



Monthly Report

(includes data up to the end of December 2000)

2/2001

Compiled by the Statistics Department
Issued by the Secretariat of the National Bank of Hungary
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ISSN 1216-4879

Date of publication: 5 March 2001

Contents

Domestic economic activity	5
Price trends	7
Monetary developments	9
Balance of payments and foreign trade	16
Public finance	17
Earnings and financial savings of households	20
Main economic and financial indicators	22
 Tables	 23
 Notes on the compilation of statistical data	 113
Diary of statistical releases	129
General information	131

Domestic economic activity

Supported by favourable external conditions and buoyant domestic activity, last year output growth in industry rose to its highest level during the past ten years. The engine of this growth, as in earlier years, was exports, but domestic sales picked up considerable speed as well. Branches representing advanced stages of technological development continued to increase their role within the broad industry sector.

Industrial output rose by 10.4% and total sales by 8.3% in December relative to a year before. Exports surged by 18.3% in the period, the level of domestic sales remaining practically flat. Output grew by 18.3% in 2000 as a whole, total sales rising by 17.7%. Within total sales, exports rose by 28.3% and domestic sales by 10.1%. Looking at economic developments in the course of the whole year, production and sales both grew robustly in the first three quarters. However, growth in the final quarter gradually lost some of its earlier strong momentum (see Chart 1).

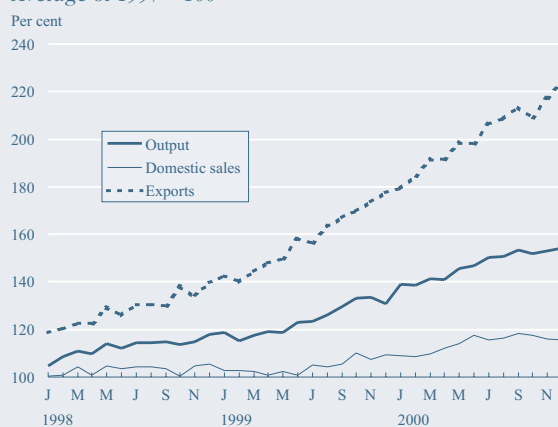
Seasonally adjusted industrial output¹ rose by 0.8% and total sales by 1% in December 2000 relative to a year before. Within total sales, the volume of exports expanded by 3%, in contrast with domestic sales, which shrank by 0.5%.

As seen in the preceding months of the year, output of the electrical equipment sub-sector rose the most robustly, by 36.3%. Today this sub-sector accounts for 25% of total industrial output and 40% of whole-economy exports, having registered increases of 4% and 5% respectively on a year before. Interpreted as an encouraging development, the values of output and exports exceeded the levels recorded a year earlier almost across the whole of manufacturing. Gross production per capita in manufacturing was 17.9% higher in 2000 than in 1999. Per-capita production in industry rose by 16.7% in one year, accompanied by a 1.3% gain in employment. Suggesting a lasting upturn in industrial performance, fresh orders for manufacturers' output in the more important branches of manufacturing were 10.9% higher in December than a year before. Here, export orders rose by 9.5% and domestic orders by 18.3%.

Construction output was 2.8% weaker in December relative to a year previously. Adjusted to reflect seasonal effects

Chart 1 Volume indices of industrial production and sales*

Average of 1997 = 100

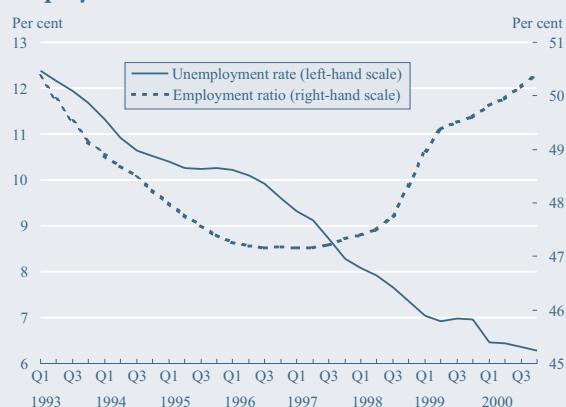


* Seasonally adjusted using the CSO release of industry data.

¹ Bank calculations using the CSO release of data.

Chart 2 Number of employed persons*

* Seasonally smoothed by the Bank using the CSO release of labour market data.

Chart 3 Whole-economy unemployment and employment ratio*

* Seasonally smoothed by the Bank using the CSO release of labour market data.

and working-day variations, the sector's output fell by 4.3% in the month compared with November. Taken together, construction output in 2000 increased by 5.8% from the level recorded in the previous year.

The growth in employment, seen for more than two years, continued in the fourth quarter of 2000,² accompanied by a fall in unemployment. According to the values calculated from the CSO's quarterly Labour Force Survey by eliminating seasonal and random effects,³ the number of people in employment and the employment ratio⁴ both rose in 2000 Q4 relative to the previous quarter. The number of people in employment was 0.4 of a percentage point higher than in Q3 and 1.2% higher than in the comparable period of 1999 (see Chart 2). The employment ratio was 50.4% in 2000 Q4, 0.2 of a percentage point higher than in Q3 and 0.8 of a percentage point higher than in the same period a year earlier.

According to the seasonally adjusted indicators of employment, the number of registered unemployed persons in the whole economy was little changed in 2000 Q4 relative to the previous quarter, but fell by 9% in comparison with the same period of 1999. The unemployment rate developed similarly, being 6.3% in the period under review. This was equal to the value recorded in the third quarter and 0.8 of a percentage point lower than in the comparable period of the previous year (see Chart 3).

The rise in the number of economically active persons continued in 2000 Q4 relative to Q3. Accordingly, the number of economically active persons, calculated from the seasonally adjusted numbers, was 0.3% higher than the previous quarter, rising by 0.5 of a percentage point in comparison with 1999 Q4. The number of inactive persons fell by 0.6% in one quarter and by 1.5% year on year.

The whole-economy activity ratio was 53.8% in the final quarter of 2000, showing an increase of 0.2 of a percentage point from the outcome recorded in Q3 and one of 0.5 of a percentage point from that recorded in the same period of 1999.

² Quarterly aggregate data on the Hungarian labour market are broader and more reliable than monthly data, so the analyses will rely on these at the end of each quarter and on monthly data in interim periods.

³ The time series used in the calculations take into view, with retrospective effect, the methodological changes in 1998 to the CSO Labour Force Survey which resulted in broader samples, changes to the weights etc. Consequently, although the indicators are comparable over periods, they are not directly comparable with quarterly LFS data for the period prior to 1998.

⁴ Employment ratio is defined as the number of people in employment expressed as a percentage of people in the age bracket of 15–74 years. Activity ratio is defined as the number of economically active people expressed as a percentage of the 15–74 year olds.

Price trends

The CSO release of the year-on-year consumer price index was 10.1% in December 2000, the rate of core consumer price inflation, calculated using the Bank's method, being 9.8%. One-month core inflation, not seasonally adjusted, increased by 0.3% in December relative to November (see Chart 4).

The trend value of core consumer price inflation was 0.68% in December, showing a 0.03 percentage point drop relative to November. The prolonged upward correction of food prices continued to influence strongly the monthly increase in prices. Food price inflation, registering an increase similar to that seen in November, contributed 0.16 of a percentage point to the trend of core inflation in the month. Services prices and household energy prices behaved quite analogously with their changes in earlier months of the year, showing a smaller contribution to one-month inflation – the former contributed 0.26 of a percentage point and the latter 0.02 of a percentage point to the trend value of core consumer price inflation, i.e. both showed a further drop, to 0.28 and 0.07 of one percentage point respectively, relative to the preceding month (see Chart 5).

The one-month increase in consumer prices, as reported by the CSO, was 0.3% in December. Seasonal patterns explained the increases in food and clothing prices. Rises in the prices of energy and consumer durables were average, including the 0.3% increase in services prices. The 0.2% fall in the prices of other goods was mainly attributable to the 2.6% decline in motor fuel prices. The fall in motor fuel prices alone moderated one-month consumer price inflation by 0.13%.

Although the CSO release of twelve-month consumer price inflation for December, at 10.1%, was 0.5 of a percentage point lower than in November, it exceeded the average 9.8% increase of 2000. Here, the index of consumer durables, at 1.3%, continued to mark the lowest extreme of the vertical scale in the month. The household energy index (12.7%) and the food price index (12.4%) were at the highest extreme of the spectrum.

Producer prices (the CSO release of industrial firms' domestic selling prices) rose by 15.3% in December rela-

Chart 4 Monthly consumer price index and the trend of core inflation

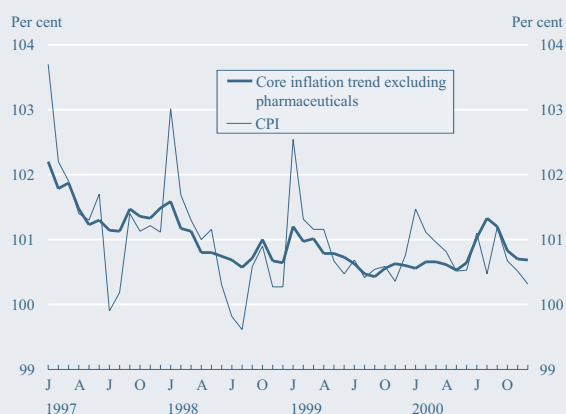


Chart 5 Contributions of the CSO's major product categories to the trend of core inflation

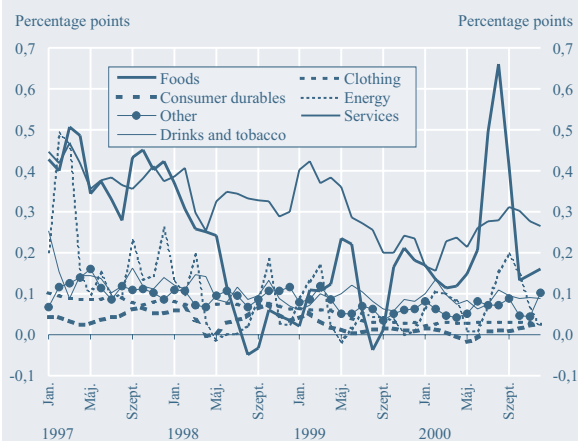
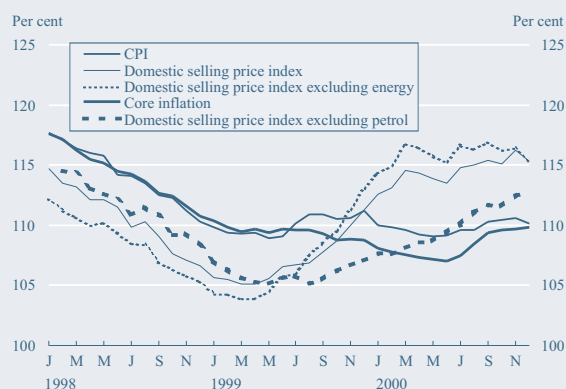


Chart 6 Domestic producer price index excluding petrol and other price indices

Same month of previous year = 100



tive to a year before, and thus they continued to exceed the increase in consumer prices. However, the one-month change in producer prices was a drop of 0.1%. On average, producer prices rose by 14.5% in 2000 on the previous year. Manufacturing industry prices, which are a dominant factor influencing movements in domestic sales prices, fell on average by 0.2% in the month under review relative to the preceding month. The rate at which food industry prices rose moderated further, to 0.4%. Chemical industry producer prices were lower in December, the single month in the course of the whole of 2000 when prices actually fell. The average increases in petroleum product prices and chemical industry prices were 5.5% and 2.1% respectively in one month. Price changes in the rest of manufacturing varied between 0.2% and 0.9%. The December price index, excluding the effect of petrol price changes, was 112.6% (see Chart 6).

Monetary developments

The most notable change in monetary conditions in December was the Bank's notice to credit institutions about a change to the required reserves system. Accordingly, credit institutions were obliged to place 4% of the reserve base for December 2000 as official reserves in eligible securities on 31 January to meet the January 2000 reserve requirement. From 1 February 2001, the compulsory reserve ratio fell by 4 percentage points, from 11% to 7%; also from that date credit institutions are allowed to meet reserve requirements in securities other than government paper.

The market rate of the forint returned to the strong edge of the official intervention band in December. That meant the exchange rate depreciated only a little, by 0.02%, against the currency basket in comparison with end-November. The National Bank of Hungary officially devalued the central rate by 0.31% in the month.⁵ The average deviation of the exchange rate from the central rate was 188 basis points toward the strong extreme of the intervention band (see Chart 7). As in November, the Bank did not conduct official intervention in the foreign exchange market in the month.

As regards the major items in the balance sheet of the NBH, the value of banknotes and coin in circulation rose by Ft 7.4 billion in December relative to end-November.

Chart 7 Exchange rate movements within the intervention band
13 March 1995 = 100



Table A Changes in the balance sheet of the NBH (Calculated from end-of-month stocks)

Ft billions								
	1999			2000				
	Q3	Q4	December	Q3	Q4	December**	December**	
	Averages*			Averages*			Transaction	Revaluation
Banknotes and coin	11.9	28.9	122.9	16.4	13.9	7.4	7.4	0.0
Forint deposits of credit institutions	71.9	31.5	90.3	-21.3	11.3	105.4	105.4	0.0
Foreign currency deposits of credit institutions	-27.5	-9.8	-64.6	9.3	-5.2	-18.5	-15.3	-3.2
Net claims on general government (including ÁPV Rt deposits)	-69.9	-64.6	59.8	10.2	-27.0	140.2	117.6	22.6
Of which: forint loans	-6.0	-6.0	-18.1	-6.0	-6.0	-18.0	-18.0	0.0
government securities	-4.1	-1.9	-3.2	-4.4	-1.1	-0.5	-0.5	0.0
foreign currency loan	-26.2	-51.5	-15.9	-16.7	-11.1	22.0	0.0	22.0
Claims on credit institutions	-3.1	-3.8	-3.8	-1.7	-3.6	-8.1	-7.8	-0.3
Foreign and other net assets	129.3	118.9	92.6	-4.1	50.6	-37.8	-12.3	-25.5

* Quarterly average of changes relative to the preceding month.

** Preliminary data.

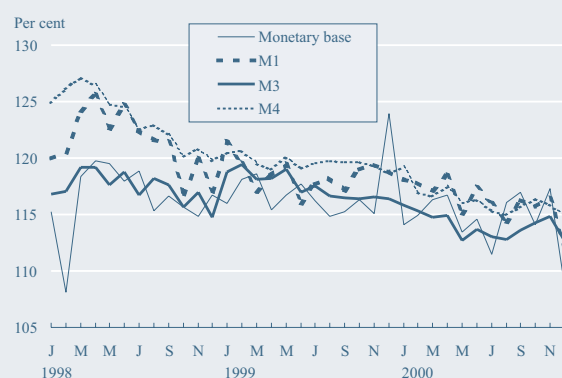
⁵ Since 1 January 2000 the currency is officially devalued against a currency basket consisting 100% of the euro. The monthly devaluation rate fell to 0.3% from 1 April.

Table B Decomposing changes in average stocks in the balance sheet of the NBH*

	Ft billions		
	November	December **	Monthly change
Banknotes and coin	940.7	1011.4	70.7
Forint deposits of credit institutions	977.6	1045.7	68.0
Of which: bankers' deposit accounts	593.3	594.4	1.0
non-callable deposits	333.8	359.2	25.4
Foreign currency deposits of credit institutions	492.7	464.7	-28.0
Net claims on general government (excluding ÁPV Rt deposits)	1,661.3	1,695.3	34.0
Of which: forint loans	307.5	305.8	-1.7
government securities	369.6	368.1	-1.5
foreign currency credit	1,335.1	1,355.0	19.8
Claims on credit institutions	103.5	99.9	-3.6
Foreign and other net assets	646.3	726.5	80.3

* Monthly average of daily changes.

** Preliminary data.

Chart 8 Annual growth rates of the money aggregates**Megjegyzés:**

M1 = Currency in circulation + forint sight deposits held at banks.

M2 = M1 + forint time deposits + foreign currency deposits + bank securities (not shown in the chart as it hardly plots differently from M3).

M3 = M2 + holdings of 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.

The combined end-of-month total of domestic and foreign currency liabilities of the central bank to credit institutions increased by Ft 86.9 billion in the month under review. Central bank claims on credit institutions fell by Ft 8.1 billion, 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 95 billion higher in the month. Central bank claims on the general government sector rose by Ft 140.2 billion. This contrasted with a decrease of Ft 37.8 billion in central bank foreign and other net assets (see Table A).

Looking at the average stocks of central bank liabilities to credit institutions, the average of current account deposits rose by Ft 1 billion and that of non-callable deposits by Ft 25.4 billion, while that of foreign currency deposits fell by Ft 28 billion relative to the preceding month (see Table B).

Due to the base effect, which in turn was related to the millennium date change, annual growth in the monetary base (M0) fell considerably. According to the final data, the annual index of the aggregate moderated by 8.8 percentage points to 8.5%. However, the adjusted data, which do not take into account the effect of the Y2K problem on December 1999, show that the growth rate of M0 slowed by only 2.3 percentage points, so adjusted annual growth in the aggregate was 15%.

According to the preliminary reports of credit institutions,⁶ growth in the monetary aggregates derived from the liability items of the aggregate balance sheet of the banking sector also slowed significantly in December (see Chart 8). Annual growth in M1, a composite of banknotes and coin held by non-banks and forint sight deposits, slowed by 4.6 percentage points from November to December, so its end-of-month stock stood 11.8% higher than in December 1999. This considerable slowdown was caused to a smaller extent by the base effect due to the millennium date change already mentioned,⁷ and to a greater extent by the rise in corporate and household sector deposits, which was some Ft 37 billion less than the average December levels of previous years. Annual growth in the money measure M2, which comprises sight foreign currency deposits as well as domestic and foreign currency time deposits, in addition to the elements of M1, was 2.4 percentage points slower than in November, its end-December stock standing 12.4%

⁶ Credit institutions are mandated to submit their statutory financial statements for December, compiled from their audited balance sheets, to the NBH and the supervisory authorities until 31 May. (There may be differences between the final balance sheets and those for December.)

⁷ In December 1999, there was a shift between sight deposits and currency held outside banks. The increase in currency held outside banks took place to the detriment of sight deposits. As both currency held outside banks and sight deposits are constituents of M1, the increase in currency held outside banks in December 1999 had a much smaller impact on M1 growth than on M0 growth.

higher than a year before. Further explanation for the moderation in M2 growth and those of the broader measures of money, beyond the causes mentioned in connection with M1, is to be found in the holding losses of the corporate and households sectors on their foreign currency deposits, which were Ft 22.5 billion more than in November and even exceeded the loss recorded in December 1999. Growth in broad money M3, which also comprises holdings of bank securities, in addition to the components of M2, moderated by 2.2 percentage points, its end-of-month stock rising by 12.6% relative to twelve months previously. Annual growth in M4, an aggregate of M3 plus government securities held by the non-bank sector and outstanding NBH domestic currency bills, fell the least in the month – it slowed by 1.1 percentage points, its end-of-month stock standing 14.8% higher than in December 1999.

Looking at the individual liability items of the aggregate balance sheet of the banking sector, corporate sector deposits rose by Ft 39.1 billion due to the transaction effect. This change resulted from an increase of Ft 63.4 billion in forint deposits and a drop of Ft 24.3 billion in foreign currency deposits. Foreign currency deposits fell by another Ft 9.6 billion on account of exchange rate changes. The increase in household sector deposits, at Ft 103.3 billion, was much more modest than the average December increases of previous years.⁸ Here, households' domestic currency deposits grew by Ft 114.0 billion and foreign currency deposits by Ft 14.2 billion due to transactions. The effect of exchange rate movements on households' foreign currency deposits was a drop of Ft 24.9 billion.

Looking at the items on the assets side of the aggregate balance sheet of the banking sector, the domestic credit stock rose by Ft 231.4 billion due to transactions and fell by Ft 4.3 billion due to exchange rate changes in December. The one-year increase in the credit stock was 14.6%. Following a continued rise for more than one year, corporate sector domestic borrowings fell by Ft 6.4 billion in the month. Transactions contributed Ft 28.3 billion to this change. Exchange rate movements caused a downward revaluation of Ft 31.4 billion, the effect of other volume changes being a drop of Ft 3.2 billion. The change in debt due to transactions was entirely the result of a Ft 2 billion decrease in domestic currency borrowings and a Ft 30.3 billion increase in firms' foreign currency borrowings. The total debt of the household sector owed to the banking sector rose by Ft 21.7 billion in the month.

Looking at the net positions of the institutional sectors vis-à-vis the banking sector, changes in outstanding borrowings and deposits caused net liabilities of the general government and non-profit sector to rise by Ft 141 bil-

⁸ When calculating deposits, the very low data for December 1999, which in turn were explained by special reasons, were not taken into account.

Table C Monthly changes in the net position of institutional sectors vis-à-vis the banking sector

								Ft billions
	1999			2000				
	Q3	Q4	December	Q3	Q4	December	Of which	
	Averages****			Averages****			Transactions	Revaluations
General government and non-profit sector, net*	58.6	42.7	-51.1	-6.8	7.7	-141.0	-114.3	-26.8
Consolidated central government, net*	50.2	40.1	-76.8	-22.1	13.3	-167.9	-141.1	-26.8
Local authorities, net	9.7	1.7	26.8	14.2	0.7	46.4	46.3	0.0
Other (non-profit) institutions, net	-1.2	0.9	-1.1	1.2	-6.3	-19.5	-19.5	0.0
Enterprise sector, net	0.2	-12.2	-43.8	-60.3	11.0	38.5	13.5	21.8
Of which: loans	-30.6	-57.5	-81.6	-74.8	-43.1	6.4	-28.3	31.4
deposits+cash+securities**	30.9	45.3	37.8	14.5	54.1	32.1	41.8	-9.6
Households, net***	23.6	42.1	96.0	34.2	38.9	33.1	58.0	-24.9
Of which: loans	-11.4	-11.5	-9.1	-18.9	-19.2	-18.2	-18.2	-0.1
deposits+cash+securities	34.9	53.6	105.1	53.1	58.2	51.3	76.2	-24.9
Non-residents, net	-80.4	-82.5	-49.8	-20.7	-32.0	124.6	88.9	35.6
Other, net	-2.0	9.9	48.7	53.6	-25.6	-55.2	-46.2	-5.7

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

* Includes blocked deposits of central government and those of APV Rt.

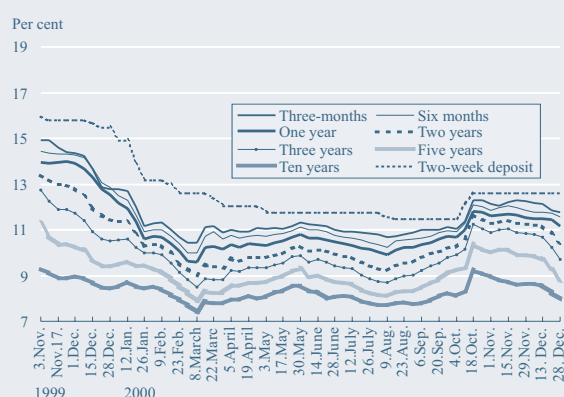
** Adjusted for technical cash holdings of the Hungarian Post.

*** Including accrued interest.

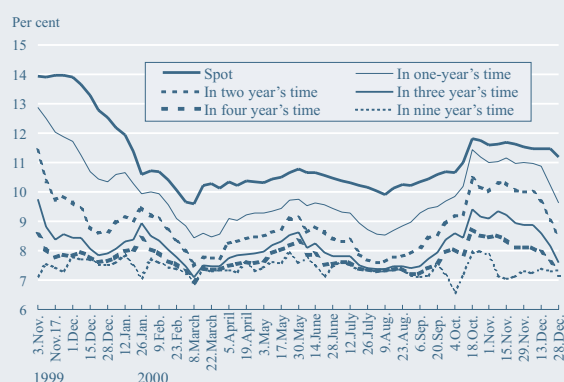
**** Quarterly average of monthly net changes in creditor position.

Chart 9 Zero-coupon yields and annualised return on the central bank two-week deposit

Short-term yields on a compounded basis; weekly averages

**Chart 10** One-year spot and implied forward rates derived from the Bank's zero-coupon yields

On a compounded basis; weekly averages



lion and net assets of households to rise by Ft 33.1 billion. Following a drop in November, net corporate sector debt fell by another Ft 38.5 billion, net foreign assets of the banking sector falling by Ft 124.6 billion (see Table C).

After the brief turn upwards observed in November, the fall in yields in the government securities market, which began in mid-October, continued in December. Looking at movements taking place throughout the entire month, the Bank's estimate of zero-coupon yields⁹ fell across every maturity. At the shorter end, i.e. at three, six and twelve months, they fell more modestly, by 34–72 basis points, and somewhat more significantly, by 93–151 basis points at the longer end (see Chart 9).

Implied one-year forward rates¹⁰ in one and two years' time fell progressively, by 182–214 basis points in December. The fall in those at the farther horizon occurred at diminishing rates, between 179 and 135 basis points. In contrast, the implied forward rate in nine years' time rose 17 basis points (see Chart 10).

Non-resident investors stepped up their holdings of Hungarian domestic currency-denominated government debt securities by Ft 41.7 billion, so the sector's total hold-

⁹ 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.

¹⁰ 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.

ings amounted to Ft 733.3 billion at the end of the month under review.

The total amount of bids submitted at the auctions of government bonds experienced a large jump relative to the preceding month. Five auctions of NBH bills were conducted in December.¹¹ Yields were static throughout the period. Demand, at Ft 13–15 billion, fell to a third of that seen in the preceding three weeks (around Ft 45 billion). The average yield of all auctions held in the month, weighted by the amount sold, was 11.83%.

The value of the Hungarian Government Bond Index, the MAX, which reflects movements in the prices of publicly-issued, fixed-coupon government bonds with a residual maturity of more than one year, stood at 196.9354 on 29 December. Calculated from movements in the index values, the annual return achievable on a portfolio equal to the composition of the index basket was 11.81%.

Total interbank turnover was Ft 1,350.1 billion in December, some 9% lower than in the preceding month. Monthly average interbank lending rates slightly fell or remained static, following an increase in the preceding two months. The average rate on 1–2 day transactions, which have the largest share of total turnover, fell 20 basis points to 10.9%. The share of this maturity area fell by 2.5 percentage points to 83.1% during the month. The average rate in the maturity bracket of 3–7 day deals was 10 basis points lower, the proportion of this market segment to the total rising from 7.1% to 11.2%. The average of interest rates on 1–2 week transactions and those extending beyond two weeks, at 11.7% and 12% respectively, remained unchanged at November's levels, with slight drops in the share of the two maturity areas within total turnover (see Chart 11).

Corporate and household sector market interest rates barely changed in December (see Chart 12). Corporate sector average short-term deposit rates rose 10 basis points, to 9.4%, borrowing rates remaining unchanged at 12.8%. As a consequence, the short-term banking spread narrowed from November's 340 basis points to 330 basis points.

Household sector average sight and short-term deposit rates both fell 10 basis points, to 3.5% and 8.8% respectively. Long-term deposit rates, in contrast, remained flat at November's 8.8%. The banking sector average of household sector borrowing rates fell 10 basis points to 20.6%. That small drop was accounted for entirely by a decrease in interest rates on consumer credit and other loans. The average of these fell 10 basis points to 21% in December.

Chart 11 Monthly averages of official dealing rates and interbank lending rates

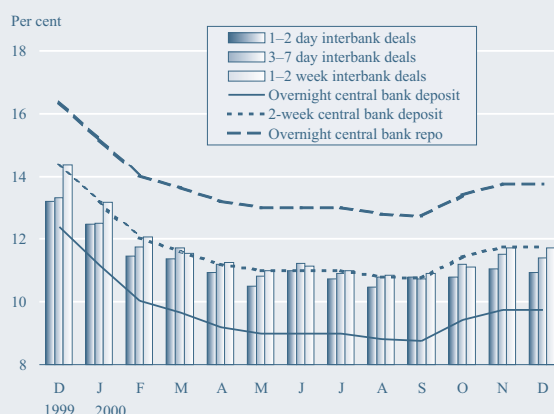
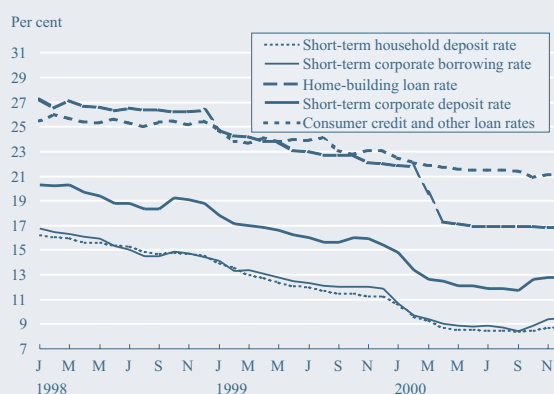
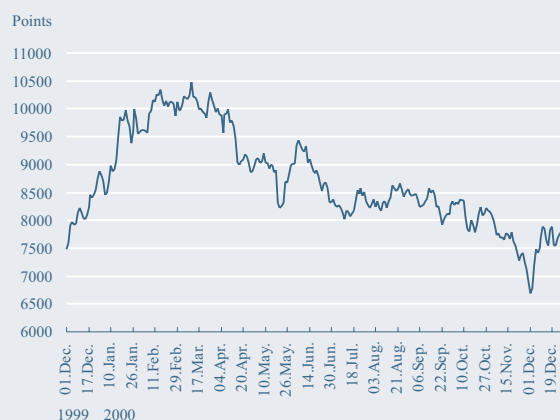
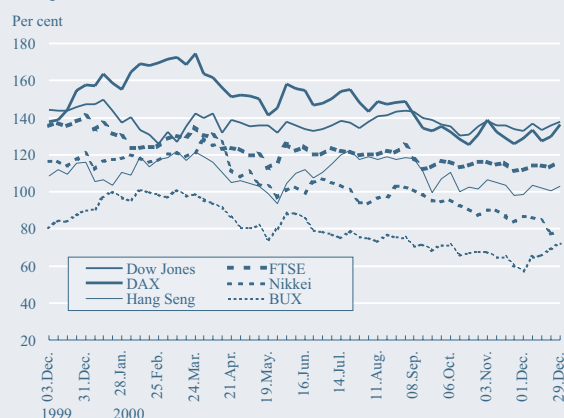


Chart 12 Corporate and household sector borrowing and deposit rates



¹¹ The National Bank of Hungary started to issue a non interest-bearing bill with maturity of three months on 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.

Chart 13 The BUX (2 January 1991 = 1,000)**Chart 14 The world's leading exchanges and the BUX**
5 September 1997 = 100; on a dollar basis

Home-building and property loan rates, in contrast, continued to be unchanged at the level seen in earlier months of the year (16.8%). The gap between corporate and household sector average borrowing rates¹² narrowed by another 10 basis points to 760 basis points. Corporate sector average short-term deposit rates continued to be 70 basis points higher than the corresponding average of household sector deposit rates.

Following a sharp fall of 15.6% in November, the share index of the Budapest Stock Exchange rose quite strongly in December (see Chart 13). Although on the first day of the month prices fell to their yearly trough, they rose by 18% in the course of the following one and a half weeks, only to remain confined to a 4.5 per cent band during the remaining part of the month. The market closed the year at 7,849,75, up 13.9% on its finish in November but exactly 11% lower than the close a year before.

Measured on a dollar basis, the official index of the Budapest Stock Exchange rose by 19.3% in December, following a 12.5% decline in the preceding month. That gain was greater than those on the major international exchanges (see Chart 14). The Dow Jones Industrial Average of New York rose by 3.6% after a 5.1% rise in November. The DAX of Frankfurt and the FTSE of London closed 5.3% and 5.9% higher respectively than in the preceding month. However, the NASDAQ, the index of the United States' most advanced technological stocks, continued to fall – it declined by another 6.6% following losses of 8.1% in October and 23.6% in November.

In the Far East, the Nikkei of Tokyo was significantly lower, losing 10.3% in December (also on a dollar basis). Earlier, the index fell by 8.4% in October, before remaining mostly stagnant in November. The Hang Seng Index of Hong Kong, in contrast, rose by 6.5%, following a total loss of nearly 10% in the preceding two months.

¹² For both sectors, average borrowing rates have been defined taking into view the new contracts concluded during the course of the month.

Balance of payments and foreign trade

The Bank has made retrospective adjustments to certain data published earlier for 1999–2000. The adjustments affected monthly balance of payments data and values of foreign assets and liabilities, due to the revision of data on enterprises' direct borrowing/lending transactions.¹³

According to the not seasonally adjusted numbers, the current account ran a deficit of €1,921 million in 2000 (see Chart 15). The deficit fell by €54 million relative to the previous year. However, the structure of deficit changed significantly. Accompanied by strong increases in both exports and imports, the merchandise trade deficit rose by €542 million, with 90% of the increase in deficit occurring in the final quarter. The surpluses on tourism and current transfers, respectively, were €455 million and €122 million higher than in 1999. The balance on services excluding tourism also improved – its deficit fell by €169 million. Within investment income, the outflow of direct investment income on equity rose by €121 million and that of income on debt by €27 million.

The balance of non-debt capital transactions closed with an inward flow of €474 million in 2000. Here, the net inflow of direct investments in equity capital amounted to €1,759 million. The value of direct investments abroad by Hungarian residents was EUR 621 million. Portfolio investment transactions in equity securities resulted in a net outflow of EUR 664 million.

Only a part of the seasonally adjusted data for December 2000 is suitable for analysing the balance of payments (see Table D). The high amount of profit repatriation, characterising the previous years, was absent in 2000. Eliminating the effects of seasonal patterns,¹⁴ the absence of a 'spike' for non-debt income flows in December, as would be usual, has produced data which have been impossible to interpret from an economic point of view. The effect of this is clearly visible on the current account balance. Therefore,

¹³ A detailed methodological description of the revision and changes to the data reported earlier can be found in 'Methodological notes to the revision of 1999–2000 data' on the Banks' website (www.mnb.hu) and in the Methodological notes section of this Monthly Report.

¹⁴ Using the SEATS TRAMO software a model is constructed to seasonally adjust data for the period January 1994–December 2000. As a next step, this model is then fixed at the length of the year, in which subsequent data are adjusted. The sub-accounts of the balance of payments, derived from the not seasonally adjusted data, are adjusted directly. Consequently, a seasonally adjusted sub-balance cannot be re-produced from a set of seasonally adjusted data that underlie the given sub-balance.

Chart 15 Current account

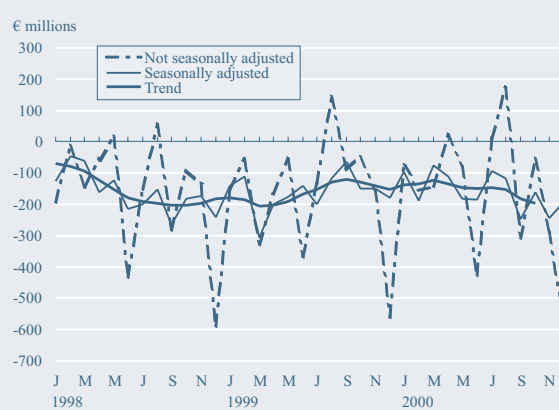


Table D Developments in the seasonally adjusted current account data*

	€ millions			
	1999 December	2000 October	2000 November	2000 December
Goods	-167	-324	-343	-354
Exports	1,934	2,531	2,582	2,657
Imports	2,072	2,748	2,894	2,899
Services excluding tourism	-39	-21	-55	-90
Tourism	198	219	222	210
Non-debt income**	-84	-93	-95	203
Income on debt	-58	-58	-89	-81
Current transfers***	36	37	40	10
Current account balance**	-180	-161	-244	-192

* There may be differences between the totals because of seasonal adjustment.

** The December value cannot be interpreted.

*** No seasonal patterns are detectable.

these two categories of the balance of payments have proved to be unsuitable for balance of payments analysis. The balance of services excluding tourism showed the most significant change against the November outcome, as there was an increase of €35 million in deficit in one month. The merchandise trade deficit and the tourism surplus both deteriorated nearly equally, by €11 million and €12 million respectively. Debt-related outflows fell by €8 million.

The merchandise trade deficit rose by €187 million relative to December 1999. That was accounted for principally by the strong increase in imports. The deficit on services excluding tourism more than doubled, and negative non-debt investment income rose by €23 million. In contrast, the tourism surplus increased further – it rose by €12 million in twelve months.

According to the not seasonally adjusted data, the current account was €583 million in deficit in December. The capital account closed with a surplus of €27 million, so whole-economy external financing requirement amounted to €556 million in the month under review. Non-debt capital transactions ended with a net outward flow of €4 million. This was the balance of a €47 million net inflow of direct investments in equity capital (direct investments in Hungary and those by Hungarian residents abroad, respectively, amounted to €314 million and €266 million) and a €51 million net outflow on portfolio investment transactions in equity securities.

Whole-economy gross foreign debt was €33 billion to the end of December, inter-company loans accounting for €3.4 billion of the outstanding total. The combined gross foreign currency debt of the NBH and the central government outstanding to non-residents and that of credit institutions and the corporate and other sectors amounted to €16 billion and €17 billion respectively. Total financial liabilities of direct investment enterprises to their parents, also known as inter-company loans, accounted for 29% of corporate sector gross external debt.

Whole-economy net debt stood at €12.2 billion at end-December, inter-company loans amounting to €3.2 billion. The combined net debt of the NBH and the central government stood at €2.5 billion. However, if only foreign currency denominated assets and liabilities are taken into account, the two sectors took a €191 million net lending position in foreign currency, the foreign currency equivalent of domestic currency debt outstanding to non-residents amounting to €2.8 billion. Total private sector net foreign debt was €9.7 billion.

Public finance

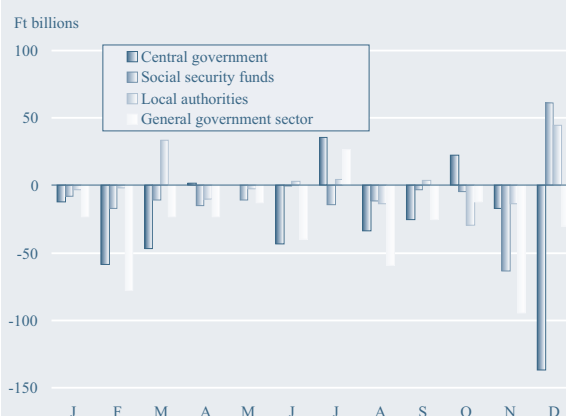
The net borrowing requirement of general government amounted to Ft 30.5 billion in December 2000, showing an increase of Ft 20.5 billion in relation to December 1999. The central government ran a Ft 136.8 billion deficit in the month. This contrasted with the social security funds and the local government authorities, respectively, being Ft 61.5 billion and Ft 44.7 billion in surplus.

The total net borrowing requirement of general government amounted to Ft 395.8 billion in 2000. That was Ft 212.3 billion lower than in 1999 (see Chart 16). The central government borrowing requirement, including the accounts of ÁPV Rt and the extra-budgetary funds, and adjusted to reflect the Bank's calculation method, was Ft 313.3 billion, which meant a drop of Ft 167.5 billion relative to 1999. The primary surplus of central government, excluding interest payments and receipts as well as mutual assets and liabilities of the NBH and the central government, was Ft 417.2 billion.

Total official central government revenue in 2000 outperformed the revenue estimate for the year significantly, by some Ft 172.9 billion, reaching Ft 3,679.3 billion. That was owing mainly to revenues of customs duties and import fees exceeding the target, VAT receipts remaining continually high since the start of the year, and receipts of the central government units, too, being strong. Considerable lags were observable only in the smaller revenue items, such as in corporate tax payments by financial institutions, other transfers by economic organisations, and central government receipts of transfers by central government units.

According to data from the Hungarian State Treasury, total central government expenditure also exceeded the official estimate in 2000, despite lagging behind it by nearly 2% in November. However, in December there was a change in the schedule of central government expenditures. Total expenditure more than doubled in one month from the average of the preceding months, owing principally to expenditures of the central government units backed by subsidies and large amounts recorded as central government extraordinary expenditure. (The major items of these payments were a one-off increase in old-age pensions and wages, transfers to the government's house rent

Chart 16 General government net lending (+) / net borrowing (-) by sub-sector



Source: CSO

programme and subsidies to ÁPV Rt.) It is important to note, however, that Ft 94.5 billion out of these expenditures remained on the Treasury Account, and would be spent in 2001, so the amount of total expenditure, adjusted by this amount, and the year-end balance show a significantly more favourable picture than officially reported.

The extra-budgetary funds (the Labour Market Fund and the Central Nuclear Financial Fund) ran a surplus of Ft 2.1 billion in 2000. That was the balance of Ft 166.0 million revenue and Ft 163.9 expenditure, which was some Ft 1.3 billion worse than the officially approved balance. Contribution receipts of the Labour Market Fund and higher unemployment provisions accounted for the lag behind the estimate.

The State Privatisation and Holding Company remained in deficit even after the injection of Ft 72 billion into reserves. As a result, the asset manager registered a Ft 19.0 billion deficit to the end of December 2000. Spending on the improvement of the financial situation of companies remaining permanently in state ownership, other expenses from the reserve fund and financial liabilities mandated by the budget act accounted for the largest part of the company's expenditure.

According to data received from the social security authorities, the net borrowing requirement of the Health Insurance Fund and the Pension Insurance Fund, calculated excluding revenue related to asset utilisation as well as repayments and lending, amounted to Ft 98.3 billion in 2000. Compulsory social contribution receipts raised a total Ft 1,561.9 billion revenue for the social security authorities. Contributions by the central government amounted to Ft 151.1 billion to the end of December. That was practically equal to the amount estimated for the year as a whole. Pension payments, accounting for the major item on the expenditure side, amounted to Ft 1,129.8 billion, health provisions in cash and in kind amounting to Ft 648.3 billion. December pension payments, brought forward to November in line with the practice of earlier years, explained most of the more favourable balance for December. At the end of 2000, this item resulted in a Ft 39.1 billion deterioration in the November balance and an improvement by the same amount in the December balance of the social security sub-sector.

In December, the gross debt of general government fell by Ft 131.2 billion, so it stood at a total Ft 7,752.2 billion at the end of the month. This was Ft 356.2 billion less than at end-1999.

Assets and liabilities of the central government fell by Ft 392.5 billion and Ft 140.1 billion respectively in December, so net financial assets were Ft 252.4 billion lower than at the end of November (see Table E). The fall in domestic currency deposits with the central bank, the cancellation of

debt owed by the social security funds and the effect of exchange rate changes on the foreign currency swaps related to loans from the NBH played a dominant role in the fall in assets. The cancellation of a Ft 44 billion debt owed by the social security authorities has been recorded as other volume change both within assets of the central government and liabilities of the social security authorities. The repayment of domestic currency loans to the NBH, the effect of exchange rate changes on the foreign currency loan and a fall in wage arrears caused liabilities to fall significantly, which was partially offset by the issuance of new forint denominated government securities.

The borrowing requirement of the social security funds from the central government fell by Ft 111.3 billion in December due to the repayment of existing liabilities and the cancellation of a part of debt. Taking into view also changes in other liabilities and assets, net assets of the sub-sector rose by Ft 115 billion.

Based on available information, assets of the local government authorities rose by Ft 35.8 billion in the month under review, the amount of liabilities barely changing. The authorities' bank deposits were significantly higher, by around Ft 46 billion. That contrasted with a fall in their holdings of government securities.

The change in general government net financial assets due to transactions, which shows the sector's debt in terms of deficit financing, was a decrease of Ft 82.9 billion in December and one of Ft 355 billion in the year as a whole. Here, the borrowing requirement of central government amounted to Ft 290.8 billion and that of the social security funds to Ft 82.4 billion in 2000.

Table E Changes in financial wealth of general government

Ft billions

	2000 December	Flows:			
		December		January–December	
		Transac- tions	Other changes in volume	Transac- tions	Other changes in volume
Central government					
Assets	700.4	-209.0	-183.4	-84.9	-22.7
Liabilities	7,699.3	-19.2	-120.9	205.8	126.2
Net financial assets	-6,998.9	-189.8	-62.5	-290.8	-148.9
Social security funds					
Assets	6.4	4.1	0.0	-7.2	0.0
Liabilities	100.7	-66.8	-44.0	75.1	-44.0
Net financial assets	-94.3	70.9	44.0	-82.4	44.0
Local government authorities					
Assets	444.5	35.8	0.0	29.4	0.0
Liabilities	154.0	-0.2	0.0	11.3	0.8
Net financial assets	290.4	36.0	0.0	18.1	-0.8
Consolidated general government					
Assets	949.4	-93.2	-139.4	-125.7	21.3
Liabilities	7,752.2	-10.3	-120.9	229.3	126.9
Net financial assets	-6,802.8	-82.9	-18.5	-355.0	-105.6

Earnings and financial savings of households

Chart 17 Adjusted gross average earnings

Same period of previous year = 100

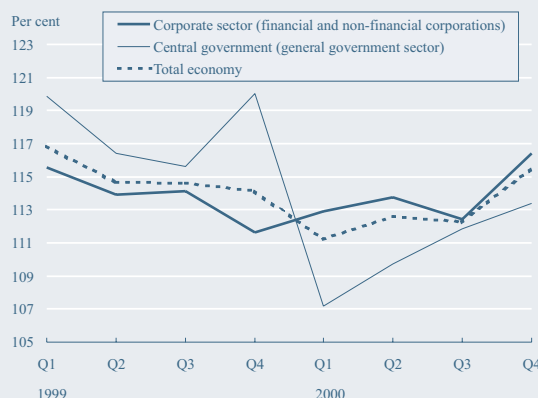
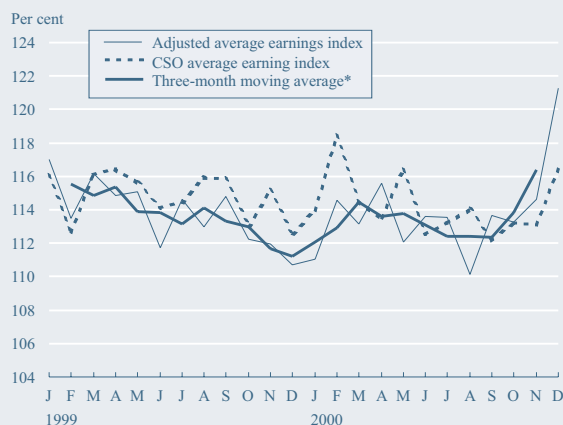


Chart 18 Corporate sector monthly gross average earnings index

Same month of previous year = 100



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

Whole-economy gross earnings growth¹⁵ rose in 2000 Q4 relative to both the previous quarter and the same period of 1999 (see Chart 17). According to the Bank's calculations¹⁶ which eliminate the effects of changes in the composition of the workforce and the number of hours worked, whole-economy gross earnings grew by 15.5% in one year, showing increases of 3.2 percentage points on the previous quarter and 1.4 percentage points on the outcome recorded in the period a year before. Average earnings growth in the corporate and government sectors continued to be divergent in 2000. But the adjusted indicators show that the tendency of government sector earnings to grow more strongly than corporate sector earnings reversed in 2000.

According to the calculations by the CSO and the NBH, growth in average earnings continued to moderate in 2000. However, in contrast with 1999 when the rate at which earnings grew slowed from quarter to quarter, the indicators for 2000 show a gradual rise.

According to the Bank's calculations, earnings in firms with more than 5 employees grew by 21.3% in the period since December 1999 (see Chart 18). That earnings growth was 6.7 percentage points higher than in the preceding month. The pick-up in earnings growth is explained by a drop in the number of hours worked, which in turn was due to the change in working days, a change in the composition of blue and white-collar staff and by an increase in the percentage share of irregular pay. (The number of hours worked was nearly 10% lower than a year earlier, caused by the change in the number of working days.)

¹⁵ Companies with more than 5 employees (financial and non-financial companies), and units of central government and the social security authorities (general government sector).

¹⁶ Starting from June 2000, movements in earnings are analysed by the Bank's new indicator, which eliminates from 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. The indicator is currently being revised and developed further.

Adjusted government sector earnings growth¹⁷ was 14.5%, showing a drop of 2.5 percentage points relative to November.

In December, operational net lending of households, i.e. their financial savings after adjustment for the effects of inflation, amounted to Ft 39.3 billion, higher than the monthly average of 2000 but lower than usual around this time of the year (see Chart 19). As regards the constituents of operational net lending, the value of financial assets rose by Ft 58.3 billion and household debt by Ft 18.4 billion. Net financial wealth of households, valued at market prices, was Ft 127.3 billion higher in the month. That reflected a Ft 11.1 billion holding gain due to the effect of price changes and a Ft 47.8 billion other volume change.¹⁸

Of the various financial assets of households, the values of non-bank securities holdings and (due to the payment of wages brought forward) domestic currency deposits rose the most strongly. Domestic currency claims on credit institutions increased by Ft 62.8 billion in the month, the payment in December of wages due in the early days of January accounting for Ft 47.8 billion. Compensation for inflation, incorporated in interest, amounted to Ft 16.2 billion. Inflation-adjusted transactions, at Ft -1.2 billion, had a negative effect.

Households' foreign currency deposits fell by Ft 10.6 billion in the month. Inflation-adjusted transactions contributed Ft 13 billion to the increase. However, the sector incurred a Ft 24.9 billion holding loss due to exchange rate movements.

Holdings of bank securities rose by Ft 58.1 billion in December. Households preferred buying government securities rather than any other class of asset, inflation-adjusted transactions amounting to Ft 19 billion. In contrast, holdings of investment fund certificates and shares fell by Ft 5.4 billion and Ft 1.5 billion respectively. Measured at market value, the revaluation of securities holdings caused a significant gain of Ft 31.9 billion, on account primarily of a rise in share prices.

Total debt of households rose by Ft 23.8 billion in December, significantly exceeding the monthly average increase of the year. Net borrowing, excluding compensation for inflation, accounted for Ft 18.4 billion of the increase. The net increase in consumer credit (Ft 8.9 billion) was higher than that in home-building loans (Ft 6.8 billion).

Chart 19 Operational net lending (+) / net borrowing (-) of households



¹⁷ 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.

¹⁸ As in earlier years, the payment of wages brought forward to December 2000 are recorded as transaction in January 2001, instead of December 2000, in line with the method used for government accounting.

Main economic and financial indicators

	GDP volume indices ¹	Consumer price index	Core inflation (NBH)	Gross earnings index	Unemployment rate	Operational net lending	M0	M1	M3	Central bank policy rate (2 week deposit)	Current account balance	Direct investment in Hungary ²	International reserves	General government net lending position
	Same quarter of previous year = 100	Same month of previous year = 100			Per cent	Ft billions	Same month of previous year = 100			Per cent	€ millions		€ millions, end of period	Ft billions
January 1999		109.8	110.4	119.6	8.0	35.2	116.0	121.4	118.8	16.17	-151	270	7,898	-33.2
February		109.4	109.9	113.3	7.6	51.7	118.1	119.5	119.4	16.00	-57	68	8,574	-105.1
March	103.5	109.3	109.5	117.1	6.7	12.9	118.6	117.1	118.1	16.00	-330	89	8,243	-70.0
April		109.4	109.7	116.5	7.3	18.7	115.4	118.5	118.2	15.58	-167	100	8,190	-32.5
May		108.9	109.5	117.2	7.0	18.9	116.7	119.4	119.0	15.10	-55	127	8,380	-80.9
June	103.9	109.1	109.7	114.6	6.3	25.6	117.7	116.0	116.9	14.85	-369	119	9,068	-54.9
July		110.0	109.6	115.0	7.5	28.6	116.2	117.7	117.4	14.75	-134	60	9,150	-38.9
August		110.9	109.6	116.6	6.8	30.0	114.8	118.2	116.5	14.75	144	113	9,285	-53.6
September	104.5	110.9	109.3	116.0	6.6	9.8	115.3	117.1	116.3	14.75	-87	103	9,635	-25.5
October		110.5	108.7	114.3	6.7	7.4	116.3	119.0	116.3	14.75	-50	61	9,743	-14.7
November		110.6	108.8	116.5	6.6	30.2	115.1	119.4	116.4	14.53	-157	146	10,768	-83.5
December	105.9	111.2	108.7	117.0	6.3	74.2	124.0	118.8	116.0	14.38	-562	296	10,874	-12.0
January 2000		110.0	108.0	110.7	7.0	36.8	114.1	118.1	115.8	13.17	-77	44	11,513	-22.9
February		109.8	107.8	116.0	7.2	17.6	114.9	117.8	115.3	12.04	-157	125	11,869	-77.8
March	106.6	109.6	107.5	113.0	6.0	15.0	116.3	117.2	114.8	11.60	-145	54	11,202	-23.4
April		109.2	107.3	113.6	6.9	11.7	116.7	118.4	114.9	11.20	21	162	11,380	-23.6
May		109.1	107.2	113.9	6.7	-5.2	113.5	115.1	112.7	11.00	-80	186	11,549	-12.8
June	105.8	109.1	107.0	112.0	6.0	52.4	114.6	117.4	113.7	11.00	-428	168	10,999	-40.1
July		109.6	107.4	114.7	6.6	23.1	111.5	115.9	113.0	11.00	10	42	11,110	26.3
August		109.6	108.5	112.4	6.5	68.0	116.1	114.4	112.8	10.81	174	253	11,628	-59.0
September	104.5	110.3	109.4	111.9	5.7	10.7	117.0	116.3	113.6	10.75	-311	229	12,047	-25.2
October		110.4	109.6	112.2	6.2	30.9	114.1	115.8	114.3	11.42	-55	37	12,069	-12.3
November		110.6	109.7	114.6	6.0	46.0	117.3	116.4	114.9	11.75	-289	146	12,433	-94.4
December		110.1	109.8	116.5	5.7	39.9	108.5	111.8	112.6	11.75	-583	314	12,068	-30.5

Source: CSO, NBH

¹Preliminary data.

²Equity capital.