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

11/2001

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Responsible for publishing: Botond Bercsényi, Head of Department
Prepared for publication by the Publications Group
8–9 Szabadság tér, H-1850 Budapest
Telefax: 36-1-269-2091
Mailing: Miklós Molnár
Telephone: 36-1-302-3000 ext. 14-29
Internet: http://www.mnb.hu

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Domestic economic activity

Moderating industrial output growth, witnessed since the beginning of the year, was replaced by a decline in September 2001. Although a slight fall was already recorded in June, explained primarily by a slowdown in domestic sales, the September data for both domestic sales and exports showed significant declines. The weaker performance registered by large domestic companies apparently played a dominant role in output contracting (see Chart 1).

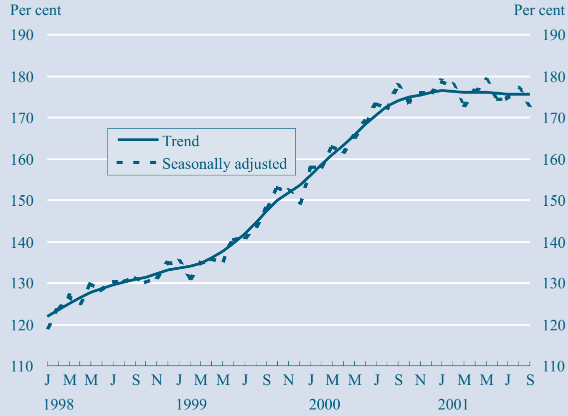
Taking account of working-day variations, seasonally adjusted industrial output was 2.5% lower in September than in the preceding month, the volume of total sales declining even more, by 2.8%, in comparison with August. Within total sales, the volume of domestic sales fell by 2.0% and that of exports by 3.6% relative to the preceding month's levels (see Chart 2).

Turning to twelve-month industry developments, industrial output fell by 5.8% and total sales by 5.2% in September relative to a year earlier. Export growth, providing the engine of industrial output growth, slowed considerably in the preceding few months of the year, and declined by 4.3% in September in a twelve-month comparison. Domestic sales, too, failed to recover to the level seen a year earlier, falling back by 6.1%.

As seen in the preceding few months of the year, the performance of the various branches of manufacturing varied widely. Although nearly half of manufacturing branches registered output gains in a year-on-year comparison, the branches accounting for a large share within the sector's output experienced massive declines. A world-wide recession has continued to hit the computer technology market. In August, output of Hungarian electric equipment and machinery manufacturers, representing the driving force behind output growth in recent years, lagged 3.4% behind its level recorded a year earlier, the decline recorded for September, at 16.5%, being even more severe.

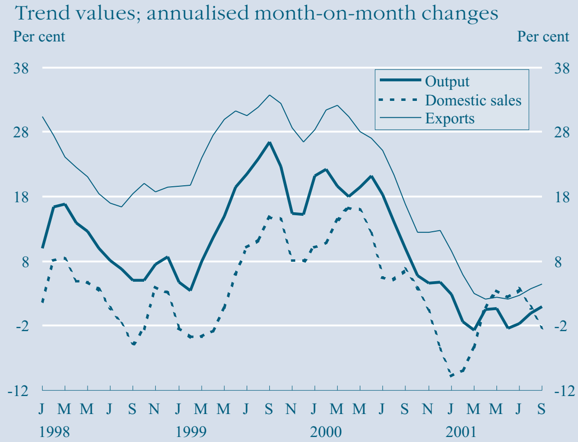
Orders for manufacturers' output in the mainstream branches of manufacturing[1] indicate the continuation of

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



* Using the Bank's method to seasonally adjust and calculate trends from data reported by the CSO.

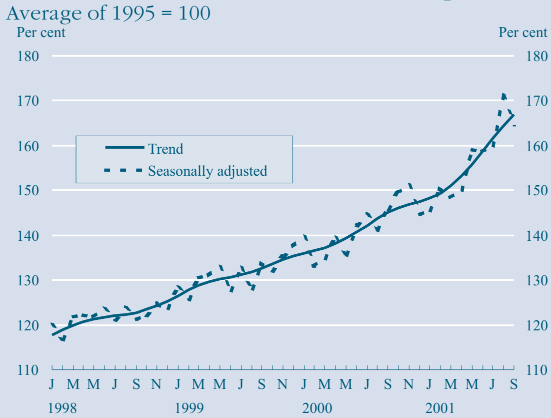
Chart 2 **Volume indices of industrial production and sales***
Trend values; annualised month-on-month changes



* Using the Bank's method to calculate trends from data reported by the CSO.

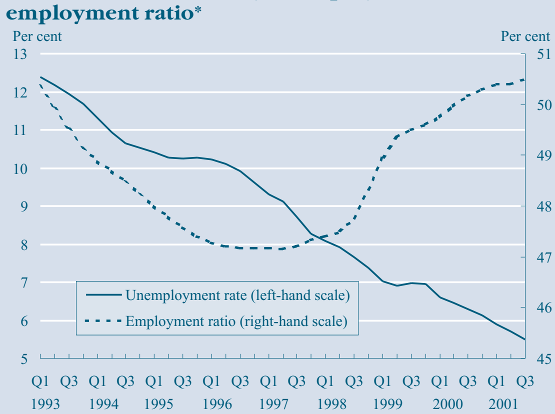
[1] The mainstream branches of manufacturing are manufacture of textiles and textile products, manufacture of paper and paper products, manufacture of chemicals and chemical products, manufacture of basic metals and fabricated metal products, manufacture of machinery and equipment, manufacture of electrical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

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



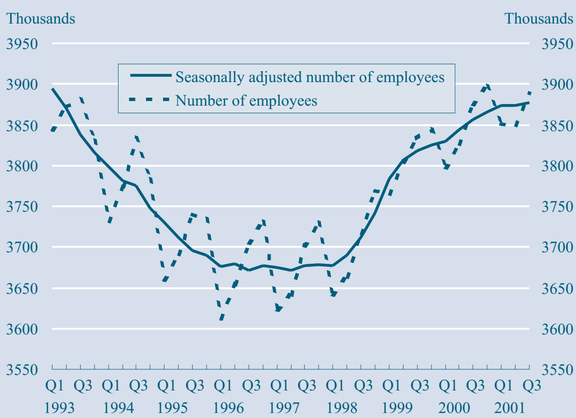
* Using the Bank's method to seasonally adjust and calculate trends from data reported by the CSO.

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



*Using the Bank's method to seasonally adjust and calculate trends from data reported by the CSO.

Chart 5 **Number of employed persons***



*Using the Bank's method to seasonally adjust and calculate trends from data reported by the CSO.

the unfavourable trends underlying the overall industry performance. But despite these signs, the volume of existing orders at end-September was strongly higher in a one-year comparison, rising by 34.5% relative to twelve months previously. This was attributable mainly to a 46.8% upsurge in existing export orders, given that domestic orders fell back by 10.6% relative to a year earlier. The September volumes of fresh orders to the export and domestic sectors, however, showed large declines. Accordingly, the volume of new export orders fell by 12.9% and that of new domestic orders by 15.6% in a twelve-month comparison.

The construction industry boom continued uninterrupted in September, but at a slightly moderating pace. Although construction output, adjusted to reflect seasonal effects and working-day variations, was 3.7% lower than in the preceding month, this was attributable to the high August base (in August, seasonally adjusted construction output grew by 7.5% relative to July). According to the not seasonally adjusted data, output grew by 10.3% in September 2001 relative to twelve months previously (see Chart 3).

Current data about orders suggest that the upturn in construction industry performance may slow down in the coming months. Measured at constant prices, the volume of contracts was only 6.2% higher at end-September than twelve months previously. Although the volume of month-end orders continued to be strong, showing an increase of 20.5%, its pace has been slowing month by month.

The pick-up in dwelling construction which started in 1998 continued at a more moderate pace in September. The number of housing permits issued by the Hungarian authorities was 38% and 6% higher in 2001 Q1 and Q2 respectively, relative to the same periods of the previous year. However, in contrast with the first two quarters of the year, the number of new permits issued stagnated in Q3. The intensity of dwelling construction continued uninterrupted in the capital city of Budapest – increases of 19%–21% were recorded in the first two quarters of the year relative to the comparable periods of 2000, and one of 40% in Q3. Taking the first three quarters of 2001 as a whole, 42% more permits were issued in Budapest than in 2000 Q1–Q3. A strong increase of 22% was recorded in the major provincial towns of Hungary as well. By contrast, the number of new building permits issued fell by 5% in one year in rural Hungary. The newly started constructions show a strong degree of concentration, 43% of them affecting the central regions of the country.

The number of completions was significantly higher in each quarter of 2001 than in the comparable periods of the previous year – the number of completions was 51.5% higher in Q1, nearly 35% higher in Q2 and 64% higher in Q3 than in the respective periods of 2000.

According to the values derived from the CSO's quarterly Labour Force Survey data, adjusted for seasonal and random effects using the National Bank's method,[2] whole-economy unemployment fell in 2001 Q3 relative to 2000 Q3, accompanied by a slight increase in the number of people in employment (see Chart 4).

The seasonally adjusted number of people in employment, up 0.1%, was only slightly higher in the period under review than in the previous quarter and 0.5% higher than in 2000 Q3 (see Chart 5). The employment ratio, calculated from the seasonally adjusted data, was 50.5% in 2001 Q3, showing an increase of 0.1 of a percentage point relative to the previous quarter and one of 0.3 of a percentage point relative to the same period of the previous year.

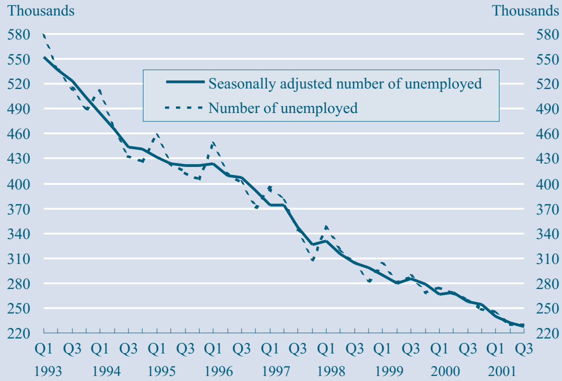
The seasonally adjusted number of whole-economy registered unemployed showed a 2% decrease in 2001 Q3 relative to the previous quarter and an even more significant one of 12.7% relative to 2000 Q3 (see Chart 6).

The seasonally adjusted unemployment rate in the total economy was 5.5% in the period under review. That meant a drop of 0.1 of a percentage point in comparison with Q2 and one of 0.8 of a percentage point in comparison with 2000 Q3.

In 2001 Q3, the seasonally adjusted number of economically active persons remained unchanged relative to the previous quarter, but fell by 0.3% relative to 2000 Q3, as a result of a fall in the number of unemployed and a slight increase in the number of people in employment.

The activity ratio, calculated on the basis of the seasonally adjusted data, was 53.5% in 2001 Q3, broadly the same as in both the previous quarter and the year earlier period.

Chart 6 **Number of unemployed***



* Using the Bank's method to seasonally adjust and calculate trends from data reported by the CSO.

[2] The time series used in the calculations takes 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.

Price trends

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

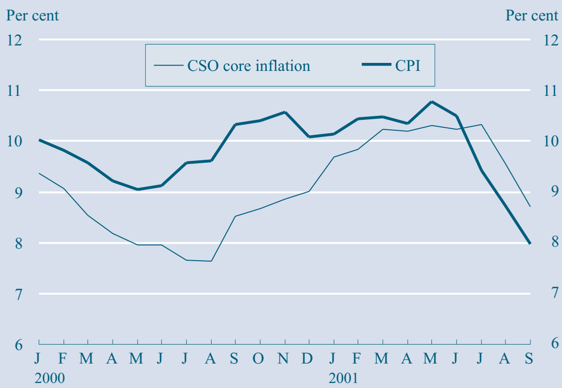


Chart 8 **Contributions of the NBH's the major price categories to annual inflation**

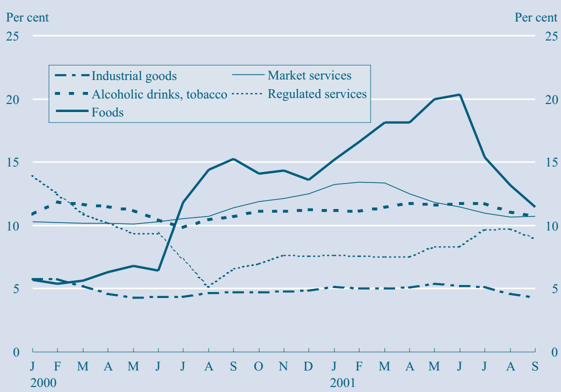
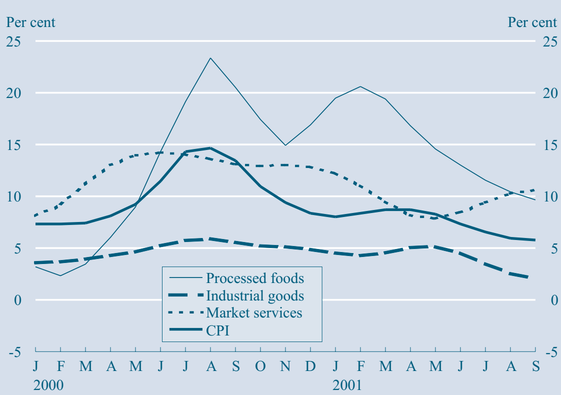


Chart 9 **Annualised month-on-month price trends of the major price categories***



*Five-month centred moving averages of seasonally adjusted indices using different weights. The major price categories have been adjusted using the Bank's method.

Consumer prices

The CSO release of the year-on-year consumer price index was 8.0% in September 2001, showing a decrease of 0.7 of a percentage point relative to the preceding month's outcome. The rate of core consumer price inflation, as calculated by the CSO for the same period,[3] also showed a large, 0.9 of a percentage point drop from August's 9.6% to 8.7% in September (see Chart 7).

From among the twelve-month outcomes for price categories, derived on the basis of price determination and used by the Bank, the food price index fell from the preceding month's 13.2% to 11.4% (see Chart 8). This drop was explained by a decline in unprocessed foods prices (their twelve-month index fell from August's 16% to 12.7% in September). Unprocessed foods price inflation slowed considerably in the preceding few months of the year; however, the annual index rose from 6.6% in August to 8.2% in the month under review. The increase in energy prices also continued to slow relative to the preceding month – motor fuel prices fell by 5.9% in one year, the twelve-month index of market-determined household energy prices moderated from 15.1% to 10.0%, while that of regulated energy prices rose slightly, by 0.1 of a percentage point to 8.7%. Up 4.3%, the prices of industrial goods continued to rise at a modest pace. Services price inflation was flat, the value of the twelve-month index remaining 10.7% in September. 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 July's 10.1% and August's 9.1% to 8.4% in the month under review. The price index of alcoholic drinks and tobacco was lower at 10.8%. Pharmaceuticals prices rose by 17.1% and those of other regulated services by 7.5% in twelve months.

The one-month increase in consumer prices was 0.5% in September. Within energy, motor fuel prices rose by 1.6% in one month, market energy prices[4] by a slight 0.1% and regulated energy prices by 1.9%. Regulated services prices

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

[4] This category does not include the effects of changes in motor fuel prices.

showed a 0.1% increase in the month, pharmaceuticals prices remaining unchanged. Alcoholic drinks and tobacco cost 0.4% more than in August. As regards the other price categories used by the Bank which are easy to seasonally adjust, the changes in the annualised month-on-month trend values of price indices will be presented instead of the monthly changes.

The month-on-month annualised trend of the seasonally adjusted consumer prices index was 5.8% in September. The trend value of processed foods price inflation fell from 9.6% to 10.4% in the month. The trend value of industrial goods price inflation fell to 2.1%, its lowest level for several years. By contrast, the trend of market services price inflation turned upwards. Its value was 10.6% in September, following 10.3% in August (see Chart 9).

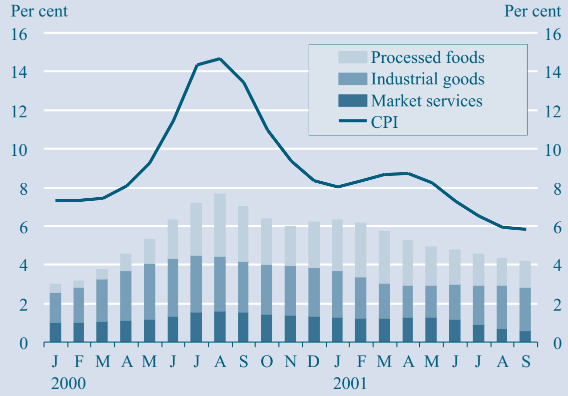
Producer prices

Producer prices, i.e. the CSO release of industrial firms' domestic selling prices, rose by 0.2% (also by 0.2% after seasonal adjustment) in September relative to August, the twelve-month increase being 7.2%. Domestic producer prices excluding energy,[5] seasonally adjusted by the Bank, continued to be unchanged relative to the preceding month[6] (see Charts 11 and 12).

Manufacturing industry prices, which are the most dominant factor influencing movements in domestic selling prices, rose by 0.3% in September, bringing the three-month fall in prices to an end. Similar developments were observable in chemical industry prices, which rose by 0.8% on average following a three-month downward trend. Engineering prices were 0.6% higher in one month. The food industry and other manufacturing were the only two branches of manufacturing where prices actually fell, showing monthly decreases of 0.2% and 0.1% respectively.

[5] The index is calculated net of the effects of changes in government regulated prices, i.e. in those of electricity, gas, steam and hot water supply, and collection, purification and distribution of water.
[6] Due to the seasonal adjustment, this time series which reflects our 'best' understanding shows a slight difference with those published earlier.

Chart 10* Contributions of the main price categories to the trend of consumer price index



* Five-month centred moving averages of seasonally adjusted indices using different weights. The major price categories have been adjusted using the Bank's method.

***Chart 11* Month-on-month domestic producer price indices**
Preceding month = 100

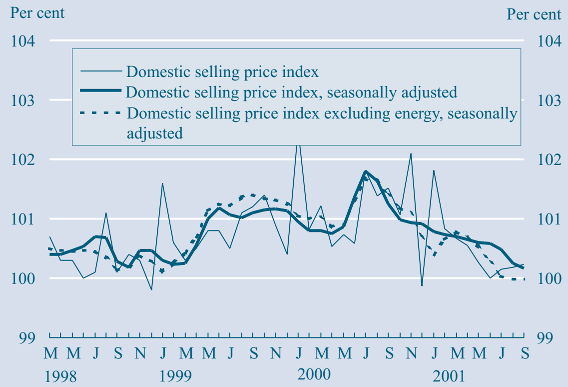
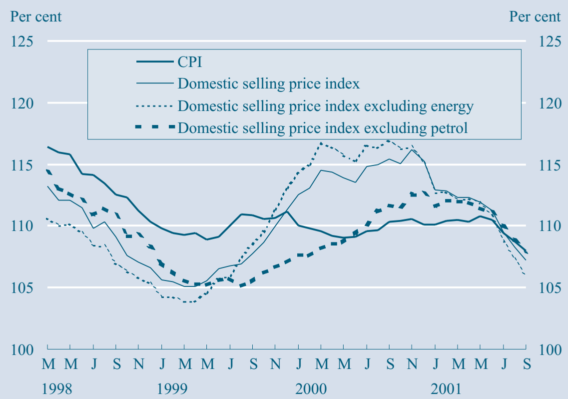


***Chart 12* Comparison of the domestic producer price index excluding petrol with other price indices**
Same month of previous year = 100



Monetary developments

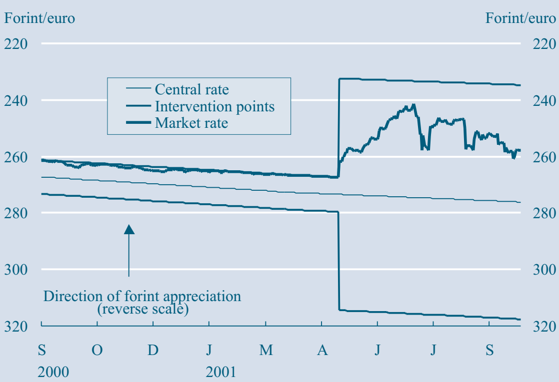
Monetary conditions

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

– Effective from 10 September 2001, the Bank lowered the central bank base from 11.25% to 11.0%. Official interest rates on facilities related to the base rate fell accordingly. Simultaneously with the reduction in the base rate, the overnight deposit rate fell from 9.25% to 9% and the overnight repo rate from 13.25% to 13.0%.

– Effective from 17 September 2001, the operating hours of the Real Time Gross Settlement System (VIBER) have been extended by two and a half hours. Accordingly, VIBER is in operation until 4.30 p.m. on working days. Simultaneously with the extension of operating hours, the periods when the central bank stands ready to perform financial transactions with banks have also changed. Accordingly, participants may place deposits with the NBH until 4.30 p.m., and they may transact in overnight repo with the NBH until 3.30 p.m. Participants have access to intra-day free-of-charge credit lines against securities blocked at KELER until 4.45 p.m. The portion of intra-day credit lines still being drawn at the end of the day is automatically converted into an overnight Lombard loan, with the same conditions as those of the overnight repo transaction. At the participant's request, the amount of a Lombard loan may be further raised with a simultaneous debit to the undrawn credit line.

Chart 13 **Movements in the forint exchange rate vis-à-vis the euro within the intervention band**



The exchange rate

The market rate of the forint continued to fluctuate in the upper region of the intervention band in September. The exchange rate weakened by more than 3.4% in the period following 11 September. Then it rose slightly, to close the month at 257.75 vis-à-vis the euro, 6.66% above the mid-band rate. That meant a 1.66% drop relative to the close at end-August. The September average HUF/EUR exchange rate was 255.87, 1.88% weaker than the August average (see Chart 13).

The National Bank of Hungary officially devalued the central rate by 0.2% in September. The average deviation of the exchange rate from the central rate was 725 basis points toward the ceiling of the intervention band, 152 basis points less than in August.

Effective from 1 October, the National Bank of Hungary abandoned the crawling-peg exchange rate devaluation regime, and fixed the currency's central rate at 276.1 HUF/EUR.[7] There was no official intervention in the foreign exchange market in September.

Statistical balance sheet of the NBH

The value of banknotes and coin in circulation increased by Ft 23 billion in September, the end-of-month total of other monetary financial institutions' account balances with the central bank decreasing by Ft 114.7 billion relative to the end-August level. Closely related to these changes, outstanding repo transactions of other monetary financial institutions decreased by Ft 9.3 billion, while holdings of NBH domestically issued bills and forint deposits of other monetary financial institutions with the central bank increased by Ft 11.4 billion and Ft 64.3 billion respectively. Central government sector forint deposits with the central bank decreased by Ft 9.7 billion. The Bank purchased foreign currency to the amount of Ft 15.6 billion in September 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 foreign currency balances decreased by Ft 7.2 billion, while the averages of forint balances, forint deposits and other monetary financial institutions' average holdings of NBH domestically issued bills increased by Ft 3.5 billion, Ft 22.7 billion and Ft 4.9 billion respectively (see Table B).

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

Ft billions

	2000			2001				
	Q2	Q3	September**	Q2	Q3	September**	Of which:	
	Averages*			Averages*			Transactions	Revaluations
Assets								
Banknotes and coin	15.4	16.3	11.9	21.6	18.8	23.0	23.0	0.0
Forint liabilities to other monetary financial institutions	–97.3	–21.3	–60.4	20.8	–3.0	–45.9	–45.9	0.0
Foreign currency liabilities to other monetary financial institutions	–11.7	9.3	8.8	5.7	–11.6	14.4	–9.5	23.9
Liabilities								
Net claims on central government	–13.9	10.2	0.2	–103.1	–19.9	0.1	–11.5	11.6
Of which: forint loans	–6.0	–6.0	–18.1	–6.0	–6.0	–18.0	–18.0	0.0
government securities	–3.0	–4.4	0.0	0.0	0.0	0.0	0.0	0.0
foreign currency loans	0.1	11.8	22.3	–40.1	–35.0	19.7	0.0	19.7
Claims on other monetary financial institutions	–10.3	–1.7	–2.0	19.2	–20.3	–13.6	–13.6	0.0
Net foreign assets and those not broken down by sector	–69.5	–4.2	–38.0	132.0	44.4	5.1	–7.2	12.3

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

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

Ft billions

	2001		Monthly change
	Aug.	Sep.	
Assets			
Banknotes and coin	1,023.7	1,039.4	15.7
Forint liabilities to other monetary financial institutions	955.4	986.5	31.1
Of which: bank's liabilities	396.4	399.9	3.5
forint deposits	460.6	483.3	22.7
domestically issued NBH bills	98.4	103.3	4.9
Foreign currency liabilities to other monetary financial institutions	374.4	367.2	–7.2
Lliabilities			
Net claims on central government	797.0	826.2	29.2
Of which: forint loans	253.4	251.6	–1.8
government securities	172.1	172.1	0.0
foreign currency loans	1,295.3	1,324.7	29.4
Claims on other monetary financial institutions	80.6	80.9	0.3
Net foreign assets and those not broken down by sector	1,475.8	1,486.0	10.2

* Monthly average of daily stock data.

[7] Since 4 May 2001, the width of the intervention band is ±15%.

Monetary survey

Calculated from the data after eliminating the effect of the change to the required reserves system in 2000–2001, annual growth in the monetary base accelerated by 0.5 of a percentage point to 10.7% in September relative to the preceding month.

The annual growth indices of the monetary aggregates, derived from the liability items of the aggregate balance sheet based on the final data for September, decreased in the month under review, except that of M0. Annual growth in M1, a composite of banknotes and coin held by non-banks plus forint sight deposits, slowed by 0.3 of a percentage point, the end-of-month stock of the aggregate being 12.2% 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, slowed by 1.0 percentage point relative to August, to run at 14.7%. 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 but a little more modest. Annual growth in the aggregate decreased by 0.6 of a percentage point, the end-of-month stock of M3 being 15.2% higher in a year-on-year comparison.

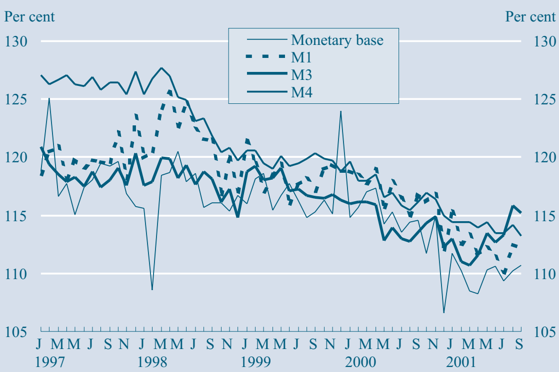
Annual growth in broadest money M4, an aggregate of M3 plus government securities and NBH domestic bills held by the non-bank sector, decreased by 1.0 percentage point. The end-of-month stock of the aggregate increased by 13.2% in one year (see Chart 14).

Looking at the individual liability items of the aggregate balance sheet of monetary institutions by sector, the month-end value of non-financial corporate sector forint deposits decreased by Ft 65.4 billion in September due to the transaction effect. Here, foreign currency deposits fell by Ft 43.7 billion due to transactions and rose by Ft 6 billion due to exchange rate movements. Household sector deposits were Ft 22.6 billion higher than in August. Here, domestic currency deposits rose by Ft 13.6 billion due to transactions. Foreign currency deposits fell by Ft 4.5 billion due to the transaction effect, but rose by Ft 13.5 billion due to the positive contribution of exchange rate movements. On balance, households' foreign currency deposits rose by Ft 9 billion.

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, increased by Ft 72.7 billion due to transactions and by Ft 35.0 billion due to the exchange rate effect. Corporate sector outstanding domestic borrowings were Ft 54.7 billion higher in the month. The transaction effect accounted for Ft 32.8 billion of the increase. Outstanding foreign cur-

Chart 14* Annual growth rates of the monetary aggregates

End of month data



* The Chart plots M0 indices after eliminating the effect of the changes to the required reserves system in 2000–2001.

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.

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

Ft billions

	2000			2001				
	Q2	Q3	September	Q2	Q3	September	Of which:	
	Averages***			Averages***			Transactions	Revaluations
Non -financial corporations, net (S.11)	–47.1	–69.7	–140.7	37.3	–38.7	–145.1	–132.5	–14.3
Assets	–62.6	–93.7	–120.2	18.7	–65.9	–51.8	–33.2	–20.3
Deposits+cash+repos+securities	15.5	24.0	–20.5	18.6	27.3	–93.3	–99.3	6.0
Other financial corporations, net (S.123+S.124+S.125)	–17.1	–22.1	3.7	–6.7	10.4	1.8	2.1	–0.3
Assets	–3.3	–5.4	3.0	–23.3	–11.7	–4.8	–4.4	–0.3
Deposits+repos	–13.8	–16.8	0.7	16.6	22.0	6.5	6.5	0.0
General government sector, net* (S.13)	–26.7	–6.5	26.0	133.5	–35.2	45.8	60.2	–14.4
Central government, net* (S.1311)	–13.8	–22.1	–26.4	152.2	–56.9	–33.5	–19.1	–14.4
Local government, net (S.1313)	–12.9	15.6	52.3	–18.7	21.7	79.3	79.3	0.0
Credits	–1.3	0.2	6.9	–2.1	0.2	9.6	9.6	0.0
Deposits	–11.6	15.4	45.5	–16.6	21.5	69.7	69.7	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)**	9.1	30.8	9.8	12.7	30.8	20.1	6.7	13.5
Credits	–15.9	–19.2	–20.5	–23.6	–27.8	–26.1	–26.1	0.0
Deposits+cash+securities	25.1	50.0	30.3	36.4	58.7	46.3	32.7	13.5
Non-profit institutions serving households, net (S.15)	–0.2	1.7	3.5	–0.6	0.8	1.1	1.0	0.0
Credits	0.1	0.0	–0.2	0.4	0.0	–0.1	–0.1	0.0
Deposits	–0.3	1.7	3.6	–1.0	0.8	1.2	1.2	0.0
Non-residents, net (S.2)	34.2	–17.9	34.5	–78.7	–31.1	–35.4	–23.2	–13.7
Other, net	47.8	83.7	63.3	–97.6	63.0	111.8	85.7	29.2

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.

rency borrowings decreased by Ft 5.4 billion due to transactions but increased by Ft 20.9 billion due to the exchange rate effect. Other volume changes caused a Ft 1.7 billion decrease in the end-of-month stock of corporate sector foreign currency borrowings. Central government net liabilities rose by Ft 19.1 billion and by Ft 14.4 billion on account of the transaction effect and the exchange rate effect respectively. Lending by monetary institutions to the household sector rose by Ft 25.4 billion in September relative to the preceding month.

As an effect of changes in outstanding borrowings and deposits, net liabilities of the general government sector were Ft 45.8 billion lower in September than in August. Net savings of households vis-à-vis monetary institutions rose by Ft 20.1 billion, net assets of non-financial corporations by Ft 145.1 billion, and net foreign assets vis-à-vis non-residents by Ft 35.4 billion (see Table C).

Government securities market

The shocks caused by the terrorist attacks against the United States on the financial and capital markets dominated the events in the Hungarian government securities market in September. As seen in the preceding few months of the year, yields showed little changes in the period leading to the reduction of its interest rates by the National Bank

Chart 15 **Zero-coupon yields and annualised central bank two-week deposit rates**
Short-term yields on a compounded basis; weekly averages

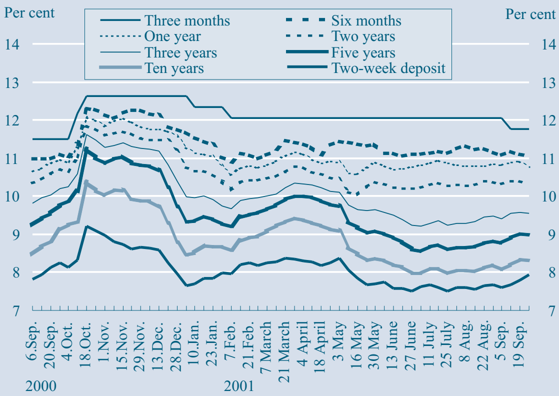
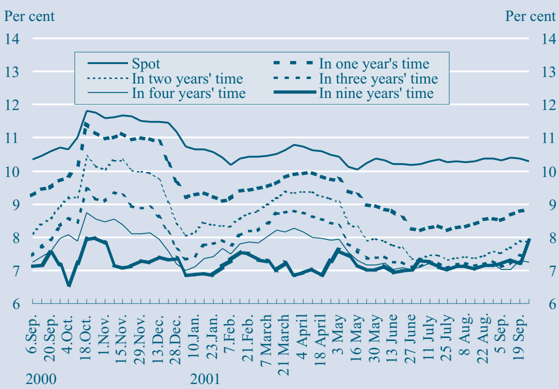


Chart 16 **One-year spot rates and implied forward rates derived from the Bank's zero-coupon yields**
On a compounded basis; weekly averages



on 10 September. Zero-coupon yields[8] fell 7 basis points on average following the official rate reduction. On the following day, short and long-term yields rose 18 basis points and 34 basis points respectively in reaction to news of the 11 September events. The market experienced a modest correction in the remaining period of the month – short-term yields rose 24 basis points and long-term yields 13 basis points on average (see Chart 15).

The implied one-year forward rates[9] in one and two years' time rose more strongly, by 53 and 36 basis points. Those in three years' time saw a modest increase of 7 basis points. The implied one-year forward rates for the more distant maturities, in contrast, fell by 8 and 19 basis points towards end-September relative to end-August (see Chart 16).

Non-resident investors stepped up their holdings of Hungarian domestic currency-denominated government debt securities by Ft 8.4 billion. The sector's total holdings amounted to Ft 939.9 billion at the end of the month under review.

The total amount of bids submitted at the auctions of government bonds was similar to that of August. Four auctions of NBH bills were conducted in September.[10] Yields rose 14 basis points at the auction held on the 17th, the first bidding invited following 11 September. Thereafter, yields fell 10 basis points, reflecting the correction in the government securities market. The monthly average yield evolving at the auctions held in the month, weighted by the amount allotted, was 10.86%.

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[8] 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.

[9] 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.

[10] On 22 March 2000, the National Bank of Hungary started to issue a zero coupon bond with maturity of three months, classified as a government bond. The inaugural sale of the paper took place on 20 March 2000. The Bank offers a new series of the bill at auction every Monday. As part of a reform of its monetary policy instruments in March 2001, the Bank changed over from the earlier interest rate tender scheme to a system of volume tenders. Within the framework of volume tenders, the Bank sells bills at bid prices. The quantity to be sold is announced taking into view the banking system's liquidity, in addition to the competing bids. The Bank's intention is to follow a rate taking stance at the auctions, and it does not wish to give interest rate signals via the interest rate evolving at the auctions. (Indication of the exact quantity in the public offer is required for both technical and legal reasons; therefore, the indication in the public offer of the amount to be issued does not mean the quantity of paper to be actually sold.) The Bank announces the amounts to be allotted on the Reuters dealing page NBHJ at 2 p.m. on the business day preceding the auction.

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 211.3498 points on 28 September. Calculated from movements in the index values, the annual return realisable on a portfolio equal to the composition of the index basket was 10.62%.

Market interest rates

The total volume of transactions in the interbank market was Ft 1,281.9 billion in September, showing a decrease of Ft 281 billion relative to the preceding month. The daily average of interest rates on overnight loans rose gradually from a low level at the beginning of the month, then, following a temporary drop, it settled near the upper boundary of the interest rate corridor. Credit institutions' deposits with the central bank matured in the last week of the month, so average overnight rates fell in the final days of the period (see Chart 17).

September's average overnight interest rate remained unchanged at the preceding month's 11.10%. The average of borrowing rates for one month fell 5 basis points to 11.15%. The three-month average interest rate slipped from the preceding month's 11.01% to 10.82%. Six-month borrowing rates fell 27 basis points to 10.59% on average (see Chart 18).

The negotiated average price for non-financial corporations of short-term loans fell from 12.17% in August to 12.04% in September. That of short-term deposit rates fell from August's 8.85% to 9.05%, basically on account of changes to interest rate conditions. The short-term banking spread narrowed by 0.32 of a percentage point to 3.0 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 remained broadly unchanged at 12.49%, while that of deposits fell from 9.35% to 8.89% due to banks' interest rate decisions (see Chart 19).

Turning to changes in households' market rates, average borrowing rates of individuals mostly fell in September. The negotiated average property loan rate decreased from 16.14% to 15.78% and that of consumer credit rates from 21.10% to 20.41%. Both decreases were due to changes in banks' interest rate conditions (see Chart 20).

The average interest rate on consumer credit and other loans, provided for terms of more than three months, was 19.85%, 82 basis points less than in August. This fall was caused by changes to interest rate conditions. The total charge indicator for consumer credit and other loans, provided for terms of more than three months, at 24.22%, was 1.71 percentage points lower than in the preceding month. The decrease in total charges was accounted for the by

***Chart 17* Average interbank lending rates and official dealing rates, September 2001**

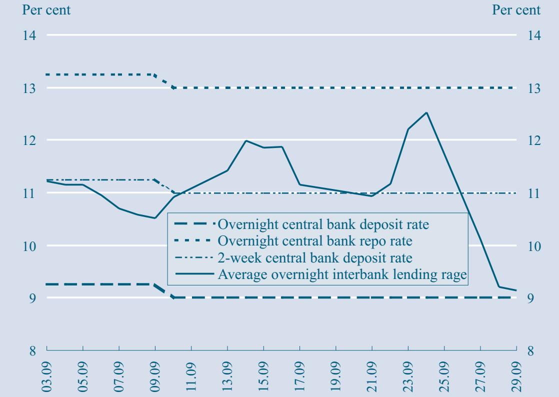


***Chart 18* Monthly averages of interbank lending rates and official dealing rates, September 2000**

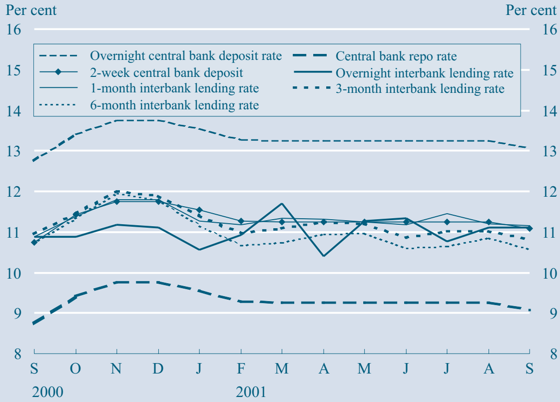


***Chart 19* Non-financial corporate sector borrowing and deposit rates**

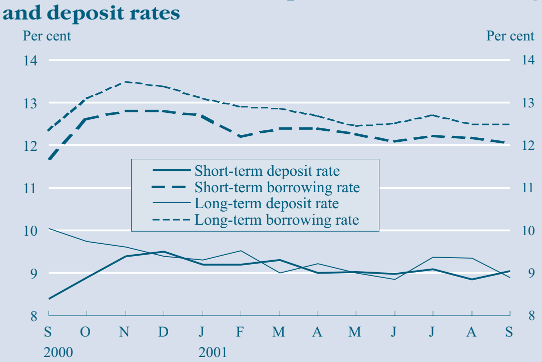
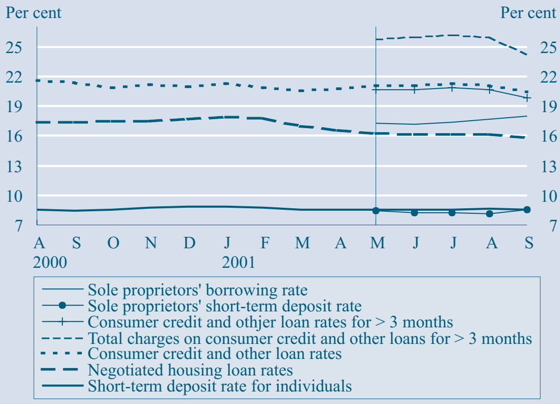


Chart 20* Household sector average borrowing and deposit rates and total charges on loans



* Data reporting was introduced in May 2001.

Table D **Individuals' consumer loans,* average rates** and average total charges on loans***,******

Per cent

	2001				
	May	June	July	Aug.	Sep.
Overdrafts					
Average interest rate	20.11	20.09	20.33	20.27	18.89
Average total charge	26.56	26.53	26.82	26.75	23.98
Personal loans					
Average interest rate	23.88	23.57	23.15	22.99	21.49
Average total charge	29.12	29.65	28.72	28.68	26.52
Lombard loans					
Average interest rate	17.89	17.35	18.09	16.92	17.25
Average total charge	20.25	19.73	20.94	19.81	20.59
Hire purchase loans					
Average interest rate	27.05	28.09	28.17	27.34	27.93
Average total charge	30.64	32.38	32.55	32.04	32.07
Car purchase loans					
Average interest rate	19.88	19.82	19.76	19.93	19.92
Average total charge	22.40	22.40	22.28	22.47	22.33
Mortgage loans					
Average interest rate	18.70	18.77	18.66	18.72	18.64
Average total charge	21.19	21.07	21.21	20.95	20.66
Other loans					
Average interest rate	17.37	16.70	16.92	17.64	16.69
Average total charge	20.49	21.10	22.29	19.30	19.95
Total consumer and other loans					
Average interest rate	20.62	20.61	20.82	20.67	19.85
Average total charge	25.76	25.95	26.15	25.93	24.22

* The Table includes only data on loans with maturities of more than three months.
** Interest rates announced in the period weighted by total lending in the month. Interest rates do not include additional costs (e.g. fee).
*** Total charges on the various types of loan weighted by total lending in the month.
**** Data reporting for the various types of loans was introduced in May 2001.

Table E **Proportions of the various loan types* within total lending to individuals****

Per cent

	2001				
	May	June	July	August	September
Consumer credit and other loans					
Overdrafts	52.20	52.70	53.61	54.95	52.23
Personal loans	12.58	12.93	12.50	12.13	16.08
Lombard loans	3.00	3.44	2.19	1.61	1.99
Hire purchase loans	5.63	5.46	7.00	6.46	6.38
Car purchase loans	7.99	7.79	7.13	6.15	5.89
Mortgages	17.78	16.74	16.06	16.69	16.37
Other loans	0.82	0.92	1.51	2.01	1.06
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

* Data reporting was introduced in May 2001.
** The table includes only data on loans with maturities of more than 3 months.

banks changing their conditions on total charges (see Tables D and E).

Individuals' average sight deposit rates changed from 3.2% to 3.38%, mainly as a result of a change in banks' interest rate conditions. The average of short-term deposit rates declined from 8.61% to 8.58%, that of interest rates on long-term deposits remaining unchanged at August's 9.30%.

The average interest rate on lending to sole proprietors, a constituent of the household sector, rose from 17.63% to 17.94%, owing principally to a change in banks' interest rate conditions. The average sight deposit rate rose from 1.74% to 1.92% and the average short-term deposit rate from 8.16% to 8.58%, due to the change in the composition of loans by credit institutions.

The BUX and the world's leading share market indicators

The share index of the Budapest Stock Exchange fell by a further 2.9% in September, following a combined 10.5% decline in the preceding three months. The BUX fluctuated near its August close in the first week of the month, and, rising above this level, it reached its monthly peak of 6,388.94. Although the index lost 7.8% in two days due to the 11 September events, it quickly recovered, and it fell below its trough on 12 September only on one occasion – it fell to its monthly low of 5,670.98 on the 21st. Movements in the BUX were mostly upwards in the final week of the month, prices strengthening by 8.9% in one week. The market closed the month at 6,173.92 points (see Chart 21).

Measured on a dollar basis, the official index of the Budapest Stock Exchange fell by 4.2% in September (more than in the period from early July to end-August). This decline, however, was smaller than the losses experienced by the important international exchanges mainly on account of the terrorist attacks on 11 September. After losing 5.4% in August, the Dow Jones Industrial Average of New York declined by 11.1%. The DAX of Frankfurt fell even more deeply, by 17%, this loss coming on the top of a 7.8% decline in the preceding month. Also measured on a dollar basis, the London FTSE weakened by exactly 7.0%, extending a loss of 1.4% in the preceding month. Following the losses of 8.1% in July and 12.7% in August, the NASDAQ, a gauge of movements in the prices of technology stocks, again fell even more dramatically than in August, losing 20.5%.

Looking at the Far Eastern markets, the Nikkei in Tokyo lost another 9.4% on a dollar basis after losing 6.5%, 8.8% and 4.9% in June–August. Losses of the Hang Seng of Hong Kong, at 10.3%, were even more massive, after subsequent declines of 5.6% and 10.0% in the preceding two months (see Chart 22).

Although all the important share indices fell significantly in September, they recovered somewhat towards the end of the month.

Chart 21 **The BUX**
2 January 1991 = 1,000

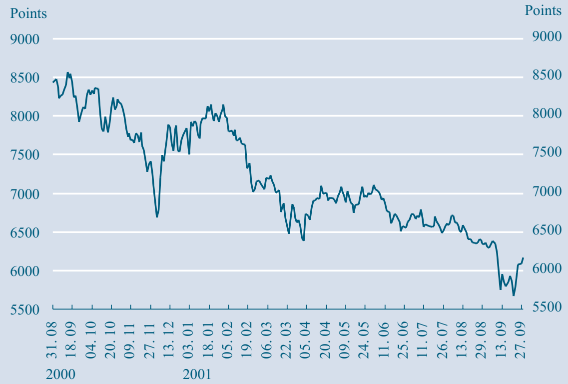
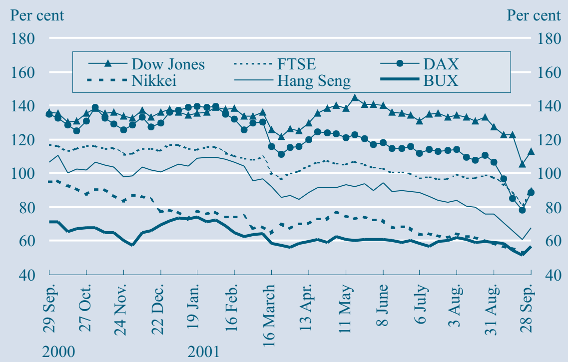


Chart 22 **The world's leading exchanges and the BUX**
5 September 1997 = 100; on a dollar basis



Balance of payments and foreign trade

Chart 23 **Current account**

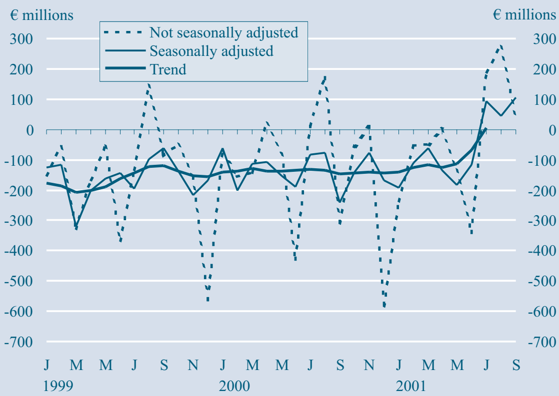


Chart 24 **Trade balance**

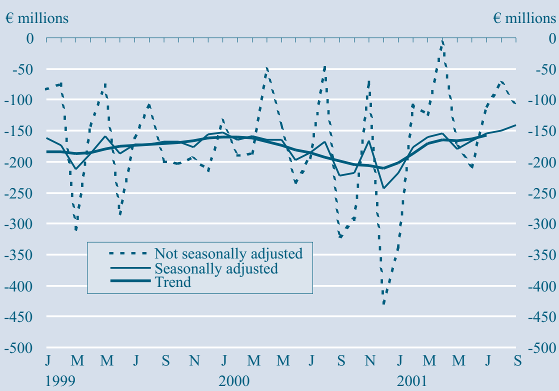


Table F **Seasonally adjusted current account data***

€ millions

	2000	2001		
	Sep.	July	Aug.	Sep.
Goods	–222	–155	–149	–141
Exports	2,401	2,653	2,576	2,629
Imports	2,678	2,837	2,706	2,679
Services excluding tourism	–48	10	–27	–46
Tourism	222	264	249	260
Non-debt income flows	–57	–61	–56	–57
Debt-related income flows	–83	–66	–54	–51
Current transfers	27	47	42	63
Current account balance	–241	94	43	105

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

The balance of payments and financing

According to the seasonally adjusted data,[11] the current account was €105 million in surplus in September 2001 (see Table F). The trend of monthly current account deficits, derived by calculating from the five-month moving averages of the seasonally adjusted data, including those for September, shows a strong improvement in recent months (see Chart 23). The trend of monthly goods deficits has been falling, explained primarily by the decline in whole-economy imports since July (see Chart 24).

The seasonally adjusted current account surplus was €62 million higher in September than in the preceding month. The largest change occurred to current transfers in the month, the various EU transfers related to the various development programmes resulting in a high net revenue. The goods trade deficit was lower, reflecting higher exports and lower imports. Opposing developments were observed within services – whereas net tourism revenues were higher than in August, the balance of other services continued to deteriorate. Negative investment incomes on both debt and equity were only little changed.

Compared with the current account deficit of a year earlier (€241 million), the September data showed an improvement of €350 million. According to the balance of payments statistics, the surpluses rose and the deficits fell on the sub-accounts of the balance of payments, except that on the non-debt investment income account. Goods trade registered the most marked change – the deficit fell, reflecting higher export and unchanged import values. The surpluses on tourism and current transfers rose by €39 million and €36 million respectively in a year-on-year comparison. The outflow of investment income on debt fell more strongly, by €31 million, the deficit on service transactions excluding tourism falling slightly, by €2 million.

[11] 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.

According to the not seasonally adjusted data, the current account was €39 million in surplus in September. The capital account closed with a surplus of €19 million, so whole-economy external financing capacity amounted to €58 million in the month under review (see Table G). Net non-debt inflow amounted to nearly €99 million – non-residents invested nearly €92 million in Hungary, direct investments by Hungarian residents abroad amounting to €14 million. The balance of inward and outward portfolio investment transactions in equity securities was a net inflow of €20 million. Non-resident investors reduced by €46 million their holdings of securities issued by the Hungarian government and the central bank.

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

€ millions

		2000	2001		
		Sep.	July	Aug.	Sep.
1	Current account	–311	191	273	39
2	Capital account	17	21	49	19
3	Net lending / net borrowing (1+2)*	–294	213	322	58
4	Non-debt capital flows	31	18	77	99
5	Total (3+4)	–263	231	399	156
6	Debt-creating flows (6a+6b)**	239	–172	–363	–157
6a	In forint***	–62	–239	–32	–46
6b	In foreign currency	301	67	–330	–111
7	Financing gap (5+6)	–24	59	37	–1
8	Errors and omissions	24	–59	–37	1

* Net borrowing (–), or net lending (+).
** Net change in debt: fall (–), or increase (+).
*** In forint-denominated bonds and money-market instruments of general government and the NBH.

Hungary's external accounts

Whole-economy gross foreign debt was €36.5 billion at the end of September 2001, equal to that at end-August. The combined gross foreign currency debt of general government and the NBH outstanding to non-residents amounted to €16.8 billion, forint debt accounting for €3.6 billion. The gross debt of other monetary financial institutions and the other sectors was €19.6 billion. Here, inter-company loans amounted to €4.6 billion. Inter-company loans accounted for a higher share within private sector debt. The primary reason for this was the reclassification of one domestic firm's bank loan into inter-company loans, treated as other change in volume in the accounts (see Table H). As a result, inter-company loans had a share of 33% within the sectors' gross foreign debt.

Whole-economy net debt amounted to €11.4 billion towards end-September, down €0.2 billion relative to the preceding month. The combined net debt of the NBH and the central government was €1.9 billion. However, taking

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

€ millions

	2001		Change	Of which:			
	August	September		Transactions	Exchange rate movements	Price changes	Other volume changes
Net foreign currency debt of the NBH and government	–1,571	–1,698	–127	–74	–22	–31	0
Net forint debt of the NBH and government	3,753	3,646	–107	–46	–61	0	0
Total net debt of the NBH and government	2,182	1,948	–234	–120	–83	–31	0
Assets of the NBH and government	14,848	14,873	25	–71	16	81	0
Of which: international reserves	13,128	13,120	–8	–64	16	40	0
Gross foreign currency debt of the NBH and government	13,278	13,176	–102	–146	–6	50	0
Gross forint debt of the NBH and government	3,753	3,646	–107	–46	–61	0	0
Total gross debt of the NBH and government	17,030	16,822	–209	–192	–67	50	0
Net debt of other monetary financial institutions and other sectors*	5,655	5,238	–416	–138	2	32	–313
Assets of other monetary financial institutions and other sectors	9,712	9,849	137	134	–1	3	1
Gross debt of other monetary financial institutions and other sectors	15,367	15,088	–279	–4	1	35	–312
Inter-company loans, net	3,762	4,209	447	101	–3	0	350
Assets	365	345	–20	–20	0	0	0
Liabilities	4,127	4,555	427	80	–3	0	350

* Excluding inter-company loans.

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 €9.4 billion, inter-company loans accounting for €4.2 billion.

The total stock of direct investments by non-residents in Hungary amounted to €24.2 billion at the end of September, of which the value of holdings of corporate shares and other classes of equity capital was €19.7 billion.

Foreign trade

In September, the annualised growth rate of the trend of goods exports was again higher than the comparable indicator for imports. The developments of previous months continued in the month under review – the trend of imports was virtually static, that of exports being rather positive overall. As a result, the trend of merchandise foreign trade balance improved again in September relative to the preceding few months (see Chart 25).

According to the updated but not adjusted Hungarian trade data, the annual growth rate of whole-economy exports was slightly higher than a year earlier, in contrast with that of imports, which was lower (102.6% and 95% respectively). Taking the first nine months of 2001, the growth rates of both exports and imports were positive, although export growth slightly exceeded import growth (115.6% and 112.7% respectively).

The unit value index[12] of imports was higher than that of exports in the first nine months of 2001. The export volume index exceeded more strongly that for the import volume index than in the case of value data, due to the deterioration in the terms of trade. However, even with the 5.1% average appreciation of the forint in January–September relative to the comparable period of the previous year, the growth rates, measured in volume terms, were much lower than the respective value indices (106.2 and 102.5% respectively).

Exports and imports both rose in September 2001 relative to the preceding month, reflecting the effect of seasonal patterns, export growth being stronger than import growth. However, they did not reach the seasonally adjusted values, unlike in previous years (see Charts 26, 27 and 28).

The twelve-month growth indices for both exports and imports, calculated from the seasonally adjusted data for September, were considerably higher than those calculated from the not seasonally adjusted data. All this indicates that the turnover levels in September 2001 were rela-

Chart 25 **Annualised monthly growth rates of the trend of merchandise foreign trade calculated in euros**

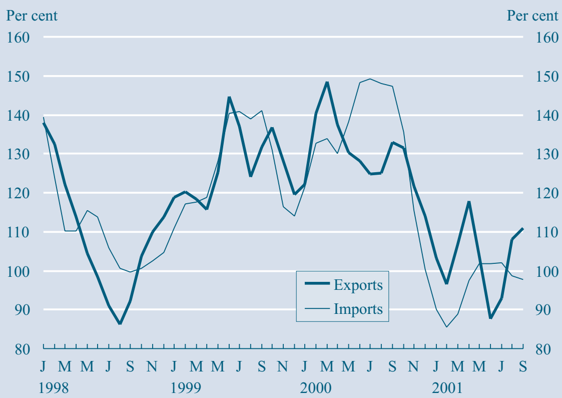


Chart 26 **Merchandise exports**

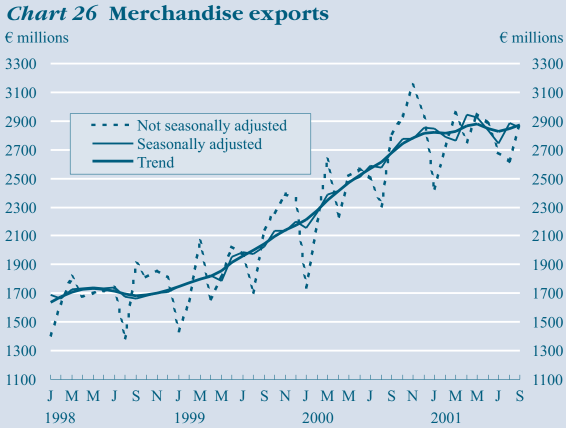
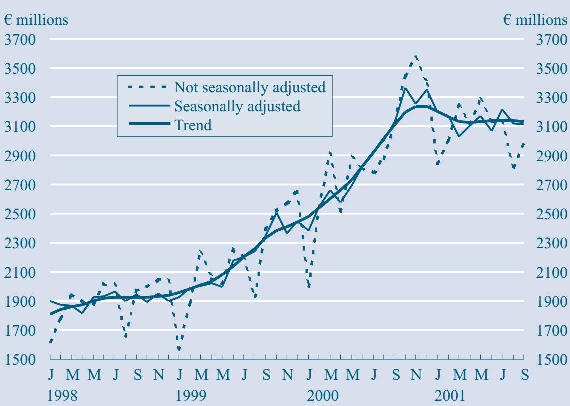


Chart 27 **Merchandise imports**



[12] The CSO calculates unit value indices for foreign trade turnover on a quarterly basis. These cannot be considered classical price indices in that they include quality, composition etc. effects as well. However, today this is the only tool that can be used to trace changes in the terms of trade.

tive lower, especially in the case of imports. This is explained mainly by the low September 2000 turnover in machinery and equipment.[13]

As a result of the developments in exports and imports, the goods trade balance was more favourable in September 2001 than either a year earlier or in the preceding few months. Owing to the favourable balance outcome for September, the goods trade deficit was lower in the first nine months of 2001 than for the same period of the previous year.

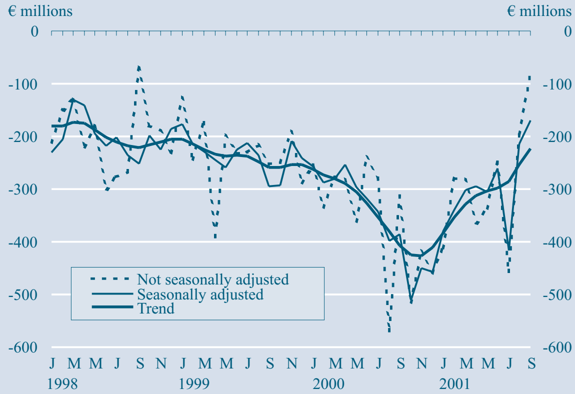
Looking at the pattern of goods trade, there was a decrease in the percentage share of machinery and equipment in outward and inward trade relative to a year earlier. Simultaneously, there was an increase primarily in the share of food industry products in exports and in that of processed goods in imports.

Looking at goods trade in a regional breakdown, the increase in the percentage shares accounted for by the EU and the CEFTA rose in September in a year-on-year comparison, mainly to the detriment of developed countries outside the EU.

The commodity pattern of Hungarian goods trade was little changed in the first nine months of 2001 in comparison with the same period of 2000. There was a slight increase in the period in the percentage share of the CEFTA countries in exports in a regional breakdown of trade, to the detriment of developed countries outside the EU.

Developments in the world market price of energy in September did not have a further influence on the pattern of whole-economy goods trade and the trade balance. Energy imports in the first nine months of 2001 were about as much higher (by some €350 million, and net energy imports by some €230 million) as in the same period of 2000, owing to the developments in the world market price of energy.[14]

Chart 28 **Trade balance**

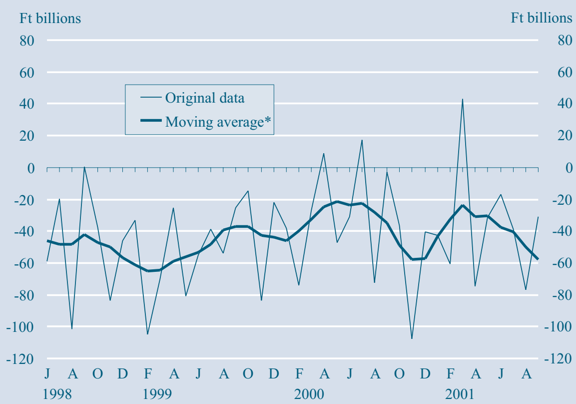


[13] The report by the Ministry of Economic Affairs states that, 'The large decline imports in August and September is explained primarily by the very low import volumes registered by companies operating in customs-free areas. Simultaneously with this, there was a slowdown in imports by domestic firms.'

[14] The increase in natural gas prices continue to explain most of the rise in the value of energy imports. Measured in calorific terms, imports remained broadly unchanged relative to the same period of the previous year. However, the price of imported gas is set using a sliding price formula, which is fixed to movements in the prices of certain oil products. This has delayed the significant increase in crude oil prices in 2000.

General government

Chart 29 **Net lending/net borrowing of general government**



*The smoothed time series is a five-month centred moving average with varying weights up to July 2001. The September value has been calculated using a trinomial average with equal weights and an estimate for October (Ft –66.1 billion).

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

Ft billions

General government	2000	2001		
	Sep.	Aug.	Sep.	Jan.–Sep.
Central government balance (1)	–13.0	–48.8	–37.4	–249.8
Extra-budgetary funds (2)	0.8	0.8	0.1	17.7
ÁPV Rt (3)	–11.4	1.9	–56.7	–77.3
Other units of central government (4)	0.4	–0.3	–3.0	–15.3
Central government (S.1311) (5=1+2+3+4)	**–23.9**	**–46.3**	**–97.0**	**–324.6**
Social security funds (S.1314) (6)	**–3.2**	**–19.0**	**1.6**	**–80.8**
Local authorities (S.1313)* (7)	**24.0**	**–11.6**	**64.3**	**74.9**
General government. total (S.13) (8=4+5+6+7)	**–3.2**	**–76.9**	**–31.1**	**–330.5**

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

Net borrowing of general government

The net borrowing requirement of general government, calculated from revenues and expenditures, amounted to Ft 31.6 billion in September 2001, showing a substantial increase relative to the Ft 3.2 billion recorded a year earlier (see Chart 29). The net borrowing requirement of central government increased by Ft 73.6 billion, while that of the social security funds and the local government authorities decreased by Ft 4.8 billion and Ft 40.3 billion respectively in one year (see Table I). According to the Bank's calculations, the cumulative general government deficit amounted to Ft 330 billion in January–September 2001, in comparison with Ft 266.5 billion in the same period of the previous year.

The central government net borrowing requirement, which includes the balances of the extra-budgetary funds, ÁPV Rt as well as other units of central government, in addition to the adjustments reflecting the Bank's calculation method, was Ft 97.0 billion in September. The primary deficit 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 39.1 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, actual expenditure for 2001 has been increased each time actual transfers from the account were effected.

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, accounted by Ft 1.6 billion and Ft 11.8 billion for the Health Insurance Authority and the Pension Insurance Authority respectively. No further amounts were transferred from the suspense deposit account in August–September.

The difference between interest expenditure recorded on cash and accrual bases increased the central government borrowing requirement by Ft 2.9 billion in September, approximating the increase of Ft 4.5 billion in the borrowing requirement of the comparable period a year earlier.

The State Privatisation and Holding Company raised no revenue from privatisation in September. On the expenditure side, in contrast, ÁPV Rt effected the largest payment to date in respect of local authorities' claims related to gas utility companies. The transaction, which involved the transfer of bonds to the amount of approximately Ft 30.3 billion and the payment of Ft 23.4 billion raised the borrowing requirement of ÁPV Rt significantly in September. This, including transfers related to privatisation and reorganisations linked with asset management, the operating costs and other expenditure of the company, amounted to a total Ft 56.7 billion. The net financing capacity of the company was Ft 77.3 billion in the period January–September.

The balances of other units of central government, estimated on the basis of bank statistics, increased the net borrowing requirement of central government by Ft 3.0 billion, while that of social security provisions funded by the central budget decreased it by Ft 0.4 billion.

The social security authorities, i.e. the Health Insurance Fund and the Pension Insurance Fund, registered a Ft 1.6 billion net lending position in September. On the revenue side, contribution receipts continued to meet the estimate, with a lag observed only in receipts from the central government, despite the compensation for revenue shortfalls caused by those switching into the private pension insurance scheme. On the expenditure side, it was mostly old-age pensions funded from health insurance sources, sick benefits and pharmaceutical subsidies that exceeded the estimate. The net borrowing requirement of the social security sub-sector amounted to Ft 80.8 billion in the period January–September 2001.

The net financing capacity of the local government authorities, estimated from transactions data reported by the Ministry of Finance for January–September and the monthly data calculated using the Bank's method, amounted to Ft 64.3 billion in September. Asset transfers related to the gas utility companies to the local government authorities and their institutions played a role in the favourable balance outcome. The transfers of government bonds by ÁPV Rt are not included in the cash based report, therefore these revenues, recorded on a cash basis, have been increased by revenues accounted for by the transfers of government bonds.

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

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

Ft billions

	Stocks: September 2001	Change in stock			
		September		January–September	
		Transactions	Other changes in volume	Transactions	Other changes in volume
Central governments (S.1311)					
Assets	1,209.9	–28.8	19.3	272.9	178.9
Liabilities	8,298.2	59.8	51.5	577.4	3.3
Net financial assets	–7,088.3	–88.6	–32.2	–304.6	175.6
Social security funds (S.1314)					
Assets	3.9	1.7	0.0	–2.5	0.0
Liabilities	181.4	–2.3	0.0	81.1	0.0
Net financial assets	–177.5	3.9	0.0	–83.5	0.0
Local government authorities (S.1313)					
Assets	540.9	67.8	0.0	92.2	0.0
Liabilities	168.7	–12.3	0.3	–0.4	–0.6
Net financial assets	372.2	80.1	–0.3	92.5	0.6
Consolidated general government					
Assets	1,449.4	40.0	19.3	265.7	178.9
Liabilities	8,343.0	44.6	51.8	561.2	2.7
Net financial assets	–6,893.7	–4.6	–32.5	–295.6	176.2

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-à-vis the National Bank of Hungary within assets and liabilities. This revision has been backdated to January 2001. Re-pricing increased the values of assets and liabilities by Ft 143.6 billion and Ft 61.1 billion respectively in January and by Ft 185.0 billion and Ft 79.6 billion in September.

The change in general government net financial assets due to transactions (see Table J), i.e. the net borrowing requirement calculated from financing items, amounted to Ft 4.6 billion in September and a total Ft 295.6 billion in the first nine months of 2001. The borrowing requirement of the central government was Ft 88.6 billion, while the net financing capacity of the social security funds and the local government authorities was Ft 3.9 billion and Ft 80.1 billion respectively.

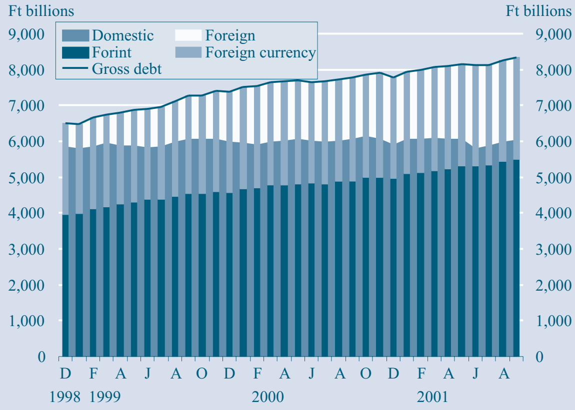
Financial assets of the central government decreased by Ft 9.5 billion in September. That was mainly the result of a decrease in the sector's deposits with the NBH, the sale by ÁPV Rt of its holdings of shares and a revaluation gain on derivatives related to outstanding debt, which partly offset the decrease due to transactions. The increase of Ft 111.3 billion in liabilities was the balance of net issues of forint-denominated government securities, repayments of forint-denominated debt to the NBH and revaluation of foreign currency instruments. When calculating the change in the stock of government securities holdings, the transfer by ÁPV Rt to the local authorities of gas utility bonds to the tune of Ft 30.3, not treated as part of the outstanding stock, was also taken into account.

The stock of outstanding borrowings of the social security funds from the central government decreased by Ft 2.1 billion in September. Consequently, total debt of the authorities amounted to Ft 172.4 billion at the end of the month. Taking into account changes in other financial liabilities and assets, net assets of the sub-sector increased by Ft 3.9 billion in the month under review.

Financial assets of the local government authorities increased by Ft 67.8 billion in September, liabilities decreasing by Ft 12.0 billion. As a result, the change in net financial assets was Ft 79.8 billion in one month. The large increase in assets was associated with the increase in forint deposits with credit institutions. As a consequence of divergent changes in government bond and treasury bill holdings, the transfer of gas utility bonds virtually did not affect the amount of existing assets in government securities holdings.

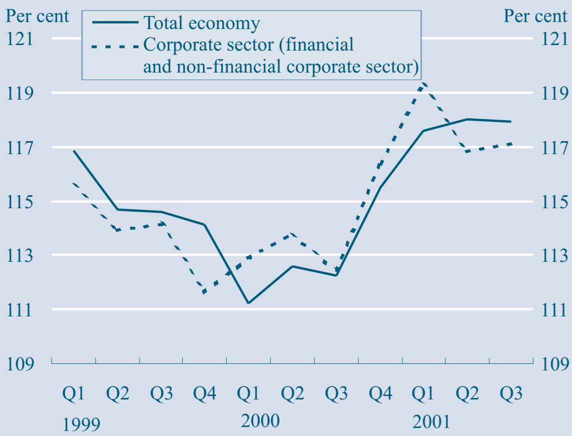
In September, the gross debt of general government increased by Ft 96.4 billion, its outstanding total reaching Ft 8,343 billion at the end of the month (see Chart 30). The increase in foreign currency debt arising from currency translation amounted to Ft 51.8 billion.

***Chart 30* Composition of general government gross liabilities**



Earnings and financial savings of households

Chart 31 **Whole-economy and corporate sector monthly gross average earnings**
Same period of previous year = 100



Earnings

According to the indicator calculated by the NBH,[15] corporate sector adjusted gross earnings growth was 16% in September 2001 relative to a year earlier. The twelve-month earnings index was 3.1 percentage points lower than in the preceding month. Corporate sector earnings growth, calculated by the CSO, was 14.3% in one year, showing an increase of 2.3 percentage points relative to the preceding month (see Chart 31).

The gap between the outcomes for the two indicators is explained by the change in the number of hours worked and a variation in the composition of staff. In September 2001 the number of hours worked was 3.2% lower than a year before. According to the CSO data, the number of working days was 20 in August 2001, in contrast with 21 in August 2000, which played a role in the decrease in the number of hours worked.

According to the Bank's calculations, the rate of whole economy earnings growth[16] was 20.7% in the period under review, 1.7 percentage points higher than in the preceding month.

As seen in the preceding month, government sector adjusted earnings growth, at 31%, was very strong in September, explained by the modification to the public servants' salary system. The indicator as calculated by the NBH[17] showed wages to have rise by 31.9% in the month relative to a year earlier, 20 percentage points higher than in August.

September earnings data showed again that monthly developments are not suitable for drawing meaningful conclusions, due to the uneven within-year distribution of irregular pay, and the wage corrections and settle-

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

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

[17] 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.

ments implemented at different times in the various quarters of central government.

Net earnings growth, according to the CSO release of data, was 16.8% in the total economy, 2.0 percentage points lower than gross earnings growth. Within the total economy, corporate sector earnings grew by 13.3% and government sector earnings by 25.9%.

Looking at quarterly developments in earnings, earnings growth in the total economy[18] in 2001 Q3 was broadly comparable with that recorded in the previous quarter, the Bank's calculations show. According to the indicator which presents earnings growth after eliminating changes in the composition of staff, earnings grew by 17.9% in the period. That was only 0.1 of a percentage point higher than in 2001 Q2, but 5.6 percentage points higher than in the same period of the previous year.

Savings

In September, operational net lending of households, i.e. their financial savings after eliminating compensation for inflation incorporated in interest, amounted to Ft 23.5 billion. Measured both on current and constant price bases, this was higher than the outcomes recorded in the same periods of previous years. From its trough reached in March this year, the trend of financial savings has been rising (see Chart 32).

Revaluation continued to affect households' net financial wealth in September (see Table K). In contrast with the losses in the preceding few months, the sector registered a total holding gain of Ft 7.5 billion in the month. Hungarian households continued to book losses on their non-bank securities holdings (Ft 5.7 billion), but they registered a considerable gain on their foreign currency deposits due to the depreciation of the forint (Ft 13.5 billion). On balance, net financial wealth of households, measured at market prices, increased by Ft 57.2 billion. The trend rate of growth values, measured on a constant price basis, showed stagnation in the month (see Chart 33).

The shift within the total portfolio from non-bank securities holdings towards other forms of savings continued in September. Within financial assets, households' cash holdings rose the most saliently, by Ft 21.9 billion. In addition to cash, there was also a considerable increase, at Ft 15.8 billion, in claims against credit institutions, although the largest part of this resulted from compensation for inflation incorporated in interest (Ft 15 billion).

A part of wages due in the early days of September was paid out in August. This was reflected in the developments in unpaid wages, causing the stock of unpaid wages to fall in August and rise in September (by Ft 18.1 billion).

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

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

At constant prices

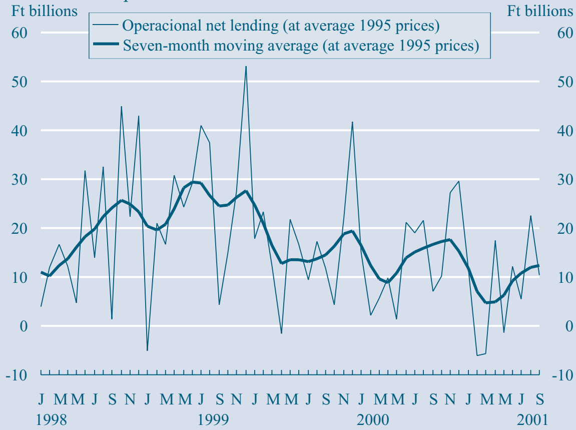


***Table K* Disaggregating net financial wealth of households into the components of change**

Ft billions

	Stocks: 30 September 2001	September flows:	Transactions				
				Transactions net of compensation for inflation	Compensation for inflation incorporated in interest	Revaluations	Other changes in volume
Cash	873.8	21.9	21.9	21.9	0.0	0.0	0.0
Forint deposits and bank securities	2,775.1	15.8	15.8	0.8	15.0	0.0	0.0
Foreign currency deposits	739.8	8.9	–4.6	–5.8	1.2	13.5	0.0
Non-bank securities	1,555.1	–3.6	2.1	–6.6	8.7	–5.7	0.0
Pension funds and life insurance	981.8	22.3	22.3	16.0	6.3	0.0	0.0
Non-paid wages	146.3	18.1	18.1	18.1	0.0	0.0	0.0
Financial assets, total	**7,071.9**	**83.4**	**75.6**	**44.4**	**31.2**	**7.8**	**0.0**
Home-building loans	288.6	13.5	13.5	11.7	1.8	0.0	0.0
Consumer credit	518.9	12.5	12.3	9.0	3.3	0.3	–0.1
Other borrowings	54.0	0.2	0.2	0.2	0.0	0.0	0.0
Household debt	**861.5**	**26.2**	**26.0**	**20.9**	**5.1**	**0.3**	**–0.1**
NET FINANCIAL WEALTH AND THE COMPONENTS OF CHANGE IN WEALTH	**6,210.4**	**57.2**	**49.6**	**23.5**	**26.1**	**7.5**	**0.1**

***Chart 33* Growth in household sector financial wealth at constant prices**

Percentage changes on a year earlier

At average 1995 prices using seven-month moving

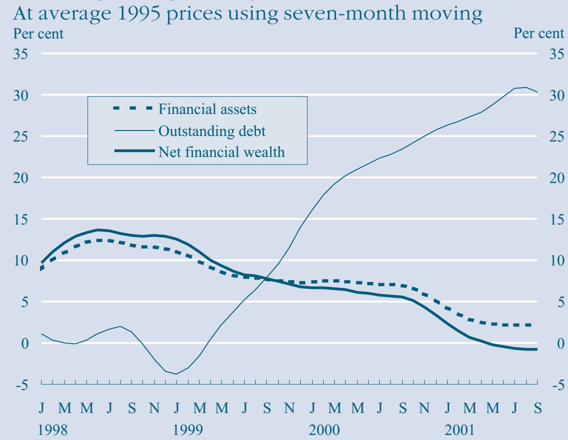


***Chart 34* Household sector financial assets**

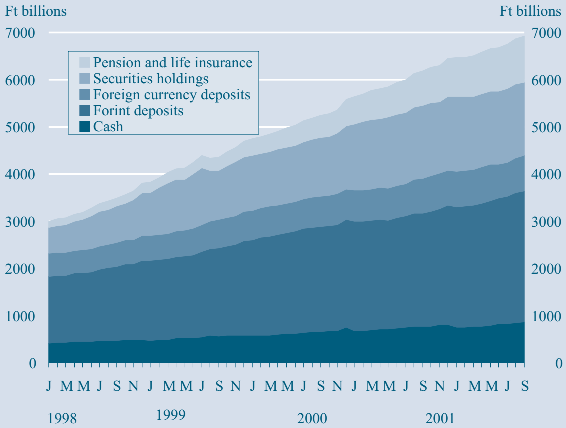
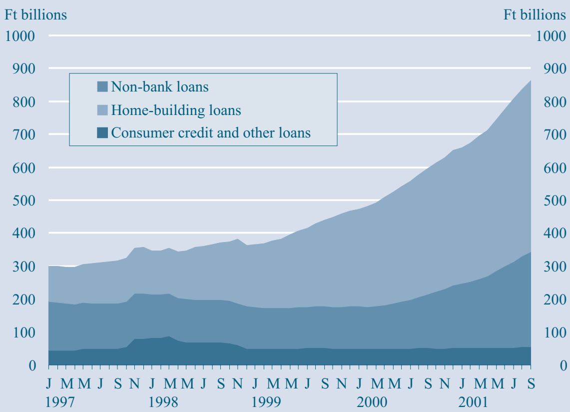


Chart 35* Outstanding borrowings of households by type of debt



* In the 9/2001 Monthly Report, the Chart 'Outstanding borrowings of households by type of debt' contained an error, as the markings of components were transposed.

Unlike in the preceding two months, the household sector reduced its foreign currency deposits. Operational transactions amounted to Ft –5.8 billion, affecting the accounts held in US dollars. At month-end, households' foreign currency deposits were concentrated 47.5% in the dollar and 43% in the euro-area currencies (see Chart 34).

After increasing slightly in the preceding two months of the year, households cut their holdings of non-bank securities in September, operational transactions accounting for Ft –6.6 billion. They continued to buy investment units, mostly those issued by funds diversifying into government securities. In contrast with investment units, holdings of government securities and shares fell. Operational transactions affecting investment units, government securities and shares amounted to Ft 4.5 billion, Ft –8.1 billion and Ft –3 billion respectively.

Household sector net borrowings continued to increase strongly in September, although the trend values of this growth rate, measured on the basis of constant prices, suggested that the pace of growth in debt slowed. Total outstanding debt rose by Ft 26.2 billion. As seen in the preceding few months of 2001, housing loans, at Ft 13.5 billion, grew a little more strongly than consumer credit, which grew by Ft 12.5 billion in the month (see Chart 35).

Main economic and financial indicators

	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 positione
	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	113.3	116.3	113.6	11.00	10	42	11,110	17.2
August		109.6	107.6	112.4	6.5	44.1	114.4	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	114.6	116.2	114.0	10.75	–311	229	12,047	–3.2
October		110.4	108.7	112.2	6.2	21.1	111.7	115.5	114.8	11.42	–55	37	12,069	–36.7
November		110.6	108.9	114.6	6.0	57.2	115.0	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	106.6	111.5	112.7	11.75	–583	314	12,068	–40.6
January 2001		110.1	109.7	116.0	6.0	24.8	111.7	115.3	113.0	11.55	–237	109	11,590	–42.7
February		110.4	109.8	117.4	6.3	–13.0	110.2	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	108.5	113.3	110.7	11.25	–48	142	12,187	43.0
April		110.3	110.2	119.3	5.8	38.1	108.3	111.6	111.5	11.25	–2	62	12,536	–74.8
May		110.8	110.3	115.0	5.7	–2.9	110.3	112.2	113.5	11.25	–134	124	12,990	–31.4
June	104.0	110.5	110.2	117.9	5.4	27.1	110.6	111.4	112.7	11.25	–341	111	13,596	–16.6
July		109.4	110.3	114.0	5.7	12.2	109.4	110.1	113.3	11.25	191	23	13,536	–40.9
August		108.7	109.6	117.2	5.8	50.7	110.2	112.5	115.9	11.25	273	100	13,128	–77.2
September		108.0	108.7	118.8	5.3	23.5	110.7	112.2	115.2	11.08	39	92	13,120	–31.6

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