

VI. MONETARY DEVELOPMENTS

Accompanied by narrow movements, the forint exchange rate remained close to the firm edge of the official intervention band throughout September. The Bank purchased foreign currency in the amount of €143.4 million 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 51.6 billion in September. Looking at movements in the average stock data, current account deposits rose by Ft 9.2 billion, while non-callable deposits fell by Ft 24.1 billion. Foreign currency deposits were Ft 16.6 billion higher. The Bank's claims on credit institutions fell by Ft 2 billion, due mainly to a drop in the value of outstanding long-term domestic currency

loans. Central bank claims on the general government sector were Ft 0.2 billion higher. Foreign and other net liabilities fell by Ft 37.8 billion.

Non-resident holdings of government debt securities amounted to Ft 650.9 billion, at par value, showing a drop of Ft 16.3 billion to the end of the month relative to end-August. Average yields rose at both the short and the long end of the secondary market of government debt securities. The total amount of bids received for the government securities to be sold via auctions continued to fall.

The forint interbank market recorded turnover of Ft 1,193.9 billion in September. That was Ft 343.2 billion lower than in August. Quotations of the BUBOR rose at all three maturities.

As regards the various money aggregates, M0 growth was 0.9 percentage points stronger, running at 17% annually. The annual index of the money stock M1, which comprises currency held by non-banks and forint sight deposits, picked up 1.9 percentage points, to 116.3%. 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 13.6% higher in September than twelve months previously, which meant its growth rate accelerated by 0.8 of a percentage point in one month. Annual growth in M4, the broadest money aggregate, was 115.7%, picking up 0.7 of a percentage point.

The changes in corporate and household sector short-term deposit and borrowing rates continued to be modest in September, as seen in the preceding few months of the year. The average price for corporate customers of short-term loans, negotiated at market conditions, fell 20 basis points, to 11.7%. Deposit rates were 8.4%, falling 30 basis points. Interest rates on personal home-building and real property loans remained unchanged at 16.9%. The average rate on consumer and other loan facilities, including Lombard, personal, hire purchase loans, overdrafts and car purchase finance, falling only very modestly, was 21.4%. The average of household sector short-term borrowing rates stood at 8.4% in the month.

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
July	60.9	0.0
August	611.5	0.0
September	143.4	0.0
January–September 2000	2,361.0	0.0

Monthly financial statement of the Bank

The value of banknotes and coin in circulation was Ft 12 billion higher to the end of September relative to end-August.

The combined total of domestic and foreign currency liabilities of the central bank to credit institutions fell by Ft 51.6 billion in the month under review. Here, domestic currency liabilities were fell by Ft 60.4 billion while foreign currency liabilities rose by Ft 8.8 billion.

The monthly average balance on credit institutions' settlement accounts was Ft 188.3 billion higher at the end of September than at the preceding month-end. The month-end total of non-callable deposits fell by Ft 249.6 billion. As regards the Bank's foreign currency liabilities to domestic credit institutions, the outstanding total of NBH foreign currency bonds and syndicated loans changed the most significantly, showing an increase of Ft 6 billion.

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 9.2 billion, while that of non-callable deposits fell by Ft 24.1 billion and that of foreign currency deposits rose by Ft 16.6 billion. The fall in foreign currency liabilities to domestic credit institutions due to transactions amounted to Ft 47.9 billion in the first nine months of 2000, the effect of transactions being Ft 146.8 billion.

Central bank claims on credit institutions fell by Ft 2 billion in September, mainly due to a decrease in the amount outstanding of central bank long-term domestic currency loans. Overall, the Bank's net liabilities to domestic credit institutions were Ft 49.6 billion lower. In January–September, the Bank's claims on domestic credit institutions fell by Ft 18.9 billion. Transactions accounted for Ft 19.7 billion of the decrease.

Central bank net claims on the general government sector were Ft 0.2 billion higher in September than in August. Here, claims on the sector fell by Ft 10.1 billion and liabilities by Ft 10.3 billion. The total stock of general government net borrowings fell by Ft 153.4 billion in January–September. The effect of transactions was Ft 162.1 billion.

Total central bank foreign and other net assets fell by Ft 37.8 billion in one month. Here, net foreign assets were Ft 18 billion higher at month-end than at the end of August. Foreign assets and liabilities both rose – the former by Ft 162.2 billion and the latter by Ft 144.2 billion. Long and short-term foreign liabilities were Ft 38.4 billion and Ft 105.8 billion lower respectively. By the end of September international reserves had risen by €419.3 million, reaching €12,047 million.

Central bank policy measures

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

- Effective from 11 October 2000, the Bank raised its main policy rate, the two-week deposit rate,

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

Ft billions

	1999	2000				1999	2000		
	Q3	Aug.	Sep.	Q2	Q3	January–September			
	Monthly average			Monthly average		Total	Trans- action	Volume changes	Total*
Banknotes and coin	11.9	20.0	12.0	15.5	16.4	71.2	−28.5	0.0	−28.5
Forint deposits of credit institutions	71.9	−9.2	−60.4	−97.3	−21.3	170.3	−57.0	0.0	−57.0
Foreign currency deposits of credit institutions	−27.5	12.5	8.8	−11.7	9.3	−89.6	−146.8	98.9	−47.9
Net claims on general government (including ÁPV Rt deposits)	−69.9	−17.9	0.2	−13.9	10.2	−713.4	−162.1	8.7	−153.4
Of which: – foreign currency credit	−26.2	−44.3	8.0	−9.7	−16.7	−455.5	−170.7	26.3	−144.4
– revaluation bonds	0.0	0.0	0.0	0.0	0.0	−286.1	0.0	0.0	0.0
Claims on credit institutions	−3.1	−0.3	−2.0	−10.3	−1.7	−39.9	−19.7	0.8	−18.9
Foreign and other net assets	129.3	41.5	−37.8	−69.4	−4.1	905.2	−50.5	89.4	38.9

Note: The aggregates may differ due to rounding.

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

from 10.75% to 11.75%. Leaving the width of the overnight interest rate corridor unchanged, the Bank also raised the overnight repo and swap rates from 12.75% to 13.75%, and the overnight deposit rate from 8.75% to 9.75%. The decision to increase official interest rates was prompted by developments in consumer price inflation and the need to avoid a loss of real value of small investors' savings.

- Effective from 31 October 2000 and the start of the November maintenance period, the Bank altered the conditions for use of its two-week deposit facility, switching over from the periodical availability to the volume bidding scheme;
- Effective from 15 November 2000, the rate remunerated on compulsory reserves built for domestic-currency liabilities rose from 5% to 6% and the rate remunerated on compulsory reserves built for foreign-currency liabilities rose from 5.5% to 6.5%.

The decision to raise the rate remunerate on required reserves was taken in accordance with earlier changes to the instruments of monetary policy and movements in market interest rates.

billion. Foreign currency deposits were Ft 12.8 billion higher due to the effect of movements in exchange rates.

The domestic credit stock rose by Ft 135.5 billion due to transactions and by another Ft 24.6 billion due to exchange rate changes. The year-on-year increase in the outstanding total was 12.5%. The effect of transactions on net liabilities of the government sector was an increase of Ft 19.8 billion, exchange rate movements contributing Ft 6.6 billion to the stock. Outstanding borrowings of the corporate sector rose by Ft 76.1 billion in the month.

Transactions in forint debt contributed Ft 61.7 billion, those in foreign currency borrowings having a downward effect of Ft 2 billion. Exchange rate movements caused an upward revaluation of Ft 17.7 billion. The effect of other volume changes was a drop of Ft 1.3 billion.

As a result of changes in the outstanding stocks of debts and deposits, net liabilities of the general government and non-profit sector fell by Ft 24.5 billion in September.

Net household deposits with domestic banks were Ft 10.4 billion higher. Net corporate debt rose by Ft 103.0 billion and net foreign liabilities of the Hungarian banking sector fell by Ft 30.4 billion.

Banking survey, money supply and demand

According to the final numbers, all money indicators rose in September 2000 relative to August. The annual growth rate of the monetary base picked up 0.9 of a percentage point in one month. As a result, the value of M0 was 17.0% higher than a year earlier.

Annual growth in M1, a composite of banknotes and coin held by non-banks and forint sight deposits, picked up 1.9 percentage points from August to September. Consequently, the end-of-month stock of M1 stood 16.3% lower relative to twelve months previously. Growth in broad money M3, which is a measure of banknotes and coin held by non-banks, bank deposits as well as holdings of bank securities, rose by 0.8 of a percentage point, to 13.6%. Of its constituents, the end-of-month stock of corporate deposits fell by Ft 28.9 billion due to transactions.

The sector's month-end totals of domestic and foreign currency deposits were both lower, by Ft 4.2 billion and Ft 24.7 billion respectively. The effect of transactions on foreign currency deposits was an increase of Ft 4.3 billion.

Households' domestic currency deposits grew by Ft 3.4 billion and foreign currency deposits by Ft 5.2

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
	Q2	Q3	Q2	Q3	September	January–September		
	Average****		Average****					
General government and non-profit sector, net*	157.1	58.6	-24.9	-6.8	67.7	24.5	765.3	54.9
Consolidated central government, net*	162.8	50.2	-14.0	-22.1	49.3	-26.4	758.7	38.1
Local authorities, net	-10.5	9.7	-11.1	14.2	23.8	50.7	-8.2	6.4
Other (non-profit) entities, net	4.8	-1.2	0.2	1.2	-5.4	0.2	14.8	10.4
Enterprise sector, net	-12.9	0.2	-45.2	-60.3	-94.1	-103.0	-168.3	-492.0
Credit	-24.2	-30.6	-63.9	-74.8	-68.1	-77.4	-227.7	-560.3
Deposits+cash+securities**	11.2	30.9	18.7	14.5	-26.0	-25.6	59.4	68.3
Households, net****	27.3	23.6	8.9	34.2	9.0	10.4	250.5	101.7
Credit	-11.4	-11.4	-17.4	-18.9	-12.0	-19.6	-90.9	-139.6
Deposits+cash+securities	38.7	34.9	26.3	53.1	21.0	30.0	341.4	241.3
Non-residents, net	-119.2	-80.4	25.5	-20.7	-34.0	30.4	-669.0	-111.8
Other items, net	-52.3	-2.0	35.8	53.6	51.4	37.7	-178.5	447.2

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

* 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

Average interest rates on overnight transactions opened at 10.6% in the forint interbank market at the start of the new maintenance period in September. Rates continued to fluctuate narrowly in the first week of the month; however, they rose gradually by nearly 50 basis points during the second week. As regards longer-term interbank funding, demand for one-week and one-month funds was strong during the early days of the period, with lending transactions struck at an interest rate of 10.8% on average. Accompanied by modest demand, the daily average interest rate on overnight funds continued to rise from the middle of the month, while rates on longer-term money stabilised at levels seen in the previous few weeks. Turnover volumes rose. The average of overnight rates surged to 12%–12.5% in the final week of the maintenance period. The market took some comfort only towards the end of the month, with the return of strong liquidity conditions. Overnight rates fluctuated in a range between 8.75% and 9.75% on the last day of the period.

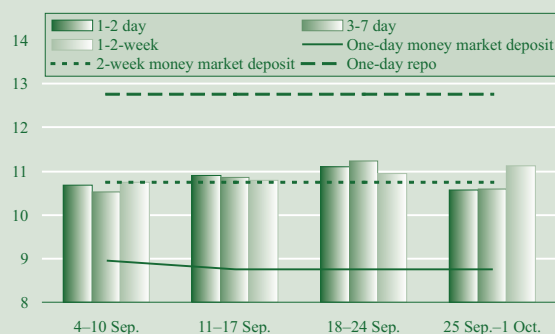
The averages of interbank interest rates continued to fall or remained flat in September. Total interbank turnover was Ft 1,193.9 billion, nearly Ft 343.2 billion less than in the preceding month. Average 1–2 day rates stood at 10.8%, rising 30 basis points above the preceding month's average. The share of this maturity area fell by nearly 2 percentage points, to 83.2%, during the month. The average rate in the maturity bracket of 3–7 day deals fell to 10.7%, its proportion of the total being 1.4 percentage points lower than in August (7.6%). The share of turnover between 1–2 weeks was 3.4% of the total. The average interest rate in this maturity area remained unchanged (10.9%). Interest rates for maturities

extending beyond two weeks stood at an average 11.0%. Transactions accounted for 5.8% of total turnover.

The one, three and six-month BUBOR rates rose in the month. At 11.04%, the one-month interbank offer rate was 19 basis points higher, the three-month rate rising 24 basis points, to 11.02%, to the end of September. The six-month BUBOR stood 31 basis points higher, at

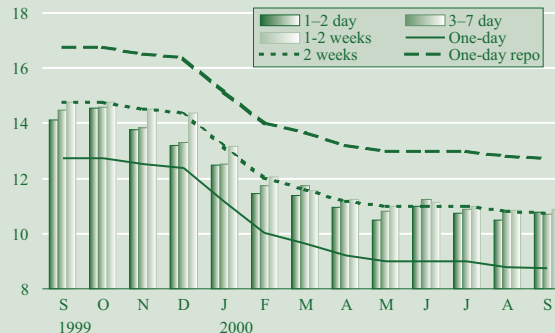
Weekly average official dealing rates and interbank rates in September

Per cent



Monthly averages of official dealing rates and interbank rates

Per cent



Interbank turnover							
							Ft billions
	Interbank turnover						
	1–2 days	3–7 days	1 week–2 weeks	2 weeks–1 month	1–3 months	Over 3 months	Total
30 Aug.–5 Sep. 1999	175.0	19.7	26.7	1.9	2.2	–	225.5
6–12	204.2	16.5	28.6	7.7	1.0	0.1	257.2
13–19	180.3	24.5	0.7	16.6	2.9	0.4	225.4
20–26	271.2	34.3	13.3	13.2	5.1	0.7	337.8
27 Sep.–3 Oct. 1999	308.1	21.4	10.2	4.4	2.3	1.8	348.3
September 1999*	1,023.6	99.7	68.7	41.1	12.3	1.3	1,246.6
31 July–6 Aug. 2000	293.5	34.2	23.4	4.4	0.9	2.6	359.1
7–13	226.6	26.2	15.0	2.6	1.3	2.1	273.7
14–20	317.3	31.7	8.4	0.2	2.9	1.6	362.0
21–27	320.6	40.8	9.7	3.3	2.2	1.8	378.3
August 2000*	1,308.4	137.8	57.3	10.3	12.3	11.1	1,537.1
28 Aug.–3 Sep. 2000	283.9	9.0	2.3	1.6	5.9	4.0	306.7
4–10	248.6	12.7	8.1	4.0	6.9	9.0	289.4
11–18	219.3	13.4	11.6	2.2	2.9	0.4	249.9
18–24	222.9	18.0	9.6	12.8	10.6	1.9	275.8
25 Sep.–1 Oct. 2000	250.2	42.2	10.9	12.3	3.2	1.5	320.3
September 2000*	992.8	90.4	40.3	32.7	24.4	13.3	1,193.9

* 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.

11%, than at end-August. Towards the end of the month the differential between the two shortest-term rates narrowed by 5 basis points, to 2 basis points. The gap between the two longest-term instruments narrowed from 9 basis points at the preceding month-end to 2 basis points at end-September.

Government securities yields

The upward trend of Hungarian government securities yields which began in the preceding month continued in September.

Non-resident investors held Ft 16.3 billion less Hungarian domestic currency-denominated government debt securities than at the end of August, so the sector's total holdings amounted to Ft 650.9 billion at the end of the month under review.

The Bank's estimate of zero-coupon yields,¹ derived on a compounded basis from the most competitive secondary market prices, rose 23 basis points, 40 basis points and 49 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 the yield was higher by 60 basis points, by 76 basis points at three years, by 88 basis points at five years and by 50 basis points at ten years.

Implied one-year forward rates² in one, two and three years' time rose progressively, by 72 basis points, 107 basis points and 114 basis points in September. The increase at four years' time was a little more modest, 96 basis points. And the implied forward rate at nine years' time was down 45 basis points.

The sale to subscribers of the sixth series of the Treasury Savings Bond,³ was conducted on 15 September. Quoted on a weekly basis, the yield-to-maturity on the paper rose from 24 basis points from the 8.09% at the end of August. The yield-to-maturity on the sixth series of the Bond, launched on 18 September, had risen from the initial 8.68% to 8.74% by the last week of the month. The subscribed amount was Ft 0.3 billion.

The Bank conducted four bill tenders in August.⁴ Yields were rising and demand for the paper falling

which is substituted by the one-year rate in nine years' time, cannot reflect the rapid turns in the market's judgement.

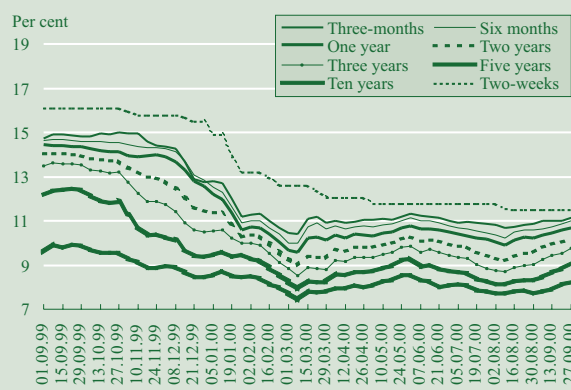
¹ The National Bank of Hungary calculates zero-coupon yields using the Svensson method. The estimates rely on the Debt Management Agency's release of the most favourable secondary market prices of discount treasury bills and fixed-rate government bonds with residual maturity of more than three months.

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 rate,

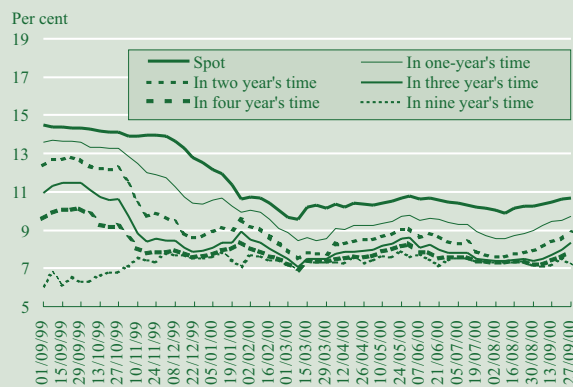
³ The three-year government bond pays graduated interest, and is sold via subscription only. The bond redeemable before maturity, with the whole amount of interest paid on maturity or on redemption.

⁴ The National Bank of Hungary has been issuing a non interest-bearing bill with maturity of three months since 22 March 2000. 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 maximum amount to be allocated is limited to the amount on offer, with no minimum amount being established.

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		
							Per cent		
Ft billions									
30 Aug.–3 Sep. 1999	10.0	26.9	15.0	45.3	18.0	44.8	14.13	14.10	14.14
6–10 Sep.	10.0	28.1	–	–	–	–	14.06	–	–
13–17 Sep.	10.0	21.0	15.0	48.1	18.0	32.1	14.05	14.01	14.13
20–24 Sep.	10.0	23.3	–	–	–	–	14.00	–	–
27 Sep.–1 Oct.	10.0	20.4	15.0	30.0	18.0	42.5	14.00	14.07	14.18
31 July–4 Aug. 2000	10.0	36.7	18.0	40.3	20.0	41.3	10.55	10.18	9.96
7–11 Aug.	10.0	17.9	–	–	–	–	10.52	–	–
14–18 Aug.	10.0	30.7	18.0	15.5	20.0	34.3	10.60	10.40	10.38
21–25 Aug.	10.0	20.4	–	–	–	–	10.64	–	–
28 Aug.–1 Sep.	10.0	30.8	18.0	39.6	20.0	39.5	10.61	10.45	10.46
4–8 Sep.	10.0	22.2	–	–	–	–	10.66	–	–
11–15 Sep.	10.0	27.2	18.0	30.4	20.0	38.6	10.67	10.62	10.66
18–22 Sep.	10.0	23.3	–	–	–	–	10.73	–	–
25–29 Sep.	10.0	21.9	18.0	29.7	20.0	49.3	10.73	10.76	10.70

Government bond yields at issue

	Bond	Term to maturity	Amounts offered	Bids	Accepted bids	Average bond yields			
						2	3	5	10
						Years			
		Year	Ft billions				Per cent		
9 Sep. 1999	2001/H	1.7	20.0	56.4	20.0	14.12	–	–	–
9 Sep.	2004/H	4.4	8.0	20.4	8.0	–	–	12.98	–
23 Sep.	2002/I	2.8	15.0	31.6	15.0	–	13.64	–	–
23 Sep.	2009/B	9.3	4.0	7.1	4.0	–	–	–	10.90
10 Aug. 2000	2002/K	1.8	22.0	57.9	22.0	9.31	–	–	–
10 Aug.	2005/E	4.5	17.5	37.0	17.5	–	–	8.11	–
24 Aug.	2003/K	2.9	22.0	63.4	25.0	–	9.01	–	–
24 Aug.	2011/A	10.0	15.0	37.5	15.0	–	–	–	7.91
7 Sep.	2002/L	2.0	22.0	45.7	22.0	9.86	–	–	–
7 Sep.	2005/E	4.4	14.0	23.1	14.0	–	–	8.73	–
21 Sep.	2003/K	2.8	22.0	38.4	22.0	–	9.74	–	–
21 Sep.	2011/A	9.9	10.0	13.6	7.5	–	–	–	8.31

throughout most of the period. The total amount of bids more than halved, that of accepted bids falling even more strongly, to less than one third. The average yield of all auctions held in August, weighted by the amount sold, was 10.71%.

The total amount of bids submitted to the auctions of government bonds, conducted by the Debt Management Agency, continued to fall. There was no bond maturity in the month.

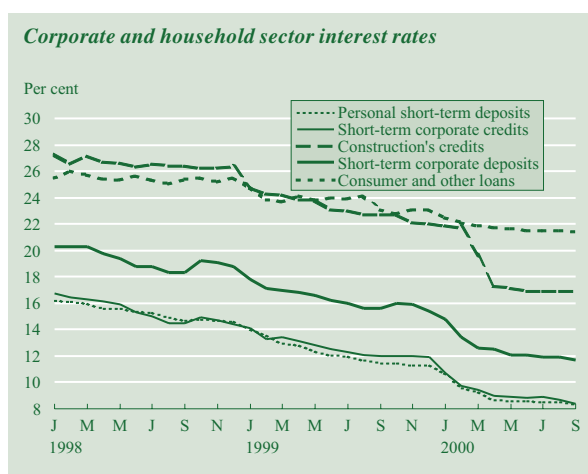
The value of the Hungarian Government Bond Index, the MAX,⁵ which reflects movements in the prices of publicly-issued, fixed-coupon government bonds with a residual maturity of more than one year, stood at 190.63 on 29 September. Calculated from movements in the index values, the annual return achievable on a portfolio equal to the composition of the index basket was 16.67%.

Market interest rates

As seen in the preceding few months, changes in corporate and household sector interest rates continued to be modest in September. With the exception of the long-term deposit rate, corporate sector average borrowing and deposit interest rates were only slightly lower than in August. Household sector average deposit and borrowing rates also remained mostly unchanged in the month.

As a result of movements in interest rate conditions, the gap between corporate and household sector average borrowing rates⁶ narrowed by another 10 basis points, to 880 basis points. Corporate sector average short-term deposit rates and the corresponding average of household sector deposit rates were equal.

The averages of corporate sector borrowing rates and short-term deposit rates fell, while that of long-term deposit rates rose.



The average price for corporate customers of short-term loans, negotiated at market conditions, fell 20 basis points, to 11.7%. Deposit rates, standing at 8.4%, showed a drop of another 30 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 fell from 12.5% to 12.3%. Interest rates paid by banks on deposits fixed for terms of over one year were on average 20 basis points higher, standing at 10%.

The cost of funds for companies raised via discounting bills fell from 12.5% to 12.1% in September. The floor and ceiling for rates remunerated on current account deposits were 1.0% and 11.8% respectively.

Household sector average deposit and borrowing rates both remained broadly unchanged at the levels seen in the preceding months of the year. Average sight and short-term deposit rates fell equally, by a modest 10 basis points, to 3.4% and 8.4% respectively. The average interest rate remunerated on long-term deposits remained unchanged at August's 8.7%.

The banking sector average of household sector forint borrowing rates fell 30 basis points in the month, to 20.7%. An increase in outstanding home-building and property loans at an unchanged average interest rate (16.9%) explains why this was a more substantial drop than in the preceding few months. The share of these expressed as a percentage of the outstanding total of household sector debt was 15% in September. The average interest rate on consumer credit and other loan facilities fell 10 basis points to 21.4%.

The BUX index

The share index of the Budapest Stock Exchange ebbed and flowed during the course of September. It reached its monthly peak at 8,5678.47 on the 13th and its low at 7,922.84 on the 22nd. Prices rose slightly towards month-end, but even so its close, at 8,270.41, was 1.93% below its finish in August. Nevertheless, the market closed September 22.6% higher than a year earlier.

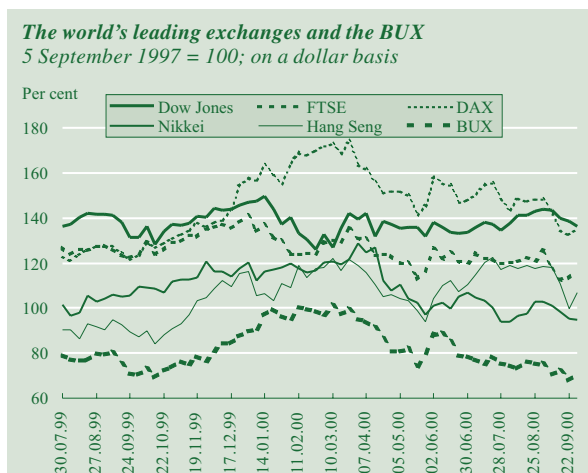
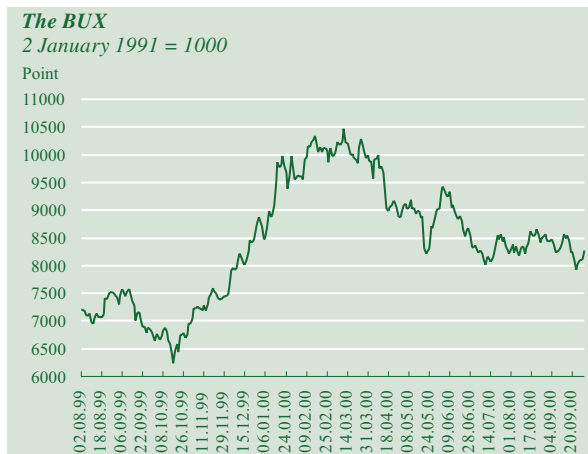
Of the dominant issuers, MATÁV fell by another 11.7% following a 12.6% decline recorded in August.

⁵ 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.

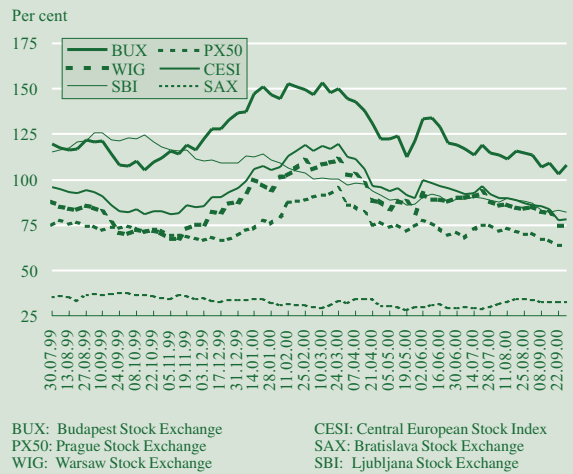
⁶ For both sectors, average borrowing rates have been defined taking into view the new contracts concluded during the course of the month.

Richter lost nearly 4% of its price in one month, after rising by 21.4% in August. OTP also fell, by 2.5%, following its total gain of more than 11% in July–August. MOL was the only exception of all leading issues, rising significantly, by nearly 22%. (Its price had fallen by a total 7% in the preceding two months.)

Measured on a dollar basis, the official index of the Budapest Stock Exchange fell by another 3.5% in September, after registering a decline of more than 12% in the preceding three months. The major international exchanges suffered even more serious losses. In New York, the Dow Jones Industrial Average, which rose by 6.6% in August, fell by exactly 5% in September. The DAX extended its 3.7% decline in August by another 6.3%. And the FTSE fell by 3.8%. The see-saw mood continued in the Far East – the Nikkei, following an 8.2% rise in June, a 12.5% drop in July and a 10% increase in August, fell by nearly 8% in September. Also measured on a dollar basis, the Hang Seng Index of Hong Kong fell by 8.4%, after a total gain of nearly 16% registered in the three months preceding September.



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



The Central European Stock Index (CESI), which is a composite of the Budapest, Prague, Warsaw, Ljubljana and Bratislava exchanges, fell by another 9.0% in September, following a total decline of just less than 11% in June–August. The Warsaw market, where prices plummeted by 11.5%, experienced the most marked decline, following a loss of 3.7% in August. The Prague index followed with a 7.7% drop in the month after a 9.5% decline suffered in August. Overall, the Budapest share index performed better than the CESI. However, the two smallest east-central European markets lost less than the region's average – the Ljubljana market fell by 4.9% and the Bratislava market by 2.2%.

Distribution of securities holdings by sector in Q3

In 2000 Q3, the percentage shares that the individual sectors accounted for stabilised at the levels seen in the previous quarter. There continued to be a modest fall in the value of shares held by non-residents. This was in contrast with increases in the proportions of other sectors' holdings in relation to the total.

The outstanding total of Hungarian government debt securities,⁷ measured at market value, was 6.8% higher in 2000 Q3 than in the previous quarter. That increase was mainly accounted for by a doubling of the outstanding amount of NBH bills, given that market holdings of government bonds and treasury bills both fell, by 3.3% and 1.5% respectively.

⁷ Government securities comprise domestically issued forint denominated government bonds, treasury bills and domestic currency bills issued by the NBH.

As seen in the earlier quarters of the year, the distribution of outstanding government securities by institutional sector continued to stabilise in Q3. The percentage shares that the individual sectors accounted for changed only slightly relative to Q2.

Households continued to cut their share of the government securities market in the period under review.

Non-residents' holdings of government paper rose by more than Ft 60 billion, so the sector's percentage share of the total government securities market was only slightly less than 14%.

In the financial sphere, the percentage shares of life insurance firms and pension funds remained practically at the same levels seen in the previous quarter, while those of credit institutions and investment funds slightly rose.

NFCs stepped up their holdings of government securities broadly comparably with the increase registered in Q2, so their share of total holdings rose to 7.8%.

Following a decline of Ft 878 billion in the previous quarter, market capitalisation of shares issued by Hungarian residents fell by another Ft 367 billion in the period under review, to Ft 3,678 billion at end-September.

That drop was entirely due to the fall in prices, as holding losses amounted to Ft 382 billion, while the net contribution to market capitalisation of new listings and de-listings on the BSE as well as capital enlargements and reductions was only Ft 15 billion.

Net purchases by households amounted to Ft 25 billion, up 80% on the increase in Q2. The sector's share of total holdings rose to 7.9%.

After a fall in the previous quarter, non-resident investors' percentage share of total holdings shrank further, from 77.7% at the end of June to 73.7% at the end of September. That meant a decline of Ft 431 billion. Holding losses and net sales, respectively, accounted for Ft 389 billion and Ft 42 billion.

Holdings of exchange-traded shares by the financial corporations sector continued to grow, owing almost entirely to net purchases in the amount of Ft 27 billion. As a result, the sector's proportion of total holdings rose to 5%.

NFC's continued to increase their holdings as a percentage of the total, as seen in Q2, to 5.7% towards the end of the quarter.

Holding gains helped existing holdings of the general government sector to rise to 7.6%. The sector took a net selling position in the period.

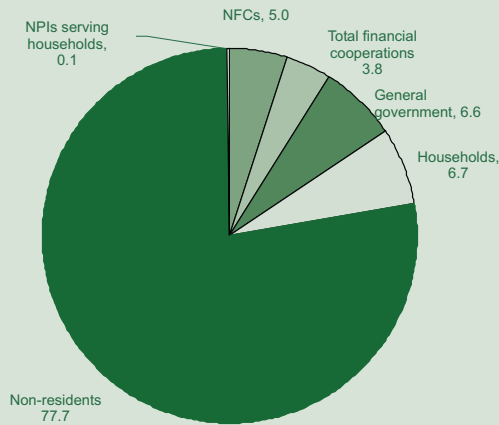
The outstanding total of investment fund certificates, measured at net asset value, rose by 4.7% in 2000 Q3. The amount of certificates held by households was 3.3% higher.

There were only modest changes in the percentage shares of the individual institutional sectors – slight falls in those of credit institutions and households contrasted with moderate rises in those of non-residents and other legal entities.

Distribution of government securities holdings by sector								
	Total government securities holdings							
	December 1998	1999				2000		
		March	June	Sep.	Dec.	March	June	Sep.
Non-financial corporations	8.2	8.5	8.7	10.0	7.9	6.6	7.3	7.8
NBH	10.8	11.8	11.6	10.8	10.7	9.4	8.7	7.9
Credit institutions	33.4	28.4	26.8	24.2	22.9	22.1	22.6	22.8
Investment funds	7.3	8.4	8.4	9.1	8.6	9.4	9.6	9.9
Insurance firms, pension funds	11.1	12.3	13.4	14.1	15.5	15.5	15.8	15.8
Other financial corporations	2.2	2.9	2.4	2.0	1.9	2.3	2.2	2.5
Financial corporations total	64.8	63.8	62.6	60.2	59.5	58.7	58.9	58.9
Local government authorities	2.7	3.2	3.0	3.1	2.7	3.0	2.9	2.9
Other sub-sectors of general government	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.0
General government, total	2.9	3.2	3.1	3.2	2.8	3.1	2.9	2.9
Households	14.9	15.6	15.9	16.8	17.5	16.4	16.6	15.7
NPIs serving households	1.3	0.6	1.1	1.1	1.1	1.0	0.7	0.8
Non-residents	8.0	8.3	8.6	8.7	11.2	14.2	13.6	13.9
Total holdings	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Exchange-traded shares held by institutional sectors at market prices
Stock data at the end of Q2 and Q3 2000; percentages

At end of 2000 Q2



At end of 2000 Q3

