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# Monthly Report

(includes data up to the end of July 2001)

9/2001

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Compiled by the Statistics Department  
Issued by the Department for General Services and Procurement  
of the National Bank of Hungary  
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Prepared for publication by the Publications Group  
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ISSN 1216-4879

Date of publication: 3 October 2001

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# Domestic economic activity

Industrial output grew modestly in July 2001 owing to a slowdown in export growth and a slackening of domestic demand. Influenced by the recent slowdown in the world economy, stagnation replaced the robust, export-led output growth observed in the past few years. (see Chart 1).

Taking account of working-day variations,<sup>1</sup> seasonally adjusted industrial output rose by 0.6% in July relative to the preceding month, the measure of volume growth in total sales being the same as that in output. Recovering from a nearly 3% decline in August, domestic sales rose by 2.6%. In contrast with domestic sales, exports fell by 0.5% relative to the preceding month (see Chart 2).

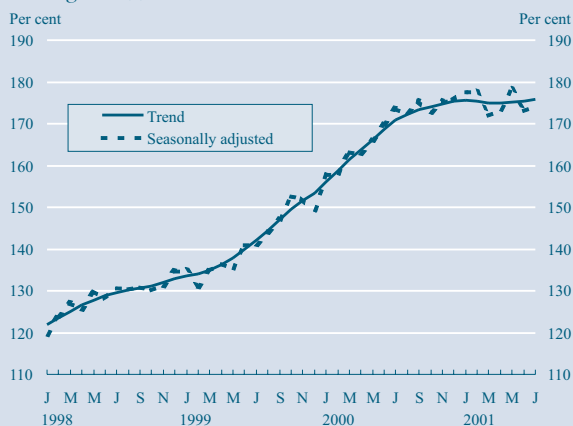
Turning to twelve-month industry developments, output grew by 2.4% and total sales by 4.2% relative to a year earlier. Within total sales, Hungary's exports grew by 5.9%, the increase in domestic sales amounting to 2.6% compared with the values recorded in July 2000.

Manufacturing output was only 2% higher in July 2001 than a year earlier. Here, the performance of the various branches of manufacturing was extremely varied. Well above average output growth was registered by a number of branches. For example, output in manufacture of machinery and equipment, paper and publishing and printing and non-metallic mineral products grew by 13%–18%.

In addition, output grew 10%–12% in manufacture of leather products and footwear, and rubber and plastic products in comparison with the same month a year before. Output growth of 2%–3% was registered by the manufacture of food products, and textiles and textile products. The slowdown in manufacturing output growth is basically due to the downturn recorded for three branches (manufacture of transport equipment, chemicals, and coke and refined petroleum products). In these branches growth fell back on a scale of 6.3%–10.1% in relation to twelve months previously.

<sup>1</sup> Using the Bank's method.

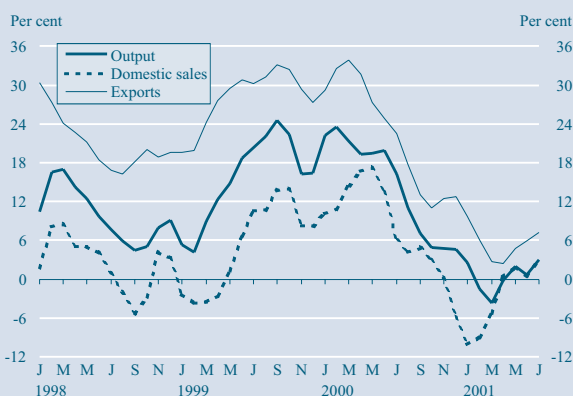
**Chart 1 Volume indices of industrial production\***  
Average of 1995 = 100



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

**Chart 2 Volume indices of industrial production and sales\***

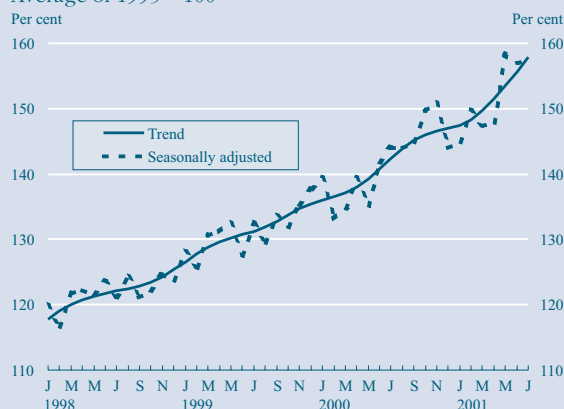
Trend values; annualised month-on-month changes



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

**Chart 3 Volume index of construction output\***

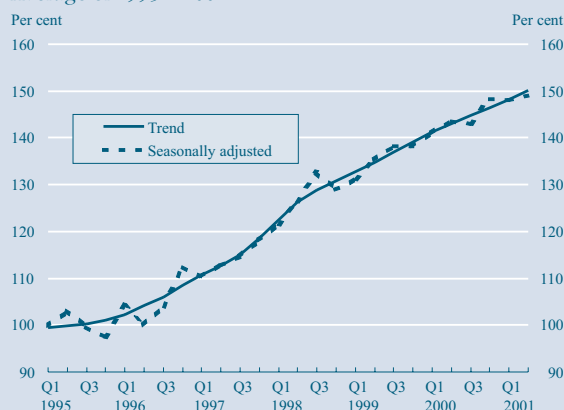
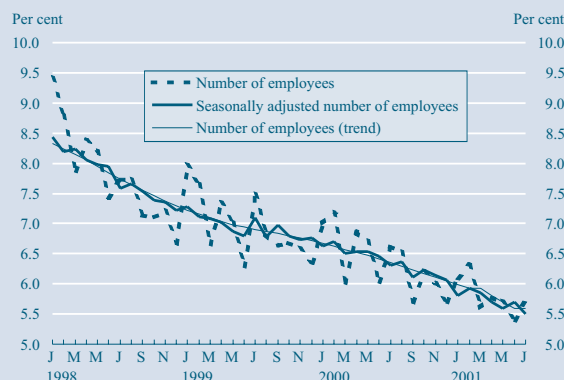
Average of 1995 = 100



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

**Chart 4 Volume indices of whole-economy investment\***

Average of 1995 = 100

**Chart 5 Whole-economy unemployment rate \***

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

The volume of orders for manufacturers' output in the mainstream branches of manufacturing<sup>2</sup> continued to be strongly higher in a one-year comparison, rising by 32.3% in July relative to a year earlier. The volume of new orders showed an increase of 8% in the period. However, the volume of fresh domestic orders in July was 19.2% lower than a year earlier. By contrast, export orders rose by 17.4% following a decline in the preceding month.

The construction industry boom continued uninterrupted in July, output being higher than in the preceding month. Adjusted to reflect seasonal effects and working-day variations, the sector's output was 0.2% higher than in June (see Chart 3). According to the not seasonally adjusted data, output grew by 10.8% relative to twelve months previously. As seen in the preceding few months of the year, the driving force behind this robust output gain was a strong, 34% increase in output of the finished constructions branch, which accounts for two-thirds of construction industry output. Measured at constant prices, the volume of contracts, up 20.5%, continued to be significantly higher at end-July than twelve months previously, although it showed a slowdown compared with the outcomes for the preceding few months of the year.

Whole-economy investment outlay amounted to Ft 684.3 billion in 2001 Q2. Measured at constant prices, the increase was 3.6% relative to 2000 Q2. The seasonally adjusted volume of second-quarter fixed investment was 0.7% higher than in the previous quarter (see Chart 4).

As seen in the previous quarter of 2001, the robust increase in dwelling construction contributed significantly to the pick-up in whole-economy investment relative to the same period of the previous year. Fixed investment in real estate, renting and business activities, which include dwelling investment, grew by nearly 20% relative to the comparable period of 2000. (This sector accounted for 22% of total economy fixed investment.) Manufacturing, which accounts for the largest share, registered a growth of only 1%.

Looking at the material and technical composition of fixed investment, construction investment grew by 5.4%, a rate comparable with that seen in the previous quarter. Machinery investment rose by only 0.8%.

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 July 2001. The unemployment rate was 5.5% in the month under review, showing a 0.8 percentage point decrease relative to July 2000 (see Chart 5).

<sup>2</sup> 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.)

The seasonally adjusted number of people in employment was 0.5% lower in July 2001 than in the preceding month, but 0.6% higher than in July 2000 (see Chart 6). The number of whole-economy registered unemployed fell by 4% in one month and by 12.2% relative to a year earlier. The number of people in employment, down 0.7% and 0.3% respectively, showed a slight drop both in comparison with the preceding month and twelve months previously.

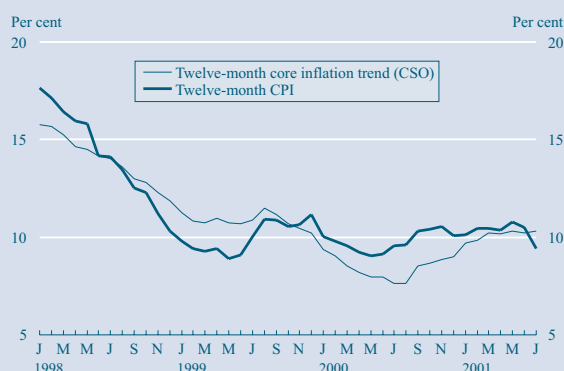
**Chart 6 Number of employed persons\***



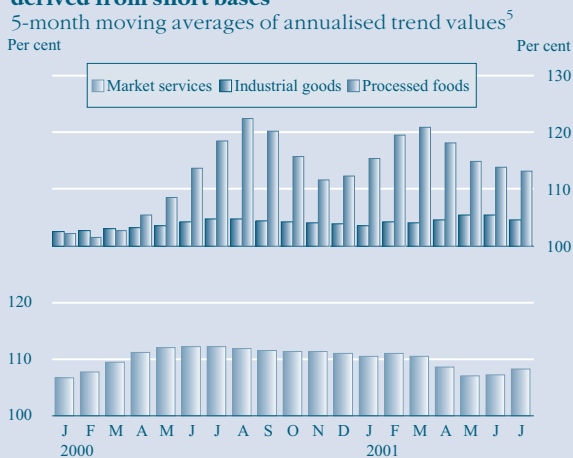
\* Using the Bank's method to seasonally adjust and calculate trends.

# Price trends

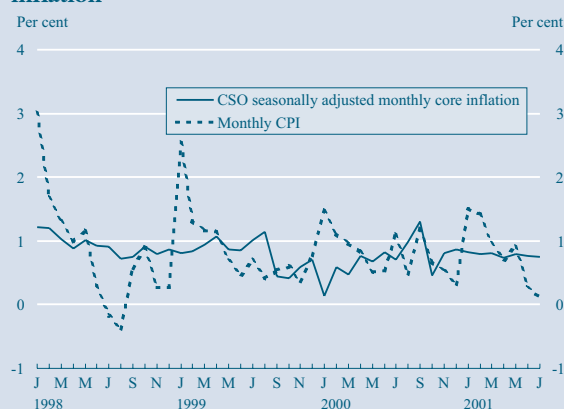
**Chart 7 Twelve-month consumer price index and the CSO's index of core inflation**



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



**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 9.4% in July 2001. That was equal to a more than one percentage point drop relative to the preceding month's outcome. The rate of core consumer price inflation, as calculated by the CSO,<sup>3</sup> was 10.3%, remaining broadly the same as seen in the preceding five months of 2001 (see Chart 7).

From among the twelve-month outcomes for price categories, derived on the basis of price determination and used by the Bank, food prices fell significantly in July, from the preceding month's 20.9% to 15.4%. The increase in energy prices was also more modest than in the preceding month – motor fuel prices fell by 3.9% in one year, the twelve-month index of market-determined household energy prices fell to 16.8%, while that of regulated energy prices remained unchanged at 8.6%. Up 5.1%, the prices of industrial goods<sup>4</sup> continued to rise at a modest pace, well below the average. The slowdown in services price inflation continued, the value of the twelve-month index being 11% in July (see Chart 8). As a result of all these price movements, the basket price index of goods comprising foods, industrial goods, market services and market energy fell from June's 11.7% to 10.1% in the month under review.

The one-month increase in consumer prices was 0.1% in July, 1 percentage point lower than in July 2000, when it measured 1.1% (see Chart 9). Food prices fell by 0.3%, unseen since the summer of 1999. The prices of industrial goods showed a 0.2% drop. Within energy, motor fuel prices were 4.7% lower in the month following a 1.6% drop in June, due to the appreciation of the forint and the decline in the world market price of crude oil. The prices of mar-

<sup>3</sup> 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.

<sup>4</sup> Those on which the Bank is able to exercise the greatest influence via its exchange rate policy.

<sup>5</sup> A five-member weighted central moving average of trend values derived from the formula  $12 \cdot \ln(t/t-1) + 1$ , where  $t$  denotes values of the series. (The first and last values are weighted asymmetrically.)



ket-determined and regulated energy fell equally, by 0.1%. Regulated services prices rose by 2%, explained by a 12.8% increase in pharmaceuticals prices in one month. Market services prices were 0.8% higher.

Seasonally adjusted core inflation, measured by the CSO, showed a 0.8% increase in July relative to the preceding month.

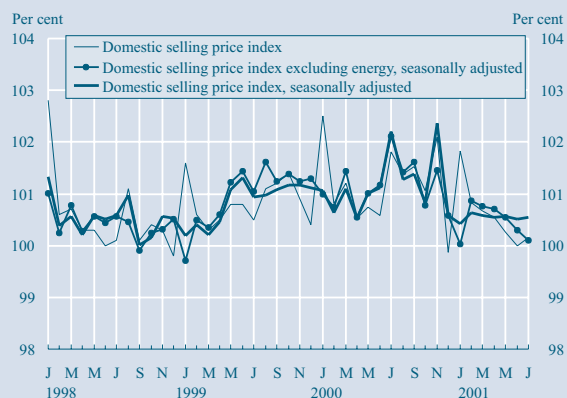
## Producer prices

Producer prices, i.e. the CSO release of industrial firms' domestic selling prices, rose by 0.2% (by 0.5% after seasonal adjustment) in July relative to June, the twelve-month increase being 9.5%. Seasonally adjusted domestic producer prices excluding energy<sup>6</sup> rose by 0.1%<sup>7</sup> (see Charts 10 and 11).

Manufacturing industry prices, which are the most dominant factor influencing movements in domestic selling prices, fell by a further 0.3% in July following a slight drop in June. Among the more important industry sectors, chemical industry prices fell by 1% and engineering prices by 0.7%. Prices in the other manufacturing industry branches were virtually static. Food industry prices, representing an important weight, showed a 0.1% increase in one month.

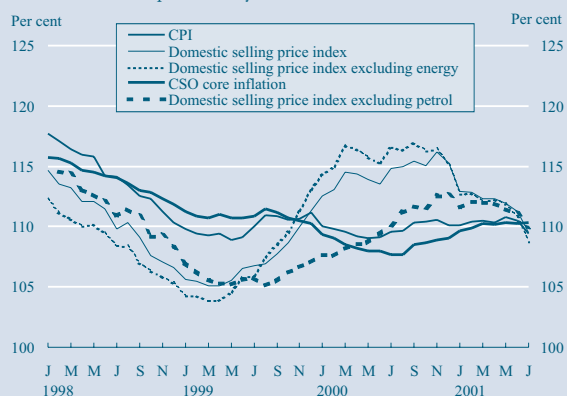
**Chart 10 Domestic producer price indices**

Preceding month = 100



**Chart 11 Comparison of the domestic producer price index excluding petrol with other price indices**

Same month of previous year = 100



<sup>6</sup> 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.

<sup>7</sup> Due to the seasonal adjustment, this time series which reflects our 'best' understanding shows some difference with those published earlier.

# Monetary developments

## Monetary conditions

The Bank made the following changes to monetary conditions in July 2001.

- Effective from 1 July 2001, the Bank has reduced the required reserve ratio from 7% to 6%. Also from 1 July, liabilities arising from publicly issued long-term securities of credit institutions and mortgage bonds issued by mortgage institutions are exempt from the reserve requirement, provided that the maturity of those securities is at least two years. Savings deposits, collected by home-savings institutions, are also exempt from the reserve requirement. However, the reserve requirement applies to all foreign liabilities with maturities of less than two years. The 4% preferential reserve rate has been abolished. Credit institutions may not use domestic currency cash balances to fulfil the reserve maintenance requirement.
- Effective from 13 July 2001, i.e. the date when Act LVIII of 2001 on the National Bank of Hungary entered into force, the central bank base rate has been equal to the two-week deposit rate, the Bank's major policy rate. Therefore, effective from the same date, the Bank raised the central bank base rate from 11.0% to 11.25%, with simultaneous changes to interest rates pegged to the central bank base rate.

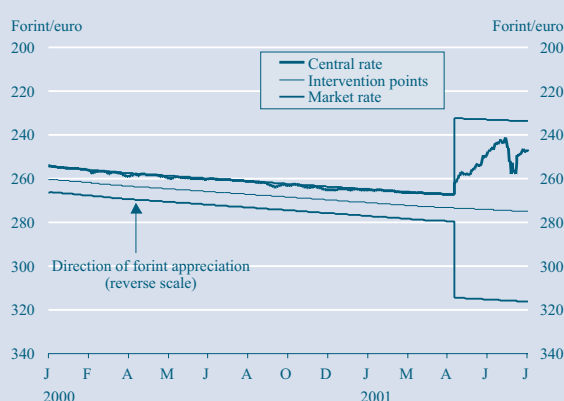
## The exchange rate

The market rate of the forint weakened by approximately 5% until mid-July. Then it resumed strengthening, to close the month at 247.7 vis-à-vis the euro. That meant a 2.36% drop relative to the close at end-June. The average HUF/EUR exchange rate was 249.0, falling by 1.69% in comparison with the June average (see Chart 12).

The National Bank of Hungary officially devalued the central intervention rate by 0.2% in July.<sup>8</sup> The average deviation of the exchange rate from the central rate was 938 basis points toward the strong extreme of the intervention band, 50 basis points less than in the preceding month.

<sup>8</sup> Since 1 January 2000, the forint is devalued daily against a currency basket consisting 100% of the euro.

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



Due to the widening of the intervention band,<sup>9</sup> there continued to be no need for official interventions in the foreign exchange market in July.

### Statistical balance sheet of the NBH

The value of banknotes and coin in circulation fell by Ft 4.6 billion in July relative to end-June, the combined end-of-month total of domestic and foreign currency liabilities of the central bank to other monetary financial institutions being Ft 138.5 billion lower. The related decreases in outstanding repo transactions of other monetary financial institutions and holdings of NBH domestically issued bills were Ft 129 billion and Ft 32.7 billion respectively. Forint deposits of other monetary financial institutions with the central bank rose by Ft 88.2 billion, while those of the central government sector with the central bank fell by Ft 24.5 billion. The Bank purchased foreign currency to the

**Table A Changes in the balance sheet of the NBH**

Calculated from end-of-month stocks

	2000			2001			Ft billions	
	Q1	Q2	July**	Q1	Q2	July**	Of which:	
	Averages*			Averages*			Transactions	Revaluations
Banknotes and coin	-23.4	15.4	6.3	-18.5	21.6	-4.7	-4.7	0.0
Forint liabilities to other monetary financial institutions	124.7	-97.3	-24.3	-63.6	20.8	-68.2	-68.2	0.0
Foreign currency liabilities to other monetary financial institutions	-25.8	-11.7	17.3	-28.8	5.7	-35.9	-35.3	-0.6
KNet claims on central government	-37.5	-13.9	37.7	-119.8	-103.1	60.0	25.6	34.4
Of which: forint loans	-6.0	-6.0	0.1	-6.0	-6.0	0.0	0.0	0.0
government securities	-3.1	-3.0	0.0	-65.3	0.0	0.0	0.0	0.0
foreign currency loans	-19.2	0.1	8.3	-19.2	-40.1	-13.8	0.0	-13.8
Claims on other monetary financial institutions	5.3	-10.3	-1.4	-2.6	19.2	-131.6	-131.6	0.0
Net foreign assets and those not broken down by sector	107.7	-69.5	-37.1	11.4	132.0	-37.1	-2.2	-34.9

\* Quarterly average of changes relative to the preceding month.

\*\* One-month changes.

amount of Ft 15.9 billion in July to supply the foreign currency needed by the central government to service its foreign currency debt (see Table A).

Looking at developments in the average stocks of central bank liabilities to other monetary financial institutions, the average of forint balances rose by Ft 7.3 billion, while the averages of foreign currency liabilities, forint deposits and other monetary financial institutions' average holdings of NBH domestically issued bills fell by Ft 23.2 billion, Ft 16.8 billion and Ft 10.2 billion respectively (see Table B).

### 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 0.3 of a percentage point to 14.3% in July relative to the preceding month.

The annual growth indices of the monetary aggregates M2 and M3, derived from the liability items of the aggregate

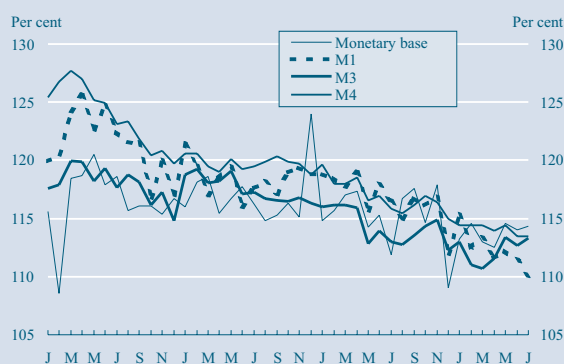
**Table B Average stock data in the statistical balance sheet of the NBH\***

	2001		Monthly change
	June	July	
Banknotes and coin	979.7	1001.4	21.7
Forint liabilities to other monetary financial institutions	936.9	917.2	-19.7
Of which: bank's liabilities	388.6	395.9	7.3
forint deposits	441.4	424.6	-16.8
domestically issued NBH bills	106.8	96.6	-10.2
Foreign currency liabilities to other monetary financial institutions	440.9	417.7	-23.2
Net claims on central government	1,120.0	943.6	-176.4
Of which: forint loans	270.3	253.4	-16.9
government securities	172.1	172.1	0.0
foreign currency loans	1,453.1	1,310.3	-142.8
Claims on other monetary financial institutions	95.2	85.7	-9.5
Net foreign assets and those not broken down by sector	1,142.1	1,306.9	164.8

\* Monthly average of daily stock data.

<sup>9</sup> Maintaining the monthly 0.2% devaluation rate of the currency, the Bank widened the intervention band from  $\pm 2.25\%$  to  $\pm 15\%$  on 4 May.

**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.

balance sheet based on July's data, rose slightly in the month under review. M1 growth fell and M4 growth remained unchanged compared with the preceding month. Annual growth in M1, a composite of banknotes and coin held by non-banks plus forint sight deposits, slowed by 1.4 percentage points from June to July, the end-of-month stock of the aggregate being 10.1% higher than a year before. The annual index of the money measure M2, which comprises foreign currency deposits and time forint deposits, in addition to M1, picked up 0.5 of a percentage point relative to June, to run at 12.8%. The change in the annual index of broad money M3, a measure of M2 plus liabilities from repurchase agreements and holdings of bank securities, was similar to that of M2. Annual growth in the aggregate rose by 0.6 of a percentage point to 13.3%. Annual growth in broadest money M4, an aggregate of M3 plus government securities and NBH domestic bills held by the non-bank sector, was unchanged in a one-month comparison, the end-of-month stock of the aggregate being 13.4% higher than in July 2000 (see Chart 13).

Turning to the individual liability items of the aggregate balance sheet of monetary institutions, the month-end value of non-financial sector deposits was Ft 43.8 billion higher due to the transaction effect. Here, forint and foreign currency deposits rose by Ft 10.8 billion and Ft 33.1 billion respectively. The sector's foreign currency deposits also rose, by Ft 1.1 billion on account of movements in exchange rates. Household sector deposits were Ft 23.3 billion higher than in June. Here, domestic currency deposits rose by Ft 18.8 billion due to the transaction effect, foreign currency deposits rising by Ft 4.3 billion. Exchange rate movements made a Ft 0.6 billion negative contribution to household foreign currency deposits.

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-a-vis the domestic sectors, in addition to the domestic credit stock, rose by Ft 154.9 billion due to transactions and by Ft 42 billion due to the exchange rate effect. Corporate sector outstanding domestic borrowings were Ft 39.4 billion higher in the month. The transaction effects were increases of Ft 18.8 billion and Ft 14.5 billion on the sector's outstanding forint and on foreign currency borrowings respectively. Exchange rate movements caused a Ft 6.4 billion upward revaluation on the end-of-month stock of corporate sector foreign currency borrowings, other volume changes causing a Ft 0.5 billion fall.

Central government net liabilities rose by Ft 55.5 billion due to the transaction effect and by another Ft 35.1 billion due to the effect of exchange rate movements. Lending by monetary institutions to the household sector rose by Ft 30 billion in July relative to the preceding month.

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

	2000			2001			Ft billions	
	Q1	Q2	July	Q1	Q2	July	Of which:	
	Averages***			Averages***			Transactions	Revaluations
<b>Non-financial corporations, net (S.11)</b>	<b>-13.8</b>	<b>-47.1</b>	<b>-32.5</b>	<b>-75.2</b>	<b>23.8</b>	<b>-22.8</b>	<b>-17.8</b>	<b>-5.5</b>
Assets	-29.5	-62.5	-61.6	-50.2	7.7	-69.1	-63.0	-6.6
Deposits+cash+repos+securities	15.7	15.5	29.0	-24.9	16.1	46.3	45.2	1.1
<b>Other financial corporations, net (S.123+S.124+S.125)</b>	<b>13.4</b>	<b>-17.1</b>	<b>-47.4</b>	<b>-1.4</b>	<b>-6.7</b>	<b>-4.1</b>	<b>-4.0</b>	<b>-0.2</b>
Assets	-2.1	-3.3	-6.0	5.5	-23.3	-3.3	-3.1	-0.2
Deposits+repos	15.4	-13.8	-41.4	-6.9	16.6	-0.8	-0.8	0.0
<b>General government sector, net* (S.13)</b>	<b>-23.5</b>	<b>-26.7</b>	<b>-11.1</b>	<b>91.1</b>	<b>133.5</b>	<b>-93.1</b>	<b>-57.9</b>	<b>-35.1</b>
Central government, net* (S.1311)	-28.4	-13.8	-19.9	84.7	152.2	-90.6	-55.5	-35.1
Local government, net (S.1313)	4.9	-12.9	8.8	6.4	-18.7	-2.5	-2.5	0.0
Credits	-0.2	-1.3	-0.1	1.2	-2.1	-3.9	-3.9	0.0
Deposits	5.1	-11.6	8.9	5.2	-16.6	1.4	1.4	0.0
Social security funds (S.1314)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Households, net** (S.14)</b>	<b>2.6</b>	<b>9.3</b>	<b>24.6</b>	<b>-5.0</b>	<b>12.8</b>	<b>2.7</b>	<b>3.4</b>	<b>-0.6</b>
Credits	-6.9	-15.8	-18.1	-14.9	-23.6	-30.3	-30.3	0.0
Deposits+cash+securities	9.5	25.1	42.7	9.8	36.4	33.1	33.7	-0.6
<b>Non-profit institutions serving households (S.15)</b>	<b>-0.2</b>	<b>-0.2</b>	<b>3.9</b>	<b>2.2</b>	<b>12.5</b>	<b>2.2</b>	<b>2.2</b>	<b>0.0</b>
Assets	-1.7	0.1	1.3	-0.7	11.3	0.6	0.6	0.0
Deposits	1.5	-0.3	2.6	2.8	1.1	1.7	1.7	0.0
<b>Non-residents, net (S.2)</b>	<b>-27.7</b>	<b>34.2</b>	<b>-23.1</b>	<b>-78.2</b>	<b>-78.7</b>	<b>37.5</b>	<b>32.2</b>	<b>5.4</b>
<b>Other, net</b>	<b>49.2</b>	<b>47.7</b>	<b>85.6</b>	<b>66.6</b>	<b>-97.2</b>	<b>77.5</b>	<b>41.9</b>	<b>36.0</b>

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.

The changes in outstanding borrowings and deposits caused net liabilities of the general government sector to increase by Ft 93.1 billion in July. Net assets of households with monetary institutions were Ft 2.7 billion higher. Net assets of non-financial corporations rose by Ft 22.8 billion. Net foreign assets vis-a-vis non-residents fell by Ft 37.5 billion (see Table C).

## Government securities market

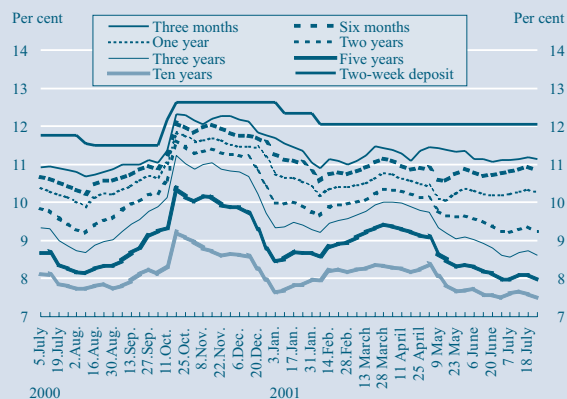
Following the rise in the second half of the month and the subsequent correction, yields in the government securities market were broadly comparable in July with those seen in June. Zero-coupon yields,<sup>10</sup> which reflect movements in the secondary market, remained static at three months. Those at the other two short maturities, i.e. at six and twelve months, rose 11 basis points. The rises observed at the longer end were more modest, between 5 and 7 basis points (see Chart 14).

<sup>10</sup> 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.

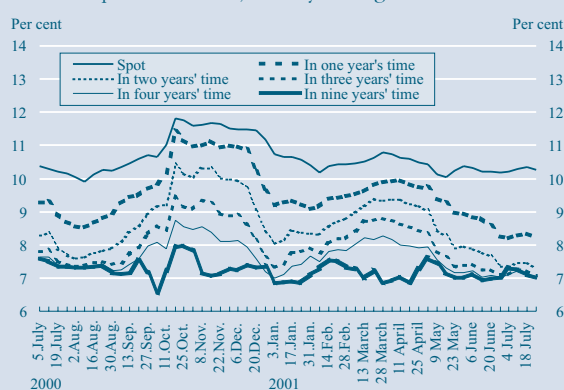
<sup>11</sup> Implied forward rates may be equal to expected future interest rates only if certain conditions are met. However, movements in derived rates may help anticipate shifts in the market's expectations of future interest rates even making mild assumptions. At present, only two ten-year government 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.

**Chart 14 Zero-coupon yields and annualised return on the central bank two-week deposit**

Short-term yields on a compounded basis; weekly averages



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



The implied one-year forward rate<sup>11</sup> in one year's time was unchanged. That in two-years' time rose 5 basis points and those at the further maturities rose equally, by 7 basis points (see Chart 15).

Non-resident investors reduced their holdings of Hungarian domestic currency-denominated government debt securities by Ft 56.4 billion, so the sector's total holdings amounted to Ft 940.7 billion at the end of the month under review.

The amounts of bids submitted at the auctions of government bonds fell relative to June. Five auctions of NBH bills were conducted in the month.<sup>12</sup> Yields fluctuated in a 15-basis-point wide band throughout the month, investor demand falling in the second part. The average yield at all auctions held in the month, weighted by the amount sold, was 10.80%.

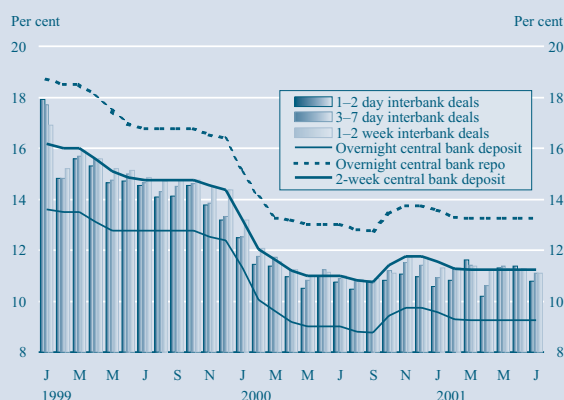
The value of the Hungarian Government Bond Index, the MAX, which reflects movements in the prices of publicly-issued, fixed-coupon government bonds with a residual maturity of more than one year, stood at 209.6786 on 31 July. Calculated from movements in the index values, the annual return achievable on a portfolio equal to the composition of the index basket was 9.18%.

## Market interest rates

The total value of transactions in the interbank market was Ft 1,464.7 billion in July, showing an increase of Ft 46.7 billion or 7% in one month. This increase was mostly accounted for by a higher turnover in transactions with maturities of more than two weeks. Monthly average interest rates fell at maturities of less than two weeks, and those at longer maturities rose slightly. (see Chart 16).

The average of interest rates at maturities of less than two weeks fell in the interbank forint market in July. The average 1–2 day rate was 10.8%, down 60 basis points on the preceding month's level. However, the percentage share of this maturity area fell by 2.4 percentage points to 87.6%. The average rate on 3–7 day deals saw a 20 basis-point change to 11.1%. The proportion of turnover in this maturity bracket within the total was 4.5%, showing a drop of 0.5 of a percentage point relative to June. The average interest rate between 1–2 weeks remained unchanged at 11.1%. The share of turnover in this maturity area fell from 2.3%, to account for 1.6% of all transactions. Average interest rates on transactions at maturities extending beyond two weeks rose 40 basis points to 11.4%. Turnover

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



<sup>12</sup> 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. As part of the changes to its monetary policy instruments, from 2 April the Bank has changed over from the earlier free competitive bidding scheme to the conduct of volume tenders.

picked up strongly. The combined share of transactions at maturities extending beyond two weeks rose by 3.6 percentage points to 6.3%.

Household and non-financial corporations sector average interest rates continued to experience little change in July – short-term borrowing and deposit rates of the two sectors<sup>13</sup> showed only very slight movements relative to those seen in the preceding month (see Charts 17 and 18).

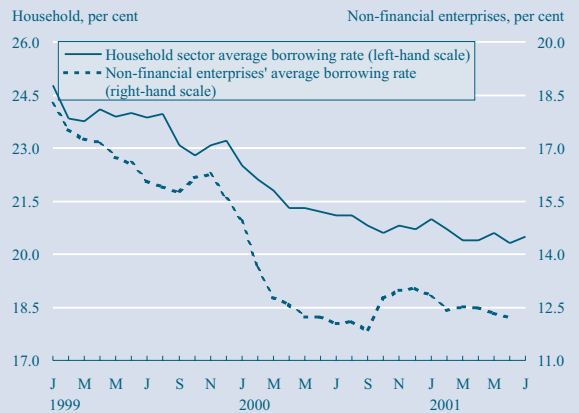
The average price for non-financial corporations of short-term loans, negotiated at market conditions, rose 20 basis points to 12.3% and that of deposit rates by 10 basis points to 9.0%. As a result, the averages of borrowing and deposit rates returned to the levels seen in May. The short-term banking spread was 3.3 percentage points in the month under review. Generally playing a marginal role in non-financial corporations' debts and deposits, the average of long-term borrowing rates rose fell from 12.5% to 12.4% and that of deposits rose from 9.2% to 9.5%.

Turning to households, the sector's averages of sight and short-term deposit rates both were 10 basis points lower than in the preceding month. The average interest rate on sight deposits was 3.3% and that on short-term deposits was 8.5%, equal to those seen in May. Long-term deposits rose from 9.3% to 9.4%.

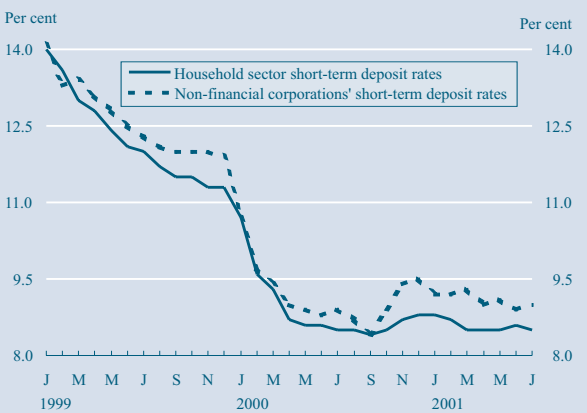
The banking sector average of household sector borrowing rates changed from 20.3% to 20.5% in July. That was the result of a significant rise in the proportion to total lending of consumer credit bearing lower interest rates relative to the preceding month. Within household sector loans, the average of home-building and property loan rates in the market rose slightly, from 16.1% to 16.2%, and that of interest rates on consumer credit and other loans from 21.1% to 21.2%.

As a result of the changes in interest rates observed in July, the gap between non-financial corporations' and households' average borrowing rates<sup>14</sup> widened from 8.1 to 8.2 percentage points. The average of non-financial corporations' short-term deposit rates was 0.5 of a percentage point higher than the corresponding average of household sector deposit rates (see Chart 19).

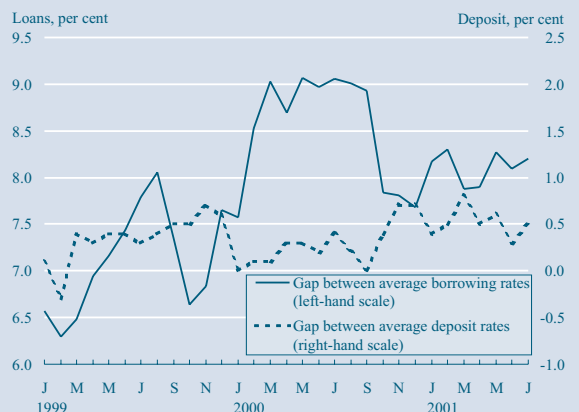
**Chart 17 Borrowing rates of non-financial corporations and households**



**Chart 18 Corporate and household sector short-term deposit rates**



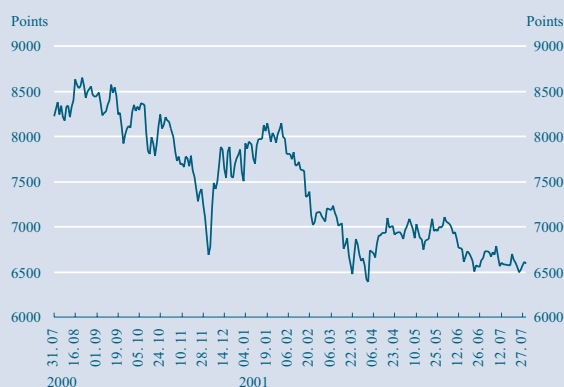
**Chart 19 Differential between non-financial corporations' and households' borrowing and deposit rates**



<sup>13</sup> Interest rate data have been revised since the previous Report. Accordingly, interest rates on non-financial corporations' discounted bills for April, those on deposits fixed for terms of less than a month, the averages of short and long-term deposit rates for May, and long-term deposit rates for June have been changed. Household sector average borrowing rates for May–June also have been changed.

<sup>14</sup> For both sectors, average borrowing rates have been defined taking into view the new contracts entered into during the course of the month.

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



## The BUX and the world's leading share market indicators

The share index of the Budapest Stock Exchange fell in July, following a 5.3% decline in the preceding month. Movements in the BUX were confined to a 4.5% wide band between 7,789.15 and 6,491.08 points. The market closed the month at 6,592.81 points, down 2.0% on its finish in June (see Chart 20).

Measured on a dollar basis, the official index of the Budapest Stock Exchange fell by 0.3% in July following a 1.3% loss in June. That meant the index continued to lose less of its value due to the appreciation of the forint than on a forint basis. As regards the major international exchanges, the Dow Jones Industrial Average of New York and the DAX of Frankfurt remained virtually static at the preceding month's close (the former gained 0.2% and the latter lost 0.3%). Also measured on a dollar basis, the London FTSE weakened slightly, by 1.4%, after falling by 2.8% in the preceding month. However, the NASDAQ, a gauge of movements in the prices of technology stocks, fell significantly in July, by 8.1%.

Looking at the Far Eastern markets, the Nikkei in Tokyo lost another 8.8% on a dollar basis after a 6.5% fall in June. The Hang Seng of Hong Kong, too, lost quite significantly, falling by 5.6% in the month under review.

## Distribution of securities holdings by sector

Massive purchases of government paper by non-residents was the most marked feature of the Hungarian government securities market in 2001 Q2. As regards the other sectors, the percentage share accounted for by non-financial corporations fell significantly, that of pension funds and insurance companies rising strongly. No material changes were seen in holdings of exchange-traded shares. Unlike in the first quarter, non-residents were net sellers. By contrast, non-financial corporations, and insurers and pension funds were buyers.

Total Hungarian government debt securities holdings,<sup>15</sup> measured at market value, rose by 2.5% in 2001 Q2 relative to the previous quarter. Most of this was accounted for by a 4.9% increase in treasury bill holdings, although those of government bonds, up 3.2%, rose significantly as well. In contrast, holdings of NBH bills fell by 5.6%.

The market value of households' government securities holdings rose by Ft 10.3 billion. The sector's share of the government securities market remained around 16% in the period under review (see Table D).

<sup>15</sup> In the statistical press release, government securities comprise domestically issued forint denominated government bonds, treasury bills and domestic currency bills issued by the NBH.



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

	Per cent										
	Dec. 1998	1999				2000				2001	
		March	June	Sep.	Dec.	March	June	Sep.	Dec.	March	June
Non-financial corporations	8.2	8.5	8.7	10.0	7.9	6.6	7.3	7.8	6.3	6.8	6.0
MBH	10.8	11.8	11.6	10.8	10.7	9.4	8.7	7.9	8.0	3.4	3.2
Credit institutions	33.4	28.4	26.8	24.2	22.9	22.1	22.6	22.8	23.1	26.5	24.4
Investment funds	7.3	8.4	8.4	9.1	8.6	9.4	9.6	9.9	9.3	9.4	8.7
Insurance companies, pension funds	11.1	12.3	13.4	14.1	15.5	15.5	15.8	15.8	16.6	16.5	17.3
Other financial corporations	2.2	2.9	2.4	2.0	1.9	2.3	2.2	2.5	2.3	2.2	2.3
Financial corporations, total	64.8	63.8	62.6	60.2	59.5	58.7	58.9	58.9	59.3	58.0	55.9
Local government authorities	2.7	3.2	3.0	3.1	2.7	3.0	2.9	2.9	2.2	2.6	2.4
Other general government	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.1	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	2.5
Households	14.9	15.6	15.9	16.8	17.5	16.4	16.6	15.7	16.0	15.9	15.7
NPIs serving households	1.3	0.6	1.1	1.1	1.1	1.0	0.7	0.8	0.8	0.8	0.7
Rest of the world (non-residents)	8.0	8.3	8.6	8.7	11.2	14.2	13.6	13.9	15.3	15.8	19.2
Total holdings	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Non-resident holdings of government debt securities rose by Ft 208.4 billion. With the liberalisation of foreign exchange transactions, non-residents now have the possibility of buying securities with maturities of less than one year. They used this opportunity, buying nearly Ft 30 billion of NBH bills and treasury bills. The sector's percentage share of total holdings rose above 19% towards the end of the period.

Financial corporations reduced their holdings of government paper by Ft 38.2 billion. Here, the percentage share of credit institutions fell significantly, by 2.1 percentage points, in contrast with that of insurers and funds, which rose to 17.3%, its highest to date. The percentage share of investment funds has fallen slightly, and that of other financial corporations has remained at 2.3% for more than one year.

Non-financial corporations' holdings of government securities declined by Ft 36.1 billion after an increase in the previous quarter. As a result, the sector's percentage share of total holdings fell to 6.0%.

The share of general government holdings as a percentage of total market holdings fell from 2.6% to 2.4% in Q2, mainly on account of a drop in local authorities' holdings of government securities.

Non-profit institutions serving households continued to account for a stable percentage share of 0.8% for a protracted period.

Following a decline of Ft 645 billion in the first quarter, holdings of exchange-traded shares fell much more modestly, by Ft 62.5 billion in the period under review, to Ft 2,687 billion at end-June. The drop in holdings was attributable to the fall in share prices, given that there were neither capital enlargements nor de-listings on the BSE in the second quarter.

Net sales of shares by households amounted to more than Ft 9 billion, following Ft 6 billion in the previous quar-

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

	Per cent										
	Dec. 1998	1999				2000				2001	
		March	June	Sep.	Dec.	March	June	Sep.	Dec.	March	June
Non-financial corporations	2.7	2.9	3.1	3.2	3.8	4.1	5.0	5.7	6.7	6.6	7.7
Credit institutions	0.6	0.8	0.8	0.7	0.6	0.6	0.8	1.1	1.2	2.1	1.5
Investment funds	1.0	0.8	0.6	0.6	0.5	0.5	0.6	0.8	1.1	1.0	0.9
Insurance companies, pension funds	1.7	1.6	1.3	1.1	1.3	1.2	1.6	2.1	2.6	3.1	3.3
Other financial corporations	1.4	1.7	1.6	1.3	1.5	0.7	0.8	1.0	1.2	0.8	0.7
Financial corporations, total	4.7	5.0	4.4	3.8	3.9	3.0	3.8	5.0	6.1	7.1	6.4
Local government authorities	0.9	1.0	1.1	0.9	0.8	0.6	0.7	0.6	0.7	0.8	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	7.5
General government, total	11.5	12.3	10.2	9.0	7.1	7.4	6.6	7.6	8.3	8.6	8.4
Households	10.2	8.8	7.4	6.9	5.9	5.4	6.7	7.9	8.0	7.3	6.9
NPIs serving households	0.1	0.1	0.1	0.1	0.2	0.1	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	70.6
Total holdings	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

ter, i.e. the value of sales exceeded the value of purchases by the same amount. As the sector incurred a holding loss of some Ft 5 billion, its holdings of shares fell by more than Ft 14 billion in the period. The household sector directly held 6.9% of exchange-traded shares at the end of Q2 (see Table E).

Non-resident investors' holdings fell by Ft 37.5 billion, of which holding losses and net sales accounted for Ft 29 billion and nearly Ft 9 billion respectively. Despite being net sellers, in contrast with the previous quarter, non-residents' percentage share of total holdings rose very slightly to 70.6% due to the much lower-than-average holding loss. This meant that the decline in the sector's percentage share, which began a year earlier, came to a halt.

Holdings of exchange-traded shares by the financial corporations sector fell by Ft 23 billion as a result of net sales to the amount of Ft 20 billion, the correction of misreported data accounting for Ft 3 billion. The sector's proportion to total holdings fell from 7.1% at end-Q1 to 6.4% in the second quarter. However, holdings of shares by insurance companies and pension funds continued to increase within the sector, so they held 3.3% of exchange-traded shares at the end of the period.

Following the pause in the previous quarter, NFCs' holdings as a percentage of the total rose in Q2 to reach 7.7% towards the end of the period.

Existing holdings of the general government sector fell by Ft 11 billion, its percentage share declining to 8.4%.

The outstanding total of investment fund certificates, measured at net asset value, rose by 3.4% in 2001 Q2. There continued to be only modest changes in the percentage shares of the individual institutional sectors – a slight increase in that of households contrasted with a modest drop in that of the other sectors (see Table F).

**Table F Investment unit holdings by institutional sector, at net asset value**

	Per cent							
	Dec. 1998	Dec. 1999	2000				2001	
			March	June	Sep.	Dec.	March	June
Credit institutions	2.1	1.8	1.8	1.8	1.5	2.1	2.2	2.3
Other financial and non-financial	16.3	14.8	14.8	14.4	14.7	14.1	14.6	14.1
Households	79.4	81.6	82.0	82.4	81.3	81.5	81.0	81.6
Non-residents	2.1	1.8	1.4	1.4	2.4	2.3	2.2	2.0
Total holdings	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

# Balance of payments and foreign trade

## The balance of payments and financing

According to the seasonally adjusted data,<sup>16</sup> the current account was €16 million in deficit in July 2001 (see Table G). The trend of monthly current account deficits, derived by calculating moving averages, has been confined to an improving channel between €110 and €150 million since early 2000 (see Chart 21). The fall in merchandise trade deficits, observed since the early months of 2001, resumed in July following a temporary pause in May (see Chart 22). The trend of tourism surpluses has remained in an upward channel of €210–270 million since the summer of 2000.

The seasonally adjusted current account deficit was €87 million lower in July than in the preceding month. According to the statistical data, the other sub-accounts showed lower deficits or higher surpluses. The most marked change occurred to services excluding tourism, where the balance improved by €58 million due mostly to rising revenue of technical and cultural services. This sub-account of the current account closed with a surplus for the first time since May 1997. The tourism surplus increased by €18 million. The trade deficit and negative investment income on debt fell nearly equally, by €10 and €12 million respectively. The surplus on current transfers also rose.

The current account deficit, not seasonally adjusted, was €122 million lower in July than a year earlier. Services registered the most marked change – the surplus rose by €55 million relative to July 2000. There was a nearly equal improvement in the balance of other services. The goods deficit fell by €17 million and the surplus on current transfers rose by €13 million. By contrast, the outflows of investment income on equity and debt both rose, by €24 million and €20 million respectively.

<sup>16</sup> 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 G Seasonally adjusted current account data\*

	€ millions			
	2000	2001		
	July	May	June	July
Goods	-185	-188	-177	-168
Exports	2,313	2,622	2,718	2,764
Imports	2,459	2,783	2,860	884
Services excluding tourism	-40	-26	-46	12
Tourism	210	239	247	265
Non-debt income flows	-46	-63	-72	-70
Debt-related income flows	-52	-91	-84	-72
Current transfers	30	30	32	43
Current account balance	-138	-169	-103	-16

\* 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

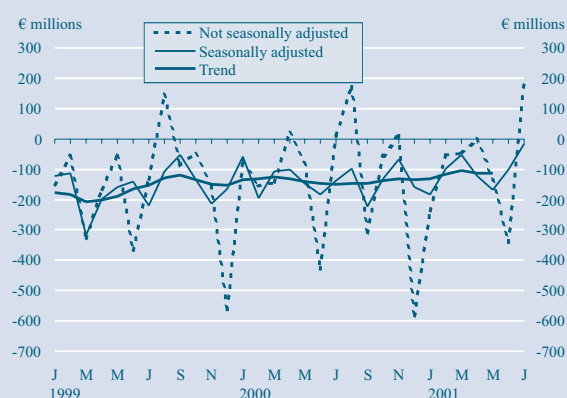
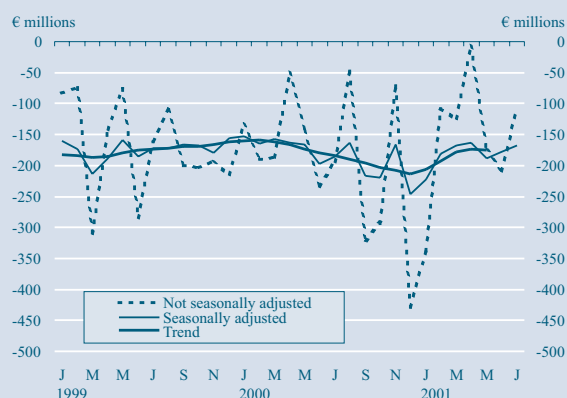


Chart 22 Trade balance



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

		€ millions			
		2000	2001		
		July	May	June	July
1	Current account	10	-134	-341	191
2	Capital account	38	27	77	21
3	Net lending / net borrowing (1+2)*	48	-106	-264	213
4	Non-debt capital flows	-87	120	90	18
5	Total (3+4)	-39	13	-174	231
6	Debt-creating flows (6a+6b)**	29	10	184	-172
6a	In forint	12	392	112	-239
6b	In foreign currency	17	-382	72	67
7	Financing gap (5+6)	-10	24	10	59
8	Errors and omissions	10	-24	-10	-59

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

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

\*\*\* In forint-denominated debt securities and money-market instruments of general government and the NBH.

According to the not seasonally adjusted data, the current account was €191 million in surplus in July. The capital account closed with a surplus of €21 million, so whole-economy external financing requirement amounted to €213 million in the month under review (see Table H). Net non-debt inflow was €18 million – non-residents invested €23 million in Hungary, direct investments by Hungarian residents abroad amounting to €11 million. The balance of inward and outward portfolio investment transactions in equity securities was a net inflow of €6 million. Non-resident investors reduced by €239 million their holdings of securities issued by the Hungarian government and the central bank.

### Hungary's external accounts

Whole-economy gross foreign debt was €37.5 billion at the end of July 2001. The combined gross foreign currency debt of general government and the NBH outstanding to non-residents amounted to €17.7 billion, forint debt accounting for €3.9 billion. The gross debt of other monetary financial institutions and the other sectors was €19.7 billion. Here, inter-company loans amounted to €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 amounted to €12.1 billion towards end-July. The combined net debt of the NBH and the central government was €2.2 billion. However, taking foreign currency denominated assets and liabilities into account, the two sectors took a €1.6 billion net lending position in foreign currency. Total private sector net foreign debt was €9.9 billion, inter-company loans accounting for €3.8 billion (see Table I).

**Table I Hungary's assets and liabilities vis-a-vis non-residents**

Monthly changes

		€ millions						
		2001		Change	Of which:			
		June	July		Transactions	Exchange rate movements	Price changes	Other volume changes
Net foreign currency debt of the NBH and government		-1,786	-1,648	138	58	-129	209	0
Net forint debt of the NBH and government		4,183	3,874	-309	-239	-71	0	0
Total net debt of the NBH and government		2,397	2,226	-171	-181	-199	209	0
Assets of the NBH and government		15,772	15,490	-282	17	-120	-179	0
Of which: international reserves		13,596	13,536	-60	29	-105	16	0
Gross foreign currency debt of the NBH and government		13,986	13,842	-143	75	-248	30	0
Gross forint debt of the NBH and government		4,183	3,874	-309	-239	-71	0	0
Total gross debt of the NBH and government		18,169	17,716	-453	-163	-319	30	0
Net debt of other monetary financial institutions and other sectors*		6,248	6,065	-184	-136	-7	-17	-24
Assets of other monetary financial institutions and other sectors		9,459	9,531	72	187	-186	56	16
Gross debt of other monetary financial institutions and other sectors		15,707	15,596	-111	51	-194	39	-7
Inter-company loans, net		3,734	3,820	86	144	-23	0	-35
Assets		351	327	-24	-54	-6	0	36
Liabilities		4,085	4,147	61	90	-29	0	1

\* Excluding inter-company loans.

The total stock of direct investments by non-residents in Hungary amounted to €24.4 billion at the end of July, of which the value of holdings of shares and classes of equity capital was €20.3 billion.

## Foreign trade

The annualised growth rate of the trend of goods imports was higher than the comparable indicator for exports in July. 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 23).

The annual growth rate of Hungarian exports was significantly lower than that of imports in July, but they were largely comparable in the first seven months of 2001. The trade balance developed less favourably in July and the first seven months than in the same periods of a year before. Most of the improvement in the first seven months of the year was accounted for by an increase in net energy imports. But in July it was the weak exports of machinery and equipment which played the major role.

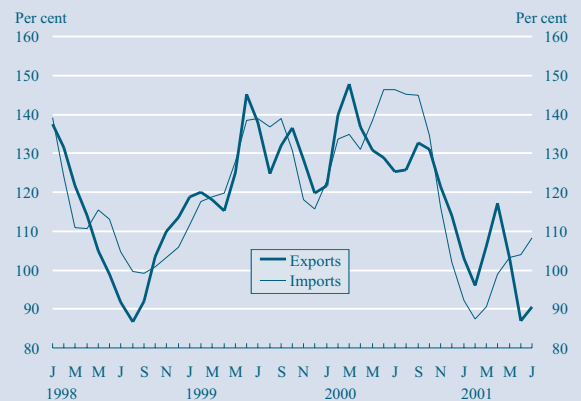
The not adjusted levels of foreign trade in goods fell in July, reflecting seasonal patterns. However, the size of this fall in exports was larger than the seasonal patterns would suggest. This decline in values was accounted for primarily by machinery and equipment, on both the export and the import side. The trade balance outcome, therefore, was much worse than in June (see Charts 24, 25 and 26).

There were insignificant changes in the commodity and regional patterns of Hungarian foreign trade in July and the first seven months of 2001. However, companies operating in customs-free zones accounting for a significant portion of Hungarian foreign trade, who conduct trade with the developed countries and particularly with members of the European Union, continued to reduce their inward and outward trade in July in a one-year comparison following the drop in June.<sup>17</sup> As a result of this fall, the share accounted for by machinery and equipment within whole-economy foreign trade fell slightly relative to the earlier months of 2001 and the same month of the previous year (this finding, however, is not valid for the data for the first seven months of 2001).

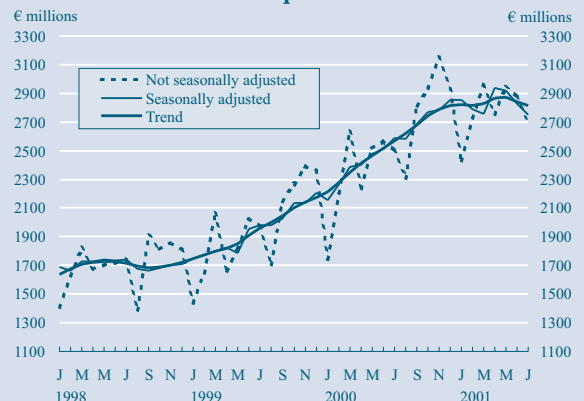
In July and the first seven months of 2001, the percentage share accounted for by the CEFTA countries increased relative to the comparable periods of the previous year, particularly in terms of exports. That was mainly attributable to a strong increase in foreign trade in machinery and

<sup>17</sup> According to the report by the Ministry of Economic Affairs, 'a significant part of companies operating in customs-free areas stopped production for a couple of weeks in July, as a result of which they exported less than in the preceding months of the year'.

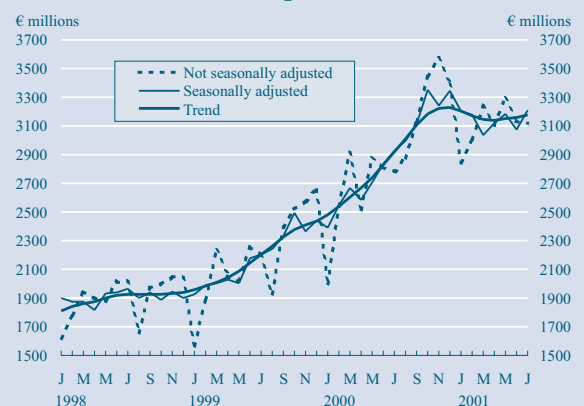
**Chart 23 Annualised monthly growth rates of the trend of merchandise foreign trade calculated in euros**



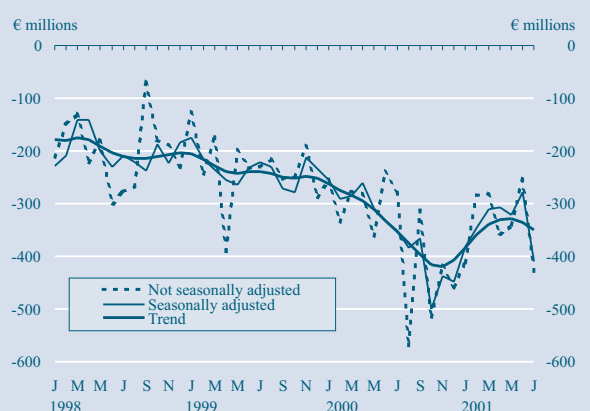
**Chart 24 Merchandise exports**



**Chart 25 Merchandise imports**



**Chart 26 Trade balance**



equipment, although there were increases in exports of basic materials and other commodity groups. There continued to be a robust increase in imports of machinery and equipment from the Far East. 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, those of machinery and equipment have been rising further, albeit modestly.

Whole-economy net imports of energy increased significantly in July and the first seven months of 2001 relative to the comparable periods of the previous year. Closely related to this, net energy imports were more than €260 million higher in January–July 2001 than in the same period of 2000.<sup>18</sup> The CIS states accounted for about 77% of total energy imports. However, due to the problems in the markets of foods and engineering industry goods the share of the region within whole-economy imports fell in the first seven months of 2001 relative to the same period of the previous year.

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<sup>18</sup> 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 oil prices in 2000 until now.

# General government

## Net borrowing of general government

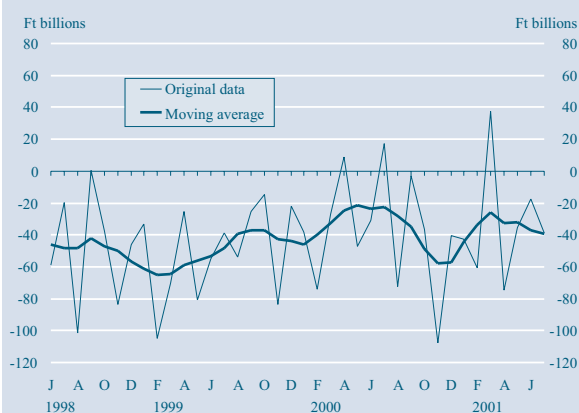
The net borrowing requirement of general government, calculated from revenues and expenditures, amounted to Ft 38.8 billion in July 2001, showing a substantial decrease relative to a year earlier (see Chart 27). The net borrowing requirement of central government rose by Ft 74.7 billion. By contrast, the local government authorities and the social security funds saw their net borrowing requirement fall by Ft 0.9 billion and Ft 17.9 billion respectively in one year. (see Table J). According to the Bank's calculations, the cumulative general government deficit amounted to Ft 232.5 billion in January–July 2001, in comparison with Ft 190.7 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 41.5 billion in July. 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 8.6 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. In July, however, another Ft 13.4 billion was transferred to the social security funds. That amount was accounted for Ft 1.6 billion and Ft 11.8 billion by the Health Insurance Authority and the Pension Insurance Authority respectively.

The difference between interest expenditure recorded on cash and accrual bases increased the central government borrowing requirement by Ft 13.1 billion in July, in

**Chart 27 Net lending/net borrowing of general government**



\*The smoothed time series is a five-month centred moving average with varying weights up to June 2001. The July moving average has been calculated using a tri-nomial average with equal weights and an estimate for August (Ft -61.7 billion).

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

	Ft billions		
	2000 July	2001 June    July	
General government balance (1)	30.9	-9.1	-45.6
Extra-budgetary funds (2)	5.0	-0.1	6.3
ÁPV Rt (3)	-2.6	1.6	-2.0
Other units of central government (4)	-0.2	1.4	-0.2
<b>Central government (S.1311) (5=1+2+3+4)</b>	<b>33.2</b>	<b>-6.2</b>	<b>-41.5</b>
<b>Social security funds (S.1314) (6)</b>	<b>-11.7</b>	<b>-15.4</b>	<b>6.2</b>
<b>Local authorities (S.1313)* (7)</b>	<b>-4.3</b>	<b>4.2</b>	<b>-3.5</b>
<b>General government, total (S.13) (8=4+5+6+7)</b>	<b>17.2</b>	<b>-17.4</b>	<b>-38.8</b>

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

contrast with a decrease of Ft 14.2 billion in the borrowing requirement a year earlier.

The State Privatisation and Holding Company raised practically no revenue in July. Transfers related to support the implementation of asset management and economic policy measures and to manage crisis situations, as well as those on restructuring programmes related to privatisation and asset management, were the most important expenditure items. 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 2.0 billion in July.

The balances of other units of central government, estimated on the basis of bank statistics, and that of social security provisions funded by the central budget increased the net borrowing requirement of central government by Ft 0.2 billion and Ft 1 billion respectively.

Revenues of the social security authorities, i.e. the Health Insurance Fund and the Pension Insurance Fund, exceeded their expenditures in July. The net financing capacity of the two authorities amounted to Ft 6.2 billion, in comparison with a Ft 11.7 billion borrowing requirement in July 2000. On the revenue side, contribution receipts continued to meet the estimate, with a substantial lag observed only in receipts from the central government. On the expenditure side, it was mostly provisions in kind that exceeded the estimate, particularly those related to pharmaceutical purchases.

The net financing requirement of the local government authorities, estimated from transactions data reported by the Ministry of Finance for January-July and taking into account financing data, amounted to Ft 3.5 billion in July, the financing capacity of the sub-sector for the period January-July being Ft 11.7 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 method of presenting 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-a-vis the National Bank of Hungary within assets and liabilities. This revision 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 K), which shows the sector's debt in terms of deficit financing, i.e. the net financing capacity calculated from financing items, amounted to Ft 50.7 billion in July and a total Ft 211.1 billion in the first seven months of 2001. The borrowing requirement of the central government was Ft 53.7 billion and that of the local government authorities was Ft 3.4 billion. The balance of the social security funds, calculated from the financing side, amounted to Ft 6.4 billion.

Financial assets of the central government fell by Ft 78.6 billion in July. That was mainly the result of a nearly Ft 25 billion decrease in the sector's deposits with the NBH and a revaluation loss on derivatives related to outstanding debt. The increase of Ft 18.1 billion in liabilities was caused primarily by issues of forint-denominated government securities and interest accruing on debt.

The stock of outstanding borrowings of the social security funds from the central government fell by Ft 4.5 billion in July, to a total Ft 154.7 billion towards the end of the month. Taking into account changes in other financial liabilities and assets, net assets of the sub-sector rose by Ft 6.4 billion in the month under review.

Financial assets and liabilities of the local government authorities rose by Ft 1.7 billion and Ft 5.1 billion respectively in July. Accordingly, the change in net financial assets was a decrease of Ft 3.4 billion in the month under review.

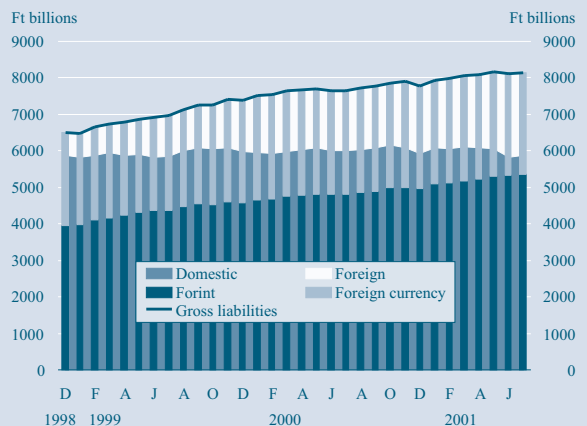
In July, the gross debt of general government rose by Ft 23.2 billion, to a total Ft 8,136.9 billion (see Chart 28). Most of this monthly change was related mainly to the existing forint debt. The sector's debt held by non-residents fell by around Ft 42 billion, on account mainly of the fall in holdings of forint-denominated government securities.

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

Ft billions

	Stocks: July 2001	Flows:			
		July		January–July	
		Transac- tions	Other changes in volume	Transac- tions	Other changes in volume
<b>Central governments (S.1311)</b>					
Assets	1,188.6	-34.2	-44.4	255.9	201.1
Liabilities	8,074.9	19.5	-1.3	420.8	-63.4
<b>Net financial assets</b>	<b>-6,886.3</b>	<b>-53.7</b>	<b>-43.1</b>	<b>-164.9</b>	<b>264.5</b>
<b>Social security funds (S.1314)</b>					
Assets	1.8	0.5	0.0	-4.6	0.0
Liabilities	164.1	-5.9	0.0	63.8	0.0
<b>Net financial assets</b>	<b>-162.3</b>	<b>6.4</b>	<b>0.0</b>	<b>-68.3</b>	<b>0.0</b>
<b>Local government authorities (S.1313)</b>					
Assets	482.2	1.7	0.0	33.5	0.0
Liabilities	179.7	5.1	0.1	11.4	-1.4
<b>Net financial assets</b>	<b>302.5</b>	<b>-3.4</b>	<b>-0.1</b>	<b>22.2</b>	<b>1.4</b>
<b>Consolidated general government</b>					
Assets	1,390.8	-26.2	-44.4	211.5	201.1
Liabilities	8,136.9	24.5	-1.3	422.5	-64.8
<b>Net financial assets</b>	<b>-6,746.1</b>	<b>-50.7</b>	<b>-43.1</b>	<b>-211.1</b>	<b>265.9</b>

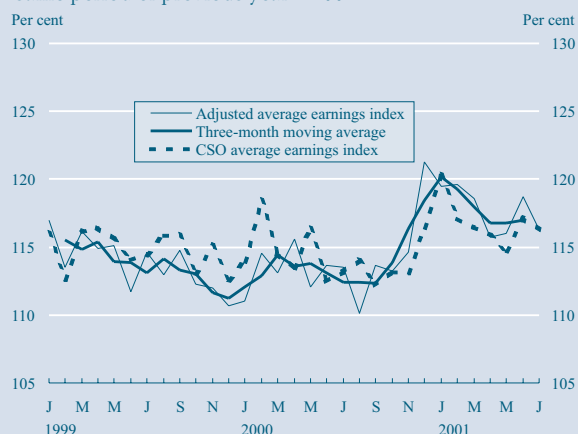
Chart 28 Composition of general government gross liabilities



# Earnings and financial savings of households

**Chart 29 Corporate sector monthly gross average earnings\***

Same period of previous year = 100



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

## Earnings

According to the Bank's calculations,<sup>19</sup> whole-economy gross earnings grew by 16.3% in July 2001 relative to a year earlier. This earnings growth was 2.4 percentage points lower than in June.

The unadjusted earnings index, calculated by the CSO, showed an increase equal to that shown by the Bank's data.

According to the data released by the CSO, irregular pay to personnel<sup>20</sup> as a share of total gross pay was 19.2%, comparable with the data recorded for a year before.

According to the Bank's calculations,<sup>21</sup> the rate of whole economy earnings growth was more modest compared with the salient rate recorded towards the end of the previous year and the beginning of 2001 (see Chart 29). Overall, earnings in the total economy grew by 13.9% in a one-year comparison.

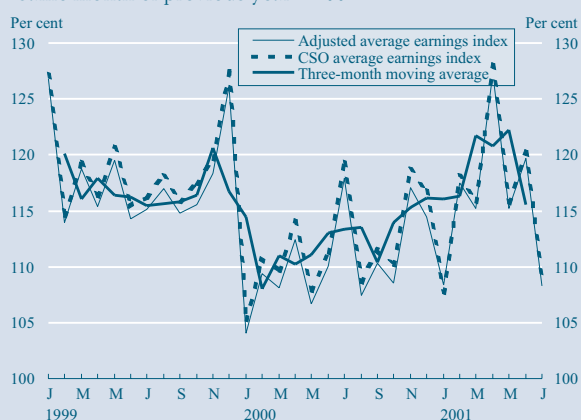
That rate was 5.1 percentage points lower than that recorded in June.<sup>22</sup>

## Savings

In July, operational net lending of households, i.e. their financial savings after eliminating compensation for inflation incorporated in interest, amounted to Ft 12.6 billion,

**Chart 30 Government sector monthly gross average earnings\***

Same month of previous year = 100



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

<sup>19</sup> 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.

<sup>20</sup> Bonuses, overtime, profit-related pay, one-month pay awards etc.

<sup>21</sup> Companies with more than 5 employees (financial and non-financial companies), and units of central government and the social security authorities (general government sector).

<sup>22</sup> Government sector monthly earnings growth has behaved quite erratically due to one-off fiscal policy decisions. Therefore, this Report does not contain an analysis of developments here (see Chart 30).

rising a little relative to the monthly average of the year. From its trough in March, the trend of financial savings has been rising modestly (see Chart 31.).

Measured at net market value, net financial wealth of households rose by Ft 35.1 billion in the month. At Ft 6.5 billion, holding losses due to price changes, particularly the decline in share prices, continued to affect developments in financial wealth (see Table L).

The increase in financial wealth, i.e. the change relative to the same month of the previous year, measured at constant prices, shows a gradual slowdown, which was the result of a slowdown in the rate at which assets were rising. In the preceding months of the year, growth in outstanding debt slowed as well, although its pace continued to be high at 25%.

The faster increase in outstanding borrowings relative to that in assets is also explained by the low base, as household debt has been rising spectacularly since 1999 (see Chart 32).

Looking at the structure of financial assets, households continued to prefer forint deposits to holding securities in July, as seen in the preceding few months. Claims on credit institutions rose by Ft 25.8 billion, transactions, excluding the effect of compensation for inflation incorporated in interest, accounting for Ft 9.9 billion. The increase in claims affected mostly short-term deposits. Home-savings deposits accounted for most of the flows into long-term deposits.

Households stepped up their foreign currency deposits following withdrawals related to the Hungarian authorities' move to widen the intervention band of the forint. Operational transactions amounted to Ft 3.2 billion. Most of this month's flows into deposits affected the accounts held in euros.

The US dollar accounted for half of households' foreign currency deposits, the currencies of the Euro area accounting for 40%.

Households continued to take an overall net selling position in the government securities and share market in July, although they increased their holdings of investment units more strongly than in the preceding month.

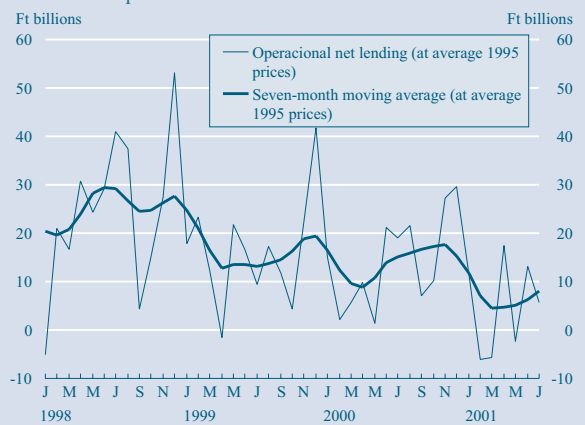
Operational transactions amounted to Ft 5.9 billion, Ft -0.9 billion and Ft -2 billion respectively in investment units, government securities and shares. At bottom, net purchases by the sector amounted to Ft 3 billion (see Chart 33).

Household sector net borrowings continued to rise rapidly in July. The monthly increase in outstanding borrowings, at Ft 32.3 billion, was salient for the third consecutive month. Home-building loans rose by Ft 14.6 billion.

That was the strongest one-month increase to date. Adding July's data, outstanding home-building loans dou-

**Chart 31 Operational net lending (+) / net borrowing (-) of households**

At constant prices



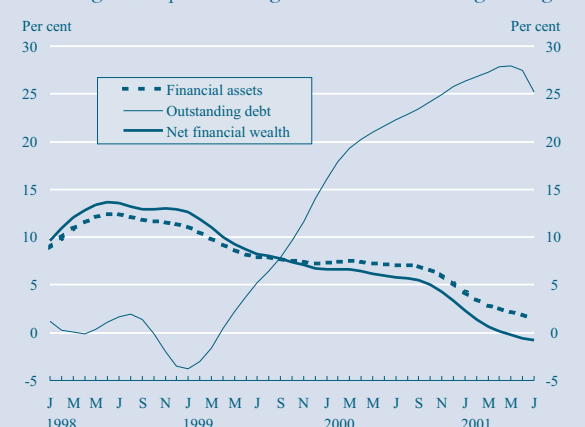
**Table L Decomposing net financial wealth of households into the components of change**

	Stocks 31 July 2001	July flows:					Ft billions	
		July flows:	Transactions:			Re- valu- ations	Other changes in volume	
			Trans- actions net of compen- sation for infla- tion	Compens- ation for infla- tion in- corporated in interest				
Cash	829.2	5.3	5.3	5.3	0.0	0.0	0.0	
Forint deposits and bank securities	2,692.5	25.8	25.8	9.9	15.9	0.0	0.0	
Foreign currency deposits	723.8	3.8	4.4	3.2	1.2	-0.6	0.0	
Non-bank securities	1,558.4	7.1	13.0	3.0	10.0	-5.9	0.0	
Pension funds and life insurance	942.9	19.0	19.0	12.0	7.0	0.0	0.0	
Non-paid wages	149.4	6.4	6.4	6.4	0.0	0.0	0.0	
<b>Financial assets, total</b>	<b>6,896.2</b>	<b>67.4</b>	<b>73.9</b>	<b>39.8</b>	<b>34.1</b>	<b>-6.5</b>	<b>0.0</b>	
Home-building loans	261.1	14.6	14.6	12.7	1.9	0.0	0.0	
Consumer credit	493.4	16.9	17.3	13.7	3.6	0.0	-0.4	
Other borrowings	53.4	0.8	0.8	0.8	0.0	0.0	0.0	
<b>Household debt</b>	<b>807.9</b>	<b>32.3</b>	<b>32.7</b>	<b>27.2</b>	<b>5.5</b>	<b>0.0</b>	<b>-0.4</b>	
<b>NET FINANCIAL WEALTH AND THE COMPONENTS OF CHANGE IN WEALTH</b>	<b>6,088.3</b>	<b>35.1</b>	<b>41.2</b>	<b>12.6</b>	<b>28.6</b>	<b>-6.5</b>	<b>0.4</b>	

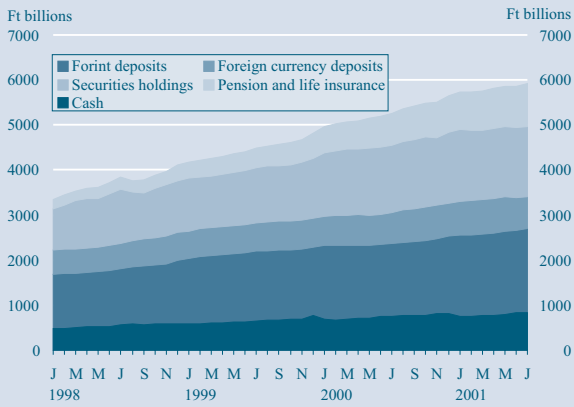
**Chart 32 Growth in household sector financial wealth at constant prices**

Percentage changes on the preceding month

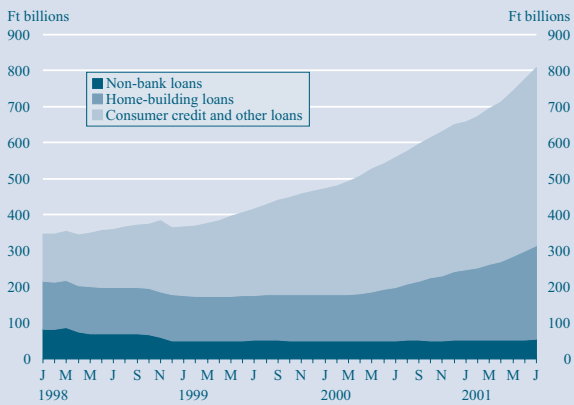
At average 1995 prices using seven-month moving averages



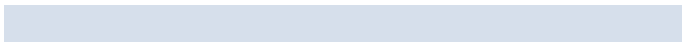
**Chart 33 Household sector financial assets**



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



bled in 18 months. Up Ft 16.9 billion, borrowing in consumer credit continued to rise above the previous year's average. (see Chart 34).



# Main economic and financial indicators

	GDP volume indices*	Consumer price index	Core inflation (CSO)	Gross earnings index	Unemployment rate	Operational net lending	M0	M1	M3	Central bank policy rate (2 week deposit)	Current account balance	Direct investment in Hungary**	International reserves	General government net lending position
	Same quarter of previous year = 100	Same month of previous year = 100			Per cent	Ft billions	Same month of previous year = 100			Per cent	€ millions		€ millions, end of period	Ft billions
January 1999		109.8	111.3	119.6	8.0	31.3	116.5	121.8	118.9	16.17	-151	270	7,898	-33.2
February		109.4	110.8	113.3	7.6	41.3	118.6	119.8	119.5	16.00	-57	68	8,574	-105.1
March	103.2	109.3	110.7	117.1	6.7	22.0	119.1	117.4	118.2	16.00	-330	89	8,243	-70.0
April		109.4	111.0	116.5	7.3	-2.8	115.5	118.5	118.2	15.58	-167	100	8,190	-25.0
May		108.9	110.7	117.2	7.0	39.5	116.7	119.5	119.1	15.10	-55	127	8,380	-80.9
June	103.3	109.1	110.7	114.6	6.3	30.4	117.7	116.0	116.9	14.85	-369	119	9,068	-54.9
July		110.0	110.9	115.0	7.5	17.5	116.2	117.7	117.4	14.75	-134	60	9,150	-38.9
August		110.9	111.5	116.6	6.8	32.3	114.9	118.2	116.5	14.75	144	113	9,285	-53.6
September	104.2	110.9	111.2	116.0	6.6	22.2	116.0	117.6	116.5	14.75	-87	103	9,635	-25.5
October		110.5	110.7	114.3	6.7	8.1	117.0	119.5	116.4	14.75	-50	61	9,743	-14.7
November		110.6	110.5	116.5	6.6	41.8	115.8	119.9	116.6	14.53	-157	146	10,768	-83.5
December	105.9	111.2	110.2	117.0	6.3	80.5	124.5	119.2	116.1	14.38	-562	296	10,874	-22.2
January 2000		110.0	109.4	110.7	7.0	29.3	114.3	118.5	116.6	13.17	-77	44	11,513	-38.0
February		109.8	109.1	116.0	7.2	4.3	115.2	118.1	116.7	12.04	-157	125	11,869	-73.8
March	106.5	109.6	108.5	113.0	6.0	11.3	116.6	117.4	116.7	11.60	-145	54	11,202	-27.1
April		109.2	108.2	113.6	6.9	19.4	117.1	118.8	116.6	11.20	21	162	11,380	9.1
May		109.1	108.0	113.9	6.7	2.8	114.0	115.5	113.5	11.00	-80	186	11,549	-47.0
June	105.6	109.1	108.0	112.0	6.0	42.4	115.0	117.7	114.6	11.00	-428	168	10,999	-31.1
July		109.6	107.7	114.7	6.6	38.5	111.6	116.3	113.6	11.00	10	42	11,110	17.2
August		109.6	107.6	112.4	6.5	44.1	116.4	114.8	113.4	10.81	174	253	11,628	-72.6
September	104.5	110.3	108.5	111.9	5.7	14.6	116.6	116.2	114.0	10.75	-311	229	12,047	-3.2
October		110.4	108.7	112.2	6.2	21.1	113.8	115.5	114.8	11.42	-55	37	12,069	-36.7
November		110.6	108.9	114.6	6.0	57.2	117.0	116.2	115.3	11.75	11	154	12,433	-107.6
December	104.2	110.1	109.0	116.5	5.7	62.8	108.3	111.5	112.7	11.75	-583	314	12,068	-40.6
January 2001		110.1	109.7	116.0	6.0	24.8	113.2	115.3	113.0	11.55	-237	109	11,590	-42.7
February		110.4	109.8	117.4	6.3	-13.0	114.1	112.5	111.0	11.28	-54	268	12,104	-60.8
March	104.4	110.5	110.2	116.3	5.6	-12.4	113.0	113.3	110.7	11.25	-48	142	12,187	37.3
April		110.3	110.2	119.3	5.8	38.1	112.6	111.6	111.5	11.25	-2	62	12,536	-74.7
May		110.8	110.3	115.0	5.7	-5.3	114.6	112.2	113.4	11.25	-134	124	12,990	-35.4
June	104.0	110.5	110.2	117.9	5.4	29.1	114.8	111.4	112.7	11.25	-341	111	13,596	-17.4
July		109.4	110.3	114.0	5.7	12.6	115.1	110.1	113.3	11.25	191	23	13,536	-38.8

Forrás: CSO, NBH

\* Preliminary data for 2000 and 2001.

\*\* Equity capital.

