.0	1,547.8	17.8	6.8	10.0	1.0
Life insurance reserves	365.0	377.8	12.8	9.8	3.0	0.0
Claims on pension funds	352.9	365.8	12.9	10.0	2.9	0.0
Financial assets of households	6,225.6	6,299.4	73.8	27.9	32.1	13.8
Household debt	649.4	669.1	19.7	14.7	5.0	0.0
NET FINANCIAL WEALTH AND CONTRIBUTORS TO THE CHANGE IN FINANCIAL ASSETS	5,576.2	5,630.3	54.1	13.2	27.1	13.8

* There was no other volume change in August.