

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



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Domestic economic activity

Following the pause in the preceding month, industrial output growth continued in April 2001. However, the pace of this growth was slightly slower than twelve months previously (see Chart 1). In addition to the base effect, slackening domestic demand and the moderation of export growth provide an explanation for this slowdown in output growth.

Seasonally adjusted industrial output, which takes account of working-day variations,¹ rose by 1.5% in April over the month, the volume of total sales, in contrast, falling by 1.2%. Nevertheless, the trend values still continue to signal uninterrupted output growth (see Chart 2).

Industrial output grew by 9.9% in April relative to a year before. The increase in total sales was 4.8% in the same period. Within total sales, exports grew by 7.4% and domestic sales by 2.4%.

As seen in the preceding few months of the year, the robust increase of 18.3% in manufacturers' output of electrical and optical equipment continued to be the driving force behind output growth. Year-on-year output gains were registered by almost all branches of manufacturing, which is seen as an encouraging development for the sector.

Fresh orders for manufacturers' output in the mainstream branches of manufacturing² were 32.5% higher in April than twelve months previously. Here, orders for exports of goods surged by 37.7%, domestic orders rising by 7.2% relative to the level of a year before. The volume of new orders for goods in April was 3.8% higher in a twelve-month comparison, owing to increases of 2.3% in export orders and 9.3% in domestic orders.

The trend data signal undisturbed growth in construction output in April. The sector's output was 6.4% higher than twelve months previously. Adjusted to reflect seasonal effects and working-day variations, construction

Chart 1 Volume indices of industrial production* (Average of 1995 = 100)



* Using the Bank's method to seasonally adjust and calculate trends.





¹ Using the Bank's method.

² 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.)



Chart 4 Volume indices of whole-economy



* Using the Bank's method for seasonal adjustment and trend calculation.







output remained practically unchanged at the level recorded in March (see Chart 3). The total volume of contracts has been increasing, being 95.1% higher at end-April than a year earlier, at constant prices, suggesting that the construction industry boom may continue in the near future.

Whole-economy investment outlay was Ft 425 billion higher in 2001 Q1 than in 2000 Q1, showing a growth rate of 5.3%, measured at constant prices. The seasonally adjusted volume of first-quarter fixed investment was broadly comparable with that in the previous quarter (see Chart 4).

The strong rise in dwelling construction played an important role in whole-economy investment picking up momentum relative to the same period of the previous year. Fixed investment in real estate, renting and business activities, which include dwelling investment, grew by 26.5% relative to the comparable period of 2000. This sector accounted for nearly one quarter of total economy fixed investment. In addition, the relatively smaller sectors of the economy registered extremely strong growth rates. In construction and in trade and repair, for example, the respective increases were 22.5% and 22.1% in the first quarter relative to the same period of the previous year. (These two sectors accounted for 10% of fixed investment activity in the total economy.)

Looking at the technical-material composition of fixed investment, construction investment grew by 6.4% in one year, at a comparable rate with that seen in the previous quarter, but machinery investment rose by only 2.4%.

According to the values derived from the CSO's quarterly Labour Force Survey data, adjusted for seasonal effects, the whole-economy unemployment rate continued to fall in April 2001. The unemployment rate was 5.7%, showing a drop of 0.2 of a percentage point relative to March (see Chart 5).

The seasonally adjusted number of people in employment fell by 0.7% in April, following stagnation in the preceding few months of the year (see Chart 6). The number of registered unemployed showed a decrease of 5.2% in one month and one of 14% relative to twelve months previously. The number of economically active persons was 1% lower in the same period compared with the outcome recorded in March.

Consumer prices

The CSO release of the year-on-year consumer price index was 10.3% in April 2001, falling by 0.2 of a percentage point relative to March. The rate of core consumer price inflation, calculated using the Bank's method, was 10.93%, down 0.1 of a percentage point on the preceding month (see Chart 7). The value of twelvemonth core inflation showed a drop for the first time since June 2000, but it still continued to exceed the CSO's twelve-month consumer price index. The annualised value of the trend of core inflation, however, moderated significant in April (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 strongly varied (see Chart 8). The prices of industrial goods, on which the Bank is able to exercise the greatest influence via the conduct of its exchange rate policy, continued to rise by only 5.1% in April relative to a year earlier. That was similar to the outturns for the preceding few months. But the prices of both market services and foods continued to rise strongly above the average – market services prices rose by 12.5% and food prices by 18.2% in a year-on-year comparison. The changes in regulated goods and services prices continued to be below the broad average, with the value of the twelve-month index being 7.5%.

The one-month increase in consumer prices, as reported by the CSO, was 0.71% in April, 0.1 of a percentage point lower than the outturn for April 2000. The one-month increase in food prices, at 0.7%, moderated significantly relative to earlier periods of the year, while non-durable goods prices increased, mainly on account of seasonal factors. Motor fuel prices rose by 1.6% in one month. But the regulated price of household energy was 1.2% lower than in March. Regulated services prices continued to rise below the average, owing to the control maintained by the government over price developments. Market services prices, which represent a very important weight in overall

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Table A Core inflation rates in the twelve months to April 2001

		Per cent
	Telve-month core inflation	Annualised trend of one-month core inflation rates
April 2000	107.32	107.92
May	107.20	108.39
June	106.99	109.85
July	107.44	113.66
August	108.47	116.88
September	109.40	115.35
October	109.62	110.11
November	109.71	109.31
December	109.83	110.28
January 2001	110.47	108.75
February	110.83	111.08
March	111.03	109.84
April	110.93	107.57

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.









 $^{^3}$ A five-member weighted central moving average of trend values derived from the formula $12^{*} ln(t/t-1)+1$, where t denotes values of the series. (The first and last values are weighted asymmetrically.)

Chart **9 Domestic producer price indices** Preceding month = 100



Chart 10 Comparison of the domestic producer price index excluding petrol with other price indices Same month of previous year = 100



price developments, rose by 1% in April, showing a somewhat more favourable picture than in the preceding few months.

Producer prices

Producer prices (the CSO release of industrial firms' domestic selling prices) rose by 0.6% from March to April and by 12.3% relative to twelve months previously (see Chart 9). The one-month change in seasonally adjusted domestic producer prices excluding energy⁴ was an increase of 0.82% in April.

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 March. Among the more important industry sectors, the rate at which food industry prices rose (0.5%) moderated in April relative to earlier months. By contrast, prices in the chemical industry rose above the average again, by 1.1%. As a result of the price of North Sea Brent continuing to fluctuate between \$24-27 and the dollar appreciating against the euro, petroleum product prices rose by 1.8% in the month (see Chart 10). Up 1.1%, machinery and equipment prices rose strongly as well. Price changes in the rest of manufacturing varied between 0.1% and 1%. Non-metal mineral products, which include construction materials and account for a share of 4% in the index, rose by another 1% in the month under review.

⁴ The index is calculated net of the effects of changes in government regulated prices, i.e. in those of electricity, has, steam and hot water supply, and collection, purification and distribution of water.

Monetary developments

Monetary conditions

Effective from 2 April 2001, the Bank took the following policy measures, in line with developments in the money and capital markets.

- In order to strengthen the role as a benchmark of the yield on the two-week deposit facility, the National Bank of Hungary abandoned volume limits on the two-week deposit instrument, with a reintroduction of periodical availability.
- The system of three-month NBH bill sales was changed from the earlier free competitive bidding system to a volume tender scheme. This now means that, when accepting bids placed by counterparties, the Bank may decide to depart from the pre-announced quantity to be sold, but only in exceptional circumstances, and by a maximum of ±25 per cent. The Bank's price accepting stance adopted at the auctions clearly demonstrates that it does not aim, either directly or indirectly, to use the bill, issued as an instrument to sterilise capital inflows, to influence the path of yields.
- The Bank also abandoned the overnight repo limit and simultaneously ceased operation of the supplementary repo facility, the use of which had become unnecessary. As a result, the Bank's counterparties have access to central bank funding via the repo facility against government securities as collateral, without the Bank setting a case-by-case upper volume limit. With the termination of the repo limit, the interest rate conditions on the overnight lending facility became harmonised – in the daily settlement system holders of the accounts with the Bank have access to funding against government securities as collateral at the overnight repo rate after the operating hours of VIBER.
- The Bank ceased to be available continuously for counterparties to deal in the foreign exchange swap facility. The development of the Hungarian government securities market and the improvement in the market's liquidity made it unnecessary for the Bank to provide funds against foreign exchange cover. This view was justified by the rare use of the instrument in recent years.



Table B Changes in the balance sheet of the NBHCalculated from end-of-month stocks

								Ft billions	
	1999	2000	20	00	2001		2001	2001	
	Q4	Q1	المحال	Q4	Q4 Q1 April		Of which		
	Aver	age*	Aprii	Aver			Transactions	Revaluations	
Banknotes and coin	28.9	-22.9	24.0	13.9	-17.8	21.9	21.9	0.0	
Forint deposits of credit institutions	31.5	124.7	-103.0	11.2	-63.6	91.4	91.4	0.0	
Foreign currency deposits of credit institutions	-9.8	-25.8	-16.8	-5.2	-28.8	0.9	4.8	-3.9	
Net claims on general government (excluding ÁPV Rt deposits)	-64.6	-37.5	3.2	-27.0	-81.4	1.6	-10.3	11.9	
Of which: forint loans	-6.0	-6.0	0.0	-6.3	-6.0	0.0	0.0	0.0	
government securities	-1.9	-3.1	0.0	-1.1	-65.3	0.0	0.0	0.0	
foreign currency loans	-51.5	-25.8	-19.3	-11.1	2.9	10.6	0.0	10.6	
Claims on credit institutions	-3.8	5.3	-5.3	-3.6	-2.6	-2.3	-2.3	0.0	
Foreign and other net assets	118.9	108.2	-93.7	50.6	-26.3	114.9	130.7	-5.8	

* Quarterly average of changes relative to the preceding month.

The exchange rate

The market rate of the forint continued to fluctuate near the strong edge of the official intervention band throughout April. The exchange rate depreciated by 0.22% vis-à-vis the currency basket in comparison with end-March. The National Bank of Hungary officially devalued the central rate by 0.19% in the month (see Chart 11). (Since 1 January 2000, the forint has been devalued against a currency basket consisting 100% of the euro. The monthly rate of devaluation has been 0.2% since 1 April 2001). The average deviation of the exchange rate from the central rate was 224 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 505.8 million in the month.

Analytical accounts of the NBH

The value of banknotes and coin in circulation and the combined end-of-month total of domestic and foreign currency liabilities of the central bank to credit institutions rose by Ft 92.3 billion and Ft 21.9 billion respectively in April relative to end-March. Claims of the Bank on credit institutions were Ft 2.3 billion lower, mostly on account of a decrease in outstanding long-term forint lending. The Bank's net liabilities to domestic credit institutions rose by Ft 94.6 billion, its net claims on the general government sector by Ft 1.6 billion, and foreign and other net assets by Ft 114.9 billion (see Table B).

Looking at the average stocks of central bank liabilities to credit institutions, the average of current account deposits rose by Ft 0.5 billion and that of non-callable deposits by Ft 103.7 billion in April relative to the preceding month. Credit institutions' holdings of NBH domestic currency bills and foreign currency deposits fell by Ft 28.2 billion and Ft 13.6 billion respectively (see Table C).

Aggregate balance sheet of the banking sector

Calculated from the data after eliminating the effect of the change to the required reserves system, annual growth in the monetary base (M0) moderated by 0.4 of a percentage point to 10.2% in April relative to the preceding month.

According to the final data, the annual indices of narrow money M1 and broadest money M4, derived from the liability items of the aggregate balance sheet of the banking sector, grew a little faster in the month than in March. Annual growth in M1, a composite of banknotes and coin held by non-banks plus forint sight deposits, showed the largest change, moderating by 1.8 percentage points from March to April, the end-of-month stock of M1 being 11.9% 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 0.3 of a percentage point faster than in March, the end-April stock of the aggregate standing 12.3% higher in a twelve-month comparison. Growth in broad money M3, a measure of M2 plus holdings of bank securities, was comparable with that in M2. The end-of-month stock of the aggregate rose by 12.6% in one year. Annual growth in broadest money M4, an aggregate of M3 plus government securities and NBH bills held by the non-bank sector, was 0.8 of a percentage point slower, the end-of-month stock of the aggregate being 14.6% higher than in April 2000 (see Chart 12).

Turning to the individual liability items of the aggregate balance sheet of the banking sector, the month-end value of corporate sector deposits was Ft 10.8 billion higher due to the transaction effect. Here, forint and foreign currency deposits rose by Ft 7.1 billion and Ft 3.7 billion respectively. The sector's foreign currency deposits fell by Ft 1.9 billion on account of movements in exchange rates. Personal deposits, a class of household sector deposits, rose by Ft 25.9 billion during the month. Here, domestic currency deposits grew by Ft 33.2 billion and foreign currency deposits by Ft 0.6 billion due to the transaction effect. The contribution of exchange rate movements to personal foreign currency deposits was an increase of Ft 7.9 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 5.1 billion due to transactions and by another Ft 4.8 billion due to exchange rate changes, resulting in a 13.5% rise in twelve months. Corporate sector domestic borrowings were Ft 16.1 billion higher. The transaction effect on the sector's forint borrowings was a

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

			Ft billions
	20	101	Monthly
	March	April	change
Banknotes and coin	916.5	936.9	20.4
Forint deposits of credit institutions	850.1	926.1	76.0
Of which: bankers' deposit accounts	382.2	382.7	0.5
non-callable deposits	279.6	383.3	103.7
NBH domestic bills	188.3	160.1	-28.2
Foreign currency deposits of credit institutions	384.7	371.1	-13.6
Net claims on general government (excluding ÁPV Rt deposits)	1,406.7	1,417.7	11.0
Of which: forint loans	288.3	271.4	-16.9
government securities	172.1	172.1	0.0
foreign currency loans	1,367.5	1,364.1	-3.4
Claims on credit institutions	90.6	86.7	-3.9
Foreign and other net assets	654.0	729.7	75.7

* Monthly average of daily stock data

Chart 12 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.

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	20	00	2001		2001	
	Q4	Q1	A - vil	Q4	Q1	0 m mil	Of w	/hich
	Avera	ges***	Aprii	Averag	jes***	Aprii Aprii		Revaluations
General government and non-profit sector, net*	42.5	49.6	-17.7	7.6	55.4	6.2	18.5	-12.2
Consolidated central government, net*	40.2	48.6	-12.1	13.1	46.3	27.3	39.5	-12.2
Local authorities, net	1.6	-1.0	-10.1	0.8	6.8	-28.5	-28.5	0.0
Other (non-profit) institutions, net	0.7	2.0	4.5	-6.3	2.3	7.4	7.5	0.0
Enterprise sector, net	-2.5	-51.5	-53.6	0.2	-65.3	-8.8	-15.0	5.8
Loans	-44.9	-41.9	-55.4	-52.4	-48.1	-16.1	-24.3	7.7
Deposits+cash+securities**	42.5	-9.6	1.8	52.5	-17.1	7.4	9.3	-1.9
Households, net**	42.2	-9.1	14.6	36.5	-4.2	27.7	35.6	-7.9
Loans	-11.5	-10.2	-16.5	-20.6	-12.1	-20.7	-20.6	0.0
Deposits+cash+securities	53.7	1.1	31.1	57.1	7.8	48.4	56.2	-7.9
Non-residents, net	-82.5	-42.2	-5.1	-32.0	-81.8	-44.0	-60.2	14.8
Other, net	0.3	53.3	61.9	-12.2	95.9	18.8	21.2	-0.4

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. ** Including accrued interest.

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

Chart 13 Zero-coupon yields and annualised return on the central bank two-week deposit

Short-term yields on a compounded basis; weekly averages



decrease of Ft 0.8 billion, that on foreign currency borrowings being an increase of Ft 25.1 billion. Exchange rate movements and other volume changes caused downward revaluations of Ft 7.7 billion and Ft 0.5 billion respectively on the end-of-month stock of corporate sector foreign currency borrowings. Within the total debt of the household sector owed to banks, personal borrowings rose by Ft 17.2 billion in April.

The changes in outstanding borrowings and deposits caused net liabilities of the general government and non-profit sector to fall by Ft 6.2 billion. Net assets of households, net corporate sector debt and net foreign assets of the domestic banking sector rose by Ft 27.7 billion, Ft 8.8 billion and Ft 44 billion respectively in one month. (see Table D).

Government securities market

The upward trend of yields in the government securities market, continuing since the start of the year, saw a reversal in April. Zero-coupon yields,⁵ which reflect movements in the secondary market, were lower across every maturity. They fell 20-30 basis points at both the shorter end, i.e. at three, six and twelve months, and at the longer end, i.e. at two, three and five years up to the last week of the month. At the most distant end of the curve, i.e. at ten years, the yield fell 8 basis points. In the last week, however, yields at the short end and at ten years rose slightly. Yields at the longer end of the market continued to fall (see Chart 13).

⁵ 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.

Implied one-year forward rates⁶ in one to two years' time fell 21–28 basis points, with a stronger fell of 45 and 41 basis points basis points at the more distant maturities. (The implied forward rate in nine years' time was 96 basis points lower at end-April than at the end of the preceding month see Chart 14).

Non-resident investors increased their holdings of Hungarian domestic currency-denominated government debt securities by another Ft 66.2 billion, so the sector's total holdings amounted to Ft 889.4 billion at the end of the month under review.

The amounts of bids submitted at the auctions of government bonds rose significantly in April relative to March, especially those for 2 and 5-year paper. Five auctions of NBH bills were conducted in the month.⁷ Yields were higher, and demand covered the total amount on offer twice on average. The average yield at all auctions held in the month, weighted by the amount sold, was 11.14%.

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 201.1817 on 27 April. Calculated from movements in the index values, the annual return achievable on a portfolio equal to the composition of the index basket was 8.19%.

Market interest rates

The total value of interbank transactions was Ft 1,400.2 billion in April, showing a decline of Ft 142.6 billion relative to March. Average interest rates at maturities shorter than two weeks fell, but those at longer maturities increased (see Chart 15).

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Chart 14 One-year spot rates and implied forward rates derived from the Bank's zero-coupon yields On a compounded basis; weekly averages



Chart 15 Monthly averages of interbank lending rates and official dealing rates



⁶ 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.

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 announces the quantity to be sold on the Reuters dealing page NBHJ at 2 p.m. on the business day preceding the auction.

Monetary developments

Chart 16 Corporate and household sector borrowing rates



Chart 17 Corporate and household sector short-term deposit rates







The average 1–2 day rate was 10.2%, down 140 basis points on the preceding month's level. Turnover in the maturity area fell, its percentage share within the total being 2.4 percentage points lower, at 74.5%. The proportion of 3–7 day deals within the total was 8.2%, showing a 2.5 percentage points drop relative to March. The average rate in this maturity bracket fell 80 basis points to 10.6%. Up 4 percentage points in comparison with the preceding month, the share of turnover between 1–2 weeks rose further, to account for 11.3% of all transactions. The average interest rate in this maturity area, at 11.2%, was 20 basis points lower than in March. Interest rates for maturities extending beyond two weeks stood at an average 11.3%. Transactions here accounted for 6% of total turnover.

Household and corporate sector borrowing and deposit interest remained broadly unchanged in April relative to the preceding month. The average price for corporate customers of short-term loans, negotiated at market conditions, was static at 12.4%, that of deposit rates falling by 30 basis points to 9%. As a result of movements in interest rate conditions, the short-term banking spread widened from to 3.1 percentage points in March to 3.4 percentage points in the month under review. Generally playing a very marginal role in corporate debts and deposits, the averages of long-term borrowing rates fell 20 basis points to 12.7%, while that of deposits rose from 9.0% to 9.2%.

Turning to households, the sector's average of shortterm deposit rates remained practically static at the preceding month's level. The average interest rates on short and long-term deposits were equal to those in March, at 8.5% and 8.9% respectively. Sight deposit rates fell 10 basis points, to an average 3.4%.

The banking sector average of household sector borrowing rates remained largely static as well. The average of home-building and property loan rates continued to be 16.0%, as seen in the preceding month. The average rates on consumer credit and other loans, in contrast, rose 10 basis points to 20.7%, on account of more new lending by banks at interest rates higher than the broad average.

As a result of the changes in interest rates, the gap between corporate and household sector average borrowing rates⁸ changed only slightly, widening from 7.7 percentage points to 7.8 percentage points (see Chart 16). The average of corporate sector short-term deposit rates was 0.5 of a percentage point higher than the corresponding average of household sector deposit rates, showing a 0.3 of a percentage point decrease relative to March (see Chart 17). Since October 2000, the differential between household and corporate sector borrowing and deposit rates has been fluctuating in a much narrower band (see Chart 18).

⁸ For both sectors, average borrowing rates have been defined taking into view the new contracts entered into during the course of the month.

The BUX and the world's leading share market indicators

The share index of the Budapest Stock Exchange rose slightly in April (it fell by 12.6% in February and by 6.5% in March). Prices continued to be on a downward trend early in the month, the BUX falling by 4% in three days, to reach its monthly low at 6,389.07 points. Then the market started to rise massively, reaching its monthly peak at 7,098.27 on 18 April. Throughout the remainder of the month, the BUX fell slightly, closing at 6,652.50, up 3.2% on its finish in March (see Chart 19).

Measured on a dollar basis, the official index of the Budapest Stock Exchange rose by 4.2% in April, following losses of 13.1% in February and 11.8% in March. That was a more modest gain than those seen on the major international exchanges. After falling by 3.6% in February and by 5.9% in March, the Dow Jones Industrial Average of New York registered an 8.7% gain in April. The DAX of Frankfurt rose comparably with the Dow, on a dollar basis, following a combined loss of 19% in the preceding two months. The London FTSE rose slightly lees strongly, by 7.1%, after it fell by 7.8% in February and by 6.7% in March. The NASDAQ, a of movements in the prices of technology stocks, rose by 17.9%, after two sharp declines of 26.4% and 17.6% in the preceding two months (see Chart 20).

Looking at the Far East markets, the Nikkei of Tokyo gained 9.5% in dollar terms following a 6.3% and a 7.5% plunge in February–March. Having fallen by 10.7% and 11.1% in the preceding two months, the Hang Seng of Hong Kong rose relatively modestly in the month under review, by 4.9%.

Distribution of securities holdings by sector

In 2001 Q1, non-residents stopped maintaining their net selling position in exchange-traded shares, which had lasted for the previous three quarters. There were no significant shifts in the percentage shares accounted for by the various institutional sectors during the period under review. Holdings of government securities by credit institutions grew considerably, but those of non-financial corporations experienced only a moderate increase, with a further rise in the percentage share that non-residents accounted for. The role of the National Bank of Hungary in the government securities market fell significantly.

The outstanding total of Hungarian government debt securities,⁹ measured at market value, rose by 7.4% in 2001 Q1 relative to the previous quarter. That increase was mostly accounted for by the 43.2% surge in the outstanding

Chart 19 The BUX (2 January 1991 = 1000)



Chart 20 The world's leading exchanges and the BUX 5 September 1997 = 100; on a dollar basis



⁹ Government securities comprise domestically issued forint denominated government bonds, treasury bills and domestic currency bills issued by the NBH.

Table E Distribution of government securities holdings by sector

										Per cent
		Government securities, total								
	1998		19	99			20	2000		
	Dec.	March	June	Sep.	Dec.	March	June	Sep.	Dec.	March
Non-financial corporations	8.2	8.5	8.7	10.0	7.9	6.6	7.3	7.8	6.3	6.8
NBH	10.8	11.8	11.6	10.8	10.7	9.4	8.7	7.9	8.0	3.4
Credit institutions	33.4	28.4	26.8	24.2	22.9	22.1	22.6	22.8	23.1	26.5
Investment funds	7.3	8.4	8.4	9.1	8.6	9.4	9.6	9.9	9.3	9.4
Insurance companies, pension funds	11.1	12.3	13.4	14.1	15.5	15.5	15.8	15.8	16.6	16.5
Other financial corporations	2.2	2.9	2.4	2.0	1.9	2.3	2.2	2.5	2.3	2.2
Financial corporations, total	64.8	63.8	62.6	60.2	59.5	58.7	58.9	58.9	59.3	58.0
Local government authoritites	2.7	3.2	3.0	3.1	2.7	3.0	2.9	2.9	2.2	2.6
Other general government	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.1	0.1
General government, total	2.9	3.2	3.1	3.2	2.8	3.1	2.9	2.9	2.3	2.7
Households	14.9	15.6	15.9	16.8	17.5	16.4	16.6	15.7	16.0	15.9
NPIs serving households	1.3	0.6	1.1	1.1	1.1	1.0	0.7	0.8	0.8	0.8
Rest of the world (non-residents)	8.0	8.3	8.6	8.7	11.2	14.2	13.6	13.9	15.3	15.8
Total holdings	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

total of NBH bonds. The market value of households' government securities holdings rose by Ft 52.5 billion. The sector's share of the government securities market, however, remained around 16% in the period under review. Non-resident holdings of government debt securities rose by Ft 88.1 billion, so the sector's percentage share of total holdings rose near to 16%.

Financial corporations increased their holdings of government paper by Ft 151.5 billion. Here, the percentage share of the NBH fell significantly, by 4.6 percentage points, in contrast with that of credit institutions, which rose by a considerable 3.4 percentage points. This was due primarily to the Bank selling government securities to absorb the ample supply of liquidity caused by the move to lower the reserve ratio during the first quarter. The percentage shares of insurance companies, pension funds, investment funds and other financial corporations were little changed in comparison with the previous quarter (see Table E).

Non-financial corporations' holdings of government securities resumed rising after the pause in 2000 Q4. The increase during the period amounted to Ft 48.4 billion, so the sector's percentage share of total holdings stood at 6.8%.

The share of general government as a percentage of total market holdings rose from 2.3% to 2.7% in Q1, mainly on account of an increase in local authorities' holdings of government securities. Non-profit institutions serving households continued to account for a stable 0.8% share for several quarters.

Following a decline of Ft 284 billion in the previous quarter, in the period under review market capitalisation of shares fell by another Ft 645 billion, to Ft 2,750 billion.¹⁰

¹⁰ The value of shares, not introduced to the market during the period despite the capital enlargement, was nearly Ft 4 billion. So the value of total holdings, as shown in this press release, is higher by the same amount than that reported by the BSE.

Table F Exchange-traded shares held by institutional sectors, at market prices

										1 01 0011
		Shares quoted on the BSE								
	1998	1998 1999				2000			2001	
	Dec.	March	June	Sep.	Dec.	March	June	Sep.	Dec.	March
Non-financial corporations	2.7	2.9	3.1	3.2	3.8	4.1	5.0	5.7	6.7	6.6
Credit institutions	0.6	0.8	0.8	0.7	0.6	0.6	0.8	1.1	1.2	2.1
Investment funds	1.0	0.8	0.6	0.6	0.5	0.5	0.6	0.8	1.1	1.0
Insurance companies, pension funds	1.7	1.6	1.3	1.1	1.3	1.2	1.6	2.1	2.6	3.1
Other financial corporations	1.4	1.7	1.6	1.3	1.5	0.7	0.8	1.0	1.2	0.8
Financial corporations, total	4.7	5.0	4.4	3.8	3.9	3.0	3.8	5.0	6.1	7.1
Local government authorities	0.9	1.0	1.1	0.9	0.8	0.6	0.7	0.6	0.7	0.8
Other general government	10.6	11.3	9.1	8.1	6.3	6.8	6.0	7.0	7.5	7.8
General government, total	11.5	12.3	10.2	9.0	7.1	7.4	6.6	7.6	8.3	8.6
Households	10.2	8.8	7.4	6.9	5.9	5.4	6.7	7.9	8.0	7.3
NPIs serving households	0.1	0.1	0.1	0.1	0.2	0.1	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	70.3
Total holdings	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

The vast bulk of that drop was attributable to the fall in share prices, given that holding losses amounted to Ft 645 billion, while the net contribution to market capitalisation of capital enlargements and de-listings on the BSE did not change materially the value of total holdings.

Net sales of shares by households amounted to Ft 6 billion, following Ft 1 billion in the previous quarter. (The sector's holdings of shares fell by Ft 72 billion in the period, mainly due to a more than Ft 50 billion holding loss, in addition to the correction of misreported data, which has been recorded as other change in volume.¹¹) At the end of the first quarter, total holdings by the households sector were 7.3% as a percentage of market holdings (see Table F).

Non-resident investors' holdings fell by Ft 467 billion in 2001 Q1, to 70.3% at the end of March, the decline in their percentage share of total holdings which started in 2000 Q2 continuing. The Ft 471 billion holding loss and the Ft 5 billion fall in holdings due to de-listing of shares was only slightly offset by the fact that, for the first time since 1999 Q4, non-residents took a net buying position – they purchased Ft 9 billion more shares than they sold.

Holdings of exchange-traded shares by the financial corporations sector fell by Ft 13 billion, as a result of net purchases in the amount of Ft 22 billion and a Ft 36 billion holding loss. The sector's proportion to total holdings rose from 6.1% at end-2000 to 7.1% at the end of March 2001. The percentage shares of insurance companies and funds increased further in the period, to stand more than 3%

Dor cont

¹¹ The counterpart of this volume change has affected the value of holdings by non-financial corporations.

higher at the end of the quarter. The stable increase in NFCs' holdings stalled in the first quarter of 2001, their holdings as a percentage of the total being 6.6% towards the end of the period. Existing holdings of the general government sector rose from to 8.3% to 8.6%.

The outstanding total of investment fund certificates, measured at net asset value, rose by 3.1% in 2001 Q1.

There continued to be only modest changes in the percentage shares of the individual institutional sectors – a slight decrease in that of households contrasted with a moderate rise in that of the other sectors.

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Balance of payments and foreign trade

The balance of payments and financing

A ccording to the seasonally adjusted data,¹² the current account deficit amounted to 135 million in April 2001 (see Table G). Including the April data, the trend of monthly current account balance outcomes shows a slight improvement relative to the 130–150 million deficits, recorded earlier (see Chart 21). Although at a moderating pace, net expenditures for trade in goods have been falling steadily since the start of 2001 (see Chart 22).

The seasonally adjusted deficit rose by 72 million in one month. The higher investment income deficit, particularly the outflow of income on equity, explained most of the increase in deficit. In contrast with earlier years, outflows of income on equity did not concentrate in two months in 2000, i.e. June and December; and in April 2001 the income deficit, at 127 million, was significant. There were no considerable changes in the monthly outcomes for two other sub-balances – the surplus on current transfers rose and the deficit on other services excluding tourism fell.

The current account deficit, not seasonally adjusted, was 28 million higher in April than a year earlier. The higher outflow of investment income explained the larger part of the change in the current account deficit. Accompanied by rising export and import values, the merchandise trade deficit was broadly unchanged in a twelve-month comparison. However, the surpluses on tourism and current transfers increased, and the deficit on other services fell.

The not seasonally adjusted current account deficit amounted to 2 million in April. The capital account closed with a surplus of 47 million, so whole-economy external financing capacity amounted to 45 million in the month

Table G Seasonally adjusted current account data*

				minoria
	2000		2001	
	April	February	March	April
Goods	-164	-183	-168	-164
Exports	2,194	2,540	2,608	2,666
Imports	2,342	2,618	2,665	2,765
Services excluding tourism	-62	-54	-29	-14
Tourism	215	213	225	227
Non debt income flows	-46	-54	-57	-157
Debt related income flows	-64	-58	-55	-83
Current transfers	38	38	35	45
Current account balance	-107	-110	-63	-135

* Due to the method used for seasonal adjustment, the balance cannot be reproduced from the seasonally adjusted data that underlie the given sub-balance.



Chart 21 Current account





¹² 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.

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

					minon
		2000		2001	
		April	February	March	April
1	Current account	21	-54	-48	-2
2	Capital account	22	11	14	47
3	Net lending/net borrowing (1+2)*	43	-43	-35	45
4	Non debt capital flows	95	263	181	61
5	Total (3+4)	138	221	146	107
6	Debt creating flows (6a+6b)**	-112	-197	-136	-180
6a	In forint	-41	263	112	248
6b	In foreign currency	-71	-460	-248	-428
7	Financing gap (5+6)	26	23	10	-73
8	Errors and omissions	-26	-23	-10	73

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

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

							1111110115
	20	001			Of w	hich:	
	March	April	Change	Transactions	Exchange rate movements	Price changes	Other volume changes
Net foreign currency debt of the NBH and government	-958	-1,351	-393	-447	-42	97	0
Net forint debt of the NBH and government	3,089	3,330	241	248	-7	0	0
Total net debt of the NBH and government	2,131	1,979	-152	-199	-50	97	0
Assets of the NBH and government	14,111	14,324	213	403	-83	-106	0
Of which: international reserves	12,187	12,536	349	456	-73	-33	0
Gross foreign currency debt of the NBH and government	13,153	12,973	-179	-44	-126	-10	0
Gross forint debt of the NBH and government	3,089	3,330	241	248	-7	0	0
Total gross debt of the NBH and government	16,242	16,303	62	204	-133	-10	0
Net debt of credit institutions and the corporate and other sectors*	6,291	6,120	-170	-60	-37	0	-74
Assets of credit institutions and the corporate and other sectors	7,864	8,294	430	434	-95	4	87
Gross debt of credit institutions and the corporate and other sectors	14,155	14,414	259	374	-132	4	12
Inter-company loans, net	3,553	3,607	54	78	-14	0	-10
Assets	332	288	-45	-40	-5	0	0
Liabilities	3,885	3,894	9	39	-19	0	-10
* Excluding inter-company loans.							

under review (see Table H). Non-debt inflow amounted to 61 million – direct investments by non-residents in Hungary amounted to nearly 62 million, and those by Hungarian residents from abroad amounted to 14 million. Inward and outward portfolio investment transactions in equity securities closed with a 14 million inflow. Non-resident investors stepped up their holdings of Hungarian government debt securities by 248 million.

Hungary's external accounts

Whole-economy gross foreign debt was 34.6 billion at the end of April 2001. The combined gross foreign currency debt of the NBH and the central government outstanding to non-residents amounted to 16.3 billion, forint debt accounting for 3.3 billion. The gross debt of credit institutions and the corporate and other sectors rose to 18.3 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 fell to 11.7 billion towards end-April. The combined net debt of the NBH and the central government stood at 2 billion. However, taking foreign currency denominated assets and liabilities into account, the two sectors took a 1.4 billion net lending position in foreign currency. Total private sector net foreign debt was 9.7 billion, inter-company loans accounting for 3.6 billion (see Table I).

The total stock of direct investments by non-residents in Hungary amounted to 22.5 billion at the end of April, of which the value of holdings of shares and classes of equity capital was 18.6 billion.

Foreign trade

The annualised growth rates of Hungarian merchandise exports and imports continued to be upwards in April, as seen in the preceding month. The trend of goods imports has been above that of goods exports since November 2000. As a consequence, the trend of merchandise foreign trade balance shows a continuous improvement (see Chart 23).

According to the not seasonally adjusted data, Hungarian exports and imports of goods grew at broadly comparable rates in April 2001. However, the twelvemonth growth rates of both exports and imports rose strongly relative to March. This indicates a pick-up in the growth rate of merchandise foreign trade (see Charts 24, 25 and 26).

There were little noticeable shifts in the commodity pattern and the regional breakdown of Hungarian foreign trade in either April or the first four months of 2001 – inward and outward trade in machinery and equipment with countries of the European Union, conducted particularly by the large companies operating in customs-free areas, provided the backbone of Hungarian foreign trade. Apart from these, the percentage share the CEFTA countries accounted for, particularly in exports, increased in April 2001 and the first four months of the year, which was mainly attributable to foreign trade in manufacturing goods and machinery and equipment showing much stronger growth rates than the whole-economy average.

There was a simultaneous decline in the percentage share accounted for by the CIS states in the same period. This was explained by a drop in exports of agricultural goods and that in imports of raw materials. In addition, export and import values were both negatively affected by a decline in trade in machinery and equipment. The fall in the percentage share this group of country accounted for occurred despite a continued significant increase in imports of energy relative to the comparable periods of 2000.¹³ The region accounted for more than 75% of total energy imports.

Chart 23 Annualised monthly growth rates of merchandise foreign trade

In euros; preceding month = 100















¹³ Price increases continue to explain the rise in the value of energy imports. Measured 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, which in turn is fixed to movements in the prices of certain oil products. This has delayed the drastic increase in crude in oil prices in 2000 until now. Nevertheless, the rise in energy imports continues to explain a significant portion of the deterioration in the trade balance in 2001.

Public finance

Chart 27 Net borrowing/net lending of general government



 * The smoothed time series is a five-month centred moving average with varying weights up to March 2001. The April moving average is calculated using a trinomial average with equal weights and an estimate for May (Ft –50 billion).

Table J General government net lending (+), net borrowing (-) by sub-sector

	2000	20	01
	April	March	April
Central government excluding extra-budgetary funds and ÁPV Rt (1)	16.1	-12.1	-40.6
Extra-budgetary funds (2)	-2.1	-0.7	0.9
APV Rt.(3)	-2.9	-8.1	-14.5
Central government (4=1+2+3)	11.1	-20.9	-54.2
Social security funds (5)	-15.3	-1.5	-9.5
Local authorities* (6)	-10.0	77.0	-27.6
General government, total (7=4+5+6)	-14.2	54.6	-91.3

Et hillions

* Where 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 91.3 billion in April, showing a substantial increase from a year earlier (see Chart 27). The net borrowing requirement of central government rose by some Ft 65.3 billion and that of the local government authorities by Ft 17.5 billion relative to April 2000. By contrast, the net borrowing requirement of the social security funds fell by Ft 5.8 billion in twelve months (see Table J). The cumulative general government deficit, according the Bank's calculations, amounted to Ft 163.5 billion in the first four months of 2001, in comparison with Ft 123.7 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 54.2 billion in April. 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 13.1 billion. The difference between interest expenses calculated on a cash and accrual basis contributed some Ft 18 billion to the borrowing requirement of central government, as compared with the Ft 11 billion positive contribution a year earlier.

Out of the total expenditure of central government, Ft 94.5 billion extraordinary expenditure was placed on a suspense deposit account last December. The Bank's calculations do not treat this amount as expenditure affecting 2000. However, it has been recorded as actual expenditure for 2001, depending on actual transfers effected from the account. The expenditure items were the following in sequence: ÁPV Rt received Ft 35 billion in January, the social security funds and local government authorities receiving Ft 10 billion and Ft 5 billion respectively in March. The balance on the account did not change in April. Owing to the correction items, the net borrowing requirement of central government exceeded that calculated by the Ministry of Finance by some Ft 76.6 billion in the January–April 2001 period. The State Privatisation and Holding Company raised practically no revenue in April, as in March. Total expenditure amounted to Ft 14.5 billion. The SNA balance of the company, recorded as part of the central government sector, was in a Ft 13.2 billion deficit in the period January–April, the April deficit contributing strongly to the measure of deficit. Subsidies to MVM Rt, the Hungarian electricity producer, and the airline company MALÉV accounted for the majority of expenditure in April.

Based on data received from the social security funds, the net borrowing requirement of the Health Insurance Fund and the Pension Insurance Fund, drawn as a balance of Ft 153.9 billion revenue and Ft 163.4 billion expenditure, amounted to Ft 19.5 billion in April. On the expenditure side, pharmaceutical subsidies significantly exceeded the estimate. The balance of provision funded from non social security sources was a Ft 0.5 billion deficit.

The borrowing requirement of local government authorities, estimated from changes in deposits and loans taking into account information derived from bank reports, amounted to Ft 27.6 billion in April.

Financing and gross debt of general government

General government net lending/net borrowing can be calculated taking into account 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, and from financing data, stems from statistical error.

The change in general government net financial assets due to transactions (see Table K), which shows the sector's debt in terms of deficit financing, was an decrease of Ft 85.4 billion in April and a total Ft 130.1 billion in the first four months of 2001. Here, the borrowing requirement of the central government was Ft 47.2 billion, that of the social security funds was Ft 9.8 billion and that of the local government authorities was Ft 28.5 billion.

Financial assets of the central government fell by Ft 5.6 billion in April, due mainly to the Ft 9 billion increase in the sector's deposits with the NBH, a Ft 12 billion loan to the social security funds and a Ft 22.2 billion revaluation loss on derivatives related to outstanding debt. The increase of Ft 47.8 billion in liabilities was caused by issues of forint-denominated government securities (to the amount of Ft 55.8 billion), interest accruals (Ft 18 billion), repayments of existing debt (Ft 6.4 billion) and the effect of exchange rate changes on foreign currency debt. The total Ft 13 billion capital injection to the electricity producer MVM Rt and the airline company MALÉV by ÁPV Rt has been recorded as capital transfer increasing net financing

Table K Changes in financial wealth of general government

		FL DIIIIONS							
	Stock:	Ap	oril	Januar	y–April				
	Stock: April 2001 859.9 8,003.1 -7,143.3 3.1 145.7 -142.6 472.0 163.1 308.9 1,074.0 8,050.9 -6,977.0	Transac- tions	Other changes in volume	Transac- tions	Other changes in volume				
Central government									
Assets	859.9	20.1	-25.7	161.9	-13.2				
Liabilities	8,003.1	67.2	-19.4	280.7	2.6				
Net financial assets	-7,143.3	-47.2	-6.3	-118.8	-15.8				
Social security funds									
Assets	3.1	2.1	0.0	-3.3	0.0				
Liabilities	145.7	11.9	0.0	45.1	0.0				
Net financial assets	-142.6	-9.8	0.0	-48.3	0.0				
Local government authorities									
Assets	472.0	-27.3	0.0	30.2	0.0				
Liabilities	163.1	1.1	0.1	-6.8	0.2				
Net financial assets	308.9	-28.5	-0.1	37.0	-0.2				
Consolidated general									
government									
Assets	1,074.0	-18.1	-25.7	124.3	-13.2				
Liabilities	8,050.9	67.3	-19.3	254.4	2.7				
Net financial assets	-6,977.0	-85.4	-6.4	-130.1	-16.0				



Chart 28 Composition of general government gross debt

requirement, rather than as an exchange of financial assets (share purchase).

Outstanding borrowings of the social security funds from the central government rose by Ft 12 billion in April, reaching Ft 134.21 billion towards the end of the month. Taking into account also changes in other financial liabilities and assets, net assets of the sub-sector fell by Ft 9.8 billion in the month under review.

Only transactions data on deposits and loans as well as on foreign debt are available in respect of financial assets and liabilities of the local government authorities. Accordingly, financial assets of local government authorities fell by Ft 27.3 billion, liabilities rising by Ft 1.2 billion, so the change in net financial assets was a decrease of Ft 28.5 billion in the month under review.

In April, the gross debt of general government rose by Ft 48 billion, to a total Ft 8,050.9 billion. The total stock of financial assets, excluding the total value of the sector's equity shares, fell by Ft 43.8 billion. The change in liabilities continued to be accounted for mainly by the increase in holdings by non-residents of forint-denominated debt (see Chart 28).

Earnings and financial savings of households

Earnings

A ccording to the Bank's calculations,¹⁴ whole-economy gross earnings growth¹⁵ continued in April 2001, but its pace appeared to have slowed a little. Adjusted to eliminate the effect of changes in the composition of the workforce, corporate sector earnings grew by 15.7% relative to a year earlier. Government sector earnings growth amounted to 27.3% in the same period, a one-off wage settlement accounting for 10 per cent (see Chart 29). Whole-economy earnings grew by 19.1% in April in a twelve-month comparison.

Corporate and government sector earnings grew at fairly divergent rates in the early months of 2001. Whereas wages were raised significantly in the corporate sector at the end of 2000, government sector wages were raised with a significant lag.

Corporate sector adjusted gross earnings growth was 15.7% in April relative to a year earlier. That was nearly 3 percentage points lower than in the preceding month. The CSO release of the same indicator, which shows unadjusted earnings growth numbers, showed an increase of 16.1%.

The 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 3.7% higher in April than a year before.

According to the CSO data, irregular pay to personnel¹⁶ as a share of total gross pay was 15.5%. That was broadly comparable with the preceding month's outcome. The rise in average earnings, excluding irregular pay, amounted to 16.3%.

Chart 29 Earnings and financial savings of households*



¹⁴ Companies with more than 5 employees (financial and non-financial companies), and units of central government and the social security authorities (general government sector).

¹⁵ 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.

¹⁶ Bonuses, overtime, profit-related pay, one-month pay awards etc.







¹ 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

					г	L DIIIIOII2	
		Flows (Ap	ril)				
			Transa	ctions:		Other changes in volume	
	Stocks:, 30 April 2001		Trans- actions net of compen- sation for inflation	Compen- sation for inflation incor- porated in inte- rest	Reva- luations		
Cash	772.0	12.6	12.6	0.0	0.0	0.0	
Forint deposits and bank securities	2,708.1	43.0	26.8	16.2	0.0	0.0	
Foreign currency deposits	770.9	-7.2	-0.6	1.3	-7.9	0.0	
Non-bank securities	1,559.0	13.6	-1.5	10.7	4.4	0.0	
Pension funds and life insurance	886.7	17.0	9.8	7.2	0.0	0.0	
Financial assets, total	6,696.7	79.0	47.1	35.4	-3.5	0.0	
Home-building loans	237.3	9.4	7.5	1.9	0.0	0.0	
Consumer credit	360.7	8.3	5.4	2.9	0.0	0.0	
Other borrowings	189.9	3.4	2.3	1.1	0.0	0.0	
Houseshold debt	787.9	21.1	15.2	5.9	0.0	0.0	
NET FINANCIAL Wealth and the Components Of change in wealth	5.908.8	57.9	31.9	29.5	-3.5	0.0	

Government sector adjusted earnings growth was 27.3% in the month relative to April 2000,¹⁷ showing a very strong increase in comparison with the outcome recorded a year earlier. That was accounted for mainly by a one-off settlement of wages, already noted. The index, as calculated by the CSO, was 0.7 of a percentage point higher than the Bank's.

The share of irregular pay to personnel as a percentage of government sector earnings was 23.4%, 7.3 percentage points higher in comparison with April 2000. The rise in government sector average earnings, excluding irregular pay, amounted to 16.9%.

A government decree allowed government institutions to effect a one-off increase in wages where gross wages growth in 2000 did not reach 13%. Most of the amounts which varied by sector (between Ft 12,893 and Ft 27,996) were paid out in April.

Financial savings of households

In April, operational net lending of households, i.e. their financial savings after eliminating compensation for inflation incorporated in interest, amounted to Ft 31.9 billion. That was higher than the monthly average of the previous year, either compared on a constant or current price basis. The trend of financial savings continued to be downwards (see Chart 30).

Net financial wealth of households, valued at market prices, rose by Ft 57.9 billion in the month. Here, the value of financial assets rose by Ft 79 billion and household debt by Ft 21.1 billion (see Table J). The slowdown since November in the year-on-year rate at which the value of financial assets rises has continued in the month. The growth in outstanding borrowings has also been moderating since January (see Chart 31).

Unlike in the preceding few months, households preferred banking investment products in April. In addition, increases in holdings of cash and government securities, and flows into life insurance and pension fund schemes were strong.

Operational transactions in households' financial assets held with credit institutions amounted to a significant Ft 26.8 billion. That affected mainly sight and short-term deposits. Although at a slower pace, withdrawals from foreign currency deposits since the beginning of the year have continued. Households registered a holding loss of Ft 7.9 billion on foreign currency deposits, mainly on account of cross exchange rate movements.

Households reduced their holdings of non-bank securities in April. Of the various securities investments, there was some demand only for investment fund certificates (Ft 0.7 billion). Households took net selling

¹⁷ Reflecting the shifts in the distribution of blue-collar and white-collar workers, and the composition of labour across sectors.

positions in exchange-traded shares and government securities, operational transactions amounting to Ft -2 billion and Ft -0.2 billion respectively. As regards shares, the value of holdings rose slightly, being counterbalanced by a holding gain of Ft 5.3 billion resulting from revaluations.

Claims on life insurance companies and pension funds continued to rise in April. The value of life insurance reserves was Ft 5.1 billion higher, little different from the first-month outcomes of quarters. At Ft 11.9 billion in April, flows into pension funds continued to rise at a quickening pace.

As seen in the preceding month, household sector net debt rose strongly in April. Operational transactions amounted to Ft 15.2 billion. That was higher in comparison with the monthly average of the previous year. Demand for both home-building loans and consumer credit continued to be robust. New consumer credit also continued to increase, although less strongly than the previous year's average (see Chart 33).

Chart 31 Household sector financial wealth At constant prices; percentage changes relative to

the preceding month; at average 1995 prices using seven-month moving averages





Chart 32 Household sector financial assets





Main economic and financial indicators

	GDP volume indices	Consumer price index	Core inflation (NBH)	Gross earnings index	Unemploy- ment rate	Operational net lending	MO	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
Мау		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	36.9	114.1	118.1	115.9	13.17	-77	44	11,513	-11.3
February		109.8	107.8	116.0	7.2	17.7	114.9	117.8	115.3	12.04	-157	125	11,869	-75.7
March	106.5	109.6	107.5	113.0	6.0	15.3	116.3	117.2	114.8	11.60	-145	54	11,202	-22.4
April		109.2	107.3	113.6	6.9	11.5	116.7	118.4	115.0	11.20	21	162	11,380	-14.2
May		109.1	107.2	113.9	6.7	-5.2	113.5	115.1	112.8	11.00	-80	186	11,549	-31.0
June	105.6	109.1	107.0	112.0	6.0	52.3	114.6	117.4	113.7	11.00	-428	168	10,999	-28.9
July		109.6	107.4	114.7	6.6	22.9	111.5	115.9	113.0	11.00	10	42	11,110	23.9
August		109.6	108.5	112.4	6.5	67,9	116.1	114.4	112.8	10.81	174	253	11,628	-61.5
September	104.5	110.3	109.4	111.9	5.7	10.7	117.0	116.3	113.6	10.75	-311	229	12,047	-23.2
October		110.4	109.6	112.2	6.2	20.0	114.1	115.8	114.3	11.42	-55	37	12,069	-11.3
November		110.6	109.7	114.6	6.0	49.9	117.3	116.4	114.9	11.75	11	154	12,433	-101.3
December	104.2	110.1	109.8	116.5	5.7	37.7	108.5	111.9	112.4	11.75	-583	314	12,068	-75.4
January 2001		110.1	110.5	116.1	6.0	37.3	113.5	115.6	112.9	11.55	-237	109	11 590	-47.1
February		110.4	110.8	117.4	6.3	-7.7	112.1	112.7	111.7	11.28	-54	268	12 104	-79.7
March	104.4	110.5	111.0	116.3	5.6	-8.4	110.6	113.7	112.2	11.25	-48	142	12 187	54.6
April		110.3	110.9	119.4	5.8	31.9	110.2	111.9	112.6	11.25	-2	62	12 536	-91.3

Source: CSO, NBH * For 2000 and 2001 preliminary data. ** Equity capital.