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

8/2001

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Domestic economic activity

Following uninterrupted growth in the preceding months, industrial output and sales fell in June 2001. The trend of industrial output has been clearly upwards in recent years. A decline in output was last recorded in August 1996 relative to the same period of the previous year. Since then, the expansion of output growth had progressed with increasing speed year by year. The pace of this growth picked up particularly strong momentum from the second half of 1999, reaching 20% in the first half of 2000. Towards year-end, however, growth showed signs of a slight slowdown (see Chart 1).

In the light of last year's economic data, it became obvious that robust growth of that speed could not be sustained for long and that there would be a strong base effect in 2001. Data collected for the first five months underlined this assumption, and the earlier double-digit growth was replaced by single-digit growth. Yet the slowdown in the rate of output growth was only partially attributable to the base effect – the stagnation and decline in domestic demand and the slowdown in export growth also played a role, which could be related to the recession in the economies of the European Union.

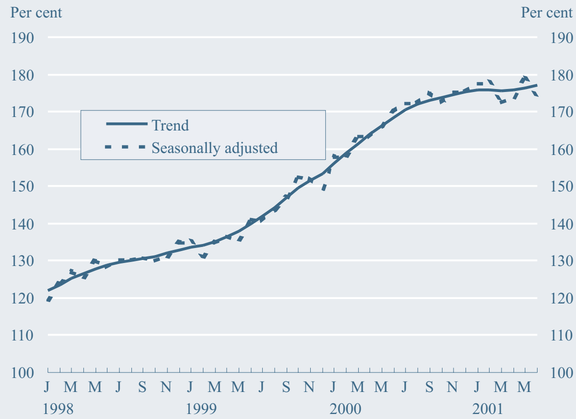
Taking account of working-day variations,[1] seasonally adjusted industrial output fell by 2.8% in June relative to the preceding month. The volume of total sales was 1.7% lower than in May, as a result of a 3% drop in domestic sales and a stagnation of exports (see Chart 2).

Turning to twelve-month industry developments, output fell by 1.2% in June relative to a year before, total sales showing a drop of 1.5% in the same period. Within total sales, exports grew by 4.7%, while domestic sales fell by 7.6% from the values recorded in June 2000.

Output of the mainstream branches of manufacturing fell significantly, which was clearly attributable to the slackening economic performance of European Union countries. This is underlined by a massive drop in the exports and output of companies operating in customs-free industrial production zones. For example, output of electrical and optical equipment, a manufacturing branch considered to be a driving force of manufacturing in recent years and accounting for one quarter of total manufactur-

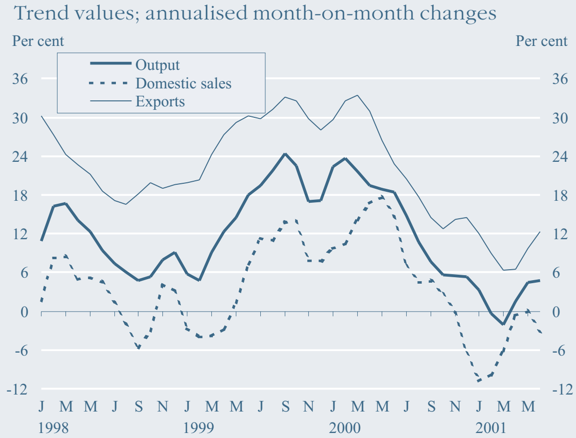
[1] Using the Bank's method.

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



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

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

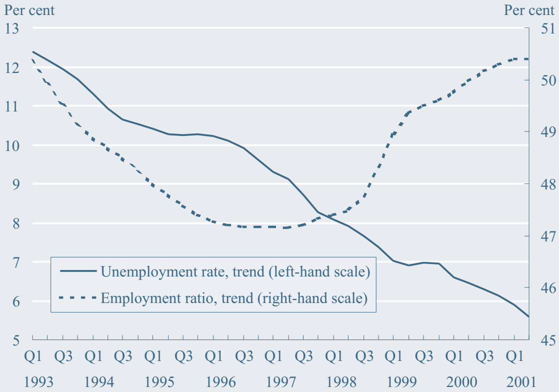


* Using the Bank's method to seasonally adjust and calculate trends.

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

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

Chart 4 **Whole-economy unemployment rate and employment ratio***



* Using the Bank's method to calculate trends.

ing output, rose by only 2% in June, which was directly attributable to the recession afflicting the computer industry. Output fell by 9% in food, drinks and tobacco, the second largest branch of manufacturing. Among the factors explaining the decline in food industry output is the decline in meat and poultry processing, which, in turn, is explained by material shortages and the change in the pattern of demand.

The volume of orders for manufacturers' output in the mainstream branches of manufacturing[2] continued to be strongly higher than twelve months previously, rising by 26.8% in June relative to a year before, but the volume of new orders fell, as in the preceding month. The volume of fresh orders in June was 5.7% lower than a year earlier. Here, domestic orders fell by 10.6% and export orders by 4.3%.

Construction output growth continued in June; however, the pace of this growth was slower than the salient outcome in May. Adjusted to reflect seasonal effects and working-day variations, the sector's output was 0.7% lower than in June than April, following a 7% growth in the preceding month. According to the not seasonally adjusted data, output grew by 9% relative to twelve months previously (see Chart 3). The driving force behind this robust output gain was a nearly 10% increase in output of the finished constructions and other structures branch, accounting for two-thirds of construction industry output. In addition, the building completion work branch, which accounts for only 10% of total construction output, also rose very strongly in June, by 43% relative to a year earlier. The high volume of contracts, which, measured at constant prices, was 88.3% higher at end-June than twelve months previously, suggests that the construction industry boom may continue uninterrupted.

According to the values derived from the CSO's quarterly Labour Force Survey data, adjusted for both seasonal and incidental effects using the Bank's method,[3] the number of registered unemployed and the unemployment rate fell in 2001 Q2. The number of people in employment and the employment ratio[4] were unchanged in comparison with the previous quarter (see Chart 4).

[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.)

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

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

The seasonally adjusted number of people in employment was almost equal to that recorded in the previous quarter, but 0.7% higher than in the comparable period of 2000. The employment ratio, derived from the seasonally adjusted data, was 50.4% in 2001 Q2, equal to the level in the previous quarter and 0.4 of a percentage point higher relative to the comparable period of 2000 (see Chart 5).

According to the seasonally adjusted data, the number of whole-economy registered unemployed showed strong declines of 3.8% and 13.8% respectively in 2001 Q2 relative to the previous quarter and a year earlier (see Chart 6).

The whole-economy unemployment rate, calculated from the seasonally adjusted data, was 5.6% in 2001 Q2, showing a 0.2 of a percentage point drop relative to the previous quarter and one of 0.9% relative to the same period of 2000.

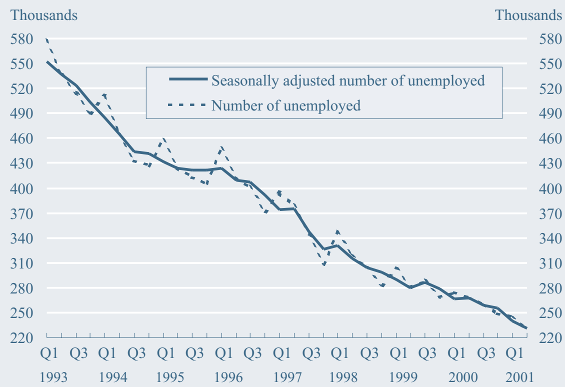
As a result of a fall in the number of registered unemployed and stagnation in the number of people in employment, the number of economically active persons fell in the period under review relative to the previous quarter and the same period of 2000, the seasonally adjusted data showed. (The decline the number of economically active persons in one year measured 0.2%.)

The economic activity ratio, calculated from the seasonally adjusted data, was 53.4% in 2001 Q2. That was equal to a slight decrease of 0.1 of a percentage point relative to the outcome recorded a year before.

Chart 5 **Number of employed persons***

* Seasonally adjust using the Bank's method.

Chart 6 **Number of registered unemployed***



* Seasonally adjust using the Bank's method.

Price trends

Chart 7 **Twelve-month consumer price index and the CSO's index of core inflation**

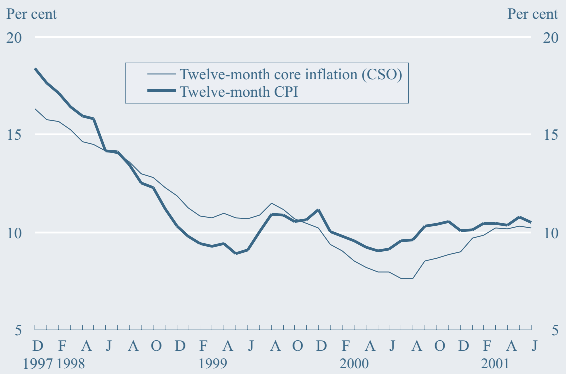


Chart 8 **Developments in the major price categories derived from short bases**

5-month moving averages of annualised trend values[7]

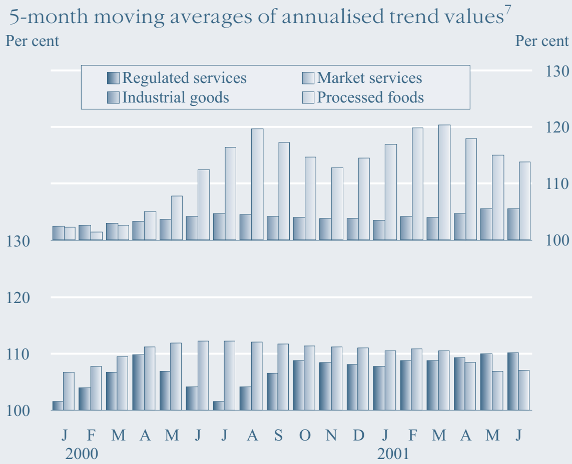
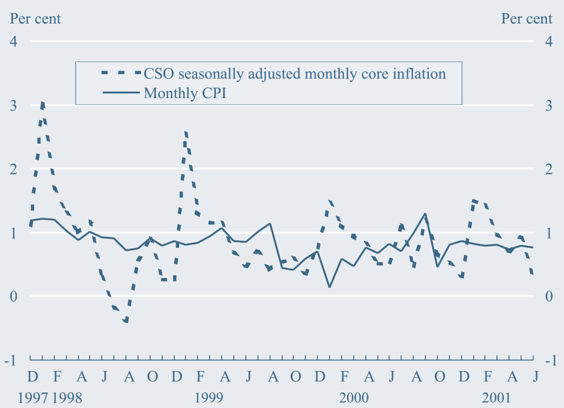


Chart 9 **Seasonally adjusted monthly consumer price index and the CSO's seasonally adjusted index of core inflation**



Consumer prices

The CSO release of the year-on-year consumer price index was 10.5% in June 2001, showing a fall following a saliently high outcome (0.3 of a percentage point) in May. The rate of core consumer price inflation, as calculated by the CSO,[5] was 10.2%, broadly the same as in the preceding month (see Chart 7).

The twelve-month outcomes for price categories with the biggest weights in the consumer price index, used by the Bank and derived on the basis of price determination, continued to be strongly varied in June (see Chart 8). Whereas the prices of industrial goods, i.e. those which compete on the international marketplace,[6] rose by only 5.2% relative to a year earlier, those of market services and foods continued to rise above the average in a year-on-year comparison, as seen in the preceding two months. The former rose by 11.4% and the latter by 20.3% relative to a year before. But whereas market services prices have been rising at a slowing rate since the beginning of the year, food price inflation has been accelerating since June 2000. Showing a rise of 8.3% on average relative to a year earlier, the changes in regulated goods and services prices continued to be below the broad average, in contrast with the prices of market goods, which rose by 11.7% in one year.

The one-month increase in consumer prices, as reported by the CSO, was 0.3% in June, 0.6 of a percentage point lower than in the preceding month and 0.2 of a percentage point lower than in June 2000 (see Chart 9). The one-month increase in food prices, at 0.8%, was more modest than in the preceding few months of the year, although it still continued to be higher than the average. Here, the prices of unprocessed foods rose the most strongly, by 1.2%. The prices of industrial goods remained virtually unchanged.

[5] Until the new core inflation indicator, designed together with the CSO, is published, this outcome for core inflation is treated as a benchmark. The indicator calculated by the CSO eliminates changes in the prices of all unprocessed foods and energy, including motor fuel.

[6] Those on which the Bank is able to exercise the greatest influence via its exchange rate policy.

[7] 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.)

Motor fuel prices were 1.6% lower in the month due to the appreciation of the forint and the drop in the world market price of crude oil. The price of market energy fell by 0.2%. Regulated services prices were static. However, market services prices, which represent a very important weight in overall price developments, rose by 0.7%. That increase was explained primarily by changes in catering industry prices and seasonal factors.

Producer prices

Producer prices (the CSO release of industrial firms' domestic selling prices) rose by 11.2% in June relative to twelve months previously. The one-month change in seasonally adjusted domestic producer prices excluding energy[8] was an increase of 0.3% in May (see Chart 10).

Manufacturing industry prices, which are the most dominant factor influencing movements in domestic sales prices, rose slightly in June relative to May, by 0.1%. Among the more important industry sectors, the rate at which food industry prices rose (0.6%) continued to be significantly above the average, due mainly to increases in meat, bread and sugar prices. Mining and non-metal minerals prices rose only very slightly, while prices in the other branches of manufacturing fell. Prices in the chemical industry experienced a 0.9% fall and those in manufacturing one of 0.2%. The price of North Sea Brent was $27.7 on average in June, showing a slight drop in comparison with the preceding month. However, the price of Mediterranean seaport petrol fell to €282 following the salient €344 per tonne in May, which contributed to chemical industry prices falling massively (see Chart 11).

Chart 10 **Domestic producer price indices**
Preceding month = 100

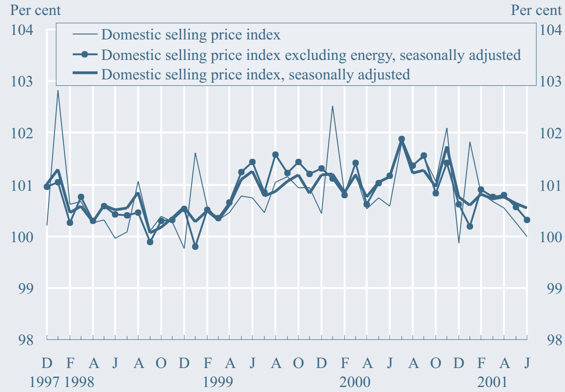
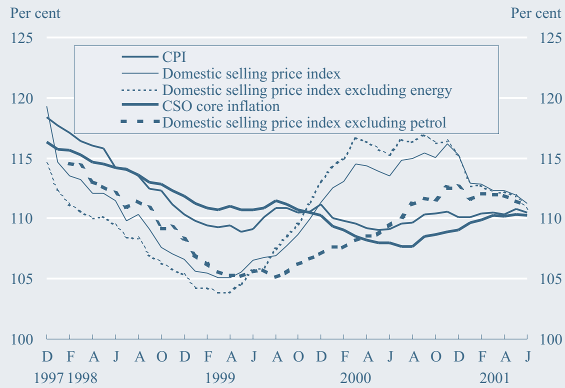


Chart 11 **Comparison of the domestic producer price index excluding petrol with other price indices**
Same month of previous year = 100



[8] 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

Monetary conditions

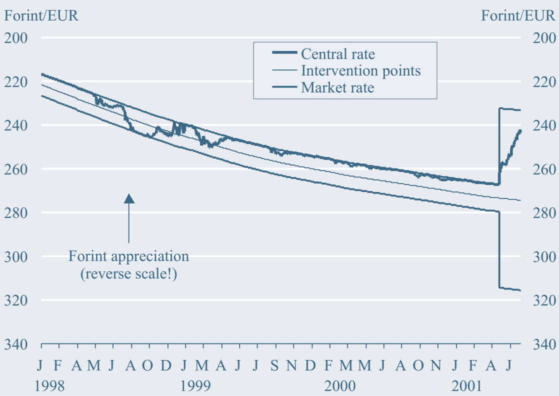
The Bank made the following changes to monetary conditions.

– In accordance with the 12 June 2001 press release, following the move to widen the intervention band of the currency on 4 May 2001 the earlier subordination of interest rate policy was eased, the Bank thereby being given operational responsibility for setting its major policy rates, and the exchange rate as well, in order to assist in achieving the target for the disinflation path.
– Effective from 15 June 2001, simultaneously with the complete removal of foreign exchange restrictions, the Bank made available for non-residents as well the series of its three-month bills outstanding in the market and those to be issued newly.
– Starting from 25 June 2001, the Bank, in order to satisfy the foreign currency demand related to the foreign exchange debt of general government, purchases a daily €2.9 million on the foreign exchange market, which equals the proportionate fraction of the €700 million annual interest expense. Accordingly, the total amount to be purchased by the Bank is €366 million.

The exchange rate

The appreciation of the market rate of the forint which started in May after the Bank widened the intervention band[9] continued in June. The exchange rate strengthened continuously throughout the month. As a result, towards the end of the month the exchange rate departed by 11.2% from the central parity announced by the Bank. The currency appreciated by 3.9% vis-à-vis the euro in comparison with end-May. The National Bank of Hungary officially devalued the central intervention rate by 0.2% in the month (see Chart 12).[10] The average deviation of the exchange rate from the central rate was 988 basis points toward the strong extreme of the intervention band.

Chart 12 **Movements in the forint exchange rate vis-à-vis the currency basket within the intervention band**



[9] Maintaining the monthly 0.2% devaluation rate of the currency, the Bank widened the intervention band from ±2.25% to ±15% on 4 May.

[10] Since 1 January 2000, the forint is devalued daily against a currency basket consisting 100% of the euro.

Statistical balance sheet 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 other monetary financial institutions rose by Ft 34.2 billion and Ft 136.2 billion respectively in June relative to end-May. Claims of the Bank on other monetary financial institutions were Ft 128.5 billion higher, mostly on account of the Ft 129 billion increase in outstanding repos. The Bank's net liabilities to other monetary financial institutions rose by Ft 7.7 billion, its net claims on the central government sector fell by Ft 248.4 billion and net forint assets and those not broken down by sector of the central bank collectively rose by Ft 290.2 billion (see Table A).

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

Ft billions

	2000			2001				
	Q1	Q2	June**	Q1	Q2	June**	Of which:	
	Averages*			Averages*			Transactions	Revaluations
Banknotes and coin	–22.9	15.5	33.8	–17.8	21.6	34.2	34.2	0.0
Forint liabilities to other monetary financial institutions	124.7	–97.3	–0.2	–63.6	20.8	105.6	105.6	0.0
Foreign currency liabilities to other monetary financial institutions	–25.8	–11.7	–12.7	–28.8	5.7	30.6	50.7	–20.1
Net claims on central government	–37.5	–13.9	21.4	–119.8	–103.1	–248.4	–216.0	–32.4
Of which: forint loans	–6.0	–6.0	–18.2	–6.0	–6.0	–18.0	–18.0	0.0
government securities	–3.1	–3.0	–11.0	–65.3	0.0	0.0	0.0	0.0
foreign currency loans	–19.2	0.1	–28.2	–19.2	–40.1	–250.6	–152.5	–98.1
Claims on other monetary financial institutions	5.3	–10.3	–4.6	–2.6	19.2	128.5	128.7	–0.2
Net foreign assets and those not broken down by sector	108.2	–69.4	4.1	12.1	132.0	290.2	277.8	12.4

* Quarterly average of changes relative to the preceding month.
** One-month changes.

Looking at the average stocks of central bank liabilities to other monetary financial institutions, the average of forint balances rose by Ft 8.2 billion and foreign currency deposits by Ft 33.3 billion, while the average stock of non-callable deposits fell by Ft 12.2 billion in June relative to the preceding month. Other monetary financial institutions' average holdings of NBH domestic currency bills fell by Ft 19 billion (see Table B).

Table B **Average stock data in the statistical balance sheet of the NBH***

Ft billions

	2001		Monthly change
	May	June	
Banknotes and coin	941.8	974.2	32.4
Forint liabilities to other monetary financial institutions	957.0	934.1	–22.9
Of which: bank's liabilities	380.4	388.6	8.2
forint deposits	453.6	441.4	–12.2
domestically issued NBH bills	123.0	104.0	–19.0
Foreign currency liabilities to other monetary financial institutions	407.6	440.9	33.3
Net claims on central government	1,342.9	1,253.0	–89.9
Of which: forint loans	271.5	270.3	–1.2
government securities	172.1	172.1	0.0
foreign currency loans	1,314.7	1,222.3	–92.4
Claims on other monetary financial institutions	85.7	95.2	9.5
Net foreign assets and those not broken down by sector	877.8	1,000.9	123.1

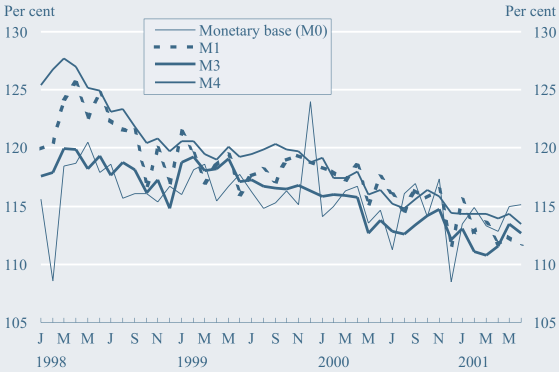
* Monthly average of daily stock data.

Monetary survey

Calculated from the data after eliminating the effect of the change to the required reserves system, annual growth in the monetary base (M0) accelerated by 0.2 of a percentage point to 15.1% in June relative to the preceding month.

The annual growth indices of the monetary aggregates, derived from the liability items of the aggregate balance sheet of the banking sector based on June's data, fell in the

Chart 13 **Annual growth rates of the monetary 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 foreign currency deposits plus forint time deposits (not shown in the chart as it hardly plots differently from M3).
M3 = M2 plus outstanding repos 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 credit institutions' reserves and other domestic currency balances at the central bank.
M0 is calculated from the month-end value of banknotes and coin, and the average of banks' reserves 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.

month under review. Annual growth in M1, a composite of banknotes and coin held by non-banks plus forint sight deposits, slowed by 0.8 of a percentage point from May to June, the end-of-month stock of M1 being 11.6% higher than a year before. Annual growth in the money measure M2, which comprises foreign currency deposits and time forint deposits, in addition to M1, was 1 percentage point slower than in May, the end-June stock of the aggregate rising by 12.3% in a twelve-month comparison. Growth in broad money M3, a measure of M2 plus liabilities from repurchase agreements and holdings of bank securities, was less marked than M2 growth. Annual growth in the aggregate slowed by 0.8 of a percentage point in one month, but its end-of-month stock rose by 12.7% in twelve months. Annual growth in broadest money M4, an aggregate of M3 plus government securities and NBH domestic bills held by the non-bank sector, was 0.9 of a percentage point slower, the end-of-month stock of the aggregate being 13.5% higher than in June 2000 (see Chart 13).

Turning to the individual liability items of the aggregate balance sheet of monetary institutions, the month-end value of corporate sector deposits was Ft 10.1 billion lower due to the transaction effect. Here, forint deposits fell by Ft 18.1 billion and foreign currency deposits rose by Ft 8 billion.

The sector's foreign currency deposits fell by Ft 11.9 billion on account of movements in exchange rates. Household deposits fell by Ft 14.5 billion. Here, domestic currency deposits rose by Ft 25.4 billion due to the transaction effect, but foreign currency deposits fell by Ft 10.4 billion. Exchange rate movements made a negative contribution to household foreign currency deposits, causing a Ft 29.5 billion loss.

As regards the items on the assets side of the aggregate balance sheet of monetary institutions, domestic claims which include claims from securities holdings vis-à-vis the domestic sectors, in addition to the domestic credit stock, fell by Ft 162.6 billion due to transactions and by Ft 83.6 billion due to the exchange rate effect. Corporate sector domestic borrowings were Ft 38.7 billion lower in the month. The transaction effect was a Ft 30 billion increase on the sector's outstanding forint currency borrowings and a Ft 21.8 billion decrease on foreign currency borrowings. Exchange rate movements caused a Ft 47.5 billion downward revaluation on the end-of-month stock of corporate sector foreign currency borrowings, other volume changes causing another Ft 0.2 billion fall. Lending by monetary institutions to the household sector rose by Ft 28.5 billion in June relative to the preceding month.

The changes in outstanding borrowings and deposits caused net liabilities of the general government sector to fall by Ft 260.9 billion. Net assets of households with monetary institutions were Ft 15.5 billion lower. Net assets of

Table C **Monthly changes in the net positions of institutional sectors vis-à-vis monetary institutions**

Ft billions

	2000			2001				
	Q1	Q2	June	Q1	Q2	June	Of which:	
	Averages***			Averages***			Transactions	Revaluations
Non -financial corporations, net (S.11)	**–20.7**	**–60.8**	**–98.7**	**–75.4**	**–51.0**	**26.7**	**–12.3**	**38.5**
Assets	–44.2	–92.0	–89.0	–50.5	–42.4	43.8	–7.1	50.4
Deposits+cash+repos+securities	23.6	31.2	–9.8	–24.9	–8.6	–17.1	–5.2	–11.9
Other financial corporations, net (S.123+S.124+S.125)	**20.0**	**–3.8**	**13.6**	**–1.4**	**–8.1**	**–24.1**	**–24.2**	**0.0**
Assets	–3.1	–5.4	1.7	5.5	–17.8	–43.9	–43.9	0.0
Deposits+repos	23.1	1.6	11.8	–6.9	9.6	19.7	19.7	0.0
General government sector, net* (S.13)	**–35.2**	**–50.2**	**18.0**	**91.1**	**225.2**	**260.9**	**227.6**	**33.3**
Central government, net* (S.1311)	–42.6	–42.2	33.9	84.7	237.4	261.9	228.6	33.3
Local government, net (S.1313)	7.3	–8.0	–16.0	6.4	–12.3	–1.0	–1.0	0.0
Credits	–0.4	–1.5	–2.0	1.2	–0.9	–0.5	–0.5	0.0
Deposits	7.7	–6.5	–13.9	5.2	–11.4	–0.5	–0.5	0.0
Social security funds (S.1314)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Households, net (S.14)**	**3.9**	**12.0**	**38.6**	**–4.5**	**8.2**	**–15.5**	**14.2**	**–29.5**
Credits	–10.4	–22.8	–14.8	–14.9	–37.9	–30.0	–29.8	0.0
Deposits+cash+securities	14.4	34.7	53.4	10.4	46.0	14.5	44.0	–29.5
Non-profit institutions serving households (S.15)	**–0.4**	**–0.5**	**–3.6**	**2.2**	**14.6**	**6.7**	**6.7**	**0.1**
Assets	–2.5	–1.6	–3.3	–0.7	10.7	12.0	12.0	0.0
Deposits	2.2	1.1	–0.3	2.8	4.0	–5.3	–5.3	0.0
Non-residents, net (S.2)	**41.5**	**–6.5**	**–35.3**	**78.2**	**81.6**	**–113.0**	**–172.5**	**57.2**
Other, net	**–9.2**	**109.8**	**67.6**	**–90.2**	**–270.4**	**–141.7**	**–39.6**	**–99.4**

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 ÁPV Rt.
** Including accrued interest.
*** Quarterly average of monthly net changes in creditor position.

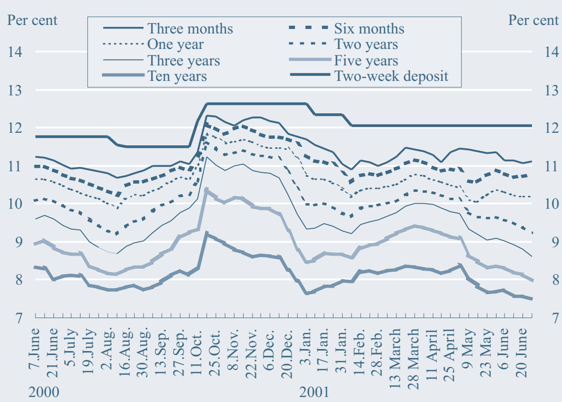
non-financial corporations fell by Ft 26.7 billion. Net foreign assets of monetary institutions rose by Ft 113.0 billion (see Table C).

Government securities market

Yields fell in the government securities market in June, by around 30 basis points on average up to the middle of the month. The complete removal of foreign exchange restrictions on 15 June, however, caused yields to rise slightly – within 1–2 days following the implementation of the measure yields rose 5 basis points on average at the shorter maturities and 20 basis points at maturities beyond one year. However, in the following two days longer-dated yields saw a comparable correction (see Chart 14).

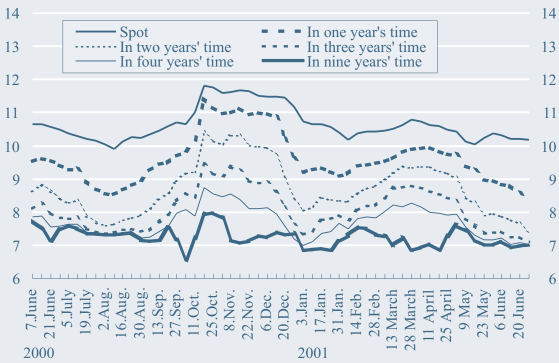
Zero-coupon yields,[11] which reflect movements in the secondary market, fell across every maturity in the month. They were modestly lower, by 10–20 basis points at the shorter end, i.e. at three, six and twelve months, and more

Chart 14 **Zero-coupon yields and annualised return on the central bank two-week deposit**
Short-term yields on a compounded basis; weekly averages



[11] 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.

***Chart 15* One-year spot rates and implied forward rates derived from the Bank's zero-coupon yields**
On a compounded basis; weekly averages



strongly, by 38–48 basis points at the longer end. (The ten-year yield fell 19 basis points.)

Implied one-year forward rates[12] in one to two years' time fell more strongly, by 65 basis points, those at the more distant maturities falling at diminishing rates, by 35 basis points and 14 basis points. The implied forward rate in nine years' time rose 2 basis points (see Chart 15).

Non-resident investors increased their holdings of Hungarian domestic currency-denominated government debt securities by Ft 4.9 billion, so the sector's total holdings amounted to Ft 997.022 billion at the end of the month under review.

The amounts of bids submitted at the auctions of government bonds fell relative to May. Four auctions of NBH bills were conducted in the month.[13] Yields and investor demand both fell in the first part, then stagnated in the latter part of the month. The average yield at all auctions held in the month, weighted by the amount sold, was 10.80%.

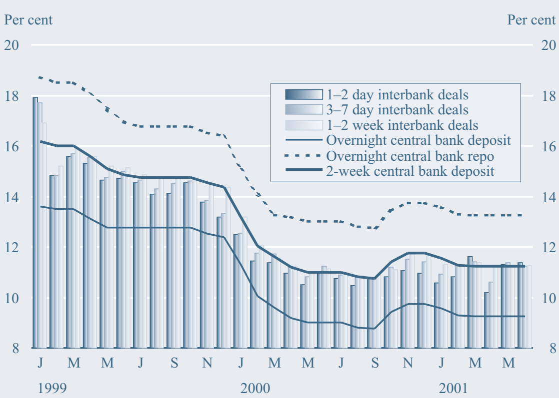
The value of the Hungarian Government Bond Index, the MAX, which reflects movements in the prices of publicly-issued, fixed-coupon government bonds with a residual maturity of more than one year, stood at 208.6193 on 29 June. Calculated from movements in the index values, the annual return achievable on a portfolio equal to the composition of the index basket was 10.75%.

Market interest rates

The total value of transactions in the interbank market was Ft 1,418.3 billion in June, showing a decrease of Ft 108.3 billion or 7% in one month. Monthly average interest rates were barely changed relative to May. (see Chart 16).

The average 1–2 day rate was 11.4% in the month, up 10 basis points on the preceding month's level. Transactions volume rose only in this maturity bracket, its percentage share within the total being 10.6 percentage points higher, at 90%. The average rate on 3–7 day deals fell slightly, by 10

***Chart 16* Monthly averages of interbank lending rates and official dealing rates**



[12] 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.

[13] 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 paper. 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. No indications for bidders, whether in terms of quantity or quality, are given in advance (free competitive bidding). The maximum amount to be allocated is limited to the amount on offer, with no minimum amount being established.

basis points to 11.3%. The proportion of this maturity area within the total was 5%, showing a drop of 2.6 percentage points relative to May. Turnover between 1–2 weeks saw the largest fall, the proportion of deals transacted in this maturity bracket falling from 8.4% to 2.3% in comparison with the preceding month. The average interest rate in this maturity area, at 11.3%, was unchanged compared with May. Interest rates at maturities extending beyond two weeks also remained unchanged at 11%. The proportion of transactions was 2.7% of total turnover, falling relative to May.

There were only slight changes in market interest rates for non-financial corporations and households – the average of non-financial corporations' deposit and borrowing rates fell a little compared with the preceding month.[14] As regards household interest rates, home-building and property loan rates continued to fall (see Chart 17).

The average price for non-financial corporations of short-term loans, negotiated at market conditions, fell 20 basis points to 12.1%, that of deposit rates also falling 20 basis points to 8.9%. As a result of movements in interest rate conditions, the short-term banking spread remained at 3.2 percentage points in the month under review. Generally playing a marginal role in non-financial corporations' debts and deposits, the averages of long-term borrowing rates rose 10 basis points to 12.5% and that of deposits from 8.3% to 8.5%.

Turning to households, the sector's averages of sight and short-term deposit rates both rose 10 basis points to 3.4% and 8.6% respectively in June. The average interest rate on long-term deposits rose 30 basis points to 9.3%. This 30 basis-point increase was attributable to the fact that households preferred those investment products, already in the market, which offered higher interest rates (see Chart 18).

The banking sector average of household sector borrowing rates fell from 19.8% to 18.8% relative to May. That was the result of a significant rise in the proportion to total lending of property loans priced by the market and bearing lower interest rates relative to the preceding month. The average of home-building and property loan rates in the market fell slightly, by 20 basis points to 16.1%. The average rates on consumer credit and other loans, at 21.1%, also changed only slightly, rising 10 basis points relative to May.

As a result of the changes in interest rates observed in June, the gap between non-financial corporations' and

[14] Due to an observed data error and the change to the sector classification, interest rate data for non-financial corporations have been revised. Revision of May's data is in progress. The final data will be published in the September issue of the Monthly Report.

Chart 17 **Borrowing rates of non-financial corporations and households**

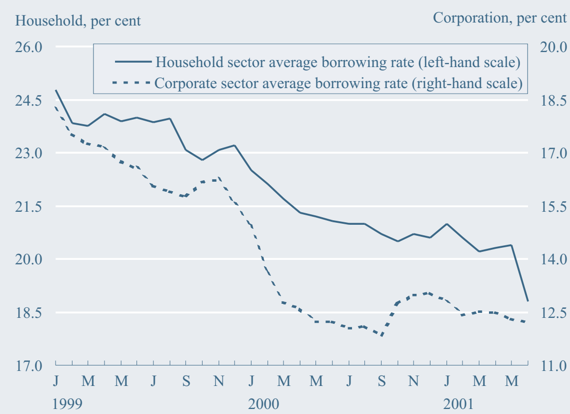


Chart 18 **Deposit rates of non-financial corporations and households**

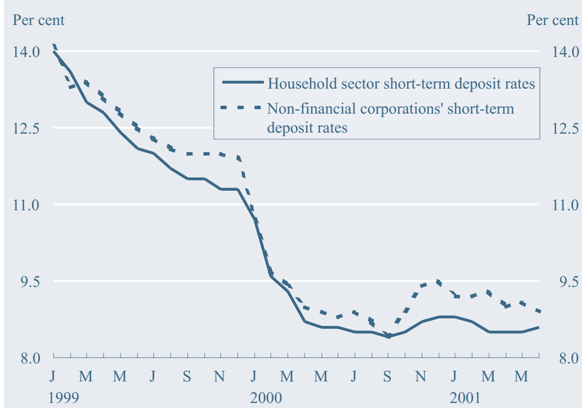


Chart 19 **Differential between non-financial corporations' and households' borrowing and deposit rates**

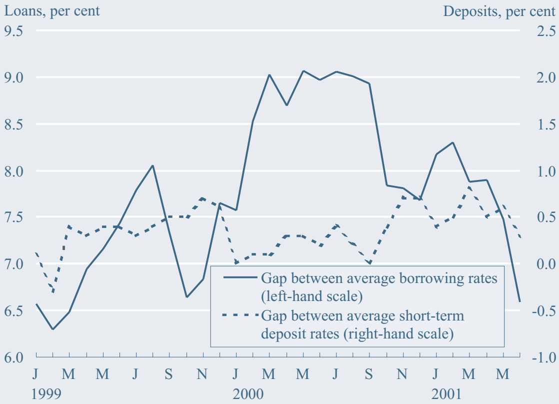


Chart 20 **The BUX**
2 January 1991 = 1,000

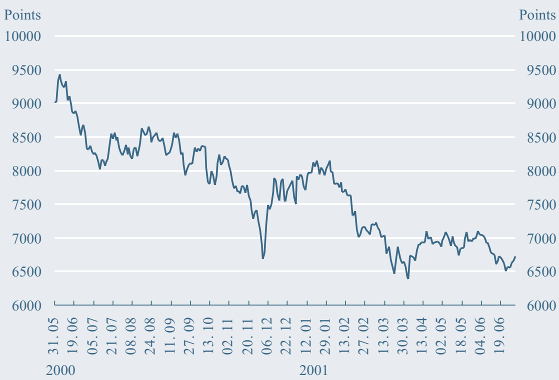
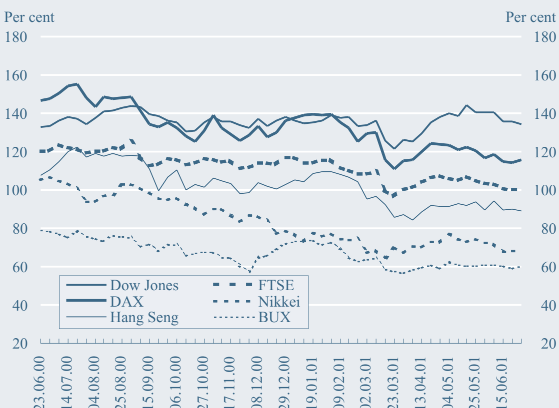


Chart 21 **The world's leading exchanges and the BUX**
5 September 1997 = 100; on a dollar basis



households' average borrowing rates[15] narrowed by 0.9 of a percentage point to 6.6 percentage points. The average of non-financial corporations' short-term deposit rates was only 0.3 of a percentage point higher than the corresponding average of household sector deposit rates (see Chart 19).

The BUX and the world's leading share market indicators

In June the share index of the Budapest Stock Exchange fell, following the 3.2% and 3.5% advances in April and May respectively. Movements in the BUX were downwards in the first three weeks of the month, apart from small reversals. The index reached its monthly low at 6,508.74 points at the end of this three-week period. During the final week of the month, however, prices were rising gradually, the market closing June at 6,727.95, down 5.3% on its finish in May (see Chart 20).

Measured on a dollar basis, the official index of the Budapest Stock Exchange fell by 1.3% in June, following an increase of 4.2% in April and one of 3.9% in May. That meant the index lost much less of its value due to the appreciation of the forint than on a forint basis. Most major international exchanges lost more than the Budapest market. The Dow Jones Industrial Average of New York, the most trend-setting index, fell by 3.8% in June following an increase of 1.6% in May. On a dollar basis, the London FTSE weakened by 2.8%, after falling by 3.8% in the preceding month. The DAX of Frankfurt lost only 0.6% on a dollar basis, after a 6.9% decline in the preceding month. The NASDAQ, a gauge of movements in the prices of technology stocks, gained 1.8%, after a loss of nearly 3% in May (see Chart 21).

Looking at the Far Eastern markets, the Nikkei in Tokyo lost 6.5% after a 1.4% drop. Following a 1.6% decline in the preceding month, the Hang Seng of Hong Kong lost another 1.0% of its value in the month under review.

[15] 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

The balance of payments and financing

According to the seasonally adjusted data,[16] the current account was €115 million in deficit in June 2001 (see Table D). Including the June data, the trend of monthly current account deficits has stabilised between €115 and €145 million since early 2000 (see Chart 22). The slowdown in the growth rates of exports and imports of goods, observed since the final quarter of 2000, stopped, and net expenditures for trade in goods were broadly comparable with the preceding month's (see Chart 23). The earlier trends for the other sub-accounts, including tourism and investment income, continued in the month.

The seasonally adjusted current account deficit fell by €66 million in one month. Looking at developments in the other sub-accounts, services excluding tourism saw the largest change, net expenditures rising by €21 million. This, however, was offset by the slight improvements in the balances on merchandise trade and tourism, as the weight of these sub-accounts within the current accounts are much higher than that of other services. The outflow of investment income on equity increased by €9 million, that on debt-related investment income falling broadly comparably.

The current account deficit, not seasonally adjusted, was €75 million lower in June than a year earlier. The most marked change occurred to tourism, the surplus rising by €35 million relative to June 2000. There was an improvement in the goods balance as well – net expenditures for trade in goods fell by €15 million. By contrast, the outflows of investment income on equity and debt both rose. The surplus on current transfers fell.

The not seasonally adjusted current account deficit amounted to €341 million in June. The capital account

[16] 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 D **Seasonally adjusted current account data***

€ millions

	2000	2001		
	June	April	May	June
Goods	–197	–166	–192	–182
Exports	2,309	2,640	2,607	2,700
Imports	2,450	2,768	2,784	2,861
Services excluding tourism	–42	–15	–29	–50
Tourism	207	231	235	242
Non-debt income flows	–41	–158	–59	–68
Debt-related income flows	–70	–88	–93	–85
Current transfers	46	39	28	29
Current account balance	–190	–134	–181	–115

* 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 22 **Current account**

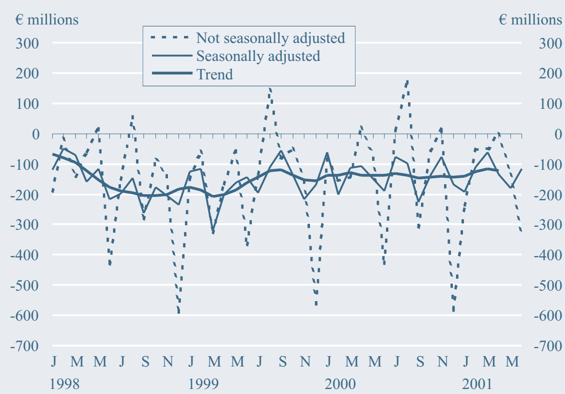


Chart 23 **Trade balance**

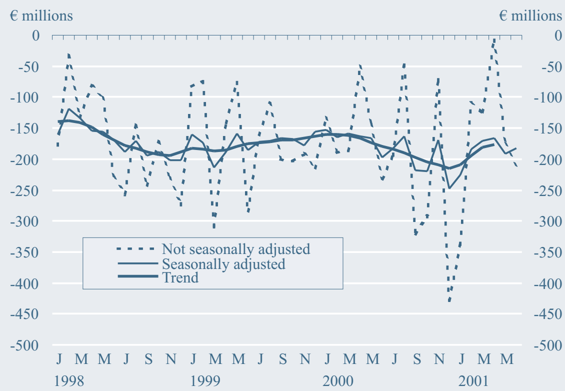


Table E **Transaction effects on changes in Hungary's net foreign debt**

€ millions

		2000	2001		
		June	April	May	June
1	Current account	–428	–2	–134	–341
2	Capital account	20	47	27	77
3	Net lending / net borrowing (1+2)*	–408	45	–106	–264
4	Non-debt capital flows	78	61	120	90
5	Total (3+4)	–330	107	13	–174
6	Debt-creating flows (6a+6b)**	341	–180	10	184
6a	In forint	145	248	392	–11
6b	In foreign currency	196	–428	–382	195
7	Financing gap (5+6)	11	–73	24	10
8	Errors and omissions	–11	73	–24	–10

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

closed with a surplus of €77 million, so whole-economy external financing requirement amounted to €264 million in the month under review (see Table E). Net non-debt inflow was €90 million – direct investments by non-residents in Hungary amounted to nearly €111 million and those by Hungarian residents abroad to €21 million. Inward and outward portfolio investment transactions in equity securities were in a broad balance. Non-resident investors reduced their holdings of Hungarian government debt securities by €11 million.

Hungary's external accounts

Whole-economy gross foreign debt was €38 billion at the end of June 2001. The combined gross foreign currency debt of general government and the NBH outstanding to non-residents amounted to €18.2 billion, forint debt accounting for €4.1 billion. The gross debt of other monetary financial institutions and the other sectors rose to €19.8 billion, inter-company loans accounting for €4.1 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 amounted to €12.4 billion towards end-June. The combined net debt of the NBH and the central government was €2.4 billion. However, taking foreign currency denominated assets and liabilities into account, the two sectors took a €1.7 billion net lending position in foreign currency. Total private sector net foreign debt was €10 billion, inter-company loans accounting for €3.7 billion (see Table F).

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

€ millions

	2001		Change	Of which:			
	May	June		Transactions	Exchange rate movements	Price changes	Other volume changes
Net foreign currency debt of the NBH and government	–1,698	–1,696	2	–64	–154	214	6
Net forint debt of the NBH and government	3,913	4,093	180	23	158	0	0
Total net debt of the NBH and government	2,214	2,397	182	–41	4	214	6
Assets of the NBH and government	15,304	15,772	468	589	–12	–103	–6
Of which: international reserves	12,990	13,596	606	614	–13	4	0
Gross foreign currency debt of the NBH and government	13,606	14,076	470	525	–166	111	0
Gross forint debt of the NBH and government	3,913	4,093	180	23	158	0	0
Total gross debt of the NBH and government	17,518	18,169	650	548	–8	111	0
Net debt of other monetary financial institutions and other sectors*	5,972	6,248	276	158	72	22	24
Assets of other monetary financial institutions and other sectors	9,292	9,459	166	237	–47	–31	8
Gross debt of other monetary financial institutions and other sectors	15,265	15,707	443	395	24	–9	32
Inter-company loans, net	3,651	3,734	83	67	6	0	10
Assets	352	351	–2	–1	0	0	0
Liabilities	4,004	4,085	81	66	6	0	10

* Excluding inter-company loans.

The total stock of direct investments by non-residents in Hungary amounted to €24.7 billion at the end of June, of which the value of holdings of shares and classes of equity capital was €20.6 billion.

Foreign trade

The annualised growth rates of the trends of goods exports and imports were comparable in June. The rate of export growth continued to fall for the second consecutive month. By contrast, the trend rate of import growth continued to rise modestly. Nevertheless, the trend of merchandise foreign trade balance continued to improve, although very modestly. (see Chart 24).

Taking account of the forthcoming adjustments, the annual growth rates of Hungarian exports and imports were largely comparable in June and the first six months of 2001 relative to the same period of the previous year. As a result, the merchandise trade deficit rose. The increase in net energy imports accounted for the whole increase in deficit (see Charts 25, 26 and 27).

There was a slight deterioration in Hungary's merchandise foreign trade in 2001 H1 relative to the comparable period of 2000, so the increase in exports, measured in volume terms (10.2%) was higher, though only by half a percentage point, than that in imports (9.7%). On balance, both the value and volume indices show a gradual slowdown in the growth rates of Hungarian merchandise foreign trade.

The levels of foreign trade in goods fell in June relative to the preceding month, quite differently from the seasonal scenario, given that in the last months of the quarters high turnover values are characteristic, particularly as regards exports. This fall affected virtually all commodity groups, its impact being larger on imports. The trade balance, therefore, was more favourable than in May.

The degree of foreign trade concentration was little changed in June relative to the preceding few months of the year. 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, continued to provide the backbone of Hungarian foreign trade. Little changes have been seen in this respect in 2001. In June and the first six months of 2001, the percentage share accounted for by the CEFTA countries increased relative to the comparable periods of the previous year. That was mainly attributable to a strong increase in foreign trade in machinery and equipment. There was a robust increase in imports of machinery and equipment from the Far East during the same period. These factors provide an explanation for the fact that, whereas the percentage shares of developed countries, and of the EU in particular, have been falling in a regional breakdown,

***Chart 24* Annualised monthly growth rates of merchandise foreign trade**

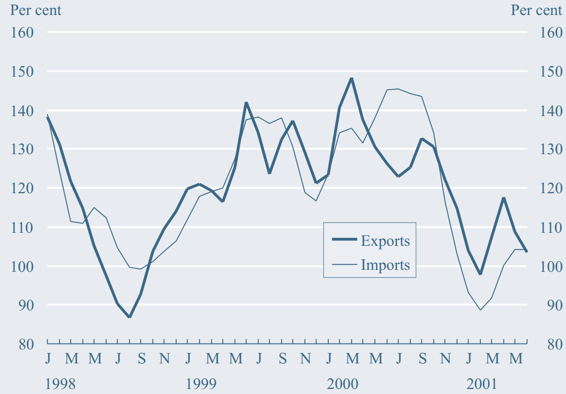


***Chart 25* Merchandise exports**

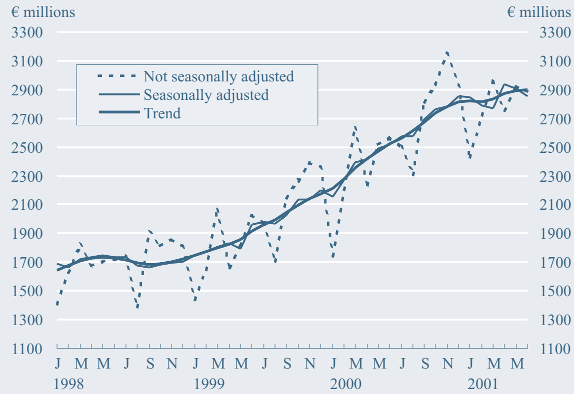


***Chart 26* Merchandise imports**

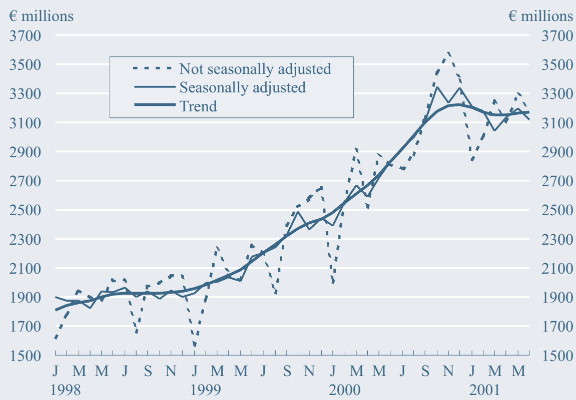
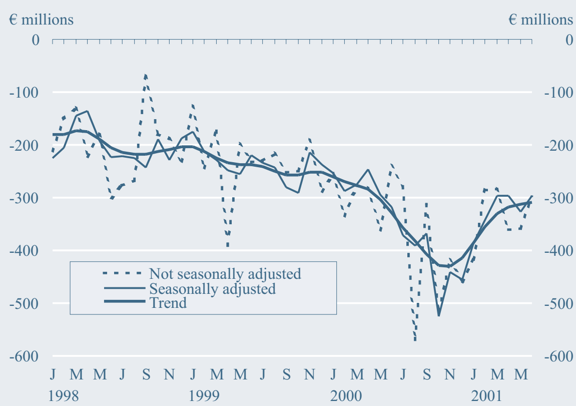


***Chart 27* Trade balance**



those of machinery and equipment have been rising further.

Whole-economy net imports of energy were €250 million higher in 2001 H1 than in 2000 H1.[17] The CIS states accounted for more than 75% of total energy imports. However, due to the problems in other product markets (foods and engineering industry goods) the share of the region within whole-economy imports fell in 2001 H1 relative to the same period of the previous year.

[17] 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.

Public finance

Net borrowing of general government

The net borrowing requirement of general government amounted to Ft 23.6 billion in June 2001, showing a decrease relative to a year earlier (see Chart 28). The net borrowing requirement of central government fell by Ft 25.6 billion. By contrast, the local government authorities and the social security funds saw their net borrowing requirement rise by Ft 5.3 billion and Ft 12.9 billion respectively in one year. (see Table G). According to the Bank's calculations, the cumulative general government deficit amounted to Ft 198.7 billion in January–June 2001, in comparison with Ft 141.9 billion in the same period of the previous year.

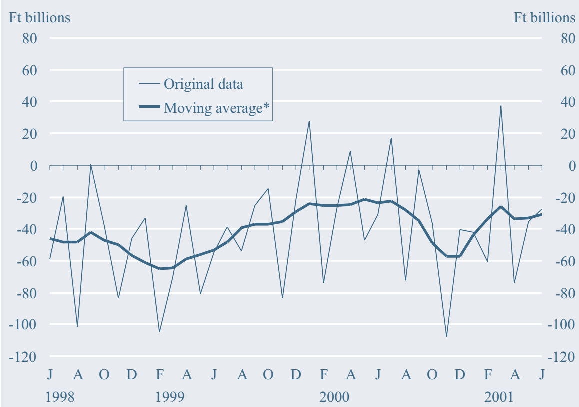
The central government net borrowing requirement, including the accounts of ÁPV Rt and the extra-budgetary funds, and adjusted to reflect the Bank's calculation method, was Ft 6.3 billion in June. The primary surplus of central government, excluding interest payments and receipts as well as mutual assets and liabilities of the NBH and the central government, amounted to Ft 42 billion.

Out of total central government expenditure, Ft 94.5 billion extraordinary expenditure was not actually transferred but placed on a suspense deposit account last December. The Bank's calculations do not treat this amount as expenditure affecting general government accounts for 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 local government authorities and units of central government receiving Ft 10 billion and Ft 5 billion respectively in March. The balance on the account did not change in April–June.

The difference between interest expenditure recorded on cash and accrual bases reduced the central government borrowing requirement by Ft 9.8 billion in May, in contrast with a year earlier when the gap caused an increase of Ft 1.4 billion in the borrowing requirement.

The State Privatisation and Holding Company raised Ft 5.4 billion revenue in June, the vast bulk of revenue being accounted for by transfers of dividend income, as in the preceding months of the year. As regards the most impor-

Chart 28 **Net lending/net borrowing of general government (S.13)**



*The smoothed time series is a five-month centred moving average with varying weights up to May 2001. The June moving average has been calculated using a trinomial average with equal weights and an estimate for July (Ft –29.5 billion).

Table G **General government (S.13) net lending (+) / net borrowing (–) by sub-sector**

Ft billions

General government	2000	2001		
	June	May	June	Jan.–June
General government balance (1)	–33.9	–12.2	–9.2	–117.5
Extra-budgetary funds (2)	0.4	–0.3	–0.1	10.5
ÁPV Rt (3)	1.5	–7.5	1.6	–19.2
Other units of central government (4)	0.1	–1.5	1.4	–11.8
Central government (S.1311) (5=1+2+3+4)	**–31.9**	**–21.5**	**–6.3**	**–138.0**
Social security funds (S.1314) (6)	**–2.6**	**–12.8**	**–15.4**	**–69.6**
Local authorities (S.1313)* (7)	**3.3**	**–1.2**	**–1.9**	**8.9**
General government, total (S.13) (8=4+5+6+7)	**–31.1**	**–35.4**	**–23.6**	**–198.7**

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

tant expenditure items, spending on subsidies in the company's portfolio amounted to Ft 1.3 billion and transfers to cover losses incurred due to the state's economic policy measures as well as to manage crisis situations amounted to Ft 1.6 billion. As a result, the Bank calculated the net borrowing requirement of the company, recorded as part of the central government sector, to have been Ft 1.6 billion in May.

This issue of the Monthly Report presents the balances of other units of central government for the first time. The balance, estimated on the basis of bank statistics, reduced the net borrowing requirement of central government by Ft 1.4 billion.

As a combined effect of correction items, the net borrowing requirement of the central government was lower than that calculated by the Ministry of Finance by Ft 8.2 billion in June, the data for January–May 2001 period exceeding it by Ft 33.3 billion.

The net borrowing requirement of the Health Insurance Fund and the Pension Insurance Fund amounted to Ft 15.4 billion in June, in comparison with Ft 2.6 billion for June 2000. On the revenue side, contribution receipts met the estimate, with a substantial lag observed only in receipts from the central government. On the expenditure side, provisions in kind and in cash exceeded the estimate. The balance of provisions funded from non social security sources was Ft 0.1 billion in the month.

The net financing requirement of local government authorities, estimated from transactions data reported by the Ministry of Finance for January–May and taking into account financing data, amounted to Ft 1.9 billion in June, the financing capacity of the sub-sector for the period January–June being Ft 8.9 billion.

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 as well as from financing data, stems from statistical error.

Taking account of credits and deposits of non-profit institutions, a sub-sector of general government, as well as claims of local government authorities arising from repurchase agreements constitutes a change from June 2001 in the presentation of stocks of financial assets and liabilities and the changes therein, in accordance with the presentation of monetary statistics. These items tend to increase financial assets of general government by Ft 10–20 billion in the period under review, the amount of liabilities remaining virtually unchanged. Another change has been the recording, at market value, of outstanding derivatives transactions of the central government vis-à-vis the National Bank of Hungary within assets and liabilities. This modification has been backdated to January 2001. However, repricing will increase the values of assets and liabilities by Ft 200 billion and Ft 88.4 billion respectively.

The change in general government net financial assets due to transactions (see Table H), which shows the sector's debt in terms of deficit financing, i.e. the net financing capacity calculated from financing items, was a decrease of Ft 51.3 billion in June and a total Ft 205.5 billion in the first half of 2001. The borrowing requirement of the central government was Ft 34.3 billion, that of the social security funds was Ft 15 billion and that of the local government authorities was Ft 1.9 billion.

Financial assets of the central government rose by Ft 2.7 billion in June. That was mainly the result of a nearly Ft 50 billion decrease in the sector's deposits with the NBH, a Ft 93 billion increase in foreign currency deposits and a Ft 48 billion revaluation loss on derivatives related to outstanding debt, in addition to a number of small items. The decrease of Ft 34.7 billion in liabilities was caused by issues of forint-denominated government securities to the amount of Ft 273 billion, repayments of the existing debt to the tune of Ft 173.6 billion and a revaluation loss of Ft 123.6 billion due to exchange rate movements.

The stock of outstanding borrowings of the social security funds from the central government rose by Ft 15.4 billion in June, reaching a total Ft 159.2 billion towards the end of the month. Taking into account changes in other financial liabilities and assets, net assets of the sub-sector fell by Ft 15 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 1.8 billion and liabilities by Ft 0.3 billion, so the change in net financial assets was a decrease of Ft 1.5 billion in the month under review.

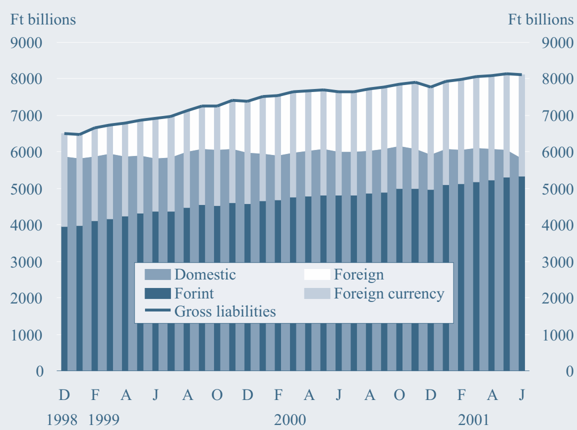
In June, the gross debt of general government fell by Ft 32.6 billion, to a total Ft 8,116.1 billion (see Chart 29). Forint debt held by non-residents rose by Ft 7.4 billion and the foreign currency debt by Ft 197.6 billion, on account of the €1 billion issue of new debt. Gross liabilities of the sector fell by Ft 124.1 billion due to the appreciation of the forint in June.

Table H **Changes in financial wealth of general government (S.13)**

Ft billions

	Stocks: June 2001	Flows: June Transactions	Flows: June Other changes in volume	Flows: January–June Transactions	Flows: January–June Other changes in volume
Central governments (S.1311)					
Assets	1,267.2	54.6	–51.9	281.0	245.6
Liabilities	8,068.6	88.9	–123.6	413.1	–62.0
Net financial assets	**–6,801.4**	**–34.3**	**71.7**	**–132.1**	**307.6**
Social security funds (S.1314)					
Assets	1.3	0.5	0.0	–5.1	0.0
Liabilities	171.7	15.5	0.0	71.4	0.0
Net financial assets	**–170.4**	**–15.0**	**0.0**	**–76.4**	**0.0**
Local government authorities (S.1313)					
Assets	449.5	–1.8	0.0	0.8	0.0
Liabilities	166.1	0.1	–0.5	–2.2	–1.4
Net financial assets	**283.5**	**–1.9**	**0.5**	**3.0**	**1.4**
Consolidated general government					
Assets	1,427.8	40.1	–51.9	195.0	245.6
Liabilities	8,116.1	91.5	–124.1	400.5	–63.5
Net financial assets	**–6,688.3**	**–51.3**	**72.2**	**–205.5**	**309.0**

Chart 29 **Composition of general government gross liabilities**

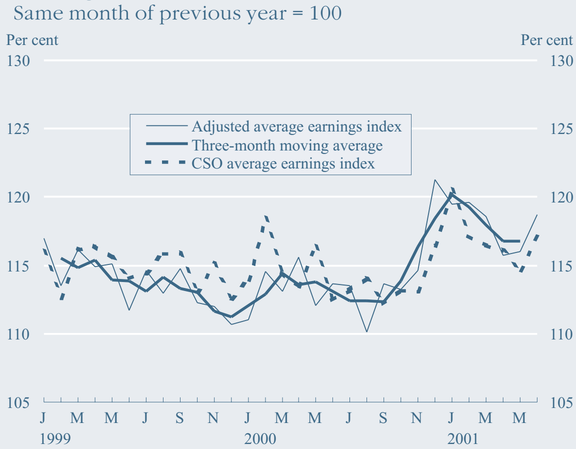


Earnings and financial savings of households

Chart 30 **Adjusted gross average earnings**
Same period of previous year = 100*

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

Chart 31 **Corporate sector monthly gross average earnings***
Same month of previous year = 100



*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.

Earnings

According to the Bank's calculations,[18] whole-economy gross earnings growth[19] was little changed in 2001 Q2 relative to the previous quarter of the year. Average earnings in the total economy, adjusted for the effects of changes in the composition of labour, grew by 18% in a year-on-year comparison, showing an increase of 0.4 of a percentage point relative to the previous quarter and one of 5.4 percentage points relative to 2000 Q2 (see Chart 30).

Corporate sector earnings grew by 18.7% relative to a year earlier. That meant an increase of 2.7 percentage points in one month. The CSO release of the same indicator, which shows unadjusted earnings growth numbers, showed an increase of 17.1% (see Chart 31).

The 1.6 percentage point 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 3.6% lower in June than a year before.

According to the data released by the CSO, irregular pay to personnel[20] as a share of total gross pay was 19.4%. That was only 1.8 percentage points higher than in June 2000. Average earnings grew by 14.5% after eliminating the effect of irregular pay.

Government sector adjusted earnings growth[21] amounted to 19.7% in June year on year. The increase in earnings growth amounted to 4.5 percentage points relative to the preceding month. The index as calculated by the CSO was 20.2%. Government sector wage outflow is significantly influenced by one-off payouts. This caused large

[18] 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.
[19] Companies with more than 5 employees (financial and non-financial companies), and units of central government and the social security authorities (general government sector).
[20] Bonuses, overtime, profit-related pay, one-month pay awards etc.
[21] The data have been adjusted by eliminating the percentage shares of manual and non-manual workers as well as the effect of changes in workforce across the sectors.

differences in monthly earnings growth outcomes in individual months of the past period. The June increase, too, was accounted for primarily by non-basic pay awards.

The share of irregular pay to personnel as a percentage of government sector earnings was 23.4% in June, showing an increase of 4.7 percentage points relative to June 2000. Average earnings growth, calculated excluding irregular pay, was 13.3%.

Corporate sector adjusted average earnings growth amounted to 16.8% in 2001 Q2 within the whole-economy total relative to the year previous period. This growth rate was 2.4 percentage points lower than in the previous period. Government sector adjusted average earnings growth was 20.7% higher than in 2000 Q2, which meant an increase of 7 percentage points relative to 2001 Q1.

The strong pick-up in earnings growth at the start of the year was triggered by the combined effect of a number of factors, which, however, can only partially be quantified. In view of 2000 inflation data, businesses most probably adjusted wages upwards significantly. The introduction of the Ft 40,000 statutory minimum wage on 1 January also contributed to earnings growth. This is underlined by the fact that in the early months of the year those sectors where the percentage share of people employed at the minimum wage registered a much higher than average growth in earnings.

Financial savings of households

In June, operational net lending of households, i.e. their financial savings after eliminating compensation for inflation incorporated in interest, amounted to Ft 26.9 billion. That was higher than the monthly average of the year, but the trend of financial savings has been stagnating at a low level since March (see Chart 32). In addition to transactions, exchange rate and price changes also had a significant effect on the change in financial wealth in June. Owing to holding losses which amounted to Ft 44.7 billion in June, the sector's financial wealth has been declining continuously since February (total losses amounted to Ft 90.4 billion in the first half of the year). On balance, net financial wealth of households rose by Ft 11.9 billion, measured at market value (see Table I).

Looking at the structure of financial assets, households continued to prefer forint deposits to holding securities in June, as seen in the preceding two months. In addition, the increase in cash holdings was also strong. Claims on credit institutions rose by Ft 28.3 billion, transactions, excluding the effect of compensation for inflation incorporated in interest, accounting for Ft 12.5 billion. June's financial savings were significantly influenced by the retrospective raise of some Ft 18 billion in old-age pensions due to this year's inflation and wage developments. This, in addition to current accounts, had an effect on cash holdings as well, which rose by a total Ft 26.9 billion in one month.

Households reduced heavily their foreign currency deposits in June. Withdrawals amounted to Ft 11.9 billion, the monetary authorities' move to widen the intervention band

Chart 32 **Operational net lending (+) / net borrowing (–) of households**

At constant prices

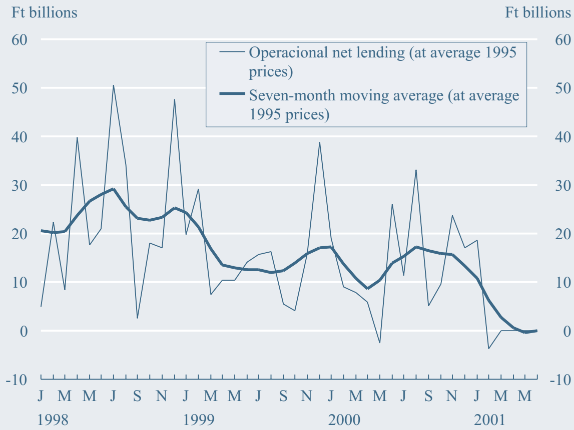


Table I **Decomposing net financial wealth of households into the components of change**

Ft billions

	Stocks:	June flows:				
	30 June 2001		Transactions:			
				Transactions net of compensation for inflation	Compensation for inflation incorporated in interest	Revaluations
Cash	818.8	26.9	26.9	26.9	0.0	0.0
Forint deposits and bank securities	2,666.7	28.3	28.3	12.5	15.8	0.0
Foreign currency deposits	720.0	–40.2	–10.7	–11.9	1.2	–29.5
Non-bank securities	1,551.2	–11.8	3.4	–7.6	11.0	–15.2
Pension funds and life insurance	917.0	20.7	20.7	13.1	7.6	0.0
Non-paid wages	140.5	18.5	18.5	18.5	0.0	0.0
Financial assets, total	**6,814.2**	**42.4**	**87.1**	**51.5**	**35.6**	**–44.7**
Home-building loans	246.3	14.1	14.1	12.1	2.0	0.0
Consumer credit	476.7	15.9	15.9	12.0	3.9	0.0
Other borrowings	52.6	0.5	0.5	0.5	0.0	0.0
Household debt	**775.6**	**30.5**	**30.5**	**24.6**	**5.9**	**0.0**
NET FINANCIAL WEALTH AND THE COMPONENTS OF CHANGE IN WEALTH	**6,038.6**	**11.9**	**56.6**	**26.9**	**29.7**	**–44.7**

Chart 33 **Household sector financial assets**

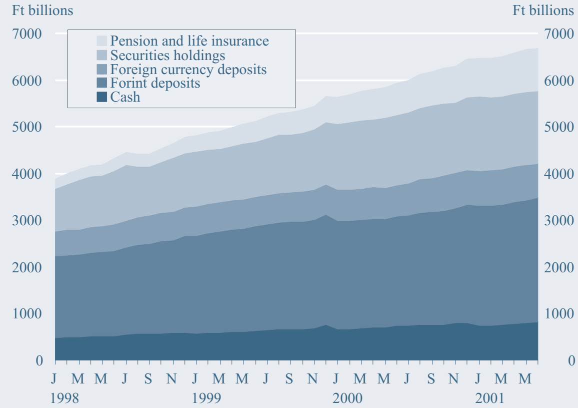
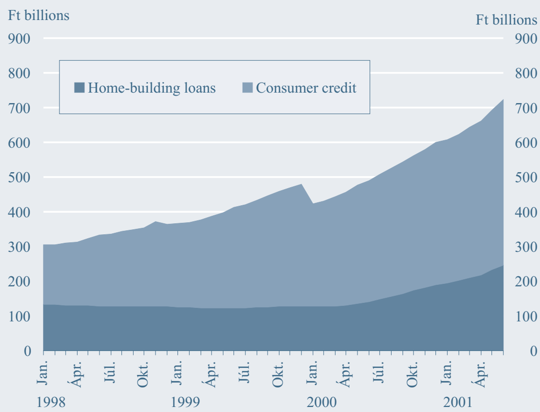


Chart 34 **Outstanding borrowings of households by type of debt**



of the forint and a related appreciation of the currency causing significant exchange rate losses to the sector (Ft 14.6 billion in May and Ft 29.5 billion in June). About one-third of withdrawals affected the US dollar, two-thirds affecting the currencies of the Euro area. The US dollar and the currencies of the Euro area accounted for 50% and 40% respectively of household sector foreign currency deposits at the end of the month (see Chart 33).

Households continued to take an overall net selling position in the government securities and share market in June, despite increasing their holdings of investment units. As a result, the sector' securities holdings continued to fall. (Operational transactions amounted to Ft 6.1 billion, Ft –10.7 billion and Ft –3 billion respectively in government securities, shares and investment units.)

Household sector debt rose strongly, by Ft 30.5 billion in June, as seen in the preceding month. Operational transactions amounted to Ft 12 billion in both consumer credit and property loans, and transactions affecting the two types of loan were comparable (Ft 45.9 billion and Ft 44.9 billion respectively). Borrowing in consumer credit has picked up in recent months, following the decline around the start of the year, and in the first half it was broadly comparable with the outcome of the same period of 2000. Outstanding property loans have been rising as a trend since early 2000, nearly doubling in the past 18 months (see Chart 34).

Összefoglaló adatok

	GDP volume indices*	Consumer price index	Core inflation (CSO)	Gross earnings index	Unemploy-ment 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	111.3	119.6	8.0	34.8	116.0	121.4	118.8	16.17	–151	270	7,898	–33.2
February		109.4	110.8	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	110.7	117.1	6.7	13.3	118.6	117.1	118.1	16.00	–330	89	8,243	–70.0
April		109.4	111.0	116.5	7.3	18.7	115.4	118.5	118.2	15.58	–167	100	8,190	–25.0
May		108.9	110.7	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	110.7	114.6	6.3	25.8	117.7	116.0	116.9	14.85	–369	119	9,068	–54.9
July		110.0	110.9	115.0	7.5	28.8	116.2	117.7	117.4	14.75	–134	60	9,150	–38.9
August		110.9	111.5	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	111.2	116.0	6.6	10.4	115.3	117.1	116.3	14.75	–87	103	9,635	–25.5
October		110.5	110.7	114.3	6.7	7.8	116.3	119.0	116.3	14.75	–50	61	9,743	–14.7
November		110.6	110.5	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	110.2	117.0	6.3	74.8	124.0	118.9	116.0	14.38	–562	296	10,874	–22.2
January 2000		110.0	109.4	110.7	7.0	29.8	114.1	118.3	116.6	13.17	–77	44	11,513	28.0
February		109.8	109.1	116.0	7.2	5.1	114.9	118.0	116.7	12.04	–157	125	11,869	–73.8
March	106.5	109.6	108.5	113.0	6.0	11.7	116.3	117.3	116.7	11.60	–145	54	11,202	–27.1
April		109.2	108.2	113.6	6.9	20.1	116.7	118.5	116.5	11.20	21	162	11,380	9.1
May		109.1	108.0	113.9	6.7	3.2	113.6	115.2	113.4	11.00	–80	186	11,549	–47.0
June	105.6	109.1	108.0	112.0	6.0	42.7	114.6	117.5	114.5	11.00	–428	168	10,999	–31.1
July		109.6	107.7	114.7	6.6	39.4	111.3	116.0	113.5	11.00	10	42	11,110	17.2
August		109.6	107.6	112.4	6.5	44.8	116.1	114.5	113.3	10.81	174	253	11,628	–72.6
September	104.5	110.3	108.5	111.9	5.7	15.9	117.0	116.4	114.1	10.75	–311	229	12,047	–3.2
October		110.4	108.7	112.2	6.2	19.5	114.1	115.7	114.8	11.42	–55	37	12,069	–36.7
November		110.6	108.9	114.6	6.0	59.2	117.3	116.4	115.4	11.75	11	154	12,433	–107.6
December	104.2	110.1	109.0	116.5	5.7	67.0	108.5	111.6	112.7	11.75	–583	314	12,068	–40.6
January 2001		110.1	109.7	116.0	6.0	31.4	113.5	115.5	113.1	11.55	–237	109	11,590	–42.1
February		110.4	109.8	117.4	6.3	–13.0	114.9	112.7	111.1	11.28	–54	268	12,104	–60.7
March	104.4	110.5	110.2	116.3	5.6	–13.1	113.3	113.5	110.7	11.25	–48	142	12,187	37.2
April		110.3	110.2	119.3	5.8	25.1	112.8	111.8	111.6	11.25	–2	62	12,536	–74.0
May		110.8	110.3	115.0	5.7	–0.4	114.9	112.4	113.5	11.25	–134	124	12,990	–35.4
June		110.5	110.2	117.9	5.4	26.9	115.1	111.6	112.7	11.25	–341	111	13,596	–23.6

Source: CSO, NBH
* Preliminary data for 2000 and 2001.
** Equity capital.