



Monthly Report

(includes data up to the end of December 2001)

2/2002

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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

As a consequence of the global economic recession and slackening domestic demand, industrial output growth slowed considerably in 2001. In addition to these factors, the base effect also had an important role in output growth slowing, taking into account that output growth in 2000 was the most robust in nearly a decade (see Chart 1).

As seen in the preceding month, output was lower in December 2001 than the level of a year earlier. However, unlike the trends of the preceding few months, this slowdown in output growth was mainly attributable to a drop in exports. In contrast with exports, domestic demand picked up somewhat in the final month of the year.

Taking account of working day variations, seasonally adjusted industrial output and sales both were 0.9% lower in December than in November. Within total sales, domestic sales rose by 1.7% in one month, the volume of exports falling by 2.5% (see Chart 2).

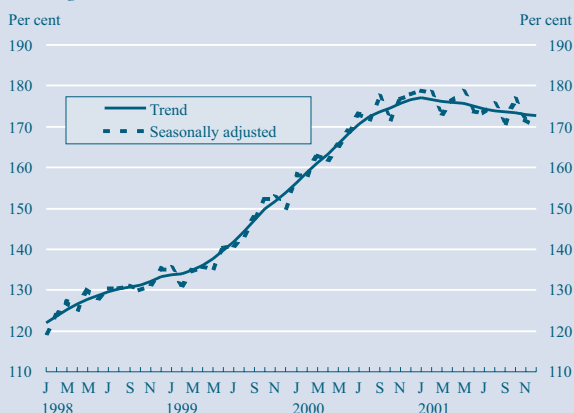
Turning to twelve-month industry developments, output and total sales were respectively 2.2% and 2.9% lower in December 2001 than their levels recorded a year earlier. Within total sales, exports fell by 7.5% in a twelve-month comparison, interrupting the trends of the preceding months. Domestic sales, in contrast, rose by 1.4% in the same period.

In the final month of 2001, output in the majority of manufacturing branches fell below the level recorded a year earlier, only a couple of branches providing an exception. For example, output of coke and refined petroleum product manufacturers increased by 27.3% relative to December 2000. Manufacturers in the paper and paper products, publishing and printing, in machinery and equipment, and in rubber and plastic products registered year-on-year growth rates of 7.9%, 4.1% and 2.4% respectively.

Following an increase of 18.1% in 2002, annual output grew by 4.1% in 2001. The volume of total sales was 4.5% higher in a year-on-year comparison. Production growth continued to be based on the expansion of exports, as seen in the previous years; however, export growth slowed considerably due to unfavourable developments in export markets. Compared with an annual average rate of nearly 30% in the period 1997–2000, exports grew by only 8.9% in

Chart 1 Volume indices of industrial production*

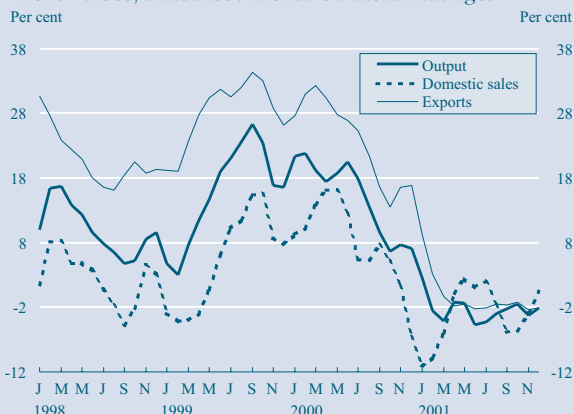
Average of 1995 = 100



* 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*

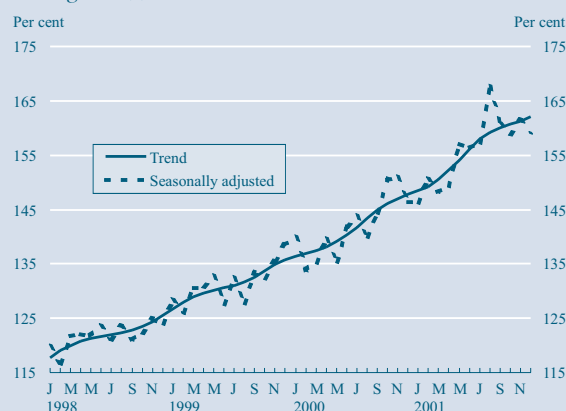
Trend values; annualised month-on-month changes



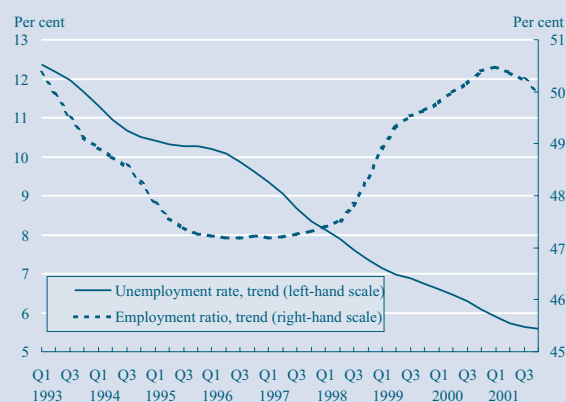
* Using the Bank's method to calculate trends from data reported by the CSO.

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.

2001. The total volume of domestic sales remained broadly unchanged at the previous year's level.

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 in December. The volume of existing orders at end-December was still higher than the twelve months previous level by 24.9%, underpinned by a 32.5% upsurge in existing export orders. Nevertheless, the existing volume of domestic orders at month-end was 10.2% lower than a year earlier. The December 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 three months.

In contrast with manufacturing, the upturn in construction industry activity continued uninterrupted in December 2001. Taking account of working day variations, the volume of seasonally adjusted construction output rose by 0.5% in December relative to November. Construction output, measured on the basis of the not seasonally adjusted data, was 7.4% higher in the month under review than in December 2000.

On the whole, construction sector output was 9.9% higher in 2001 than in the previous year. Playing a role in the sector's performance maintaining momentum was the pick-up in subsidised dwelling construction.

Data on existing contracts for construction work suggest a continued rise in construction output growth in the coming months. The value of new construction contracts entered into in December exceeded the level of a year earlier by 6.4%. In addition, the end-December volume of construction companies' existing orders grew by only 10.9% relative to December 2000 (see Chart 3).

Developments in the Hungarian labour market were characterised by conflicting trends in 2001 Q4 – unemployment continued to fall, while the number and proportion of people in employment stopped rising further (see Chart 4).

According to the indicators derived from quarterly data of the CSO's Labour Force Survey, adjusted for seasonal and random effects,² the whole-economy activity ratio,³ at 50%, was 0.2 of a percentage point and 0.4 of a percentage

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.)

² The time series used in the calculations takes into view, with retrospective effect, the methodological changes in 1998 to the CSO Labour Force Survey which resulted in broader samples, changes to the weights etc. Consequently, although the indicators are comparable over periods, they are not directly comparable with quarterly LFS data for the period prior to 1998.

³ Employment ratio is defined as the number of people in employment expressed as a percentage of people in the 15–74 age bracket. Activity ratio is defined as the number of economically active people expressed as a percentage of the 15–74 year-olds.

point lower respectively in 2001 Q4 than in the previous quarter and the same period a year before. The trend value of the unemployment rate was 5.6% in the month under review, equal to the outcome recorded in the third quarter, but 0.5 of a percentage point lower than in 2000 Q4.

The dynamic rise in the number of people in employment since 1998 Q1 faltered in early 2001, its growth rate falling quarter by quarter. According to the seasonally adjusted data, the number of employed people was 0.6% lower in 2001 Q4 than in the previous quarter, and 1% lower than in the same period of 2000 (see Chart 5).

The number of whole-economy registered unemployed continued to fall in the period under review; however the rate of this decline was slower than in the previous quarters of the year. According to the seasonally adjusted labour market data, the number of registered unemployed in the total economy was only marginally higher, by 0.1%, in 2001 Q4 than in the previous quarter, but 9.4% lower than in the comparable period of 2000 (see Chart 6).

The whole-economy unemployment rate, calculated from the seasonally adjusted data, was 5.6% in the fourth quarter, unchanged in relation to the previous quarter, and 0.3 of a percentage point lower than in 2000 Q4.

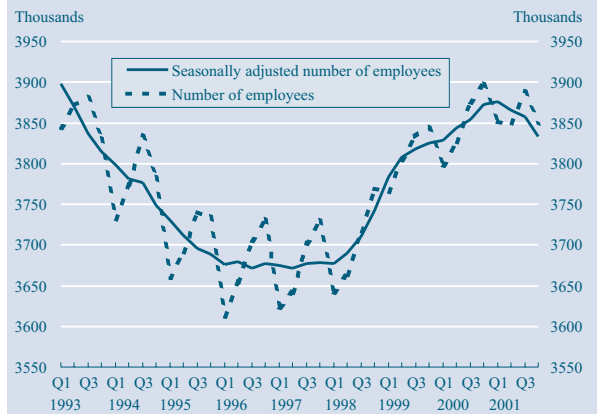
Looking at the unemployment rate according to age groups, the seasonally adjusted youth unemployment rate (the 15–24 year-olds) was 10.6%, while that of people in the 25–76 age bracket was 4.9% in 2001 Q4.

Examining developments in unemployment by gender, male unemployment, at 6.2%, continued to be higher. This compared with 4.9% female unemployment in the period under review.

As a result of the fall in the number of unemployed and the slight increase in the number of people in employment, the seasonally adjusted number of economically active people fell by 0.6% in 2001 Q4 relative to the previous quarter and by 1.5% year on year.

The whole-economy activity ratio, calculated on the basis of the seasonally adjusted data, was 52.9% in 2001 Q4. That meant a fall of 0.4 of a percentage point relative to the previous quarter and one of 0.8 of a percentage point relative to 2000 Q4.

Chart 5 Number of employed persons*



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

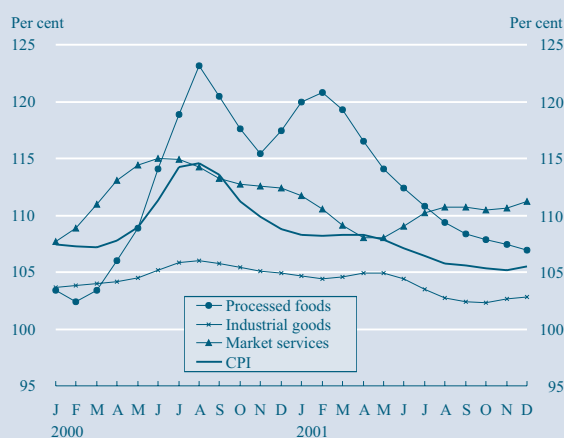
Chart 6 Number of unemployed*



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

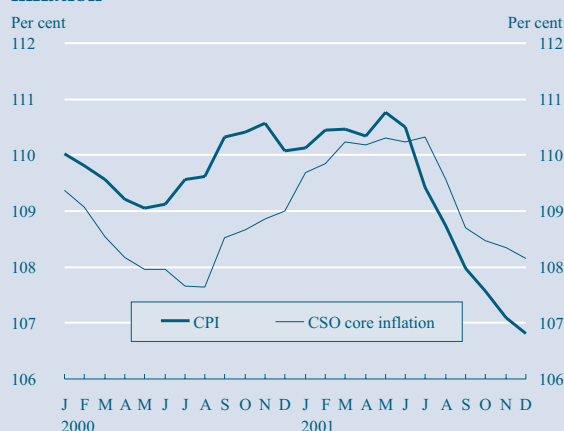
Price trends

Chart 7 Five-month annualised 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 8 Year-on-year consumer price index and core inflation



Source: CSO

Consumer prices

According to the data released by the CSO, consumer prices rose by 0.1% in December. Looking at the categories monitored by the National Bank of Hungary,⁴ the prices of motor fuels, a category of energy products, fell by another 1.9% in the month. The market price of energy⁵ rose by 0.1%, and the regulated price of energy remained unchanged. Regulated services prices were 0.1% higher in December than in November. Pharmaceuticals prices were static. Alcoholic drinks and tobacco cost 0.1% less 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 more suitable for analysis.

The seasonally adjusted, five-month annualised trend of the consumer price index rose to 5.5% in December. The trend value of processed foods price inflation fell from 7.4% to 6.9%. By contrast, the trend value of industrial goods price inflation increased to 2.8% in one month. The trend of market services price inflation turned upwards – its value was 11.2% in December, up from 10.6% in the preceding month (see Chart 7).

Examining twelve-month price developments, the consumer price index fell to 6.8% in December 2001, showing a drop of 0.3 of a percentage point relative to November (see Chart 8). The trend of the food price index continued to be downwards. Food prices were 9.9% higher on average in the final month of 2001 than a year earlier. This compared with a recorded year-on-year increase of 11.2% in the preceding month. Annual processed foods price inflation dropped to 11.9% from November's 12.4%. Unprocessed foods price inflation experienced a significant fall – it dropped to 4.8% from 10.3% and 7.8% in October–November. The rate at which motor fuel prices fell was 13.9%

⁴ Developments in the price categories which are difficult to seasonally adjust are presented on a month-on-month basis. Annualised percentage changes 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.

⁵ This category does not reflect the effects of changes in motor fuel prices.

in December. Inflation of market-determined household energy prices, having a relatively small weight, was downwards in the period February–November. In December, prices actually fell, by 0.7%, for the first time since 1993, the year the time series was first recorded. The annual index of regulated energy prices remained unchanged at 9.0%. Up 3.7% in the month under review, the prices of industrial goods continued to rise at a modest pace. Annual market services price inflation slowed to 10.1%. As a result of these price movements, the basket price index of goods comprising foods, industrial goods, market services and market energy fell from October's 8.2% and November's 7.8% to December's 7.3%. The price index of alcoholic drinks and tobacco slipped to 10.3%. Pharmaceuticals prices rose by 17.3% and those of other regulated services by 7.2% in twelve months (see Chart 9). Annual average consumer price inflation was 9.2% in 2001, 0.6 of a percentage point lower than in 2000.

Producer prices

Domestic producer prices excluding energy⁶ characterise changes in producer prices the best. Seasonally adjusted by the Bank, they fell by 0.1% in December relative to the preceding month.⁷ Industrial firms' domestic selling prices, released by the CSO, fell by 0.5% in December, the twelve-month increase amounting to 3.6%. Domestic selling prices, seasonally adjusted by the Bank, increased by 0.1% in the month, following the 0.1% drop in November. The annual average change in domestic selling prices was an increase of 9.4% in the year under review (see Chart 10).

Domestic selling prices continued to fall in December 2001 – following a 0.2% and a 0.6% drop in October and November, they fell by another 0.5% in December. Manufacturing industry domestic selling prices were 0.6% lower in December than in the preceding month. Chemical industry prices fell by 1.7% relative to November, engineering prices rising by 0.2%. Mining and extraction prices increased by 0.4%. By contrast, prices of food, drink and tobacco producers fell by 0.7%. The combined one-month change in domestic and export prices was a 0.7% fall in December.

Chart 9 Twelve-month changes in the prices of the major categories monitored by the NBH

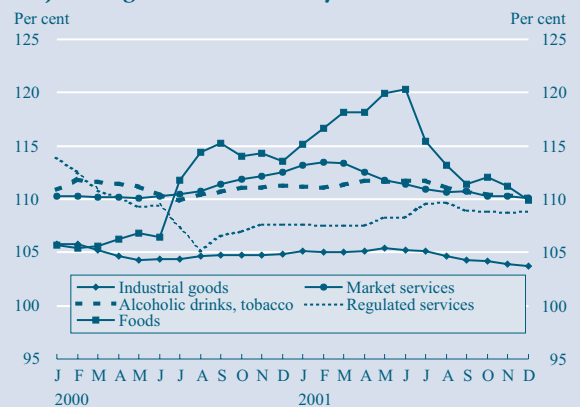
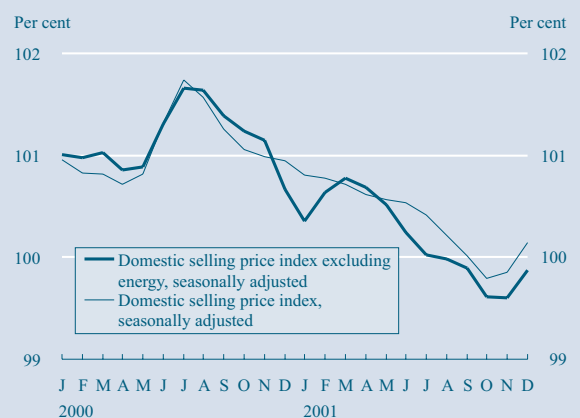


Chart 10 Domestic producer price indices*

Preceding month = 100



* Seasonally adjusted by the Bank.

⁶ 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.

⁷ Due to the seasonal adjustment, this time series which reflects our 'best' understanding shows a slight difference with those published earlier.

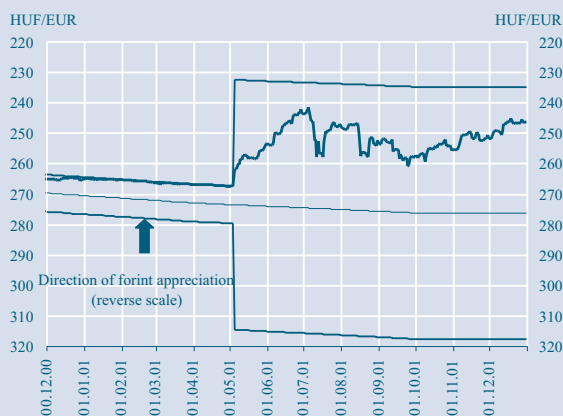
Monetary developments

Monetary conditions

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

- Effective from 11 December 2001, the National Bank of Hungary reduced the central bank base from 10.25% to 9.75%. In line with the reduction in the base rate and the 100 basis point reduction in the overnight interest rate corridor above and below the Bank's major policy rate, the overnight deposit rate remained unchanged at 8.25% and the overnight repo rate was lowered from 12.25% to 11.25%. Official interest rates on facilities related to the base rate were changed accordingly.
- Effective from 18 December 2001, the National Bank of Hungary ceased to use the overnight hold-in-custody repo as a standing facility. Also from 18 December, the Bank has been using the secured loan facility, instead of the hold-in-custody repo, as an instrument of providing assistance on the lending side. Counterparties have access to overnight secured loans even prior to the closing hour of VIBER, until 5 p.m. on business days. In the course of its lending-side transactions, the Bank accepts eligible papers at the price evolving during the evaluation process. The collateral assessment process, in effect from 18 December 2001, covers repo transactions, overnight secured loans and the transaction limits used in the payment systems (i.e. the VIBER and GIRO systems).

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



The exchange rate

As seen in the first eleven months of 2001, movements in the market rate of the forint continued to be confined to the upper region of the intervention band in December. The exchange rate strengthened by nearly 2% in the period prior to mid-December. Then it fluctuated in a narrow band throughout the remainder of the month. On the last business day of the year, the currency stood 10.78% away from the central parity, into the upper region of the intervention band. Its rate closed at 246.33 vis-à-vis the euro, 2.11% stronger than the close in November (see Chart 11). The December average HUF/EUR exchange rate was 247.65,

1.37% stronger than the November average. The average distance of the exchange rate from the central rate was 1,031 basis points in the upper range of the intervention band. That meant an increase of 125 basis points relative to November.

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.⁸ The Bank has not conducted official intervention in the foreign exchange market since the move to widen the intervention band of the currency.

Statistical balance sheet of the NBH

The value of banknotes and coin in circulation increased by Ft 38.3 billion in December. The end-of-month total of other monetary financial institutions' account balances with the central bank was Ft 55.4 billion higher than at the end of October. Closely related to these changes, the outstanding stock of long-term forint loans to other monetary financial institutions fell by Ft 32.2 billion. This resulted primarily from the transfer of outstanding refinancing loans to the Hungarian Development Bank to the tune of Ft 31.3 billion. The outstanding total of short-term loans to other monetary financial institutions rose by Ft 5.4 billion. Their outstanding repo transactions falling by Ft 3.7 billion. Holdings of NBH domestically issued bills and other monetary financial institutions' forint deposits fell equally, by Ft 28.4 billion. The fall in domestic currency-denominated loans of the central government sector amounted to Ft 18 billion. Its forint deposits with the central bank were Ft 73.2 billion lower than in November. The Bank purchased foreign currency in the amount of Ft 12 billion in December to supply the foreign currency requirements of 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

	2000			2001			Ft billions	
	Q3	Q4	December**	Q3	Q4	December**	Of which:	
	Averages*			Averages*			Transactions	Revaluations
Liabilities								
Banknotes and coin	16.3	13.8	7.3	18.8	27.7	38.3	38.3	0.0
Forint liabilities to other monetary financial institutions	-21.3	11.3	105.6	-3.0	-29.8	24.3	24.3	0.0
Foreign currency liabilities to other monetary financial institutions	9.3	-5.2	-18.4	-11.6	-25.7	-5.0	3.1	-8.1
Assets								
Net claims on central government	10.2	-27.0	140.2	-19.9	-27.0	62.0	76.0	-14.0
Of which: Forint loans	-6.0	-6.3	-18.0	-6.0	-6.0	-18.0	-18.0	0.0
Government securities	-4.4	-1.1	-0.5	0.0	0.0	0.0	0.0	0.0
Foreign currency loans	11.8	-33.7	-109.5	-35.0	-28.4	-130.4	-67.6	-62.8
Claims on other monetary financial institutions	-1.7	-3.6	-8.1	-20.3	-8.0	-31.4	-31.2	-0.2
Net foreign assets and those not broken down by sector	-4.2	50.6	-37.5	44.4	7.2	27.0	20.9	6.1

* Quarterly average of changes relative to the preceding month.

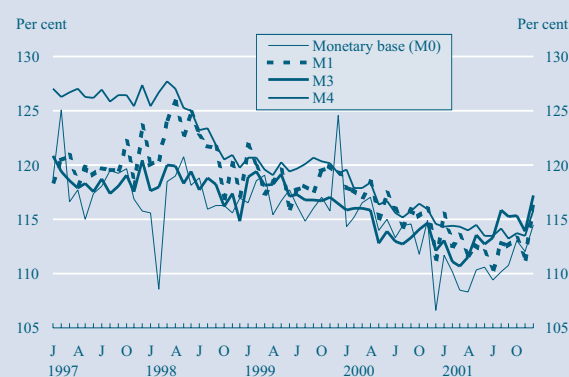
** One-month changes.

⁸ Since 4 May 2001, the width of the intervention band has been $\pm 15\%$.

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

	2001		Ft billions Monthly change
	Nov.	Dec.	
Liabilities			
Banknotes and coin	1,065.8	1,171.0	105.2
Forint liabilities to other monetary financial institutions	861.3	882.4	21.1
Of which: Current account balances	414.1	416.5	2.4
Forint depositst	338.3	357.0	18.7
Domestically issued NBH bills	108.9	108.9	0.0
Foreign currency liabilities to other monetary financial institutions	330.2	291.5	-38.7
Assets			
Net claims on central government	860.9	919.4	58.5
Of which: Forint loans	235.4	233.6	-1.8
Government securities	172.1	172.1	0.0
Foreign currency loans	1,305.3	1,193.6	-111.7
Claims on other monetary financial institutions	78.8	63.8	-15.0
Net foreign assets and those not broken down by sector	1,317.7	1,361.7	44.0

* Monthly average of daily stock data.

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.

Looking at developments in the average stocks of central bank liabilities to other monetary financial institutions, the averages of current account balances forint and domestic currency deposits increased by Ft 2.4 billion and Ft 18.7 billion respectively. By contrast, foreign currency deposits fell by Ft 38.7 billion. Other monetary financial institutions' average holdings of NBH domestically issued bills were unchanged relative to the November level (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 picked up 2.4 percentage points relative to the preceding month, to run at 14.5% in December.

The annual growth indices of every monetary aggregate, derived from the liability items of the aggregate balance sheet based on the final data for December, increased in the month under review. The monetary aggregate M1 is composed of currency outside monetary institutions plus forint sight deposits. Its annual growth rate rose by 5.2 percentage points to 16.5% from November to December. 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 accelerated by 3.4 percentage points to 16.8% 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 comparably with that of M2, rising by 3.3 percentage points to 17.2%. Broadest money M4 comprises M3 plus government securities and NBH domestic bills held by the non-bank sector. Year-on-year M4 growth changed the least in December – its annual index increased by 2.4 percentage points to 15.8%. (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 corporations' forint deposits increased by Ft 82.3 billion in December due to the transaction effect. The sector's foreign currency deposits rose by Ft 22.9 billion due to transactions and fell by Ft 6.7 billion due to exchange rate movements. Household sector deposits were Ft 147.5 billion higher than in November. Within this, domestic currency deposits increased by Ft 128.4 billion, due exclusively to transactions. Foreign currency deposits were Ft 33.2 billion higher due the transaction effect, but fell by Ft 14 billion on account of the negative contribution of exchange rate movements. On balance, households' foreign currency deposits increased by Ft 19.2 billion in the month under review.

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

Ft billions

	2000			2001			Of which:****	
	Q3	Q4	December	Q3	Q4	December	Transactions	Revaluations
	Averages***			Averages***				
Non-financial corporations, net (S.11)	-67.7	-18.5	-0.5	-38.7	57.0	114.7	86.9	24.8
Assets	-91.7	-63.4	-12.5	-65.9	-20.0	26.8	-7.7	31.5
Deposits+cash+repos+securities	24.0	44.8	11.9	27.3	77.0	87.9	94.6	-6.7
Other financial corporations, net (S.123+S.124+S.125)	-22.1	-4.5	-12.2	10.4	-32.6	21.2	21.3	-0.1
Assets	-5.4	-12.9	-22.2	-11.7	-11.5	-10.6	-10.5	-0.1
Deposits+repos	-16.8	8.4	10.0	22.0	-21.2	31.8	31.8	0.0
General government sector, net* (S.13)	-6.5	13.7	-128.3	-35.2	9.7	-34.4	-42.4	8.0
Central government, net* (S.1311)	-22.1	12.2	-171.3	-56.9	7.8	-101.6	-109.6	8.0
Local government, net (S.1313)	15.6	1.5	43.0	21.7	1.8	67.3	67.3	0.0
Credits	0.2	-1.4	0.3	0.2	-4.5	-5.1	-5.1	0.0
Deposits	15.4	2.9	42.7	21.5	6.3	72.4	72.4	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)	31.8	34.5	28.6	30.9	84.7	123.1	136.6	-13.6
Credits	-18.2	-20.5	-23.6	-27.8	-25.3	-26.6	-27.1	0.4
Deposits+cash+securities	50.0	55.1	52.2	58.8	109.9	149.7	163.7	-14.0
Non-profit institutions serving households, net (S.15)	1.6	-1.0	-3.1	0.7	-0.8	1.5	1.5	0.0
Credits	0.0	-0.8	-2.4	0.0	-3.1	-0.6	-0.6	0.0
Deposits	1.7	-0.2	-0.6	0.7	2.2	2.1	2.1	0.0
Non-residents, net (S.2)	-20.3	-21.6	148.1	-40.3	-49.1	-108.5	-88.2	1.5
Other, net	83.1	-2.5	-32.6	72.2	-68.8	-117.6	-115.8	-20.5

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.

Domestic assets comprise claims arising 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 160.8 billion due to transactions but fell by Ft 39.8 billion due to the exchange rate effect. Corporate sector total outstanding domestic borrowings were Ft 36 billion lower in the month. Here, the transaction effect accounted for Ft 9.3 billion of the increase in outstanding borrowings in the domestic currency. Outstanding foreign currency borrowings fell by Ft 18.1 billion due to transactions and by Ft 24.2 billion due to the exchange rate effect. Other volume changes caused a Ft 3 billion fall in the end-of-month stock of corporate sector foreign currency borrowings. Central government net liabilities increased by Ft 109.6 billion on account of the transaction effect, but fell by Ft 8 billion due to the exchange rate effect. Outstanding loans by monetary institutions to the household sector were Ft 26.9 billion higher in December relative to the preceding month.

As an effect of changes in outstanding borrowings and deposits, net liabilities of the general government sector were Ft 34.4 billion lower in December than in November. Net savings of households vis-à-vis monetary institutions increased by Ft 123.1 billion, net assets of non-financial corporations fell by Ft 114.7 billion and net foreign assets of monetary institutions vis-à-vis non-residents increased by Ft 108.5 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

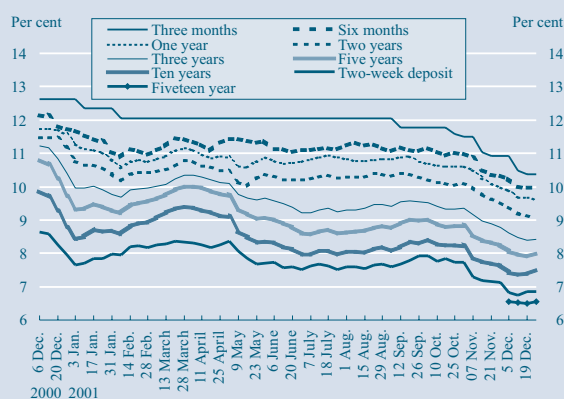
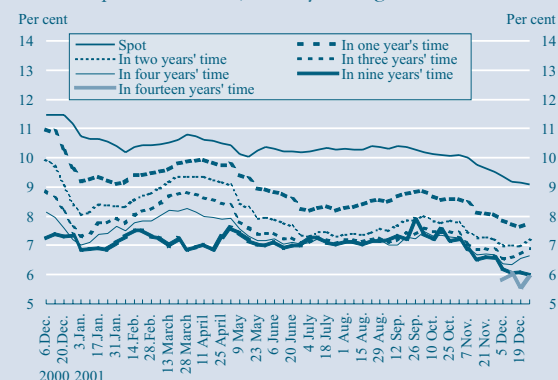


Chart 14 One-year spot rates and implied forward rates derived from the Bank's zero-coupon yields

On a compounded basis; weekly averages



Government securities market

The downward movement of yields in the Hungarian government securities market continued in December. Zero-coupon yields⁹ reflect developments in the secondary market. Looking at the month as a whole, they fell at every maturity, by 29–37 basis points on average at the nearest maturities, i.e. at three, six and twelve months, while slightly less, by 6–29 basis points at the more distant maturities (see Chart 13).

In December as a whole, the implied one-year forward rate¹⁰ in one year's time fell further, by 29 basis points. There were insignificant movements of 8, 10 and –6 basis points respectively at the more distant maturities, i.e. in two, three and four years' time (see Chart 14).

Non-resident investors stepped up their holdings of Hungarian domestic currency-denominated government debt securities by Ft 60.4 billion. The sector's total holdings of government securities amounted to Ft 1,075.5 billion at the end of December.

The total amount of bids submitted at the auctions of government bonds in December was comparable with that in November. Five auctions of NBH bills were conducted in the month under review.¹¹ Yields were mostly static throughout the month. Investor demand was weaker than in the preceding months of the year. The monthly average yield evolving at the auctions held in the month, weighted by the total amount allotted, was 9.89%.

The Hungarian Government Bond Index, the MAX, reflects movements in the prices of publicly-issued, fixed-coupon government bonds with a residual maturity

⁹ 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.

¹⁰ 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, and 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.

¹¹ 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.

of more than one year. Its value was 220.5786 points on 28 December. Calculated from movements in the index values, the annual return realisable on a portfolio equal to the composition of the index basket was 12.98%.

Market interest rates

The total value of transactions in the domestic forint interbank market was Ft 1,566 billion in December, showing an increase of Ft 82.9 billion relative to the preceding month. The daily average of interest rates on interbank overnight loans fluctuated around the NBH's major policy rate throughout the first ten days of the month. Wider movements in average rates characterised the period following the 12th (see Chart 15).

The December average of interest rates on overnight lending rose 23 basis points from the preceding month's 10.26% to 10.49%. By contrast, the average of borrowing rates for one month fell 58 basis points, from November's 10.60% to 10.02%. The three-month average interest rate fell 37 basis points, from 10.17% in the preceding month to 9.80% in December. Down from the preceding month's 10.21% to 9.76% on average, six-month borrowing rates fell 45 basis points (see Chart 16).

The negotiated average price for non-financial corporations¹³ of short-term loans fell 48 basis points, from 11.66% in November to 11.18% in December, that of long-term loans falling 70 basis points, from 11.85% to 11.15%. Average short-term deposit rates dropped from 8.81% to 8.40% and that of long-term deposits from 8.08% to 7.70%, showing declines of 41 basis points and 38 basis points respectively. The gap between the averages of short-term borrowing and deposit rates, playing a more significant role in non-financial corporations' debts and deposits, narrowed from 2.85 percentage points to 2.78 percentage points. The movements in December in the averages of both lending and borrowing rates were caused by banks' decisions to change their interest rate conditions (see Chart 17).

Turning to changes in households' market rates, the negotiated average housing loan rate of individuals fell from 14.90% to 14.74%, due to changes to interest rate conditions. That of consumer credit rates increased from 20.41% to 20.66% on account of a change to the composition of outstanding lending.

The average interest rate on consumer credit and other loans, provided for terms of more than three months, fell slightly from November's 20.07% to December's 19.99%. The total charge indicator¹⁴ for consumer credit and other loans changed from 24.52% to 24.41% (see Chart 18).

¹² On 18 December 2001, the Bank switched its standing facility from the hold-in-custody repo into the overnight central bank secured loan.

¹³ Monthly average interest rates of the individual sectors are calculated using as weights new deposits accepted and loans extended.

¹⁴ Total charges on the various types of loan, weighted by total lending in a given month.

Chart 15 Average interbank lending rates and official dealing rates, December 2001¹²

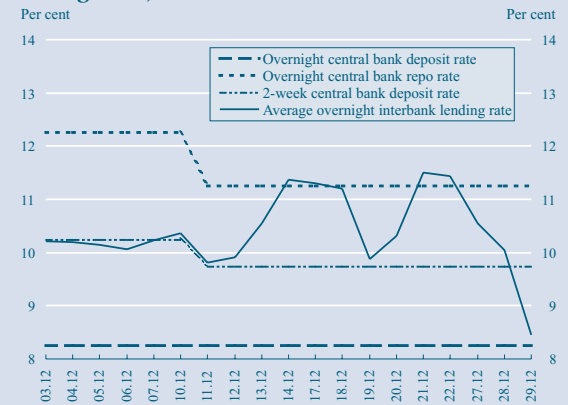


Chart 16 Monthly averages of interbank lending rates and official dealing rates

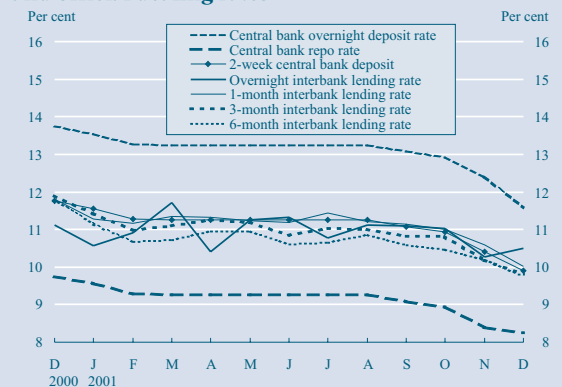


Chart 17 Averages of non-financial corporate sector borrowing and deposit rates

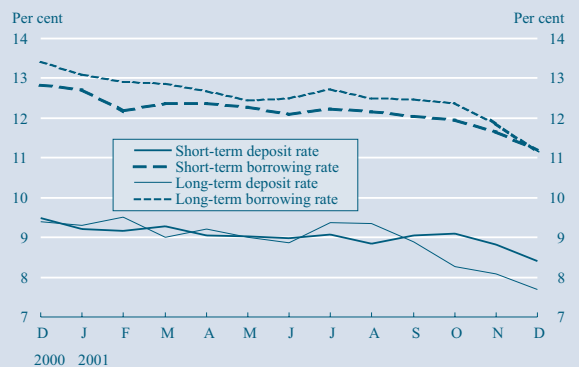


Chart 18 Household sector average borrowing and deposit rates and total charges on loans*

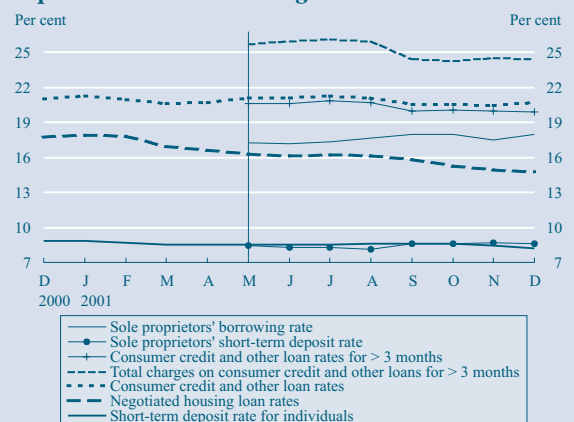


Table D Average rates on consumer credit for more than three months and average total charges on loans*

	Per cent							
	2001							
	May	June	July	August	September	October	November	December
Overdrafts								
Average interest rate	20.11	20.09	20.33	20.27	18.89	19.00	18.90	18.82
Average total charge	26.56	26.53	26.82	26.75	23.98	24.14	23.82	23.79
Personal loans								
Average interest rate	23.88	23.57	23.15	22.99	23.08	23.54	23.18	21.38
Average total charge	29.12	29.65	28.72	28.68	28.64	28.50	27.78	26.49
Lombard loans								
Average interest rate	17.89	17.35	18.09	16.92	17.25	17.78	16.20	16.94
Average total charge	20.25	19.73	20.94	19.81	20.59	19.84	18.02	18.27
Hire purchase loans								
Average interest rate	27.05	28.09	28.17	27.34	27.93	27.54	27.95	28.81
Average total charge	30.64	32.38	32.55	32.04	32.07	32.40	32.89	33.68
Car purchase loans								
Average interest rate	19.88	19.82	19.76	19.93	19.94	19.42	18.68	18.00
Average total charge	22.40	22.40	22.28	22.47	22.39	20.84	20.31	18.54
Mortgage loans								
Average interest rate	18.70	18.77	18.66	18.72	18.64	18.66	18.49	18.63
Average total charge	21.19	21.07	21.21	21.29	20.66	20.11	21.67	21.53
Other loans								
Average interest rate	17.37	16.70	16.82	17.64	16.69	16.24	17.65	15.45
Average total charge	20.49	21.10	22.29	19.30	19.95	20.57	22.01	20.15
Total consumer and other loans								
Average interest rate	20.62	20.61	20.82	20.67	19.99	20.02	20.07	19.99
Average total charge	25.76	25.95	26.15	25.99	24.41	24.29	24.52	24.41

* Data reporting for the various types of loans was introduced in May 2001.

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

	Per cent								
	2001								
	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	
Consumer credit and other loans									
Overdrafts	52.20	52.70	53.61	54.95	54.17	55.87	54.76	52.69	
Personal loans	12.59	12.96	12.53	12.16	12.89	11.25	12.27	12.19	
Lombard loans	3.00	3.44	2.19	1.61	2.06	2.20	2.04	1.84	
Hire purchase loans	5.63	5.46	7.00	6.46	6.61	6.89	8.70	10.10	
Car purchase loans	7.99	7.79	7.13	6.15	6.19	6.61	7.54	5.41	
Mortgages	17.78	16.74	16.06	16.69	16.98	16.31	13.73	16.36	
Other loans	0.80	0.90	1.49	1.98	1.09	0.87	0.96	1.40	
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	

In December, individuals' average sight deposit rates fell 38 basis points, from 3.51% to 3.13%, and that of short-term deposit rates fell 28 basis points, from 8.44% to 8.16%, due to changes in interest rate conditions. The average interest rate on long-term deposits fell 52 basis points, from 8.71% to 8.41%, on account of changes in the composition of deposits (see Tables D and E).

The BUX and the world's leading share market indicators

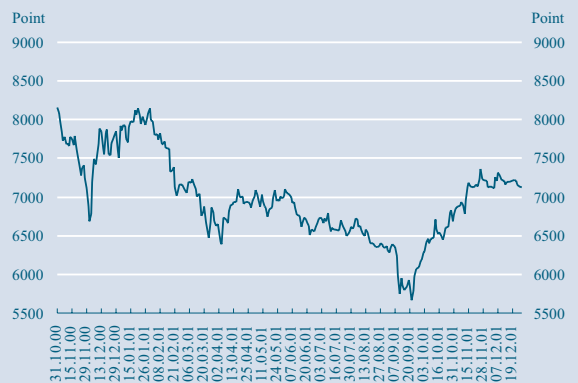
The share index of the Budapest Stock Exchange was virtually stagnant in December, rising only 0.08%. This followed a 9.7% and a 5.2% gain in October and November. The BUX rose 2.6%, to 7,312.84 points in the first week of the month, reaching its monthly peak. Subsequently, however, it slipped below the 7,200 point mark again. The index fluctuated in a fairly narrow range throughout the second part

of the month, its movements being confined to a 1.2% wide band. The market closed December at 7,131.13 points (see Chart 19).

Measured on a dollar basis, the official index of the Budapest Stock Exchange rose by 2.4% in December following a 9.0% and a 6.2% gain in October and November. Of the important international exchanges, the Dow Jones Industrial Average of New York rose slightly, by 1.7%, after gaining a combined 11.3% in the preceding two months. Also measured on a dollar basis, the DAX of Frankfurt rose by 2.8%, extending its combined 13.9% advance in October–November. The London FTSE registered a 2.4% gain after a 2.5% total increase in the preceding two months. Movements in the NASDAQ index, a gauge of movements in the share prices of technology sector firms, were very volatile in the second half – it plummeted by 36.2% in the period July–September, then it surged by 36.6% in the subsequent two months, to fall slightly in December, by 1.2%.

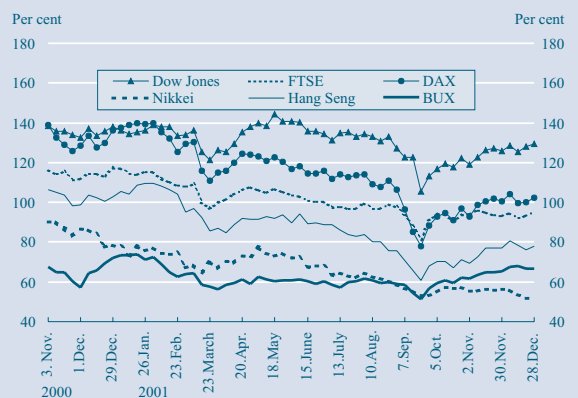
Looking at the Far Eastern markets, the Nikkei in Tokyo weakened by 7.6% in December on a dollar basis, after a 6.0% rise in October–November and a combined loss of 26.5% in the preceding four months. The Hang Seng of Hong Kong rose by 1.0%. This followed a 13.4% gain in October–November and total decline 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

The balance of payments and financing

Simultaneously with publication of the balance sheet data for December 2001, the Bank revised certain monthly balance sheet and IIP data for 2000–01. The revision was aimed at modifying the reported direct corporate lending/borrowing data for the reporting period and correcting some misreported company data. The significant effect of the revision on the current account balance was due to the correction of data reported by one company. The written analysis and the table section of the Monthly Report include the now revised data.¹⁵

According to the not seasonally adjusted data, Hungary's current account registered a €1,248 million deficit in 2001. The €186 million change in the current account deficit relative to the €1,434 million deficit recorded for the previous year was primarily accounted for by higher net expenditures for trade in goods. The goods deficit was €349 million higher in 2001, accompanied by rising export and import levels.

The surplus on services increased by €486 million, the tourism surplus explaining more than 80% of the change. Within incomes, the outflow of investment income on debt was €53 million lower and that of investment income on equity €31 million higher than a year earlier. The surplus on current transfers increased by €24 million relative to 2000.

The balance of non-debt capital transactions showed a total inward flow of €813 million in 2001. This was €599 million more than in the previous year. Net inflows of direct investments in equity capital were the balance of direct investment transactions by non-residents in Hungary, at €1,083 million, and those by Hungarian residents abroad, at €358 million. Portfolio investment transactions in equity securities showed net inflows of €88 million.

¹⁵ The methodological description of the revision and the tables detailing the changes to the data can be found in 'Notes to the revision of data for 2000–01' on the Bank's web site (www.mnb.hu).

The seasonally adjusted current account¹⁶ was in a €16 million deficit in December 2001 (see Table F). The trend of current account balance outcomes suggests €110–150 million monthly deficits in the period January–July and €80–100 million deficits in the period starting from July (see Chart 21). The trend of monthly goods deficits has been upwards in recent years (see Chart 22). The growth rates of both exports and imports were weaker in the year under review than in 2000; the slowdown in exports since February 2000 was replaced by stable growth in the second half of 2001, the trend and the seasonally adjusted data for imports showing much higher volatility. The trend of monthly tourism balance¹⁷ outcomes shows continuously increasing surpluses of €220–260 million in the period beginning with January 2001 (see Chart 23).

The seasonally (directly) adjusted current account deficit was €144 million lower in December than in November. The largest changes occurred to the negative balances of income on debt and other service transactions in the month – the deficit on the former fell by €32 million and the that on the latter increased by €31 million. The outcomes on the other sub-accounts of the current account saw changes of €4–8 million. Accordingly, the tourism surplus was slightly lower, the goods deficit and outflows of investment income on equity both fell, and the surplus on current transfers rose.

According to the not seasonally adjusted data, the current account registered a €185 million lower deficit in December in a year-on-year comparison. With the exception of service transactions excluding tourism, virtually all the sub-accounts closed either with a higher surplus or a lower deficit. Net outflows of investment income on debt and the tourism surplus changed largely comparably (€51 million and €46 million), just as the current transfer surplus and the deficits on investment income on equity and on goods trade (€14–15 million).

¹⁶ Using the SEATS TRAMO software, the model settings which accord best with the characteristics of the times series ending with the final data for January 1994–December 2000 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.

¹⁷ Due to the withdrawal of euro area national currencies, Hungarian households had switched a portion of their foreign currency holdings into deposits or converted into forints. Foreign currency holdings arising from transactions in earlier periods were 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 estimated value of deposited and converted assets in December, EUR 140 million, has been recorded as foreign currency transaction in the financial account instead of tourism revenue, under 'Other investments...Short-term assets...Other sectors'.

Table F Seasonally adjusted current account data*

	€ millions			
	2000	2001		
	Dec.	Oct.	Nov.	Dec.
Goods	-221	-196	-214	-206
Exports	2,596	2,643	2,667	2,675
Imports	2,910	2,844	2,926	2,831
Services excluding tourism	-80	-45	-66	-97
Tourism	214	249	264	260
Income on equity	-53	-47	-44	-38
Income on debt	-92	-73	-74	-41
Current transfers	11	23	18	25
Current account balance	-201	-143	-160	-16

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

Chart 21 Current account

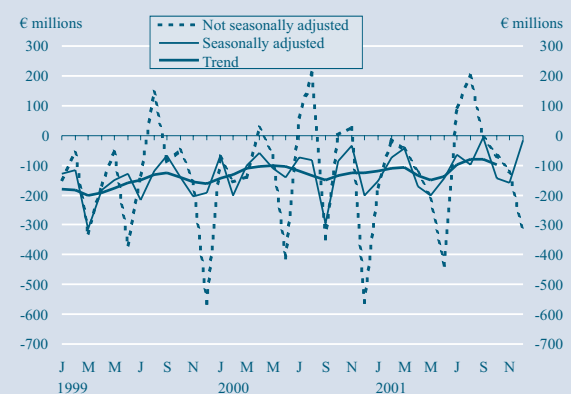


Chart 22 Trade balance

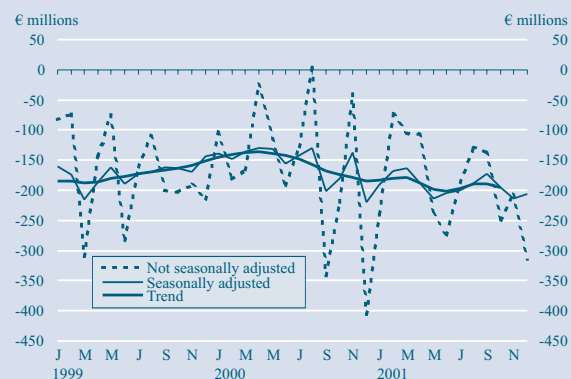


Chart 23 Tourism

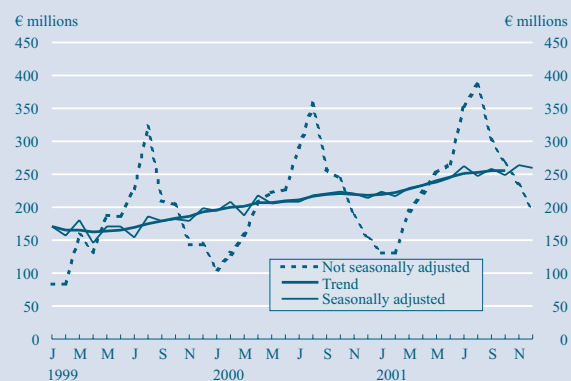


Table G Transaction effects on changes in Hungary's net foreign debt

	€ millions			
	2000		2001	
	Dec.	Jan.–Dec.	Dec.	Jan.–Dec.
1 Current account	-562	-1,434	-328	-1,248
2 Capital account	27	300	32	358
3 Net lending / net borrowing (1+2)*	-534	-1,134	-297	-890
4 Non-debt capital flows	23	214	-335	813
5 Total (3+4)	-511	-921	-632	-77
6 Debt-creating flows (6a+6b)**	470	1,035	561	-11
6a In forint***	158	1,132	244	1,317
6b In foreign currency	312	-97	317	-1,328
7 Financing gap (5+6)	-42	115	-71	-88
8 Errors and omissions	42	-115	71	88

* 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.

According to the not seasonally adjusted data, the current account registered a €328 million deficit in December. The capital account closed with a surplus of €32 million, so whole-economy external financing requirement amounted to nearly €297 million in the month under review (see Table G). Net non-debt outflow amounted to €335 million – Hungarian residents withdrew €46 million from abroad, withdrawals by non-residents from Hungary amounting to €402 million. Two resident firms sold their foreign subsidiaries in whole or in part. Investments by non-residents in Hungary were shaped basically by two transactions without movements in cash and left the stock of direct investments unchanged, except their structure. As a result of these transactions, investments in equity capital fell by more than €500 million, inter-company loans rising by the same amount. The balance of inward and outward portfolio investment transactions in equity securities was a net inflow of €21 million. In December, non-resident investors stepped up by €244 million their holdings of securities issued by the Hungarian government and the central bank.

Hungary's external accounts

Whole-economy gross foreign debt was €37.8 billion at the end of December 2001. The combined gross foreign currency debt of general government and the National Bank of Hungary outstanding to non-residents amounted to €17 billion, forint debt accounting for €4.4 billion, or 25% of the total. The gross debt of other monetary financial institutions and the other sectors was €20.9 billion. Here, inter-company loans amounted to €5.2 billion. Inter-company loans, i.e. debt liabilities of subsidiary companies to their parents, had a share of 36% within the other sectors' gross foreign debt.

Table H Hungary's assets and liabilities vis-à-vis non-residents (changes relative to the preceding month)

	€ millions						
	2001		Change	Of which:			
	November	December		Transactions	Exchange rate movements	Price changes	Other volume changes
Net foreign currency debt of the NBH and government	-1,501	-1,334	167	91	-156	240	-7
Net forint debt of the NBH and government	4,034	4,366	332	244	88	0	0
Total net debt of the NBH and government	2,533	3,031	499	334	-68	240	-7
Assets of the NBH and government	14,584	13,934	-650	-469	11	-192	0
Of which: International reserves	12,724	12,195	-529	-494	9	-44	0
Gross foreign currency debt of the NBH and government	13,083	12,600	-483	-378	-146	48	-7
Gross forint debt of the NBH and government	4,034	4,366	332	244	88	0	0
Total gross debt of the NBH and government	17,117	16,965	-151	-135	-58	48	-7
Net debt of other monetary financial institutions and other sectors*	4,433	3,965	-468	-306	4	-52	-114
Total assets of other monetary financial institutions and other sectors	10,767	11,668	900	614	25	130	131
Gross debt of other monetary financial institutions and other sectors	15,200	15,632	432	308	29	78	17
Inter-company loans, net	4,259	4,800	541	532	6	0	4
Credit	369	420	51	54	1	0	-4
Debit	4,628	5,220	592	586	7	0	0

* Excluding inter-company loans.

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

Changes relative to December of previous year

€ millions

	2000	2001	Change	Of which:			
	December			Transactions	Exchange rate movements	Price changes	Other volume changes
Net foreign currency debt of the NBH and government	-191	-1,334	-1,143	-797	-265	246	-327
Net forint debt of the NBH and government	2,767	4,366	1,599	1,317	282	0	0
Total net debt of the NBH and government	2,575	3,031	456	521	17	246	-327
Assets of the NBH and government	13,451	13,934	483	-304	191	264	331
Of which: International reserves	12,068	12,195	127	-60	168	19	0
Gross foreign currency debt of the NBH and government	13,260	12,600	-661	-1,101	-74	510	4
Gross forint debt of the NBH and government	2,767	4,366	1,599	1,317	282	0	0
Total gross debt of the NBH and government	16,027	16,965	939	216	208	510	4
Net debt of other monetary financial institutions and other sectors*	6,487	3,965	-2,522	-2,154	8	-218	-159
Total assets of other monetary financial institutions and other sectors	7,193	11,668	4,474	3,543	308	469	155
Gross debt of other monetary financial institutions and other sectors	13,680	15,632	1,952	1,389	316	251	-4
Inter-company loans, net	3,084	4,800	1,716	1,623	38	0	55
Credit	247	420	173	126	12	0	34
Debit	3,331	5,220	1,889	1,749	51	0	89

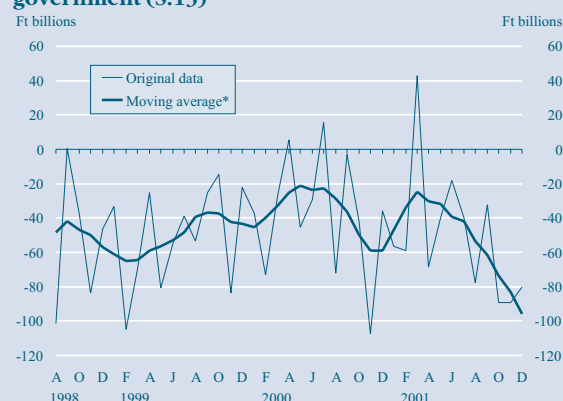
* Excluding inter-company loans.

Whole-economy net debt amounted to €11.8 billion at end-December. The combined net debt of general government and the National Bank of Hungary was €3 billion. However, taking foreign currency denominated assets and liabilities into account, the two sectors took a €1.3 billion net lending position in foreign currency. Total private sector net foreign debt was €8.8 billion, inter-company loans accounting for €4.8 billion (see Tables H and I).

The total stock of direct investments by non-residents in Hungary amounted to €25.9 billion at the end of December, of which the value of holdings of corporate shares and other classes of equity capital was €20.7 billion.

General government

Chart 24 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 November 2001. The December value has been calculated using a triangular average with equal weights and an estimate for January 2002 (Ft -95,7 billion).

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

	Ft billions			
	2000		2001	
	Dec.	Nov.	Dec.	Jan.-Dec.
Central government balance (1)	-152.7	-11.6	-240.3	-502.7
Extra-budgetary funds (2)	-6.2	-0.9	-18.2	-2.3
ÁPV Rt (3)	23.4	-7.0	9.6	-101.3
Other units of central government (4)	1.2	-1.4	0.5	-4.7
Central government (S.1311) (5=1+2+3+4)	-134.3	-2.3	-248.5	-611.0
Social security funds (S.1314) (6)	63.5	-64.8	134.5	-28.1
Local authorities (S.1313)* (7)	34.8	-26.9	33.6	31.7
General government, total (S.13) (8=4+5+6+7)	-36.0	-89.4	-80.4	-607.3

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

Net borrowing of general government

The net borrowing requirement of general government, calculated from revenues and expenditures, amounted to Ft 80.4 billion in December 2001. This compared with a Ft 36,0 billion net borrowing requirement a year earlier (see Chart 24). The net financing capacity registered by the social security funds was substantially higher by Ft 71.0 billion and that registered by the local government sub-sector Ft 1.2 billion lower than in the comparable period of the previous year. The net borrowing requirement of central government amounted to Ft 248.5 billion, showing a Ft 114.2 billion increase relative to December 2000 (see Table J). The cumulative general government deficit amounted to Ft 607.3 billion in 2001, in comparison with Ft 451.6 billion in the previous year.

The net 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 -248.5 billion in December. 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 194.9 billion.

Out of total central government expenditure, Ft 94.5 billion extraordinary expenditure was not actually transferred but placed on a suspended 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, 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, another Ft 13.4 billion was transferred to the social security funds, accounted for Ft 1.6 billion and Ft 11.8 billion by the Health Insurance Authority and the Pension Insurance Authority respectively. Pursuant to the Act on the Execution of the Central Budget, another Ft 10.6 billion was transferred to finance the operations of health care in November.

The difference between interest expenditure recorded on cash and accrual bases increased the central govern-

ment borrowing requirement by Ft 4.2 billion in December, comparable with the increase of Ft 1.4 billion in the borrowing requirement of the same period a year earlier.

The net financing capacity of the State Privatisation and Holding Company was Ft 9.6 billion in December. This was the balance of Ft 52.8 billion revenue and Ft 43.2 billion expenditure. The Ft 44.1 billion transferred under the Prime Ministry Chapter of the Central Budget to replenish reserves, plus dividend receipts accounted for the bulk of revenue in the month. The Ft 43.2 billion expenditure in the month reflected payments from the replenishment of reserves, the privatisation agency spending Ft 38.9 billion in respect of measures supporting the state's asset management and economic policy actions, and actions to remedy crisis situations. The remaining amounts were accounted for mainly by 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, payments for the purposes of financing development projects, financing environmental projects, and other liabilities. The net borrowing requirement of the company amounted to Ft 101.3 billion in 2001.

In December 2001, the balances of other units of central government, estimated on the basis of bank statistics, reduced the net borrowing requirement of the central government sub-sector by Ft 1.4 billion, that of social security provisions funded by the central budget further reducing it by another Ft 0.2 billion.

The social security authorities comprise the Health Insurance Fund and the Pension Insurance Fund. Their total revenues and expenditures amounted to Ft 280.7 billion and Ft 146.6 billion respectively. On the revenue side, contribution receipts continued to be slightly higher than the estimate, the mid-year lag in receipts from the central government being made up towards the end of the year. At the same time, pension payments brought forward to November and refunded by the central budget only in December explain the favourable December balance. This item alone caused the sub-sector's November balance outcome to be worse and its December balance outcome to be better by some Ft 50 billion. As a result of these factors, the social security sub-sector registered a Ft 134.5 billion net financing capacity in December and a net borrowing requirement of Ft 28.1 billion in 2001. This latter amount affected the Health Insurance Fund in full.

The net financing capacity of the local government authorities has been estimated from transactions data reported by the Ministry of Finance for January–December and the monthly data calculated using the Bank's method. Own revenues, more than meeting the estimate, and slightly lagging expenditures explained the surplus in December. The December amount of the sub-sector's net fi-

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

	Stocks: Dec. 2001	Flows:			
		Dec.		Jan.–Dec.	
		Transac- tions	Other changes in volume	Transac- tions	Other changes in volume
Central government (S.1311)					
Assets	964.2	-278.6	-136.7	162.1	53.9
Liabilities	8,316.8	-28.5	-79.9	706.3	-106.9
Net financial assets	-7,352.6	-250.1	-56.8	-544.2	160.8
Social security funds (S.1314)					
Assets	10.8	7.0	0.0	4.5	0.0
Liabilities	40.4	-127.8	-95.7	33.0	-95.7
Net financial assets	-29.6	134.8	95.7	-28.6	95.7
Local government authorities (S.1313)					
Assets	537.5	64.0	0.0	88.8	0.0
Liabilities	216.2	26.2	-0.4	48.0	-1.5
Net financial assets	321.2	37.9	0.4	40.7	1.5
Consolidated general government					
Assets	1,347.3	-84.8	-41.0	205.6	149.6
Liabilities	8,408.3	-7.4	-80.3	737.6	-108.4
Net financial assets	-7,061.0	-77.5	39.3	-532.0	258.0

nancing capacity was Ft 33.6 billion following Ft -26.9 billion in November. The sub-sector registered a Ft 31.7 billion financing capacity in 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 77.5 billion in December and a total Ft 532.0 billion in 2001 as a whole (see Table K). The net borrowing requirement of the central government was Ft 250.1 billion in the month under review, the social security funds registering a Ft 134.8 billion financing capacity and the local government authorities one of Ft 37.9 billion.

Financial assets of the central government fell by Ft 415.3 billion in December, Ft 278.6 billion being attributable to transactions, Ft 41.0 billion to revaluations and Ft 95.7 billion to other volume changes. The Ft 108.4 billion fall in liabilities was accounted for by transactions and revaluations, in the amounts of Ft 28.5 billion and Ft 79.9 billion respectively. The central government used Ft 80.1 billion of its foreign currency deposits to amortise its existing foreign currency loans and service its existing foreign currency bond liabilities. In addition, large-amount transactions on the liabilities side were net issues of forint-denominated government securities and advance payments of wages.

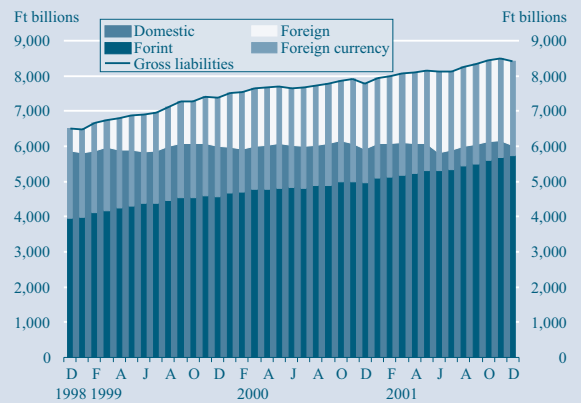
Net financial assets of the social security authorities increased by Ft 230.4 billion in December. Outstanding borrowings from the central government fell by Ft 223.7 billion, so loan liabilities amounted to Ft 31.1 billion at month-end. Repayments of existing debt and other volume changes accounted for Ft 128.0 billion and Ft 95.7 billion respectively of the change in liabilities. The latter was the sum of a Ft 80.1 billion debt forgiveness and a Ft 15.6 billion repayment of the authorities' old debt. (Due to the disbursement of provisions funded from non-social security sources, the funds had a financial claim on the central budget, part of which the central budget reimbursed pursuant to Act LXXV of 2001. As financial records of the funds' assets and the central government's liabilities are not available, the repayment has been treated as other volume change.) At month-end, the social security funds had a pos-

itive balance on the Treasury Account for the first time since 1998.

The change in December in financial assets and liabilities of the local government authorities has been estimated taking into account bank statistics and local authority cash flow data. Accordingly, total assets increased by Ft 64.0 billion as a balance of a substantial increase in deposits and a fall in securities holdings. The nearly Ft 26 billion increase in liabilities reflected the estimated rises in borrowings and other liabilities. The change in net financial assets of the local government authorities amounted to Ft 38.3 billion in the month under review.

In December, the gross debt of general government fell by Ft 87.6 billion. The outstanding total amounted to Ft 8,408.3 billion at the end of the year (see Chart 25). Revaluations reduced the sector's gross debt by Ft 80.3 billion. Liabilities to residents fell by Ft 138.9 billion and foreign debt rose by Ft 51.3 billion.

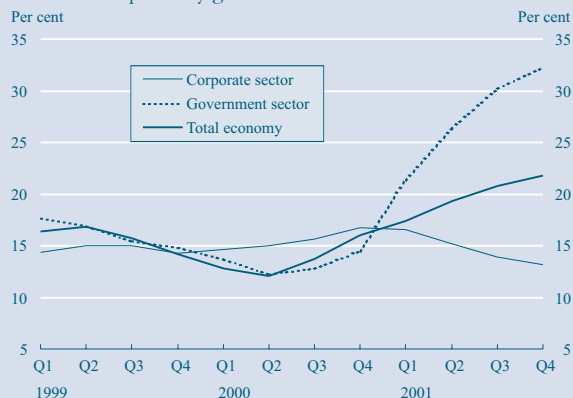
Chart 25 Composition of general government gross liabilities



Earnings and financial savings of households

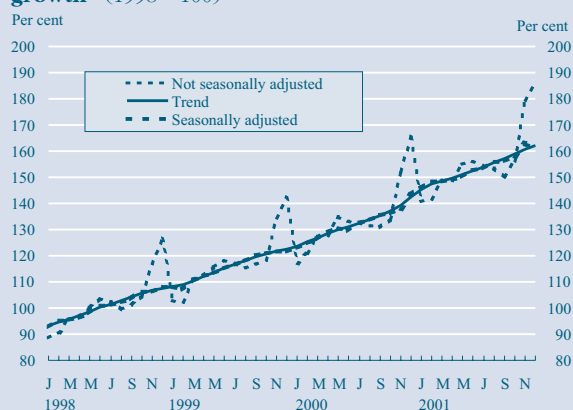
Chart 26 Gross wage index*

Annualised quarterly growth rates



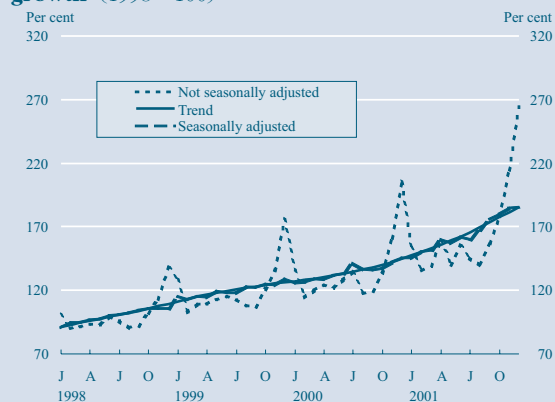
* Using the Bank's method to calculate trends from data reported by the CSO.

Chart 27 Corporate sector gross average earnings growth* (1998 = 100)



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

Chart 28 Government sector gross average earnings growth* (1998 = 100)



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

Earnings

Wages continued to grow at a robust pace in the whole economy in 2001 Q4, led by strong growth in government sector earnings, as seen in the previous two quarters. In contrast with the government sector, corporate sector earnings growth slowed in the period under review (see Chart 26).

According to the annualised growth rates, the whole-economy gross wage index¹⁸ was 21.7% in the final quarter of the year. This was 1 percentage point higher than in the third quarter. The corporate sector wage index was 13.1% in the period, falling by 0.8 of a percentage point relative to the previous quarter. Government sector earnings grew by 32.3%, well above the whole-economy average.

Important wages policy measures triggered robust earnings growth in 2001 as a whole. These shaped earnings growth primarily in the government sector, although the significant increase in the whole-economy minimum wage contributed to higher earnings growth in the corporate sector as well. Earnings grew by 18% in the total economy. Corporate and government sector gross earnings were 16.3% and 22.4% higher respectively than a year previously.

According to the data adjusted for seasonal effects and working-day variations, gross earnings growth in the corporate sector¹⁹ was 1% lower in December 2001 than in the preceding month (see Chart 27). Unadjusted corporate sector earnings growth amounted to 12.3% year on year. This was significantly lower both in comparison with the preceding month and the average of 2001 (16.3%).

As seen in the preceding few months of the year, government sector adjusted earnings growth continued to be very strong in December, explained by the modification to the civil servants' salary system (see Chart 28). According to the seasonally adjusted data, wages rose on average by

¹⁸ Annualised quarter-on-quarter growth rate, derived from the data released by the CSO.

¹⁹ Companies with more than 10 employees.

0.7% relative to November and by 27.3% relative to a year earlier.

Growth in earnings was extremely varied in areas financed by the government sector in 2001. At 26.3%, earnings grew the most strongly in public administration, due to the increase in July in civil servants' basic salaries, bonuses paid out in October–November, and one-month bonus salaries paid out mandatorily in December. Earnings growth in health and social work was at the bottom of the scale (15.4%), resulting in part from the high base which, in turn, was caused by one-off pay awards in July and November of the previous year.

In 2001, net average earnings of full-time employees grew by 16.2%. This meant a 6.4% increase in real value, taking into account the 9.2% increase in the consumer price index. According to the data calculated by the CSO, child benefits contributed an average 1.3 percentage points to the real earnings of one employee.

Savings

Operational net lending of households equals their financial savings after eliminating compensation for inflation incorporated in interest. Its amount was Ft 116.2 billion in December 2001. December savings developed broadly in line with seasonal patterns, reaching their highest level in the year, on the measure of both current and constant prices bases. The trend of financial savings has been upwards since March (see Chart 29).

Financial assets and liabilities rose by Ft 156.1 billion and Ft 27.5 billion respectively in December relative to November. On balance, the market value of households' net financial wealth grew by Ft 128.6 billion (see Table L). Reflecting the trends of the preceding few months, bank deposits and holdings of forint cash as well as investment units rose strongly. By contrast, holdings of foreign currency cash fell significantly due to the conversion of outgoing EMU member currencies. Forint appreciation had an impact on financial wealth, causing a Ft 14.1 billion holding loss on foreign currency deposits. Following the decline in the first half, the trend of financial asset holdings turned upwards from the second half; however, the growth rate of outstanding debt still continued to be higher than that of assets (see Chart 30).

In 2001, developments in households' financial asset holdings were characterised by a switch from non-bank investments into bank deposits. Up Ft 95.5 billion, the sector's wealth held in forint deposits continued to grow robustly. Operational transactions and compensation for inflation incorporated in interest accounted for Ft 81.8 billion and Ft 13.7 billion respectively. Short-term deposits accounted for nearly a half of the increase, sight deposits for nearly 40% and long-term deposits for 10%. Cash holdings of households have been rising continuously since March.

Chart 29 Operational net lending (+) / net borrowing (-) of households at constant prices

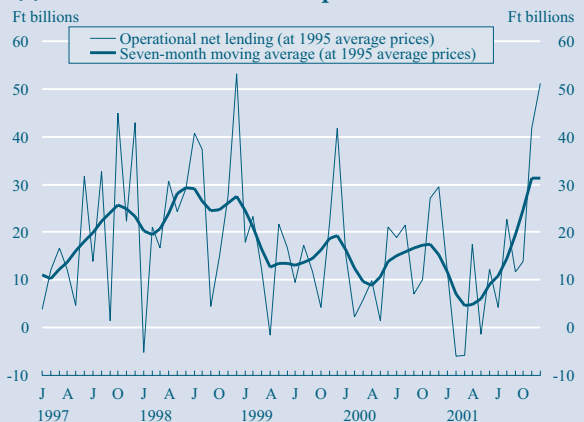


Table L Disaggregating net financial wealth of households into the components of change

	Stocks at 31 Dec. 2001	December flows:					
		Transactions				Re-valuations	Other changes in volume
		Transactions net of compensation for inflation	Compensation for inflation incorporated in interest				
Forint cash	952.3	35.4	35.4	35.4	0.0	0.0	0.0
Foreign currency cash	26.6	-35.3	-34.4	-34.4	0.0	-0.9	0.0
Forint deposits and bank securities	2,999.9	95.5	95.5	81.8	13.7	0.0	0.0
Foreign currency deposits	766.0	18.8	32.9	31.6	1.3	-14.1	0.0
Non-bank securities	1,626.8	31.2	28.6	20.8	7.8	2.6	0.0
Pension funds and life insurance	1,041.5	31.8	31.8	26.1	5.7	0.0	0.0
Unpaid wages	127.9	-21.3	-21.3	-21.3	0.0	0.0	0.0
Financial assets, total	7,541.0	156.1	168.5	140.0	28.5	-12.4	0.0
Home-building loans	329.1	15.0	15.1	13.3	1.8	-0.1	0.0
Consumer credit	553.8	11.5	12.5	9.5	3.0	-0.2	-0.8
Other borrowings	57.1	1.0	1.0	1.0	0.0	0.0	0.0
Household debt	940.0	27.5	28.6	23.8	4.8	-0.3	-0.8
NET FINANCIAL WEALTH AND THE COMPONENTS OF CHANGE IN WEALTH	6,601.0	128.6	139.9	116.2	23.7	-12.1	0.8

Chart 30 Growth in household sector financial wealth at constant prices

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

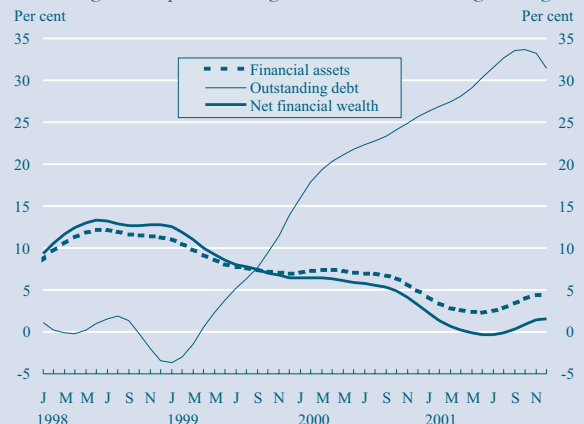
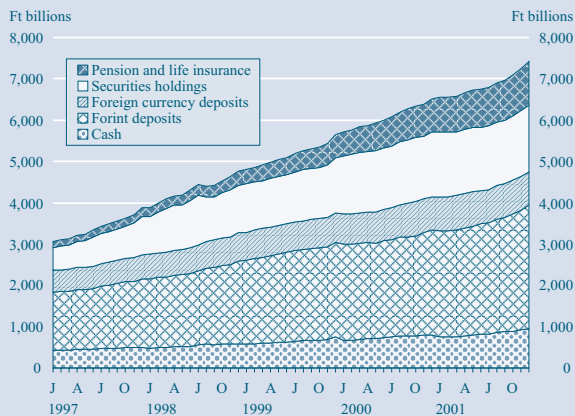


Chart 31 Household sector financial assets

The increase in December amounted to Ft 35.4 billion. Playing a role in the robust increase in deposit and cash holdings were the payments of a part of their equity to passive cooperative owners (see Chart 31).

Conversions of the outgoing national currencies of EMU member countries were concentrated in the final two months of 2001. As a result, holdings of foreign currency cash²⁰ fell significantly, by Ft 35.3 billion, in December and were switched into other financial instruments (foreign currency deposit, forint deposit, forint cash, etc.).

Operational transactions in foreign currency deposits of the household sector amounted to Ft 31.6 billion. This reflected the effect of changeover to the euro, in addition to the usual monthly increase. The sector registered a Ft 14.1 billion holding loss on foreign currency deposits. On balance, the forint equivalent of foreign currency holdings rose by Ft 18.8 billion. At month-end, households' foreign currency deposits were concentrated 45.8% in the euro-area currencies and 45% in the dollar.

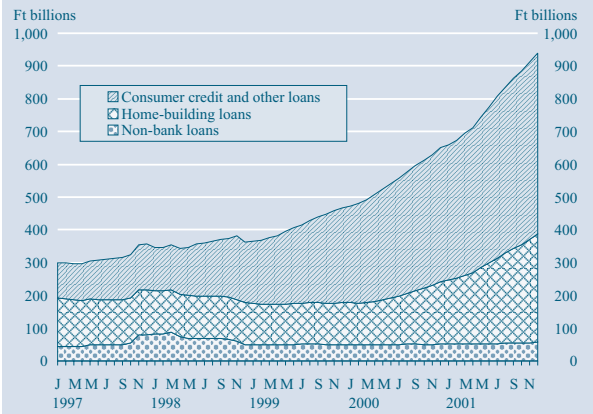
Continuing the trend of the preceding few months, there was demand only for investment units within the various classes of security. In contrast with investment units, holdings of government securities and shares continued to fall. Operational transactions affecting investment units, government securities and shares amounted to Ft 26.2 billion, Ft -4.4 billion and Ft -1 billion respectively. The market value of non-bank securities holdings increased by Ft 31.2 billion in the month. Compensation for inflation incorporated in interest and holding gains contributed Ft 7.8 billion and Ft 2.6 billion respectively.

In 2001, households significantly reduced their investments in insurance products. At Ft 41 billion, operational transactions in life insurance reserves were only a half of those in 2000 (Ft 82.1 billion). There was a large drop in unit-linked insurance, with a decline also in flows into traditional mixed life insurance schemes. The increase in life insurance reserves, Ft 15.2 billion, was weaker than the increase recorded a year earlier, reflecting the trends characterising the whole year. (Although stronger than in the preceding two months, this increase stemmed from the method of accounting for insurance reserves on a quarterly basis.)

²⁰ The new instrument, 'foreign currency cash', 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 and December respectively. 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.

Household sector net borrowings increased by Ft 27.5 billion in December. Up Ft 15 billion, the rise in housing loans continued to exceed that in consumer credit, which increased by Ft 11.5 billion. The proportion of property loans within total outstanding debt rose from 29% in the previous year to 35% in 2001 (see Chart 32).

Chart 32 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	118.0	116.6	13.17	-74	44	11,513	-37.5
February		109.8	109.1	116.0	7.2	4.3	115.2	117.7	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	117.0	116.7	11.60	-142	54	11,202	-26.5
April		109.2	108.2	113.6	6.9	19.4	117.1	118.4	116.5	11.20	27	162	11,380	5.4
May		109.1	108.0	113.9	6.7	2.8	114.0	115.1	113.5	11.00	-66	186	11,549	-45.4
June	105.7	109.1	108.0	112.0	6.0	42.4	115.0	117.4	114.6	11.00	-411	168	10,999	-29.3
July		109.6	107.7	114.7	6.6	38.5	113.3	115.9	113.6	11.00	60	42	11,110	15.6
August		109.6	107.6	112.4	6.5	44.1	114.4	114.4	113.3	10.81	209	253	11,628	-72.1
September	104.6	110.3	108.5	111.9	5.7	14.6	114.6	115.8	114.0	10.75	-348	230	12,047	-3.1
October		110.4	108.7	112.2	6.2	21.1	111.7	115.2	114.7	11.42	3	37	12,069	-42.3
November		110.6	108.9	114.6	6.0	57.2	115.0	115.9	115.3	11.75	27	-154	12,433	-107.3
December	104.3	110.1	109.0	116.5	5.7	62.8	106.6	111.4	112.7	11.75	-562	319	12,068	-36.0
January 2001		110.1	109.7	115.8	6.0	24.8	111.7	115.4	113.0	11.55	-175	105	11,590	-56.7
February		110.4	109.8	117.3	6.3	-13.0	110.2	112.5	111.1	11.28	-14	270	12,104	-58.7
March	104.4	110.5	110.2	116.5	5.6	-12.4	108.5	113.5	110.7	11.25	-48	147	12,187	42.8
April		110.3	110.2	119.7	5.8	38.1	108.3	111.7	111.6	11.25	-121	67	12,536	-68.6
May		110.8	110.3	115.3	5.7	-3.2	110.3	112.6	113.5	11.25	-213	131	12,990	-39.6
June	104.0	110.5		118.0	5.4	27.0	110.6	111.9	112.7	11.25	-436	116	13,596	-17.9
July		109.4		114.0	5.7	9.4	109.4	110.4	113.3	11.25	94	26	13,536	-39.7
August		108.7		117.3	5.8	50.8	110.2	112.9	115.9	11.25	201	105	13,128	-77.9
September	103.7	108.0		119.1	5.3	26.2	110.7	112.5	115.2	11.08	-12	97	13,120	-32.1
October		107.6		121.5	5.6	31.3	113.0	113.2	115.4	10.93	-72	316	12,993	-89.1
November		107.1		122.7	5.8	94.3	112.0	111.3	113.9	10.40	-124	104	12,724	-89.4
December		106.8		118.0	5.4	116.2	114.5	116.5	117.2	9.91	-328	-402	12,195	-80.4

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.