



Monthly Report

(includes data up to the end of October 2001)

12/2001

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* Starting from the current, 12/2001 issue of the Monthly Report, the Monetary Council's policy decisions will be published in a separate chapter, after the statistical section of the Report. The decisions will be made available going back to July 2001, when the Monetary Council took office.

Domestic economic activity

Industrial output growth was virtually stagnant in October 2001. Following a decline in September, output and sales both rose a little in the month under review, but the data continued to show no significant pick-up in activity (see Chart 1).

Taking account of working-day variations, seasonally adjusted industrial output and total sales were 2.2% and 0.9% higher respectively in October than in the preceding month. Within total sales, the volume of exports rose by 2.6%, that of domestic sales remaining flat at the preceding month's level (see Chart 2).

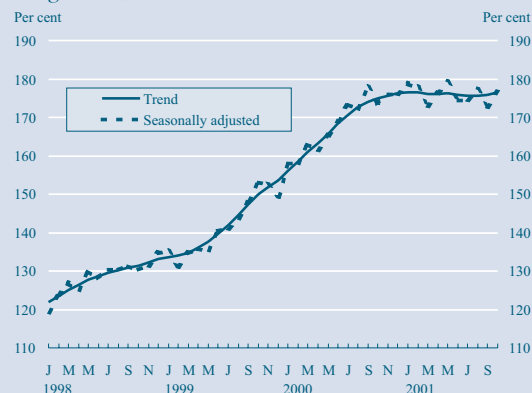
Turning to twelve-month industry developments, industrial output was higher again than a year earlier following the drop seen in September. Sales and output both rose by around 4% relative to October 2000. Within total sales, exports surged by 8.5%, in contrast with domestic sales, which fell slightly, by 0.7%, in comparison with same month of the previous year.

Orders for manufacturers' output in the mainstream branches of manufacturing¹ continued to indicate no pick-up in output. Nevertheless, the volume of existing orders at end-October still exceeded strongly, by 34%, the twelve months previous level, basically underpinned by a 45.3% upsurge in existing export orders. However, domestic orders still failed to recover to their year earlier level, being 8.6% lower in a twelve-month comparison. The October volumes of fresh orders to the export and domestic sectors showed slight increases of 0.5% each relative to the same month of 2000.

Whole-economy investment outlay amounted to Ft 750.9 billion in 2001 Q3. Measured at constant prices, this meant an increase of 2.9% relative to the year earlier period. The seasonally adjusted volume of third-quarter fixed investment was 0.3% higher than in the previous quarter (see Chart 3).

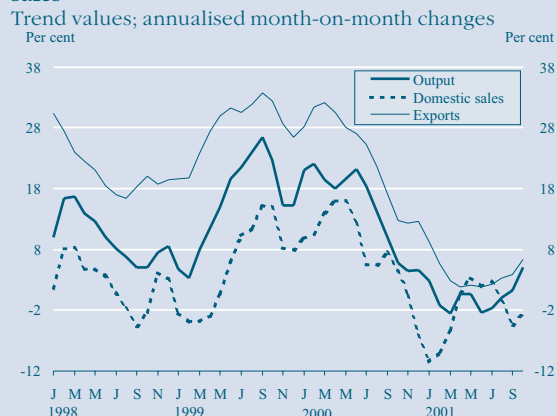
¹ The mainstream branches of manufacturing are manufacture of textiles and textile products, manufacture of paper and paper products, manufacture of chemicals and chemical products, manufacture of basic metals and fabricated metal products, manufacture of machinery and equipment, manufacture of electrical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

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



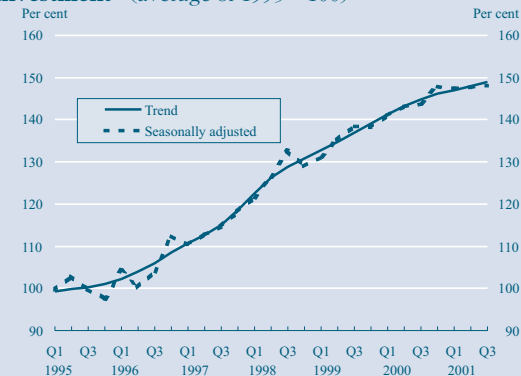
* Using the Bank's method to seasonally adjust and calculate trends from data reported by the CSO.

Chart 2 Volume indices of industrial production and sales*

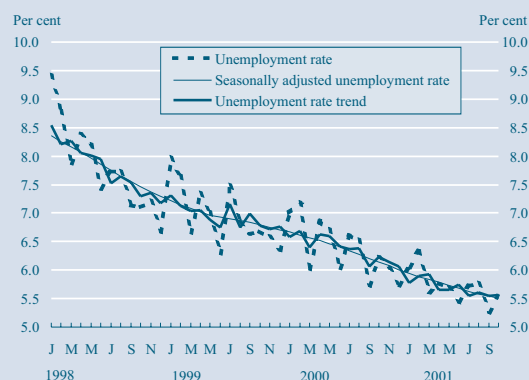


* Using the Bank's method to calculate trends from data reported by the CSO.

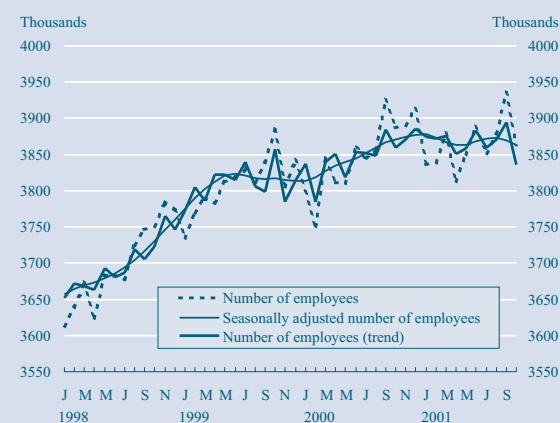
Chart 3 Volume indices of whole-economy investment* (average of 1995 = 100)



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

Chart 4 Whole-economy unemployment rate*

* 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.

Similarly to the trends characterising the previous quarters of 2001, a robust increase in dwelling construction was the driving force behind the pick-up in whole-economy investment activity. Fixed investment in real estate, renting and business activities, which include dwelling investment as well, grew by nearly 25.1% relative to the comparable period of 2000.

Looking at fixed investment by category, construction investment grew by 9.7%, in contrast with machinery investment, which fell by 5.3% relative to the comparable period of the previous year.

Turning to labour market developments in October, the preceding months' underlying trends of unemployment continued, but the number of people in employment indicated an unfavourable turn. According to the evidence of both the trend values and the seasonally adjusted data, the number of whole-economy unemployed continued to fall. By contrast, stagnation in the number of people in employment since the start of the year was replaced by a decline.

According to the values derived from the CSO's quarterly Labour Force Survey data, adjusted for seasonal effects, the whole-economy unemployment rate was 5.6% in the month under review, which, although 0.1 of a percentage point higher than in September, was 0.6 of a percentage point lower than a year before (see Chart 4).

The seasonally adjusted number of people in employment fell in October relative to both the preceding month and a year earlier, showing decreases of 1.5% and 0.6% respectively. The number of economically active people was 1.5% lower in the month under review than in September and also 1.3% lower than in October 2000 (see Chart 5).

Price trends

Consumer prices

The one-month consumer price index, measured by the CSO, showed a 0.3% increase in October.² From among the energy products, motor fuel prices fell by 3.9% in one month. The market price of energy³ rose by 0.4%, its regulated price rising by 1.2%. Regulated services prices fell by 0.1% in October. By contrast, pharmaceuticals prices rose by 0.1%. Alcoholic drinks and tobacco cost 0.2% more in the month. As regards the other price categories used by the Bank which are easy to seasonally adjust, the changes in the annualised trend values of price indices are being presented instead of the monthly changes (see Chart 6).

The annualised trend of the seasonally adjusted consumer price index remained unchanged at 5.6% in October. The trend value of processed foods price inflation fell from 8.9% to 8.5% in the month. The trend value of industrial goods price inflation was 2.3%, its lowest level for several years. The trend of market services price inflation also fell – dropping from 10.3% in September to 9.9% in October.

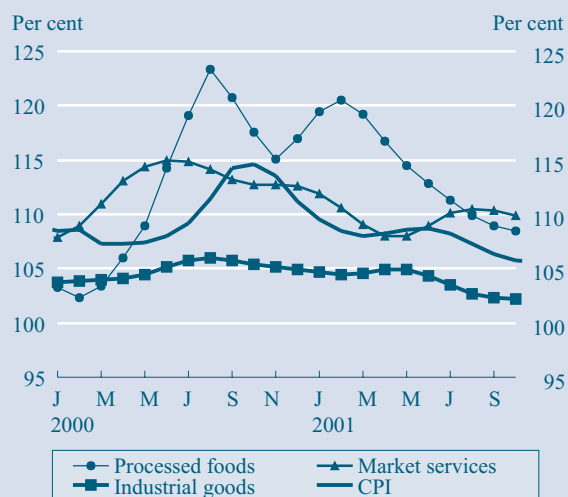
Examining twelve-month price movements, the consumer price index showed a 7.6% annual increase in October 2001 relative to a year earlier. That was 0.4 of a percentage point and 1.1 percentage points lower than in September and August respectively (see Chart 7).

From among the categories monitored by the Bank, the downward trend of the food price index broke in October. Food prices were 12.1% higher on average than a year earlier. Annual processed foods price inflation was 12.7% in October, comparable with September's level. Unprocessed food price inflation rose to 10.3% in the month under review from 8.2% in September. Motor fuel prices continued to fall – following a 5.9% drop in September, they fell by another 10.8% in October. Market-determined household energy prices had been falling since March, the twelve-month index declining from 33.4% in February to 4.3% in October.

² Developments in the price categories which are difficult to seasonally adjust are presented on a month-on-month basis. Annualised price trends have been calculated for the categories that can be easily seasonally adjust. Unprocessed foods prices show a high degree of volatility. Therefore, they have not been analysed either on a month-on-month or a trend basis.

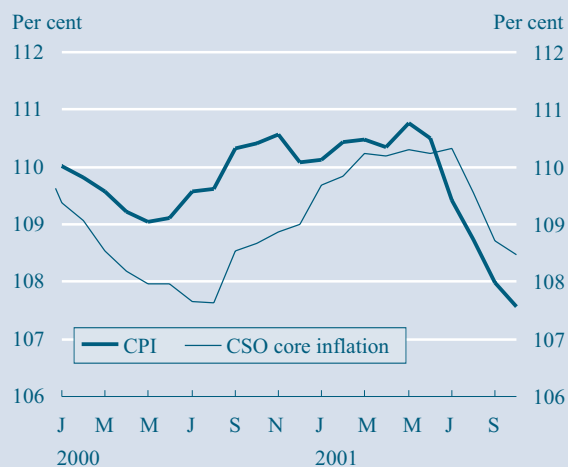
³ This category does not include the effects of changes in motor fuel prices.

Chart 6 Annualised price trends of the major aggregates*



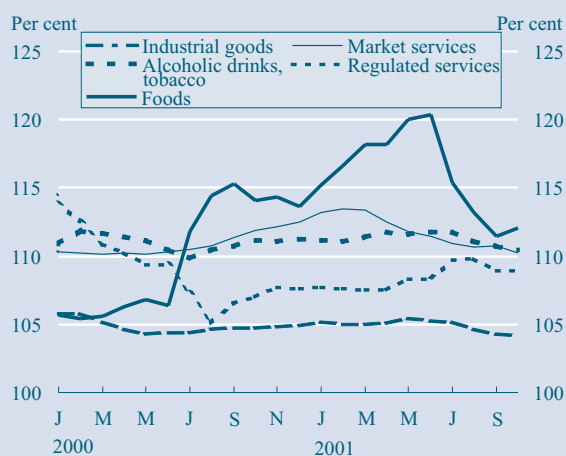
* Five-month centred moving averages of seasonally adjusted indices using different weights. The major price categories have been adjusted using the Bank's method.

Chart 7 Year-on-year consumer price index and core inflation



Source: CSO

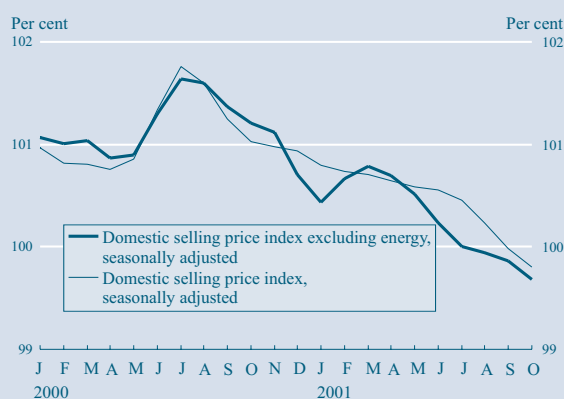
Chart 8 Changes in the prices of the major categories monitored by the NBH*



*Using data reported by the CSO.

Chart 9 Domestic producer price indices*

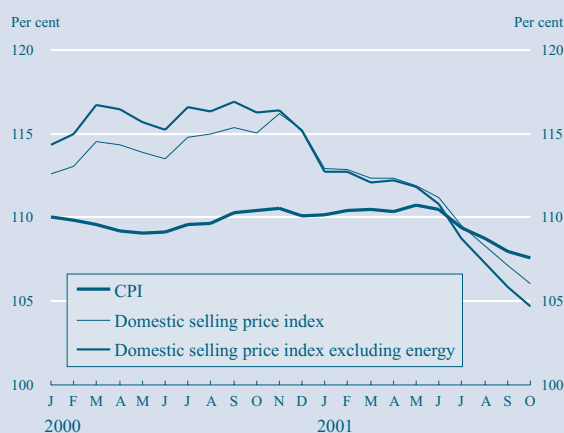
Preceding month = 100



*Seasonally adjusted by the Bank using data reported by the CSO.

Chart 10 Comparison of domestic selling prices excluding energy with other price indices

Same month of previous year = 100



Regulated energy prices, in contrast, rose to 9.0%. Up 4.1%, the prices of industrial goods continued to rise at a modest pace. Annual services price inflation fell a little in the month, the October outcome being 10.3%. As a result of these price movements, the basket price index of goods comprising foods, industrial goods, market services and market energy fell from August's 9.1% and September's 8.4% to 8.2 in October. The price index of alcoholic drinks and tobacco, at 10.5%, was 0.3% lower than in September. Pharmaceuticals prices rose by 17.2% and those of other regulated services by 7.3% in twelve months (see Chart 8).

Producer prices

Domestic producer prices excluding energy⁴ characterise changes in producer prices the best. Seasonally adjusted by the Bank, they fell by 0.3% in October relative to the preceding month. The CSO release of industrial firms' domestic selling prices were 0.2% lower in the month under review. After seasonal adjustment, prices also showed a 0.2% decrease. The twelve-month increase was 6.1%, 1.1% lower than in September (see Charts 9 and 10).

The combined one-month change in producers' domestic and export prices was a 0.3% decrease in October. Domestic selling prices fell for the first time in October since the start of the year, showing a 0.2% drop. Manufacturing industry prices were 0.3% lower than in the preceding month. Chemical industry prices and engineering prices fell by 1.6% and 0.3% respectively relative to September. By contrast, mining and extraction prices rose by 0.8%, and food, drink and tobacco prices by 0.3%.

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

Monetary developments

Monetary conditions

The following changes to monetary conditions were made in October 2001.

- Effective from 1 October, the crawling peg exchange rate devaluation regime was abandoned, and the central rate of the intervention band was fixed at 276.1 HUF/EUR. The role of the crawling peg system in guiding expectations was taken over by inflation targets, simultaneously with the introduction of the inflation targeting system.
- Effective from 25 September 2001, the National Bank of Hungary lowered the central bank base from 11.0% to 10.75%. Official interest rates on facilities related to the base rate were changed accordingly. Simultaneously with the reduction in the base rate, the overnight deposit rate was lowered from 9.0% to 8.75% and the overnight repo rate from 13.0% to 12.75%.

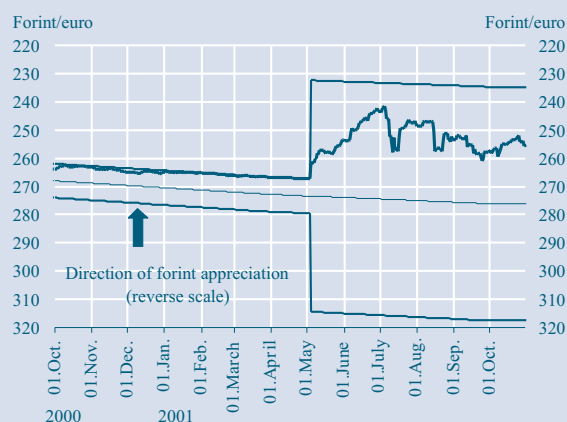
The exchange rate

The market rate of the forint continued to fluctuate in the upper region of the intervention band in October. The exchange rate strengthened by more than 2% in the period prior to 25 October. Then it weakened slightly, to close the month at 255.35 vis-à-vis the euro, 7.52% above the mid-band rate. This was 0.93% stronger than the close at end-September (see Chart 11). The October average HUF/EUR exchange rate was 255.46, 0.16% higher than the September average. The average distance of the exchange rate from the central rate was 747 basis points in the upper range of the intervention band. That meant an increase of 22 basis points relative to September.

Taking effect from 1 October 2001, 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.⁵ There continued to be no official intervention in the foreign exchange market in October.

⁵ Since 4 May 2001, the width of the intervention band is $\pm 15\%$.

Chart 11 Movements in the forint exchange rate vis-à-vis the euro within the intervention band



Statistical balance sheet of the NBH

The value of banknotes and coin in circulation increased by Ft 20 billion in October, the end-of-month total of other monetary financial institutions' account balances with the central bank increasing by Ft 90.2 billion relative to the end-September level. Closely related to these changes, outstanding repo transactions of other monetary financial institutions and holdings of NBH domestically issued bills increased by Ft 16.2 billion and Ft 34.1 billion respectively. Forint deposits of other monetary financial institutions with the central bank fell by Ft 160.2 billion. The decrease in central government sector forint deposits with the central bank was Ft 67.7 billion. The Bank purchased foreign currency to the amount of Ft 16.6 billion in October to supply the foreign currency needed by the central government to service its foreign currency debt (see Table A).

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

	Ft billions								
	2000			2001					
	Q2	Q3	October**	Q2	Q3	October**	Of which:		
	Averages*			Averages*			Transactions	Revaluations	
Assets									
Banknotes and coin	15.4	16.3	-1.2	21.6	18.8	20.0	20.0	0.0	
Forint liabilities to other monetary financial institutions	-97.3	-21.3	-79.3	20.8	-3.0	-62.7	-62.7	0.0	
Foreign currency liabilities to other monetary financial institutions	-11.7	9.3	-26.2	5.7	-11.6	-22.7	-21.0	-1.7	
Liabilities									
Net claims on central government	-13.9	10.2	-134.1	-103.1	-19.9	-55.4	-50.7	-4.7	
Of which: forint loans	-6.0	-6.0	-0.1	-6.0	-6.0	0.0	0.0	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	-12.2	-40.1	-35.0	-17.0	0.0	-17.0	
Claims on other monetary financial institutions	-10.3	-1.7	-2.7	19.2	-20.3	20.6	20.6	0.0	
Net foreign assets and those not broken down by sector	-69.5	-4.2	30.1	132.0	44.4	-30.5	-33.4	2.9	

* 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
	Sep.	Oct.	
Assets			
Banknotes and coin	1,039.4	1,049.8	10.4
Forint liabilities to other monetary financial institutions	986.5	960.3	-26.2
Of which: bank's liabilities	399.9	408.4	8.5
forint depositst	483.3	441.2	-42.1
domestically issued NBH bills	103.3	110.7	7.4
Foreign currency liabilities to other monetary financial institutions	367.2	362.1	-5.1
Liabilities			
Net claims on central government	998.2	958.2	-40.0
Of which: forint loans	251.6	235.4	-16.2
government securities	172.1	172.1	0.0
foreign currency loans	1,324.7	1,311.2	-13.5
Claims on other monetary financial institutions	80.9	97.6	16.7
Net foreign assets and those not broken down by sector	1,314.1	1,316.5	2.4

* Monthly average of daily stock data.

Looking at developments in the average stocks of central bank liabilities to other monetary financial institutions, the average of current account balances increased by Ft 8.5 billion, while the averages of forint and foreign currency deposits decreased by Ft 42.1 billion and Ft 5.1 billion respectively in one month. Other monetary financial institutions' average holdings of NBH domestically issued bills increased by Ft 7.4 billion (see Table B).

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 2.3 percentage points to 13.0% in October 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 October, increased slightly

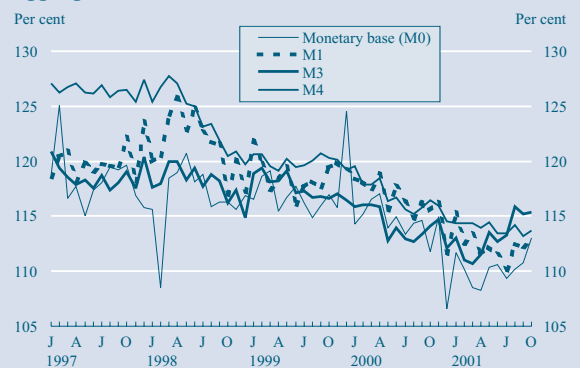
in the month under review. Annual growth in M1, a composite of banknotes and coin held by non-banks plus forint sight deposits, picked up 0.8 of a percentage point, the end-of-month stock of the aggregate being 12.9% higher than a year before. The annual index of the money measure M2, which comprises foreign currency deposits and time forint deposits, in addition to M1, increased by 0.3 of a percentage point relative to September, to run at 15.0%. Growth in broad money M3, a measure of M2 plus liabilities from repurchase agreements and holdings of bank securities, picked up 0.1 of a percentage point, the end-of-month stock of M3 being 15.4% 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, increased by 0.5 of a percentage point. As a result, the end-of-month stock of the aggregate was 13.7% higher in one year (see Chart 12).

Examining 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 increased by Ft 64.1 billion in October due to the transaction effect. Here, foreign currency deposits rose by Ft 28.6 billion due to transactions and fell by Ft 1.2 billion due to exchange rate movements. Household sector deposits were Ft 76.8 billion higher than in September. Domestic currency deposits rose by Ft 75.3 billion due to transactions. Foreign currency deposits increased by Ft 4.2 billion due to the transaction effect, but fell by Ft 2.7 billion on account of the negative contribution of exchange rate movements. On balance, households' foreign currency deposits rose by Ft 1.5 billion.

Domestic claims include claims from securities holdings vis-à-vis the domestic sectors, in addition to the domestic credit stock, on the assets side of the aggregate balance sheet of monetary institutions. They increased by Ft 484.7 billion due to transactions but fell by Ft 10.3 billion due to the exchange rate effect. Corporate sector outstanding domestic borrowings were Ft 46.7 billion higher in the month. Here, the transaction effect accounted for Ft 48.7 billion of the increase in outstanding forint borrowings. Outstanding foreign currency borrowings increased by Ft 7.5 billion due to transactions but fell by Ft 6.7 billion due to the exchange rate effect. Other volume changes caused a Ft 2.8 billion decrease in the end-of-month stock of corporate sector foreign currency borrowings. Central government net liabilities decreased by Ft 38.6 billion and by Ft 5.7 billion on account of the transaction effect and the exchange rate effect respectively. Lending by monetary institutions to the household sector rose by Ft 21.8 billion in October relative to the preceding month.

As an effect of changes in outstanding borrowings and deposits, net liabilities of the general government sector

Chart 12 Annual growth rates of the monetary aggregates*



* 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

	2000			2001			Ft billions	
	Q2	Q3	October	Q2	Q3	October	Of which:	
	Averages***			Averages***			Transactions	Revaluations
Non-financial corporations, net (S.11)	-47.1	-69.7	-97.4	37.3	-38.7	58.6	51.2	4.6
Assets	-62.6	-93.7	-144.2	18.7	-65.9	-42.2	-50.8	5.8
Deposits+cash+repos+securities	15.5	24.0	46.9	18.6	27.3	100.8	102.0	-1.2
Other financial corporations, net (S.123+S.124+S.125)	-17.1	-22.1	-11.7	-6.7	10.4	-62.1	-60.9	-1.2
Assets	-3.3	-5.4	-19.6	-23.3	-11.7	-8.2	-7.0	-1.2
Deposits+repos	-13.8	-16.8	7.9	16.6	22.0	-54.0	-54.0	0.0
General government sector, net* (S.13)	-26.7	-6.5	119.9	134.8	-35.2	-5.2	-10.9	5.7
Central government, net* (S.1311)	-13.8	-22.1	152.4	153.5	-56.9	44.3	38.6	5.7
Local government, net (S.1313)	-12.9	15.6	-32.5	-18.7	21.7	-49.5	-49.5	0.0
Credits	-1.3	0.2	1.0	-2.1	0.2	-4.0	-4.0	0.0
Deposits	-11.6	15.4	-33.5	-16.6	21.5	-45.5	-45.5	0.0
Social security funds (S.1314)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Households, net** (S.14)	9.2	31.8	26.8	9.1	30.8	69.3	72.0	-2.7
Credits	-15.9	-18.2	-20.4	-27.3	-27.8	-21.5	-21.5	0.0
Deposits+cash+securities	25.1	50.0	47.2	36.4	58.7	90.8	93.5	-2.7
Non-profit institutions serving households, net (S.15)	-0.2	1.7	1.3	-0.6	0.8	0.5	0.5	0.0
Credits	0.1	0.0	0.0	0.4	0.0	-3.8	-3.8	0.0
Deposits	-0.3	1.7	1.3	-1.0	0.8	4.2	4.2	0.0
Non-residents, net (S.2)	34.2	-17.9	-69.9	-78.7	-30.8	-68.6	-27.0	-15.1
Other, net	47.8	82.7	31.0	-95.2	62.7	7.6	-24.8	8.8

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.

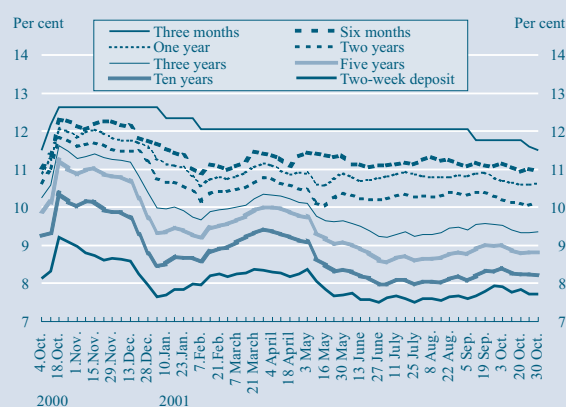
** Including accrued interest.

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

were Ft 5.2 billion higher in October than in September. Net savings of households vis-à-vis monetary institutions rose by Ft 69.3 billion, net assets of non-financial corporations fell by Ft 58.6 billion and net foreign assets of monetary institutions vis-à-vis non-residents increased by Ft 68.6 billion (see Table C).

Chart 13 Zero-coupon yields and annualised central bank two-week deposit rates

Short-term yields on a compounded basis; weekly averages



Government securities market

The direction of yields was mostly downwards in the Hungarian government securities market in October. Zero-coupon yields⁶ reflect developments in the secondary market. Looking at the month as a whole, they fell on an inverted scale, by 39, 11 and 9 basis points on average at three, six and twelve months. Movements were quite similar at the more distant maturities, i.e. at two, three and five years, to those at the shorter ones, yields declining by 22, 19 and 8 basis points. At ten years, the most distant maturity of the spectrum, the yield was little changed relative to the preceding month, actually rising 5 basis points (see Chart 13).

⁶ The National Bank of Hungary calculates zero-coupon yields using the Svensson method. The estimates rely on the Debt Management Agency's release of the most favourable secondary market prices of discount treasury bills and fixed-rate government bonds with residual maturity of more than three months.

The implied one-year forward rates⁷ for the more immediate maturities, i.e. in one and two years' time, fell 36 and 14 basis points. Those for the more distant maturities, in contrast, rose progressively, by 6, 14 and 17 basis points towards end-October relative to end-September (see Chart 14).

Non-resident investors stepped up their holdings of Hungarian domestic currency-denominated government debt securities by Ft 40.2 billion. The sector's total holdings amounted to Ft 980.109 billion at the end of the month under review.

The total amount of bids submitted at the auctions of government bonds fell in October relative to September. Five auctions of NBH bills were conducted in the month under review.⁸ Yields mostly fell throughout the month, accompanied by moderating investor demand. The monthly average yield evolving at the auctions held in the month, weighted by the amount allotted, was 10.61%.

The Hungarian Government Bond Index, the MAX, reflects movements in the prices of publicly-issued, fixed-coupon government bonds with a residual maturity of more than one year. Its value stood at 213.6285 points on 31 October. Calculated from movements in the index values, the annual return realisable on a portfolio equal to the composition of the index basket was 13.13%.

Market interest rates

The total volume of transactions in the interbank market was Ft 1,392.3 billion in October, showing an increase of Ft 110.4 billion relative to the preceding month. From a low level seen at the beginning of the month, the daily average

⁷ Implied forward rates may be equal to expected future interest rates only if certain conditions are met. However, movements in derived rates may help anticipate shifts in the market's expectations of future interest rates even making mild assumptions. At present, only two ten-year government bonds trade in the market, and turnover volumes in the secondary market are relatively thin. Therefore, the estimate of the ten-year zero-coupon rate, and particularly the forward rate derived from the zero-coupon rate, which, for the purposes of the analysis, is substituted by the one-year rate in nine years' time, do not reflect adequately the rapid turns in the market's judgement.

⁸ On 22 March 2000, the National Bank of Hungary started to issue a zero coupon bond with maturity of three months, classified as a government bond. The inaugural sale of the paper took place on 20 March 2000. The Bank offers a new series of the bill at auction every Monday. As part of a reform of its monetary policy instruments in March 2001, the Bank changed over from the earlier 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 screen page NBHJ at 2 p.m. on the business day preceding the auction.

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

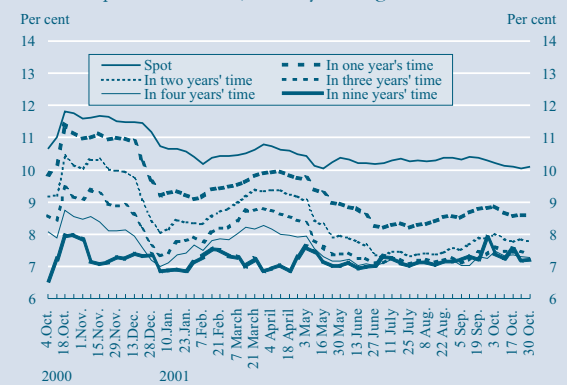


Chart 15 Average interbank lending rates and official dealing rates, October 2001

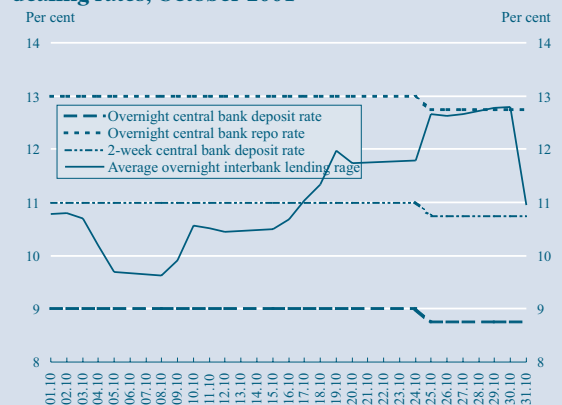


Chart 16 Monthly averages of interbank lending rates and official dealing rates

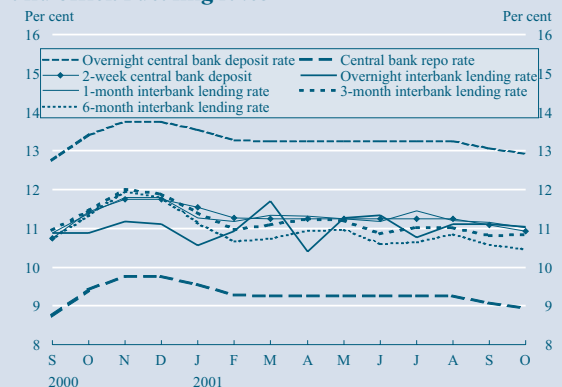


Chart 17 Non-financial corporate sector borrowing and deposit rates

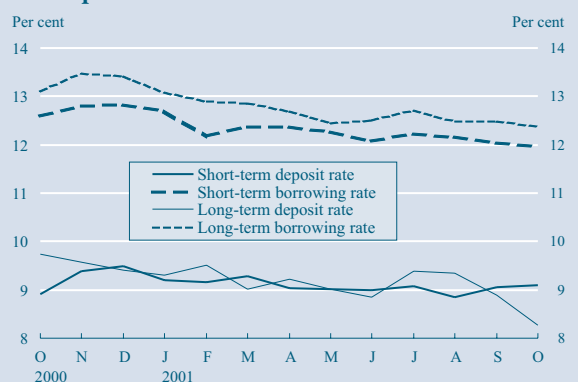
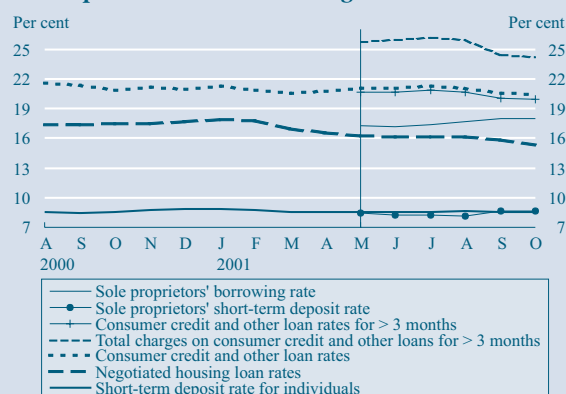


Chart 18 Household sector average borrowing and deposit rates and total charges on loans*

* Data for the averages of interest rates on consumer credit and other loans, provided for terms of more than three months, and those for sole proprietors are available since May 2001.

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

	2001					
	May	June	July	Aug.	Sep.	Oct.
Overdrafts						
Average interest rate	20.11	20.09	20.33	20.27	18.89	19.00
Average total charge	26.56	26.53	26.82	26.75	23.98	24.14
Personal loans						
Average interest rate	23.88	23.57	23.15	22.99	23.08	23.11
Average total charge	29.12	29.65	28.72	28.68	28.64	28.49
Lombard loans						
Average interest rate	17.89	17.35	18.09	16.92	17.25	17.78
Average total charge	20.25	19.73	20.94	19.81	20.59	19.84
Hire purchase loans						
Average interest rate	27.05	28.09	28.17	27.34	27.93	27.37
Average total charge	30.64	32.38	32.55	32.04	32.07	32.40
Car purchase loans						
Average interest rate	19.88	19.82	19.76	19.93	19.92	19.19
Average total charge	22.40	22.40	22.28	22.47	22.33	20.47
Mortgage loans						
Average interest rate	18.70	18.77	18.66	18.72	18.64	18.66
Average total charge	21.19	21.07	21.21	20.95	20.66	20.11
Other loans						
Average interest rate	17.37	16.70	16.82	17.64	16.69	16.24
Average total charge	20.49	21.10	22.29	19.30	19.95	20.57
Total consumer and other loans						
Average interest rate	20.62	20.61	20.82	20.67	19.99	19.95
Average total charge	25.76	25.95	26.15	25.93	24.41	24.28

* 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**

	2001					
	May	June	July	Aug.	Sep.	Oct.
Consumer credit and other loans						
Overdrafts	52.20	52.70	53.61	54.95	54.21	56.07
Personal loans	12.59	12.96	12.53	12.16	12.90	11.29
Lombard loans	3.00	3.44	2.19	1.61	2.07	2.21
Hire purchase loans	5.63	5.46	7.00	6.46	6.62	6.91
Car purchase loans	7.99	7.79	7.13	6.15	6.12	6.28
Mortgages	17.78	16.74	16.06	16.69	16.99	16.37
Other loans	0.80	0.90	1.49	1.98	1.10	0.87
Total	100.00	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.

of interest rates on overnight loans rose gradually in the second part of the month, to fluctuate near the upper boundary of the interest rate corridor. Despite the reduction in official interest rates on 25 October, overnight inter-bank rates moved closely aligned with the overnight central bank repo rate in the last week of the month. On the 31st, they returned towards the centre of the interest rate corridor, influenced by the maturity of deposits with the central bank (see Chart 15 on Page 13).

October's average overnight interest rate fell from the preceding month's 11.10% to 11.03%. The average of borrowing rates for one month fell 14 basis points to 11.01%. The three-month average interest rate remained unchanged at September's 10.83%. Six-month borrowing rates changed from 10.59% to 10.47% on average (see Chart 16 on Page 13).

The negotiated average price for non-financial corporations of short-term loans fell from 12.04% in September to 11.95% in October. That of long-term loans changed from 12.49% to 12.39%. Average short-term deposit rates changed from 9.05% to 9.09%, that of long-term deposits falling 63 basis points from 8.89% to 8.26%, basically on account of changes in the composition of deposits. The gap between the averages of short-term borrowing and deposit rates, playing a more significant role in non-financial corporations' debts and deposits, was 2.86 percentage points in October (see Chart 17 on Page 13).

Turning to changes in households' market rates, average borrowing rates of individuals mostly fell in October, continuing the downward trend which began in September. The negotiated average housing loan rate decreased from 15.78% to 15.28% and that of consumer credit rates from 20.55% to 20.44%. Both decreases were due to changes in banks' interest rate conditions.

The average interest rate on consumer credit and other loans, provided for terms of more than three months, was 19.95%, down from 19.99% in the preceding month. The total charge indicator for consumer credit and other loans, provided for terms of more than three months, changed to 24.28% (see Chart 18).

Individuals' average sight deposit rates rose from 3.33% to 3.42%. The average of short-term deposit rates, at 8.57%, remained broadly unchanged. That of interest rates on long-term deposits changed from September's 9.30% to 9.22%.

The average interest rate on lending to sole proprietors, a constituent of the household sector, remained static at the 17.95% seen in the preceding month. The average sight deposit rate fell from 1.81% to 1.74% and the average short-term deposit rate rose from 8.59% to 8.63% (see Tables D and E).

The BUX and the world's leading share market indicators

The share index of the Budapest Stock Exchange rose robustly, by 9.7% in October following a combined decline of 13.1% in the preceding four months. The swift upturn in prices which began in the last week of September continued in early October, the BUX being 8.7% higher on the 11th than its close in September. Subsequently, the market drove prices lower, followed by a strong upturn towards month-end. The BUX reached its monthly peak of 6,823.43 on the 29th. The market closed the month at 6,773.14 points (see Chart 19).

Measured on a dollar basis, the official index of the Budapest Stock Exchange rose by 9.0% in October following a 4.2% decline in September. This gain was stronger than those registered by the important international exchanges. After losing 5.4% in August and 11.1% in September, the Dow Jones Industrial Average of New York rose by only 2.6%. Also measured on a dollar basis, the DAX of Frankfurt gained 4.4% and the London FTSE a slight 1.4%. This meant they reversed some of their 17.0% and 7.0% losses respectively registered in the preceding month. Following the more than 36% combined tumble suffered in the preceding three months, the NASDAQ, a gauge of movements in the prices of technology stocks, rose strongly in October, gaining 16.8%.

Looking at the Far Eastern markets, the Nikkei in Tokyo registered a 3.6% gain on a dollar basis after a combined loss of 26.5% in June–September. Gains of the Hang Seng of Hong Kong, at 1.2%, were even more modest, after a total decline of 23.7% in the preceding three months (see Chart 20).

Distribution of securities holdings by sector

The underlying trends of the Hungarian government securities market changed significantly in 2001 Q3. Whereas non-residents markedly reduced their holdings of government securities up to end-September, other monetary financial institutions (credit institutions) strongly stepped up theirs. As regards exchange-traded shares, non-residents continued to be net buyers, as seen in the first half of the year. In addition to non-residents, the financial corporate sector, too, purchased more shares than it sold. There were few changes in the third quarter in holdings of exchange-traded shares at the sectoral level.

Total Hungarian government debt securities holdings,⁹ measured at market value, rose by 3.9% in 2001 Q3 relative to the previous quarter. This was accounted for by an 8.9%

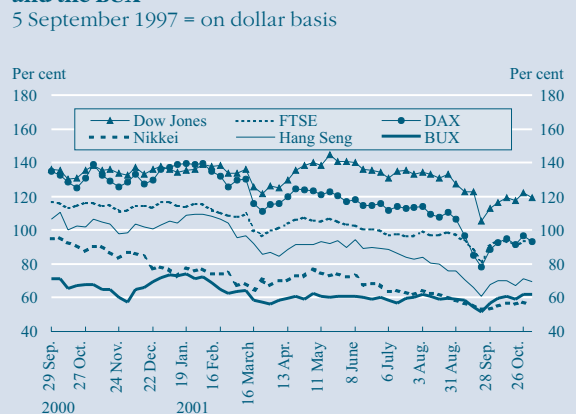
⁹ Government securities comprise domestically issued forint-denominated government bonds, treasury bills and domestic currency bills issued by the NBH.

Chart 19 The BUX
2 January 1991 = 1000



Source: BÉT

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



Source: Reuters

Table F Distribution of government securities holdings by sector

	Per cent	
	Total holdings	
	2001	
	June	September
Non-financial corporations (S. 11)	6.0	6.2
National Bank of Hungary (S. 121)	3.2	3.2
Other monetary financial institutions (S. 122)	24.4	27.0
Other financial intermediaries (S. 123)	9.7	8.6
Financial auxiliaries (S. 124)	1.3	1.9
Insurance companies pension funds (S. 125)	17.3	17.9
Financial corporations (S. 12)	56.0	58.6
Central government (S. 1311)	0.1	0.1
Local government (S. 1313)	2.4	2.7
Social security funds (S. 1314)	0.0	0.0
General government (S. 13)	2.5	2.8
Households (S. 14)	15.5	14.6
NPIs serving households (S. 15)	0.7	0.7
Non-residents (S. 2)	19.2	17.1
Total holdings	100.0	100.0

increase in government bonds holdings, as those of treasury bills and NBH bills fell by 0.8% and 11.8% respectively.

The market value of households' government securities holdings fell by Ft 18.1 billion. The sector's share of the government securities market decreased by nearly 1 percentage point in the period under review.

Non-resident holdings of government debt securities turned significantly lower, by Ft 83.5 billion, following uninterrupted rises in previous quarters. The sector's percentage share of total holdings fell from 19.2% to 17.1% towards the end of the period.

Financial corporations increased their holdings of government securities by Ft 268.9 billion, explained by a strong, 2.6 percentage point increase in the percentage share of other monetary financial institutions and a slight increase in that of insurers and pension funds. The percentage share of investment funds was little changed in comparison with the previous quarter.

Non-financial corporations' holdings of government securities rose by Ft 23 billion. Nevertheless, the sector's percentage share of total holdings continued to be around 6%.

The share of general government holdings as a percentage of total market holdings increased from 2.5% to 2.8% in Q3, mainly on account of a rise in local authorities' holdings of government securities.

Non-profit institutions serving households continued to account for a stable percentage share of 0.7% for a protracted period (see Table F).

Following a decline of Ft 707.5 billion in the first half of the year, holdings of exchange-traded shares fell by a further Ft 282.7 billion in the period under review, to Ft 2,404.7 billion at end-September. Most of the drop in holdings was attributable to the fall in share prices. Playing a smaller role in the decline, the market value of de-listings exceeded that of listings. (Capital enlargements and reductions broadly cancelled each other out.)

Net sales of shares by households were largely equal to those in Q2 – the value of sales exceeded that of purchases by Ft 9.5 billion. The sector incurred a holding loss of around Ft 18.5 billion, so on balance its holdings of shares fell by more than Ft 28 billion in the period. The household sector directly held 6.6% of exchange-traded shares at the end of September.

Non-resident investors' holdings fell by more than Ft 200 billion, despite the sector being a net buyer to the tune of nearly Ft 8 billion. Non-residents incurred a nearly Ft 198 billion holding loss in the period. As a result, their percentage share remained virtually unchanged at 71.9%.

Holdings of exchange-traded shares by the financial corporate sector fell by nearly Ft 9 billion, despite the value of net purchases being Ft 5 billion. Taken together, the sector's proportion of total holdings rose from 6.4% at end-Q2 to 6.8% in Q3.

Table G Exchange-traded shares held by institutional sectors

	Per cent	
	Total holdings	
	2001	
	June	September
Non-financial corporations (S. 11)	6.4	5.7
National Bank of Hungary (S. 121)	0.0	0.0
Other monetary financial institutions (S. 122)	1.5	1.6
Other financial intermediaries (S. 123)	1.5	1.5
Financial auxiliaries (S. 124)	0.1	0.2
Insurance companies, pension funds (S. 125)	3.3	3.5
Financial corporations (S. 12)	6.4	6.8
Central government (S. 1311)	7.5	8.2
Local government (S. 1313)	0.8	0.7
Social security funds (S. 1314)	0.0	0.0
General government (S. 13)	8.4	9.0
Households (S. 14)	6.9	6.6
NPIs serving households (S. 15)	0.1	0.1
Non-residents (S. 2)	71.8	71.9
Total holdings	100.0	100.0

NFCs were net sellers to the tune of about Ft 1 billion. Moreover, they incurred a holding loss which was double the average. As a result, their share of the market fell from 6.4% to 5.7%.

The general government sector incurred smaller holding losses in relation to the other sectors, so its existing holdings fell by only Ft 10 billion. However, its percentage share rose to 9.0% (see Table G).

The outstanding total of investment fund certificates, measured at net asset value, rose by 7.1% in 2001 Q3.

There continued to be only modest changes in the percentage shares of the individual institutional sectors – a slight decrease in that of households contrasted with a modest increase in that of the other sectors (see Table 4).

Table H Investment unit holdings by institutional sector

	Per cent	
	Total holdings	
	2001	
	June	September
Other monetary financial institutions (S.122)	2,3	2,1
Households (S.14)	81,6	78,9
Other sectors (S.1-S.122-S.14)	14,1	16,9
Whole economy (S.1)	98,0	97,9
Non-residents (S.2)	2,0	2,1
Total holdings (S.1+S.2)	100,0	100,0

Balance of payments and foreign trade

Table I Seasonally adjusted current account data*

	€ millions			
	2000 Oct.	Aug.	2001 Sep.	Oct.
Goods	-223	-144	-134	-142
Exports	2,476	2,579	2,632	2,652
Imports	2,716	2,711	2,685	2,777
Services excluding tourism	-17	-27	-47	-42
Tourism	223	246	258	248
Non-debt income flows	-53	-60	-62	-66
Debt-related income flows	-52	-56	-53	-76
Current transfers	40	40	61	45
Current account balance	-141	-43	21	-72

* 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

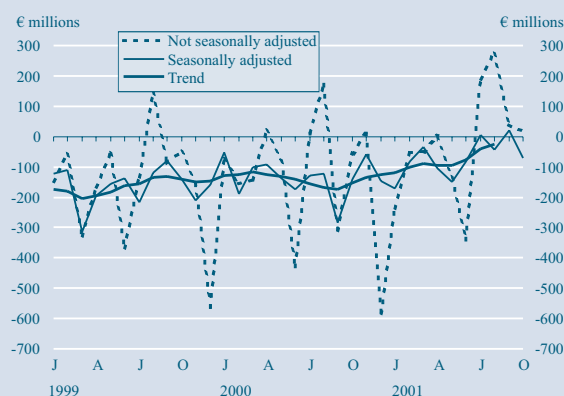
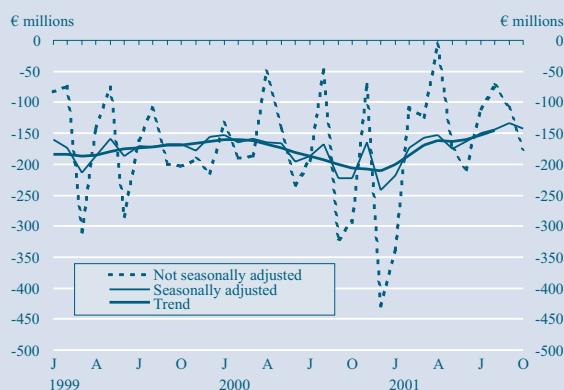


Chart 22 Trade balance



The balance of payments and financing

According to the seasonally adjusted data,¹⁰ Hungary's current account was in a €72 million deficit in October 2001 (see Table I). Including the data for October, the monthly current account deficits have been falling since September 2000 (see Chart 21). The trend of monthly goods deficits has been downwards since December 2000 (see Chart 24), owing primarily to rising exports and virtually stagnating whole-economy imports.

After seasonal adjustment, the current account was in a deficit in October following a surplus in the preceding month, the one-month change in balance amounting to €93 million. The largest change occurred to the income account – the explanation for the €27 million higher deficit being primarily the stronger outflow of income on debt. The monthly current transfer surplus returned to earlier levels, following a strong increase in September, having registered a €16 million lower surplus than in the preceding month. The goods trade deficit was €8 million higher, mainly due to a stronger rise in imports. Within services, net tourism revenue fell, and the deficit on other services saw a significant decrease.

The current account deficit for October was €69 million lower than twelve months previously. The largest change occurred to the goods balance, where the deficit fell by €80 million, accompanied by a strong increase in exports. The services surplus remained broadly unchanged, as the tourism surplus and the deficit on service transactions excluding tourism both increased by €25 million in a year-on-year comparison. The outflow of investment income on debt increased markedly, by €24 million, that of investment income on equity rising less significantly, by €13 million.

¹⁰ Using the SEATS TRAMO software, the model settings which accord best with the characteristics of the times series ending with the final data for January 1994–December 2000 have been fixed at the entire length of the year. The newly published data have been 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, have been 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 registered a €17 million surplus in October. The capital account closed with a surplus of €15 million, so whole-economy external financing capacity amounted to €31 million in the month under review (see Table J). Net non-debt inflow amounted to nearly €235 million – non-residents invested €312 million in Hungary, direct investments by Hungarian residents abroad amounting to €6 million. The balance of inward and outward portfolio investment transactions in equity securities was a net outflow of €70 million. Non-resident investors stepped up by €153 million their holdings of securities issued by the Hungarian government and the central bank.

Hungary's external accounts

Whole-economy gross foreign debt was €36.6 billion at the end of October 2001. The combined gross foreign currency debt of general government and the NBH outstanding to non-residents amounted to €16.9 billion, forint debt accounting for €3.8 billion. The gross debt of other monetary financial institutions and the other sectors was €19.7 billion. Here, inter-company loans amounted to €4.6 billion. Inter-company loans had a share of 33% within the other sectors' gross foreign debt.

Whole-economy net debt amounted to €11.0 billion towards end-October. The combined net debt of general government and the NBH was €2.1 billion. However, taking foreign currency denominated assets and liabilities into account, the two sectors took a €1.7 billion net lending position in foreign currency. Total private sector net foreign debt was €8.9 billion, inter-company loans accounting for €4.2 billion. Whole-economy net debt fell by €0.4 billion relative to end-September, explained primarily by an increase in other assets of the corporate sector vis-à-vis non-residents (see Table K).

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

		€ millions			
		2000	2001		
		Oct.	Aug.	Sep.	Oct.
1	Current account	-55	273	39	17
2	Capital account	43	49	19	15
3	Net lending / net borrowing g (1+2)*	-12	322	58	31
4	Non-debt capital flows	-99	77	99	235
5	Total (3+4)	-111	399	156	267
6	Debt-creating flows (6a+6b)**	123	-363	-157	-221
6a	In forint***	76	-32	-46	153
6b	In foreign currency	47	-330	-111	-374
7	Financing gap (5+6)	12	37	-1	45
8	Errors and omissions	-12	-37	1	-45

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

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

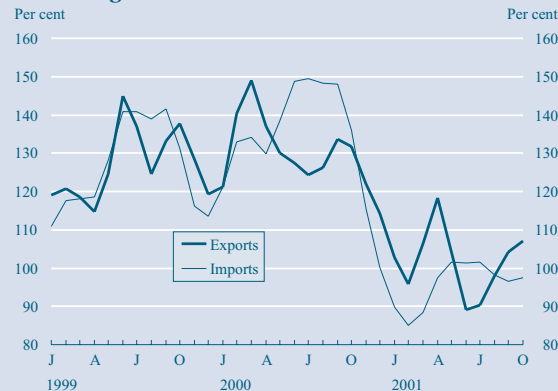
*** In forint-denominated bonds and money-market instruments of general government and the NBH.

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

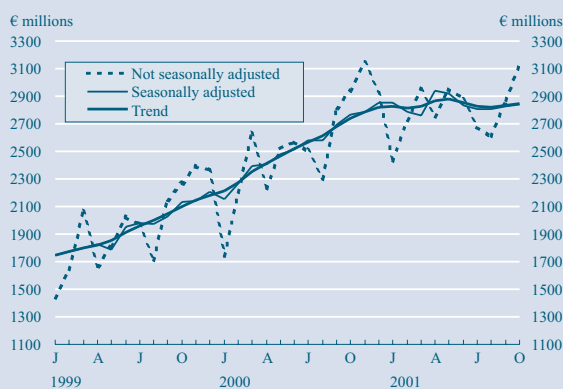
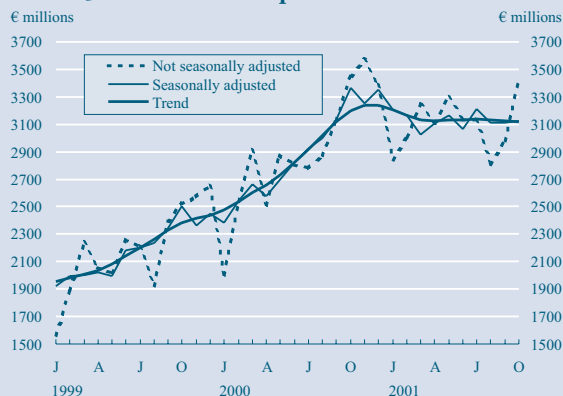
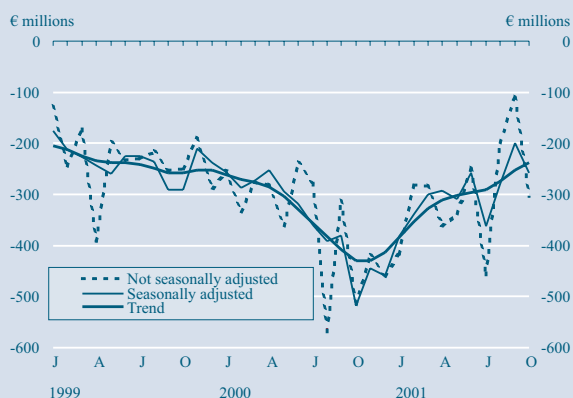
Monthly changes

	2001		Change	Of which:			
	September	October		Transactions	Exchange rate movements	Price changes	Other volume changes
Net foreign currency debt of the NBH and government	-1,698	-1,710	-12	19	-23	-8	0
Net forint debt of the NBH and government	3,646	3,834	188	153	34	0	0
Total net debt of the NBH and government	1,948	2,123	175	172	11	-8	0
Assets of the NBH and government	14,873	14,779	-94	-217	39	84	0
Of which: international reserves	13,120	12,993	-128	-202	34	41	0
Gross foreign currency debt of the NBH and government	13,176	13,069	-107	-199	16	76	0
Gross forint debt of the NBH and government	3,646	3,834	188	153	34	0	0
Total gross debt of the NBH and government	16,822	16,902	81	-45	50	76	0
Net debt of other monetary financial institutions and other sectors*	5,238	4,682	-557	-371	-11	-70	-105
Assets of other monetary financial institutions and other sectors	9,849	10,378	529	358	84	25	61
Gross debt of other monetary financial institutions and other sectors	15,088	15,059	-28	-13	73	-44	-44
Inter-company loans, net	4,209	4,236	27	-22	10	0	39
Assets	345	373	27	26	2	0	-1
Liabilities	4,555	4,609	54	4	12	0	38

* Excluding inter-company loans.

Chart 23 Annualised monthly growth rates of the trends of goods trade calculated in euros*

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

Chart 24 Merchandise exports**Chart 25 Merchandise imports****Chart 26 Trade balance**

The total stock of direct investments by non-residents in Hungary amounted to €24.8 billion at the end of October, of which the value of holdings of corporate shares and other classes of equity capital was €20.2 billion.

Foreign trade

In October, the annualised growth rate of the trend of goods exports was again higher than the comparable indicator for imports, as seen in the preceding few months of the year. The trend of imports has remained virtually static for a couple of months now, that of exports being rather positive overall. As a result of these developments, the trend of merchandise foreign trade balance improved again in October relative to the preceding few months (see Chart 23).

According to the updated but not adjusted Hungarian trade data, the annual growth rate of whole-economy exports was higher than a year earlier, in contrast with that of imports, which was slightly lower. Taking the first ten months of 2001, the growth rates of both exports and imports were positive, export growth slightly exceeding import growth. The balance of goods trade showed lower deficits, both in October 2001 and the first ten months of the year, than in the comparable periods of 2000 (see Charts 24, 25 and 26).

Not seasonally adjusted exports and imports both rose in October 2001 relative to the preceding month, reflecting the effect of seasonal patterns and strongly exceeding the seasonally adjusted values. Import growth was stronger than export growth. As a result, the goods deficit increased in one month.

The twelve-month growth indices for both exports and imports, calculated from the seasonally adjusted data for October, were virtually unchanged. This indicates that factors other than seasonal effects only slightly influenced export and import growth.

Looking at the commodity pattern and direction of goods trade, there were no material changes in October and the first ten months of 2001. As seen in the preceding months, the percentage share of machinery and equipment in outward and inward trade fell relative to a year earlier.¹¹ (There has been a continuous decline in the percentage share of machinery and equipment within exports since June and one within imports since August.) However, due to the opposing developments seen in 2001 H1, the cumulative data have not yet reflected the effects of this trend.

¹¹ This is closely related to the fact that since June 2001 imports conducted by the industrial customs-free zones have been lower in each month than in the corresponding months of the previous year. The same is broadly true for exports, except for the August and October outcomes. Explanation for this is that engineering goods account for the vast bulk of outward and inward trade registered by companies' operating in industrial customs-free zones.

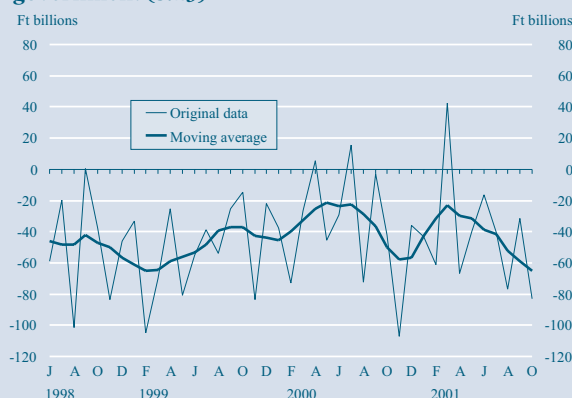
As seen in the developments in machinery and equipment, the percentage share accounted for by energy also fell in October 2001, explained by a fall in the value of energy imports year on year due to the fall in world market prices. Taking the first ten months of 2001, energy imports were higher than in the comparable period of the previous year – gross imports rose by €270 million and net imports by €140 million. In October 2001, the decrease in the percentage share of the two major commodity groups was counterbalanced by an increase in the percentage share of food industry products within exports and by that in the share of manufactured products within imports.

Looking at goods trade in a regional breakdown, the percentage share of developed countries outside the EU within Hungarian exports fell, that accounted for by the CIS within Hungarian imports falling as well.¹² That change in the percentages was counterbalanced by an increase in the share of CEFTA countries in exports and that in the share of other countries (mostly the developing countries of the Far East) within imports.

¹² The CIS states accounted for 76% of Hungarian energy imports in the first ten months of 2001.

General government

Chart 27 Net lending/net borrowing of general government (S.13)



* The smoothed time series is a five-month centred moving average with varying weights up to September 2001. The October value has been calculated using a triangular average with equal weights and an estimate for November (Ft -65.3 billion).

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

	Ft billions			
	2000	2001		
	Oct.	Sep.	Oct.	Jan.-Oct.
Central government balance (1)	21.4	-37.8	-19.1	-272.4
Extra-budgetary funds (2)	-0.2	0.1	0.9	16.8
ÁPV Rt (3)	-3.6	-56.7	-1.6	-78.8
Other units of central government (4)	-4.5	-3.1	2.8	-12.5
Central government (S.1311) (5=1+2+3+4)	13.1	-97.5	-18.7	-346.9
Social security funds (S.1314) (6)	-5.1	1.6	-17.0	-97.8
Local authorities (S.1313)* (7)	-50.3	64.3	-47.2	27.7
General government, total (S.13) (8=4+5+6+7)	-42.3	-31.6	-82.9	-417.0

* 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 Bank calculates the net borrowing requirement of general government from revenues and expenditures. This amounted to Ft 82.9 billion in October 2001, showing a substantial increase relative to the Ft 42.1 billion recorded a year earlier (see Chart 27). The net borrowing requirement of central government increased by Ft 31.8 billion and that of the social security funds by Ft 11.9 billion. By contrast, the net borrowing requirement of the local government sub-sector decreased by Ft 3.2 billion in one year (see Table L). The cumulative general government deficit amounted to Ft 417.0 billion in January–October 2001, in comparison with Ft 308.3 billion in the same period of the previous year.

The central government net borrowing requirement 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. Its amount was Ft 18.7 billion in October. Excluding interest payments and receipts as well as mutual assets and liabilities of the NBH and the central government, the primary deficit of central government amounted to Ft 30.7 billion.

Out of total central government expenditure, Ft 94.5 billion extraordinary expenditure was not actually transferred but placed on a suspense deposit account in December 2000. 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–October.

The difference between interest expenditure recorded on cash and accrual bases decreased the central government borrowing requirement by Ft 4.3 billion in October, in contrast with the increase of Ft 7.1 billion in the borrowing requirement of the comparable period a year earlier.

The State Privatisation and Holding Company raised revenue of Ft 0.4 billion from asset utilisation in October. The Ft 2.0 billion expenditure in the month reflected the operating costs of the asset management agency, transfers related to privatisation and reorganisation projects linked with asset management and transfers to finance environmental tasks of companies belonging to the portfolio of the agency and the legal predecessors as well as those to be performed in relation to the responsibility of the state as the owner. As a result, including other expenditures, the privatisation agency experienced a Ft 1.6 billion net borrowing requirement in October. The net financing capacity of the company amounted to Ft 53.8 billion in the period January–October.

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 2.8 billion, while that of social security provisions funded by the central budget decreased it by Ft 0.3 billion.

The social security authorities comprise the Health Insurance Fund and the Pension Insurance Fund. They registered a Ft 17 billion net borrowing position in October. On the revenue side, contribution receipts continued to meet the estimate, with a lag observed only in receipts from the central government, mainly on account of the single amount transfers and those to be transacted later.

On the expenditure side, it was mostly old-age pensions funded from health insurance sources, sickness benefits and pharmaceutical subsidies that exceeded the estimate. The net borrowing requirement of the social security sub-sector amounted to Ft 97.8 billion in the period January–October 2001.

The net financing capacity of the local government authorities has been estimated from transactions data reported by the Ministry of Finance for January–October and the monthly data calculated using the Bank's method. Its amount was Ft 47.2 billion in October. Nevertheless, the sub-sector registered a Ft 27.7 billion financing capacity for the period January–October 2001.

Financing and gross debt of general government

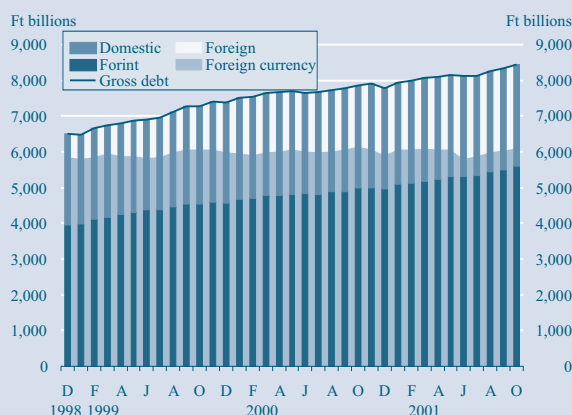
General government net lending/net borrowing can be calculated taking into account changes in financial assets and liabilities, in addition to the balance of revenue and expenditure. The difference between the two indicators of general government net lending, derived from revenue and expenditure as well as from financing data, stems from statistical error.

The change in general government net financial assets due to transactions, i.e. the net borrowing requirement calculated from financing items, amounted to Ft 92.2 billion in October and a total Ft 388.8 billion in the first ten months of

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

	Stocks: October 2001	Change in stock			
		Oct.		Jan.–Oct.	
		Transac- tions	Other changes in volume	Transac- tions	Other changes in volume
Ft billions					
Central governments (S.1311)					
Assets	1,270.1	67.8	1.5	336.8	180.4
Liabilities	8,379.3	93.5	-11.5	670.0	-8.2
Net financial assets	-7,109.2	-25.8	13.0	-333.2	188.6
Social security funds (S.1314)					
Assets	3.2	0.2	0.0	-3.2	0.0
Liabilities	198.6	17.2	0.0	95.5	0.0
Net financial assets	-195.4	-17.0	0.0	-98.7	0.0
Local government authorities (S.1313)					
Assets	495.8	-45.1	0.0	47.1	0.0
Liabilities	172.9	4.3	-0.2	4.0	-0.8
Net financial assets	322.9	-49.4	0.2	43.1	0.8
Consolidated general government					
Assets	1,447.8	5.9	1.5	270.6	180.4
Liabilities	8,429.5	98.2	-11.7	659.4	-9.0
Net financial assets	-6,981.7	-92.2	13.2	-388.8	189.4

Chart 28 Composition of general government gross liabilities



2001 (see Table M). The borrowing requirement of the central government was Ft 25.8 billion, those of the social security funds and the local government authorities being Ft 17.0 billion and Ft 49.4 billion respectively.

Financial assets of the central government increased by Ft 69.3 billion in October. This was mainly the result of an increase in the sector's deposits with the NBH. The increase of Ft 82.0 billion in liabilities was the balance of net issues of forint-denominated government securities.

The stock of outstanding borrowings of the social security funds from the central government increased by Ft 17.6 billion in October. Consequently, total debt of the authorities amounted to Ft 198.6 billion at the end of the month. Taking into account changes in other financial liabilities and assets, net assets of the sub-sector decreased by Ft 17.0 billion.

The change in October in financial assets and liabilities of the local government authorities has been estimated taking into account the changes in the sub-sector's deposits with and borrowings from credit institutions. Accordingly, total assets decreased by Ft 45.1 billion, liabilities increasing by Ft 4.3 billion. As a result, the change in net financial assets was Ft -49.3 billion in one month.

In October, the gross debt of general government increased by Ft 86.5 billion, its outstanding total reaching Ft 8,429.5 billion at the end of the month (see Chart 28). Transactions accounted for Ft 98.2 billion, the revaluation effect being Ft -11.7 billion. Liabilities to non-residents and residents both increased.

Earnings and financial savings of households

Earnings

According to the indicator calculated by the NBH,¹³ corporate sector adjusted gross earnings growth was 1.3% higher in October than in the preceding month, registering an increase of 14.9% relative to a year earlier. Unadjusted corporate sector earnings growth amounted to 16.6% (see Chart 29).

Strong wages outflow, characterising the earlier months of the year, stopped in October. Its rate lost momentum and, moreover, it began to slow down. This is underlined by the developments in the annualised growth rate indicator, calculated from the trend values, which was 13.6% in October, in comparison with 15%–16% recorded at the beginning of the year (see Char 30).

Government sector adjusted earnings growth was very strong in October, as in the preceding month, explained by the modification to the public servants' salary system. According to the seasonally adjusted data, wages rose on average by 2.5% relative to September and by 32.3% relative to a year earlier. Not seasonally adjusted earnings growth amounted to 33.7% in the month (see Chart 31).

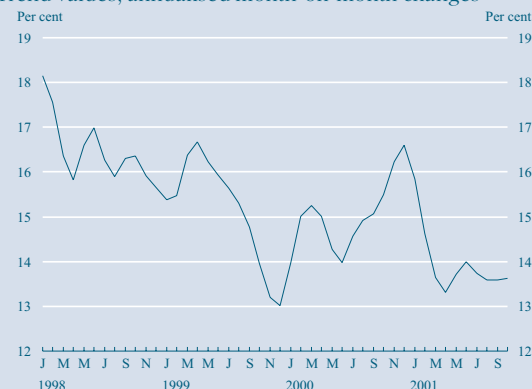
Chart 29 Corporate sector gross average earnings growth* (1998=100)



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

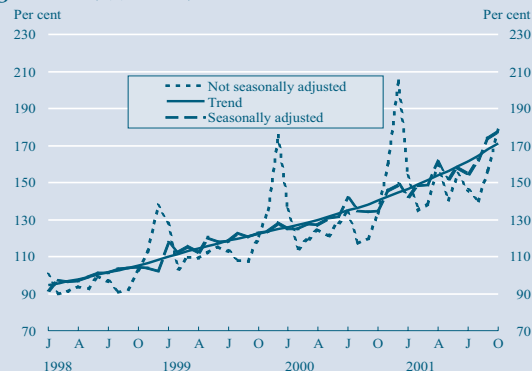
Chart 30 Corporate sector monthly gross average earnings growth*

Trend values; annualised month-on-month changes



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

Chart 31 Government sector gross average earnings growth* (1998=100)



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

¹³ Companies with more than 10 employees.

Chart 32 Government sector monthly gross average earnings growth*

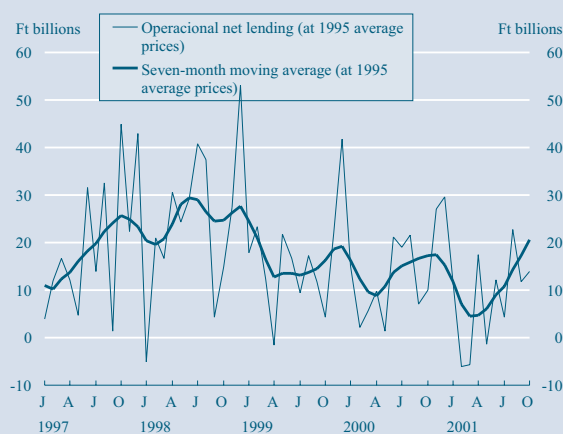
Trend values; annualised month-on-month changes



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

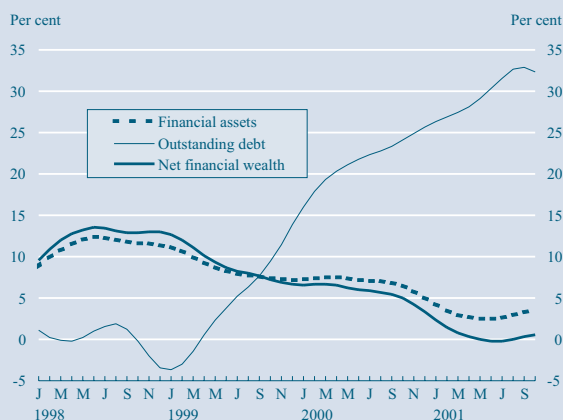
Chart 33 Operational net lending (+) / net borrowing (-) of households

At constant prices

**Chart 34 Growth in household sector financial wealth at constant prices**

Percentage changes on a year earlier

At average 1995 prices using seven-month moving averages



The annualised growth rate indicator, calculated from the trend values, showed government sector earnings to have grown by 24.6% in October (see Chart 32).

Savings

Operational net lending of households equals their financial savings after eliminating compensation for inflation incorporated in interest. This amounted to Ft 31.3 billion in October. Measured both on current and constant price bases, this was higher than the outcomes recorded in the same periods of previous years. The trend of financial savings continues to be upwards (see Chart 33).

Measured at market prices, Hungarian households' net financial wealth rose by Ft 75.1 billion in October, reflecting increases of Ft 97.4 billion in assets and Ft 22.3 billion in liabilities (see Table N). The rise in share prices had a favourable effect on the change in financial wealth. The sector registered a total holding gain of Ft 21 billion on holdings of non-bank securities in the month under review, following losses in the preceding few months. By contrast, households booked a Ft 2.7 billion loss on their foreign currency deposits due to movements in exchange rates. The rate of growth of financial wealth, measured on a constant price basis, has been sideways since April, accompanied by a slight increase in the growth rate of assets and a still robust growth rate of liabilities (see Chart 34).

Within financial assets, households' deposit holdings rose the most strongly. Forint claims against credit institutions were Ft 79.1 billion higher than in the preceding month, compensation for inflation incorporated in interest and operational transactions accounting for Ft 14.5 billion and Ft 64.6 billion respectively.

Due to the four-day holiday, a part of wages due in the early days of November was paid out at the end of October, significantly influencing developments in deposits. The advance payment of wages was reflected in a decrease of Ft 31 billion in unpaid wages, so this left the value of savings calculated for October unaffected.

Cash holdings of households have been rising continuously since March. The increase in October amounted to Ft 9.6 billion.

Following withdrawals in the preceding month, the household sector increased its foreign currency deposits. Operational transactions amounted to Ft 4 billion. The increase due to transactions affected the accounts held in euros. At month-end, households' foreign currency deposits were concentrated 47.1% in the dollar and 43.3% in the euro-area currencies.

The switch from non-bank securities into other forms of savings continued in October (see Chart 35). Operational transactions in securities amounted to Ft -9.2 billion. Investment units were the only sought-after instrument. In

contrast with investment units, holdings of government securities and shares continued to fall. Operational transactions affecting investment units, government securities and shares amounted to Ft 3.2 billion, Ft -9.4 billion and Ft -3 billion respectively.

Continuing the pattern seen in the preceding months of the year, household sector net borrowings increased by Ft 22.3 billion in October. Operational transactions accounted for Ft 17.7 billion. The rise in housing loans exceeded that in consumer credit for the third consecutive month. Operational transactions in housing loans and consumer credit amounted to Ft 12.5 billion and Ft 4.5 billion respectively in the month (see Chart 36).

Table N Disaggregating net financial wealth of households into the components of change

	Stocks at 31 October 2001	October flows:					
		Transactions	Transactions net of compensation for inflation	Compensation for inflation incorporated in interest	Revaluations	Other changes in volume	
Cash	883.4	9.6	9.6	9.6	0.0	0.0	0.0
Forint deposits and bank securities	2,854.8	79.1	79.1	64.6	14.5	0.0	0.0
Foreign currency deposits	741.1	1.3	4.0	2.8	1.2	-2.7	0.0
Non-bank securities	1,563.6	20.2	-0.8	-9.2	8.4	21.0	0.0
Pension funds and life insurance	989.7	18.2	18.2	12.2	6.0	0.0	0.0
Non-paid wages	118.9	-31.0	-31.0	-31.0	0.0	0.0	0.0
Financial assets, total	7,151.5	97.4	79.1	49.0	30.1	18.3	0.0
Home-building loans	298.4	9.8	14.3	12.5	1.8	-0.1	-4.4
Consumer credit	530.7	11.8	7.7	4.5	3.2	-0.1	4.2
Other borrowings	54.7	0.7	0.7	0.7	0.0	0.0	0.0
Household debt	883.8	22.3	22.7	17.7	5.0	-0.2	-0.2
NET FINANCIAL WEALTH AND THE COMPONENTS OF CHANGE IN WEALTH	6,267.7	75.1	56.4	31.3	25.1	18.5	0.2

Chart 35 Household sector financial assets

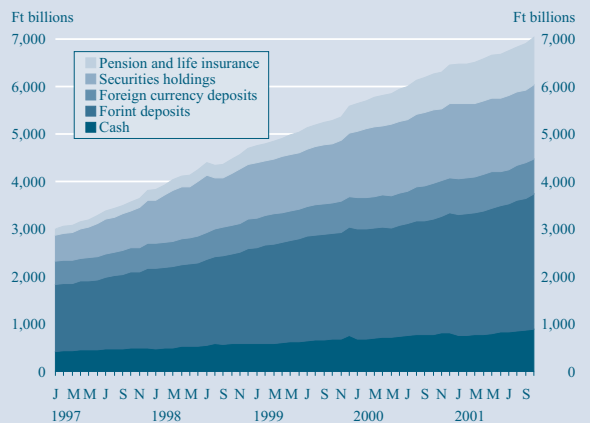
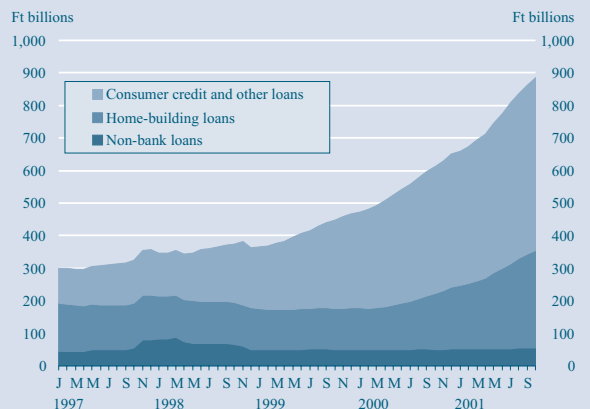


Chart 36 Outstanding borrowings of households by type of debt



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	-37.5
February		109.8	109.1	116.0	7.2	4.3	115.2	118.1	116.7	12.04	-157	125	11,869	-73.1
March	106.6	109.6	108.5	113.0	6.0	11.3	116.6	117.4	116.7	11.60	-145	54	11,202	-26.5
April		109.2	108.2	113.6	6.9	19.4	117.1	118.8	116.6	11.20	21	162	11,380	5.4
May		109.1	108.0	113.9	6.7	2.8	114.0	115.5	113.5	11.00	-80	186	11,549	-45.4
June	105.7	109.1	108.0	112.0	6.0	42.4	115.0	117.7	114.6	11.00	-428	168	10,999	-29.3
July		109.6	107.7	114.7	6.6	38.5	113.3	116.3	113.6	11.00	10	42	11,110	15.6
August		109.6	107.6	112.4	6.5	44.1	114.4	114.8	113.4	10.81	174	253	11,628	-72.1
September	104.6	110.3	108.5	111.9	5.7	14.6	114.6	116.2	114.0	10.75	-311	229	12,047	-3.1
October		110.4	108.7	112.2	6.2	21.1	111.7	115.5	114.8	11.42	-55	37	12,069	-42.3
November		110.6	108.9	114.6	6.0	57.2	115.0	116.2	115.3	11.75	11	-154	12,433	-107.3
December	104.3	110.1	109.0	116.5	5.7	62.8	106.6	111.5	112.7	11.75	-583	314	12,068	-36.0
January 2001		110.1	109.7	115.8	6.0	24.8	111.7	115.3	113.0	11.55	-237	109	11,590	-43.5
February		110.4	109.8	117.3	6.3	-13.0	110.2	112.5	111.0	11.28	-54	268	12,104	-61.2
March	104.4	110.5	110.2	116.5	5.6	-12.4	108.5	113.3	110.7	11.25	-48	142	12,187	42.5
April		110.3	110.2	119.7	5.8	38.1	108.3	111.6	111.5	11.25	-2	62	12,536	-66.7
May		110.8	110.3	115.3	5.7	-3.2	110.3	112.2	113.5	11.25	-134	124	12,990	-39.7
June	104.0	110.5		118.0	5.4	27.0	110.6	111.6	112.7	11.25	-341	111	13,596	-16.6
July		109.4		114.0	5.7	9.4	109.4	110.1	113.3	11.25	191	23	13,536	-40.5
August		108.7		117.3	5.8	50.8	110.2	112.5	115.9	11.25	273	100	13,128	-76.8
September	103.7	108.0		119.1	5.3	26.2	110.7	112.2	115.2	11.08	39	92	13,120	-31.6
October		107.6		121.5	5.6	31.3	113.0	112.9	115.4	10.93	17	312	12,993	-82.9

Source: KSH, MNB

* Preliminary data for 2000 and 2001.

** Under the agreement between the CSO and the NBH, core inflation data have been published by the CSO from June 2001.

*** Equity capital.