
Monthly Report

(includes data up to the end of March 2001)

5/2001

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Domestic economic activity

Industrial output growth was substantially weaker in March 2001 than in the preceding few months. At this juncture, the significant slowdown in output growth is believed to have been caused by short-lived economic factors, and it is not expected to signal a major turnaround in industrial performance (see Charts 1 and 2).

Seasonally adjusted industrial output, which takes account of working-day variations, fell by 2.9% in March relative to February, the volume of total sales falling somewhat less deeply, by 1.8%. Within total sales, the volume of domestic sales rose by 3.2% and that of exports by 1.2% relative to the preceding month (see Chart 2).

Industrial output grew by only 2.7% in March relative to a year before. The increase in total sales, at 4.6%, was a little stronger in the same period, which is an indication of a pick-up in de-stocking. The robust growth of exports, registering a rate in excess of 20% to date, fell back to 11.9%, nearly a half of its earlier rate. Following a moderate increase since August 1999, domestic sales fell by 3.2% in a twelve-month comparison.

It is difficult to judge in view of one-month data whether the downturn in industrial output and sales heralds the beginning of a protracted process or is just a temporary event. Presumably, the slowdown in European economic growth will result in a moderation of Hungarian export growth in the long run. However, the latest data has shown little which could reflect this assumption. In contrast, the fact that firms have been selling from stocks recently may well be connected with a redesign of the production profile closely linked with the introduction on the market of new products. This in turn may be interpreted as an indication of only a short-lived decline in output.

Turning to the quarterly developments in industry data, output continued to grow in 2001 Q1. According to the seasonally adjusted data, which take account of working-day variations, first-quarter industrial output was 2.2% higher than in the final quarter of 2000 and 10.9% higher than in the same period of the previous year.

The available order data suggest possible further gains in exports, although at the same time a moderation in domestic sales. Fresh orders for manufacturers' output in

Chart 1 Volume indices of industrial production and sales

Average of 1997 = 100

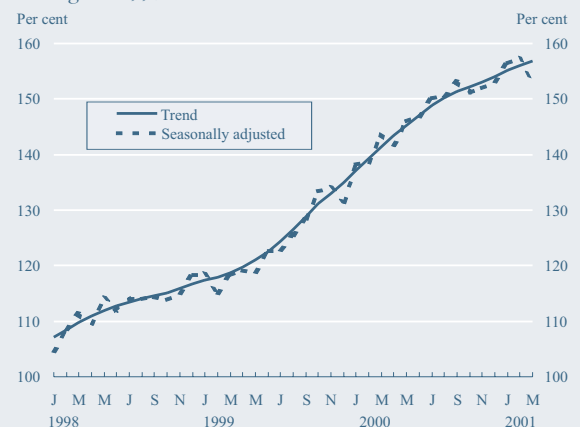


Chart 2 Volume indices of industrial production and sales

Trend values; annualised month-on-month changes

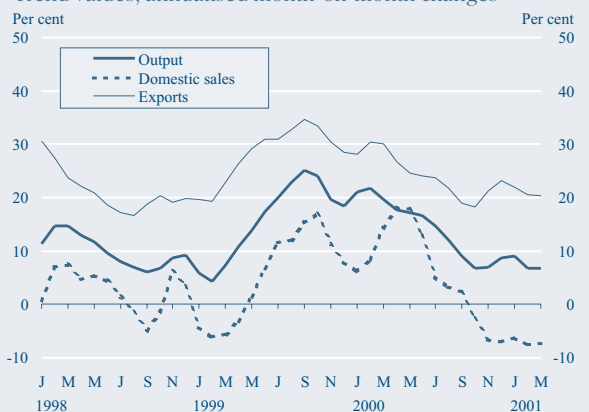
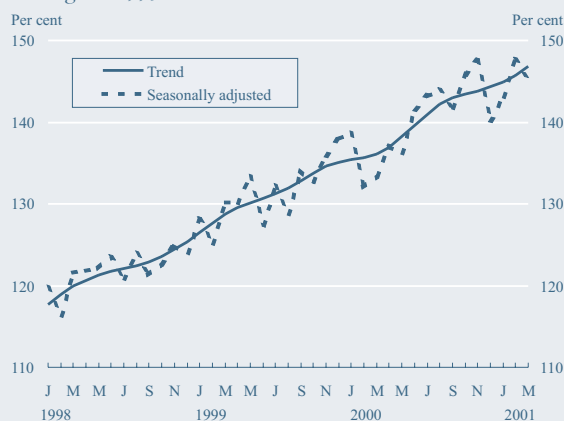


Chart 3 Volume index of construction output

Average of 1995 = 100



the mainstream branches of manufacturing¹ were nearly 32.9% higher in March than twelve months previously. Here, orders for exports of goods surged by 40%, but domestic orders remained virtually unchanged at the level of a year before. The volume of new orders for goods in March was 16.3% higher than in March 2000, owing to an increase of 23.5% in export orders and a fall of 7% in domestic orders.

Construction industry performance continued to improve in March. The sector's output was 6.3% higher than twelve months previously. Adjusted to reflect seasonal effects and working-day variations, construction output fell by 1.5% in the month relative to February. The pick-up in home-building activity strongly contributed to the increase in construction output in 2001 Q1. Nearly 4,000 occupation permits and 8,800 building permits were issued in the first quarter of the year. This meant respective increases of 51% and 36% relative to a year earlier (see Chart 3).

According to the values derived from the CSO's quarterly Labour Force Survey data, adjusted for both seasonal and incidental effects,² the number of people in employment and the employment ratio³ both continued to rise in the first quarter of 2001, accompanied by an uninterrupted fall in the number of registered unemployed and the unemployment rate.

Following robust increases at end-1998 and in the early months of 1999, the seasonally adjusted number of people in employment continued to rise, although the pace of this rise was more modest. The number of people in employment was 0.4 of a percentage point higher in 2001 Q1 than in the previous quarter and 1.4% higher than in the same period of 2000. The employment ratio, derived from the seasonally adjusted data, was 50.6% in 2001 Q1, rising by 0.2 of a percentage point relative to the previous quarter and by 0.8 of a percentage point relative to the comparable period of 2000 (see Chart 4).

The seasonally adjusted number of unemployed fell significantly, by 5.3% and 9.7% respectively in 2001 Q1 in comparison with the previous quarter and the year earlier period. The whole-economy unemployment rate,

Chart 4 Number of employed persons

¹ The mainstream branches of manufacturing are: manufacture of textiles and textile products, manufacture of paper and paper products, manufacture of chemicals and chemical products, manufacture of basic metals and fabricated metal products, manufacture of machinery and equipment, manufacture of electrical and optical equipment, manufacture of transport equipment. (The observation covers companies with more than 50 employees.)

² 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.

³ 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.

calculated using seasonally adjusted numbers, was 5.9% in the period under review, showing a drop of 0.3 of a percentage point relative to the previous quarter and one of 0.7% relative to 2000 Q1 (see Chart 5).

The unemployment rates, calculated for the various age brackets of the population, continue to show marked differences. The seasonally adjusted youth unemployment rate in the age group of 15–24 years, i.e. practically that of school-leavers, was 11% in the first quarter, 1.4 percentage points lower than in the previous quarter but still twice as high as in the bracket of 25–76 year old people (5%). Looking at developments in the unemployment rate by sex, male unemployment, at 6.4%, continues to be higher. The female unemployment rate was 5.1% in the first quarter. Whereas the underlying trends of unemployment by age group appear to be similar to those observed in the EU member countries, the male and female unemployment rates continue to be different.

As a result of a strong fall in the number of unemployed and a modest increase in the number of people in employment, the number of economically active persons remained virtually unchanged in 2001 Q1 relative to the previous quarter, but rose by 0.7% compared with the same period of 2000.

The economic activity ratio, calculated from the seasonally adjusted data, was 53.7% in 2001 Q1, showing a rise of 0.4 of a percentage point relative to that recorded a year before.

Chart 5 Number of registered unemployed



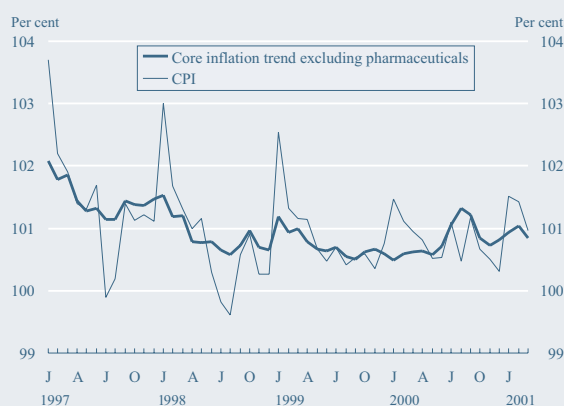
Price trends

Table A Core inflation rates in the twelve months to March 2001
NBH calculations

	Twelve-month core inflation	Annualised trend of one-month core inflation rates
February 2000	107.78	107.24
March	107.54	107.83
April	107.32	107.77
May	107.20	106.83
June	106.99	108.83
July	107.44	113.63
August	108.47	117.12
September	109.40	115.73
October	109.62	111.00
November	109.71	108.51
December	109.83	109.78
January 2001	110.47	110.78
February	110.83	113.80
March	111.03	110.47

Note: The trend values are derived from a model applied to fixed-base indices. The trends are calculated by major commodity group, for a time series beginning in January 1994. The model is revised semi-annually.

Chart 6 Monthly consumer price index and the trend of core inflation



Consumer prices

The CSO release of the year-on-year consumer price index was 10.5% in March 2001, rising by 0.1 of a percentage point relative to February. The rate of core consumer price inflation, calculated using the Bank's method, was 11.03%, up 0.2 of a percentage point on the preceding month (see Chart 6). The value of twelve-month core inflation was the highest recorded since November 1998, continuing to exceed the CSO's consumer price index for the third consecutive month. The annualised value of the trend of core inflation, however, fell in March (see Table A).

The outcomes for price categories with the biggest impact on developments in those derived by the Bank on the basis of price determination continued to be varied (see Chart 7).

The prices of industrial goods, on which the Bank is able to exercise the greatest influence via its implementation of exchange rate policy, continued to rise by only 5% in March relative to a year earlier. However, the prices of both market services and foods rose strongly above the average – market services prices rose by 13.4% and food prices by 18.1% in a year-on-year comparison. As regards food prices, almost the whole of the drastic rises in unprocessed goods has by now fed through to processed goods prices. The changes in regulated prices continued to be below the broad average, with an average increase of 7.5% in twelve months.

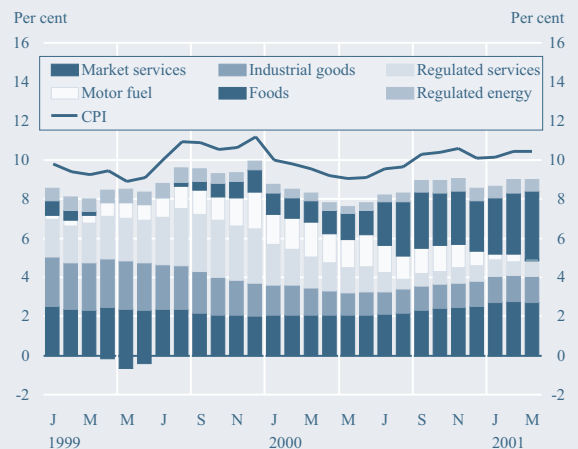
The one-month increase in consumer prices, as reported by the CSO, was 1.0% in March, 0.1 of a percentage point higher than the outturn for March 2000. Comparing price developments in 2001 and 2000, the changes in food prices, with an above-average increase of 1.6%, deserve special mention. Motor fuel prices fell in March, and the regulated prices of services rose below the average, owing to the control maintained by the government over price developments. The change in market service prices, which represent a very important weight in overall price developments, does not suggest an improvement relative to a year before.

Producer prices

Producer prices (the CSO release of industrial firms' domestic selling prices) rose by 0.7% from February to March and by 12.3% relative to twelve months previously (see Chart 8).⁴ The one-month change in seasonally adjusted domestic producer prices excluding energy⁵ was an increase of 0.75% in March. The twelve-month value of the index was identical with the average change in producer prices (see Chart 9).

Manufacturing industry prices, which are a dominant factor influencing movements in domestic sales prices, rose on average by 0.8% in the month under review relative to February. Among the more important industry sectors, the change in food industry prices, showing a 1.2% increase, continued to be significant in March. In contrast, prices in the chemical industry rose only slightly, by 0.3%, as in February. As a result of the price of North Sea Brent continuing to fluctuate between \$24 and \$26 and the dollar appreciating against the euro, petroleum product prices remained broadly unchanged. Price changes in the rest of manufacturing varied between 0.3% and 1.6%. Non-metal mineral products, with a share of 4% in the index, which also include construction materials, continued to show the biggest price increase in the month.

Chart 7 Contributions of the major price categories to the trend of core inflation*



* The chart does not plot contributions of drinks and tobacco, and market energy.

Chart 8 Domestic producer price indices
Preceding month = 100

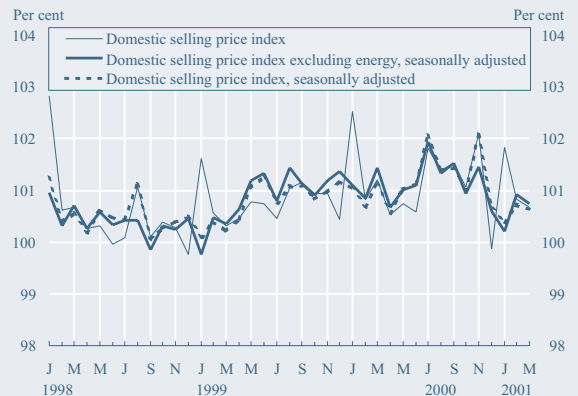
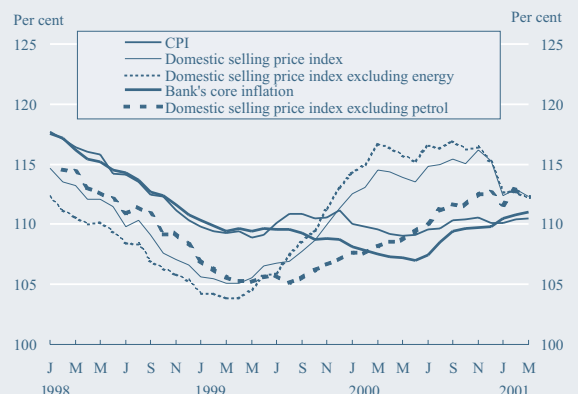


Chart 9 Comparison of the domestic producer price index excluding petrol with other price indices
Same month of previous year = 100



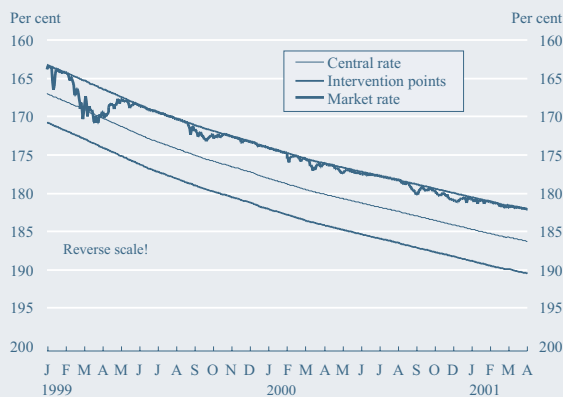
⁴ The CSO has reprocessed data for 2001 January, taking into view changes in product categories within the refined petroleum products sub-sector. That in turn has affected the price indices for all aggregates within this product group.

⁵ The index is calculated net of the effects of changes in government regulated prices, i.e. in those of electricity, gas, steam and hot water supply, and collection, purification and distribution of water.

Monetary developments

Chart 10 Exchange rate movements within the intervention band

13 March 1995 = 100



Monetary conditions

The Bank did not take any policy measure to affect monetary conditions in March 2001.

The market rate of the forint fluctuated near the strong edge of the official intervention band throughout March. That meant the exchange rate depreciated by 0.21% vis-à-vis the currency basket in comparison with end-February. The National Bank of Hungary officially devalued the central rate by 0.31% in the month (see Chart 10). (Since 1 January 2001, the forint has been devalued against a currency basket consisting 100% of the euro. Since 1 April 2000, the monthly rate of devaluation had been 0.3%, which was further reduced to 0.2% from April 2001). The average deviation of the exchange rate from the central rate was 220 basis points toward the strong extreme of the intervention band.

In the conduct of official interventions in the foreign exchange market, the Bank purchased foreign exchange in the amount of €151.6 million in the month.

Analytical accounts of the NBH

The value of banknotes and coin in circulation rose by Ft 21.8 billion in March relative to end-February. The combined end-of-month total of domestic and foreign currency liabilities of the central bank to credit institutions fell by Ft 113.8 billion in one month. Claims of the Bank on

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

	Ft billions							
	1999	2000	2000		2001	2001		
	Q4	Q1	March	Q4	Q1	March	Of which:	
	Averages*			Averages*			Transactions	Revaluations
Banknotes and coin	28.9	-22.9	21.1	13.9	-17.8	21.8	21.8	0.0
Forint deposits of credit institutions	31.5	124.7	-171.7	11.3	-63.7	-84.3	-84.3	0.0
Foreign currency deposits of credit institutions	-9.8	-25.8	0.8	-5.2	-28.8	-29.5	-36.8	7.3
Net claims on general government (excluding ÁPV Rt deposits)	-64.6	-37.5	-64.1	-27.0	-81.4	-63.7	-49.2	-14.5
Of which: forint loans	-6.0	-6.0	-18.0	-6.3	-6.0	-18.0	-18.0	0.0
government securities	-1.9	-3.1	0.0	-1.1	-65.3	0.0	0.0	0.0
foreign currency loan	-51.5	-25.8	-44.7	-11.1	2.9	-11.2	0.1	-11.3
Claims on credit institutions	-3.8	5.3	-40.7	-3.6	-2.6	-1.7	-1.7	0.0
Foreign and other net assets	118.9	108.2	-45.1	50.6	-26.3	-26.6	-48.4	21.8

* Quarterly average of changes relative to the preceding month.

credit institutions were Ft 1.7 billion lower, mostly on account of a decrease in outstanding long-term foreign currency lending. The Bank's net liabilities to domestic credit institutions fell by Ft 112.1 billion, its claims on the general government sector by Ft 63.7 billion, and foreign and other net assets by Ft 26.6 billion (see Table B).

Looking at the average stocks of central bank liabilities to credit institutions, in March relative to the preceding month the average of current account deposits fell by Ft 2.6 billion, that of credit institutions' holdings of NBH domestic currency bills by Ft 13.4 billion, that of non-callable deposits by Ft 22 billion and that of foreign currency deposits by Ft 25.3 billion (see Table C).

Aggregate balance sheet of the banking sector

Calculated from the data which take account of the change to the required reserves system, annual growth in the monetary base (M0) moderated by 1.6 percentage points, to 10.6% in March relative to the preceding month.

According to the final numbers, the annual indices of every monetary aggregate, derived from the liability items of the aggregate balance sheet of the banking sector, grew faster in the month than in February. Annual growth in M1, a composite of banknotes and coin held by non-banks plus forint sight deposits, showed the largest change, picking up 1 percentage point from February to March, so its end-of-month stock stood 13.7% higher than a year before. Annual growth in the money measure M2, which comprises sight foreign currency deposits and time forint deposits, in addition to M1, was 0.4 of a percentage point faster than in February, its end-March stock standing 12% higher in a twelve-month comparison. Growth in broad money M3, a measure of M2 plus holdings of bank securities, picked up 0.5 of a percentage point in one month, to run at 12.2%. Annual growth in broadest money M4, an aggregate of M3 plus government securities and NBH bills held by the non-bank sector, was 0.4 of a percentage point faster, the end-of-month stock of the aggregate being 15.2% higher than in March 2000 (see Chart 11).

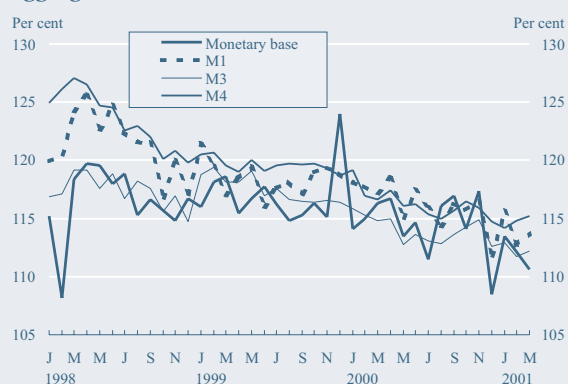
Turning to the individual liability items of the aggregate balance sheet of the banking sector, the month-end value of corporate sector deposits fell by Ft 23.6 billion due to the transaction effect. Here, forint and foreign currency deposits fell by Ft 9.2 billion and Ft 14.4 billion respectively. The sector's foreign currency deposits rose by Ft 6.4 billion on account of movements in exchange rates. Personal deposits, a class of household sector deposits, rose by Ft 16.8 billion during the month. Here, domestic currency deposits grew by Ft 2.8 billion but foreign currency deposits fell by Ft 5.7 billion due to the transaction effect. The contribution of exchange rate

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

	2001		Monthly change
	February	March	
Banknotes and coin	908.7	916.5	7.8
Forint deposits of credit institutions	888.1	850.1	-38.0
Of which: bankers' deposit accounts	384.8	382.2	-2.6
non-callable deposits	301.6	279.6	-22.0
Foreign currency deposits of credit institutions	410.0	384.7	-25.3
Net claims on general government (excluding ÁPV Rt deposits)	1,408.2	1,406.7	-1.5
Of which: forint loans	289.5	288.3	-1.2
government securities	172.1	172.1	0.0
foreign currency loan	1,366.4	1,367.5	1.1
Claims on credit institutions	90.7	90.6	-0.1
Foreign and other net assets	707.9	654.0	-53.9

* Monthly average of daily stock data.

Chart 11 Annual growth rates of the money aggregates*



* The Chart plots M0 indices after eliminating the effect of the change to the required reserves system in effect since 1 February 2001.

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.

Table D Monthly changes in the net positions of institutional sectors vis-à-vis the banking sector

	Ft billions							
	1999	2000	2000		2001		2001	
	Q4	Q1	March	Q4	Q1	March	Of which:	
	Averages****			Averages****			Transactions	Revaluations
General government and non-profit sector, net*	42.5	49.6	-9.6	7.6	55.4	104.4	90.4	14.0
Consolidated central government, net*	40.2	48.6	-28.6	13.1	46.3	52.8	38.7	14.0
Local authorities, net	1.6	-1.0	20.8	0.8	6.8	55.1	55.1	0.0
Other (non-profit) institutions, net	0.7	2.0	-1.8	-6.3	2.3	-3.5	-3.4	0.0
Enterprise sector, net	-2.5	-51.5	-57.7	0.2	-65.3	-65.6	-50.1	-15.6
Of which: loans	-44.9	-41.9	-58.7	-52.4	-48.1	-56.3	-34.2	-22.0
deposits+cash+securities**	42.5	-9.6	1.0	52.5	-17.1	-9.4	-15.8	6.4
Households, net***	42.2	-9.1	11.3	36.5	-4.2	21.2	1.4	19.6
Of which: loans	-11.5	-10.2	-14.6	-20.6	-12.1	-13.7	-13.7	-0.1
deposits+cash+securities	53.7	1.1	25.9	57.1	7.8	34.9	15.1	19.6
Non-residents, net	-82.5	-42.2	-66.5	-32.0	-81.8	-72.2	-14.9	-59.9
Other, net	0.3	53.3	122.5	-12.2	95.9	12.3	-26.8	41.9

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.

movements to personal foreign currency deposits was an increase of Ft 19.6 billion.

As regards the items on the assets side of the aggregate balance sheet of the banking sector, the domestic credit stock rose by Ft 20.3 billion due to transactions and by another Ft 8.4 billion due to exchange rate changes, resulting in a 15% rise in twelve months. Corporate sector domestic borrowings were Ft 56.2 billion higher due to transactions. The transaction effect on the sector's forint borrowings was an increase of Ft 39.6 billion and that on foreign currency borrowings was a drop of Ft 5.4 billion. Exchange rate movements caused an upward revaluation of Ft 22 billion on corporate sector foreign currency borrowings. Within the total debt of the household sector owed to the banking sector, personal borrowings rose by Ft 16.9 billion in March.

The changes in outstanding borrowings and deposits caused net liabilities of the general government and non-profit sector to fall by Ft 104.4 billion and net assets of households to rise by Ft 21.2 billion in one month. Net corporate sector debt increased by Ft 65.6 billion. The domestic banking sector registered a Ft 72.2 billion increase in net foreign assets (see Table D).

Government securities market

Yields in the government securities market continued to rise in March. Zero-coupon yields,⁶ which reflect movements in the secondary market, were higher across every maturity. They rose 38–42 basis points at the shorter end, i.e. at three, six and twelve months, and slightly more strongly, by 40–60 basis points at the longer end, i.e. at two

⁶ 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.

to ten years, relative to the preceding month. At the most distant end of the curve, i.e. at ten-years, the yield rose 19 basis points (see Chart 12).

Implied one-year forward rates⁷ in one to three years' time rose 42–80 basis points, with a stronger rise of 69 basis points in four years' time. (see Chart 13).

Non-resident investors added another Ft 29.4 billion to their holdings of Hungarian domestic currency-denominated government debt securities, so the sector's total holdings amounted to Ft 823.2 billion at the end of the month under review.

The total amount of bids submitted at the auctions of government bonds continued to fall in March relative to the preceding month. Four auctions of NBH bills were conducted in March.⁸ Yields were static, accompanied by a massive drop in demand. The average yield at all auctions held in the month, weighted by the amount sold, was 11.02%.

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 198.7139 on 30 March. Calculated from movements in the index values, the annual return achievable on a portfolio equal to the composition of the index basket was 6.73%.

Market interest rates

Following the reduction in official interest rates in the preceding month, there were strong increases in the monthly averages of interbank lending rates with the short maturities and comparatively smaller ones with the longer maturities in March. The total value of interbank trans-

Chart 12 Zero-coupon yields and annualised return on the central bank two-week deposit

Short-term yields on a compounded basis; weekly averages

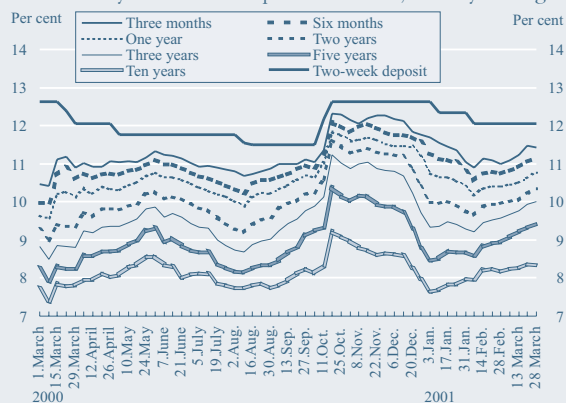
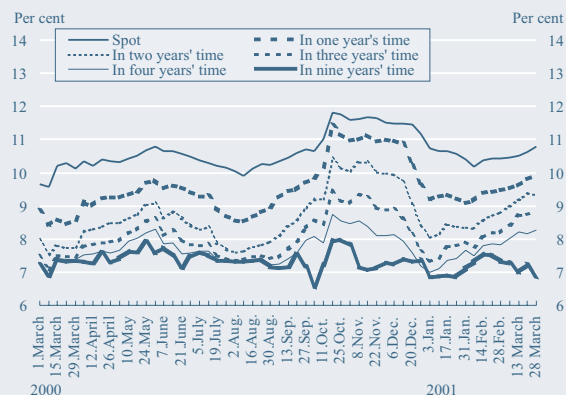


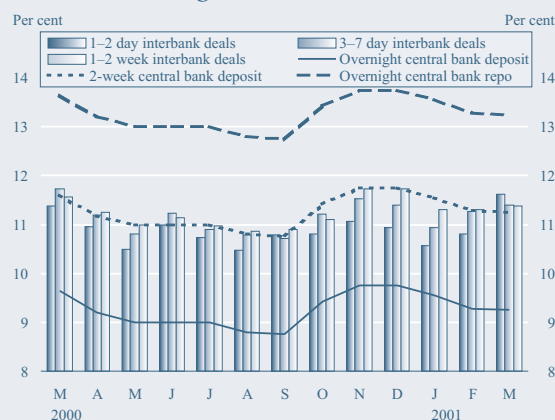
Chart 13 One-year spot rates and implied forward rates derived from the Bank's zero-coupon yields

On a compounded basis; weekly averages



⁷ 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 even making mild assumptions. 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 not reflect adequately the rapid turns in the market's judgement.

⁸ 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 sale of the paper took place on 20 March 2000. The Bank offers a new series of the bill at auction every Monday. As part of a reform of its monetary policy instruments in March 2001, the Bank changed over from the earlier free competitive bidding system to a volume tender scheme. Within the framework of volume tenders, the Bank sells bills at bid prices. The quantity to be sold will be announced taking into view the banking system's liquidity, in addition to the competing bids. The Bank's intention is to follow an accommodating stance at the auctions, and it does not wish to give interest rate signals via the return evolving at the auctions. (Indication of the exact quantity in the public offer is required for both technical and legal reasons; therefore, the indication of quantity of the issue in the public offer does not mean the quantity of paper to be actually sold. The Bank will announce the quantity to be sold on the Reuters dealing page NBHJ on the business day preceding the auction.)

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

actions was Ft 1,542,8 billion in the month, showing an increase of some 16% (Ft 215.6 billion) relative to February. The increase in turnover was accompanied by a significant shift within total interbank transaction volume from 1–2 day deals towards longer-term ones. (see Chart 14).

The average of 1–2 of day rates stood at 11.6%, up 60 basis points on the preceding month's level. The explanation for a rise of this magnitude was the fact that the excess of demand for shorter-term funding over supply was stronger than usual. Although turnover in the maturity area rose, its percentage share within the total fell 5.1 percentage points, to 76.9%. The proportion of 3–7 day deals within the total was 10.7%, showing a 3.8 percentage points increase relative to February. The average rate in this maturity bracket edged 10 basis points higher, to 11.4%.

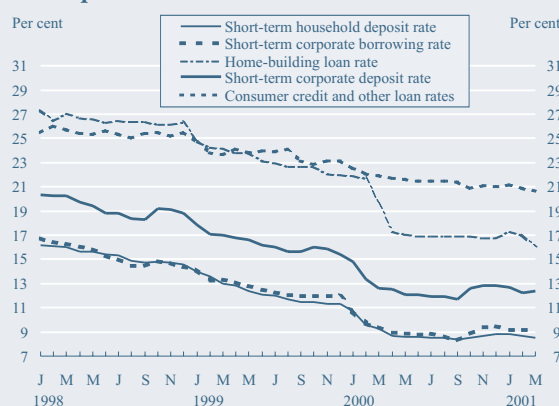
The share of turnover between 1–2 weeks was 7.3% of all transactions, showing a drop of 0.2 of a percentage point. At 11.4%, the average interest rate in this maturity area was 10 basis points higher than the preceding month's average. Interest rates for maturities extending beyond two weeks stood at an average 11.2%. Transactions here accounted for 5.1% of total turnover, showing a drop of 1.5 percentage points relative to February.

Household sector borrowing and deposit interest rates fell in March relative to the preceding month. The average of corporate sector short-term borrowing and deposit rates rose slightly, in contrast with long-term rates, which fell (see Chart 15).

The average price for corporate customers of short-term loans, negotiated at market conditions, rose 20 basis points to 12.4%, that of deposit rates also rising, by 10 basis points to 9.3%. As a result of these movements in interest rate conditions, the short-term banking spread changed to 3.1 percentage points. Generally playing a very marginal role in corporate debts and deposits, the averages of long-term borrowing rates remained unchanged at February's 12.9%, while that of deposits rose fell from 9.5% to 9.0%.

Turning to households, the sector's average sight deposit rates fell 10 basis points to 3.3%, that of short-term deposit rates falling 20 basis points, to 8.5%. The average interest rate on long-term deposits, which have an inconsiderable role within total deposits, experienced a more significant change, falling 60 basis points to 8.6%, accompanied by moderating flows into the facility. The vast bulk of this change, some 50 basis points, was accounted for by a shift in the percentages that credit institutions accounted for within total deposits (credit institutions that pay higher interest on long-term deposits managed to attract most of the new deposits).

The banking sector average of household sector borrowing rates continued to fall in March. Due mainly to the interest rate decisions by credit institutions and partly

Chart 15 Corporate and household sector borrowing and deposit rates

to the shift in the importance of banks, the average of home-building and property loan rates sliding 100 basis points to 16.0%. The average rates on consumer credit and other loans fell 30 basis points to 20.6%, which was comparable with the drop seen in February.

As a result of the changes in interest rates, the gap between corporate and household sector average borrowing rates⁹ narrowed in March, by 50 basis points to 7.7 percentage points. The average of corporate sector deposit rates was 0.8 of a percentage point higher than the corresponding average of household sector deposit rates, showing a 0.3 of percentage point increase.

The BUX and the world's leading share market indicators

The share index of the Budapest Stock Exchange continued to fall in March, following a 12.6% decline in February. The BUX reached its monthly peak at 7,233.34 points on 7 March, then prices were on an almost uninterrupted downward trend throughout the remainder of the month. The market fell to its monthly low at 6,471.51 on 22 March. In the final days the index recovered some of its earlier losses, closing the month at 6,652.50, down 6.5% on its finish in February and only at a third of the close a year earlier (see Chart 16).

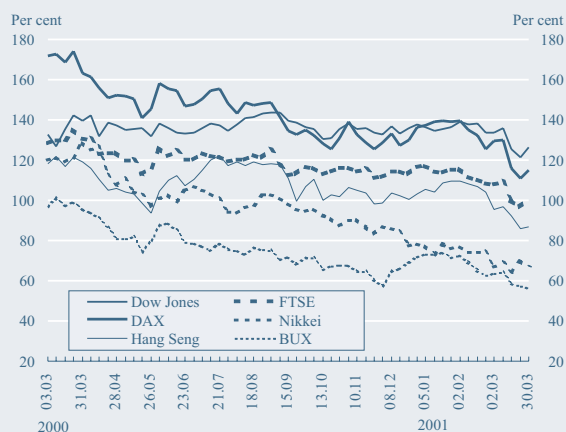
Measured on a dollar basis, the official index of the Budapest Stock Exchange fell by 11.8% in March, extending its 13.1% loss recorded in February. Continuing the trends of the preceding month, prices also fell on virtually all the major international exchanges. As seen in February, the Dow Jones Industrial Average of New York experienced the smallest drop, losing 5.9% in March following a 3.6% drop in February. The FTSE of London and the DAX of Frankfurt closed 6.7% and 10.4% lower respectively, following losses of 7.8% and 9.5% in February. The NASDAQ, a gauge of movements in the prices of technology stocks, fell another 17.6% following a plunge of 26.4% in February, so at end-March it was only 44% of its value six months before (see Chart 17).

In the Far East, the Nikkei of Tokyo fell by another 7.5% in dollar terms following a 6.3% plunge in February. The Hang Seng of Hong Kong, too, continued to nosedive in March – after a 10.7% decline in February, the index lost 11.1%.

Chart 16 The BUX
2 January 1991 = 1,000



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



⁹ For both sectors, average borrowing rates have been defined taking into view the new contracts entered into during the course of the month.

Balance of payments and foreign trade

Table E Developments in the seasonally adjusted current account data

	€ millions			
	2000 March	2001 January	2001 February	2001 March
Goods	-158	-229	-189	-178
Exports	2,153	2,499	2,512	2,578
Imports	2,336	2,757	2,611	2,656
Services excluding tourism	-58	-65	-56	-32
Tourism	185	220	212	225
Non-debt income flows	-52	-54	-55	-59
Debt-related income flows	-50	-50	-55	-51
Current transfers	44	47	37	33
Current account balance	-114	-195	-111	-64

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

The balance of payments and financing

According to the seasonally adjusted numbers,¹⁰ the current account was in deficit by €64 million in March 2001. The deficit fell €47 million in one month (see Table E). Including the March data, the current account deficit has been stable around €130–150 million since early 2000, while net expenditures for trade in goods have been falling steadily since the start of 2001 (see Chart 18).

The €25 million lower deficit on other services excluding tourism was the major factor contributing to the one-month fall in current account deficit. The tourism surplus and the merchandise trade deficit rose nearly equally. There were no considerable changes in the monthly outcomes for current transfers and investment income (see Chart 19).

The current account deficit, not seasonally adjusted, was €48 million in deficit in March, showing a €50 million improvement relative to a year earlier. The increase of €40 million in the tourism surplus explained most of the decrease in the current account deficit. The major changes on the other sub-accounts were decreases in both the deficit on other services excluding tourism and the surplus on current transfers, and an increase in net expenditures for trade in goods.

The capital account closed with a surplus of €14 million in March, so whole-economy external financing requirement amounted to €35 million in the month under review. Non-debt inflow, at €181 million, financed this gap – direct investments by non-residents in Hungary amounted to €152 million, while withdrawals by Hungarian residents from abroad amounted to €10 million. Inward and outward portfolio investment transactions in equity securities closed with a €29 million inflow. The

Chart 18 Current account

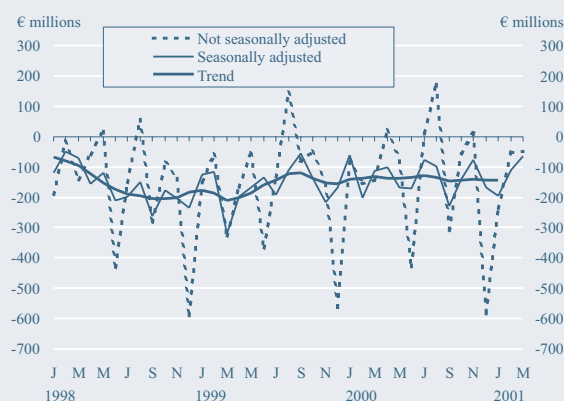
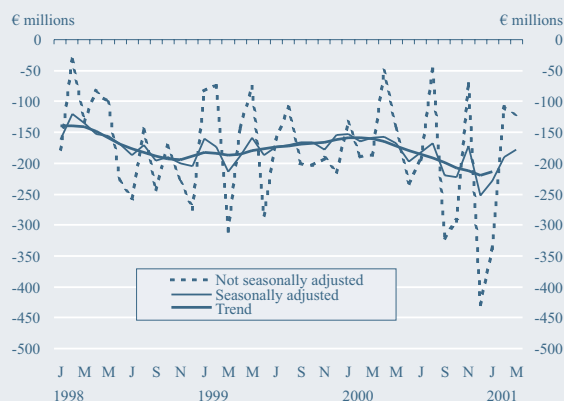


Chart 19 Trade balance



¹⁰ Using the SEATS TRAMO software, the model settings which accord best with the characteristics of the times series ending with the final data for January 1994–December 2000 are fixed at the entire length of the year. The newly published data are adjusted within this model in the course of 2001. Taking account of the data for the latest month, the seasonally adjusted data for earlier periods will change. 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.

decrease of €136 million in net debt due to transactions was attributable to two major factors – non-resident investors stepped up their holdings of Hungarian government debt securities by €112 million, on the one hand, and Hungary's international reserves rose by €185 million, on the other (see Table F).

Hungary's external accounts

Whole-economy gross foreign debt was €34.3 billion at the end of March 2001. The combined gross foreign currency debt of the NBH and the central government outstanding to non-residents amounted to €16.2 billion, forint debt accounting for €3.1 billion. The gross debt of credit institutions and the corporate and other sectors rose to €18 billion, inter-company loans accounting for €3.9 billion. Financial liabilities of direct investment enterprises to their parents, also known as inter-company loans, had a share of 31% within total corporate sector foreign debt.

Whole-economy net debt stood at €12 billion at end-March. The combined net debt of the NBH and the central government stood at €2.1 billion. However, taking foreign currency denominated assets and liabilities into account, the two sectors took a €958 million net lending position in foreign currency. Total private sector net foreign debt was €9.8 billion, inter-company loans accounting for €3.6 billion.

The total stock of direct investments by non-residents in Hungary amounted to €22.4 billion at the end of March, of which the value of holdings of shares and classes of equity capital was €18.5 billion (see Table G).

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

	€ millions			
	2000	2001		
	March	January	February	March
1 Current account	-145	-237	-54	-48
2 Capital account	9	30	11	14
3 Net lending / net borrowing (1+2)*	-136	-207	-43	-35
4 Non-debt capital flows	-9	-158	263	181
5 Total (3+4)	-145	-365	221	146
6 Debt-creating flows (6a+6b)**	156	344	-197	-136
6a In forint	98	-33	263	112
6b In foreign currency	59	377	-460	-248
7 Financing gap (5+6)	11	-22	23	10
8 Errors and omissions	-11	22	-23	-10

* Net borrowing (-), or net lending (+).

** Net change in debt: fall (-), or increase (+).

Table G Hungary's assets and liabilities vis-à-vis non-residents

Monthly changes

	2001		Change	Of which:			
	February	March		Transactions	Exchange rate movements	Price changes	Other volume changes
	€ millions						
Net foreign currency debt of the NBH and government	-903	-958	-55	-25	-87	56	1
Net forint debt of the NBH and government	2,983	3,089	106	112	-6	0	0
Total net debt of the NBH and government	2,080	2,131	51	87	-93	56	1
Assets of the NBH and government	13,908	14,111	203	-94	166	132	-1
Of which: international reserves	12,104	12,187	83	-76	147	11	0
Gross foreign currency debt of the NBH and government	13,005	13,153	147	-120	79	188	0
Gross forint debt of the NBH and government	2,983	3,089	106	112	-6	0	0
Total gross debt of the NBH and government	15,988	16,242	253	-7	72	188	0
Net debt of credit institutions and the corporate and other sectors*	6,533	6,291	-242	-236	36	-122	80
Assets of credit institutions and the corporate and other sectors	7,400	7,864	464	180	207	100	-23
Gross debt of credit institutions and the corporate and other sectors	13,933	14,155	222	-56	243	-22	57
Inter-company loans, net	3,532	3,553	21	13	24	0	-16
Assets	332	332	0	-13	10	0	3
Liabilities	3,864	3,885	21	0	34	0	-14

* Excluding inter-company loans.

Chart 20 Annualised monthly growth rates of merchandise foreign trade

In euros; preceding month = 100

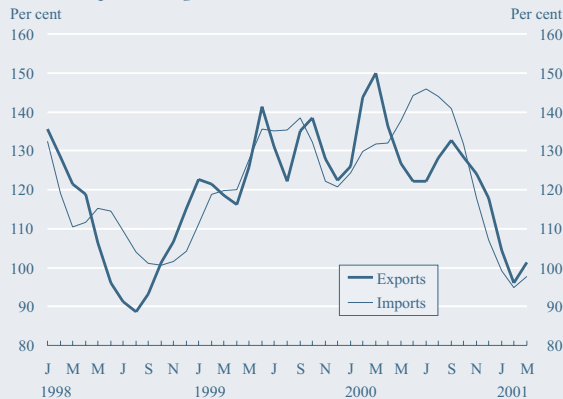


Chart 21 Merchandise exports

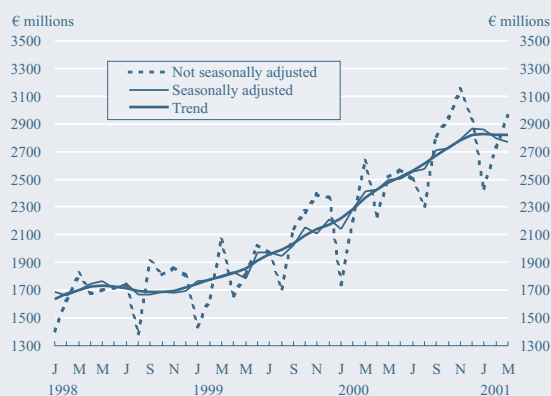


Chart 22 Merchandise imports

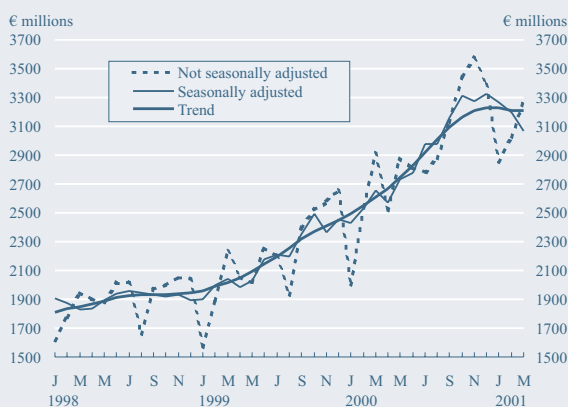
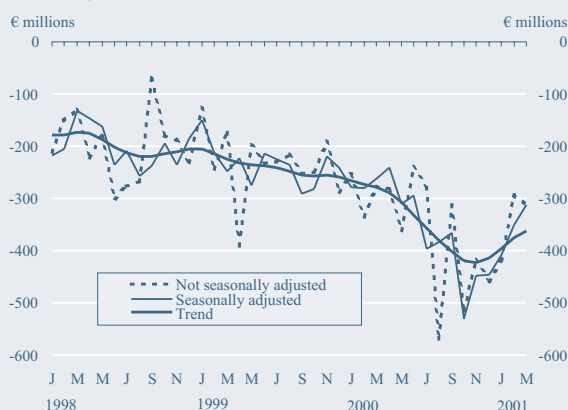


Chart 23 Trade balance



Foreign trade

The annualised growth rates of merchandise exports and imports turned slightly upwards in March, following a steady decline in the preceding few months. The trend of imports has been above that of exports since November 2000. As a consequence, the trend of merchandise foreign trade balance shows a continuous improvement (see Chart 20).

According to both the unadjusted and the adjusted data, expressed in euros, exports and imports of goods grew at much slower rates in March than in the preceding months. This indicates a slowdown in the growth rate of merchandise foreign trade (see Charts 21, 22 and 23).

The moderation in the twelve-month growth rates of foreign trade in March was coupled by the lower percentage shares of machinery and equipment accounted for within exports and of energy within imports. Meanwhile, the regional pattern of foreign trade remained largely unchanged.

The percentage share that machinery and equipment accounted for within both exports and imports grew further in March and the first quarter of 2001, while that of manufacturing and agricultural goods fell. At the same time, within whole-economy foreign trade the share of the CIS states moderated, while those of countries of the CEFTA and the developed countries increased (the latter's grew mainly in imports).

The increase in the percentage share of the CEFTA region was mainly attributable to foreign trade in manufacturing goods and machinery and equipment. Inward trade from Far Eastern regions of machinery and equipment continued to grow robustly.

The fall in exports of agricultural goods and that in base materials in imports were in the background of the fall in the percentage share accounted for by the CIS states. However, the decline in foreign trade in machinery and equipment affected both Hungarian exports and imports. Energy imports, with 75% accounted for by the CIS states, continued to rise significantly relative to 2000 Q1,¹¹ but this only partially offset the declines experienced by other commodity groups, noted earlier.

¹¹ There has been a price effect explaining the increase in energy imports. In calorific terms imports fell slightly, which was attributable to the change in the price of natural gas – the price of imported gas is set using a formula, in turn is fixed to movements in the prices of certain oil products. This delayed the drastic increase in crude oil prices in 2000 until now.

Public finance

Net borrowing of general government

The net financing capacity of general government amounted to Ft 36.8 billion in March, substantially better than a year earlier (see Chart 24). The borrowing requirement of central government fell by some Ft 7 billion, that of the social security funds by Ft 9 billion and that of the local government authorities by Ft 43.3 billion relative to March 2000 (see Table H). The cumulative general government deficit, according to the Bank's calculations, amounted to Ft 90 billion in the first three months of 2001, in comparison with Ft 109.4 billion in the same period of the previous year.

The central government net borrowing requirement, including the accounts of ÁPV Rt and the extra-budgetary funds, and adjusted to reflect the Bank's calculation method, was Ft 38.7 billion in March. 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, amounted to Ft 38 billion. The difference between interest expenses calculated on a cash and accrual basis contributed Ft 14 billion to the borrowing requirement of central government, as compared with the Ft 10.3 billion positive contribution in the previous year.

Out of the Ft 94.5 billion extraordinary expenditure, recorded in December 2000 and placed on the deposit account last December, ÁPV Rt received Ft 35 billion in January. Transfers to the local authorities and the central government units basically to finance a civil servants' wage increase amounted to Ft 10 billion and Ft 5 billion respectively to the end of March. Owing to these transfers, the net borrowing requirement of central government was some Ft 50 billion higher at the end of the month under review than the officially stated outcome.

The State Privatisation and Holding Company raised practically no revenue in March. Total expenditure amounted to Ft 8.1 billion, as a result of which the SNA balance of the company, recorded as part of the central government sector, was in deficit in the month under review, but in a Ft 1.3 billion surplus in the first quarter as a whole. Proceeds from the privatisation activities of ÁPV Rt

Chart 24 Net borrowing/net lending of general government



* The smoothed time series is a five-month centred moving average with varying weights up to February 2001. The March moving average is calculated using a trinomial average with equal weights and an estimate for April (Ft -75.4 billion).

Table H General government net lending (+) / net borrowing (-) by sub-sector

	Ft billions		
	2000 March	2001 February March	
Central government excluding extra-budgetary funds and ÁPV Rt (1)	-23.5	-55.1	-29.9
Extra-budgetary funds (2)	-1.8	6.6	-0.7
ÁPV Rt. (3)	-20.3	-0.2	-8.1
Central government (4=1+2+3)	-45.6	-48.7	-38.7
Social security funds (5)	-10.5	-20.2	-1.5
Local authorities* (6)	33.7	-10.7	77.0
General government, total (7=4+5+6)	-22.4	-79.7	36.8

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

amounted to Ft 7.9 billion in the first quarter, asset utilisation programmes raised Ft 0.6 billion and the interest income on gas utility bonds amounted to another Ft 2.4 billion.

Based on data received from the Hungarian State Treasury, the net borrowing requirement of the Health Insurance Fund and the Pension Insurance Fund, drawn as a balance of Ft 160.6 billion revenue and Ft 162.1 billion expenditure, amounted to Ft 1.5 billion in March. On the expenditure side, spending on medical and preventive care and pharmaceutical subsidies significantly exceeded the estimate. The balance of provision funded from non-social security sources was a Ft 0.3 billion deficit, which affected provisions funded by non-central government sources.

Gross debt of general government borrowing requirement

Net lending of general government can be calculated taking into view changes in financial assets and liabilities, in addition to the balance of revenue and expenditure. The difference between the two indicators of general government net lending, 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 (see Table I), which shows the sector's debt in terms of deficit financing, was an increase of Ft 25.8 billion in March and a total Ft 60.3 billion in the first quarter of 2001. Here, the borrowing requirement of the central government was Ft 42.7 billion and that of the social security funds was Ft 3.2 billion. Net lending of the local government authorities amounted to Ft 71.6 billion.

Financial assets of the central government rose by Ft 37.5 billion in March, mainly on account of the increase in the sector's deposits with the NBH. The increase of Ft 83.9 billion in liabilities was caused by issues of forint-denominated government securities (to the amount of Ft 83.9 billion), interest accruals (Ft 14 billion), repayments of debt owed the NBH and non-residents (Ft 18 billion and Ft 7.7 billion respectively) and the effect of exchange rate changes on foreign currency debt.

Outstanding borrowings of the social security funds from the central government rose by Ft 2 billion in March, reaching Ft 122.3 billion towards the end of the month. Taking into view also changes in other financial liabilities and assets, net assets of the sub-sector fell by Ft 3.2 billion.

Financial assets of local government authorities, drawn as a balance of a Ft 50.4 billion increase in deposits with credit institutions and substantial purchases of government paper and other securities, rose by Ft 65.4 billion. In

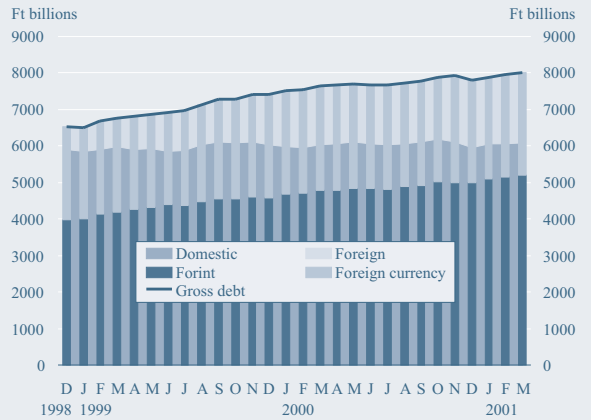
Table I Changes in financial wealth of general government

	Ft billions				
	Stocks: March 2001	Flows:			
		March		January–March	
	Transac- tions	Other changes in volume	Transac- tions	Other changes in volume	
Central government					
Assets	864.8	28.6	9.0	145.9	8.4
Liabilities	7,973.1	71.2	12.7	231.3	22.0
Net financial assets	-7,108.3	-42.7	-3.7	-85.4	-13.6
Social security funds					
Assets	0.0	-1.1	0.0	-6.4	0.0
Liabilities	134.7	2.1	0.0	34.0	0.0
Net financial assets	-134.7	-3.2	0.0	-40.4	0.0
Local government authorities					
Assets	499.3	65.4	0.0	57.6	0.0
Liabilities	161.9	-6.3	0.0	-7.9	0.1
Net financial assets	337.4	71.6	0.0	65.5	-0.1
Consolidated general government					
Assets	1,116.0	85.0	9.0	145.5	8.4
Liabilities	8,021.6	59.2	12.8	205.7	22.1
Net financial assets	-6,905.6	25.8	-3.8	-60.3	-13.7

contrast, liabilities fell by Ft 6.2 billion, mainly on account of repayments of existing debt owed to credit institutions. Net purchases of government securities amounted to Ft 17.7 billion in the first quarter of the year. The increases in central bank bonds and deposits with credit institutions amounted to Ft 17.7 billion and Ft 16.6 billion respectively in the period.

In March, the gross debt of general government rose by Ft 71.9 billion, to a total Ft 8,021.6 billion. The total stock of financial assets, excluding the total value of the sector's equity shares, rose by Ft 94 billion, to Ft 1,116 billion. The increase in liabilities continued to be accounted for mainly by the increase in holdings by non-residents of forint-denominated debt (see Chart 25).

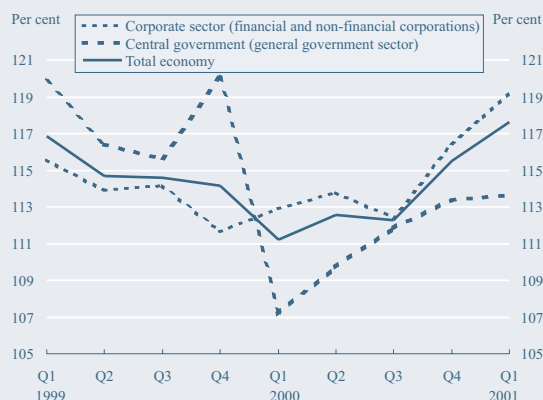
Chart 25 Composition of general government gross debt



Earnings and financial savings of households

Chart 26 Adjusted gross average earnings

Same period of previous year = 100



Earnings

According to the Bank's calculations,¹² the pace of whole-economy gross earnings growth¹³ continued to pick up speed in the first quarter of 2001. Adjusted to eliminate the effect of changes in the composition of the workforce, whole-economy earnings grew by 17.6% in 2001 Q1 relative to the same period of the previous year. That meant increases of 2.1 percentage points from the previous quarter and 6.4 percentage points from the year earlier period. Within the whole-economy average, corporate and government earnings continued to grow at different rates. Similar to the trends of the previous year, earnings in the business sphere grew faster than in the government sector in 2000 Q1 (see Chart 26).

The strong pick-up in earnings growth at the start of the year was triggered by the collective effect of a number of factors, which, however, can only partially be quantified. With knowledge of 2000 inflation data, businesses most probably adjusted wages upwards significantly. The introduction of the statutory minimum wage on 1 January, which alone caused gross wages to grow by 57%, also contributed to earnings growth. This is underlined by the fact that in the first three months of the year those sectors where the percentage share of people employed at the minimum wage was high registered much higher than average growth in earnings. According to the data released by the CSO for January–March, gross wages increased by 20.3% in agriculture, 29.2% in construction, 23.6% in hotels and restaurants and 21.6% in health care.

Looking at developments over a period, whereas in 1999 the rate of earnings growth fell from quarter to quarter, it began to rise slowly at the start of 2000, to gather increasing momentum towards year-end. This pick-up continued in the early months of 2001.

¹² Since June, 2000 the Bank uses its own indicator to analyse movements in earnings which eliminates from the CSO's index the effects of changes in the composition of labour, i.e. shifts in the distribution of blue-collar and white-collar workers, the composition of labour across sectors, and the number of hours worked, therefore, it provides a more accurate picture of actual movements in earnings. The revision and further development of the indicator is currently underway.

¹³ Companies with more than 5 employees (financial and non-financial companies), and units of central government and the social security authorities (general government sector). The quarterly data reflect more accurately labour market trends and therefore are analysed in more detail.

Corporate sector adjusted gross earnings growth was 18.6% in March year-on-year, 1 percentage point lower than in the preceding month. The CSO release of the same indicator, which shows unadjusted earnings growth numbers, showed an increase of 16.5% (see Chart 27).

The 2.1 percentage points gap between the outcomes for the two indicators is explained by the change in the number of hours worked and a variation in the composition of staff. The number of hours worked was nearly 3.6% lower in March than a year before. According to the data released by the CSO, the number of working days was 21 in March 2001, in contrast with 22 a year earlier, which caused the number of hours worked to fall.

According to the CSO data, irregular pay to personnel¹⁴ as a share of total gross pay was 13.9%. That was only 0.3 of a percentage point higher than that measured a year earlier. The rise in average earnings, excluding irregular pay, amounted to 16.1%.

Government sector adjusted earnings growth was 15.2% in the month relative to March 2000,¹⁵ showing a drop of 2.3 percentage points relative to the preceding month. The index, as calculated by the CSO, was 0.6 of a percentage point higher than the Bank's.

The share of irregular pay to personnel as a percentage of government sector earnings was 11.8%, little changed in comparison with the same period of 2000. The rise in government sector average earnings, excluding irregular pay, amounted to 15.6%.

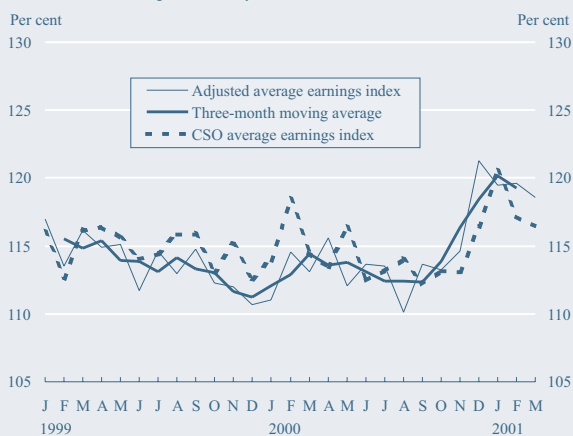
Corporate sector earnings growth amounted to 19.2% in 2001 Q1 year on year. This rate was 3.8 percentage points higher than in the previous quarter. Government sector earnings growth was 13.7% in the same period, broadly equal to that measured in the previous quarter. Whereas in 1999 earnings growth in the government sector was much stronger than in the corporate sector, there appears to have been a turnaround in the trend, as corporate sector earnings grew 5.6 percentage points faster than government sector earnings.

Financial savings of households

In March, operational net borrowing of households, i.e. their financial savings after eliminating compensation for inflation incorporated in interest, amounted to Ft 1.3

Chart 27 Corporate sector monthly gross average earnings index*

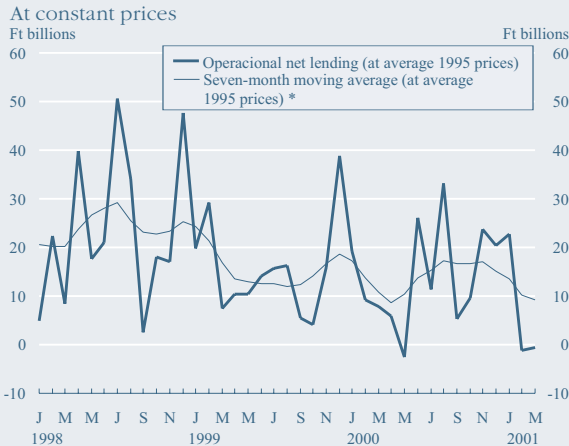
Same month of previous year = 100



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

¹⁴ Bonuses, overtime, profit-related pay, one-month pay awards etc.

¹⁵ 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.

Chart 28 Operational net lending (+) / net borrowing (-) of households

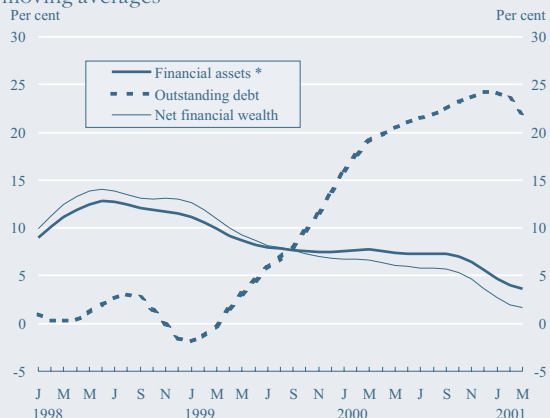
*The moving average is calculated using symmetrically reduced weights going back in time from the current month. The moving average values for the final three months may change when the latest data become available.

Table J Decomposing net financial wealth of households into the components of change

	Ft billions						
	Stocks: 31 March 2001	Flows (March)				Revaluations	Other changes in volume
		Transactions net of compensation for inflation	Compensation for inflation incorporated in interest	Revaluations	Other changes in volume		
Cash	759.4	12.0	12.0	0.0	0.0	0.0	
Forint deposits and bank securities	2,665.1	7.3	-13.0	16.1	0.0	4.2	
Foreign currency deposits	778.1	15.3	-5.6	1.3	19.6	0.0	
Non-bank securities	1,561.5	-13.6	1.9	11.0	-26.5	0.0	
Pension funds and life insurance	882.0	27.0	19.7	7.3	0.0	0.0	
Financial assets, total	6,646.1	48.0	15.0	35.7	-6.9	4.2	
Home-building loans	209.8	8.2	6.5	1.7	0.0	0.0	
Consumer credit	370.5	9.9	6.8	3.1	0.0	0.0	
Other borrowings	186.5	-4.8	3.0	1.1	0.0	-8.9	
Household debt	766.8	13.3	16.3	5.9	0.0	-8.9	
NET FINANCIAL WEALTH AND THE COMPONENTS OF CHANGE IN WEALTH	5,879.3	34.7	-1.3	29.8	-6.9	13.1	

Chart 29 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.

billion. As seen in the preceding month, the value of operational transactions affecting liabilities was higher than the value of the same indicator for financial assets. The longer-term trend downwards of financial savings since November 2000 appears to have stalled in March (see Chart 28).

Net financial wealth of households, valued at market prices, rose by Ft 34.7 billion in the month. Here, the value of financial assets rose by Ft 48 billion and household debt by Ft 13.3 billion (see Table J). There has been a slowdown since November 2000 in the year-on-year rate at which the value of financial assets rises. The growth in outstanding borrowings has also been moderating since January. However, its rate still continues to be high (see Chart 29).

Non-banking investment products continued to be the most sought after in March. Increases in holdings of cash and government securities, and flows into life insurance and pension fund schemes were dominant. The value of forint deposits grew only to the extent of compensation for inflation incorporated in interest.

Excluding the effect of compensation for inflation incorporated in interest, net withdrawals continued to characterise the changes in households' forint and foreign currency deposits. Operational transactions in forint deposits amounted to Ft -13 billion. Most withdrawals affected short-term deposits. Long-term deposits rose slightly due to continued flows into home-savings institutions. The decline affecting foreign currency deposits picked up in March, operational transactions amounting to Ft -5.6 billion. Nevertheless, the value of deposit holdings rose, as households registered a significant holding gain of Ft 19.6 billion on account of the appreciation of the dollar.

Of the various securities investments, households preferred buying government securities (mostly NBH bills and interest-bearing treasury bills). Here, operational transactions contributed Ft 10.4 billion. Holdings of investment fund certificates and shares fell by Ft 6.5 billion and Ft 2 billion respectively. Causing another drop in the value of holdings was a Ft 21.5 billion holding loss incurred due to the fall in share prices.

The value of life insurance reserves was comparable with that a year earlier, the outstanding stock rising by Ft 12.7 billion.

The rise in March, exceeding even those in January–February, stemmed from the quarterly settlement of insurance reserves (see Chart 30 and Table J).

Following a pause in January and a modest rise in demand in February, household sector net debt rose above the monthly average value of 2000, operational transactions amounting to Ft 16.3 billion.

Demand for both home-building loans and consumer credit was strong, although the value of transactions in the latter continued to be lower than the previous year's monthly average (see Chart 31).

Chart 30 Household sector financial assets

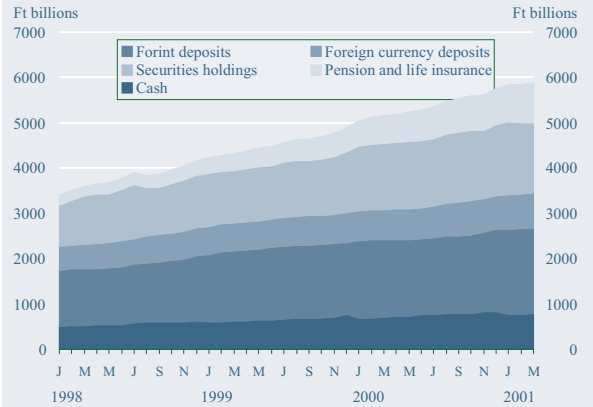
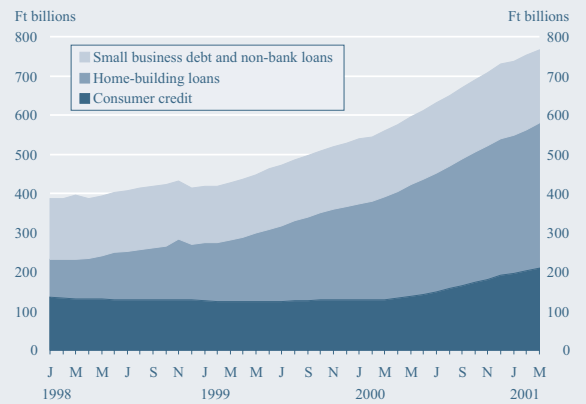


Chart 31 Outstanding borrowings of households by type of debt



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	34.8	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	103.2	109.3	109.5	117.1	6.7	13.3	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	103.3	109.1	109.7	114.6	6.3	25.8	117.7	116.0	116.9	14.85	-369	119	9,068	-54.9
July		110.0	109.6	115.0	7.5	28.8	116.2	117.7	117.4	14.75	-134	60	9,150	-38.9
August		110.9	109.6	116.6	6.8	30.2	114.8	118.2	116.5	14.75	144	113	9,285	-53.6
September	104.2	110.9	109.3	116.0	6.6	10.4	115.3	117.1	116.3	14.75	-87	103	9,635	-25.5
October		110.5	108.7	114.3	6.7	7.8	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	74.8	124.0	118.8	116.1	14.38	-562	296	10,874	-22.2
January 2000		110.0	108.0	110.7	7.0	36.8	114.1	118.1	115.9	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	106.5	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	115.0	11.20	21	162	11,380	-22.0
May		109.1	107.2	113.9	6.7	-5.2	113.5	115.1	112.8	11.00	-80	186	11,549	-12.9
June	105.6	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	20.0	114.1	115.8	114.3	11.42	-55	37	12,069	-12.9
November		110.6	109.7	114.6	6.0	49.9	117.3	116.4	114.9	11.75	11	154	12,433	-94.5
December	104.2	110.1	109.8	116.5	5.7	43.1	108.5	111.9	112.4	11.75	-583	314	12,068	-28.3
January 2001		110.1	110.5	116.1	6.0	47.8	113.5	115.6	112.9	11.55	-237	109	11,590	-47.1
February		110.4	110.8	117.4	6.3	-2.5	112.1	112.7	111.7	11.28	-54	268	12,104	-79.5
March		110.5	111.0	116.3	5.6	-1.3	110.6	113.7	112.2	11.25	-48	142	12,187	36.8

Source: CSO, NBH
* For 2000 preliminary data.
** Equity capital.