

# SUMMARY

*Strong growth in industrial production and sales continued in September. The broadening of sales opportunities abroad and the strong upturn in domestic sales, experienced since May, helped maintain the momentum of output growth. Seasonally adjusted industrial output rose by 1.8% in one month, the volume of total sales rising by 2.7% relative to August. Within total sales, exports rose by 2.9% and domestic sales by 1.4% in one month. The twelve-month gain in output was 16.8%. Total sales were 18% higher than a year before, as a result of exports and domestic sales rising by 25.9% and 10.2% respectively. Industry's most dominant branch continues to be manufacturing. Manufacturing output rose by 18.2% and exports by 26.0% in twelve months. Domestic sales were 11.0%, exceeding the industry average. There continues to be a healthy expansion in almost all of manufacturing industry sub-branches. According to the popular gauge of productivity, gross manufacturing output per employee was 15.2% higher in the month than a year previously. Construction industry output rose slightly more modestly in September than in August. The sector's seasonally adjusted output registered a gain of 4.1% relative to August 1999.*

*The increase in corporate sector net domestic debt for over one year continued in the month under review. Total borrowings of firms rose by Ft 76.1 billion. Transactions contributed Ft 59.7 billion to the stock of outstanding debt. The effect on the debt stock of exchange rate movements was an increase of Ft 17.7 billion. Other volume changes, in contrast, made a negative contribution of Ft 1.3 billion. Domestic currency borrowings rose by Ft 61.7 billion due to trans-*

*actions. The effect of transactions on firms' foreign currency borrowings, in contrast, was a fall of Ft 2 billion. The sector's deposits were Ft 28.9 billion lower due to transactions. This was accounted for by domestic and foreign currency deposits falling by Ft 4.2 billion and Ft 24.7 billion respectively. The effect of exchange rate movements on foreign currency deposits was another fall of Ft 4.3 billion. On balance, total corporate sector net debt rose by Ft 103 billion in the month due to transactions and exchange rate movements.*

*Developments in the Hungarian labour market in the second quarter of 2000 were evidence of a further rise in employment, continuing for more than two years, accompanied by a moderation in unemployment. The number of people in employment and the employment ratio both were higher – according to the seasonally adjusted data, the employment ratio stood at 50.2% in 2000 Q3, rising by 0.2 of a percentage point relative to the previous quarter and by 0.6 of a percentage point relative to 1999 Q3. The number of registered unemployed fell by 2.4% compared with the previous quarter and by 10.6% relative to 1999 Q3. The seasonally adjusted unemployment rate, at 6.3% in 2000 Q3, was 0.2 of a percentage point less than in Q2 and 0.8 of a percentage point lower than a year earlier.*

*The year-on-year rate of core inflation, derived by the Bank from the Consumer Price Index, was 9.4% in September, showing an increase of 0.9 of a percentage point from August. The 1.3% trend measure of core inflation meant an increase of 0.2 of a percentage point relative to the preceding month. The most important contributor to the month's outcome, as in earlier*

months of the year, was the prolonged upward correction in food prices, due to input prices and transportation costs increasingly pushing the prices of more and more manufactured goods higher. The change in food prices contributed 0.44 of a percentage point to the trend value of core inflation. The contribution of services prices rose significantly in September, from 0.22 of a percentage point in August to 0.32 of a percentage point in the month under review, explained in part by a considerable increase in housing costs which are normally determined by market forces, and in part by an increase in wired telephone call prices. Considering the effects the various product groups exercised on the overall level of prices, household energy was third, with an increase of 0.19 of one percentage point, mainly reflecting increases in the centrally controlled and market determined price of natural gas. Again stronger than the rise in consumer prices, the change in producer prices was an increase of 15.4% in September relative to twelve months earlier. There were significant price rises in the chemical industry and in the food industry – due to the rise in petroleum product prices, caused by higher world market prices of crude oil, in the former, and due to the increase in transportation costs in the latter. Removing the effects of movements in petroleum product prices, the Producer Price Index stood at 111.7%.

Growth in corporate sector gross average earnings continued to moderate in 2000 Q3, compared with both the previous quarter and the year earlier period. According to the Bank's adjustments designed to eliminate the effects of changes in the composition of the workforce and variations in the number of hours worked, whole-economy gross average earnings rose by 12.8% in the period under review relative to 1999 Q3. That rate was 0.6 of a percentage point slower than in the previous quarter of 2000 and also 1.7 percentage points slower than in the comparable period of 1999. Adjusted monthly gross average earnings in the range of firms with staffs consisting of more than 5 rose by 16.9% in

one year, showing an increase of 10.5% relative to August. That substantial increase was the result of a fall in the number of hours worked, caused by the change in the number of working days. (the number of working days was 23 in August and 21 in September.)

Operational net lending, or inflation-adjusted financial savings, of households was Ft 13.2 billion in September. That, reflecting the seasonal patterns at work in previous years, was lower than the monthly average of the year to date. Of the components of operational net lending, financial asset holdings were Ft 27.9 billion higher due to transactions; outstanding debt rose by Ft 14.7 billion. Taking account of the Ft 13.8 billion holding gain, net wealth, measured at market prices, rose by Ft 54.1 billion. As seen in the first half of 2000, the switch out of deposits and into non-bank forms of wealth was dominant. Within households' asset holdings, domestic currency claims on credit institutions were only Ft 1.4 billion higher following a salient increase in the preceding month. Compensation for inflation, incorporated in interest, accounted for all of the increase in claims. Inflation-adjusted transactions made a Ft 13.6 billion negative contribution. Foreign currency deposits rose by Ft 19.1 billion in one month, inflation-adjusted transactions accounting for Ft 5.1 billion of the increase. Financial wealth of households held in non-bank securities rose by Ft 17.8 billion, at market value. Shares were the most sought-after investment vehicle in the month. Flows into life and pension insurance schemes continue to play an important role within savings held outside of banks – inflation-adjusted transactions contributed Ft 9.8 billion and Ft 10 billion respectively to households' net equity in life insurance reserves and pension funds. Outstanding debt rose by Ft 19.7 billion. Net borrowing, i.e. the increase in debt excluding compensation for the effects of inflation, amounted to Ft 14.7 billion. Here, the increase in home-building and real property loans, Ft 7.1 billion, was stronger than that in outstanding consumer credit, Ft 6.4 billion.

According to the seasonally adjusted data, Hungary's current account was €265 million in deficit in September. That was €177 million and €207 million more respectively than in August and September 1999. According to the seasonally adjusted data, the one-month increase in the balance of payments deficit was mainly due to a higher merchandise trade deficit. Import growth proceeded at a stronger pace than export growth in the previous three months, so the goods trade deficit rose slightly. In contrast, the deficit on other services, excluding tourism, halved, the rising tourism surplus offsetting a higher deficit incurred on investment income on debt. The higher merchandise trade deficit and outflow of investment incomes on equity and debt played the most important role in the deficit rising. Those effects were offset only partially by an increase in tourism surplus.

The net borrowing requirement of general government amounted to Ft 14.1 billion in September, showing an improvement of Ft 12 billion relative to the same period of the previous year. Central government and the social security funds, respectively, posted deficits of Ft 14 billion and Ft 3.9 billion. The local government authorities ran a Ft 3.8 billion surplus. The cumulative net general government borrowing requirement was Ft 276.4 billion in January–September, Ft 196.5 billion less than in 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 borrowing requirement of central government amounted to Ft 20 billion, Ft 23.5 billion lower than a year earlier. 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 43.1 billion, showing an increase of Ft 26.7 billion from September 1999. Of the sector's most important revenue items, transfers by economic organisations and receipts of credit institutions' corporation tax lagged somewhat behind the official projection in January–September, reflecting the trends of earlier months. In

contrast, receipts of consumption-related tax and revenue of the central government units exceeded the target by a significant margin. Among the major categories of expenditure, transfers to economic organisations, consumer price subsidies, and debt servicing and interest reimbursements continued to slightly exceed the time-proportionate fraction of the target, as seen in the preceding few months of the year. 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 via the social security authorities fell behind the target in the period.

For the first time in several months, in September the forint exchange rate departed by a slight margin from the strong extreme of the official intervention band. The Bank devalued the central rate by 0.28%. Official purchases of foreign currency from commercial banks in the foreign exchange market amounted to €143.4 million. Of the Bank's liabilities to credit institutions, the monthly average of banks' current account balances rose by Ft 9.2 billion, while that of remunerated deposits fell by Ft 24.1 billion. The average stock of foreign currency deposits was Ft 16.6 billion higher than in August. The Bank's outstanding lending to domestic credit institutions fell by Ft 2 billion.

Following a modest rise in August, the official share index of the Budapest Stock Exchange fell slightly in September. Prices fluctuated within a narrow band throughout the period. The BUX reached its maximum at 8,568.47 on 13 September and closed the month at 8,270.14 points, down on the August close by 1.98%. Government securities yields continued their rise, which began in August, across every maturity in the secondary market. The rises at the short end of the curve, i.e. at 3, 6 and 12 months, continued to be more modest, confined to a range of 23 to 49 basis points. At the far end, yields rose more strongly, in a range of 50 to 88 basis points. The total amount of bids submitted for the purchase of government securities at the auctions held in

*the month fell, following the drop experienced in August.*

*Interbank forint market turnover was Ft 1,193.9 billion in September, registering a decline of Ft 343 billion from the preceding month. Monthly average interest rates edged slightly lower or remained stagnant. Following a drop in August, the proportion of 1–2 day transactions, accounting for the majority of interbank deals, fell by nearly 2%, the average interest rate being 30 basis points higher. The proportion of transactions in the 3–7 day bracket also fell, by 1.4 percentage points. The average interest rate remained virtually static at the preceding month's level. Rising by 3.6 percentage points, to nearly 6%, there were considerable changes in the ratio of transactions beyond two weeks. The average interest rate in this maturity area rose very modestly, by 10 basis points.*

*Movements in the banking market's averages of corporate and household sector borrowing and deposit rates continued to be modest in September, as seen in earlier months of the year. Corporate sector short-term deposit and borrowing rates fell 30 basis points and 20 basis points respectively from the preceding month's level. As a result, the spread between firm's short-term borrowing and deposit rates widened to 330 basis points. Again, household sector average borrowing and deposit rates barely changed in the month. Short-term and sight deposit rates both fell 10 basis points, long-term deposit rates remaining flat. The average level of borrowing rates fell 30 basis points. This change resulted from a shift in the composition of out-*

*standing borrowings rather than from banks' decision to alter lending conditions. Home-building and property loan rates explained most of the fall in the average interest rate. The averages of corporate and household sector short-term deposit rates became level. The gap between average interest rates facing corporate and household sector borrowers tightened by another 10 basis points, to 880 basis points.*

*Annual growth in every monetary aggregate picked up in September, following the moderation in July–August. The growth rate of the monetary base rose by 0.9 percentage points, to 17%. The annual index of the money stock M1, which comprises currency held by non-banks and forint sight deposits, changed the most strongly, picking up 1.9 percentage points, and as a result the end-September level of the aggregate was 16.3% higher than a year earlier. The index of broad money M3 rose by 0.8 of a percentage point to 13.6%. Annual growth in M4, a composite of government securities held by non-banks and NBH domestic bills, in addition to the elements of M3, changed the least, accelerating by 0.7 of a percentage point to 15.7%. Of the components of M3, the increases in foreign currency deposits of the corporate and household sectors were dominant. The domestic credit stock expanded by Ft 135.5 billion due to transactions and by Ft 24.6 billion due to exchange rate movements. Looking at the major components of the domestic credit stock, the effect of transactions on net liabilities of central government to domestic credit institutions was an increase of Ft 19.8 billion. Corporate debt rose by Ft 59.7 billion due to the transaction effect.*