Monthly Report
(includes data up to the end of January 2001)

3/2001

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Contents

Domestic economic activity

The economic trends of 2000 continued to be evident in industrial production in January 2001. Output growth remained uninterrupted, but its pace moderated a little. The backbone of growth, as in earlier periods, was exports, but domestic sales continued to gather considerable momentum as well (see Charts 1 and 2).

According to the seasonally adjusted data, which take account of working-day variations, industrial output was 1% higher in January 2001 than in December, total sales, in contrast, falling modestly by 0.7%.

Industrial output grew by 16% and total sales by 16.9% in January relative to a year before. Exports surged by 26.1% in twelve months, the level of domestic sales rising by 8.8%.

Interpreted as a favourable sign, both output and the volume of sales rose virtually across all branches of manufacturing, continuing the pattern of the previous year. Output of the electrical equipment sub-sector still rose the most robustly, by 28%. Nevertheless, output gains in other branches of the sector varied between 15% and 20% relative to the same period of 2000.

The popular gauge of productivity continued to grow dynamically – gross production per capita in manufacturing was 16.3% higher in January than a year before.

Suggesting a lasting upturn in industrial performance, fresh orders for manufacturers' output in the mainstream branches of manufacturing were nearly 30% higher in the month under review than twelve months previously. Here, export orders surged by 36.2%. In contrast, domestic orders fell by 2.9%.

Construction output was 6.2% weaker in January year on year. Adjusted to reflect seasonal effects and working-day variations, the sector's output rose by 2.1% in the month compared with December 2000 (see Chart 3). Up nearly 10%, the value of new contracts for construction work grew significantly in one year. The value of contracts at end-January, measured at constant prices, was 58.5% higher than a year before owing to strong increases of 37.1% and 75.8%, respectively, in the values of contracts for building constructions and other structures.

Whole-economy investment activity was buoyant in 2000, particularly in the final quarter of the year. According to the preliminary numbers released by the CSO,

Chart 1 **Volume indices of industrial production and sales** (average of 1997 = 100)

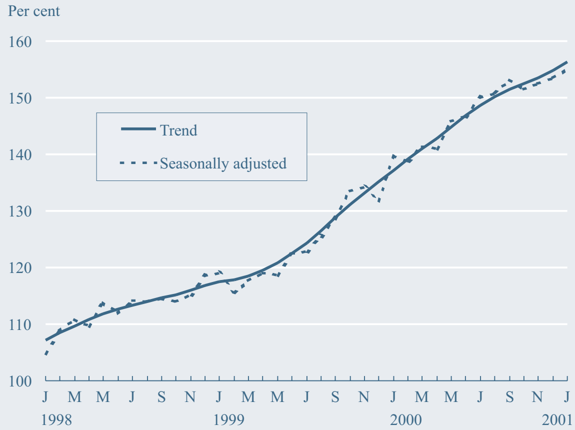


Chart 2 **Volume indices of industrial production and sales**
Trend values; annualised month-on-month changes

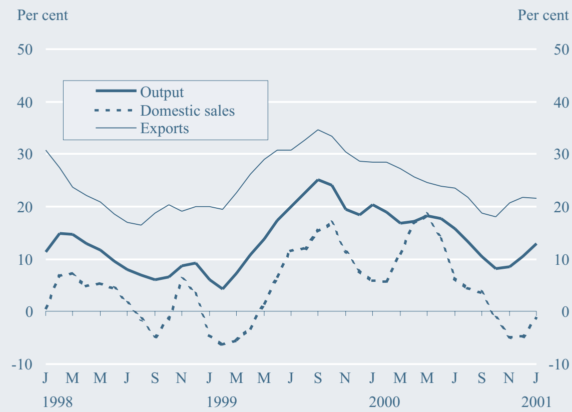


Chart 3 **Volume index of construction output**
Average of 1995 = 100

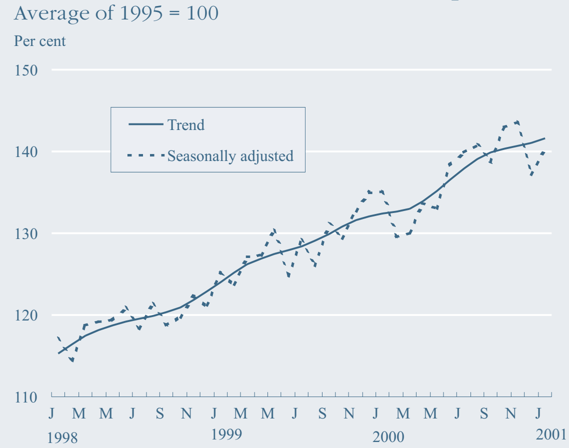


Chart 4 **Volume index of construction output**
Average of 1995 = 100

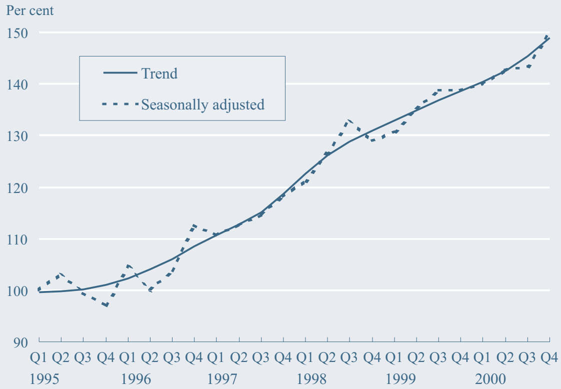


Chart 5 **Number of employed persons**

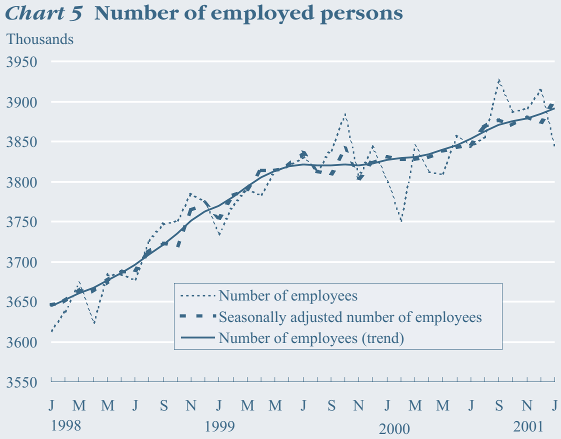
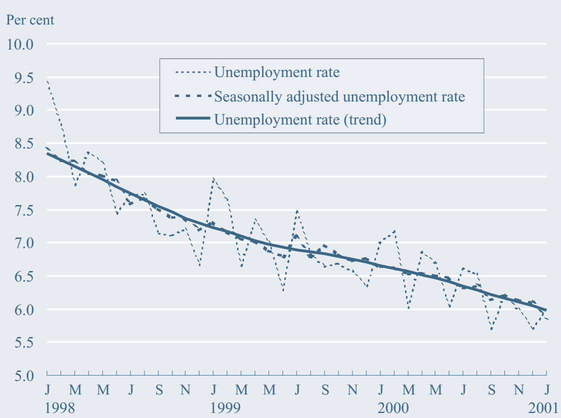


Chart 6 **Whole-economy unemployment rate**



whole-economy investment spending amounted to Ft 2,830 billion. That was 6.5% more, at constant prices, than in 1999.

Whole-economy investment outlay showed a growth rate of 8.2% in 2000 Q4 relative to the comparable period of the previous year. The seasonally adjusted volume of fourth-quarter fixed investment was 4.4% higher in Q4 than in the previous quarter (see Chart 4).

Looking at the technical-material composition of investment, machinery investment grew by 6.9% in one year, construction investment rising even more strongly in the period, by 9.7%.

Fixed investment outlay, at 45.5%, showed the most robust increase in public administration, defence and compulsory social security in 2000 Q4 relative to the same period of the previous year. However, this sector accounted for only 6% as a percentage of whole-economy fixed investment. In addition to public administration, defence and compulsory social security, transportation, storage, post and telecommunications, and rental activities and business services registered quite strong results, at 10.3% and 15.1% respectively. These two sectors accounted for 43% of whole-economy fixed investment in the period.

According to the seasonally adjusted values derived from the CSO's quarterly Labour Force Survey data, the number of economically active persons continued to rise and the unemployment rate to fall in January 2001.

The number of people in employment was 0.7% higher than in December 2000 and 1.7% higher than a year earlier (see Chart 5). The number of registered unemployed fell by 3.2% in one month and by nearly 10% relative to January 2000. The number of economically active persons grew by 0.4% in the month under review relative to the preceding month.

The whole-economy unemployment rate was 5.9% in January, showing a drop of 0.2 of a percentage point from December 2000 and one of 0.7 of a percentage point relative to the twelve-month previous outcome (see Chart 6).

Price trends

Consumer prices

The CSO release of the year-on-year consumer price index was 10.1% in January 2001, the rate of core consumer price inflation, calculated using the Bank's method, being 10.5%. One-month core inflation, not seasonally adjusted, increased by 1.8% in January (see Chart 7).

The trend value of core consumer price inflation was 0.78% in January, showing an increase of 0.1 of a percentage point relative to December 2000. Services prices continued to be the major factor influencing the monthly change in consumer prices. Services prices contributed 0.31 of a percentage point to the trend value of core consumer price inflation. This meant a slight increase relative to the preceding few months. The contribution of food price inflation to the trend of core inflation in the month was almost identical with that seen in December, at 0.17 of a percentage point. Among the other price categories, the changes in the prices of alcoholic drinks and tobacco, and other goods accounted for 0.1 of a percentage point each, that in clothing 0.04, those in household energy and consumer durables, which are also taken into view when calculating core inflation, both explaining 0.03 of a percentage point (see Chart 8).

The one-month increase in consumer prices, as reported by the CSO, was 1.5% in January, equal to the outturn for January 2000. In addition to the effect of seasonal increases in prices, particularly in those of a number of foodstuffs and clothing articles, there were significant rises in the prices of non-seasonal foods (2.9%) and services (2.5%), in contrast with other goods and motor fuel prices, which fell by 0.8% on account of a drop in motor fuel. Price measures announced on the levels of central and local government, contributed 0.5 of a percentage point to the value of the consumer price index.

Chart 7 **Monthly consumer price index and the trend of core inflation**

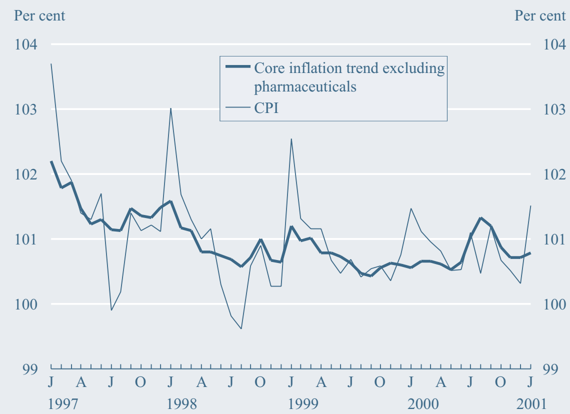
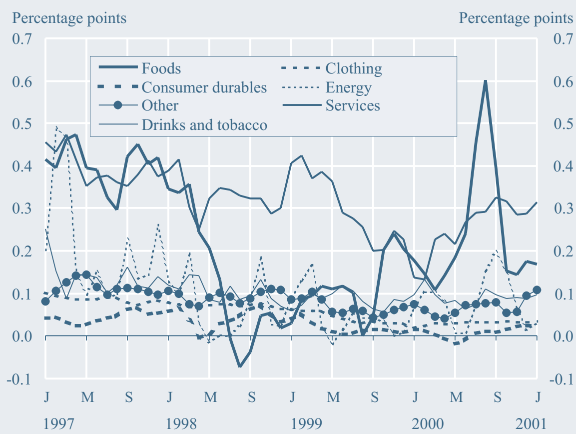


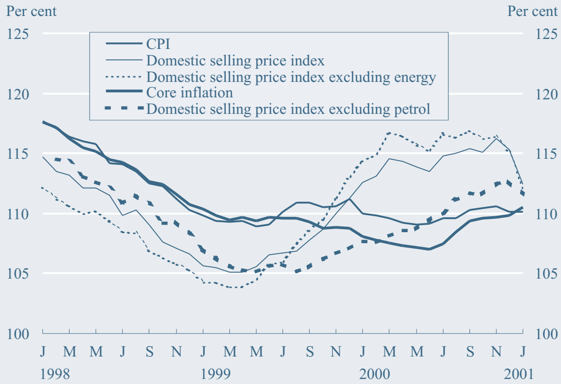
Chart 8 **Contributions of the CSO's major product categories to the trend of core inflation**



Producer prices

Producer prices (the CSO release of industrial firms' domestic selling prices) rose by 12.4% in January relative to twelve months previously, the one-month change in producer prices being 1.8%. Manufacturing industry prices,

Chart 9 **Comparing the domestic producer price index excluding petrol with other price indices**
Same month of previous year = 100



which are a dominant factor influencing movements in domestic sales prices, rose on average by 1% in the month under review relative to the preceding month. Food industry prices rose very significantly, by 3%. Under pressure from plummeting oil prices and the weakness of the dollar against the euro, petroleum product prices fell by 6.5% and chemical industry producer prices by 2.2% in one month. Price changes in the rest of manufacturing varied between 0.8% and 1.6%. The January price index, excluding the effect of petrol price changes, was 111.6% (see Chart 9).

Monetary developments

Monetary conditions

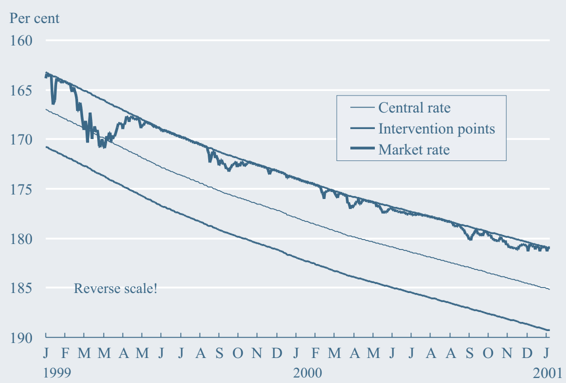
The Bank, in response to developments in the domestic financial markets, took the following policy decision in January 2001.

– Effective from 1 January 2001, the Bank lowered from 7.92% to 7.64% the interest rate on loans to the central government to finance budget deficits incurred prior to 1991. The Bank also announced that it would lower the interest rate to 7.0% from 1 January 2002.
– Effective from 8 January 2001, the Bank reduced the two-week deposit rate from 11.75% to 11.5%. Leaving the width of the overnight interest rate corridor unchanged, the Bank also reduced the overnight repo and swap rates from 13.75% to 13.5%, and the overnight deposit rate from 9.75% to 9.5%. The official interest rate remunerated on compulsory reserves built for domestic-currency liabilities fell from 6.0% to 5.75%, and the rate on compulsory reserves built for foreign-currency liabilities fell from 6.5% to 6.25%.
– Effective from 31 January 2001, the rate remunerated on compulsory reserves built for domestic-currency liabilities fell further, from 5.75% to 3.5%, and the rate remunerated on compulsory reserves built for foreign-currency liabilities fell from 6.25% to 4.0%. The Bank took its decision to lower the rate remunerate on required reserves in accordance with the reduction by 4 percentage points in the minimum reserve ratio, taking effect from 1 February 2000.

The market rate of the forint fluctuated near the strong edge of the official intervention band in January. That meant the exchange rate depreciated by only 0.08% vis-à-vis the currency basket in comparison with end-December. The Bank officially devalued the central rate by 0.3% in the month. The average deviation of the exchange rate from the central rate was 215 basis points toward the strong extreme of the intervention band (see Chart 10).

During the conduct of official interventions in the foreign exchange market, the Bank purchased foreign exchange in the amount of €15.9 million in the month.

Chart 10 **Exchange rate movements within the intervention band**
13 March 1995 = 100



Analytical accounts of the NBH

As regards the major items in the balance sheet of the NBH, the value of banknotes and coin in circulation rose by Ft 71.6 billion in January relative to end-December. The combined end-of-month total of domestic and foreign cur-

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

Ft billions

	1999		2000			2001		
	Q3	Q4	January	Q3	Q4	January	Of which:	
	Averages*			Averages*			Transactions	Revaluations
Banknotes and coin	11.9	28.9	–133.5	16.4	13.9	–71.6	–71.6	0.0
Forint deposits of credit institutions	71.9	31.5	210.1	–21.3	11.3	–274.8	–274.8	0.0
Foreign currency deposits of credit institutions	–27.5	–9.8	–24.2	9.3	–5.2	–79.6	–77.7	–1.9
Net claims on general government (excluding ÁPV Rt deposits)	–69.9	–64.6	–153.2	10.2	–27.0	–294.0	–295.3	1.3
Of which: forint loans	–6.0	–6.0	0.0	–6.0	–6.3	0.0	0.0	0.0
government securities	–4.1	–1.9	0.0	–4.4	–1.1	–193.6	–193.6	0.0
foreign currency loan	–26.2	–51.5	–54.0	–16.7	–11.1	1.3	0.0	1.3
Claims on credit institutions	–3.1	–3.8	–2.4	–1.7	–3.6	–3.2	–3.2	0.0
Foreign and other net assets	129.3	118.9	208.0	–4.1	50.6	–128.8	–125.6	–3.2

* Quarterly average of changes relative to the preceding month.

Table B **Decomposing changes in average stock data In the balance sheet of the NBH***

Ft billions

	2000	2001	Monthly change
	December	January	
Banknotes and coin	1,011.4	918.3	–93.1
Forint deposits of credit institutions	1,045.7	1,100.5	54.8
Of which: bankers' deposit accounts	594.4	601.3	6.9
non-callable deposits	359.2	380.9	21.7
Foreign currency deposits of credit institutions	464.7	406.7	–58.0
Net claims on general government (excluding ÁPV Rt deposits)	1,695.3	1,695.0	–0.3
Of which: forint loans	305.8	289.5	–16.3
government securities	368.1	361.3	–6.8
foreign currency loan	1,355.0	1,369.3	14.3
Claims on credit institutions	99.9	90.9	–9.0
Foreign and other net assets	726.5	639.6	–87.0

* Monthly average of daily stock data.

rency liabilities of the central bank to credit institutions fell by Ft 354.4 billion in the month under review. Here, current account holdings of credit institutions fell by Ft 191.1 billion due to the changes to the rules of reserve requirements, resulting from the Bank's move on 31 January 2001 to mandate credit institutions to place as reserves 4% of the reserve base for December 2000 in eligible central bank paper. Central bank claims on credit institutions fell by Ft 3.2 billion, mainly due to a decrease in the amount outstanding of long-term domestic currency loans. Overall, the Bank's net liabilities to domestic credit institutions fell by Ft 351.2 billion, its claims on the general government sector by Ft 294 billion, and foreign and other net assets by Ft 128.8 billion (see Table A).

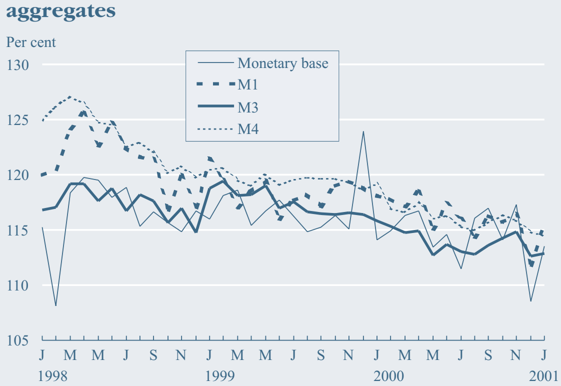
Looking at the average stocks of central bank liabilities to credit institutions, the average of current account deposits rose by Ft 6.9 billion and that of non-callable deposits by Ft 21.7 billion, while that of foreign currency deposits fell by Ft 58 billion relative to the preceding month (see Table B).

Aggregate balance sheet of the banking sector

Annual growth in the monetary base (M0) rose by 5 percentage points in January relative to the preceding month, the annual index of the aggregate rising by 13.5% in one year.

According to the final numbers, growth in the monetary aggregates, derived from the liability items of the aggregate balance sheet of the banking sector, picked up speed following the very depressed outcome at the end of 2000 on account of the base effect. M4 provided the only exception. Annual growth in M1 rose by 3.8 percentage points from December to January, so its end-of-month stock stood 15.6% higher than a year before. Annual growth in the money measure M2 was 0.5 of a percentage point stronger than in December 2000, its end-January stock standing 12.8% higher in a twelve-month comparison. Growth in broad money M3 picked up more modestly than M2, rising by 0.3 of a percentage point. The end-of-month stock of the aggregate rose by 12.9% (see Chart 11). Annual growth of

Chart 11 Annual growth rates of the money aggregates



Notes:
M1 = Currency in circulation, plus forint sight deposits held at banks.
M2 = M1, plus forint time deposits, plus foreign currency deposits, plus bank securities (not shown in the chart as it hardly plots differently from M3).
M3 = M2, plus holdings of bank securities.
M4 = M3, plus government securities held by non-banks, plus MNB domestic bills held by non-banks.
Monetary base (M0) = Currency in circulation, plus banks' required reserves and other domestic currency accounts at the central bank.
M0 is calculated from the month-end value of banknotes and coin, and the average of banks' reserve deposits and other forint balances with the central bank, taking 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.

broadest money, M4, changed only a little in the month – it slowed by 0.2 of a percentage point, its end-of-month stock standing 14.5% higher than in January 2000.

Looking at the individual liability items of the aggregate balance sheet of the banking sector, corporate sector deposits fell by Ft 83.6 billion due to the transaction effect. This change resulted from decreases of Ft 74.9 billion and Ft 8.7 billion in forint and foreign currency deposits respectively. Household sector deposits rose by Ft 35.1 billion during the month. Here, domestic currency deposits grew by Ft 22.8 billion and foreign currency deposits by Ft 12.9 billion on account of the transaction effect. The effect of exchange rate movements on both household and corporate sector foreign currency deposits was negligible. As regards the items on the assets side of the aggregate balance sheet of the banking sector, the domestic credit stock fell by Ft 1.4 billion due to transactions but rose by Ft 2.6 billion due to exchange rate changes in January. The one-year increase in the credit stock was 17.9%. Corporate sector domestic borrowings were Ft 66.8 billion higher. Transactions contributed Ft 67.7 billion to this change. Foreign currency borrowings fell by Ft 0.5 billion. Exchange rate movements caused an upward revaluation of Ft 0.6 billion, the effect of other volume changes on corporate sector foreign currency borrowings being a drop of Ft 1 billion. The total debt of the household sector owed to the banking sector rose by Ft 11 billion in the month.

Looking at the net positions of the institutional sectors vis-à-vis the banking sector individually, the changes in outstanding borrowings and deposits caused net liabilities of the general government and non-profit sector to fall by Ft 49 billion and net assets of households, which category includes small entrepreneurs, also to fall by Ft 34.7 billion. Net corporate sector debt rose by Ft 146.3 billion. The domestic banking sector registered a Ft 66.5 billion increase in net foreign assets (see Table C).

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

Ft billions

	1999		2000			2001		
	Q3	Q4	January	Q3	Q4	January	Of which:	
	Averages****			Averages****			Transactions	Revaluations
General government and non-profit sector, net*	**58.6**	**42.7**	**224.9**	**–6.8**	**7.7**	**49.0**	**50.6**	**–1.6**
Consolidated central government, net*	50.2	40.1	231.5	–22.1	13.3	64.5	66.1	–1.6
Local authorities, net	9.7	1.7	–12.4	14.2	0.7	–23.9	–23.8	0.0
Other (non-profit) institutions, net	–1.2	0.9	5.8	1.2	–6.3	8.3	8.3	0.0
Enterprise sector, net	**0.2**	**–12.2**	**–141.1**	**–60.3**	**11.0**	**–146.3**	**–146.8**	**–0.5**
Of which: loans	–30.6	–57.5	–66.5	–74.8	–43.1	–66.8	–67.2	–0.6
deposits+cash+securities**	30.9	45.3	–74.6	14.5	54.1	–79.5	–79.6	0.1
Households, net***	**23.6**	**42.1**	**–41.0**	**34.2**	**38.9**	**–34.7**	**–34.3**	**–0.5**
Of which: loans	–11.4	–11.5	–9.2	–18.9	–19.2	–10.9	–11.0	–0.1
deposits+cash+securities	34.9	53.6	–31.8	53.1	58.2	–23.8	–23.3	–0.5
Non-residents, net	**–80.4**	**–82.5**	**–35.3**	**–20.7**	**–32.0**	**–66.5**	**12.7**	**5.8**
Other, net	**–2.0**	**9.9**	**–7.5**	**53.6**	**–25.6**	**198.5**	**117.8**	**–3.1**

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 ÁPV Rt.
** Adjusted for technical cash holdings of the Hungarian Post.
*** Including accrued interest.
**** Quarterly average of monthly net changes in creditor position.

***Chart 12* Zero-coupon yields and annualised return on the central bank two-week deposit**
Short-term yields on a compounded basis; weekly averages

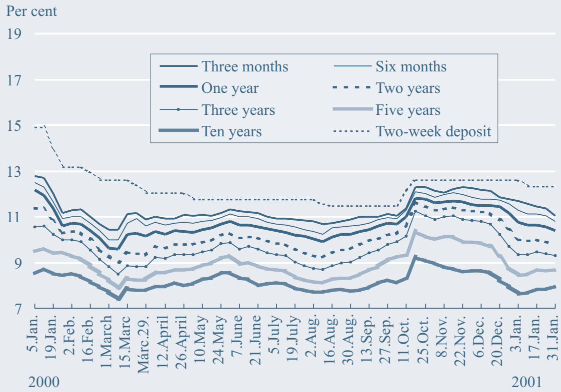
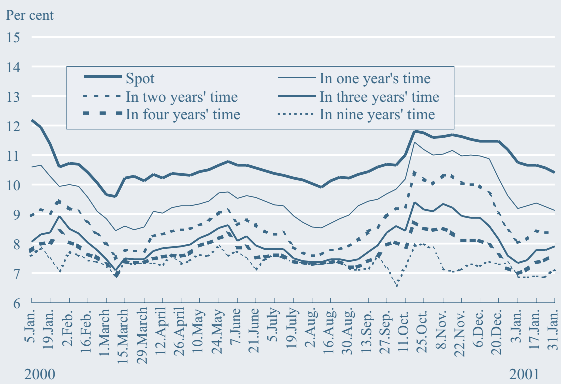


***Chart 13* One-year spot and implied forward rates derived from the Bank's zero-coupon yields**
On a compounded basis; weekly averages



Government securities market

The marked, nearly three-month long downward movement in yields in the government securities market stalled in January. Looking at changes taking place throughout the entire month, the Bank's estimate of zero-coupon yields,[1] down 61–66 basis points at the shorter end, i.e. at three, six and twelve months, and 39 and 11 basis points at two and three years, continued to fall. However, they rose 22–25 basis points at the longest end, i.e. at five and ten years respectively (see Chart 12).

Implied one-year forward rates[2] in one year's time fell 14 basis points, in contrast with those on the more distant horizon, which rose 43 basis points, 69 basis points and 71 basis points. The implied forward rate in nine years' time also rose, although by a modest 2 basis points (see Chart 13).

Non-resident investors reduced their holdings of Hungarian domestic currency-denominated government debt securities by Ft 9.2 billion, so the sector's total holdings amounted to Ft 724.0 billion at the end of the month under review.

The total amount of bids submitted at the auctions of government bonds fell relative to the preceding month. Four auctions of NBH bills were conducted in January.[3] Demand was considerably stronger in comparison with December (the total, at Ft 140 billion, was several times more than in the preceding month). Yields were practically static throughout the period. The average yield of all auctions held in the month, weighted by the amount sold, was 11.47%.

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 198.2647 on 31 January. Calculated from movements in the index val-

[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, even applying minor assumptions movements in derived rates may help anticipate shifts in the market's expectations of future interest rates. At present, only two ten-year government bonds trade 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, for the purposes of the analysis, is substituted by the one-year rate in nine years' time, do reflect adequately the rapid turns in the market's judgement.

[3] On 22 March 2000, the National Bank of Hungary started to issue a zero coupon bond with maturity of three months, classified as a government bond. The inaugural sales of the paper took place on 20 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 (free competitive bidding). The maximum amount to be allocated is limited to the amount on offer, with no minimum amount being established.

ues, the annual return achievable on a portfolio equal to the composition of the index basket was 10.11%.

Market interest rates

In reaction to the reduction in official interest rates, monthly average interbank lending rates fell slightly across every maturity in January.

The total value of transactions in the interbank market was Ft 1,882.9 billion in the month, significantly higher, by 40% or Ft 532.8 billion, than in the preceding month. The average rate on 1–2 day transactions was 10.6%, showing a 30 basis point drop relative to December. The share of this maturity area rose by 3.2 percentage points, to 86.3% during the month. The average rate in the maturity bracket of 3–7 day deals was 50 basis points lower, the proportion of this market segment to the total falling 5 percentage points to 6.2%. The ratio of 1–2 week transactions to the total was 4.6%, up 2.4 percentage points on the preceding month, the average interest rate standing 40 basis points lower, at 11.3%.

The percentage share of transactions extending beyond two weeks was 2.9% of the total, the average interest rate standing at 11.4%. This meant a drop of 0.6 of a percentage point relative to December in terms of both its share within the total and the average interest rate (see Chart 14).

The changes in corporate and household sector market interest rates were divergent in January. Whereas corporate sector average short-term deposit and borrowing rates fell throughout the maturity spectrum, those of the household sector mostly rose. However, the rise in household sector interest rates was a consequence of a change in the composition of outstanding deposits and loans, rather than a twist in bankers' interest rate policy or a decision to alter conditions on deposit-taking and lending (see Chart 15).

The averages of both short and long-term corporate sector borrowing and deposit rates fell in January. The average price for corporate customers of short-term loans, negotiated at market conditions, fell slightly, by 10 basis points, to 12.7%. Deposit rates, standing at 9.2%, showed a drop of 30 basis points.

The averages of corporate sector long-term borrowing and deposit rates also fell – the former were 30 basis points lower, at 13.1%, the latter sliding marginally lower, by 10 basis points to 9.3%.

Household sector average sight deposit rates rose 20 basis points, to 3.7%, accompanied by a slowdown in flows into deposits. This was attributable to a more marked fall in flows into deposits with banks that pay lower rates on sight deposits. Short and long-term deposit rates remained flat at 8.8% and 8.9% respectively.

Chart 14 **Monthly averages of official dealing rates and interbank lending rates**

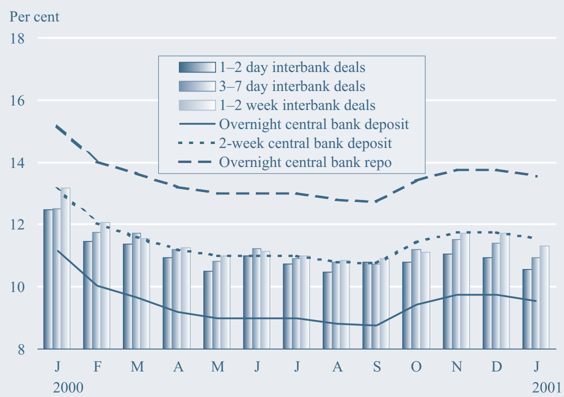
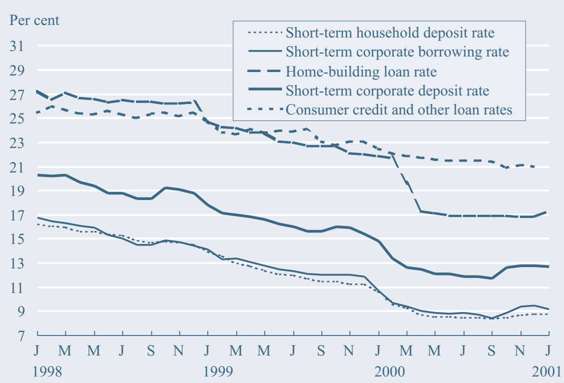


Chart 15 **Corporate and household sector borrowing and deposit rates**



The banking sector average of household sector borrowing rates rose 40 basis points, to 21%, also on account of the change in the composition of outstanding debt. Here, the average of home-building and property loan rates rose 50 basis points to 17.3%, and that of rates on consumer credit and other loans rose 20 basis points to 21.2%. This rise can be explained basically by the fact that facilities bearing higher interest rates accounted for a larger share within total lending in January. Eliminating the impact of changes in the structure of loans, the banking sector average of borrowing rates rose only 10 basis points in the month, accounted for entirely by the comparable change in home-building and property loan rates, with those on consumer credit and other loans remaining static.

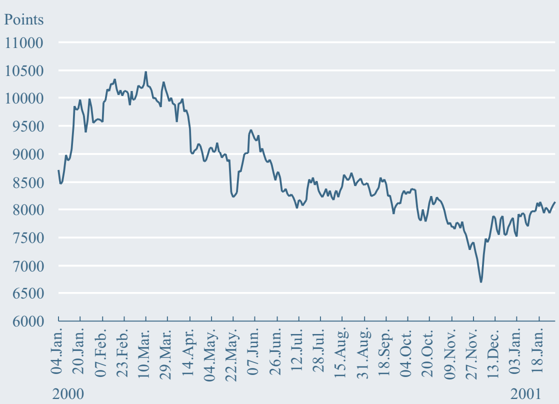
As a result of the changes in interest rates, the gap between corporate sector average borrowing and deposit rates widened to 350 basis points and that between corporate and household sector average borrowing rates[4] by 60 basis points to 820 basis points. Corporate sector average short-term deposit rates were merely 40 basis points higher than the corresponding average of household sector deposit rates.

The BUX and the world's leading share market indicators

Although weaker in comparison with the 13.9% gain recorded in December, the rise in the share index of the Budapest Stock Exchange continued in January. The first two trading days saw prices fall slightly, but the BUX remained constantly above December's close throughout the rest of the month, except on two days. The market was confined to a fairly narrow band of 2.7% during the second part of the month. The market closed January at 8,145.81 (a little below the monthly peak), up 3.77% on its finish in December (see Chart 16).

Measured on a dollar basis, the official index of the Budapest Stock Exchange rose by 2.2% in January, following a 19.3% advance in the preceding month. That gain was average compared with those on the major international exchanges. The Dow Jones Industrial Average of New York rose by only 0.9% after closing 3.6% higher in December. The FTSE of London closed 0.4% lower following an increase of 5.9%. The DAX, in contrast, continued to rise quite strongly – it gained another 4.1% on top of the 5.3% advance recorded in December. After a long spell, technology stocks came to life in the United States, as the NASDAQ index rose by 10.7% in January following a com-

***Chart 16* The BUX**
2 January 1991 = 1000)

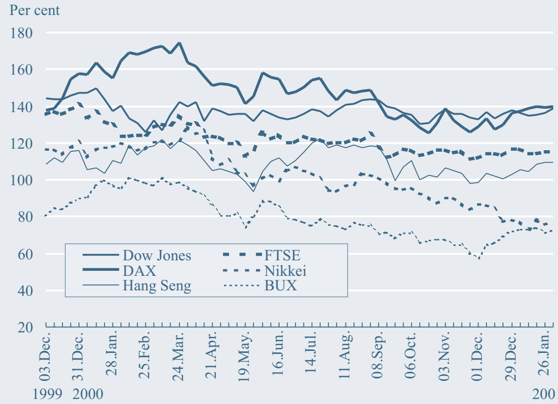


[4] For both sectors, average borrowing rates have been defined taking into view the new contracts entered into during the course of the month.

bined loss of nearly 35% in the preceding three months (see Chart 17).

In the Far East, the Nikkei lost another 1.5% in dollar terms following a 10.3% plunge in December. The Hang Seng of Hong Kong, in contrast, gained 6.5%, exactly as much as in December.

Chart 17 **The world's leading exchanges and the BUX**
5 September 1997 = 100; on a dollar basis



Distribution of securities holdings by sector

In 2000 Q4, holdings of government securities by non-residents, as well as insurance corporations and pension funds, grew significantly, in contrast with those of non-financial corporations, which fell, as seen in the same periods of the previous few years.

The outstanding total of Hungarian government debt securities,[5] measured at market value, was nearly 1% higher in 2000 Q4 than in the previous quarter. That increase was almost exclusively accounted for by the slight increase of 2.6% in the outstanding total of government bonds.

Non-resident holdings of government securities rose by nearly Ft 73.5 billion, so the sector's percentage share of total holdings rose above 15%, the highest since 1997.

In contrast with the continued rise throughout the first three quarters of 2000, NFCs' holdings of government securities fell back considerably, by Ft 68.5 billion, reflecting the pattern seen in earlier years. As a result, the sector's share of total holdings stood at 6.3% on 31 December.

Households stepped up their government securities holdings by Ft 31.8 billion, at market value. As a result, their share of the market rose slightly, to 16.1% in the period under review.

Financial corporations' holdings of government securities rose by Ft 41.2 billion in Q4. The percentage share of investment funds fell by 0.6 of a percentage point, but that

Table D **Distribution of government securities holdings by sector**

Per cent

	December 1998	1999				2000			
		March	June	September	December	March	June	September	December
Non-financial corporations	8.2	8.5	8.7	10.0	7.9	6.6	7.3	7.8	6.3
NBH	10.8	11.8	11.6	10.8	10.7	9.4	8.7	7.9	8.0
Credit institutions	33.4	28.4	26.8	24.2	22.9	22.1	22.6	22.8	23.1
Investment funds	7.3	8.4	8.4	9.1	8.6	9.4	9.6	9.9	9.3
Insurance companies, pension funds	11.1	12.3	13.4	14.1	15.5	15.5	15.8	15.8	16.6
Other financial corporations	2.2	2.9	2.4	2.0	1.9	2.3	2.2	2.5	2.3
Financial corporations, total	64.8	63.8	62.6	60.2	59.5	58.7	58.9	58.9	59.3
Local governments	2.7	3.2	3.0	3.1	2.7	3.0	2.9	2.9	2.2
Other general government	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.1
General government, total	2.9	3.2	3.1	3.2	2.8	3.1	2.9	2.9	2.3
Households	14.9	15.6	15.9	16.8	17.5	16.4	16.6	15.7	16.1
NPIs serving households	1.3	0.6	1.1	1.1	1.1	1.0	0.7	0.8	0.7
Rest of the world (non-residents)	8.0	8.3	8.6	8.7	11.2	14.2	13.6	13.9	15.3
Total holdings	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

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

of insurance corporations and pension funds, in contrast, rose by 0.8 of a percentage point, and that of other financial corporations changed only a little relative to the previous quarter.

The percentage share of local authorities' holdings of government securities fell from 2.9% to 2.2% (see Table D).

The trends underlying the previous two quarters continued to dominate changes in holdings of exchange-traded shares – the percentage of holdings by non-residents continued to fall, while those of all other sectors rose (see Table E).

Following a decline of Ft 367 billion in the previous quarter, market capitalisation of shares issued by Hungarian residents fell by another Ft 284 billion in the period under review, to Ft 3,395 billion at year-end. That drop was attributable entirely to the fall in share prices, as holding losses amounted to Ft 287 billion, while the net contribution to market capitalisation of new listings and de-listings on the BSE as well as of capital enlargements and reductions was only Ft 3 billion.

Net sales of shares by households amounted to Ft 1 billion, in contrast with the previous quarter, when net purchases amounted to Ft 25 billion. The sector's holdings of shares fell by nearly Ft 19 billion in the period, mostly on account of holding losses. Nevertheless, its percentage share of total holdings rose slightly towards the end of the year, to 8.0%.

After a fall in the previous two quarters, non-resident investors' percentage share of total holdings shrank further, from 73.7% at the end of September to 70.7% at the end of December. That was equal to a decline of Ft 309 billion, of which holding losses accounted for Ft 265 billion. Net disposals, at Ft 44 billion, meant a slight increase from the previous quarter.

Table E **Exchange-traded shares held by institutional sectors, at market prices**
Based on end-of-quarter stock data

Per cent

	December 1998	1999				2000			
		March	June	September	December	March	June	September	December
Non-financial corporations	2.7	2.9	3.1	3.2	3.8	4.1	5.0	5.7	6.7
Credit institutions	0.6	0.8	0.8	0.7	0.6	0.6	0.8	1.1	1.2
Investment funds	1.0	0.8	0.6	0.6	0.5	0.5	0.6	0.8	1.1
Insurance companies, pension funds	1.7	1.6	1.3	1.1	1.3	1.2	1.6	2.1	2.6
Other financial corporations	1.4	1.7	1.6	1.3	1.5	0.7	0.8	1.0	1.2
Financial corporations, total	4.7	5.0	4.4	3.8	3.9	3.0	3.8	5.0	6.1
Local governments	0.9	1.0	1.1	0.9	0.8	0.6	0.7	0.6	0.7
Other general government	10.6	11.3	9.1	8.1	6.3	6.8	6.0	7.0	7.5
General government, total	11.5	12.3	10.2	9.0	7.1	7.4	6.6	7.6	8.3
Households	10.2	8.8	7.4	6.9	5.9	5.4	6.7	7.9	8.0
NPIs serving households	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1
Rest of the world (non-residents)	70.9	70.9	74.9	77.0	79.2	80.0	77.7	73.7	70.7
Total holdings	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Table F **Holdings of investment fund certificates by sector**
Based on end-of-quarter stock data

Per cent

	December 1998	1999				2000			
		March	June	September	December	March	June	September	December
Credit institutions	2.1	2.0	1.5	1.5	1.8	1.8	1.8	1.5	2.1
Other legal entities	79.4	78.3	80.1	79.7	81.6	82.0	82.4	81.3	81.5
Households	16.3	17.8	16.4	17.0	14.8	14.8	14.4	14.7	14.1
Rest of the world (non-residents)	2.1	2.0	1.9	1.8	1.8	1.4	1.4	2.4	2.3
Total holdings	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Holdings of exchange-traded shares by the financial corporations sector continued to grow, owing almost entirely to net purchases in the amount of Ft 28 billion. As a result, the sector's proportion to total holdings rose from 5% to 6.1%.

Following increases seen in the previous two quarters, NFCs also continued to add to their holdings as a percentage of the total, reaching 6.7% towards the end of the quarter.

Existing holdings of the general government sector rose from 7.6% to 8.3%, mainly assisted by increases in local authorities' holdings of shares.

The outstanding total of investment fund certificates, measured at net asset value, fell by 2.8% in 2000 Q4. At net asset value, the amount of certificates held by households was lower by 2.5%. There continued to be only modest changes in the percentage shares of the individual institutional sectors – a slight increase in those of credit institutions contrasted with a moderate drop in that of other legal entities (see Table F).

Balance of payments and foreign trade

The balance of payments and financing

According to the seasonally adjusted numbers,[6] the current account ran a deficit of €225 million in January 2001. This value, after directly eliminating the seasonal effect, is not comparable with the preceding month's current account outcome.[7]

Analysing the sub-accounts adjusted seasonally on an individual basis, the merchandise trade deficit fell slightly, accompanied by decreases of €50 million in the values of both exports and imports. The surpluses on tourism and current transfers rose, while the deficits on services excluding tourism and investment income fell (see Charts 18 and 19).

The current account deficit, not seasonally adjusted, rose by 177 million relative to January 2000. The major determinant of this deterioration was an increase in the trade deficit, which in turn was attributable to a strong pick-up in imports.

The January trade deficit was virtually stagnant compared with the monthly outcomes of the period since September 2000; and the increase in deficit occurred in relation to the previous period. The deficit on services excluding tourism tripled, in contrast with the tourism surplus, which rose by €28 million. And there was a slight drop in negative investment income (see Table G).

Chart 18 **Current account**

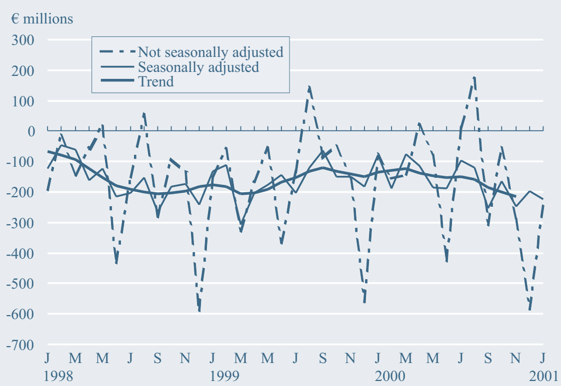


Chart 19 **Trade balance**

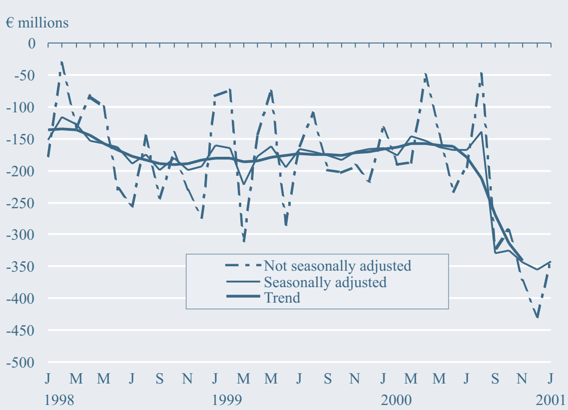


Table G **Developments in the seasonally adjusted current account data***

€ millions

	2000			2001
	January	November	December	December
Goods	–165	–344	–355	–343
Exports	2,030	2,502	2557	2,507
Imports	2,194	2,877	2871	2,821
Services excluding tourism	–23	–54	–90	–69
Tourism	193	223	211	221
Non-debt income flows**	–47	–38	–49	–50
Debt-related income flows	–66	–86	–78	–54
Current transfers	41	42	39	55
Current account balance**	–78	–248	–197	–225

* There may be differences between the totals because of seasonal adjustment.
** The December value could not be interpreted.

[6] Using the SEATS TRAMO software a model is constructed to seasonally adjust data for the period January 1994–December 1999. 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.

[7] Although the current account deficit for December 2000 was comparable in size with those for the same periods of the previous few years but different in terms of structure. Profit repatriation, quite characteristic of past years, failed to materialise at end-2000. Meanwhile, the merchandise trade deficit rose significantly. As a result, when seasonally adjusting the balance directly, a virtually non-existing seasonal effect was eliminated from the December, with the result that the smoothed balance did not reflect the effect of the large merchandise trade deficit. Consequently, seasonal adjustment resulted in a smaller current account deficit for December than might have been justified by theory.

According to the not seasonally adjusted data, the current account was €237 million in deficit in January. The capital account closed with a surplus of €30 million, so whole-economy external financing requirement amounted to €207 million in the month under review. Non-debt capital transactions ended with a net outward flow of €158 million – direct investments by Hungarian residents (including MATÁV, the telecom company) abroad amounted to €313 million and those by non-residents in Hungary to €109 million. The net inflow of €45 million on portfolio investment transactions in equity securities in January was the first such occurrence since February 2000. Within debt-creating capital flows, outstanding lending by non-resident companies to their Hungarian subsidiaries account for the largest share (see Table H).

Table H **Transaction effects on changes in Hungary's net foreign debt**

€ millions

		2000			2001
		October	November	December	January
1	Current account	–55	–289	–583	–237
2	Capital account	43	51	27	30
3	Net lending / net borrowing (1+2)*	–12	–238	–556	–207
4	Non-debt capital flows	–99	–20	–4	–158
5	Total (3+4)	–111	–258	–560	–365
6	Debt-creating flows (6a+6b)**	123	241	533	344
6a	In forint	76	79	158	–33
6b	In foreign currency	47	162	375	377
7	Financing gap (5+6)	12	–17	–27	–22
8	Errors and omissions	–12	17	27	22

* Net borrowing (–), or net lending (+).
** Net change in debt: fall (–), or increase (+).

Hungary's external accounts

Whole-economy gross foreign debt was €32.9 billion at the end of January 2001, inter-company loans accounting for €3.8 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 €15.7 billion and €17.2 billion respectively. Reaching 31.6% in January, financial liabilities of direct investment enterprises to their parents, also known as inter-company loans, account for an increasing proportion of corporate sector gross external debt. Whole-economy net debt stood at €12.3 billion at end-January, inter-company loans amounting to €3.5 billion. The combined net debt of the NBH and the central government stood at €2.4 billion. Taking foreign currency denominated assets and liabilities into account, the two sectors took a €314 million net lending position in foreign currency, the foreign currency equivalent of domestic currency debt outstanding to non-residents amounting to €2.7 billion. Total private sector net foreign debt was €9.9 billion (see Table I).

Table I **Hungary's assets and liabilities vis-à-vis non-residents**
Monthly changes

€ millions

	December 2000	January 2001	Change	Of which:			
				Transactions	Exchange rate movements	Price changes	Other volume changes
Net foreign currency debt of the NBH and government	–191	–314	–123	221	–39	32	–337
Net forint debt of the NBH and government	2,767	2,731	–36	–33	–2	0	0
Total net debt of the NBH and government	2,575	2,417	–158	187	–41	32	–337
Assets of the NBH and government	13,451	13,300	–151	–508	–10	18	348
Of which: international reserves	12,068	11,590	–477	–478	–10	11	0
Gross foreign currency debt of the NBH and government	13,260	12,986	–274	–287	–49	51	11
Gross forint debt of the NBH and government	2,767	2,731	–36	–33	–2	0	0
Total gross debt of the NBH and government	16,027	15,717	–310	–321	–51	51	11
Net debt of credit institutions and the corporate and other sectors*	6,507	6,327	–180	–218	7	9	22
Assets of credit institutions and the corporate and other sectors	7,120	7,096	–24	–40	–14	19	11
Gross debt of credit institutions and the corporate and other sectors	13,627	13,423	–204	–258	–8	29	33
Inter-company loans, net	3,153	3,530	377	374	-1	0	4
Assets	248	276	29	29	0	0	0
Liabilities	3,401	3,806	406	403	-1	0	4

* Excluding inter-company loans.

Chart 20 **Annualised growth rates of merchandise foreign trade**
In euros; preceding month = 100

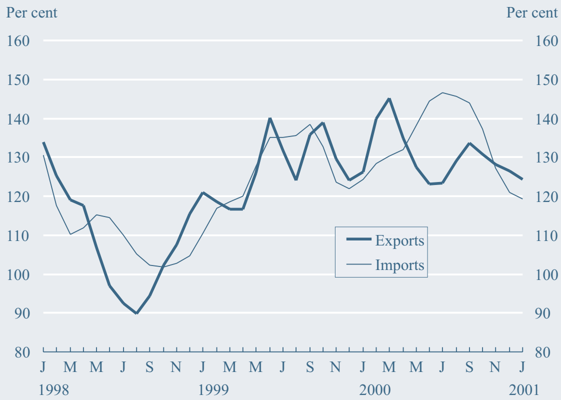


Chart 21 **Merchandise exports**

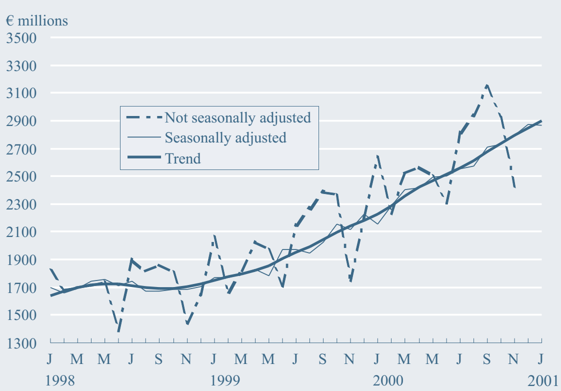
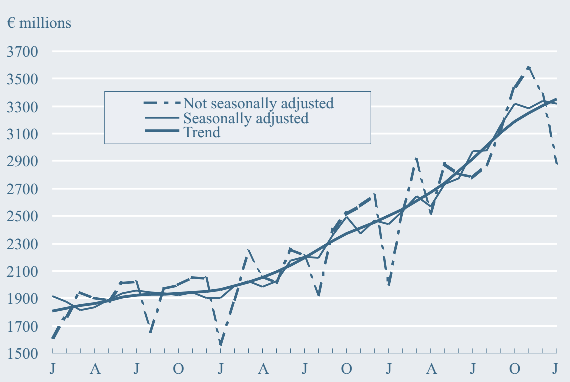


Chart 22 **Merchandise imports**



Foreign trade

The annualised growth rates of merchandise exports remained above those of imports both in December 2000 and January 2001. While the annualised growth rates were fairly high, the trend of merchandise foreign trade balance did not deteriorate in December 2000 and January 2001 relative to November 2000 (see Chart 20).

The unadjusted data, expressed in euros, show a significant drop in the value of Hungarian goods trade both in December 2000 and January 2001 relative to November 2000, reflecting the impact of seasonal factors observed in previous years. Expressed in absolute terms, this decline affected exports and imports practically equally, so the trade deficit remained broadly unchanged in relation to November 2000.

Imports of goods grew at a faster rate in December 2000 and throughout 2000 as a whole and even in January as well relative to the corresponding periods of previous years. This led to an increase in merchandise trade deficit. Yet according to the volume data, during 2000 the growth rate of exports was slightly stronger than that of imports. Hungary experienced a deterioration in the terms of trade in 2000, in which the increase in energy prices and the depreciation of the dollar against the euro definitely played a distinct role (see Chart 21, 22 and 23).

In January 2001, however, the effect of these underlying factors on the pick-up in imports and the rise in merchandise trade deficit was somewhat more modest as opposed to the developments of 2000.

The commodity pattern of Hungarian goods exports saw mechanical engineering accounting for an increased percentage share, both in December 2000 and the year as a whole. In contrast, the shares of the food industry and manufactured goods fell. As regards the commodity pattern of imports, energy accounted for a higher share, in addition to that of mechanical engineering.[8]

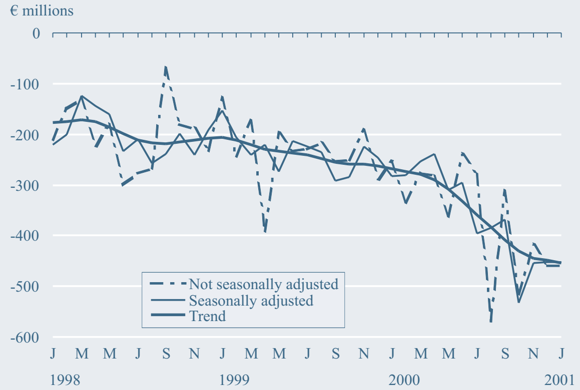
Looking at the direction of Hungarian foreign trade, the percentages that the members of the EU account for within mechanical engineering imports continued to fall in December 2000 and throughout most of the year as a whole, this drop affecting exports more and imports less. Simultaneously, however, the other important regions, including the countries outside the euro zone, the CEFTA, the CIS states and those outside these regions, saw their shares increase, mostly on account of the upturn in Hungary's trade with the CEFTA and the CIS from a particularly low base in 1999. Another factor behind the latest developments in im-

[8] This resulted from the high world market price of energy, already mentioned. In 2000, Hungary's energy bill was higher by more than €1,300 in terms of calorific value for only marginally higher imports of energy. This effect accounted for more than 85% of the deterioration in the trade balance (and for more than 75% if exports of energy are taken into account).

ports was the high share of energy imports from the CIS states,[9] in addition to the purchasing policies of multinationals with production bases in Hungary (this found reflection in machinery imports from other countries, most notably those in the Far East).

The were no particular shifts in the commodity pattern of Hungarian merchandise foreign trade in January 2001, either in comparison with a year earlier or the preceding few months. However, a seasonal change was clearly observable, which was at work even in the previous few years – the percentages that the developed countries (and particularly the EU member states) account for rose considerably relative to November–December 2000, with a parallel modest drop in the percentage share of machinery and equipment within whole-economy inward and outward trade and a significant increase in that of manufactured goods.

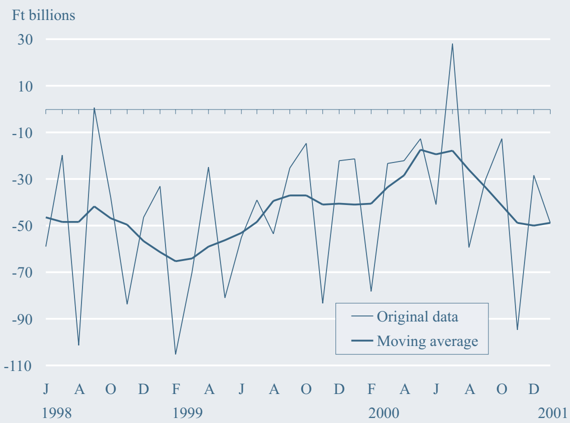
Chart 23 **Trade balance**



[9] Energy had a share of 78% in 2000.

Public finance

Chart 24 **Net borrowing/net lending of general government**



*Five-month centred moving averages with varying weights are used up to December 2000. The January moving average is a trinomial average with equal weights. The February average is based on estimates.

Table J **General government net lending (+) / net borrowing (–) by sub-sector**

Ft billions

General government	2000			2001
	January	December	January–December	January
Central government excluding extra-budgetary funds and ÁPV Rt (1)	–6.9	–151.7	–296.5	–25.9
Extra-budgetary funds (2)	3.3	–6.2	2.1	4.1
ÁPV Rt (3)	–6.8	23.4	–20.3	8.4
Central government (4=1+2+3)	**–10.4**	**–134.5**	**–314.6**	**–13.5**
Social security funds (5)	**–8.0**	**61.5**	**–98.3**	**–11.5**
Local authorities* (6)	**–3.1**	**44.7**	**15.8**	**–24.1**
General government, total (7=4+5+6)	**–21.5**	**–28.3**	**–397.1**	**–49.0**

* In case no revenue and expenditure data are available for a given month, financing data are taken to estimate the monthly balances of local authorities.

Net borrowing of general government

The net borrowing requirement of general government amounted to Ft 49 billion in January 2001, showing an increase of Ft 27.6 billion in relation to the same month of 2000 (see Chart 24). The central government, the social security funds and the local government authorities, respectively, ran a Ft 13.5 billion, Ft 11.5 billion and a Ft 24.1 billion deficit in the month (see Table I and Chart 25).

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 3.1 billion higher than a year before (see Table J). 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 39.4 billion.

Total official central government revenue in January 2001 outperformed the revenue estimate for the month, reaching Ft 379 billion. VAT receipts and revenues of customs duties and import fees exceeded the estimates by 12.2% and 33.3% respectively, although the latter was accounted for 80% by customs guarantees. Personal income tax receipts also exceeded the estimate, mainly explained by irregular pay to personnel by employers.

Expenditure overruns were detected principally in transfers to business organisations (14.7%), expenditures of central government units backed by subsidy (10.1%) and transfers to local government authorities (12.2%). However, owing to lower actual outcomes for a number of other items, including grants and expenditures on central government investment programmes backed by subsidy and contribution to expenditures of the social security funds, total central government expenditure largely met the official estimate.

The extraordinary expenditure of Ft 94.5 billion accounted for by the Hungarian State Treasury and placed on the deposit account last December has not been treated as expenditure. Out of this amount, the asset manager received Ft 35 billion to the end of January, which has been taken into account when calculating the net borrowing requirement of general government.

The extra-budgetary funds (the Labour Market Fund and the Central Nuclear Financial Fund) ran a surplus of Ft 4.1 billion in January 2001. That was the balance of Ft 18.4 million revenue and Ft 13.1 billion expenditure. High contribution receipts of the Labour Market Fund and the lag of expenditure behind the estimate for both funds accounted for most the surplus.

According to the preliminary numbers, the State Privatisation and Holding Company was Ft 8.4 billion in surplus in January. This was owing mainly to the Ft 35 billion received from the central government, already noted, of which only Ft 25 billion was spent to the end of the month to recapitalise Reorg Apport Rt. Proceeds from the privatisation activities of ÁPV Rt amounted to Ft 0.2 billion in January.

Drawn as a balance of Ft 169.8 billion revenue and Ft 181.3 billion expenditure, 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 11.5 billion in 2000.

Compulsory social contribution receipts raised a total Ft 160.7 billion revenue for the social security authorities. This, due to contributions paid by employers on 13th month pay awards, significantly exceeded the estimate. The two social security funds had Ft 8.1 billion revenue from central government transfers in the month.

Pension payments, accounting for the major item on the expenditure side, amounted to Ft 103.4 billion, broadly meeting the official estimate. Expenditure overruns in medical and preventive care in the month are explained by a Ft 10.5 billion advance to health institutions operating on a net basis, and another Ft 5.8 billion advance to fund 13th month pay awards.

General government borrowing requirement

The net lending or net borrowing requirement of general government can be calculated taking into view changes in assets and liabilities, in addition to the balance of revenue and expenditure. The difference between the two indicators of general government net borrowing requirement, derived from revenue and expenditure, on the one hand, and from financing data, on the other, stems from statistical error.

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 36.4 billion in January (see Table K). Here, the borrowing requirement of the

[10] January data for the social security authorities have been taken from the report by the Hungarian State Treasury.

Chart 25 **General government net lending (+) / net borrowing (–) by sub-sector**

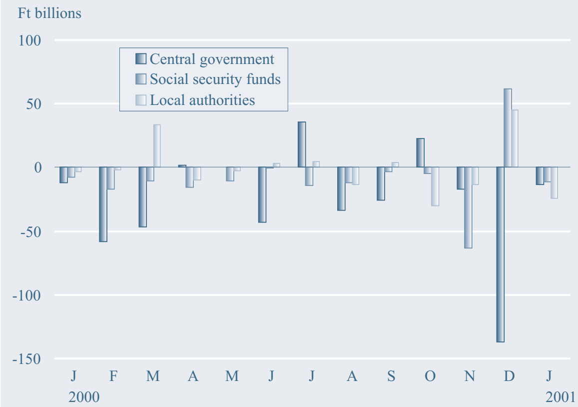
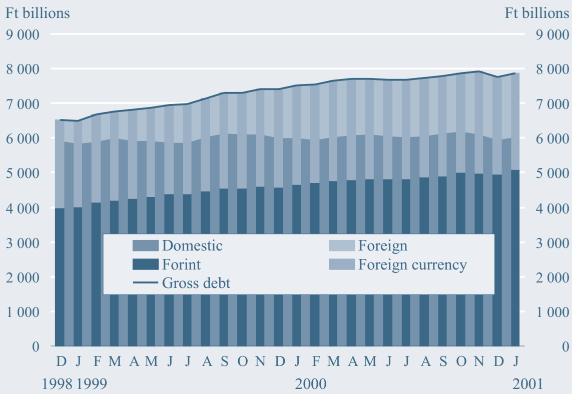


Table K **Changes in financial wealth of general government**

Ft billions

	Stocks: Jan. 2001	January flows: Total	Transactions	Other changes in volume
Central government				
Assets	802.9	99.5	111.1	–11.6
Liabilities	7,815.9	96.0	105.7	–9.6
Net financial assets	**–7,013.0**	**3.5**	**5.4**	**–1.9**
Social security funds				
Assets	0.0	–6.4	–6.4	0.0
Liabilities	112.1	11.4	11.4	0.0
Net financial assets	**–112.1**	**–17.8**	**–17.8**	**0.0**
Local government authorities				
Assets	422.8	–24.9	–24.9	0.0
Liabilities	153.3	–0.8	–0.8	0.0
Net financial assets	**269.5**	**–24.1**	**–24.1**	**0.0**
Consolidated general government				
Assets	1,012.5	56.8	68.4	–11.6
Liabilities	7,868.1	95.2	104.8	–9.6
Net financial assets	**–6,855.6**	**–38.4**	**–36.4**	**–1.9**

***Chart 26* Composition of general government gross debt**



social security funds was Ft 17.8 billion and that of the local government authorities was Ft 24.1 billion. Net lending of central government amounted to Ft 5.4 billion in the month.

Financial assets and liabilities of the central government rose nearly identically, by Ft 99.5 billion and Ft 96 billion respectively in January, so net financial assets were Ft 3.5 billion higher than at the end of 2000. The fall in domestic currency deposits with the central bank played a dominant role in the change in assets. Issues of government securities in the domestic currency and the rise in wage arrears were the two major causes of the change in central government liabilities.

The borrowing requirement of the social security funds from the central government rose by Ft 12.3 billion in January. Taking into view also changes in other financial liabilities and assets, net assets of the sub-sector fell by Ft 17.8 billion.

Based on available information, financial assets of the local government authorities fell by Ft 24.9 billion in the month under review, the amount of liabilities barely changing. Net financial assets of the authorities were Ft 24.1 billion lower than at the end of 2000.

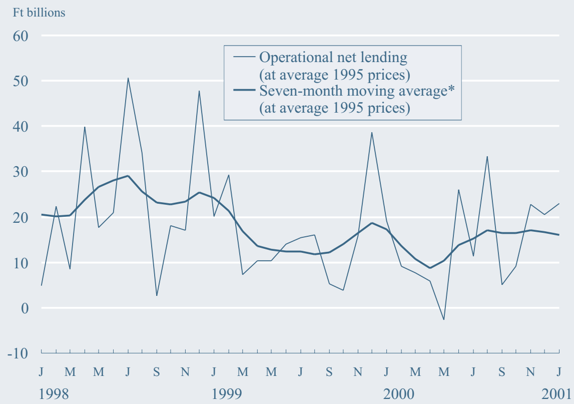
In January, the gross debt of general government rose by Ft 95.2 billion, to stand at Ft 7,868.1 billion at the end of the month. The total stock of financial assets, excluding the total value of the sector's participating interest, rose by Ft 56.8 billion from December 2000 to Ft 1,040,4 billion. Non-residents accounted for 23.1% of total liabilities. The percentage share of foreign currency debt was 35.4% of the total. The conversion of outstanding borrowings into debt securities continued in January – total general government borrowings fell by Ft 18.5 billion, to Ft 2,355.7 billion in the month, the value of outstanding government debt securities being Ft 43.4 billion higher, at Ft 5,306.9 billion, than at the end of December 2000 (see Chart 26).

Financial savings of households

In January, operational net lending of households, i.e. their financial savings after eliminating the effects of inflation, amounted to Ft 48.9 billion. Viewed either on a current or a constant price basis, that was higher than both the monthly average of the previous year and the outcome recorded in January 2000. Even so, the longer-term trend continued to be sideways since August (see Chart 27).

Net financial wealth of households, valued at market prices, was Ft 41.9 billion higher in the month. Here, the value of financial assets rose by Ft 48.6 billion and household debt by Ft 6.7 billion (see Table L). Growth in the value of financial assets, i.e. the rise in assets relative to the same month of the previous year, stalled in 2000, after the protracted rise from September 1998, and was even replaced by a decline which started in November. The increase in net financial wealth exceeding that in the value of financial assets has been the result of a pick-up in debt since the start of 1999. Growth in household sector debt

Chart 27 **Operational net lending (+) / net borrowing (–) of households**
At constant prices



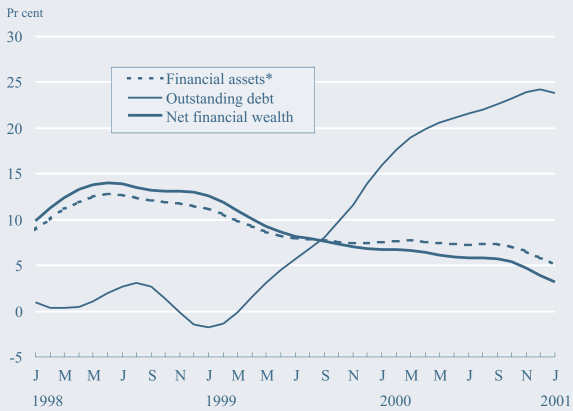
* The moving average is calculated using symmetrically reduced weights going back in time from the current month. The moving average values for the final three months may change when the latest data become available.

Table L **Decomposing net financial wealth of households into the components of change**

Ft billions

	Stocks: 31 Jan. 2001	January flows:	Transactions:		Revaluations	Other changes in volume
			Transactions net of compensation for inflation	Compensation for inflation incorporated in interest		
Cash	747.1	–49.1	–49.1	0.0	0.0	0.0
Forint deposits and bank securities	2,652.4	14.2	45.4	16.6	0.0	–47.8
Foreign currency deposits	756.4	11.2	10.4	1.3	–0.5	0.0
Non-bank securities	1,615.3	51.3	29.1	10.3	11.9	0.0
Pension and life insurance	836.7	21.0	14.3	6.7	0.0	0.0
Financial assets, total	**6,607.9**	**48.6**	**50.1**	**34.9**	**11.4**	**–47.8**
Home-building loans	195.8	5.2	3.6	1.6	0.0	0.0
Consumer credit	352.9	2.5	–0.3	2.8	0.0	0.0
Other borrowings	189.2	–1.0	–2.1	1.1	0.0	0.0
Household debt	**737.9**	**6.7**	**1.2**	**5.5**	**0.0**	**0.0**
NET FINANCIAL WEALTH AND THE COMPONENTS OF CHANGE IN WEALTH	**5,870.0**	**41.9**	**48.9**	**29.4**	**11.4**	**–47.8**

Chart 28 **Household sector financial wealth**
At constant prices; percentage changes relative to the preceding month, at average 1995 prices using seven-month moving averages



* Financial assets do not include off-exchange shares and claims other than shares.

Chart 29 **Household sector financial assets**

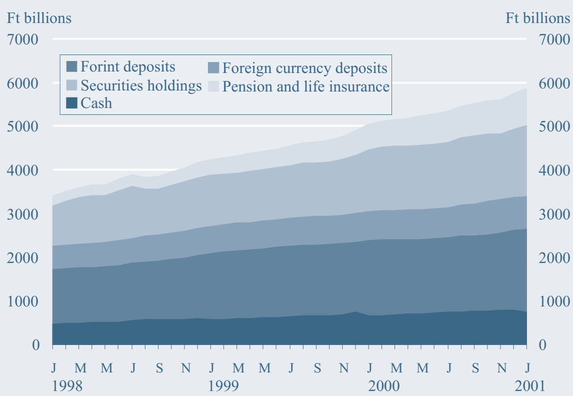
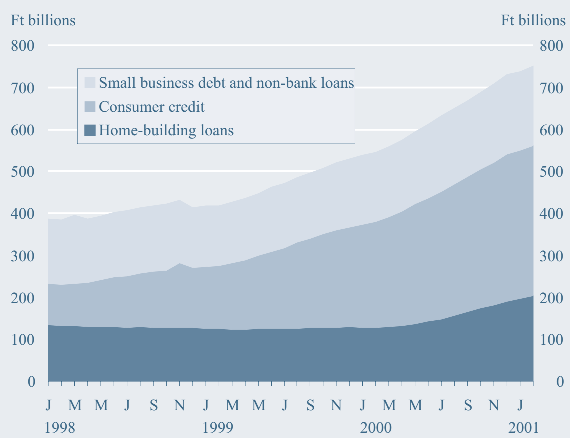


Chart 30 **Outstanding borrowings of households by type of debt**



moderated in the second half of 2000, remaining broadly flat in the past few months (see Chart 28).

There has been a continual shift in the structure of financial assets towards investment vehicles other than those offered by banks. Non-banking investment products continued to be sought after the most in January, accompanied by a reduction by households in cash holdings. That reflected the effect of seasonal patterns (see Chart 29 and Table L).

Operational transactions in non-bank securities amounted to Ft 29.1 billion, exceeding the average values of the preceding few months. Flows of households' funds into government securities and investment fund certificates were much stronger than the monthly average outturn for the previous year. Operational transactions in government securities and investment fund certificates amounted to Ft 22.2 billion and Ft 11.9 billion respectively. Holdings of shares fell by Ft 5 billion in the month under review; however, rising share prices caused an upward revaluation of Ft 10.3 billion.

Claims of households on credit institutions grew by Ft 14.2 billion, slightly less than in the preceding few months. The underlying cause of this was the payment in December of a large part of wages due in January. Taking into view this effect, operational transactions amounted to Ft 45.4 billion. The rise in foreign currency deposits due to transactions, which started in May 2000, continued in January. Inflation-adjusted transactions in foreign currency assets amounted to Ft 10.4 billion.

Claims of households on insurance companies and pension funds also continued. Boosted by a rapid flow into pension insurance schemes, to the end of the month households' equity in pension funds matched the value of life insurance reserves.

The increase in household debt was lower in January than twelve months previously. Outstanding debt rose by Ft 6.7 billion, operational transactions accounting for Ft 1.2 billion of the increase. Within total debt, the rise in consumer credit ran out of steam, in contrast with that in home-building and property loans, which continued, although at a moderate pace, following the decline observed in the same periods of previous years (see Chart 30).

Main economic and financial indicators

	GDP volume indices	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**	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	–25.0
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	–22.2
January 2000		110.0	108.0	110.7	7.0	36.8	114.1	118.1	115.8	13.17	–77	44	11,513	–21.5
February		109.8	107.8	116.0	7.2	17.6	114.9	117.8	115.3	12.04	–157	125	11,869	–78.4
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	–22.0
May		109.1	107.2	113.9	6.7	–5.2	113.5	115.1	112.7	11.00	–80	186	11,549	–12.9
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	–41.0
July		109.6	107.4	114.7	6.6	23.1	111.5	115.9	113.0	11.00	10	42	11,110	27.9
August		109.6	108.5	112.4	6.5	68.0	116.1	114.4	112.8	10.81	174	253	11,628	–59.5
September	104.5	110.3	109.4	111.9	5.7	10.6	117.0	116.3	113.6	10.75	–311	229	12,047	–30.5
October		110.4	109.6	112.2	6.2	19.0	114.1	115.8	114.3	11.42	–55	37	12,069	–12.9
November		110.6	109.7	114.6	6.0	47.9	117.3	116.4	114.9	11.75	–289	146	12,433	–94.5
December	104.2	110.1	109.8	116.5	5.7	43.3	108.5	111.8	112.6	11.75	–583	314	12,068	–28.3
January 2001		110.1	110.5	116.3	6.0	48.9	113.5	115.6	112.9	11.55	–237	109	11,590	–49.0

Source: CSO, NBH
* Preliminary data.
** Equity capital.