Statement on the General Meeting of the National Bank of Hungary

16 May 2001

The National Bank of Hungary held its Annual General Meeting on 16 May 2001. Finance Minister Mr Mihály Varga was present at the meeting as the shareholder's representative. Members of the Central Bank Council, the Board of Supervisors, the Board of Directors and the Bank's auditor also attended the Meeting. President Mr Zsigmond Járai presented the Bank's balance sheet and profit and loss account as well as the report for the business year ending 31 December 2000.

The Bank's balance sheet and profit and loss account are closely determined by the core objectives of monetary policy and the instruments available for the Bank to achieve them. The Bank is not a business-oriented institution. Achieving the monetary policy objectives is a matter of utmost importance for the Bank. Its earnings and, consequently, dividend payments to the Government are therefore subject to the fulfilment of those objectives. The focal point of the Bank's day-to-day operations is the pursuit of the policy of cost saving.

The balance sheet footings of the Bank were Ft 6,509.4 billion at 31 December 2000, representing an increase of Ft 133.6 billion, or 2.1%, in comparison with the previous year-end.

Balance Sheet of the National Bank of Hungary

Forint billions

	Assets	31 Dec. 1999	31 Dec. 2000	Change
I.	Forint assets	909.9	755.1	-154.8
	Of which: Claims on central government	*763.7*	*657.0*	*-106.7*
II.	Foreign currency assets	5192.4	5471.1	278.7
	Of which: Gold and foreign exchange reserves	*2740.8*	*3197.3*	*456.5*
	Claims on central government	*1724.5*	*1545.4*	*-179.1*
III- IV.	Other assets	273.5	283.2	9.7
V.	**Total assets**	**6375.8**	**6509.4**	**133.6**
	Liabilities			
VI.	Domestic currency liabilities	2316.3	2670.3	354.0
	Of which: Current account deposits of credit institutions	*337.7*	*557.8*	*220.2*
	Sterilisation instruments	*770.6*	*958.7*	*188.0*
	Banknotes and coin in circulation	*950.3*	*962.3*	*12.0*
VII.	Foreign currency liabilities	3863.3	3643.6	-219.7
	Of which: Liabilities to non-residents	*3103.6*	*2400.6*	*-354.4*
VIII-IX-X.	Other liabilities	129.8	130.5	-0.7
XI.	Equity	66.4	65.0	-1.4
XII.	**Total liabilities**	**6375.8**	**6509.4**	**133.6**

Domestic currency assets fell mostly on account of claims maturing during the year. The substantial increase in domestic currency liabilities was due to the issue by the Bank of sterilisation instruments (money-market deposits placed by credit institutions with the Bank and bonds issued by the Bank) to absorb domestic currency liquidity. These the Bank used to neutralise a part of forint liquidity, bolstered by foreign currency inflows, which was in excess of the economy's natural needs, in order to arrest the excessive decline in real interest rates, which could jeopardise the long-term, sustainable reduction in inflation.

The inward flow of foreign currency caused the value of central bank foreign currency assets to rise further in 2000, the stock of foreign currency liabilities falling relative to the previous year's level due to repayments effected during the year under review.

Financial results of the National Bank of Hungary fell in comparison with 1999. Losses were incurred to the amount of Ft 14.5 billion in 2000. According to Article 78. of Act LX of 1991 on the National Bank of Hungary, the Bank is required to pay as dividend Ft 20.1 billion to the central government. As the financial results for the business year did not provide cover for dividend payment, the Bank has drawn on its retained earnings to the extent of the difference, as stipulated by the law.

Profit and Loss Account of the National Bank of Hungary

Forint billions

	Selected items	1999	2000
1	Net interest expense in domestic currency (I-IX.)	-29.2	-78.5
2	Net foreign currency interest income (II-X.)	9.9	36.8
3	Of which: Interest balance including hedging transactions	32.9	77.7
4	Valuation difference arising on holdings of securities	-19.2	-40.0
5	Foreign exchange valuation difference (III-XI.)	73.7	75.5
6	Net other financial results (IV+V+VI+VII-XII-XIII-XIV-XV.)	-19.1	-19.3
7	**Result for the year (1+2+5+6)**	**35.3**	**14.5**
8	Balance of equalisation reserves as stated in IX Other liabilities of operations (9+10)	-60.5	-44.7
9	Of which: Due to changes in exchange rates and gold prices	-29.2	-38.3
10	Changes in the market value of foreign currency securities	-31.3	-6.4

The outstanding stocks of central bank sterilisation instruments and changes in forint interest rates tend to exert the greatest influence on the domestic interest balance. The net domestic interest balance has been negative due to the inflow of foreign currency since 1995, proving the attractiveness for foreign investors of the Hungarian economy. Due to the higher sterilisation costs caused by foreign capital inflow, forint interest expenses rose by Ft 49.3 billion in 2000 relative to the previous year.

Net foreign currency interest income amounted to Ft 36.8 billion in 2000, nearly four times the outcome recorded in 1999. The higher balance for 2000 was mainly due to the increase in net average foreign currency assets caused by foreign exchange market intervention. Losses incurred on securities holdings due to rises in international interest rate levels partly offset this effect.

Exchange rate gains are influenced by devaluation of the domestic currency and fluctuations in the value of the Bank's net foreign currency assets, which, in turn, are affected by the Bank's interventions in the foreign exchange market. The profit and loss account includes only exchange rate gains which correspond to the official rate of monthly currency devaluation. Revaluation differential arising from fluctuations in the forint exchange rate within the intervention band is taken to the equalisation reserve account within the balance sheet. In 2000, the most important element of the Bank's financial results continued to be exchange rate gains. Their amount was comparable with that recorded in 1999.

Other factors of the Bank's financial results, which include other revenue and expenditure, the result of funds circulation, net operating costs and net allocations to provisions, reduced the Bank's results by a total Ft 19.3 billion. Of the above factors, the determinant ones were expenditure on money issuance and funds circulation as well as operating costs, which remained at the previous year's level in real terms.

The General Meeting accepted the National Bank of Hungary's balance sheet and profit and loss account for 2000, and made a decision on the appropriation of profits for the year 2000.