



Monthly Report

(includes data up to the end of November 2001)

1/2002

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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 continued to be stagnant in November 2001, when, following a slight increase in October, output and sales both fell (see Chart 1).

The decline in the rate of Hungarian output growth, experienced in previous months, can be explained basically by the narrowing opportunities of domestic exporting firms to sell their output in foreign markets, and particularly by the world-wide recession afflicting manufacturers of electrical equipment, now seen as the driving force behind Hungarian exports. The low level of domestic demand was another contributing factor. In 2001, the rate of export growth declined month by month. From above 35% in January 2001, the growth rate of exports nearly halved by April. Then, in September, decline replaced growth for the first time in several years. In a twelve-month comparison, the monthly average growth rate of Hungarian exports fell from the previous years' 20% to 10% in 2001.

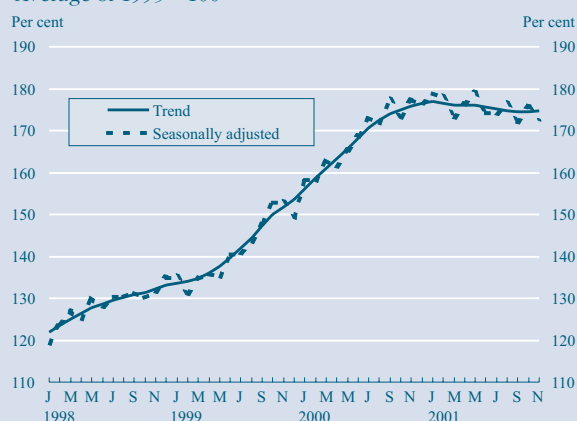
Taking account of working-day variations, seasonally adjusted industrial output was 1.7% lower in November than in October, following an increase of 2.1% in the preceding month. The volume of total sales fell by 0.9% in the month under review. Within total sales, the volume of exports rose only very modestly, by 0.4%, and that of domestic sales fell by 1.6% (see Chart 2).

Turning to twelve-month industry developments, output and total sales were respectively 1% and 0.8% lower in November 2001 than their levels recorded for a year earlier. Within total sales, exports rose only modestly, by 0.9%, in a twelve-month comparison. Domestic sales, in contrast, fell by 2.7% in the same period.

As seen in the preceding few months of the year, orders for manufacturers' output in the mainstream branches of manufacturing¹ continued to indicate no recovery of output. Although the volume of existing orders at end-November was still higher than the twelve months previous level by a healthy margin of 27.4%, underpinned by a 38.5% upsurge in existing export orders, the existing

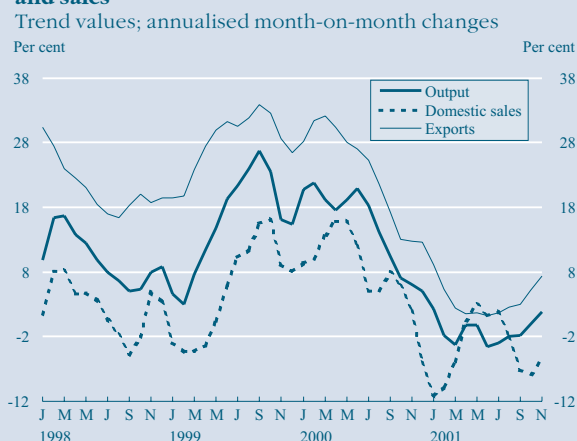
¹ The mainstream branches of manufacturing are manufacture of textiles and textile products, manufacture of paper and paper products, manufacture of chemicals and chemical products, manufacture of basic metals and fabricated metal products, manufacture of machinery and equipment, manufacture of electrical 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.

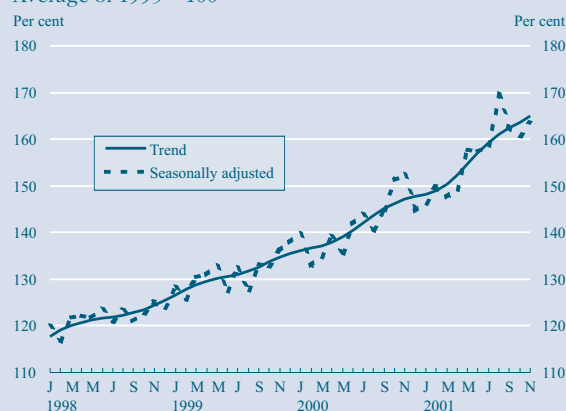
Chart 2 Volume indices of industrial production and sales*
Trend values; annualised month-on-month changes



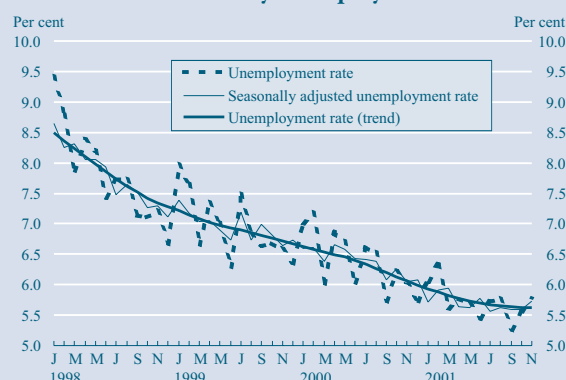
*Using the Bank's method to calculate trends from data reported by the CSO.

Chart 3 Volume index of construction output*

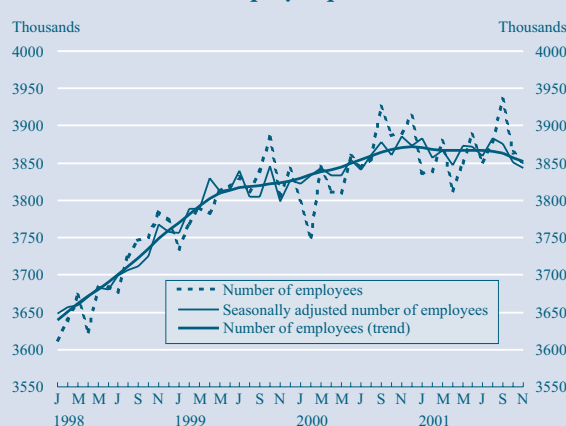
Average of 1995 = 100



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

Chart 4 Whole-economy unemployment rate*

* 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.

volume of domestic orders at month-end was 14.8% lower than a year earlier. The November volume of fresh orders to the export and domestic sectors failed to reach the levels recorded in the same period of 2000, continuing the trend of the preceding two months.

The upturn in the construction industry continued in November 2001, although the pace of this growth began to show signs of a slowdown. Taking account of working-day variations, the volume of seasonally adjusted construction output rose by 1.7% in November relative to October. Construction output, measured on the basis of the not seasonally adjusted data, was 7% higher than in November 2000.

Data on existing contracts for construction work point to a slowdown in construction output growth in the following months. The value of new construction contracts failed to reach the level of a year earlier. In addition, the month-end volume of existing orders grew by only 6.6% relative to November 2000 (see Chart 3).

Looking at the developments characterising the Hungarian labour market in November, the number of registered unemployed increased slightly, while the number of people in employment fell. As a combined effect of these two factors, the whole-economy unemployment rate increased in comparison with the preceding month, following stagnation seen in the earlier periods of the year (see Chart 4).

According to the indicators derived from monthly data of the CSO's Labour Force Survey, adjusted for seasonal effects, the whole-economy unemployment rate was 5.7% in the month under review, 0.1 of a percentage point higher than in October, but 0.3 of a percentage point lower than a year before.

The seasonally adjusted number of registered unemployed increased by 2.4% in one month; however, it was 6.6% lower than the data recorded for November 2000. The number of people in employment had been on a modest downward trend in the previous months, following stagnation since January 2001, as evidenced by both the seasonally adjusted and the trend values (see Chart 5).

According to the seasonally adjusted labour market data, the number of people in employment in the total economy was 0.2% lower in November 2001 than in the preceding month, and 1.1% lower in comparison with November 2000.

Price trends

Consumer prices

The one-month consumer price index, measured by the CSO, showed a 0.1% increase in November.² Looking at the categories monitored by the National Bank of Hungary, the prices of motor fuels, a category of energy products, fell by 4.4% in one month. The market price of energy³ rose by 0.4% and the regulated price of energy by 0.1%. Regulated services prices remained broadly unchanged in November. By contrast, pharmaceuticals prices rose by 0.1%, the same rate as in October. Alcoholic drinks and tobacco cost 0.2% more in the month under review. 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, given that, after eliminating the seasonal effects, the trend values are comparably more suitable for analysis.

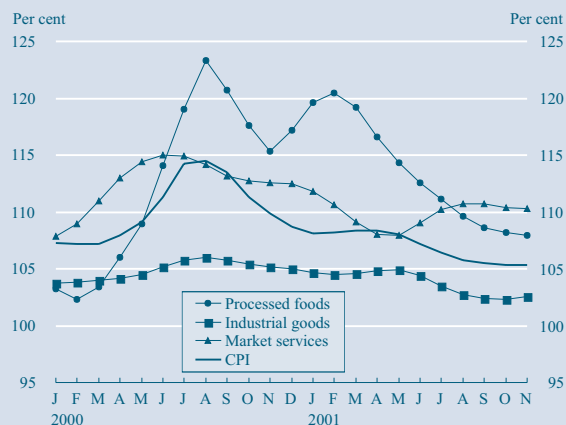
The seasonally adjusted, annualised trend of the consumer price index dropped to 5.3% in November. The trend value of processed foods price inflation fell from 8.2% to 7.9% in the month. By contrast, the trend value of industrial goods price inflation increased following the change downwards in the preceding few months – it increased to 2.6% from 2.3% in November. There was a slight decrease in the trend of market services price inflation – its value dropped from 10.4% in October to 10.3% in the month under review (see Chart 6).

Examining twelve-month price developments, the consumer price index fell to 7.1% in November 2001, showing a drop of 0.5 of a percentage relative to October (see Chart 7). Following a pause in the preceding month, the trend of the food price index continued to be downward in the period under review. Food prices were 11.2% higher on average than a year earlier. Annual processed foods price inflation dropped to 12.4% from October's 12.7%. Unprocessed

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.

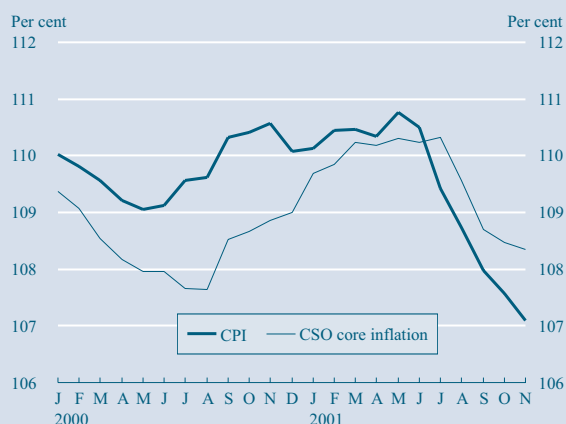
³ This category does not reflect the effects of changes in motor fuel prices.

Chart 6 Annualised price trends of the major aggregates from among those monitored by the NBH*



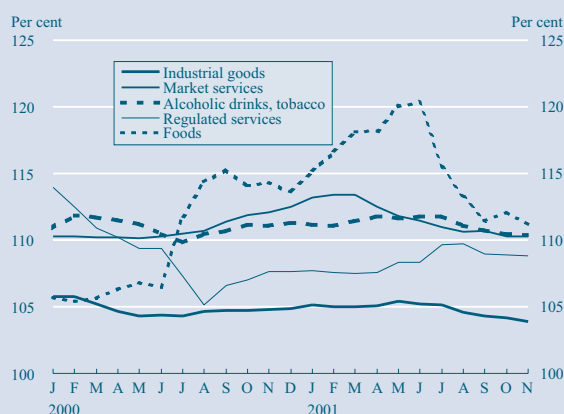
* Five-month centred moving averages of seasonally adjusted indices using different weights. The major price categories have been adjusted using the Bank's method.

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



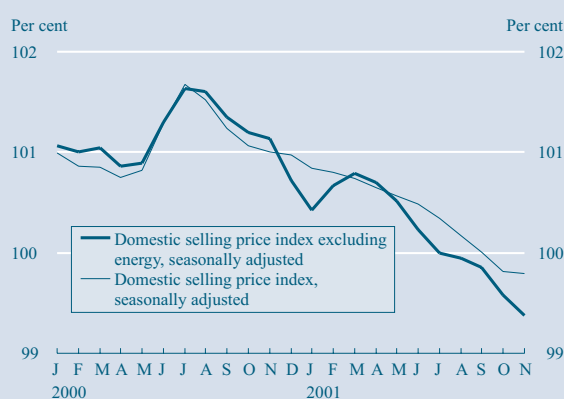
Source: CSO

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



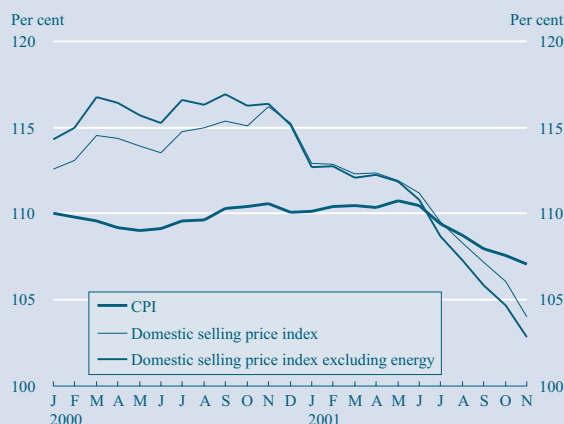
* Using data reported by the CSO.

Chart 9 Domestic producer price indices*
Preceding month = 100



* Seasonally adjusted by the Bank.

Chart 10 Comparison of domestic selling prices excluding energy with other price indices
Same month of previous year = 100



foods price inflation experienced a significant decrease from 10.3% to 7.8% in one month. The rate at which motor fuel prices fell accelerated to 14.6% in November, following 5.9% in September and 10.8% in October. The downward trend of market-determined household energy price inflation since February continued – the twelve-month index declined from 33.4% in February to 0.7% in November. The index of regulated energy prices remained unchanged at 9.0%. Up 3.9% in the month under review, the prices of industrial goods continued to rise at a modest pace. Annual services price inflation was static at 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 September's 8.4% and October's 8.2% to November's 7.8%. The price index of alcoholic drinks and tobacco fell to 10.4%. Pharmaceuticals prices rose by 17.3% and those of other regulated services by 7.1% 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 0.6% in November relative to the preceding month.⁵ Industrial firms' domestic selling prices, released by the CSO, continued to be downwards in November 2001 – after falling by 0.2% in October, they fell by another 0.6% in the month under review. However, producer price inflation was 4.0% in the twelve months to November. This latter value was 2.1 percentage points lower than in the preceding month. The one-month change in domestic selling prices, seasonally adjusted by the Bank, was a decrease of 0.2% (see Charts 9 and 10).

The combined one-month change in producers' domestic and export prices was a 0.8% decrease in November. Domestic selling prices continued to fall – following a 0.2% drop in October, they fell by another 0.6% in the month under review.

Manufacturing industry prices were 0.8% lower in November than in the preceding month. Chemical industry prices fell by 3.2% relative to October, engineering prices remaining unchanged. By contrast, mining and extraction prices increased by 0.3%. Prices in the food, drink and tobacco industry fell by 0.2%.

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.

⁵ Due to the seasonal adjustment, this time series which reflects our 'best' understanding shows a slight difference with those published earlier.

Monetary developments

Monetary conditions

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

- Effective from 13 November 2001, the National Bank of Hungary reduced the central bank base from 10.75% to 10.25%. In line with the reduction in the base rate, the overnight deposit rate was lowered from 8.75% to 8.25% and the overnight repo rate from 12.75% to 12.25%. Official interest rates on facilities related to the base rate were changed accordingly.

The exchange rate

Movements in the market rate of the forint continued to be confined to the upper region of the intervention band in November. The exchange rate strengthened by more than 2% in the period prior to 20 November. Then it weakened slightly throughout the remainder of the month, to close at 251.63 vis-à-vis the euro, 8.86% above the mid-band rate. This was 1.46% stronger than the close at end-October (see Chart 11). The November average HUF/EUR exchange rate was 251.09, 1.71% stronger than the October average. The average distance of the exchange rate from the central rate was 906 basis points in the upper range of the intervention band. That meant an increase of 158 basis points relative to October.

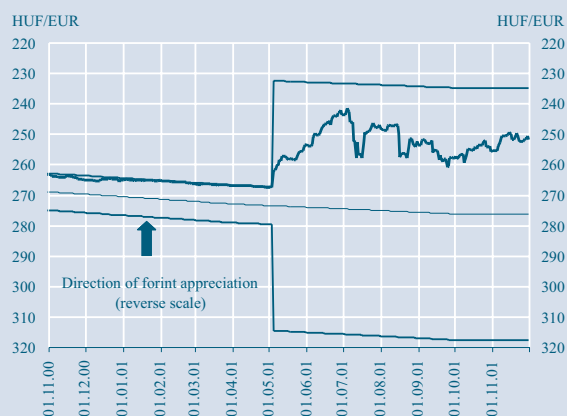
With effect from 1 October 2001, the National Bank of Hungary abandoned the crawling-peg exchange rate regime, and fixed the currency's central rate at 276.1 HUF/EUR.⁶ In November, the Bank did not conduct official intervention in the foreign exchange market in connection with the move to widen the intervention band of the currency for the sixth consecutive month.

Statistical balance sheet of the NBH

The value of banknotes and coin in circulation increased by Ft 32.5 billion in November. The end-of-month total of

⁶ 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



other monetary financial institutions' account balances with the central bank decreased by Ft 98.6 billion relative to the end-October level. Closely related to these changes, outstanding repo transactions of other monetary financial institutions and holdings of NBH domestically issued bills decreased by Ft 12.5 billion and Ft 47.3 billion respectively. Forint deposits of other monetary financial institutions with the central bank increased by Ft 87.8 billion. The increase in central government sector forint deposits with the central bank amounted to Ft 41.4 billion. The Bank purchased foreign currency to the amount of Ft 15.5 billion in November to supply the foreign currency requirements of 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 current account balances increased by Ft 5.8 billion, and the averages of forint and foreign currency de-

Table A Changes in the balance sheet of the NBH

Calculated from end-of-month stocks

	Ft billions							
	2000			2001				
	Q2	Q3	November**	Q2	Q3	November**	Of which:	
	Averages*			Averages*			Transactions	Revaluations
Liabilities								
Banknotes and coin	15.4	16.3	33.1	21.6	18.8	32.5	32.5	0.0
Forint liabilities to other monetary financial institutions	-97.3	-21.3	90.7	20.8	-3.0	-15.9	-15.9	0.0
Foreign currency liabilities to other monetary financial institutions	-11.7	9.3	15.5	5.7	-11.6	-59.1	-57.2	-1.9
Assets								
Net claims on central government	-13.9	10.2	-17.1	-103.1	-19.9	-56.6	-39.7	-17.0
Of which: Forint loans	-6.0	-6.0	-0.6	-6.0	-6.0	0.0	0.0	0.0
Government securities	-3.0	-4.4	-3.1	0.0	0.0	0.0	0.0	0.0
Foreign currency loans	0.1	11.8	-45.3	-40.1	-35.0	-13.0	0.0	-13.0
Claims on other monetary financial institutions	-10.3	-1.7	-3.1	19.2	-20.3	-22.2	-22.3	0.0
Net foreign assets and those not broken down by sector	-69.5	-4.2	159.5	132.0	44.4	36.3	21.3	15.0

* Quarterly average of changes relative to the preceding month.

** One-month changes.

Table B Average of asset and liability items in the statistical balance sheet of the NBH*

	Ft billions		
	2001		Monthly change
	Oct.	Nov.	
Liabilities			
Banknotes and coin	1,049.8	1,065.8	16.0
Forint liabilities to other monetary financial institutions	960.3	861.3	-99.0
Of which: Current account balances	408.4	414.1	5.8
Forint depositst	441.2	338.3	-102.9
Domestically issued NBH bills	110.7	108.9	-1.8
Foreign currency liabilities to other monetary financial institutions	362.1	330.2	-31.9
Assets			
Net claims on central government	958.2	860.9	-97.3
Of which: Forint loans	235.4	235.4	0.0
Government securities	172.1	172.1	0.0
Foreign currency loans	1,311.2	1,305.3	-5.9
Claims on other monetary financial institutions	97.6	78.8	-18.8
Net foreign assets and those not broken down by sector	1,316.5	1,317.7	1.2

* Monthly average of daily stock data.

posits decreased by Ft 102.9 billion and Ft 31.9 billion respectively in one month. Other monetary financial institutions' average holdings of NBH domestically issued bills were Ft 1.8 billion lower than in October (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 slowed by 1 percentage point to 12.0% in November relative to the preceding month.

The annual growth indices of every monetary aggregate, derived from the liability items of the aggregate balance sheet based on the final data for November, decreased in the month under review. The monetary aggregate M1 is composed of currency outside monetary institutions plus forint sight deposits. Its annual growth rate slowed by

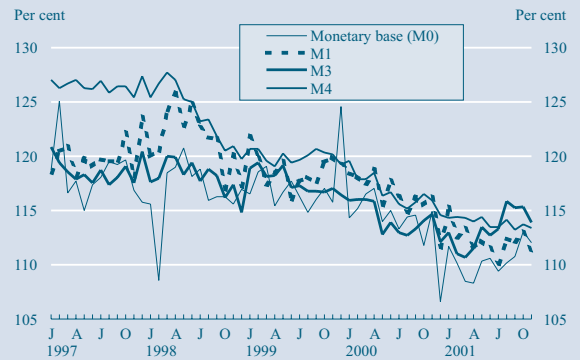
1.9 percentage points to 11% from October to November. M2 is a measure of sight foreign currency deposits plus time forint and foreign currency deposits, in addition to the constituents of M1. The annual index of the aggregate decreased by 1.5 percentage points to 13.4% in one month. Broad money M3 is a measure of M2 plus liabilities from repurchase agreements and holdings of bank securities. The annual growth index of the aggregate changed in the same direction as that of M2, decreasing by 1.5 percentage points to 13.5%. Broadest money M4 comprises M3 plus government securities and NBH domestic bills held by the non-bank sector. Its annual growth rate slowed by 0.3 of a percentage point in November. As a result, the end-November stock of M4 grew by 13.4% relative to November 2000. (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 16.1 billion in November due to the transaction effect. Here, foreign currency deposits rose by Ft 15.2 billion due to transactions and fell by Ft 2.4 billion due to exchange rate movements. Household sector deposits were Ft 51 billion higher than in October. Within this, domestic currency deposits increased by Ft 44.6 billion, due exclusively to transactions. Foreign currency deposits were Ft 21 billion higher due to the transaction effect, but fell by Ft 14.6 billion on account of the negative contribution of exchange rate movements. On balance, households' foreign currency deposits increased by Ft 6.4 billion in November.

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 39.4 billion due to transactions but decreased by Ft 28.2 billion due to the exchange rate effect. Corporate sector outstanding domestic borrowings were Ft 32.2 billion higher in the month. The transaction effect accounted for Ft 44.2 billion of the increase in outstanding forint borrowings. Outstanding foreign currency borrowings increased by Ft 1.3 billion due to transactions but fell by Ft 10.3 billion due to the exchange rate effect. Other volume changes caused a Ft 3 billion decrease in the end-of-month stock of corporate sector foreign currency borrowings. Central government net liabilities decreased by Ft 18.2 billion and Ft 62.7 billion on account of the transaction effect and the exchange rate effect respectively. Lending by monetary institutions to the household sector was Ft 26.4 billion higher in November relative to the preceding month.

As an effect of changes in outstanding borrowings and deposits, net liabilities of the general government sector were Ft 68.6 billion lower in November than in October. Net savings of households vis-à-vis monetary institutions

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

	Ft billions							
	2000			2001				
	Q2	Q3	November	Q2	Q3	November	Of which:	
	Averages***			Averages***			Transactions	Revaluations
Non-financial corporations, net (S.11)	-47.9	-67.7	41.8	22.5	-38.7	4.8	-5.8	7.6
Assets	-63.4	-91.7	-33.9	4.3	-65.9	-37.5	-50.5	10.0
Deposits+cash+repos+securities	15.5	24.0	75.7	18.3	27.3	42.3	44.7	-2.4
Other financial corporations, net (S.123+S.124+S.125)	-17.0	-22.1	10.4	-6.9	10.4	-57.0	-56.9	0.0
Assets	-3.1	-5.4	3.1	-23.5	-11.7	-15.7	-15.6	0.0
Deposits+repos	-13.8	-16.8	7.3	16.6	22.0	-41.3	-41.3	0.0
General government sector, net* (S.13)	-26.7	-6.5	49.3	134.8	-35.2	68.6	50.3	18.2
Central government, net* (S.1311)	-13.8	-22.1	55.3	153.5	-56.9	80.9	62.7	18.2
Local government, net (S.1313)	-12.9	15.6	-6.0	-18.7	21.7	-12.3	-12.3	0.0
Credits	-1.3	0.2	-5.6	-2.1	0.2	-4.4	-4.4	0.0
Deposits	-11.6	15.4	-0.4	-16.6	21.5	-7.9	-7.9	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	47.3	9.1	30.8	62.0	76.4	-14.6
Credits	-15.9	-18.2	-18.5	-27.3	-27.8	-27.3	-27.5	0.0
Deposits+cash+securities	25.1	50.0	65.9	36.4	58.7	89.3	103.9	-14.6
Non-profit institutions serving households, net (S.15)	-0.2	1.7	-1.2	-0.6	0.8	-4.6	-4.6	0.0
Credits	0.1	0.0	0.0	0.4	0.0	-4.9	-4.9	0.0
Deposits	-0.3	1.7	-1.2	-1.0	0.8	0.3	0.3	0.0
Non-residents, net (S.2)	24.7	-20.3	-145.8	-80.1	-31.3	-1.3	-1.6	22.1
Other, net	57.9	83.1	-1.8	-78.8	63.2	-72.5	-57.8	-33.3

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.

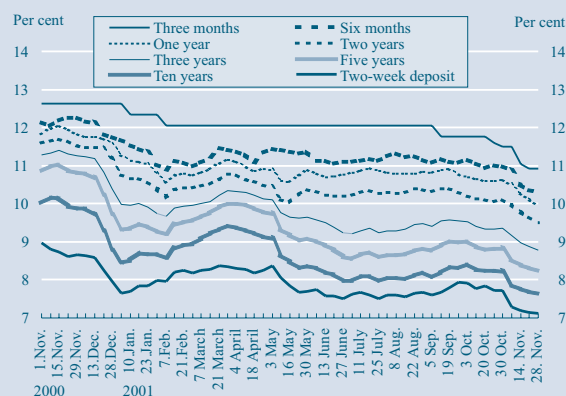
** Including accrued interest.

*** Average of monthly net changes in creditor position.

**** The amount of other volume changes is not shown separately.

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

Short-term yields on a compounded basis; weekly averages



increased by Ft 62 billion, net assets of non-financial corporations decreased by Ft 4.8 billion and net foreign assets of monetary institutions vis-à-vis non-residents increased by Ft 1.3 billion (see Table C).

Government securities market

The downward movement of yields in the Hungarian government securities market gained further momentum in November, influenced by the reduction in official interest rates. Zero-coupon yields⁷ reflect developments in the secondary market. Looking at the month as a whole, they fell at every maturity, by 62–67 basis points on average at three, six and twelve months, while slightly less, by 59–63 basis points at the more distant maturities (see Chart 13).

In November as a whole, the implied one-year forward rates⁸ in one, two and three years' time fell on an inverted

⁷ 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.

⁸ 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, does not reflect adequately the rapid turns in the market's judgement.

scale, by 64, 52 and 51 basis points. Those in four and nine years' time, in contrast, fell progressively, by 57 and 68 basis points (see Chart 14).

Non-resident investors stepped up their holdings of Hungarian domestic currency-denominated government debt securities by Ft 35 billion. The sector's total holdings of government securities amounted to Ft 1,015 billion at the end of the month under review.

The total amount of bids submitted at the auctions of government bonds in November was comparable with that in October. Four auctions of NBH bills were conducted in the month under review.⁹ Yields mostly fell throughout the month, accompanied by investor demand clearly slackening from the second half. The monthly average yield evolving at the auctions held in the month, weighted by the amount allotted, was 10.21%.

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 was 218.2354 points on 30 November. Calculated from movements in the index values, the annual return realisable on a portfolio equal to the composition of the index basket was 14.60%.

Market interest rates

The total value of transactions in the domestic interbank market was Ft 1,483.1 billion in November, showing an increase of Ft 90.8 billion relative to the preceding month. The daily average of interest rates on overnight loans fluctuated around the NBH's major policy rate throughout most of the period, with wider movements being observable only towards the end of the month (see Chart 15).

The November average of interest rates on overnight lending fell 77 basis points from the preceding month's 11.03% to 10.26%. By contrast, the average of borrowing rates for one month changed from 11.01% to 10.60%. The three-month average interest rate changed from 10.83% in October to 10.17% in November. Six-month borrowing rates fell from the preceding month's 10.47% to 10.21% on average (see Chart 16).

⁹ 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

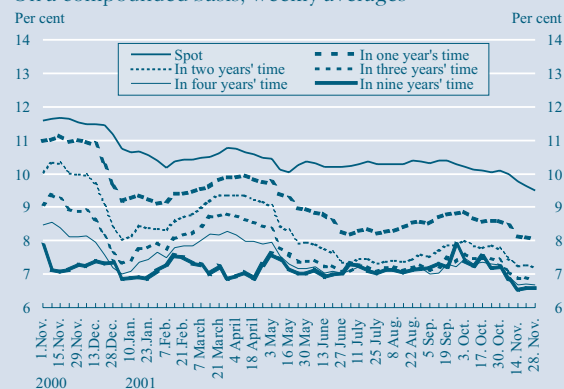


Chart 15 Average interbank lending rates and official dealing rates, November 2001

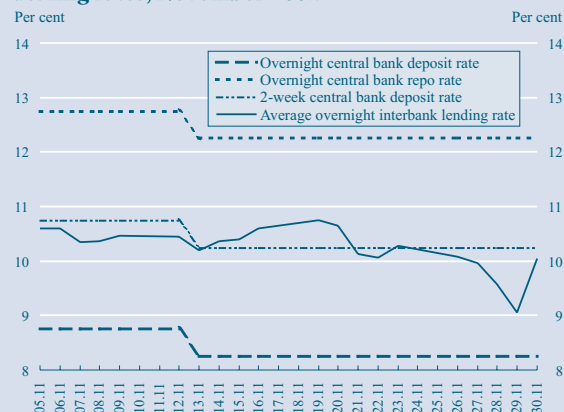


Chart 16 Monthly averages of interbank lending rates and official dealing rates

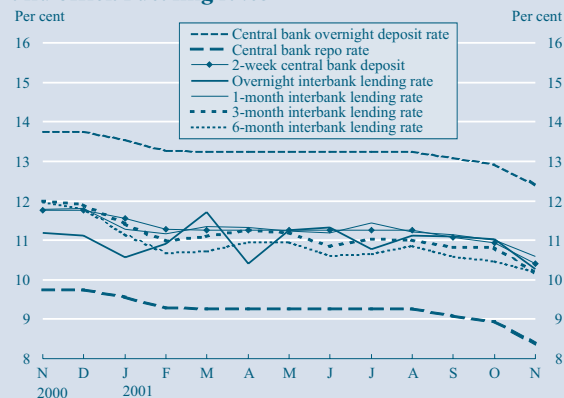


Chart 17 Non-financial corporate sector borrowing and deposit rates

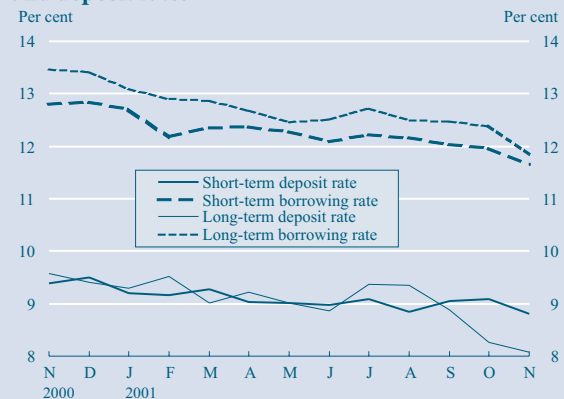
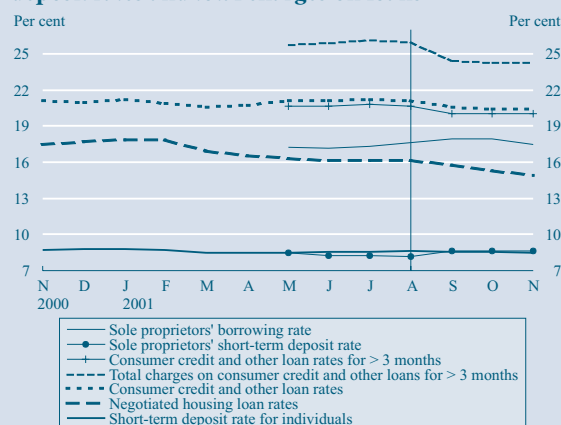


Chart 18 Household sector average borrowing and deposit rates and total charges on loans*

* 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.	Nov.
Overdrafts							
Average interest rate	20.11	20.09	20.33	20.27	18.89	19.00	18.90
Average total charge	26.56	26.53	26.82	26.75	23.98	24.14	23.79
Personal loans							
Average interest rate	23.88	23.57	23.15	22.99	23.08	23.54	23.18
Average total charge	29.12	29.65	28.72	28.68	28.64	28.50	27.78
Lombard loans							
Average interest rate	17.89	17.35	18.09	16.92	17.25	17.78	16.20
Average total charge	20.25	19.73	20.94	19.81	20.59	19.84	18.02
Hire purchase loans							
Average interest rate	27.05	28.09	28.17	27.34	27.93	27.54	27.95
Average total charge	30.64	32.38	32.55	32.04	32.07	32.40	32.89
Car purchase loans							
Average interest rate	19.88	19.82	19.76	19.93	19.92	19.19	18.43
Average total charge	22.40	22.40	22.28	22.47	22.33	20.47	19.95
Mortgage loans							
Average interest rate	18.70	18.77	18.66	18.72	18.64	18.66	18.49
Average total charge	21.19	21.07	21.21	21.29	20.66	20.11	21.67
Other loans							
Average interest rate	17.37	16.70	16.82	17.64	16.69	16.24	17.65
Average total charge	20.49	21.10	22.29	19.30	19.95	20.57	22.01
Total consumer and other loans							
Average interest rate	20.62	20.61	20.82	20.67	19.99	20.01	20.06
Average total charge	25.76	25.95	26.15	25.99	24.41	24.28	24.49

* 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.	Nov.
Consumer credit and other loans							
Overdrafts	52.20	52.70	53.61	54.95	54.21	56.07	54.95
Personal loans	12.59	12.96	12.53	12.16	12.90	11.29	12.32
Lombard loans	3.00	3.44	2.19	1.61	2.07	2.21	2.04
Hire purchase loans	5.63	5.46	7.00	6.46	6.62	6.91	8.73
Car purchase loans	7.99	7.79	7.13	6.15	6.12	6.28	7.22
Mortgages	17.78	16.74	16.06	16.69	16.99	16.37	13.78
Other loans	0.80	0.90	1.49	1.98	1.10	0.87	0.96
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00

* Data reporting was introduced in May 2001. The Table includes the percentages weighted by the amount of new contracts entered into the period. The table includes only data on loans with maturities of more than 3 months.

The negotiated average price for non-financial corporations of short-term loans fell from 11.95% in October to 11.65% in November, that of long-term loans falling from 12.39% to 11.85%. Average short-term deposit rates dropped from 9.09% to 8.81%, and that of long-term deposits from 8.26% to 8.08%. At 2.84 percentage points, the gap between the averages of short-term borrowing and deposit rates, playing a more significant role in non-financial corporations' debts and deposits, remained broadly unchanged. The movements in November in the averages of both lending and borrowing rates were caused by banks' decisions to change their interest rate conditions (see Chart 17 on page 13).

Turning to changes in households' market rates, average borrowing rates of individuals mostly continued to fall in November. The negotiated average housing loan rate decreased from 15.28% to 14.90%, and that of consumer credit rates from 20.49% to 20.40%. The average interest rate on consumer credit and other loans, provided for terms of more than three months, was virtually stagnant, changing only very slightly from 20.01% in October to 20.06% in November. The total charge indicator for consumer credit and other loans, provided for terms of more than three months, increased from 24.28% to 24.49%. Individuals' average sight deposit rates rose from 3.42% to 3.51%. The average of short-term deposit rates fell from 8.57% to 8.44%. Down from 9.23% to 8.71%, that of interest rates on long-term deposits was 52 basis points lower (see Chart 18).

The average interest rate on lending to sole proprietors, a constituent of the household sector, fell from 17.95% in October to 17.47% in the month under review. Average sight and short-term deposit rates changed only very modestly, the former falling from 1.74% to 1.71% and the latter rising from 8.63% to 8.65% (see Tables D and E).

The BUX and the world's leading share market indicators

The share index of the Budapest Stock Exchange rose by 5.2% in November, following a 9.7% gain in October. From 6,773.14 at end-October, the BUX surged above the 7,100 point mark towards the middle of November, then it fluctuated in a very narrow range. The index continued to strengthen, reaching 7,357.61, its monthly peak, in the last week. Subsequently, prices began to fall gradually. The market closed November at 7,125.20 points (see Chart 19).

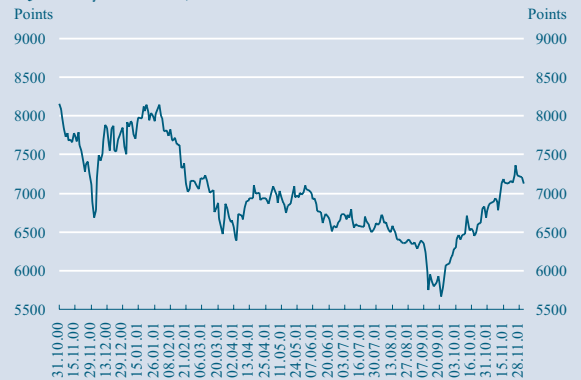
Measured on a dollar basis, the official index of the Budapest Stock Exchange rose by 6.2% in November following a 9.0% gain in October. After rising by 2.6% in October, the Dow Jones Industrial Average of New York rose robustly, by 8.6% in November. Also measured on a dollar basis, the DAX of Frankfurt extended its 4.4% advance in Oc-

tober by gaining another 9.1%. The London FTSE registered a slight, 1.1% gain after a 1.4% increase in the preceding month. These gains compared with losses of 17.0% and 7.0% respectively suffered by the DAX and the FTSE in September. The NASDAQ, a gauge of movements in the share prices of technology sector firms, rose by 16.9% in November, practically equally as strongly as in October, following the combined more than 36% loss sustained in the preceding three months.

Looking at the Far Eastern markets, the Nikkei in Tokyo registered a 2.4% gain on a dollar basis after a 3.6% rise in October and a combined loss of 26.5% in the preceding four months. The Hang Seng of Hong Kong rose by 12%, after a 1.2% gain in October and total decline of 23.7% in the preceding three months (see Chart 20).

Chart 19 The BUX

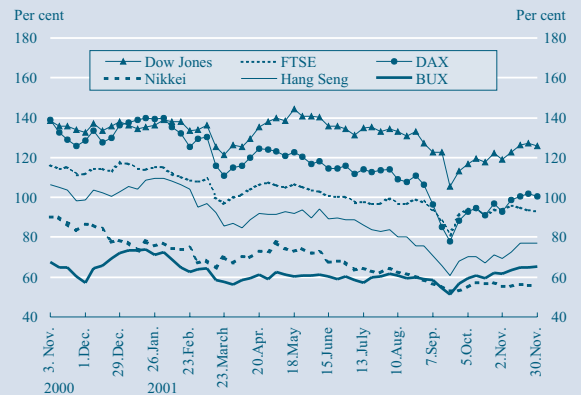
2 January 1991 = 1,000



Source: BÉT

Chart 20 The world's leading exchanges and the BUX

5 September 1997 = 100; on a dollar basis



Source: Reuters

Balance of payments and foreign trade

Chart 21 Current account

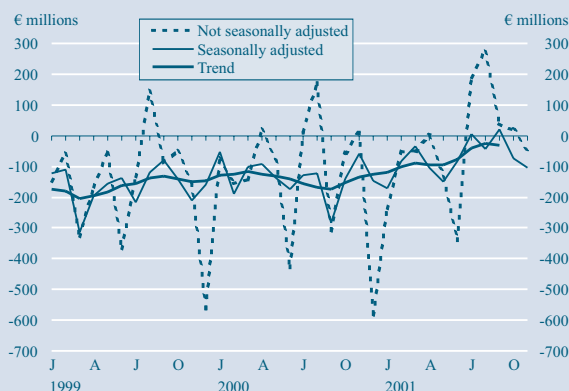


Chart 22 Trade balance

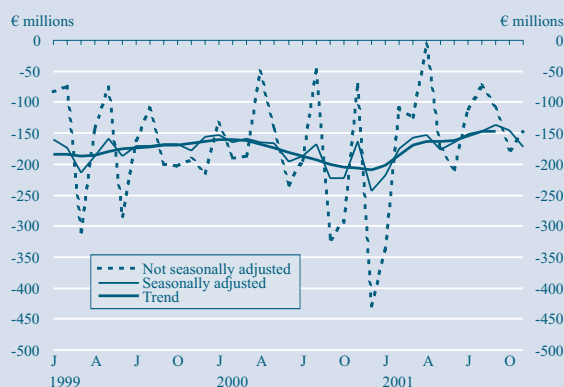


Table F Seasonally adjusted current account data*

	€ millions			
	2000		2001	
	Nov.	Sep.	Oct.	Nov.
Goods	-163	-137	-146	-172
Exports	2,495	2,637	2,657	2,683
Imports	2,635	2,698	2,792	2,892
Services excluding tourism	-47	-47	-43	-58
Tourism	221	259	250	265
Non-debt income flows	-49	-60	-63	-62
Debt-related income flows	-82	-55	-78	-80
Current transfers	41	59	43	40
Current account balance	-59	21	-72	-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,¹⁰ Hungary's current account registered a €105 million deficit in November 2001 (see Table F). Including the data for November, the decline in monthly current account deficits, as indicated by the current account balance outcomes since September 2000, appears to have been arrested (see Chart 21). The primary explanation for this is in the pause in the downward trend of monthly goods deficits since December 2000 (see Chart 22). The trend of monthly tourism surpluses¹¹ has been upwards since January 2000, fluctuating in a range of €200–260 million.

After seasonal adjustment, the current account deficit was €33 million higher in November than in the preceding month. The largest change occurred to goods trade, where the deficit increased by €27 million, accompanied by higher export and import levels. The deficit on services excluding tourism was €15 million higher than in the preceding month, reflecting lower revenues and higher expenditures. Nevertheless, the balance of service transactions remained broadly unchanged, as net tourism revenues increased by a comparable amount. As regards the outcomes on current transfers and the income account, the changes in the month were less than €32 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.

¹¹ Hungarian households have recently deposited or converted into forints a part of their foreign currency holdings, in reaction to the withdrawal of euro area national currencies. Foreign currency holdings arising from transactions in earlier periods are only captured by the statistics at the time of the banking transaction. The available series on foreign currency turnover have been used to estimate the amounts deposited or converted, as there is no accurate information on hand. The amount for November (€ 30 million), calculated in this manner, has been recorded as foreign currency transaction in the financial account instead of tourism revenue (under 'Other investments...Short-term assets...Other sectors').

The current account deficit for November was €46 million higher than twelve months previously. The largest change occurred to the goods balance, where the deficit increased by €44 million, coupled with higher exports and imports of goods. In a year-on-year comparison, the outflow of investment income on equity increased by €13 million, the deficit on service transactions excluding tourism by €12 million and the goods trade deficit by €9 million. The outflow of investment income on debt and the surplus on current transfers remained virtually unchanged.

According to the not seasonally adjusted data, the current account registered a €46 million deficit in November. The capital account closed with a surplus of €16 million, so whole-economy external financing requirement amounted to more than €29 million in the month under review (see Table G). Net non-debt inflow amounted to nearly €125 million – non-residents invested €108 million in Hungary, direct investments by Hungarian residents abroad amounting to €12 million. The balance of inward and outward portfolio investment transactions in equity securities was a net inflow of €30 million. Non-resident investors stepped up by €144 million their holdings of securities issued by the Hungarian government and the central bank.

Hungary's external accounts

Whole-economy gross foreign debt was €37.1 billion at the end of November 2001. The combined gross foreign currency debt of general government and the NBH outstanding to non-residents amounted to €17.1 billion, forint debt accounting for €4 billion of the total. The gross debt of other monetary financial institutions and the other sectors was €20 billion. Here, inter-company loans amounted to €4.7 billion. Inter-company loans, i.e. debt liabilities of sub-

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

	€ millions			
	2000	2001		
	Nov.	Sep.	Oct.	Nov.
1 Current account	11	39	17	-46
2 Capital account	51	19	15	16
3 Net lending / net borrowing (1+2)*	63	58	31	-29
4 Non-debt capital flows	-320	99	235	125
5 Total (3+4)	-258	156	267	96
6 Debt-creating flows (6a+6b)**	241	-157	-221	-222
6a In forint***	80	-46	153	144
6b In foreign currency	162	-111	-374	-365
7 Financing gap (5+6)	-17	-1	45	-126
8 Errors and omissions	17	1	-45	126

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

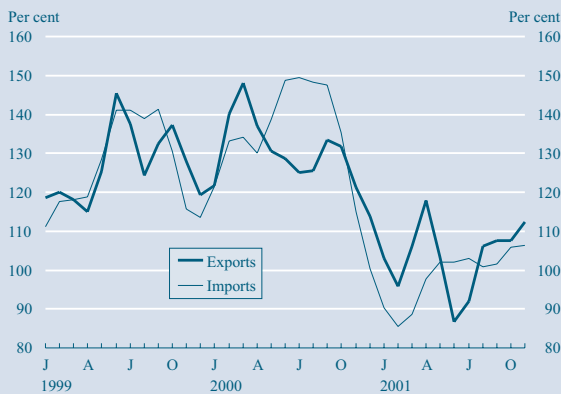
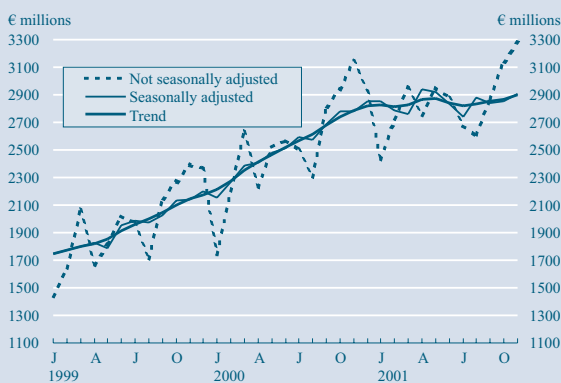
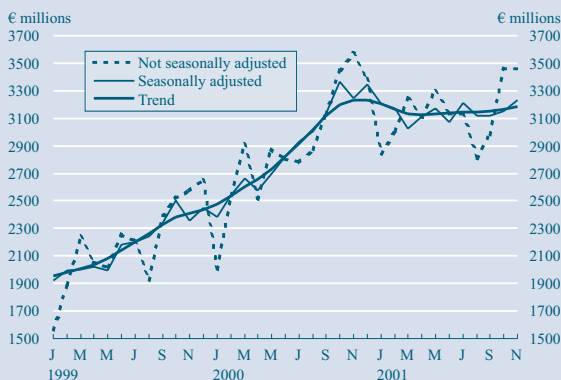
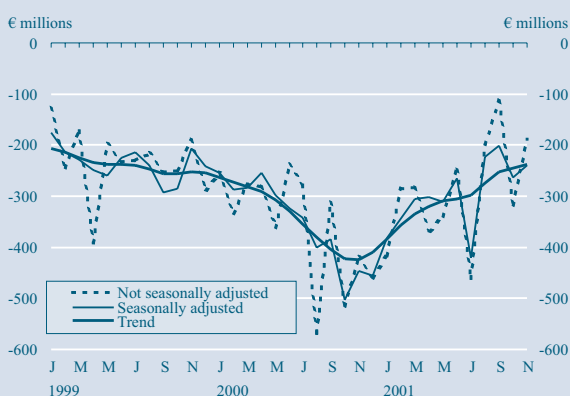
** Net change in debt: fall (-), or increase (+).

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

Table H Hungary's assets and liabilities vis-à-vis non-residents (monthly changes)

	2001		Change	Of which:			
	October	November		Transactions	Exchange rate movements	Price changes	Other volume changes
	€ millions						
Net foreign currency debt of the NBH and government	-1,710	-1,501	209	184	22	3	0
Net forint debt of the NBH and government	3,834	4,034	200	144	56	0	0
Total net debt of the NBH and government	2,123	2,533	409	328	78	3	0
Assets of the NBH and government	14,779	14,584	-195	-288	60	33	0
Of which: International reserves	12,993	12,724	-268	-277	52	-43	0
Gross foreign currency debt of the NBH and government	13,069	13,083	14	-104	82	36	0
Gross forint debt of the NBH and government	3,834	4,034	200	144	56	0	0
Total gross debt of the NBH and government	16,902	17,117	214	39	139	36	0
Net debt of credit institutions and the corporate and other sectors*	4,682	3,921	-761	-645	-40	54	-130
Assets of credit institutions and the corporate and other sectors	10,378	11,298	920	657	151	63	49
Gross debt of credit institutions and the corporate and other sectors	15,059	15,218	159	12	111	117	-81
Inter-company loans, net	4,236	4,368	131	96	14	0	21
Assets	373	378	6	0	4	0	2
Liabilities	4,609	4,746	137	96	18	0	23

* Excluding inter-company loans.

Chart 23 Annualised monthly growth rates of the trends of goods trade calculated in euros**Chart 24 Merchandise exports****Chart 25 Merchandise imports****Chart 26 Trade balance**

subsidiary companies to their parents, had a share of 34% within the other sectors' gross foreign debt.

Whole-economy net debt amounted to €10.8 billion at end-November. The combined net debt of general government and the NBH was €2.5 billion. However, taking foreign currency denominated assets and liabilities into account, the two sectors took a €1.5 billion net lending position in foreign currency. Total private sector net foreign debt was €8.3 billion, inter-company loans accounting for €4.4 billion. Whole-economy net debt fell by more than €0.6 billion relative to end-October, explained primarily by increases in long-term assets of other monetary financial institutions and in short-term assets of the non-financial corporate sector (see Table H on Page 17).

The total stock of direct investments by non-residents in Hungary amounted to €25.3 billion at the end of November, of which the value of holdings of corporate shares and other classes of equity capital was €20.6 billion.

Foreign trade

In November, the annualised growth rate of the trend of goods exports continued to be higher than the comparable indicator for imports, as seen in the preceding few months of the year. As a result, the trend of merchandise foreign trade balance outcomes improved again in November 2001 relative to the preceding few months of the year (see Chart 23).

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

The estimated, not seasonally adjusted levels of exports and imports changed differently in November 2001 relative to the preceding month – exports increased, while imports remained virtually static at the level of October. As a result, the goods balance outcome improved a little relative to the preceding month.

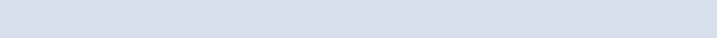
The twelve-month growth indices for both exports and imports, calculated from the seasonally adjusted data for November, were broadly comparable with the indices derived from the not adjusted data. This indicates that factors other than seasonal effects only slightly influenced export and import growth in November and the first eleven months of 2001.

Examining the commodity pattern and direction of goods trade, the percentage share of machinery and equip-

ment fell within whole-economy merchandise exports. There has been a continuous decline in the percentage share of machinery and equipment within exports since June; however, its influence is now barely perceptible in the cumulative data, due to the opposite developments observed at the beginning of 2001. The fall in the percentage share of machinery exports in 2001 H1 was accompanied by an increase in the shares of manufactured goods and food industry products.

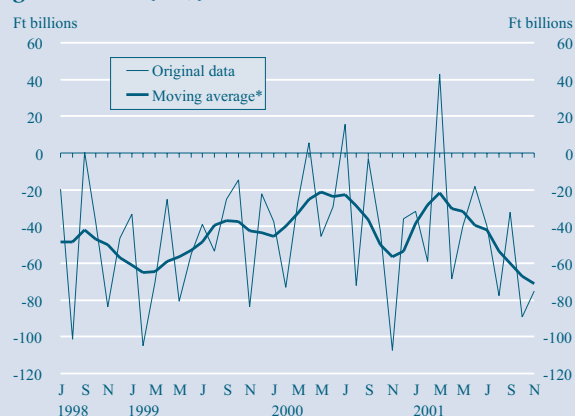
The percentage share accounted for by exports and imports of energy was comparable in November 2001 and the first eleven months of the year with that of the same periods of the previous year. As a result of falling world market prices, however, the value of energy imports was lower in November 2001 relative to the preceding month. Taking the first eleven months of 2001, energy imports were higher than in the comparable period of the previous year, despite the volume of imports, calculated on the basis of calorific value, rising only slightly – imports rose by some €260 million and net imports by some €140 million.

Looking at goods trade in a regional breakdown, the percentage share of the EU member states within Hungarian exports and imports fell in November 2001 relative to a year before. It was primarily the percentage shares accounted for by the developed countries outside the EU and the CEFTA countries that increased in November and the first eleven months of 2001 respectively. As regards imports, the share of other countries (mostly the developing countries of the Far East) increased both in November and the first eleven 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 October 2001. The November value has been calculated using a triangular average with equal weights and an estimate for December (Ft -49.1 billion).

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

General government	Ft billions			
	2000		2001	
	Nov.	Oct.	Nov.	Jan.–Nov.
Central government balance (1)	-22.8	-19.3	11.6	-262.4
Extra-budgetary funds (2)	0.2	-0.9	-0.9	15.9
ÁPV Rt (3)	-1.3	-1.6	-7.0	-85.9
Other units of central government (4)	3.9	-0.5	-1.4	-5.1
Central government (S.1311) (5=1+2+3+4)	-20.0	-22.3	2.3	-337.5
Social security funds (S.1314) (6)	-63.3	-17.0	-64.8	-162.6
Local authorities (S.1313)* (7)	-24.0	-49.8	-12.4	12.7
General government, total (S.13) (8=4+5+6+7)	-107.3	-89.1	-74.9	-487.4

* 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 National Bank of Hungary calculates the net borrowing requirement of general government from revenues and expenditures. This amounted to Ft 74.9 billion in November 2001, in comparison with Ft 107.3 billion recorded a year earlier (see Chart 27). The net borrowing requirement of the social security funds was Ft 1.5 billion higher and that of the local government sub-sector Ft 11.6 billion higher than in the comparable period of the previous year. The net borrowing requirement of central government amounted to Ft 2.3 billion, showing a Ft 22.3 billion decrease relative to November 2000. (see Table I). The cumulative general government deficit amounted to Ft 487.4 billion in January–November 2001, in comparison with Ft 415.6 billion in the same period of the previous year.

The net borrowing requirement (or financing capacity) of the central government sector 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. The amount of central government net financing capacity was Ft 2.3 billion in November. Excluding interest payments and receipts as well as mutual assets and liabilities of the NBH and the central government, the primary surplus of central government amounted to Ft 54.5 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 difference between interest expenditure recorded on cash and accrual bases decreased the central government borrowing requirement by Ft 4.7 billion in November, comparable with the decrease of Ft 5.7 billion in the borrowing requirement of the same period a year earlier.

The State Privatisation and Holding Company registered no revenue in November. The Ft 7.1 billion expenditure in

the month reflected the operating costs of ÁPV Rt, transfers to companies belonging to the portfolio of the asset management agency, other transfers related to privatisation and reorganisation projects linked with asset management and payments for the purposes of financing development projects. ÁPV Rt is statistically treated by the Bank as a constituent of the central government sector. Including other expenditures, the privatisation agency registered a Ft 7.0 billion net borrowing requirement in November. The net borrowing requirement of the company amounted to Ft 85.9 billion in the period January–November.

In November 2001, the balances of other units of central government, estimated on the basis of bank statistics, increased the net borrowing requirement of the central government sub-sector by Ft 1.4 billion, while that of social security provisions funded by the central budget decreased it by Ft 0.5 billion.

The social security authorities comprise the Health Insurance Fund and the Pension Insurance Fund. Their total revenues and expenditures amounted to Ft 169.2 billion and Ft 234.0 billion respectively. 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. This was despite the fact that in November the Health Insurance Fund received the amount of Ft 10.6 billion to finance health care in 2001, held on a deposit account since December 2000. The significant amount of expenditure in the month was related to the payment of December old-age pensions being brought forward (the advance amounted to some Ft 50 billion) and a 1.7% increase in pensions. As a result of these factors, the social security sub-sector registered a Ft 64.8 billion net borrowing requirement in November and one of Ft 162.6 billion in the period January–November 2001.

The net borrowing requirement (or net financing capacity) of the local government authorities has been estimated from transactions data reported by the Ministry of Finance for January–September and the monthly data calculated using the Bank's method. The November amount of its net borrowing requirement was Ft 12.4 billion, down from Ft 49.8 billion in October. Nevertheless, the sub-sector registered a Ft 12.7 billion financing capacity for the period January–November 2001.

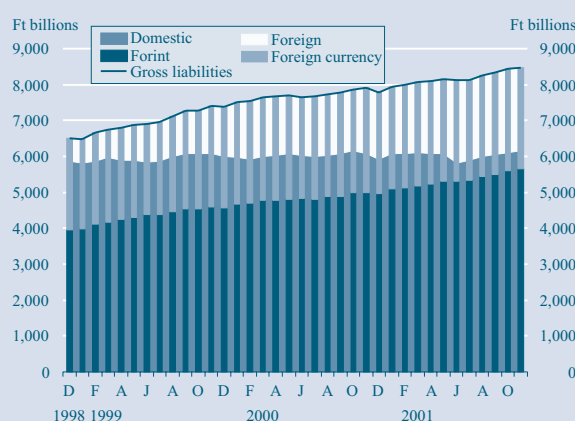
Financing and gross debt of general government

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

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

	Stocks: Nov. 2001	Flows:			
		Nov.		Jan.–Nov.	
		Transac- tions	Other changes in volume	Transac- tions	Other changes in volume
Central government (S.1311)					
Assets	1,384.5	104.3	10.1	441.1	190.6
Liabilities	8,425.0	62.2	-18.9	734.6	-27.1
Net financial assets	-7,040.4	42.1	29.0	-293.5	217.7
Social security funds (S.1314)					
Assets	3.8	0.6	0.0	-2.5	0.0
Liabilities	263.9	65.3	0.0	160.8	0.0
Net financial assets	-260.0	-64.6	0.0	-163.3	0.0
Local government authorities (S.1313)					
Assets	488.2	-7.5	0.0	39.6	0.0
Liabilities	177.2	4.9	-0.3	8.5	-1.1
Net financial assets	311.1	-12.4	0.3	31.0	1.1
Consolidated general government					
Assets	1,490.0	32.1	10.1	302.7	190.6
Liabilities	8,479.4	67.1	-19.2	728.5	-28.2
Net financial assets	-6,989.4	-35.0	29.3	-425.8	218.7

Chart 28 Composition of general government gross liabilities



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 35.0 billion in November and a total Ft 425.8 billion in the first eleven months of 2001 (see Table J). The financing capacity of the central government was Ft 42.1 billion in the month under review, the social security funds registering a Ft 64.6 billion borrowing requirement and the local government authorities one of Ft 12.4 billion.

Financial assets of the central government increased by Ft 114.4 billion in November. Ft 104.3 billion of this increase was attributable to an increase in the sector's deposits with the NBH and lending to the social security funds. Revaluations accounted for Ft 10.1 billion. The increase of Ft 43.3 billion in liabilities was the balance of net issues of forint-denominated government securities, interest accruals, and revaluations on foreign currency instruments.

The stock of outstanding borrowings of the social security funds from the central government increased by Ft 64.8 billion in November. Consequently, total debt of the authorities amounted to Ft 254.8 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 64.6 billion.

The change in November 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 7.5 billion, liabilities increasing by Ft 4.6 billion. As a result, net financial assets of the local government authorities decreased by Ft 12.1 billion in one month.

In November, the gross debt of general government increased by Ft 47.9 billion. This was lower than the monthly average increase of the year. The outstanding total amounted to Ft 8,479.4 billion at the end of the month (see Chart 28). Transactions accounted for Ft 67.1 billion of the increase, the effect of revaluations being Ft -19.2 billion. Foreign currency liabilities as a percentage of total debt was decreasing in 2001, standing slightly in excess of 33% at end-November.

Earnings and financial savings of households

Earnings

According to the data adjusted for seasonal effects and working-day variations, corporate sector¹² gross earnings growth was 1.9% higher in November than in the preceding month, registering an increase of 16.6% relative to a year earlier. Unadjusted corporate sector earnings growth amounted to 18.1% (see Chart 29).

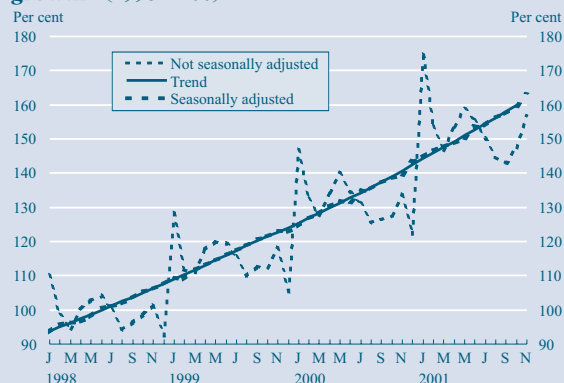
Government sector adjusted earnings growth continued to be very strong in November 2001, as seen in the preceding few months of the year and explained by the modification to the public servants' salary system. According to the seasonally adjusted data, wages rose on average by 2.4% relative to October and by 29.5% relative to a year earlier. Not seasonally adjusted earnings growth indicates a 33.6% growth in the period (see Chart 30).

Savings

Operational net lending of households equals their financial savings after eliminating compensation for inflation incorporated in interest. Measured both on current and constant price bases, its amount was saliently high in November 2001, exceeding the outcomes recorded in the same periods of previous years. Having reached its trough in March, the trend of financial savings continued to be upwards thereafter (see Chart 31).

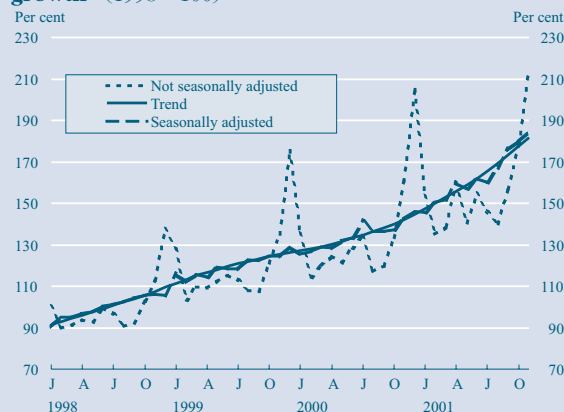
The value of operational net lending of the household sector amounted to Ft 89.6 billion in November. Including a Ft 23.9 billion compensation for inflation incorporated in interest, the value of net lending amounted to Ft 113.5 billion. The rise in share prices had a favourable effect on the change in financial wealth. The sector registered a total gain of Ft 15.9 billion on holdings of non-bank securities. Measured at market prices, Hungarian households' net financial wealth rose by Ft 130 billion in the month under review. The rate of growth of financial wealth, measured on a constant price basis, had been upwards in previous months, accompanied by a slight increase in the growth

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



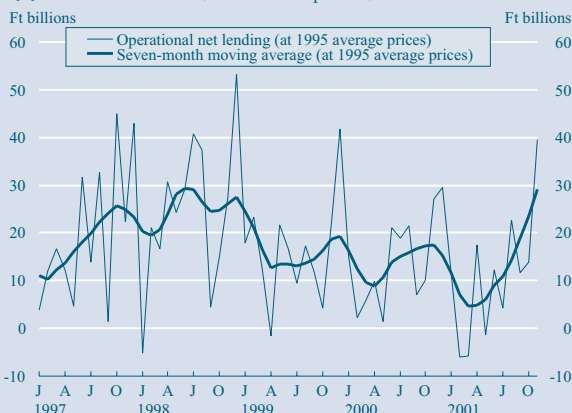
*Using the Bank's method to calculate trends from data reported by the CSO.

Chart 30 Government sector gross average earnings growth* (1998 = 100)



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

Chart 31 Operational net lending (+) / net borrowing (-) of households (at constant prices)



¹² Companies with more than 10 employees.

Chart 32 Growth in household sector financial wealth at constant prices

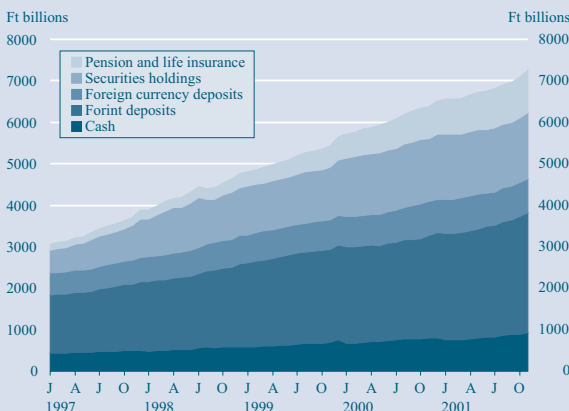
Percentage changes on a year earlier
At average 1995 prices using seven-month moving averages



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

	Stocks at 30 Nov. 2001	November flows:					Other changes in volume
		Transactions	Transactions net of compensation for inflation	Compensation for inflation incorporated in interest	Revaluations		
Forint cash	916.9	33.5	33.5	33.5	0.0	0.0	0.0
Foreign currency cash	61.9	-8.1	-7.6	-7.6	0.0	-0.5	0.0
Forint deposits and bank securities	2,904.4	49.6	49.6	35.6	14.0	0.0	0.0
Foreign currency deposits	747.2	6.1	9.6	8.4	1.2	-3.5	0.0
Non-bank securities	1,595.6	32.0	12.4	4.5	7.9	19.6	0.0
Pension funds and life insurance	1,009.7	20.0	20.0	14.3	5.7	0.0	0.0
Unpaid wages	144.5	25.6	25.6	25.6	0.0	0.0	0.0
Financial assets, total	7,380.2	158.7	143.1	114.3	28.8	15.6	0.0
Home-building loans	314.1	15.7	15.8	14.0	1.8	-0.1	0.0
Consumer credit	542.3	11.6	12.4	9.3	3.1	-0.2	-0.6
Other borrowings	56.1	1.4	1.4	1.4	0.0	0.0	0.0
Household debt	912.5	28.7	29.6	24.7	4.9	-0.3	-0.6
NET FINANCIAL WEALTH AND THE COMPONENTS OF CHANGE IN WEALTH	6,467.7	130.0	113.5	89.6	23.9	15.9	0.6

Chart 33 Household sector financial assets



rate of assets in the second half and a continued robust growth rate of liabilities (see Chart 32).

Within financial assets, households' forint deposit holdings rose the most strongly, by Ft 49.6 billion, in November. Operational transactions and compensation for inflation incorporated in interest accounted for Ft 35.6 billion and Ft 14 billion respectively (see Chart K). The vast majority, some 80%, of the increase in deposits was accounted for by deposits fixed for terms of less than a year. Cash holdings of households have been rising continuously since March. The increase in November amounted to Ft 33.5 billion. Playing a role in the robust increase in financial savings were the retrospective increase in old-age pensions in November (some Ft 20 billion) and the payments of a part of their equity to passive cooperative owners.

The value of foreign cash holdings¹³ fell by Ft 8.1 billion in the month, due to the conversion of the outgoing national currencies of EMU member countries, and was switched into other financial instruments (foreign currency deposit, forint deposit, forint cash, etc.).

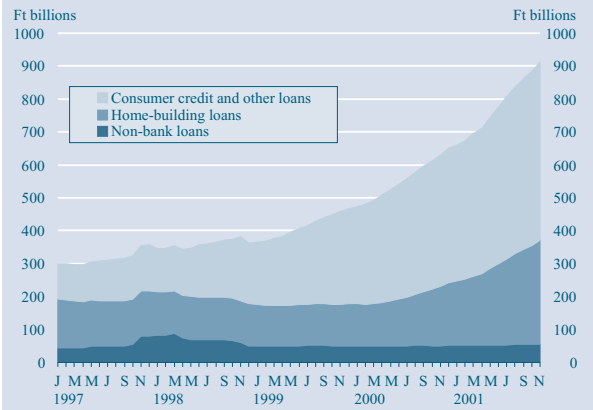
The forint equivalent of foreign currency deposits of the household sector was Ft 6.1 billion higher at end-November than at the end of October. Operational transactions amounted to Ft 8.4 billion. This increase reflected in part the effect of changeover to the euro. The sector registered a Ft 3.5 billion holding loss on foreign currency deposits. The increase in holdings due to transactions affected the sector's deposits denominated in euro. At month-end, households' foreign currency deposits were concentrated 46.8% in the dollar and 43.9% in the euro-area currencies.

Non-bank securities holdings increased by Ft 32 billion in the month, mostly on account of the rise in share prices (see Chart 33). The revaluation effect contributed Ft 19.6 billion to households' financial wealth. Operational transactions in securities and compensation for inflation incorporated in interest amounted to Ft 4.5 billion and Ft 7.9 billion respectively. Of the various types of security, demand for investment units continued to be firm. 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 17.3 billion, Ft -8.6 billion and Ft -4 billion respectively.

¹³ Previously, foreign currency cash was not recorded within households' financial wealth. The new instrument has been introduced to handle the substantial change in foreign currency cash holdings caused by the withdrawal of national currencies of EMU member states. The stock of foreign currency cash holdings is estimated to have been Ft 70 billion at end-October 2001. Of this amount, Ft 7.6 billion and Ft 34.4 billion was converted into other instruments or spent in November. For the period prior to October 2001, this Ft 70 billion is shown at actual month-end exchange rates in the data adjusted retrospectively to 1997. The change in stock has been treated as a revaluation.

Continuing the pattern seen in the preceding months of the year, household sector net borrowings increased by Ft 28.7 billion in November. Operational transactions accounted for Ft 24.7 billion of this increase. The rise in housing loans exceeded that in consumer credit for the fourth consecutive month. Operational transactions in housing loans and consumer credit in the month amounted to Ft 14 billion and Ft 9.3 billion respectively (see Chart 34).

Chart 34 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	-31.7
February		110.4	109.8	117.3	6.3	-13.0	110.2	112.5	111.1	11.28	-54	268	12,104	-58.7
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	42.8
April		110.3	110.2	119.7	5.8	38.1	108.3	111.6	111.6	11.25	-2	62	12,536	-68.6
May		110.8	110.3	115.3	5.7	-3.2	110.3	112.2	113.5	11.25	-134	124	12,990	-39.6
June	104.0	110.5		118.0	5.4	27.0	110.6	111.6	112.7	11.25	-341	111	13,596	-17.9
July		109.4		114.0	5.7	9.4	109.4	110.1	113.3	11.25	191	23	13,536	-39.8
August		108.7		117.3	5.8	50.8	110.2	112.5	115.9	11.25	273	100	13,128	-77.8
September	103.7	108.0		119.1	5.3	26.2	110.7	112.2	115.2	11.08	39	92	13,120	-32.1
October		107.6		121.5	5.6	31.3	113.0	112.9	115.4	10.93	17	312	12,993	-89.1
November		107.1		122.7	5.8	89.6	112.0	111.0	113.9	10.40	-46	108	12,724	-74.9

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.